

- 02 chief executive's statement
- 05 key challenges
- 06 about Xstrata
- 07 scope of report
- 09 Xstrata's economic contribution
- 12 our approach to sustainable development
- 13 our role in the global community
- 16 how we work
- 20 HSEC Standards & Assurance Programme
- 22 key 2004 statistics

23 health

24 key challenges 24 HIV/AIDS 27 occupational health and wellbeing



34 safety

35 key challenges 35 fatality prevention 37 our safety performance 38 safety targets
41 our safety activities



44 environment

45 key challenges 45 climate change 48 biodiversity 52 environmental performance
52 water 53 environmental targets 57 mine closure 59 rehabilitation 60 emissions 61 energy 61 waste
62 environmental management systems



65 social responsibility

66 key challenges 66 mining charter 70 our social performance
71 social responsibility targets 74 our people 76 corporate social involvement



- 83 verification statement
- 84 glossary

social responsibility Xstrata's operations are located in diverse regions around the world, and each location has its own stakeholder values, constraints and opportunities. As members of these communities, we respect those values, abide by the constraints, respect the rights of indigenous people and seek to derive mutual benefits from the opportunities that exist. When we leave, it is our aim to leave behind a more self-reliant community through our investment in people and the support of sustainable projects. We aim to work with employees, local communities, NGOs and other stakeholders in genuine partnerships that are characterised by integrity, transparency, cooperation and mutual benefit. All of our operations maintain a detailed closure plan, which addresses the social, environmental and economic impacts of closure.



social responsibility

Our commodity businesses formulate medium- to long-term social involvement plans to facilitate our support for local community initiatives, often underpinned by extensive consultation with and participation by local communities, to ensure that support is provided in line with the community's needs. We aim to build economic and social capacity and infrastructure for local communities, creating and maintaining sustainable communities near to our operations where families can live together and, where practical, favour this approach to fly-in, fly-out arrangements. However, we recognise that in some remote locations fly-in fly-out arrangements are often favoured by employees themselves as a means of establishing an appropriate quality of family life. We seek to employ local people for our operations wherever possible and have a number of training programmes in place to build capacity to enable increased local employment, particularly in regions with a high concentration of unskilled workers.

Key challenges

The key community challenges we face are in achieving the sustainable improvement of the quality of life for residents of communities close to our mine sites without creating dependency on our operations, in particular in impoverished regions such as the area surrounding the Las Bambas project in Southern Peru, and in South Africa. At all our operations, we endeavour to maintain open and transparent communication with local communities, ensuring we listen to their concerns and respond to these effectively, to build relationships of trust.



Donald Makwakwa at Xstrata Coal's Adult Basic Education and Training Centre, South Africa

The Mining Charter in South Africa

The blueprint for the transformation of the mining industry in South Africa is set out in the Mining Charter, published by the South African Government in 2002. The charter's stated goal is "to create an industry that will proudly reflect its promise of a non-racial South Africa". Transformation describes the ongoing process to develop a sustainable, equitable society and economy in South Africa and, as one of the nation's major sectors, the mining industry has a leading role to play in this transformation.

In 2003, we laid the foundation for our transformation programme, through:

- the establishment of a Transformation Committee in Xstrata chaired by CEO Mick Davis, which focuses its efforts and resources on providing skills, infrastructure, resources and opportunities that can ultimately be used outside the mining industry;
- the appointment of Executive Director for Corporate Development Eric Ratshikhopha to drive the transformation strategy; and
- the establishment of structures and forums to ensure effective implementation of transformation at an operational level.

"We are complying with the Mining Charter's requirements – and in many instances going beyond them – not only because we are obliged to do so, but because we genuinely believe that driving sustainable transformation across our organisation, our industry and our nation is the right thing to do. Ultimately, Xstrata's future in South Africa depends on our ability to achieve meaningful transformation and fulfil the charter's demands. It is a business imperative. However, our focus is not on adhering to the letter of the law, but on embracing the spirit of the legislation. We want to create a new and sustainable business model that will be the benchmark for our industry and benefit all its stakeholders."

Mick Davis, Xstrata Chief Executive Officer



Abraham Ndlovu and Samuel Mahlangu, participants in Xstrata's community commercial farming project

Xstrata has developed and implemented comprehensive guidelines to ensure that we comply with the spirit and intention of the Mining Charter. We have been working closely with our stakeholders – including local, provincial and national governments; industry bodies; mining companies; our employees; and community representatives – to address eight key Mining Charter categories:

- human resource management;
- employment equity;
- migrant labour;
- consultation, monitoring, evaluation and reporting;
- mine community and rural development;
- housing and living conditions;
- procurement; and
- ownership and joint ventures.

Mining Charter: Human resource development

Through our employee evaluation system, we have developed career paths for 116 talented employees to prepare them for more senior roles within the company. Candidates meet twice a year with the heads of their business career development panels to discuss their progress and aspirations. Some of these employees receive international exposure through technical visits to Xstrata's overseas operations.

In 2005, we will implement skills development plans across our operations. We have conducted career development interviews with 2,545 of our 4,000 Xstrata Coal employees with 790 employees having indicated a desire to participate in our development programme. In 2004, we assessed 680 employees and identified 265 employees with development potential.

We are also helping our employees to reach their full potential by providing Adult Basic Education and Training (ABET) tuition on site and within our communities (see Mine community and rural development section).

Mining Charter: Employment equity

Employment equity plans have been developed for all our operations in South Africa and they have been submitted to the Department of Labour. We have established a full-time mentoring and coaching programme for historically disadvantaged South Africans (HDSAs) and we have two plant superintendents and two plant foremen participating in this programme.

We also have a gender-specific recruitment programme for women and 50% of our bursaries are targeted at women. We sponsor five female pre-university students and one female university student, as well as nine females in mining and engineering courses. In addition, 10 women from the community are currently undertaking computer training at our ABET Centre.

