

1. Sustainability strategy and governance

Our approach



For more information visit: www.xstrata.com/sustainability

We aim to manage our businesses so as to balance economic, environmental and social considerations. Achieving this is complex and challenging and we do not always get it right. We recognise that success in resolving sustainability issues enhances our corporate reputation and creates competitive advantage for our business in critically important areas including:

- > gaining access to new resources;
- > maintaining a 'licence to operate' from society and enhancing the security of our operations;
- > attracting and retaining the best people;
- > accessing diverse and low-cost sources of capital; and
- > identifying and managing new business opportunities and risks.

Sustainability and business strategy

Can mining be sustainable? And what are the characteristics that make mining more sustainable?

These are complex questions and the link between the concept of sustainability and mining is not clear-cut. Mining depletes non-renewable resources and the lifespan of our mining operations is finite.

Yet the development of a nation's mineral wealth can play a vital role by providing social and economic benefits that alleviate poverty and raise standards of living for future generations.

Mineral resource development very often depends on foreign investment, facilitating the sharing of benefits between investors who commit capital and the government and people of nations where mineral resources are located. The mining industry often operates in remote or impoverished regions with few alternative options for development, where mining can make a unique contribution as a catalyst for social development and poverty reduction.

Numerous applications in everyday life and industry depend on the materials we extract and process, many of which are important for socio-economic development and improvements in quality of life. Although mineral resources are non-renewable, most metals can be recycled and reused more readily than many other materials, prolonging the life cycle of our products.

Mining and metallurgical activities can also create negative impacts for communities and host nations. These include environmental pollution, habitat destruction, consumption of scarce resources, increased social tensions or conflict, community disturbance, labour issues, injuries or occupational illnesses.

Managed responsibly, we strongly believe that mining can be sustainable. To approach sustainability, we must develop non-renewable resources in a manner that creates broad-based, lasting social and economic wealth that outlives our operations in any particular region. We must equally avoid, minimise or mitigate any negative economic, social or environmental impacts from our activities.

These imperatives are acknowledged in Xstrata's policy framework:

Our Mission Statement sets out our primary aim to grow and manage our business to create industry-leading returns for our shareholders. It equally recognises that to continue to do so over the long term, we must work in genuine partnerships with governments, communities, employees and other stakeholders, based on integrity, co-operation, transparency and the creation of mutual benefits.

Our Sustainable Development (SD) Framework commits us to maximise the benefits to society of our activities while minimising the negative impacts. The Framework sets policies and standards in line with leading international practice in social, economic and environmental management, regardless of our location or local legislation. Through our SD Assurance Programme, we seek rigorous, third-party assurance that our policies and standards are being met at every site and that our material SD risks are being appropriately identified and managed.

We operate a highly devolved management structure, empowering our commodity businesses with the responsibility to manage their operations from exploration through to post-closure management. This gives our business the flexibility to determine sustainability priorities locally and the authority to respond with the resources and approaches needed. For example, in the Philippines, our Tampakan project has developed innovative approaches to training and engagement to manage human rights and security issues (see pages 27-28). In South Africa our businesses have designed bespoke solutions to challenge ingrained risk-taking cultures that impact workplace safety and to address HIV and TB in the workplace and community (see pages 31-32 and pages 42-43). In New Caledonia where we are developing a nickel operation and associated infrastructure, we are working with the Royal Botanical Gardens at Kew to conserve biodiversity (see page 65).

We believe there are four broad areas that define the sustainability of our business: environmental sustainability, economic sustainability, community sustainability and employment sustainability. The issues and how we are approaching them are discussed briefly below.

Environmental sustainability

Mining operations inevitably have environmental impacts but we believe that over the lifecycle of our operations, we can approach environmental sustainability. Xstrata aims to preserve or restore the long-term health, function and viability of the natural environments affected by its operations. This means that, while we are operating and after we have closed a site, environments should be able to sustain biodiversity and ecosystem functions and in the long term return to as close to their former state as possible.

We are committed to minimising the environmental impacts of our activities and progressively rehabilitating land. Our priorities are to use resources such as energy and water efficiently, minimise our impacts on biodiversity and landscapes, and reduce waste and emissions including greenhouse gases. We recognise the need to share resources, such as water, equitably with communities and other industries.

Current levels of man-made greenhouse gas (GHG) emissions pose a real and significant threat to the future stability and quality of the world's climate. Industry as a whole must play a key role in achieving the cuts in GHG emissions recommended by the Inter-governmental Panel on Climate Change (IPCC). These are highly challenging and require urgent coordinated action. The IPCC is recommending a global cut in emissions of 20% by 2020 and 50% by 2050 from 1990 levels.

Xstrata's direct and indirect GHG emissions are primarily from methane emitted during coal mining and from the use of purchased electricity generated from fossil fuels. Xstrata Coal is a major producer of export thermal coal, used in coal-fired power stations to generate electricity. Additional impacts come primarily from the transportation of material to our operations and our products to our customers.

