

sustainability



Xstrata's approach to sustainable development is embedded within our strategy to achieve sustainable growth which creates shareholder value at each stage of our corporate development.

Our approach to sustainable development

Xstrata's approach to sustainable development is embedded within our strategy to achieve sustainable growth which creates shareholder value at each stage of our corporate development. We do this by managing and growing a diversified, balanced portfolio of metals and mining operations, providing the basic materials necessary for social and economic development, through mutually beneficial, long-term partnerships with our stakeholders and in an environmentally responsible manner. In addition to minimising the impact of our own operations on the environment, we aim to use resources as efficiently as possible, reducing waste and input materials to limit the environmental impacts associated with our supply chain.

To ensure our strategy is successful in the long term and that our growth is sustainable, we seek to:

- operate efficiently and profitably by maximising revenue, minimising costs and investing to achieve long-term growth and value creation;
- operate a safe, healthy and non-discriminatory workplace with progressive development opportunities;
- ensure a sustainable environment and operate in harmony with local communities, governments and other stakeholders through using resources efficiently and contributing to the conservation of the natural environment;
- operate ethically, legally, transparently and responsibly, as the stewards of our shareholders' assets and in line with our Business Principles; and
- ensure access to new resources, an ongoing licence to operate and protect Xstrata's value over the long term by managing our operations to the highest environmental standards and by working with our stakeholders to provide mutual, lasting social and economic benefits.

We maintain a lean corporate centre, minimising the burden of overheads and interference from head office. We believe this directly benefits our operations and helps us to achieve our strategic objectives

by creating a strong sense of local ownership, where entrepreneurial managers are empowered and incentivised to address local, regional or site-specific challenges and opportunities. Every operation and commodity business exercises this autonomy within the framework of our Group Policies and Management Standards, which ensure that our operations adhere to international best practice, irrespective of their location. Xstrata's HSEC Assurance and Internal Audit Risk Management Programmes audit our operations against this framework of policies and standards.

Xstrata has grown from a market capitalisation of \$800 million at the beginning of 2002 to a market value of more than \$18 billion at the beginning of 2006 and has achieved total shareholder return from initial public offering to 1 March 2006 of 278%, compared with 26% for the FTSE100 index over the same period.

This rapid growth and value creation has been achieved through two major, company-transforming acquisitions in 2002 and 2003, smaller 'bolt-on' acquisitions and the development of a number of efficiency improvements and major growth projects from our portfolio. In each case, we have improved performance efficiency and created value, including substantial improvements to health, safety and environmental performance, enhanced risk management systems and community partnerships.

Black Star Open Cut. Environmental Advisor, Anne Moore, with truck driver, Rob Morrison



Manuel Winkelsesser skimming zinc ingots at Nordenham





HIV/AIDS sign at South Witbank colliery

Since our acquisition of the Duiker South African coal operations in 2002, Xstrata has:

- implemented an industry-leading HIV/AIDS voluntary testing, counselling and treatment programme, including a process to establish a private-public partnership with government and NGOs to provide HIV/AIDS testing and treatment and primary healthcare services to the local community – a second clinic is under construction in 2006 and Xstrata Coal's HIV/AIDS initiatives received a commendation from the Global Business Coalition on HIV/AIDS Awards in 2005;
- improved the lost time injury frequency rate at these operations from 2.4 in 2002 to 0.8 in 2005;
- introduced comprehensive safety management programmes including a focus on leadership, accountability and behavioural safety;
- implemented comprehensive environmental management systems and plans at every operation and reduced the number of significant (category 3) environmental incidents from eight in 2002 to none in 2005;
- established formal community feedback mechanisms and regular dialogue with communities, government and other stakeholders;
- improved the financial performance at the South African coal operations, increasing revenue from \$380 million in 2002 to \$790 million in 2005; and
- made considerable progress towards achieving meaningful empowerment for historically disadvantaged South Africans (HDSAs) including increasing the proportion of HDSAs in management positions to 32% of all management and, together with African Rainbow Minerals, creating a new, black empowerment coal company ARM Coal, to facilitate broad-based empowerment in our business.

Our ongoing challenge and over-riding priority in this business, as at all operations, is to eliminate fatalities. In 2005, this was not achieved and tragically, two employees lost their lives at our South African coal operations. All South African operations are undergoing significant investment to address critical incidents, and we are committed at every level of the organisation to achieving zero harm at our operations every year. Further details of our improvement programmes in South Africa are provided in the Safety chapter, on page 54 of this report.

