



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.



Strategy and governance

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Our industry-leading Sustainable Development Framework ensures consistent standards across our devolved management structure

Orlando Llamoca (left) and Pavel Dávila (right) discuss mine planning at Xstrata Copper's Tintaya operation.

Strategy and governance

Our strategy

We continue to work towards fully integrating sustainable development (SD) into our strategy and the way we manage our business. The concept of sustainable mining and its achievement is both complex and challenging. While our core business involves the extraction and processing of finite non-renewable natural resources, the minerals that we make available for society's use are critical for socioeconomic advancement around the globe. Without careful management, mining activities can have significant negative environmental and social impacts, including pollution, habitat disturbance, occupational injuries and disruption to neighbouring communities. However, responsible development of a nation's mineral wealth in a manner that addresses economic, environmental and social considerations can provide significant and lasting social and economic benefits at a national and local level, raising standards of living for existing and future generations in a sustainable manner.

At Xstrata, we have always recognised that our long-term success depends on our ability to secure broad-based support for our activities. That means demonstrating that we are responsible stewards of the natural resources we mine and use in our operations, and the broader natural environment in which we operate, and that our presence delivers sustainable benefits to communities and host nations that extend beyond job creation and paying taxes.

Our SD principles are integral to achieving our core business objectives as follows:

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

Our underlying strategic approach to sustainability has focused on establishing clear commitments, including risk management and performance targets aligned to our material issues and industry-leading standards.

We regularly track and review performance and progress against our policy, commitments, targets and standards and aim to do so in a manner that fosters a culture of learning, continuous improvement and best practice sharing (see Sustainability assurance, page 19).

Strategy to deliver organic growth

Xstrata is now in the midst of an extensive period of organic growth, which will see production volumes increase by 50% over 2009 levels through the development of a global portfolio of major brown- and greenfield projects. The successful delivery of this growth is to a large extent dependent on our ability to apply our world-class SD Framework to manage the SD risks and opportunities inherent in an intensive period of organic growth.

Some of the risks specific to the development of large-scale projects include:

- Safety risks associated with managing significant numbers of temporary contractors on-site, particularly when multiple languages and cultures are present;
- Safety and health risks associated with construction activities, including the coordination of different engineering works and trades, working at heights, electrical hazards, load-shifting, a high volume of heavy and light vehicle activity, excavation, vehicle and pedestrian access control, temporary electrical installations, arrangements for medical and other emergencies and workplace amenities;
- The competition for skilled and experienced workers;
- Additional noise and dust impacts for neighbouring communities;
- Potential social impacts from the influx of a large, temporary workforce into a region or community;
- Potential displacement of communities or impacts on access to resources or livelihoods;
- Habitat disturbance and impacts on ecosystems, in particular for greenfield projects;
- Risks of water, air and land pollution from construction, mining or drilling activities; and
- Potential cumulative environmental and social impacts, particularly in regions with a significant number of existing mines or mining developments.

We have reviewed our governance and assurance processes to ensure effective oversight of the risks and opportunities that arise from our programme of organic growth.

Our SD Framework has been amended to respond to these challenges by introducing additional, separate audit protocols for the pre-approval and post-approval phases of major project developments. We have enhanced the reporting of progress on major projects at Executive Committee and Board level to track the progress of expenditure and risk management. The Group Internal Audit programme has also been focused on assessing the identification and effectiveness of controls in place to enable the successful execution of major projects. Group Internal Audit also uses third party specialists to perform in-depth audits on specific SD risks that have been selected as part of our annual risk reviews.

“Oversight and ultimate responsibility for Xstrata’s SD Policy and Framework globally rests with the Xstrata plc Board”

Ian Strachan
Non-executive director



Sustainable Development governance

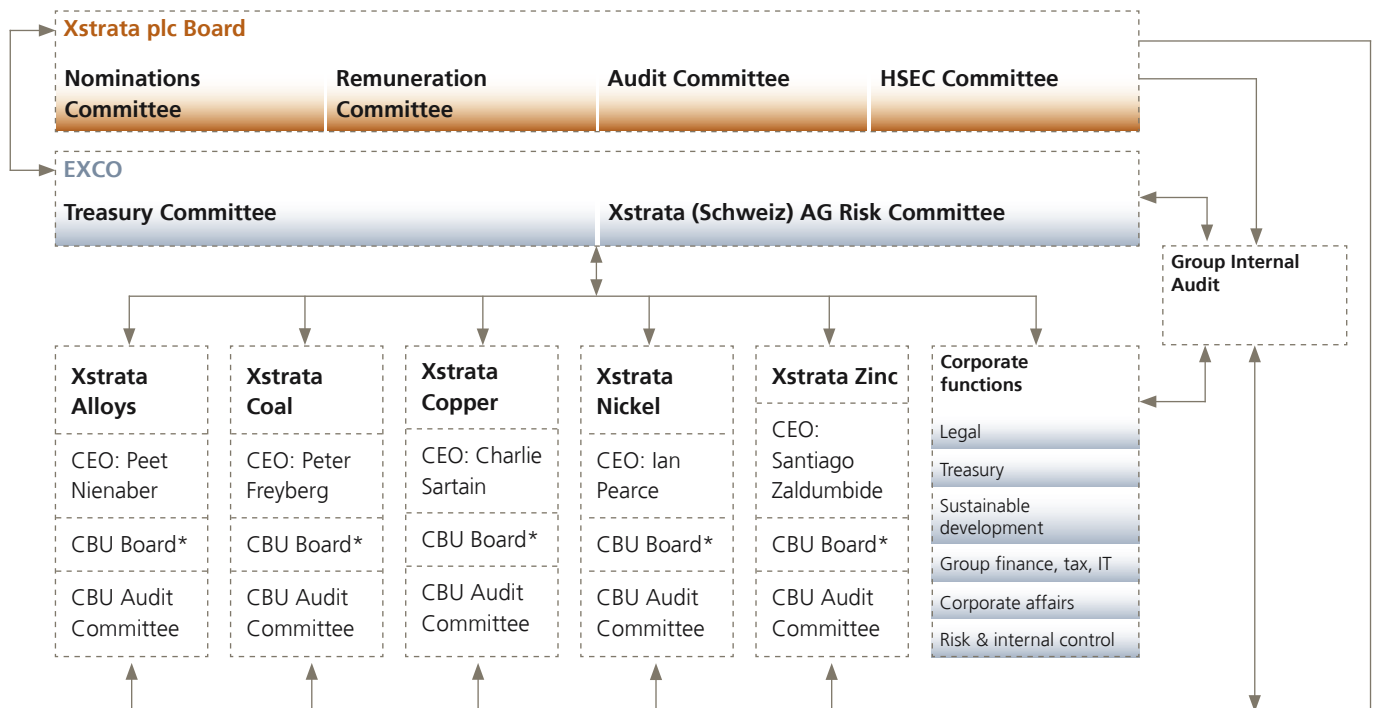
Xstrata operates a decentralised business structure within a robust governance framework. Our approach is to devolve authority and accountability to operational management, who have the optimal skills and information to respond to business challenges and opportunities.