Our five-point strategy is to focus on:

(i) Cutting our direct GHG emissions, for example, by capturing methane from coal mines for power generation or improving the efficiency of on-site fossil fuel use;

(ii) Improving the energy efficiency of our operations and logistics processes and sourcing renewable energy where commercially viable;

(iii) Working with governments, academic and scientific institutions and our customers to support the development of low emissions technologies to reduce the carbon emissions associated with the combustion of fossil fuels;

(iv) Engaging with governments and other stakeholders on the development of equitable, efficient regulatory frameworks to reduce global GHG emissions; and

(v) Improving our understanding of the potential physical and weather-related risks of climate change and adaptation on our operations and logistics networks and incorporating these in longer-term planning.

In 2008, Xstrata's carbon footprint represented 24.9 million tonnes of CO₂ equivalent. This includes our use of electricity and energy sources to run our operations and fugitive emissions of methane from coal mines. Emissions from the transportation of materials and product, methane to power generation and waste sent to off-site landfill represented 15.6 million tonnes of CO₂ equivalent.

Xstrata Coal mines approximately 1.5% of the world's thermal coal consumption and is the world's largest producer of export thermal coal. In 2008, our managed production produced a total of 75.1 million tonnes of coal, comprising 62.9 million tonnes of thermal coal, 5.4 million tonnes of semi-soft coking coal and 6.8 million tonnes of hard coking coal. When burned by our customers, our coal production will release an estimated 200 million tonnes of CO₂.

Coal is an important part of the global energy mix and we agree with the International Energy Agency and IPCC that coal will continue to provide a significant proportion of the world's growing energy needs, given the significant domestic coal resources that exist, particularly in regions where energy consumption is growing fastest. However, the use of coal as an energy source will become increasingly difficult to reconcile with global carbon reduction targets without a solution to dramatically reduce the CO₂ emitted on combustion.

Our engagement with governments in our key operating areas and a broad range of other stakeholders includes our advocacy for global, well-defined market-based frameworks and equitable policies to address climate change. National and international regulations and policies are rapidly changing in this area, creating significant uncertainty that makes it more difficult for industry and governments to invest in or assess the commercial potential of new technologies. The Copenhagen Climate Conference in December 2009 has the potential to pave the way for a global agreement on emission reduction targets.

Low emissions technologies including carbon capture and storage represent a promising potential solution to the dilemma of how to reconcile growing global energy needs in the developing world with the requirement to cut global carbon emissions. Progress to develop and commercialise carbon capture and storage (CCS) technologies has been slower than we would like. We believe that new impetus, coordinated by governments and supported by industry and scientific research, is essential to develop technically and commercially viable technologies. The IEA estimates that CCS could reduce global emissions by 19% by 2050, but significant additional funding is required to research the potential for commercialisation on a significant scale, define the most effective technologies and methods of capturing and storing carbon and develop industrial-scale, low emissions generation plants. Xstrata supports a number of pilot

schemes and research projects in collaboration with other coal industry partners, power generation companies, governments and the scientific community. Xstrata Coal is also a foundation member of the Global Carbon Capture and Storage Institute, launched in April 2009 by the Australian government to accelerate the deployment of carbon capture and storage technology globally. Our support for these initiatives is reported on pages 53-54.

Economic sustainability

When well managed, the development of a country's mineral wealth makes an important contribution to improved health, prosperity and standards of living. Helping countries and communities to reap these benefits is important to the sustainability of our operations. The principal mechanisms through which we support economic sustainability are by paying appropriate local taxes and royalties, investing in infrastructure, prioritising local procurement and job creation, investing in enterprise and skills development and a range of initiatives to benefit communities associated with our operations, predominantly in the areas of community development, health and education.

Transparency of financial and legal transactions is one important factor in improving the accountability of revenues between governments and the mining industry and encourages governments to convert resource endowments into sustainable and broad-based socio-economic benefits.

Some of the countries in which we operate have more complex, less stable political or social climates and consequently higher country risk. Political risks include changes in laws, taxes or royalties, expropriation of assets, currency restrictions or renegotiation of, or changes to, mining leases and permits. Communities or other groups in certain regions may oppose mining activities for various reasons. To manage these risks, we assess and regularly review political, regulatory and social risk on a country-by-country basis. We manage a broad geographic spread of assets, diversifying political risk across a number of territories. We aim to earn and maintain a social licence to operate in each region, with broad-based community support for our activities. Investment terms and joint venture or other partnership agreements are reviewed to ensure fairness and reduce the risk of renegotiation. We maintain a transparent and open relationship with regulators and local, regional and national government bodies and closely monitor compliance with legislation and the leading practice standards set out by the Group's Sustainable Development Framework.

We support the Extractive Industries Transparency Initiative (EITI), which aims to improve governance by promoting transparent reporting of company payments and government revenues in the extractives sector. Peru is the only EITI candidate country in which Xstrata currently operates. The process of selecting an independent firm of auditors and agreeing the terms of reference has started and it is envisaged that the work will commence in April 2009.

Xstrata is also participating in the International Council on Metals and Mining (ICMM) Resource Endowment Initiative. The initiative aims to identify the factors that have allowed some countries to benefit from their substantial resource endowments through economic growth and poverty reduction and to determine practical steps that can be taken by companies, governments, local communities and aid agencies to build capacity to achieve better outcomes from resource development where this is lacking.

Xstrata has participated in workshops and pilot studies in Peru to encourage uptake of the initiative's findings and recommendations among local cross-sector partnerships in the mining and metals sector. Further studies and workshops have been held in Ghana and Tanzania.

