



governance & ethics

Xstrata is committed to the principles of best practice in corporate governance, recognising that strong and accountable governance is directly linked to our ability to manage risk and ensure optimal performance.

Our approach

Xstrata's management structure devolves responsibility and authority to our four global commodity businesses. This structure relies on robust governance and communication throughout the Group to ensure local responsibility and management of our assets is accompanied by compliance with Group-wide policies and standards. Xstrata is committed to the principles of best practice in corporate governance, recognising that strong and accountable governance is directly linked to our ability to manage risk and ensure optimal performance.

Xstrata's Board comprises three executive directors and nine non-executive directors, of which six are considered to be independent. There were no changes to the composition of the Board during 2005. Xstrata complies with the best practice governance provisions set out in Section 1 of the UK Combined Code on Corporate Governance, with the exception of membership of the Remuneration Committee, which comprises two independent non-executive directors, but is chaired by Xstrata non-executive Chairman Willy Strothotte. As a director of Glencore International, a shareholder in Xstrata, Mr Strothotte is not considered to be independent. In addition, no individual member of the Audit Committee has been identified as having recent and relevant financial experience. During the year, David Rough, Senior Independent Director and Deputy Chairman led a formal assessment of the Board's performance, including individual assessments of Board members. A comprehensive corporate governance report is published in the Annual Report 2005 (pages 91-101), available from our website.

The remuneration of all company directors is fully disclosed in the Remuneration Report, published in the Annual Report 2005 (pages 102-115). This disclosure includes directors' benefits, together with an explanation of each component of directors' pay, including service contracts and performance criteria for long-term incentives.

The remuneration of all senior managers, including Executive Committee members, is dependent to varying extents on the

Group's health, safety, environmental and community performance, which is assessed to determine annual bonuses. To drive improvements in safety performance in South Africa, the proportion of managers' bonuses dependent on HSEC performance was increased and now represents up to 80% for Xstrata Coal managers and at least 60% for Xstrata Alloys senior management.

HSEC governance

As with financial performance, Xstrata's Executive Committee and Board have overall responsibility for Xstrata's HSEC performance. The Executive Committee receives comprehensive monthly reports on the Group's HSEC performance and the Board reviews performance quarterly.

Xstrata's Group HSEC Policy, Corporate Social Involvement Policy, Risk Management Policy and Business Principles set out the guiding principles and strategic framework for the management of health, safety, environmental and community issues across the business. In late 2004, Xstrata introduced 17 HSEC Management Standards, which set out corporate expectations in key areas of HSEC performance. Each commodity business and operation's systems and performance is independently audited against these standards through the HSEC Assurance Programme. Within these standards, it is the responsibility of each commodity business to implement specific HSEC management initiatives and controls. HSEC risks are identified and managed by each operation and each commodity business through comprehensive risk management processes and are integrated into business plans. Policies, Xstrata's Business Principles and HSEC Management Standards are available from the Sustainability section of our website (www.xstrata.com/sustainability).

A comprehensive HSEC governance review was conducted by Xstrata Coal to identify enhancements to the HSEC framework in line with international best practice, various national HSEC standards and feedback from a range of managers and directors. A further review will be completed at the Group level in 2006.

The review showed a clear and appropriate framework for managing HSEC issues and continued management commitment to achieving Group HSEC objectives. The results of these reviews, including lessons learned to improve governance, are shared across the Group.

Our 2005 Sustainability Report has been independently assessed against the AA1000 Assurance Standard (AA1000AS) by URS Verification Limited for the first time. The Board HSEC Committee considers the AA1000AS provides the most comprehensive benchmark against which to measure Xstrata's sustainable development reporting. AA1000AS assesses sustainability management and reporting against three assurance principles: materiality, completeness and responsiveness.

Board HSEC Committee

In February 2005, Xstrata's Board formed an HSEC committee, chaired by independent non-executive director Ian Strachan and comprising David Rough, Deputy Chairman and Senior Independent Director, Fred Roux, independent non-executive director and Mick Davis, Group Chief Executive. The General Manager Health, Safety and Environment acts as secretary to the committee. All Board members are provided with regular independent briefings on social, ethical and environmental issues and are able to consult external experts at Xstrata's expense.

The committee reports to the Board on developments, trends and forthcoming significant legislation on HSEC matters, reviews Xstrata's HSEC Policy and Standards and monitors the effectiveness

Tieri township, winner of the 2005 Keep Australia Beautiful Regional Tidy Town Award



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of management systems in place. All significant incidents are reviewed and six-monthly follow up progress reports on fatality prevention programmes are provided by the relevant commodity businesses. The committee also monitors HSEC performance and compliance to Xstrata's HSEC Policy and Standards and relevant legislation, through key performance indicators, a quarterly review of HSEC assurance audits and presentations by each commodity business. The HSEC Committee reviews its performance, constitution and terms of reference each year and reports any recommended changes to the Xstrata Board.

