

community & social development

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Our approach

We work in partnership with local communities to have a positive impact on quality of life and contribute to the development of sustainable communities, avoiding long term dependency on our operations, upholding human rights and respecting cultural considerations and heritage.

All Xstrata operations are required to plan, design, operate and close operations in a manner that enhances sustainable development. Our relationships with the communities in which we operate are governed by Xstrata's HSEC Policy, Standards and guidelines. Our HSEC Standard: Community sets out our intent systematically to identify key community risks and opportunities, manage the risks effectively and to derive mutual benefits from the opportunities that exist.

In line with our devolved structure and the diverse social and cultural regions in which our operations are located, community relations activities are developed at the local level and encompass a wide range of responses and means of culturally appropriate communication within our management framework. Community relations plans and activities are complemented by corporate social involvement plans to cover each operation, developed in consultation with local communities, to facilitate our support for initiatives to benefit the communities associated with our operations. We use social impact assessments to identify key risks and potential impacts and implement mitigating strategies to address these.

We employ local people for our operations wherever possible and have a number of initiatives in place to support education and training to build capacity and enable increased local employment both at Xstrata's operations and elsewhere, particularly in regions with a high concentration of unskilled workers.

Our performance

In 2005, all Xstrata operations were audited against our Community Standard as part of the HSEC Assurance Programme, to assess engagement with and responsiveness to community members, support for community initiatives, overall community relations strategies and plans to address key community risks or opportunities. The audit found that our community programmes and engagement are generally extremely strong and, overall, the Group's operations achieved a satisfactory result. Of all our operating regions, audit scores in Europe were lower than the Group average, due to our operations being located in industrial areas, at a distance from neighbouring communities.

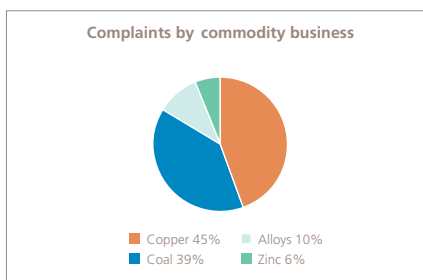
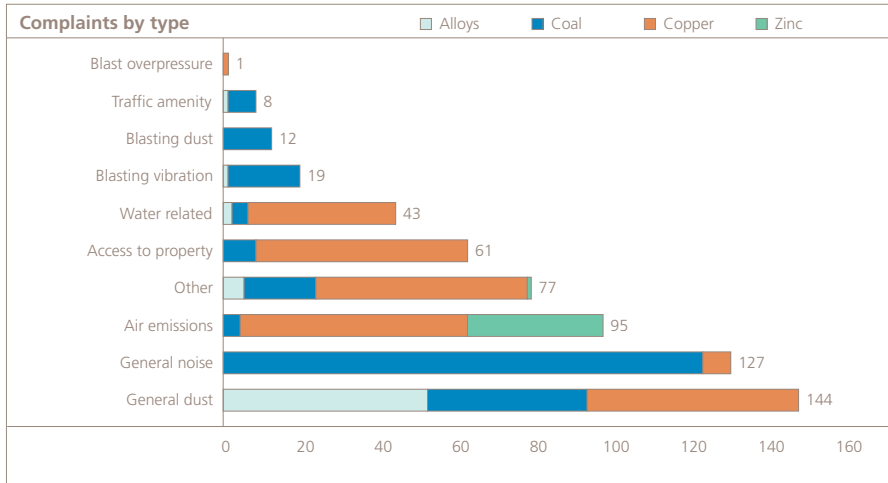
An area identified for improvement is further clarification and co-ordination of community initiatives between sites, divisions and commodity businesses to

ensure there are no gaps or duplication of roles. Responsibility for community programmes at our contract-managed sites and in company-owned communities was also clarified. The measurement and reporting of contributions to community development is another area of focus for 2006.

Complaints and enquiries

Although we work closely with our local communities, we recognise that sometimes we may not satisfy their expectations. We have a documented process in place for community members to contact our operations directly for enquiries or complaints. We assess each complaint and enquiry we receive and take the necessary steps to address these concerns. Feedback is provided to the complainant and, where relevant, the outcomes are discussed at community meetings.

