



# About Xstrata

## Mission statement

We will grow and manage a diversified portfolio of metals and mining businesses with the single aim of delivering industry leading returns for our shareholders.

We can achieve this only through genuine partnerships with employees, customers, shareholders, local communities and other stakeholders, which are based on integrity, co-operation, transparency and mutual value-creation.

## Who we are

Xstrata is a global diversified mining group, listed on the London and Swiss Stock Exchanges, with its headquarters in Zug, Switzerland.

## What we do

Our businesses maintain a meaningful position in seven major international commodity markets: copper, coking coal, thermal coal, ferrochrome, nickel, vanadium and zinc, with additional exposure to gold, cobalt, lead and silver. The Group also comprises a growing platinum group metals business, iron ore projects, recycling facilities and a suite of global technology products, many of which are industry leaders. Xstrata's operations and projects span 20 countries.

## How we operate

We believe that operating to leading standards of health, safety and environmental performance, contributing to the development of sustainable communities and engaging with our stakeholders in two-way dialogue, regardless of our location, enhances our corporate reputation and is a source of competitive advantage. We balance social, environmental, ethical and economic considerations in how we manage our businesses.

## How we create value

We create sustainable value for our shareholders by delivering transformational growth and by applying operational excellence to our portfolio.



# Community

We seek to engage openly and honestly with communities to address concerns and respect local laws, customs and culture

## In this section

- 85 Management and strategy
- 87 Community engagement
- 88 Indigenous people
- 91 Resettlement
- 92 Community health
- 94 Corporate social involvement
- 96 Economic development

Children enjoying the Borroloola Swimming Complex constructed by Xstrata Zinc's McArthur River Mine under a community partnership involving a local steering committee, Northern Territory Government and Australian Government.

# Community

## Management and strategy

**Xstrata's mining and metal operations and projects interact with many diverse communities around the world. We work closely with host communities to maximise the positive impacts of our activities and minimise or avoid potential negative effects. We seek to engage openly and honestly with communities to address concerns and respect local laws, customs and culture.**

Community consultation is a key part of our sustainability approach and risk management and business planning process and is carried out in a transparent, culturally appropriate manner. We listen to community members to understand their needs, concerns and perspectives. Our engagement efforts also seek to involve community members in developing solutions to address related impacts, risks and opportunities. Because local conditions evolve during the course of a mine's life, we re-evaluate our plans and revise them as needed at each stage of a project's life cycle: before exploration; during development, operations, expansions and changes; and after closure.

We identify our impacts on host communities, both positive and negative, using social and human rights baseline studies and risk assessments. When conducting these studies, we work closely with host communities, governments, non-governmental and development

organisations involved in community projects to gain the benefit of multiple perspectives. We strive to address the concerns and impacts on the most vulnerable people affected by our operations. The table on page 86 summarises both the potential social benefits and the risks associated with siting and operating mine facilities.

Our community investment activities – which we term corporate social involvement (CSI) – seek to deliver longer-term community outcomes that are closely aligned to our core business objectives. Our aim is to define and track both the socio-economic and business benefits of our interventions, to form partnerships with other actors, such as non-governmental organisations (NGOs) and international organisations to leverage our investment to the fullest extent possible and to create stable programmes that build their own momentum and self-sufficiency over time.

Our Sustainable Development (SD) Policy and Standards describe our expectations for our businesses regarding community engagement and support. We audit each site's performance against our SD Policy and Standards as part of our SD assurance programme.

 See also the sections of this report on Stakeholder engagement (page 20) and Human rights (page 34), and the Las Bambas case study on page 28.

Abraham Ndлуva and Samuel Mahlangu participants in Xstrata Coal's farming project, South Africa.



Community *continued***Principal social and economic opportunities and risks from our operations**

Activity/issue	Social and economic opportunities	Social and economic risks
Indigenous peoples and cultural diversity	<p>Employment opportunities</p> <p>Support for initiatives to protect heritage or build social capacity</p> <p>Improved state protection or services</p>	<p>Marginalisation of indigenous or local communities</p> <p>Changes to traditional culture and customs</p> <p>Damage or reduced access to sacred sites</p>
Resettlement	<p>Improved housing, infrastructure and services</p> <p>Improved income generation opportunities</p> <p>Ongoing support for health, education and social wellbeing of resettled communities</p>	<p>Social disintegration or cultural breakdown and general disruption of moving to a new location</p> <p>Loss of access to resources and employment if poorly managed</p>
Public health	<p>Contribution to improved healthcare structure</p> <p>Health and wellness programmes that extend to employees' families and communities</p>	<p>The introduction or increase of infectious diseases, emissions, noise and dust</p>
Corporate social involvement	<p>Sustained support for initiatives that bring 'shared value' to communities and Xstrata</p>	<p>Risk of dependency on company-funded projects</p>
Socio-economic development	<p>Royalties and taxes paid to local, regional and national governments</p> <p>Returns to shareholders including pension funds and other capital providers</p> <p>Contribution to improved local infrastructure and services, such as roads, schools and hospitals</p>	<p>Disputes between communities and governments over the distribution of funds from mining</p> <p>Influxes of people to work at our operations, leading to increased crime rates and social problems, such as substance abuse, increased traffic and pressure on local services</p>
Procurement and enterprise development	<p>Spending on goods and services with priority given to local companies</p> <p>Promotion of enterprise development</p>	<p>Loss of traditional economic activities</p> <p>Disputes with Xstrata or between suppliers over budget allocation and spending decisions</p>
Job creation and skills development	<p>Employment opportunities, particularly for local people</p> <p>Wages and benefits paid to employees and contractors</p> <p>Improved employees' skills and ability to secure good jobs in the mining industry or in other sectors</p> <p>Indirect job creation, e.g. in service industries</p> <p>Establishment of additional companies in the region offering further employment opportunities</p>	<p>Increased migration to a region</p> <p>Inflated housing, food and service costs caused by wage increases and higher demand</p> <p>Loss of employment and investment following mine closure</p> <p>Risk of economic dependency on finite operations</p>

## Community engagement

### Consultation

We take seriously our responsibility to consult with communities in a transparent, culturally appropriate manner. Using various open and transparent mechanisms, we gather information on local concerns and develop proactive strategies to address them as a key part of our risk management and business planning process. For example, we work with communities to identify local cultural heritage sites and follow measures to protect them. Our projects and operations invite local residents to participate on environmental committees that monitor our environmental impacts.