Xstrata Coal has also entered into a joint venture with Zingisa to supply coal to Eskom from its WitCons Colliery. Zingisa is a female-owned and managed Black Economic Empowerment (BEE) company.

We are on track to meet the charter's employment targets, to have 40% of our management positions filled by HDSAs and women accounting for 10% of our South African workforce by 2007. Managerial positions include senior supervisor, head of department, specialist manager, senior specialist, director and general manager. At the end of 2004, we had an HDSA participation rate of 24% and a workforce comprising 5.5% women. Fourteen women are participating in our fast-track programme.

Mining Charter: Migrant labour

Only a small percentage of our South African workforce – 14% – comes from outside South Africa, predominantly from Mozambique and Lesotho.

Xstrata's global policies and procedures comply with national treaties and agreements on migrant labour. Our policies and procedures target the fair and equitable treatment of all employees, regardless of their place of birth.

An Alexander Forbes audit in 2003 confirmed that there is no discrepancy between the rates of pay we offer local or migrant workers.



Case study | Making education available to HDSA students

A key element of our education programme is Xstrata Coal's financial support of science-based tertiary education for HDSA students. These bursaries, implemented in 2003, are offered for the full study term. We also contribute to the JB Marks Trust Fund which provides bursaries to dependants of National Union of Mineworkers members. In addition to a financial donation, we provide work experience and on-the-ground training to bursars during the vacation period.

Executive Director for Corporate Development Eric Ratshikhopha said Xstrata also offered courses to unemployed youths selected from the broader community.

"These young people undertake Mining Qualifications Authority training as apprentices, learner miners and engineers and, although there is no guarantee of employment with us, their job prospects in and outside the Group are excellent," he said.

"At a university level, we provide financial assistance to HDSA chemical engineering students studying at the University of Cape Town, and we contribute equipment to the university's undergraduate resource centre, postgraduate library and chemistry laboratory.

"We also provide financial assistance to the Faculty of Mining at the University of Witwatersrand for its programmes which aim to improve the performance of HDSA students studying mining-related disciplines."

In addition, Xstrata Coal contributes to the Minerals Education Trust Fund (METF) which monitors the calibre of technical education provided by tertiary level teaching staff. Funds donated to the METF are used to train Technikon and university lecturers, and to provide additional resources.

Mining Charter: Consultation, monitoring, evaluation and reporting

We report our progress against the Mining Charter's requirements in a variety of forums and publications, including:

- the monthly Xstrata Executive Committee meetings and the Xstrata Transformation Committee meetings, which are held at least every six weeks;
- Xstrata South Africa's Annual Report and the Xstrata Sustainability Report;
- regular national, provincial and local government department meetings; and
- the South African Chamber of Mines Committee on Transformation.

Mining Charter: Mine community and rural development

Our mine community and rural development programme has a strong focus on education and training initiatives. We are committed to playing a leadership role in making education available to the broader South African community, so we have developed a diverse education programme that encompasses every level of education.

Seventy one per cent of our employees are functionally literate and numerate. One of the most significant ways we are helping to improve their education is through adult basic education and training.

| ABET tuition | Statistics |
|---|------------|
| Number of employees completed training since 1997 | 237 |
| 2004 enrolments (employees) | 476 |
| 2004 enrolments (community members) | 23 |
| 2003 enrolments | 218 |
| 2003 completed first level literacy and numeracy | 118 |

Xstrata Coal's Group Training Centre is used by the various divisions. A community ABET centre in Kwa-Guqa, Witbank, is being constructed to offer skills training to unemployed people as well as our employees. This learning and trade centre, developed in conjunction with the Emlahlani Local Council, is expected to be operational in May 2005.

As part of our education programme, 993 employees have completed Recognition of Prior Learning assessments, with 536 employees declared competent at a range of levels.

Our other South African education programmes are described in the case study on page 79 and under Education and Training on page 80.

Xstrata's community development programme in South Africa is focused on projects that have the potential to be self-sustaining. In 2004, we invested ZAR7.7 million. Some of the projects we supported included:

- a donation of ZAR635,000 to three schools surrounding the Maloma mine in Swaziland for the installation of a hydroponic garden scheme;
- a group of 430 women to tender for government contracts to provide nutritional meals to local schools, which resulted in them winning a two-year contract worth more than ZAR20 million (ZAR563,730);
- a training programme to enable community members to care for terminally ill patients at home (ZAR282,150);
- supplying seed and equipment (ZAR200,000) for the Botselo feeding scheme;
- establishment of the Care Village to care for destitute children and AIDS orphans in the Witbank/Middelburg area (ZAR2 million);
- development of the Commercial Farmer Settlement Project which is training four HDSAs on 175 hectares of suitable agricultural land adjacent to our Arthur Taylor Colliery, with the aim of encouraging these 'new farmers' to enter into long-term lease agreements with us to farm the land (ZAR204,288); and
- an internship programme aimed at helping HDSAs achieve permanent employment in a range of sectors, including finance and mining (ZAR1.8 million).

In addition, we have pledged ZAR2.25 million to create a skills and enterprise development fund to help establish new businesses in the Mpumalanga and North West provinces.

Children who have lost their parents to AIDS are often left destitute. Xstrata helps local communities manage this difficult issue by providing orphans with accommodation at three centres in South Africa – the Middelburg Care Village, the Ratanang Care Centre 1 and the Ratanang Care Centre 2 (see Health chapter).

social responsibility

Mining Charter: Housing and living conditions

In 2003, we introduced a funding programme to help our employees buy or rent a home near their place of work and enable families to live together. This approach has resulted in small communities being established near our operations. This also forms part of our strategy to tackle the spread of HIV/AIDS (see Health chapter).

Xstrata Coal employees are paid a minimum 'living out' allowance of ZAR1,600 per month and they are encouraged to participate in the Presidential Housing Development Project in Witbank. In 2004, 82 employees applied to participate in the project and 39 have already moved into their homes. Less than 5% of our employees live in company-provided accommodation. Xstrata Alloys subsidises interest rates for employees using house bonds. We have also undertaken a major education campaign to increase awareness of the potential for home ownership and the benefits that this may bring to families.