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In 2005, Xstrata received 587 complaints and enquiries from stakeholders who live and work around our operations. Every complaint or enquiry is responded to, followed up and recorded. The primary concerns from the communities in which we operate related to dust (27% of complaints and enquiries), noise (22%) and point source emissions or air quality (16%). Our management action plans for these issues are detailed in the environment chapter of this report.

The number of complaints and enquiries received at Xstrata Coal's operations decreased from 294 in 2004 to 231 in 2005. Noise and dust complaints and enquiries make up 75% of all reports to Xstrata Coal. The majority of these reports were recorded by two landholders located within the Mount Owen acquisition zone. These are the closest properties to the active mining area and following a request for acquisition, Xstrata purchased one of the properties in November 2005.

Emissions from the Mount Isa mining complex, adjacent to the town of Mount Isa remain the major source of complaints for Xstrata's north Queensland operations. The Mount Isa operations (copper and zinc) received 66 emission-related complaints and enquiries, a 41% decrease compared with 112 in 2004. Ninety per cent of all complaints and enquiries to the alloys and zinc businesses related to general dust and point source emissions.



Complaints and enquiries received at the Las Bambas exploration site in Peru, where exploration commenced in March 2005, accounted for the increase in reports by Xstrata Copper. The majority of these complaints and enquiries related to employment expectations from local people.

Awards and recognition

In 2005 Xstrata continued to build its reputation for contributions to community development and received the following awards:

- Xstrata Coal South Africa's HIV/AIDS voluntary testing and awareness programme – Commendation in the Counselling and Testing section of The Global Business Coalition's awards;
- Xstrata Coal South Africa – award from Rotary International for establishing the Middelburg Care Village and its work to "improve the lives of people" – this is only the 12th time since 1956 that this award has been made and is referred to as a "Nobel Prize for Rotarians";
- Xstrata Coal South Africa Social Development Manager Sandy Sandlana was named a Paul Harris Fellow by Rotary International "in appreciation of tangible and significant assistance given for the furtherance of better understanding and friendly relations among peoples";
- Community involvement in South Africa – award from the African Growth Institute;
- The town of Tieri near Oaky Creek Coal in Queensland – winner of a Tidy Towns award; and
- Xstrata Alloys Lydenburg plant was awarded the Best Industrial Business for 2005 for Lydenburg and surrounding areas in recognition of its contribution to the local community.

Marifaan Primary School, near Lydenburg is sponsored by Xstrata Alloys

Xstrata's South African operations commissioned Bokamoso Research to evaluate stakeholder perception of our transformation initiatives.

A summary of some of the findings is published below.

"The difference in the levels of awareness and perceptions of Xstrata between 2004 and 2005 indicates that there has been a major initiative to raise the knowledge and awareness of Xstrata's performance on the transformation process at every level."

"The difference in attitude towards Xstrata exhibited by the stakeholders in these provinces is indicated by a desire, particularly amongst government and municipalities, to interact with Xstrata on a broader basis and a willingness to 'sit around the table' and work out how there could be a mutually beneficial public/private partnership to the benefit of both Xstrata and the provinces. This type of relationship already seems to exist at a municipal and ward level where stakeholders regularly interact with Xstrata. Stakeholders appreciate the level of communication and the involvement of community leadership in future planning."

"Relationships with Xstrata, from an employee perspective, are seen as progressive with a willingness to transform. Senior staff, workers and union representatives alike voiced this opinion. The main negative comments were from some union/employee representatives in Witbank relating to transformation and wage parity. In most sites Xstrata seem to have created a more harmonious working relationship with staff in these provinces, with a BEE programme where all employees can see the benefit. There is even an awareness of this amongst some of the residents in the townships around Xstrata's operational sites indicating that Xstrata's activities are beginning to filter down past the main stakeholders into a wider audience."

Key challenges

In seeking to minimise our impact and deliver sustained benefits to the communities in which we operate, we are faced with a number of challenges. Our key challenge is to ensure we engage with and respond to local communities, enabling our operations to incorporate community feedback and expectations into our decision-making and business planning, and provide lasting benefits for local communities through our corporate social involvement and community development programmes.