In accordance with Xstrata's SD Standards, all of our managed projects and operations have a community engagement plan in place, in line with our social and community engagement standard. For example, our Xstrata Nickel business developed a Communication and Stakeholder Engagement Workshop, which it piloted at Falcondo during the fourth quarter of 2009 and conducted at all remaining sites during 2010. All our business units have a mechanism for annual review and update of their community and stakeholder engagement plans to respond to evolving local conditions and operational issues.

Community consultation has been a particularly important activity across our global footprint during the past two years as we have accelerated the pace of new growth projects and expansion of existing facilities. Meaningful, ongoing dialogue with communities and other stakeholders throughout the development helps to ensure support for our activities and it generates important feedback that goes into our planning processes. We held nearly 3,000 meetings with stakeholders in 2010, with more than 34,000 people attending.

### Enquiries and complaints

All managed operations have in place a grievance and conflict resolution process for community members and others to make complaints and enquiries, anonymously if preferred. These processes include clear procedures for registering, evaluating and responding appropriately to all complaints and enquiries.

In 2010, our operations received 804 complaints from local people. This represents an increase of 24% compared to 2009 (647). The increase is mainly due to complaints about general noise (other than blasting) and odours. These two categories represent the most frequent types of community complaints, and they both increased significantly in 2010 compared to the previous year. A significant number of complaints were associated with Xstrata Coal's Hunter Valley sites in Australia and Xstrata Copper's Horne smelter in Canada.

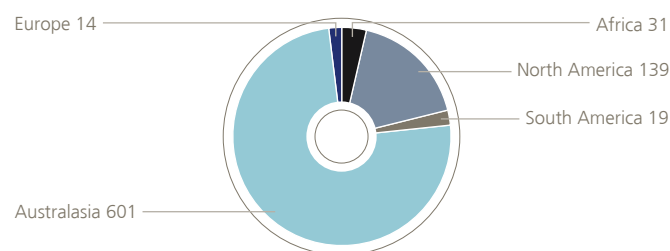
The complaints relating to Xstrata Coal's operations were mainly relating to sites where expansions are entering the construction phase. In particular, a large number of complaints (207) were generated in response to the Mangoola project in New South Wales. Noise was the basis of 168 of the Mangoola complaints. This can be attributed to the commencement of construction of the new open cut mine. Mangoola is working with its neighbours on noise mitigation options. At the same time, two of our Australian coal sites – Bulga open cut and

Tahmoor Colliery – substantially reduced the number of noise complaints received (from a 2009 combined total of 100 down to 67 in 2010) by utilising real-time monitoring and installing noise abatement devices.

At the Horne smelter complaints largely arose from unseasonal wind conditions. While it is difficult to draw meaningful conclusions about performance based on complaints data because a small number of neighbours can register many complaints, all complaints are taken seriously and addressed by the site concerned.

### Complaints by region (2010)

(number)



### Complaints by type

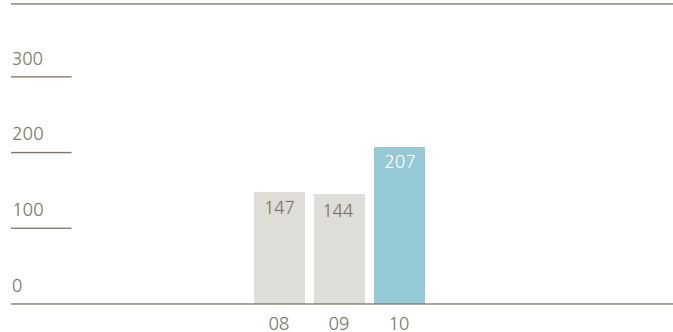
(number)

	2008	2009*	2010
Deposition damage claims	157	116	<b>111</b>
Water	13	12	<b>14</b>
Traffic amenities	11	26	<b>25</b>
Odour-fumes – general	147	144	<b>207</b>
Noise – general	131	172	<b>292</b>
Dust – general	64	31	<b>30</b>
Blasting	31	28	<b>47</b>
Access to property	21	31	<b>9</b>
Other	239	87	<b>69</b>

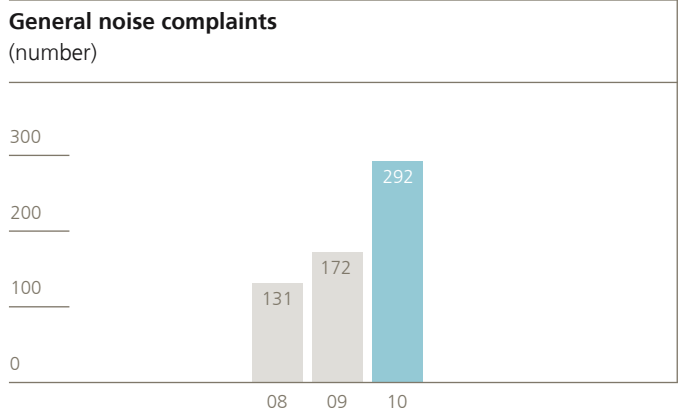
\* Indicates restated figure.

### General odour fumes complaints

(number)



Community *continued*



**Indigenous people**

In many areas of the world where we operate, there are communities of people whose ancestors have settled and lived in the area for many hundreds of years. These indigenous peoples represent unique resources to global culture and often have distinctive, creative heritages that have developed over generations. We respect the customs, interests and rights of all communities with whom we interact.

Xstrata projects and operational staff regularly come into contact with first nations, aborigine or indigenous stakeholders in Canada, New Caledonia, Papua New Guinea, Peru and Australia, as well as historically disadvantaged groups in South Africa, some of whom may be vulnerable



or disadvantaged because of poverty and lack of education. As with all of our community stakeholders, we work with these groups to identify the concerns and needs of the residents, and we actively promote and support culturally sensitive training and economic development. Where indigenous communities represent a large portion of the local population, some sites have established targets for filling a certain percentage of jobs with workers drawn from these communities.

We abide by the commitments in ICMM’s position statement on Mining and Indigenous Peoples including identifying and fully understanding indigenous peoples’ interests and perspectives and engaging and consulting in a fair, timely and culturally appropriate way throughout the project cycle.

 For more information on hiring practices targeting local populations see Our people on pages 54 to 57.

One example is the Indigenous Employment Programme (IEP) at the Mount Isa Mines copper operations in Queensland, Australia. A collaborative project with the Australian government and Jobfind Centres Australia, IEP is a new initiative launched in 2010, but it builds on an earlier job training programme that Mount Isa Mines has been involved with since 2008. The new focus in 2010 is on particular regions of the country and industrial sectors (such as mining) that are experiencing labour shortages. At Mount Isa Mines, four indigenous trainees completed their training courses in 2010 and have obtained full-time positions.