Community sustainability

Mining frequently impacts neighbouring communities. While communities benefit from employment, indirect economic benefits, improved infrastructure and direct community investment, they may also be displaced or affected by the environmental, economic or social impacts of our activities or the transportation of our products.

We believe that engagement is key to contributing to sustainable communities. Our Sustainable Development Policy requires our operations to engage with communities associated with our operations in a culturally appropriate and transparent manner as early as possible and throughout the lifecycle of our operations to establish relationships based on mutual benefit and active participation.

All our managed operations have a grievance and conflict resolution mechanism that allows community members and other external stakeholders to raise issues and make complaints, anonymously if preferred. Operations must record all complaints and enquiries and respond appropriately.

We are also committed to respecting the human rights of communities, employees, contractors and suppliers. We undertake training of our employees and contractors in countries where human rights risk assessments have identified higher risks. Higher risk regions include our sites in Colombia, South Africa, Dominican Republic, New Caledonia, Peru and the Philippines.

Employment sustainability

In 2008, Xstrata employed an average of 38,512 permanent employees and 24,246 contractors on a full-time equivalent basis in over 20 countries. Due to the remoteness of many mining locations we are often a major source of employment for the communities near our mines. Mining involves potentially serious hazards which must be managed with the utmost vigilance if injuries are to be prevented.

A sustainable approach to employment means that we must always make safety our first priority and strive to attain our aim of zero harm to any of the people who work in or with our business. We are committed to achieving safe and healthy workplaces where people are treated with respect, fairness and integrity. Our approach also requires the human rights of employees and contractors to be fully respected including the right to organise and be represented collectively. Employees are consulted over significant changes that affect them.

We provide industry-leading career development opportunities and fair compensation for our workforce which is recruited from local people where possible. Our employment policies prohibit discrimination, promote diversity and protect human rights. To be financially sustainable, our business needs the flexibility to cut costs and scale back operations during a downturn. These difficult decisions impact employees and their families and, while we provide support for affected employees and avoid compulsory lay-offs where we can, balancing the requirement to ensure our business is sustainable even during very challenging operating conditions with our responsibilities to our employees will always be difficult.

Full details of Xstrata's health and safety approach and performance are on pages 30-43. A description of our employment practices is on pages 44-50.

Sustainability governance

Senior management oversight

The Xstrata Board sets and reviews Sustainable Development Policy globally. Xstrata's Board Health Safety Environment and Community (HSEC) Committee was established in 2005 to assist the Board in its HSEC responsibilities and to provide guidance on sustainable development issues.

The chief executives of our commodity business are represented on the Group Executive Committee which is formally responsible for sustainability strategy development and implementation. The Board provides oversight of the Executive Committee's performance.

The Board HSEC Committee is chaired by Ian Strachan, independent Non-Executive Director. David Rough, Senior Independent Director and Deputy Chairman, Claude Lamoureux, independent Non-Executive Director, and Mick Davis, Xstrata plc Chief Executive are also members of the Committee. The terms of reference for the Board HSEC Committee and all other Board committees are available from the Xstrata website www.xstrata.com/corporate/management.

The Board HSEC Committee meets quarterly to review and evaluate reports from the commodity businesses on their performance in implementing Xstrata's Sustainable Development Policy and Standards and benchmarks our performance against other mining and extractives sector companies. At each formal meeting, the Chief Executive of one of Xstrata's commodity businesses presents the sustainability strategy of the business, an overview of social, environmental and ethical risk management, future targets and performance.

Key performance indicators, critical and high potential risk incidents and sustainable development assurance programme results are reported to all Board members on a quarterly basis and to the Executive Committee on a monthly basis. Board members are provided with independent briefings on social, ethical and environmental issues as required and are able to consult with external experts at Xstrata's expense.

Sustainable Development Framework

Xstrata's commodity businesses are guided by our Sustainable Development Framework comprising:

1. Business Principles: Provide an unambiguous statement of how we conduct our business – with integrity, co-operation, transparency and mutual value creation.
2. Sustainable Development Policy: Sets out the principles we apply to our management of health, safety, people, communities and the environment.
3. Sustainable Development Standards: Detailed guidance on the requirements and expectations of our business towards sustainability issues.

The above documents are available on our website at www.xstrata.com/sustainability.

4. Independent Assurance Programme: The key mechanism through which the Xstrata Board and management gain assurance that the Group's policies and standards are being met at every managed site. It also plays an integral role in enabling management to rapidly assess acquired operations and bring them into line with our expectations.

SD Assurance Programme: 2008 audit scores

1. Leadership, Accountability and Ethics	64%
2. Planning, Resources, Objectives and Targets	69%
3. Competency and Behaviour	65%
4. Communication and Engagement	68%
5. Risk and Change Management	64%
6. Catastrophic Hazards	63%
7. Legal Compliance and Document Control	67%
8. Operational Integrity	65%
9. Health and Occupational Hygiene	66%
10. Biodiversity and Land Management	63%
11. Contractors, Suppliers and Partners	62%
12. Community	66%
13. Project Management	65%
14. Product Stewardship	63%
15. Incident Management	65%
16. Assessment and Reporting	67%
17. Emergencies, Crises and Business Continuity	65%

Xstrata revised its Sustainable Development Framework in 2007. This was approved by our Executive Committee and Board in December 2007. Our framework is aligned with international standards including the ICMM and UN Global Compact principles, Voluntary Principles on Security and Human Rights, ISO14001 and OHSAS 18001.