Community engagement

Xstrata seeks to engage with community groups at all stages of the business life cycle – from pre-feasibility through to closure of our operations – with due respect for local interests, cultures and customs.

Before and during construction

Xstrata Copper's Las Bambas Project illustrates how the Group manages community impacts prior to the start of its operations.

Las Bambas is a significant copper project with the potential to grow the Xstrata Copper business. In March 2006, an Initial and Inferred Resource Statement was published with a global resource estimate of 300 million tonnes at 1.1% copper. A decision on whether to take up the option to construct a mine will only be made following the initial exploration process.

At Las Bambas, community relations were identified as the key risk facing the potential development of a mine in that area. Local communities in Peru, particularly in poorer and regional areas such as those within the Las Bambas project's area of influence, have historically not benefited from mining operations in the area. Long before exploration started, we established a community relations team headed by Community Relations Manager Raúl Farfan and comprising local people with extensive experience in community consultation. To facilitate effective communication between the local people and the



Local residents in the Las Bambas project's area of influence

community relations team, Xstrata's team includes two speakers of Quechua, the local dialect. The initial responsibilities of the community relations team were to understand the community decision making processes, build relationships, conduct awareness workshops, commence capacity building programmes to improve the local skills base for project-related work, and establish partnerships with local organisations. This work has been successful to date and we have been able to achieve up to 90% local involvement in community consultation sessions, enabling key development projects to be jointly identified, prioritised and implemented (see the case study on page 93).

We have established partnerships with NGOs and other companies operating in the region including Asociacion Sodexho, Caritas, Pro Dialogo, CARE, GRADE and Aid to Artisans and local suppliers such as SENCICO. A code of conduct has also been developed for Xstrata Copper employees and contractors working at Las Bambas in consultation with local communities, in response to community concerns about the social impact of a workforce in the area. During 2005, we formed an independent advisory group (IAG) to help ensure that the Las Bambas project manages the complex social and environmental issues associated with mining operations in a socially acceptable way. The IAG, which comprises people widely experienced in managing these issues in developing countries, will meet at least twice a year to provide recommendations and advice to Xstrata. The IAG will publish an annual statement available from Xstrata's website that will provide a brief overview of the activities of the IAG, including any discussions with third parties, and identify the key sustainability issues facing the Las Bambas project that have been considered by the IAG. Further information about the IAG is available from www.xstrata.com/sustainability.

Existing operations

We understand that our licence to operate is not given indefinitely by the communities within our areas of influence and that we need to continue to work in partnership with them to achieve ongoing consensus and mutually beneficial outcomes. We use open and transparent dialogue to respond to community concerns, ensure full information is provided about our current activities and planned new projects, report on our progress on community and other initiatives, and manage expectations from local communities. Our consultation work is primarily undertaken by our community relations teams.

One of the formal mechanisms we use to understand and respond to community issues is to commission community attitude and socio-economic surveys. In 2005, community attitude surveys were conducted by Oaky Creek Coal, Xstrata Coal South Africa, Xstrata Alloy's eastern operations and Xstrata Copper's north Queensland operations. Some of the issues raised and how we have addressed them are included in the table in this chapter. In South Africa, surveys were undertaken in 2004 and again in 2005 to evaluate stakeholder perception of Xstrata's transformation process in Mpumalanga and in Limpopo provinces. Results from this evaluation show an overall improvement in awareness of Xstrata as a responsible business entity and a willingness within government to work with us on community projects. In 2006, Xstrata Coal will complete a community attitude survey for its New South Wales operations and socio-economic surveys will be completed for the remaining communities associated with our South African operations.

All commodity businesses have formal consultation mechanisms in place, such as community development forums and community consultative committees. Other types of stakeholder engagement strategies include face-to-face meetings with our near neighbours, participation in community forums and events, community meetings, educational initiatives, websites and one-way communication mechanisms such as reports, newsletters, fact sheets and media releases to keep people up-to-date with our activities. Specific site objectives, techniques, timing and responsibilities for ongoing communication are outlined in our social involvement plans.