Indigenous peoples’ land can contain valued artefacts or hold special cultural significance for local communities. Prior to any disturbance caused by mining or exploration, we consider the cultural significance of an area as part of the overall social and environmental impact assessment process. Again, consultation with local communities is critical in such locations, to obtain information and to benefit from the perspectives and knowledge of the people who know the land. We are committed to protecting any significant sites or artefacts found, and we work with local communities on an ongoing basis to develop and maintain cultural heritage management plans.

No incidents of a breach or unauthorised disturbance of cultural heritage sites or artefacts were reported in 2010. However, in July 2010, Xstrata Mount Isa Mines was fined AUD80,000 in respect of inadvertent damage to cultural heritage objects while a contractor worked to upgrade a road in Mount Isa in 2008. While no heritage objects were actually damaged, the contractor breached an area that should have been maintained off limits. Draft internal Aboriginal Cultural Heritage and Land Clearance procedures had been developed in consultation with the Kalkadoon people and were being trialled when the incident occurred. The procedures were reviewed in the light of the incident and are now being fully implemented. We take the issue of protecting aboriginal cultural heritage very seriously and deeply regret this incident. Mount Isa Mines has a good working relationship with the Kalkadoon people and continued to work collaboratively with them to improve operational procedures to ensure the protection and preservation of aboriginal cultural heritage sites of significance in 2010.

Eli Vincent was initially a participant on Mount Isa Copper operations’ indigenous employment programme and is now a permanent member of the environment team.



Inspecting the evaporation sprays within Colinta Dam at the Collinsville coal operation in Queensland, Australia.

## Agreement builds improved relationship with Birri people, Australia

Xstrata Coal is currently pursuing expansion of its mining activities in the area of the Collinsville and Newlands mines in Queensland, Australia. The Birri people, the recognised traditional owners living throughout the region, have had a strained relationship with the mine operations in the past. Now that Xstrata Coal is seeking to develop a new exploration project in the area – the Sarum Project – we have taken advantage of the opportunity to negotiate more open, collaborative agreements with the Birri people.

Legislation requires that new mining projects develop agreements with traditional owners to minimise any adverse impacts that mining might pose to their cultural heritage. Frequently, these agreements only involve financial payments to the group. However, in this case, we worked with the indigenous representatives to reach an agreement that included educational and economic development opportunities for the Birri people as well. We committed to giving the Birri people skills training and guaranteed interviews to enhance their opportunities for gaining employment within the mining industry. Additionally, we have offered financial and other assistance to the Birri people to develop business enterprises that could undertake contract work for the mine or the wider mining industry.



Collinsville and Newlands Mines in Queensland, Australia.

Community *continued***Artisanal and small-scale mining**

Artisanal and small-scale mining (ASM) ranges from informal, subsistence mining by individuals to small, formal commercial mining operations. It is a growing phenomenon and it tends to take place in the developing world, particularly in remote, rural areas where there is little alternative work. In many countries, small-scale mining is deemed illegal and operates informally. In others, formal permits or titles are awarded by the state but illiteracy and other development issues often make it impossible for artisanal miners to obtain the relevant documentation. As a result it may be associated with conflict, corruption, harsh working and living conditions and environmental practices which lead to degradation.

Environmental damage from unchecked air, land and water pollution, soil erosion and deforestation are commonly associated with ASM. Health and safety practices and protective equipment are often basic or non-existent, leading to fatality rates up to 90 times higher than those of large mining companies, which adhere to local legislation and international standards. Poor sanitation in the camps around informal mines can spread cholera and typhoid, while standing water in abandoned pits can lead to malaria outbreaks in some regions.

The International Labour Organization (ILO) estimates that child labour is a significant problem with up to 1.5 million children working in small-scale mining. Women – who make up to 30% of the estimated 13-20 million people involved in ASM around the globe – and children typically derive far fewer benefits from ASM than their adult counterparts, yet are more affected by its negative impacts. As commodity prices continue to remain buoyant compared to other sectors in developing economies, it is likely that the number of people working in ASM activities and those dependent on it for their livelihoods will continue to rise.

As large-scale and small-scale mining increasingly coincide, leading practice standards are starting to emerge on how large mining companies should engage with artisanal and small-scale miners to avoid conflict, develop sustainable livelihoods and ensure all mining in the region is conducted to appropriate environmental, safety and social standards. Ideally, engagement with ASM stakeholders should start with exploration and be maintained throughout operation and into the planning for mine closure.

The optimal engagement approach is entirely dependent upon the operational setting of the business, the social context in which it operates and the business drivers for both parties to engage. In working with ASM miners, the key to a good relationship lies in understanding the drivers for the individuals to conduct the activity; only when this is understood does legality become relevant. At Xstrata, we seek to give people economic development opportunities that will minimise the attractiveness of artisanal mining. We follow ICMM guidance addressing the management of ASM relationships and the need to create a secure environment for our operations.

ASM activities are currently present near to or in a number of Xstrata's mine concession areas including our Tampakan copper project in the Philippines and our Frieda River copper project in Papua New Guinea.

Illegal small-scale mining operations are present in the Tampakan project area. Baseline water quality monitoring in the water catchments surrounding the Tampakan project indicates the presence of mercury in the upper catchment of the Pulabato River system in the Philippines as a result of artisanal mining activities in the area near our Tampakan project. The concentrations of total mercury detected in the Pulabato River system periodically exceed the Philippine drinking water guidelines (1µg/l) at some locations. While this water source is not known to be used directly for drinking water, the presence of mercury poses a risk to human and ecological health.

The Tampakan project continues to work with key stakeholders, including local authorities and host communities, to address the issue of ASM mining in the project area. Tampakan provides the results of its environmental monitoring to local authorities to assist in identifying areas of illegal ASM. More importantly, the project has a policy of employing locally and provides employment opportunities for members of the local community, who make up over 80% of our workforce, including those previously engaged in illegal ASM.

Through its livelihood development programme, the project provides funding and skills training to host communities to enable community members, including individuals who previously participated in artisanal mining activities, to establish micro-enterprises that provide legitimate and sustainable forms of income, such as high-value crop farming, beadwork and poultry farming.

