

**WILLY STROTHOTTE PRESENTATION: Mining Convention
AREQUIPA, PERU
THURSDAY 16 SEPTEMBER 2005**

Xstrata plc and Social Responsibility in Mining

Slide 1: Title slide, Willy Strothotte Xstrata Chairman

Buenos dias amigos. It is a pleasure to be with you this morning here in Arequipa.

The topic for this part of the conference is social responsibility in mining – a topic which would not have featured on many mining conference agendas even a decade ago as a distinct subject for discussion. That it now forms such an important focus of this Convention is itself an indication of progress in our industry. Today, the mining sector, transformed through the consolidation and structural developments of the past several years, is rising to the challenge of making a positive contribution to the prosperity and sustainable development of communities in mining regions.

Mining has a unique role to play in social development. The responsible development of natural resources is often one of the primary steps in a nation's socio-economic growth and the mining industry, perhaps more than any other, operates in remote and often poor areas of developing countries. This is increasingly the case as reserves in developed countries are depleted and the world looks further afield for the basic materials required for its development.

Given Xstrata's relatively short history as a diversified mining company, I am well aware that the name Xstrata may not be as familiar to some in the audience as the names of some of our larger sector peers. I would therefore like to start this

address by introducing Xstrata plc, our business philosophy and the rapid development of the Group since its listing in 2002.

Interestingly, the old Xstrata AG was previously named Südelektra AG, a Swiss company, and was established in 1926 to invest in infrastructure projects in Latin America.

Of course, the name Xstrata is a little more familiar in Latin America, including Peru, than it was just over a year ago, since our involvement in the Las Bambas copper project in the Cotabambas and Grau provinces in Apurimac. Our approach from the outset has been to put social responsibility and accountability at the heart of our strategy, recognising that engaging the community and seeking its co-operation will be vital to any future development of a copper mine at the site. Some elements of the approach we have taken to date are relatively unusual, or even unique, in response to the unique challenges and opportunities that face us in developing a project at Las Bambas.

I will discuss our approach and some of the initiatives in place for this project in more detail in the latter part of my address, as an example of how Xstrata is integrating social responsibility into the Group's business strategy.

Slide 2: Xstrata in the world of mining

Just over three and a half years ago, Xstrata AG – as it was then called – was a small, Swiss-listed mining company with a market capitalisation of 600 million dollars. As I stand here today, Xstrata is a diversified mining group with interests in six commodities – thermal coal, coking coal, copper, zinc, ferrochrome and vanadium - and a market capitalisation of in the region of 15 billion US dollars. Xstrata is now the eighth largest company in the sector – a far cry from the company it was in 2001, as the slide behind me shows.

The old Xstrata recognised that the company's prospects were somewhat constrained at that time: It lacked critical mass; its stock was illiquid; and it relied on just two commodities – zinc and ferroalloys - both of which were linked to the fortunes of the steel industry.

But the company also had a number of strengths. A new management team, under the leadership of Mick Davis, recognised the potential within the company from which to build a London-listed, diversified metals and mining company to join BHP Billiton, Anglo American and Rio Tinto, which had the ability to seek value-enhancing growth opportunities. The new Xstrata would aim to differentiate itself by its size, momentum and how it ran its assets, to create value for its shareholders by growing in a manner that is economically, environmentally and socially responsible and sustainable over the long term.

The next stage of Xstrata's development could not be done incrementally. We required a company-transforming transaction which would leapfrog us in scale and critical mass, while diversifying the group both by commodity and geography.

Slide 3: Growth in diversification – EBITDA 2001-2002

As this slide indicates, the acquisition in 2002 of the Australian Enx and South African Duiker coal assets met all these requirements. These acquisitions, completed simultaneously with Xstrata's initial public offering on the London Stock Exchange in March 2002, created the new Xstrata plc and delivered a suite of assets of scale and quality, adding coal to the portfolio. The transactions provided immediate diversification of commodity, geography and earnings, increased our asset base by over 200 percent, strengthened our balance sheet and delivered both cash flow and earnings accretion to our shareholders from day one.

Notwithstanding the substantial benefits of the coal acquisition, we recognised that the Xstrata portfolio following the IPO had a number of vulnerabilities and

we flagged our intention to address the over concentrations in one commodity – thermal coal – and one country – South Africa.

It was clear that this could only be achieved through another, significant acquisition – but an acquisition that we signalled to the market would have to satisfy three key criteria. It would need to:

- be accretive in earnings and cash flow from the first year of acquisition;
- introduce a new revenue stream and improved diversification; and
- be in the universe of the possible.