Mining Charter: Procurement

In 2004, Xstrata completed a number of procurement initiatives, including:

- the implementation of BEE preferential policies;
- encouraging our existing suppliers to form partnerships with HDSAs;
- the implementation of our procurement development programme – by the end of October 2004, our total discretionary procurement spending with HDSA supply companies was ZAR681 million (23% of Xstrata's total spending in South Africa);
- the development of a comprehensive database to capture information on potential and existing BEE suppliers; and
- planning for workshops to equip possible suppliers with all the information they need on BEE.

Mining Charter: Ownership and joint ventures

On 1 July 2004, Xstrata Alloys established a Pooling and Sharing Venture with Merafe Resources Ltd (formerly SA Chrome & Alloys Limited), a black empowerment partner. Under the agreement, Xstrata Alloys and Merafe Resources Ltd (Merafe) retain legal ownership of their respective assets, mining rights and land, and share in the pooled earnings before interest, tax, depreciation and amortisation of the venture (more details of this agreement are provided in the scope of report chapter on page 7).



George Nemo and Josh Willetts (rear) are participants in Mount Isa Mines' indigenous training programme, a partnership with local training organisation MIGATE

Our social performance

Targets are set at a Commodity Business level and, in some cases, at site level. Performance against the 2004 targets is found in the table on page 71, together with targets for 2005.

Complaints

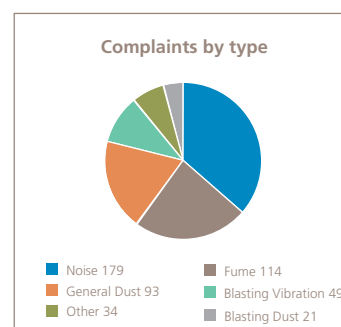
In 2004, Xstrata responded to 490 complaints from stakeholders who live and work in and around our operations. The chart below summarises the number and type of the complaints recorded by the Commodity Businesses.

In July 2004 Xstrata assumed management control of the chrome assets of Merafe Resources, as a result of the Pooling and Sharing Venture increasing the number of sites in their division.

The major issues raised by Xstrata Alloys stakeholders were around air quality. We have short-term and long-term management action plans in place to deal with and to improve our air quality performance at Wonderkop smelter.

At Xstrata Coal, we received 294 complaints, 163 of which related to general noise at Mount Owen. In December 2004, Mount Owen was granted approval to extend the mine following a lengthy approval process which involved a Commission of Inquiry. Since the granting of this approval, the number of complaints at Mount Owen has decreased significantly.

Sulphur dioxide emissions in the city of Mount Isa remain the major source of complaints for Xstrata's north Queensland operations. The Mount Isa operations received 112 fume-related complaints, a 21 per decrease compared with 2003 statistics.



| Social responsibility targets | | | |
|--------------------------------------|---|--|--|
| | 2004 target | Performance | 2005 target |
| Xstrata Alloys | Reduce the number of community complaints (25 in 2003) | Not achieved 69 complaints received | Ensure that all Xstrata Alloys community development projects form part of the integrated development plans of the area |
| | Implement site specific stakeholder engagement plans | Partly achieved Comprehensive stakeholder engagement programme developed and implemented in the Eastern Limb – permanent community forum established Engagement plans at other sites under development | Initiate and implement enterprise and skills development projects Ensure continuous communication with affected and interested parties Establish community development forums at each site |
| Xstrata Coal | | | |
| NSW | Implement site Social Involvement Plans (SIP) | All sites have a documented SIP | Continuing implementation of SIPs |
| Queensland | Develop a SIP | Partly achieved | Develop SIPs for all sites |
| South Africa | Advancing BEE farming concept and schools development programme | Achieved | Develop SIPs for all sites |
| Xstrata Copper | | | Publish divisional sustainability reports (north Queensland and Alumbra) as part of Xstrata's commitment to the Minerals Council of Australia's 'Enduring Value' framework for sustainable development |
| Australia | Develop a SIP | Achieved: Xstrata Community Partnership Programme launched in north Queensland | Achieve Xstrata Community Partnership Programme in north Queensland objectives |
| Argentina | | | Contribute towards the following programmes: <ul style="list-style-type: none"> ■ critically required upgrades of the Andalgalá Intermediate Care Unit the Belén Intensive Care Unit and the Santa Maria hospital ■ contribute to the construction of schools on Belén, Andalgalá and Tucumán city |
| Peru | Implement community relations programme at Las Bambas | Achieved | Establish a \$45.5 million trust fund with the Government of Peru for communities neighbouring the Las Bambas exploration project. Formation of an International Advisory Group to advise Xstrata on international best practice in managing community and stakeholder relations at Las Bambas |
| Xstrata Zinc | | | Northfleet: Continue community project support |
| Australia (MRM) | Continue indigenous people training and employment programme. Practical application of "in-house" specific training | Achieved | Continue these programmes in 2005 |
| | Continue towards full implementation of the MRM/ Education Community MOU | Implementation underway | To complete implementation |
| | Provide information and consult with local community re: potential change in mining method | Achieved | Continue consultation |

Case study | Community relations at Las Bambas

Corporate social involvement (CSI) and community relations are high priorities for Xstrata Copper's Las Bambas exploration project in Southern Peru, South America.

Since Xstrata Copper's successful bid for the project in August 2004, a team of community relations professionals has begun work in the area, preparing for exploration work which began in March 2005. The team is headed by a community relations manager and consists of four community relations officers and one sustainable development consultant. The team members bring a range of community relations experience to the project. Xstrata Copper's Community Relations Manager in Peru, Raul Farfan, has worked in similar mining projects in the region during the past eight years, and has particular local experience in consultation, participatory planning, land purchasing and resettlement.