Las Bambas health, livestock and enterprise development programmes

Local communities living near the Las Bambas copper project in Peru are benefiting from sustainable development projects that they helped to identify, prioritise and implement.

In 2005, Xstrata Copper funded major projects in three main categories – health; livestock and pasture enhancement; and enterprise development and job creation. Before the projects were selected, the Las Bambas team consulted widely and the priorities were agreed by the communities in open meetings. In addition, all training carried out as part of the projects included modules on capacity building and institutional strengthening. These projects include:

- construction of irrigation systems in Pamputa, Huanquire, Pallca Picosayhuas, Chicñahui and Choquecca and a cattle breeding programme;
- guinea pig breeding and the establishment of hydroponic pasture farms in Fuerabamba; and
- trout farming in Pamputa.

The main challenge faced by the communities around Las Bambas is the limited success of agriculture and cattle production largely due to overgrazing, lack of irrigation channels, poor genetic

breeding, and parasites. Irrigation systems are being constructed and healthy cattle will be introduced to improve the local genetic pool and a health prevention system will be established to protect the new cattle from disease. Local people consider this project essential to improving their nutrition and health, particularly for children and pregnant women. The project also provides a potential source of income from the production of dairy goods.

The local community also identified the breeding of small animals as an effective means of improving family nutrition and increasing commercial capacity and income generation over the mid-term. A pilot guinea pig breeding project has been undertaken by 10 families in Fuerabamba to test whether improved guinea pigs could adapt to the altitude (the Las Bambas site and surrounding communities are situated at over 4,000 metres above sea level) and whether the families could easily adopt the new techniques required to breed this type of guinea pig.

A nutrition baseline for the families was established during the year; guinea pig houses were built; a hydroponic greenhouse was constructed for growing

barley (an important source of vitamins for guinea pigs); and monthly training and capacity building programmes were undertaken with women and children, including workshops on preventing family violence and alcoholism.

In the second half of 2005, four NGOs were invited to submit proposals to carry out phase two of the guinea pig project. The project was awarded to Caritas based on the technical rigour of its proposal. A partnership was established between Las Bambas and Caritas in January 2006 and work has started in the communities of Pumamarca and Chuicuni to extend this project to 100 families.

In early 2005, Xstrata Copper signed an agreement with SENCICO to provide training for 200 local people in construction and masonry as a precursor to a trout farming project in Pamputa. These people and a number of others were engaged mid-year to construct a six-pond rainbow trout farm under the leadership of an engineer and two construction specialists. The engineer prepared the drawings and managed the project while local people built the infrastructure.



Planning for closure

Xstrata aims to build economic and social capacity and infrastructure in the communities near to our operations to encourage self-sufficiency and prevent reliance on our businesses and contribute to sustainable development. All our operations maintain or are developing detailed closure plans which address the social, environmental and economic impacts of closure. These plans are prepared in line with Xstrata's HSEC Standards, community expectations and regulatory requirements. The following examples from the Vantech vanadium operation and Ernest Henry copper mine illustrate how we tackle social impacts of closure at various stages of the closure life cycle.

Planning for the staged closure of the Vantech vanadium operation and associated Kennedy Vales Mine in Mpumalanga Province, South Africa, began in 2003. Employees were informed about the closure by the General Works Manager in 2003 and a consultation programme was undertaken through the respective trade unions. A commitment was made to employ former Vantech employees during the construction of Project Lion and these people will also be considered for permanent positions during the operational phase of Lion. Community consultation for the Vantech closure was conducted through the Project Lion EIA interested and affected parties' process to limit consultation 'overload' on local communities. In addition to social surveys, formal consultation forums were established to enable community members to discuss their concerns with Xstrata representatives. The main issues raised were around employment and environmental impacts and our actions to address these concerns are outlined on pages 96-97 of this chapter and in the environment chapter. Throughout its operational life, Vantech's main community development projects have focused on infrastructure and education. Commitments for closure were outlined in Vantech's Environmental Programme Management Report (EMPR) which was approved in 2003 and a comprehensive independent closure planning audit was conducted in April 2005 to assess the site's progress. A final closure plan was prepared in accordance with community expectations, regulatory requirements, the audit findings and the ANZMEC and Minerals Council of Australia's (Strategic Framework for Mine Closure), considered to be a best practice guideline for closure activities. The plan was submitted to the Department of Mines and Energy in January 2006 and rehabilitation is ongoing at the site.

