



# Strategy and governance

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# Strategy and governance

“Our industry-leading sustainable development framework ensures consistent standards across our devolved management structure while the assurance programme is a key driver of ongoing improvement.”

Xstrata's Board sets and reviews Sustainable Development Policy globally. All Board members receive regular reports of key performance indicators, critical and high potential risk incidents and the sustainable development assurance programme.

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## Sustainable Development strategy

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Sustainable development (SD) is central to our business strategy.

The business case for excellent SD performance is compelling and based on the following objectives:

- Gaining access to new resources;
- Maintaining a 'licence to operate' from society;
- Managing risk and reducing costs;
- Attracting and retaining the best people;
- Accessing diverse and low-cost sources of capital; and
- Identifying new business opportunities.

Our ability to manage environmental performance, work in partnership with communities and governments and demonstrate a broader benefit from our presence is all the more important as we enter a phase of more intensive organic growth.

We aim to balance economic, environmental and social considerations in how we manage our business. Our commodity businesses are governed by Xstrata's world-class SD Framework. Commodity businesses must apply our SD Framework and determine the most effective methods to achieve the required standard.

We engage with a broad range of stakeholders at site, division, commodity business and group levels. Our SD Framework requires all sites to implement a stakeholder engagement plan.

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## Sustainable Development governance

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### Senior management oversight

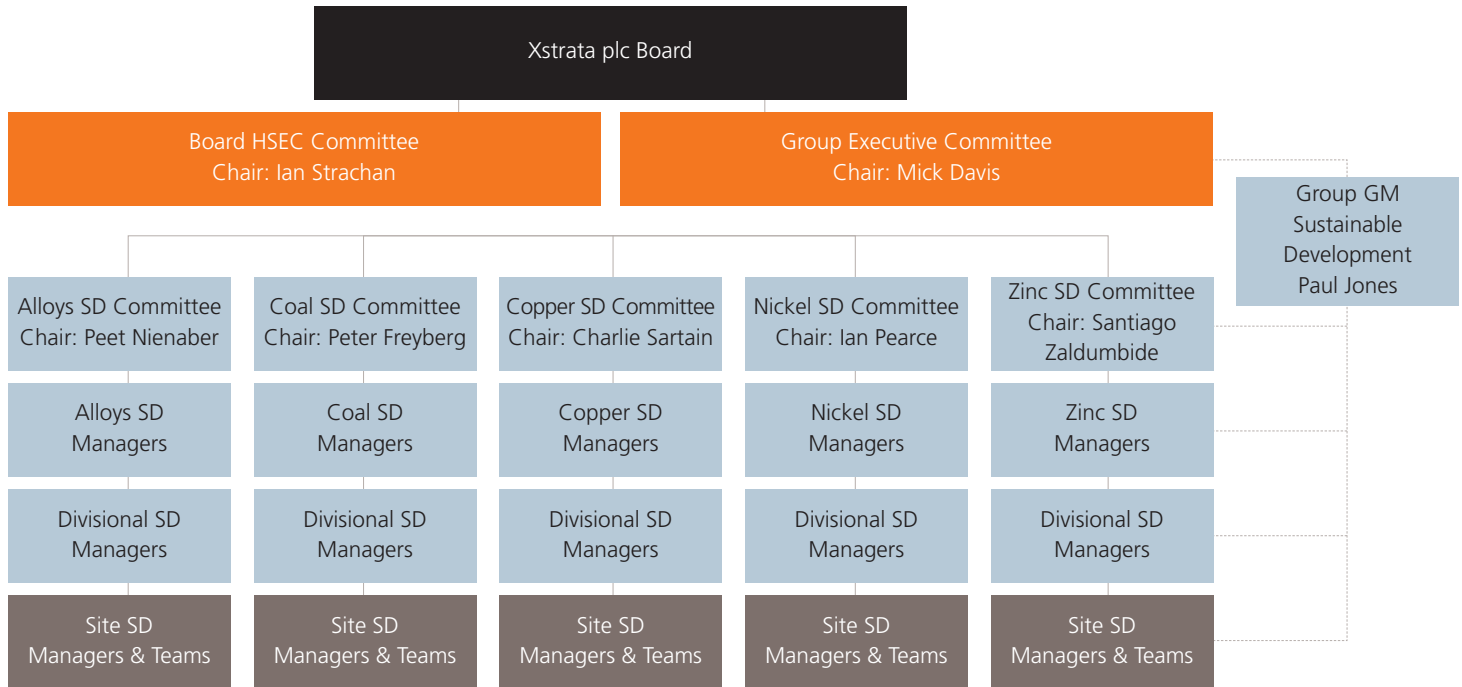
The Xstrata Board sets and reviews Sustainable Development Policy globally. The chief executives of our commodity businesses are represented on the Group Executive Committee, which is formally responsible for sustainability strategy development and implementation. The Board provides oversight of the Executive Committee's performance.

Xstrata's Board Health Safety Environment and Community (HSEC) Committee was established in 2005 to assist the Board in its HSEC responsibilities and to provide guidance on sustainable development issues. The Board HSEC Committee is chaired by Ian Strachan, independent non-executive director. The other members of the committee are David Rough, Senior Independent Director and Deputy Chairman, Claude Lamoureux, and Dr Con Fauconnier, independent non-executive directors, and Mick Davis, Xstrata plc Chief Executive.

The terms of reference for the Board HSEC Committee and all other Board committees are available on our website.

The Board HSEC Committee meets quarterly to review and evaluate reports from the commodity businesses on their performance in implementing Xstrata's Sustainable Development Policy and Standards and benchmarks our performance against other mining and extractives sector companies. At each formal meeting, the Chief Executive of one of Xstrata's commodity businesses presents the sustainability strategy of the business and provides an overview of social, environmental and ethical risk management, future targets and performance. The members of the Board HSEC Committee regularly visit operations to gain a close understanding of how our SD Framework is implemented. In 2009 members of the HSEC Committee visited Xstrata Nickel's Koniambo project in New Caledonia, Xstrata Coal's operations and projects in NSW, Australia and Xstrata Copper's operations and projects in Peru.