Rural villages, most of which have subsistence economies based on agriculture and animal husbandry, surround the project area. The level of illiteracy in these communities is high at around 70% and basic infrastructure and services are

scarce. These communities have a strong cultural identity; they continue their ancestors' tradition of working the land, while traditional costumes are still the preferred style of dress for men and women alike. The local language spoken in the area is Quechua. To facilitate effective communication between the local people and the community relations team, Xstrata's team includes two Quechua speakers.

"In 2004, our community relations team concentrated on three main objectives," Raul said. "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 second objective was to begin consultation with relevant Peruvian non-government organisations. This consultation is expected to continue throughout the life of the project.

"The third objective was to identify any concerns or questions that key stakeholders may have about the project. Two perception studies have been completed to date. The key



concerns raised by local residents related to access to land and potential resettlement, the potential environmental impact of mining activities, particularly on water, and the potential for an increase in social disruption following the development of a mine at the site. We are working with local communities and other stakeholders to address these concerns, including initiatives such as involving the local community in participatory monitoring of the local environment and by developing a code of conduct for any contractors or employees at Las Bambas.

“There is also a great deal of interest in the potential for job creation that the mine would bring about. Xstrata has adopted a policy of ensuring that only local residents are eligible to apply for unskilled positions at Las Bambas. We are also putting in place an extensive training programme to convert the largely unskilled local workforce to a semi and fully skilled workforce able to participate fully in the construction and subsequent operation of a future mine. In addition, we are investigating ways to contribute to improving the local economy, while simultaneously managing expectations of the project’s effects on this economy.”

One of the encouraging results of the consultation process so far has been the gradual building of trust between the members of local communities, their leaders and the Las Bambas project team. Another achievement has been the start of work on projects that the local communities identified as priority areas. These include a training module in construction for local people and work on projects to improve local agriculture.

As a result of the consultation process, feedback from the local communities indicated their support for Xstrata Copper to start the exploration programme in March 2005.

As part of project development guidelines specified by the Peruvian Government, Xstrata will also provide \$45.5 million to a Community Trust to benefit local communities. After identification and prioritisation by the communities involved, it is also anticipated that at least three community development projects will be in place.



social responsibility

Our people

Xstrata employs approximately 24,000 people globally, including contractors. A breakdown of employees by commodity business and by geographic region is shown in the charts below.

Human resources functions within each Commodity Business are headed by a General Manager Human Resources who reports to the Commodity Business CEO. We offer diverse employment opportunities for a cross-section of skill sets and educational requirements – from operators to supervisors and managers.

All our employees are free to join a union of their choice, but participation across the Group varies.

Recruitment and training

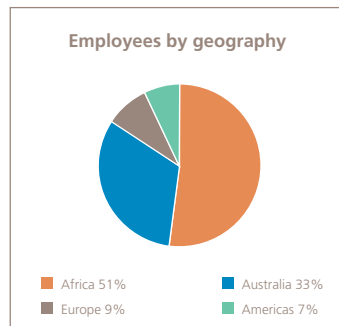
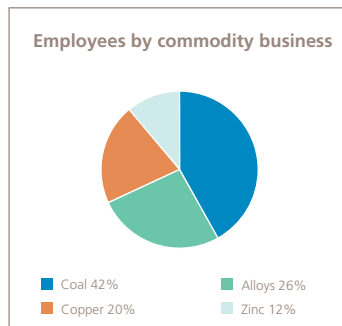
Xstrata's Employment Policy respects the labour standards laid down by the International Labour Organization's Fundamental Conventions, and these commitments are found in our Business Principles.

We apply equal opportunity recruitment and selection practices. Behaviour-based, non-discriminatory interview and selection techniques aim to attract the best person for the job.

Most of our operations have developed skills and workforce plans which compare current employees and skills with expected future requirements. For example, Xstrata Copper's operations collect monthly employment statistics including forward projections (by skills group) for future requirements. They also analyse specific critical areas (such as skilled trades) within their business plans and address them through increased apprentice numbers, school-based traineeship programmes, scholarships and partnerships with educational facilities such as the Mount Isa Mining School of Excellence. In 2004, we created 643 new jobs across the Group, with more than half of these within Xstrata Copper as part of the transformation programme at Mount Isa.

Under the South African Skills Development Act, all Xstrata operations are required to have a workplace skills plan in place. Because more than half our employees are based in South Africa, we have a strong focus on building the skills of these employees, particularly HDSAs.

Training and development needs vary from business to business. In 2004, the average number of training days per employee across the Group was 14.7.



| Union coverage of Xstrata employees | | | |
|-------------------------------------|--------------------|---|------------------------|
| Country | Commodity business | Union | Percentage coverage |
| Australia | Xstrata Coal | Construction, Forestry, Mining and Energy Union (CFMEU) | Not legally available* |
| | | Colliery Officials Association (COA) | Not legally available* |
| | | Australian Collieries Staff Association (ACSA) | Not legally available* |
| South Africa | Xstrata Coal | National Union of Mineworkers | 72% |
| | | United Association of South Africa | 7% |
| | | Solidarity | 5% |
| | | El Shadai Workers Union of South Africa | 5% |
| South Africa | Xstrata Alloys | Union not specified | 45% |
| Spain, Germany, UK | Xstrata Zinc | Union not specified | 45% |
| Australia and South America | Xstrata Copper | Collective agreements | 44% |

*Collection of information pertaining to union membership is illegal in Australia because of the Privacy Act 1988.



Case study | Mount Owen establishes further community initiatives

The implementation of Mount Owen's comprehensive community programme has enabled the open-cut coal mine in the Upper Hunter Valley of Australia to strengthen its ties with the local community and other key stakeholders.

With its expansion plans approved in December 2004, community engagement has become a key feature in Mount Owen's mine development plan. These activities are guided by a Social Involvement Plan (SIP), which includes specific objectives and techniques to manage ongoing and regular communication with all key stakeholders.