In June 2003, Xstrata acquired MIM Holdings in a transaction which doubled Xstrata's size.

Through the integration process and through subsequent initiatives, Xstrata has:

- improved the lost time injury frequency rate by more than 50% at the former MIM operations globally, in part facilitated by the redeployment of safety and other functional personnel from corporate offices to the operations;
- engaged in comprehensive consultation with employees at Mount Isa Mines, the largest single site in the Group, to formulate a transformation programme which has yielded around \$50 million of cost savings each year in 2004 and 2005 at Mount Isa and substantial improvements in productivity;
- signed an enterprise bargaining agreement with the union at Mount Isa within six months of Xstrata's acquisition, following over two years of negotiations with previous management;
- created more than 350 new jobs at Mount Isa and safeguarded in excess of 1,000 positions at an operation previously earmarked for closure;
- benefited local businesses by increasing local purchasing through decentralised procurement; and
- developed comprehensive corporate social involvement plans for each operation and regionally, including a commitment to spend AUD4 million over three years from 2005 on a range of community initiatives in north Queensland, expanded in March 2006 to commit a further AUD2.48 million over the next three years for State-wide initiatives in Queensland from 2006.

In each case these improvements have been achieved primarily by former MIM employees, operating within Xstrata's devolved management structure.

Tony McGrady, Speaker of the Queensland Parliament and Member for Mount Isa

"This is precisely what good corporate citizenship is all about – creating jobs for Queenslanders, boosting the State's economy and giving back to the community wherever possible. This is exactly what Xstrata is doing."

Knowledge-sharing: Xstrata Sustainability Conference

In October 2005, around 100 of Xstrata's health, safety, environment and community managers and operations managers gathered in Johannesburg to discuss sustainability issues and share leading practices. The inaugural three-day Sustainability Conference covered a broad range of health, safety, environment and community topics including key findings from critical incident investigations in South Africa; applications of behavioural theory; community relations; supervisor training, bonus and incentive schemes; HIV/AIDS initiatives; climate change and biodiversity and land management programmes. The feedback was extremely positive. Xstrata Executive Director Corporate Development Eric Ratshikhopha said: "The conference enabled our employees to realise that South African initiatives are similar to those being undertaken in other countries in a number of respects, and that the challenges – and in some cases the solutions – are similar despite our different circumstances."

Stakeholder identification and engagement

The term 'stakeholder' is used to define any person or group of people who can affect or is affected by an organisation's activities. Xstrata has identified its stakeholders at an operational, regional and global level through regular internal assessments of key groups and engagement with interested parties. We seek to engage with stakeholder groups in a manner that is culturally appropriate, effective and transparent. We encourage dialogue with our stakeholders and integrate stakeholder feedback into business planning and strategy.

Our Statement of Business Principles states that we will "co-operate with employees, local communities and other stakeholders

to deliver industry-leading returns to our shareholders. To achieve this, we communicate honestly and engage in good faith with all stakeholders." We use stakeholder engagement to identify and manage risk, guide our strategy and business activities, protect and develop our corporate reputation, strengthen stakeholder relationships, measure the success of our initiatives, manage expectations, respond to concerns and be open about our plans for our business. Our HSEC Standard Communication and Engagement outlines the Group's expectations in greater detail, including specific expectations regarding responsiveness to community enquiries and complaints and the integration

of stakeholder feedback into practices and policy.

Our key stakeholders are the shareholders who own our business; other members of the investment community including financial and socially responsible investment (SRI) investors and analysts; our employees, national, regional and local governments; the communities associated with our operations; our customers, business partners and suppliers; non-governmental organisations (NGOs) and the organisations and groups that represent each of these sets of key stakeholders; in addition to international, national, regional and local media.



Minera Alumbrera: Environmental Officer Virginia Córdoba performing a flora survey

Stakeholder response

The format of our engagement is as diverse as the wide range of stakeholders in our business. Our key stakeholder groups, methods used to communicate with each group and some of the key areas of interest or concern for each are listed below. Our response to these areas of interest or concern is addressed in the appropriate chapter in this report.