The revised SD Framework was rolled out in 2008, supported by 25 regional workshops led by the Group General Manager Sustainable Development and involving senior commodity business management and a wide range of relevant managers.

Audits immediately commenced against the more stringent policy and performance standard requirements and 24 sites completed SD Standards audits using the new SD assurance programme protocols in 2008. This included two newly acquired sites and a new project. On average, sites audited against the new audit protocol recorded scores approximately 15% lower than previous Group averages, reflecting the significant increase in the standards required of our operations. In addition, a new scoring system was introduced which gives significantly less recognition for partial compliance compared to the previous Xstrata HSEC Assurance Programme in place from 2004.

Through the revised SD Assurance Programme, every managed site will undergo annual SD Standards audits, underpinned by third-party risk and verification audits at least once every three years, based on risk. Xstrata's commodity businesses, in discussion with the Group GM SD, determine the frequency of SD risk audits for each site and the specific SD risks to be audited by a third-party audit team.

Implementation

The Group General Manager Sustainable Development (Group GM SD), who reports to the Group Chief Executive, oversees the implementation of Xstrata's Sustainable Development framework.

Xstrata operates a highly devolved management model. Each commodity business is governed by a Board and Executive Committee. Commodity business Executive Committees comprise a specific Sustainable Development Committee to provide additional focus and guidance on sustainable development strategy and issues.

The proportion of remuneration determined by sustainable development criteria varies between commodity businesses and regions. For mine supervisors and operational employees, up to 80% of total bonus awards is determined by SD performance.

Xstrata's SD Standard 17: Emergencies, Crises and Business Continuity sets out the requirement for all sites and commodity businesses to implement emergency response, business continuity and crisis management plans in consultation with external emergency agencies, including training for employees and other stakeholders, annual reviews and the incorporation of lessons learnt from actual emergencies and simulations into plans. The Group crisis management plan is supported by crisis management plans at each commodity business which include clear protocols for when and how to escalate a crisis at the commodity business level to a Group crisis.

Stakeholder engagement

Engaging with our stakeholders and listening to their views is an integral part of our Sustainable Development Framework. We identify and engage our external stakeholders at a Group, commodity business, regional, divisional and operational level.

Xstrata's stakeholders include the investment community, employees, contractors, unions, national, regional and local governments, inter-governmental bodies, regulators, communities associated with our operations, business and JV partners, non-governmental and development organisations, suppliers, customers and media.

Engagement takes many forms and is organised at site and commodity business level with all relevant external stakeholders. We engage with our stakeholders in an equitable and culturally sensitive manner with the maximum transparency that is commercially possible.

The table on pages 23-25 outlines the material sustainability issues that were the topic of engagement between Xstrata and its stakeholders. The concept of materiality goes further than financial impact alone and encompasses issues that are important to stakeholders, as well as risks, opportunities or initiatives that are important to the organisation. Issues are determined to be material if the information provided is or may be required by our stakeholders to make informed judgements about our sustainability performance.

Stakeholder Engagement: Material Issues

Issue	Relevant stakeholders	Xstrata's response
Environment		
Proposed climate change legislation in Australia, Canada, South Africa and UK	Australian, Canadian and UK government industry bodies and partners investment community	We recognise the need to cut global carbon emissions and support equitable, market-based regulatory frameworks as part of a global commitment or protocol. We advocate that regulatory frameworks should also include support for the development and deployment of low emissions technologies (see page 54).
Support for low emissions coal technology	Inter-governmental bodies national governments Industry bodies Research institutes/scientific community Power generation industry	Xstrata advocates increased public and private sector support for the development and deployment of new technologies including carbon capture and storage and other technologies to reduce carbon emissions associated with burning coal for energy. We support a number of projects (see pages 53-54).
Historic soil contamination/land remediation (Canada, Australia)	Australian state/Canadian provincial and local government Environmental regulators Communities NGOs Industry partners Media	We work with stakeholders to remediate areas of historic contamination from mining and metallurgical activities. In 2008 we implemented or extended programmes to remediate sections of the Leichhardt River, Mount Isa, Australia and at Murdochville and Sandy Beach, Canada (see pages 39-40 and 69-70). We are supporting the independent Lead Pathways Study at Mount Isa to investigate lead in the air, land and water, the Sudbury Soils Study in Canada (see page 84) and the Shore Road Soil Study in New Brunswick, Canada to examine the potential impacts of metals on human and ecological health.
Energy costs, security of supply and efficiency	National government State-owned and private power generation companies	Securing a cost-effective, secure source of power is essential for the economic sustainability of our business. We seek long-term, cost-effective contracts for energy and we implement energy efficiency programmes across our global operations including proprietary technological solutions or direct investment in power generation capacity. We are also investigating or implementing alternative sources of energy, including methane-fired power stations, use of coal tailings, flue gases, microalgae biofuels and solar power. We support research into alternative energy and low emissions coal technologies (see page 53).
McArthur River Mine (MRM) expansion and river diversion – biodiversity conservation and community impacts, Northern Territory, Australia	Australian federal, state and local government Community Environmental NGOs Investment community Media	We engage extensively with a broad range of stakeholders about the conversion of MRM to an open cut operation. From 2007, the Northern Land Council pursued legal action in respect of the approval process followed by the NT and Federal government. MRM received valid approvals in February 2009. We worked with environmental experts to complete the river diversion to leading practice standards and to enhance our biodiversity and water quality monitoring programmes. We are investigating the potential for a biodiversity offset area in consultation with the NT government. We expanded our community engagement and established a AUD32 million community benefits fund (see page 71 and page 87).
Water use in water-constrained regions (North Chile, North Queensland, Argentina)	Government Communities NGOs Environmental regulators Industrial and agriculture users	Water management plans are in place at all operations in water-scarce regions, with targets to reduce fresh water use per unit of production and increase water recycling. Water availability and potential impacts on water quality are key considerations in the feasibility of new projects or expansions to existing operations. We engage with government, regulators and communities to share water resources and plan for future use. For example, at Xstrata Copper's El Morro project in Chile, a desalination plant has been included in the project plan in response to community concerns over water availability (see page 84).
Air emissions legislation (Canada, Australia)	Government Environmental regulators Community Media	We aim to continually reduce emissions from metallurgical operations and set SO ₂ capture targets annually. We engage with government, community and environmental regulators on proposed amendments to air emissions legislation and to keep them informed about our progress in reducing emissions. We launched the Smelter Emissions Project at Mount Isa to substantially reduce emissions by 2012 and we are investing in a number of environmental improvements to metallurgical operations in North and South America to achieve further reductions (see page 72).