Our SD business strategy, policy and performance standards are set by Xstrata’s Board and Executive Committee (EXCO) and are aligned with international leading practice and standards. However, the way in which our SD Strategy and Standards are achieved and maintained is determined by operational management, enabling our operations to be more responsive to the local context, encouraging innovation to find better ways of responding to challenges and empowering local management to be fully accountable to local stakeholders. Our auditing and assurance processes ensure that our Business Principles and Group SD Policy and Standards are being upheld at each operation and project and also aim to facilitate the sharing of good practice across Xstrata and provide examples of leading practice from outside our organisation.

Senior management oversight

Oversight and ultimate responsibility for our Sustainable Development (SD) Policy and Framework globally rests with the Xstrata plc Board. This responsibility is vested in the Board Health, Safety, Environment and Community (HSEC) Committee, which has been in place since 2005 and is chaired by Ian Strachan, an independent, non-executive director. Other members of the

Governance structure



* The Group CEO and CFO are members of each commodity business board.

Strategy and governance *continued*

Committee are Mick Davis, Xstrata plc CEO, David Rough, Deputy Chairman and Senior Independent Director, and independent non-executive directors Claude Lamoureux and Dr. Con Fauconnier. The Group Executive Committee is formally responsible for setting and implementing SD strategy, with the Board providing oversight of the Executive Committee's performance.

The Board HSEC Committee meets quarterly to receive progress reports and updates from commodity businesses and to monitor material social, environmental and ethical issues and associated performance metrics. To gain a closer understanding of strategy implementation, members of the Board HSEC Committee regularly visit site operations.

The Board receives quarterly reports of key SD performance indicators, critical and high potential risk incidents and the ongoing SD assurance programme results. Board members also receive independent briefings on social, ethical and environmental issues as required and may consult with external experts at Xstrata's expense.

More information on the Board HSEC Committee, including terms of reference, responsibilities and activities in 2010, is available in the Xstrata plc Annual Report (see pages 117 to 118) or on our website at www.xstrata.com, together with information on all other Board committees.

Remuneration

Remuneration is linked to SD performance at all levels in our business. The Board Remuneration Committee examines the Group's underlying safety, financial and SD performance in reviewing and determining base pay, payments of annual bonuses and the awarding and vesting of long-term incentives for executive and senior management. Variable remuneration throughout the Group is dependent on a bonus pool which is determined by overall company performance, measured by return on equity and net profit. Before the pool is finalised, the Board Remuneration Committee actively considers whether the pool is appropriate in light of the other key financial and non-financial drivers of future shareholder value, including health, safety, environmental and community performance.

Individual bonuses are determined according to individual performance criteria which comprise SD, financial and operational performance targets, including people development, occupational health and safety, environmental performance and community engagement. For site managers, mine supervisors and other employees, between 50% to 80% of variable remuneration is tied to SD performance including the identification and mitigation of key SD risks and with safety performance as a major component.

Sustainable Development Framework

Xstrata's Sustainable Development Framework is designed to ensure that each operation and project is managed consistently to the highest international and leading practice standards, through:

- Xstrata's Statement of Business Principles, SD Policy and SD Standards coupled with a rigorous assurance process;
- An approach to SD risk management that is integrated with our broader enterprise risk management process; and
- A SD strategy and planning process that is fully integrated, from site/project level to Group level, with Xstrata's operational and business strategy and planning process.

Xstrata's SD Framework applies across all commodity businesses, ensuring compliance with common principles, policy and standards. The Group General Manager Sustainable Development, who reports to the Group Chief Executive Officer, oversees the implementation and periodic review and updating of the SD Framework.

Xstrata's SD Framework provides the organisational arrangements for implementing, reviewing and continually improving the organisation's management of sustainability. It is supported by a detailed set of SD Standards, available from www.xstrata.com/sustainability. It incorporates a precautionary philosophy and is aligned with international standards including:

- The International Council on Mining and Metals (ICMM) sustainability principles and guidelines;
- The UN Global Compact;
- Voluntary Principles on Security and Human Rights; and
- ISO 31000, ISO 14001 and OHSAS 18001.

Ethical framework

In response to a tightening global regulatory environment for bribery and corruption, including the UK Bribery Act, and in view of the range of existing and emerging ethical risks faced by diversified global mining and metals companies, Xstrata management initiated a number of actions to strengthen the Group's management of, and assurance of, ethical risks. This includes the development of a global Bribery, Fraud and Corruption Policy, Third Party Due Diligence Standards and the development of a global Code of Conduct and associated training.