In 2010, the Tampakan project supported 31 livelihood development initiatives that will benefit around 2,000 households in the project area. To support the implementation of these initiatives, the project provided financial and technical assistance to 38 organisations, including community-based groups, tribal councils and local government units. In conjunction with the livelihood development programme, the project is working with host communities to raise awareness of the health, safety and environment risks associated with artisanal mining practices.

At our Frieda River copper mine development project in Papua New Guinea, we are currently studying the situation to determine the extent of ASM within the project footprint, the communities that are involved and appropriate engagement strategies.

Based on our initial investigations, three levels of artisanal mining have been identified in the project area:

- Those working within the proposed footprint (inundation areas);
- Those working on exploration licence areas that may ultimately become part of our special mining lease; and
- Those working on our exploration licence areas or in the general vicinity of the project.

To date there is no evidence of the use of mercury or any other chemicals in ASM extraction in the Frieda River Project area.

Future plans for Frieda River will be developed in alignment with government regulations regarding ASM in Papua New Guinea – the key legislation being the Papua New Guinea Mining Act 1992, which contains specific reference and guidance on ASM. A plan addressing ASM in the project area will be completed in 2011. This plan will include a resource estimate of available gold, extraction methods and potential environmental impacts as well as a determination as to whether any formal alluvial leases exist.

## Resettlement

In the process of developing mineral resources efficiently, at times we need to disturb land that has existing habitation structures or is otherwise being used for productive or social amenity purposes by local communities. In such cases, we plan carefully and consult closely with the affected population to develop an equitable approach toward relocating households or even an entire community that includes fair compensation for any lost service that cannot be fully replicated in the new settlement area. These negotiations can require years before implementation can begin.

While we seek to avoid, or at least minimise, the need for resettlement, we also believe that it can represent an opportunity for economic development and an improvement in the quality of life of local residents, when managed with appropriate consultation and fair

The Tampakan project has two large-scale nurseries that provide high-quality planting stock for its land rehabilitation programme and reforestation initiative.



negotiation. We follow the International Finance Corporation Standards on Land Acquisition and Involuntary Resettlement in situations where we find no viable alternative to relocation.

We communicate openly, honestly and appropriately with communities to ensure they are fully informed of our plans and the options available to them before any decisions are made. We also ensure they understand all the potential impacts of resettlement, both positive and negative. We work closely with affected households to find a suitable new area for them to live and work, and to ensure that relocation provides opportunities for long-term development.

We commit to providing an equivalent or improved standard of living. We also ensure that people's occupancy is secure in the long term, for example, by giving them the title to the property and paying a fair price for any assets, such as buildings and land, that are not directly replaced. We aim to ensure that new settlements have suitable infrastructure and services, including transport links, schools and hospitals.

Once resettlement is underway, we provide ongoing support for the health, wellbeing and education of resettled households as well as training and access to credit as appropriate so people can restore or improve their livelihoods. We fully document all agreements and procedures, provide a grievance mechanism for people to raise concerns and provide a fair and impartial means of resolving any disputes. We continue to consult with the local residents to ensure that the planned actions still meet their needs.

No families were resettled in 2010, but resettlement activities are underway at a number of managed and non-managed operations as follows:

- At Xstrata Nickel's Falcondo operation in the Dominican Republic, resettlement action plans were implemented in 2010 and 22 families were resettled in February 2011;
- In South Africa, plans are being developed with the community near our coal mining operations at Tweefontein. This relocation will involve about 250 people and a local school;
- At Cerrejón, a joint venture in Colombia that Xstrata owns with Anglo American and BHP Billiton, approximately 930 people from five nearby rural villages are being resettled. During the first half of 2010, a third party expert examined the resettlement processes in depth and made recommendations for us to better align Cerrejón practices with international standards. As a result, we have reviewed the social baseline assessment for each of the five communities, and a Colombian NGO is advising the community groups of their assessment of whether compensation is fair and promotes sustainable economic development. We hope to reach agreement on compensation terms and begin physical resettlement in 2011;

## Community *continued*

- At the Las Bambas project in southern Peru, resettlement activities are scheduled to commence towards the end of 2011 following an agreement that was signed in January 2010 with the Fuerabamba community on the resettlement of 450 families; and
- At Xstrata Nickel's Kabanga project (a 50/50 joint venture with Barrick), approximately 230 households may need to be resettled through the development of the project. A working group, including community and local government representatives, is in place and a resettlement framework is being developed to guide resettlement activities and studies.

### Community health

We strive to address any health risks that may affect our workforce, their families and the communities associated with our operations, and we have processes in place to minimise any such risks. Moreover, in areas where endemic disease such as HIV and AIDS has a serious community impact, we work with local citizens, public health authorities and others to help prevent illness.

Because our employees and their families are part of the wider community, public health issues affect them in the workplace as well as impacting their neighbours. A description of our workplace health and wellness initiatives is included in the section on Our people (on page 45 onwards).

### Infectious diseases

In some areas of South Africa, community facilities for treating HIV/AIDS patients are inadequate to manage local needs. Over the years, we have developed public-private partnerships and invested in infrastructure and human capital to improve services targeting HIV/AIDS and associated healthcare issues.

Xstrata Coal South Africa is involved in a collaborative relationship with the local government of the Mpumalanga Province, ReAction!, a health and sustainability service provider, non-governmental organisations, and the US President's Emergency Plan for AIDS Relief (PEPFAR). This collaboration is aimed at addressing the need for immediate and nearby access to health services, especially for the prevention and treatment of HIV/AIDS and tuberculosis (TB). Xstrata Coal has funded the construction of six HIV/AIDS clinics and two pharmacies in the Mpumalanga Province.

Xstrata Alloys has funded the construction of an HIV/AIDS clinic and pharmacy at the area's main healthcare facility in Mpumalanga Province, the Lydenburg hospital, at a cost of ZAR5.3 million. With a staff of eight people, including a full-time doctor plus nurses and counsellors, the new wellness centre provides comprehensive care for HIV/AIDS patients. Planning is also underway for construction of a ZAR11 million primary health care clinic for the Bakwena-ba-Mogopa community at Bethanie, with financial support from Xstrata Alloys' Rhovan operations. The clinic will provide access to various primary health care programmes including HIV/AIDS and TB prevention, treatment and care.



A vitamin supplement programme for local children, supported by the Tampakan project and the local government.

Malaria is a significant community concern at some of our operations, in particular the Xstrata Nickel Kabanga project in Tanzania (a joint venture with Barrick) and the Xstrata Copper Frieda River project in Papua New Guinea. At these project areas, we collaborate with local health authorities and other organisations to identify and implement potential measures for preventing the spread of malaria, including public awareness campaigns and the use of treated bed nets and improvement of water drainage systems in the community.