Mount Owen's Environment and Community Officer Nigel Charnock is responsible for the implementation of the mine's community relations programme and is the point of contact for the local community. Nigel said regular face-to-face meetings with its neighbours and other key stakeholders were an important feature of Mount Owen's community relations programme, while a freecall community response line enabled community members to contact the mine 24 hours a day.

"One of the ways we keep the community informed about our activities and progress at the mine is through a biannual community newsletter called Mount Owen Two Way, which is distributed to around 200 neighbours. Importantly, the newsletter also encourages feedback," he said.

"We have recently commenced annual meetings for the wider community. These meetings will provide the local residents and other key stakeholders with important information relating to our operations, and importantly, provide an

opportunity for the community to provide feedback and raise issues directly with mine personnel. This initiative will support meetings of our recently expanded Community Consultative Committee, which meets quarterly.

"Public access to our operational, environmental and social performance information is also being improved by the development of a website, which is expected to be operational in the second quarter of 2005.

"A key feature of our SIP is an annual community support programme, which includes donations, sponsorship and in-kind support for a range of community, educational and environment initiatives. In 2004, we funded a range of educational and community projects, and hosted mine site tours for our neighbours and local school children."

Mount Owen is an active supporter of the New South Wales Minerals Council school teacher mining education programme and hosts two mine tours during the year. The mine also established an educational enhancement programme with a local primary school, located near the mine. The programme involves annual financial support towards the implementation of technological and educational improvements at the school, aimed at assisting student learning.

Nigel said Mount Owen Mine was committed to maintaining its 'open door' policy for the life of the mine and continued to encourage community members to visit the mine to discuss their issues or to tour the mining operations.

social responsibility

Workforce diversity

Across the Group, we seek to increase the number of women in our workforce through recruitment initiatives and we are working to improve the provision of flexible work arrangements, such as flexitime and childcare facilities. In 2004, women accounted for 5.5% of Xstrata's workforce including 46 female managers. A member of our Executive Committee is responsible for monitoring our equal opportunity performance.

Communication and grievance procedures

All employees receive our Statement of Business Principles in their first language and these principles form an integral part of our induction process for new employees and contractors. Compliance with the Business Principles is a fundamental part of any assessment of our employees' performance and non-compliance with any of our Business Principles automatically results in disciplinary proceedings.

While we do not conduct formal employee satisfaction surveys, we have a number of systems and forums in place that encourage employee feedback. Daily, weekly, monthly and quarterly management briefings occur at all levels of the business and are the main mechanisms by which employee feedback is elicited. We also use notice boards, newsletters, video messages and email notices to keep our employees and contractors up to date with important initiatives across the Group.

We encourage feedback from our employees through a range of processes, including the performance appraisal system, monthly meetings between operational managers and employee representatives, and Xstrata Copper's Fair Treatment System, which enables employees to air individual grievances.

In addition, as described in the chapter entitled How We Work, we have established an 'ethics line', which provides employees and contractors with a toll-free, confidential telephone line to report any suspected breach of our Business Principles, including incidences of fraud, bribery or corruption, criminal activities, incorrect health and safety or environmental practices or any unethical behaviour in the workplace. The call line is independently run by KPMG and any concerns are relayed in confidence and on an anonymous

Trainees at a secretarial college near Rustenburg, sponsored by Xstrata Alloys



basis to the Head of Internal Audit, who reports directly to the Board Audit Committee, for appropriate action. This telephone service supplements the existing ethics email address – ethics@xstrata.com – emails to this address are read only by the Head of Internal Audit and are confidential. In 2004, nine incidents reported through the whistleblowing line and ethics email led to investigations by Xstrata's internal audit department and KPMG.

Suppliers

We have a purchasing and supply manual that describes our investment criteria, procurement requirements (suppliers, contractors, tendering) and levels of financial authority. All service and product suppliers are evaluated in terms of set criteria. Contracts are entered into with the successful supplier and performance is monitored in terms of the service level agreement or contractual obligations. In South Africa, we give preference to BEE suppliers and we are committed to procuring from BEE suppliers. A manager has been appointed to ensure we comply with our BEE procurement strategy. Our purchasing and supply activities are independently audited by KPMG.

Corporate social involvement

Xstrata supports a wide range of projects and initiatives to benefit the local communities which host our operations, our employees and their families through our corporate social involvement plans, developed at a local level by each Commodity Business.

Xstrata's corporate social involvement (CSI) is based around five principles:

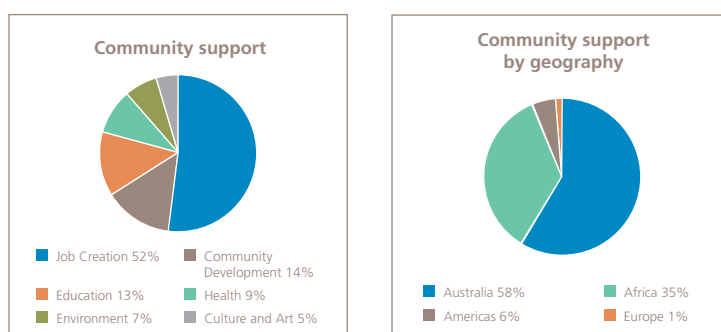
Local focus: Xstrata's CSI is focused on local communities with which we are associated and where our operations are situated.

Maximum devolution: Primary responsibility remains with the Commodity Businesses which are best placed to assess suitable projects through consultation with local communities.

Best practice: Our CSI policy will be consistent with the highest standards of our industry and will reflect international best practice.

Flexibility: Our approach to CSI allows a wide range of responses, recognising that the extent and nature of CSI will vary across commodity businesses and across geographies within a particular business. This means that CSI expenditure is not necessarily evenly spread across geographies or businesses but is directed to where it is most needed.

Financial and organisational efficiency: CSI expenditure should take advantage of our financial structure and should avoid 'boom and bust' support on the back of cyclical earnings performance.