The new Code of Conduct provides more detailed guidance on the Group's expectations for the conduct of all employees, contractors, agents and other third parties who work for or on behalf of Xstrata in a range of circumstances. The Code consolidates or refers to other relevant Group policies or guidelines, for example Group External Communications Guidelines, Data Protection and Global IT Guidelines and Xstrata's SD Policy and Standards, providing one document that encompasses the key elements of Xstrata's requirements for the conduct of its officers, employees and associates (see Ethics and human rights section, page 33 for more information).

Ensuring consistent implementation of our Sustainable Development 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 the sustainable development of our business. 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 Xstrata's Chief Executive Officer or Chief Financial Officer as representatives of the corporate centre.

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.

Sustainability assurance

Xstrata's sustainability and risk assurance processes are the key measures used to provide Xstrata Board and management with assurance that the Group's Business Principles, policies and standards are being met and that material risks are being identified and managed effectively. Audits, incident investigations and routine reporting provide management with information and data to monitor the performance and effectiveness of the SD systems that are in place.

Xstrata's SD assurance programme is characterised by:

- **External third party audits against the SD Framework:** Regular third party audits against Xstrata's SD Policy and Standards at all managed operations and projects, supplemented by more frequent internal management and risk/hazard focused audits;
- **Focus on performance as well as systems:** Audits that review systems and, importantly, performance against systems, including interviews with site personnel at all levels, from management to operator;
- **Detailed SD improvement plans:** Regardless of the audit score and in line with our commitment to continuous improvement, each audit identifies potential improvements and summarises the actions site management can take to further improve SD performance in a SD improvement plan; and
- **Specialist SD risk audits:** In addition to audits against our SD Framework, in-depth SD risk audits are conducted by Group Internal Audit utilising appropriate specialists to assess specific SD risks at the sites or region that have been identified in each business's annual risk reviews.

2010 review of sustainable development assurance process

Since the inception of the Group HSEC Standards Audit in 2005, and its subsequent evolution into the Group SD Standards Audit, regular feedback has been sought on how the assurance programme could be improved. In keeping with this continuous improvement approach, Xstrata conducted a thorough review of its SD assurance processes in 2010.

A number of changes and improvements emerged from this review, most notably:

- Each managed operation will undergo a third party SD Standards audit at least once every three years using updated audit protocols, including the creation of separate audit protocols for the pre-approval and post-approval phases of major project developments;
- An increased number of trained, independent audit resources will be made available through the creation of a pool of qualified independent third party SD auditors, approved at the Group level;
- Xstrata's commodity businesses will report consolidated reviews on the implementation and effectiveness of site and project SD improvement plans to the Group Executive Committee and Board HSEC Committee. The plans address the findings of the audits together with the outcomes of other internal reviews of the site's SD management systems and performance, and detail the actions required to implement and maintain Xstrata's SD Framework; and
- The SD risk audit process has been incorporated into Xstrata's internal audit programme.

In particular, the incorporation of the SD risk audit process into the Internal Audit programme has removed duplication, improved efficiency in our audit processes and further embedded SD into our operational and business decision making. In 2010, Group Internal Audit visited 29 Xstrata sites in eight countries as well as visiting four divisions and Group. In total, they audited 34 different SD risks, including community relations, vertical openings, contractor management, aviation, furnace eruptions, resettlement, mine closure and tailings storage.

Each commodity business supplements Group-mandated SD Standards and risk audits with a range of additional, regular SD audits that include major hazard audits, legislative compliance audits, and specialist audits in areas such as electrical, lifting and loading, and tailings dam integrity.

The commodity businesses review their SD improvement plans and monitor progress. A consolidated progress report is submitted annually to each commodity business Audit Committee, and the Board Audit and HSEC Committees.

Strategy and governance *continued*

In 2010, Xstrata's commodity businesses each submitted a comprehensive review of progress against its sites' SD improvement plans. This exercise was performed following five years of SD Standards audits to allow sites to concentrate on closing out actions from these audits and Group SD time to review and update our audit protocols to reflect leading audit practice. Third party audits against Xstrata's SD Framework have resumed using the updated protocol in 2011.

Risk and crisis management

Xstrata has a value-driven approach to risk management and a structured and comprehensive risk management framework and system has been implemented across the Group. An ongoing bottom-up self-assessment process is in place, with results updated to operational commodity businesses' and the Group's risk registers.

Our risk management policy requires each commodity business and corporate function to undertake a comprehensive annual risk review as part of an ongoing process for identifying, evaluating and managing significant risks including material SD risks. The conclusions of this review are fully integrated into the annual business strategies and plans presented for Board approval. Progress against plans, significant changes in the business risk profile and actions taken to address controls and mitigate risks including SD risks are reported quarterly to both the business and Group Audit Committees as well as to the Executive Committee and the Board.

We regularly review and publicly report the principal risks and uncertainties that may affect our ability to deliver our business strategy effectively, the potential impact on our business, and the controls in place to mitigate these risks. Material SD risks are addressed as an integral part of this process. More detail is available in Xstrata's 2010 Annual Report on principal risks (see pages 42 to 47) and on risk management processes (see pages 113 to 114).

Each commodity business has processes for monitoring and reporting progress on, and completion of, tasks related to treatment of key risks and regular risk reviews are carried out by independent consultants and/or Xstrata's Group Internal Audit for insurance purposes. We conduct annual workshops with commodity business risk champions to facilitate the sharing of risk learnings and consistency of practices. There is a particular focus on the execution of major projects in the Group internal audit programme, which has been aligned and integrated with SD assurance activities.