In 2003, its final full year of operation, the Vantech operation produced 10.2 million pounds of vanadium pentoxide, around a third of Xstrata's total vanadium pentoxide production that year. The operation was put into care and maintenance in early 2004, following the depletion of the Kennedy Vale ore deposit in December 2003. The decision to close Vantech followed a thorough assessment of the operation's future prospects and of the financial viability of opening a new mining area at the site.

Project Lion is training local community members and employees from the closed Vantech operation



In north Queensland, Ernest Henry Mine is working with the Cloncurry Tourism Advisory Committee and Cloncurry Council to develop a sustainable tourism industry to help offset the economic impact of eventual mine closure. Encouraged by a 4.5% increase in outback tourism last year, the mine commissioned a tourism proposal which has been embraced by the North Queensland Area Consultative Committee. Ernest Henry also conducts mine tours, donating the fees charged to the local Historical Society. The mine employs around 400 people with annual production of around 110,000 tonnes of copper concentrate and 100,000 ounces of gold in concentrate.

Indigenous peoples

We respect the traditional rights and cultural heritage of indigenous peoples in every location in which we are active. We are committed to open communication with indigenous communities to ensure our operations consider and address cultural heritage issues and concerns. We also involve local indigenous people in the identification and assessment of areas of cultural value on our sites.

At Mount Isa in north Queensland, Xstrata Copper works with indigenous organisations to find opportunities to improve the employment rate of Aboriginal people on and off site.

Indigenous communities are encouraged to participate economically in our operations through training, employment and sustainable business ventures. Around 95 indigenous employees work at the Mount Isa operations in a wide range of occupations from truck drivers to training advisers; metallurgical plant workers through to management. We also encourage indigenous employment through the annual undergraduate work experience employment programme and apprenticeship scheme which offer vocational work experience and training.

The McArthur River zinc-lead mine in the Northern Territory runs an award-winning training programme which has helped indigenous people learn new skills and go on to enter the full-time workforce. The mine also has an innovative commercial partnership with local indigenous groups to barge concentrate from the port to ships anchored offshore.

In Peru, we are working closely with the indigenous communities living near the Las Bambas copper project to identify, prioritise and implement sustainable development projects (see the case study on page 93). We run training programmes to assist indigenous people develop the skills to secure employment within the project and externally at our operations. Through our established relationships, we have an understanding of local decision-making processes and we have established a code of conduct for our employees and contractors to ensure they understand and respect the culture of the local communities.

In terms of cultural heritage management, we involve indigenous communities and other experts in the identification and assessment of areas of cultural value on our sites. In Australia, cultural heritage management processes in place include:

- assessing new mining areas for cultural significance prior to disturbance, in conjunction with the traditional owners;
- consulting with the relevant indigenous representatives and government agencies regarding the management of these areas;
- developing and implementing cultural heritage management plans;
- preserving areas of particular importance and significance, such as the rock art at Ulan or the scarred tree at Rolleston;
- providing access to areas for cultural purposes, such as the Voluntary Conservation area at Beltana;
- supporting research into cultural heritage management; and
- undertaking cultural awareness training of our employees.

Resettlement

Xstrata is committed to, wherever possible, limiting the need to resettle people who live near to our operations or, where necessary, to seek voluntary resettlement. When there is no other safe option, we abide by the World Bank involuntary resettlement policy which states that resettled people should have their standard of living improved, or at least restored. Our resettlement process is conducted in full consultation with the affected parties and in accordance with legislative requirements.

In 2005, it was necessary for two families living near Xstrata Alloys' eastern mines to be resettled. Agreement was reached and suitable alternative property was obtained.

