

## BASE PROSPECTUS



### **Xstrata Finance (Dubai) Limited**

*(guaranteed on a senior, unsecured and joint and several basis by Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corp.)*

### **Xstrata Finance (Canada) Limited**

*(guaranteed on a senior, unsecured and joint and several basis by Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corp.)*

### **Xstrata Canada Financial Corp.**

*(guaranteed on a senior, unsecured and joint and several basis by Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited)*

## **U.S.\$8,000,000,000**

## **Euro Medium Term Note Programme**

Under this U.S.\$8,000,000,000 Euro Medium Term Note Programme as described in this Base Prospectus (the "Programme"), Xstrata Finance (Dubai) Limited ("Xstrata Dubai"), Xstrata Finance (Canada) Limited ("Xstrata Canada") and Xstrata Canada Financial Corp. ("Xstrata CFC") (each an "Issuer" and together the "Issuers") may from time to time issue notes ("Notes") denominated in any currency agreed between the relevant Issuer and the relevant Dealers (as defined below).

Notes issued by Xstrata Dubai will, subject to the limitations described in Part I — "Risk Factors — Risks related to the Notes and the Guarantees — Risks related to Notes generally — Limitations in respect of Xstrata Schweiz Guarantee" and Part VI — "Terms and Conditions of the Notes — Guarantee", be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata plc ("Xstrata"), Xstrata (Schweiz) AG ("Xstrata Schweiz"), Xstrata Canada and Xstrata CFC.

Notes issued by Xstrata Canada will be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata CFC.

Notes issued by Xstrata CFC will be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata Canada.

References in this Base Prospectus to "relevant Guarantors" are to Xstrata, Xstrata Schweiz, Xstrata Canada and Xstrata CFC in respect of Notes issued by Xstrata Dubai, to Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata CFC in respect of Notes issued by Xstrata Canada and to Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata Canada in respect of Notes issued by Xstrata CFC.

References in this Base Prospectus to the "Guarantors" are to Xstrata, Xstrata Schweiz, Xstrata Dubai, Xstrata Canada and Xstrata CFC.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$8,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein) subject to any increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an on-going basis. References in this Base Prospectus to the "relevant Dealers" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to the Dealer or Dealers agreeing to subscribe for such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see Part I — "Risk Factors".**

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("FSMA") (the "U.K. Listing Authority") for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List of the U.K. Listing Authority (the "Official List") and to London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under Part VI — "Terms and Conditions of the Notes") of Notes will be set out in a final terms supplement (the "Final Terms") which, with respect to Notes to be admitted to the Official List and admitted to trading on the Market, will be delivered to the U.K. Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the relevant Guarantors and the relevant Dealers. The relevant Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be admitted to the Official List and admitted to trading on the Market (or any other stock exchange).

The relevant Issuer and the relevant Guarantors may agree with the relevant Dealers and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the terms and conditions contained herein, in which event a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Xstrata has a long term issuer rating of Baa2 by Moody's Investors Service Limited ("Moody's") and a long term rating of BBB+ and a short term rating of A-2 by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"). The Programme has been rated Baa2 by Moody's and BBB+/A-2 by Standard & Poor's. Each of Moody's and Standard & Poor's is established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies. Notes issued pursuant to the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and the rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

#### **Arranger for the Programme**

### **Deutsche Bank**

#### **Dealers**

**Barclays**

**BNP PARIBAS**

**Citigroup**

**Commerzbank**

**Crédit Agricole CIB**

**Deutsche Bank**

**HSBC**

**J.P. Morgan Cazenove**

**Lloyds Bank**

**Mitsubishi UFJ Securities**

**The Royal Bank of Scotland**

**Santander Global Banking & Markets**

The date of this Base Prospectus is 7 November 2012 and it replaces the Base Prospectus dated 15 April 2010.

**Definitions of certain terms used in this Base Prospectus are set out in Annex I — “Definitions and Glossary of Technical Terms”. This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. For the purpose of this Base Prospectus, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Member State of the European Economic Area (each, a “Relevant Member State”) and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.**

Each Issuer and each Guarantor accepts responsibility for the information contained in this Base Prospectus and the Final Terms. To the best of the knowledge and belief of the Issuers and the Guarantors (which have taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus should be read and construed in conjunction with any amendment or supplement thereto and with any other information incorporated by reference (see Part IV — “Information Incorporated by Reference”) and, in relation to any Series (as defined herein) of Notes, should be read and construed together with the relevant Final Terms. Copies of Final Terms will be available from the registered office of the relevant Issuer and the specified office set out below of each of the Paying Agents (as defined below).

Each Issuer and each Guarantor has confirmed to the dealers named under “Subscription and Sale” below that the statements contained in this Base Prospectus are in every material particular true and accurate and not misleading; that this Base Prospectus does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made in this Base Prospectus, in the light of the circumstances under which they are made, not misleading; that the opinions and intentions expressed in this Base Prospectus are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; that there are no other facts in relation to the information contained in, or incorporated by reference into, this Base Prospectus the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Base Prospectus misleading in any material respect; and that all reasonable enquiries have been made to ascertain such facts and to verify the accuracy of all such information and statements. Each Issuer and each Guarantor has further confirmed to the relevant Dealers that this Base Prospectus (together with the relevant Final Terms) contains all such information that is material in the context of the issue and offering of the Notes.

No person has been authorised by the Issuers, the Guarantors, any Dealer or Law Debenture Trustees Limited (the “Trustee”) to give any information or to make any representation not contained in or inconsistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuers, the Guarantors or such other information as is in the public domain and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Guarantors, any Dealer or the Trustee.

To the fullest extent permitted by law, none of the Arranger, the Dealers or the Trustee accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger, a Dealer or the Trustee or on its behalf in connection with the Issuers, the Guarantors, or the issue and offering of the Notes. The Arranger, each Dealer and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.

Neither the delivery of this Base Prospectus nor any subscription, sale or purchase of any Notes shall at any time imply that there has been no change in the affairs of the Issuers or the Guarantors since the date hereof or that the information contained herein concerning the Issuers and the Guarantors is correct at any time subsequent to the date hereof or that any other financial statements or any further information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (including any Final Terms) (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Guarantors, the Arranger, the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes (including any Final Terms) should subscribe for or purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers and the Guarantors. Each recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes (including any Final Terms) shall be taken to have made its own investigation and

appraisal of the financial condition and affairs of the relevant Issuer and the relevant Guarantors. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes (including any Final Terms) constitutes an offer or invitation by or on behalf of the Issuers, the Guarantors, the Arranger, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the relevant Issuer, the Guarantors, or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuers, the Guarantors nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuers, the Guarantors or any Dealer to publish or supplement a prospectus for such offer.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms come are required by the Issuers, the Guarantors, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see Part XVI — "Subscription and Sale". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and comprise Notes in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions,

*Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in the Securities Act).*

*This Base Prospectus relates to an Exempt Offer in accordance with the Market Rules of the Dubai Financial Services Authority. Where the Notes are either offered by Xstrata Dubai or offered to customers within the Dubai International Financial Centre, they must be denominated in amounts of at least U.S.\$ 100,000 or an equivalent amount in another currency. Notes issued under the Programme may not be denominated in United Arab Emirates ("UAE") dirham.*

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF A STABILISING MANAGER) IN ACCORDANCE WITH APPLICABLE LAWS AND RULES.



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## **PART I — RISK FACTORS**

*Holders of any Notes (“Noteholders”) and prospective Noteholders should consider carefully all of the information set out in this Base Prospectus and all of the information incorporated by reference into this Base Prospectus, including, in particular, the risks described below, prior to making any decisions on whether or not to invest in the Notes issued under the Programme. The risks below are all those risks presently known to the Issuers and the Guarantors that are considered to be material. Additional risks and uncertainties not presently known to the Issuers or the Guarantors, or that the Issuers or the Guarantors currently consider to be immaterial, may also have an adverse effect on Xstrata and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings (the “Group”).*

*The Group’s business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of any Notes issued under the Programme may decline and Noteholders may lose all or part of their investment.*

*Unless otherwise specified by reference to Xstrata Schweiz, Xstrata Dubai, Xstrata Canada or Xstrata CFC, the risks apply in the context of the Group, and are also applicable to each of Xstrata Schweiz, Xstrata Dubai, Xstrata Canada and Xstrata CFC.*

### **Risk factors and other considerations relating to the Proposed Merger**

#### ***Failure to realise anticipated benefits of the Proposed Merger***

The all-share merger with Glencore International plc (“Glencore”) to be effected by means of a scheme of arrangement between Xstrata and its eligible shareholders under Part 26 of the Companies Act 2006 (the “Proposed Merger”), if completed, may not achieve its anticipated benefits as a result of an inability to redeploy resources in different areas of the operations of the Combined Group of Xstrata and Glencore (“the Combined Group”) to improve efficiency, diversion of management attention from on-going business concerns, and differences between the Glencore Group’s business culture, processes, controls, procedures and systems and those of the Group. “Glencore Group” means Glencore International A.G. and, with effect from May 24, 2011, Glencore International plc and, in each case, their subsidiaries and affiliates or, as the context requires, any subsidiary or affiliate thereof.

The incurrence of higher integration costs or fewer benefits than expected, could have a material adverse effect on the results of operations and financial condition of the Combined Group.

#### ***Integration of the Combined Group and retention of key senior and operational management***

The Combined Group’s future prospects may, in part, be dependent upon the Combined Group’s ability to integrate the Group successfully without disruption to the existing business. The performance of the Combined Group in the future will, among other things, also depend upon the successful retention, integration and motivation of key employees from both the Group and the Glencore Group. The independent non-executive members of Xstrata’s board of directors recommended on 25 October 2012 that the Proposed Merger only be approved by eligible Xstrata shareholders in the event that eligible Xstrata shareholders also approve certain management retention arrangements which provide for share-based retention awards to members of Xstrata’s senior and operational management. Xstrata believes that the retention of its key managers is required to ensure a smooth integration process, the on-going stability of the Combined Group’s 150 mining and metallurgical operations and the effective delivery of more than 20 approved major growth projects. The Proposed Merger is not, however, conditional on such management retention arrangements being approved by eligible Xstrata shareholders. If the Proposed Merger becomes effective without such arrangements in place, the individual employment contracts between members of Xstrata’s senior and operational management, on the one hand, and the Combined Group, on the other hand, will not take effect, and, accordingly, Xstrata believes that there is less certainty that members of Xstrata’s senior and operational management will remain in place and transition into the Combined Group. Failure to retain Xstrata’s key senior and operational managers during the integration period and beyond will affect the ability to integrate the Group successfully into the Combined Group and could have a material adverse effect on the Combined Group’s business, financial condition, results of operations and/or prospects.

#### ***Capital structure of the Combined Group***

Xstrata understands that, following completion of the Proposed Merger, Glencore may seek to put in place a capital structure with upstream and downstream guarantees, such that Glencore (and certain of its subsidiaries) would guarantee all or a portion of Xstrata’s then-existing indebtedness, and Xstrata (and certain of Xstrata’s subsidiaries), to the extent permitted by the terms and conditions of its credit facilities, would provide upstream guarantees in respect of all or a portion of the Glencore Group’s then-existing indebtedness. Provision of such upstream guarantees may materially increase the Xstrata Group’s level of indebtedness.

Glencore has not, however, given any undertakings or made any proposals to Xstrata to this effect in respect of the Notes or any other of Xstrata's or the Glencore Group's obligations.

### ***Non-consummation of the Proposed Merger***

The Proposed Merger will not be able to be consummated without the approval of the shareholders of Xstrata and Glencore and certain regulatory agencies. Accordingly, there can be no assurances that such approvals will be obtained or that the Proposed Merger will be completed. If the Proposed Merger is not consummated, the financial condition of the Group may be adversely affected due to the costs it has incurred and time it has spent in preparing for the Proposed Merger.

### **Industry risk factors relating to the Group**

#### ***Macroeconomic conditions and commodity price volatility***

The Group's revenue and earnings depend upon prevailing prices for the commodities it produces. These commodities are globally traded, and, as a result, and in common with its competitors, the Group is unable to directly control the prices it receives for such commodities. Historically, commodity prices have been volatile and subject to wide fluctuations in response to relatively minor changes in supply and demand, market uncertainty, the overall performance of world or regional economies and the related cyclicity in commodity consuming industries, such as steel production.

In the past, commodity prices have exhibited a broadly upward trend, reflecting demand generated by global economic growth, particularly in China and India as those countries urbanise and industrialise. In addition, commodity prices have been influenced by the growth of exchange traded commodities futures markets.

In the latter part of 2008 and early 2009, the rapid deterioration of the global macroeconomic environment, in particular among Organisation for Economic Cooperation and Development members, led to reduced demand globally, stock drawdowns or increased use of scrap or recycled materials by potential customers (reducing demand for virgin stock) and the unwinding of speculative positions by commodities traders. As a result, prices of many of the commodities the Group produces fell significantly over a relatively short period of time. Prices of commodities recovered and enjoyed significant gains in the second half of 2009 and throughout 2010 and the first half of 2011, reflecting the introduction of monetary and fiscal stimulus packages in major economies such as the United States and China. In the second half of 2011, commodity prices, in particular exchange-traded metals, decreased as investors, in response to weakening macroeconomic conditions that reflected, among other things, market reactions to the sovereign credit concerns in Europe and the United States, reduced positions in commodities and equities and sought asset classes perceived as safer. In the first half of 2012, despite initial positive movements, commodity prices decreased significantly, reflecting renewed turmoil in the eurozone, a slower than expected economic recovery in the United States and slowing growth in China.

During July and August 2012, commodity prices remained relatively stable. Although market fundamentals appear, as at the date of this Prospectus, robust across the commodities which the Group produces in the medium term, the Group's earnings are sensitive to movements in realised prices. There can be no assurance that current price levels will be maintained over time and that declines from current levels will not adversely affect the financial condition of the Group.

The Group has not historically engaged in meaningful hedging against declines in commodity prices. As a result, volatility in commodity prices has directly impacted the Group's results of operations. For example, primarily as a result of decreased commodity prices in the first half of 2012, the Group's revenues and operating profit (before exceptional items) for the six months ended 30 June 2012 declined by 7% and 42% respectively, compared to the six months ended 20 June 2011.

There can be no assurance that additional monetary and fiscal stimulus packages such as those introduced in major economies following the global financial crisis in 2008 will be sufficient (or enacted) to forestall "double-dip" recessionary conditions as a result of these crises.

In addition, there can be no assurance that adverse changes in the political, regulatory and economic conditions of individual countries or regions, particularly in less-developed or more volatile regions, including China, Brazil, Russia and India, will not contribute to further economic dislocation or delay global or regional economic recovery. A period of economic decline (or weaker growth) will adversely affect the related demand for commodities which may lead to further declines in the prices of the commodities the Group produces. In addition, speculative short positions in commodities on the futures markets may cause further price declines for such commodities. Any continuation of current price levels over a sustained period or further declines from current levels will adversely affect the results of operations or financial condition of the Group.

Given the persisting uncertainty about a global economic recovery, forward planning is difficult. As noted in — "Risk factors relating to the business of the Group — Production curtailment and resumption" below, changing

production levels in response to current price levels or the Group's estimates of future price levels imposes costs, and if mistimed, could adversely affect the results of operations or financial condition of the Group.

## **Risk factors relating to the business of the Group**

### ***Finance vehicles***

Each of Xstrata Dubai, Xstrata Canada and Xstrata CFC is an intra-group finance vehicle, the primary business of which is the raising of money for the purpose of on-lending to other members of the Group. Accordingly, substantially all the assets of Xstrata Dubai, Xstrata Canada and Xstrata CFC are loans and advances made to other members of the Group. The ability of Xstrata Dubai, Xstrata Canada and Xstrata CFC to satisfy their respective obligations in respect of the Notes will depend upon payments made to them by other members of the Group in respect of loans and advances made by them.

### ***Operational considerations***

The success of the Group's business is affected by a number of factors which are, to a large extent, outside its control. Such factors include the availability of raw materials, water and power. In addition, the Group's business is 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 potential accidents at a mine, processing plant, cargo terminal or related facilities. For example, flooding in Australia and elsewhere in 2010 and 2011 resulted in material production curtailments and additional operating costs at Xstrata Coal. In addition, in August 2012, 44 people were killed in connection with labour unrest at the Marikana mine complex in South Africa operated by Lonmin, in which the Group owns a 24.6% interest. As a result, Lonmin's estimates of its annual platinum production have been significantly negatively affected. These risks and hazards could result in damage to, or destruction of, properties or processing or production facilities; may reduce or cause production to cease at those properties or production facilities; may result in personal injury or death, environmental damage, business interruption, monetary losses and possible legal liability; and may result in actual production differing from estimates of production, including those contained in this Base Prospectus or in information incorporated by reference into this Base Prospectus. While the Group has insurance covering various types of business interruptions in respect of its operations, such insurance may not fully cover the consequences of such business interruptions and, in particular, may not cover interruptions arising from all types of equipment failure, labour disputes or "force majeure" events. No assurance can be given that such insurance will continue to be available, or that it will be available at economically feasible premiums. Equally, there can be no assurance that operating risks and the costs associated with them will not adversely affect the results of operations or financial condition of the Group.

Metal processing plants are especially vulnerable to interruptions, particularly where events cause a stoppage which necessitates a shutdown in operations. Stoppages in smelting, even if lasting only a few hours, can cause the contents of furnaces to solidify, resulting in a plant closure for a significant period and necessitating expensive repairs, which could adversely affect the results of operations or financial condition of the Group.

The Group depends upon seaborne freight, rail, trucking, overland conveyor and other logistics and transport systems to deliver its commodities to market. Disruption of these services because of any impact of piracy, terrorism, climate change, weather-related problems, key equipment or infrastructure failures, strikes, lock-outs or other events could temporarily impair the Group's ability to supply its commodities to its customers and thus could adversely affect the Group's results of operations or financial condition. Consistent with practice in the industries in which the Group operates, members of the Group may enter into long-term contracts related to, for example, infrastructure and supply of services. Any early termination of such contracts may require the payment of amounts which might have a material adverse effect on the Group's results of operations. In addition, the Group's ability to increase its export sales may be restricted by lack of available rail infrastructure and port capacity which may adversely affect the Group's ability to increase revenue.

Although the Group maintains liability insurance, such insurance does not cover every potential risk associated with its operations and meaningful coverage at reasonable rates is unobtainable for certain types of environmental hazards. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the results of operations or financial condition of the Group.

### ***Input supply and prices***

As the Group 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 in the Group's operations generally include the extraction and

processing costs of raw materials and consumables, such as reductants, reagents, power, fuels, labour, transport and equipment, many of which have been, and continue to be, particularly susceptible to inflationary and supply and demand pressures. While increases in these costs moderated (and in some cases actually declined) during the recent global economic downturn, these costs have increased at hyper-inflationary rates for significant periods of time during the years ended 31 December 2009, 2010 and 2011, with supply shortages also being experienced in some cases. Because it is difficult for the Group to pass these costs onto its customers, any increases in input costs will adversely affect the results of operations or financial condition of the Group.

In addition, if certain mining sector inputs are unavailable at any price (as has been the case with tires from time to time), the Group may find its production of certain commodities to be involuntarily curtailed, which would result in lost revenue and profits, which would adversely affect the results of operations or financial condition of the Group.

### ***Production curtailment and resumption***

In an effort to avoid over-supplying markets or building up inventory of unsold products during periods of depressed commodity pricing (including that recently experienced during the global economic downturn and the recent period of global financial uncertainty), the Group's policy, in common with other producers, is to curtail its production by closing mines and production facilities, placing other mines and production facilities under care and maintenance and deferring or cancelling previously planned expansionary capital expenditure. While this practice may contribute to the stabilisation of commodity prices and enable the Group to avoid selling products at or below their marginal cost of production, it imposes costs both directly, in the form of redundancy payments, equipment removal, security and other closing costs and the cost of resuming production or resuming a capital expenditure programme when prices justify renewed investment, and indirectly, in the form of revenue foregone, deterioration of assets or the resulting increase in unit costs. These costs can adversely affect the results of operations or financial condition of the Group.

Notwithstanding such measures, inventory may continue to build-up across the Group's range of production during periods of reduced demand, including as a result of the slowing of certain off-take arrangements, which would mute the impact of the Group's production curtailment.

Any reductions in capital expenditure and investment undertaken by the Group may ultimately result in the Group no longer being able to access sufficient mineral resources to continue production at cost-effective levels. Furthermore, any such curtailment may cause the Group to forego some of the benefits of any future rises in commodity prices, as it is generally costly or impossible to resume production immediately or complete a deferred expansionary capital expenditure project immediately, which in the longer term may adversely affect the results of operations or financial condition of the Group.

Given the lead times required to curtail or resume production levels, periods of higher commodity price volatility have exacerbated, and may in the future exacerbate, the adverse effects of changes in the Group's production levels, which has adversely affected and may in the future continue to adversely affect the results of operations or financial condition of the Group.

Finally, the early closure of a mine or production facility could trigger removal, stabilisation, reclamation and site rehabilitation costs, which could adversely affect the Group's cash flows during the period in which these costs are incurred.

### ***Borrowings***

The Group has a significant amount of indebtedness which may impair its operating and financial flexibility and could adversely affect the business and financial position of the Group and the Guarantors' ability to pay dividends and amounts due under the Guarantees. This, in turn, could affect the Issuers' and the Guarantors' ability to make payments in respect of the Notes.

As of 30 June 2012, the Group had unaudited gross outstanding indebtedness of U.S.\$13,198 million.

The Group's significant indebtedness has important consequences for Noteholders. For example, it could potentially:

- (i) cause the Group to dedicate a substantial portion of cash flow from operations to payments to service debt, depending on the level of borrowings, prevailing interest rates and, to a lesser extent, exchange rate fluctuations, which reduces the funds available for working capital (over the longer term), capital expenditure, acquisitions and other general corporate purposes;
- (ii) curtail the Issuer's and the Guarantors' ability to pay, in the case of the Guarantors, pursuant to the Guarantees, principal or interest under Notes to be issued under the Programme;

- (iii) limit the Group's ability to borrow additional funds for working capital (over the longer term), capital expenditure, acquisitions and other general corporate purposes;
- (iv) limit the Group's flexibility in planning for, or reacting to, changes in technology, customer demand, competitive pressures and the industries in which it operates;
- (v) place the Group at a competitive disadvantage compared to those of its competitors that are less leveraged than it is; and
- (vi) increase the Group's vulnerability to both general and industry specific adverse economic conditions.

### ***Reduction in credit rating***

The Group's borrowing costs and access to the debt capital markets, and thus its liquidity, depend significantly on Xstrata's public credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place Xstrata on "credit watch," actions that would have negative implications for the Group. A deterioration of Xstrata's credit ratings could increase the Group's borrowing costs and limit the Group's access to the capital markets which, in turn, could reduce the Group's earnings and adversely affect the Group's liquidity.

The Group's counterparties, including its customers, suppliers and financial institutions, are also sensitive to the risk of a ratings downgrade and, if Xstrata's ratings were downgraded to below investment grade, may be less likely to engage in transactions with the Group, or may only engage with members of the Group at a substantially higher cost or on increased credit enhancement terms (e.g. letters of credit, additional guarantees or other credit support), which carry increased costs. If Xstrata were to be downgraded below investment grade it could have a material adverse effect on the Group's business, results of operations, financial conditions or prospects.

### ***Interest rate exposure and hedging and derivative counterparty risk***

The Group's exposure to changes in interest rates results from investing and borrowing activities undertaken to manage its liquidity and capital requirements. The Group has entered, and may in the future enter, into interest rate swap agreements to manage the interest rate risk associated with a portion of its debt. The interest rate swap changes the Group's exposure to interest risk by effectively converting a portion of the Group's fixed rate debt to a floating rate. The Group may elect in the future to enter into interest rate swaps to effectively convert floating rate debt to fixed rate debt or to enter into additional fixed rate to floating rate swaps. There can be no assurance that the Group will not be materially adversely affected by interest rate changes in the future notwithstanding its use of interest rate swaps.

In addition, the Group's interest rate swaps, metals hedging and foreign currency and energy risk management activities expose the Group to the risk of default by the counterparties to such arrangements. Any such default could have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Significant customer***

For the six months ended 30 June 2012, the Group had sales of U.S.\$3,773 million to the Glencore Group, which represented 24.3% of the Group's total revenue for the period (U.S.\$9,475 million and 28.0%, respectively, for the year ended 31 December 2011). The Group and the Glencore Group are parties to agreements pursuant to which members of the Glencore Group purchase the entire output of the Group's nickel operations and are parties to a variety of agreements under which members of the Glencore Group purchase a substantial portion of the Group's copper concentrate and copper cathode.

If the Proposed Merger becomes effective, the Combined Group's marketing business will be responsible for marketing all of the Combined Group's output. Production from the Combined Group's operations are planned to be transferred to the marketing business at market-related prices.

### ***Significant shareholders***

Xstrata has received notification that, as of 17 October 2012, Glencore and Qatar Holding LLC had interests of 33.65% and 11.64%, respectively, in Xstrata's issued share capital. If the Proposed Merger is approved by the requisite majorities of Xstrata's eligible shareholders, Glencore (to be renamed Glencore Xstrata plc) will acquire the entire issued share capital of Xstrata, which Glencore does not already own.

If the Proposed Merger does not proceed, Glencore and Qatar Holding LLC (and/or any other entity that may in the future acquire a significant interest in Xstrata's issued share capital), acting together or separately, will

continue to have the ability to exercise substantial influence on Xstrata, especially with regard to matters put to a vote of Xstrata's eligible shareholders, including with respect to the election of members to Xstrata's board, the declaration of dividends, and certain corporate actions, including proposed business acquisitions, disposals or combinations.

Any objections by one or more of, or any disagreement between, Xstrata's significant shareholders in respect of matters requiring a shareholder vote (particularly in the context of the failure of the requisite majorities of Xstrata's shareholders to approve the Proposed Merger) may result in delay, increased expenses or foregone opportunities, which could have a material adverse effect on the Group's business, results of operations or financial condition.

### ***Commercial counterparty risks***

The Group's customer base consists principally of large industrial concerns. During periods of economic decline, or weaker economic growth, such as the recent period of global financial uncertainty, these customers will be subject to varying degrees of financial difficulties, such as issues in accessing credit and the resulting problems with being able to continue their own development or production leading, potentially, to insolvency. The effects of these difficulties may include such customers delaying payments owed to the Group, reducing their purchases over time or otherwise defaulting on their obligations, the occurrence of any of which would adversely affect the results of operations or financial condition of the Group.

### ***Coal supply contract terms***

A substantial portion of the Group's coal sales are made under annual or quarterly contracts and are subject to renewal or price renegotiation. While price negotiations are staggered throughout the year in order to mitigate pricing risk, approximately one-quarter of the Group's total export (thermal and coking) coal production by volume is priced in the Japanese fiscal year (i.e. ending 31 March). The next major renewal or price renegotiation will take place in respect of the Japanese fiscal year commencing 1 April 2013. A rolling annual contract cycle means that the Group's exposure to any decline or increase in coal prices in the current contracted period is limited. Prices or volumes achieved at the renewal of such contracts may be lower than those prevailing under any preceding arrangements, which could have an adverse effect on the financial results of the Group.

### ***Integration of acquisitions***

A substantial portion of the Group's growth in revenue and earnings has historically been generated from, and may continue to be generated from, acquisitions and investments and subsequent improvements in the performance of the businesses acquired or invested in, including Jubilee Mines NL, Resource Pacific Holdings Limited, Sphere, First Coal and Zanaga iron ore project (owned by Jumelles). Xstrata expects to continue a strategy of identifying and, subject to market conditions, at the appropriate time, acquiring and investing in businesses with a view to expanding its operating businesses or diversifying into other natural resources. Xstrata believes that acquisitions and investments will continue to be an important part of its business strategy when appropriate market conditions permit.

There can be no assurance that Xstrata will continue to identify suitable acquisition opportunities, obtain the financing necessary to complete and support such acquisitions or its investment or acquire businesses on satisfactory terms or that any business acquired will prove to be profitable. Furthermore, there can be no assurance that an acquisition offer made by Xstrata or a member of the Group will ultimately be accepted. For example, the Group's acquisition offers for Gloucester Coal Limited and LionOre Mining International Ltd in 2007 and Indophil Resources Limited in 2008 were unsuccessful. Xstrata decided not to proceed with its proposed acquisition of Lonmin in 2008 and announced that it had no intention of making an unsolicited merger proposal to the shareholders of Anglo American plc in 2009.

In addition, acquisitions and investments involve a number of risks, including possible adverse effects on the Group's operating results, diversion of management's attention, failure to retain key personnel, risks associated with unanticipated events or liabilities, difficulties in the assimilation of the acquired operations, technologies, systems, services and products and risks arising from change of control provisions in contracts of any acquired company. Further, the Group's integration strategy may also be influenced by local factors in the markets in which it has made and makes acquisitions, such as black empowerment and labour unrest in South Africa, foreign investment laws and regulations in Australia and Canada, and mining-related and carbon taxes in Australia. Any failure to achieve successful integration of such acquisitions or joint ventures could have a material adverse effect upon the results of operations or financial condition of the Group.

### ***Project development***

The Group benefits from a significant pipeline of organic growth projects in a number of countries. The development of its projects can be affected by a number of factors, some of which are outside of its control.

Such factors include technical uncertainties, the availability of suitable financing, infrastructure constraints, cost overruns, overstretched management and insufficient skills or resources. In addition, external organisations can cause unexpected delays in the development of the Group's projects by affecting the Group's ability to obtain, renew or extend operating, social or environmental permits or to satisfy other legislative requirements. For example, anti-mining sentiment by local communities and/or non-governmental organisations can slow or halt project development and influence governmental processes. Delays in the development of the Group's organic growth projects could have a material adverse effect upon the results of operations or financial condition of the Group.

## **Reserves**

The Group's recoverable reserves decline as the commodities are extracted. Further, the Group may not be able to mine all of its reserves as profitably as anticipated, potentially to the extent that reserves may become uneconomical to mine. The Group's future success depends upon conducting successful exploration and development activities, or acquiring properties containing economically recoverable reserves. Although the Group engaged in a cash conservation exercise in light of the global economic downturn, including restricting its expansionary capital expenditures and acquisition activities, the Group's medium- and long-term strategy includes increasing its reserve base through acquisitions of commodity-producing properties and continuing to develop its existing properties. To the extent current market conditions do not improve and the Group does not increase its expansionary capital expenditure or acquisition activities, the amount of the Group's economically recoverable reserves will decrease which would materially adversely affect the Group's results of operations or financial condition.

Even assuming such activities are increased, the Group's planned development and exploration projects and acquisition activities may not result in significant additional reserves, and it may not be successful in developing additional mines. In addition, in order to develop its reserves, it must receive various governmental permits. The Group cannot predict whether it will continue to receive the permits or extensions to any existing permits necessary for it to operate profitably in the future. The Group may not be able to negotiate economically viable mining contracts for properties containing additional reserves.

The Group bases its reserve information on engineering, economic and geological data assembled and analysed by its staff, including engineers and geologists, and, in certain cases, third parties review such data. The reserve estimates as to both quantity and quality are periodically updated to reflect extraction of commodities and new drilling or other data received. There are numerous uncertainties inherent in estimating quantities and qualities of reserves and costs to mine, including many factors beyond the Group's control. Estimates of reserves and costs to mine necessarily depend upon a number of variable factors and assumptions, such as:

- (i) geological and mining conditions which may not be fully identified by available exploration data, or which may differ from prior experience;
- (ii) historical production from the area compared with production from other similar producing areas; and
- (iii) the assumed effects of regulation and taxes by governmental agencies and assumptions concerning commodity prices, operating costs, mining technology improvements, severance and excise tax, development costs and reclamation costs.

The Group's reported ore reserves are estimated quantities of proven and probable ore reserves and other minerals that under present and anticipated conditions can be legally and economically mined and processed, including, where relevant, by the extraction of their mineral content. The Mineral Resources & Ore Reserves Report, published by Xstrata in February 2012, is stated as of 31 December 2011. To the extent that the prices of the commodities produced by the Group decline from the levels prevailing as of 31 December 2011, certain of the Group's reserves which are currently classified as proved or probable may cease to be classified as recoverable as they become uneconomic to mine. In addition, changes in operating and capital costs may have the same effect by rendering certain ore reserves uneconomic to mine in the future.

The volume and grade of reserves actually recovered and rates of production from the Group's present ore reserves may be less than geological measurements of the reserves, which may result in the Group realising less value from such reserves than had been predicted.

In addition, in the future, short-term operating factors relating to the ore reserves, such as the need for orderly development of ore bodies and other mineral resources or the processing of different ore grades, may cause ore reserves to be modified or the Group's operations to be unprofitable in a particular period.

No assurance can be given that the indicated amount of reserves of ore or other minerals will be recovered or will be recovered at the prices assumed. Mineral resource estimates are based on limited sampling and,



consequently, are uncertain because the samples may not be representative of the entire ore body and mineral resource. As a better understanding of the ore body or mineral resource is obtained, the mineral resource estimates may change significantly, either positively or negatively.

For these reasons, estimates and classifications of mineral resources prepared by different Competent Persons or by the same Competent Persons at different times may vary substantially. Actual commodity tonnage recovered from identified reserves and revenue and expenditures with respect to the Group's reserves may vary materially from estimates. Accordingly, these reserve estimates may not accurately reflect the Group's actual reserves. Any inaccuracy in the estimates related to the Group's reserves could result in lower than expected revenue, higher than expected costs and/or decreased profitability.

### ***Currency fluctuations***

The Group produces and sells commodities that are typically priced in U.S. dollars, while a large portion of the operating costs of the Group's business is incurred in local currencies, including the Australian dollar, the Canadian dollar, the Swiss franc, sterling, the Chilean peso, the Norwegian kroner, the euro, the South African rand, the Argentine peso, the Colombian peso and the Peruvian nuevo sol. Accordingly, the strengthening of any of those currencies or other local currencies in which the Group incurs expenditures against the U.S. dollar has (and has historically had) a detrimental effect on the Group's results of operations and financial condition. For instance, the Group's results of operations for the years ended 31 December 2010 and 2011 were negatively affected by the strengthening of the Australian dollar against the U.S. dollar.

The Group's operations are conducted in many countries and the results of operations and the financial condition of individual members of the Group are reported in the relevant functional currency which, in some cases, is not the U.S. dollar. The results of operations for members of the Group whose functional currency is not the U.S. dollar have been translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in the Group's historical consolidated financial statements. The exchange rates between relevant currencies other than the U.S. dollar and the U.S. dollar have historically fluctuated (including over the last five years) and the translation effect of such fluctuations may have a material adverse effect on the Group's consolidated results of operations or financial condition.

Between 2009 and 2010, the U.S. dollar, on an average basis, declined against most of the above-listed currencies, and this decline persisted between 2010 and 2011. These declines adversely affected operating profit by an estimated U.S.\$1,291 million for the year ended 31 December 2010 and by an estimated U.S.\$820 million for the year ended 31 December 2011. Between the first half of 2011 and the first half of 2012, the U.S. dollar, on an average basis, strengthened against most of the above-listed currencies, which positively affected operating profit by an estimated U.S.\$261 million for the six months ended 30 June 2012. Any decline in the U.S. dollar against the currencies in which the Group incurs costs, absent a corresponding increase in commodity prices, would have a material adverse effect on the Group's consolidated results of operations or financial condition.

The Group may, from time to time, hedge a portion of its currency exposures and requirements to try to limit any adverse effect of exchange rate fluctuations on the Group's results of operations and financial condition but there can be no assurance that such hedging will eliminate the potential material adverse effect of such fluctuations.

### ***Energy supply and prices***

Certain of the Group's operations and facilities are intensive users of natural gas, electricity, oil and other fuels. The procurement dynamics of these energy types are becoming increasingly connected as supply and demand conditions become more inter-dependent on a global level. Factors beyond the control of the Group, 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 production and delivery conditions (as has been the case frequently with electricity in South Africa and was the case in 2008 with natural gas in Chile) can both reduce the reliability of the supply of energy to the Group's production processes and put upward pressure on the prices paid by the Group for the fuels and energy used by it. In South Africa, the ability of the national electricity producer Eskom to meet electricity demand is expected to be somewhat constrained in the future. Eskom may face high capital costs to increase future production capacity which would place significant upward pressure on electricity prices in general and prices paid by the Group in South Africa.

As with other mining sector inputs, the Group has historically been exposed to energy cost inflation in excess of broader measures of inflation. While these increases have abated to some extent in recent months, any renewed increases in energy costs will adversely affect the results of operations or financial condition of the Group.

The Group's North Queensland operations have entered into fixed-term diesel supply agreements with Royal Dutch Shell plc. Upon termination of those agreements, the Group will need to source its diesel requirements from the Glencore Group or third parties. There can be no assurance that the Group will be able to renew its diesel supply agreements with Royal Dutch Shell plc or to source its diesel requirements on better or equivalent terms compared with its current agreements, which may have an adverse effect on the results of operations or financial condition of the Group.

In addition, the Group's business operations could be adversely affected, including through loss of production and damage to its plants and equipment, if the supply of energy to one or more of its facilities was interrupted even temporarily.

### **Taxation**

Although Xstrata is incorporated in England and Wales, it is regarded as resident in Switzerland, and not in the United Kingdom, for Swiss and U.K. tax purposes and for the purposes of the U.K.-Switzerland double tax treaty. This means, broadly, that Xstrata's profits, income and gains are subject to the Swiss tax regime and not, save in the case of U.K. source income, to the U.K. tax regime.

It is possible that in the future, whether as a result of a change of law or the practice of any relevant tax authority or the renegotiation of the U.K.-Switzerland double tax treaty, or as a result of any change in the management or the conduct of Xstrata's affairs (including any changes implemented as a result of the Proposed Merger), Xstrata could become, or be regarded as having been, resident in the United Kingdom, therefore becoming subject to the U.K. tax regime, which could adversely affect the results of operations or financial condition of the Group.

As a result of changes made to the U.K. controlled foreign company rules by section 90 of the Finance Act 2002 (as amended by section 78 of the Finance Act 2006) (i.e. the introduction of section 747(1B) of the Income and Corporation Taxes Act 1988 and the related transitional provisions), it is possible that in certain circumstances future acquisitions by the Group could bring it within these rules, with the consequence that Xstrata may become subject to U.K. tax on the income profits of certain non-U.K. resident subsidiaries. Future acquisitions could therefore adversely affect the results of operations or financial condition of the Group. However, H.M. Revenue & Customs ("HMRC") has provided a non-statutory letter of comfort to Xstrata that the legislation is not intended to apply to a company such as Xstrata and that HMRC will not regard the legislation as applying, provided that Xstrata continues to act as the parent company of its existing group, where Xstrata acts in the ordinary course of its business in making acquisitions of other groups or companies in the same general business sector as its existing group, or carrying out significant post-acquisition refinancing or restructuring (including disposals). The U.K. Finance Act 2012, which received Royal Assent on 17 July 2012, introduced a new controlled foreign companies regime. The new rules will take effect (in place of the old regime) for accounting periods beginning on or after 1 January 2013 (subject to detailed transitional provisions). The new rules do not contain an equivalent provision to section 747(1B) of the Income and Corporation Taxes Act 1988. Accordingly, provided that Xstrata does not become U.K. tax resident (as discussed above), the new controlled foreign companies regime, as currently drafted, should not apply to Xstrata.

The government of South Africa has effected or communicated an intention to effect significant changes to its existing tax laws, including the following:

- The government of South Africa has introduced an amendment to the Income Tax Act 58 of 1962. Such amendment introduces a 15% withholding tax on interest paid on foreign loans (other than true bank loans and traded debt). This new legislation will take effect from 1 January 2013.
- The 3:1 debt-to-equity safe harbour ratio for funding has been removed and replaced with an arm's length capital structure test, potentially making use of interest cover ratios. The South African Revenue Service has yet to publish guidance relating to this issue, but a proposed amendment to the existing debt-to-equity safe harbour ratio will affect Xstrata's South African subsidiaries' interest payments or accruals from 1 January 2013.
- In line with South Africa's voluntary commitment to reduce domestic greenhouse gas emissions by 34% by 2020 (compared to 2009 levels), the government of South Africa has proposed a tax on carbon emissions. In response, the Industry Task Team on Climate Change, which represents industrial interests in South Africa, was convened in order to formulate a response to the government proposal by detailing feasible alternatives to a carbon tax. The introduction of a carbon tax is a concept proposal sponsored by some in the National Treasury but is not supported by many politicians or other government departments. Business interests continue to advocate that the introduction of a carbon tax is premature and that the concept proposal is too complex and cannot be administered. Proposals have been made to the ruling party, the African National Congress ("ANC").

- The ANC in its report entitled “State Intervention in the Minerals Sector” advocates, as an alternative to the nationalisation of the mines, that a resource rent tax of 50% be imposed on all mining activities. This tax would be triggered after a normal return on investments (treasury bond rate plus 7%) has been achieved. A reduction in the current mineral royalty rate to 1% of revenue has been proposed as an offset. Xstrata has met with the ANC to put forward reasons why a resource rent tax would not be appropriate and to propose alternative solutions.

The above-listed changes or intended changes, as applicable, could impact the profits, income and gains of the Group’s South African operations, which could adversely affect the results of operations or financial condition of the Group.

The Australian federal government enacted legislation in March 2012 in connection with the Minerals Resource Rent Tax (“MRRT”), which became effective from 1 July 2012. The MRRT only applies to coal and iron ore and, as such, is not applicable to base metals.

The MRRT is levied on 30% of MRRT assessable profit, less a 25% allowance for the value added to minerals relating to a miner’s extraction activities, thereby resulting in an effective rate of 22.5%. The MRRT assessable profit is based on upstream (pre-processing) mining profits. The MRRT is deductible for Australian corporate income tax purposes (currently 30%), although the federal government is currently reviewing options to possibly reduce the corporate income tax rate in the future. The market value of a mine existing as of 1 May 2010 plus capital expenditure up to 30 June 2012 (the “starting base”), is deductible for MRRT purposes over the lesser of the life of such mine or 25 years. The Group recorded a net deferred tax asset of U.S.\$579 million as of 30 June 2012 to reflect the expected use of this starting base. New capital and operating expenditure from 1 July 2012 is deductible for MRRT purposes immediately or, if MRRT assessable profits are insufficient, losses are uplifted annually at the risk free rate plus 7% until there is sufficient income to absorb the losses. State mining royalties remain payable and are credited against any MRRT liability. These mining royalties are not refunded if the MRRT liability in a given year falls below the royalty level. Any excess state mining royalties are credited against future MRRT liabilities and also uplifted annually at the risk free rate plus 7%.

In October 2011, Australia passed the Clean Energy Bill 2011, which introduced a tax on carbon emissions. This carbon tax became effective on 1 July 2012, and companies producing more than 25,000 tonnes of carbon dioxide per year are taxed at a rate of A\$23 for each tonne above the 25,000 tonne threshold. This carbon pricing is to increase at a rate of 2.5% per annum in real terms (above inflation) until 2015, at which time a market-based emissions trading scheme is to be introduced. In addition, the diesel fuel credit, which refunds the federal excise tax paid on fuel used for mining purposes and is currently A\$0.38 per litre, will be reduced by A\$0.0621 and adjusted annually thereafter. Some coal mines with high fugitive gas emissions, such as methane, will receive assistance from the temporary Coal Sector Jobs Package, which will partially offset the additional cost of the carbon tax. The Coal Mining Abatement Technology Support Package will also provide support. Despite the Group’s initiatives to reduce carbon emissions, the tax on carbon emissions may affect the Group’s results of operations and financial condition.

In September 2012, the Government of Queensland, Australia announced an increase in the State royalty rates that broadly apply to the sales value of coal, with some deductions. The revised royalty rates, which are to become effective from 1 October 2012, are as follows: if the sales value per tonne of coal is between nil and A\$100, the revised royalty rate is to be 7% (identical to the current royalty rate of 7%); if the sales value per tonne of coal is between A\$100 and A\$150, the revised royalty rate is to be 12.5% (compared to the current royalty rate of 10%); and if the sales value per tonne of coal is over A\$150, the revised royalty rate is to be 15% (compared to the revised royalty rate of 10%).

In September 2011, the president of Peru, Ollanta Humala, signed into law three bills that increase taxes applicable to mining companies, including mining companies with existing fiscal stability agreements (such as Barrick Gold Corporation, BHP Billiton plc and Xstrata). Under the new legislation, all mining companies without fiscal stability agreements will pay royalties of 1% to 12% of operating profit, whereas they previously paid royalties of 1% to 3% of net sales. In addition, mining companies that do not have existing fiscal stability agreements will be subject to a “windfall profits” tax (to be paid quarterly) of 2% to 8.4% of net profit. Mining companies with existing fiscal stability agreements (noting that Xstrata has fiscal stability agreements for Las Bambas, Antamina and Antapaccay) will continue to pay the royalty rate agreed with the Peruvian government in their respective fiscal stability agreements and will also be subject to a special contribution tax of 4% to 13.2% of operating income, with the exact tax rate dependent upon the company’s operating margin. Although mining companies have been in consultation with the Peruvian government to provide a detailed analysis of the existing Peruvian tax burden and the consequences of higher taxes for the Peruvian mining industry, there can be no assurance that the above-described changes will not adversely affect the results of operations and financial condition of the Group.

In September 2012, the Chilean Congress approved a tax reform measure that, among other things, increased the corporate income tax rate from 17% to 20%. The new rate will be applied to profits generated in the 2012 commercial year and will be payable by the Chilean members of the Group.

The Group has entered into a number of structured transactions. If any of these arrangements are successfully challenged by the relevant tax authorities, members of the Group may incur additional tax liabilities which could adversely affect the results of operations or the financial condition of the Group. In addition, in the future, members of the Group may incur additional tax liabilities as a result of changes in tax laws or the imposition of new taxes, royalties, export retentions or duties.

### **Labour**

The majority of the workforce of the Group is unionised. Xstrata believes that all of the Group's operations have, in general, good relations with their employees and unions but from time to time the Group's operations in South America, South Africa, Australia, Canada and Chile have experienced limited work stoppages and other forms of industrial action. There can be no assurance that the Group's operations will not be affected by such problems in the future. In addition, the Group has been subject to union demands for pay rises and increased benefits. Strike action at other industry participants' operations, such as the labour unrest at the Marikana mine complex in South Africa operated by Lonmin (in which the Group holds a 24.6% interest), which resulted in 44 deaths and has significantly negatively affected Lonmin's estimates of its annual platinum production, may encourage work stoppages in connection with any labour-related demands of employees or unions at the Group's operations. For example, the Group's operations in South Africa have and may be further negatively affected by wildcat strikes or other instances of labour unrest unrelated to those currently affecting other mining operations in South Africa. The Group could be adversely affected by labour disruptions involving third parties who provide the Group with goods or services at its operations. Strikes and other labour disruptions at any of the Group's operations, or lengthy work interruptions at its existing and future development projects, could materially adversely affect the timing, completion and cost of any such project, as well as the Group's results of operations or financial condition. In addition, the Group has been subject to extensive labour cost inflation in a variety of its operating geographies as the global economic recovery has increased demand for commodities. There can be no assurance that work stoppages or other labour-related developments (including the introduction of new labour regulations in countries where the Group operates) will not adversely affect the results of operations or financial condition of the Group.

The majority of the workforce of the Group is engaged pursuant to collective employment agreements. These collective agreements are negotiated with unions and other employee representative organisations from time to time. The collective agreements establish and set the terms and conditions of employment of the employees covered by the collective agreements. The Group's collective agreements have differing terms and expiry dates. Prior to the expiry of a collective agreement, negotiation of conditions for renewal occurs between the relevant employing entities within the Group and the relevant unions or other employee representative organisations. There can be no assurance that collective agreements will be renewed when due without work stoppages or other forms of industrial action or without additional or unforeseen costs being incurred by the Group.

While HIV/AIDS infection remains a serious problem within the Group's South African workforce, the Group has implemented mitigation measures such as aggressive wellness programs, the availability of free antiretroviral treatment to its workers and their families, community clinics and related interventions underway at the Group's South African operations. The Group believes that the current rate of infection has stabilised and been contained. Notwithstanding, there is a risk that the costs associated with HIV/AIDS (including, in particular, the cost of lost workers' time) may adversely affect the Group's South African results of operations or financial condition.

### **Key employees**

The management of the Group's operations depends on a relatively small number of key employees. The loss of the services of certain key employees (including pursuant to the terms of, or as a result of, the Proposed Merger as described in "-Risk factors and other considerations relating to the Proposed Merger- Integration of the Combined Group and retention of key senior and operational management"), particularly to competitors, could have a material adverse effect on the results of operations or financial condition of the Group.

In addition, as the Group's business develops and expands, Xstrata believes that the Group's future success will depend on its ability to attract and retain highly skilled and qualified personnel, which is not guaranteed, especially in the current competitive labour market for industry experienced senior personnel.

### **Market for sulphide concentrate by-products**

The economics of many smelting operations, including those operated by the Group, are reliant in part on the prices achievable for the marketable by-products of smelting. For example, a significant by-product of copper concentrate smelting (and that of zinc, nickel and lead sulphides) is sulphuric acid, the price of which in recent years has fluctuated significantly as stricter environmental standards require capture of sulphur emissions, as a result of which the supply of sulphuric acid available for sale has increased. Lack of demand for sulphuric acid and a lack of sufficient storage capacity for significant quantities of sulphuric acid may cause production

curtailment. Furthermore, lack of demand for sulphuric acid and the resultant decrease in price for sulphuric acid may prompt smelters to increase treatment and refining charges. Higher treatment and refining charges would result in higher costs to the Group where it does not smelt its own sulphide concentrates. By contrast, if the Group's smelters are unable to increase treatment and refining charges to reflect reduced revenues from sulphuric acid sales (or other by-products), the contribution of these operations to the profitability of the Group would be adversely affected. Either eventuality could materially adversely affect the Group's results of operations or financial condition.

### **Joint ventures**

Members of the Group hold, and expect to hold in the future, undivided interests in joint ventures. Special risks associated with joint ventures include the possibility that the joint venture partners, which in certain cases include competitors of Xstrata, may:

- (i) have economic or business interests or goals that are inconsistent with those of the Group; or
- (ii) take action contrary to the Group's policies or objectives with respect to its investments, for instance by vetoing proposals in respect of the joint venture operations; or
- (iii) be unable or unwilling to fulfil their obligations under the joint venture or other agreements; or
- (iv) experience financial or other difficulties.

Any of the foregoing may have a material adverse effect on the results of operations or financial condition of the Group. In addition, the termination of certain of these joint venture agreements, if not replaced on similar terms, could have a material adverse effect on the results of operations or financial condition of the Group.

### **Holding company structure and dependence on subsidiaries**

Each of Xstrata's and Xstrata Schweiz's results of operations and financial condition are entirely dependent on the trading performance of members of the Group. Their ability to pay amounts due under the Xstrata Guarantee and the Xstrata Schweiz Guarantee, respectively, will depend upon the level of distributions, if any, received from their respective operating subsidiaries and interests, any amounts received on capital raisings and asset disposals and the level of cash balances. Certain of Xstrata's and Xstrata Schweiz's operating subsidiaries and interests may, from time to time, be subject to restrictions on their ability to make distributions to them, including as a result of restrictive covenants contained in loan agreements, foreign exchange limitations and other regulatory restrictions and agreements with the other shareholders of such subsidiaries or associated companies. Any such restrictions may have a material adverse effect on the Group's results of operations or financial condition.

### **Legislative risk factors relating to the Group**

#### **Environmental, health and safety**

The operations of the Group are extensively regulated. National, state and local authorities in the countries in which the Group has operations regulate the industries in which the Group operates with respect to matters including, but not limited to, employee health and safety, royalties, permitting and licensing requirements, planning and development and environmental compliance (including, for example, compliance with waste and waste water treatment and disposal; emissions and discharge requirements; plant and wildlife protection; reclamation and rehabilitation of mining properties before, during and after mining is complete; surface subsidence from underground mining; and the effects that mining has on surface and/or groundwater quality and availability).

Governmental authorities and the courts have the power to enforce compliance (and, in some jurisdictions, third parties and members of the public can initiate private procedures to enforce compliance) with applicable laws and regulations, violations of which may result in civil or criminal penalties, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations.

Numerous governmental permissions, approvals and leases are required for each of the Group's operations. These permissions, approvals and leases are subject, in certain circumstances or on the occurrence of certain events, to modification, renewal or revocation. The Group is required to prepare and present to national, state or local authorities data pertaining to the anticipated effect or impact that any proposed exploration, mining or production activities may have upon the environment. For example, in Australia, the National Greenhouse and Energy Reporting Act 2007 established a mandatory reporting system for corporate greenhouse gas emissions and energy production and consumption. The costs, liabilities and other obligations associated with complying with such requirements or arising from the manner in which the obligations are met or, as may be

necessary, the cost of rehabilitation of sites which have been closed down, may be substantial and time-consuming and may delay the commencement or continuation of exploration, mining or production activities. There can be no assurance that compliance costs, including the costs of rehabilitation of operations which have been closed down, and dealing with environmental and health and safety issues associated with legacy closed sites will not adversely affect the results of operations or financial condition of the Group.

In certain jurisdictions, third parties or members of the public can challenge or otherwise initiate proceedings against the award of a permission, approval or lease. For example, in December 2008, an Australian federal appeals court ruled that the Federal Environment Minister had not followed due process in approving the development of an open pit mine at the Group's McArthur River operations. Although the court noted that the Group was not in error, the Group was required to suspend mining operations at McArthur River as a result of the decision. Although the Group initially continued processing stockpiled ore, as a result of the required consultation period between the minister deciding to recommend that approval be granted and approval actually being granted, it was necessary to place the mine on care and maintenance in the interim. In addition, the Group's project development approval for its Ulan West mine in New South Wales, Australia, and the proposed grant of mining leases and the associated environmental authority for the Wandoan Project in Queensland, Australia, were the subject of court challenges by environmental interest groups, both of which were resolved favourably for the Group. There can be no assurance that these types of actions will not continue to occur or that they will not have a material adverse effect on the results of operations or financial condition of the Group.

The Group's Mount Isa operations in Queensland, Australia are subject to specific legislation passed by the Queensland Parliament, namely the Mount Isa Mines Limited Agreement Act 1985, which, among other things, specified the particular environmental conditions applicable to the site and exempted the Mount Isa operations from compliance with the otherwise applicable Environmental Protection Act 1994. However, in May 2008, the Queensland Parliament passed the Environmental Protection and Other Legislation Amendment Act 2008, which provided for a transition of environmental regulatory functions relating to Mount Isa, including those covered by the Mount Isa Mines Limited Agreement Act 1985, to the Environmental Protection Act 1994. As a result, at the end of a three year transition period, in May 2011, Xstrata applied to the state environmental regulator, under the Environmental Protection Act 1994, for an amended environmental authority for its operations. In December 2011, the state environmental regulator issued a new environmental authority for the Group's Mount Isa operations under the Environmental Protection Act 1994 in connection with the transition of environmental regulation of the Mount Isa operations from the Mount Isa Mines Limited Agreement Act 1985. A number of transitional plans have also been approved. The conditions of this environmental authority may require substantial changes to the Mount Isa operations, in which case significant expenditures, relating to investing in new environmental technologies and practices, could be required to maintain current production levels, which would have an adverse effect on the results of operations or financial condition of the Group.

In addition, a violation of environmental or health and safety laws relating to a mine or production facility or a failure to comply with the instructions of the relevant environmental or health and safety authorities could lead to, among other things, a temporary shutdown of all or a portion of such mine or production facility, a loss of the right to mine or to continue with production or the imposition of costly compliance procedures, fines and penalties, liability for clean-up costs or damages. If environmental or health and safety authorities require the Group to shut down all or a portion of a mine or production facility or to implement costly compliance measures, or impose fines and penalties, liability for clean-up costs or damages on the Group, whether pursuant to existing or new environmental or health and safety laws and regulations, such measures could have a material adverse effect on the Group's results of operations and financial condition.

There is a country wide issue in South Africa affecting many industries concerning compliance with the National Water Act, 1998 (the "NWA"), which regulates the use of water in South Africa and stipulates mandatory requirements as to the registration and licensing of water uses. This has a long history and dates back to the previous Water Act, 1956 (the "Old Act"). The Old Act was introduced in an attempt to regulate the use of water in various commercial operations (including mining). The requirements of the Old Act were complex and often led to a significant number of different water licences being required for one operation. The NWA was introduced to more efficiently and effectively regulate water use and licensing. One of the key changes was to introduce the concept of an Integrated Water Use Licence Application ("IWULA") whereby an operation would have one integrated licence dealing with all its water uses. At the same time, there was a provision whereby "existing lawful uses" under the Old Act would be allowed to continue, pending the granting of a licence under the NWA. Xstrata Coal South Africa ("XCSA") and Xstrata Alloys have applied for integrated licences for all of their respective operations, with the IWULAs having been lodged as far back as 2003. Due to administrative constraints within the Department of Water Affairs, there is a backlog of IWULAs throughout the country which have not yet been processed and granted. Consequently, there are water uses that are technically unlawful (i.e., they are not existing lawful uses under the Old Act and have not been validated by way of a new integrated licence under the NWA). The Department of Water Affairs could exercise its powers under the NWA and require operations to cease unlawful water use until a new integrated licence is granted under the NWA. Unlawful water use is also an offence under the NWA, which could lead to prosecution of the offending water user, could result in fines which may vary depending on the severity of the breach (but are

typically in the vicinity of Rand 500,000) and, in extreme cases, could result in jail sentences for directors of corporate water users. This is a difficult political issue because the Department of Water Affairs is reluctant to shut down successful operations which employ large numbers of people and generate royalty revenue for the Government. XCSA is continuing to work actively with the Department of Water Affairs to have all of its remaining IWULAs processed and approved. This strategy has proven to be successful; all of the IWULAs for XCSA's operations have been approved, although a number of IWULAs for Xstrata Alloys remain outstanding. In addition, the Department of Water Affairs is still processing two applications pertaining to amendments of previously approved IWULAs for XCSA.