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 specifies 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.

Stakeholder engagement

Stakeholder engagement is integral to our SD and risk management strategies. Xstrata's stakeholders include the investment community, employees, contractors, unions, governments (national, regional, local), inter-governmental bodies, regulators, communities associated with our operations, business and joint-venture partners, non-governmental and development organisations, suppliers, customers and media. We identify and engage our external stakeholders at the Group, commodity business, regional, divisional and operational level.

Engagement is undertaken in a number of different ways with relevant external stakeholders throughout the Group's businesses. Our SD Standards require stakeholder engagement to be carried out in a fair and culturally sensitive manner, with the maximum transparency that is commercially achievable.

The table on pages 23 to 27 outlines the material sustainability issues that were the subject of engagement between Xstrata and its external stakeholders during the reporting period.

See Material issues for an explanation of how we define materiality.

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. Full details of the organisations in which Xstrata is involved are available on our website: www.xstrata.com/sustainability.

In accordance with Xstrata's Business Principles, no donations were made to any political party or individuals in 2010.

Material issues

The concept of materiality goes beyond that of financial impact alone and encompasses issues that are important to stakeholders as well as risks, opportunities or initiatives that are important to the organisation. Issues are judged to be material if the information provided is, or may be, required by our stakeholders to make informed assessments regarding our sustainability performance.

We determine what is material to our business through a combination of internal performance metrics, and the monitoring and evaluation of the external context within which we manage our business and operations. It is done through ongoing stakeholder engagement, see pages 23 to 27, a review of scientific developments, review and assessment of performance to date, monitoring of media coverage, competitors' and other extractive industries' reporting of material issues and policy and regulatory trends.

Our key stakeholders



Key findings

During November and December 2010, a consultancy undertook, on behalf of Xstrata, an audit of perceptions held by key stakeholders regarding the sustainability credentials of Xstrata.

Those interviewed were chosen because of their expertise in sustainability issues and included academics, representatives from non-governmental organisations (NGOs), sustainable and responsible investment (SRI) analysts and independent consultants. Interviewees were from the countries which contained major Xstrata operations, or in the case of the UK, possessed a substantial and sophisticated community of sustainability experts with a global outlook. In total 24 individuals were interviewed from eight countries (Argentina, Australia, Canada, Chile, Colombia, Peru, South Africa and the UK).

It encompasses a review of the cultural, social, political, legal, regulatory, financial, technological, economic, natural and competitive factors that impact our activities at local, regional, national and international levels. Xstrata determines what is material at a Group level through a structured annual 'bottom-up' process of review and aggregation at our sites, divisions and commodity businesses, which each determine material sustainability risks, issues and opportunities.

Individuals were interviewed using one-to-one meetings, telephone interviews and focus group sessions. Participants were asked to reply to a core set of questions related to the performance of Xstrata across a range of key sustainability indicators. Some of the responses are detailed below:

- "They have come quite a distance in the last few years. There has been a serious effort put in to drive improvements in social and environmental performance" *Academic, Australia*
- "I am impressed that operational managers visited sites they didn't know (described as best practice) but I feel that Xstrata needs to go even further in ensuring the overall auditing process adds as much value as possible" *SRI analyst, UK*
- "In general terms I view their reporting as reliable. When Xstrata show that not everything is perfect, it generates credibility" *Academic, Colombia*
- "There is a desire to hear more about the company's thinking in terms of business opportunities in more sustainable resources e.g. clean coal and GHG geo-sequestration" *SRI analyst, UK*
- "...we find the site and divisional reports excellent. Xstrata is one of the few companies to provide this level of detail. We like (and prefer to other approaches) Xstrata's performance-focused approach to sustainability reporting" *SRI analyst, UK*
- "Xstrata is honest. They are not shy to report on issues which expose weaknesses" *NGO South Africa*
- "Reflecting their longer-term perspective we would like more horizon-scanning of opportunities and threats in terms of environmental legislation and regulation more generally" *SRI analyst, UK*

As a global mining company, we face a large and varied set of material SD risks and opportunities. Material risks and opportunities in 2010 remained consistent with those identified in our 2009 Sustainability Report, although in a number of areas the potential nature and implications have evolved. Our material SD risks and opportunities are summarised at the beginning of the sections in this report on 'Our People', 'Environment' and 'Community'. We continue to evaluate these issues carefully and adjust our management approach and priorities accordingly.

Strategy and governance *continued*

Material, company-wide SD issues that evolved and were given additional attention by Xstrata and our commodity businesses during 2010 include:

Climate change and energy (see pages 63 to 72 for further detail):

Developments at the international level continue to fail to provide the predictable policy framework needed for long-term business investment decisions. However, many national governments are pushing ahead with introducing regulations on greenhouse gas (GHG) reporting and limiting GHG emissions – in many cases via emission trading or carbon tax systems that, effectively, put a price on carbon. As a company with energy-intensive operations and activities in many different countries, and in particular substantial interests in thermal coal, the actual and potential implications for Xstrata are significant. We generated more than 24 million tonnes of GHG (in carbon dioxide equivalents) during 2010, approximately a third of which was due to fugitive methane emissions from coal mining. In addition, our overall carbon footprint is dominated by the GHGs released as a result of our customers burning coal we produce – emissions that amounted to about 190 million tonnes in 2010. We are developing and implementing integrated commercial and operational strategies to address GHG emissions within Xstrata and we are participating in a CEO-led group of leading mining companies through the ICMM to develop an industry position on climate change and engage pro-actively in the global debate. We also continue to invest significant resources, in collaboration with others, in developing and piloting carbon capture and storage (CCS) at several locations around the world, with the aim of finding commercially competitive solutions in an increasingly carbon constrained regulatory environment.