Consultation and planning are underway to resettle 751 people residing mainly in informal settlements in 2006. These settlements are located on land owned by Xstrata Coal South Africa's Goedgevonden project, at which we are planning to undertake open cut mining. The resettlement process will follow the World Bank guidelines on resettlement and the relevant South African legislative requirements. An external consultancy has been appointed to develop a resettlement action plan and to provide guidance on the resettlement process. A public-private partnership is being established between Xstrata Coal South Africa, the national and provincial governments, and the local municipality to develop the new community. The municipality will donate the land to the affected families, Xstrata Coal will assist in demarcating and servicing the blocks of land, and the government departments will build the houses.



School agricultural programme at Hualfin, Argentina

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Xstrata also works with resettled families to help address socio-economic issues associated with resettlement. In October 2005, the Group provided a ZAR900,000 interest-free loan to establish a charcoal plant which has created employment opportunities for the Ermelo community in South Africa. Lack of employment opportunities was highlighted during the consultation phase of the voluntary resettlement of this community as a key concern. Xstrata provided an external consultant to develop the business plan and strategy for the company, and to implement appropriate coaching and training for local people.

Addressing community concerns	
Concern	Action
Employment opportunities and ongoing job security	<ul style="list-style-type: none"> ■ All vacancies are advertised locally ■ Preference is given to local employees where possible ■ We comply with the Mining Charter in South Africa ■ Skills development centres are established to provide local people with the skills they need to compete for skilled jobs ■ Work with indigenous organisations to increase employment opportunities ■ Employees and employee representative organisations are fully consulted and included in the decision-making about changes to our operations ■ Where operations need to close, Xstrata works with the local community to minimise the impact of closure
Safety	<ul style="list-style-type: none"> ■ Xstrata believes achieving excellence in safety is key to its success and that work-related incidents, illnesses and injuries are preventable ■ We work to eliminate incidents in the workplace by identifying, assessing and, where reasonably practical, eliminating or otherwise controlling hazards – through leadership, management standards, safety systems, engineering standards and behavioural programmes ■ Details of our safety initiatives are outlined in the safety chapter of this report
Workplace health	<ul style="list-style-type: none"> ■ Use of internationally recognised monitoring standards and implementation of controls to eliminate or minimise exposure to hazards ■ Funding of research into management solutions for health issues ■ Ongoing improvements to reduce dust, noise and other health risks ■ Workplace training ■ HIV/AIDS education, prevention and training initiatives; voluntary counselling, testing and treatment programmes
Care of the environment	<ul style="list-style-type: none"> ■ Xstrata is committed to the highest standards of environmental management and performance ■ Participatory community environmental monitoring e.g. at Las Bambas, McArthur River Mine ■ Work with NGOs e.g. Conservation Volunteers Australia to improve biodiversity conservation
Air quality	<ul style="list-style-type: none"> ■ ISASMELT technology enables smelters to reduce their SO₂ emissions ■ Premus technology is being used in ferrochrome smelters to reduce emissions and operate more efficiently ■ We utilise technology to mitigate emissions, such as scrubber systems and converter hoods ■ Other initiatives are outlined in the environment chapter of this report
Water quality and availability of water	<ul style="list-style-type: none"> ■ Water management and conservation initiatives (all operations) ■ Recycling of water generated on site (most operations) and purified sewage water ■ Research into improving water quality ■ Discharging only under licence conditions ■ Other initiatives are outlined in the environment chapter of this report

The enterprise has since developed an off-take agreement with Silicon Smelters for its charcoal and employs around 100 local people, with plans to increase employee numbers to 200. The project created a viable business for the community and addressed a local environmental issue. The charcoal plant uses highly invasive, introduced black wattle trees, targeted by the government for removal, and will contribute to restoring the biodiversity of the area through removal of the introduced species and replanting of indigenous species in addition to becoming a sustainable, fully independent business.