Slide 4: Growth in diversification - EBITDA 2001-2004

These criteria were fully delivered in the acquisition of an Australian mining company, Mount Isa Mines or MIM, in 2003. The addition of the MIM assets provided Xstrata with greater critical mass and meaningful entry points into two new major global commodity markets – coking coal and copper - while significantly adding to our existing strong global positions in export thermal coal, alloys and zinc.

As this slide indicates, the acquisition created a far more balanced spread of geographical as well as commodity exposures for Xstrata. The bulk-traded commodities of our coal and alloys businesses were complemented by the exposure, through copper and zinc, to spot-traded, terminal LME metals.

A number of commentators have remarked on our fortuitous timing of the MIM acquisition, with the spectacular rebound of the commodity prices, almost from the day the transaction concluded. However, the real success of the acquisition is the extraordinary turn around in the safety, financial and operational performance at the former MIM assets which in turn led to the revitalisation of a number of local communities in north Queensland, in particular the town of Mount Isa itself.

It is perhaps worth at this point outlining the philosophy and values that underpin Xstrata's strategy and which played a vital role in ensuring the successful integration of the major acquisitions completed in 2002 and 2003.

Slide 5: Operating philosophy

The Group's Mission statement – one of the founding documents of the new Xstrata - articulates the clear objective set out by Xstrata's management team: to deliver industry-leading returns and value to our shareholders. It equally recognises that to do so in a way which is sustainable over the long term, our businesses must operate in genuine partnership with our stakeholders, to create mutual benefits in a way that is transparent and accountable. As such, it recognises that corporate responsibility is not just an ethical imperative, but a business imperative too.

In establishing Xstrata plc, we put in place a number of key principles for the way the Group would operate.

In addition to our focus on stakeholder partnerships, local responsibility and accountability are central concepts to the way we work, through Xstrata's devolved business model. Relationships with the communities in which our operations are members, are built and maintained at the local level - guided by the Group's philosophy and principles and supported by the resources available to a global mining group - but not run from head office. Empowered to act locally, our businesses can engage with and respond to local stakeholders in the most appropriate manner – a vital requirement given the diversity of stakeholders associated with our 65 operations worldwide.

This devolved business model has been a distinguishing feature of Xstrata from its foundation. Mick Davis and his management team have been careful to foster an entrepreneurial spirit within the Group which supports rational risk-taking by its executives, ensuring the capacity to act decisively and with innovation. This philosophy empowers the managers within the business with

the responsibility and the authority to take the decisions necessary to run their businesses and has infused Xstrata's operations with a real sense of ownership at the local level. Xstrata continues to be run by a small team of highly capable and self-motivated individuals comprising a small corporate centre of around 35 people across London and Zug, with similar executive teams in each of the commodity businesses, who see themselves as owner-operators.

Communication is another essential ingredient to this business model, both internally between business units and the corporate centre, and between Xstrata and its many external audiences. Clear, timely and reliable communication has ensured cohesion between the distinct commodity businesses comprising the group. It has also been important in building relationships and partnerships between Xstrata and its stakeholders, including local communities, media, government, NGOs and the international capital markets. I am not suggesting there is no further work to be done in this area – as with any relationship, the work is ongoing and constant. However, it is clear that only those companies that are prepared to be open and transparent in their engagement with stakeholders can hope to achieve a social licence to operate and can build relationships based on trust and mutual respect. This remains a core principle of Xstrata's strategy.

Slide 6: Values

The largely autonomous teams at Xstrata's commodity businesses are also bound together by a common set of values and beliefs about the way we work. The Xstrata statement of business principles is a core document for the Group in this regard - it sets out an ethical framework for the way we work and is communicated to every employee and contractor in their mother tongue.

As you can see from the slide behind me, our values set out our aspiration to operate a business:

- in which the welfare of employees, contractors, local communities and the environment in which we operate is of the utmost importance;
- that is entrepreneurial and bold in its approach;
- that is open and direct with one another and with our stakeholders;
- where there is a rigorous focus on value and growth; and
- that is ethical and operates in line with our business principles, regardless of location and without exception.

Slide 7: Xstrata Copper overview

By mid 2004, Xstrata's transformation through the acquisitions of the two preceding years was complete and our businesses focused their attentions on increasing the options available to us for further growth.

Although already a top 10 copper producer globally, we recognised that there was a significant challenge to grow our copper business in particular, through acquisitions, new projects and from our existing assets.