Water use and scarcity (see pages 73 to 75 for further detail):

We have operations in a number of regions, such as north Chile and some regions of Australia, where local water resources are scarce. In these regions, climate change as well as forecast increases in demand by competing users are set to exacerbate the problem. In some cases, this could threaten expansion options, and even the ongoing viability of our operations. The demands by national governments, international organisations such as the United Nations and NGOs for improved efficiency in using water resources, including tighter regulatory and permit conditions, and for more consistent transparency and reporting on water use and the efforts to reduce its use by companies are growing. Our operations have been tackling this issue for a number of years and we continue to improve the efficiency with which our operations use water, increase water recycling and improve our data capture, performance monitoring and reporting. For example, we increased our use of recycled water by 11% across the Group in 2010 compared to the prior year. In May 2010, Xstrata plc endorsed the UN Global Compact CEO Water Mandate and we are participating in the workstream to address corporate water disclosure, which aims to harmonise water accounting methodologies amongst participating companies.

Human rights and local community engagement (see pages 34 to 36 for further detail): We face potential human rights issues in relation to our workforce, security and the communities in which we operate. We undertake human rights risk assessments at all operations and in regions with elevated risks, we implement

human rights training and other targeted initiatives. We support and implement the requirements of the Voluntary Principles on Human Rights and Security. During 2010, we trained 41% of our total workforce (employees plus contractors) in human rights awareness and preventing abuses. Community engagement remains a key priority for all of our operations with the objective of securing broad-based, ongoing support for our activities.

Safety (see pages 39 to 45 for further detail): Safety continues to be a major issue and challenge for the mining sector. Scrutiny by regulators means that poor performance on safety can lead to site shutdowns and impact a company's licence to operate. At Xstrata, improving our safety performance continues to be a major priority. We believe all Xstrata personnel have the right to operate in a safe environment that allows them to return home safely each day. While the rate of injuries has declined substantially over the past several years, and the number of fatalities has also decreased, three fatalities occurred at our managed operations during 2010. We continue to dedicate significant time and other resources to addressing the root causes of safety incidents, enhancing the effectiveness of our major hazard management plans and creating a consistent safety culture where continuous improvement and active risk detection and control are organisational and personal values.

Assurance, transparency and reporting (see pages 19 to 20 for further detail): Investors and other stakeholders continue to demand more detailed information about companies' sustainability performance and associated assurance and governance frameworks and processes. Site-level, third party SD assurance and transparent reporting have been cornerstones of Xstrata's approach to managing its sustainability performance and integrating it into our core business strategy, planning and operational processes. 2010 saw further enhancements to our SD assurance programmes. For instance, Group Internal Audit incorporated SD risk auditing into its protocols, and as a result, 34 different SD risks were audited at 29 Xstrata sites during the year.

Off-site dispersion of dusts and SO₂ (see pages 79 to 80 for further detail): Emissions of particulates (dust) and SO₂ are controlled by national regulatory bodies through stringent emission limits and reporting requirements for large industrial operations such as mines and smelters. Recent epidemiological studies in the US and Australia have raised further awareness about the issue and in some countries, existing emission limits are being revisited. Xstrata recognises the importance of limiting dust and SO₂ emissions from its operations. Over the last two years, significant reductions have already been made by Xstrata's operations. Group-wide, we reduced sulphur emission by 11% in 2010 alone over the previous year, despite increased production at those facilities responsible for emissions (such as smelters). We continue to invest in and implement additional controls to reduce our emissions further.

Our most significant engagements and public policy initiatives in 2010 are shown in the table below:

| Issue | Relevant stakeholders | Xstrata's response |
|---|---|---|
| Environment | | |
| Proposed climate change legislation in Australia, Canada, South Africa and UK | <p>Australian, Canadian, South African and UK government:</p> <p>Industry bodies</p> <p>Partners</p> <p>Investment</p> <p>Community</p> | <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>We are actively involved in the International Council on Mining and Metals's work to review its position on climate change and its engagement activities.</p> <p>In Australia, we are actively engaging with the government on the design features for a proposed carbon pricing scheme to be introduced by 1 July 2012.</p> <p>Xstrata is a member of the Government of Ontario's multi-stakeholder working group on cap and trade, and has provided input into the development of Quebec's climate change policy.</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.</p> <p>In Germany, Spain and the UK, we are involved in consultations relating to the respective governments' Low Carbon Industrial Strategies. In the European Union, we are participating through our membership of industry bodies in the process around the revised directive for the EU Emissions Trading Scheme.</p> <p>We are actively involved in public hearings, workshops and industry groups working with South Africa's National Treasury and Department of Environmental Affairs (DEA) on proposed carbon tax options, climate change policy issues and low emission technology developments. In addition, Xstrata assisted the DEA to update the National Greenhouse Gas Emission Inventory.</p> |
| Support for low emissions coal technology | <p>Inter-governmental bodies and national governments</p> <p>Industry bodies</p> <p>Research institutes/scientific community</p> <p>Power generation industry</p> | <p>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.</p> |
| Historic soil contamination/land remediation (Canada, Australia) | <p>Australian state/Canadian provincial and local government</p> <p>Environmental regulators</p> <p>Communities</p> <p>NGOs</p> <p>Industry partners</p> <p>Media</p> | <p>We work with stakeholders to remediate areas of historic contamination from mining and metallurgical activities.</p> <p>In Canada, with the completion of the Sudbury Soils Study, Xstrata's Sudbury operation is actively developing biodiversity principles in consultation with the City of Greater Sudbury, both to increase base-line knowledge of existing ecosystems and to further the efforts of the regional Biodiversity Action plan. A major remediation programme was completed in 2010 at Murdochville and Sandy Beach, Canada.</p> |