<p>Shareholders and the investment community</p> <p>Xstrata's shareholder base consists primarily of institutional investors based in the UK, US and Europe, with a smaller proportion of retail or individual investors. Employees are also encouraged to own Xstrata shares and variable rewards are linked to the performance of the Xstrata Group to align shareholders' and employees' interests. The investment community includes private and institutional investors, buy-side and sell-side financial analysts, credit analysts and ratings agencies and socially responsible investment analysts and investors.</p>	
<p>Key areas of interest</p> <ul style="list-style-type: none"> ■ Xstrata's returns to shareholders and potential for future returns ■ Financial and non-financial risk management and governance ■ Performance against strategy 	<p>Methods of engagement</p> <ul style="list-style-type: none"> ■ Extensive and ongoing engagement through planned and ad hoc meetings and communication with financial analysts and investors through Xstrata's corporate affairs team ■ Regular meetings and communication with the SRI community ■ Regular executive management team meetings with investors ■ Group Treasury engagement with credit rating agencies, bondholders and debt market analysts ■ Operational visits and meetings with divisional management ■ Publications such as press releases, annual and interim reports six-monthly publication of financial results statements ■ Investment community presentations and conference calls including the opportunity for questions and feedback to the executive team ■ Annual general meetings and extraordinary general meetings as required
<p>Employees, contractors and trade unions</p> <p>Xstrata employs more than 24,000 people worldwide including contractors. A large number of Xstrata's employees are members of unions or are covered by collective agreements. Further information is provided in the Socio-economic & Employees chapter.</p>	
<ul style="list-style-type: none"> ■ Recruitment, training, career development and opportunities ■ Remuneration and benefits, workers' rights ■ Operational practices including health and safety initiatives ■ Community issues including health, education, housing, education and job creation 	<ul style="list-style-type: none"> ■ Employee and union representatives participate in operational and divisional steering committees, including specific committees on HSEC issues, black economic empowerment etc ■ Direct regular feedback through management and team meetings, employee forums ■ Corporate intranet and website ■ Site and divisional newsletters ■ Ethics line for confidential "whistle-blowing" ■ Cultural surveys
<p>International, national, regional, local government</p> <p>Xstrata engages with government representatives in every region where the Group is active, at the local, regional and national level.</p>	
<p>Issues raised vary considerably according to the region and level of government. Some common areas of interest are:</p> <ul style="list-style-type: none"> ■ Social and environment performance and adherence to regulations ■ Mining industry policy development and new regulation ■ Social development and infrastructure ■ Enterprise and job creation ■ Royalties and taxes ■ Development opportunities 	<ul style="list-style-type: none"> ■ Formal and informal regular meetings ■ Communication through letters, emails and publications ■ Representation on joint committees or groups, e.g. local economic development forums, local education authority steering committees, industry bodies etc ■ Presentations to government members, particularly following an investment in a new territory or to explain and consult on proposed changes to operations

Local communities, indigenous peoples and community groups

Xstrata operates within a diverse range of communities with very different cultural norms, requirements and expectations. Communications are tailored to specific groups.

Key areas of interest	Methods of engagement
<ul style="list-style-type: none"> ■ Environmental impacts and management systems of operations ■ Social infrastructure and development including education, health, youth development, sports, culture ■ Enterprise and job creation ■ Support for community initiatives ■ Social impacts of operations ■ Protection of sacred sites/protected areas ■ Sustainable community benefits post closure ■ Traditional rights and cultural heritage 	<ul style="list-style-type: none"> ■ Engagement and dialogue with local community and indigenous people is governed by our Communication and Engagement and Community Standards ■ Participatory environmental monitoring groups ■ Community forums and site open days ■ Participation in steering committees, e.g. the Indigenous Mining and Enterprise Task Force ■ Site specific newsletters and targeted communications such as videos, theatre groups and workshops ■ Direct communication with community relations managers and site management ■ Mandatory site community complaints and enquiries mechanism which includes reporting, follow-up and integration of feedback ■ Mandatory site-specific and divisional corporate social involvement plans which require extensive consultation with local communities to determine objectives and select development programmes ■ Community perception studies ■ Social impact assessments and participatory closure planning
<p>Suppliers</p> <p>Xstrata's suppliers range from small and medium-sized local enterprises to multinational corporations. Our HSEC Management Standard: Contractors, Suppliers and Partners, governs Xstrata's requirements for suppliers. Xstrata does not have a central or global procurement function, this is devolved to commodity businesses and regional divisions, providing greater opportunity to prioritise local procurement and support enterprise and job creation for local communities.</p>	
<ul style="list-style-type: none"> ■ Xstrata's requirements for HSEC standards and commodity business/regional procurement policies ■ Contract terms and delivery ■ Opportunities for further business partnerships with the Xstrata Group ■ Joint community development projects (for example, Sodexo in Peru) 	<ul style="list-style-type: none"> ■ Engagement with suppliers and business partners is governed by our HSEC Standard ■ Direct contact with Xstrata employees responsible for procurement of goods and services ■ Support from Xstrata for small businesses to help satisfy Xstrata's requirements for suppliers including training and seed funding to establish SMEs (see Socio-economic chapter and Community and Social Development chapter) ■ Specific support for black economic empowerment suppliers in South Africa ■ Meetings to enhance the health, safety and environmental performance of our suppliers ■ Site or division-specific newsletters and reports
<p>Business partners</p> <p>Business partners include joint venture partners and minority shareholders in our operations.</p>	
<ul style="list-style-type: none"> ■ Operational practices including health and safety, environmental practices, community relations ■ Financial returns ■ Risk management ■ Regulatory and policy compliance 	<ul style="list-style-type: none"> ■ Steering and operational committees ■ Annual and interim reports ■ Targeted site-specific communications