## Lead

Xstrata's Mount Isa Mines operations in Queensland, Australia, are located in close proximity to the city of Mount Isa. Lead is naturally occurring in the region and historic mining practices have resulted in some areas of contamination. In response, we have developed a range of initiatives to address potential human health risks from lead exposure and to minimise the occurrence of such exposure.

### Community health initiatives

Xstrata Mount Isa Mines has offered free, independent and confidential blood-lead testing for local residents since 1993. We also support a range of initiatives to improve the health and wellbeing of the Mount Isa community. In December 2007, Xstrata joined with the Queensland Health, the Department of Environmental and Resource Management (then EPA), Betty Kiernan MP and the Mount Isa city council to form the Living with Lead Alliance. The Alliance aims to provide people in the Mount Isa community with information on living safely with lead.

In 2010, the Alliance launched the Lead Smart Education programme to further educate children and their families about the importance of healthy hygiene, hand washing and eating habits to reduce lead exposure. All Mount Isa primary schools now use the programme, and the Living with Lead Alliance is working with day care centres and kindergartens to implement the programme at those facilities. Xstrata also supported the Greening Mount Isa initiative, a grant programme designed to assist community groups with projects to reduce dirt and dust in areas where children congregate, such as schools, parks and sporting fields. So far, two rounds of funding have been given and the projects supported have included: providing healthy ground cover where children play, eat and learn; installing irrigation systems; installing artificial ground cover; and installing seating. Round two funding, which was distributed in 2010, was dedicated to local junior sporting organisations and six groups shared in a total of \$400,000.

In addition to providing free testing for all Mount Isa residents, we supported the lead screening programme launched by Queensland Health in 2006 to test Mount Isa children aged one to four years old. In the May 2008 report, Queensland Health reported that 11% of the tested children had blood lead levels above the World Health Organisation (WHO) recommended limit of 10µg/dl. This report helped improve community awareness on blood lead levels, and Queensland Health continues to assist a small minority of parents to keep their children's blood lead levels low. In 2010, Queensland Health conducted a second screening programme of Mount Isa

children in the target age range of one to four years, with the results showing the amount of children recording safe blood lead levels has increased to 95%, up from 89% in 2008.

In early 2011, a court proceeding commenced on behalf of a claimant against Mount Isa city council, the Queensland government and Xstrata Mount Isa Mines seeking damages for alleged negligence. Our operations have never breached regulatory limits for respirable lead at any air monitor in the Mount Isa community since Xstrata's acquisition of Mount Isa Mines in 2003 and Xstrata is prepared to answer the claim in court.

### Lead pathways study

In late 2006, Xstrata Mount Isa Mines commissioned an independent study into the potential for lead to reach the community through land (Phase 1), air (Phase 2) and water (Phase 3), assessing any potential risk to human and ecological health. The independent Lead Pathways Study is being carried out by the University of Queensland's Centre for Mined Land Rehabilitation in collaboration with the National Research Centre for Environmental Toxicology.

Results on Phase 1 of the study, published in a report dated July 2009, indicated that the risk to human health from historical mine sediment is low. Nonetheless, we have invested around AUD2.7 million to remove over 160,000 tonnes of soil containing historical mine sediment from the Leichhardt River.

During 2010, the independent research team carried out extensive air sampling at homes in the vicinity of Mount Isa, as part of Phase 2. The results from Phases 2 and 3 of the Lead Pathways Study will be available in 2011.

### Environmental initiatives

A key focus of environmental initiatives to manage lead in the community is the prevention of lead leaving the operational site. Employees and contractors who work in lead exposure areas must shower at the end of each shift and leave work clothes on-site to be laundered by the company. The site also has an on-site fuelling station and servicing facility to limit the need for light vehicles to leave the mine site. Car wash bays are available to clean vehicles that must leave the site, reducing the risk of lead being carried into the community. (More information on the control of lead exposure in the workplace is found in the section on Our people, page 47).

Xstrata Mount Isa Mines' Air Quality Control system monitors ambient air quality levels through the most comprehensive air monitoring system of any city in Australia, comprising a network of air quality monitoring in and around Mount Isa. We analyse air quality information from these monitoring stations to direct or shut down operations at our lead and copper smelters and Incitec Pivot's acid plant as needed to control air emissions.

To date, Xstrata Mount Isa Mines has invested in excess of \$30 million on a Smelter Emissions project to further improve the capture and treatment of emissions from its lead and copper smelters (see more information in the Environment section, page 79).

## Corporate social involvement

### Strategy and approach

Leading practice in this area is evolving as company programmes continue to move away from philanthropic, ad-hoc donations towards a more strategic approach to community investment with the expectation of a measurable return on investment, both for communities and the business. The aim of this approach is to create 'shared value' – longer term community outcomes that are closely aligned to the company's strategic objectives.

Xstrata's corporate social involvement (CSI) is determined by the following principles:

- **Local community focus:** working with those local communities associated with our operations and activities;
- **Devolved responsibility:** commodity business units (CBUs) retain primary responsibility;
- **Best practice:** consistent with highest industry standards and international best practice;
- **Flexibility and funding for areas most in need:** allows a range of responses across businesses and regions; CSI expenditure in any region is determined by need and strategic benefit and not by the profitability of the operations in that geographic region;
- **Financial and organisational efficiency;**
- **Stable funding:** avoid 'boom and bust' support on the back of cyclical earnings: surplus in boom years supports funding in years of lower profitability; and
- **Appropriate governance structure for community investment:** support is prohibited for political activities of any kind, individual sponsorship, single faith groups or initiatives that primarily benefit employees.

CSI defines Xstrata's voluntary contributions to initiatives to benefit communities associated with our operations and is treated as a distinct but fully integrated element of our comprehensive community relations strategies. While CSI may reinforce or sit alongside initiatives to compensate any negative social impacts, CSI projects aim to deliver added value for communities over and above the company's commitment to compensate for impacts or to fulfill regulatory or licence requirements.

While CSI programmes are likely to include a mixture of 'quick win' and longer-term projects, leading companies are also increasingly emphasising investments that build lasting social and human capital, over projects such as building infrastructure. This includes skills transfer and training initiatives, for example to improve access to employment; improving organisational capacity, for example to enable communities to understand their rights, negotiate with companies or hold leaders or government to account; or providing direct management assistance and advice, for example to help small and medium-sized companies to become established.