Strategy and governance *continued*

| Issue | Relevant stakeholders | Xstrata's response |
|---|---|---|
| Environment <i>continued</i> | | |
| Responsible sourcing of coal | European Union National governments NGOs Power companies | Throughout 2010, Xstrata Coal participated in the Dutch Coal Dialogue with other ICMM member companies, power companies and NGOs regarding the responsible sourcing and supply of coal to the Netherlands. Xstrata is a member of the Responsible Coal Initiative in Europe initiated by power companies. |
| Energy costs, security of supply, efficiency and alternative energy sources | National government 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. 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. |
| Water use in water-constrained regions (North Chile, North Queensland, Argentina) | Government Communities NGOs Environmental regulators Industrial and agriculture users | 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. In northern Chile, the use of sea water in place of fresh water is investigated during the development of projects. |
| Air emissions legislation (Australia, Canada, Chile) | Government Environmental regulators Community Media | We aim to continually reduce emissions from metallurgical operations and set SO ₂ capture targets annually. We engage with government, community and environmental regulators on proposed amendments to air emissions legislation and keep them informed about our progress in reducing emissions. We launched the Smelter Emissions Reduction Project at Mount Isa in 2007 and in 2010, invested over AUD8.7 million on a range of initiatives to limit emissions from the copper and lead smelters. Since taking ownership of the Mount Isa Mines operations in 2003, Xstrata has invested in excess of \$275 million on over 220 environmental initiatives, which includes air emissions projects. Xstrata submitted a response to the Australian Government's discussion paper on air quality standards as part of the Review of the National Environment Protection (Ambient Air Quality) Measure. Xstrata's key recommendation was for a Government-established national strategic framework on air quality that adopts a risk based approach with appropriate guidelines for industry, taking into account the local and regional context of any existing and/or proposed development. We are currently working with regulators in the development of more stringent health-based air quality standards in Ontario, Canada. The emissions reduction project will involve the alteration of existing standards in order to allow our metallurgical facility in Sudbury the time to develop the appropriate technology to meet future requirements. |

| Issue | Relevant stakeholders | Xstrata's response |
|---|--|---|
| Environment <i>continued</i> | | |
| EU REACH legislation and proposed amendments to EU Dangerous Substances Directive | <ul style="list-style-type: none"> EU Commission and Directorates General EU member state governments Industry bodies Industry partners 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. By working with the various REACH consortia formed by industry, we successfully registered our nickel, ferronickel, zinc, lead, copper, cobalt, cadmium, zinc oxide, sulphur dioxide and sulphuric acid products, and all the relevant intermediates and feeds, by the first REACH registration deadline of 30 November 2010. Registration is only the first step in the REACH process. Starting in 2011, the technical dossiers accompanying all registrations will undergo an evaluation process for the quality of the data and assumptions, and some substances will face an authorisation process. Through professional associations, we continue to challenge the substance classifications in the 1st Adaptation to Technical Progress of the Classification, Labelling and Packaging Regulation.</p> |
| Community | | |
| Lead at Mount Isa, Australia | <ul style="list-style-type: none"> Australian federal, state and local government Mount Isa community Investment community Media | <p>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.</p> <p>We are funding an independent PhD Lead Pathways Study, Phase 1 (land) of which was published in 2009 and are remediating any identified areas of historic contamination. Phase 2 (air) and Phase 3 (water) of the Lead Pathways Study are targeted for publication in 2011. The Smelter Emissions Project was launched in 2007 to characterise smelter emissions and identify opportunities to significantly increase the capture and treatment of emissions.</p> |
| Resettlement – Peru, Colombia | <ul style="list-style-type: none"> Communities National, regional and local government NGOs Las Bambas Independent Advisory Group Carrejón Third Party Review Panel | <p>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 resettlement of the Fuerabamba community.</p> <p>In Colombia, the Carrejón coal operation is implementing a number of recommendations made by an Independent Review Panel regarding current resettlements as well as the Tabaco resettlement which took place over five years prior to Xstrata acquiring a stake in Carrejón.</p> |

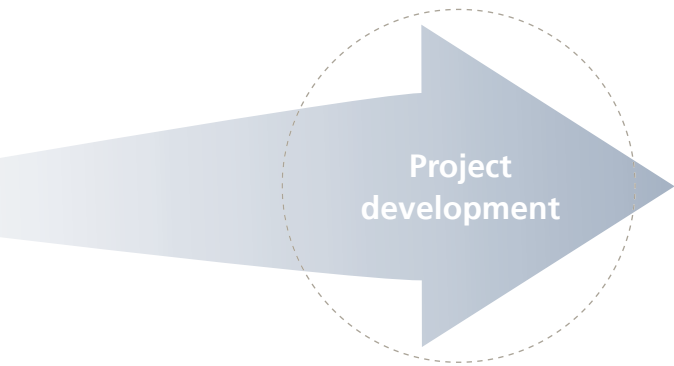
Strategy and governance *continued*

| Issue | Relevant stakeholders | Xstrata's response |
|---|---|--|
| Community <i>continued</i> | | |
| Security, human rights, social engagement at higher risk locations including Tampakan, Philippines and Cerrejón, Colombia | National and local government Public and private security providers Community NGOs Investment community | We implement the Voluntary Principles on Security and Human Rights and in higher risk regions undertake human rights training for employees and contractors. We engage with government, public security providers and communities to improve security in higher risk regions and to raise awareness of the Voluntary Principles and human rights training. See pages 35 to 36. |
| Corporate social involvement (CSI) initiatives | Communities Regional and local government Healthcare providers Industry partners 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 2010 we set aside 1.2% of Group profit before tax for CSI expenditure, and donated a total of \$84 million, including in-kind donations (e.g. of equipment or personnel time). |
| Employment opportunities, employment legislation and impact of operational restructurings or closures | Employees Communities Unions Governments Suppliers and customers Media | 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. 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. In Canada, we worked with the local authorities ahead of the closure of the Kidd Met site in May 2010. Through its membership of the Minerals Council of Australia, Xstrata Coal commented on the harmonisation of OHS legislation in Australia. |