Xstrata Copper comprises copper mines and mineral processing plants in Australia and Argentina, grouped around four main centres: Minera Alumbrera in Argentina and in North Queensland, Mount Isa Mines, Ernest Henry and the copper refinery and port facilities at Townsville. In addition, Xstrata Copper has two significant copper projects with Las Bambas here in Peru supported by a team on site and in Lima and the Tampakan project in the Philippines, in which Xstrata owns an option to acquire 62.5% of the project. While Xstrata Copper's head office is in Brisbane, Australia, South America is an increasingly important region for this business unit.

In addition to the very real scope for further improvements and growth at both our Australian and South American copper operations, our teams assessed a number of new projects and potential acquisitions to augment our copper business.

Last month, Xstrata announced the acquisition of 20% of Falconbridge, a company with significant copper assets in Latin America and a 33.75 per cent stake in the Antamina copper-zinc operation in Peru. This move opens up further potential growth options for Xstrata in the future.

A more immediate growth option for Xstrata was secured in the auction of the Las Bambas project by Proinversión, which concluded just over a year ago in August 2004.

Slide 8: Las Bambas

The attractions of the Las Bambas copper project were apparent to us almost immediately. The indicative resource at the site, based on the limited drilling to date, was 500 million tonnes at copper grades of between 1% and 2% split between three prospects, Chalcobamba, Ferrobamba and Sulfabamba. The resource was all the more attractive because of the relative scarcity of similar potentially world-class copper deposits likely to become available for development in the near future and because of its location here in Peru, a country which has a strong mining tradition and an established track record of developing and operating similar sized mines.

As part of the acquisition, 45.5 million US dollars have been paid into a community trust or *fideicomiso social* to be used for social development projects in the Grau and Cotabambas provinces. This trust is managed independently of Xstrata by local Mayors and Proinversión, with Xstrata retaining one seat on the managing committee.

During the next four to six years, Xstrata Copper will explore and better define the resource at Las Bambas. Exploration work is currently underway and is making excellent progress. Depending on the outcome of this exploration, we hope to construct a copper mine at the site with the support of the local communities, authorities and the people of Peru.

Las Bambas is an important project for Xstrata. It is the Group's first project in Peru and its first greenfield development, although members of our team have been involved in the development of a number of other projects from their inception, notably including the development of Minera Alumbraera in Argentina.

The lead times involved in the Las Bambas project mean that first copper production is unlikely before 2010 or 2011.

On a personal note, in addition to my role as Chairman of Xstrata, I am also Chairman of Glencore International, one of the world's largest suppliers of raw materials. Peru has long been an important country for Glencore, and we have maintained an office here since 1976, almost 30 years ago. Our first mining operation, the Perubar zinc mine, acquired by us in 1987, was originally anticipated to be operational for just only three years and eventually ran for a period of some 15 years. Glencore also developed the Iscaycruz greenfield zinc project which began production in 1996. I know that Don Alberto Benavides will address you after my speech. I would like to mention that he originally held a 15 percent interest in the Iscaycruz project. Furthermore, we acquired an interest in Yauliyacu, another Peruvian zinc operation, in the same year. Both projects will produce in 2005 a total of about 500,000 million tonnes of zinc and lead concentrates. In total, Glencore employs over 3,500 people in Peru and, since the acquisition, has invested over 300 million US dollars in the country.

Slide 9: Community relations at Las Bambas

As well as the obvious attractions of the Las Bambas project, it was also apparent to us from the outset that the project faced some specific social and community challenges.

Recognising these challenges, we started to plan our stakeholder engagement programme from the time we entered a bid for the project. We believe that any community relations programme at Las Bambas must seek to promote the sustainable development of local communities, to ensure that the programmes to benefit communities were developed together with local people and would continue beyond the life of the project. This is particularly important at Las Bambas, where the decision whether to construct a mine at the site will not be made for some time.

We were fortunate to be able to recruit Raúl Farfan to lead our community relations programme at Las Bambas. Raul's experience in this region has been

invaluable in guiding our approach to participatory engagement with local communities, NGOs and local and regional authorities. Raul and a team of four community relations managers and a sustainable development consultant began work long before the exploration team began drilling in March 2005.

Slide 10: Xstrata Copper principles

Xstrata Copper set a number of principles for its operations which apply equally to Las Bambas. These are shown on the slide behind me – as you can see, they set out our expectations for the way our employees treat and engage with each other and those around them.

Based on these core principles, the community relations team set three objectives for the months leading up to the commencement of exploration drilling.

Slide 11: Primary objectives

The first of these was to promote dialogue and engagement with local communities regarding the exploration project, by encouraging their participation in activities such as consultation sessions with Xstrata Copper representatives. The ability to communicate openly with local communities was vital to this effort and, since the majority of local community members speak Quechua with limited or no Spanish, Raul's team includes two Quechua speakers.