<p>Customers</p> <p>The majority of Xstrata's customers are large industrial corporations. A proportion of Xstrata's products are also sold into exchanges such as the London Metals Exchange, where there is no direct customer.</p>	
<ul style="list-style-type: none"> ■ Contract and delivery terms ■ Product quality ■ Technology transfer 	<ul style="list-style-type: none"> ■ Direct contact with marketing teams ■ Targeted published communications, e.g. newsletters ■ Life cycle analysis of our products and by-products through industry body working groups
<p>Non-governmental organisations (NGOs)</p> <p>Xstrata interacts with a range of international, national, regional and local NGOs</p>	
<ul style="list-style-type: none"> ■ Environmental issues such as biodiversity or site-specific concerns ■ Health, for example HIV/AIDS ■ Social and community development, for example, partnerships to improve social infrastructure ■ Youth development and education 	<ul style="list-style-type: none"> ■ Participation in community forums ■ Partnerships, for example, the Breyten primary health clinic in South Africa (pages 52-53)

Advocacy and our global role

Xstrata plays an active role in a number of significant national and international industry associations, through membership, funding, provision of expertise and participation in committees, working groups and research projects. These include:

- Australian Minerals Industry Cooperation Initiative (MICI);
- Minerals Council of Australia (MCA);
- Global Business Coalition on HIV/AIDS (GBC);
- HIV/AIDS Powerbelt Initiative;
- North West Province Air Pollution Control Forum (NAPCOF); and
- A range of industry organisations for each of the commodities Xstrata produces.

A full list of our affiliations and further information about our role in these organisations is provided on our website.

In late 2005, Xstrata committed to join the International Council on Mining and Metals, the peak international body representing leading companies and associations in the mining and metals industry. Our membership is expected to be confirmed at the ICMM meeting in May 2006.

In March 2006, Xstrata became a signatory to the UN Global Compact. A separate report outlining our performance against each of the 10 principles is available on our website.

Maintenance crew works on the concentrator plant at McArthur River Mine



Safety Officer Cobus Carpenter at Ogies dump rehabilitation, South Africa



Sustainability performance

Overall 2005 was another year of rapid development in integrating sustainable development into our business practices. Our businesses achieved improvements in a number of key performance areas including injury frequency rates and number of environmental incidents, and continued to go beyond existing best practice in areas such as our response to HIV/AIDS and supporting enterprise development and sustainable development in partnership with local communities. The major area of underperformance was in managing fatal hazards in southern Africa. In 2005, seven tragic incidents resulted in three employees and six contractors losing their lives at work.

Xstrata's HSEC Assurance Programme results

Xstrata's HSEC Assurance Programme provides assurance to the Board that each operation's performance and management systems comply with the corporate expectations outlined in the Group HSEC Policy and 17 Management Standards. Compliance with these standards assures performance to international HSEC standards, beyond regulatory compliance. The assurance audit is conducted by three independent auditors and a support person, including an external lead auditor. The three auditors comprise an OH&S and environmental specialist from international consulting firms together with an operational specialist. The audit takes place during a five to 10 day period on site and comprises around 650 questions involving the entire site management team and up to 10% of the site's employees at a range of levels in addition to health, safety, environment and community practitioners. Xstrata is one of a small number of international mining and metal production companies to use a fully integrated HSEC audit tool. This process examines the systems in place and tests performance against the Standards and HSEC Policy at different levels of the workforce. Along with an overall score, the audit provides a separate systems and performance score for each standard.