In 2004 we spent \$10.5 million on supporting community initiatives

We provide support for a wide range of initiatives in the following categories:

- enterprise and job creation;
- environment;
- education;
- social and community development;
- health; and
- culture and art.

We do not support:

- political parties;
- individuals; or
- church/religious activities which are exclusive to one faith community.

CSI excludes expenditure to benefit employees exclusively, except where there is a significant benefit for the wider community (for example a shared resource such as a training centre).

In accordance with this policy, no political donations were made in 2004.

In 2004, our CSI expenditure totalled \$10.5 million, a 57% increase over total 2003 expenditure of \$6.7 million. Taken together, Xstrata's 2003 and 2004 contributions of \$17.2 million amount to 1% of the Group's combined pre-tax profits in 2003 and 2004 of \$1,723 million.

The breakdown of our community expenditure in 2004 by category and by geography is illustrated in the charts above.

In 2004, Xstrata spent a further AUD13.6 million to support the Tieri and Glenden townships, in Queensland. In accordance with our CSI policy, this amount is not included in the reported CSI contribution, as both communities are so closely associated with our operations.

During 2004, Xstrata established appropriate funding structures in the key countries or regions where we operate, in order to distribute the allocated CSI funds to projects which meet Xstrata's CSI policy requirements in a tax-efficient and accountable manner. Funding decisions are made by a committee comprising the chief executives of the relevant commodity businesses with the GM Corporate Affairs, who has overall responsibility for coordinating the Group's CSI expenditure. This structure allows a high degree of local autonomy in selecting appropriate projects and initiatives for support and enables funds to be disbursed as and when required by the projects themselves.

Xstrata has committed to continue setting aside a minimum of 1% of the Group's annual pre-tax profit to fund its social involvement going forward. The required trusts/structures have been established for the different countries in which the Group operates and planning for CSI expenditure has been embedded into the annual business planning and budgeting process, to ensure this target is met.

Social involvement plans

The development of formal social involvement plans was a key target for Xstrata's businesses in 2004. Each commodity business is required to prepare a Social Involvement Plan (SIP) that forms part of the business plan for the following year presented by the business to the Group executive committee as part of the annual budget process. This plan reports on the engagement of each commodity business with local communities, detailing the range of initiatives and projects funded or undertaken directly by the business, together with the resources that were deployed in this area. The SIP also sets out the anticipated projects and budgeted expenditure for the following year. These budgets are then used by the executive committee as the basis for allocating the 1% of pre-tax profit set aside by the Group across the different regions.

social responsibility

Stakeholder engagement

Xstrata's operations use a range of interaction techniques appropriate to their community's culture, demographics and interests to determine the focus for the following year's social involvement plan and to gain community consent and support for Xstrata's activities. We engage with our stakeholders in order to manage expectations from local communities, report on our progress on community and other initiatives, ensure open and transparent dialogue to respond to concerns and ensure full information is provided about our current activities and planned new projects. Community consultation is also key to our social impact assessments for new projects.

A review of Xstrata's extensive community engagement programmes indicates that 30 operations produce site reports, a further 18 produce regular community newsletters and 46 sites host public information meetings and open days. Other events such as community tree planting days, family and community tours of our sites, information and consultation briefings for any new developments or projects take place on a regular basis. Some sites also maintain dedicated telephone lines for local residents to ensure an open channel for complaints, comments, questions or feedback 24 hours a day.

Community and stakeholder consultation is central to developing our corporate social involvement initiatives as part of the annual social involvement plans developed by each business. Before we can effectively support and contribute to the development of the communities in which we operate, we need to understand their concerns, perceptions, attitudes, issues and community development priorities, and we achieve this through a range of survey tools. A range of community perception surveys were undertaken by our operations in 2004.

In Queensland, surveys were conducted in the communities of Collinsville, Glenden and Scottville close to our coal operations in that state. Although the results varied, the main issues raised were job security, training, and the extent to which community infrastructure and services will remain after mine closure. The results of the surveys will be used to develop community involvement programmes in 2005.

In 2004, Xstrata Alloys conducted surveys in the Steelpoort area, at the Kroondal informal settlement and at Thlabane. The key issues raised were unemployment, poverty, care of orphans and terminally ill persons, and water, sanitation and electricity shortage at the Kroondal informal settlement. Xstrata Alloys has planned a detailed socioeconomic survey for 2005 and is developing initiatives to respond to these issues in the social involvement plan.

An extensive community consultation exercise was carried out by Xstrata Copper at communities close to its north Queensland operations to determine the focus for the Xstrata Community Partnership Programme in north Queensland (see case study on pages 80-81). In addition, Xstrata Copper conducts a comprehensive community attitude survey at Mount Isa every second year. The last survey was conducted in 2003. This survey will be expanded in 2005 to include the other north Queensland communities in which Xstrata Copper operates – Cloncurry, Townsville and Bowen.

Community surveys have also been undertaken through the Joint Development Forum in Tubatse in South Africa, a forum comprising chrome producers on the Eastern Limb over the Greater Sekhukhuland and Mpumalanga areas.

Two perception surveys were carried out with communities local to Xstrata Copper's Las Bambas site in southern Peru, the principal findings and response to these surveys are described in the case study on pages 72-73.

In addition to consultation and communication with local communities, Xstrata engages with a range of other stakeholders through consultation or partnerships. These include:

- partnerships and regular dialogue with local education authorities and NGOs concerned with youth development and education;
- membership of a number of regional schools and tertiary education steering committees in Argentina, South Africa and Australia;
- partnerships with NGOs, regional and national health authorities and local hospitals, hospices and care centres;
- regular contact with social welfare and regional development authorities and NGOs;
- partnerships with NGOs and local government authorities on a range of sustainable development and community and social welfare programmes. Xstrata's businesses are represented on regional development authorities and organisations to tackle a range of social problems including crime and unemployment, and to encourage local enterprise and capacity building; and
- regular consultation with indigenous peoples including the Royal Bafokeng tribe in South Africa, the Murwuli and Wirriwangkuma Aboriginal Corporation in the Northern Territory, membership of the Indigenous Sea Ranger Steering Committee, the Gulf Region National Trust and the Indigenous Mining and Enterprise Task Force, indigenous people community groups in north Queensland and local communities in Peru.