The second was to begin consultation with relevant Peruvian NGOs – a process which is ongoing and which will continue throughout the life of the project. The third objective was to identify the concerns, questions and expectations of local stakeholders and to begin to address these.

Key concerns raised through the perception studies completed as part of this third objective included issues around access to land and potential resettlement, the potential environmental impact of mining, particularly on water sources, and the potential for increased social disruption following the development of a mine at the site. To begin to address these concerns, the Xstrata Copper team put in place initiatives such as involving the local community in participatory monitoring of the local environment as well as commissioning independent environmental tests at the site. A code of conduct for future contractors and employees at Las Bambas was developed.

The principle of “prior informed consent” rests on our ability to ensure that local people support fully what is being proposed. As a first step in this regard, a number of local people were taken to other copper operations in the region, to demonstrate the type of operation which might eventually exist at Las Bambas and to allow them to speak to local residents and other stakeholders about the benefits and disadvantages of the mine for their daily lives. Regular video updates on community projects and our work at the site are also provided to local communities, to demonstrate the progress being made.

In addition to the concerns raised, there was a great deal of interest in the potential for job creation that Xstrata’s entry into the area would bring about. Indeed, some expectations were unrealistically high, particularly considering that for the first few years of the project’s life, it will be an exploration site with a relatively limited number of direct employees.

We have adopted a principle of employing local people to the greatest extent possible. To maximise employment opportunities for local community members, we are putting in place an extensive training programme. The first stage of this programme started with training programmes in construction which led to local people being employed to construct the mine camp currently at Las Bambas. The objective is to convert the local workforce to a semi-skilled and skilled workforce able to participate fully in the construction and subsequent operation of any

future mine. Currently the Las Bambas project employs around 300 people, of which around half are local people.

Slide 12: Initial Projects at Las Bambas

Exploration work began at Las Bambas in March of this year, by which time Xstrata was already implementing a number of projects to bring immediate benefits to local communities. These projects are funded by Xstrata Copper as part of the Group's community relations programme and are independent of the funds deposited into the community trust for the region, which is administered by Proinversión.

These first, test projects were designed and implemented together with local people to respond to the priorities they had identified during consultation with Xstrata and have subsequently met with increasing demand from other families and communities. The identified priorities comprised nutrition, the health of livestock and related to this, improving pastures and agriculture. Projects underway to address these concerns include:

- schemes to help families breed guinea pigs and learn about animal husbandry techniques to improve day to day nutrition through adding protein into the diet and, eventually to provide livestock for trade;
- trout farming and projects to improve the quality of livestock;
- hydroponic pastures and improved irrigation for surrounding communities;
- training for school teachers to improve education for local communities; and
- the establishment of a training centre in nutrition, food hygiene and catering.

This approach is not limited to the Las Bambas project. Worldwide, the Xstrata Group donates 1% of its pre-tax profit each year to fund projects that benefit the communities in which our operations and employees are members with a significant portion of this money allocated to regions such as South America and South Africa where social development needs are greater. Support is provided in the areas of health, social and community development, education, enterprise

and job creation, environment and art and culture for the communities which host our operations, employees and their families. Each operation and commodity business develops an annual social involvement plan together with local communities and stakeholders to identify areas where programmes can be developed and implemented together. We report on our community and social responsibility initiatives, together with our environmental management and health and safety performance, in our Group Sustainability Report published each year.

By way of an example of our commitment to social responsibility at our other South American operation – the Alumbra copper-gold mine in Argentina - in 2004 Xstrata expanded its community programme in Argentina to provide additional funds for public infrastructure work in the local provinces of Catamarca and Tucumán. This involved an investment during the next 3 years of 4 million US dollars primarily to health and education programmes in Catamarca in partnership with the provincial government and a contribution of a further 3.9 million US dollars for Tucumán for similar projects. These contributions are made over and above the ongoing community programmes at Minera Alumbra to establish and support small and medium local businesses and to improve health and education in the areas within the operation's area of influence.

Slide 13: Independent Advisory Group

As part of Xstrata's commitment to developing and executing all stages of the Las Bambas project in a manner that contributes significantly to sustainable development for communities at Las Bambas and for other parties in Peru, Xstrata is in the process of establishing an Independent Advisory Group. The group will be a unique structure, comprising Peruvian and international members with experience of community, social, environmental, ethical and economic issues encountered by companies working in developing countries. It will include members who have specific experience of Peru, and members with international experience and perspectives. Final membership is expected to be confirmed

shortly and the group's membership and terms of reference will be published on Xstrata's website.