All Board members receive quarterly reports of key performance indicators, critical and high potential risk incidents and the sustainable development assurance programme results. The Executive Committee receives the



same information on a monthly basis. Board members are provided with independent briefings on social, ethical and environmental issues as required and are able to consult with external experts at Xstrata's expense.

**Remuneration**

Remuneration is linked to SD performance at all levels in our business. The executive management bonus includes a variable component relating to health, safety, community and people development in line with individual objectives. For managers and other employees, the proportion of remuneration determined by SD criteria varies between commodity businesses and regions. For mine supervisors and operational employees, up to 80% of total bonus awards is determined by SD performance.

**Ensuring consistent implementation of our SD Framework**

We believe our devolved management structure and culture support entrepreneurial leadership, balanced with a rigorous approach to risk management and a strong framework for sustainable development. Clear governance and effective communication across the Group are essential to enable our management model to function effectively and to ensure consistently high standards of ethics and sustainable development performance. Each business is governed by a commodity business Board, which includes representatives of Xstrata's corporate centre, typically the Group CEO, CFO or other senior corporate personnel.

Each commodity business has an executive level SD committee, chaired by the commodity business Chief Executive, to provide additional focus and guidance on sustainable development strategy and issues.

Xstrata's SD Framework applies across all commodity businesses ensuring they apply common principles, policy and standards. The Group General Manager Sustainable Development (Group GM SD), who reports to the Group Chief Executive, oversees the implementation of Xstrata's SD Framework. We audit compliance with the SD Framework through internal and external programmes. For more information see SD Framework.

**Risk and crisis management**

Our approach to risk management is value driven and we have implemented a comprehensive risk management system across our business. We regularly review and publicly report the principal risks and uncertainties which may affect our ability to deliver our strategy effectively, the potential impact on our business and the controls in place to mitigate these risks. For more information see Xstrata Annual Report 2009.

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

## Material issues

The nature of our business means that social, environmental and ethical issues are material to our future success and also material to the interests of local communities and other stakeholders in the countries where we operate. We concentrate on issues that are most important to delivering our business strategy and those that are of most interest or concern to our stakeholders.

Certain issues such as climate change, energy, water and health and safety are relevant to all our operations, whereas others are specific to the local political, social or environmental context.

The Group Executive Committee regularly reviews the completeness and comprehensiveness of the issues we identify as material to our business and our external stakeholders. Our assessment of materiality is a judgement based on a wide range of factors including developments in public policy, political context, regulations, technology, community relations, media coverage and NGO campaigns.

The SD issues we regard as most material at the end of 2009 are shown in the table:

| Most material SD issues                           | See page |
|---|----------|
| <b>Social</b>                                     |          |
| Safety of employees and contractors               | 35       |
| Health of employees and contractors               |          |
| ■ Occupational illnesses                          | 41       |
| ■ Health epidemics: HIV/AIDS and malaria          | 45 & 89  |
| Community impact                                  |          |
| ■ Resettlement                                    | 88       |
| ■ Public health epidemics: HIV/AIDS and malaria   | 89 & 90  |
| Local and national community development          | 84       |
| Safeguarding human rights                         | 30       |
| <b>Environmental</b>                              |          |
| Efficient use of resources                        |          |
| ■ Climate change impact of operations             | 59       |
| ■ Water use and protection                        | 68       |
| Control of environmental impacts                  |          |
| ■ Emissions to air                                | 77       |
| ■ Waste   | 79       |
| Biodiversity and land management                  | 73       |
| <b>Product stewardship</b>                        |          |
| ■ Climate impact of thermal coal use by customers | 81       |

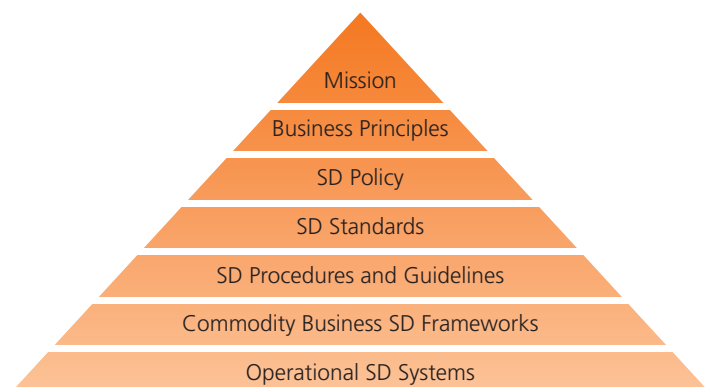
## Sustainable Development Framework

Our unique Sustainable Development (SD) Framework guides Xstrata's commodity businesses and provides assurance for the Board that standards are being upheld. It addresses all SD-related topics and is backed by a detailed set of SD Performance Standards. Our SD Framework is aligned with international standards including the International Council on Mining and Minerals principles and guidelines, the Precautionary Principle, the UN Global Compact, Voluntary Principles on Security and Human Rights, ISO 31000, ISO 14001 and OHSAS 18001.

The Framework comprises:

- 1. Business Principles:** Provides an ethical framework for how we conduct our business.
- 2. Sustainable Development Policy:** Sets out the principles we apply to our management of health, safety, people, communities and the environment.
- 3. Sustainable Development Standards:** Set clear expectations for all managed operations, projects and commodity businesses on a comprehensive range of SD-related topics.
- 4. Independent Assurance Programme:** The key mechanism through which the Xstrata Board and management gain assurance that the Group's policies and standards are being met and that material risks are being managed at every site. It also plays an integral role in enabling management to rapidly assess acquired operations and brings them into line with our standards.