Stakeholder Engagement: Material Issues *continued*

Issue	Relevant stakeholders	Xstrata's response
Environment <i>continued</i>		
EU REACH legislation and proposed amendments to EU Dangerous Substances Directive	EU Commission and Directorates General Member state governments Industry bodies Industry partners Scientific community	Our businesses are preparing for the forthcoming EU REACH legislation which places the responsibility for ensuring the safety of substances manufactured in or imported into the EU on to industry. We are working with industry organisations and consortia to ensure registration of all applicable products will be made by the relevant deadlines. We are engaging with EU stakeholders on proposed amendments to legislation including through industry bodies. In particular, the EU 30th Adaptation to Technical Progress (ATP) to the Dangerous Substances Directive (which entered into force in October 2008) and the proposed 31st ATP, introduce new classifications for nickel-containing substances (see page 77).

Community

Lead at Mount Isa, Australia	Australian federal, state and local government Mount Isa community Investment community Media	Lead is naturally occurring at Mount Isa and some areas of historic contamination are present at the site where operations began 85 years ago. The health and safety of our workforce and the community is our highest priority. We offer free blood lead testing to the community and we are a founding member of the Living with Lead Alliance to provide information about how to manage the risks associated with lead exposure. We have invested over AUD200 million in environmental improvements at Mount Isa since our acquisition in 2003. We are funding an independent PhD Lead Pathways Study and are remediating any identified areas of historic contamination. The Smelter Emissions Project aims to achieve further substantial reductions in air emissions at Mount Isa by 2012 (see pages 41-42).
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Resettlement – Peru, Colombia	Communities National, regional and local government NGOs Las Bambas Independent Advisory Group Cerrejón Third Party Review Panel	We aim to avoid resettlement where possible. Where involuntary resettlement is unavoidable, we consult affected communities openly, in a culturally appropriate manner and as early as possible to explain fully the potential impacts and benefits of resettlement. We uphold the World Bank IFC standards on involuntary resettlement. At Las Bambas, we have established an Independent Advisory Group of international and Peruvian stakeholders to provide advice and recommendations to Xstrata Copper including on the proposed resettlement of the Fuerabamba community (see pages 85-86). In Colombia, resettlement is under way at the Cerrejón coal operation. Cerrejón is implementing a number of recommendations made by an Independent Review Panel regarding current resettlements and in respect of the Tabaco resettlement which took place over five years prior to Xstrata acquiring a stake in Cerrejón. In December 2008, Cerrejón reached agreement with a group of former residents at Tabaco (see pages 81-82).
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Security, human rights, social engagement at Tampakan, Philippines	Philippines national and local government Public and private security providers Community NGOs Working Group on Mining in the Philippines Investment community	Tampakan is located in a high-risk region for security and was subject to two separate attacks by armed groups in 2008. SMI (the operating company) has worked together with local communities, public and private security forces to improve security in the region. Local communities asked the Philippines authorities to establish volunteer reserves (CAFGU) in the region to further enhance security. CAFGU groups comprise community members who are comprehensively trained to form volunteer reserve forces. Any mobilisation of forces is closely controlled by the Philippines army. SMI is not involved in the management, recruitment or training of these forces. In 2008, SMI adopted the Voluntary Principles on Security and Human Rights (VPs), implemented training for all SMI and private security personnel and raised awareness on the VPs among national government agencies, non-governmental organisations and other mining companies. In 2009, community members, local government executives, the Philippine military and police, and local NGOs will be invited to participate (see pages 27-28).
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Stakeholder Engagement: Material Issues *continued*