| Issue | Relevant stakeholders | Xstrata's response |
|--|---|---|
| Economic | | |
| Executive remuneration | Investment community Employees 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 when setting remuneration:</p> <ul style="list-style-type: none"> ■ Remuneration supports Xstrata's strategy and is aligned with shareholders' interests; ■ Total reward levels are intended to be within the top quartile for outstanding performance measured against global mining and FTSE 100 peers; ■ A high proportion of remuneration should be 'at risk'; ■ Performance-related remuneration comprises at least 50% of total potential remuneration for executive management; ■ Performance-related payments are subject to demanding short-term and long-term performance targets; and ■ Individual performance criteria include SD performance targets, including occupational health, safety performance, people development, environmental performance and community engagement. <p>See the Remuneration Report available in the Xstrata Annual Report 2010.</p> |
| Amendments to mineral taxation and royalty regimes | Governments Regulators Industry bodies 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>In Australia, Xstrata engaged with the federal government on the proposed Mining Minerals Rent Tax (MMRT). Following signed heads of agreement between the government, Xstrata and other mining companies a policy transition group (PTG) was established to advise the government on the implementation of the MRRT agreement. The PTG submitted their report to government in October 2010 and the government is expected to issue a formal response in the first half of 2011. Royalty credits is still the key issue that needs to be resolved.</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 Industry bodies NGOs Investment community | <p>We actively engage in the process to implement the EITI in Peru, including participating as the alternate national mining industry representative.</p> <p>We discuss transparency and distribution of mining revenues with government and regulators in several operating regions.</p> |

Responsible mining practices throughout the life cycle

Sustainability challenges vary according to the region, nature of our activities and stage of an operations life. We strive to integrate sustainability considerations into our management practices throughout the life cycle of our operations.



Resettlement of around **450** households

Xstrata Copper's Las Bambas is located on the Andean plateau of southern Peru.



An educational resources programme run by Xstrata Copper's Las Bambas project in Peru.

Community engagement at Las Bambas, Peru

When Xstrata Copper acquired the option to explore Las Bambas in August 2004, our specialist community relations team entered the project area well in advance of the start of exploration. This area in the Andean plateau of southern Peru was untouched by any previous mining or industrial development, and the local population suffers from poverty, malnutrition and poor health conditions. The Xstrata team developed lines of communication with the local community, and conducted workshops with residents and non-governmental organisations (NGOs) to proactively identify the strengths, aspirations and challenges of the community. The initial issues discussed included employment opportunities, economic development and environmental impact – especially impacts to water quality and availability. By March 2005, when the drill rigs arrived for the first year of exploration, there were approximately 20 people employed in the Las Bambas community relations department, the majority of whom spoke the local language Quechua. These early steps established the foundation for ongoing engagement with these stakeholders, which has proven to be essential to the success of this development project.

Representatives from the Fuerabamba community began meeting regularly with our project team in late 2009 to work through the issues associated with resettling about 450 households to accommodate the proposed mining operations. The regional and district governments provided training for community members in negotiation, mining, land and human rights to ensure that the people could give free and informed consent to the resettlement plan. Through the engagement process, the community identified several objectives to be achieved from resettlement, including access to education, preservation of cultural heritage, access to health services and sanitation, development of economic opportunities and responsible management of natural resources.

During 2010, the community approved the resettlement agreement and the location for its new homes. Resettlement of the Fuerabamba community and livestock is scheduled to begin by the end of 2011.

Over the course of the development to date, thousands of individuals from the 49 communities within the area of influence have attended community meetings and open house events to learn about the Las Bambas project and to participate in dialogue on resettlement as well as other stakeholder issues. At the public consultation meeting held in July 2010 to present findings of the Environmental Impact Study, we hosted approximately 7,000 people.





Truck hauling coal at Newlands Coal in Queensland, Australia. Newlands is a producer of export steaming coal and coking coal.

Operations

Innovative approaches to safety developed by Xstrata Coal employees

During the year, employee teams across Xstrata Coal developed new ideas for accomplishing mine tasks more safely.

Continuous miner lights at Baal Bone, Australia

Workers developed the idea of installing red and green lights to indicate the safe zones on a piece of machinery, whether operating or idle. The mine currently has procedures for identifying safe zones; however, by adding the highly visible red and green lights to the equipment, workers in the vicinity can instantly tell, from a distance, whether it is safe to approach. Mine personnel came up with the idea as a result of a regular daily safety meeting at Baal Bone, after discussion of a recent crushing incident at another company's mine site.

Improved brake maintenance procedure at Queensland mine sites, Australia

The engineering department in Queensland undertook a research project to improve the method for testing brakes on medium-sized trucks (similar to tractor-trailers typically seen on highways). The Queensland mining inspectorate raised the issue of truck brakes following a number of incidents affecting the industry. The standard test for braking systems, the dynamic brake test, was found to be inadequate in that defective brakes could still pass the test. Our engineering group developed an alternative method and formal guideline for using thermal imagery to examine the condition of each brake assembly. This method provides instant data to assess the integrity of the braking system, can be carried out quickly and requires only a very basic level of training to obtain and interpret the data.