### Sustainable Development document hierarchy



## Sustainable Development assurance programme

All of the Group's operations and projects have undergone audits against our 17 SD Standards. The focus of the SD assurance programme is to achieve continuous improvement and a more detailed focus on specific SD risks.

The revised 2010 SD assurance programme will require each managed operation to undergo a third party SD Standards audit every three years. Following the audits in 2008 and 2009, a comprehensive SD Improvement Plan will be produced in 2010, reflecting the findings of the audits and detailing the actions required to implement and maintain the SD Framework. Each commodity business will monitor the progress of each operation's SD Improvement Plan and will independently review the SD Improvement Plans annually. A consolidated progress report will be submitted annually to the commodity businesses' Audit Committee as well as the Board Audit and HSEC Committees.

### SD risk audits

Xstrata's SD risk audits involve a detailed examination of commodity business risks.

To improve our SD auditing efficiency and business integration of SD, Xstrata's SD risk audits have been incorporated into the Group's annual internal audits. The Group's internal audit function reports to the Board Audit Committee and their audit teams will be supplemented with appropriate SD specialists to support this revised process. Internal audit will audit a number of SD risks across the Group in 2010 based on a review of each commodity business's risk register. The SD risks chosen are also reviewed by the Group GM Sustainable Development.

During 2009, SD risk audits were piloted at six Xstrata Coal operations. The following SD risks were assessed:

- Planning and approvals;
- Change management;
- Mobile equipment interaction;
- Strata management;
- Open cut interface with underground workings;
- Maintenance;
- Water management;
- Dam structures;
- Mine closure;
- Life of mine and rehabilitation planning; and
- Contractor management.

Out of a possible top score of five, four sites achieved a score of three, which indicates that these sites have a comprehensive risk management system in place. The remaining two sites achieved scores of two, indicating that although these sites are using risk management techniques and procedures, a comprehensive risk management system is not in place. Corrective action plans have been developed to address the issues found during these audits.

### 2009 SD assurance programme scores

During 2009, all of the Group's operations, including projects, were subject to audits against Xstrata's SD Standards. The audits covered all 17 SD Standards for established operations and all applicable SD Standards for closing sites or project sites. This involved 24 third party audits and 50 self-managed audits. A third party audit is completed in five days, in contrast, the self-managed audits are performed over an extended period throughout the year. Generally, self-managed audits produce lower audit scores as additional time is available to complete more comprehensive testing and internal auditors are often more conservative in their scoring. During 2009, the average audit scores were around 1-2% lower than in 2008, reflecting the higher proportion of self-managed audits completed.



## Stakeholder engagement

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

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

Engagement takes many forms and is organised at site and commodity business level with all relevant external stakeholders. We engage with our stakeholders in an equitable and culturally sensitive manner with the maximum transparency that is commercially possible. The findings of our engagement inform our judgement about which issues are most material.

The table shows the number of stakeholder meetings held by each commodity business and the number of stakeholders that attended.

|              | Stakeholder meetings held | Number of stakeholders attending |
|--------------|---------------------------|----------------------------------|
| Alloys       | 44                        | 104                              |
| Coal         | 234                       | 1,776                            |
| Copper       | 453                       | 5,281                            |
| Nickel       | 341                       | 7,785                            |
| Zinc         | 67                        | 987                              |
| <b>TOTAL</b> | <b>1,139</b>              | <b>15,933</b>                    |

At the end of 2009 we engaged with sustainability opinion formers in Argentina, Australia, Canada, Chile, Colombia, Peru, South Africa and the UK. The people we spoke to included academics, investors, NGOs, sustainability experts, industry organisations and leading companies.

The engagement was conducted through a focus group in London and telephone interviews in other countries. The aim was to obtain feedback on Xstrata's sustainability approach, performance in specific areas and the annual Group Sustainability Report. In summary the key findings were as follows:

- Xstrata is generally well respected for SD performance;
- Some stakeholders expressed concerns that a decentralised business model may hamper efforts to implement global standards;
- It is generally believed that operations improve after acquisition by Xstrata;
- Access to resources and climate change were identified as the most significant issues with other environmental issues such as water use also considered to be important;
- Our performance in managing environmental impacts is generally seen as good;
- Community economic impact, revenue payments to governments and human rights were highlighted as important social issues;
- Some stakeholders perceived our public policy engagement on climate change in Australia negatively and criticised Xstrata and the industry for insufficient efforts to deal with the climate impact of coal; and
- Our SD report was well regarded and suggestions were made to improve it with more discussion of sustainability and stronger targets.

Our most significant engagements and public policy initiatives in 2009 are shown in the table below:

**Stakeholder engagement: material issues**

| Issue   | Relevant stakeholders  | Xstrata's response  |
|---|--|---|
| <b>Environment</b>  |  |   |
| Proposed climate change legislation in Australia, Canada, South Africa and UK | Australian, Canadian and UK government industry bodies and partners investment community   | <p>We recognise the need to cut global carbon emissions and support equitable, market-based regulatory frameworks as part of a global commitment or protocol. We advocate that regulatory frameworks should also include support for the development and deployment of low emissions technologies.</p> <p>In Australia, we are actively engaging with the government on draft legislation relating to the proposed Carbon Pollution Reduction Scheme.</p> <p>In Canada, Xstrata is engaged with the Government of Ontario on the Western Climate Initiative and with the Canadian Federal Government on its 'Turning the Corner' climate change position paper.</p> <p>In Chile, we are working with the British Chamber of Commerce Climate Change Roundtable to improve climate change awareness at public, educational, governmental and industrial levels and participating in the National Energy Efficiency Programme to promote energy-efficient mining. In the UK, we are involved in consultations relating to the government's Low Carbon Industrial Strategy.</p> <p>We are working with South Africa's Department of Environmental Affairs on climate change issues and low emission technology developments.</p> |
| Support for low emissions coal technology                                     | Inter-governmental bodies and national governments<br>Industry bodies<br>Research institutes/scientific community<br>Power generation industry | Xstrata advocates increased public and private sector support for the development and deployment of new technologies including carbon capture and storage and other technologies to reduce carbon emissions associated with burning coal for energy. We are involved in forums to support the development of low emission coal technology policies and support a number of projects.  |
| Historic soil contamination/land remediation (Canada, Australia)              | Australian state/Canadian provincial and local government<br>Environmental regulators<br>Communities<br>NGOs<br>Industry partners<br>Media     | We work with stakeholders to remediate areas of historic contamination from mining and metallurgical activities. In 2009, we implemented or extended programmes to remediate sections of the Leichhardt River, Mount Isa, Australia and at Murdochville and Sandy Beach, Canada. In 2009, Phase 1 was completed of the independent Lead Pathways Study at Mount Isa to investigate lead in the air, land and water. In Canada, the Sudbury Soils Study, to examine the potential impacts of metals on human and ecological health, was completed and published.   |
| Energy costs, security of supply and efficiency                               | National government<br>State-owned and private power generation companies  | Securing a cost-effective, secure source of power is essential for the economic sustainability of our business. We seek long-term, cost-effective contracts for energy and we implement energy efficiency programmes across our global operations including proprietary technological solutions or direct investment in power generation capacity. We are also investigating or implementing alternative sources of energy, including methane-fired power stations, use of coal tailings, flue gases, microalgae biofuels and solar power. We support research into alternative energy and low emissions coal technologies and participate in public policy debates on future energy policies.  |

## Strategy and governance *continued*

| Issue  | Relevant stakeholders  | Xstrata's response  |
|--|--|---|
| <b>Environment <i>continued</i></b>  |  |   |
| McArthur River Mine (MRM) expansion and river diversion – biodiversity conservation and community impacts, Northern Territory, Australia | Australian federal, state and local government<br>Community<br>Environmental NGOs<br>Investment community<br>Media                 | <p>We engaged extensively with a broad range of stakeholders about the conversion of MRM to an open cut operation, which was completed in 2009. Working with environmental experts, the new McArthur River channel was completed to leading practice standards and opened to water-flow prior to the 2009 wet season. At the start of 2009, MRM worked extensively with stakeholders following a ruling by the Australian Federal Court that invalidated the original Australian Government approval for the conversion.</p> <p>The Australian Government reviewed the decision and confirmed its approval allowing the operation to recommence activities on 20 February 2009. Discussions are continuing with the Northern Territory Government regarding the potential for a biodiversity offset area. Significantly, a report issued in 2009 covering the MRM Community Benefits Trust's first two years of operation, found substantial outcomes had been delivered in regard to increasing indigenous employment, supporting the sustainability of local businesses and arts and culture events and improving education outcomes.</p> |
| Water use in water-constrained regions (North Chile, North Queensland, Argentina)  | Government<br>Communities<br>NGOs<br>Environmental regulators<br>Industrial and agriculture users                                  | <p>Water management plans are in place at all operations in water-scarce regions, with targets to reduce fresh water use per unit of production and increase water recycling. Water availability and potential impacts on water quality are key considerations in the feasibility of new projects or expansions to existing operations. We engage with government, regulators and communities to share water resources, plan for future use and to respond to concerns over water quality.</p>  |
| Air emissions legislation (Canada, Australia)  | Government<br>Environmental regulators<br>Community<br>Media   | <p>We aim to continually reduce emissions from metallurgical operations and set SO<sub>2</sub> capture targets annually. We engage with government, community and environmental regulators on proposed amendments to air emissions legislation and to keep them informed about our progress in reducing emissions. We launched the Smelter Emissions Project at Mount Isa to substantially reduce emissions by 2012 and we are investing in a number of environmental improvements to metallurgical operations in North and South America to achieve further reductions.</p>  |
| EU REACH legislation and proposed amendments to EU Dangerous Substances Directive  | EU Commission and Directorates General<br>Member state governments<br>Industry bodies<br>Industry partners<br>Scientific community | <p>The EU REACH legislation places the responsibility for ensuring the safety of substances manufactured in or imported into the EU onto industry. We have participated in the formation of SIEFS (information exchange forums), and joined the various consortia that will develop the required data and co-ordinate the registration. Work has begun on the data gathering and the planning and implementation of testing programmes, which are required to support the Chemical Safety Reports that accompany each registration. Through the Nickel Institute, we continue to challenge the nickel substance classifications in the 30th and 31st Adaptations to Technical Progress of the Dangerous Substances Directive. These classifications now form part of the 1st Adaptation to Technical Progress of the Classification, Labelling and Packaging Regulation.</p>  |