Issue	Relevant stakeholders	Xstrata's response
Community <i>continued</i>		
Corporate Social Involvement initiatives	Communities Local and regional government Healthcare providers Industry partners Charities, development organisations, NGOs	We set aside a minimum of 1% of Group profit before tax each year to fund initiatives that benefit the communities associated with our operations. Each operation consults with communities and other stakeholders to develop a CSI plan to align our support with regional objectives and community priorities. In 2008 we set aside \$84 million for CSI expenditure, with additional in-kind donations (e.g. of equipment or personnel time) (see pages 88-89).
Employment impact of operational restructurings, temporary shutdowns, closures	Government Suppliers and customers Media	We seek to minimise the impact of operational restructurings on our employees, avoid compulsory redundancies where possible and offer employee assistance programmes to those affected. We consult our workforce, unions and government about proposed changes to our operations (see pages 45-46).
Executive remuneration	Investment community Employees Media	Xstrata's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and maximise shareholder wealth creation. The Board Remuneration Committee considers the following principles in setting remuneration: <ul style="list-style-type: none"> – remuneration supports Xstrata's strategy and is aligned with shareholders' interests; – total reward levels are intended to be within the top quartile for outstanding performance measured against global mining and FTSE 100 peers; – a high proportion of remuneration should be 'at risk', performance-related remuneration comprises at least 50% of total potential remuneration for executive management; and – performance-related payments are subject to demanding short-term and long-term performance targets. See the Remuneration Report available in the Xstrata plc 2008 Annual Report.
Economic		
Amendments to mineral taxation and royalty regimes	Governments Regulators Industry bodies Industry partners	Mining involves substantial long-term investment and requires stable, clear fiscal frameworks. We engage with governments to advocate equitable, unambiguous legislation governing mining revenues, balancing the requirement to attract investment by responsible and accountable mining companies to develop operations that are sustainable throughout the economic cycle with the need to ensure mining contributes to the economic development of host nations.
Extractive Industries Transparency Initiative (Peru)	Peruvian national, regional and local government Industry bodies NGOs Investment community	We actively engage in the process to implement the EITI in Peru, including participating as the alternate national mining industry representative. We discuss transparency and distribution of mining revenues with government and regulators in several operating regions.

Public policy

Xstrata plays an active role in a number of significant international and national industry organisations and multi-stakeholder groups, through membership, funding, provision of expertise and participation in committees and working groups. In accordance with Xstrata's Business Principles, no donations were made to any political party or individuals in 2008.

Ethics

Xstrata's Statement of Business Principles affirms our commitment to ethical business practices. We work ethically, openly, responsibly, together and with others. We operate with the maximum transparency commercially possible, we do not make any form of political donations and we will not tolerate any form of bribery, corruption or fraud.

These principles also apply to non-managed operations in which Xstrata has a stake and we ask the suppliers that wish to do business with us to respect them too. Suppliers, contractors and business partners are provided with a copy of Xstrata's Business Principles before commencing work with the Group. The document is published in the 15 languages spoken by Xstrata's employees globally.

Terminations due to non-compliance

Total terminations – due to non-compliance with Xstrata's Business Principles	249
Total terminations – due to non-compliance with Health & Safety Procedures	55
Total terminations – due to non-compliance with Environmental Procedures	9

Bribery and corruption

Bribery and corruption risks are assessed at all managed operations, including an assessment of the level of country or regional risks, the policies and practices of other companies operating in the region and the probity and transparency of government, suppliers, contractors and other business partners.

Each managed operation is required to maintain appropriate controls to manage these risks. All employees receive a copy of Xstrata's Business Principles and Fraud Policy on joining the Company. Xstrata's internal audit function tests the adequacy of management controls and reviews the risk identification process on a quarterly basis as part of the Group's risk management processes. Internal audit activity is focused on high risk functions and regions.

Procurement of goods and services and interaction with regulators and government are two higher risk areas for potential bribery and corruption practices.

In 2008, fraud or corruption incidents involving 16 individuals (employees, contractors, suppliers or others) were reported and investigated by Xstrata's internal audit department. The incidents occurred in South Africa, Argentina, the Philippines and the Dominican Republic. Incidents involving two of the individuals were found to be without basis or insufficient evidence, 12 incidents resulted in dismissals, terminations of contracts or disciplinary action, (including criminal investigations by the relevant police authorities where appropriate) and two investigations are continuing in 2009.

Free enterprise

Xstrata's Business Principles set out our commitment to support free enterprise and compete fairly for business, with scrupulous regard for those regulations which promote competition and protect consumers. All relevant employees are required to complete Xstrata's bespoke competition and fair trade web-based training programme annually and achieve a score in excess of 70%. The programme covers all major anti-trust and competition issues and uses simulated situations and questions to test employees' understanding of competition law and appropriate behaviour when dealing with customers, competitors, trade associations, suppliers and distributors. No legal action was initiated against any of Xstrata's businesses in respect of anti-competitive behaviour in 2008.

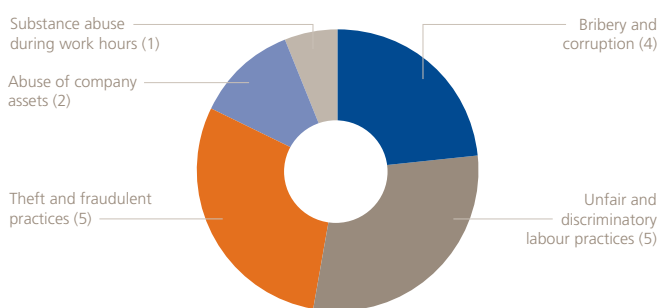
Ethics Line

The Xstrata Ethics Line is a confidential 'whistleblowing' facility operated independently by KPMG. The line exists for employees, contractors, suppliers, customers or business partners to report any breaches of Xstrata's Business Principles, policies or prevailing legislation in confidence.