In addition, the National Environment Management Waste Act 59 of 2008 introduced new waste site management and permitting procedures as a result of which most Xstrata Alloys operations had to apply for waste permits to operate certain parts of their operations. Certain of these licences have been received; however, the requirements of this act have and will continue to impose costly compliance and licensing procedures.

The possibility exists that new environmental and/or health and/or safety legislation or regulations may come into force and/or new information may emerge on existing environmental and/or health and/or safety conditions and/or other events (including legal proceedings based upon such conditions or an inability to obtain necessary permits), which may materially adversely affect the Group's operations, its cost structure, its customers' ability to use the commodities produced by the Group, demand for its products, the quality of its products and/or its methods of production and distribution. For example, in June 2007, a new EU regulation for the Regulation, Evaluation and Authorisation of Chemicals ("REACH") came into force across the European Union. REACH is intended to place the burden of ensuring the safety of all substances in terms of both human health and environmental exposures onto the shoulders of the industry instead of authorities. Many of the commodities produced by the Group, and the chemicals used by it for production or other purposes, fall within the scope of REACH, which requires EU- and EEA-based legal entities to pre-register and subsequently register (and, in certain cases, to seek authorisation for the use or placing on the market of) materials that they import into or manufacture within the European Union and the European Economic Area by certain deadlines as a pre-condition to market access. Although the Group has completed all pre-registrations and registrations required to ensure that its members and customers may continue to manufacture and/or import affected commodities or other product materials by the relevant deadlines, the Group may be denied market access for some or all of these materials in the future if full registrations and, where applicable, authorisations are not obtained. REACH's impact on the global supply chain for materials, including those used by the Group for production or other purposes, is also unpredictable. A further example is EU regulatory reform in the context of classifications of nickel substances under the Dangerous Substances Directive and the import of those classifications into the REACH framework through new regulations. These regulations, in particular the EU 30th and 31st Adaptations to Technical Progress to the Dangerous Substances Directive (adopted in August 2008 and January 2009, respectively) and the 1st Adaptation to Technical Progress to the Classification, Labeling and Packaging Regulation (adopted in August 2009), introduce new classifications for nickel containing substances, which would result in additional labeling and packaging requirements for reclassified substances within the European Union. The International Maritime Organisation is currently reviewing requirements for the transport of solid bulk cargoes via the International Convention for the Prevention of Pollution from Ships, 1973, as modified in 1978 Annex V and the International Maritime Solid Bulk Cargoes Code. This review may affect the regulation and requirements by which the Group must abide for its products to be transported and, in particular, environmental and/or health and/or safety requirements. These reforms may require the Group to change packaging and other transport and logistical arrangements associated with the affected substances and products which may result in significant increased costs and which could have an adverse effect on the results of operations or financial condition of the Group.

In 2010, two glacier protection acts were passed in Argentina. The first such act was passed by the San Juan province, the province in which the El Pachón project is located. This act stipulates that any possible impact to a glacier will be subject to the prior approval of an environmental impact statement to be filed by the company that is to consider the relevance of such glacier to the corresponding water basin. Shortly after this act was passed, the National Congress passed the National Glaciers Protection Act (the "NGPA"), which, by prohibiting mining activities (and other activities) not only in glacial but also in peri-glacier areas, is more restrictive than the San Juan law. Since the NGPA was passed, two separate legal cases seeking to have the NGPA declared as unconstitutional have been initiated by third parties. In both cases the claimants sought and were granted by the presiding federal judge in San Juan an injunction suspending the applicability of certain sections of the NGPA. Following the grant of these injunctions, the San Juan province became a party to both cases, supporting and sustaining the claimants' stance that the NGPA is unconstitutional. Under Argentine law any dispute between a province and the National State must be heard by the National Supreme Court. In July 2012 the National Supreme Court revoked the previously granted injunctions, and, consequently the NGPA is now in force in San Juan. Nevertheless, in September 2011, Xstrata initiated a proceeding in San Juan seeking to have NGPA declared unconstitutional and also seeking a specific injunction suspending the applicability of certain sections of the NGPA for the benefit of the El Pachón project. This injunction was granted by the federal judge. The San Juan province became a party to this case, and, consequently, the case is now being heard by the National Supreme Court. The National Supreme Court has not yet issued a decision

in connection with the appeal filed by the National State against the injunction. As of 31 August 2012, the injunction suspending the applicability of certain sections of the NGPA with respect to the El Pachón project remains in effect.

Xstrata expects that further environmental laws and/or regulations will likely be implemented to protect the environment and quality of life, given sustainable development and other similar goals which governmental and supragovernmental organisations and other bodies have been pursuing. For example, state and territory governments in Australia are considering a range of effective policy responses to ensure a flexible way of achieving greenhouse gas abatement in the transition to a carbon constrained future. In particular, in October 2011, Australia passed the Clean Energy Bill 2011, which contains a tax on carbon emissions (see “– Risk factors relating to the business of the Group – Taxation”). Some of the issues which are relevant to the Group that are currently under review by environmental regulatory agencies include reducing or stabilising various emissions, including sulphur dioxide and greenhouse gas emissions; geochemical and geotechnical stability of mine works; mine reclamation and rehabilitation; water, air and soil quality; and absolute liability for spills or for exceeding prescribed limits. Such matters may, among other things, require the Group, or its customers, to change operations significantly or incur increased costs (including compliance expenditures) or could require the Group to increase its financial reserves, which could have an adverse effect on the results of operations or financial condition of the Group.

In view of the uncertainties concerning future removal, stabilisation, reclamation and site rehabilitation costs on certain of the Group’s properties, the costs actually incurred by the Group could differ from the amounts estimated. Estimates for such future costs are subject to change based on amendments to applicable laws and regulations, the nature of on-going operations and technological innovations. Future changes, if any, due to their nature and unpredictability, could have a significant impact and would be reflected prospectively as a change in an accounting estimate. In addition, regulatory authorities in various jurisdictions around the world may require the Group to provide financial security to secure, in whole or in part, future removal, stabilisation, reclamation and site rehabilitation obligations in such jurisdictions. In some instances, the Group has already provided such security. In other instances, such security may be required to be provided upon the occurrence of certain events, for example if Xstrata or a member of the Group ceases to maintain a minimum investment grade credit rating, if the regulatory authority ceases to accept alternative forms of comfort to secure the obligation, or as the relevant property nears the end of its operation. Although the provision of such security does not increase the future removal, stabilisation, reclamation and site rehabilitation costs (other than costs associated with the provision of such security), a portion of the Group’s financial resources may be required to support these commitments, which could adversely affect the financial resources available to the Group.

#### ***Risks related to climate change legislation***

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on 16 February 2005. As of October 2010, 191 states and one regional economic integration organisation (the European Economic Community) had deposited instruments of ratifications, accessions, approvals or acceptances in respect of the Kyoto Protocol.

The Group has operations in various jurisdictions that may be subject to national, regional or local laws, regulations, taxes and policies aimed at limiting or reducing greenhouse gas emissions. While the impact of the Kyoto Protocol and related legislation and regulation cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transport; restrict industrial emission levels; impose added costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting, including for example, reporting requirements under Australia’s National Greenhouse and Energy Reporting Act. In July 2012, a carbon tax came into effect in Australia, and members of the Group in this jurisdiction are variously liable under this legislation (see “– Risk factors relating to the business of the Group – Taxation”). As the operation of the Group’s business involves incurring certain of these costs, increases in such costs could have a material adverse effect on the results of operations or financial condition or increase tax payments of the Group. Further, the Group may be required to change operations, reduce production capacity or make additional investments to adapt to new or amended environmental laws and regulations, which could have a material adverse effect on the results of operations or financial condition of the Group.

The coal industry, governments and other organisations are actively investing in research projects to reduce greenhouse gas emissions from the use of coal in power generation. There can be no assurance that the introduction of laws, regulations, taxes and practices to limit greenhouse gas emissions will not in the future adversely affect the price of, and demand for, coal. A significant decrease in the demand for coal, with current users turning increasingly to alternative forms of energy, may adversely affect the results of operations or financial condition of the Group.

Given the uncertainty surrounding the impact of climate change, the manner of implementation of the Kyoto Protocol in those jurisdictions where it has yet to be implemented, the various mechanisms available for



countries to achieve their emission reduction targets (whether under the Kyoto Protocol or otherwise), including the levying of taxes against greenhouse gas emissions or greenhouse gas emitting products or the imposition of “cap-and-trade” schemes, and difficulties in identifying and assessing the financial implications of such impacts and measures, it is not possible to determine with certainty at this time what the ultimate effects of climate change and the Kyoto Protocol or other similar initiatives to limit or control greenhouse gas emissions may be for the Group.

### ***Australian native title, South African and Canadian land claims and Peruvian consultation rights***

In Australia, the Native Title Act 1993 (Cth) (the “Native Title Act”) recognises native title and establishes processes relating to mining and exploration rights. Native title represents the traditional rights and interests that the Aboriginal people have in relation to land. If native title was not extinguished prior to 1994, the Native Title Act provides procedural rights for registered native title claimants, including the right to negotiate with respect to the grant of mining rights, which include exploration titles and the compulsory acquisition of land. Native title claims have been made over some areas where the Group has mining operations and there can be no assurance that such claims or any future claims will not have a material adverse effect on the Group’s results of operations or financial condition or that additional claims will not be lodged in the future.

In South Africa, the government’s Restitution of Land Rights Act 1994 provides remedies for persons who have been dispossessed of rights in land as a result of past racially discriminatory laws or practices. The Land Claims Court is empowered to make orders concerning the restoration of a right in land or any portion of land, compelling the payment of compensation, thereby compelling the South African government to include a claimant as a beneficiary in a state support programme for housing or granting the claimant an appropriate right in alternatively designated state land or with any alternative and appropriate relief. Xstrata is aware that a number of land claims have been lodged in relation to the surface rights of the Group’s various South African properties, but has limited information about these claims, and due to the lengthy administrative process under the Restitution of Land Rights Act 1994, there is uncertainty as to their status and prospects for success.

In Canada, the Group’s properties may, in the future, be the subject of Native American land claims which are generally addressed by the courts in Canada. The legal basis of such a land claim is a matter of considerable legal complexity and the impact of the assertion of a land claim, or the possible effect of a settlement of such claim upon the property interest in question, cannot be predicted with any degree of certainty at this time. In addition, no assurance can be given that any recognition of Native American rights whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting mining activity pending resolution of any such claim) would not delay or even prevent the Group’s resource development or mining activities in Canada.

Accordingly, no assurance can be given that these land claims, or any other land claims of which the Group is not aware, will not have an adverse effect on the Group’s rights to the properties that are subject to the land claims or a material adverse effect on the Group’s results of operations or financial condition.

In September 2011, the Peruvian Government approved the Right to Prior Consultation of Indigenous and Tribal Peoples Law, which took effect in December 2011. This law, which updates Peru’s domestic legislation to comply with the International Labour Organization’s Convention 169, requires prior and informed consultation with the indigenous communities and tribal peoples that could be directly affected by a particular piece of legislation or administrative action, such as the grant of a concession or the approval of an environmental impact statement. The purpose of requiring such consultation is to obtain an agreement between the federal, regional or local authorities, on the one hand, and the affected indigenous communities and tribal peoples, on the other, regarding a given piece of legislation or administrative action. The regulations state that federal, regional or local authorities will be required to finance the consultation process, which should be completed in a maximum of 120 days. Although the final decision regarding a piece of legislation or administrative action is made by the relevant federal, regional or local authority, there can be no assurance that such consultations will neither delay nor impede a piece of legislation or an administrative action, the absence of which could delay or impede a development project or projects, which could in turn have a material adverse effect on the Group’s results of operations and financial condition.

### ***South African Mineral and Petroleum Resources Development Act, Mining Charter and Royalty Act***

The Mineral and Petroleum Resources Development Act 28 of 2002 (the “MPRDA”) came into operation on 1 May 2004. The Empowerment Charter (now called the Mining Charter), together with the “scorecard” for measuring black empowerment in the mining industry, which monitors and assesses compliance with the Mining Charter, was promulgated in 2004 by the Minister of the Department of Minerals and Energy (now called the Department of Mineral Resources (“DMR”)) in terms of the MPRDA and was subsequently amended in 2010. The Mineral and Petroleum Resources Royalty Act 28 of 2008 pertaining to royalties, which became effective on 1 March 2012, provides for a variable royalty determined by a set formula calculated in part

according to the ratio of EBIT to gross sales with a minimum royalty rate of 0.5% and a maximum of 5% (for refined material) and 7% (for unrefined material) of gross sales in respect of the transfer of mineral resources.

A key objective of the MPRDA legislation is to ensure that 26% of the South African mining industry is controlled by historically disadvantaged South Africans (“HDSAs”) by 30 April 2014. In addition, mining companies need to achieve certain goals aimed at the advancement of HDSAs both in the workplace and the communities in which they operate.

The Group has proactively developed and implemented a strategy to address the requirements of the above legislation, and has complied with the requirements of this legislation well within the stipulated timeframes both in its Alloys and Coal businesses. On the basis of the aforementioned empowerment credentials, Xstrata Alloys has been granted conversion of all of its old order mining rights and has been granted all of its initial applications for new order mining and prospecting rights. Certain more recent applications for new order mining and prospecting rights, however, remain outstanding at Xstrata Alloys and are in the ordinary administrative process at the relevant provincial departments. Xstrata Coal has been granted conversions of almost all of its old order mining rights and almost all of its new applications for mining and prospecting rights by the DMR in South Africa. Some of these grants are, however, subject to administrative appeals by land owners and environmental interest groups.

Although the Group has complied with these legislative developments in South Africa to date, there remains a risk to security of tenure in respect of new order mining and prospecting rights more recently applied for but still yet to be granted which may affect the Group’s mining rights in South Africa and/or the results of operations or financial condition of the Group.

### ***Competing oil and gas claims***

In various countries in which the Group operates (including Australia, Canada and Colombia), there are legislative regimes in place whereby permits can potentially be granted over the same area, thereby allowing the holder to explore for or extract coal as well as oil and gas. There is a possibility there may be competing claims by different parties with one party holding the coal rights and the other holding the oil and gas rights. Although there will generally be a process of a negotiated settlement between the competing parties on how any competing rights are to be dealt with, or ultimately a Government enforced resolution, there can be no assurance that such competing claims will not adversely impact the Group’s results of operations and financial position.

### ***Country-by-country reporting***

In October 2010, the European Commission issued a consultation paper on country-by-country reporting by multinational corporations. Country-by-country reporting could require a multinational company to disclose in its annual financial statements (i) the name of each country in which it operates and the names of the companies that operate in those countries, (ii) its financial performance in every country in which it operates, identifying both third party and intra-group transactions as well as financing costs and labour related information, and (iii) the tax charge (current and deferred), including tax (and other benefits) that it pays to the governments of the countries in which it operates. In April 2011 the European Commission published its Summary Report of the responses received to the consultation paper, which shows a range of responses, with preparers, accountants and auditors generally opposed to requirements to report on a country-by-country basis and users and other respondents generally in favour of such requirements.

In the fourth quarter of 2011, the European Commission proposed legislation obligating EU-listed and large non-listed extractive and forestry companies to report all material payments to governments broken down by country and, if attributable, by project. The European Parliament and the EU’s Council of Ministers are in the process of finalising their reports/amendments with a view to reaching an agreed text for the legislation prior to the end of 2012. The impact of such legislation (in terms of costs, workload, reporting systems, and audit burden) could be considerable. Despite current lobbying efforts, there can be no assurance that such legislation will not be enacted.

The Group currently reports payments to governments (representing taxes and royalties aggregated into one number) by country (or groups of countries where the payments are very small) in its annual Sustainability Report. At a minimum, the Group is likely to need to revise its approach such that it is able to report payments to governments by type (e.g., taxes, royalties, other disaggregated) for each individual country in the Sustainability Report, which could result in increased costs.

## **Risk factors related to jurisdictions in which the Group operates**

### ***Political, economic and security risks***

Certain of the Group's activities and related assets are located in countries which may be, or become, politically or economically unstable. Exploration or development activities in such countries may require protracted negotiations with host governments, international organisations and other third parties, including non-governmental organisations, and are frequently subject to unpredictable economic and political considerations, such as taxation, nationalisation, inflation, currency fluctuations and governmental regulation and approval requirements, which could adversely affect the economics of projects. These projects and investments could be adversely affected by war, civil disturbances and activities of governments which limit or disrupt markets, restrict the movement of funds or supplies or result in the restriction or rescission of contractual rights or the taking of property without fair compensation. The security risks in certain of the countries in which the Group operates can often be high. These risks include, among others, the destruction of property, injury to personnel and the cessation or curtailment of operations, any of which could have an adverse effect on the Group's operations.

The Group performs a thorough risk assessment on a country-by-country basis when considering its investment activities, and attempts to conduct its business and financial affairs so as to protect (to the extent possible) against political, legal, regulatory and economic risks applicable to operations in the countries where the Group operates. However, there can be no assurance that the Group will be successful in so protecting itself against all or any of these risks. These projects and investments could also be adversely affected by changes in laws and regulations relating to foreign trade, investment and taxation.

The Group has significant operations in South Africa. As a result, important political, economic and security risks relating to South Africa could affect an investment in Notes issued under the Programme. Large parts of the population of South Africa do not have access to adequate education, healthcare, housing and other services, including water and electricity. South Africa has also experienced high levels of crime and unemployment in comparison with more developed countries, as well as community instability in areas near mining and smelting operations. These problems have been among the factors that have impeded inward investment into South Africa, prompted the emigration of skilled workers and negatively affected South Africa's growth rate. Recently, there has been increased labour unrest in South Africa, an example of which is the above-mentioned unrest at Lonmin's Marikana mine complex, which resulted in 44 deaths. While the South African government has committed itself to creating a stable free market economy, it is difficult to predict the future political, social and economic direction of South Africa or how the government will try to address South Africa's challenges. It is also difficult to predict the effect on the Group's business of these problems or of the government's efforts to solve them.

Further, there has been political and economic instability in South Africa's neighbouring countries. If this instability were to extend into or cause similar instability in South Africa, it could have a negative impact on the Group's ability to manage and operate its South African operations and therefore on its results of operations or financial condition.

There are political and economic risks relating to the Group's operations at Alumbrera, Argentina. Argentina suffered a period of deep social and economic deterioration and political and economic instability during 2001 and a devaluation of its currency in 2002. In April 2012, the government of Argentina seized the 51% interest in the YPF oil company held by Repsol YPF S.A. of Spain. Any seizure of Xstrata's assets in Argentina could have a material adverse effect on the Group's results of operations and financial condition.

The Argentine Government has imposed export retention taxes on products produced from the Group's operations in Alumbrera, which has fundamentally altered the tax stabilisation regime conferred by Mining Investment Law No 24, 196 of May 1993 of which Alumbrera is a beneficiary. The Group's operations in Argentina may be adversely affected by the imposition of export retention taxes or by changes in the nature of the Argentinean government, its policies, including taxation, or the political, economic or social dynamics affecting Argentina, any or all of which may not be within the control of the Group.

The new Peruvian president, Ollanta Humala, signed into law three bills that effect increases in the taxes applicable to mining companies, including mining companies with existing fiscal stability agreements (such as Barrick Gold Corporation, BHP Billiton plc and Xstrata) (see "– Risk factors relating to the business of the Group – Taxation"). The Group's operations in Peru (which include Antamina (33.75% owned by Xstrata), and the Antapaccay and Las Bambas projects) may be adversely affected by the imposition of a new tax regime, or by the political, economic or social dynamics affecting Peru in general, any or all of which may not be within the control of the Group.

Correjón operates in Colombia. As a result, political and security risks relating to Colombia could affect an investment in Xstrata. Colombia has experienced several periods of criminal violence over the past four decades, primarily due to the activities of guerrilla groups and drug cartels. In response, the Colombian

government has implemented various security measures and has strengthened its military and police forces by creating specialised units. Despite these efforts, drug-related crime and guerrilla activity continue to exist in Colombia. If this violence affects the operations of the Cerrejón Business, it could have an adverse effect on the Group's results of operations. Historically, Colombia has also experienced other political and economic instability. The Cerrejón Business may be adversely affected by any deterioration in the political, economic or security situation in Colombia, including where such factors have a direct impact on the operations of Cerrejón's and Prodeco's mines, and their rights to carry on their operations. There can be no assurance that such deterioration will not have a material adverse effect on the results of operations or financial condition of the Cerrejón Business and/or the Group as a whole.

The Group has operations, including development projects, in Peru, Chile, the Republic of Congo, the Dominican Republic, Mauritania, Tanzania, New Caledonia, the Philippines and Papua New Guinea. These operations may be adversely affected by changes in government policies and regulatory oversight, including taxation and land and environmental permitting policies, changes in the ruling government or the matrix of political, economic and social factors affecting any of such countries, or by risks relating to the security situation in such countries, none of which would be within the control of the Group.

### ***Exchange controls***

South African exchange control regulations provide for a common monetary area consisting of South Africa, Lesotho, Namibia and Swaziland (the "CMA"). Transactions between CMA residents and non-CMA residents are subject to South African exchange control regulations. The present exchange control system in South Africa is used principally to control capital movements. South African residents, including companies, are generally not permitted (except within certain monetary limits and within other parameters) to export capital from South Africa or to hold foreign currency or foreign investments without the approval of the exchange control authorities. Further modifications to these restrictions may be made by the South African government. The expansion of existing, or imposition of new, exchange controls could adversely affect the Group's results of operations or financial condition.

The Argentine Government issued Decree 1722/2011 on 25 October 2011, published in the Official Gazette on 26 October 2011, reinstating the obligation of hydrocarbon companies (producers of crude oil and its derivatives, natural gas and liquid petroleum gas) and mining companies to sell in the local market all the foreign currency proceeds of their exports. In November and December 2011, the Central Bank of Argentina required financial institutions to seek its approval before entering into off-shore transactions. Since February 2012, the Central Bank's approval is required prior to any purchase of foreign currency in order to pay dividends abroad.

### ***Market access***

Global and regional demand for metals is influenced by regulatory and voluntary initiatives to restrict or eliminate the use of certain metals in particular products or applications. The impact of such measures can be global, creating non-tariff barriers to international trade and affecting product design and specifications on a global basis. Such measures could also affect the balance between supply and demand and depress metal prices and treatment/refining charges. Metals with a limited number of major applications are most susceptible to changes in demand and price in response to such measures. Such changes in demand and price could have a material adverse effect on the Group's results of operations or financial condition.

### ***Production technology***

Xstrata believes that the technology it uses to produce and process metals is advanced and, in part due to high investment costs, subject only to slow technological change. However, there can be no assurance that more economical production or processing technology will not be developed or that the economic conditions in which current technology is applied will not change.

### ***Raw material procurement risks***

Procurement of raw materials involves risks typically connected with commercial transactions, which can include trade barriers, political instability and problems due to local production conditions. In addition, the Group's supply contracts provide that suppliers of concentrate may be released from their delivery obligations if certain "force majeure" events occur. The Group's business operations could be adversely affected, at least temporarily, if supplies of raw materials are interrupted as a result of the imposition of trade barriers or other "force majeure" events and if the Group is unable, on short notice, to shift to alternative sources of supply.

### ***Legal and regulatory proceedings***

As described in detail in Part X – "Business of the Group – Litigation and indemnities" on pages 69 to 70, the nature of the Group's business subjects it to numerous regulatory investigations, claims, lawsuits and other

proceedings in the ordinary course of its business. The results of these proceedings cannot be predicted with certainty. There can be no assurance that they will not have a material adverse effect on the Group's results of operations in any future period and a substantial judgment against it could have a material adverse impact on the Group's business, financial condition, liquidity and results of operations.

## **Risks related to the Notes and the Guarantees**

### ***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for prospective Noteholders. Set out below is a description of the most common such features:

#### *Notes subject to optional redemption by the relevant Issuer*

If the relevant Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, a Noteholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Prospective Noteholders should consider reinvestment risk in light of other investments available at that time.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since such Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### ***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

#### *Modification and waivers*

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

#### *Notes are structurally subordinated to the indebtedness of non-Guarantor subsidiaries*

In the event of a bankruptcy, liquidation or reorganisation of a subsidiary of a Guarantor (including, in particular, Xstrata Canada Corporation and Xstrata Queensland Limited), holders of the subsidiary's indebtedness or preferred stock and the subsidiary's trade creditors will generally be entitled to payment of their claims from the assets of that subsidiary before any assets are made available for distribution to such Guarantor (as a direct or indirect holding company of that subsidiary).

### *European Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for, an individual or certain other persons resident in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The transitional period is to terminate at the end of the first full fiscal year following an agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment to or for an individual is made or collected through an EU Member State which has opted for a withholding system under the Savings Directive and an amount of, or in respect of, tax were to be required to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, none of the relevant Issuer, the relevant Guarantor, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The relevant Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially and adversely impact the value of any Notes affected by it.

### *Trading in clearing systems*

In relation to any issue of Notes which have a denomination consisting of a minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be issued) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination. If definitive Notes are issued, Noteholders should be aware definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### *Notes are effectively subordinated to all secured indebtedness*

As at 30 June 2012, the Group had secured indebtedness, effectively ranking senior to the Notes, of U.S.\$189 million. The Notes will be effectively subordinated to all of the Group's existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness. In addition, the Group may incur additional indebtedness in the future, subject to limitations contained in the instruments governing its existing indebtedness. This additional indebtedness may also be secured.

### *Limitations in respect of Xstrata Schweiz Guarantee*

The liability of Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes is (to the extent that such is a requirement of applicable Swiss law in force at the relevant time) limited to a sum equal to the maximum amount of Xstrata Schweiz's profits available for distribution at any time (being the balance sheet profits and any reserves made for this purpose, in each case in accordance with art. 675(2) and art. 678(1) and (2) no. 3, of the Swiss Code of Obligations) provided that such limitations shall not free Xstrata Schweiz from payment obligations in excess of its distributable profits, but merely postpone the payment date of those obligations until such times as payment is permitted notwithstanding such limitations. Any payment under the guarantee by Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes may require certain corporate formalities to be completed prior to payment including, but not limited to, obtaining an audit report, shareholders' resolutions and board resolutions approving payment. As at 31 December 2011, Xstrata

Schweiz's profits available for distribution as a dividend were estimated to be in the region of CHF 9,999 million before deduction of withholding taxes (if applicable).

Any payment made by Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes may give rise to Swiss withholding taxes on dividends (of up to 53% at present rates) to the extent that such payment falls to be regarded as a deemed distribution by Xstrata Schweiz to a direct or indirect shareholder. Subject to these exceptions, for the avoidance of doubt, payments made by a Guarantor to Noteholders under the relevant Guarantee should not be subject to Swiss withholding tax according to the current practice of the Swiss Federal Tax Administration.

#### *Risks related to the market generally*

Set out below is a brief description of the principal market risks.

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may be illiquid. Therefore, Noteholders may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Liquidity may have a severely adverse effect on the market value of Notes. No assurance can be given that a liquid market will develop for Notes, that Notes can be sold at a particular time or that the price received on the sale of Notes will be favourable.

#### *Exchange rate risks and exchange controls*

The relevant Issuer will pay principal and interest on the Notes and the relevant Guarantors will make any payments under the Guarantees in the Specified Currency. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "Noteholder's Currency") other than the Specified Currency. These include a risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Noteholder's Currency) and a risk that authorities with jurisdiction over the Noteholder's Currency may impose or modify exchange controls. An appreciation in the value of the Noteholder's Currency relative to the Specified Currency would decrease (i) the Noteholder's Currency-equivalent yield on the Notes, (ii) the Noteholder's Currency-equivalent value of the principal payable on the Notes and (iii) the Noteholder's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the relevant Issuer or the relevant Guarantor to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

#### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an Issuer, a Guarantor or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

## PART II — OVERVIEW OF THE PROGRAMME

*The following description does not purport to be complete and should be read in conjunction with the rest of this Base Prospectus, the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Notes set out herein.*

Issuers: .....	Xstrata Dubai Xstrata Canada Xstrata CFC
Guarantors: .....	Notes issued by Xstrata Dubai will, subject to the limitations described in Part I — “Risk Factors” and Part VI — “Terms and Conditions of the Notes — Guarantee”, be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata, Xstrata Schweiz, Xstrata Canada and Xstrata CFC.  Notes issued by Xstrata Canada will be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata CFC.  Notes issued by Xstrata CFC will be fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata Canada.
Arranger: .....	Deutsche Bank AG, London Branch
Dealers: .....	Deutsche Bank AG, London Branch, Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities plc, Lloyds TSB Bank plc, Mitsubishi UFJ Securities International plc and The Royal Bank of Scotland plc and any other dealer appointed from time to time by the Issuers generally in respect of the Programme or by the relevant Issuer in relation to a particular Tranche (as defined below) of Notes.
Trustee: .....	Law Debenture Trustees Limited
Issuing and Paying Agent and Calculation Agent: .....	Citibank, N.A., London Branch
Programme Amount: .....	Up to U.S.\$8,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes using the spot rate of exchange for the purchase of such currency against payment of U.S. dollars in the London foreign exchange market quoted by any leading bank selected by the relevant Issuer at any time selected by that Issuer during the five-day period ending on the date on which the relevant agreement in respect of the relevant Tranche was made or such other rate as the relevant Issuer and the relevant Dealer may agree) in aggregate nominal amount of Notes outstanding at any one time. The maximum aggregate nominal amount of Notes which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under Part XVI — “Subscription and Sale”.
Method of Issue: .....	Notes will be issued on a syndicated or non-syndicated basis. Notes will be issued in series (each, a “Series”). Each Series may comprise one or more tranches (“Tranches” and each, a “Tranche”) issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save



that a Tranche may comprise Notes of different denominations. The specific terms of each Tranche will be completed in the Final Terms.

Form of Notes: .....	Notes will be issued in bearer form. Each Tranche of Notes having an initial maturity of more than one year and being issued in compliance with U.S. Treas. Reg §1.163-5(c)(2)(i)(D) will initially be represented on issue by a temporary global note in bearer form (a "Temporary Global Note"), otherwise such Tranche will be represented by a permanent global note in bearer form (a "Permanent Global Note" and, together with a Temporary Global Note, the "Global Notes"). Global Notes may be deposited on or before the relevant issue date with a common depository for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Notes in definitive bearer form ("Definitive Notes") upon certification as to non-U.S. beneficial ownership as required by United States Treasury regulations. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. (See further under Part VII — "Provisions Relating to the Notes Whilst in Global Form" below.) Definitive Notes will, if interest-bearing, have interest coupons ("Coupons") attached and, if appropriate, a talon ("Talon") for further Coupons will also be attached.
Currencies: .....	Notes may be denominated in euro, Sterling, U.S. dollars, Yen or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to compliance as aforesaid, be made in and/or linked to any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes: .....	The Notes will be direct and, subject to "Terms and Conditions of the Notes — Negative Pledge", unsecured obligations of the relevant Issuer ranking pari passu without any preference among themselves and, with certain statutory exceptions, equally with all the relevant Issuer's other obligations which are unsecured and not subordinated.
Status of Guarantees: .....	Subject to "Terms and Conditions of the Notes — Negative Pledge", each guarantee constitutes an unsecured obligation of the relevant Guarantor and, with certain statutory exceptions described in "Terms and Conditions of the Notes — Guarantee", ranks equally with all its other obligations which are unsecured and unsubordinated.
Issue Price: .....	Notes may be issued at any price as specified in the relevant Final Terms.
Maturities: .....	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption: .....	Notes may be redeemable at par or at such other redemption amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.
Early Redemption: .....	Early redemption will be permitted for taxation reasons as mentioned in "Terms and Conditions of the Notes — Redemption and Purchase — Early redemption for tax reasons", but will otherwise be permitted only to the extent specified in the relevant Final Terms.

Interest: .....	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate as specified in the applicable Final Terms and may vary during the lifetime of the relevant Series.
Denominations: .....	<p>The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).</p> <p>Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by an Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of FSMA, the minimum redemption value of such Notes shall be £100,000 (or its equivalent in other currencies).</p>
Taxation: .....	All payments in respect of Notes by the relevant Issuer or the relevant Guarantor will be made without withholding or deduction for, or on account of, tax of the country of tax residence of (and, in the case of Xstrata the jurisdiction of incorporation of) that Issuer or Guarantor, unless required by law. In that event, the relevant Issuer or Guarantor will, subject to customary exceptions, pay such additional amounts as will result, after the withholding or deduction of such tax, in the payment of the amounts which would have been payable had no such withholding or deduction been required, as described in Part VI — “Terms and Conditions of the Notes — Taxation”.
Governing Law: .....	The Notes, all related contractual documentation and any non-contractual obligations arising out of or in connection with them are governed by, and construed in accordance with, English law.
Listing and Admission to Trading: .....	<p>Application has been made to the U.K. Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the relevant Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Terms and Conditions: .....	Final Terms will be prepared in respect of each Tranche of Notes, a copy of which will, in the case of Notes to be admitted to the Official List and admitted to trading on the Market, be delivered to the U.K. Listing Authority on or before the date of issue of such Notes. The terms and conditions applicable to each Tranche will be those set out herein under “Terms and Conditions of the Notes” as supplemented by the relevant Final Terms.
Clearing Systems: .....	Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be approved by the relevant Issuer, the Issuing

and Paying Agent and the Trustee.

Ratings: .....

The Programme has been rated Baa2 by Moody's and BBB+/A-2 by Standard & Poor's. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and the rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Selling Restrictions: .....

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in Switzerland, the United Arab Emirates, Canada, Japan, the Public Offer Selling Restriction under the Prospectus Directive, the United Kingdom and the United States of America, see Part XVI — "Subscription and Sale".

## PART III — PRESENTATION OF INFORMATION

### Proposed all-share merger with Glencore

On 25 October 2012, the independent non-executive members of Xstrata's board of directors recommended the revised final terms of the Proposed Merger. Shareholder meetings will be held on 20 November 2012 to consider the final terms of the Proposed Merger.

Glencore's ordinary shares were admitted to the Official List and to trading on the London Stock Exchange on 24 May 2011. Glencore regularly publishes financial and operational information via the London Stock Exchange's Regulatory News Service, which allows companies to transmit regulatory and non-regulatory announcements, and on its website. The content of any such announcements on Glencore's website does not form any part of this Base Prospectus.

### Competitive Statements

The following table describes the basis of the competitive statements in respect of the Group included in this Base Prospectus. The market data supporting the competitive statements was obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications. Xstrata has not relied on single sources but has instead sought to ensure that each competitive statement is balanced and reasonable, based on various available sources and Xstrata's knowledge of the markets in which the Group operates.

Analysis of the coking coal markets in this Base Prospectus does not include coals known as pulverised coal injection ("PCI") coals, which are used for injection directly into blast furnaces, and refers only to coal used for coke-making.

<b>Statement</b>	<b>Basis</b>
<b>Group</b>	
The Group is the fifth largest diversified mining group in the world	Enterprise value calculated as market capitalisation (sourced from Bloomberg) plus interest bearing net debt plus minorities sourced from the latest publicly available financial information, in each case as at 31 December 2011
The Group's top five industry positions are in copper, export thermal coal, export coking coal, ferrochrome, zinc and nickel	Production for the year ended 31 December 2011
<b>Copper Business</b>	
The Group is the world's fourth largest copper producer	Production for the year ended 31 December 2011
<b>Coal Business</b>	
On a managed basis, the Group is the world's largest exporter of bituminous thermal coal and a significant producer of premium quality hard coking and semi-soft coking coal	Production for the year ended 31 December 2011
<b>Nickel Business</b>	
The Group is the fourth largest global nickel producer and one of the world's largest producers of cobalt	Refined production for the year ended 31 December 2011
<b>Zinc Business</b>	
The Group is one of the world's largest miners and producers of zinc	Production for the year ended 31 December 2011

## **Alloys Business**

Through Xstrata Alloys, the Group is one of the world's largest and among the world's lowest cost integrated ferrochrome producers (via the Xstrata-Merafe chrome venture), one of the world's largest producers of primary vanadium and a growing producer of platinum group metals ("PGMs")

Market share of attributable production for the year ended 31 December 2011

## **Presentation of Information on Lonmin**

Certain information relating to Lonmin has been incorporated by reference into this Base Prospectus.

The Group has not had any due diligence access to Lonmin, including at the time of the Group's acquisitions of Lonmin ordinary shares between August and October 2008 and its subsequent additional acquisitions as a result of a rights issue and placement in 2009 and 2010, respectively. The Group does not have access to any non-public financial or other information in respect of Lonmin. Consequently, the information incorporated by reference into this Base Prospectus relating to Lonmin from pages 147 and 155 of the Xstrata Annual Report 2011 has been compiled from information included in the Lonmin Annual Report 2011 only. Such information has been accurately reproduced from such sources and, so far as each Issuer and each Guarantor is aware and is able to ascertain from information included in public documents filed by Lonmin, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **Cautionary Note Regarding Forward-Looking Statements**

This Base Prospectus and the information incorporated by reference into this Base Prospectus include statements that are, or may be deemed to be, "forward-looking statements". In some cases, you can identify forward-looking statements by terminology such as "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and the information incorporated by reference into this Base Prospectus and include statements regarding the intentions, beliefs or current expectations of Xstrata or the Group concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Group and the industries in which it operates.

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 the Group's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition, liquidity, growth, dividend policy and the development of the industries in which it operates may differ materially from the impression created by the forward-looking statements contained in this Base Prospectus and/or the information incorporated by reference into this Base Prospectus. In addition, even if the actual results of operations, financial condition, liquidity, growth and dividend policy of the Group, and the development of the industries in which it operates, are consistent with the forward-looking statements contained in this Base Prospectus and/or the information incorporated by reference into this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions; commodity price volatility; industry trends; competition; changes in government and other regulation, including in relation to the environment, health and safety and taxation, labour relations and work stoppages; changes in political and economic stability; currency fluctuations (including the €/U.S.\$, £/U.S.\$, A\$/U.S.\$, C\$/U.S.\$, ZAR/U.S.\$, ARS/U.S.\$, CHF/U.S.\$, CLP/U.S.\$, the Colombian peso/U.S.\$, the Peruvian nuevo sol/U.S.\$ and the Norwegian kroner/U.S.\$ exchange rates); the Group's ability to integrate new businesses and recover its reserves or develop new reserves and changes in business strategy or development plans and other risks, including those described in Part I — "Risk Factors".

Prospective Noteholders are advised to read this Base Prospectus and the information incorporated by reference into this Base Prospectus in their entirety, and, in particular, the sections of this Base Prospectus headed Part I — "Risk Factors" and Part X — "Business of the Group" for a further discussion of the factors that could affect the Group's future performance and the industries in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Base Prospectus and/or the information incorporated by reference into this Base Prospectus may not occur. These forward-looking statements speak only as of the date on which the statements were made.

Other than in accordance with their legal or regulatory obligations (including under the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules), no Issuer or Guarantor undertakes any

obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

## **Presentation of Financial Information**

### ***Historical Financial Information***

Consolidated historical financial information for Xstrata in this Base Prospectus and the information incorporated by reference into this Base Prospectus is presented in U.S. dollars and has been prepared in accordance with International Financial Reporting Standards, or IFRS as adopted by the European Union, for the financial years ended 31 December 2011 and 31 December 2010.

**Historical financial information for Xstrata Schweiz is presented in Swiss Francs, has been prepared in accordance with Swiss GAAP and has not been prepared in accordance with IFRS. There may be material differences in the historical financial information of Xstrata Schweiz had that financial information been prepared in accordance with IFRS. A narrative description of the material changes that would have been made to the accounting policies of Xstrata Schweiz to conform with IFRS is set out in Annex II — “Financial Information — Summary of the Principal Differences between Swiss GAAP and IFRS”.**

Historical financial information for Xstrata Dubai in this Base Prospectus is presented in U.S. dollars and has been prepared in accordance with IFRS as issued by the International Accounting Standards Board (the “IASB”) for the financial years ended 31 December 2011 and 31 December 2010.

Historical financial information for Xstrata Canada is presented in U.S. dollars and has been prepared in accordance with with IFRS as issued by the IASB, for the year ended 31 December 2011 and the comparative year ended 31 December 2010; and in accordance with Canadian GAAP, for the year ended 31 December 2010. There are no material differences in the historical financial information of Xstrata Canada for the year ended 31 December 2010 had that financial information been prepared in accordance with IFRS as issued by the IASB.

Historical financial information for Xstrata CFC is presented in U.S. dollars and has been prepared in accordance with IFRS as issued by the IASB, for the year ended 31 December 2011 and the comparative year ended 31 December 2010; and in accordance with Canadian GAAP, for the year ended 31 December 2010. There are no material differences in the historical financial information of Xstrata CFC for the year ended 31 December 2010 had that financial information been prepared in accordance with IFRS as issued by the IASB.

### ***EBITDA and EBIT***

Although IFRS, Canadian GAAP or Swiss GAAP neither recognises nor defines the measures EBITDA and EBIT, they are measures that are widely used in the natural resources sector to evaluate a company’s operating performance. Nevertheless, EBITDA and EBIT should not be considered in isolation from or as a substitute for operating profit, cash flows from operating activities or any other measure for determining the Group’s operating performance or liquidity that is calculated in accordance with IFRS, Xstrata Canada’s or Xstrata CFC’s operating performance or liquidity that is calculated in accordance with IFRS, for the year ended 31 December 2011 and in accordance with Canadian GAAP, for the year ended 31 December 2010 or Xstrata Schweiz’s operating performance or liquidity that is calculated in accordance with Swiss GAAP. As EBITDA and EBIT are not measures of performance defined by IFRS, Canadian GAAP or Swiss GAAP, these measures may not be comparable to similarly titled measures employed by other companies.

Unless otherwise indicated, EBITDA represents, when used in this Base Prospectus and the information incorporated by reference into this Base Prospectus in relation to the Group, operating profit before interest, taxation, depreciation and amortisation. Unless otherwise indicated, EBIT represents profit before interest and taxation.

“EBITDA (before exceptional items)” and “EBIT (before exceptional items)” are EBITDA and EBIT, respectively, before material items of income and expense, presented separately due to their nature or expected infrequency of the events giving rise to them.

#### **PART IV — INFORMATION INCORPORATED BY REFERENCE**

This Base Prospectus should be read and construed in conjunction with:

- the reviewed condensed interim consolidated financial statements (unaudited) of Xstrata for the six months ended 30 June 2012 (together with the independent review report on those financial statements) on pages 59 to 78 of the Xstrata Half-Yearly Report 2012;
- the audited consolidated financial statements of Xstrata for the year ended 31 December 2011 (together with the audit report on those financial statements) on pages 117 to 187 of the Xstrata Annual Report 2011;
- the audited consolidated financial statements of Xstrata for the year ended 31 December 2010 (together with the audit report on those financial statements) on pages 133 to 218 of the Xstrata Annual Report 2010;
- the terms and conditions of the Notes contained in the base prospectus dated 15 April 2010 in relation to the Issuers' U.S.\$6,000,000,000 Euro Medium Term Note Programme (pages 36 to 60);
- the terms and conditions of the Notes contained in the base prospectus dated 16 May 2008 in relation to the Issuers' U.S.\$6,000,000,000 Euro Medium Term Note Programme (pages 32 to 56); and
- the terms and conditions of the Notes contained in the base prospectus dated 26 April 2007 in relation to Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited's U.S.\$3,000,000,000 Euro Medium Term Note Programme (pages 31 to 50),

which have been previously published and which have been approved by the Financial Services Authority or filed with it. Such information shall be incorporated in, and form part of, this Base Prospectus, save that any statement contained in any information which is incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of information incorporated by reference in this Base Prospectus may be obtained from the registered office of each Issuer, the offices of the relevant Dealer or Dealers placing or selling the Notes and the offices of the Paying Agents.

Any information incorporated by reference in the financial statements referred to above (including the audit report on those financial statements) does not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to herein are either not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus.

## **PART V — SUPPLEMENTARY PROSPECTUS**

If at any time an Issuer shall be required to prepare a supplementary prospectus pursuant to Section 87G of the FSMA, the relevant Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus which, in respect of any subsequent issue of Notes to be admitted to the Official List and to trading on the Market, shall constitute a supplementary prospectus as required by the U.K. Listing Authority and Section 87G of the FSMA.

Each Issuer and each Guarantor has given an undertaking to the Dealers that, unless the Issuers have notified the Dealers in writing that they do not intend to issue Notes under the Programme for the time being, if at any time during the duration of the Programme a significant new factor, material mistake or inaccuracy arises or is noted relating to information included in this Base Prospectus which is capable of affecting an assessment by prospective Noteholders of the assets and liabilities, financial position, profits and losses and prospects of any Issuer and/or any Guarantor and/or of the rights attaching to the Notes and/or the Guarantees, each Issuer and each Guarantor shall prepare an amendment or supplement to this Base Prospectus, and shall furnish to each Dealer such number of copies of this Base Prospectus, each amendment, supplement or replacement of it as may from time to time reasonably be requested.



## PART VI — TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which as supplemented in relation to any Notes by the relevant Final Terms, will be applicable to each Series of Notes. Certain provisions relating to the Notes whilst in global form, and certain modifications of these Terms and Conditions applicable to Notes whilst in Global Form, are described in Part VII — “Provisions Relating to the Notes whilst in Global Form”.*

This Note is one of a Series (as defined below) of Notes issued by, as specified in the applicable Final Terms, Xstrata Finance (Dubai) Limited (“Xstrata Dubai”), Xstrata Finance (Canada) Limited (“Xstrata Canada”) or Xstrata Canada Financial Corp. (“Xstrata CFC”) (each an “Issuer” and together the “Issuers”) and guaranteed by, as specified in the applicable Final Terms, Xstrata plc (“Xstrata”), Xstrata (Schweiz) AG (“Xstrata Schweiz”), Xstrata Canada and Xstrata CFC, in the case of Notes issued by Xstrata Dubai, Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata CFC, in the case of Notes issued by Xstrata Canada, or Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata Canada, in the case of Notes issued by Xstrata CFC (each a “Guarantor” and together the “Guarantors”). The Notes are constituted by a Trust Deed (such Trust Deed as amended and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 7 November 2012 made between the Issuers, the Guarantors and Law Debenture Trustees Limited (the “Trustee”, which expression shall include any successor as Trustee).

References herein to the “Notes” shall be references to the Notes of this Series and to the “Issuer” and the “Guarantors” are to the Issuer or, as the case may be, the Guarantors of such Notes as specified in the applicable Final Terms.

For the purposes of payments and other matters relating to the Notes and the Coupons (as defined below), an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 7 November 2012 has been entered into between the Issuers, the Guarantors, Citibank, N.A., London Branch as Issuing and Paying Agent (the “Issuing and Paying Agent”, which expression shall include any successor Issuing and Paying Agent), the other paying agents named therein (together with the Issuing and Paying Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents) and Citibank, N.A., London Branch as Calculation Agent (the “Calculation Agent”) and the Trustee.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions. References to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the “Noteholders”) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons (as defined below)), in accordance with the provisions of the Trust Deed.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series, and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates (as defined below), Interest Commencement Dates (as defined below) and/or Issue Prices (as defined below).

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee presently at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at, and copies may be obtained from, the registered office of the Issuer, the registered office of each Guarantor and the specified office of each of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, and the relevant Paying Agent as to its holding of such Notes and identity. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange, the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them.

The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context

otherwise requires or unless otherwise stated provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed shall prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms shall prevail.

## **1. Form and Denomination**

- 1.1 *Form:* The Notes are in bearer form, serially numbered and in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.
- 1.2 *Interest Basis:* This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.
- 1.3 *Coupons and Talons:* Interest bearing Notes have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. If this Note is a Zero Coupon Note, references to Coupons and Couponholders in these Terms and Conditions are not applicable.

## **2. Title**

Title to the Notes and Coupons will pass by delivery. The Issuer, the Guarantors, any Paying Agent and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

## **3. Status**

The Notes and Coupons are direct and, subject to Condition 5, unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and, with certain statutory exceptions, equally with all its other obligations which are unsecured and unsubordinated.

## **4. Guarantee**

The obligations of the Issuer under or pursuant to the Trust Deed have been unconditionally and irrevocably guaranteed by the Guarantors in the Trust Deed. Subject to Condition 5, such guarantees (the “Guarantees”) constitute an unsecured obligation of the Guarantors and, with certain statutory exceptions, rank equally with all other unsecured and unsubordinated obligations of the Guarantors.

The liability of Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes is (to the extent that such is a requirement of applicable Swiss law in force at the relevant time) limited to a sum equal to the maximum amount of Xstrata Schweiz’s profits available for distribution at any time (being the balance sheet profits and any reserves made for this purpose, in each case in accordance with art. 675(2) and art. 678(1) and (2) no. 3, of the Swiss Code of Obligations) provided that such limitations shall not free Xstrata Schweiz from payment obligations in excess of its distributable profits, but merely postpone the payment date of those obligations until such times as payment is permitted notwithstanding such limitations. Any payment under the guarantee by Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes may require certain corporate formalities to be completed prior to payment including, but not limited to, obtaining an audit report, shareholders’ resolutions and board resolutions approving payment.

## **5. Negative Pledge**

So long as any of the Notes remain outstanding (as defined in the Trust Deed) the Issuer and each Guarantor will ensure that no Relevant Indebtedness of the Issuer or of the Guarantors will be secured by any Security Interest upon, or with respect to, the whole or any part of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or of the Guarantors unless the Issuer or, as the case may be, the Guarantors shall, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly take any and all action necessary to ensure that:

- (i) all amounts payable by the Issuer under the Notes and the Trust Deed or, as the case may be, by the Guarantors under the Guarantees are secured by the Security Interest equally and ratably with the Relevant Indebtedness to the satisfaction of the Trustee; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided in favour of the Noteholders in respect of all amounts payable by

the Issuer under the Notes and the Trust Deed or, as the case may be, by the Guarantors under the Guarantees, either (a) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders, or (b) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

## 6. Interest

6.1 *Interest on Fixed Rate Notes:* Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Such interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

If interest is required to be calculated for a period other than a Fixed Interest Period, or, if in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (i) in the case of Fixed Rate Notes which are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of Fixed Rate Notes; or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amounts of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Determination without any further rounding.

In these Terms and Conditions:

- (A) "Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:
  - (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
    - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
    - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
      - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
      - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360;
- (B) “Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);
- (C) “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and
- (D) “sub-unit” means, with respect to any currency, the lowest amount of such currency that is available as legal tender in the country of such currency.

## 6.2 *Interest on Floating Rate Notes:*

6.2.1 *Interest Payment Dates:* Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes are represented by a global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, interest will be calculated on the full nominal amount outstanding of the relevant Notes and will be paid to Euroclear and Clearstream, Luxembourg for distribution by them to entitled accountholders in accordance with the usual rules and operating procedures. In respect of each definitive Floating Rate Note, interest will be calculated on its outstanding nominal amount.

6.2.2 *Interest Payment Dates and Business Day Convention:* If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Interest Periods are specified in accordance with Condition 6.2.1(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis, or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Interest Period after the preceding applicable Interest Payment Date; or
- (ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "Business Day" means a day that is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which in the case of Australian dollars shall be Sydney and in the case of New Zealand dollars shall be Wellington) (if other than any Business Centre), or (2) in relation to any sum payable in euro, a day on which the TARGET System is open. In these Terms and Conditions, "TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007, or any successor thereto.

6.2.3 *Rate of Interest:* The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

6.2.4 *ISDA Determination for Floating Rate Notes:* The Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this Condition 6.2.4, "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as calculation agent (as such term is defined in the ISDA Definitions (as defined below)) for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions") and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this Condition 6.2.4, "Floating Rate", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

6.2.5 *Minimum Rate or Amount of Interest and/or Maximum Rate or Amount of Interest:* If the applicable Final Terms specifies a Minimum Rate of Interest or a Minimum Amount of Interest for any Interest Period, then, in the event that the Rate of Interest or Amount of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 6.2.4 above is less than such Minimum Rate of Interest or such Minimum Amount of Interest, the Rate of Interest or the Amount of Interest, as the case may be, for such Interest Period shall be such Minimum Rate of Interest or such Minimum Amount of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest or a Maximum Amount of Interest for any Interest Period, then, in the event that the Rate of Interest or Amount of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 6.2.4 above is greater than such Maximum Rate of Interest or such Maximum Amount of Interest, the Rate of Interest or Amount of Interest, as the case may be, for such Interest Period shall be such Maximum Rate of Interest or such Maximum Amount of Interest.

6.2.6 *Determination of Rate of Interest and Calculation of Interest Amounts:* The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest:

(A) in the case of Floating Rate Notes which are represented by a global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, the full nominal amount outstanding of the relevant Notes; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (v) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

(vi) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the

Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

6.2.7 *Notification of Rate of Interest and Interest Amounts:* The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

6.2.8 *Determination or Calculation by Trustee:* If for any reason at any relevant time the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Calculation Agent defaults in its obligation to calculate any Interest Amount in accordance with Condition 6.2.4 above and in each case in accordance with Condition 6.2.5, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 6.2, but subject always to any Minimum Rate or Amount of Interest or Maximum Rate or Amount of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances (and, where practicable, in accordance with this Condition 6.2) and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

6.2.9 *Certificates to be final:* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Issuing and Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 *Accrual of interest:*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

6.4 *Additional amounts:*

Condition 9 sets out the circumstances under which the Issuer or a Guarantor, as the case may be, is required to pay additional amounts where the Issuer or such Guarantor is required to withhold or deduct certain taxes or duties from a payment of interest in respect of the Notes or Coupons.

6.5 *Interest rate adjustment:*

6.5.1 If Interest Rate Adjustment is specified in the applicable Final Terms, the Rate of Interest payable on the relevant Series of Fixed Rate Notes or Floating Rate Notes will be subject to adjustment during the period referred to in Condition 6.5.7 if either Moody's or Standard & Poor's decreases the debt rating grade (or subsequently increases the rating grade) applicable to such Series of Notes (a "rating grade") as set forth below.

6.5.2 If the rating grade from Moody's specified in the applicable Final Terms for the relevant Series of Notes to which this Condition 6.5 applies is decreased to a rating grade below that specified in the applicable Final Terms, the Rate of Interest for the Notes of such Series will increase from the Rate of Interest specified in the applicable Final Terms by 0.25% for each rating grade decrease as set forth in the following table. The percentage increase in the Rate of Interest for a decrease in the rating grade by more than one grade shall be cumulative, subject to the provisions of Conditions 6.5.4 and 6.5.5.

Moody's rating grade	Percentage increase in the Rate of Interest per rating grade decrease
Baa3	0.25%
Ba1	0.25%
Ba2	0.25%
Ba3	0.25%
B1	0.25%



B2	0.25%
B3	0.25%
Caa1	0.25%

- 6.5.3 If the rating grade from Standard & Poor's specified in the applicable Final Terms for the relevant Series of Notes to which this Condition 6.5 applies is decreased to a rating grade below that specified in the applicable Final Terms, the Rate of Interest for the Notes of such Series will increase from the Rate of Interest specified in the applicable Final Terms by 0.25% for each rating grade decrease as set forth in the following table. The percentage increase in the Rate of Interest for a decrease in the rating grade by more than one grade shall be cumulative, subject to the provisions of Conditions 6.5.4 and 6.5.5.