| Issue  | Relevant stakeholders   | Xstrata's response  |
|--|---|---|
| <b>Community</b>   |   |   |
| Lead at Mount Isa, Australia                                       | Australian federal, state and local government<br>Mount Isa community<br>Investment community<br>Media  | Lead is naturally occurring at Mount Isa and some areas of historic contamination are present at the site where operations began 85 years ago. The health and safety of our workforce and the community is our highest priority. We offer free blood lead testing to the community and we are a founding member of the Living with Lead Alliance to provide information about how to manage the risks associated with lead exposure. We have invested over AUD250 million in environmental improvements at Mount Isa since our acquisition in 2003. We are funding an independent PhD Lead Pathways Study, Phase 1 of which was published during the year, and are remediating any identified areas of historic contamination. The Smelter Emissions Project aims to achieve further substantial reductions in air emissions at Mount Isa by 2012.  |
| Resettlement – Peru, Colombia                                      | Communities<br>National, regional and local government<br>NGOs<br>Las Bambas Independent Advisory Group<br>Cerrejon Third Party Review Panel                                  | We aim to avoid resettlement where possible. Where involuntary resettlement is unavoidable, we consult affected communities openly, in a culturally appropriate manner and as early as possible to explain fully the potential impacts and benefits of resettlement. We uphold the World Bank International Finance Corporation standards on involuntary resettlement. At Las Bambas, we have established an Independent Advisory Group of international and Peruvian stakeholders to provide advice and recommendations to Xstrata Copper on the proposed resettlement of the Fuerabamba community. In Colombia, the Cerrejón coal operation is implementing a number of recommendations made by an Independent Review Panel regarding current resettlements and in respect of the Tabaco resettlement which took place over five years prior to Xstrata acquiring a stake in Cerrejón.  |
| Security, human rights, social engagement at Tampakan, Philippines | Philippines national and local government<br>Public and private security providers<br>Community<br>NGOs<br>Working Group on Mining in the Philippines<br>Investment community | Tampakan is located in a high-risk region for security. SMI (the operating company) has worked together with local communities, public and private security forces to improve security in the region. Local communities asked the Philippines authorities to establish volunteer reserves (CAFGU) in the region to further enhance security. CAFGU groups comprise community members who are comprehensively trained to form volunteer reserve forces. Any mobilisation of forces is closely controlled by the Philippines army. SMI is not involved in the management, recruitment or training of these forces. In 2008, SMI adopted the Voluntary Principles on Security and Human Rights (VPs), implemented training for all SMI and private security personnel and raised awareness on the VPs among national government agencies, non-governmental organisations and other mining companies. In 2009, SMI sponsored a trainers' VPs training for 21 employees and 13 external stakeholders from local NGOs and Government departments. Going forward, SMI is working with the Philippine Business for Social Progress to promote the VPs internally and to broaden the understanding of the VPs among its external stakeholders. |
| Corporate social involvement (CSI) initiatives                     | Communities<br>Local and regional government<br>Healthcare providers<br>Industry partners<br>Charities, development organisations, NGOs                                       | We set aside a minimum of 1% of Group profit before tax each year to fund initiatives that benefit the communities associated with our operations. Each operation consults with communities and other stakeholders to develop a CSI plan to align our support with regional objectives and community priorities. In 2009 we set aside \$58.5 million, or 1.5% of Group profit before tax for CSI expenditure, and gave a total of \$64.7 million, including in-kind donations (e.g. of equipment or personnel time).  |

## Strategy and governance *continued*

| Issue  | Relevant stakeholders   | Xstrata's response   |
|--|---|--|
| <b>Community <i>continued</i></b>  |   |  |
| Employment opportunities and impact of operational restructurings, temporary shutdowns, closures | Employees<br>Communities<br>Unions<br>Government<br>Suppliers and customers<br>Media                | <p>We work with local communities to identify job opportunities and to run skills development programmes, enabling community members to gain skills and knowledge for employment at our sites.</p> <p>We seek to minimise the impact of operational restructurings on our employees, avoid compulsory redundancies where possible and offer employee assistance programmes to those affected. We consult our workforce, unions and government about proposed changes to our operations.</p>  |
| Executive remuneration   | Investment community<br>Employees<br>Media  | <p>Xstrata's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and maximise shareholder wealth creation. The Board Remuneration Committee considers the following principles in setting remuneration:</p> <ul style="list-style-type: none"> <li>■ Remuneration supports Xstrata's strategy and is aligned with shareholders' interests;</li> <li>■ Total reward levels are intended to be within the top quartile for outstanding performance measured against global mining and FTSE 100 peers;</li> <li>■ A high proportion of remuneration should be 'at risk';</li> <li>■ Performance-related remuneration comprises at least 50% of total potential remuneration for executive management; and</li> <li>■ Performance-related payments are subject to demanding short-term and long-term performance targets.</li> </ul> <p>See the Remuneration Report available in the Xstrata Annual Report 2009.</p>             |
| <b>Economic</b>  |   |  |
| Amendments to mineral taxation and royalty regimes   | Governments<br>Regulators<br>Industry bodies<br>Industry partners                                   | <p>Mining involves substantial long-term investment and requires stable, clear fiscal frameworks. We engage with governments to advocate equitable, unambiguous legislation governing mining revenues, balancing the requirement to attract investment by responsible and accountable mining companies to develop operations that are sustainable throughout the economic cycle with the need to ensure mining contributes to the economic development of host nations.</p> <p>Xstrata South Africa was involved in the review and revision of the Mining Charter and New Mining code through its membership of the Chamber of Mines. Xstrata South Africa developed a proposal on the revision highlighting our position, opportunities and concerns which were used in briefings with a number of government departments.</p> <p>In Canada, Xstrata Nickel, Xstrata Copper and Xstrata Zinc jointly participated in the consultation process for proposed revisions to the Quebec and Ontario mining laws.</p> |
| Extractive Industries Transparency Initiative (Peru)   | Peruvian national, regional and local government<br>Industry bodies<br>NGOs<br>Investment community | <p>We actively engage in the process to implement the EITI in Peru, including participating as the alternate national mining industry representative. We discuss transparency and distribution of mining revenues with government and regulators in several operating regions.</p>   |

## Public policy

Xstrata plays an active role in a number of significant international and national industry organisations and multi-stakeholder groups, through membership, funding, provision of expertise and participation in committees and working groups. In accordance with Xstrata's Business Principles, no donations or financial support of any kind were provided to any political party or individuals in 2009.

## Ethics

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

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

During 2009, 426 terminations were made due to non-compliance with our Business Principles, 98 for non-compliance with Health and Safety Procedures and 13 for non-compliance with Environmental Procedures.