A freephone number is provided for every country in which the Group has managed operations and calls are reported on an anonymous basis to the Global Head Internal Audit and Risk, who reports directly to the Audit Committee. Ethics Line details are published on the back page of our Statement of Business Principles and are communicated throughout the Group.

In 2008, 17 incidents were reported through the Ethics Line. All reported incidents were investigated. See pie chart below.

Ethics Line incidents (number of incidents in 2008)



Human rights

Xstrata supports the UN Universal Declaration of Human Rights and the International Labour Organisation Conventions. We respect the legislation in each country in which we operate. Xstrata is a signatory to the UN Global Compact and we have aligned our Sustainable Development Framework with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. An index of where Global Compact commitments are addressed in this report is on pages 98-100.

The primary human rights issues in our business relate to:

- > Labour: The rights of our employees and contractors to work for equal pay, associate freely, to a safe and healthy workplace, to non-discrimination and to their legal rights;
- > Security: The conduct of security organisations protecting our operation at certain specific locations where there is a threat to our people or assets. The conduct of public security forces who enter our sites during the execution of their duties; and
- > Communities: The impact our operations may have on communities includes disputes relating to the use of land and mineral assets, micro-inflation, displacement of communities, access to resources such as water or energy, environmental impacts and economic benefits. New developments frequently involve migrant workers during the construction phase, which may create cultural or social issues associated with an influx of foreigners into culturally sensitive regions, e.g. prostitution, alcohol consumption, impacts on cultural identity or heritage.

Our Sustainable Development Standards require our operations to maintain community relations strategies that uphold and promote human rights and respect cultural considerations and heritage. We pay particular regard to the use of security providers and personnel in high-risk areas. In areas where Xstrata employs security personnel (either directly or as contractors) to protect our people and assets, we ensure that appropriate human rights training has taken place and monitor compliance. All sites are required to undertake human rights risk assessments, implement grievance resolution mechanisms and set and monitor appropriate performance standards for all contractors including security personnel.

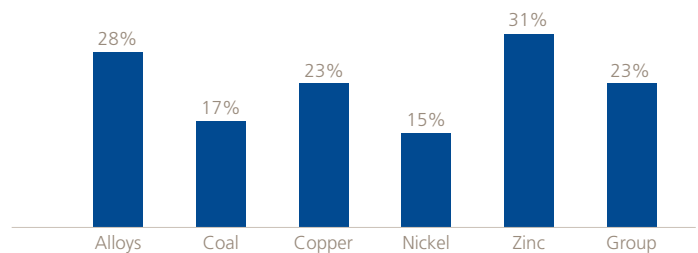
In 2008, the Xstrata plc Executive Committee committed to implementing the Voluntary Principles on Security and Human Rights across Xstrata's global operations. Published in 2000, the Voluntary Principles were drawn up 'to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms'. Among other aspects, the principles highlight the role companies can play in promoting respect for human rights and assisting host governments with security sector reforms and strengthening the rule of law.

We are continuing to implement the requirements of the Voluntary Principles at our sites. These requirements encompass: human rights risk assessments; relations with public security forces; and relations with private security providers. Xstrata will report on its progress in upholding the Voluntary Principles annually.

Human rights management

In 2008, 15,042 employees and contractors (or approximately 24% of the total average 2008 workforce) participated in human rights training across the Group. We conduct risk assessments to focus our training and awareness-raising resources. During 2008, we prioritised our operations in Colombia, the Dominican Republic, Peru, the Philippines and South Africa. No human rights abuses or allegations of abuses were reported at Xstrata operations in 2008.

Percentage of employees trained in human rights policies & procedures



Correjón, Colombia

The Correjón Coal operation, one of the world's largest open cast mines in northern Colombia, is a joint venture between Xstrata, BHP Billiton and Anglo American. The operation has its own management and is not managed by Xstrata.

Human rights training programmes have been running at Correjón since 2005. During 2008, 5,656 employees, contractors, private security companies, public security forces (including the police, army and navy) and community members participated in Correjón's training, considered to be one of the leading human rights programmes in central and South America. In total, 11,705 people associated with the site have received training since 2005.

In 2006, Correjón financed a human rights diploma for public and private security forces. The course was supported by the International Committee of the Red Cross and Public Ombudsman and covered issues such as conflict resolution and human rights law and principles. Community training emphasises what their rights are and how to make complaints about violations and concerns.

Tampakan, Philippines

Xstrata acquired a controlling stake in the exploration operation at Tampakan in 2007. Following an extensive tender process in 2007, the Tampakan project engaged a new security service provider, Catena Security Incorporated. All security personnel employed to protect our people and assets received training in human rights and systematic monitoring of all suppliers, contractors and partners was introduced.