In July 2005, a specialist health and safety advisor was appointed to the committee. Professor Jim Joy is Professor of Mining Safety and Director of the Minerals Industry Safety and Health Centre (MISHC) at the University of Queensland, Australia and a leading expert in safety and risk in the mining industry. This specialist role provides independent advice, guidance and technical expertise as a member of the HSEC Committee, contributes to Xstrata's ongoing commitment to sustainable development, and provides input into the development of policies and guidelines for health and safety management throughout the Xstrata Group. The Board HSEC committee is reviewing options to secure relevant independent social and environmental expertise.

All HSEC Committee members attended the four committee meetings held in 2005 and visited Xstrata Alloys underground and smelting operations near Rustenburg, South Africa. In addition, the committee members conducted a visit to Impala Platinum underground operations in South Africa, as a benchmarking exercise. The committee received presentations from the Chief Executive of each of Xstrata's four global commodity businesses during the year, outlining HSEC strategy, performance, management systems and plans. These presentations will continue on a rotational basis, allowing the committee to give recognition to good HSEC performance and initiatives, request further information as required and identify areas for further improvement across the Xstrata Group.

HSEC management

The General Manager Health, Safety and Environment (GM HSE) oversees the global implementation, review and assurance of the HSEC Policy and Standards and manages the Group's interface with stakeholders on issues related to sustainable development. The GM HSE reports directly to the Group Chief Executive.

Ownership of and responsibility for HSEC performance, is an integral part of overall operational performance. HSEC resources are focussed at the site level. Senior divisional and commodity business HSEC managers assist sites to develop HSEC

frameworks and management systems that are aligned to the Group Policy and Standards, in order to manage the HSEC risks in their business or operation.

HSEC Assurance Programme

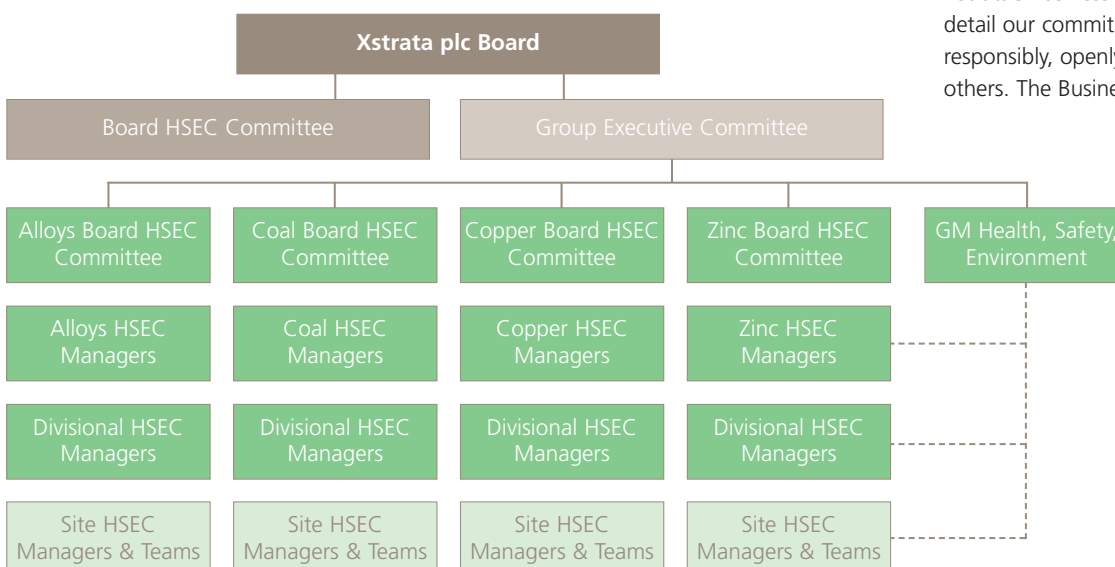
Xstrata's comprehensive Group-wide HSEC Assurance Programme provides assurance to the Board through independent audits at every managed site, against Xstrata's HSEC Policy and 17 Management standards (see page 17).

KPMG conducted an independent review of Xstrata's HSEC Assurance Programme in the final quarter of 2004, in advance of the programme being rolled out from January 2005. KPMG's report described Xstrata's Assurance Programme as "an example of leading practice in the mining sector". The baseline audits completed in 2005 will be followed by a regular programme of audits at each operation, to ensure that Group expectations are being met or exceeded. Lower scoring operations have been prioritised for re-audit in 2006, with the majority of sites being re-audited in 2007 and high performing sites scheduled for 2008. Additional information on the performance of our operations in the 2005 baseline audits is provided in the Sustainability chapter.