Standard & Poor's rating grade	Percentage increase in the Rate of Interest per rating grade decrease
BBB	0.25%
BBB-	0.25%
BB+	0.25%
BB	0.25%
BB-	0.25%
B+	0.25%
B	0.25%
B-	0.25%

- 6.5.4 Each adjustment required by any decrease or increase in a rating grade set forth above in Conditions 6.5.2 and 6.5.3, whether occasioned by the action of Moody's or Standard & Poor's, shall be cumulative and will be made independently of any and all other adjustments. If both Moody's and Standard & Poor's decrease a rating grade, the Rate of Interest for the Notes of such Series will be increased in accordance with both Conditions 6.5.2 and 6.5.3, subject, in each case, to the provisions of Conditions 6.5.4 and 6.5.5. In no event will (i) the Rate of Interest for any Series of Notes to which this Condition 6.5 applies (and, in particular, Condition 6.5.5) be reduced to below the Rate of Interest set forth for such Series of Notes in the applicable Final Terms or (ii) the total increase in the Rate of Interest on such Series of Notes to which this Condition 6.5 applies exceed 2.00% above the Rate of Interest set forth in the applicable Final Terms.
- 6.5.5 If, following a rating grade decrease, Moody's or Standard & Poor's subsequently increases its rating grade of a Series of Notes to which this Condition 6.5 applies to any of the rating grades set forth above, the Rate of Interest on such Series of Notes will be decreased by 0.25% for each rating grade increase such that the Rate of Interest for such Notes equals the Rate of Interest set forth in the applicable Final Terms plus 0.25% for each rating grade increase as set forth opposite the ratings in the tables above in effect immediately following the increase. The percentage decrease in the Rate of Interest for an increase in the rating grade by more than one grade shall be cumulative, subject to the provisions of Condition 6.5.2 and 6.5.3.
- 6.5.6 If either Moody's or Standard & Poor's ceases to provide a rating grade for a Series of the Notes to which this Condition 6.5 applies, any subsequent increase or decrease in the Rate of Interest of such Series of Notes necessitated by a reduction or increase in the rating grade by the Rating Agency continuing to provide the rating will be twice the percentage set forth in the applicable table in Condition 6.5.2 or 6.5.3 above. No adjustments in the Rate of Interest of a Series of Notes will be made solely as a result of either Moody's or Standard & Poor's ceasing to provide a rating grade for such Series of Notes. If both Moody's and

Standard & Poor's cease to provide a rating grade for a Series of Notes to which this Condition 6.5 applies, the Rate of Interest on the Notes of such Series will increase to, or remain at, as the case may be, 2.00% above the Rate of Interest for Notes of such Series set forth in the applicable Final Terms.

- 6.5.7 Any Rate of Interest increase or decrease, as described in this Condition 6.5, will take retroactive effect from the first day of the interest period during which a rating grade decrease or increase requires an adjustment in the Rate of Interest. If Moody's or Standard & Poor's changes its rating grade of the Notes of a Series to which this Condition 6.5 applies more than once during any particular Fixed Interest Period or Interest Period, as applicable, the last change by such rating agency during such period will be determinative for the purposes of any Rate of Interest increase or decrease with respect to the Notes of such Series.
- 6.5.8 The Rate of Interest on each Series of Notes to which this Condition 6.5 applies will permanently cease to be subject to any further adjustment described above (notwithstanding any subsequent increase or decrease in the rating grade by either or both of Moody's or Standard & Poor's) upon the earlier of (i) 25 October 2013 and (ii) 90 days after the effective date of the Proposed Merger (being (a) the date on which the court order confirming the reduction of capital to be made in relation to such Proposed Merger is delivered to and registered by the Registrar of Companies in England and Wales, following the prior delivery to the Registrar of Companies in England and Wales of the court order sanctioning the scheme of arrangement between Xstrata and its eligible shareholders under Part 26 of the Companies Act 2006 relating to the Proposed Merger or (b) in the event that the Proposed Merger is implemented by means of a merger offer, on the completion date thereof as notified in writing to the Trustee, the Calculation Agent and the Noteholders in the manner described in Condition 6.5.9); provided, however, that the Rate of Interest on a Series of Notes to which this Condition 6.5 applies will not cease to be subject to adjustment described above so long as such Notes are on "negative watch" (or equivalent) by Moody's or Standard & Poor's at the time the Rate of Interest on the Notes would otherwise cease to be subject to adjustment, and if the rating grade for such Series of Notes is decreased at the same time as such Series is removed from "negative watch" (or equivalent) by Moody's or Standard & Poor's, the Rate of Interest on such Notes will be increased accordingly.
- 6.5.9 If an increase or decrease in the Rate of Interest of the Notes to which this Condition 6.5 applies is required by this Condition 6.5, the relevant Issuer or a Guarantor shall immediately notify the Trustee, the Calculation Agent and the Paying Agents in writing of the relevant change to the rating grade of the Notes and the applicable interest rate adjustment to each Series of Notes. Notices to the Trustee shall be made in accordance with Clause 20 of the Trust Deed. Notices to the Calculation Agent and the Paying Agents shall be made in accordance with Clause 16 of the Agency Agreement. The Calculation Agent will, following such notice, determine the Rate of Interest for the relevant Interest Period. None of the Trustee, the Calculation Agent or the Paying Agents shall be required to independently monitor or inform themselves of the ratings for Notes or to monitor or inform themselves whether an increase or decrease in the Rate of Interest of the Notes to which this Condition 6.5 applies is required to be made. If an increase or decrease in the Rate of Interest of the Notes to which this Condition 6.5 applies is required by this Condition 6.5, the relevant Issuer or a Guarantor shall notify Noteholders promptly in accordance with Condition 15.

Payments of any adjusted interest amounts due under the Notes pursuant to this Condition 6.5 shall be made in accordance with Condition 7.

## **7. Payments**

7.1 *Method of payment:* Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

- 7.2 *Presentation of Notes and Coupons:* Payments of principal in respect of Notes will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender of Notes. Payments of interest in respect of Notes will (subject as provided below) be made as aforesaid only against presentation and surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction).

Fixed Rate Notes should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9.5) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Note.

- 7.3 *U.S. Paying Agent:* Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of that Issuer, adverse tax consequences to it.

- 7.4 *Payment Day:* If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 10) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

7.5 *Interpretation of principal and interest:* Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9 or any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.6(ii)); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## **8. Redemption and Purchase**

8.1 *Redemption at maturity:* Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

8.2 *Early redemption for tax reasons:*

- (i) The Notes may be redeemed at the option of the Issuer, in whole but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) on giving not less than 30 nor more than 60 days' notice to the Trustee and the Issuing and Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if due to a Change in Tax Law (a) the Issuer or a relevant Guarantor, in accordance with the terms of the applicable Notes or the applicable Guarantees, respectively, has, or would, become obligated to pay additional amounts as provided or referred to in Condition 9, (b) in the case of a Guarantor, (A) such relevant Guarantor would be unable, for reasons outside its control, to procure payment by the Issuer or another Guarantor, or (B) such payment by the Issuer or such other Guarantor would be subject to withholding taxes imposed by the Relevant Jurisdiction, and (c) such obligation otherwise cannot be avoided by the Issuer, or relevant Guarantor taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the relevant Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

- (ii) Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 *Redemption at the option of the Issuer (Call Option):* If Call Option is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and

- (ii) not less than 15 days before the giving of the notice referred to in (i) notice to the Trustee and the Issuing and Paying Agent (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). A list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

- 8.4 *Redemption at the option of the Noteholders (Put Option)*: If Put Option is specified in the applicable Final Terms, upon any Noteholder giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem each Note held by such Noteholder on the Optional Redemption Date. Any such redemption shall be at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note, the Noteholder must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise (the “Exercise Notice”) in the form obtainable from any specified office of any Paying Agent and in which the Noteholder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.4. While any Notes are represented by a Permanent Global Note, the Put Option may be exercised in the manner described in Part VII — “Provisions relating to the Notes whilst in Global Form”.

- 8.5 *Change of control redemption (Change of Control Put Option)*: If Change of Control Put Option is specified in the relevant Final Terms as being applicable and a Change of Control Put Event occurs, the holder of each Note will have the option (unless prior to the giving of the relevant Change of Control Put Event Notice the relevant Issuer has given notice of redemption under Condition 8.2 or Condition 8.3, if applicable) to require the relevant Issuer to redeem or, at such Issuer’s option, purchase (or procure the purchase of) that, Note on the Change of Control Optional Redemption Date at its Change of Control Optional Redemption Amount, together with interest accrued to (but excluding) the Change of Control Optional Redemption Date.

Promptly upon the relevant Issuer becoming aware that a Change of Control Put Event has occurred such Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall, (subject in each case to the Trustee being indemnified and/or secured to its satisfaction) give the Change of Control Put Event Notice to the Noteholders.

To exercise the Change of Control Put Option, the holder of a Note must deliver such Note to the specified office of any Paying Agent at anytime during normal business hours of such Paying Agent falling within the Change of Control Put Period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (an “Exercise Notice”). The Note should be delivered together with all Coupons appertaining thereto maturing after the Change of Control Optional Redemption Date, failing which the Paying Agent will require indemnification from or on behalf of the Noteholder in respect of any such missing Coupon. Any amount so paid will be reimbursed by the Paying Agent to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement issued therefor pursuant to Condition 12) at any time after such payment, but before the expiry of the period of ten years from the date on which such Coupon would have become due, but not thereafter. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Exercise Notice to which payment is to be made, on the Change of Control Optional Redemption Date by transfer to that bank account and, in every other case, on or after the Change of Control Optional Redemption Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. For the purposes of these Conditions, receipts issued pursuant to this Condition 8.5 shall be treated as if they were Notes. The relevant Issuer shall redeem or purchase (or procure the purchase of) the Notes in respect of which the Change of Control Put Option has been validly exercised in accordance with the provisions of this Condition 8.5 on the Change of Control Optional Redemption Date unless previously redeemed (or purchased) and cancelled.

Any Exercise Notice, once given, shall be irrevocable except where, prior to the Change of Control Optional Redemption Date, an Event of Default shall have occurred and the Trustee shall have accelerated the Notes, in which event such holder, at its option, may elect by notice to the relevant Issuer to withdraw the Exercise Notice and instead to treat its Notes as being forthwith due and payable pursuant to Condition 11.

If 80% or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 8.5, the relevant Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Change of Control Optional Redemption Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their Optional Redemption Amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

If the rating designations employed by any Rating Agency are changed from those which are described in paragraphs (i)(A) and (i)(B) of the definition of "Change of Control Put Event", or if a rating is procured from a Substitute Rating Agency, the relevant Issuer shall determine, with the agreement of the Trustee, the rating designations of such Rating Agency or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of the relevant Rating Agency and this Condition 8.5 shall be construed accordingly.

The Trustee is under no obligation to ascertain whether a Change of Control Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control Put Event or Change of Control has occurred, or to seek any confirmation from any Rating Agency pursuant to the definition of Negative Rating Event, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control Put Event or Change of Control or other such event has occurred.

8.6 *Early Redemption Amounts:* For the purpose of Condition 8.2 above and Condition 11, each Note will be redeemed at the Early Redemption Amount calculated as follows:

- (i) at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (ii) in the case of a Zero Coupon Note, at an amount (the "Amortised Face Amount") equal to the sum of:
  - (A) the Reference Price; and
  - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable.

Where such calculation is to be made for a period that is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or on such other calculation basis as may be specified in the applicable Final Terms.

8.7 *Purchases:* The Issuer, each Guarantor or any affiliate may at any time purchase Notes (provided that all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

8.8 *Cancellation:* All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and cancelled pursuant to Condition 8.7 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Issuing and Paying Agent and cannot be reissued or resold.

8.9 *Late payment on Zero Coupon Notes:* If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 8.1, 8.2, 8.3 or 8.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.6(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Issuing and Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15.

## **9. Taxation**

9.1 All payments of principal and interest in respect of the Notes and Coupons by the Issuer or a Guarantor will be made without withholding or deduction for or on account of any and all present or future taxes or duties of whatever nature imposed or levied by or on behalf of the UAE in the case of Xstrata Dubai, Canada in the case of Xstrata Canada and Xstrata CFC, Switzerland in the case of Xstrata Schweiz and the United Kingdom and Switzerland in the case of Xstrata or any political subdivision thereof or any authority thereof or therein having the power to tax unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, a Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction.

9.2 No such additional amounts as referred to in Condition 9.1 shall be payable with respect to any Note or Coupon issued by Xstrata Dubai:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the jurisdiction by which such taxes or duties have been imposed, amassed, levied or collected other than the mere holding of such Note or Coupon; or
- (ii) presented for payment by or on behalf of a holder who could avoid (but has not so avoided) such withholding or deduction by complying or procuring that any third party complies with any statutory requirements including supplying appropriate tax identity details or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the jurisdiction imposing the relevant tax; or
- (iii) presented for payment by or on behalf of a holder in respect of whom such taxes or duties are required to be withheld or deducted by reason of the holder being a person with whom Xstrata Dubai is not dealing at arm's length; or
- (iv) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.4); or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

9.3 No such additional amounts as referred to in Condition 9.1 shall be payable with respect to any Note or Coupon issued by Xstrata Canada:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the jurisdiction by which such taxes or duties have been imposed, amassed, levied or collected other than the mere holding of such Note or Coupon; or
- (ii) presented for payment by or on behalf of a holder who could avoid (but has not so avoided) such withholding or deduction by complying or procuring that any third party complies with any statutory requirements including supplying appropriate tax identity details or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the jurisdiction imposing the relevant tax; or

- (iii) presented for payment by or on behalf of a holder in respect of whom such taxes or duties are required to be withheld or deducted by reason:
  - (A) of the holder being a person with whom the Issuer or Guarantor is not dealing at arm's length (within the meaning of the Income Tax Act, R.S.C. 1985, c. 1 (5th Supp.) (the "Income Tax Act (Canada)")); or
  - (B) in the case of a Couponholder, the holder of the applicable Notes on which the Coupons were issued being a person with whom the Issuer or Guarantor is not dealing at arm's length (within the meaning of the Income Tax Act (Canada)); or
- (iv) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.4); or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

9.4 No such additional amounts as referred to in Condition 9.1 shall be payable with respect to any Note or Coupon issued by Xstrata CFC:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the jurisdiction by which such taxes or duties have been imposed, amassed, levied or collected other than the mere holding of such Note or Coupon; or
- (ii) presented for payment by or on behalf of a holder who could avoid (but has not so avoided) such withholding or deduction by complying or procuring that any third party complies with any statutory requirements including supplying appropriate tax identity details or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the jurisdiction imposing the relevant tax; or
- (iii) presented for payment by or on behalf of a holder in respect of whom such taxes or duties are required to be withheld or deducted by reason:
  - (A) of the holder being a person with whom the Issuer or Guarantor is not dealing at arm's length (within the meaning of the Income Tax Act (Canada)); or
  - (B) in the case of a Couponholder, the holder of the applicable Notes on which the Coupons were issued being a person with whom the Issuer or Guarantor is not dealing at arm's length (within the meaning of the Income Tax Act (Canada)); or
- (iv) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.4); or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

9.5 In these Terms and Conditions, the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the



Issuing and Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

#### **10. Prescription**

The Notes and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9.5) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

#### **11. Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall, subject in each case to being indemnified and/or secured to its satisfaction, (but, in the case of the happening of any of the events mentioned in sub-paragraphs (ii) to (viii) inclusive (other than (iv)) and (x), only if the Trustee shall have certified in writing to the Issuer and the Guarantors that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuers and the Guarantors that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest, if applicable (as provided in the Trust Deed) if any of the following events (each an "Event of Default") shall have occurred and be continuing:

- (i) if default is made in the payment in the Specified Currency of any amount in respect of any principal due on the Notes, or default is made for a period of 14 calendar days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) if the Issuer or any Guarantor fails to perform or observe any of its other obligations expressed to be binding upon it, notwithstanding that the same shall not be so binding by virtue of any rule of law or otherwise, under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer and such Guarantor in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 calendar days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer or, as the case may be, such Guarantor requiring the same to be remedied; or
- (iii) if (i) any indebtedness for borrowed money of the Issuer, a Guarantor or a Material Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default except where the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is contesting such event of default in good faith and by appropriate action, or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any originally applicable grace period except where such Issuer, such Guarantor or such Material Subsidiary, as the case may be, is contesting its liability in good faith by appropriate action, or (iii) the Issuer, a Guarantor or a Material Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money except where the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is contesting its liability under such guarantee or indemnity in good faith and by appropriate action, or (iv) any Security Interest given by the Issuer, a Guarantor or a Material Subsidiary for any indebtedness for borrowed money of any other person becomes enforceable by reason of a default, event of default or other similar event in relation thereto and the holder thereof shall have commenced proceedings or appointed a receiver, manager or similar officer to take steps to enforce the same except where the Issuer, such Guarantor or such Material Subsidiary, as the case may be, is contesting such default, event of default or other similar event, as the case may be, in good faith and by appropriate action, provided that no event described in this Condition 11(iii) shall constitute an Event of Default unless the aggregate amount of the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid in respect of which any one or more of the events mentioned above in this Condition 11(iii) has or have occurred equals or exceeds U.S.\$50,000,000 or its equivalent in other currencies (as determined by the Trustee); or

- (iv) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer or a Guarantor, save for the purpose of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of the Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (v) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Material Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement either (i) not involving or arising out of the insolvency of such Material Subsidiary and under which all the surplus assets of such Material Subsidiary are transferred to the Issuer, any Guarantor or any of Xstrata's other Subsidiaries, or (ii) on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (vi) if Xstrata or a Material Subsidiary shall cease to carry on the whole or substantially the whole of its business, except (i) in each case for the purpose of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement either (A) on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders, or (B) in the case of a Material Subsidiary not involving or arising out of the insolvency of such Material Subsidiary and under which all or substantially all of its assets are transferred to another member or members of the Group or to a transferee or transferees which immediately upon such transfer become(s), a member or members of the Group, or (ii) as a result of any disposal of assets by a Material Subsidiary either (1) to any other Subsidiary of a Guarantor or a Guarantor, or (2) to any other person on arm's length terms; or
- (vii) if the Issuer, a Guarantor or a Material Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986 other than Section 123(1)(a)) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Section 1 of the Insolvency Act 1986; or
- (viii) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer, a Guarantor or a Material Subsidiary or, as the case may be, in relation to the whole or substantially the whole of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrances shall take possession of, the whole or substantially the whole of the assets of any of them and in any of the foregoing cases (other than the appointment of an administrator) it or he shall not be paid out or discharged within 60 calendar days (or such longer period as the Trustee may in its absolute discretion permit) or, following such 60 calendar day period, the appointment is not being contested in good faith and by appropriate action; or
- (ix) a Guarantee is not (or is claimed by the relevant Guarantor not to be) in full force and effect; or
- (x) any event occurs (i) under the laws of the UAE, in the case of Xstrata Dubai, or (ii) under the laws of Canada, in the case of Xstrata Canada and Xstrata CFC, or (iii) under the laws of England, in the case of Xstrata, or (iv) under the laws of Switzerland, in the case of Xstrata Schweiz, or (v) under the laws of its country of incorporation, in the case of a Material Subsidiary, which has an analogous effect to any of the events referred to in sub-paragraph (iv), (v), (vii) or (viii) in this Condition 11.

## **12. Replacement of Notes, Coupons and Talons**

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issuing and Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

### **13. Paying Agents**

The names of the Paying Agents and their specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) there will at all times be an Issuing and Paying Agent;
- (ii) there will at all times be one or more Calculation Agent(s) where the Conditions so require;
- (iii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (iv) it will ensure that it maintains a Paying Agent with a specified office in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.3. Any variation, termination, appointment or change shall only take effect with the prior written approval of the Trustee (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantors and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

### **14. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Notes to which it appertains) a further Talon, subject to the provisions of Condition 10.

### **15. Notices**

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee may approve.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Issuing and Paying Agent.

### **16. Meetings of Noteholders, Modification, Waiver and Substitution etc.**

16.1 *Meetings:* The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders and/or the Couponholders against the Issuers or the Guarantors, whether or not those rights arise under the Trust Deed. The Issuer, a Guarantor or the Trustee may convene such a meeting. The Trustee shall convene a meeting of the Noteholders of any Series if it receives a written

request by Noteholders holding at least 10% in nominal amount of the Notes of that Series for the time being outstanding and is indemnified and/or secured to its satisfaction. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding or, at any adjourned meeting, one or more persons holding or representing Notes for the time being outstanding whatever the proportion of the Notes which they represent, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding or, at any adjourned such meeting, one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not present at the meeting, and on all Couponholders and each of them shall be bound to give effect to it accordingly. A resolution in writing signed by or on behalf of the holders of not less than 75% in nominal amount of the Notes for the time being outstanding shall be as valid and effective as a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions of the Trust Deed.

- 16.2 *Modification and Waiver:* The Trustee may agree without the consent of the Noteholders or Couponholders to any modification to the Trust Deed which is, in its opinion of a formal, minor or technical nature or to correct a manifest error. The Trustee may also, subject to certain exceptions, so agree to any modification to the Trust Deed that is in its opinion not materially prejudicial to the interests of the Noteholders. The Trustee may, without the consent of the Noteholders or Couponholders, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, waive or authorise, on such terms as seem expedient to it, any breach or proposed breach by the Issuer or a Guarantor of the Trust Deed or these Conditions or determine that an Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the Noteholders to do so provided that the Trustee shall not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 11.
- 16.3 *Substitution of Issuer:* The Trust Deed contains provisions permitting the Trustee (if it is satisfied that to do so would not be materially prejudicial to the interests of Noteholders) to agree, if requested by the Issuer and subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes and as party to the Agency Agreement, subject to the Notes remaining unconditionally and irrevocably guaranteed by the Guarantors as provided in these Conditions and the Trust Deed.
- 16.4 *Addition of Guarantor:* The Trust Deed contains provisions permitting the Trustee (without the consent of Noteholders) to agree, if requested by the Issuer and subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the addition of any other company as a Guarantor under the Notes and the Trust Deed. If one or more Guarantors are added, the relevant Issuer or a Guarantor shall notify Noteholders promptly in accordance with Condition 15.
- 16.5 *Considerations:* In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, a Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except as against the Issuer and the Guarantors to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.
- 16.6 *Decisions Binding:* Any such modification, waiver, authorisation, substitution or determination pursuant to this Condition shall be binding on the Noteholders and the Couponholders and, unless

the Trustee requires otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

#### **17. Indemnification of the Trustee and its contracting with Guarantors and/or Issuer**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, whether or not acting for itself (i) to acquire, hold or dispose of any Note, Coupon, Talon or other security (or any interest therein) of the Issuer, a Guarantor, any of their subsidiaries or any other person, (ii) to enter into or be interested in any contract or transaction with any such person, and (iii) to act on, or as depositary or agent for, any committee or body of holders of any securities of any such person, in each case with the same rights as it would have had if the Trustee were not acting as Trustee and need not account for any profit.

#### **18. Enforcement of Rights**

18.1 The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or a Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons. The Trustee shall not be bound to take any such proceedings unless respectively directed or requested to do so (i) by an Extraordinary Resolution or (ii) in writing by the holders of at least 25% in principal amount of the Notes of the relevant Series then outstanding, and in either case then only if it shall be indemnified and/or secured to its satisfaction.

18.2 No Noteholder or Couponholder shall be entitled to take proceedings directly against the Issuer and/or a Guarantor unless the Trustee having become bound as aforesaid to take proceedings fails so to do within a reasonable period and such failure shall be continuing.

#### **19. Further Issues**

Each Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides.

#### **20. Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **21. Governing Law and Jurisdiction**

21.1 *Governing Law:* The Trust Deed, the Agency Agreement, the Notes, the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 *Submission to Jurisdiction:* Each of the Issuer and each Guarantor (other than Xstrata) has in the Trust Deed irrevocably agreed for the benefit of the Trustee, the Noteholders and the Couponholders that the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Coupons or the Talons and that accordingly any legal action or proceedings arising out of or in connection therewith (together referred to as "Proceedings") may be brought in the courts of England.

Each of the Issuer and each Guarantor (other than Xstrata) has in the Trust Deed irrevocably waived any objection to Proceedings in the courts of England on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum and it has further irrevocably and unconditionally agreed that a judgment in Proceedings brought in the courts of England shall be conclusive and binding upon each of the Issuer and each Guarantor (other than Xstrata) and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit the right of the Trustee, the Noteholders or the Couponholders to take Proceedings against the Issuer and/or a Guarantor (other than Xstrata) in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

Each of the Issuer and each Guarantor (other than Xstrata) has in the Trust Deed irrevocably appointed Xstrata whose registered office is, from time to time, 1st Floor Almack House, 26-28 King Street, London SW1Y 6QW, United Kingdom as its agent for service of process in any Proceedings in England and has undertaken that in the event of Xstrata ceasing so to act, each of the Issuer and the relevant Guarantors will appoint a substitute process agent acceptable to the Trustee.

## 22. Definitions

In these Terms and Conditions:

“Change in Tax Law” shall mean (i) any change in, or amendment to, any law of the Relevant Issuer Jurisdiction or the Relevant Guarantor Jurisdiction (including any regulations or rulings promulgated thereunder) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment is announced, if applicable, and becomes effective on or after 7 November 2012 or (ii) if the Issuer or the relevant Guarantor consolidates or merges with, or transfers or leases its assets substantially as an entirety to, any Person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Issuer Jurisdiction or a Relevant Guarantor Jurisdiction, respectively, and as a consequence thereof such Person becomes the successor obligor to such Issuer or such Guarantor in respect of additional amounts as provided or referred to in Condition 9 that may become payable (in which case, for the purposes of Condition 8.2, all references to such Issuer or such Guarantor hereunder, as applicable, shall be deemed to be and include references to such Person), any change in, or amendment to, any law of the jurisdiction of incorporation or tax residence of such Person or any successor entity or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective on or after the date of such consolidation, merger or other transaction;

a “Change of Control” will be deemed to have occurred if:

- (i) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain) whose shareholders are or are to be substantially similar to the pre-existing shareholders of any direct or indirect holding company of Xstrata, shall become interested (within the meaning of Part 22 of the Companies Act 2006 of Great Britain) in:
  - (A) more than 50% of the issued or allotted ordinary share capital of Xstrata; or
  - (B) shares in the capital of Xstrata carrying more than 50% of the voting rights normally exercisable at a general meeting of Xstrata; or
- (ii) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain) whose shareholders are or are to be substantially similar to the pre-existing shareholders of any direct or indirect holding company of Xstrata, shall become interested (within the meaning of Part 22 of the Companies Act 2006 of Great Britain) in:
  - (A) more than 50% of the issued or allotted ordinary share capital of any direct or indirect holding company of Xstrata; or
  - (B) shares in the capital of any direct or indirect holding company of Xstrata carrying more than 50% of the voting rights normally exercisable at a general meeting of any such direct or indirect holding company;

“Change of Control Optional Redemption Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Change of Control Optional Redemption Date” has the meaning given in the relevant Final Terms;

“Change of Control Period” means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

a “Change of Control Put Event” will be deemed to occur if a Change of Control has occurred and:

- (i) on the Relevant Announcement Date, the Notes carry from any Rating Agency:
  - (A) an investment grade credit rating (Baa3/BBB-, or equivalent, or better) (an “Investment Grade Rating”), and such rating from any Rating Agency is, within the Change of Control Period, either downgraded to a Non-Investment Grade Rating or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to an Investment Grade Rating by such Rating Agency; or
  - (B) a Non-Investment Grade Rating and such rating from any Rating Agency is, within the Change of Control Period, either downgraded by one or more notches (by way of example, Baa1 to Baa2 being one notch) or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to its earlier credit rating or better by such Rating Agency; or
  - (C) no credit rating and a Negative Rating Event also occurs within the Change of Control Period, provided that if, on the Relevant Announcement Date, the Notes carry a credit rating from more than one Rating Agency, at least one of which is investment grade, then paragraph (A) will apply; and
- (ii) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (i)(A) and (i)(B) above or not to award a credit rating of at least investment grade as described in paragraph (ii) of the definition of “Negative Rating Event”, the relevant Rating Agency announces publicly or confirms in writing to the relevant Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement;

“Change of Control Put Event Notice” means the notice to be given pursuant to Condition 8.5 by the relevant Issuer or, as the case may be, the Trustee to the Noteholders in accordance with Condition 15 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option;

“Change of Control Put Option” means the option of the Noteholders exercisable pursuant to Condition 8.5;

“Change of Control Put Period” means the period of 45 days after a Change of Control Put Event Notice is given;

“Guarantees” means the Xstrata Canada Guarantee, the Xstrata Dubai Guarantee, the Xstrata CFC Guarantee, the Xstrata Guarantee and the Xstrata Schweiz Guarantee;

“Group” means Xstrata and its Subsidiary Undertakings and “member of the Group” shall be construed accordingly;

“Material Subsidiary” at any time shall mean any Subsidiary of Xstrata:

- (i) whose turnover (consolidated in the case of a Subsidiary which itself has Subsidiaries but excluding intra-Group items) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) at anytime equals or exceeds 10% of the consolidated turnover or, as the case may be, consolidated total assets, of Xstrata, all as calculated respectively by reference to the then most recent audited consolidated financial statements of Xstrata and the then most recent annual financial statements (consolidated or, as the case may be, unconsolidated) of the relevant Subsidiary; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of Xstrata which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee shall become a Material Subsidiary, provided that the transferee Subsidiary shall cease to be a Material Subsidiary under the provisions of this sub-paragraph (ii) (but without prejudice to the provisions of sub-paragraph (i) above), upon publication of its next audited financial statements,

provided that any Subsidiary whose only or principal business is that of a holding company (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain) shall not be a Material Subsidiary for the purposes of this definition.

A report by two directors of Xstrata that, in their opinion, a Subsidiary of Xstrata is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Trustee and the Noteholders;

“Moody’s” means Moody’s Investors Service Limited;

a “Negative Rating Event” shall be deemed to have occurred if at such time as there is no rating assigned to the Notes by a Rating Agency:

- (i) the relevant Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control, seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes, or any other unsecured and unsubordinated debt of such Issuer; or
- (ii) if the relevant Issuer does so seek and use such endeavours, it is unable to obtain such a rating of at least investment grade by the end of the Change of Control Period;

“Non-Investment Grade Rating” means a non-investment grade credit rating (Ba1/BB+, or equivalent, or worse);

“Non-Material Subsidiary” means any Subsidiary of Xstrata other than a Material Subsidiary;

“Person” means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof;

“Project Finance Indebtedness” means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of money borrowed or any notes, bonds, debentures, debenture stock or other securities (for the purposes of this definition “Indebtedness”) to finance the ownership, acquisition, development and/or operation of projects, assets or installations (including, without limitation, (1) the discovery, mining, extraction, transportation or development (in each case whether directly or indirectly) of metals or minerals, or (2) the development or operation of processing facilities (in each case whether directly or indirectly) related to natural resources including, without limitation, metals smelting, processing and refining) in respect of which the person or persons to whom any such Indebtedness is or may be owed by (in this definition the “Lender”) the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than a Non-Material Subsidiary) for the repayment thereof other than:

- (i) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from such projects, assets or installations; and/or
- (ii) recourse to the proceeds of enforcement of any mortgage, charge, lien, pledge or other security interest (for the purposes of this definition an “Encumbrance”) given by such borrower over such projects, assets or installations or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Indebtedness, provided that (A) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (B) such Lender is not entitled, by virtue of any right or claim arising out of or in connection with such Indebtedness, to commence proceedings for the winding-up or dissolution of such borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of such borrower or any of its projects, assets or installations (save for the projects, assets or installations the subject of such Encumbrance); and/or
- (iii) recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another person or an indemnity in respect thereof or an obligation to comply or to procure compliance by another person with any financial ratios or other tests of financial condition) by the person against whom such recourse is available;

“Proposed Merger” means Xstrata’s proposed all-share merger with Glencore International plc;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder pursuant to Condition 8.5;

“Rating Agency” means Moody’s or Standard & Poor’s or any of their respective successors or any Substitute Rating Agency; and



“Relevant Announcement Date” means the date that is the earlier of:

- (i) the date of the first public announcement of the relevant Change of Control; and
- (ii) the date of the earliest Relevant Potential Change of Control Announcement (if any);

“Relevant Guarantor Jurisdiction” means any of the jurisdictions of incorporation or residence for tax purposes of the relevant Guarantor or any successor entity, or any political subdivision or taxing authority thereof or therein. If a relevant Guarantor becomes subject at anytime to any taxing jurisdiction other than the Relevant Guarantor Jurisdiction, references to “Relevant Guarantor Jurisdiction” shall for these purposes be construed as references to the Relevant Guarantor Jurisdiction and such other jurisdiction;

“Relevant Indebtedness” means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of, or represented or evidenced by, notes, bonds, debentures, debenture stock, loan stock or other securities with an original maturity of more than one year which are, with the consent of the relevant Issuer or, as the case may be, the relevant Guarantors, for the time being quoted, listed or ordinarily traded on any stock exchange or recognised over-the-counter or other securities market, and (ii) any guarantee or indemnity in respect of any such indebtedness, excluding Project Finance Indebtedness;

“Relevant Issuer Jurisdiction” means any of the jurisdictions of incorporation or residence for tax purposes of the relevant Issuer or any successor entity, or any political subdivision or taxing authority thereof or therein. If a relevant Issuer becomes subject at anytime to any taxing jurisdiction other than the Relevant Issuer Jurisdiction, references to “Relevant Issuer Jurisdiction” shall for these purposes be construed as references to the Relevant Issuer Jurisdiction and such other jurisdiction;

“Relevant Jurisdiction” means a Relevant Issuer Jurisdiction and/or a Relevant Guarantor Jurisdiction;

“Relevant Potential Change of Control Announcement” means any public announcement or statement by or on behalf of the relevant Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where within 180 days following the date of such announcement or statement, a Change of Control occurs;

“Security Interest” means any mortgage, charge, lien (other than a lien arising by operation of law), pledge or other security interest excluding any mortgage, charge, lien, pledge, or other security interest given or assumed in relation to Project Finance Indebtedness;

“Standard & Poor’s” means Standard & Poor’s Credit Market Services Europe Limited;

“Subsidiary” has the meaning ascribed to it under Section 1159 of the Companies Act 2006 of Great Britain;

“Subsidiary Undertaking” shall have the meaning given to it by Section 1162 of the Companies Act 1985 of Great Britain (but, in relation to Xstrata, shall exclude any undertaking (as defined in Section 1161 of the Companies Act 2006 of Great Britain) whose accounts are not included in the then latest published audited consolidated accounts of Xstrata, or (in the case of an undertaking which has first become a Subsidiary Undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date);

“Substitute Rating Agency” means any rating agency substituted for any Rating Agency by the relevant Issuer from time to time with the prior written approval of the Trustee;

“Xstrata Canada Guarantee” means the guarantee provided by Xstrata Canada in respect of Notes issued by Xstrata Dubai and Xstrata CFC;

“Xstrata CFC Guarantee” means the guarantee provided by Xstrata CFC in respect of Notes issued by Xstrata Dubai and Xstrata Canada;

“Xstrata Dubai Guarantee” means the guarantee provided by Xstrata Dubai in respect of Notes issued by Xstrata Canada and Xstrata CFC;

“Xstrata Guarantee” means the guarantee provided by Xstrata in respect of Notes issued by Xstrata Dubai, Xstrata Canada and Xstrata CFC; and

“Xstrata Schweiz Guarantee” means the guarantee provided by Xstrata Schweiz in respect of Notes issued by Xstrata Dubai, Xstrata Canada and Xstrata CFC.

## **PART VII — PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM**

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the global Notes.

### **Form of Notes**

Each Tranche of Notes will be in bearer form. Global Notes (being Temporary Global Notes and Permanent Global Notes) may be deposited on or before the relevant issue date with a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”) and/or any other relevant clearing system. Whilst any Note is represented by a Temporary Global Note payments of principal, interest (if any) and any other amount payable in respect of the Note due prior to the date (the “Exchange Date”) which is 40 days after the later of (i) the date the Temporary Global Note is issued or (ii) the completion of the distribution of the Notes comprising the relevant Tranche as certified to the Issuers and Paying Agent of the relevant Issuer by the Dealer(s) will be made against presentation of the Temporary Global Note only to the extent that certification in a form to be provided, in writing, by tested telex or by electronic transmission, substantially similar to the form of the certificate in Schedule 2 to the Agency Agreement to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg, and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification, (based on the certifications it has received) similar to the form of the certificate in Schedule 3 to the Agency Agreement, to the Issuing and Paying Agent.

### **Exchange of Temporary Global Notes**

Interests in a Temporary Global Note may be exchanged for:

- (i) interests in a Permanent Global Note; or
- (ii) if so specified in the Final Terms, Definitive Notes.

Exchanges of interests in a Temporary Global Note for Definitive Notes or, as the case may be, a Permanent Global Note will be made only on or after the Exchange Date and provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations in substantially the form set out in Schedules 2 and 3 to the Agency Agreement has been received.

### **Exchange of Permanent Global Notes**

A Permanent Global Note will be exchangeable in whole but not, except as provided below, in part (free of charge to the holder) for Definitive Notes only if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon the holder of the relevant Permanent Global Note (acting on the instructions of (an) Accountholder(s) (as defined below)) or the Trustee may give notice to the relevant Issuer of its intention to exchange the relevant Permanent Global Note for Definitive Notes on or after the day specified in the notice requiring exchange (falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located).

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes.

On or after such date specified for exchange, the holder of the relevant Permanent Global Note may surrender the Permanent Global Note or, in the case of a partial exchange, present it for endorsement, to or to the order of the Issuing and Paying Agent. In exchange for the Permanent Global Note, or the part thereof to be exchanged, the relevant Issuer will deliver, or procure the delivery of, an equal aggregate nominal amount of Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the relevant Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant Definitive Notes.

### **Payments**

No payment will be made on the relevant Temporary Global Note unless exchange for an interest in the relevant Permanent Global Note or Definitive Note is improperly withheld or refused. Payments of principal

and interest in respect of Notes represented by a global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such global Note to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate schedule to the relevant global Note by or on behalf of the Issuing and Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the relevant Temporary Global Note will be made upon certification as to non-U.S. beneficial ownership in accordance with U.S. Treasury regulations unless such certification has already been made.

### **Notices**

For so long as all of the Notes are represented by one or both of a Temporary Global Note and/or a Permanent Global Note and such global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 15 provided that, so long as the Notes are listed on a stock exchange or admitted to listing by another relevant authority, such stock exchange or other relevant authority so agrees. Any such notice shall be deemed to have been given to the Noteholders on the date on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

### **Accountholders**

For so long as all of the Notes are represented by one or both of a Temporary Global Note and/or a Permanent Global Note and such global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the relevant Issuer, the relevant Guarantor and the Trustee, solely in the bearer of the relevant global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant global Note.

### **Prescription**

Claims against the relevant Issuer and the relevant Guarantor in respect of principal and interest on the Notes represented by a global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 9.5).

### **Cancellation**

Cancellation of any Note represented by a global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Issuing and Paying Agent of the reduction in the principal amount of the relevant global Note on the relevant schedule thereto.

### **Noteholders' Put**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation.

### **Issuer Call**

For so long as all of the Notes are represented by one or both of a Temporary Global Note and/or a Permanent Global Note and such global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no drawing (if applicable) of Notes will be required under Condition 8.3 in the event that the

relevant Issuer exercises its call option pursuant to Condition 8.3 in respect of less than the aggregate principal amount of the Notes outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the global Note(s) are to be subject to such option.

**Euroclear and Clearstream, Luxembourg**

References therein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the relevant Issuer, the Issuing and Paying Agent and the Trustee.

## **PART VIII — USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used by the relevant Issuer for general corporate purposes throughout the Group.

## PART IX — FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

**Xstrata Finance (Dubai) Limited/Xstrata Finance (Canada) Limited/Xstrata  
Canada Financial Corp.**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] guaranteed by**  
**[Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited and**  
**Xstrata Canada Financial Corp.]**  
**[Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and**  
**Xstrata Canada Financial Corp.]**  
**[Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata**  
**Finance (Canada) Limited]**  
**under the U.S.\$8,000,000,000**  
**Euro Medium Term Note Programme**

### PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 7 November 2012 [and the supplement(s) to it dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Base Prospectus"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer, the Guarantors and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/marketnews-home.html>).]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated [original date] which is incorporated by reference in the Base Prospectus dated 7 November 2012. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 7 November 2012 [and the supplement(s) to it dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Base Prospectus"), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer, the Guarantors and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 7 November 2012 [and the supplement(s) to it dated [date] and [date]]. The Base Prospectus has been published on the website of the London Stock Exchange through a regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/marketnews-home.html>).]

1. (i) Issuer: [Xstrata Finance (Dubai) Limited/Xstrata Finance (Canada) Limited/Xstrata Canada Financial Corp.]
- (ii) Guarantors: [Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corp.]
- [Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corp.]
- [Xstrata plc, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Finance (Canada) Limited]
2. [(i)] Series Number: [ ]
- [(ii)] Tranche Number: [ ]
- [(iii)] Date on which the Notes become fungible: [Not Applicable/ The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [ ] on [ ]/the Issue Date/exchange of the Temporary Global Note

for interests in the Permanent Global Note, as referred to in paragraph [21] below [which is expected to occur on or about [ ]].

3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount of Notes: [ ]
- [(i)] Series: [ ]
- [(ii)] Tranche: [ ]
5. Issue Price: [ ]% of the Aggregate Nominal Amount [plus accrued interest from [ ]]
6. (i) Specified Denominations: [ ]
- (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]
- (ii) Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
8. Maturity Date: [ ]
9. Interest Basis: [[ ]% Fixed Rate]  
[[ ] +/- [ ]%  
Floating Rate  
[Zero Coupon]
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100% of their nominal amount.
11. Change of Interest Basis: [[ ]/Not Applicable]
12. Put/Call Options: [Call Option]  
[Put Option]  
[Change of Control Put Option]
13. [Date(s) [Board] approval for issuance of Notes and Guarantee obtained: [ ] [and [ ]], respectively]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [ ]% per annum [payable in arrear on each Interest Payment Date]
- (ii) Interest Payment Date(s): [ ] [and [ ]] in each year up to and including the Maturity Date
- (iii) Fixed Coupon Amount[(s)]: [ ] per Calculation Amount
- (iv) Broken Amount(s): [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]
- (v) Day Count Fraction: [Actual/Actual (ICMA)/30/360]
- (vi) [Determination Date(s)]: [ ] in each year

- 15. Floating Rate Note Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s): [ ]
  - (ii) Specified Interest Payment Dates: [ ]
  - (iii) First Interest Payment Date: [ ]
  - (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
  - (v) Business Centre(s): [ ]
  - (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [ ]
  - (vii) ISDA Determination:
    - Floating Rate Option: [ ]
    - Designated Maturity: [ ]
    - Reset Date: [ ]
  - (viii) Margin(s): [+/-][ ]% per annum
  - (ix) Minimum Rate/Amount of Interest: [ ]% per annum
  - (x) Maximum Rate/Amount of Interest: [ ]% per annum
  - (xi) Day Count Fraction: [ ]
- 16. Interest Rate Adjustment** [Applicable/Not Applicable]
- 17. Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (i) [Amortisation/Accrual] Yield: [ ]% per annum
  - (ii) Reference Price: [ ]

**PROVISIONS RELATING TO REDEMPTION**

- 18. Call Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount(s) of each Note: [ ] per Calculation Amount
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [ ] per Calculation Amount
    - (b) Maximum Redemption Amount: [ ] per Calculation Amount
- 19. Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount(s) of each Note: [ ] per Calculation Amount



- 20. Change of Control Put Option** [Applicable/Not Applicable]
- (i) Change of Control Optional Redemption Date: [ ] after the expiration of Change of Control Put Period
- (ii) Change of Control Optional Redemption Amount and method, if any, of calculation of such amount, if different from that set out in the Conditions: [As set out in the Conditions/[ ] per Calculation Amount]

**21. Early Redemption Amount**

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [ ]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- 22. Form of Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]  
 [Temporary Global Note exchangeable for Definitive Notes on or after the Exchange Date]  
 [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

- 23. Financial Centres(s):** [London/Brussels/[ ]/[Not Applicable]]

- 24. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes/No]

**[THIRD PARTY INFORMATION**

[ ] has been extracted from [ ]. Each Issuer and each Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of [ ] as Issuer:

By: \_\_\_\_\_  
*Duly authorised*

Signed on behalf of Xstrata plc as Guarantor:

By: \_\_\_\_\_  
*Duly authorised*

Signed on behalf of Xstrata (Schweiz) AG as Guarantor:

By: \_\_\_\_\_  
*Duly authorised*

[Signed on behalf of Xstrata Finance (Dubai) Limited as Guarantor:

By: \_\_\_\_\_]  
*Duly authorised*

[Signed on behalf of Xstrata Finance (Canada) Limited as Guarantor:

By: \_\_\_\_\_]

*Duly authorised*

[Signed on behalf of Xstrata Canada Financial Corp. as Guarantor:

By: \_\_\_\_\_]

*Duly authorised*

## PART B — OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [London/[ ]/None]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [ ] with effect from [ ].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [ ] with effect from [ ].]  
[Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

- Ratings: [[The [Programme/Notes to be issued] [has/ have been] rated]  
[Standard & Poor's: [ ]]  
[Moody's: [ ]]

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/ OFFER

Save for any fees payable to the [Lead Manager/Dealers], so far as the Issuer and the Guarantors are aware, no person involved in the issue of the Notes has an interest material to the offer. The [Lead Manager/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

5. [FIXED RATE NOTES ONLY — YIELD [ ]]  
Indication of yield:

### 6. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/ [ ]]
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]

## PART X — BUSINESS OF THE GROUP

### Overview of the Group

Xstrata was incorporated and registered in England and Wales under the name Glassdesk Limited on 31 December 2001 with registered number 4345939 under the Companies Act 1985 as a private company with limited liability. By a written resolution passed on 9 February 2002, Glassdesk Limited resolved to change its name to Xstrata Limited. The change of name became effective on 18 February 2002. On 20 February 2002, Xstrata Limited re-registered as a public limited company under the Companies Act 1985. The principal legislation under which Xstrata operates is the Companies Act and the regulations made under it.

The registered office of Xstrata is 1st Floor Almack House, 26-28 King Street, London SW1Y 6QW, United Kingdom, telephone number +44 20 7968 2800. The principal place of business of Xstrata is Bahnhofstrasse 2, CH-6301 Zug, Switzerland, telephone number +41 41 726 6070.

Xstrata is the holding company of the Group. The Group is the fifth largest diversified mining group with operations and projects producing copper, domestic and export thermal coal, export coking coal, ferrochrome, platinum group metals, vanadium, zinc and nickel together with, gold, cobalt, lead and silver. The Group also comprises iron ore projects, recycling facilities and a suite of global technology products.

The Group's operations and projects span more than 20 countries, including Argentina, Australia, Brazil, Canada, Chile, China, Colombia, the Dominican Republic, Germany, Mauritania, New Caledonia, Norway, Papua New Guinea, Peru, the Philippines, the Republic of Congo, Singapore, South Africa, Spain, Tanzania, the United Kingdom and the United States.

The Group has an extensive organic growth pipeline with major expansion projects at every stage of the project development cycle. The organic pipeline comprises 22 approved major projects in implementation, and a number of projects in the feasibility, pre-feasibility or concept stage that will provide further potential growth options across a range of geographies and commodities.

The Group had revenue of U.S.\$15.6 billion, EBITDA of U.S.\$4.0 billion for the six months ended 30 June 2012 and net assets of U.S.\$47.4 billion at that date. For the year ended 31 December 2011, revenue was U.S.\$33.9 billion and EBITDA of U.S.\$11.7 billion. The Group's ordinary shares are traded on the London Stock Exchange and the SIX Swiss Exchange ("SIX"). As of market close on 5 November 2012, the market capitalisation of Xstrata was approximately £29.67 billion (approximately U.S.\$47.41 billion). Xstrata is a member of the FTSE 100.

On 25 October 2012, the independent non-executive members of Xstrata's board of directors recommended the revised final terms of the Proposed Merger. Shareholder meetings will be held on 20 November 2012 to consider the final terms of the Proposed Merger.

The Group's business is organised in the following five principal business units:

**Xstrata Copper:** Through Xstrata Copper, the Group is a semi-integrated producer of copper concentrates and metal and is the world's fourth largest global copper producer, with mining and processing operations in Australia, Chile, Peru, Argentina and Canada. Xstrata Copper has a portfolio of copper development projects, located in Australia, Canada, Peru, the Philippines, Chile, Argentina and Papua New Guinea.

**Xstrata Coal:** Through Xstrata Coal, the Group is the world's largest exporter of bituminous thermal coal on a managed basis and a significant producer of premium quality hard coking coal and semi-soft coking coal. Xstrata Coal has interests in over 30 operating coal mines in Australia, South Africa and Colombia. Xstrata Coal has development projects in Australia, South Africa, Colombia and Nova Scotia and British Columbia in Canada. Xstrata Coal also manages the Group's growing iron ore business, with development projects in Mauritania and the Republic of Congo.

**Xstrata Nickel:** Through Xstrata Nickel, the Group is the fourth 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, the Dominican Republic and Australia and a refinery in Norway. Xstrata Nickel has world-class development projects in Canada, Tanzania and New Caledonia.

**Xstrata Zinc:** Through Xstrata Zinc, the Group is one of the world's largest miners and producers of zinc. Xstrata Zinc's operations span Spain, Germany, Australia, the United Kingdom and Canada, with an interest in the Antamina copper-zinc mine in Peru. Xstrata Zinc has development projects in Australia, Ireland and Quebec, Nunavut and Ontario in Canada.

**Xstrata Alloys:** Through Xstrata Alloys, the Group is one of the world's largest and among the world's lowest cost integrated ferrochrome producers (via the Xstrata-Merafe chrome venture), one of the largest producers

of primary vanadium and a growing producer of platinum group metals. Xstrata Alloys also owns carbon operations which supply key raw materials to its ferrochrome production operations. All of Xstrata Alloys' operations are based in South Africa.

In addition to its five principal businesses, the Group also operates Xstrata Process Support and Xstrata Technology, mining and processing technology businesses with operations in Australia, Canada, Chile, China and South Africa.

### **The Group's strategy**

Xstrata's strategy since its IPO in 2002 has been to grow and manage a distinct, value-focused, globally diversified resources group positioned to compete for and create value, with the single aim of delivering industry-leading returns for shareholders. Xstrata recognises that this aim can only be achieved through genuine partnerships with employees, customers, shareholders, local communities, lenders and other stakeholders which are based on integrity, co-operation, transparency and mutual value creation.

This strategy leverages the Group's size and momentum and focuses on:

- commitment, capacity and headroom for growth that creates value; and
- constant improvement in the quality of Xstrata's businesses through on-going efficiency gains, margin improvements, net present value enhancements and cost reductions.

Xstrata's strategy is based on its assessment of key success factors in global mining, including:

- scale and critical mass;
- diversification of commodity, currency and country exposure;
- a wide range of growth options, including via acquisitions and brownfield and greenfield expansions; and
- operating excellence.

Xstrata has an extensive organic growth pipeline with major expansion projects at every stage of the project development cycle, which are due to deliver a number of world class projects. The organic pipeline comprises:

- twenty-two approved major projects in implementation, and;
- a number of projects, including the Bulga optimisation, the Rolleston expansion, and the McArthur River Mine integrated expansion, in the feasibility, pre-feasibility or concept stage that will provide future growth options across a range of geographies and commodities.

Substantially all of the projects that are required to achieve the Group's target of a 50% increase in copper-equivalent volumes over 2009 levels by the end of 2014 are approved, with 80% of the 50% volume growth accounted for by projects that are currently under construction.

Once commissioned, approved projects are expected to cement the Group's top five market position in major commodities, delivering new, lower cost production that will further reduce costs by around 20% and robust returns, even at conservative long-run commodity prices.

### **History**

Xstrata AG, which was the predecessor of Xstrata plc, was established in Switzerland in 1926 to invest in infrastructure and power projects in Latin America. Beginning in 1990, Xstrata AG built a portfolio of businesses operating in the natural resources sector.

On 25 March 2002, Xstrata plc merged with Xstrata AG to become the holding company of the Group. At the same time, the Group acquired the coal assets of Enx Resources Limited ("Enx") and Duiker Mining (Proprietary) Limited ("Duiker") and the shares of Xstrata plc were listed on the Official List, admitted to trading on the London Stock Exchange's market for listed securities and admitted to listing on the SIX.

The successful acquisition and integration of the former Enx and Duiker coal assets in 2002, of MIM Holdings Limited ("MIM") in 2003 and of Falconbridge Limited ("Falconbridge"), now known as Xstrata Canada Corporation, in 2006 were key elements in the transformation of Xstrata. In 2009, Xstrata approached Anglo American plc to propose a transformational merger of the two companies. Following Anglo American's

rejection of this proposal, Xstrata announced in October 2009 that it did not intend to make an unsolicited offer.

Shareholder meetings to consider the terms of the Proposed Merger will take place on 20 November 2012.

## **Litigation and indemnities**

### ***Sulphuric acid class action lawsuits***

Class action lawsuits have been filed in various jurisdictions in the United States with respect to alleged sulphuric acid marketing and sales antitrust violations by the Falconbridge operations. These lawsuits were precipitated by a criminal investigation conducted by U.S. antitrust authorities into alleged anti-competitive conduct, which concluded with no finding of any wrong doing. The Group is vigorously defending these actions and has asserted that they are without merit. The plaintiffs claim actual damages in the amount of approximately U.S.\$160 million, plus attorney fees and costs. Under the relevant U.S. antitrust law, if the plaintiffs were to be successful then the actual damages assessed by the jury would be automatically trebled. The plaintiffs lost the trial in late 2011, but have appealed. Based on the trial ruling, the strength of the available defences, the weakness of the plaintiffs' claims, the amount of a previously negotiated settlement with another defendant and legal advice obtained, Xstrata believes that it is unlikely that the plaintiffs will recover the damages sought. The appeal will be heard in late 2012 and Xstrata expects a ruling sometime in early to mid 2013.

### ***Cerrejón litigation***

Cerrejón is engaged in the following litigation which may have a significant effect on Cerrejón and/or on Cerrejón's financial position or profitability:

- *Unpaid Privatisation of Cerrejón Zona Norte*: A class action (Popular Action 1032) has been filed in Colombia against Cerrejón Zona Norte S.A. ("CZN S.A.") and others in relation to the privatisation sale of the Colombian State's interest in Cerrejón Zona Norte. Initially, there were three popular actions (1032, 1029 and 1048) that made similar arguments (e.g., asserting that the privatisation was null and void) and that claimed damages. The amount of damages sought pursuant to Popular Action 1032 is approximately U.S.\$2.3 billion. A favourable first instance decision concluded that all authorities acted in conformity with law and no damage was caused to collective rights. The plaintiff appealed the first instance decision, and a second instance decision is pending. Popular Action 242 was filed by an individual, Martín Nicolás Barros Choles, against Carbones del Cerrejón Limited and others and arises out of the privatisation of the Cerrejón Zona Norte mining complex in Colombia in 2000. The plaintiff asserts that the association contract with the government was terminated in advance due to the dissolution of Intercor Limited and Carbocol Inc ("Carbocol"), which were sold to third parties. Intercor Limited was the Anguillan limited liability company purchased from ExxonMobil, which now exists as Carbones del Cerrejón Limited, an Anguillan international business company. Carbocol was a governmental entity that held, in part, 50% rights to the Cerrejón Zona Norte. Carbocol privatised and transferred such rights to CZN S.A. The plaintiff also claims Carbocol's sale was made with irregularities that violated the legal provisions in force, because Carbocol did not include its 50% rights in the properties and assets used in the Cerrejón Zona Norte operation. Rather, Carbocol only included shares in the privatisation. Consequently, the plaintiff is requesting that the court order Carbones del Cerrejón Limited to pay for the use and lease of the 50% of the properties and assets belonging to the Republic of Colombia until November 2009, at which date all of the properties and assets of the Cerrejón project reverted to the Republic of Colombia. Carbones del Cerrejón Limited filed an appeal requesting a change of jurisdiction from Riohacha to Bogota and dismissal of the action on the basis that there is currently another popular action relating to the same issues and with the same purpose (Popular Action 1032, discussed above). Carbones del Cerrejón Limited's motion was unsuccessful, and it has now filed a formal reply to the lawsuit. The Riohacha judge denied Carbones del Cerrejón Limited's motion but opined that Barranquilla is the competent jurisdiction, despite the fact that the Barranquilla judge previously rejected the case. Consequently, the Riohacha judge requested a ruling from the Council of State on jurisdiction. The plaintiff filed an appeal against the judge's ruling alleging that the Riohacha judge was the competent authority to decide the case. Carbones del Cerrejón Limited, in turn, did not appeal. The Council of State has ruled that the competent judge was that of Riohacha. A hearing between the parties was held without settlement. A hearing regarding the compliance agreement was held without settlement, due to the absence of the plaintiff, Martin Barros. Discovery is currently on-going.
- *Analtracarbocol vs. Carbocol and CZN S.A.*: The plaintiff, Analtracarbocol (Union of Carbocol), is requesting the annulment of the mining exploitation and transfer contract entered into between Carbocol and CZN S.A. and alleges that its award did not comply with the law, as the offer filed by the Union was not duly considered, in violation of Article 60 of the Colombian Constitution. CZN S.A. and Carbocol argued that the bidding process, as well as the award of the contract, met all the necessary legal requirements. The first instance decision rejected the demands included in the lawsuit. The plaintiff

appealed and a final decision from the Council of State is pending. Total amount claimed is estimated to be approximately U.S.\$367 million.