Addressing community concerns	
Concern	Action
Sustainable communities and enterprise development	<ul style="list-style-type: none"> ■ Education, training, employment and procurement opportunities and development projects to enable communities to become sustainable ■ Decentralised procurement policy encourages local purchasing ■ In South Africa, procurement preference is given to BEE companies ■ We encourage our existing suppliers to form partnerships with HDSAs in South Africa ■ Training and seed funding to establish SMEs and support enterprise development ■ See socio-economic chapter for further information
Healthcare and care of orphans	<ul style="list-style-type: none"> ■ Training programmes to enable community members to care for terminally ill patients at home ■ Community health clinics in South Africa to provide HIV/AIDS voluntary counselling, testing and treatment ■ Connect employees with HIV/AIDS to appropriate care and support services ■ Funding of accommodation for orphans in South Africa
Basic infrastructure and amenities	<ul style="list-style-type: none"> ■ Extension of electricity supply for communities, e.g. at Project Lion in South Africa and Minera Alumbra, Argentina ■ Establishment of schools and school improvement projects in Mpumalanga Province ■ Maintenance of roads ■ Construction of fresh water bores ■ Housing schemes for employees and their families ■ Irrigation and support for agriculture and livestock farming ■ Expansion and refurbishment of schools, provision of education materials to more than 200 primary and secondary schools in Argentina ■ Primary healthcare community clinics, support for regional healthcare services and facilities, particularly for remote communities
Traditional rights and cultural heritage	<ul style="list-style-type: none"> ■ Joint identification and protection of sacred and cultural sites ■ Development of cultural heritage management plans with local communities ■ Cultural heritage and indigenous culture training
Lack of activities for youth and children	<ul style="list-style-type: none"> ■ Dance drama workshops ■ Establishment of multimedia centres ■ 'Kids Business – Everyone's Business' and 'I Can' programme in Queensland ■ Support of sporting, cultural and arts initiatives ■ Funding for youth centres, e.g. Shireton Youth Centre in New South Wales, to provide social, recreational and education activities



The Xstrata Community Partnership Programme in Queensland

Xstrata has established a three-year, AUD2.48 million Xstrata Community Partnership Programme in Queensland, commencing in 2006 to support health, education, and social and community projects throughout the State. The programme was developed on behalf of Xstrata's three commodity businesses operating in Queensland – copper, coal and zinc and is an example of how our businesses are working more closely together to leverage benefits for regions in which we operate.

Quentin Bryce, AC, Governor of Queensland, welcomed the launch of the programme: "Beyond financial performance, is the wealth, in dollars, skill, and experience, Xstrata has committed to establishing and sustaining partnerships with community organisations to deliver vital health, education and social initiatives, signifying their depth of understanding of the enduring value of cooperation, consultation and shared benefit," she said.

"These mature and carefully considered approaches are a model for re-engaging communities throughout our State. I praise Xstrata for their innovation and leadership and the opportunities and possibilities that their actions offer us all."

The programme, through partnerships with Centacare, The Wesley Research Institute, the Leukaemia Foundation of Queensland, the Royal Children's Hospital Foundation and The University of Queensland will help children in need; advance medical research, provide accommodation facilities for leukaemia patients and their families; help sick children; and address the industry skills shortage.

Corporate social involvement

Xstrata supports a wide range of projects and initiatives that are designed to improve the social and economic wellbeing of our employees, their families and the people living in the communities close to our operations.

Social involvement plans have been developed to govern the activities of every Xstrata managed operation, either at a regional level where communities are clustered together, or on an individual basis in remote locations. The plans are developed through engagement with local communities and identify and develop projects to address key concerns or priorities. Social involvement encompasses financial contributions, management time and expertise and in-kind contributions. At the end of 2005, all of Xstrata's commodity businesses had developed and implemented social involvement plans or had implemented regional social development plans where a number of operations are situated in close proximity.

In 2005, Xstrata set aside \$24.7 million, a significant increase over 2004 (\$10.4 million).

Our corporate social involvement (CSI) is based around five principles:

Local focus: Our CSI programmes are focused on local communities with which we are associated and where our operations are located.

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.

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.