On 1 January 2008, the Tampakan project's base-camp on the southern Philippine island of Mindanao was attacked by guerrillas who set fire to the installations. No one was hurt but the attack highlighted the need to step up security at the project and its surrounding communities, located in an area of anti-government insurgency.

Sagittarius Mines Incorporated (SMI), which manages the Tampakan project, recognised the importance of implementing appropriate safeguards to protect and promote human rights to support the increased presence of security personnel and organisations in the region.

Following the attack, the host tribal communities and local government units expressed their support for the project and criticised the attack. They agreed to establish in their localities volunteer army reserve units, under the administrative and operational control of the military, to act as its village defence. The communities also formally requested the government to enhance military and police presence to protect both the company and the communities in the project area.

The company decided to implement a multi-stakeholder approach, engaging with the community and different levels of government to improve security in the area. SMI also formally adopted the Voluntary Principles on Security and Human Rights to manage its security risks and to ensure high ethical standards in its dealings with public and private security agencies and local communities.

In April 2008, SMI provided training on the Voluntary Principles to 46 employees and security contractors. It also worked with the government, the Philippines' Chamber of Mines and an NGO, Philippine Business for Social Progress, to train another 67 individuals working in government, business, NGOs and other mining companies to raise awareness of the Voluntary Principles across the region.

Three further security incidents occurred at Tampakan in 2008. Incidents in May and December resulted in two contractors being shot and killed and two people being injured. An incident in July resulted in damage to property with no injuries. In 2009, SMI will provide further Voluntary Principles training to its security contractor firm and officers from the Philippine Army deployed by the government to the Tampakan project area.

Xstrata Copper, Southern Peru

Xstrata Copper's Southern Peru division comprises our Tintaya operation, Las Bambas and Antapaccay projects and a 33.75% share in the Antamina operation. It is a signatory to the Code of Conduct of Peru's Society of Mining, Petroleum and Energy, which establishes a number of principles referring to employees' health and safety, environmental protection and respect, dialogue and participation of the various social groups. It is also part of the non-governmental organisation *Perú 2021* and the US, Canadian and Swiss chambers of commerce.

All security employees in the Southern Peru division have received induction courses upon being hired and get regular updates on human rights. All employees receive training on human rights during induction.

Our Southern Peru operations conduct random screening of suppliers and contractors to verify fulfilment of obligations with their employees and human rights. All investment agreements include commitments to employee safety and health, community relations and environmental protection.

In 2008 there were no reported human or indigenous rights incidents.

Our Southern Peru division actively supports the EITI process in Peru. One of our officers has been the alternate representative of the mining sector in the national EITI organisation committee since its creation to June 2008.

Falcondo, Dominican Republic

Falcondo, Xstrata Nickel's operation has the capacity to produce 29,000 tonnes of nickel contained in ferronickel annually. Xstrata owns 85.26% of the outstanding shares of Falcondo.

Through its capacity-building human rights approach, the Falcondo Foundation focuses on several levels of rights-support in the Dominican Republic, specifically for marginalised citizens who have traditionally had less opportunity to assert their individual rights (women and children). Local collaboration with these stakeholders enables community members to actively identify and direct the Foundation's programming without undue company interference (i.e. education, healthcare, economic development programming). This collaborative style helps build capacity and enhances access to basic human rights necessities and by giving the community a continuous voice with which to address concerns. In light of the operation suspension and the Foundation's instrumental importance in the local communities, Xstrata injected an additional \$1.6 million of funding into the Foundation. Moving forwards, the additional funds are intended to address the destabilising features of the operation suspension on a medium to longer-term basis.

On 19 August 2008, Falcondo announced the temporary suspension of operations as a result of market conditions. Subsequently, on 4 December 2008, Falcondo announced the continued shutdown of these operations, placing them under care and maintenance. Falcondo faced the challenge of executing the operation's mothballing responsibly so as to respect human rights principles and avoid further risks to employees and the community at large. To ensure the lay-off notifications were executed without incident, Falcondo underwent security risk assessments in alignment with the Voluntary Principles to understand the potential for violent conflict in the area of operations and assess risks to the community related to the Company's presence. Xstrata chose to undertake scenario analysis and response planning in order to monitor and manage any changes in security 'temperature.' Scenarios were also used to develop training programmes that would prepare teams to address problems in accordance with human rights principles.

Xstrata Coal and Xstrata Alloys, South Africa

Xstrata Coal undertook human rights training in November 2007 in South Africa and is rolling out its 'How we do Business' training programme, which includes human rights, across all its divisions. All Xstrata Alloys security personnel have undertaken training in the Voluntary Principles on Security and Human Rights. All private security firms are required to complete a questionnaire and provide supporting documentation to establish that their personnel have received appropriate human rights training and that they adhere to the requirements of the Voluntary Principles.

Child and forced labour

Xstrata's Statement of Business Principles uphold the elimination of all forms of forced or compulsory labour and prohibit any form of child labour. None of Xstrata's managed operations have been assessed as having significant risks for incidents of forced, tied or compulsory labour. Risk assessments indicate that Brazil, the Dominican Republic and Tanzania may represent higher risk regions for child labour. In these regions Xstrata's minimum age for employment is 18, regardless of local legislation. All operations report the age of the youngest employee and the minimum working age permitted in the relevant jurisdiction. No cases of under-age or forced labour among employees or contractors has come to our attention during 2008.