We are increasingly seeking partnership opportunities to improve implementation and leverage co-funding to maximise the longer-term outcomes of our investment. For example, our investment in the public-private partnership in place in South Africa to provide local level community health facilities including HIV testing, counseling and treatment is a partnership between Xstrata, ReAction!, the regional department of health, and Aurum, an NGO, and benefits from donor funding from the US PEPFAR agency (see page 92 for more details). The partners in this initiative are now extending the partnership to other companies operating in the region.

A key challenge for our community investment is to ensure our investments and initiatives are sustainable beyond the life of our operations or activities in a region. Partnering with third parties and securing government support from the earliest stages are often effective strategies to help ensure sustainability where projects are likely to require ongoing support for many years. However, this is a challenging requirement and we are working to ensure new and existing investments are or become sustainable over time.

While, in common with many other companies, we have historically been good at measuring the inputs involved in CSI expenditure (e.g. how much money is invested) and in most cases the outputs of CSI programmes (e.g. how many families benefited), the measurement of longer-term community outcomes (e.g. improvements in infant mortality rates or unemployment rates) and, critically, how those outcomes are perceived by the community, is less well developed. Both quantitative indicators (percent improvements over socio-economic baselines, etc.) and qualitative indicators (based on perceptions and behaviour) are required and we are working to define appropriate indicators and implement these for our CSI programmes.

We also recognise that the best CSI initiatives yield business benefits for Xstrata in addition to longer-term community outcomes. Methodologies are emerging but, in the meantime, we are working towards measuring and reporting quantitative indicators such as improvements in the number or type of complaints or grievances received, reductions in employee turnover, reduction in days lost to community protests or the potential delays avoided to project approval processes, combined with qualitative indicators (such as perception studies) that measure communities' approval and support for the company's operations.

### Stable, predictable support

Our SD Policy commits us to contributing a minimum of 1% of Group profit before tax each year to fund initiatives that benefit the communities associated with our operations, particularly those located in remote areas or in regions with a lower level of social and economic development and infrastructure. In years where profits are higher, we retain a portion of that 1% to ensure there are still funds available for community initiatives in less profitable years. We manage our funding so that our community initiatives receive stable and continuing financial support.

Funding is provided for initiatives in one or more of the following areas:

- Social/community development;
- Education;
- Enterprise and job creation;
- Health;
- Culture/art; and
- Environment.

Of the money earmarked for spending each year, our commodity businesses distribute the majority to the regions most in need. We use the balance to fund Group-level programmes associated with our London and Zug offices and to maintain an emergency relief fund.

All managed projects and operations develop a CSI plan to ensure our giving contributes to SD in local communities, in accordance with our SD Standards. We develop these plans in collaboration with local government, development organisations and communities themselves, and review their effectiveness at least once a year. Each operation assesses local community needs, prioritises initiatives to support and ensures that partner organisations have the capacity to meet agreed outcomes. We monitor CSI plans and the resulting outcomes for local communities by reviewing progress reports from partner organisations and gathering feedback from community members and others.

Xstrata Copper's Tintaya operation in Peru funded the construction and equipment for the Espinar Educational Resource Centre.



## Progress in 2010

In 2010, we contributed \$81.3 million worldwide to CSI projects, and provided an additional \$2.5 million of in-kind donations (the value of goods and services).

Here are just a few examples of our support for local initiatives and projects:

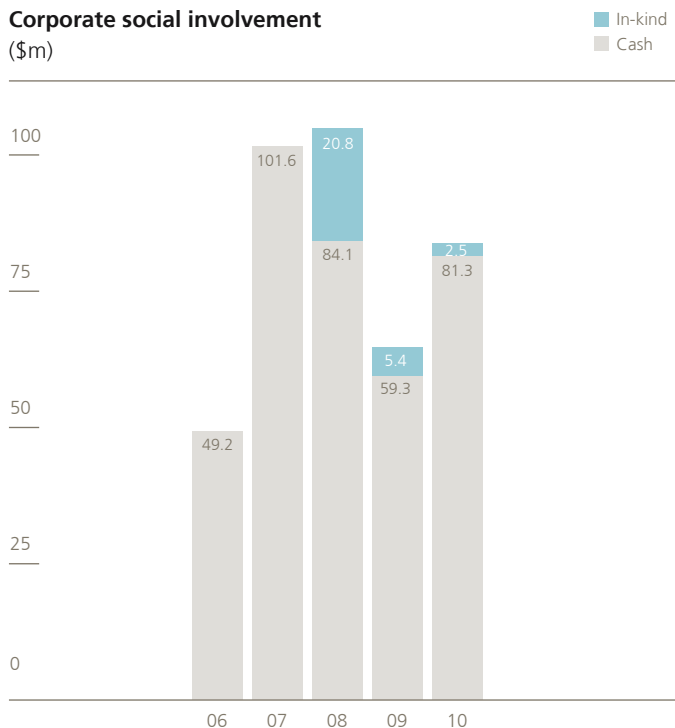
- Xstrata Coal in South Africa supports projects within all the aspects of CSI, with an emphasis on social development, education and health. The remote location of the communities surrounding Xstrata's operation in South Africa means community members often have to travel long distances to access basic government services. We have supported the development of multi-purpose service centres in Klarinet township in Emlahleni, and the Lothair centre, providing a single point of access where citizens can apply for social grants, identity documents and pensions, to name a few;
- Xstrata Copper supports teacher training and infrastructure improvements to enhance the quality of education in the province of Espinar, southern Peru, near our Tintaya operations. The project invites principals and teachers from pre-school through secondary levels to participate in workshops covering educational techniques and practical application of theory. In addition, over time we have helped rebuild, renovate and furnish 165 schools in the region;
- At our Tampakan project in the Philippines, Xstrata Copper provides community health services, including medical and dental checkups and vaccinations, through a partnership with the local municipal health office;
- We also provide strong support for community health services in southern Africa, through our Alloys and Coal operations as well as Xstrata Nickel's Kabanga project in Tanzania. All of these commodity business units partner with Re-Action! to plan and implement sustainable community health and education programmes. At Kabanga in particular, the scope of involvement has also extended to water supply and security initiatives;
- Funding from Xstrata Nickel makes it possible for the Canadian Opera Company to stage performances for schools in remote Inuit communities near our Raglan nickel mine in northern Quebec, where cultural opportunities are severely limited; and
- In Canada, Xstrata Nickel also supports Learning for a Sustainable Future, a not-for-profit organisation focused on integrating sustainability education into Canada's schools. During 2010, 54 secondary level teachers participated in energy and water conservation training workshops, and 24 student action projects were started.