- *Barrancas Explosives Tax Assessment:* The municipality of Barrancas applies the industry and commerce tax to explosives, as it believes that the production of the explosive agents by Cerrejón needs to be recorded as income, subject to, and accordingly chargeable with, the industry and commerce tax. The municipality of Barrancas imposed a sanction of approximately U.S.\$147 million, equivalent to 20% of a presumptive marketing price of explosives, but subsequently reduced the sanction to approximately U.S.\$76.4 million. Cerrejón has alleged that the sanction was illegally calculated because the applied tariff was not established under Colombian legislation. Cerrejón filed a lawsuit seeking to have the reduced sanction set aside at the same that it appealed the municipality's sanction. On appeal the sanction was confirmed, at which point another lawsuit was filed. A request has been made for both lawsuits to be joined.
- *IGAC Land Tax Assessment:* The Colombian Instituto Geográfico Agustín Codazzi ("IGAC") determines the value of land and construction for the purposes of tax assessment. Since 1993, IGAC has determined the taxable value of railway and road land belonging Cerrejón and CZN S.A. in three municipalities: Uribe, Manaure, and Maicao. The municipalities are allowed to issue retrospective land tax assessments of approximately U.S.\$95 million from 1993. Cerrejón appealed, and IGAC repealed the retroactive valuation. However, despite this repeal, some municipalities issued property tax liquidations and charged default interest. Appeals against these municipal decisions are pending.
- *Sintraambiente Compliance:* Sintraambiente, a Colombian trade union representing employees of the national environmental institution, filed a compliance action in which it requested the immediate registration of the railroad, road and the land on which they are constructed, on behalf of CZN S.A. and Carbones del Cerrejón Limited. CZN S.A. was included as an interested third party, and as such it replied by explaining that the land on which the railroad and road were constructed is a vacant lot, is handled as a mining reserve, and belongs to the Republic of Colombia in whose name it was registered. CZN S.A. also explained that the railroad and road are mining investments that cannot be registered in the land registry since they are not part of the land on which they are constructed until contractual reversion occurs, and they do not rise to a right of indemnification. A first instance decision is pending.

Based on its external legal advice, Cerrejón considers that it is not likely that any liability will result from the above claims (other than as indicated), which are being and will continue to be vigorously defended by Cerrejón.

### **Los Azules**

TNR Gold Corp ("TNR") filed a claim against MIM Argentina Exploraciones S.A. ("MIMEXA") in connection with a 2004 option agreement in which MIMEXA, formerly part of the MIM group (acquired by the Group in 2003), was granted an option to acquire a 100% interest in the Los Azules property from TNR. MIMEXA exercised this option, and the Los Azules property was subsequently transferred by MIMEXA to a third party, Minera Andes Inc. Pursuant to the terms of the 2004 option agreement, TNR retained a back-in right for up to 25% of the Los Azules property if MIMEXA completed a feasibility study within three years. No such feasibility study was completed. TNR nevertheless commenced proceedings against MIMEXA in 2008 and sought to assert its back in rights. TNR also now claims MIMEXA invalidly exercised the option pursuant to the 2004 option agreement. A mediation has been agreed to take place in October 2012. These proceedings remain on-going, but alleged damages have not as yet been quantified or specified by TNR.

If no mediated outcome is achieved the trial is scheduled to last for six weeks and is expected to commence in November 2012.

### **Sulphur trioxide class action lawsuits**

A motion was filed in the Quebec Superior Court by a plaintiff alleging damages caused by sulphur trioxide accidentally released in 2004 from the zinc refinery, owned by the Noranda Income Fund ("NIF"), in Salaberry-de-Valleyfield, Quebec. The Group has a 25% interest in the NIF, and manages the refinery through its wholly owned subsidiary, Canadian Electrolyte Zinc Limited ("CEZ"), the defendant to the action. The motion claims damages of up to C\$10,000 per class member but the number of claimants has not yet been determined. In March 2012, the Quebec Superior Court granted authorisation to the plaintiff to commence a class action and prepare for formal trial proceedings, although at this stage there has been no finding on liability or on the quantum of any damages if damages were found to be payable. The Group is vigorously defending the claim. Environment Canada conducted a full investigation into the incident and found no wrongdoing on the part of CEZ. No charges or fines were laid against CEZ following the Environment Canada investigation of the incident. The matter is expected to proceed to trial in 2014 or 2015.

## **Relationship with the Glencore Group**

### **Overview**

Glencore has been a public limited company listed since May 2011 on the London and Hong Kong stock exchanges. It is a diversified natural resources company with worldwide activities in the smelting, refining, mining, processing, purchasing, selling and marketing of metals and minerals, energy products and agricultural products. Operating on a global scale, the Glencore Group markets physical commodities which it produces at its own industrial assets or purchases from third parties for sale to industrial consumers, such as those in the automotive, steel, power generation, oil and food processing industries. The Glencore Group also provides financing, logistics and other services to producers and consumers of commodities. These activities are supported by investments in industrial assets relating to its core commodities. The Glencore Group's headquarters are located in Baar, Switzerland, and it has a network of some 50 field offices in over 40 countries throughout the world.

In 1990, Glencore International A.G. (a company incorporated in Switzerland and with limited liability), a wholly owned subsidiary of Glencore since the latter's ordinary shares were admitted to the Official List and to trading on the London Stock Exchange on 24 May 2011, became a substantial shareholder in Xstrata AG (which merged with Xstrata in 2002 when Xstrata plc became the ultimate holding company of the Group), following which Xstrata AG built a portfolio of businesses operating in the natural resources sector.

So far as Xstrata is aware, as of 17 October 2012 Glencore, through its wholly owned subsidiary Finges Investment BV ("Finges"), beneficially owns 1,010,403,999 ordinary shares of Xstrata, representing approximately 33.65% of the current issued ordinary share capital of Xstrata. On 8 January 2007, Glencore International A.G. notified Xstrata that these ordinary shares are registered in the name of HSBC Global Custodian Nominee (UK) Limited.

On 25 October 2012, the independent non-executive members of Xstrata's board of directors recommended the revised final terms of the Proposed Merger. If the Proposed Merger is approved by the requisite majorities of Xstrata's shareholders, Glencore (to be renamed Glencore Xstrata plc) will acquire the entire issued share capital of Xstrata which Glencore does not already own.

### **Relationship Agreement with the Glencore Group**

On 20 March 2002, the Glencore Group and Xstrata entered into an agreement (the "Relationship Agreement") which regulates the on-going relationship between them. The principal purpose of the Relationship Agreement is to ensure that Xstrata is capable of carrying on the Group's business independently of the Glencore Group and that transactions and relationships between the Glencore Group and the Group are at arm's length and on normal commercial terms. The Relationship Agreement will continue for so long as the Ordinary Shares are listed on the Official List and traded on the London Stock Exchange and Glencore International A.G. is Xstrata's controlling shareholder (as such term is defined in the Relationship Agreement). If the Proposed Merger is approved by the requisite majorities of Xstrata's shareholders, Glencore (to be renamed Glencore Xstrata plc) will acquire the entire issued share capital of Xstrata which Glencore does not already own and Xstrata's ordinary shares are expected to be delisted and the Relationship Agreement will terminate in accordance with its terms.

Under the Relationship Agreement:

- Xstrata and the Glencore Group agree that transactions and relationships between the Group and the Glencore Group will be conducted at arm's length and on a normal commercial basis;
- Xstrata and the Glencore Group agree to ensure that Xstrata is capable, at all times, of carrying on its business independently of any member of the Glencore Group;
- The Glencore Group is only permitted to nominate a maximum of three directors of Xstrata or (if lower or higher) such number of directors of Xstrata nominated by the Glencore Group as is equal to one less than the number of independent directors (defined in the Relationship Agreement as a director who is free from any business or other relationship with the Glencore Group), subject to the requirement that the Glencore Group shall exercise its powers so that Xstrata 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 Xstrata. The Glencore Group previously nominated three directors to the board of directors of Xstrata. However, following Mr. David Issroff's resignation from the board of directors of Xstrata with effect from 10 May 2006, the Glencore Group only had two nominees on the board of directors of Xstrata, being Messrs. Strothotte and Glasenberg; until Mr. Strothotte's resignation as Chairman with effect



from 4 May 2011. At the Xstrata annual general meeting on 4 May 2011, Messrs Mistakidis and Peterson were elected to the board of directors of Xstrata (joining Mr. Glasenberg who was re-elected) following their nomination by the Glencore Group;

- Directors of Xstrata nominated by the Glencore Group are not permitted, unless the independent directors agree otherwise, to vote on any resolutions of Xstrata's board of directors to approve any aspect of the Group's involvement in or enforcement of any arrangements, agreements or transactions with any member of the Glencore Group; and
- The Glencore Group undertakes to procure that the Glencore Group shall not exercise its voting rights to procure amendment to the constitutional documents of Xstrata which would be inconsistent with, or undermine, the Relationship Agreement.

The Group believes that the terms of the Relationship Agreement as described above enable it to carry on its business independently from the Glencore Group.

### Interests of significant shareholders

As at 5 November 2012 (being the latest practicable date prior to the publication of this Base Prospectus), notifications had been received of the following interests in 3% or more of Xstrata's issued ordinary share capital:

<u>Shareholder</u>	<u>Percentage of issued ordinary share capital</u>
Glencore International plc <sup>(1)</sup> .....	33.65%
Qatar Holding LLC .....	11.67%
BlackRock, Inc.....	4.14%

<sup>1</sup> The voting rights comprised in this interest are directly controlled by Finges. Xstrata understands that a substantial portion of this holding is subject to collateral or similar arrangements related to the provision of finance to the Glencore Group.

Save as disclosed above, the Xstrata Directors are not aware of any person who as of 5 November 2012 (being the latest practicable date prior to the publication of this Base Prospectus), directly or indirectly, has a holding which exceeds the threshold of 3% of the total voting rights attaching to the issued ordinary share capital of Xstrata.

Save as disclosed above, as at 5 November 2012 (being the latest practicable date prior to the publication of this Base Prospectus), Xstrata was not aware of any person or persons who directly, indirectly, jointly or severally, exercise or could exercise control over Xstrata nor is it aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of Xstrata.

None of Xstrata's major shareholders have, or will have, different voting rights attached to the ordinary shares they hold.

### Board of Directors of Xstrata

The members of Xstrata's board of directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sir John Bond.....	71	Chairman
Mick Davis.....	54	Chief Executive
Trevor Reid .....	51	Chief Financial Officer
Santiago Zaldumbide .....	70	Executive Director, Chief Executive of Xstrata Zinc
David Rough.....	61	Deputy Chairman, Senior Independent Director
Dr Con Fauconnier .....	64	Non-executive Director
Ivan Glasenberg <sup>†</sup> .....	55	Non-executive Director
Peter Hooley.....	66	Non-executive Director
Claude Lamoureux .....	69	Non-executive Director
Aristotelis Mistakidis <sup>†</sup>	51	Non-executive Director
Tor Peterson <sup>†</sup> .....	48	Non-executive Director

Sir Steve Robson CB.....	68	Non-executive Director
Ian Strachan.....	69	Non-executive Director

† Glencore Group Nominee: See the section above in this Part X headed “Relationship with the Glencore Group”.

The business address for each Xstrata director is Bahnhofstrasse 2, 6301 Zug, Switzerland.

**Sir John Bond** is Chairman of Xstrata, and was appointed in May 2011. He was most recently chairman and non executive director of Vodafone Group Plc from 2006 to 2011. He retired as Group Chairman of HSBC Holdings plc in 2006, having also been its Group Chief Executive from 1993 to 1998. Sir John is 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 also 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 is also chairman of the Nominations Committee and a member of the Remuneration Committee.

**Mick Davis** is the Chief Executive of Xstrata and was appointed to the board of Xstrata in February 2002. Mr. Davis was appointed as Chief Executive of Xstrata AG in October 2001. 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 to 1999. He joined Gencor Limited in early 1994 from Eskom, the South African state-owned electricity utility, where he was an executive director. Mr. Davis is also a member of the Health, Safety, Environment and Community Committee.

**Trevor Reid** is the Chief Financial Officer of Xstrata and was appointed to the Board of Xstrata in February 2002. Mr. Reid joined Xstrata AG 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.

**Santiago Zaldumbide** is an Executive Director of Xstrata, Chief Executive of the Zinc operations business and Executive Chairman of Asturiana de Zinc S.A. and was appointed to the Board of Xstrata in February 2002. 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. From 1994 until 1997 he was Chief Executive Officer of Corporación Industrial de Banesto. In December 1997, he was appointed Chairman and Chief Executive Officer of Asturiana de Zinc S.A..

**David Rough** was appointed to the Board of Xstrata in April 2002, is Deputy Chairman, the Senior Independent Director and chairman of the Remuneration Committee. He was a director of Legal & General Group Plc (“Legal & General”) before retiring from Legal & General in June 2002. As Group Director (Investments), Mr. Rough headed all aspects of fund group management within Legal & General Investments. Mr. Rough is currently a director of Land Securities Group plc, Brown, Shipley & Co Ltd and LME Holdings Ltd. Mr. Rough is also a member of the Audit Committee, the Nominations Committee and the Health, Safety, Environment and Community Committee.

**Dr Con Fauconnier** was appointed to the Board of Xstrata in May 2010. Dr Fauconnier worked for Anglo American Corporation, Gencor and JCI Limited prior to joining Iscor in 1995. He was appointed 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 company formed from the merger of Eyesizwe Mining and the non-iron ore assets of Kumba Resources. He is an Honorary Professor in the Faculty of Engineering, Built Environment and Information Technology of the University of Pretoria and a Fellow of the Gordon Institute of Business Science. Dr Fauconnier is a member of the Remuneration Committee and the Health, Safety, Environment and Community Committee.

**Ivan Glasenberg** was appointed to the Board of Xstrata in February 2002. He is Chief Executive Officer of the Glencore Group, which he joined in 1984, and has been Chief Executive Officer since January 2002. Mr. Glasenberg initially spent three years working in the coal/ coke commodity department of the Glencore Group as a marketer, before spending two years in Australia as head of the Asian coal/ coke commodity division. Between 1989 and 1990, he was based in Hong Kong as manager and head of the Glencore Group’s Hong Kong and Beijing offices, as well as head of coal marketing in Asia. In January 1990, he was made responsible for the worldwide coal business of the Glencore Group for both marketing and industrial assets and remained in this role until he became Chief Executive Officer of Glencore International A.G. in January 2002. Before joining the Glencore Group, he worked for five years at Levitt Kirson Chartered Accountants in South Africa. He is also currently a director of United Company Rusal plc and JSC Zarubezhneft.

**Peter Hooley** was appointed to the Board of Xstrata in May 2009 and is chairman of the Audit Committee. Mr. Hooley held the position of Group Finance Director of Smith & Nephew plc, a global medical devices business listed on the FTSE 100, until 2006. He was previously Group Financial Controller of BICC plc. He is a director and Chairman of BSN medical Luxembourg Holdings S.a.r.l.

**Claude Lamoureux**, was appointed to the Board of Xstrata in May 2008. Until 1 December 2007, he was President and Chief Executive Officer of the Ontario Teachers' Pension Plan Board. Previously he spent 25 years as a financial executive with Metropolitan Life in Canada and the U.S. He is a director of Maple Leaf Foods Inc., Cordiant Capital, Atrium Innovations Inc., the Canadian Institute for Advanced Research, The Learning Partnership and the York University Foundation. Mr. Lamoureux is a member of the Audit Committee and the Health, Safety, Environment and Community Committee.

**Aristotelis Mistakidis** was appointed to the Board of Xstrata in May 2011. He joined the Glencore Group in March 1993 and since 2000 has been the co-director of the Glencore Group's zinc/ copper/ lead commodity department. He is jointly responsible for overseeing the marketing business and industrial assets of the department, including strategy and operations. Before the Glencore Group, Mr. Mistakidis worked at Cargill for six years, where he worked in and gained experience in the non-ferrous metals industry. He is also a director of Katanga Mining Limited and Recylex SA and chairman of Mopani Copper Mines Plc.

**Tor Peterson** was appointed to the Board of Xstrata in May 2011. Mr. Peterson joined the Glencore Group in January 1992 as a marketer and has worked in the coal/ coke commodity department since that time. In January 2002, he was appointed director of the Glencore Group's coal/ coke commodity department. He is responsible for overseeing the global marketing business and industrial assets of the department, including strategy and operations. Before the Glencore Group, Mr. Peterson worked for five years for Phibro-Salomon Inc. as a marketer and was based in New York, London and the Ivory Coast.

**Sir Steve Robson CB** was appointed to the Board of Xstrata in February 2002. He 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 U.K. financial services industry, public private partnerships, procurement policy including the private finance initiative and the Treasury's enterprises and growth unit. He is a member of the Financial Reporting Council and of KPMG's Chairman's Advisory Board and chairman of KPMG's Public Interest Committee. He is also a member of the Remuneration Committee and the Nominations Committee.

**Ian Strachan** was appointed to the Board of Xstrata in May 2003. Mr. Strachan was Chairman of Instinet Group Inc 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. He is a director of Rolls Royce Group plc, Transocean Inc. and Caithness Petroleum Ltd. Mr. Strachan is the Chairman of the Health, Safety, Environment and Community Committee and a member of the Audit Committee.

Messrs. Glasenberg, Mistakidis and Peterson are directors nominated by Glencore. Therefore, potential conflicts of interest may arise between the duties owed by such directors to Xstrata and their duties to Glencore. The Relationship Agreement between Xstrata and Glencore regulates the on-going relationship between them, as described above in the section of this Part X headed "Relationship with Glencore".

In particular under the Relationship Agreement, directors of Xstrata nominated by Glencore are not permitted, unless the independent directors agree otherwise, to vote on any resolutions of Xstrata's board of directors to approve any aspect of Xstrata's involvement in or enforcement of any arrangements, agreements or transactions with any member of Glencore.

There are no other potential conflicts of interests between any duties to Xstrata of its directors and their private interests and/or other duties.

### **Recent developments**

On 19 October 2012, Xstrata announced the launch and pricing of a U.S.\$ denominated issue of notes (the "USD Notes") by Xstrata Canada in a U.S.\$4.5 billion four-tranche transaction consisting of U.S.\$1.25 billion 1.8% guaranteed USD Notes due October 2015, U.S.\$1.75 billion 2.45% guaranteed USD Notes due October 2017, U.S.\$1 billion 4.0% guaranteed USD Notes due October 2022 and U.S.\$0.5 billion 5.3% guaranteed USD Notes due October 2042. The USD Notes are guaranteed by Xstrata, Xstrata Schweiz, Xstrata Dubai, and Xstrata CFC. The net proceeds raised will be used to repay existing debt and for general corporate purposes.

On 25 October 2012, the independent non-executive members of Xstrata's board of directors recommended the revised final terms of the Proposed Merger. Shareholder meetings will be held on 20 November 2012 to consider the final terms of the Proposed Merger.

**Auditor**

Xstrata has appointed Ernst & Young LLP of 1 More London Place, London SE1 2AF, United Kingdom, which is registered by the Institute of Chartered Accounts in England and Wales to carry out audit work, as its auditor. The consolidated financial statements of Xstrata for the financial years ended 31 December 2011 and 2010 have been audited without qualification by Ernst & Young LLP.

## PART XI — XSTRATA (SCHWEIZ) AG

### Incorporation and Business

Xstrata Schweiz was incorporated on 27 December 2001 as a private company limited by shares in Switzerland under the laws of Switzerland with registered number CH-170.3.025.302-8.

Xstrata Schweiz is the holding company for each member of the Group (other than Xstrata Coal Sales PTE Limited, Xstrata (Nederland) B.V., Xstrata Dubai, Xstrata Finance (Luxembourg) S.a.r.l. and Xstrata Commodities Middle East DMCC) and is a wholly-owned subsidiary of Xstrata.

Xstrata Schweiz was incorporated, among other things, to facilitate the financing activities of the Group. The purpose of Xstrata Schweiz, which is set out in its articles of association, is to acquire and administer equity interests. In this regard, Xstrata Schweiz may:

- conduct financial, investment, trading and fiduciary transactions and any services pertaining to those transactions;
- exploit, utilise and administer all forms of proprietary rights;
- set up branch establishments;
- acquire, sell and administer real property; and
- provide to its direct or indirect parent companies, as well as to the latter's or Xstrata's direct or indirect sister companies, loans and other financing and grant security for obligations of such other companies, including by means of pledges or fiduciary transfers of Xstrata's assets, or by means of guarantees of any kind.

Xstrata Schweiz has engaged in certain trading and financing activities in pursuit of the above objects.

The registered office of Xstrata Schweiz (and its principal place of business) is Bahnhofstrasse 2, P.O. Box 102, 6301, Zug, Switzerland and the telephone number of the registered office is +41 41726 60 70.

### Members of Administrative, Management and Supervising Bodies

The table below sets out the Xstrata Schweiz president, directors and officers and their respective business addresses. The table below also sets out the activities performed by the Xstrata Schweiz president, directors and officers outside Xstrata Schweiz which are significant with respect to Xstrata Schweiz.

Name	Business address	Function within Xstrata Schweiz	Significant activities performed outside Xstrata Schweiz
Mick Davis .....	Bahnhofstrasse 2 6301 Zug Switzerland	President	— Chief Executive of Xstrata* — Director of Xstrata
Trevor Reid .....	Bahnhofstrasse 2 6301 Zug Switzerland	Director	— Chief Financial Officer of Xstrata* — Director of Xstrata
Brian Azzopardi.....	Bahnhofstrasse 2 6301 Zug Switzerland	Director	— Group Head of Tax of Xstrata
Thras Moraitis .....	Bahnhofstrasse 2 6301 Zug Switzerland	Director	— Executive General Manager Group Strategy and Corporate Affairs
Ian Pearce .....	100 King Street West Suite 6900 Toronto Canada M5X 1E3	Director	— Chief Executive, Xstrata Nickel
Benny Levene .....	Level 38 Gateway 1 Macquarie Place	Director	— Chief Legal Counsel of Xstrata

\* For further information, see above in Part X — "Business of the Group — Directors of Xstrata"

<b>Name</b>	<b>Business address</b>	<b>Function within Xstrata Schweiz</b>	<b>Significant activities performed outside Xstrata Schweiz</b>
	Sydney NSW 2000 Australia		
Peter Freyberg .....	Level 38 Gateway 1 Macquarie Place Sydney NSW 2000 Australia	Director	— Chief Executive, Xstrata Coal
Charles Sartain .....	Level 9 Riverside Centre 123 Eagle Street Brisbane QLD 4000 Australia	Director	— Chief Executive, Xstrata Copper
Santiago Zaldumbide...	Cardenal Marcelo Spinola 42-7, E-28016 Madrid Spain	Director	— Director of Xstrata* — Chief Executive of Xstrata Zinc — Member of the European Advisory Council of Air Products and Chemicals, Inc. — Director of ThyssenKrupp SA
Daniel Sigrist.....	Bahnhofstrasse 2 6301 Zug Switzerland	Officer	— Assistant Treasurer of Xstrata
Dominic O'Brien .....	Bahnhofstrasse 2 6301 Zug Switzerland	Officer	— General Manager Human Resources and Legal of Xstrata
Mark Moffett.....	Bahnhofstrasse 2 6301 Zug Switzerland	Officer	— Group Controller of Xstrata

Note:

\* For further information, see above in Part X – “Business of the Group – Directors of Xstrata”

There are no potential conflicts of interests between any duties to Xstrata Schweiz of its president, directors or officers and their private interests and/or other duties.

### **Auditor**

Xstrata Schweiz has appointed Ernst & Young Ltd of Bundesplatz 1, Zug CH 6304, Switzerland as its auditor. The unconsolidated financial statements of Xstrata Schweiz for the financial years ended 31 December 2011 and 2010 included in Annex II — “Financial Information — Financial Statements of Xstrata Schweiz” have been audited without qualification by Ernst & Young Ltd.

## **PART XII — XSTRATA FINANCE (DUBAI) LIMITED**

### **Incorporation and Business**

Xstrata Dubai was incorporated on 15 January 2006 as a company limited by shares in Dubai under the Companies Law, DIFC Law No. 3 of 2006, with registered number 127.

Xstrata Dubai was incorporated to facilitate the financing activities of the Group. The objects of Xstrata Dubai, which are set out in its articles of association, are to:

- act as a finance company, and to finance directly or indirectly, or to act as an intermediary in respect of, or otherwise to facilitate the financing of the activities of Xstrata, Xstrata Schweiz and the Group; and
- do all other lawful acts and activities.

Xstrata Dubai is a majority-owned subsidiary of Xstrata with 90% of Xstrata Dubai's shares directly held by Xstrata and the remaining 10% held by Xstrata Schweiz.

The registered office of Xstrata Dubai (and its principal place of business) is P.O. Box 506721, Unit 9, Level 2, Gate Village 1, DIFC, Dubai, UAE and the telephone number of the registered office is +971 4 423 1741.

### **Directors**

The Xstrata Dubai directors are Brian Azzopardi, Wayne Apted and Phil Garrison.

The business address of the Xstrata Dubai directors (other than Mr. Azzopardi) is Unit 9, Level 2, Gate Village 1, DIFC, Dubai, UAE. The business address of Mr. Azzopardi is Bahnhofstrasse 2, 6301 Zug, Switzerland. No Xstrata Dubai director performs any activities outside Xstrata Dubai which are significant with respect to Xstrata Dubai, except that Mr. Azzopardi is Group Head of Tax for Xstrata.

There are no potential conflicts of interests between any duties to Xstrata Dubai of its directors and their private interests and/or other duties.

### **Auditor**

Xstrata Dubai has appointed Ernst & Young of 28<sup>th</sup> Floor, Al Attar Business Tower, Sheikh Zayed Road, Dubai 9267, United Arab Emirates as its auditor. The unconsolidated financial statements of Xstrata Dubai for the financial years ended 31 December 2011 and 31 December 2010 included in Annex II — "Financial Information — Financial Statements of Xstrata Dubai" have been audited without qualification by Ernst & Young United Arab Emirates.

## **PART XIII — XSTRATA FINANCE (CANADA) LIMITED**

### **Incorporation and Business**

Xstrata Canada was incorporated on 10 October 2006 as a private company in Ontario, Canada under the Business Corporations Act (Ontario), with Ontario corporation number 1712237.

Xstrata Canada has no subsidiaries other than Xstrata CFC.

Xstrata Canada was incorporated, among other things, to facilitate the financing activities of the Group. The objects and powers of Xstrata Canada, which are set out in its articles of incorporation, are unrestricted. As at the date of this Base Prospectus, the only issued capital of Xstrata Canada is the one common share owned by 1184760 Alberta Limited, a wholly-owned indirect subsidiary of Xstrata.

The registered office of Xstrata Canada (and its principal place of business) is 100 King Street West, Suite 6900, Toronto, Canada M5X 1E3 and the telephone number of the registered office is +1 416 775 1500.

### **Directors**

The Xstrata Canada directors are Michael Boone and Stephen Young.

The business address of each of Mr. Boone and Mr. Young is 100 King Street West, Suite 6900, Toronto, Canada M5X 1E3. The only activity performed by Mr. Boone outside Xstrata Canada which is significant with respect to Xstrata Canada is activity performed by him in his position as Chief Financial Officer for Xstrata Canada Corporation (which is the entity formerly known as Falconbridge Limited) and in his position as a Director of Xstrata CFC. The only activity performed by Mr. Young outside Xstrata Canada which is significant with respect to Xstrata Canada is activity performed by him in his position as Group Counsel and Secretary for Xstrata Nickel, in his position as Director and Secretary for Xstrata Canada Corporation and in his position as a Director of Xstrata CFC.

There are no potential conflicts of interests between any duties to Xstrata Canada of its directors and their private interests and/or other duties.

### **Auditor**

Xstrata Canada has appointed Ernst & Young LLP of Ernst & Young Tower, 222 Bay Street, Toronto, Ontario, Canada, M5K 1J7 as its auditor. The consolidated financial statements of Xstrata Canada for the financial years ended 31 December 2011 and 31 December 2010 included in Annex II — “Financial Information — Financial Statements of Xstrata Canada” have been audited without qualification by Ernst & Young LLP.



## **PART XIV — XSTRATA CANADA FINANCIAL CORP.**

### **Incorporation and Business**

Xstrata CFC was incorporated on 23 April 2008 as a private company in Ontario, Canada under the Business Corporations Act (Ontario), with Ontario corporation number 2170552.

Xstrata CFC was incorporated, among other things, to facilitate the financing activities of the Group. The objects and powers of Xstrata CFC, which are set out in its articles of incorporation, are unrestricted. As at the date of this Base Prospectus, the only issued capital of Xstrata CFC is the 1,000 common shares owned by Xstrata Canada.

The registered office of Xstrata CFC (and its principal place of business) is 100 King Street West, Suite 6900, Toronto, Canada M5X 1E3 and the telephone number of the registered office is +1 416 775 1500.

### **Directors**

The Xstrata CFC directors are Michael Boone and Stephen Young.

The business address of each of Mr. Boone and Mr. Young is 100 King Street West, Suite 6900, Toronto, Canada M5X 1E3. The only activity performed by Mr. Boone outside Xstrata CFC which is significant with respect to Xstrata CFC is activity performed by him in his position as Chief Financial Officer for Xstrata Canada Corporation (which is the entity formerly known as Falconbridge Limited) and in his position as a Director of Xstrata Canada. The only activity performed by Mr. Young outside Xstrata CFC which is significant with respect to Xstrata CFC is activity performed by him in his position as Group Counsel and Secretary for Xstrata Nickel, in his position as Director and Secretary for Xstrata Canada Corporation and in his position as a Director of Xstrata Canada.

There are no potential conflicts of interests between any duties to Xstrata CFC of its directors and their private interests and/or other duties.

### **Auditor**

Xstrata CFC has appointed Ernst & Young LLP of Ernst & Young Tower, 222 Bay Street, Toronto, Ontario, Canada, M5K 1J7 as its auditor. The unconsolidated financial statements of Xstrata CFC for the financial years ended 31 December 2011 and 31 December 2010 included in Annex II — “Financial Information — Financial Statements of Xstrata CFC” have been audited without qualification by Ernst & Young LLP.

## PART XV — TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes for all types of investors. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

### **Canadian taxation**

The following are general comments regarding Canadian withholding tax considerations under the Income Tax Act (Canada) relevant to a Noteholder who is the beneficial owner of Notes and any interest or Coupons in respect of such Notes and who, at all relevant times, for the purposes of the Income Tax Act (Canada): (i) is not and is not deemed to be a resident of Canada; (ii) deals at arm's length with the Issuers, the Guarantors and any transferee resident (or deemed resident) in Canada to whom the Noteholder disposes of Notes; (iii) is not a "specified shareholder" (as defined in subsection 18(5) of the Income Tax Act (Canada)) of the Issuers or a person that does not deal at arm's length with any such specified shareholder; and (iv) does not use or hold and is not deemed to use or hold the Notes in the course of carrying on business in Canada (a "Non-Resident Noteholder"). Special rules, which are not discussed in this summary, may apply to a Non-Resident Noteholder that is an insurer that carries on an insurance business in Canada and elsewhere. Such Non-Resident Noteholders are advised to consult with their own tax advisors.

This discussion is based on the current provisions of the Income Tax Act (Canada), the regulations thereunder in force as of the date hereof (the "Income Tax Act (Canada) Regulations") and an understanding of the current published administrative policies and practices of the Canada Revenue Agency publicly available prior to the date hereof. This discussion also takes into account all specific proposals to amend the Income Tax Act (Canada) and the Income Tax Act (Canada) Regulations which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. This discussion does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative decision or action, nor does it take into account provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations described in this summary.

This discussion is included for information purposes only and relates only to Canadian withholding tax under the Income Tax Act (Canada). It does not address any other Canadian income tax considerations relevant to acquiring, holding or disposing of Notes, including any consequences as a result of the particular terms of any particular Notes. Prospective Noteholders are urged to consult their own tax advisers with respect to the tax consequences to them of an investment in the Notes.

### ***Notes issued by Xstrata Canada and Xstrata CFC***

Interest other than "participating debt interest" (as defined in the Income Tax Act (Canada)) paid or credited to a Non-Resident Noteholder by Xstrata Canada on a Note issued by Xstrata Canada or by Xstrata CFC on a Note issued by Xstrata CFC or by a Guarantor in respect of a Note issued by Xstrata Canada or Xstrata CFC will not be subject to Canadian withholding tax under the Income Tax Act (Canada). In general terms, participating debt interest is interest, all or any portion of which is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class or series of shares of the capital stock of a corporation.

### ***Notes issued by Xstrata Dubai***

Interest paid or credited to a Non-Resident Noteholder by Xstrata Dubai on Notes issued by Xstrata Dubai will not be subject to Canadian withholding tax under the Income Tax Act (Canada), provided (i) Xstrata Dubai does not carry on business in Canada within the meaning of the Income Tax Act (Canada), or (ii) such interest is not "participating debt interest" (as defined above).

Amounts paid or credited to a Non-Resident Noteholder by Xstrata Canada or Xstrata CFC as Guarantor as, on account or in lieu of payment of, or in satisfaction of, amounts that are, or are deemed to be, interest other than "participating debt interest" (as defined above) on Notes issued by Xstrata Dubai will not be subject to Canadian withholding tax under the Income Tax Act (Canada).

### ***Withholding tax gross-up***

Where payments on Notes (including pursuant to a Guarantee) are subject to Canadian withholding tax, such tax is imposed by the Income Tax Act (Canada) at a rate of 25%. This rate may be reduced under the provisions of an applicable income tax treaty to which Canada is a signatory.

As described in Part VI — “Terms and Conditions of the Notes — Taxation”, subject to the exceptions in Conditions 9.2, 9.3 and 9.4 thereof, the relevant Issuer and each Guarantor has agreed to gross up any payment of interest in respect of a Note that is subject to Canadian withholding tax.

### **United Arab Emirates taxation**

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is however not enforced save in respect of oil and gas producing companies and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments of accrued return or principal on debt securities (including payments in respect of Coupons and/or amounts under the Notes).

The Constitution of the UAE specifically reserves to the federal government of the UAE the right to raise taxes on a Federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

Xstrata Dubai and its employees, in accordance with Article 14 (Tax Relief) of Dubai Law 9 of 2004 (With Respect to the Dubai International Financial Centre) is subject to a zero rate of tax until 2054. Article 14 also provides for zero tax on any transfers of assets, profits or salaries to any person outside the Dubai International Financial Centre.

The UAE has entered into double taxation arrangements with approximately 65 countries. Each prospective Noteholder should consult a taxation professional to confirm whether there is a UAE double taxation arrangement applicable to that prospective Noteholder.

### **United Kingdom taxation**

The comments below are of a general nature based on current United Kingdom law as applied in England and Wales and H.M. Revenue and Customs practice relating to United Kingdom withholding of tax on interest and associated matters. They are not intended to be, nor should they be construed to be, legal or tax advice and are included below solely for information purposes. The comments below are not intended to be exhaustive and relate only to the position of persons who are the absolute beneficial owners of their Notes and coupons. Prospective Noteholders should consult their own professional advisers as to the United Kingdom tax consequences of holding and disposing of Notes and receiving payments of interest or principal under the Notes, as well as if they are in any doubt as to their own technical position.

Xstrata's place of effective management is in Switzerland, and it is accordingly treated as resident in Switzerland, and not in the United Kingdom, for the purposes of Swiss and United Kingdom taxation and for the purposes of the United Kingdom-Switzerland double tax treaty. This position will, however, be reviewed from time to time and it is possible that Xstrata could in the future become resident for the purposes of taxation in the United Kingdom or elsewhere. This section is written on the basis that Xstrata is and remains resident in Switzerland and, as is the case in respect of the other Guarantors, is a company not resident in the United Kingdom and does not carry on any trade through a permanent establishment in the United Kingdom. It will therefore be subject to the Swiss tax regime and not (save in respect of United Kingdom source income) the United Kingdom tax regime. This section is also written on the basis that each Issuer is a company not resident in the United Kingdom and does not carry on any trade through a permanent establishment in the United Kingdom.

### ***Interest-withholding and information reporting requirements.***

Payments of interest on the Notes made by an Issuer may be made without any withholding or deduction for or on account of United Kingdom tax and it is not currently expected that any guarantee payments made by Xstrata will be subject to withholding or deduction for or on account of United Kingdom tax. However, as it cannot be ruled out that guarantee payments made by Xstrata may be subject to such withholding or deduction, where such payments fall to be made by it, Xstrata may make alternative arrangements for such payments, including where appropriate, arranging for such payments to be made via the relevant Issuer. Noteholders should note that in the event any guarantee payment made by Xstrata is made subject to deduction or withholding for or on account of any United Kingdom tax, Xstrata will, save in limited

circumstances provided in Condition 9, be required to pay such additional amounts as necessary in order that the net amounts received by the Noteholder are equal to the amounts which would otherwise have been receivable in the absence of such withholding or deduction.

Noteholders who are individuals may wish to note that H.M. Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. H.M. Revenue and Customs also has power to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to, or receives such amounts for the benefit of, an individual. Such information may include the name and address of the beneficial owner of the amount payable on redemption. However, H.M. Revenue and Customs published practice indicates that H.M. Revenue and Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013. Any information obtained may, in certain circumstances, be exchanged by H.M. Revenue and Customs with the tax authorities of other jurisdictions.

### **The European Savings Directive**

Under the Savings Directive, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for, an individual or certain other persons resident in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The transitional period is to terminate at the end of the first full fiscal year following an agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment to or for an individual is made or collected through an EU Member State which has opted for a withholding system under the Savings Directive and an amount of, or in respect of, tax were to be required to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, none of the relevant Issuer, the relevant Guarantor, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The relevant Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### **Swiss taxation**

According to the current practice of the Swiss Federal Tax Administration, payments in respect of the Notes issued under the Programme by an Issuer and payments made by a Guarantor to Noteholders under the relevant Guarantee should not be subject to Swiss withholding tax. Any payment made by Xstrata Schweiz with respect to any obligations of Xstrata and Xstrata Dubai under any Guarantee or the Notes may give rise to Swiss withholding taxes on dividends to the extent that such payment were deemed to involve a distribution by Xstrata Schweiz to a direct or indirect shareholder.

## PART XVI — SUBSCRIPTION AND SALE

Notes may be sold from time to time by any Issuer to any one or more of Deutsche Bank AG, London Branch, Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities plc, Lloyds TSB Bank plc, Mitsubishi UFJ Securities International plc and The Royal Bank of Scotland plc (the “Dealers”). The arrangements under which Notes may from time to time be agreed to be sold by an Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 7 November 2012 (the “Dealer Agreement”) and made between the Issuers, the Guarantors and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the relevant Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

### United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Dealer Agreement will be required to acknowledge, that the Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act (“Regulation S”).

Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Dealer Agreement will be required to agree, that it has not offered, sold or delivered Notes and it will not offer, sell or deliver Notes, (i) as part of their distribution at any time and (ii) otherwise until forty days after the completion of the distribution of all the Notes of the Tranche of which such Notes are a part, as determined and certified to the Issuing and Paying Agent or the relevant Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to Notes of such Tranche purchased by or through it, in which case the Issuing and Paying Agent or the relevant Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and at or prior to confirmation of sale of Notes such Dealer will have sent to each distributor, dealer or person receiving a selling commission, concession, fee or other remuneration to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### Canada

The Notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory thereof and may not be offered or sold directly or indirectly in Canada, or to or for the benefit of any resident thereof, in contravention of the securities laws of Canada or any province or territory thereof. Each Dealer has represented and agreed and each further Dealer appointed under the Dealer Agreement will be required to represent and agree that it has not offered or sold and that it will not offer or sell any Notes, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof in contravention of the securities laws of Canada or any province or territory thereof. Each Dealer has also agreed and each further Dealer appointed under the Dealer Agreement will be required to agree not to distribute this Base Prospectus, or any other offering material relating to the Notes, in Canada in contravention of the securities laws of Canada or any province or territory thereof.

### United Arab Emirates

No marketing of any financial products or services has been or will be made within the UAE and no subscription to any securities, financial products or financial services may or will be consummated within the UAE.

Xstrata Dubai is not a licensed broker or dealer or investment advisor under the laws applicable in the UAE, and does not advise individuals resident in the UAE as to the appropriateness of investing or purchasing or selling securities or other financial products.

Where the Notes are either offered by Xstrata Dubai or offered to customers within the Dubai International Financial Centre, they must be denominated in amounts of at least U.S.\$ 100,000 or an equivalent amount in another currency.

### **Switzerland**

This Base Prospectus does not constitute an issue prospectus pursuant to Article 652a and 1156 of the Swiss Federal Code of Obligations. The Notes may therefore not be offered to investors in Switzerland without advance written consent of the relevant Issuer.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948 as amended, the "Financial Instruments and Exchange Act") and disclosure under the Financial Instruments and Exchange Act has not been or will not be made with respect to the Notes. Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold, and will not, directly or indirectly, offer or sell any Notes or any interest therein, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident except pursuant to an exemption to the registration requirements of or otherwise in compliance with the Financial Instruments and Exchange Act and any other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities.

### **European Economic Area**

In relation to each Relevant Member State each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require an Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is

reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or the relevant Guarantors; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **General**

Other than with respect to the listing of the Notes on such stock exchange as may be specified in the Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuers, the Guarantors or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Base Prospectus or any Final Terms comes are required by the relevant Issuer, the relevant Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the relevant Issuer, the Guarantors and the Dealers. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this Base Prospectus.

## PART XVII — GENERAL INFORMATION

1. The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Notes intended to be admitted to the Official List and to trading on the Market will be so admitted upon submission to each of the U.K. Listing Authority and the London Stock Exchange of the relevant Final Terms and subject to the issue of the Temporary or Permanent Global Note. Application has been made to the U.K. Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. The listing of the Programme in respect of Notes is expected to be granted on or about 12 November 2012. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

However, Notes may be issued pursuant to the Programme which will not be admitted to the Official List and to trading on the London Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the relevant Issuer and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by the board of directors of Xstrata by a resolution passed on 26 February 2007 and by a committee of the board of directors of Xstrata by a resolution passed on 24 April 2007. This update of the Programme was authorised by the board of directors of Xstrata by a resolution passed on 5 May 2010 and by a committee of the board of directors of Xstrata by a resolution passed on 7 September 2012.

The establishment of the Programme was authorised by the board of directors of Xstrata Schweiz by a resolution passed on 24 April 2007 and by Xstrata (as sole shareholder of Xstrata Schweiz) by a resolution passed on 24 April 2007. This update of the Programme was authorised by the board of directors of Xstrata Schweiz by a resolution passed on 7 September 2012 and by Xstrata (as sole shareholder of Xstrata Schweiz) by a resolution passed on 13 September 2012.

The establishment of the Programme was authorised by the sole shareholder of Xstrata Canada by a resolution passed on 24 April 2007. This update of the Programme was authorised by the board of directors of Xstrata Canada by a resolution passed on 31 October 2012.

The establishment of the Programme was authorised by the board of directors of Xstrata Dubai by a resolution passed on 25 April 2007. This update of the Programme was authorised by the board of directors of Xstrata Dubai by a resolution passed on 31 October 2012.

This update of the Programme was authorised by the board of directors of Xstrata CFC by a resolution passed on 31 October 2012.

Each Issuer and each Guarantor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the applicable Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

4. The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.
5. Notes (other than Temporary Global Notes) and any Coupon or Talon appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.



6. For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when issued, be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) from the registered office of each Issuer and each Guarantor and from the specified office of the Issuing and Paying Agent for the time being in London:
- (i) the constitutional documents of each Issuer and each Guarantor;
  - (ii) the audited financial statements of each Issuer and each Guarantor covering the two most recent fiscal or financial periods (or such shorter period that the relevant Issuer has been in operation), in each case together with the audit report prepared in connection therewith, and the most recent unaudited interim financial statements, if any, of each Issuer and each Guarantor;
  - (iii) the Dealer Agreement, the Trust Deed (containing the forms of the Notes, the Coupons and the Talons) and the Agency Agreement;
  - (iv) a copy of this Base Prospectus;
  - (v) any future information memoranda, prospectuses, offering circulars and supplements including Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Noteholder of such Note and such Noteholder must produce evidence satisfactory to the relevant Paying Agent, as the case may be, as to its holding of Notes and identity) to this Base Prospectus and any other information incorporated herein or therein by reference; and
  - (vi) in the case of each issue of Notes admitted to trading on the Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

This Base Prospectus and Final Terms for Notes that are listed on the Official List of the U.K. Listing Authority and admitted to trading on the Market will be available, free of charge, at the registered office of the relevant Issuer and at the offices of the financial intermediaries placing or selling the Notes, including Paying Agents.

7. There has been no material adverse change in the prospects of Xstrata, Xstrata Schweiz, Xstrata Dubai, Xstrata Canada or Xstrata CFC since 31 December 2011 (the date to which the latest audited published financial statements for each Issuer and each Guarantor were prepared).
8. There has been no significant change in the financial or trading position of Xstrata and its subsidiaries since 30 June 2012 (the date to which the latest reviewed published financial statements for Xstrata were prepared). There has been no significant change in the financial or trading position of Xstrata Schweiz and its subsidiaries, Xstrata Dubai and its subsidiaries, Xstrata Canada or Xstrata CFC since 31 December 2011 (the date to which the latest audited published financial statements for each Issuer and each Guarantor were prepared).
9. Except as set out above in Part I – “Risk Factors – Risk factors related to jurisdictions in which the Group operates – Legal and regulatory proceedings” on pages 19 to 20 and in Part X – “Business of the Group – Litigation and indemnities” on pages 69 to 70, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Issuer or Guarantor is aware), during the period covering the previous 12 months from the date of this Base Prospectus which may have, or have had in the recent past, significant effects on any Issuer’s, any Guarantor’s or the Group’s financial position or profitability.
10. The information contained in this Base Prospectus that has been extracted from a third party source comprises the market capitalisation referred to in Part III – “Presentation of Information – Competitive Statements” on page 27 and Part X – “Business of the Group – Overview” on page 67 of this Base Prospectus which is sourced from Bloomberg. Such information has been accurately reproduced and, so far as each Issuer and each Guarantor is aware, and so far as it is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
11. The Trust Deed provides that the Trustee may rely on certificates or reports from experts in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the relevant expert in connection therewith contains any limit on the liability of the expert.

12. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, any Issuer, any Guarantor and any of their respective affiliates in the ordinary course of business.
13. In the case of Notes issued by Xstrata Canada or by Xstrata CFC, for the purposes of disclosure only under the Interest Act (Canada), R.S. 1985, c. I-15:
- (i) whenever interest to be paid under such Notes is to be calculated on the basis of a year of 360 days or any other number of days that is less than the number of days in a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by a fraction of which the numerator is the actual number of days in the calendar year in which the same is to be ascertained and the denominator is either 360 or such other number of days, as the case may be; or
  - (ii) whenever interest to be paid under such Notes is to be calculated on the basis of a year of 360 days consisting of twelve 30-day months, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent during any particular period is the rate so determined multiplied by a fraction of which:
    - (a) the numerator is the product of:
      - (i) the actual number of days in the calendar year in which the same is to be ascertained; and
      - (ii) the sum of (A) the product of (x) 30 and (y) the number of complete months elapsed in the relevant period and (B) the number of days elapsed in any incomplete month in the relevant period; and
    - (b) the denominator is the product of (i) 360 and (ii) the number of days in the relevant period.
14. In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the Issue Price. The yield will not be an indication of future yield.

## ANNEX I — DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

### Definitions

"2010 PD Amending Directive" .....	the Directive 2010/73/EU amending Directive 2003/71/EC, the Prospectus Directive
"Agency Agreement" .....	the amended and restated agency agreement dated 7 November 2012 made between, inter alia, the Issuers, the Guarantors, the Issuing and Paying Agent and the Trustee
"ANC" .....	the African National Congress
"Arranger" .....	Deutsche Bank AG, London Branch, the arranger for the Programme
"Argentine pesos" or "ARS" .....	the lawful currency of Argentina
"Australia" .....	the Commonwealth of Australia
"Australian dollar" or "A\$" .....	the lawful currency of Australia
"Bloomberg" .....	Bloomberg Financial Markets
"Calculation Agent" .....	Citibank, N.A., London Branch
"Call Option" .....	the option for Glencore to repurchase the Prodeco Business from the Group subject to, and in accordance with, the Call Option Agreement
"Call Option Agreement" .....	the option agreement between Glencore International A.G. and Xstrata Schweiz dated 29 January 2009 pursuant to which Xstrata Schweiz grants an option to Glencore to repurchase the Prodeco Target Companies
"Canada" .....	Canada, its territories and its possessions
"Canadian dollar" or "C\$" .....	the lawful currency of Canada
"Canadian GAAP" .....	accounting principles generally accepted in Canada
"Cerrejón" .....	the Cerrejón coal mining operation in Colombia carried on by Anglo American, BHP Billiton plc and Xstrata
"Cerrejón Business" .....	the Group's one-third interest in Cerrejón
"CEZ" .....	Canadian Electrolyte Zinc Limited
"CHF" or "Swiss Francs" .....	the lawful currency of Switzerland
"CLP" or "Chilean peso" .....	the lawful currency of Chile
"CMA" .....	the common monetary area consisting of South Africa, Lesotho, Namibia and Swaziland
"Combined Group"	the combined group of Xstrata and Glencore
"Companies Act" .....	the Companies Act 2006 (as amended), insofar as in force
"CZN S.A." .....	Cerrejón Zona Norte S.A.
"Dealers" .....	the dealers appointed under the Programme from time to time by the Issuers
"Dealer Agreement" .....	the amended and restated dealer agreement dated 7 November 2012 made between the Issuers, the Guarantors and the Dealers

“Disclosure and Transparency Rules” .....	the Disclosure and Transparency Rules of the Financial Services Authority
“DMR” .....	Department of Mineral Resources in South Africa
“Duiker” .....	Duiker Mining (Proprietary) Limited, a company incorporated in South Africa with limited liability
“Enex” .....	Enex Resources Limited (now known as Xstrata Coal Investments Australia Pty Limited), a company incorporated in Australia with limited liability
“Eskom” .....	Eskom Holding Limited, the South African State-owned electricity utility
“EU” .....	the European Union
“euro” or “€” .....	the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended
“Falconbridge” .....	Falconbridge Limited (now known as Xstrata Canada Corporation), a corporation amalgamated under the laws of the Province of Ontario, Canada with limited liability
“Final Terms” .....	the final terms supplement
“Financial Services Authority” .....	the Financial Services Authority of the United Kingdom acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of the FSMA
“Finges” .....	Finges Investment BV, a wholly-owned subsidiary of Glencore International A.G.
“FSMA” .....	the Financial Services and Markets Act 2000, as amended
“Glencore” .....	Glencore International plc, a public limited company incorporated in England and Wales
“Glencore Group” .....	Glencore International A.G. and, with effect from May 24, 2011, Glencore International plc and, in each case, their subsidiaries and affiliates or, as the context requires, any subsidiary or affiliate thereof
“Global Notes” .....	a Temporary Global Note and/or a Permanent Global Note, as the case may be
“Group” .....	Xstrata and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings
“Guarantees” .....	the Xstrata Canada Guarantee, the Xstrata Dubai Guarantee, the Xstrata CFC Guarantee, the Xstrata Guarantee and the Xstrata Schweiz Guarantee
“Guarantors” .....	in respect of Notes issued by Xstrata Canada, Xstrata, Xstrata Schweiz, Xstrata Dubai and Xstrata CFC, in respect of Notes issued by Xstrata Dubai, Xstrata, Xstrata Schweiz, Xstrata Canada and Xstrata CFC and, in respect of Notes issued by Xstrata CFC, Xstrata, Xstrata Schweiz, Xstrata Canada and Xstrata Dubai
“HDSAs” .....	historically disadvantaged South Africans
“HMRC” .....	U.K. HM Revenue & Customs

“IASB” .....	International Accounting Standards Board
“IGAC” .....	Instituto Geografico Agustin Codazzi
“IFRS” .....	International Financial Reporting Standards
“Income Tax Act (Canada)” .....	Income Tax Act, R.S.C. 1985, c. 1 (5th Supp.)
“Income Tax Act (Canada) Regulations” .....	the regulations under the Income Tax Act (Canada) in force as of the date hereof
“Issuing and Paying Agent” .....	Citibank, N.A., London Branch
“Issuers” .....	Xstrata Canada, Xstrata Dubai and Xstrata CFC
“IWULA” .....	Integrated Water Use Licence Application
“Kroner” or “Norwegian kroner” .....	the lawful currency of Norway
“Legal & General” .....	Legal & General Group Plc
“Listing Rules” .....	the Listing Rules of the Financial Services Authority
“London Stock Exchange” .....	London Stock Exchange plc
“Lonmin” .....	Lonmin plc, a public limited company incorporated in England and Wales
“Lonmin Annual Report 2011” .....	the annual report and accounts prepared by Lonmin for Lonmin’s financial year ended 30 September 2011
“Market” .....	London Stock Exchange’s Regulated Market
“MIM” .....	MIM Holdings Limited, now known as Xstrata Queensland Limited, a company incorporated in Australia with limited liability which was acquired by the Group in 2003
“Moody’s” .....	Moody’s Investors Service Limited
“MPRDA” .....	the Mineral and Petroleum Resources Development Act 28 of 2002
“Native Title Act” .....	the Native Title Act 1993 (Cth)
“NGPA” .....	the National Glaciers Protection Act
“Non-Resident Noteholder” .....	a Noteholder who, at all relevant times, for purposes of the Income Tax Act (Canada) and any applicable income tax treaty, is neither resident nor deemed to be resident in Canada and who deals at arm’s length with the Issuers and the Guarantors
“NIF” .....	Noranda Income Fund
“Noteholders” .....	holders of the Notes
“Noteholder’s Currency” .....	the currency or currency unit a Noteholder’s financial activities are denominated principally in
“Notes” .....	notes issued under the Programme
“NWA” .....	the National Water Act, 1998
“Official List” .....	the Official List of the Financial Services Authority
“Old Act” .....	the Water Act, 1956

“Ordinary Shares” .....	ordinary shares of U.S.\$0.50 each in the capital of Xstrata
“Paying Agent” .....	Citigroup Global Markets Deutschland AG, Frankfurt
“Peruvian nuevo sol” .....	the lawful currency of Peru
“Prodeco” .....	the Prodeco coal mining operation (and associated infrastructure) in Colombia carried on by the Prodeco Operating Companies and Ferrocarriles del Norte de Colombia S.A.
“Prodeco Business” .....	the Group’s interests in Prodeco held through the Prodeco Target Companies
“Prodeco Operating Companies” .....	C.I. Prodeco S.A., Carbones de La Jagua S.A., Carbones el Tesoro S.A., Consorcio Minero Unido, S.A. and Carbones de la Loma S.A.
“Prodeco Target Companies” .....	Chestfield Coal Resources Limited, Tikolan Limited, Simkana Limited, Merani Holding Limited and Wichita Holding Limited
“Prospectus Directive” .....	the Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State
“Proposed Merger” .....	an all share merger with Glencore to be effected by means of a International scheme of arrangement between Xstrata and its eligible shareholders under Part 26 of the Companies Act 2006
“Prospectus Rules” .....	the rules made for the purposes of Part VI of the FSMA in relation to offers of transferable securities to the public and admission of transferable securities to trading on a regulated market and brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004
“Rand” or “ZAR” .....	the lawful currency of South Africa
“REACH” .....	the Regulation (EC) No 1907/2006 (as amended) on the Registration, Evaluation, Authorisation and Restriction of Chemicals
“Relationship Agreement” .....	the agreement dated 20 March 2002 between Xstrata and Glencore International A.G., details of which are provided in Part X — “Business of the Group — Relationship with Glencore”
“Relevant Member State” .....	each Member State of the European Economic Area which has implemented the Prospectus Directive
“Savings Directive” .....	EC Council Directive 2003/48/EC on the taxation of savings income
“Securities Act” .....	the U.S. Securities Act of 1933, as amended
“SIX” .....	SIX Swiss Exchange Ltd
“South Africa” .....	the Republic of South Africa
“Standard & Poor’s” .....	Standard & Poor’s Credit Market Services Europe Limited
“Sterling” or “£” .....	the lawful currency of the United Kingdom
“subsidiary” .....	has the meaning given in section 1159 of the Companies Act

“subsidiary undertaking” .....	has the meaning given in section 1162 of the Companies Act
“Swiss GAAP” .....	accounting principles generally accepted in Switzerland
“Trustee” .....	Law Debenture Trustees Limited
“Trust Deed” .....	the amended and restated trust deed dated 7 November 2012 made between the Issuers, the Guarantors and the Trustee
“UAE” .....	the United Arab Emirates
“U.K.” or “United Kingdom” .....	the United Kingdom of Great Britain and Northern Ireland
“U.S.” or “the United States” .....	the United States of America, its territories and possessions and any state of the United States and the District of Columbia
“U.S. dollars” or “U.S.\$” .....	the lawful currency of the United States
“USD Notes” .....	the U.S.\$ denominated issue of notes by Xstrata Canada announced by Xstrata on 19 October 2012
“XCSA” .....	Xstrata Coal South Africa
“Xstrata” .....	Xstrata plc, a public limited company incorporated in England and Wales
“Xstrata Annual Report 2010” .....	the annual report and accounts prepared by Xstrata for the year ended 31 December 2010
“Xstrata Annual Report 2011” .....	the annual report and accounts prepared by Xstrata for the year ended 31 December 2011
“Xstrata Alloys” .....	the business unit of the Group comprising its chrome, vanadium and platinum operations
“Xstrata Canada” .....	Xstrata Finance (Canada) Limited, a private company incorporated under the laws of the province of Ontario, Canada with limited liability
“Xstrata Canada Guarantee” .....	the guarantee provided by Xstrata Canada in respect of Notes issued by Xstrata Dubai and Xstrata CFC
“Xstrata CFC” .....	Xstrata Canada Financial Corp., a private company incorporated under the laws of the province of Ontario, Canada with limited liability
“Xstrata CFC Guarantee” .....	the guarantee provided by Xstrata CFC in respect of Notes issued by Xstrata Dubai and Xstrata Canada
“Xstrata Coal” .....	the business unit of the Group comprising the coal operations in Australia, South Africa and Columbia
“Xstrata Copper” .....	the business unit of the Group comprising the Falconbridge copper operations in Australia, Argentina, Canada, Chile and Peru
“Xstrata Dubai” .....	Xstrata Finance (Dubai) Limited, a company incorporated in Dubai with limited liability
“Xstrata Dubai Guarantee” .....	the guarantee provided by Xstrata Dubai in respect of Notes issued by Xstrata Canada and Xstrata CFC
“Xstrata Guarantee” .....	the guarantee provided by Xstrata in respect of Notes issued by Xstrata Dubai, Xstrata Canada and Xstrata CFC

“Xstrata Nickel” .....	the business unit of the Group comprising the nickel operations
“Xstrata Process Support” .....	Process Support (previously known as the Metallurgical Technology Group), an expert group based in Sudbury (Ontario) Canada and at various Xstrata operating sites around the world, which works with all of Xstrata’s commodity businesses and a number of external clients
“Xstrata Schweiz”.....	Xstrata (Schweiz) AG, a company incorporated in Switzerland with limited liability
“Xstrata Schweiz Guarantee” .....	the guarantee provided by Xstrata Schweiz in respect of Notes issued by Xstrata Dubai, Xstrata Canada and Xstrata CFC
“Xstrata Technology” .....	Xstrata Technology, a member of the Group which develops, markets and supports technologies for the global mining, mineral processing and metals extraction industries
“Xstrata Zinc” .....	the business unit of the Group comprising the Falconbridge zinc mining, smelting and concentrate operations
“Yen” or “¥” .....	the lawful currency of Japan



## Glossary of Technical Terms

“attributable production” .....	that part of mine or operation production in which the relevant person has an economic interest. It therefore excludes production attributable to minority interests in controlled subsidiaries and the interests of joint venture partners
“coal mine” .....	an operating mine producing coal
“coke” .....	bituminous coal from which the volatile components have been removed
“coking coal” .....	coal used to create coke — which is consumed in the steel reduction process
“Competent Person” .....	a person who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy or of the Australian Institute of Geoscientists, or of a “Recognised Overseas Professional Organisation” (ROPO) included in a list promulgated from time to time
“ferrochrome” .....	an alloy of iron and chromium primarily used as an input to stainless steel making
“grade” .....	the quality of an ore, alloy or metal, usually expressed as a percentage of the primary element
“managed”, “managed basis” or “managed tonnage basis” .....	in respect of the business of the Group comprising the coal operations, the commodities managed by that business on a total mine basis in respect of those mines that the Group operates and manages regardless of the Group’s attributable interest in them, except for the Douglas/Tavistock joint venture managed by Ingwe in respect of which only the Group’s attributable interest of 16% is included
“ore” .....	a mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination to make extraction commercially profitable
“platinum group metals” .....	platinum, palladium, rhodium and related metals present in some nickel/copper ores
“plant” .....	fixed or moveable equipment required in the process of winning or processing the ore
“project” .....	a deposit which is in the pre-operating phase of development and, subject to capital investment, feasibility investigations, statutory and management approvals and business considerations, may be commissioned as a mine
“recoverable reserves” or “recovery” .....	where relating to coal, the tonnages of in-situ reserves that are expected to be recovered, i.e., that portion of the seam which will be extracted
“refinery” .....	a plant where concentrates or matte are processed into one or more refined metals
“reserves” .....	those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable
“resources” .....	all of the potential minerals in a defined area based on points of observation and extrapolations from those points. Potential minerals are defined as minerals which have been or could be beneficiated to give a quality acceptable for commercial

	usage in the foreseeable future and excludes minor mineral occurrences
“smelter” .....	a plant in which concentrates are processed into an upgraded product
“smelting” .....	thermal processing whereby molten metal is liberated from beneficiated ore or concentrate with impurities speared as lighter slag
“thermal coal” .....	coal used in generating steam for electricity production

## **ANNEX II — FINANCIAL INFORMATION**

This Annex II contains the financial information for the years ended 31 December 2011 and 31 December 2010 for Xstrata Schweiz, Xstrata Dubai, Xstrata Canada and Xstrata CFC.