In 2005, Xstrata conducted assurance audits to provide a complete baseline of health, safety, environment and community performance across every operation under Xstrata's management control. Over 600 people were directly involved in the audits with a further 2,000 employees and contractors interviewed as part of the supplementary process to assess the degree to which HSEC performance and understanding is integrated across site personnel. Commodity business and divisional head offices are also being audited to complete the baseline study of the Group. This extensive exercise has provided Xstrata's executive management team and Board with a comprehensive baseline analysis of every operation's HSEC systems and performance, enabling a clear understanding of key risks and areas which require improvement as well as areas of high performance. Good practices from across the Group were collated into a manual and were shared with every site.

For the operations, the audits provide a clear understanding of how Xstrata's HSEC requirements must be met and a benchmark of current performance across the Group. At the end of each audit, the operation is provided with a detailed report and plan outlining the steps that must be taken to address any areas of underperformance. By incorporating managers from other Xstrata sites on the audit teams, we have facilitated knowledge-sharing between our businesses and geographic regions. This process is also an integral part of the training and development of our managers. The clear direction, performance feedback and management focus associated with the programme has initiated a transformational shift in HSEC understanding and purpose that is being applied at an operational level by each commodity business. The audit programme is continuing in 2006 and has prioritised sites which did not meet Group expectations in key areas. The audit programme will continue on a rolling basis, with the target of independently auditing every site within a two to three year period, depending on risk and performance.



Training local people at the Lion ferrochrome project

Presentation of aggregated Group results

Through the HSEC Assurance Programme, operations are given an overall score for systems and performance against each HSEC Standard. Scores are given as a percentage, and are ranked in the following categories:

5 – Optimum	Strong HSEC system and performance in place and operating effectively.
4 – Good	Overall a good HSEC system and/or performance in place. Some improvements identified, which would further strengthen the overall system and/or performance.
3 – Satisfactory	Overall satisfactory HSEC system and/or performance in place. Improvements needed in certain HSEC systems and/or performance areas.
2 – Weak	Overall a weak HSEC system and/or performance in place. Broad system and/or performance improvements required.
1 – Unsatisfactory	Significant gaps in HSEC system and performance. System and performance gaps must be rectified.

The overall Group score was in the satisfactory range, comprising a higher overall score for performance than for systems. Performance scores were almost without exception higher across our sites and across Management Standards than systems scores. This was an anticipated result of the audit programme and is to some extent a reflection of the entrepreneurial ‘owner-operator’ approach of Xstrata’s management, where actions to improve performance often precede formal systems modifications. While good performance is the overall objective, we recognise that well documented systems enable good practices to be sustained over time, irrespective of the personnel in place. The sharing of good practices and improvement of systems are key initiatives being pursued across operations and are driving increased collaboration between sites, divisions and commodity businesses.

Dr Paul Beukes and Oomeshni Naiker at the Project Lion construction site





Safety Awareness, Xstrata Coal South Africa

Regional performance

Half of Xstrata's operations are in Australia, with a further 40% in South Africa. We have three main sites in Europe and a further two in South America, one of which is an exploration site. Average scores for our European, Australian and South American operations were comfortably in the satisfactory range. While the average performance element of our South African operations' scores was in the satisfactory range, the overall average score of these operations was weak.

A range of initiatives, with a particular focus on fatality prevention and improvements to management systems are currently underway at the South African operations and we expect a dramatic improvement in audits that will be carried out at lower-scoring operations in 2006. Regionally, our three European operations achieved the highest overall scores, closely followed by Australian and South American operations.

Performance by standard

Overall, average Group scores were above the satisfactory benchmark level for the following standards:

- Leadership, Accountability and Ethics;
- Emergencies, Crisis and Business Continuity;
- Operational Integrity;
- Health and Occupational Hygiene;
- Legal Compliance and Document Control;
- Planning and Resources; and
- Communication and Engagement.

Lower scoring standards, where the average was lower than the satisfactory range for the Group included:

- Assessment and Reporting;
- Contractor and Supplier Management;
- Product Stewardship; and
- Project Management (with respect to HSEC performance).

These general areas of underperformance are being addressed at all sites, with reference to the good practice manual compiled from high-scoring sites.

In addition, the audit programme showed that while Xstrata's community programmes are very strong overall, in some areas, programmes are not well co-ordinated between sites, divisions and commodity businesses operating in the same region. Our performance in this area is steadily improving through the establishment of joint steering committees and co-ordination of corporate social involvement plans and programmes, ensuring that each operation is connected and involved with the relevant initiatives in its local area.