The Las Bambas Independent Advisory Group will play an important role as an independent body offering external, independent advice and recommendations to Xstrata on the process of engagement with stakeholders at Las Bambas, ensuring this is transparent, fair and inclusive. It will also advise on the strategic and policy issues associated with the project to ensure that our objective of contributing to the sustainable development of communities directly and indirectly affected by the project is met.

It is through honest, open engagement and debate on the issues for which we do not have all the answers that this Group will benefit us – and by extension communities affected by the Las Bambas project – the most.

Most of all, we hope that this Group will provide Xstrata with constructive, independent advice and suggestions for the issues that we will inevitably face as we develop the Las Bambas project over the coming years. Importantly, the Group will not play an intermediary role between Xstrata and local stakeholders or seek to replace the important dialogue and engagement that is ongoing between Xstrata and its stakeholders. It will assist in providing assurance to Xstrata's Board and to other stakeholders of the Xstrata Group that the processes and strategy being put in place for the project measure up to international best practice standards and to the specific considerations of operating in Peru.

Slide 14: Conclusion

Social responsibility extends further than simply being a good neighbour or a good employer. To behave in a socially responsible manner requires:

- ongoing engagement and collaboration with a wide range of stakeholders at each stage of a project's life – and particularly at its inception;
- operating mines in a safe and environmentally responsible manner to ensure that natural resources, relied upon by the local population, are not compromised by the existence of a mine; and
- the creation of long-term, sustainable social and economic benefits for the communities in which mines operate.

These objectives are even more challenging in developing countries where the existing social and economic capital of local communities may be severely limited, and where conflict may exist between communities themselves or between local, provincial or state structures.

Across the globe, local communities are demanding a greater say in their economic and political development. Even in developed economies there is pressure for greater regionalisation, perhaps even democratisation, of decision-making away from central government. In this process, local communities have far greater expectations of being involved in decisions over the exploitation of local resources; of participating in the economic benefits of mining; and of determining environmental and social performance indicators. This is often as much a challenge for provincial and national governments as it is for resources companies, which seek to ensure expectations are realistic and to live up to them, while avoiding the risk of being seen as a substitute for governmental institutions.

Social programmes that are put in place in consultation and partnership with communities and other stakeholders must strive to be truly sustainable, avoiding dependency on mining operations that will eventually and inevitably downsize and close.

In response to these challenges, some common standards of industry best practice are emerging, outside specific regional or national legislative requirements – this is particularly important where regulatory obligations are less developed. Indeed, most of the increased efforts of the mining industry to face up to its responsibilities to local communities, employees, contractors and society as a whole in recent years have come as the result of self-regulation and the establishment of best practices. These improvements have largely been driven by the industry’s recognition of complex social and environmental issues and by the increasing focus by a wide range of stakeholders on companies’ ability to not only practise but also to demonstrate responsible behaviour.

A consensus is emerging that a collaborative approach, together with a wide range of stakeholders at local, regional, national and international levels, is the only sustainable way to address some of the challenges facing mining companies in remote, developing regions. Although partnerships between diverse stakeholder groups with differing agendas are undoubtedly difficult to manage, including, as they do, inevitable tensions, they offer the potential to ensure that the benefits of mining are used to develop lasting social and economic capital for mining regions. This approach relies not only on good faith and open engagement by mining companies, but also on the ability and willingness of other stakeholder groups to participate in a meaningful and constructive manner within a multi-stakeholder framework.

The approach taken by Xstrata Copper since its acquisition of the Las Bambas project in Southern Peru is one such example of a collaborative approach and our work to continue permanent dialogue and partnerships with our stakeholders will continue.

If there is one certainty, it is that the path ahead for the Las Bambas project – whether this leads to the construction of a mine at the site or not – will encounter some unrest and problems along the way. However, if our engagement with communities remains comprehensive and credible, I would hope that the inevitable tensions can be resolved peacefully and constructively.

The business case for successful and demonstrable social responsibility by mining companies has perhaps never been clearer than it is today in Peru. There is a real imperative for mining companies, NGOs, government and community groups to work in partnership with one another to ensure that the benefits of mining projects are shared by local stakeholders, to develop a positive legacy that remains long after the mine has closed.

Xstrata's investment is a vote of confidence for Peru. This country's mining tradition and expertise, together with its political, legal and social framework, provides a sound basis for the sustainable development of the Las Bambas and other projects. *¡Xstrata apuesta por el Peru!*

Ladies and gentlemen, thank you for your attention this morning.