### Bribery and corruption

Bribery and corruption risks are assessed at all managed operations as part of our risk management and internal audit programme. The assessments take into account the level of risk in the country or region, the policies and practices of other companies operating in the region and the probity and transparency of government, suppliers, contractors and other business partners.

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

Two higher risk areas for potential bribery and corruption are procurement of goods and services and interaction with regulators and government. In 2009, Xstrata's internal audit department completed 3,175 audit days, across the Group. Fraud or corruption incidents involving 18 individuals – eight theft and fraudulent practices plus 10 bribery and corruption incidents, employees, contractors, suppliers or a combination of all three were reported during the year and investigated by Xstrata's internal audit department.

Incidents involving 14 of the individuals were either found to be without having basis or having insufficient evidence. One incident, which involved an immaterial amount and where proper procedures were not followed, resulted in disciplinary action taken against the employee involved. Three investigations are continuing in 2010.

### Transparency

Our Business Principles state our commitment to the maximum transparency that is commercially possible in our business. We publicly report our financial, operational and sustainable development performance regularly and in accordance with all relevant legislation and leading practice standards.

Xstrata supports the Extractive Industries Transparency Initiative (EITI) to increase transparency over company payments and government revenues in the extractives sector. Peru is the only EITI candidate country in which Xstrata operates at present. The Peruvian government has approved the EITI Action Plan but has not yet progressed to implementation, at which stage extractive industry companies will commence reporting.

We report royalties and taxes paid to government by country, see page 95.

### Ethics line

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

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

There were 34 incidents reported via the hotline in 2009. All were fully investigated.

### Free enterprise

Xstrata's Business Principles set out our commitment to support free enterprise and compete fairly for business, with scrupulous regard for those regulations which promote competition and protect consumers. All relevant employees are required to complete Xstrata's competition and fair trade web-based training programme every two years and achieve a score in excess of 70%. The programme will next be run in 2010.

The programme covers all major anti-trust and competition issues and uses simulated situations and questions to test employees' understanding of competition law and appropriate behaviour when dealing with customers, competitors, trade associations, suppliers and distributors.

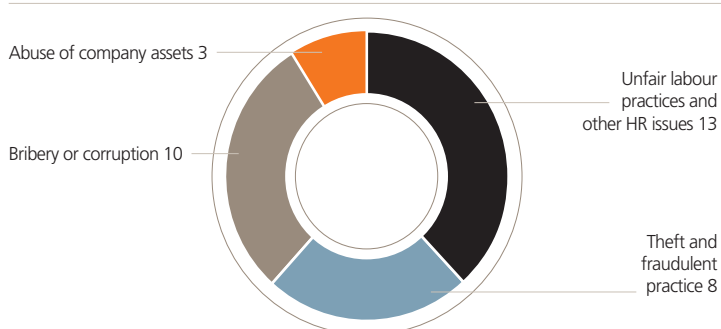
No legal action was initiated against any of Xstrata's businesses in respect of anti-competitive behaviour in 2009.

### Performance

#### Terminations due to non-compliance (2009)

|  |     |
|--|-----|
| Total terminations –                                     |     |
| Due to non-compliance with Xstrata's Business Principles | 426 |
| Total terminations –                                     |     |
| Due to non-compliance with Health and Safety Procedures  | 98  |
| Total terminations –                                     |     |
| Due to non-compliance with Environmental Procedures      | 13  |

#### Ethics line (2009)



### Human rights

Xstrata operates in several regions where security issues make it necessary to protect our sites and employees. Xstrata supports the UN Universal Declaration of Human Rights, the International Labour Organisation Conventions and is a signatory to the UN Global Compact. We apply the Voluntary Principles on Security and Human Rights (Voluntary Principles) to help ensure our security measures are reasonable and responsible. We conduct human rights risk assessments at all locations and have identified sites in Colombia, Philippines, Peru, the Dominican Republic and South Africa as posing the greatest risk. Our focus on identifying human rights risk and preventing incidents is important to ensure safe and unhampered operation of our facilities.

We respect the legislation in each country in which we operate and have aligned our Sustainable Development Framework with the 10 universally accepted principles of the Global Compact in the areas of human rights, labour, the environment and anti-corruption.

We compile an index cross-referencing our reporting to the Global Compact commitments, see pages 101 to 108.

The primary human rights issues in our business relate to:

- **Labour:** The rights of our employees and contractors to work for equal pay, associate freely, to a safe and healthy workplace, to non-discrimination and to their legal rights;
- **Security:** The conduct of security organisations protecting our operations at certain specific locations where there is a threat to our people or assets. The conduct of public security forces who enter our sites during the execution of their duties; and
- **Communities:** The impact our operations may have on communities includes the use of land and mineral assets, economic impacts, displacement, access to resources such as water and energy and other environmental impacts. In certain circumstances disagreements over these factors can lead to an environment in which human rights are compromised.

#### Human rights management

Our Sustainable Development Standards require our operations to maintain community relations strategies that uphold and promote human rights and respect cultural considerations and heritage. All sites are required to undertake human rights risk assessments, implement grievance resolution mechanisms and set and monitor appropriate performance standards for all contractors including security personnel.

We pay particular regard to the use of security providers and personnel in high-risk areas. In areas where Xstrata employs security personnel (either directly or as contractors) to protect our people and assets, we ensure that appropriate human rights training has taken place and monitor compliance.

No human rights abuses were identified at Xstrata operations in 2009.

In March 2009, unsubstantiated allegations were made linking Sagittarius Mines Incorporated (SMI), which manages Tampakan, Xstrata's exploration project in the Philippines, to the assassination of Boy Billanes, a vocal critic of the Tampakan project. SMI and Xstrata were invited by the Business and Human Rights Centre (BHRC) to respond to these unsubstantiated allegations and our response was posted on the BHRC's website.