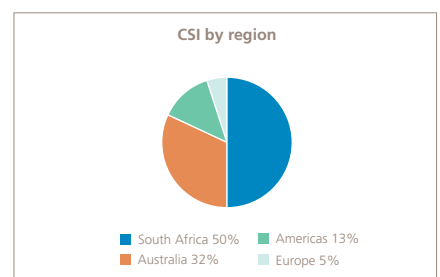
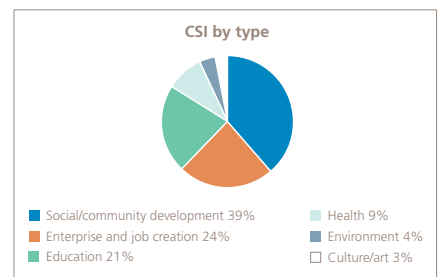
We do not support:

- 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 2005.

Social involvement plans

Xstrata's engagement with communities and support for community projects is governed by social involvement plans (SIP). By the end of 2006 all sites will be covered by a SIP. Commodity business-level SIPs are presented to the Group Executive Committee as part of the annual budget and business planning process. The plan reports on engagement with local communities, detailing the range of initiatives and projects funded or undertaken directly by the business, together with the resources deployed in this area. The SIP also sets out the anticipated projects and



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Nordenham's School project on zinc and nutrition

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.

In 2005, we strengthened regional partnerships with government agencies, NGOs, other companies operating in the region and local service providers to ensure that our projects are not reliant on Xstrata and are truly self-sustaining. We are also working to ensure better co-ordination of community projects, particularly for commodity businesses operating in the same region.

In 2005, a three year AUD4 million Xstrata Community Partnership Programme commenced in north Queensland, Australia, as part of the transformation of the copper and zinc business in the region. The programme was developed following an extensive community consultation and needs assessment process. In its first year, the programme has achieved many significant outcomes including more doctors in Cloncurry, a diabetes centre educator in Mount Isa, an indigenous employment training coordinator at Centacare in Mount Isa and multimedia centres at two of Mount Isa's schools. Also in Queensland, Australia, Xstrata's copper, zinc and coal businesses joined forces to provide a three-year, AUD2.48 million

community partnership programme to support social welfare, health and education initiatives, launched in March 2006. This programme is profiled in the case study on page 98.

The key social involvement priorities in South Africa are around education and health, and in 2005, ZAR26.5 million was invested in these projects. Community development projects have also been more closely aligned with Xstrata's business objectives. For example, employment equity planning to comply with the Mining Charter has been supported by development schemes at universities and bursaries. We are also fostering the establishment of viable micro, small and medium enterprises and have aligned our procurement policy with our community strategy. Our major health initiatives are described in the health chapter. Overall, Xstrata Zinc's social involvement activities focus on education, health, sports, enterprise and job creation, and social and community, including capacity building for indigenous communities in Australia and support for regional development programmes in Europe. In 2005, \$4.2 million was invested in these projects.

In Argentina, Xstrata, as the operator and largest shareholder in Minera Alumbrera, together with Northern Orion and

Goldcorp Inc., continued to support local communities with an annual commitment of \$1 million on an extensive set of programmes focussing on health, education and sustainable development. These programmes aim to improve the quality of life in local communities through improved literacy skills, provision of educational materials for more than 200 primary and secondary schools, provision of improved health services to 90 regional medical posts and health centres and the promotion of sustainable development through 18 diverse agricultural programmes with local farmers. During the year Alumbrera's social initiatives were significantly extended to include a \$3 million commitment over four years to specified health and education infrastructure works in Catamarca and \$3 million over three years for identified health infrastructure in Tucuman, in both cases through partnerships with the respective provincial governments.

The Las Bambas CSI programme currently under development will commit \$1 million per year over the next three years towards sustainable agribusiness and tourism projects in the area. It will also include a skills training programme for members of the local communities. As part of Xstrata Copper's acquisition of the Las Bambas project in August 2004, and excluded from reported corporate social involvement expenditure, \$45.5 million was paid into a community trust or fideicomiso social to be used for social development projects in the Grau and Cotabambas provinces. The trust is managed independently of Xstrata by local Mayors and Proinversión, the Peruvian Government's agency for the promotion of inward investment, with Xstrata retaining one seat on the managing committee.