## **Financial Statements of Xstrata Schweiz**

The unconsolidated financial statements for the years ended 31 December 2011 and 31 December 2010, which were reported on by the auditors, Ernst & Young Ltd, are set out below. The financial statements for the years ended 31 December 2011 and 31 December 2010 of Xstrata Schweiz have been prepared in accordance with Swiss GAAP.

**Report of the statutory auditor**

with financial statements as of 31 December 2011 of

Xstrata (Schweiz) AG, Zug

To the General Meeting of  
**Xstrata (Schweiz) AG, Zug**

Zug, 14 March 2012

## **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of Xstrata (Schweiz) AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2011.

### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

### **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Chris Schibler  
Licensed audit expert  
(Auditor in charge)



Iwan Rogenmoser  
Licensed audit expert

### **Enclosures**

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings

# XSTRATA (SCHWEIZ) AG, ZUG

## BALANCE SHEET AS OF DECEMBER 31, 2011

	31.12.2011 TCHF	31.12.2010 TCHF
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	20'587	11'804
Receivables		
- Affiliated companies	94	13'045
Other receivables		
- Third parties	1'140	1'790
Prepaid expenses	1'817	1'525
<b>Total Current assets</b>	<b>23'638</b>	<b>28'164</b>
<b>Non-current assets</b>		
Fixed assets	9'856	2'229
Loans		
- Third parties	1'443	1'457
- Affiliated companies	1'206'623	1'599'474
- Shareholder	4'530'616	573'240
Investments	11'831'338	14'800'444
<b>Total Non-current assets</b>	<b>17'579'876</b>	<b>16'976'844</b>
<b>TOTAL ASSETS</b>	<b>17'603'514</b>	<b>17'005'008</b>



# XSTRATA (SCHWEIZ) AG, ZUG

## BALANCE SHEET AS OF DECEMBER 31, 2011

	31.12.2011 TCHF	31.12.2010 TCHF
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Payables		
- Affiliated companies	935'021	870'355
Other Payables		
- Third parties	1'289	5'253
Accrued expenses	20'800	17'914
<b>Total current liabilities</b>	<b>957'110</b>	<b>893'522</b>
<b>Non-current liabilities</b>		
Loans		
- Affiliated companies	2'620'906	2'684'428
Provisions	3'854	4'448
Provision unrealised foreign currency exchange gains	0	310'705
<b>Total Non-current liabilities</b>	<b>2'624'760</b>	<b>2'999'581</b>
<b>Total Liabilities</b>	<b>3'581'870</b>	<b>3'893'103</b>
<b>Shareholders' equity</b>		
Share capital	10'261	10'261
Legal reserve - capital contribution	4'012'722	4'012'722
Retained earnings, opening balance	9'088'922	8'928'898
Profit of the year	909'739	160'024
Total retained earnings	9'998'661	9'088'922
<b>Total Shareholders' equity</b>	<b>14'021'644</b>	<b>13'111'905</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>17'603'514</b>	<b>17'005'008</b>

# XSTRATA (SCHWEIZ) AG, ZUG

## INCOME STATEMENT 2011

	2011	2010
	TCHF	TCHF
<b>INCOME</b>		
Income from investments and management fees	4'401'068	557'003
Interest income	52'822	48'394
Net foreign currency exchange gains	0	2'769
<b>Total Income</b>	<b><u>4'453'890</u></b>	<b><u>608'166</u></b>
<b>GENERAL EXPENSES</b>		
Administration expenses	-95'331	-192'663
Depreciation	-763	-1'982
Interest expenses	-29'150	-32'711
Borrowing costs	-3'862	-15'816
<b>Total General expenses</b>	<b><u>-129'106</u></b>	<b><u>-243'172</u></b>
Impairment of investments	-2'312'378	-204'360
Extraordinary expenses	-52'424	0
Net foreign currency exchange losses	-42'878	0
Unrealised foreign currency translation loss	-1'006'771	0
<b>PROFIT BEFORE TAXES</b>	<b><u>910'333</u></b>	<b><u>160'634</u></b>
Taxes	-594	-610
<b>PROFIT OF THE YEAR</b>	<b><u>909'739</u></b>	<b><u>160'024</u></b>

**XSTRATA (SCHWEIZ) AG, ZUG**  
**NOTES AS OF DECEMBER 31, 2011**

**1. GENERAL**

Xstrata (Schweiz) AG is a holding company in accordance with Swiss Law.

Significant shareholders:

Name of Shareholder	Number of ordinary shares of CHF 5 each	% of ordinary issued share capital
Xstrata plc	2'052'259	100%

**2. ACCOUNTING PRINCIPLES**

General - The Company presents these financial statements in accordance with Swiss Law. The amounts are shown in thousand Swiss Francs.

Translation of foreign currencies - Translation of the US Dollar financial statement into Swiss Francs is performed as follows:

Current assets, loans and liabilities	- closing rate
Non-current assets (except loans)	- historical rate
Shareholders' equity	- historical rate
Income statement	- average rate

Unrealised foreign currency exchange gains resulting from the translation of the Financial Statements from USD into CHF are - as requested by the Swiss Code of Obligation - deferred and disclosed as 'Provision unrealised foreign currency exchange gains' in the balance sheet whereas unrealised foreign currency exchange losses resulting from the translation are recorded directly in the income statement as 'unrealised foreign currency translation loss'.

**3. FIRE INSURANCE VALUE OF FIXED ASSETS**

	31.12.2011	31.12.2010
Fire insurance value of fixed assets	TCHF 9'269	8'488

**4. PLEDGED ASSETS**

	31.12.2011	31.12.2010
Pledged cash and cash equivalents	TCHF 1'377	303

XSTRATA (SCHWEIZ) AG, ZUG

NOTES AS OF DECEMBER 31, 2011

5. INVESTMENTS

TCHF		Share-	Investment	Net book	Investment	Net book
Subsidiary	Business	capital	in %	value	in %	value
		(in thousand)	31.12.11	31.12.11	31.12.10	31.12.10
- Xstrata Iron Ore Services AG	Service company Switzerland	CHF 100	100%	100	100%	100
- Xstrata Finance Aruba A.V.V.	Marketing company Aruba	USD 0	100%	0	100%	2
- Xstrata Services Ltd.	Service company Isle of Man	GBP 2	100%	0	100%	0
- Xstrata (Nederland) B.V.	Holding company Netherlands	EUR 21	25.59%	5'068'923	25.59%	5'068'923
- Xstrata Services (UK) Ltd.	Service company United Kingdom	GBP 0	100%	104'014	100%	104'014
- Xstrata Venture Schweiz	Service company Switzerland	CHF 100	100%	100	100%	0
- Xstrata Coal Marketing AG	Trading company Switzerland	CHF 100	100%	252'739	100%	252'739
- Xstrata Capital Corporation A.V.V.	Finance company Aruba	USD 15	56.72%	713'514	56.72%	4'547'690
- Xstrata Holdings Pty Ltd.	Holding company Australia	AUD 2'877'339	100%	1'857'855	100%	1'857'855
- Mimsure Insurance Pty Ltd.	Insurance company Singapore	SGD 2'000	100%	120'967	100%	27'248
- Ploutos Pty Ltd.	Holding company Australia	AUD 118'575	100%	159'892	100%	114'954
- Xstrata Commodities Middle East DMCC	Marketing company Dubai	AED 500	10%	17	10%	17
- Xstrata Capital (Dubai) Ltd.	Finance company Dubai	USD 50	100%	60	100%	60
- Xstrata Finance (Dubai) Ltd.	Finance company Dubai	USD 14'136'500	10%	2'599'417	10%	1'879'538
- Xstrata NCF Ltd.	Holding company Canada	USD 0	100%	12'310	100%	6'345
- Xstrata Capital Ireland Ltd.	Finance company Ireland	USD 0	100%	0	100%	0
- Noclaf Limited	Service company Isle of Man	USD 40'333	100%	14'220	100%	14'220
- Xstrata Nickel Holdings Pty Ltd	Holding company Australia	AUD 938'200	100%	926'739	100%	926'739
- Xstrata Finance Luxembourg	Holding company Luxembourg	USD 2'223	10%	296	0%	0
- Xstrata Coal Sales PTE	Trading company Singapore	USD 2'000	10%	175	0%	0
<b>Total Investments</b>				<b>11'831'338</b>		<b>14'800'444</b>

**XSTRATA (SCHWEIZ) AG, ZUG**  
**NOTES AS OF DECEMBER 31, 2011**

**6. BANK BORROWINGS**

**Syndicated Bank Loans**

On 24 October 2011, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited, Xstrata Canada Financial Corporation and Xstrata Finance (Dubai) Limited entered into a guaranteed USD 6'000 million multi-currency revolving syndicated loan facility. Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 85 basis points per annum.

As of 31 December 2011, USD 6'000 million was available to be drawn under this facility. The facility matures in October 2016.

For the above mentioned facility, the Company guarantees irrevocably and unconditionally jointly and severally for all commitment of the borrowers.

**Repaid Facilities in 2011**

On 25 July 2007, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation entered into a guaranteed USD 4'680.0 million multi-currency revolving syndicated loan facility (Syndicated Facilities Agreement). Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 27.5 basis points per annum. The facility was cancelled during 2011 and replaced with the USD 6'000 million syndicated loan facility.

On 17 September 2010, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation entered into a guaranteed USD 4'000.0 million multi-currency revolving syndicated loan facility (Syndicate Facilities Agreement) split into two USD 2'000.0 million tranches, with one tranche maturing 3 years after the date of the facility and the other maturing 5 years after the date of the facility. Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in EUR, EURIBOR and the relevant margin, which is 90.0 basis points per annum under the 3 year tranche and 100.0 basis points per annum under the 5 year tranche respectively. The facility was cancelled during 2011 and replaced with the USD 6'000 million syndicated loan facility.

**7. INCOME AND EXPENSE**

Income from investments and management fees 2011 is comprised of dividends of CHF 4'335.8 million (2010 CHF 480.8 million) and onward charges of CHF 65.3 million (2010 CHF 76.2 million).

The total interest income in 2011 includes interest income from group companies of CHF 52.8 million (2010 CHF 48.3 million). The total interest expense in 2011 includes interest expenses from group companies in the amount of CHF 29.1 million (2010 CHF 32.7 million).

Total personnel expense for the year 2011 was CHF 14.9 million (2010 CHF 19.0 million). Administrative expenses for 2011 include expenses for various projects of CHF 1.2 million (2010 CHF 3.7 million).

**8. GUARANTEES**

Xstrata (Schweiz) AG has provided guarantees to a number of Group companies in the total amount of CHF 6'892.3 million (2010 CHF 5'743.6 million). Xstrata (Schweiz) AG has also provided guarantees and indemnities to third parties in respect of the performance obligations of Group companies pursuant to ISDA (International Swap Dealers Association, Inc.) Master Agreements for commodities hedging lines and other commercial contracts.

**XSTRATA (SCHWEIZ) AG, ZUG**

**NOTES AS OF DECEMBER 31, 2011**

**9. RISK EVALUATION**

Xstrata (Schweiz AG) is part of the Xstrata Plc group. The risk management of Xstrata (Schweiz) AG is managed at group level by group management. At the level of Xstrata plc the risk assessment is updated as circumstances change and reviewed by the Audit Committee at each meeting. Group management monitors the risk assessment as well as the risk process. The risk management process includes four steps: risk identification, risk assessment, risk evaluation and risk control.

**10. CONSOLIDATION OF FINANCIAL STATEMENTS**

Xstrata (Schweiz) AG is exempt from preparing consolidated financial statements (Art. 663f SCO) since its ultimate parent company, Xstrata plc, prepares and publishes consolidated financial statements.

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## XSTRATA (SCHWEIZ) AG, ZUG

### APPROPRIATION OF AVAILABLE EARNINGS AS OF DECEMBER 31, 2011 (PROPOSAL OF THE BOARD OF DIRECTORS)

	31.12.2011	31.12.2010
	TCHF	TCHF
Retained earnings, opening balance	9'088'922	8'928'898
Profit of the year	909'739	160'024
Total retained earnings for distribution	<b>9'998'661</b>	<b>9'088'922</b>
Allocation to legal reserve	-5'131	0
<b>Retained earnings, balance to be carried forward</b>	<b>9'993'530</b>	<b>9'088'922</b>
Legal reserve, opening balance	4'012'722	4'012'722
Allocation to legal reserve	5'131	0
./. Distribution of legal reserve - capital contribution	-4'012'722	0
<b>Legal reserve, balance to be carried forward</b>	<b>5'131</b>	<b>4'012'722</b>

**Report of the statutory auditor**

with financial statements as of 31 December 2010 of

Xstrata (Schweiz) AG, Zug



To the General Meeting of  
**Xstrata (Schweiz) AG, Zug**

Zug, 29 March 2011

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Xstrata (Schweiz) AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2010.

### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

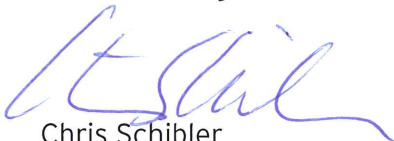
## Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Chris Schibler  
Licensed audit expert  
(Auditor in charge)



Iwan Rogenmoser  
Licensed audit expert

## Enclosures

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings

**XSTRATA (SCHWEIZ) AG, ZUG**  
**BALANCE SHEET AS OF DECEMBER 31, 2010**

	<b>31.12.2010</b>	<b>31.12.2009</b>
	<b>TCHF</b>	<b>TCHF</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Bank and cash resources	11'804	22'724
Receivables		
- Affiliated companies	13'045	20'236
Other receivables		
- Third parties	1'790	3'788
Prepaid expenses	1'525	9'373
<b>Total Current assets</b>	<b><u>28'164</u></b>	<b><u>56'121</u></b>
<b>Non-current assets</b>		
Fixed assets	2'229	3'252
Loans		
- Third parties	1'457	1'530
- Affiliated companies	1'599'474	335'482
- Shareholder	573'240	0
Investments	14'800'444	15'232'493
<b>Total Non-current assets</b>	<b><u>16'976'844</u></b>	<b><u>15'572'757</u></b>
<b>TOTAL ASSETS</b>	<b><u>17'005'008</u></b>	<b><u>15'628'878</u></b>

# XSTRATA (SCHWEIZ) AG, ZUG

## BALANCE SHEET AT DECEMBER 31, 2010

	31.12.2010 TCHF	31.12.2009 TCHF
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Payables		
- Affiliated companies	870'355	620'383
- Shareholder	0	155'528
Other Payables		
- Third parties	5'253	12'667
Accrued expenses	17'914	26'701
<b>Total current liabilities</b>	<b>893'522</b>	<b>815'279</b>
<b>Non-current liabilities</b>		
Loans		
- Affiliated companies	2'684'428	1'625'840
Provisions	4'448	2'074
Provision unrealised exchange gains	310'705	233'804
<b>Total Non-current liabilities</b>	<b>2'999'581</b>	<b>1'861'718</b>
<b>Total Liabilities</b>	<b>3'893'103</b>	<b>2'676'997</b>
<b>Shareholders' equity</b>		
Share capital	10'261	10'261
Legal reserve - capital contribution	4'012'722	4'012'722
Retained earnings, opening balance	8'928'898	4'079'031
Profit of the year	160'024	4'849'867
Total retained earnings	9'088'922	8'928'898
<b>Total Shareholders' equity</b>	<b>13'111'905</b>	<b>12'951'881</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>17'005'008</b>	<b>15'628'878</b>

# XSTRATA (SCHWEIZ) AG, ZUG

## INCOME STATEMENT 2010

	2010	2009
	TCHF	TCHF
<b>INCOME</b>		
Income from investments and management fees	557'003	597'957
Interest income	48'394	55'286
Gain on disposal of investment	0	4'475'390
Net foreign exchange gains	2'769	925
<b>Total Income</b>	<b>608'166</b>	<b>5'129'558</b>
<b>GENERAL EXPENSES</b>		
Administration expense	-192'663	-179'875
Depreciation	-1'982	-2'389
Interest expense	-32'711	-41'044
Borrowing costs	-15'816	-42'479
<b>Total General expenses</b>	<b>-243'172</b>	<b>-265'787</b>
Impairment of investments	-204'360	-15'921
<b>PROFIT BEFORE TAXES</b>	<b>160'634</b>	<b>4'847'850</b>
Income taxes	-610	2'017
<b>PROFIT OF THE YEAR</b>	<b>160'024</b>	<b>4'849'867</b>

**XSTRATA (SCHWEIZ) AG, ZUG**  
**NOTES AS OF DECEMBER 31, 2010**

**1. GENERAL**

Xstrata (Schweiz) AG is a holding company in accordance with Swiss Law.

Significant shareholders:

Name of Shareholder	Number of ordinary shares of CHF 5 each	% of ordinary issued share capital
Xstrata plc	2'052'259	100%

**2. ACCOUNTING PRINCIPLES**

General - The Company presents these financial statements in accordance with Swiss Law. The amounts are shown in thousand Swiss Francs.

Translation of foreign currencies - Translation of the US Dollar financial statement into Swiss Francs is performed as follows:

Current assets, loans and liabilities	- closing rate
Non-current assets (except loans)	- historical rate
Shareholders' equity	- historical rate
Income statement	- average rate

Unrealised foreign exchange gains resulting from the translation of the Financial Statements from USD into CHF are - as requested by the Swiss Code of Obligation - deferred and disclosed as 'Provision unrealised exchange gains' in the balance sheet whereas unrealised foreign exchange losses resulting from the translation are recorded directly in the income statement as 'unrealised foreign currency translation loss'.

**3. FIRE INSURANCE VALUE OF FIXED ASSETS**

		31.12.2010	31.12.2009
Fire insurance value of fixed assets	TCHF	8'488	6'915

**4. PLEDGED ASSETS**

		31.12.2010	31.12.2009
Pledged bank and cash resources	TCHF	303	382



XSTRATA (SCHWEIZ) AG, ZUG

NOTES AS OF DECEMBER 31, 2010

5. INVESTMENTS

TCHF		Share-	Investment	Net book	Investment	Net book
Subsidiary	Business	capital	in %	value	in %	value
		(in thousand)	31.12.10	31.12.10	31.12.09	31.12.09
- Xstrata Coal Services AG	Service company Switzerland	CHF 100	100%	100	0%	0
- Xstrata Finance Aruba A.V.V.	Marketing company Aruba	USD 0	100%	2	100%	2
- Xstrata Services Ltd.	Service company Isle of Man	GBP 2	100%	0	100%	0
- Xstrata (Nederland) B.V.	Holding company Netherlands	EUR 21	25.59%	5'068'923	25.59%	5'068'923
- Xstrata Services (UK) Ltd.	Service company United Kingdom	GBP 0	100%	104'014	100%	104'014
- Euroguard Insurance Company Ltd.	Insurance company Gibraltar	GBP 0	0%	0	100%	401
- Xstrata Coal Marketing AG	Trading company Switzerland	CHF 100	100%	252'739	100%	252'739
- Xstrata Capital Corporation A.V.V.	Finance company Aruba	USD 15	49%	4'547'690	49%	4'547'690
- Xstrata Holdings Pty Ltd.	Holding company Australia	AUD 2'877'339	100%	1'857'855	100%	2'406'057
- Mimsure Insurance Pty Ltd.	Insurance company Singapore	SGD 2'000	100%	27'248	100%	27'248
- Ploutos Pty Ltd.	Holding company Australia	AUD 118'575	100%	114'954	0%	0
- Xstrata Commodities Middle East DMCC	Marketing company Dubai	AED 500	10%	17	10%	17
- Xstrata Capital (Dubai) Ltd.	Finance company Dubai	USD 50	100%	60	100%	60
- Xstrata Finance (Dubai) Ltd.	Finance company Dubai	USD 14'136'500	10%	1'879'538	10%	1'852'674
- Xstrata NCF Ltd.	Holding company Canada	USD 0	100%	6'345	100%	1'236
- Xstrata Capital Ireland Ltd.	Finance company Ireland	USD 0	100%	0	100%	231'345
- Noclaf Limited	Service company Isle of Man	USD 40'333	100%	14'220	100%	13'347
- Xstrata Nickel Holdings Pty Ltd	Holding company Australia	AUD 938'200	100%	926'739	100%	926'739
<b>Total Investments</b>				<b>14'800'444</b>		<b>15'232'493</b>

## XSTRATA (SCHWEIZ) AG, ZUG

### NOTES AS OF DECEMBER 31, 2010

#### 6. BANK BORROWINGS

##### Syndicated Bank Loans

On 25 July 2007, Xstrata (Schweiz) AG, Xstrata Finance (Canada) Limited and Xstrata Canada Financial Corporation entered into a guaranteed USD 4'680.0 million multi-currency revolving syndicated loan facility (Syndicated Facilities Agreement). Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 27.5 basis points per annum. As of 31 December 2010, USD 4'680.0 million (2009 USD 840.0 million) was available to be drawn under this facility. The facility matures on 25 July 2012.

On 17 September 2010, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation entered into a guaranteed USD 4'000.0 million multi-currency revolving syndicated loan facility (Syndicate Facilities Agreement) split into two USD 2'000.0 million tranches, with one tranche maturing 3 years after the date of the facility and the other maturing 5 years after the date of the facility. Interest is payable on drawn down amounts at a rate which is the aggregate of LIBOR or, in relation to any loan in EUR, EURIBOR and the relevant margin, which is 90.0 basis points per annum under the 3 year tranche and 100.0 basis points per annum under the 5 year tranche respectively. As of 31 December 2010, USD 4'000.0 million was available to be drawn under this facility.

##### Repaid Facilities in 2010

On 6 October 2008, Xstrata (Schweiz) AG, Xstrata Finance (Dubai) Limited and Xstrata Canada Financial Corporation entered into a USD 5'000.0 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 which is the aggregate of LIBOR or, in relation to any loan in Euro, EURIBOR and the relevant margin, which is 150.0 basis points per annum. The Club Facility was amended on 30 December 2008 to increase the facility amount to USD 5'459.0 million and on 9 April 2010 to decrease the facility amount to USD 3'000.0 million. The facility was cancelled during 2010 and replaced with the USD 4'000.0 million syndicated loan facility.

According to the above mentioned agreements, the Company guarantees irrevocably and unconditionally jointly and severally for all commitments of the borrowers.

#### 7. INCOME AND EXPENSE

Income from investments and management fees 2010 is comprised of dividends of CHF 480.8 million (2009 CHF 525.4 million) and onward charges of CHF 76.2 million (2009 CHF 72.5 million).

The total interest income in 2010 includes interest income from group companies of CHF 48.3 million (2009 CHF 55.2 million). The total interest expense in 2010 includes interest expenses from group companies in the amount of CHF 32.7 million (2009 CHF 41.0 million).

The personnel expense for the year 2010 was CHF 19.0 million (2009 CHF 16.6 million). Administrative expenses for 2010 include expenses for various projects of CHF 3.7 million (2009 CHF 16.8 million).

#### 8. GUARANTEES

Xstrata (Schweiz) AG has provided guarantees to a number of Group companies in the total amount of approximately CHF 5'743.6 million (2009 CHF 6'654.0 million).



**XSTRATA (SCHWEIZ) AG, ZUG**

**NOTES AS OF DECEMBER 31, 2010**

**9. RISK EVALUATION**

Xstrata (Schweiz AG) is part of the Xstrata Plc group. The risk management of Xstrata (Schweiz) AG is managed at group level by group management. At the level of Xstrata plc the risk assessment is updated as circumstances change and reviewed by the Audit Committee at each meeting. Group management monitors the risk assessment as well as the risk process. The risk management process includes four steps: risk identification, risk assessment, risk evaluation and risk control.

**10. CONSOLIDATION OF FINANCIAL STATEMENTS**

Xstrata (Schweiz) AG is exempt from preparing consolidated financial statements (Art. 663f SCO) since its ultimate parent company, Xstrata plc, prepares and publishes consolidated financial statements.

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# XSTRATA (SCHWEIZ) AG, ZUG

## APPROPRIATION OF AVAILABLE EARNINGS AS OF DECEMBER 31, 2010 (PROPOSAL OF THE BOARD OF DIRECTORS)

	31.12.2010	31.12.2009
	TCHF	TCHF
Retained earnings, opening balance	8'928'898	4'079'031
Profit of the year	<u>160'024</u>	<u>4'849'867</u>
Total retained earnings	<u>9'088'922</u>	<u>8'928'898</u>
<b>Balance to be carried forward</b>	<b><u>9'088'922</u></b>	<b><u>8'928'898</u></b>

## **Summary of the Principal Differences between Swiss GAAP and IFRS**

This "Summary of the Principal Differences between Swiss GAAP and IFRS" does not form part of the section above in this Annex II headed "Financial Statements of Xstrata Schweiz".

The historical financial information of Xstrata Schweiz included above in the section of this Annex II headed "Financial Statements of Xstrata Schweiz" for the years ended 31 December 2011 and 31 December 2010 has been prepared and presented in accordance with the Swiss Code of Obligations ("Swiss law"). The historical consolidated financial information of Xstrata for the years ended 31 December 2011 and 31 December 2010, which are incorporated in, and form part of, this Base Prospectus (as described in Part IV — "Information Incorporated by Reference") has been prepared and presented in accordance with IFRS.

Significant differences exist between IFRS and Swiss law that may be material to the profits and shareholders' equity shown in the financial information in, or incorporated in, this Base Prospectus.

The principal relevant differences between IFRS and Swiss law that the directors of Xstrata Schweiz believe could be material to Xstrata Schweiz's profits and shareholders' equity are described below. Xstrata Schweiz has not prepared its historical financial information in accordance with IFRS and, accordingly, cannot offer any assurance that the differences described below are complete or would in fact be the accounting principles creating the greatest differences had such financial information been prepared and presented under IFRS (rather than under Swiss law). The following summary does not include all differences that exist between IFRS and Swiss law and is not intended to be a comprehensive listing of all such differences specifically related to Xstrata Schweiz or the industry in which it operates.

The differences described below reflect differences between the accounting policies applied in the preparation of the historical financial information of Xstrata Schweiz. There has been no attempt to identify future differences between IFRS and Swiss law as the result of prescribed changes in accounting standards, transactions or events that may occur in the future. The organisations that promulgate IFRS and Swiss law have significant on-going projects that could have a significant impact on future comparisons such as the one between IFRS and Swiss law. Future developments or changes in either IFRS or Swiss law may give rise to additional differences between IFRS and Swiss law, which could have a significant impact on Xstrata Schweiz.

In making an investment decision, prospective Noteholders must rely on their own examination of Xstrata Schweiz, the terms and conditions of the Notes and the financial and other information in, or incorporated in, this Base Prospectus.

### *Deferred tax*

The broad principle under IFRS is that a deferred tax liability or asset should be recognised for all temporary differences, with some exceptions. IFRS uses a balance sheet concept of temporary differences between the carrying amount of an asset or liability and its tax base. Temporary differences include not only timing differences but other differences between the accounting and tax bases of assets and liabilities such as a revaluation of assets for which no equivalent adjustment is made for tax purposes.

Under Swiss law, there is no concept of deferred taxes as stand-alone accounts prepared for statutory purposes are generally used as the tax base for income tax purposes. As a result, no temporary differences or deferred tax balances arise.

### *Foreign currency transactions*

IFRS financial statements are prepared using an entity's functional currency which may or may not be the same as its presentation currency. The functional currency is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency using the spot foreign exchange rate on the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are re-translated to the functional currency using the spot rate on that date. In IFRS stand-alone financial statements, all exchange differences are recorded in the income statement.

Under Swiss law, the financial statements must be presented in Swiss Francs, although there are no such restrictions on the functional currency. The translation from the functional currency to Swiss Francs is in most cases done at spot rates for assets and liabilities, while the income statement is translated at average rates. Equity, fixed assets and investments are translated at historical rates. Currency translation losses are charged directly to the income statement. However, Swiss law prohibits the recognition of net unrealised gains in the income statement, and so these are deferred on balance sheet until such time as they are realised or reversed.

#### *Hedge of net investment in foreign subsidiary*

In consolidated financial statements prepared in accordance with IFRS (IAS 39), foreign exchange differences on monetary items designated as an effective hedge in a net investment in a foreign subsidiary are recorded in equity.

Under Swiss law all such foreign exchange differences are immediately recorded in the income statement, except for unrealised gains which are deferred on balance sheet until realised or reversed.

#### *Quasi-equity loans*

In consolidated financial statements prepared in accordance with IFRS (IAS 21.15), foreign exchange differences on quasi-equity loans are recorded in equity.

Under Swiss law all such foreign exchange differences are immediately recorded in the income statement.

#### *Debt instruments*

Under IFRS, an instrument must be classified as a liability to the extent that an entity has a contractual obligation to deliver cash to another party. This applies irrespective of the legal form of the instrument.

Liabilities must be measured on inception at their fair value less transaction costs and thereafter at amortised cost, subject to some specific exemptions.

Under Swiss law, liabilities are usually measured at their nominal value. Swiss law follows a similar classification approach to IFRS. However, there are no formal guidelines under Swiss law as to whether certain instruments qualify as debt or equity and so classification differences could occur.

## **Financial Statements of Xstrata Dubai**

The financial statements for the year ended, 31 December 2011, which were approved by the board of directors of Xstrata Dubai on 24 October 2012, and reported on by the auditors, Ernst & Young, are set out below. The financial, statements for the year ended 31 December 2010, which were approved by the board of directors of Xstrata Dubai on 10 March 2011, and reported on by the auditors, Ernst & Young United Arab Emirates, are also set out below. The financial statements for the financial years ended 31 December 2011 and 31 December 2010 of Xstrata Dubai have been prepared in accordance with IFRS as issued by the IASB.

**Xstrata Finance (Dubai) Limited**

**SEPARATE FINANCIAL STATEMENTS**

**31 DECEMBER 2011**

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF XSTRATA FINANCE (DUBAI) LIMITED**

### **Report on the Separate Financial Statements**

We have audited the accompanying separate financial statements of Xstrata Finance (Dubai) Limited (the "Company"), which comprise the statement of financial position as at 31 December 2011 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Separate Financial Statements*

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the Companies Law pursuant to DIFC Law No. 2 of 2009, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these separate financial statements based on our audit. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the shareholders of the Company as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
XSTRATA FINANCE (DUBAI) LIMITED (continued)**

*Opinion*

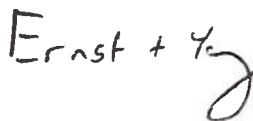
In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*

We have previously issued an unmodified audit report on the financial statements of the Company for the year ended 31 December 2011, dated 22 March 2012. Following the amendments detailed in note 25 the financial statements to which our previously issued audit report related have been withdrawn and we have withdrawn our report dated 22 March 2012. This new report is issued following the amendments to the financial statements set out in note 25.

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the separate financial statements include, in all material respects, the applicable requirements of the Companies Law pursuant to DIFC Law No. 2 of 2009. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Companies Law pursuant to DIFC Law No. 2 of 2009 have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



24 October 2012

Dubai, United Arab Emirates



# Xstrata Finance (Dubai) Limited

## INCOME STATEMENT

Year ended 31 December 2011

	<i>Notes</i>	<i>2011 USD'000</i>	<i>2010 USD'000</i>
Finance income	3	1,227,179	652,788
Finance costs	4	(22,322)	(45,495)
<b>NET FINANCE INCOME</b>		<b>1,204,857</b>	<b>607,293</b>
Other financial income	6	2,664	-
Realised gain on disposal of available-for-sale financial assets		39,279	112,361
Impairment loss on available for sale investments	11	(593,888)	-
Investment Income		5,020	-
Dividend income from a subsidiary	21	260,000	85,000
General and administrative expenses		(2,653)	(2,324)
Foreign exchange translation gain		9,395	11,532
<b>PROFIT BEFORE TAX</b>		<b>924,674</b>	<b>813,862</b>
Income tax expense	7	(99,870)	(50,314)
<b>PROFIT FOR THE YEAR</b>	8	<b>824,804</b>	<b>763,548</b>

The attached notes 1 to 25 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>Note</i>	<b>2011</b> <b>USD'000</b>	<b>2010</b> <b>USD'000</b>
Profit for the year		<b>824,804</b>	763,548
<b>Other comprehensive income</b>			
Net unrealised gain on revaluation of available-for-sale financial assets	11	<b>307</b>	64,890
Gain on disposal of available-for-sale financial assets		<b>(39,279)</b>	(112,361)
		<b>(38,972)</b>	(47,471)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>785,832</b>	<b>716,077</b>

The attached notes 1 to 25 form part of these separate financial statements.

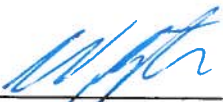
Xstrata Finance (Dubai) Limited

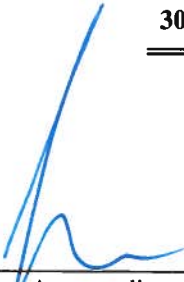
STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>Notes</i>	<i>2011 USD'000</i>	<i>2010 USD'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	9	557,501	557,500
Loans to related parties	10	23,640,168	15,974,984
Available-for-sale financial assets	11	432,333	47,627
Other financial assets	12	183,182	-
		<u>24,813,184</u>	<u>16,580,111</u>
<b>Current assets</b>			
Accounts receivable and prepayments	13	17,824	39,347
Loans to related parties	10	5,506,151	5,810,441
Bank balances and cash	14	246	171
		<u>5,524,221</u>	<u>5,849,959</u>
<b>TOTAL ASSETS</b>		<u><u>30,337,405</u></u>	<u><u>22,430,070</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	24,206,885	16,253,602
Retained earnings		4,044,213	1,498,065
Other reserves		-	38,972
<b>Total equity</b>		<u>28,251,098</u>	<u>17,790,639</u>
<b>Current liabilities</b>			
Accounts payable and accruals	18	411,278	2,672,636
Short term loan – related parties	19	1,675,029	1,966,795
		<u>2,086,307</u>	<u>4,639,431</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>30,337,405</u></u>	<u><u>22,430,070</u></u>

The separate financial statements were authorised for issue by:

  
 \_\_\_\_\_  
 Wayne Apled  
 Director  
 24.10 2012

  
 \_\_\_\_\_  
 Brian Azzopardi  
 Director  
 24.10 2012

The attached notes 1 to 25 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	<i>Share capital USD'000</i>	<i>Retained earnings USD'000</i>	<i>Other reserves USD'000</i>	<i>Total USD'000</i>
Balance at 1 January 2010	14,136,500	736,565	86,443	14,959,508
Profit for the year	-	763,548	-	763,548
Other comprehensive income	-	-	(47,471)	(47,471)
Total comprehensive income	-	763,548	(47,471)	716,077
Issue of share capital	2,117,102	-	-	2,117,102
Dividends paid (note 16)	-	(2,048)	-	(2,048)
Balance at 31 December 2010	16,253,602	1,498,065	38,972	17,790,639
Profit for the year	-	824,804	-	824,804
Other comprehensive income	-	-	(38,972)	(38,972)
Total comprehensive income	-	824,804	(38,972)	785,832
Issue of share capital	7,953,283	-	-	7,953,283
Gain on termination of agreement (note 5)	-	1,721,344	-	1,721,344
<b>Balance at 31 December 2011</b>	<b>24,206,885</b>	<b>4,044,213</b>	<b>-</b>	<b>28,251,098</b>

The attached notes 1 to 25 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	<i>Notes</i>	<b>2011</b> <b>USD'000</b>	<b>2010</b> <b>USD'000</b>
<b>OPERATING ACTIVITIES</b>			
Profit before tax		924,674	813,862
Adjustments for:			
Dividend income from a subsidiary	21	(260,000)	(85,000)
Realised gain on disposal of available-for-sale financial assets		(39,279)	(112,361)
Impairment loss on investments		593,888	-
		<u>1,219,283</u>	<u>616,501</u>
<i>Working capital changes:</i>			
Accounts receivable and prepayments		21,523	82,041
Accounts payable and accruals		(540,014)	2,038,146
Short term loan – a related party	19	(291,766)	1,896,795
		<u>409,026</u>	<u>4,633,483</u>
Cash from operations		409,026	4,633,483
Income tax paid	7	(99,870)	(50,314)
		<u>309,156</u>	<u>4,583,169</u>
Net cash from operating activities		<u>309,156</u>	<u>4,583,169</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of available-for-sale financial assets		47,934	138,287
Investments in available-for-sale financial assets		(1,026,221)	-
Acquisition of investment in subsidiary		(1)	-
Investments in other financial assets		(183,182)	-
Loans granted to related parties		(7,360,894)	(6,039,792)
Long term deposits		-	538,563
Dividend income from a subsidiary	21	260,000	85,000
		<u>(8,262,364)</u>	<u>(5,277,942)</u>
Cash used in investing activities		<u>(8,262,364)</u>	<u>(5,277,942)</u>
<b>FINANCING ACTIVITIES</b>			
Issue of share capital		7,953,283	2,117,102
Repayment of loans obtained from shareholders		-	(1,421,049)
Dividends paid	16	-	(2,048)
		<u>7,953,283</u>	<u>694,005</u>
Net cash from financing activities		<u>7,953,283</u>	<u>694,005</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>75</b>	<b>(768)</b>
Cash and cash equivalents at 1 January		<u>171</u>	<u>939</u>
<b>CASH AND CASH EQUIVALENT AT 31 DECEMBER</b>	<b>14</b>	<b><u>246</u></b>	<b><u>171</u></b>

The attached notes 1 to 25 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

### 1 ACTIVITIES

Xstrata Finance (Dubai) Limited (the "Company") is a limited liability company registered and incorporated in the Dubai International Financial Centre (DIFC) in Dubai, United Arab Emirates on 15 January 2006. The Company is registered in the DIFC and is engaged in providing inter-group financing activities for the Xstrata plc group of companies. The Company's principal place of business is at P.O. Box 506721, Unit 9, Level 2, Gate Village 1, DIFC, Dubai, UAE.

The Company's major shareholder is Xstrata plc (the "Parent Company"), a company incorporated under the laws of England and Wales.

#### Exemption from IAS 27

These separate financial statement have been prepared as per Paragraph 10(d) of the International Accounting Standard (IAS) 27 'Consolidated and Separate Financial Statements' which states that, a parent need not present consolidated financial statements if the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use. Accordingly, these financial statements reflect the operating results and the financial position of the Company only. For an understanding of the consolidated results of operations and the consolidated financial position, the consolidated financial statements of the Ultimate Parent Company, Xstrata plc should be referred to.

The extent of the Company's shareholding in the subsidiaries is:

<i>Name of the entity</i>	<i>Ownership interest</i>		<i>Country of incorporation</i>
	<i>2011</i>	<i>2010</i>	
Xstrata Nickel International Limited (Note 9)	100%	100%	Barbados
XNC Finance Limited	100%	100%	Cayman Islands
Xstrata Finance Aruba A.V.V. (Note 9)	100%	-	Aruba

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Company Law pursuant to DIFC Law No 2 of 2009.

The separate financial statements are prepared under the historical cost convention except for the available-for-sale investments and derivative financial instruments that have been measured at fair value.

The separate financial statements have been presented in United States Dollars ('USD'), which is the functional and presentation currency of the Company, and all values are rounded to the nearest thousand, except where otherwise indicated.

#### Changes in accounting policy and disclosures

##### New accounting Standards and Interpretations:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011

IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**IAS 24 Related Party Transactions (Amendment)**

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

**IAS 32 Financial Instruments: Presentation (Amendment)**

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these type of instruments.

**IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)**

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Company.

**Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

**IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

**IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

**IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Following IFRS and IFRIC Interpretations have been issued but are not yet effective at 31 December 2011 and therefore have not been adopted by the Company. Management concluded that none of these Standards or Interpretations would have any effect on the financial statements of the Company.

- IAS 12 Income Taxes – Recovery of Underlying Assets
- IAS 19 Employee Benefits (Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities

**Use of estimates and judgements**

The preparation of the separate financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies (that have the most significant effect on the amount recognised in the separate financial statements) are discussed in note 24.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts and rebates. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific criteria must also be met before revenue is recognised.

*Interest income*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

*Dividends*

Revenue is recognised when the Company's right to receive the payment is established.

**Income tax**

Taxation is provided in accordance with applicable regulations of the countries in which the Company has transactions. Tax liabilities are recognised for amounts that are probable to be paid, and can be reliably estimated.



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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments in subsidiaries**

Subsidiaries are those companies in which the Company directly or indirectly, has an interest of more than one half of the voting rights and has power to exercise control over the operations.

Investments in subsidiaries are carried in the separate financial statements at cost, net of any provision for permanent diminution in value, if any.

**Available-for-sale financial investments**

Available-for-sale financial investments comprise of equity securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Available-for-sale investments are recognised initially at fair value plus directly attributable transaction costs.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus directly attributable transactions costs. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs

**Derivatives**

The Company enters into derivative financial instruments such as interest rate cap arrangement as the option writer. At initial recognition, a derivative liability is recognised at the fair value of the option premium received. Subsequently, this derivative is stated at fair value with movements recorded in the income statement. Positive fair value of derivative (unrealised gain) is included in 'other receivables' (note 13) and negative fair value (unrealised loss) is included in 'other payables' (note 18) in the statement of financial position.

**Accounts receivable**

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

**Cash and cash equivalents**

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

**De-recognition of financial assets**

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**De-recognition of financial assets (continued)**

Where the Company has transferred its right to receive cash flows from an asset and has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the right and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has 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 expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

**Loans and borrowings**

Interest bearing loans and borrowings are recognised initially at fair value plus directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

**De-recognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 11.

**3 FINANCE INCOME**

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Interest income - other related parties	1,227,179	647,577
Interest income - commercial banks	-	5,211
	<u>1,227,179</u>	<u>652,788</u>

**4 FINANCE COSTS**

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Interest expense - shareholders	13,201	28,493
Interest expense - related parties	4,894	-
Interest expense - commercial bank	4,217	16,920
Bank charges	10	82
	<u>22,322</u>	<u>45,495</u>

The Company had combined multicurrency revolving loan facilities with various banks which the company has guaranteed together with two other related parties.

The Company paid a commitment fee of USD 3.71 million (2010 USD 9.03 million) on the undrawn portion of these facilities.

**5 GAIN ON TERMINATION OF AGREEMENT**

Effective from 1 January 2008, the Company had entered into an agreement with Xstrata Finance Aruba V.V. whereby Xstrata Finance Aruba V.V. assumed the risks and rewards of foreign exchange gains and losses on loans to related parties (note 10) held in currencies other than the United States Dollar. Based on this agreement the foreign currency gain / loss on transaction of these receivables was being recognised as receivable / payable against Xstrata Finance Aruba V.V.

As of 1 December 2011 the parties agreed to terminate this FX agreement and agreed that immediately following such termination, the parties will have no further obligation to each other under the FX agreement. Accordingly, the entire net cumulative gain on translation of these loans including the amount recognised as payable till 31 December 2010 amounting to USD 2.27 billion (note 18) and the movement during the current year has been recognised as a credit to equity reflecting its substance as being a quasi capital contribution by the shareholder.

# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

### 6 OTHER FINANCIAL INCOME

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Gain on revaluation of derivative financial instrument (note 17)	2,557	-
Amortisation of upfront fee to enter into GILTS financing	104	-
Others	3	-
	<u>2,664</u>	<u>-</u>

The company wrote an interest rate cap with Wiggins Island Coal Export Terminal Pty in regards to AUD denominated funding in Gladstone Infrastructure Long Term Subordinated Debt (GILTS) (note 12). This written option is recognised as a derivative and the revaluation gain amounting to USD 2.56 million has been recorded in the income statement (note 17).

The company also received an upfront subscription fee amounting to of AUD 3.59 million (USD 3.74 million) for entering into the funding arrangement in GILTS. The upfront fee is being amortised over the period of the funding based on effective interest rate.

### 7 INCOME TAX EXPENSE

Income tax expense represents withholding tax paid to the Australian Taxation Office at the rate of 10% on each receipt of interest income by the Company from its loans granted to related parties based in Australia. This is the final discharge of tax liability in the tax territory.

### 8 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Rental - operating lease	<u>80</u>	<u>86</u>

### 9 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represent the following:

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Xstrata Nickel International Limited	557,500	557,500
XNC Finance Limited (represented by USD 1)	-	-
Xstrata Finance Aruba A.V.V.	1	-
	<u>557,501</u>	<u>557,500</u>

During the current year, the Company has acquired 100% of the issued share capital of Xstrata Finance Aruba A.V.V. against a consideration of USD 1,250.

Investments in subsidiaries are being carried at cost less impairment, if any. Management has assessed the carrying values of these investments and concluded that no impairment is required.

Xstrata Finance (Dubai) Limited

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

10 LOANS TO RELATED PARTIES

*Other related parties:*

**Long term loans:**

	Denominated currency	Pricing terms	2011 USD'000	2010 USD'000
Xstrata Holdings Pty Ltd.	AUD	8.11% to 8.65%	9,975,522	7,699,301
Xstrata Nickel Holdings Pty Ltd.	AUD	9.925%	2,170,987	2,176,985
AZSA Holdings Pty Ltd.	AUD	8.25% to 11.12%	2,297,880	2,106,609
AZSA Holdings Pty Ltd.	USD	8.135%	1,000,000	-
Xstrata (Nederland) BV	ZAR	8.9% to 9.4%	3,446,458	1,731,640
Xstrata (Nederland) BV.	EUR	LIBOR + 0.5%	1,372,432	1,502,972
XNC Finance Ltd.	USD	4.7%	496,958	474,347
Ploutos Australia Pty Ltd.	AUD	7.35%	402,487	283,130
Xstrata Projects Pty Limited	USD	LIBOR+1.5%	210,066	-
Xstrata Finance PTY	AUD	FED +3.5%	1,444,944	-
Asturiana de Zinc S.A.	EUR	EURIBOR + 0.8896%	516,622	-
Xstrata (Nederland) BV.	USD	3 MTH LIBOR + 1.6655%	136,006	-
Falconbridge Dominicana, S.A.	USD	3 MTH LIBOR + 385bps	64,533	-
Xstrata (Nederland) BV.	EUR	EURIBOR + 0.8896%	105,273	-
			<b>23,640,168</b>	<b>15,974,984</b>

**Short term loans:**

Xstrata Canada Corporation	USD	Interest free	5,238,311	5,722,580
Xstrata Projects Pty Ltd.	USD	LIBOR + 1.5%	-	87,861
Xstrata Nickel International Limited	USD	Interest free	16,000	-
Xstrata (Nederland) BV.	EUR	Interest free	251,840	-
			<b>5,506,151</b>	<b>5,810,441</b>

These include redeemable preference shares issued by a number of group companies which have a maturity period of 9 years and 360 days from the issuance date. Majority of these redeemable preference shares were issued between 2005 and 2011.

# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

### 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Listed shares	-	47,627
Listed shares in Xstrata plc	<b>431,970</b>	-
Unlisted shares in related companies	<b>363</b>	-
	<u><b>432,333</b></u>	<u><b>47,627</b></u>

Listed shares of Xstrata plc are held by Batiss Investments Limited ("Batiss"). The shares which were acquired from the stock market, by Batiss are used by the Xstrata group as a source of financing for future acquisitions, or placed back into the market.

Batiss has entered into an option agreement with Xstrata Finance (Dubai) Limited, whereby Batiss has granted to Xstrata Finance (Dubai) Limited a right to require Batiss to transfer the purchased Xstrata plc shares to a third party (other than a subsidiary of Xstrata plc), as nominated by Xstrata Finance (Dubai) Limited, at an exercise price of 1p per share. Under the option agreement, Xstrata Finance (Dubai) Limited paid 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 option exercise price. Xstrata Finance (Dubai) Limited 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 2011.

At 31 December 2011, 28,428,786 shares of Xstrata plc were held by Batiss which are controlled by Xstrata Finance (Dubai) Limited as a result of option explained above. The option was initially acquired during the year at a consideration of USD 1,025.86 million. The closing fair value of these shares net of the option exercise price amounts to USD 431.97 million. Accordingly, an impairment loss amounting to USD 593.89 million has been recognised in the income statement.

Unlisted shares in 2011 relate to non-voting redeemable preference shares in Batiss Investments Limited.

Listed shares in 2010 refer to shares in a third party listed company. These shares have been disposed of during the current year.

Unlisted shares in 2011 relate to non-voting redeemable preference shares in Batiss Investments.

Movements in the available-for-sale financial investments during 2011 were as follows:

	<i>USD'000</i>
Balance at 1 January 2011	<b>47,627</b>
Fair value gain	<b>307</b>
Sale of investment	<b>(47,934)</b>
Purchase of investment	<b>1,026,221</b>
Impairment loss	<b>(593,888)</b>
Fair value as at 31 December 2011	<u><b>432,333</b></u>

The fair value of the quoted equity shares is determined by reference to published price quotation in an active market.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**11 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)**

**Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2011, the Company held the following financial instruments carried at fair value on the statement of financial position:

**Assets measured at fair value**

	<i>31 December 2011 USD'000</i>	<i>Investments carried at fair value</i>			<i>Investments carried at cost USD'000</i>
		<i>Level 1 USD'000</i>	<i>Level 2 USD'000</i>	<i>Level 3 USD'000</i>	
Available-for-sale financial investments					
- Equity shares	432,333	431,970	-	-	363

	<i>31 December 2010 USD'000</i>	<i>Investments carried at fair value</i>			<i>Investments carried at cost USD'000</i>
		<i>Level 1 USD'000</i>	<i>Level 2 USD'000</i>	<i>Level 3 USD'000</i>	
Available-for-sale financial investments					
- Equity shares	47,627	47,627	-	-	-

During the reporting period ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**12 OTHER FINANCIAL ASSETS**

In 2011 AUD 179.5 million (USD 183.18 million) denominated secured subordinated loan funding has been provided to Wiggins Island Coal Export Terminal Pty Limited for the construction of a coal terminal in Australia. The funding is provided by subscribing Gladstone Infrastructure Long Term Debts (GILTS) which is subject to a floating rate of interest based on BBSY and is repayable by 30 September 2020.

**13 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2011 USD'000</i>	<i>2010 USD'000</i>
Accrued interest receivable – other related parties	11,255	25,708
Accrued interest receivable – third party	106	-
Due from related parties	-	10,421
Other receivables and prepayments	6,463	3,218
	<u>17,824</u>	<u>39,347</u>



# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

### 14 CASH AND CASH EQUIVALENTS

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Current accounts	<u>246</u>	<u>171</u>

### 15 SHARE CAPITAL

*Authorized:*

25,000,000,000 par value shares of USD 1 each (2010: 25,000,000,000 par value shares of USD 1 each)

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
<i>Issued and fully paid:</i>		
As at 31 December 2011 and as at 31 December 2010	<u>24,206,885</u>	<u>16,253,602</u>

During the year, the Company's Board of Directors resolved to increase the issued share capital from 16,253,602,158 shares of USD 1 each to 24,206,884,675 shares of USD 1 each. The increase in share capital is subscribed by the existing shareholders in same proportion.

### 16 DIVIDENDS DECLARED AND PAID

During 2011, the Company did not declare and pay any dividends to its shareholders (2010: USD 2 million dividends declared and paid to shareholders).

### 17 DERIVATIVES

The Company entered into an interest rate cap arrangement as the option writer. At initial recognition, a derivative liability was recognised at the fair value of the option premium received. Subsequently, this derivative is stated at a fair value. Since the derivative entered into does not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the derivative are taken directly to the income statement included in 'other financial income'.

The derivative has a notional value of AUD 103.200 million (USD 105.26 million) with outstanding negative fair value amounting to USD 4.23 million (note 18). The outstanding fair value represents the fair value of premium received at the timing of writing the option adjusted for revaluation till the date of statement of financial position. The interest rate cap arrangement matures on 30 September 2018.

### 18 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Due to related parties	400,655	398,428
Negative fair value of derivative (note 17)	4,234	-
Deferred income – unamortised fee (note 6)	3,633	-
Other accruals	2,756	2,082
Net foreign exchange gain payable to a related party (note 5)	-	2,272,126
	<u>411,278</u>	<u>2,672,636</u>

# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

### 19 SHORT TERM LOAN – RELATED PARTIES

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
Due to a shareholder	<b>1,003,010</b>	1,410,094
Due to other related parties	<b>672,019</b>	518,701
Due to a subsidiary	-	38,000
	<b><u>1,675,029</u></b>	<b><u>1,966,795</u></b>

Due to a shareholder represents short term loan obtained from Xstrata Schweiz AG and is subject to floating interest rate of three months LIBOR plus 80 basis points per annum. The loan was obtained on 22 May 2007 for a period of five years.