Case study | Xstrata's Schools Development Programme

A ZAR3.8 million holistic education programme is helping 20 historically disadvantaged schools in Mpumalanga Province in South Africa improve the quality of their mathematics and science teaching, governance and school management.

Executive Director Corporate Development Eric Ratshikhopha said the three-year, joint Xstrata Coal/Xstrata Alloys programme initially focused on improving the governance and management of the schools before addressing the quality of primary and secondary school teaching.

"In contrast to the historical tendency of business to focus solely on short-term gain in curriculum development, we recognised the importance of focusing on the actual management and governance of the schools to ensure they are being run professionally and with the interests of the students' educational development in mind," he said.

A number of preparatory meetings were conducted between July and September 2003 aimed at introducing the programme to senior representatives of the provincial and regional levels of the Mpumalanga Department of Education. In October 2003, Xstrata representatives held meetings with circuit-level officials and stakeholders from all the government-selected primary and secondary schools to solicit 'buy-in' for the schools' involvement in our programme. These meetings were then followed by school visits to discuss the programme with school staff.

In January and February 2004, a baseline study was conducted to determine the infrastructural conditions, governance, management and curriculum practices in the schools. The study revealed the strengths and needs of each school and will serve as a benchmark to measure improvement. We have used the study results to establish business plans for each school.

Forty teachers have been registered to complete the Mathematics Advance Certificate in Education course through the University of South Africa and science teachers will be registered in 2005.

Eric confirmed that the baseline report was presented at the first steering committee meeting in July 2004, which was attended by senior officials from the Department of Education.

"At that meeting, the steering committee realised the learnings from our programme could be replicated throughout the Mpumalanga Province, so a broader meeting with regional and circuit-level officials was held in October 2004 to discuss the issue," he said.

"We will work with the provincial government and relevant school governing bodies to conduct an annual baseline study of each school enrolled in our programme to ensure the programme remains relevant and successful."

social responsibility

Community initiatives

Xstrata supports a wide range of community projects and initiatives, some of which are highlighted below.

In 2004, Xstrata Copper announced the three-year, AUD4 million Xstrata Community Partnership Programme in north Queensland which supports projects in the areas of enterprise and job creation, environment, education, social and community, health, and arts and culture (see case study). During the year, Xstrata Copper spent AUD400,000 on other community support activities in Australia and plans to spend a further AUD460,000 in 2005. Alumbra copper mine in Argentina invested \$510,000 in community projects in 2004, plans to invest \$1 million in 2005 and will maintain this level of funding in 2006 and 2007.

At the new Rolleston thermal coal mine in Queensland, Xstrata Coal established a social monitoring group comprising representatives of the community and government organisations. The mine also established a community benefit fund of AUD100,000 to support local community initiatives.

Education and training

Education projects were a key priority for Xstrata Coal in South Africa. Ten high-potential students from the Emalahleni Municipality, Witbank, were nominated to attend a one-year academic enrichment course at a local college. After intensive tuition in mathematics, science, engineering, computers and life skills, the students will re-sit their matriculation exams. Candidates who receive a university pass are encouraged to proceed to university and apply for an Xstrata bursary. While working with two local municipalities in South Africa, Xstrata Coal identified a number of weaknesses in local economic development strategies and helped to restructure the Local Economic Development Forum and develop a strategic framework for the future.

Educational visits for students are hosted by the majority of sites in co-operation with local educational authorities. Xstrata also sponsors a range of training or educational programmes, bursaries and work placements to encourage students to gain experience in the mining industry and to assist with the costs of their studies. McArthur River zinc operation in the Northern

Case study | The Xstrata Community Partnership Programme in North Queensland

Since the formation of a single global copper business in January 2004, Xstrata Copper has undergone a successful business transformation in north Queensland to improve productivity, safety and operational efficiency. The Mount Isa community, in particular, has also enjoyed a renewed sense of enthusiasm. Additional local jobs have been created, new development projects have been approved and communication with employees and engagement with the community by the new senior management team has improved.

In December 2004, Xstrata Copper launched an AUD4 million, three-year community partnership programme as part of its business transformation in north Queensland. This programme aims to reinforce its commitment to local communities and to adopt a more strategic and sustainable approach to community support.

The Xstrata Community Partnership Programme was launched in Mount Isa by the Queensland State Development Minister and Member for Mount Isa, the Hon Tony McGrady, MP.

Xstrata Copper Chief Executive Charlie Sartain said the programme was a demonstration of the company's belief that local communities should benefit from Xstrata's operations in the short and long term.

"I look forward to sharing the benefits of our business performance with our employees, communities and our partner organisations through this programme," he said.

"The strength of our community partnership programme lies in the fact that it directly addresses the areas of most concern to local people, such as quality education for their children, access to medical care and youth employment and training."

Xstrata Copper Corporate Affairs Manager Sue Sara said in developing the programme, an extensive social involvement development process was undertaken for the first time, which involved a widespread consultation and community needs assessment with local stakeholders.

"Interviews with community representatives were conducted in Mount Isa, Cloncurry, Townsville and Bowen. In addition, our existing community programmes were benchmarked against programmes from other leading companies," she said.

"This process enabled us to identify the areas of greatest need in the north Queensland communities in which we operate, with a particular focus on education and health, and developing partnerships with local groups and government to address those needs."



The programme provides support across the six broad categories defined by our Group CSI policy – enterprise and job creation, environment, education, social and community, health, and arts and culture.