**Fact box:**  
**Emergency relief efforts in 2010**

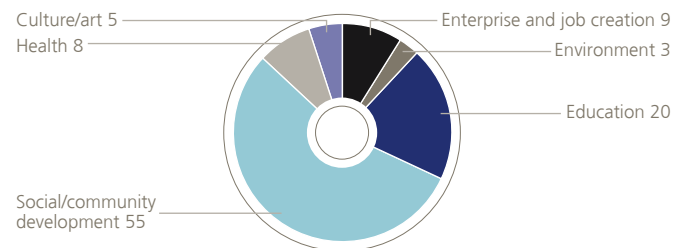
In February 2010, a major earthquake struck Chile, around 350 kilometres south of Santiago. The shock and subsequent tsunamis killed hundreds of people and left thousands more homeless. We immediately donated \$1 million from the Xstrata Group CSI emergency fund, which went towards providing emergency shelter and supplies and purchasing portable water treatment systems to protect public health. In addition, Xstrata Copper employees in Chile donated more than \$30,000, which was matched by Xstrata Copper CSI funds, in support of a nationwide effort to rebuild homes.

More recently, in response to the flooding in central Queensland, Australia, in December 2010, Xstrata donated AUD1 million to the Queensland Premier's Disaster Relief Appeal to assist devastated communities. A few weeks later, we doubled that donation to AUD2 million, in response to the spreading impact of the floods increasing damage and loss of life. Our Australian mining operations also found opportunities to use their CSI funds to meet local needs.

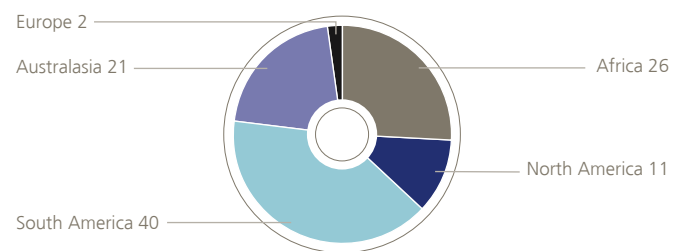
**Corporate social involvement (\$m)**



**Cash investment by activity (2010) (%)**



**Cash investment by region (2010) (%)**



**Economic development**

The mining industry provides jobs, skills and training; pays taxes and royalties; buys goods and services from local businesses; and helps to develop and improve infrastructure in local communities. This can make a sustainable contribution to improved health, prosperity and living standards. Our SD Policy sets out our commitment to help countries and communities share these benefits in a sustainable manner.

We put in place community strategies and social involvement plans at all sites to bring these contributions to fruition and ensure our presence creates sustainable benefits that continue once our operations cease. We also carry out baseline studies and risk assessments to identify and evaluate socio-economic impacts on local communities and the surrounding region at each stage of an operation's life cycle and use the results to enhance the benefits and anticipate and avoid any negative impacts.

Many of our operations are in developing countries with high unemployment and little infrastructure or state support. We also operate in remote or rural areas. Mining may be one of the only employers and sources of foreign investment in these regions and is often a country's most significant income generator. In many cases, countries would be unable to develop their mineral resources without foreign investors and mining sector expertise.

Increasingly, we work in partnership with government, NGOs, international donors and others to support the development of small and medium-sized businesses and alternative income generating opportunities.

## Economic empowerment through the Mining Supplier Park project in South Africa

Socio-economic empowerment for historically disadvantaged South Africans is a central objective of the national government. At its South African businesses, Xstrata is implementing the spirit and the requirements of the Mining Charter and is leading a pilot compliance exercise with the Department of Mineral Resources.

Xstrata Alloys has developed a Mining Supplier Park project to combat residual social injustice and to promote economic empowerment. The project aims to create sustainable job opportunities and to provide skill development and training. While Xstrata Alloys initiated the project, we are seeking partnerships with other South African mining companies to broaden the impact that the Mining Supplier Park will have. The park site is located outside Steelpoort, near the Xstrata Lion chrome smelter, within the province of Limpopo, which has a total population of about 3.1 million people and a current unemployment rate of 36.8%.

After four years of studies and planning, the major infrastructure services are complete and construction is now underway on the first phase of the project. The work has been contracted to a joint venture between a leading South African construction company (40%) and a

local black-owned company (60%) to ensure that local workers will benefit from the income and the skills training opportunities. Xstrata Alloys and its partners are financing the building of 'mini-factories' to accommodate small existing and emerging local companies. In addition, a large number of established mining suppliers and vendors, representing a wide range of industries, have expressed strong interest in the Mining Supplier Park. Occupants of the industrial park will be able to take advantage of Xstrata's nearby training centre and other opportunities for skills development.

In addition to the economic benefits of job creation, all profits from the project will go into a community trust for the use of local communities around the participating mines. Xstrata has made an initial investment of ZAR25 million (\$3.7 million) to start the development process and has committed an additional ZAR35 million either in direct funding or in loan guarantees for implementing the Mining Supplier Park business plan. Once the first project phase is operational and the commercial and industrial space is fully leased as expected, the park will become profitable and self-sustaining.



Mining Supplier Park project in South Africa.

Students at the Steelpoort skills training centre, which is supported by the Lion ferrochrome smelter.

Community *continued***Economic value added**

\$ million	Argentina	Australia	Belgium & Norway	Canada	Chile	Colombia	Germany	New Caledonia	Peru	South Africa	Spain	UK	USA	Others*	2010 Total
Revenues	1,590	8,938	1,270	6,248	4,595	761	393	0	1,798	2,909	1,151	590	256	0	30,499
Payments to suppliers (operating costs)	391	2,901	988	4,100	2,716	234	305	2	420	1,654	840	577	231	34	15,393
<b>Economic value added</b>	<b>1,199</b>	<b>6,037</b>	<b>282</b>	<b>2,148</b>	<b>1,879</b>	<b>527</b>	<b>88</b>	<b>(2)</b>	<b>1,378</b>	<b>1,255</b>	<b>311</b>	<b>13</b>	<b>25</b>	<b>(34)</b>	<b>15,106</b>
Payments to government (royalties and taxes)	591	1,146	11	120	335	213	16	6	392	87	60	16	0	23	3,016
Employee wages and benefits**	52	1,334	46	642	174	80	23	0	74	434	64	116	12	14	3,065
Payments to providers of capital (dividends and net interest)	250	4	0	2	4	0	0	(29)	3	(6)	2	362	237	0	829
Community investment (cash spent)	6	14	0	9	13	3	0	0	10	22	1	0	0	3	81
Capital expenditure	63	2,509	28	429	442	88	27	1,167	572	644	59	4	2	85	6,119
<b>Economic value retained</b>	<b>237</b>	<b>1,030</b>	<b>197</b>	<b>946</b>	<b>911</b>	<b>143</b>	<b>22</b>	<b>(1,146)</b>	<b>327</b>	<b>74</b>	<b>125</b>	<b>(485)</b>	<b>(226)</b>	<b>(159)</b>	<b>1,996</b>

\* Others includes Brazil, Dominican Republic, Papua New Guinea, Luxembourg, Mauritania, Philippines, Democratic Republic of Congo, Switzerland and Tanzania.