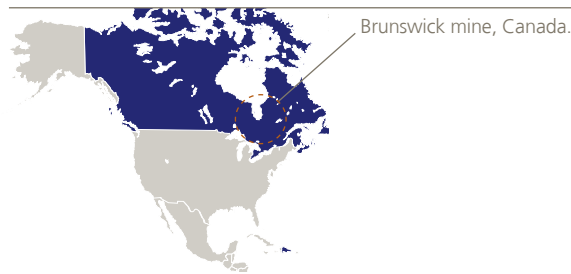
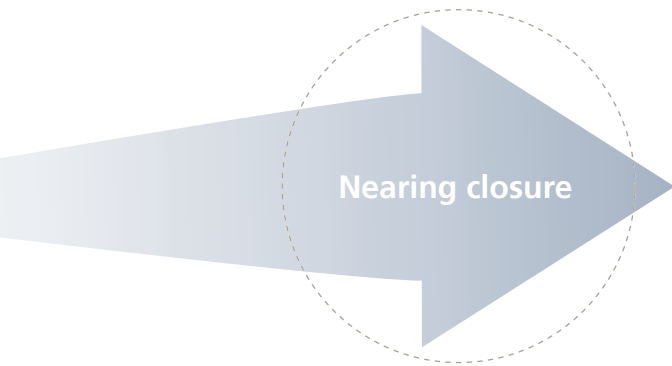
Collision avoidance

Engineers at Xstrata Coal continue to test and develop innovative systems for detecting proximity and for avoiding collisions. Vehicle-to-person collisions underground are one of the most common causes of serious injury. We have convened a working group across the commodity business unit to direct our activities in this area, and we are also coordinating with other mining companies and equipment manufacturers to identify important safety features. We contribute funding and also provide testing environments for the proposed new systems.

27%

year-on-year reduction
achieved by Xstrata Coal
in total recordable injuries





5%
reduction in energy intensity
achieved by Brunswick mine
since 2007

Energy conservation at Brunswick mine, Canada

When a mine is nearing closure, it can be a challenge to continue making significant improvements in energy performance. Extracting the last portion of available ore can be more energy-intensive than earlier stages of mining. Yet at Xstrata Zinc's Brunswick mine, focused efforts have resulted in greater energy efficiency, even as the site nears its expected closure in 2013.

The mine has utilised its metering data to analyse the use of electricity, fuel oil and compressed air to identify opportunities for conservation. For instance, by recovering waste heat from the zinc dryer exhaust and other mine processes, the facility was able to reduce the amount of steam that had to be generated, thereby reducing the operation of oil-fired boilers.

Energy efficiency projects currently underway at the mine include:

- Concentrate drying optimisation – implementing better controls within this energy-intensive process;
- Boiler efficiency improvement – reducing excess air and improving heat transfer so that less fuel is needed for the same level of steam output;
- Electricity use – optimising the mill production rate to reduce overall electricity consumption; and
- Energy management – utilising the energy monitoring information system to provide data for tracking progress.

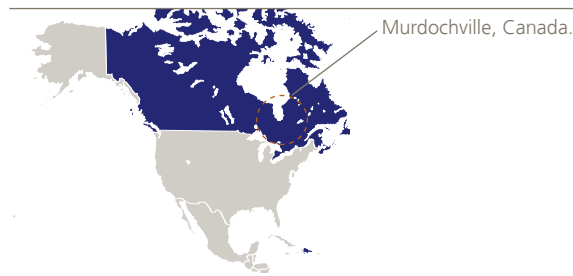
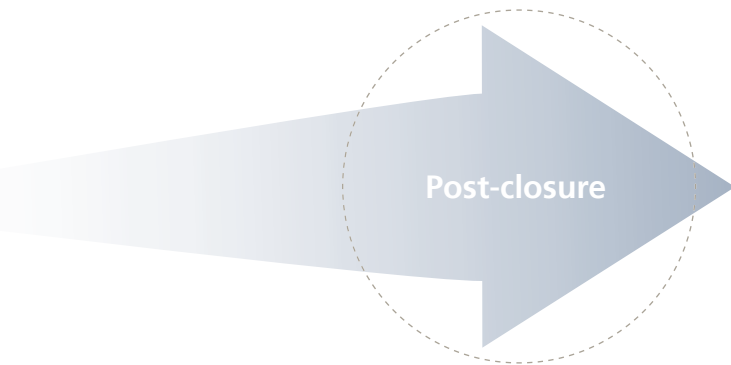
Data on energy use is available in real time at more than 200 process points around the mine site, serving to inform and motivate employees. Since 2007, the Brunswick mine has reduced its energy intensity by 5% and its direct greenhouse gas emissions intensity by 17%.

The silver refinery at the Brunswick lead smelter in Canada.





Removing contaminated soil and replacing with new soil during the rehabilitation of residential lots at Sandy Beach, Gaspé, in Canada.



CAD130 million

total investment to implement the reclamation plan

Rehabilitation in Murdochville, Canada

During 2010, Xstrata Copper completed the reclamation and rehabilitation work following the closure of the Gaspé Smelter in Murdochville, Quebec. This marks the culmination of a five-year effort to rehabilitate the former mining and metallurgical site and nearby properties in Murdochville and the Sandy Beach region surrounding the port of Gaspé. Our total investment to implement the reclamation plan was approximately CAD130 million.

The soil rehabilitation programme targeted surface soils in Murdochville and Sandy Beach that were impacted by 50 years of metallurgical and logistical operations. The demolition of plant buildings required careful planning to make the most of equipment resale and recycling opportunities. Contractors from the surrounding area were given preference in bidding for the necessary work throughout the project, accommodating up to 250 workers at peak employment. The project's safety record is impressive: there were no lost-time injuries during the rehabilitation project.

The remaining tailings dams at the site have been reinforced and reconfigured to withstand peak meteorological events, and a new, less energy-intensive water treatment facility has been built. A full-time Xstrata Copper employee remains on site and is responsible for inspecting the dams and ensuring the water treatment facility is functioning properly.