Ethics and business principles

Xstrata's Statement of Business Principles is a core document that governs the way we work at operations worldwide. Xstrata's Business Principles set out in detail our commitment to work ethically, responsibly, openly, together and with others. The Business Principles are

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distributed regularly to employees via printed leaflets available in the nine principal languages spoken by our workforce, and form an integral part of induction and training programmes. All suppliers, contractors and business partners are provided with our Statement of Business Principles, HSEC Policy and HSEC Management Standards before commencing work with Xstrata. Our HSEC Management Standard: Contractors, Suppliers and Partners requires HSEC performance criteria to be used in selection and procurement processes. Commodity business and Group Audit Committees obtain representations of operational, divisional, commodity business and Group management to confirm compliance with Xstrata's Business Principles and Fraud Policy. In 2005, 137 employees were dismissed for breaches of Xstrata's Business Principles, primarily for breaches relating to health and safety standards and procedures, fraud or discrimination.

Ethics line

The Xstrata Ethics Line is a confidential 'whistle-blowing' facility, operated on Xstrata's behalf independently by KPMG, through which any breach of our Business Principles can be reported in confidence. The call line provides a free phone number for every country in which the Group is active and all calls are reported on an anonymous basis to the Head of Internal Audit and Risk, who reports directly to the Board Audit Committee, for appropriate action. There is also a dedicated email address – ethics@xstrata.com. Emails to this address are only read by the Head of Internal Audit and Risk and are confidential. The ethics line toll-free telephone numbers are published on the back of the Statement of Business Principles leaflets distributed to every employee, contractor, supplier and business partner. In addition, Xstrata's commodity businesses regularly communicate the ethics line telephone numbers and purpose of the facility through internal briefings and poster campaigns to ensure employee awareness.

Since its inception in July 2004, a total of 26 incidents have been reported to the ethics line. All incidents have been thoroughly investigated and reported to the Board Audit Committee. Incidents investigated related to fraud, procurement

practices and supplier conduct, breaches of health and safety policies, discrimination and employment or personnel issues. No employees were dismissed as a result of these investigations and no criminal charges were brought.

During 2005 one incidence of fraud was reported according to Xstrata's Fraud Policy at an European operation, committed by an employee. The employee was dismissed and criminal charges have been laid against the individual concerned. The case is ongoing.

Openness and transparency

Xstrata's Business Principles state our commitment to operate with the maximum transparency that is commercially possible in every aspect of our business. We publish regular information about our business via our website, regulatory news services, the media and presentations to key stakeholder audiences. Public communications are made available from our website simultaneously or as soon as possible after publication or announcement, in accordance with Group Communications Guidelines.

We actively seek feedback on our non-financial performance and reporting from all our stakeholders. Contact names and details for direct feedback are provided on the inside back cover of this report. Feedback can also be provided through our website www.xstrata.com/sustainability_feedback or via the dedicated email address sustainability@xstrata.com.

Bribery and corruption

A key element of the Business Principles is our commitment not to offer, solicit or accept any form of bribe. We support free enterprise and compete fairly for business, with scrupulous regard for those regulations which promote competition and protect consumers. Our Business Principles also state our commitment not to allow personal financial interests to be brought into conflict with the interests of the Company. It is our policy not to make political donations of any type.

We have in place a formal schedule which sets out, from the Xstrata plc Board down, the responsibility levels for all approvals and authorisations. This is subject to regular

review by the Board. The Group Fraud Policy, including guidance on identifying and reporting fraudulent or corrupt activity, is communicated regularly to all employees and contractors. Each commodity business has clear and defined policies and procedures governing financial assistance and the prevention of political donations, bribery or fraud. Letters of assurance are provided to the audit committee of each commodity business through a process of questionnaires, completed at site, divisional and commodity business level, and are reported to the Board Audit Committee. The letters of assurance verify that Group Authority Levels have been complied with, that every aspect of Xstrata's Business Principles has been upheld, that all employees have been made aware of the Fraud Control Policy and that any incidents of non-compliance have been reported and investigated.

Xstrata's Internal Audit function regularly assesses and reviews Xstrata's operations and commodity businesses. Community and government relations have been identified as a key risk for our South American operations and in 2005, Internal Audit carried out a project management review at the Las Bambas exploration project in Peru including a review of processes and controls to ensure compliance with Xstrata's Business Principles and policies (including financial assistance, donations and procedures to prevent bribery and corruption). Similarly, a review of processes and controls for managing community and government relations at the Alumbra operation in Argentina was performed in 2003.