SMI has always respected and will continue to respect human rights and the rights of stakeholders to express their views, including those about the Tampakan project, SMI engaged with Mr Billanes and his organisation through various forums to listen to his opinions and concerns on several occasions, without incident and with respect for his right to freedom of expression.

SMI has adopted the Voluntary Principles on Security and Human Rights. The safety and security of Tampakan's employees and contractors remains a priority and SMI supports a multi-stakeholder approach to improving security conditions in the project area.

## Voluntary Principles on Security and Human Rights

The Xstrata plc Executive Committee is committed to implementing the Voluntary Principles on Security and Human Rights (VPs) across Xstrata's global operations.

Published in 2000, the VPs were developed by a partnership of NGOs, national governments and extractive industry and energy companies. The governments involved include the Netherlands, Norway, United Kingdom and the United States. NGOs taking part include Amnesty International, Human Rights Watch and Oxfam, and nearly 20 extractive industry companies now participate – including Xstrata.

The stated aim of the VPs is 'to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms'.

We are implementing the requirements of the VPs at our sites. Xstrata reports on its progress in upholding the VPs annually.

### Child and forced labour

Xstrata's Statement of Business Principles upholds the elimination of all forms of forced or compulsory labour and prohibit any form of child labour.

None of Xstrata's managed operations have been assessed as having significant risks for incidents of forced, tied or compulsory labour. Risk assessments indicate that Brazil, the Dominican Republic and Tanzania may represent higher risk regions for child labour. In these regions Xstrata's minimum age for employment is 18, regardless of local legislation. All operations report the age of the youngest employee and the minimum working age permitted in the relevant jurisdiction.

Our youngest employee worldwide is an Australian, who started at 15 as a trainee in compliance with local regulations. No cases of under-age or forced labour among employees or contractors has come to our attention during 2009.

### Age of youngest employee

|               | 2009 |
|---------------|------|
| Africa        | 21   |
| Asia          | 20   |
| Australia     | 15   |
| Europe        | 18   |
| North America | 18   |
| Oceania       | 17   |
| South Africa  | 18   |
| South America | 18   |

## Human rights training

In 2009, 20,600 employees and contractors, around 35% of the workforce and 1,784 external stakeholders participated in human rights training. This is an increase from 2008 when approximately 24% of the workforce and 886 non-workers received human rights training. We use the findings from risk assessments to select relevant and locally-appropriate topics for our training programmes and awareness-raising resources.

### Colombia

#### *Cerrejón, Colombia*

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

The operation has worked extensively to resolve longstanding conflict with a small group of community members connected to resettlement of the residents of Tabaco village. A detailed agreement was reached in 2008 and the site is determined to build on this with improved trust between the Company and the community. Ongoing respect for human rights will be an essential component of this.

The Cerrejón Foundations System, which addresses the issues of water, the welfare of indigenous peoples, employment and royalties has been established and will support the ongoing development of the communities close to Cerrejón.

Since 2008, Cerrejón has developed processes to better address the need for greater openness and transparency and to work towards achieving best practice in its corporate social responsibility activities. Since its establishment, this new framework has led to training programmes for local communities, improved engagement with local and international stakeholders and the introduction of a new rights-based complaints mechanism.

Human rights awareness and training programmes have been running at Cerrejón since 2006. Nearly 14,000 people from local communities, employees, contractors, public authorities and public security forces have participated. The topics and human rights covered in each training session are varied for each target group in order to raise each group's awareness in situations relevant to their daily life.

During 2009, Cerrejón promoted 17 workshops on human rights issues that were run by the National Red Cross and aimed at children. Nearly 1,000 local community children attend these sessions. In the same year, Cerrejón financed a human rights diploma for public and private security forces. The course, supported by the International Committee of the Red Cross and the public ombudsman, covered issues such as conflict resolution and human rights law and principles. Community training discusses human rights and the procedures for voicing concerns and making complaints about violations.

## Strategy and governance *continued*

Cerrejón also supported training provided by the local Red Cross organisation on the Universal Declaration of Human Rights, for employees and local communities in 2009. These training programmes are popular and will be continued in 2010. Cerrejón also facilitated two workshops on indigenous rights in the context of security for members of the police force. In response to requests from the military, police and private security providers, Cerrejón will run a further ten workshops covering this topic in 2010.

### **Philippines**

#### *Tampakan, Philippines*

Xstrata acquired a controlling stake in the exploration operation at Tampakan in 2007. The project, managed by Sagittarius Mines Incorporated (SMI) requires a significant security presence to protect our people and assets.

Attacks claimed by a militia group, The New People's Army, in 2008 causing the death of two contractors prompted a major initiative to work with the community and ensure that Xstrata and its contractors respected human rights. In this difficult situation Xstrata's priority is to ensure that the provision of security does not lead to human rights abuses.

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

SMI implemented a multi-stakeholder approach, engaging with the community and different levels of government to improve security in the area. SMI also formally adopted the VPs to ensure high ethical standards in its dealings with public and private security agencies and local communities. For more information see Community.

In 2009, there were six violent incidents in which one person was killed. The tragic incident resulted from a personal dispute not directly associated with our operations. Field activities were temporarily suspended while security was reviewed and tightened.

The project engages four security service providers and works with the companies to ensure their employees receive intensive human rights training and monitoring. In March 2009, SMI sponsored a programme to 'train the trainers' on the VPs. The training was facilitated by the US-based Business for Social Responsibility (BSR) which acts as co-secretariat for the Voluntary Principles.

The course was attended by 34 individuals comprising 21 employees and 13 external stakeholders from the military, local NGOs and government departments.

During the training sessions, participants identified human rights issues and risks associated with the activities of SMI and the extractive

industries. The sessions identified and illustrated how the VPs can be applied by companies and host governments to mitigate these risks.