Some partnerships developed under our programme include:

Centacare indigenous employment and training:

A partnership with Centacare Employment Mount Isa branch to train indigenous people for employment in the local mining industry and to help them find jobs and develop career paths (AUD150,000 over three years).

More doctors for Cloncurry: Bringing more doctors to Cloncurry in partnership with Queensland Health, north and west Queensland Primary Health Care, Queensland Rural Medical Support Agency, Gemini Medical Services and James Cook University (AUD245,000 over three years).

New electronic beds and helipad for Bowen Hospital:

The partnership will fund two new electronic beds at the hospital and help build a new helipad (AUD66,000 over three years).

Cloncurry indigenous youth worker: Partnership with the Mitakoodi Aboriginal Development Corporation which operates in conjunction with existing Cloncurry Shire Council and police initiatives (AUD75,000 over three years).

Townsville State High School and Oonoonba State School (EnergySMART Schools): A partnership with the schools and the Townsville Technology, Maths and Science Centre of Excellence to support an innovative curriculum that brings renewable energy technology to the schools (AUD70,500 over three years).

Townview State School Multimedia Centre: A partnership with the school to equip a multimedia learning development centre to teach IT and technology-related skills (AUD160,000 over three years).

Buchanan Park: Contribution towards the redevelopment of this important recreational venue in Mount Isa (AUD1 million).

In addition to the AUD4 million funding, the community partnership programme includes a substantial commitment to addressing the skills shortage in the north Queensland mining industry by tripling Xstrata's apprenticeship intake over the next three years and by providing more traineeships, bursaries and scholarships.

Xstrata Copper will also invest AUD460,000 in the north Queensland communities in 2005 – in addition to the community partnership programme – which will be directed towards sponsorships, donations and other community support initiatives, such as the Mount Isa Mining Expo, the Mount Isa Rotary Rodeo, the Cloncurry Merry Muster and the Outback at Isa tourism attraction at Mount Isa.

social responsibility

Territory provides training for unemployed youths, presents annual science awards and is a founding member of the Borroloola Regional Youth Development Unit. In Europe, Xstrata Zinc supports the Gravesham Business Education Partnership through its Northfleet operation. Alumbra copper mine in Argentina sponsored a programme of environmental education for teachers in Catamarca in partnership with a local NGO in 2004 and the mine is represented as a member of a local NGO focused on providing research and post-graduate grants. Work experience at Alumbra is offered to students and the mine sponsored the Reading is Fundamental programme (Fundación Leer – Minera Alumbra) and provided emergency response training in all Andalgalá schools.

Xstrata Coal provides a number of bursaries and placement opportunities to students of mining related disciplines in Australia in addition to support provided in South Africa. Adult basic education and training programmes are offered at our South African operations and 20 historically disadvantaged schools are being assisted jointly by Xstrata's coal and alloys operations in South Africa (see case study on page 79).

Xstrata Copper provides a vacation employment programme for students to gain practical experience and provides education about mining activities in primary schools. Xstrata Alloys regularly meets with national and regional officials from the Department of Education and funds significant education and training projects.

Health

Our health initiatives include contributing to the upgrade of a hospital helicopter pad and football field in Queensland, while Alumbra copper mine in Argentina provides support for local health centres, regional and local hospitals. Alumbra also supports an ophthalmology assistance programme for children. Extensive initiatives are underway to support HIV/AIDS initiatives and care centres, described in more detail in the Health chapter. Xstrata Alloys is working in partnership with the Rustenburg Municipality on a project to detect possible Bilharzia contamination in the Kroondal.

Indigenous people, culture and community development
Xstrata engages in a number of initiatives to engage with and support capacity building for indigenous people. Cultural awareness programmes are run as part of our induction programme at operations in Australia, South Africa and Argentina with ongoing training modules provided for employees and contractors. At Mount Isa, Xstrata Copper

is running an innovative indigenous training programme in partnership with a local training organisation to build capacity and improve employment opportunities. Ernest Henry copper mine in north Queensland operates a successful long-term business partnership with local indigenous people to provide trucking services from the mine to Mount Isa and McArthur River zinc-lead mine has contractual agreements with the Murwurli and Wirriwankuma Aboriginal Corporation to ship concentrate from the port of Bing Bong.

During the year, Xstrata Alloys focused on implementing education and training projects to upgrade the skills of HDSAs in mining-related disciplines, address unemployment and improve the effectiveness of small, medium and micro enterprises. The Commodity Business sponsored eight unemployed young women from Witbank on a one-year secretarial skills development programme in Johannesburg to enhance their employment prospects.

Environment and ecology

Xstrata Copper supports the Irrigation Water Storage Infrastructure Improvement project, a partnership between the Alumbra copper mine in Argentina and the Catamarca Water Agency. The project aims to improve irrigation water storage and distribution for local farms, increasing farm production, working with provincial and municipal authorities including irrigation associations to build the infrastructure required. Xstrata Coal contributed to the Diega Creek Landcare Group to enable the development of a River Care Plan for Diega Creek and to the Muswellbrook Council cycle way, New South Wales.

Enterprise and job creation

Alumbra has a social agricultural programme which assists a number of small farmers and producers to encourage sustainable development of these industries. These include the pepper, cumin and aniseed optimisation projects and the grapevine and walnut re-engineering project, where Xstrata works in partnership with local government and small farmers to reinvigorate local agriculture. Xstrata Zinc is working in partnership with the Gulf Extension Group to enhance regional development and enterprise in the Northern Territory. Xstrata Alloys also helped the Mamarotsi community near Rustenburg to establish a hydroponics business selling vegetable seedlings and provided 10 non-profit organisations with the skills they needed to provide training services to other groups.

Under the Alumbra social involvement programme, Tucumán's first urban waste treatment plant was constructed, with the remaining two plants expected to be developed once the land is provided by the government. To help improve small business productivity and efficiency, Alumbra provided training and technical assistance to university and technical school students, and practical work experience through the Prácticas Rentadas programme.