\*\* Excludes taxes remitted at the cost to the Group.

Note: 2009 payments to government have been restated. A revised table providing comparative figures for 2009 is available on our website [www.xstrata.com](http://www.xstrata.com).

**Taxes and royalties**

The taxes and royalties Xstrata pays are a significant element of our contribution to socio-economic development. At the same time, we have a legitimate responsibility to our shareholders to put in place an efficient capital structure and ensure Xstrata provides an attractive return on investment. In addition to taxes, we also pay mineral royalties to governments and sometimes have profit-sharing or other financial agreements with local communities.

Our Business Principles commit us to the maximum transparency possible in financial reporting without compromising our competitiveness. We publicly report our financial, operational and sustainability performance in accordance with all relevant legislation and leading practices. We support the Extractive Industries Transparency Initiative (EITI), which promotes public reporting of company payments and government revenues in the extractives sector. In 2010, Peru was the only EITI candidate country in which we operated.

**Infrastructure development**

In addition to the direct economic contribution we make through taxes and royalty payments, our operations and projects often develop and maintain infrastructure, such as roads, water and power infrastructure for their own use, which benefit local communities. Some of these infrastructure projects go beyond meeting our own operational needs and are funded through our CSI programme for the exclusive benefit of nearby citizens.

For example, as part of Xstrata Nickel's work to develop sustainable initiatives in the regional communities near the Falcondo operations, the Falcondo Foundation constructed two rural aqueducts in El Verde and La Minita, in the Dominican Republic. The aqueducts help resolve water supply problems facing the communities, serving more than 820 families. The aqueduct initiatives also included providing extensive training to community members to ensure proper management of the system.

**Procurement**

With supply chain spending across our global operations of \$15.4 billion annually, our procurement can have a significant economic impact on countries, regions, communities and individual companies. We utilise ethical business practices throughout our supply chain. We seek to work with contractors, suppliers and business partners who are committed to SD.

In accordance with our SD Standards, we work with suppliers, contractors and business partners to assess whether their health, safety, environmental and community training, practices and performance meet our standards. We engage contractors, suppliers and business partners through a fair and formal process that requires them to comply with our Business Principles, SD Policies and Standards when carrying out Xstrata-related work. In each commodity business's SD team, personnel evaluate this component in applications from potential new suppliers to assess whether an audit is required. They then notify operations if an audit is deemed necessary.

Our Business Principles commit us to honour all contracts with suppliers and customers and pay commercial rates for goods and services, within agreed timescales. Our commodity businesses have policies and practices in place to support suppliers from the local community or wider area, as appropriate. Factors affecting supplier selection include experience and technical ability, environmental, safety and labour standards, local expertise and workforce, capacity, reliability and reputation, innovation, method of work, cost and quality.

As a decentralised business, we do not have a Group procurement function. This gives our commodity businesses and operations more flexibility to purchase products and services locally based on their specific requirements. Our CSI programmes support community members to establish small and medium-sized enterprises (SMEs), and we help smaller companies to gain the skills required to become suppliers of goods or services to Xstrata and other customers.

In South Africa, our businesses give preference to companies owned or operated by historically disadvantaged South Africans (HDSA) in all discretionary spending. We also support HDSA suppliers by providing management training and sharing technology and expertise to ensure they meet our standards. Where no appropriate HDSA supplier is available, we encourage mainstream suppliers to partner with HDSA companies.

### Financial assistance

Xstrata receives financial assistance from governments in the form of fuel rebates, research and development tax concessions and training grants, including:

- In Australia, Xstrata Copper received \$841,000 for apprenticeship and training programmes;
- Xstrata Alloys and Xstrata Coal in South Africa received workplace training grants of more than \$2 million;
- Xstrata Nickel's Raglan operation in Canada received a \$1.9 million incentive tax credit relating to exploration work; and
- In New Caledonia, Xstrata Nickel's Koniambo project's local training development programmes received \$1.3 million.

### Enterprise development

Supporting community members to establish SMEs makes an important contribution to economic development and is a key part of our approach. These SMEs grow to supply Xstrata and other businesses in the same area. This not only helps increase wealth in the regions where we operate, but can also diversify our supply base and reduce the risk of interrupted supply.

Our businesses support enterprise development through various initiatives, including the provision of loans with preferential terms, start-up and bridging capital as well as training and knowledge sharing. We also provide management expertise in areas such as project management, business planning, cash flow management, legal compliance and help finding financial advice and assistance.

### Job creation

Our projects and operations directly employ more than 70,000 employees and contractors. This brings particular benefits to remote and less developed regions where there is little alternative work and many people only have basic work skills and qualifications. We recognise the importance of recruiting local people and giving them the skills to help improve their employment prospects and overall livelihoods.

In 2010, we recruited 4,571 people compared with 2,411 in 2009. Our businesses give preference to local residents where possible (and where legal) when hiring. In total, 80% of the people hired in 2010 were from local communities.

In regions such as Peru and the Philippines, where there are high levels of unskilled labour, community members share the available positions on a rotational basis. We select and manage employees for this system in cooperation with community leaders or tribal authorities.

Many of Xstrata's projects and operations have community skills and training programmes, which again focus on regions with high unemployment or a large proportion of unskilled workers. These programmes equip community members with the necessary skills to find work at, or become a supplier to, Xstrata and other companies. For instance, in South Africa we have a long-term partnership with Keyboard Secretarial and Business College, through which we fund the education and initial job placement of about 40 students from disadvantaged backgrounds every year. We also provide numerous apprenticeships and job training opportunities across our business units (see further discussion in Our people on pages 53 to 56).