In December 2009, SMI conducted VPs orientation and consultation sessions with representatives and staff of the local security provider and its drilling contractor. The engagement reinforced SMI's commitment to human rights and provided an opportunity for the contractors to ask questions and make suggestions.

From January 2010, in partnership with the Philippine Business for Social Progress, SMI has begun to institutionalise human rights principles within Tampakan and to spread the awareness and practical experience among its external stakeholders. The work will include development of formal policies and guidelines.

### **Peru**

#### *Xstrata Copper, Southern Peru*

Xstrata Copper's Southern Peru division comprises our Tintaya operation, Las Bambas and Antapaccay projects and a 33.75% share in the Antamina operation.

Resettlement is planned for the local community at Las Bambas and we are acutely sensitive of the need to resettle local communities in a manner which fully respects their human rights. We are a signatory to the Code of Conduct of Peru's Society of Mining, Petroleum and Energy, which establishes a number of principles referring to employees' health and safety, environmental protection and respect, dialogue and participation of the various social groups. It is also part of the non-governmental organisation Perú 2021 and the United States, Canadian and Swiss chambers of commerce.

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

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

In 2009 there were no reported human or indigenous rights incidents. Our Southern Peru division actively supports the EITI process in Peru.

### **Dominican Republic**

#### *Falcondo, Dominican Republic*

At the end of 2008, depressed nickel prices and the high cost of oil led to the decision to shut down the Falcondo ferronickel mining operation in the Dominican Republic, placing the site in a care and maintenance regime. We had to lay-off more than half the operation's 1,800 employees, and estimated this could reduce earnings in the region by 75%. Xstrata Nickel recognised that the suspension of Falcondo could pose significant human rights concerns both in terms of short-term security risks as well as longer-term social effects. Redundancies, in a country where the wages of one worker supports many family members, can contribute to increased poverty levels and social unrest in impoverished local communities.

Every Xstrata site has a closure plan in place to make sure social, environmental and economic impacts are accounted for if we have to shut it down or put it into care and maintenance. Ahead of announcing the shutdown at Falcondo, we conducted an in-depth security risk assessment to understand the potential risks to employees and the local community and to plan response strategies.

During the shutdown process, we actively engaged with local government, community and union leaders and security forces. During meetings with security forces, training on the VPs was provided and rules of engagement in relation to human rights were discussed.

The Falcondo Foundation, a not-for-profit organisation set up in 1989 to promote local development, played a critical role during the process. Aware of the potentially huge impact of shutdown on people's livelihoods, Xstrata injected an extra \$1.6 million into the Foundation. The funds enabled the Foundation to work with unions, community leaders and development organisations to develop a three-year plan to create alternative job opportunities and minimise the effects of the suspension on people's livelihoods. Under the plan, the Foundation launched projects to improve health and education, and provide better access to credit and natural resources.

Our management of the Falcondo shutdown contributed to there being no human rights incidents despite media attention and the impact on local livelihoods. Since the closure, local communities have responded well to the Falcondo Foundation's projects. Increasing numbers of people are eager to participate in new grassroots initiatives, such as a scheme to boost commercial vegetable production by building greenhouses and providing training, and a project to teach growers about innovative cultivation techniques that help guarantee export-quality cacao. Meanwhile, local credit associations are considering the expansion of their microcredit programmes, enabling more budding entrepreneurs to set up their own businesses.

Since the suspension of mining, Falcondo has maintained its focus on security and human rights. We have trained approximately 200 people on the VPs, including employees, security personnel and local teachers who in turn have educated their students. During these highly interactive sessions the principles are explained and discussed.

**South Africa**

*Xstrata Coal and Xstrata Alloys, South Africa*

In December 2009, Xstrata Coal South Africa held a workshop with its stakeholders to consider political, economic, civil and social factors, potential triggers for violence, the human rights records of security forces and the consequences of providing lethal and non-lethal equipment to security providers. As a result of the workshop, a risk assessment of human rights in the operating environment was compiled.

The Xstrata Coal South Africa's security manager holds monthly meetings with the South African Police Service and private security companies. In these forums, discussions are held on security arrangements, their impact

on local communities and how to maintain and advance the provision of the rule of law. As required, senior state prosecutors attend these meetings.

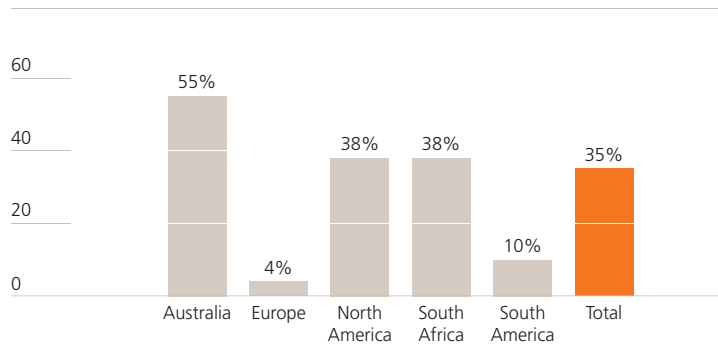
All private security personnel used by Xstrata Coal South Africa are registered with the Private Security Industry Regulatory Authority. The security service provider's management is responsible for ensuring all its employees receive initial mandatory certified human rights training, which is appropriate to the service they will provide as well as refresher courses on human rights. The human rights records of Xstrata Coal South Africa's private security providers are regularly reviewed and companies are continuously monitored to ensure the highest levels of technical and professional proficiency are maintained.

In the event of an alleged human rights incident, Xstrata Coal South Africa is committed to fully report the incident and provide all necessary support.

All Xstrata Alloys security personnel have undertaken training in the VPs. All private security firms are required to complete a questionnaire and provide supporting documentation to establish that their personnel have received appropriate human rights training and that they adhere to the requirements of the VPs.

**Performance**

**Human rights training by region (2009)**  
(% of employees)



**Human rights training by business**  
(%)

