



28 January 2010

Ms Hazel O'Sullivan
Project Director
The Auditing Practices Board Ltd
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Dear Ms O'Sullivan

APB Ethical Standards – Audit firms providing non-audit services to clients

INTRODUCTION

Xstrata plc welcomes the opportunity to comment on APB Ethical Standards - Consultation on audit firms providing non-audit services to listed companies that they audit, October 2009 ("the Consultation") issued by the Auditing Practices Board ("APB").

We have provided overall comments and replied to the six questions included in the Consultation.

ANSWERS TO SPECIFIC QUESTIONS

Q1. (a) Do you think that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors? Please give reasons for your view.

We do not believe the independence of an auditor, or the perception thereof, is damaged through the delivery of non audit services. We view the audit as being a separate process and provided the audit firm are not performing services which will result in them auditing their own work we do not see this as an independence issue. We do believe that appropriate governance policies should be applied by management and Audit Committees to ensure that the non audit work performed by audit firms does not compromise independence.

Q1. (b) Are you aware of any instances where the provision of non-audit services by accounting firms to their audit clients has or may have adversely affected audit quality? Please give reasons for your view.

No, in our history of having our audit firm provide non audit services we have not come across any instances whereby audit quality is affected by the provision of these services. We do not expect such instance to occur in the future. On the contrary, there have been instances where the provision of non audit services by an independent team alongside the audit team has improved audit quality. Further, we believe that in many instances, appointing another accounting firm would be very inefficient and may expose the company to greater risks as the accounting firm lacks the detailed knowledge of the business which the auditor already has.

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Q2. If you do consider that the provision of non-audit services has adversely affected audit quality or currently impacts confidence in the independence of auditors please identify which non-audit services are of concern? Please give reasons for your view.

Not applicable.

Q3. In the light of your answers to questions 1 and 2, do you think that there needs to be a change in the approach taken by APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit? Please give reasons for your view.

No. We believe that the assessment of whether non audit services can be provided by an audit firm rests with the audit firm and the company to which the services will be provided. While we acknowledge the need to ensure auditor independence is maintained, each individual company in conjunction with their audit firm, must be responsible for implementing the governance practices that are most appropriate for their circumstances. An approach that seeks to provide additional guidance through the application of formal standards may result in outcomes that are not appropriate to the various scenarios that exist in practice.

Our feeling is the legislation policy should be aimed at facilitating the development and use of safeguards therefore enabling both audit clients and audit firms to determine the most efficient use of services.

Q4. If you think that there should be a change in the current arrangements, would you advocate: i) Complete or more extensive prohibitions on the provision of non-audit services by accounting firms to their audit clients within the Ethical Standards for Auditors; ii) The imposition of other requirements through the Ethical Standards for Auditors (and if so which); iii) More active corporate governance – e.g. so that non-audit service engagements were required to be pre-approved by the company's board of directors or audit committee; iv) Better (and more extensive) disclosure in financial statements. Please provide reasons for your views and any suggested solutions.

- i) We consider that the range of services currently allowable for auditors of a company to perform are reasonable and do not impair independence. In our view, more prohibitive restrictions on these services would result in inefficiencies and potentially higher costs for the company.
- ii) We do not consider any additional requirements necessary.
- iii) We acknowledge the need for improved corporate governance in this regard and feel this would be a suitable improvement. For example there could be a requirement on companies to (a) disclose their policy on the engagement of the external auditor to supply non-audit services and explain the rationale for engaging their auditors and (b) that the audit committee should review annually the amount spent by the company on non-audit services. While supportive of general recommendations, we consider that the imposition of specific quantitative restrictions would not be helpful given the wide range of entities and their respective sizes for which restrictions would apply.

- iv) We are not convinced more extensive disclosure of non-audit services within the financial statements would greatly add to improved transparency or a user's ability to make informed decisions regarding the company.

Q5. In setting the standards relating to auditor independence, do you believe regard should be had to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors? If your answer is yes, please provide specific examples of these benefits and indicate the magnitude of any cost savings that arise.

Yes, we believe there are extensive benefits of retaining the audit firm in performing non-audit services. Our business is one of many complexities and operates across several world-wide jurisdictions. The existing knowledge base and relationships that are in existence between the company and the auditor ensure that cost, quality and consistency benefits are derived which in turn benefits shareholders.

The audit process is highly sophisticated, looks at a wide range of our business and involves a range of specialists and as such there is a significant level of knowledge that an audit firm acquires through the audit process. When using the audit firm in performing non audit services we believe the intimate knowledge these professional staff already have of our business and their existing relationships with our people help drive efficiencies.

Q6. Are there any other views that you would like the APB to take into account?

We have a well established governance process in place to ensure that the use of our auditors to perform non audit work does not result in their independence being impaired. Further, we consider the time and effort spent on ensuring that auditor independence is not breached is more than offset by the advantages and efficiencies gained as discussed.

CONCLUSION

In summary we believe the provision of non audit services by the auditor increases efficiencies and reduces costs which in turn can help drive shareholder value. We believe regulation should be around creating safeguards and allowing the market to act as the main disciplinary agent.

We hope you have found our comments helpful. Please do not hesitate to contact me personally if you require further clarification on any of the above points.

Yours sincerely



TREVOR REID