Due to other related parties represents a short term loan from Xstrata Finance Pty Ltd. with outstanding balance of USD 189.59 million. This loan is subject to a floating interest rate of US Federal funds target rate plus 0.35% per annum. It also includes a short term loan obtained from Xstrata Commodities Middle East, with outstanding balance of USD 482.44 million which is subject to a floating interest rate of three months LIBOR plus 0.125% per annum.

Due to a subsidiary represents short term interest free loan obtained from Xstrata Nickel International Limited during the year 2010. This loan was settled during the current year.

### 20 COMMITMENTS AND CONTINGENCIES

#### Guarantees of indebtedness of other related parties

The Company has provided guarantees for the financial obligations of a number of Xstrata Group companies. Specifically, the Company has provided:

In November 2011 the Xstrata Group issued USD denominated capital market notes in a USD 3,000 million four-tranche transaction comprising 3 year, 5 year, 10 year and 30 year notes. The fixed interest facilities were issued by Xstrata Finance (Canada) Limited. The capital market notes comprise USD 800 million 2.85% guaranteed notes due November 2014, USD 700 million 3.60% guaranteed notes due January 2017, USD 1,000 million 4.95% guaranteed notes due November 2021 and USD 500 million 6.00% guaranteed notes due November 2041. These capital market notes are guaranteed by the Company, Xstrata Plc, Xstrata (Schweiz) AG and Xstrata Canada Financial Corporation.

In October 2011 the Xstrata Group entered into a guaranteed USD 6,000 million multi-currency revolving syndicated loan facility maturing in October 2016. Interest is payable on drawn down amounts at a rate that is the aggregate of LIBOR, or in relation to Euro, EURIBOR and the relevant margin, which is 85 basis points per annum. As of 31 December 2011, USD 6,000 million was available to be drawn under this facility. The loan was entered into by the Company, Xstrata (Schweiz) AG, Xstrata Canada Financial Corporation and Xstrata Finance (Canada) Limited and is guaranteed by the Company, Xstrata Plc, Xstrata (Schweiz) AG, Xstrata Canada Financial Corporation and Xstrata Finance (Canada) Limited.

In May 2008, the Xstrata Group issued EUR 1,350 million of notes in two tranches under its Euro Medium-Term Note Programme. These comprised EUR 750 million 5.875% fixed guaranteed notes due 2011 and EUR 600 million 6.25% fixed guaranteed notes due 2015. In May 2008, the Group issued GBP 500 million 7.375% fixed guaranteed notes due 2020. The notes were issued by Xstrata Canada Financial Corporation and are guaranteed by the Company, Xstrata Plc, Xstrata (Schweiz) AG, and Xstrata Finance (Canada) Limited. In addition, the notes were swapped into US\$ currency and a floating rate with the swaps guaranteed by Xstrata Plc and Xstrata (Schweiz) AG.

In November 2007, the Xstrata Group completed a USD 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 Plc and Xstrata (Schweiz) AG.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**20 COMMITMENTS AND CONTINGENCIES (continued)**

**Guarantees of indebtedness of other related parties (continued)**

In June 2007, the Xstrata Group issued EUR 1,000 million of notes in two tranches under its Euro Medium-Term Note Programme. These comprised EUR 500 million guaranteed 4.875% notes due 14 June 2012 and EUR 500 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 Plc and Xstrata (Schweiz) AG. In addition, the notes were swapped into US\$ currency and a floating rate with the swaps guaranteed by Xstrata Plc and Xstrata (Schweiz) AG.

In November 2006, the Xstrata Group issued USD 2,250 million of capital market notes in three tranches to refinance existing debt facilities. The notes comprise a USD 1,000 million 10-year facility at a fixed interest rate of 5.8% and a USD 750 million five-year facility at a fixed interest rate of 5.5% issued by Xstrata Finance (Canada) Limited. The issues were guaranteed by the Company, Xstrata Plc and Xstrata (Schweiz) AG. In addition, the issues were swapped into a floating rate with the swaps guaranteed by Xstrata Plc and Xstrata (Schweiz) AG.

**21 RELATED PARTY TRANSACTIONS**

Related parties represent shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influence by such parties.

Transactions with related parties included in the income statement are as follows:

	<i>2011</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>
<b>Finance income</b>		
Other related parties	<u>1,227,179</u>	<u>647,577</u>
<b>Finance costs</b>		
Shareholders	13,201	28,493
Other related parties	<u>4,894</u>	-
	<u>18,095</u>	<u>28,493</u>

An amount of USD 260 million (2010: USD 85 million) was received from a wholly owned subsidiary as dividend income.

Balances with related parties included in the statement of financial position are disclosed in notes 10, 13, 18 and 19.

***Terms and conditions of transactions with related parties***

The pricing policies and terms of these transactions are proposed by Xstrata group treasury and approved by the Company's management. For the year ended 31 December 2011, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2010: USD Nil). This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

**Compensation of key management personnel**

All the decisions relating to planning, directing and controlling the activities of the company are taken at Xstrata Group level and accordingly management believes that there are no employees on the payroll of the company responsible for key management role.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial liabilities comprise loans and borrowings, due to related parties and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has due from related parties, trade and other receivables, cash and short-term deposits and loans to related parties that arrive directly from its operations. The Company also holds available-for-sale investment and other financial assets.

The Company is exposed to interest rate risk, equity price risk, credit risk, liquidity risk and foreign currency risk.

The Company's senior management oversees the management of these risks. The Company's financial risk-taking activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies in accordance with Xstrata Group guidelines for managing each of these risks which are summarised below.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the assets and liabilities with floating interest rates.

*Interest rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Company's profit is affected through the impact on floating rate borrowings as follows:

There is no impact on the Company's equity, other than through the income statement:

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year USD'000</i>
<b>2011</b>		
USD	<b>+100</b>	<b>23,580</b>
2010		
USD	+100	198,186

Decrease in basis point will have an equal and opposite impact on the profits for the year.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Equity price risk**

The following table demonstrate the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in prices is expected to be equal and opposite to the effect of the increases shown, with the exception that decreases will impact the income statement rather than equity directly.

	2011			2010		
	<i>Change in equity price %</i>	<i>Effect on equity USD'000</i>	<i>Effect on income statement USD'000</i>	<i>Change in equity price %</i>	<i>Effect on equity USD'000</i>	<i>Effect on income statement USD'000</i>
Listed shares	10%	43,197	-	10	4,763	-

**Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is not exposed to significant third party credit risk as its major transactions are with related parties except for other financial assets amounting to USD 183 million.

The Company limits its credit risk with regard to bank balances by dealing only with reputable banks.

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**Liquidity risk**

The Company limits its liquidity risk by ensuring adequate funds are available from banks and from related parties.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

*At 31 December 2011*

	<i>Due in less than 3 months USD'000</i>	<i>Due between 3 to 12 months USD'000</i>	<i>Due between 1 to 5 years USD'000</i>	<i>Due after 5 years USD'000</i>	<i>Total USD'000</i>
Accounts payable and accruals	411,278	-	-	-	411,278
Short term loan - related parties *	672,019	1,007,634	-	-	1,679,653
<b>Total</b>	<b>1,083,297</b>	<b>1,007,634</b>	<b>-</b>	<b>-</b>	<b>2,090,931</b>

\*Loans that are repayable on demand are considered to be due in less than 3 months and no interest is included for future periods.

*At 31 December 2010*

	<i>Due in less than 3 months USD'000</i>	<i>Due between 3 to 12 months USD'000</i>	<i>Due between 1 to 5 years USD'000</i>	<i>Due after 5 years USD'000</i>	<i>Total USD'000</i>
Accounts payable and accruals	2,672,636	-	-	-	2,672,636
Short term loan - related parties	496,317	1,488,951	-	-	1,985,268
<b>Total</b>	<b>3,168,953</b>	<b>1,488,951</b>	<b>-</b>	<b>-</b>	<b>4,657,904</b>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on interest receivables and loans to related parties denominated in currencies other than US Dollars.

The table below indicates the Company's foreign currency exposure at 31 December 2011 and 31 December 2010, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the USD currency rate against the Australian Dollar, South African Rand and Euro, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets).

	<i>Increase/ decrease in foreign currency rate to the USD</i>	<i>Effect on profit before tax USD'000</i>
<b>2011</b>	<b>+5%</b>	<b>1,109</b>
<b>2010</b>	<b>+5%</b>	<b>1,285</b>

Decrease in currency rate will have equal and opposite impact on the profits for the year.

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in business conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return of capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. Capital comprises share capital, retained earnings and other components of equity and it is measured at USD 28,251 million (2010: USD 17,791 million).

**23 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

Financial assets at the year-end consist of due from related parties, trade and other receivables, cash and bank balances and available-for-sale assets and loans to related parties. Financial liabilities at the year-end consist of loans and borrowings, due to related parties and trade and other payables.

The fair values of financial instruments approximate their carrying values largely due to the fact that loans are priced approximately at market terms and due to short-term maturities of these instruments.

**24 KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Impairment of investments**

Investments in subsidiaries are carried in the separate financial statements at cost, net of impairment losses when necessary. The Company determines at each reporting date whether there is any objective evidence that the investments in subsidiaries are impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the investments and its carrying value and recognises the amount in the income statement. This requires an estimation of the 'value in use' of the cash generating unit. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2011

**24 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

**Impairment of loan to the Parent Company**

An estimate of the collectible amount of the loan to the related parties and related interest is made when collection of the full amount is no longer probable. At the reporting date, gross loan to the related parties and interest thereon was USD 29,146.32 million (2010 USD 21,785.42 million) and USD 11.26 million (2010 USD 25.71 million), respectively, and there was no provision for doubtful receivables. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

**25 RESTATEMENT**

These financial statements are issued in place of a previous set of financial statements for the Company for the year ended 31 December 2011 which were approved by the Board on 22 March 2012. The financial statements have been restated following a decision by management to reclassify a gain of USD 1,721,344 thousand previously reported in the income statement to now be reported directly in equity. The change has been made to bring the presentation of such intra group transactions in line with the preferred accounting treatment across the Xstrata plc group. There is no change in the total equity of the Company as at 31 December 2011 as a consequence of this change in presentation.

**Xstrata Finance (Dubai) Limited**

**SEPARATE FINANCIAL STATEMENTS**

**31 DECEMBER 2010**



## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF XSTRATA FINANCE (DUBAI) LIMITED**

### **Report on the Separate Financial Statements**

We have audited the accompanying separate financial statements of Xstrata Finance (Dubai) Limited (the "Company"), which comprise the statement of financial position as at 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Separate Financial Statements*

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the Companies Law pursuant to DIFC Law No. 2 of 2009, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these separate financial statements based on our audit. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the shareholders of the Company as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
XSTRATA FINANCE (DUBAI) LIMITED (continued)**

*Opinion*

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the separate financial statements include, in all material respects, the applicable requirements of the Companies Law pursuant to DIFC Law No. 2 of 2009. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Companies Law pursuant to DIFC Law No. 2 of 2009 have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

*Ernst & Young*

10 March 2011

Dubai, United Arab Emirates

# Xstrata Finance (Dubai) Limited

## INCOME STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	<i>2010 USD'000</i>	<i>2009 USD'000</i>
Finance income	3	652,788	431,620
Finance costs	4	(45,495)	(98,243)
<b>NET FINANCE INCOME</b>		<b>607,293</b>	<b>333,377</b>
Other income		-	1,045
Realised gain on disposal of available-for-sale financial assets	10	112,361	-
Dividend income from a subsidiary	20	85,000	-
General and administrative expenses		(2,324)	(1,234)
Foreign exchange translation gain	5	11,532	43,162
<b>PROFIT BEFORE TAX</b>		<b>813,862</b>	<b>376,350</b>
Income tax expense	6	(50,314)	(26,564)
<b>PROFIT FOR THE YEAR</b>	7	<b>763,548</b>	<b>349,786</b>

The attached notes 1 to 24 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>Note</i>	<b>2010</b> <b>USD'000</b>	<b>2009</b> <b>USD'000</b>
Profit for the year		<b>763,548</b>	<b>349,786</b>
<b>Other comprehensive income</b>			
Gains on available-for-sale financial assets	10	<b>64,890</b>	<b>86,443</b>
Disposal of available-for-sale financial assets	10	<b>(112,361)</b>	<b>-</b>
		<b>(47,471)</b>	<b>86,443</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>716,077</b>	<b>436,229</b>

The attached notes 1 to 24 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

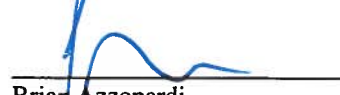
## STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	<i>Notes</i>	<i>2010 USD'000</i>	<i>2009 USD'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	8	557,500	557,500
Loans to related parties	9	15,974,984	15,011,422
Available-for-sale financial assets	10	47,627	121,024
Long term deposits	11	-	538,563
		<u>16,580,111</u>	<u>16,228,509</u>
<b>Current assets</b>			
Accounts receivable and prepayments	12	39,347	121,388
Loans to related parties	9	5,810,441	734,211
Bank balances and cash	13	171	939
		<u>5,849,959</u>	<u>856,538</u>
<b>TOTAL ASSETS</b>		<u><b>22,430,070</b></u>	<u><b>17,085,047</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	16,253,602	14,136,500
Retained earnings		1,498,065	736,565
Other reserves		38,972	86,443
<b>Total equity</b>		<u><b>17,790,639</b></u>	<u><b>14,959,508</b></u>
<b>Non-current liabilities</b>			
Long term loan - shareholders	16	-	1,421,049
		<u>-</u>	<u>1,421,049</u>
<b>Current liabilities</b>			
Accounts payable and accruals	17	2,672,636	634,490
Short term loan – related parties	18	1,966,795	70,000
		<u>4,639,431</u>	<u>704,490</u>
<b>Total liabilities</b>		<u><b>4,639,431</b></u>	<u><b>2,125,539</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>22,430,070</b></u>	<u><b>17,085,047</b></u>

The separate financial statements were authorised for issue by:

  
 Wayne Apted  
 Director  
 10 March 2011

  
 Brian Azzopardi  
 Director  
 10 March 2011

The attached notes 1 to 24 form part of these separate financial statements.

Xstrata Finance (Dubai) Limited

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	<i>Note</i>	<i>Share capital USD'000</i>	<i>Retained earnings USD'000</i>	<i>Other reserves USD'000</i>	<i>Total USD'000</i>
Balance at 1 January 2009		10,692,000	564,787	-	11,256,787
Profit for the year		-	349,786	-	349,786
Other comprehensive income for the year		-	-	86,443	86,443
Total comprehensive income		-	349,786	86,443	436,229
Issue of share capital		3,444,500	-	-	3,444,500
Dividends paid	15	-	(178,008)	-	(178,008)
Balance at 31 December 2009		14,136,500	736,565	86,443	14,959,508
Profit for the year		-	763,548	-	763,548
Other comprehensive income		-	-	(47,471)	(47,471)
Total comprehensive income		-	763,548	(47,471)	716,077
Issue of share capital		2,117,102	-	-	2,117,102
Dividends paid	15	-	(2,048)	-	(2,048)
<b>Balance at 31 December 2010</b>		<b>16,253,602</b>	<b>1,498,065</b>	<b>38,972</b>	<b>17,790,639</b>

The attached notes 1 to 24 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before tax		813,862	376,350
Adjustments for:			
Amortisation of deferred arrangement fees		-	18,450
Gains on repurchase of capital market loans		-	(1,045)
Dividend income from a subsidiary	20	(85,000)	-
Realised gain on available-for-sale financial assets		(112,361)	-
		<u>616,501</u>	<u>393,755</u>
<i>Working capital changes:</i>			
Accounts receivable and prepayments		82,041	1,447,080
Accounts payable and accruals		2,038,146	607,092
Short term loan – a related party	18	1,896,795	70,000
Cash from operations		<u>4,633,483</u>	<u>2,517,927</u>
Income tax paid	6	(50,314)	(26,564)
Net cash from operating activities		<u>4,583,169</u>	<u>2,491,363</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from the sale of available-for-sale financial assets		138,287	-
Investments in subsidiaries		-	(557,500)
Loans granted to related parties		(6,039,792)	(3,758,664)
Long term deposits	11	538,563	(538,563)
Dividend income from a subsidiary	20	85,000	-
Cash used in investing activities		<u>(5,277,942)</u>	<u>(4,854,727)</u>
<b>FINANCING ACTIVITIES</b>			
Issue of share capital		2,117,102	3,444,500
Loan obtained from shareholders		-	1,421,049
Long and short term loans (repaid) received		-	(2,325,955)
Repayment of loans obtained from shareholders		(1,421,049)	-
Dividends paid	15	(2,048)	(178,008)
Net cash from financing activities		<u>694,005</u>	<u>2,361,586</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(768)</b>	<b>(1,778)</b>
Cash and cash equivalents at 1 January		<u>939</u>	<u>2,717</u>
<b>CASH AND CASH EQUIVALENT AT 31 DECEMBER</b>	<b>13</b>	<u><u>171</u></u>	<u><u>939</u></u>

The attached notes 1 to 24 form part of these separate financial statements.

# Xstrata Finance (Dubai) Limited

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

### 1 ACTIVITIES

Xstrata Finance (Dubai) Limited (the "Company") is a limited liability company registered and incorporated in the Dubai International Financial Centre (DIFC) in Dubai, United Arab Emirates on 15 January 2006. The Company is registered in the DIFC and is engaged in providing inter-group financing activities for the Xstrata plc group of companies. The Company's principal place of business is at P.O. Box 506721, Unit 9, Level 2, Gate Village 1, DIFC, Dubai, UAE.

The Company's major shareholder is Xstrata plc (the "Parent Company"), a company incorporated under the laws of England and Wales.

#### Exemption from IAS 27

These separate financial statement have been prepared as per Paragraph 10(d) of the International Accounting Standard (IAS) 27 'Consolidated and Separate Financial Statements' which states that, a parent need not present consolidated financial statements if the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use. Accordingly, these financial statements reflect the operating results and the financial position of the Company only. For an understanding of the consolidated results of operations and the consolidated financial position, the consolidated financial statements of the Ultimate Parent Company, Xstrata plc should be referred to.

The extent of the Company's shareholding in the subsidiaries is:

<i>Name of the entity</i>	<i>Ownership interest</i>		<i>Country of incorporation</i>
	<i>2010</i>	<i>2009</i>	
Xstrata Nickel International Limited (Note 8)	100%	-	Barbados
Falconbridge Custom Processing Limited	-	100%	Barbados
XNC Finance Limited	100%	100%	Cayman Islands

On 1 February 2010, Falconbridge Custom Processing Limited was voluntary dissolved.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Company Law pursuant to DIFC Law No 2 of 2009.

The separate financial statements are prepared under the historical cost convention except for the available-for-sale investments that have been measured at fair value.

The separate financial statements have been presented in United States Dollars ('USD'), which is the functional and presentation currency of the Company, and all values are rounded to the nearest thousand, except where otherwise indicated.



## 2 SIGNIFICANT ACCOUNTING POLICIES

### Changes in accounting policy and disclosures

#### *New and amended standards and interpretations*

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

#### **Improvements to IFRSs**

In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

#### **Issued in April 2009**

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment has no impact on the statement of cash flows of the Company during the year.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

#### *Issued in April 2009*

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

#### *Standards issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Changes in accounting policy and disclosures (continued)**

***Improvements to IFRSs (issued in May 2010)***

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments and standards on its financial position or performance.

**Use of estimates and judgements**

The preparation of the separate financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies (that have the most significant effect on the amount recognised in the separate financial statements) are discussed in note 23.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts and rebates. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific criteria must also be met before revenue is recognised.

***Interest income***

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

***Dividends***

Revenue is recognised when the Company's right to receive the payment is established.

**Income tax**

Taxation is provided in accordance with applicable regulations of the countries in which the Company has transactions with. Tax liabilities are recognised for amounts that are probable to be paid, and can be reliably estimated.

**Investments in subsidiaries**

Subsidiaries are those companies in which the Company directly or indirectly, has an interest of more than one half of the voting rights and has power to exercise control over the operations.

Investments in subsidiaries are carried in the separate financial statements at cost, net of any provision for permanent diminution in value, if any.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

**Available-for-sale financial investments**

Available-for-sale financial investments comprise of equity securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Available-for-sale investments are recognised initially at fair value plus directly attributable transaction costs.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

The Company evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate ("EIR"). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus directly attributable transactions costs. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs

**Accounts receivable**

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

**Cash and cash equivalents**

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

**De-recognition of financial assets**

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset and has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the right and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

*Financial assets carried at amortised cost (continued)*

If there is objective evidence that an impairment loss has 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 expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

**Loans and borrowings**

Interest bearing loans and borrowings are recognised initially at fair value plus directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

**De-recognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the income statement.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 10.

**3 FINANCE INCOME**

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Interest income - other related parties	647,577	408,966
Interest income - commercial banks	5,211	22,251
Interest income - shareholder	-	403
	<u>652,788</u>	<u>431,620</u>

**4 FINANCE COSTS**

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Interest expense - shareholders	28,493	56,885
Interest expense - commercial bank (see note below)	16,920	22,811
Bank charges	82	97
Amortisation of deferred arrangement fees	-	18,450
	<u>45,495</u>	<u>98,243</u>

As at the reporting date, the Company has combined multicurrency revolving loan facilities together with two other related parties amounting to USD 9,000 million with various banks. The Company paid a commitment fee of USD 9.033 million (2009: USD 8.311 million) on the undrawn portion of the facilities of USD 9,000 million.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**5 FOREIGN EXCHANGE TRANSLATION GAIN**

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Realised foreign exchange gain	<u>11,532</u>	<u>43,162</u>

Realised foreign exchange gain represents translation gain upon receipt of interest on loans to related parties recognised on the date of payment. Effective from 1 January 2008, the Company has entered into an agreement with Xstrata Finance Aruba V.V. whereby Xstrata Finance Aruba V.V. assumes the risks and rewards of foreign exchange gains and losses on loans to related parties (note 9) held in currencies other than the United States Dollar.

**6 INCOME TAX EXPENSE**

Income tax expense represents withholding tax paid to the Australian Taxation Office at the rate of 10% on each receipt of interest income by the Company from its loans granted to related parties based in Australia. This is the final discharge of tax liability in the tax territory.

**7 PROFIT FOR THE YEAR**

The profit is stated after charging the following:

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Rental - operating lease	<u>86</u>	<u>92</u>

**8 INVESTMENTS IN SUBSIDIARIES**

Effective from 1 January 2008, the Company acquired a wholly owned subsidiary, XNC Finance Ltd. incorporated in Cayman Islands with a paid up share capital of USD 1.

Effective from 20 February 2009, the Company acquired a wholly owned subsidiary, Falconbridge Custom Processing Limited (FCPL) incorporated in Barbados with a paid up share capital of USD 500,010,000. FCPL owns 100% shares in Xstrata Nickel International Limited (XNIL), a Company incorporated in Barbados, with a paid up share capital of 1,000 common shares with a par value of USD 81,706 per share.

Effective from 5 January 2010, 100% shares in XNIL were transferred from FCPL to the Company and on 1 February 2010, FCPL was voluntarily dissolved. The investment at 31 December 2010 represents the Company's investments in XNIL amounting to USD 557,500 thousands.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

9 LOANS TO RELATED PARTIES

	2010 USD'000	2009 USD'000
<b>Other related parties:</b>		
<b>Long term loans:</b>		
Xstrata Holdings Pty Ltd.	7,699,301	8,279,722
Xstrata Nickel Holdings Pty Ltd.	2,176,985	1,909,136
AZSA Holdings Pty Ltd.	2,106,609	1,847,418
Xstrata (Nederland) BV	1,731,640	-
Xstrata Zinc B.V.	1,502,972	1,636,963
XNC Finance Ltd.	474,347	452,771
Ploutos Australia Pty Ltd.	283,130	-
Xstrata South Africa (Pty) Ltd.	-	885,412
	<u>15,974,984</u>	<u>15,011,422</u>
<b>Short term loans:</b>		
Xstrata Canada Corporation	5,722,580	715,450
Xstrata Projects Pty Ltd.	87,861	18,761
	<u>5,810,441</u>	<u>734,211</u>

The loans to Xstrata Holdings Pty Ltd. represent preference shares issued amounting to AUD 7,524 million (2009: AUD 9,226 million) and are subject to fixed dividend rates ranging from 8.25% to 8.65% and a floating interest rate based on LIBOR plus credit spread (2009: 8.25% to 8.65% and a floating interest rate based on LIBOR plus credit spread).

The loans to Xstrata Nickel Holding Pty Ltd. represent preference shares issued amounting to AUD 2,127 million (2009: AUD 2,127 million) and are subject to fixed dividend rate of 9.925% (2009: 9.925%).

The loans to AZSA Holdings Pty Ltd. represent preference shares issued amounting to AUD 2,058 million (2009: AUD 2,058 million) and are subject to fixed dividend rates ranging from 8.25% to 11.12% (2009: 8.25% to 11.12%).

The loans to Xstrata (Nederland) BV amounted to South African Rand 11,477 million (2009: South African Rand Nil), are payable by 31 July 2020 and are subject to floating interest rates ranging from 8.9% to 9.4% (2009: Nil).

The loans to Xstrata Zinc B.V. amounted to EUR 1,123 million (2009: EUR 1,143 million) and are subject to floating interest rate of three months LIBOR plus 50 basis points (2009: three months LIBOR plus 50 basis points).

The loans to XNC Finance Ltd. amounted to USD 474 million (2009: USD 453 million) and are subject to a fixed interest rate of 4.7% (2009: 4.7%).

The loans to Ploutos Australia Pty Ltd. represents preference shares issued amounting to AUD 277 million (2009: AUD Nil) and is subject to fixed dividend rate of 7.357% (2009: Nil).

The loans to Xstrata South Africa (Pty) Ltd. have been repaid during the year as the loans were due on demand and were subject to floating interest rates ranging from 9.5% to 10.5% (2009: 10.5% to 15%).

The Directors have no intention to demand repayment of these loans in the foreseeable future; as such these loans are classified as long term as at 31 December 2010. All interest rates disclosed above are 12 month interest rates.

The loan to Xstrata Canada Corporation represents short term interest free loan.

The loan to Xstrata Projects Pty Ltd. amounted to USD 87.861 million (2009: USD 18.761 million) and is subject to the floating rate of LIBOR plus 1.5% per annum (2009: LIBOR plus 1.5% per annum).



NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Listed shares	<u>47,627</u>	<u>121,024</u>

Movements in the available-for-sale financial investments during the year were as follows:

	<i>USD'000</i>
Balance at 1 January 2009	34,581
Fair value gain	86,443
Fair value as at 31 December 2009	<u>121,024</u>
Fair value gain	64,890
Cost of shares disposed of	(25,926)
Fair value gain on disposal	(112,361)
Balance at 31 December 2010	<u>47,627</u>

The fair value of the quoted equity shares is determined by reference to published price quotation in an active market.

**Fair value hierarchy**

As at 31 December 2010, the Company held the following financial instruments carried at fair value on the statement of financial position:

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

**Assets measured at fair value**

	<i>31 Dec 2010</i> <i>USD'000</i>	<i>Level 1</i> <i>USD'000</i>	<i>Level 2</i> <i>USD'000</i>	<i>Level 3</i> <i>USD'000</i>
Available-for-sale financial investments				
- Equity shares	47,627	47,627	-	-
	<i>31 Dec 2009</i> <i>USD'000</i>	<i>Level 1</i> <i>USD'000</i>	<i>Level 2</i> <i>USD'000</i>	<i>Level 3</i> <i>USD'000</i>
Available-for-sale financial investments				
- Equity shares	121,024	121,024	-	-

During the reporting period ended 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**11 LONG TERM DEPOSITS**

Long term deposits at 31 December 2009 comprised of term deposits kept with a commercial bank based in the United Kingdom. This was kept as securities against long term loans obtained by a related party. The loans have been repaid by the related party during the year and the deposits have been received back by the Company. These were denominated in USD and carried an effective interest rate of LIBOR plus 4% per annum.

**12 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Accrued interest receivable – other related parties (Note 24)	25,708	100,908
Due from related parties (Note 24)	10,421	20,421
Other receivables	3,218	59
	<u>39,347</u>	<u>121,388</u>

**13 CASH AND CASH EQUIVALENTS**

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Current accounts	<u>171</u>	<u>939</u>

**14 SHARE CAPITAL**

*Authorized:*

25,000,000,000 par value shares of USD 1 each (2009: 25,000,000,000 par value shares of USD 1 each)

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
<i>Issued and fully paid:</i>		
As at 31 December 2010 and as at 31 December 2009	<u>16,253,602</u>	<u>14,136,500</u>

During the year, the Company's Board of Directors resolved to increase the share capital from 14,136,500,000 shares of USD 1 each to 16,253,602,158 shares of USD 1 each. The legal formalities for the increase in capital were completed in 2010.

**15 DIVIDENDS PAID**

During 2010, the Company declared and paid dividends to its shareholders amounting to USD 2 million (2009: USD 178 million).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**16 LONG TERM LOAN – SHAREHOLDERS**

<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>
-	1,421,049
<u>          </u>	<u>          </u>

On 3 March 2009, the Company issued 1,421,049,022 redeemable preference shares to the shareholders in their existing shareholding percentage, which carried a floating interest rate of 3 months LIBOR plus 4.0082% per annum. The redeemable preference shares have been fully redeemed in June 2010.

**17 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2010</i>	<i>2009</i>
	<i>USD'000</i>	<i>USD'000</i>
Net foreign exchange gain payable to a related party (see note below)	2,272,126	634,090
Due to related parties	398,428	-
Other accruals	2,082	400
	<u>          </u>	<u>          </u>
	<u>2,672,636</u>	<u>634,490</u>

During 2008, the Company entered into an agreement with Xstrata Finance Aruba V.V. whereby Xstrata Finance Aruba V.V. assumes the risks and rewards of foreign exchange gains and losses on loans to related parties (note 9) held in currencies other than the United States Dollar.

**18 SHORT TERM LOAN – RELATED PARTIES**

	<i>2010</i>	<i>2009</i>
	<i>USD'000</i>	<i>USD'000</i>
Due to a shareholder	1,410,094	-
Due to other related party	518,701	-
Due to a subsidiary	38,000	70,000
	<u>          </u>	<u>          </u>
	<u>1,966,795</u>	<u>70,000</u>

Due to a shareholder represents short term loan obtained from Xstrata Schweiz AG and is subject to floating interest rate of three months LIBOR plus 80 basis points per annum.

Due to other related party represents short term loan. This loan is subject to floating interest rate of US Federal funds target rate + 0.35% per annum.

Due to a subsidiary represents short term interest free loan obtained from Xstrata Nickel International Limited during the year.

**19 COMMITMENTS AND CONTINGENCIES**

**Guarantees of indebtedness of other related parties**

The Company is a guarantor to certain long term notes issued by related parties amounting to USD 6,640 million (2009: USD 7,224 million) and guarantor to certain syndicated loans obtained by related parties amounting to USD 8,680 million (2009: USD 10,139 million). As of 31 December 2010, the Directors are of the opinion that no liabilities will arise in relation to the guarantees given to the note holders and syndicated loan lenders.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**20 RELATED PARTY TRANSACTIONS**

Related parties represent shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influence by such parties.

Transactions with related parties included in the income statement are as follows:

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
<b>Finance income</b>		
Other related parties	647,577	408,966
Shareholders	-	403
	<u>647,577</u>	<u>409,369</u>
<b>Finance costs</b>		
Shareholders	<u>28,493</u>	<u>56,885</u>

An amount of USD 85 million (2009: USD Nil) was received from a wholly owned subsidiary as dividend income.

Balances with related parties included in the statement of financial position are disclosed in notes 9, 12, 16, 17 and 18.

***Terms and conditions of transactions with related parties***

The pricing policies and terms of these transactions are approved by the Company's management. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2009: USD Nil). This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	<i>2010</i> <i>USD'000</i>	<i>2009</i> <i>USD'000</i>
Short-term benefits	<u>631</u>	<u>310</u>

The amounts disclosed in the table are amounts recognised as an expense during the reporting period related to key management personnel.

**21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial liabilities comprise loans and borrowings, due to related parties and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has due from related parties, trade and other receivables, cash and short-term deposits and loans to related parties that arrive directly from its operations. The Company also holds available-for-sale investment.

The Company is exposed to interest rate risk, equity price risk, credit risk, liquidity risk and foreign currency risk.

The Company's senior management oversees the management of these risks. The Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the assets and liabilities with floating interest rates.

*Interest rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Company's profit is affected through the impact on floating rate borrowings as follows:

There is no impact on the Company's equity, other than through the income statement:

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit for the year USD '000</i>
<b>2010</b>		
USD	+100	198,186
<b>2009</b>		
USD	+100	141,477

Decrease in basis point will have an equal and opposite impact on the profits for the year.

**Equity price risk**

The following table demonstrate the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in prices is expected to be equal and opposite to the effect of the increases shown.

	<u>2010</u>			<u>2009</u>		
	<i>Change in equity price %</i>	<i>Effect on equity USD '000</i>	<i>Effect on income statement USD '000</i>	<i>Change in equity price %</i>	<i>Effect on equity USD '000</i>	<i>Effect on income statement USD '000</i>
Listed shares	10	4,763	-	10	12,102	-

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is not exposed to significant credit risk as its major transactions are with related parties.

The Company limits its credit risk with regard to bank balances by dealing only with reputable banks.

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

At 31 December 2010

**21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Liquidity risk**

The Company limits its liquidity risk by ensuring adequate funds are available from the banks and from the related parties.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

*At 31 December 2010*

	<i>Due in less than 3 months USD'000</i>	<i>Due between 3 to 12 months USD'000</i>	<i>Due between 1 to 5 years USD'000</i>	<i>Due after 5 years USD'000</i>	<i>Total USD'000</i>
Accounts payable and accruals	2,672,636	-	-	-	2,672,636
Short term loan - related parties	496,317	1,488,951	-	-	1,985,268
<b>Total</b>	<b>3,168,953</b>	<b>1,488,951</b>	<b>-</b>	<b>-</b>	<b>4,657,904</b>

*At 31 December 2009*

	<i>Due in less than 3 months USD'000</i>	<i>Due between 3 to 12 months USD'000</i>	<i>Due between 1 to 5 years USD'000</i>	<i>Due after 5 years USD'000</i>	<i>Total USD'000</i>
Accounts payable and accruals	634,490	-	-	-	634,490
Short term loan - a related party	70,000	-	-	-	70,000
Long term loan - shareholders	-	61,105	1,665,469	-	1,726,574
<b>Total</b>	<b>704,490</b>	<b>61,105</b>	<b>1,665,469</b>	<b>-</b>	<b>2,431,064</b>

**Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on interest receivables and loans to related parties denominated in currencies other than US Dollars.

As discussed in note 5 and 17, the Company has entered into an agreement with Xstrata Finance Aruba V.V. whereby Xstrata Finance Aruba V.V. assumes the risks and rewards of foreign exchange gains and losses on loans to related parties held in currencies other than the United States Dollar.

The table below indicates the Company's foreign currency exposure at 31 December 2010 and 31 December 2009, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the USD currency rate against the Australian Dollar, South African Rand and Euro, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets).

	<i>Increase/ decrease in foreign currency rate to the USD</i>	<i>Effect on profit before tax USD'000</i>
<b>2010</b>	<b>+5%</b>	<b>1,285</b>
<b>2009</b>	<b>+5%</b>	<b>5,045</b>

Decrease in currency rate will have equal and opposite impact on the profits for the year.

**21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in business conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return of capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009. Capital comprises share capital, retained earnings and other components of equity and it is measured at USD 17,791 million (2009: USD 14,960 million).

**22 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

Financial assets at the year end consist of due from related parties, trade and other receivables, cash and bank balances and available-for-sale assets and loans to related parties. Financial liabilities at the year end consist of loans and borrowings, due to related parties and trade and other payables.

The fair values of financial instruments approximate their carrying values largely due to the short-term maturities of these instruments.

**23 KEY SOURCES OF ESTIMATION UNCERTAINTY**

**Impairment of investments**

Investments in subsidiaries are carried in the separate financial statements at cost, net of impairment losses when necessary. The Company determines at each reporting date whether there is any objective evidence that the investments in subsidiaries are impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the investments and its carrying value and recognises the amount in the income statement. This requires an estimation of the 'value in use' of the cash generating unit. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**24 COMPARATIVE AMOUNTS**

The due from related party amounting to USD 715,450 which was included in accounts receivable and prepayments for the year ended 31 December 2009 has been presented as short term loan as part of loans to related parties in the statement of financial position.

This change has been made to improve the quality of the information presented. This reclassification does not affect previously reported total comprehensive income or equity.

## **Financial Statements of Xstrata Canada**

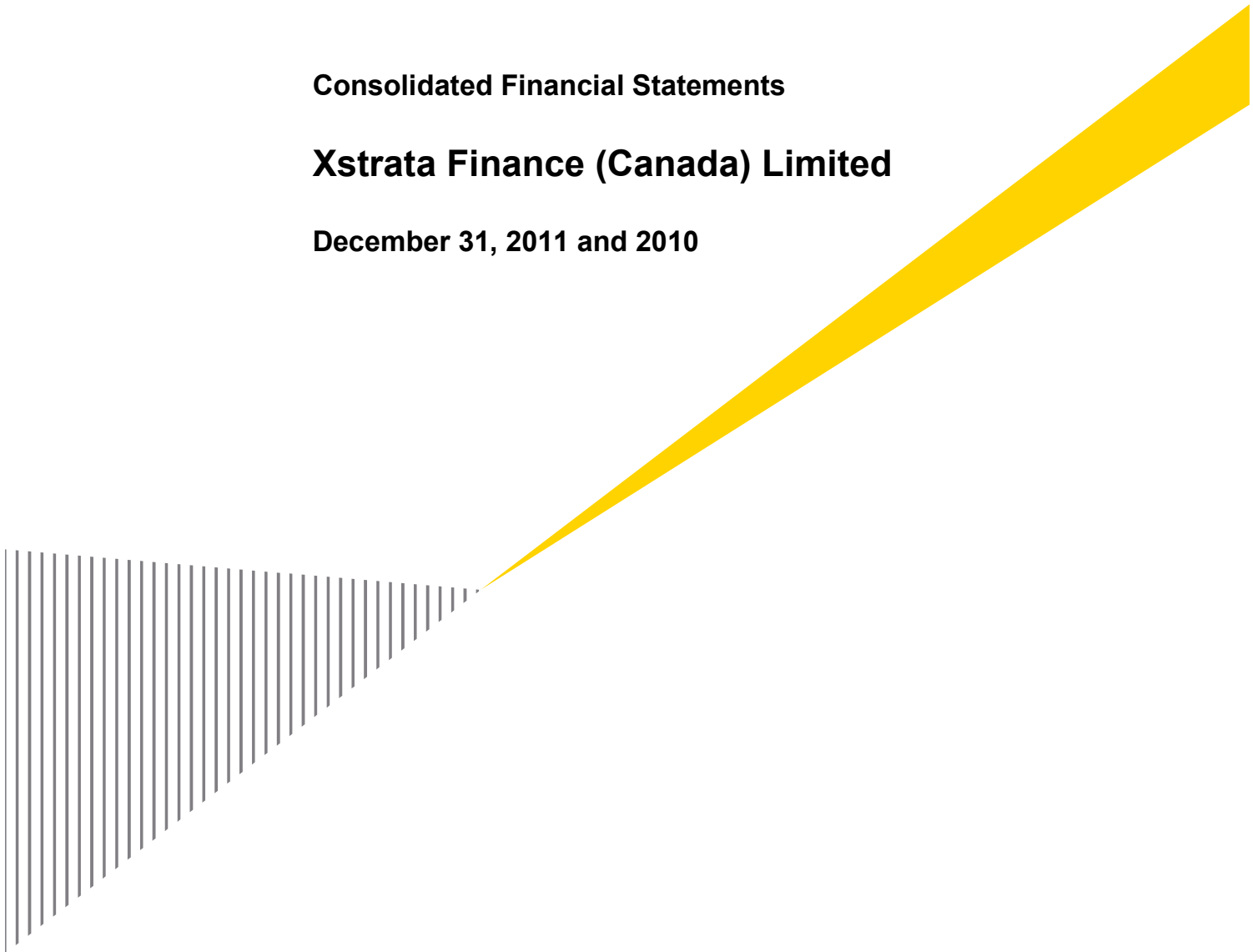
The financial statements for the financial year ended 31 December 2011, which were approved by the board of directors of Xstrata Canada on 2 March 2012, and reported on by the auditors, Ernst & Young LLP, are set out below. The financial statements for the year ended 31 December 2010, which were approved by the board of directors of Xstrata Canada on 16 March 2011, and reported on by the auditors, Ernst & Young LLP, are also set out below. The financial statements of Xstrata Canada have been prepared in accordance with IFRS as issued by the IASB, for the year ended 31 December 2011 and the comparative year ended 31 December 2010; and in accordance with Canadian GAAP, for the year ended 31 December 2010.



**Consolidated Financial Statements**

**Xstrata Finance (Canada) Limited**

**December 31, 2011 and 2010**



## INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
**Xstrata Finance (Canada) Limited**

We have audited the accompanying consolidated financial statements of **Xstrata Finance (Canada) Limited**, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Xstrata Finance (Canada) Limited** as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Toronto, Canada,  
March 2, 2012.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

**XSTRATA FINANCE (CANADA) LIMITED**  
**Consolidated Statement of Financial Position**  
**As at December 31, 2011 and 2010**  
(In \$000s of USD)

	2011	2010	January 1, 2010
<b>Assets</b>			
Current assets			
Cash	\$ 265	\$ 251	\$ 631
Interest receivable from affiliates (note 6)	67,134	54,754	53,076
Other receivable from affiliate (note 3)	104,316	67,111	427,129
Loan due from affiliate (note 3)	674,348	1,890,729	-
Derivative financial assets (notes 3 and 8)	30,121	71,348	759
	<u>876,184</u>	<u>2,084,193</u>	<u>481,595</u>
Non-current assets			
Derivative financial assets (notes 3 and 8)	596,455	486,494	610,285
Long-term receivable from affiliate	-	-	19,522
Loans due from affiliates (note 6)	8,468,546	5,634,470	10,110,225
Deferred tax asset (notes 3 and 5)	1,267	601	1,640
	<u>9,066,268</u>	<u>6,121,565</u>	<u>10,741,672</u>
<b>Total assets</b>	<b>\$ 9,942,452</b>	<b>\$ 8,205,758</b>	<b>\$ 11,223,267</b>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities			
Accrued interest payable (note 7)	\$ 59,823	\$ 49,815	\$ 51,428
Payable to affiliates (note 3)	829	274	27,028
Accrued liabilities	-	155	-
Derivative financial liabilities (notes 3 and 8)	26,960	203,244	-
Borrowings (note 3)	825,196	1,788,029	82,366
Loan payable to affiliate (note 3)	1,371,600	926,620	-
Income taxes payable (note 3)	583	(74)	249
	<u>2,284,991</u>	<u>2,968,063</u>	<u>161,071</u>
Non-current liabilities			
Long-term debt (note 7)	7,065,398	4,702,286	10,522,380
Derivative financial liabilities (notes 3 and 8)	573,390	494,596	506,713
Deferred tax liability (notes 3 and 5)	3,266	8,591	9,699
	<u>7,642,054</u>	<u>5,205,473</u>	<u>11,038,792</u>
<b>Shareholder's equity</b>			
Share capital (unlimited number of common shares authorized, no par value, one share issued and outstanding)	-	-	-
Additional paid-in capital (note 3)	8,680	8,680	-
Retained earnings	6,727	23,542	23,404
Accumulated other comprehensive income	-	-	-
	<u>15,407</u>	<u>32,222</u>	<u>23,404</u>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 9,942,452</b>	<b>\$ 8,205,758</b>	<b>\$ 11,223,267</b>

See accompanying notes

On behalf of the Board:



**Michael Boone**  
Director



**Stephen Young**  
Director

**XSTRATA FINANCE (CANADA) LIMITED**  
**Consolidated Statement of Income (Loss) and**  
**Comprehensive Income (Loss)**

For the years ended December 31, 2011 and 2010

(In \$000s of USD)

		<u>2011</u>	<u>2010</u>
<b>Revenue and expenses</b>			
Interest revenue	(note 6)	\$ 181,413	\$ 165,862
Administration expenses		104	(1,453)
Interest expense	(note 7)	(159,022)	(133,409)
Amortization of financing arrangement costs		(7,702)	(11,902)
Write-off of financing arrangement fees	(note 3)	(12,686)	(18,707)
Derivative loss	(note 3)	(24,191)	(137)
Foreign exchange loss		(1)	(270)
<b>Loss before income taxes</b>		<u>(22,085)</u>	<u>(16)</u>
<b>Income tax expense (recovery)</b>	(note 5)		
Deferred		(5,991)	(69)
Current		721	(85)
<b>Net income (loss) and comprehensive income (loss)</b>		<u>\$ (16,815)</u>	<u>\$ 138</u>

See accompanying notes

# XSTRATA FINANCE (CANADA) LIMITED

## Consolidated Statement of Cash Flows

For the years ended December 31, 2011 and 2010

(In \$000s of USD)

	2011	2010
<b>Operating activities</b>		
Net income (loss)	\$ (16,815)	\$ 138
Deferred taxes	(5,991)	(69)
Derivative loss	29,910	3,466
Net change in non-cash working capital	17,812	(8,036)
Cash provided by (used in) operating activities	<u>24,916</u>	<u>(4,501)</u>
<b>Investing activities</b>		
Net (decrease) increase in loans due from affiliates	<u>(1,250,686)</u>	3,887,813
Cash (used in) provided by investing activities	<u>(1,250,686)</u>	<u>3,887,813</u>
<b>Financing activities</b>		
Net increase (decrease) in short-term debt	161,594	(52,372)
Proceeds on issuance of long-term debt	3,000,000	-
Repayment of long-term debt	(1,935,810)	(3,840,000)
Increase in additional paid-in capital	-	8,680
Cash provided by (used in) financing activities	<u>1,225,784</u>	<u>(3,883,692)</u>
<b>Net increase (decrease) in cash</b>	<b>14</b>	<b>(380)</b>
Cash, beginning of year	<u>251</u>	<u>631</u>
<b>Cash, end of year</b>	<b>\$ 265</b>	<b>\$ 251</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 142,098	\$ 150,486
Interest received	142,388	152,704
Income taxes paid	64	-

See accompanying notes

**XSTRATA FINANCE (CANADA) LIMITED**  
**Consolidated Statement of Changes in Equity**  
For the years ended December 31, 2011 and 2010  
(In \$000s of USD)

	Share Capital	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	\$ -	\$ -	\$ 23,404	\$ -	\$ 23,404
Additional contribution from parent	-	8,680	-	-	8,680
Comprehensive income	-	-	138	-	138
Balance, December 31, 2010	-	8,680	23,542	-	32,222
Comprehensive loss	-	-	(16,815)	-	(16,815)
<b>Balance, December 31, 2011</b>	<b>\$ -</b>	<b>\$ 8,680</b>	<b>\$ 6,727</b>	<b>\$ -</b>	<b>\$ 15,407</b>

See accompanying notes

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **1. NATURE OF OPERATIONS**

Xstrata Finance (Canada) Limited (the "Company") was incorporated on October 10, 2006 as a private company in Ontario, Canada under the Business Corporations Act (Ontario), under corporation number 1712237. Upon incorporation, one common share was issued to 1184760 Alberta Ltd. (the "Parent"), a private company incorporated in Alberta, Canada, for nominal consideration. The registered office is located at 100 King Street West, First Canadian Place, Suite 6900, P.O. Box 403, Toronto, Ontario, Canada, M5X 1E3.

The Company's consolidated financial statements for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Directors on March 2, 2012.

The Company, together with its wholly owned subsidiary, Xstrata Canada Financial Corp., is engaged in performing certain financing activities for the Xstrata plc ("Xstrata") group of companies and is a wholly-owned indirect subsidiary of Xstrata, the Company's ultimate parent.

The Company's functional currency is the US dollar.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

The accompanying consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. Previously, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

#### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Xstrata Canada Financial Corp. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All significant inter-company transactions and accounts have been eliminated on consolidation.

#### **Use of estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from such estimates and such differences could be material.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date. Revenue and expenses and non-monetary assets and liabilities are translated at the rates of exchange prevailing on the dates of the transactions or when the assets were acquired or the liabilities incurred. Gains and losses arising on translation of foreign currencies are included in the determination of net income (loss) for the year.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Cash**

Cash includes cash in banks and on hand, earns interest at floating rates of interest and is stated at cost, which approximates its fair value.

#### **Revenue recognition**

Interest income is recognized as earned on an accrual basis. Discounts, commissions and loan fees are deferred and amortized to interest income over the term of the loan. The net unamortized fees are included in loans due from affiliates.

#### **Financial instruments**

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial liabilities are classified as financial liabilities at fair value through profit or loss, other liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company determines the classification of its financial assets and financial liabilities at initial recognition. When financial assets and financial liabilities are recognized initially, they are measured at fair value. The subsequent measurement of financial assets and financial liabilities depends on their classification. The Company's financial assets and financial liabilities are classified and subsequently measured as follows:

	<b>Classification</b>	<b>Measurement</b>
Cash	Held for trading	Fair value
Other receivable from affiliate	Loans and receivables	Amortized cost
Derivative financial assets	Held for trading	Fair value
Derivative financial liabilities	Held for trading	Fair value
Borrowings and long-term debt	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost



# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Derecognition of financial assets and liabilities**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Gains and losses on derecognition are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

### **Financial assets or liabilities at fair value through profit or loss**

Financial assets or liabilities classified as held-for-trading are included in the category financial assets or liabilities at fair value through profit or loss. Financial assets or liabilities 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 recognized in the consolidated statement of income (loss) and comprehensive income (loss).

The Company considers whether a contract contains an embedded derivative when it becomes a party to the contract. Embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to the host contract.

### **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 or loss or available-for-sale. Such assets are carried at amortized cost using the effective interest rate method, less impairment. Losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### **Other liabilities**

Other liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Other liabilities are presented as current if payment is due within twelve months. Otherwise, they are presented as non-current liabilities. Finance costs are recognized in the consolidated statement of income (loss) and comprehensive income (loss) using the effective interest rate method.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Fair values**

Financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets without any deduction for transaction costs.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.
- Level 3 - One or more significant inputs used in a valuation technique that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data when available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables; loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale; and loans and receivables that the holder intends to sell immediately or in the near term are classified as held-for-trading.

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties. The Company's credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The fair value is recorded as a derivative gain or loss in the consolidated statement of income (loss) and comprehensive income (loss). The Company recorded a derivative loss of \$24,191 and \$137 for the years ended December 31, 2011 and 2010, respectively.

### **Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets carried at amortized cost are impaired. A financial asset or a group of financial assets carried at amortized cost are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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the amount of the loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss). For available-for-sale assets, such loss is recorded in the consolidated statement of income (loss) and comprehensive income (loss) and removed from accumulated other comprehensive income ("AOCI"). Objective evidence of impairment of loans and receivables exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable that the counterparty will enter into bankruptcy or a financial reorganization.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss), to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### **Derivative financial instruments and hedging**

Due to the nature of its operations, the Company is exposed to foreign currency and interest rate risks in the ordinary course of business. The Company periodically enters into cross-currency and interest rate swaps to partially hedge the effects of foreign currency fluctuation related to foreign currency forecasted transactions and changes in interest rates. The Company does not enter into derivatives for speculative purposes.

Interest rate swaps are marked-to-market and accounted for as fair value hedges, with changes recorded as a derivative gain or loss.

The Company has entered into cross-currency swaps, whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to certain long-term debt. The cross-currency swaps are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company applies 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 Company 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. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item or the hedging instrument is sold or matures, the hedge is no longer effective, or the Company terminates the designation of the hedge. When the hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized to income using the effective interest rate method over the remaining life of the hedged item, unless the hedged item ceases to exist, in which case the adjustments for the impact of the designated risk are immediately recognized in comprehensive income.

When hedge accounting is not used, the derivatives are measured at fair value at the end of each year and the unrealized gains or losses arising from remeasurement are recorded in income.

#### **Fair value hedges**

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates in the market. 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 recorded in the consolidated statement of income (loss) and comprehensive income (loss). The Company uses fair value hedging strategies for its long-term debt portfolios.

In a fair value hedging transaction, the hedging instrument is recognized at fair value and the carrying value of the hedged item is adjusted by the gain or loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded as a derivative gain or loss.

#### **Cash flow hedges**

For cash flow hedges, if any, the change in value of the effective portion is recognized in other comprehensive income. The change in value of the effective portion of a cash flow hedge remains in AOCI until the related hedged item settles, at which time amounts recognized in AOCI are reclassified to the same income account that recorded the hedged item. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within AOCI until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item when realized.

#### **Other receivable from affiliate**

Other receivable from affiliate as at December 31, 2011 and 2010 consists of advances to Xstrata Canada Corporation ("Xstrata Canada") of \$104,316 and \$67,111, respectively. The advances are part of a loan facility where the maturities range from periods of up to five months. Interest income on the advances accrues at a rate of LIBOR plus 25 basis points.

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

#### Loan due from affiliate

Loan due from affiliate consists of the following promissory notes to Xstrata Canada (note 6).

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
6-month USD-BBA-LIBOR + 0.24675% due June 14, 2012	\$ <b>675,000</b>	\$ -	\$ -
5.523% due November 16, 2011	-	718,530	-
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	-	1,173,750	-
	<u><b>675,000</b></u>	<u>1,892,280</u>	<u>-</u>
Unamortized deferred financing costs	<u><b>(652)</b></u>	<u>(1,551)</u>	<u>-</u>
	<u>\$ <b>674,348</b></u>	<u>\$ 1,890,729</u>	<u>\$ -</u>

Interest rate is based on the 6-month USD British Bankers' Association London Inter-Bank Offered Rate (USD-BBA-LIBOR). Interest is receivable semi-annually in arrears except for the note that was due May 27, 2011 which was receivable annually in arrears.

#### Payable to affiliates

Payable to affiliates consists of the following amounts payable to Xstrata Canada:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Expenses paid on behalf of the Company	\$ <b>742</b>	\$ 249	\$ 27,028
Interest payable	<b>87</b>	25	-
	<u>\$ <b>829</b></u>	<u>\$ 274</u>	<u>\$ 27,028</u>

#### Borrowings

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Current portion of long-term debt (note 7)	\$ <b>677,790</b>	\$ 1,759,586	\$ -
Unamortized deferred financing costs	<b>(652)</b>	(1,551)	-
Short-term promissory notes <sup>(a)</sup>	<b>148,058</b>	29,994	82,366
	<u>\$ <b>825,196</b></u>	<u>\$ 1,788,029</u>	<u>\$ 82,366</u>

- (a) On February 26, 2008, the Company entered into an agreement to borrow up to \$1.0 billion of short-term promissory notes. Notes will be issued in maturities of not more than one year from the date of issue. Interest is charged at rates prevailing at the date of issue and ranged from 0.2% to 0.5% and 0.2% to 0.6% during 2011 and 2010, respectively.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

(In \$000s of USD, except as otherwise indicated)

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#### **Loan payable to affiliate**

Loan payable to affiliate consists of the following advances from Xstrata Canada:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
1-month USD-BBA-LIBOR + 0.852% due July 31, 2012	\$ <b>1,371,600</b>	\$ 845,600	\$ -
1-month USD-BBA-LIBOR + 0.25% due April 11, 2013	-	81,020	-
	<u>\$ <b>1,371,600</b></u>	<u>\$ 926,620</u>	<u>\$ -</u>

The loan due July 31, 2012, including any accrued and unpaid interest, is due and payable upon demand of Xstrata Canada. The interest rate spread on this loan was changed from 0.276% to 0.852% effective October 28, 2011.

#### **Deferred financing costs**

Financing costs, incurred on issuance of debt, are deferred and charged against income over the term of the debt. During 2011, the Company incurred deferred financing costs of \$22,009 relating to the issuance of new debt.

Upfront, participating and consent fees on the multi-currency revolving loan facilities are charged to income as incurred. For the year ended December 31, 2011, \$12,686 of upfront and participating fees were charged to income relating to the \$6.0 billion facility. For the year ended December 31, 2010, \$9,472 and \$7,809 of upfront and participating fees were charged to income relating to the \$5.5 billion and \$4.0 billion facilities, respectively. In addition, consent fees of \$1,426 paid in recognition of amendments made to the \$4.7 billion facility were charged to income.

#### **Taxes**

Income tax expense comprises current and deferred tax. Current income tax and deferred tax are recognized in income except to the extent that they relate to a business combination, or items recognized directly in other comprehensive income, in which case the current and/or deferred tax are also recognized directly in other comprehensive income.