We engage with government and other policy making bodies both through a number of industry and international organisations and directly on relevant issues. A full list of our membership of industry and other associations is available from our website.

Extractive Industries Transparency Initiative

Xstrata supports the Extractive Industries Transparency Initiative (EITI) to increase transparency over company payments and government revenues in the extractives sector in resource-rich countries. Twenty countries have either endorsed, or are now actively implementing the EITI across the

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world. Xstrata does not currently generate revenues from any of the countries implementing or endorsing the EITI but is active in Peru, through the Las Bambas exploration project. The Peruvian Government endorsed the EITI in 2005 and an action plan for implementation has been drafted through a multi-stakeholder committee. In addition, the Ministry of Energy and Mines signed a Memorandum of Understanding with the World Bank in October 2005, outlining an agreement for support for implementation of the action plan. Xstrata's activities in Peru comprise a drilling programme at the Las Bambas site in the Cotabambas and Grau provinces, to assess the potential to construct and operate a copper-gold-molybdenum mine at the site in future. In this regard, we welcome the positive steps undertaken by the Peruvian Government to implement the EITI during 2005.

Human rights

As set out in our Business Principles, we endorse the principles set out in the United Nations Universal Declaration of Human Rights and strive to reflect and promote these within our business, as well as with those suppliers and customers with whom we do business. We do this by engaging with suppliers, contractors and business partners to communicate our Business Principles and to ensure that our policies and management philosophy are shared by the companies we work with and employ. We monitor the policies and performance of contractors, suppliers and business partners, as set out by our HSEC Standard: Contractors, Suppliers and Business Partners. Our toll-free confidential ethics

line provides an anonymous means of communication to Xstrata's Board Audit Committee to report any transgressions of our Business Principles.

The concept of human rights encompasses a broad spectrum of basic rights afforded to each human being. The main area of focus for Xstrata are the human rights of employees, contractors, business partners, community members and others affected by our operations. These include the right to work for equal pay, to associate freely, to a safe and healthy work environment, to non-discrimination and fair treatment and to legal rights, as well as the right to be treated with dignity in a manner that respects cultural heritage, traditions and norms.

One area of particular focus is the use of security firms and the procedures employed governing the use of force. In areas where we use security personnel or employ private security firms to protect our people and our assets, we ensure that appropriate human rights training has taken place and, in line with all employees, contractors and suppliers, monitor compliance to our Business Principles and HSEC Policy Standards. Xstrata's operations are primarily based in Australia, South Africa and Europe, with one operation in Argentina, one project in Peru and one in Canada. For operations or projects in geographic regions with a higher risk of human rights transgressions, we develop procedures and guidelines for employees, contractors and suppliers, to ensure Xstrata's Business Principles are put into practice in the local context.

Risk management

Xstrata has a robust process in place to identify and manage risks at the operation, division, commodity business and Group level. Risk registers are maintained at every

operation, division and commodity business, corporate offices, and for the Group as a whole. Risks are assessed in terms of likelihood and potential consequence, and the controls to mitigate or manage these risks are also rated for effectiveness. Risk registers incorporate every risk identified, including financial, social, environmental, ethical, regulatory and legal risks. During 2005, a web-based risk management system was rolled out across the Xstrata Group enabling enhanced proactive management of this aspect of our activities, and bringing greater focus to the risks affecting each commodity business. The Group-wide risk management process is led by the Global Head of Internal Audit and Risk, who reports directly to the Board Audit Committee.

For environmental risks, aspect registers are reviewed annually by the majority of sites and the remainder review their registers every two years. This is based on the risk profile or when there is a material change to a process or operation.

Xstrata's Risk and Change Management Standard requires HSEC risks to be managed throughout all project phases, including exploration, pre-feasibility, conceptual design, detailed design, procurement, construction, commissioning, operation, decommissioning, closure and disposal. A rigorous Environmental Impact Assessment/Statement (EIA/EIS) is completed for all new projects and significant expansions of existing operations.

Crisis and emergency response

Xstrata's Emergencies, Crises and Business Continuity Standard requires that all foreseeable emergencies be assessed and planned for including potential HSEC impacts. Emergency response teams are in place at each operation, linked by a commodity business plan. Plans must be developed in consultation with external agencies and tested at least annually. Employees and third parties are trained in emergency response and improvements made as a result of testing and assessment. The HSEC Assurance Programme assessed every site against this standard. The average score for the Group was just below the good standard, at the top end of the satisfactory range.

HSEC Document Hierarchy