#### **Current income tax**

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### **Deferred tax**

Deferred tax is recognized using the liability method in respect of all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are presented as non-current.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

As at December 31, 2011 and 2010, the Company recorded a deferred tax asset of \$1,267 and \$601, respectively, and a deferred tax liability of \$3,266 and \$8,591, respectively, related to its derivative financial instruments consisting of interest rate and cross-currency swaps.

### **Additional paid-in capital**

During 2010, the Company received \$8,680 from its Parent which was recorded as an increase in additional paid-in capital. These funds were used to repay amounts owing to Xstrata Canada, a wholly-owned indirect subsidiary of Xstrata.

### **Comparatives**

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

### **New and amended standards and interpretations effective as of January 1, 2011**

#### **IAS 24, Related Party Disclosures (Amendment)**

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasize a symmetrical view on related party relationships as well as clarify in which circumstances persons and key management personnel affect related party relationships of an entity. The adoption of the amendment did not have any impact on the financial position or performance or disclosures of the Company.

#### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each amendment. The adoption of the following amendments did not have any impact on the financial position or performance of the Company.

- IFRS 7, Financial Instruments: Disclosures: The amendment was intended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1, Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may either be in the statement of changes in equity or in the notes to the financial statements.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **4. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company is in the process of assessing the impact, if any, of adopting the following standards and intends to adopt these standards when they become effective.

#### **IAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

#### **IFRS 7, Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

#### **IFRS 9, Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.



## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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#### **IFRS 10, Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by the Company, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 11, Joint Arrangements**

IFRS 11 replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 12, Disclosure of Involvement with Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 13, Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

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#### 5. INCOME TAXES

##### Income tax charge

Significant components of the income tax charge for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
<b>Current tax</b>		
Based on taxable income for the current year	\$ 582	\$ (74)
Prior year adjustment	139	(11)
Total current tax expense for the year	<u>721</u>	<u>(85)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(6,833)	57
Change in tax rate	786	8
Utilization of tax loss carry forwards	-	(19)
Prior year adjustment	44	(127)
Financing fees	12	12
Total deferred tax recovery for the year	<u>(5,991)</u>	<u>(69)</u>
Total tax recovery	\$ <u>(5,270)</u>	\$ <u>(154)</u>

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 Company's effective income tax rate for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Loss before income taxes	\$ <u>(22,085)</u>	\$ <u>(16)</u>
Expected tax charge at the average statutory income tax rate of 28.25% (2010 - 31%)	(6,239)	(5)
Change in tax rate	786	8
Utilization of tax loss carry forwards	-	(19)
Prior year adjustment	183	(138)
Tax charge at an effective income tax rate	\$ <u>(5,270)</u>	\$ <u>(154)</u>

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

The deferred tax assets and liabilities of the Company consist of the following:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
<b>Deferred tax asset</b>			
Derivative financial liabilities	\$ 1,267	\$ 589	\$ 1,619
Financing fees	-	12	21
Total current tax charge for the year	<u>\$ 1,267</u>	<u>\$ 601</u>	<u>\$ 1,640</u>
<b>Deferred tax liabilities</b>			
Derivative financial assets	\$ 3,266	\$ 8,635	\$ 9,699
Tax loss	-	(44)	-
	<u>\$ 3,266</u>	<u>\$ 8,591</u>	<u>\$ 9,699</u>

## 6. LOANS DUE FROM AFFILIATES

Loans due from affiliates consist of promissory notes from Xstrata Canada and Xstrata NCF Ltd., both wholly-owned indirect subsidiaries of Xstrata. Details of the promissory notes are as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
5.523% due November 16, 2011 (a)	\$ -	\$ 718,530	\$ 718,530
5.823% due November 15, 2016 (a)	<b>1,000,000</b>	1,000,000	1,000,000
6-month USD-BBA-LIBOR + 0.24675% due June 14, 2012	<b>675,000</b>	675,000	675,000
6-month USD-BBA-LIBOR + 0.24675% due June 13, 2017	<b>675,000</b>	675,000	675,000
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	-	1,173,750	1,173,750
6-month USD-BBA-LIBOR + 1.765% due May 27, 2015	<b>939,000</b>	939,000	939,000
6-month USD-BBA-LIBOR + 2.163% due May 27, 2020	<b>985,000</b>	985,000	985,000
1-month USD-BBA-LIBOR + 0.862% (b)	<b>1,418,195</b>	892,695	3,499,095
2.85% due November 10, 2014	<b>800,000</b>	-	-
3.6% due January 15, 2017	<b>700,000</b>	-	-
4.95% due November 15, 2021	<b>1,000,000</b>	-	-
6.0% due November 15, 2041	<b>500,000</b>	-	-
6.91% due November 15, 2037	<b>500,000</b>	500,000	500,000
	<u><b>9,192,195</b></u>	<u>7,558,975</u>	<u>10,165,375</u>
Current portion of loans due from affiliates (note 3)	<b>(675,000)</b>	(1,892,280)	-
Unamortized deferred financing costs	<b>(48,649)</b>	(32,225)	(55,150)
	<u><b>\$ 8,468,546</b></u>	<u>\$ 5,634,470</u>	<u>\$ 10,110,225</u>

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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- (a) The Company has entered into interest rate swap agreements with Xstrata Canada over the term of the loans. These interest rate swaps are marked-to-market, with changes in interest rates recorded in income. The economic impact of the swaps is to convert the fixed interest rate to a variable interest rate based on the 6-month USD-BBA-LIBOR. The combined effective interest rate on these loans at December 31, 2011 and 2010 was 1.37% and 1.05%, respectively.
- (b) This note, including any accrued and unpaid interest, is due and payable upon demand of the Company. The interest rate spread was changed from 0.286% to 0.862% effective October 28, 2011. The Company has classified this note as long-term as it has no intention of calling the note prior to December 31, 2012.

As part of the agreements, Xstrata Canada has assumed approximately \$13,325 and nil of commissions and issuance costs and discounts of \$8,684 and nil for the years ended December 31, 2011 and 2010, respectively, relating to the Company's unsecured fixed rate notes (note 7).

Interest is receivable on the notes semi-annually in arrears except for notes due May 27, 2011, 2015 and 2020 which are receivable annually in arrears.

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

#### 7. LONG-TERM DEBT

The Company issued unsecured fixed and floating rate notes as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
5.50% due November 16, 2011, issued at 99.987% (a)	\$ -	\$ 718,530	\$ 718,530
5.80% due November 15, 2016, issued at 99.753% (a)	<b>1,000,000</b>	1,000,000	1,000,000
4.8750% due June 14, 2012, issued at 99.172% (b)	<b>677,790</b>	724,255	785,559
5.2500% due June 13, 2017, issued at 99.136% (b)	<b>789,323</b>	778,399	815,432
5.875% due May 27, 2011, issued at 99.693% (c.i)	-	1,041,056	1,136,031
6.25% due May 27, 2015, issued at 99.317% (c.ii)	<b>880,058</b>	879,912	926,204
7.375% due May 27, 2020, issued at 99.156% (c.iii)	<b>944,666</b>	851,945	855,774
1-month USD-BBA-LIBOR + 0.276% due July 31, 2012	-	-	3,840,000
2.85% due November 10, 2014, issued at 99.906%	<b>800,000</b>	-	-
3.6% due January 15, 2017, issued at 99.919%	<b>700,000</b>	-	-
4.95% due November 15, 2021, issued at 99.874%	<b>1,000,000</b>	-	-
6.0% due November 15, 2041, issued at 98.779%	<b>500,000</b>	-	-
6.90% due November 15, 2037, issued at 99.687%	<b>500,000</b>	500,000	500,000
	<u><b>7,791,837</b></u>	<u>6,494,097</u>	<u>10,577,530</u>
Current portion of long-term debt (note 3)	<b>(677,790)</b>	(1,759,586)	-
Unamortized deferred financing costs	<b>(48,649)</b>	(32,225)	(55,150)
	<u><b>\$ 7,065,398</b></u>	<u>\$ 4,702,286</u>	<u>\$ 10,522,380</u>

Interest is payable semi-annually in arrears except for the notes due May 27, 2011, 2015 and 2020 which are payable annually in arrears. The notes are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata and its wholly-owned indirect subsidiaries, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. As at December 31, 2011 and 2010, accrued interest payable was \$59,823 and \$49,815, respectively (note 12).

- (a) The Company has entered into interest rate swap agreements with certain financial institutions over the term of the notes. These interest rate swaps are marked-to-market with changes in interest rates recorded in income. The economic impact of the swaps is to convert the fixed interest rate to a variable interest rate based on the 6-month USD-BBA-LIBOR. The combined effective interest rate on these notes through December 31, 2011 and 2010 was 1.35% and 1.03%, respectively.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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- (b) These notes were issued for Euro 500,000 each. The Company has entered into cross-currency swaps whereby future cash flow commitments denominated in Euro are received and US dollars are paid on interest and principal relating to these notes.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31, 2011</b>	December 31, 2010	At Inception
Euro (EUR:US\$)	<b>1.296</b>	1.338	1.35

- (c) These notes were issued for Euro 750,000 (c.i), Euro 600,000 (c.ii) and GBP 500,000 (c.iii). The Company entered into cross-currency swaps whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to the notes.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31, 2011</b>	December 31, 2010	At Inception
Euro (EUR:US\$)	<b>1.296</b>	1.338	1.565
Great Britain pound (GBP:US\$)	<b>1.554</b>	1.561	1.970

#### **Syndicated bank loans**

On October 24, 2011, the Company, Xstrata Canada Financial Corp., Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited entered into a guaranteed US\$6,000 million multi-currency revolving syndicated loan 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 85 basis points per annum. The facility matures on October 24, 2016. As of December 2011, \$6,000 million was available to be drawn under this facility.

#### **Repaid facilities**

On July 25, 2007, the Company and Xstrata (Schweiz) AG entered into a guaranteed US\$4,680 million multi-currency revolving syndicated loan 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 27.5 basis points per annum. The facility was scheduled to mature on July 25, 2012.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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On September 17, 2010, Xstrata Canada Financial Corp., Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited entered into a guaranteed 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 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.

These facilities were cancelled during 2011 and replaced with the US\$6,000 million syndicated loan facility.

#### **8. FINANCIAL INSTRUMENTS**

The Company believes the carrying value of its short-term financial instruments, including interest receivable from affiliates and accrued interest payable, approximates their fair value due to their short-term nature.

##### **Fair value hierarchy**

All financial instruments measured at fair value are categorized into one of three hierarchy levels (note 3). Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy.

	<b>December 31, 2011</b>			
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
<b>Financial assets</b>				
Held-for-trading	\$ 265	\$ 626,576	\$ -	\$ 626,841
Loans and receivables	-	8,639,996	-	8,639,996
<b>Financial liabilities</b>				
Held-for-trading	-	(600,350)	-	(600,350)
Other financial liabilities	-	(9,322,846)	-	(9,322,846)
<b>Net financial liability</b>	<b>\$ 265</b>	<b>\$ (656,624)</b>	<b>\$ -</b>	<b>\$ (656,359)</b>

# XSTRATA FINANCE (CANADA) LIMITED

## Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

### Market risk

The Company's primary market risk exposure relates to interest rate risk and foreign currency risk.

#### [a] Interest rate risk

The Company is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR. It is the Company's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates. The Company entered into interest rate swap agreements to alter the interest characteristics of certain long-term debt from a fixed to a floating rate basis. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the term of the agreement without an exchange of the underlying principal amount. During 2011 and 2010, the Company recorded an unrealized gain of \$68,339 and \$29,681, respectively relating to the interest rate swaps.

In addition, the Company entered into interest rate swap agreements to alter the interest characteristics of its loans due from affiliates, whereby floating rates of interest are received and fixed rates are paid. This has the effect of minimizing the Company's interest rate risk exposure on the interest rate swaps on long-term debt. During 2011 and 2010, the Company recorded an unrealized loss of \$1,288 and \$25,089, respectively relating to the interest rate swaps with Xstrata Canada.

In keeping with the Company's preference to borrow and invest at floating rates of interest, the following interest rate swap contracts were outstanding at December 31, 2011 and 2010 and January 1, 2010:

	Principal amount	Average rate %	Fair value	Principal amount	Average rate %	Fair value
	2011	2011	2011	2010	2010	2010
At fair value:						
Interest rate swap from US\$ fixed rates						
Maturing in less than 1 year	\$ 675,000	1.02%	\$ 29,726	\$ 1,955,220	1.39%	\$ 71,348
Maturing between 1 to 2 years	-	-	-	675,000	0.69%	54,662
Maturing between 2 to 3 years	-	-	-	-	-	-
Maturing between 3 to 4 years	939,000	2.57%	105,425	-	-	-
Maturing between 4 to 5 years	1,000,000	1.35%	177,218	939,000	2.22%	85,557
Maturing greater than 5 years	1,660,000	2.31%	313,812	2,660,000	1.65%	346,275
	<u>\$ 4,274,000</u>	<u>1.94%</u>	<u>\$ 626,181</u>	<u>\$ 6,229,220</u>	<u>1.54%</u>	<u>\$ 557,842</u>
				Principal amount	Average rate %	Fair value
				Jan. 1,	Jan. 1,	Jan. 1,
				2010	2010	2010
At fair value:						
Interest rate swap from US\$ fixed rates						
Maturing in less than 1 year				\$ -	-	\$ -
Maturing between 1 to 2 years				1,955,220	1.41%	117,202
Maturing between 2 to 3 years				675,000	0.69%	67,262
Maturing between 3 to 4 years				-	-	-
Maturing between 4 to 5 years				-	-	-
Maturing greater than 5 years				3,599,000	1.81%	343,697
				<u>\$ 6,229,220</u>	<u>1.56%</u>	<u>\$ 528,161</u>



## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

#### [b] Foreign currency risk

The Company entered into cross-currency swap agreements to alter the future cash flow commitments of its Euro and GBP long-term debt to US dollars. These agreements involve the receipt of Euro and GBP amounts in exchange for US dollar payments over the term of the agreements without an exchange of the underlying principal amount. During 2011 and 2010, the Company recorded an unrealized gain of \$98,778 and an unrealized loss of \$248,162, respectively relating to the cross-currency swaps.

The unrealized gains and losses are reported on the consolidated statement of financial position as follows:

	2011	2010	January 1, 2010
<b>Derivative financial assets</b>			
Interest rate swaps on borrowings	\$ 29,726	\$ 71,348	\$ -
Interest rate swaps on long-term debt	<u>596,455</u>	<u>486,494</u>	<u>528,161</u>
	<u>626,181</u>	<u>557,842</u>	<u>528,161</u>
Cross-currency swap on long-term debt	-	-	82,124
	<u>\$ 626,181</u>	<u>\$ 557,842</u>	<u>\$ 610,285</u>
<b>Derivative financial liabilities</b>			
Interest rate swaps on loan due from affiliate	\$ -	\$ 33,294	\$ -
Interest rate swaps on loans due from affiliates	<u>177,218</u>	<u>142,636</u>	<u>150,841</u>
	<u>177,218</u>	<u>175,930</u>	<u>150,841</u>
Cross-currency swap on borrowings	26,960	169,950	-
Cross-currency swap on long-term debt	<u>396,172</u>	<u>351,960</u>	<u>355,872</u>
	<u>423,132</u>	<u>521,910</u>	<u>355,872</u>
	<u>\$ 600,350</u>	<u>\$ 697,840</u>	<u>\$ 506,713</u>

#### Credit risk

The Company does not consider the credit risk associated with its financial instruments to be significant. Interest rate swaps on long-term debt are maintained with high-quality counterparties and the Company does not anticipate that any counterparty will fail to meet its obligations.

#### Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity risk by utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. In addition, the Company utilizes both short- and long-term cash flow forecasts and other financial information to manage liquidity risk.

The Company has various borrowing facilities available to it. This ensures flexibility to minimize liquidity risk and ensures the ongoing solvency of the Company.

# XSTRATA FINANCE (CANADA) LIMITED

## Notes to Consolidated Financial Statements

(In \$000s of USD, except as otherwise indicated)

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### 9. RELATED PARTIES

#### Glencore International AG

As at December 31, 2011 and 2010, Glencore International AG (“Glencore”) owned 1,010,403,999 ordinary shares of Xstrata, the Company’s ultimate parent. These shares represent approximately 34.1% of the issued share capital of Xstrata.

#### Reimbursement Agreement

Pursuant to a Reimbursement Agreement effective October 28, 2008 between the Company and Xstrata Canada, Xstrata Canada may request the Company from time to time to enter into financing transactions (“Financing Transactions”) for the purpose of raising funds to meet Xstrata Canada’s operational needs. In consideration for the Company making available to Xstrata Canada loan or loans under the Financing Transactions, Xstrata Canada will reimburse the Company for all costs incurred by it in connection with the Financing Transactions. Payments are due on demand and without interest.

During the year, the Company entered into the following transactions, in the ordinary course of business, with Xstrata Canada:

	2011		2010
Interest income	\$ 174,265	\$	161,079
Interest expense	5,889		2,937
Interest receivable	67,043		54,727
Interest payable	87		25

### 10. CAPITAL DISCLOSURE

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash

The Company’s objectives when managing capital are to:

1. Maintain a capital structure and an appropriate rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing debt.
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.
3. Deploy capital to provide an appropriate investment return to its shareholder.

The Company’s financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional debt and issue debt to replace existing debt with similar or different characteristics. The Company’s financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company’s needs, and market and economic conditions at the time of the transaction.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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The Board of Directors of the Company reviews the level of dividends paid to the Company's shareholder on an annual basis. There were no changes in the Company's approach to capital management during the year.

### **11. FIRST-TIME ADOPTION OF IFRS**

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS. The Company has adopted IFRS with a transition date of January 1, 2010 (the "Transition Date"). The accounting policies set out in note 3 have been applied on a consistent basis in preparing the consolidated financial statements for the year ended December 31, 2011 and the comparative information presented in these consolidated financial statements for the year ended December 31, 2010.

#### **Adoption of IFRS**

IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the Transition Date with adjustments to assets and liabilities being offset to retained earnings, with IFRS 1 providing for certain optional and mandatory exemptions to this principle. The Company has not applied any exemptions to its opening consolidated IFRS statement of financial position as at January 1, 2010.

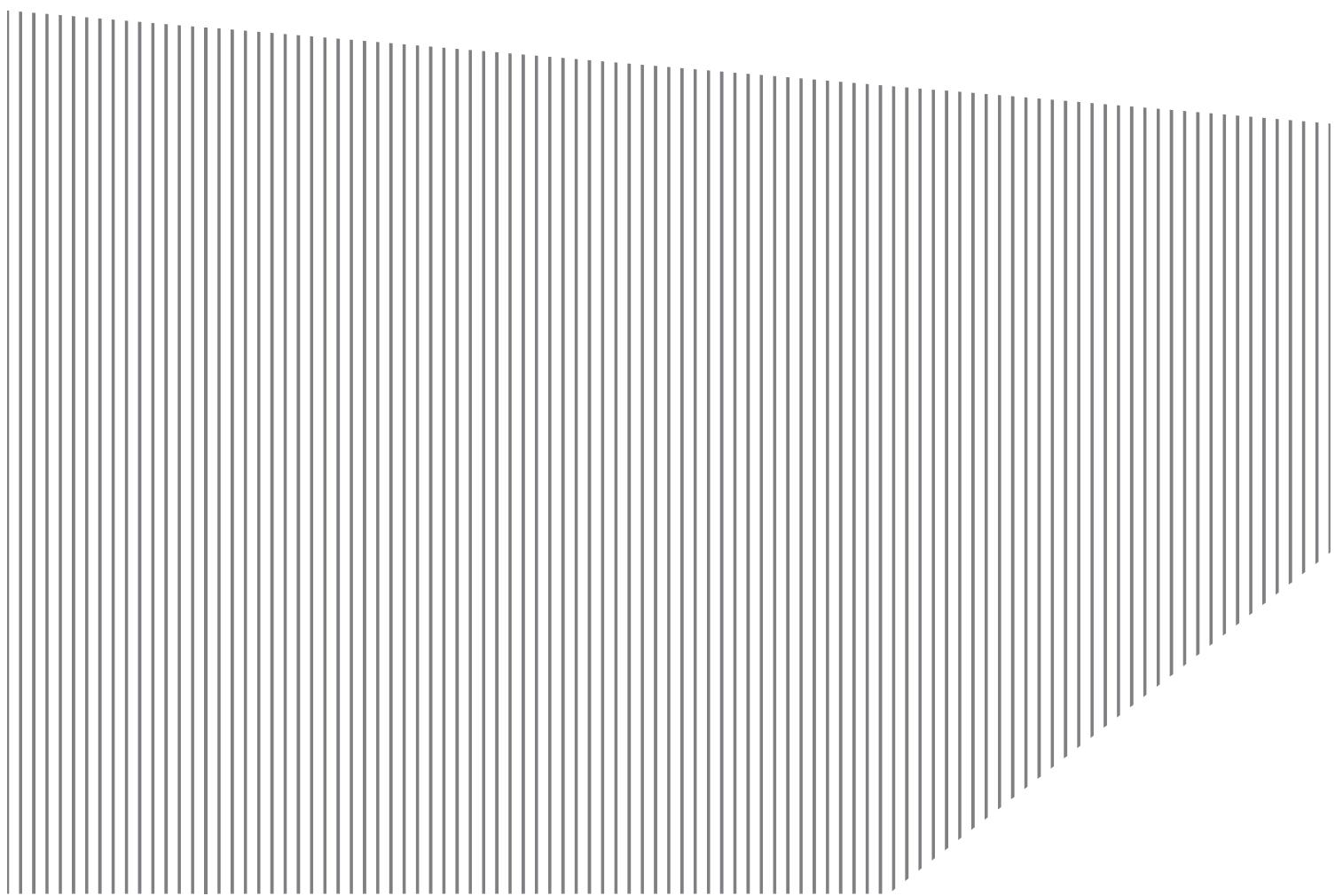
#### **Reconciliations between Canadian GAAP and IFRS**

The adoption of IFRS has had no impact on the Company's financial position, financial performance or cash flows. As there have been no changes made to the amounts recorded in the consolidated financial statements, no IFRS transition reconciliations have been presented.

### **12. SUBSEQUENT EVENT**

On February 7, 2012, Glencore and Xstrata announced that the Glencore directors and the independent Xstrata directors have reached agreement on the terms of a recommended all-share merger of equals. The merger ratio of 2.8 New Glencore Shares for every Xstrata Share held, excluding Xstrata Shares already owned by the Glencore group, will provide Xstrata Shareholders other than Glencore with a 45% stake in the combined entity.

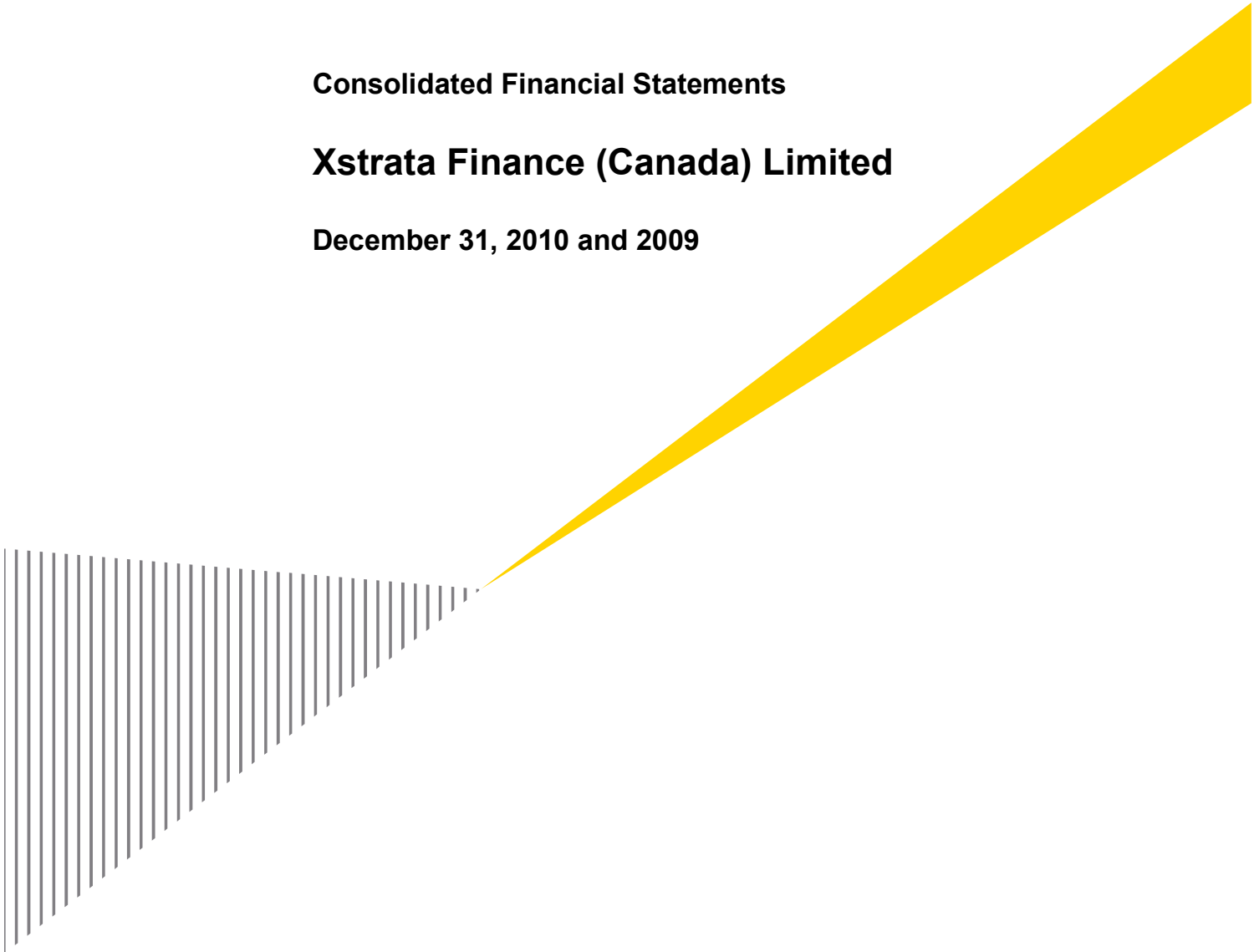
The merger is conditional on the approval of 75% of the shareholders of Glencore and Xstrata (excluding Glencore), the receipt of regulatory clearance and other closing conditions.



**Consolidated Financial Statements**

**Xstrata Finance (Canada) Limited**

**December 31, 2010 and 2009**



## INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
**Xstrata Finance (Canada) Limited**

We have audited the accompanying consolidated financial statements of **Xstrata Finance (Canada) Limited**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Xstrata Finance (Canada) Limited** as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
March 16, 2011.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

# XSTRATA FINANCE (CANADA) LIMITED

## Consolidated Balance Sheets

As at December 31, 2010 and 2009

(In \$000s of USD)

		<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current assets			
Cash		\$ 251	\$ 631
Interest receivable from affiliates	(note 3)	54,754	53,076
Other receivable from affiliate	(note 2)	67,111	427,129
Loan due from affiliate	(note 2)	1,890,729	-
Derivative financial assets	(notes 2 and 5)	71,348	759
		<u>2,084,193</u>	<u>481,595</u>
Non-current assets			
Derivative financial assets	(notes 2 and 5)	486,494	610,285
Long-term receivable from affiliate	(note 2)	-	19,522
Loans due from affiliates	(note 3)	5,634,470	10,110,225
Deferred tax asset		601	1,640
		<u>6,121,565</u>	<u>10,741,672</u>
<b>Total assets</b>		<u>\$ 8,205,758</u>	<u>\$ 11,223,267</u>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities			
Accrued interest payable	(note 4)	\$ 49,815	\$ 51,428
Payable to affiliates	(note 2)	274	27,028
Accrued liabilities		155	-
Derivative financial liabilities	(notes 2 and 5)	203,244	-
Borrowings	(note 2)	1,788,029	82,366
Loan payable to affiliate	(note 2)	926,620	-
Income taxes payable		(74)	249
		<u>2,968,063</u>	<u>161,071</u>
Non-current liabilities			
Long-term debt	(note 4)	4,702,286	10,522,380
Derivative financial liabilities	(notes 2 and 5)	494,596	506,713
Deferred tax liability	(note 2)	8,591	9,699
		<u>5,205,473</u>	<u>11,038,792</u>
Shareholder's equity			
Common share capital (unlimited number of shares authorized, one share issued and outstanding)		-	-
Additional paid-in capital	(note 2)	8,680	-
Retained earnings		23,542	23,404
Accumulated other comprehensive income		-	-
		<u>32,222</u>	<u>23,404</u>
<b>Total liabilities and shareholder's equity</b>		<u>\$ 8,205,758</u>	<u>\$ 11,223,267</u>

Guarantee (note 6)

See accompanying notes

On behalf of the Board:



Michael Boone  
Director



Stephen Young  
Director

**XSTRATA FINANCE (CANADA) LIMITED**  
**Consolidated Statements of Operations and Retained Earnings**

For the years ended December 31, 2010 and 2009  
(In \$000s of USD)

		<u>2010</u>	<u>2009</u>
<b>Revenue and Expenses</b>			
Interest revenue	(note 3) \$	<b>165,862</b>	\$ 334,625
Administrative expenses		<b>(1,453)</b>	(4,142)
Interest expense	(note 4)	<b>(133,409)</b>	(314,107)
Amortization of financing arrangement costs		<b>(11,902)</b>	(15,568)
Write-off of financing arrangement fees	(note 2)	<b>(18,707)</b>	(64)
Derivative loss	(note 2)	<b>(137)</b>	(17,696)
Foreign exchange gain (loss)		<b>(270)</b>	142
<b>Loss before income taxes</b>		<b>(16)</b>	(16,810)
<b>Income Tax Expense (Recovery)</b>			
Deferred		<b>(69)</b>	(6,446)
Current		<b>(85)</b>	203
<b>Net income (loss)</b>	\$	<b><u>138</u></b>	<b><u>\$ (10,567)</u></b>
<b>Retained earnings</b>			
Balance, beginning of year	\$	<b>23,404</b>	\$ 33,971
Net income (loss)		<b>138</b>	(10,567)
Balance, end of year	\$	<b><u>23,542</u></b>	<b><u>\$ 23,404</u></b>

See accompanying notes



**XSTRATA FINANCE (CANADA) LIMITED**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2010 and 2009  
(In \$000s of USD)

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Net income (loss)	\$ 138	\$ (10,567)
Deferred income taxes	(69)	(6,446)
Derivative loss	3,466	17,373
Net change in non-cash working capital	<u>(8,036)</u>	<u>(1,275)</u>
<b>Cash flows used in operating activities</b>	<b><u>(4,501)</u></b>	<b><u>(915)</u></b>
<b>Investing Activities</b>		
Net decrease in loans due from affiliates	<u>3,887,813</u>	<u>380,069</u>
<b>Cash flows from investing activities</b>	<b><u>3,887,813</u></b>	<b><u>380,069</u></b>
<b>Financing Activities</b>		
Net increase (decrease) in short-term debt	(52,372)	2,826
Proceeds on issuance of long-term debt	-	490,000
Repayment of long-term debt	(3,840,000)	(840,000)
Early repayment of long-term debt	-	(31,470)
Increase in additional paid-in capital	<u>8,680</u>	<u>-</u>
<b>Cash flows used in financing activities</b>	<b><u>(3,883,692)</u></b>	<b><u>(378,644)</u></b>
<b>Net increase (decrease) in cash</b>	<b>(380)</b>	<b>510</b>
Cash, beginning of year	<u>631</u>	<u>121</u>
<b>Cash, end of year</b>	<b>\$ <u>251</u></b>	<b>\$ <u>631</u></b>

See accompanying notes

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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### **1. NATURE OF OPERATIONS**

Xstrata Finance (Canada) Limited (the "Company") was incorporated on October 10, 2006, as a private company in Ontario, Canada under the Business Corporations Act (Ontario), with Ontario corporation number 1712237. Upon incorporation, one common share was issued to 1184760 Alberta Ltd. (the "Parent"), a private company incorporated in Alberta, Canada for nominal consideration.

The Company, together with its wholly owned subsidiary, Xstrata Canada Financial Corp. is engaged in performing certain financing activities for the Xstrata plc group of companies and is a wholly-owned indirect subsidiary of Xstrata plc, the Company's ultimate parent.

The Company's functional currency is the US dollar.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation and consolidation**

The accompanying consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Xstrata Canada Financial Corp. All significant inter-company transactions and accounts have been eliminated on consolidation.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from such estimates and such differences could be material.

#### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the consolidated balance sheet dates. Revenue and expenses and non-monetary assets and liabilities are translated at the rates of exchange prevailing on the dates of the transactions or when the assets were acquired or the liabilities incurred. Gains and losses on translation of foreign currencies are included in the determination of net income (loss) for the year.

#### **Cash**

Cash includes cash in banks and on hand, earns interest at floating rates of interest and is stated at cost, which approximates its fair value.

#### **Revenue recognition**

Interest income is recognized as earned on an accrual basis. Discounts, commissions and loan fees are deferred and amortized to interest income over the term of the loan. The net unamortized fees are included in loans due from affiliates.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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### **Financial instruments**

The Company adopted the accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") for the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, as described in CICA Handbook Sections 1535 "Capital Disclosures", 3855 "Financial Instruments – Recognition and Measurement", 3862 "Financial Instruments – Disclosures", 3863 "Financial Instruments – Presentation", 3865 "Hedges" and EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities".

Financial instruments are measured at fair value on initial recognition of the instrument based on current pricing of such financial instruments with comparable terms. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in accumulated other comprehensive income ("AOCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest rate method. Transaction costs, if any, are added to the initial amount recorded.

The Company has implemented the following classification and valuation methodology:

- Cash is designated as "held-for-trading" and its carrying amount approximates its fair value.
- Other receivable from affiliate is classified as "loans and receivables". After its initial fair value measurement, it is measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost. Long-term receivable from affiliate consists of direct costs incurred on the loans due from Xstrata Canada Inc. Based on an agreement, Xstrata Canada Inc. agreed to reimburse the Company for all fees related to issuance of these notes. As at December 31, 2010 and 2009, the balance outstanding was nil and \$19,522, respectively.
- Accrued interest payable, payable to affiliates, borrowings and long-term debt are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost. Payable to affiliates as at December 31, 2010, consists of expenses paid on behalf of the Company and interest payable to Xstrata Canada Corporation of \$249 and \$25, respectively and as at December 31, 2009, consists of expenses paid on behalf of the Company by Xstrata Canada Corporation of \$27,028.
- Derivative financial instruments are classified as "held-for-trading" and are recorded on the consolidated balance sheets at their fair value which is the estimated amount that would be agreed upon in an arm's length transaction between knowledgeable, willing parties estimated by using a discounted cash flow methodology based on available market data.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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Due to the nature of its operations, the Company is exposed to foreign currency and interest rate risks in the ordinary course of business. The Company periodically enters into cross-currency and interest rate swaps to partially hedge the effects of foreign currency fluctuation related to foreign currency forecasted transactions and changes in interest rates. The Company does not enter into derivatives for speculative purposes.

Interest rate swaps are marked-to-market and accounted for as fair value hedges, with changes recorded as derivative gain or loss.

The Company has entered into cross-currency swaps, whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to certain long-term debt. The cross-currency swaps are accounted for as fair value hedges.

The Company uses hedge accounting when the required documentation criteria are met and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting.

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates in the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items attributable to the hedged risk. The Company uses fair value hedge strategies for its loans due from affiliates and long-term debt portfolios.

In a fair value hedging transaction, the hedging instrument is recognized at fair value, and the carrying value of the hedged item is adjusted by the gain or the loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded as derivative gain or loss.

For cash flow hedges, if any, the change in value of the effective portion is recognized in "other comprehensive income". The change in value of the effective portion of a cash flow hedge remains in AOCI until the related hedged item settles, at which time amounts recognized in AOCI are reclassified to the same income account that records the hedged item. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within AOCI until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in net income. Any ineffectiveness within an effective cash flow hedge is recognized in net income as it arises in the same income account as the hedged item when realized.

The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item or the hedging instrument is sold or matures, the hedge is no longer effective, or the Company terminates the designation of the hedge. When the hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized to income using the effective interest rate method over the remaining life of the hedged item, unless the hedged item ceases to exist, in which case the adjustments for the impact of the designated risk are immediately recognized in income.

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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When hedge accounting is not used, the derivatives are measured at fair value at the end of each year and the unrealized gains or losses arising from remeasurement are recorded in income.

Financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables; loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale; and loans and receivables that the holder intends to sell immediately or in the near term are classified as held-for-trading.

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties. The Company's credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The fair value is recorded as derivative gain or loss on the consolidated statements of operations and retained earnings. The Company recorded a derivative loss of \$137 and \$17,696 for the years ended December 31, 2010 and 2009, respectively.

### **Future changes in accounting policies**

#### **Accounting Standards for Private Enterprises ("PE GAAP")**

On December 15, 2009, the Accounting Standards Board ("AcSB") issued Part II of the Accounting Handbook: Accounting standards for private enterprises ("PE GAAP"). This part of the Handbook includes an Introduction and the accounting standards for private enterprises approved by the AcSB for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. Private enterprises may adopt Part I, International Financial Reporting Standards, instead of the standards in Part II. The standards are available to all private enterprises. A private enterprise is defined as a profit-oriented enterprise that is neither a publicly accountable enterprise nor an entity in the public sector. Entities who apply the standards will describe their financial statements as prepared in accordance with Canadian Generally Accepted Accounting Principles for Private Enterprises. The AcSB developed the accounting standards for private enterprises based closely on the standards in Part V – Pre-changeover accounting standards. The few changes to recognition and measurement requirements in those standards address key issues for which the AcSB

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

determined that existing standards do not meet a cost-benefit test for private enterprises. Disclosure requirements are significantly reduced from the standards in Part V. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

#### Other receivable from affiliate

Other receivable from affiliate as at December 31, 2010, consists of advances of \$67,111 to Xstrata Canada Inc., and as at December 31, 2009, consists of advances of \$425,233 and fees and expenses of \$1,896 paid on behalf of Xstrata Canada Inc. The advances are part of a loan facility where the maturities range from periods of up to five months. Interest income on the advances accrues at a rate of LIBOR plus 25 basis points.

#### Loan due from affiliate

Loan due from affiliate consists of the following promissory notes to Xstrata Canada Inc.

	<u>2010</u>	<u>2009</u>
5.523% due November 16, 2011	\$ 718,530	\$ -
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	<u>1,173,750</u>	<u>-</u>
	<u>1,892,280</u>	<u>-</u>
Unamortized deferred financing costs	<u>(1,551)</u>	<u>-</u>
	<u>\$ 1,890,729</u>	<u>\$ -</u>

Interest rate is based on the 6-month USD British Bankers' Association London Inter-Bank Offered Rate (USD-BBA-LIBOR). Interest is receivable on the note due November 16, 2011 semi-annually in arrears and on the note due May 27, 2011, annually in arrears.

#### Borrowings

	<u>2010</u>	<u>2009</u>
Current portion of long-term debt	<u>1,759,586</u>	<u>-</u>
Unamortized deferred financing costs	<u>(1,551)</u>	<u>-</u>
Short-term promissory notes <sup>(a)</sup>	<u>29,994</u>	<u>82,366</u>
	<u>\$ 1,788,029</u>	<u>\$ 82,366</u>

(a) On February 26, 2008, the Company entered into an agreement to borrow up to \$1.0 billion of short-term promissory notes. Notes will be issued in maturities of not more than one year from the date of issue. Interest is charged at rates prevailing at the date of issue and ranged from 0.2% to 0.6% and 0.3% to 1.6% during 2010 and 2009, respectively.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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#### **Loan payable to affiliate**

Loan payable to affiliate consists of the following advances from Xstrata Canada Corporation:

	<u>2010</u>	<u>2009</u>
1-month USD-BBA-LIBOR + 0.276% due July 31, 2012	<b>845,600</b>	-
1-month USD-BBA-LIBOR + 0.25% due April 11, 2013	<b>81,020</b>	-
	<b>\$ 926,620</b>	<b>\$ -</b>

This loan, including any accrued and unpaid interest, is due and payable upon the demand of Xstrata Canada Corporation.

#### **Deferred financing costs**

Financing costs, incurred on issuance of debt, are deferred and charged against income over the term of the debt. Upfront, participating and consent fees on the multi-currency revolving loan facilities are charged to income as incurred. For the year ended December 31, 2010, \$9,472 and \$7,809 of upfront and participating fees were charged to income relating to the \$5.5 billion and \$4.0 billion facilities, respectively. In addition, consent fees of \$1,426 paid in recognition of amendments made to the \$4.7 billion facility were charged to income. During 2009, the Company repaid \$31,470 of the 5.50% note due November 16, 2011 and the remaining deferred financing costs of \$64 were charged to income.

#### **Income taxes**

The liability method is used to account for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the date of enactment. A valuation allowance is provided to the extent that it is more likely than not that deferred income tax assets will not be realized.

As at December 31, 2010 and 2009, the Company recorded a deferred tax asset of \$601 and \$1,640, respectively and a deferred tax liability of \$8,591 and \$9,699, respectively, related to its derivative financial instruments consisting of interest rate and cross-currency swaps.

#### **Additional paid-in capital**

The Company received \$8,680 from its Parent which was recorded as an increase in additional paid-in capital. These funds were used to repay amounts owing to Xstrata Canada Corporation and Xstrata Canada Inc. of \$8,052 and \$628, respectively.

#### **Comparative**

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

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

### 3. LOANS DUE FROM AFFILIATES

Loans due from affiliates consist of promissory notes from Xstrata Canada Inc., Xstrata Canada Corporation and Xstrata NCF Ltd., all wholly-owned indirect subsidiaries of Xstrata plc. Details of the promissory notes are as follows:

	<u>2010</u>	<u>2009</u>
5.523% due November 16, 2011 (a)	\$ 718,530	\$ 718,530
5.823% due November 15, 2016 (a)	1,000,000	1,000,000
6-month USD-BBA-LIBOR + 0.24675% due June 14, 2012	675,000	675,000
6-month USD-BBA-LIBOR + 0.24675% due June 13, 2017	675,000	675,000
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	1,173,750	1,173,750
6-month USD-BBA-LIBOR + 1.765% due May 27, 2015	939,000	939,000
6-month USD-BBA-LIBOR + 2.163% due May 27, 2020	985,000	985,000
1-month USD-BBA-LIBOR + 0.286% (b)	892,695	3,499,095
6.91% due November 15, 2037	500,000	500,000
	<u>7,558,975</u>	<u>10,165,375</u>
Current portion of loans due from affiliates	(1,892,280)	-
Unamortized deferred financing costs	(32,225)	(55,150)
	<u>\$ 5,634,470</u>	<u>\$ 10,110,225</u>

(a) The Company has entered into interest rate swap agreements with Xstrata Canada Inc. over the term of the loans. These interest rate swaps are marked-to-market, with changes in interest rates recorded in income. The economic impact of the swaps is to convert the fixed interest rate to a variable interest rate based on the 6-month USD-BBA-LIBOR. The combined effective interest rate on these loans at December 31, 2010 and 2009 was 1.05% and 1.13%, respectively.

During 2009, Xstrata Canada Inc. repaid \$31,470 of the 5.523% note due November 16, 2011. The Company recognized a loss of \$5,035 on the repayment.

(b) This note, including any accrued and unpaid interest, is due and payable upon the demand of the Company. The Company has classified this note as long-term as it has no intention of calling the note prior to December 31, 2011.

As part of the agreements, Xstrata Canada Inc. has assumed approximately nil and \$1,834 of commissions and issuance costs for the years ended December 31, 2010 and 2009, respectively, relating to the Company's unsecured fixed rate notes (note 4).

Interest is receivable on the notes semi-annually in arrears except for notes due May 27, 2011, 2015 and 2020 which are receivable annually in arrears.



# XSTRATA FINANCE (CANADA) LIMITED

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

### 4. LONG-TERM DEBT

The Company issued unsecured fixed and floating rate notes as follows:

	<u>2010</u>	<u>2009</u>
5.50% due November 16, 2011, issued at 99.987% (a)	\$ 718,530	\$ 718,530
5.80% due November 15, 2016, issued at 99.753% (a)	1,000,000	1,000,000
4.8750% due June 14, 2012, issued at 99.172% (b)	724,255	785,559
5.2500% due June 13, 2017, issued at 99.136% (b)	778,399	815,432
5.875% due May 27, 2011, issued at 99.693% (c.i)	1,041,056	1,136,031
6.25% due May 27, 2015, issued at 99.317% (c.ii)	879,912	926,204
7.375% due May 27, 2020, issued at 99.156% (c.iii)	851,945	855,774
1-month USD-BBA-LIBOR + 0.276% due July 31, 2012	-	3,840,000
6.90% due November 15, 2037, issued at 99.687%	500,000	500,000
	<u>6,494,097</u>	<u>10,577,530</u>
Current portion of long-term debt	(1,759,586)	-
Unamortized deferred financing costs	(32,225)	(55,150)
	<u>\$ 4,702,286</u>	<u>\$ 10,522,380</u>

Interest is payable semi-annually in arrears except for the July 31, 2012 note which is payable at the Company's option over periods of one to six months and notes due May 27, 2011, 2015 and 2020 which are payable annually in arrears. The notes are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata plc and its wholly-owned indirect subsidiaries, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. As at December 31, 2010 and 2009, accrued interest payable was \$49,815 and \$51,428, respectively.

(a) The Company has entered into interest rate swap agreements with certain financial institutions over the term of the loans. These interest rate swaps are marked-to-market, with changes in interest rates recorded in income. The economic impact of the swaps is to convert the fixed interest rate to a variable interest rate based on the 6-month USD-BBA-LIBOR. The combined effective interest rate on these loans through December 31, 2010 and 2009 was 1.03% and 1.1%, respectively. As part of the interest rate swap agreement, the Company received \$2,568 which was recorded as a derivative financial liability as of November 15, 2006.

During 2009 the Company repaid \$31,470 of the 5.50% note due November 16, 2011 and recognized a gain of \$5,035.

## **XSTRATA FINANCE (CANADA) LIMITED**

### **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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- (b) These notes were issued for Euro 500,000 each. The Company has entered into cross-currency swaps whereby future cash flow commitments denominated in Euro are received and US dollars are paid on interest and principal relating to these loans.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31, 2010</b>	December 31, 2009	At Inception
Euro (EUR:US\$)	<b>1.338</b>	1.432	1.35

- (c) These notes were issued for Euro 750,000 (c.i), Euro 600,000 (c.ii) and GBP 500,000 (c.iii). The Company entered into cross-currency swaps whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to the loans.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31, 2010</b>	December 31, 2009	At Inception
Euro (EUR:US\$)	<b>1.338</b>	1.432	1.565
Great Britain pound (GBP:US\$)	<b>1.561</b>	1.617	1.970

## **5. FINANCIAL INSTRUMENTS**

The Company believes the carrying value of its short-term financial instruments, including interest receivable from affiliates and accrued interest payable, approximates their fair value due to their short-term nature.

### **Fair value hierarchy**

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

## XSTRATA FINANCE (CANADA) LIMITED

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Held-for-trading	\$ 251	\$ 557,842	\$ -	\$ 558,093
Loans and receivables	-	7,647,064	-	7,647,064
<b>Financial liabilities</b>				
Held-for-trading	-	(697,840)	-	(697,840)
Other financial liabilities	-	(7,467,179)	-	(7,467,179)
<b>Net financial asset</b>	<u>\$ 251</u>	<u>\$ 39,887</u>	<u>\$ -</u>	<u>\$ 40,138</u>

### Market risk

The Company's primary market exposures relate to interest rate risk and foreign currency risk.

#### [a] Interest rate risk

The Company is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR. It is the Company's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates. The Company entered into interest rate swap agreements to alter the interest characteristics of certain long-term debt from a fixed to a floating rate basis. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the term of the agreement without an exchange of the underlying principal amount. During 2010 and 2009, the Company recorded an unrealized gain of \$29,681 and an unrealized loss of \$77,203, respectively relating to the interest rate swaps.

In addition, the Company entered into interest rate swap agreements to alter the interest characteristics of its loans due from affiliates, whereby floating rates of interest are received and fixed rates are paid. This has the effect of minimizing the Company's interest rate risk exposure on the interest rate swaps on long-term debt. During 2010 and 2009, the Company recorded an unrealized loss of \$25,089 and an unrealized gain of \$101,732, respectively relating to the interest rate swap with Xstrata Canada Inc.

In keeping with the Company's preference to borrow and invest at floating rates of interest, the following interest rate swap contracts were outstanding at December 31, 2010 and 2009:

# XSTRATA FINANCE (CANADA) LIMITED

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

	Principal amount	Average rate %	Fair value	Principal amount	Average rate %	Fair value
	2010	2010	2010	2009	2009	2009
At fair value:						
Interest rate swap from US\$ fixed rates:						
Maturing in less than 1 year	\$ 1,955,220	1.39%	\$ 71,348	\$ -	-	\$ -
Maturing between 1 to 2 years	675,000	0.69%	54,662	1,955,220	1.41%	117,202
Maturing between 2 to 3 years	-	-	-	675,000	0.69%	67,262
Maturing between 3 to 4 years	-	-	-	-	-	-
Maturing between 4 to 5 years	939,000	2.22%	85,557	-	-	-
Maturing greater than 5 years	<u>2,660,000</u>	<u>1.65%</u>	<u>346,275</u>	<u>3,599,000</u>	<u>1.81%</u>	<u>343,697</u>
	<u>\$ 6,229,220</u>	<u>1.54%</u>	<u>\$ 557,842</u>	<u>\$ 6,229,220</u>	<u>1.56%</u>	<u>\$ 528,161</u>

### [b] Foreign currency risk

The Company entered into cross-currency swap agreements to alter the future cash flow commitments of its Euro and GBP long-term debt to US dollars. These agreements involve the receipt of Euro and GBP amounts in exchange for US dollar payments over the term of the agreements without an exchange of the underlying principal amount. During 2010 and 2009, the Company recorded an unrealized loss of \$248,162 and an unrealized gain of \$161,037, respectively relating to the cross-currency swaps.

The unrealized gains and losses are reported on the consolidated balance sheets as follows:

	2010	2009
<b>Derivative financial assets</b>		
Interest rate swap on borrowings	\$ 71,348	\$ -
Interest rate swap on long-term debt	<u>486,494</u>	<u>528,161</u>
Interest rate swap	<u>557,842</u>	<u>528,161</u>
Cross-currency swap on long-term debt	-	82,124
	<u>\$ 557,842</u>	<u>\$ 610,285</u>
<b>Derivative financial liabilities</b>		
Interest rate swap on loan due from affiliate	\$ 33,294	\$ -
Interest rate swap on loans due from affiliates	<u>142,636</u>	<u>150,841</u>
Interest rate swap	<u>175,930</u>	<u>150,841</u>
Cross-currency swap on borrowings	169,950	-
Cross-currency swap on long-term debt	<u>351,960</u>	<u>355,872</u>
Cross-currency swap	<u>521,910</u>	<u>355,872</u>
	<u>\$ 697,840</u>	<u>\$ 506,713</u>

### Credit risk

The Company does not consider the credit risk associated with its financial instruments to be significant. Interest rate swaps on long-term debt are maintained with high-quality

# **XSTRATA FINANCE (CANADA) LIMITED**

## **Notes to Consolidated Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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counterparties and the Company does not anticipate that any counterparty will fail to meet its obligations.

### **Liquidity risk**

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity risk by utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. In addition, the Company utilizes both short- and long-term cash flow forecasts and other financial information to manage liquidity risk.

The Company has various borrowing facilities available to it. This ensures flexibility to minimize liquidity risk and ensures the ongoing solvency of the Company.

## **6. GUARANTEE**

The Company, Xstrata plc and Xstrata (Schweiz) AG have issued a full and unconditional guarantee on a senior, unsecured and joint and several basis in respect of the \$500,000 floating rate note due in 2009 of Xstrata Finance (Dubai) Limited. The guarantee is unconditional and the obligation under the guarantee will rank equally with all present and future direct, unsecured and unsubordinated obligations, except in certain limited exceptions.

This note was repaid in full by Xstrata Finance (Dubai) Limited during 2009.

## **7. CAPITAL DISCLOSURE**

The Company defines its capital as follows:

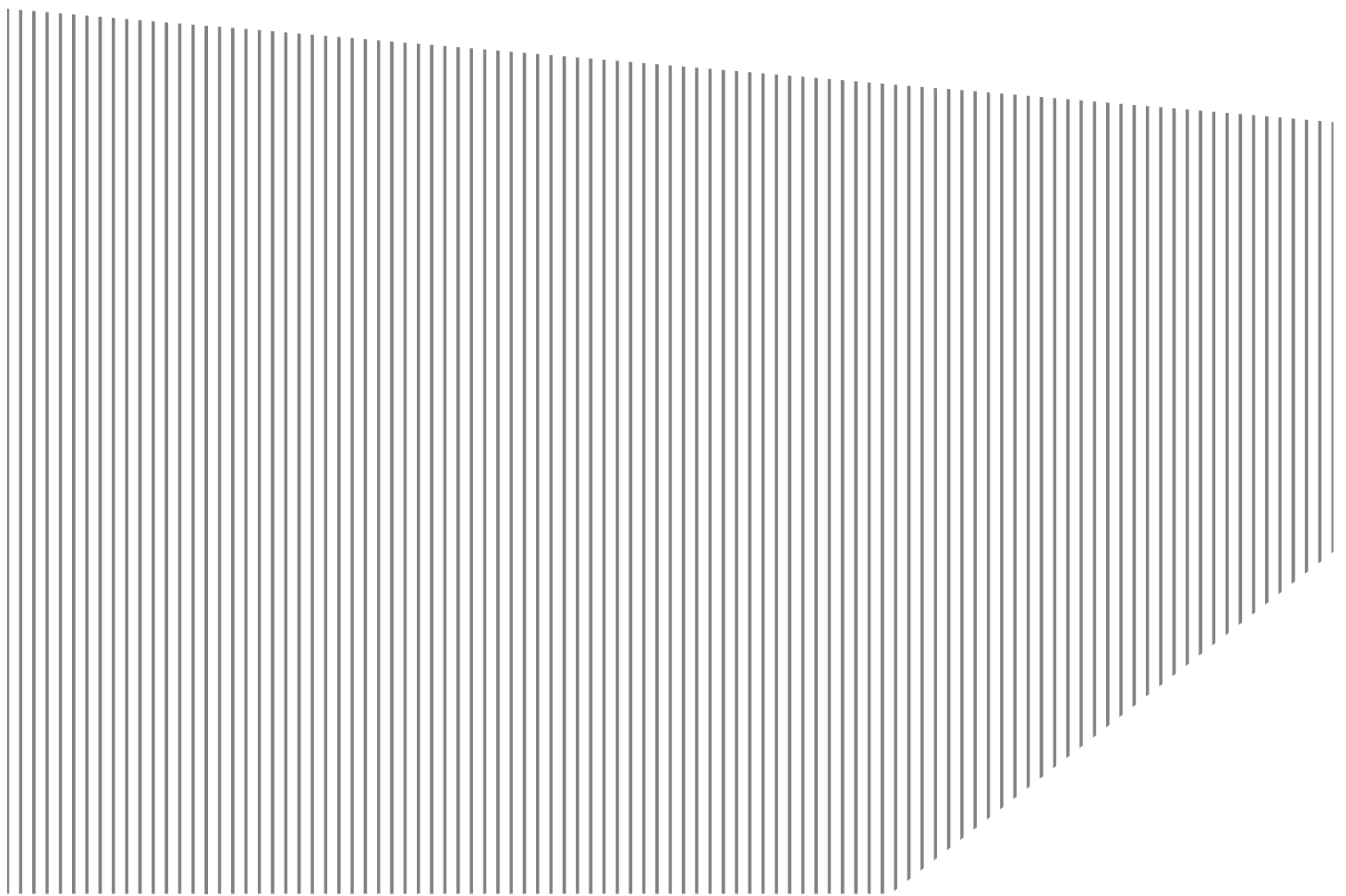
1. Long-term debt, including the current portion; and
2. Cash, short-term investments and long-term investments.

The Company's objectives when managing capital are to:

1. Maintain a capital structure and an appropriate rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing debt.
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.
3. Deploy capital to provide an appropriate investment return to its shareholder.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional debt and issue debt to replace existing debt with similar or different characteristics. The Company's financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company's needs, and market and economic conditions at the time of the transaction.

The Board of Directors of the Company reviews the level of dividends paid to the Company's shareholder on a quarterly basis. There were no changes in the Company's approach to capital management during the year.



## **Financial Statements of Xstrata CFC**

The financial statements for the financial year ended 31 December 2011, which were approved by the board of directors of Xstrata CFC on 2 March 2012, and reported on by the auditors, Ernst & Young LLP, are set out below. The financial statements for the year ended 31 December 2010, which were approved by the board of directors of Xstrata CFC on 16 March 2011, and reported on by the auditors, Ernst & Young LLP, are set out below. The financial statements of Xstrata Canada have been prepared in accordance with IFRS as issued by the IASB, for the year ended 31 December 2011 and the comparative year ended 31 December 2010; and in accordance with Canadian GAAP, for the year ended 31 December 2010.

**Financial Statements**

**Xstrata Canada Financial Corp.**

**December 31, 2011 and 2010**





## INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
**Xstrata Canada Financial Corp.**

We have audited the accompanying financial statements of **Xstrata Canada Financial Corp.**, which comprise the statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Xstrata Canada Financial Corp.** as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Toronto, Canada,  
March 2, 2012.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

# XSTRATA CANADA FINANCIAL CORP.

## Statement of Financial Position

As at December 31, 2011 and 2010

(In \$000s of USD)

	2011	2010	January 1, 2010
<b>Assets</b>			
Current assets			
Cash	\$ 10	\$ 153	\$ 96
Interest receivable from affiliates (note 6)	35,557	45,226	43,898
Loan due from affiliate (note 3)	-	1,172,760	-
Derivative financial assets (notes 3 and 8)	-	38,055	-
	<u>35,567</u>	<u>1,256,194</u>	<u>43,994</u>
Non-current assets			
Derivative financial assets (notes 3 and 8)	283,000	181,959	214,928
Long-term receivable from affiliate	-	-	19,522
Loans due from affiliates (note 6)	2,042,338	2,039,911	5,583,245
	<u>2,325,338</u>	<u>2,221,870</u>	<u>5,817,695</u>
<b>Total assets</b>	<b>\$ 2,360,905</b>	<b>\$ 3,478,064</b>	<b>\$ 5,861,689</b>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities			
Accrued interest payable (note 7)	\$ 31,641	\$ 42,064	\$ 43,497
Payable to affiliates (note 3)	750	253	21,544
Accrued liabilities	-	155	-
Derivative financial liabilities (notes 3 and 8)	-	169,950	-
Borrowings (note 3)	-	1,040,066	-
Loan payable to affiliate (note 3)	131,600	131,600	-
Income taxes payable (note 3)	85	-	-
	<u>164,076</u>	<u>1,384,088</u>	<u>65,041</u>
Non-current liabilities			
Long-term debt (note 7)	1,811,050	1,715,756	5,403,092
Derivative financial liabilities (notes 3 and 8)	369,212	340,360	355,872
Deferred tax liability (notes 3 and 5)	3,266	8,591	9,699
	<u>2,183,528</u>	<u>2,064,707</u>	<u>5,768,663</u>
<b>Shareholder's equity</b>			
Share capital (unlimited number of common shares authorized, no par value, one share issued and outstanding)	-	-	-
Additional paid-in capital (note 3)	4,116	4,116	-
Retained earnings	9,185	25,153	27,985
Accumulated other comprehensive income	-	-	-
	<u>13,301</u>	<u>29,269</u>	<u>27,985</u>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 2,360,905</b>	<b>\$ 3,478,064</b>	<b>\$ 5,861,689</b>

See accompanying notes

On behalf of the Board:



Michael Boone  
Director



Stephen Young  
Director

**XSTRATA CANADA FINANCIAL CORP.**  
**Statement of Loss and Comprehensive Loss**

For the years ended December 31, 2011 and 2010

(In \$000s of USD)

		<u>2011</u>	<u>2010</u>
<b>Revenue and expenses</b>			
Interest revenue	(note 6)	\$ 75,034	\$ 112,014
Administration expenses		(20)	(435)
Interest expense	(note 7)	(64,686)	(84,744)
Amortization of financing arrangement costs		(3,683)	(8,354)
Write-off of financing arrangement fees	(note 3)	(6,343)	(17,994)
Derivative loss	(note 3)	(21,477)	(4,256)
Foreign exchange loss		(1)	(171)
<b>Loss before income taxes</b>		<u>(21,176)</u>	<u>(3,940)</u>
<b>Income tax expense (recovery)</b>	(note 5)		
Deferred		(5,325)	(1,108)
Current		117	-
<b>Net loss and comprehensive loss</b>		<u>\$ (15,968)</u>	<u>\$ (2,832)</u>

See accompanying notes

# XSTRATA CANADA FINANCIAL CORP.

## Statement of Cash Flows

For the years ended December 31, 2011 and 2010

(In \$000s of USD)

	<u>2011</u>	<u>2010</u>
<b>Operating activities</b>		
Net loss	\$ (15,968)	\$ (2,832)
Deferred taxes	(5,325)	(1,108)
Derivative loss	21,477	4,256
Net change in non-cash working capital	(327)	(4,375)
Cash used in operating activities	<u>(143)</u>	<u>(4,059)</u>
<b>Investing activities</b>		
Net decrease in loans due from affiliates	<u>1,173,750</u>	<u>2,520,000</u>
Cash provided by investing activities	<u>1,173,750</u>	<u>2,520,000</u>
<b>Financing activities</b>		
Repayment of long-term debt	(1,173,750)	(2,520,000)
Increase in additional paid-in capital	-	4,116
Cash used in financing activities	<u>(1,173,750)</u>	<u>(2,515,884)</u>
<b>Net increase (decrease) in cash</b>	<b>(143)</b>	<b>57</b>
Cash, beginning of year	<u>153</u>	<u>96</u>
<b>Cash, end of year</b>	<b>\$ <u>10</u></b>	<b>\$ <u>153</u></b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 67,169	\$ 77,916
Interest received	68,304	77,791
Income taxes paid	32	-

See accompanying notes

# XSTRATA CANADA FINANCIAL CORP.

## Statement of Changes in Equity

For the years ended December 31, 2011 and 2010

(In \$000s of USD)

	Share Capital	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	\$ -	\$ -	\$ 27,985	\$ -	\$ 27,985
Additional contribution from parent	-	4,116	-	-	4,116
Comprehensive loss	-	-	(2,832)	-	(2,832)
Balance, December 31, 2010	-	4,116	25,153	-	29,269
Comprehensive loss	-	-	(15,968)	-	(15,968)
<b>Balance, December 31, 2011</b>	<b>\$ -</b>	<b>\$ 4,116</b>	<b>\$ 9,185</b>	<b>\$ -</b>	<b>\$ 13,301</b>

See accompanying notes

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **1. NATURE OF OPERATIONS**

Xstrata Canada Financial Corp. (the "Company") was incorporated on April 23, 2008 as a private company in Ontario, Canada under the Business Corporations Act (Ontario), under corporation number 2170552. Upon incorporation, one common share was issued to Xstrata Finance (Canada) Limited (the "Parent"), a private company incorporated in Ontario, Canada, for nominal consideration. The registered office is located at 100 King Street West, First Canadian Place, Suite 6900, P.O. Box 403, Toronto, Ontario, Canada, M5X 1E3.

The Company's financial statements for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Directors on March 2, 2012.

The Company is engaged in performing certain financing activities for the Xstrata plc ("Xstrata") group of companies and is a wholly-owned indirect subsidiary of Xstrata, the Company's ultimate parent.

The Company's functional currency is the US dollar.

### **2. BASIS OF PREPARATION**

#### **Statement of compliance**

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. Previously, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

#### **Use of estimates**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from such estimates and such differences could be material.

#### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date. Revenue and expenses and non-monetary assets and liabilities are translated at the rates of exchange prevailing on the dates of the transactions or when the assets were acquired or the liabilities incurred. Gains and losses arising on translation of foreign currencies are included in the determination of net loss for the year.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Cash

Cash includes cash in banks and on hand, earns interest at floating rates of interest and is stated at cost, which approximates its fair value.

#### Revenue recognition

Interest income is recognized as earned on an accrual basis. Discounts, commissions and loan fees are deferred and amortized to interest income over the term of the loan. The net unamortized fees are included in loans due from affiliates.

#### Financial instruments

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial liabilities are classified as financial liabilities at fair value through profit or loss, other liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company determines the classification of its financial assets and financial liabilities at initial recognition. When financial assets and financial liabilities are recognized initially, they are measured at fair value. The subsequent measurement of financial assets and financial liabilities depends on their classification. The Company's financial assets and financial liabilities are classified and subsequently measured as follows:

	<u>Classification</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Other receivable from affiliate	Loans and receivables	Amortized cost
Derivative financial assets	Held for trading	Fair value
Derivative financial liabilities	Held for trading	Fair value
Borrowings and long-term debt	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Derecognition of financial assets and liabilities**

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Gains and losses on derecognition are recognized in the statement of loss and comprehensive loss.

### **Financial assets or liabilities at fair value through profit or loss**

Financial assets or liabilities classified as held-for-trading are included in the category financial assets or liabilities at fair value through profit or loss. Financial assets or liabilities 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 recognized in the statement of loss and comprehensive loss.

The Company considers whether a contract contains an embedded derivative when it becomes a party to the contract. Embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to the host contract.

### **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 or loss or available-for-sale. Such assets are carried at amortized cost using the effective interest rate method, less impairment. Losses are recognized in the statement of loss and comprehensive loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### **Other liabilities**

Other liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Other liabilities are presented as current if payment is due within twelve months. Otherwise, they are presented as non-current liabilities. Finance costs are recognized in the statement of loss and comprehensive loss using the effective interest rate method.



# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Fair values**

Financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets without any deduction for transaction costs.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.
- Level 3 - One or more significant inputs used in a valuation technique that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data when available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables; loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale; and loans and receivables that the holder intends to sell immediately or in the near term are classified as held-for-trading.

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties. The Company's credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The fair value is recorded as derivative gain or loss in the statement of loss and comprehensive loss. The Company recorded a derivative loss of \$21,477 and \$4,256 for the years ended December 31, 2011 and 2010, respectively.

### **Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets carried at amortized cost are impaired. A financial asset or a group of financial assets carried at amortized cost are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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 recognized in the statement of loss and comprehensive loss. For available-for-sale assets, such loss is recorded in the statement of loss and comprehensive loss

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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and removed from accumulated other comprehensive income ("AOCI"). Objective evidence of impairment of loans and receivables exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable that the counterparty will enter into bankruptcy or a financial reorganization.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of loss and comprehensive loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### **Derivative financial instruments and hedging**

Due to the nature of its operations, the Company is exposed to foreign currency and interest rate risks in the ordinary course of business. The Company periodically enters into cross-currency and interest rate swaps to partially hedge the effects of foreign currency fluctuation related to foreign currency forecasted transactions and changes in interest rates. The Company does not enter into derivatives for speculative purposes.

Interest rate swaps are marked-to-market and accounted for as fair value hedges, with changes recorded as a derivative gain or loss.

The Company has entered into cross-currency swaps, whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to certain long-term debt. The cross-currency swaps are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company applies 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 Company 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. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the statement of loss and comprehensive loss.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item or the hedging instrument is sold or matures, the hedge is no longer effective, or the Company terminates the designation of the hedge. When the hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized to income using the effective interest rate method over the remaining life of the hedged item, unless the hedged item ceases to exist, in which case the adjustments for the impact of the designated risk are immediately recognized in income.

When hedge accounting is not used, the derivatives are measured at fair value at the end of each year and the unrealized gains or losses arising from remeasurement are recorded in income.

### **Fair value hedges**

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates in the market. 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 recorded in the statement of loss and comprehensive loss. The Company uses fair value hedging strategies for its long-term debt portfolios.

In a fair value hedging transaction, the hedging instrument is recognized at fair value and the carrying value of the hedged item is adjusted by the gain or loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded as a derivative gain or loss.

### **Cash flow hedges**

For cash flow hedges, if any, the change in value of the effective portion is recognized in other comprehensive income. The change in value of the effective portion of a cash flow hedge remains in AOCI until the related hedged item settles, at which time amounts recognized in AOCI are reclassified to the same income account that recorded the hedged item. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within AOCI until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item when realized.

### **Loan due from affiliate**

The loan due from affiliate at December 31, 2010 of \$1,172,760 consists of a promissory note to Xstrata Canada Corporation ("Xstrata Canada") of \$1,173,750 less unamortized deferred financing costs of \$990. Interest is receivable on the 6-month USD British Bankers' Association London Inter-Bank Offered Rate (USD-BBA-LIBOR) notes annually in arrears plus a spread of 1.275%. This loan was repaid on May 27, 2011.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

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### Payable to affiliates

Payable to affiliates consists of the following amounts payable to Xstrata Canada:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Expenses paid on behalf of the Company	\$ 742	\$ 249	\$ 21,544
Interest payable	8	4	-
	<u>\$ 750</u>	<u>\$ 253</u>	<u>\$ 21,544</u>

### Borrowings

The current portion of long-term debt at December 31, 2011 and 2010 was nil and \$1,040,066 (\$1,041,056 less unamortized deferred financing costs of \$990), respectively.

### Loan payable to affiliate

The loan payable to affiliate at December 31, 2011 and 2010 was \$131,600 which consists of advances from Xstrata Canada. This loan, including any accrued and unpaid interest, is due and payable upon demand of Xstrata Canada. Interest is payable on the 1-month USD-BBA-LIBOR plus a spread of 0.85% (2010 - 0.276%).

### Deferred financing costs

Financing costs, incurred on issuance of debt, are deferred and charged against income over the term of the debt. Upfront, participating and consent fees on the multi-currency revolving loan facilities are charged to income as incurred. For the year ended December 31, 2011, \$6,343 of upfront and participating fees were charged to income relating to the \$6.0 billion facility. For the year ended December 31, 2010, \$9,472 and \$7,809 of upfront and participating fees were charged to income relating to the \$5.5 billion and \$4.0 billion facilities, respectively. In addition, consent fees of \$713 paid in recognition of amendments made to the \$4.7 billion facility were charged to income.

### Taxes

Income tax expense comprises current and deferred tax. Current income tax and deferred tax are recognized in income except to the extent that they relate to a business combination, or items recognized directly in other comprehensive income, in which case the current and/or deferred tax are also recognized directly in other comprehensive income.

### Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Deferred tax**

Deferred tax is recognized using the liability method in respect of all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are presented as non-current.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

As at December 31, 2011 and 2010, the Company recorded a deferred tax liability of \$3,266 and \$8,591, respectively, related to its derivative financial instruments consisting of interest rate and cross-currency swaps.

### **Additional paid-in capital**

During 2010, the Company received \$4,116 from its Parent which was recorded as an increase in additional paid-in capital. These funds were used to repay amounts owing to Xstrata Canada.

### **Comparatives**

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

### **New and amended standards and interpretations effective as of January 1, 2011**

#### **IAS 24, Related Party Disclosures (Amendment)**

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasize a symmetrical view on related party relationships as well as clarify in which circumstances persons and key management personnel affect related party relationships of an entity. The adoption of the amendment did not have any impact on the financial position or performance or disclosures of the Company.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each amendment. The adoption of the following amendments did not have any impact on the financial position or performance of the Company.

- IFRS 7, Financial Instruments: Disclosures: The amendment was intended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1, Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may either be in the statement of changes in equity or in the notes to the financial statements.

#### **4. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures or financial position or performance when applied at a future date. The Company is in the process of assessing the impact, if any, of adopting the following standards and intends to adopt these standards when they become effective.

##### **IAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

##### **IFRS 7, Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Company's financial position or results of operations.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **IFRS 9, Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### **IFRS 10, Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by the Company, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

### **IFRS 11, Joint Arrangements**

IFRS 11 replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

### **IFRS 12, Disclosure of Involvement with Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

### **IFRS 13, Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

### 5. INCOME TAXES

#### Income tax charge

Significant components of the income tax charge for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
<b>Current tax</b>		
Based on taxable income for the current year	\$ 85	\$ -
Prior year adjustment	<u>32</u>	<u>-</u>
Total current tax expense for the year	<u>117</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(6,067)	(1,221)
Change in tax rate	698	255
Utilization of tax loss carry forwards	-	(19)
Prior year adjustment	<u>44</u>	<u>(123)</u>
Total deferred tax recovery for the year	<u>(5,325)</u>	<u>(1,108)</u>
Total tax recovery	<u>\$ (5,208)</u>	<u>\$ (1,108)</u>

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 Company's effective income tax rate for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Loss before income taxes	\$ (21,176)	\$ (3,940)
Expected tax charge at the average statutory income tax rate of 28.25% (2010 - 31%)	(5,982)	(1,221)
Change in tax rate	698	255
Utilization of tax loss carry forwards	-	(19)
Prior year adjustment	<u>76</u>	<u>(123)</u>
Tax charge at an effective income tax rate	<u>\$ (5,208)</u>	<u>\$ (1,108)</u>

The deferred tax liabilities of the Company consist of the following:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
<b>Deferred tax liabilities</b>			
Derivative financial assets	\$ 3,266	\$ 8,635	\$ 9,699
Tax loss	<u>-</u>	<u>(44)</u>	<u>-</u>
	<u>\$ 3,266</u>	<u>\$ 8,591</u>	<u>\$ 9,699</u>



## XSTRATA CANADA FINANCIAL CORP.

### Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

#### 6. LOANS DUE FROM AFFILIATES

Loans due from affiliates consist of promissory notes from Xstrata Canada and Xstrata NCF Ltd., both wholly-owned indirect subsidiaries of Xstrata. Details of the promissory notes are as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	\$ -	\$ 1,173,750	\$ 1,173,750
6-month USD-BBA-LIBOR + 1.765% due May 27, 2015	<b>939,000</b>	939,000	939,000
6-month USD-BBA-LIBOR + 2.163% due May 27, 2020	<b>985,000</b>	985,000	985,000
1-month USD-BBA-LIBOR + 0.862% (a)	<b>132,012</b>	132,012	2,520,412
	<u><b>2,056,012</b></u>	<u>3,229,762</u>	<u>5,618,162</u>
Current portion of loans due from affiliates	-	(1,173,750)	-
Unamortized deferred financing costs	<b>(13,674)</b>	(16,101)	(34,917)
	<u><b>\$ 2,042,338</b></u>	<u>\$ 2,039,911</u>	<u>\$ 5,583,245</u>

Interest is receivable on the 6-month USD-BBA-LIBOR notes annually in arrears.

(a) This note, including any accrued and unpaid interest, is due and payable upon demand of the Company. The interest rate spread was changed from 0.286% to 0.862% effective October 28, 2011. The Company has classified this note as long-term as it has no intention of calling the note prior to December 31, 2012.

#### 7. LONG-TERM DEBT

The Company issued unsecured fixed and floating rate notes as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
5.875% due May 27, 2011, issued at 99.693% (a.i)	\$ -	\$ 1,041,056	\$ 1,136,030
6.25% due May 27, 2015, issued at 99.317% (a.ii)	<b>880,058</b>	879,912	926,204
7.375% due May 27, 2020, issued at 99.156% (a.iii)	<b>944,666</b>	851,945	855,775
1-month USD-BBA-LIBOR + 0.276% due July 31, 2012	-	-	2,520,000
	<u><b>1,824,724</b></u>	<u>2,772,913</u>	<u>5,438,009</u>
Current portion of long-term debt	-	(1,041,056)	-
Unamortized deferred financing costs	<b>(13,674)</b>	(16,101)	(34,917)
	<u><b>\$ 1,811,050</b></u>	<u>\$ 1,715,756</u>	<u>\$ 5,403,092</u>

## **XSTRATA CANADA FINANCIAL CORP.**

### **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

Interest is payable annually in arrears except for the July 31, 2012 note which is payable at the Company's option over periods of one to six months. The notes are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata Finance (Canada) Limited, Xstrata and its wholly-owned indirect subsidiaries, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. As at December 31, 2011 and 2010, accrued interest payable was \$31,641 and \$42,064, respectively (note 12).

- (a) These notes were issued for Euro 750,000 (a.i), Euro 600,000 (a.ii) and GBP 500,000 (a.iii). The Company entered into cross-currency swaps whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to the notes.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31, 2011</b>	December 31, 2010	At Inception
Euro (EUR:US\$)	<b>1.296</b>	1.338	1.565
Great Britain pound (GBP:US\$)	<b>1.554</b>	1.561	1.970

#### **Syndicated bank loans**

On October 24, 2011, the Company, Xstrata Canada Financial Corp., Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited entered into a guaranteed US\$6,000 million multi-currency revolving syndicated loan 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 85 basis points per annum. The facility matures on October 24, 2016. As of December 2011, \$6,000 million was available to be drawn under this facility.

#### **Repaid facilities**

On July 25, 2007, the Company and Xstrata (Schweiz) AG entered into a guaranteed US\$4,680 million multi-currency revolving syndicated loan 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 27.5 basis points per annum. The facility was scheduled to mature on July 25, 2012.

On September 17, 2010, Xstrata Canada Financial Corp., Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited entered into a guaranteed 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 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.

These facilities were cancelled during 2011 and replaced with the US\$6,000 million syndicated loan facility.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

### 8. FINANCIAL INSTRUMENTS

The Company believes the carrying value of its short-term financial instruments, including interest receivable from affiliates and accrued interest payable, approximates their fair value due to their short-term nature.

#### Fair value hierarchy

All financial instruments measured at fair value are categorized into one of three hierarchy levels (note 3). Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy.

	December 31, 2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Held-for-trading	\$ 10	\$ 283,000	\$ -	\$ 283,010
Loans and receivables	-	2,077,895	-	2,077,895
<b>Financial liabilities</b>				
Held-for-trading	-	(369,212)	-	(369,212)
Other financial liabilities	-	(1,975,041)	-	(1,975,041)
<b>Net financial asset</b>	<u>\$ 10</u>	<u>\$ 16,642</u>	<u>\$ -</u>	<u>\$ 16,652</u>

#### Market risk

The Company's primary market risk exposure relates to interest rate risk and foreign currency risk.

#### [a] Interest rate risk

The Company is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR. It is the Company's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates. The Company entered into interest rate swap agreements to alter the interest characteristics of certain long-term debt from a fixed to a floating rate basis. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the term of the agreement without an exchange of the underlying principal amount. During 2011 and 2010, the Company recorded an unrealized gain of \$62,986 and \$5,086, respectively relating to the interest rate swaps.

## XSTRATA CANADA FINANCIAL CORP.

### Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

In keeping with the Company's preference to borrow and invest at floating rates of interest, the following interest rate swap contracts were outstanding at December 31, 2011 and 2010 and January 1, 2010:

	Principal amount 2011	Average rate % 2011	Fair value 2011	Principal amount 2010	Average rate % 2010	Fair value 2010
At fair value:						
Interest rate swap from US\$ fixed rates						
Maturing in less than 1 year	\$ -	-	\$ -	\$ 1,173,750	1.73%	\$ 38,055
Maturing between 1 to 2 years	-	-	-	-	-	-
Maturing between 2 to 3 years	-	-	-	-	-	-
Maturing between 3 to 4 years	939,000	2.57%	105,425	-	-	-
Maturing between 4 to 5 years	-	-	-	939,000	2.22%	85,557
Maturing greater than 5 years	985,000	2.97%	177,575	985,000	2.62%	96,402
	<u>\$ 1,924,000</u>	<u>2.77%</u>	<u>\$ 283,000</u>	<u>\$ 3,097,750</u>	<u>2.16%</u>	<u>\$ 220,014</u>

	Principal amount Jan. 1, 2010	Average rate % Jan. 1, 2010	Fair value Jan. 1, 2010
At fair value:			
Interest rate swap from US\$ fixed rates			
Maturing in less than 1 year	\$ -	-	\$ -
Maturing between 1 to 2 years	1,173,750	1.70%	63,744
Maturing between 2 to 3 years	-	-	-
Maturing between 3 to 4 years	-	-	-
Maturing between 4 to 5 years	-	-	-
Maturing greater than 5 years	1,924,000	2.40%	151,184
	<u>\$ 3,097,750</u>	<u>2.13%</u>	<u>\$ 214,928</u>

### [b] Foreign currency risk

The Company entered into cross-currency swap agreements to alter the future cash flow commitments of its Euro and GBP long-term debt to US dollars. These agreements involve the receipt of Euro and GBP amounts in exchange for US dollar payments over the term of the agreements without an exchange of the underlying principal amount. During 2011 and 2010, the Company recorded an unrealized gain of \$141,098 and unrealized loss of \$154,438, respectively relating to the cross-currency swaps.

## XSTRATA CANADA FINANCIAL CORP.

### Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

The unrealized gains and losses are reported on the statement of financial position as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
<b>Derivative financial assets</b>			
Interest rate swaps on borrowings	\$ -	\$ 38,055	\$ -
Interest rate swaps on long-term debt	<u>283,000</u>	<u>181,959</u>	<u>214,928</u>
	<u>\$ 283,000</u>	<u>\$ 220,014</u>	<u>\$ 214,928</u>
<b>Derivative financial liabilities</b>			
Cross-currency swaps on borrowings	\$ -	\$ 169,950	\$ -
Cross-currency swaps on long-term debt	<u>369,212</u>	<u>340,360</u>	<u>355,872</u>
	<u>\$ 369,212</u>	<u>\$ 510,310</u>	<u>\$ 355,872</u>

#### Credit risk

The Company does not consider the credit risk associated with its financial instruments to be significant. Interest rate swaps on long-term debt are maintained with high-quality counterparties and the Company does not anticipate that any counterparty will fail to meet its obligations.

#### Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity risk by utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. In addition, the Company utilizes both short- and long-term cash flow forecasts and other financial information to manage liquidity risk.

The Company has various borrowing facilities available to it. This ensures flexibility to minimize liquidity risk and ensures the ongoing solvency of the Company.

## 9. RELATED PARTIES

#### Glencore International AG

As at December 31, 2011 and 2010, Glencore International AG ("Glencore") owned 1,010,403,999 ordinary shares of Xstrata, the Company's ultimate parent. These shares represent approximately 34.1% of the issued share capital of Xstrata.

#### Reimbursement Agreement

Pursuant to a Reimbursement Agreement effective October 28, 2008 between the Company and Xstrata Canada, Xstrata Canada may request the Company from time to time to enter into financing transactions ("Financing Transactions") for the purpose of raising funds to meet Xstrata Canada's operational needs. In consideration for the Company making available to Xstrata Canada loan or loans under the Financing Transactions, Xstrata Canada will reimburse the Company for all costs incurred by it in connection with the Financing Transactions. Payments are due on demand and without interest.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

(In \$000s of USD, except as otherwise indicated)

During the year, the Company entered into the following transactions, in the ordinary course of business, with Xstrata Canada:

	<u>2011</u>		<u>2010</u>
Interest income	\$ 74,208	\$	111,268
Interest expense	810		523
Interest receivable	35,549		45,222
Interest payable	8		4

### 10. CAPITAL DISCLOSURE

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash

The Company's objectives when managing capital are to:

1. Maintain a capital structure and an appropriate rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing debt.
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.
3. Deploy capital to provide an appropriate investment return to its shareholder.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional debt and issue debt to replace existing debt with similar or different characteristics. The Company's financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company's needs, and market and economic conditions at the time of the transaction.

The Board of Directors of the Company reviews the level of dividends paid to the Company's shareholder on an annual basis. There were no changes in the Company's approach to capital management during the year.

### 11. FIRST-TIME ADOPTION OF IFRS

As stated in note 2, these are the Company's first financial statements prepared in accordance with IFRS. The Company has adopted IFRS with a transition date of January 1, 2010 (the "Transition Date"). The accounting policies set out in note 3 have been applied on a consistent basis in preparing the financial statements for the year ended December 31, 2011 and the comparative information presented in these financial statements for the year ended December 31, 2010.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**(In \$000s of USD, except as otherwise indicated)**

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### **Adoption of IFRS**

IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the Transition Date with adjustments to assets and liabilities being offset to retained earnings, with IFRS 1 providing for certain optional and mandatory exemptions to this principle. The Company has not applied any exemptions to its opening IFRS statement of financial position as at January 1, 2010.

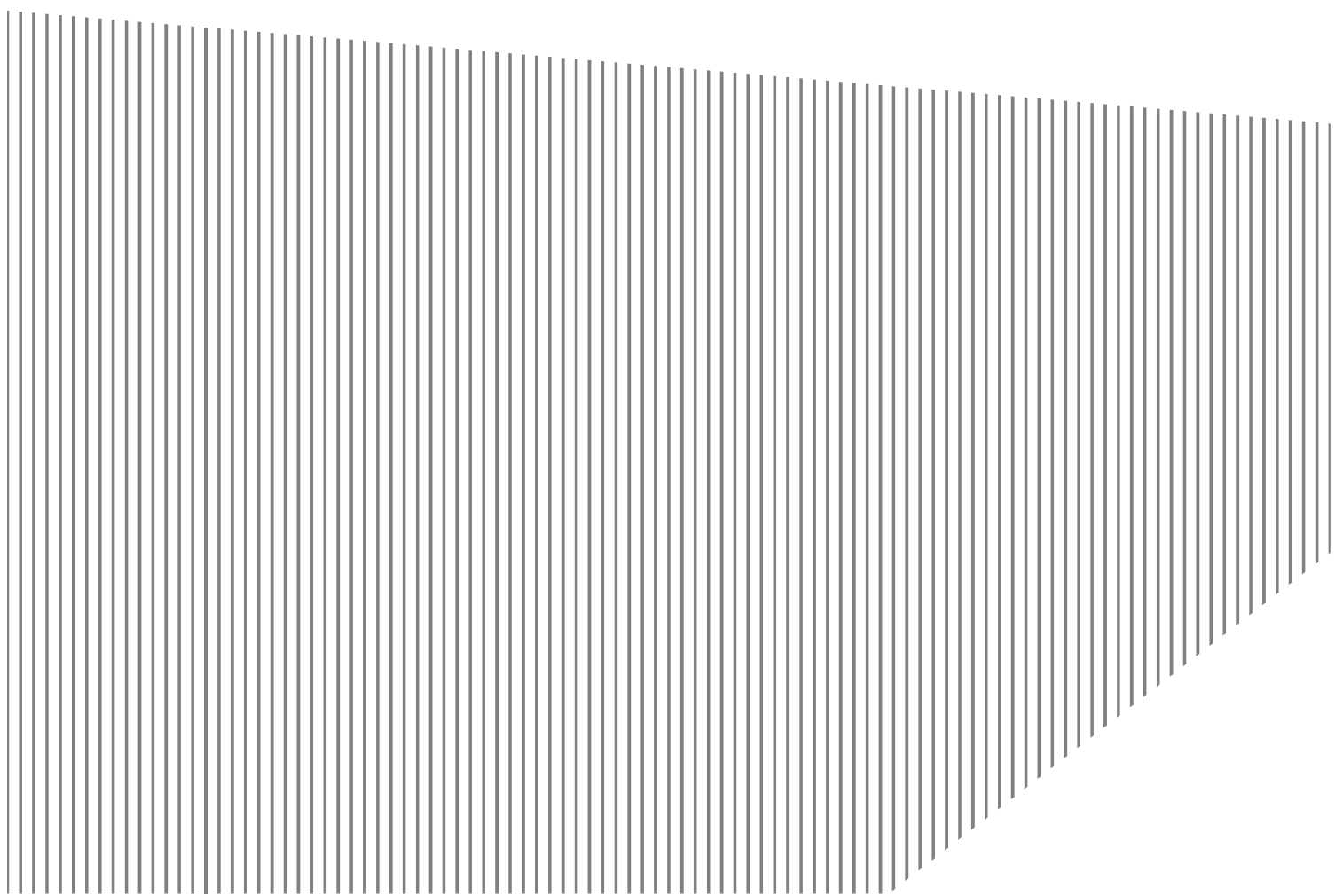
### **Reconciliations between Canadian GAAP and IFRS**

The adoption of IFRS has had no impact on the Company's financial position, financial performance or cash flows. As there have been no changes made to the amounts recorded in the financial statements, no IFRS transition reconciliations have been presented.

## **12. SUBSEQUENT EVENT**

On February 7, 2012, Glencore and Xstrata announced that the Glencore directors and the independent Xstrata directors have reached agreement on the terms of a recommended all-share merger of equals. The merger ratio of 2.8 New Glencore Shares for every Xstrata Share held, excluding Xstrata Shares already owned by the Glencore group, will provide Xstrata Shareholders other than Glencore with a 45% stake in the combined entity.

The merger is conditional on the approval of 75% of the shareholders of Glencore and Xstrata (excluding Glencore), the receipt of regulatory clearance and other closing conditions.





**Financial Statements**

**Xstrata Canada Financial Corp.**

**December 31, 2010 and 2009**



## INDEPENDENT AUDITORS' REPORT

To the Shareholder of  
**Xstrata Canada Financial Corp.**

We have audited the accompanying financial statements of **Xstrata Canada Financial Corp.**, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Xstrata Canada Financial Corp.** as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
March 16, 2011.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

# XSTRATA CANADA FINANCIAL CORP.

## Balance Sheets

As at December 31, 2010 and 2009

(In \$000s of USD)

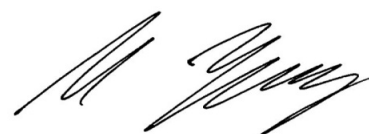
		<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current assets			
Cash		\$ 153	\$ 96
Interest receivable from affiliates	(note 3)	45,226	43,898
Loan due from affiliate	(note 2)	1,172,760	-
Derivative financial assets	(notes 2 and 5)	38,055	-
		<u>1,256,194</u>	<u>43,994</u>
Non-current assets			
Derivative financial assets	(notes 2 and 5)	181,959	214,928
Long-term receivable from affiliate	(note 2)	-	19,522
Loans due from affiliates	(note 3)	2,039,911	5,583,245
		<u>2,221,870</u>	<u>5,817,695</u>
<b>Total assets</b>		<u>\$ 3,478,064</u>	<u>\$ 5,861,689</u>
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities			
Accrued interest payable	(note 4)	\$ 42,064	\$ 43,497
Payable to affiliates	(note 2)	253	21,544
Accrued liabilities		155	-
Derivative financial liabilities	(notes 2 and 5)	169,950	-
Borrowings	(note 2)	1,040,066	-
Loan payable to affiliate		131,600	-
Income taxes payable		-	-
		<u>1,384,088</u>	<u>65,041</u>
Non-current liabilities			
Long-term debt	(note 4)	1,715,756	5,403,092
Derivative financial liabilities	(notes 2 and 5)	340,360	355,872
Deferred tax liability	(note 2)	8,591	9,699
		<u>2,064,707</u>	<u>5,768,663</u>
Shareholder's equity			
Common share capital (unlimited number of shares authorized, one share issued and outstanding)		-	-
Additional paid-in capital	(note 2)	4,116	-
Retained earnings		25,153	27,985
Accumulated other comprehensive income		-	-
		<u>29,269</u>	<u>27,985</u>
<b>Total liabilities and shareholder's equity</b>		<u>\$ 3,478,064</u>	<u>\$ 5,861,689</u>

See accompanying notes

On behalf of the Board:



**Michael Boone**  
Director



**Stephen Young**  
Director

**XSTRATA CANADA FINANCIAL CORP.**  
**Statements of Operations and Retained Earnings**  
For the years ended December 31, 2010 and 2009  
(In \$000s of USD)

		<u>2010</u>	<u>2009</u>
<b>Revenue and Expenses</b>			
Interest revenue	(note 3)	\$ 112,014	\$ 111,056
Administrative expenses		(435)	(1,883)
Interest expense	(note 4)	(84,744)	(98,442)
Amortization of financing arrangement costs		(8,354)	(12,008)
Write-off of financing arrangement fees	(note 2)	(17,994)	-
Derivative loss	(note 2)	(4,256)	(19,541)
Foreign exchange gain (loss)		(171)	11
<b>Loss before income taxes</b>		<u>(3,940)</u>	<u>(20,807)</u>
<b>Income Tax Recovery</b>			
Deferred		(1,108)	(7,219)
Current		-	(52)
<b>Net loss</b>		<u>\$ (2,832)</u>	<u>\$ (13,536)</u>
 <b>Retained earnings</b>			
Balance, beginning of year		\$ 27,985	\$ 41,521
Net loss		(2,832)	(13,536)
Balance, end of year		<u>\$ 25,153</u>	<u>\$ 27,985</u>

See accompanying notes

# XSTRATA CANADA FINANCIAL CORP.

## Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(In \$000s of USD)

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Net loss	\$ (2,832)	\$ (13,536)
Deferred income taxes	(1,108)	(7,219)
Derivative loss	4,256	19,541
Net change in non-cash working capital	(4,375)	1,698
<b>Cash flows from (used in) operating activities</b>	<u>(4,059)</u>	<u>484</u>
<b>Investing Activities</b>		
Net decrease (Increase) in loans due from affiliates	<u>2,520,000</u>	<u>(490,412)</u>
<b>Cash flows from (used in) investing activities</b>	<u>2,520,000</u>	<u>(490,412)</u>
<b>Financing Activities</b>		
Proceeds on issuance of long-term debt	-	490,000
Repayment of long-term debt	(2,520,000)	-
Increase in additional paid-in capital	4,116	-
<b>Cash flows from (used in) financing activities</b>	<u>(2,515,884)</u>	<u>490,000</u>
<b>Net increase in cash</b>	<b>57</b>	<b>72</b>
Cash, beginning of year	<u>96</u>	<u>24</u>
<b>Cash, end of year</b>	<u>\$ 153</u>	<u>\$ 96</u>

See accompanying notes

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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### **1. NATURE OF OPERATIONS**

Xstrata Canada Financial Corp. (the "Company") was incorporated on April 23, 2008 as a private company in Ontario, Canada under the Business Corporations Act (Ontario), with Ontario corporation number 2170552. Upon incorporation, one common share was issued to Xstrata Finance (Canada) Limited (the "Parent"), a private company incorporated in Ontario, Canada for nominal consideration.

The Company is engaged in performing certain financing activities for the Xstrata plc group of companies and is a wholly-owned indirect subsidiary of Xstrata plc, the Company's ultimate parent.

The Company's functional currency is the US dollar.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation**

The accompanying financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

#### **Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from such estimates and such differences could be material.

#### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the balance sheet dates. Revenue and expenses and non-monetary assets and liabilities are translated at the rates of exchange prevailing on the dates of the transactions or when the assets were acquired or the liabilities incurred. Gains and losses on translation of foreign currencies are included in the determination of net loss for the year.

#### **Cash**

Cash includes cash in banks and on hand, earns interest at floating rates of interest and is stated at cost, which approximates its fair value.

#### **Revenue recognition**

Interest income is recognized as earned on an accrual basis. Discounts, commissions and loan fees are deferred and amortized to interest income over the term of the loan. The net unamortized fees are included in loans due from affiliates.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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### **Financial instruments**

The Company has adopted the accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") for the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, as described in CICA Handbook Sections 1535 "Capital Disclosures", 3855 "Financial Instruments – Recognition and Measurement", 3862 "Financial Instruments – Disclosures", 3863 "Financial Instruments – Presentation", 3865 "Hedges" and EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities".

Financial instruments are measured at fair value on initial recognition of the instrument based on current pricing of such financial instruments with comparable terms. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in accumulated other comprehensive income ("AOCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest rate method. Transaction costs, if any, are added to the initial amount recorded.

The Company has implemented the following classification and valuation methodology:

- Cash is designated as "held-for-trading" and its carrying amount approximates its fair value.
- Other receivable from affiliate is classified as "loans and receivables". After its initial fair value measurement, it is measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost. Long-term receivable from affiliate consists of direct costs incurred on the loans due from Xstrata Canada Inc. Based on an agreement, Xstrata Canada Inc. agreed to reimburse the Company for all fees related to issuance of these notes. As at December 31, 2010 and 2009, the balance outstanding was nil and \$19,522, respectively.
- Accrued interest payable, payable to affiliates, borrowings and long-term debt are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost. Payable to affiliates as at December 31, 2010, consists of expenses paid on behalf of the Company and interest payable to Xstrata Canada Corporation of \$249 and \$4, respectively and as at December 31, 2009, consists of expenses paid on behalf of the Company by Xstrata Canada Corporation of \$21,544.
- Derivative financial instruments are classified as "held-for-trading" and recorded on the balance sheets at their fair value which is the estimated amount that would be agreed upon in an arm's length transaction between knowledgeable, willing parties estimated by using a discounted cash flow methodology based on available market data.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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Due to the nature of its operations, the Company is exposed to foreign currency and interest rate risks in the ordinary course of business. The Company periodically enters into cross-currency and interest rate swaps to partially hedge the effects of foreign currency fluctuation related to foreign currency forecasted transactions and changes in interest rates. The Company does not enter into derivatives for speculative purposes.

Interest rate swaps are marked-to-market and accounted for as fair value hedges, with changes recorded as derivative gain or loss.

The Company has entered into cross-currency swaps, whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to certain long-term debt. The cross-currency swaps are accounted for as fair value hedges.

The Company uses hedge accounting when the required documentation criteria are met and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting.

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates in the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items attributable to the hedged risk. The Company uses fair value hedge strategies for its long-term debt portfolios.

In a fair value hedging transaction, the hedging instrument is recognized at fair value, and the carrying value of the hedged item is adjusted by the gain or the loss attributable to the hedged risk. When these changes in fair value do not completely offset each other, the resulting amount is recorded as derivative gain or loss.

For cash flow hedges, if any, the change in value of the effective portion is recognized in "other comprehensive income". The change in value of the effective portion of a cash flow hedge remains in AOCI until the related hedged item settles, at which time amounts recognized in AOCI are reclassified to the same income account that records the hedged item. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within AOCI until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in net income. Any ineffectiveness within an effective cash flow hedge is recognized in net income as it arises in the same income account as the hedged item when realized.

The designation of a derivative financial instrument as a hedge is discontinued in the following cases: the hedged item or the hedging instrument is sold or matures, the hedge is no longer effective, or the Company terminates the designation of the hedge. When the hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized to income using the effective interest rate method over the remaining life of the hedged item, unless the hedged item ceases to exist, in which case the adjustments for the impact of the designated risk are immediately recognized in income.



# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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When hedge accounting is not used, the derivatives are measured at fair value at the end of each year and the unrealized gains or losses arising from remeasurement are recorded in income.

Financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables; loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale; and loans and receivables that the holder intends to sell immediately or in the near term are classified as held-for-trading.

Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties. The Company's credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The fair value is recorded as derivative gain or loss on the statements of operations and retained earnings. The Company recorded a derivative loss of \$4,256 and \$19,541 for the years ended December 31, 2010 and 2009, respectively.

### **Future changes in accounting policies**

#### **Accounting Standards for Private Enterprises ("PE GAAP")**

On December 15, 2009, the Accounting Standards Board ("AcSB") issued Part II of the Accounting Handbook: Accounting standards for private enterprises ("PE GAAP"). This part of the Handbook includes an Introduction and the accounting standards for private enterprises approved by the AcSB for annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. Private enterprises may adopt Part I, International Financial Reporting Standards, instead of the standards in Part II. The standards are available to all private enterprises. A private enterprise is defined as a profit-oriented enterprise that is neither a publicly accountable enterprise nor an entity in the public sector. Entities who apply the standards will describe their financial statements as prepared in accordance with Canadian Generally Accepted Accounting Principles for Private Enterprises. The AcSB developed the accounting standards for private enterprises based closely on the standards in Part V – Pre-changeover accounting standards. The few changes to recognition and measurement requirements in those standards address key issues for which the AcSB determined that existing standards do not meet a cost-benefit test for private enterprises.

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

**(In \$000s of USD, except as otherwise indicated)**

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Disclosure requirements are significantly reduced from the standards in Part V. The Company is currently assessing the impact of these new accounting standards on its financial statements.

### **Loan due from affiliate**

The loan due from affiliate at December 31, 2010 of \$1,172,760 consists of a promissory note to Xstrata Canada Inc. of \$1,173,750 less unamortized deferred financing fees of \$990. Interest is receivable on the 6-month USD British Bankers' Association London Inter-Bank Offered Rate (USD-BBA-LIBOR) notes annually in arrears plus a spread of 1.275%.

### **Borrowings**

The current portion of long-term debt at December 31, 2010 and 2009 was \$1,040,066 (\$1,041,056 less unamortized deferred financing fees of \$990) and nil, respectively.

### **Loan payable to affiliate**

The loan payable to affiliate at December 31, 2010 was \$131,600 which consists of advances from Xstrata Canada Corporation. This loan, including any accrued and unpaid interest, is due and payable upon the demand of Xstrata Canada Corporation. Interest is payable on the 1-month USD-BBA-LIBOR plus a spread of 0.276%.

### **Deferred financing costs**

Financing costs, incurred on issuance of debt, are deferred and charged against income over the term of the debt. Upfront, participating and consent fees on the multi-currency revolving loan facilities are charged to income as incurred. For the year ended December 31, 2010, \$9,472 and \$7,809 of upfront and participating fees were charged to income relating to the \$5.5 billion and \$4.0 billion facilities, respectively. In addition, consent fees of \$713 paid in recognition of amendments made to the \$4.7 billion facility were charged to income.

### **Income taxes**

The liability method is used to account for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis [temporary differences]. Deferred income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the date of enactment. A valuation allowance is provided to the extent that it is more likely than not that deferred income tax assets will not be realized.

As at December 31, 2010 and 2009, the Company recorded a deferred tax liability of \$8,591 and \$9,699, respectively, related to its derivative financial instruments consisting of interest rate and cross-currency swaps.

### **Additional paid-in capital**

The Company received \$4,116 from its Parent which was recorded as an increase in additional paid-in capital. These funds were used to repay amounts owing to Xstrata Canada Corporation and Xstrata Canada Inc. of \$2,987 and \$1,129, respectively.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

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### Comparative

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

### 3. LOANS DUE FROM AFFILIATES

Loans due from affiliates consist of promissory notes from Xstrata Canada Inc., Xstrata Canada Corporation and Xstrata NCF Ltd., all wholly-owned indirect subsidiaries of Xstrata plc. Details of the promissory notes are as follows:

	<u>2010</u>	<u>2009</u>
6-month USD-BBA-LIBOR + 1.275% due May 27, 2011	\$ 1,173,750	\$ 1,173,750
6-month USD-BBA-LIBOR + 1.765% due May 27, 2015	939,000	939,000
6-month USD-BBA-LIBOR + 2.163% due May 27, 2020	985,000	985,000
1-month USD-BBA-LIBOR + 0.286% (a)	<u>132,012</u>	<u>2,520,412</u>
	<u>3,229,762</u>	5,618,162
Current portion of loans due from affiliates	<u>(1,173,750)</u>	-
Unamortized deferred financing costs	<u>(16,101)</u>	<u>(34,917)</u>
	<u>\$ 2,039,911</u>	<u>\$ 5,583,245</u>

Xstrata Canada Inc. has assumed approximately nil and \$1,834 of commissions and issuance costs for the years ended December 31, 2010 and 2009, respectively relating to the Company's unsecured fixed rate notes (note 4).

Interest is receivable on the 6-month USD-BBA-LIBOR notes annually in arrears.

(a) This note, including any accrued and unpaid interest, is due and payable upon the demand of the Company. The Company has classified this note as long-term as it has no intention of calling the note prior to December 31, 2011.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

### 4. LONG-TERM DEBT

The Company issued unsecured fixed and floating rate notes as follows:

	<u>2010</u>	<u>2009</u>
5.875% due May 27, 2011, issued at 99.693% (a.i)	\$ 1,041,056	\$ 1,136,030
6.25% due May 27, 2015, issued at 99.317% (a.ii)	879,912	926,204
7.375% due May 27, 2020, issued at 99.156% (a.iii)	851,945	855,775
1-month USD-BBA-LIBOR + 0.276% due July 31, 2012	-	2,520,000
	<u>2,772,913</u>	<u>5,438,009</u>
Current portion of long-term debt	(1,041,056)	-
Unamortized deferred financing costs	(16,101)	(34,917)
	<u>\$ 1,715,756</u>	<u>\$ 5,403,092</u>

Interest is payable annually in arrears except for the July 31, 2012 note which is payable at the Company's option over periods of one to six months. The notes are fully and unconditionally guaranteed on a senior, unsecured and joint and several basis by Xstrata plc and its wholly-owned indirect subsidiaries, Xstrata (Schweiz) AG and Xstrata Finance (Dubai) Limited. As at December 31, 2010 and 2009, accrued interest payable was \$42,064 and \$43,497, respectively.

- (a) These notes were issued for Euro 750,000 (a.i), Euro 600,000 (a.ii) and GBP 500,000 (a.iii). The Company entered into cross-currency swaps whereby future cash flow commitments denominated in Euro and GBP are received and US dollars are paid on interest and principal relating to the loans.

The foreign currency rates of the swap contracts were as follows:

	<b>December 31,</b>	December 31,	
	<b>2010</b>	2009	At Inception
Euro (EUR:US\$)	<b>1.338</b>	1.432	1.565
Great Britain pound (GBP:US\$)	<b>1.561</b>	1.617	1.970

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

### 5. FINANCIAL INSTRUMENTS

The Company believes the carrying value of its short-term financial instruments, including interest receivable from affiliates and accrued interest payable, approximates their fair value due to their short-term nature.

#### Fair value hierarchy

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 - Inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - One or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of the fair value.

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Held-for-trading	\$ 153	\$ 220,014	\$ -	\$ 220,167
Loans and receivables	-	3,257,897	-	3,257,897
<b>Financial liabilities</b>				
Held-for-trading	-	(510,310)	-	(510,310)
Other financial liabilities	-	(2,929,894)	-	(2,929,894)
<b>Net financial asset</b>	<u>\$ 153</u>	<u>\$ 37,707</u>	<u>\$ -</u>	<u>\$ 37,860</u>

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

### Market risk

The Company's primary market exposures relate to interest rate risk and foreign currency risk.

#### [a] Interest rate risk

The Company is exposed to interest rate risk primarily as a result of exposures to movements in the LIBOR. It is the Company's preference to borrow and invest at floating rates of interest, notwithstanding that some borrowings are at fixed rates. The Company entered into interest rate swap agreements to alter the interest characteristics of certain long-term debt from a fixed to a floating rate basis. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the term of the agreement without an exchange of the underlying principal amount. During 2010 and 2009, the Company recorded an unrealized gain of \$5,086 and an unrealized loss of \$5,274, respectively relating to the interest rate swaps.

In keeping with the Company's preference to borrow and invest at floating rates of interest, the following interest rate swap contracts were outstanding at December 31, 2010 and 2009:

	Principal amount	Average rate %	Fair value	Principal amount	Average rate %	Fair value
	2010	2010	2010	2009	2009	2009
At fair value:						
Interest rate swap from US\$ fixed rates:						
Maturing in less than 1 year	\$ 1,173,750	1.73%	\$ 38,055	\$ -	-	\$ -
Maturing between 1 to 2 years	-	-	-	1,173,750	1.70%	63,744
Maturing between 2 to 3 years	-	-	-	-	-	-
Maturing between 3 to 4 years	-	-	-	-	-	-
Maturing between 4 to 5 years	939,000	2.22%	85,557	-	-	-
Maturing greater than 5 years	985,000	2.62%	96,402	1,924,000	2.40%	151,184
	<u>\$ 3,097,750</u>	<u>2.16%</u>	<u>\$ 220,014</u>	<u>\$ 3,097,750</u>	<u>2.13%</u>	<u>\$ 214,928</u>

#### [b] Foreign currency risk

The Company entered into cross-currency swap agreements to alter the future cash flow commitments of its Euro and GBP long-term debt to US dollars. These agreements involve the receipt of Euro and GBP amounts in exchange for US dollar payments over the term of the agreements without an exchange of the underlying principal amount. During 2010 and 2009, the Company recorded an unrealized loss of \$154,438 and unrealized gain of \$126,063, respectively relating to the cross-currency swaps.

# XSTRATA CANADA FINANCIAL CORP.

## Notes to Financial Statements

December 31, 2010 and 2009

(In \$000s of USD, except as otherwise indicated)

The unrealized gains and losses are reported on the balance sheets as follows:

	<u>2010</u>	<u>2009</u>
<b>Derivative financial assets</b>		
Interest rate swap on borrowings	\$ 38,055	\$ -
Interest rate swap on long-term debt	<u>181,959</u>	<u>214,928</u>
	<u>\$ 220,014</u>	<u>\$ 214,928</u>
<b>Derivative financial liabilities</b>		
Cross-currency swap on borrowings	\$ 169,950	\$ -
Cross-currency swap on long-term debt	<u>340,360</u>	<u>355,872</u>
	<u>\$ 510,310</u>	<u>\$ 355,872</u>

### Credit risk

The Company does not consider the credit risk associated with its financial instruments to be significant. Interest rate swaps on long-term debt are maintained with high-quality counterparties and the Company does not anticipate that any counterparty will fail to meet its obligations.

### Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages its liquidity risk by utilizing various sources of financing to maintain flexibility while ensuring access to cost-effective funds when required. In addition, the Company utilizes both short- and long-term cash flow forecasts and other financial information to manage liquidity risk.

The Company has various borrowing facilities available to it. This ensures flexibility to minimize liquidity risk and ensures the ongoing solvency of the Company.

## 6. CAPITAL DISCLOSURE

The Company defines its capital as follows:

1. Long-term debt, including the current portion; and
2. Cash, short-term investments and long-term investments.

The Company's objectives when managing capital are to:

1. Maintain a capital structure and an appropriate rating that provides financing options to the Company when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing debt.
2. Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.
3. Deploy capital to provide an appropriate investment return to its shareholder.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue additional

# **XSTRATA CANADA FINANCIAL CORP.**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

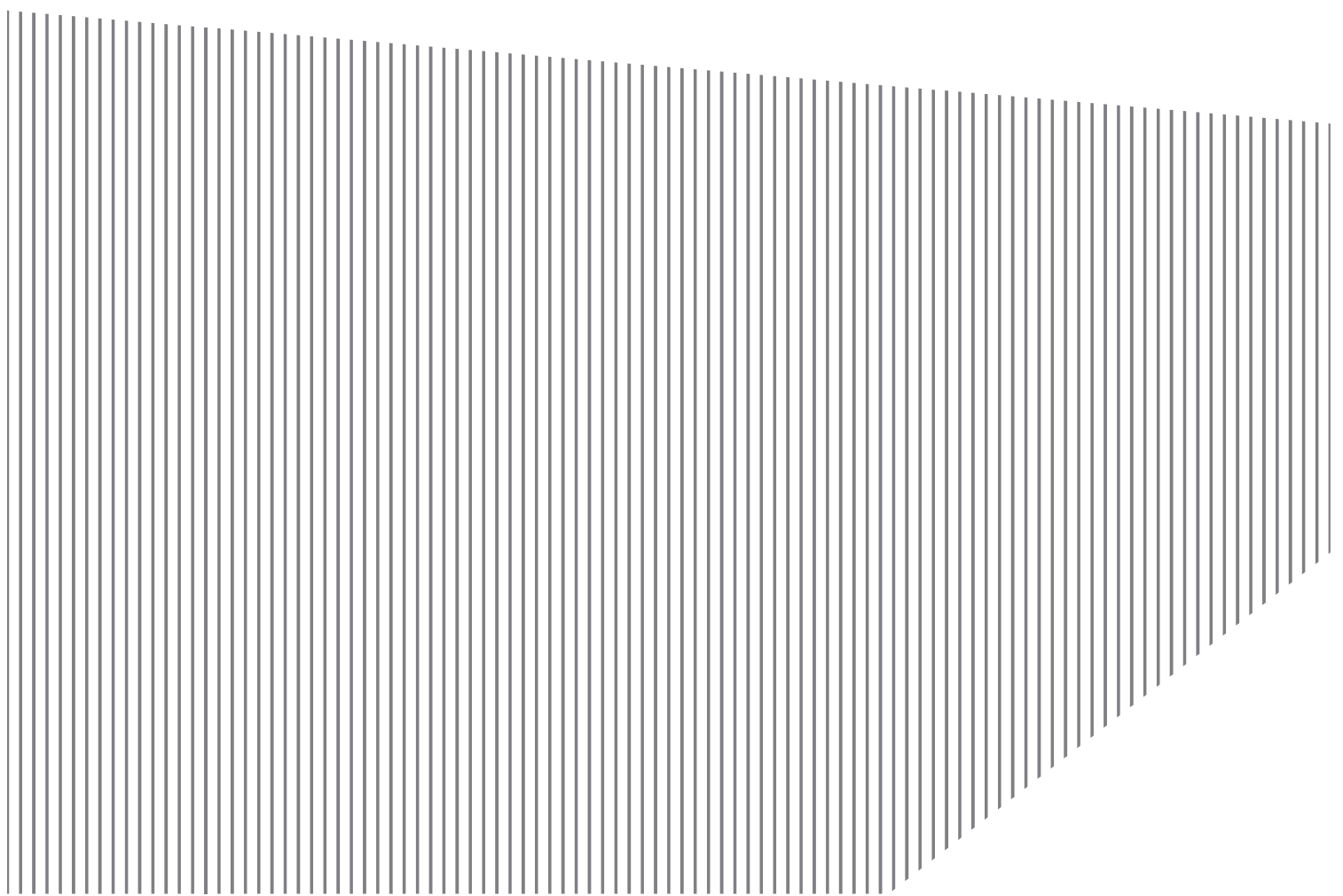
**(In \$000s of USD, except as otherwise indicated)**

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debt and issue debt to replace existing debt with similar or different characteristics. The Company's financing and refinancing decisions are made on a specific transaction basis and depend upon such factors as the Company's needs, and market and economic conditions at the time of the transaction.

The Board of Directors of the Company reviews the level of dividends paid to the Company's shareholder on a quarterly basis. There were no changes in the Company's approach to capital management during the year.







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