



# CREATING VALUE:

## INTERDEPENDENCIES WITH THE CAPITALS

### CAPITALS



#### PEOPLE

Everything we do depends on the wellbeing, skills, knowledge, expertise, productivity, motivation and behaviour of our employees, the leadership team, contractors and service providers.

### NECESSARY INPUTS

- Employees and contractors operating within an environment fostering a zero-harm, performance-based culture (2019: **6,107** permanent employees, **5,596** contractors and **514** learnerships)
- An **experienced and sufficiently diverse leadership team**, demonstrating values-driven behaviour
- Service providers, **delivering on agreed terms and conditions**, and facilitating our drive for transformation and local development

#### Challenges in securing these inputs:

There remain significant competitive pressures in attracting and retaining top skills and diverse talent. This year, some employees in key positions left the company; we have promoted from within and have also attracted skilled talent from the market to fill these positions.



#### OUR RELATIONSHIPS

Trusted relationships with stakeholders is essential to maintaining our licence to operate and reputation, and to enabling us to deliver on the Tswelopele strategy.

- **Positive** engagement with unionised and non-unionised workforce
- Constructive **relationship** with representatives from government and regulators
- Continued **confidence** from our shareholders, investment community and customer base
- **Diversified customer portfolio**, with the quality of our products supporting our competitive advantage
- **Trusted reputation** with host communities, civil society bodies, NGOs and media
- **Effective** service delivery and engagement from suppliers and contractors
- **Conducive** local, national and global operating environment, founded on mutual trust

#### Challenges in securing these inputs:

Declining levels of trust in institutions globally, particularly with multinational corporations, has heightened the importance of developing strong relationships. The challenging iron ore price environment has required us to take actions that have tested some of our relationships. Managing occasionally competing interests of different stakeholder groups can necessitate some difficult decisions and trade-offs. These challenges are heightened by the continuing high levels of inequality and some long-standing constrained stakeholder relationships in South Africa.



#### NATURAL RESOURCES

Our business model involves converting natural and mineral resources into social and economic value; doing so has some unavoidable environmental impacts.

- Inclusive mineral resources: **1,262.0 Mt**
- Water: Total withdrawal of **30.5 million m<sup>3</sup>** (1% decrease year-on-year)
- Energy: Total consumption of **8.78 million GJ** (1% reduction year-on-year)
- Diesel: **197.8 Mℓ** purchased (2% reduction year-on-year)
- Land: **92,094 hectares** land under management; 2,500 hectares set aside for biodiversity offsets

#### Challenges in securing these inputs:

We are heavily reliant on water as an input to mining and processing activities. Our mines are in the water-stressed Northern Cape, where arid conditions and municipal potable water supply constraints underscore the need for responsible water management. To maintain our licence to operate, we take all reasonable steps to ensure that we do not degrade water quality or compromise the access rights of other users. We continue to increase the water reuse rate at our operations with the aim of achieving an 85% reuse rate by 2030.

✔	Positive outcome
○	Neutral outcome
✘	Negative outcome

Our ability to create value over time – and any assessment of the “value” we have created, undermined, and/or shared – is determined by how we interact with the resources and relationships that our business model depends on.

## ACTIONS

### To enhance EMPLOYEE contribution

Our activities and investments in providing a safe, healthy and engaged working environment, promoting employee training and development, ensuring fair labour and contracting practices, and encouraging local employment opportunities, provide the foundation for optimising value creation. A review of our activities is provided in the following sections of our 2019 reports:

- **Leadership and culture** (IR – p 49)
- **Provide leadership through responsible citizenship** (IR – p 48)
- **Our people** (SR – p 32)
- **Building social capital** (SR – p 58)

### To enhance our RELATIONSHIPS

A review of our activities aimed at strengthening stakeholder relations is provided in the following sections of our 2019 reports:

- **Addressing stakeholder interests** (IR – p 30)
- **Provide leadership through responsible citizenship** (IR – p 48)
- **Building social capital: Making a positive social contribution** (SR – p 64)
- **Our People: Workforce culture and capability** (SR – p 49)
- **Stakeholder engagement** (SR – p 30)

### To minimise ENVIRONMENTAL impacts

In addition to mitigating the direct impacts of our activities, we seek to offset any remaining impacts through the provision of energy and water services to the local community, and the responsible sharing of the socio-economic benefits deriving from our mining activities. A review of our activities to reduce our environmental impacts is provided in the following sections of our 2019 reports:

- **Provide leadership through responsible citizenship** (IR – p 48)
- **Environmental impacts** (SR – p 76)

## OUTCOMES

### The effect of our activities on EMPLOYEES

- ✔ Sustained **strong** safety and occupational health performance
  - **Zero** employee and contractor fatalities (2018: zero)
  - Total recordable case frequency rate of **2.06**, against a target of 2.55 (2018: 1.80)
  - **No** new cases of noise-induced hearing loss or occupational respiratory disease
- ✔ Enhanced employee **skill-set, wellbeing, diversity and commitment**, through key initiatives:
  - **R5.0 billion** spent on employee salaries and benefits (2018: R4.6 billion)
  - **R289.0 million** invested on training and development (2018: R232.0 million)
  - **Leadership and culture initiatives** to support employees through the Tswelopele journey
  - Diversity: **71%** HDSA in management (2018: 68%); 23% women in total workforce (2018: 23%)
- ✔ **Job satisfaction** and personal development
- **31** employee grievances referred to Commission for Conciliation, Mediation and Arbitration (CCMA) (2018: 53)

### The effect of our activities on our RELATIONSHIPS

- ✔ Continued to maintain strong employee relations:
  - **3.37%** employee turnover rate, well below the industry benchmark
  - **No** industrial action since 2012
  - **Implementation** of new employee share ownership scheme, Karolo
- ✔ Constructive relationship with national, provincial and local government through regular engagement, strong regulatory compliance, and encouraging performance on transformation and developmental objectives
  - **Positive** delivery in terms of Mining Charter and National Development Plan (NDP) expectations
  - **No** material fines for non-compliance during the year
  - **R11.9 billion** total tax contribution (2018: R6.2 billion)
- ✔ Significantly improved relationship with Transnet throughout the year as a result of focused bilateral engagements
- ✔ Sustained confidence from shareholders and investment community through strong financial performance
- ✔ Long term, stable customer base
- ✔ General encouraging relationship with communities, enhanced by active engagement and provision of economic opportunities, infrastructure and services:
  - **91%** of Kumba employees recruited from local areas
  - **R2.4 billion** spent on more than 300 suppliers from our host communities (2018: R1.4 billion)
  - **R13.9 billion** B-BBEE procurement spend (2018: R11.8 billion)
  - **R170.9 million** social investment, including in health, education and infrastructure (2018: R120.5 million)
  - **Carefully managed** relocation of the Dingleton community to a new purpose-built suburb, in accordance with IFC standards
- ✘ **46** community complaints, relating mainly to environmental impacts
- ✘ Some **frustrations** expressed by local business forums regarding unmet expectations on economic opportunities

### The effect of our activities on NATURAL RESOURCES

- ✔ **No** serious (level 3 to 5) environmental incidents for fourth consecutive year
- ✔ **No** water source or habitat materially negatively affected by our extraction and use of water
- ✔ **Clean** mine water recharged into underground aquifers neighbouring Kolomela (roughly 36,000 m<sup>3</sup>/month)
- ✔ **65 hectares** rehabilitated during the year
- **Progress** in mitigating dust emissions at our mining operations
- ✘ **Limited increase** in total greenhouse gas emissions over the year (to 1.00 million tonnes CO<sub>2</sub>e)
- ✘ **Decrease** in overall Ore Reserves of 6% (41.1 Mt), as a result of annual production and decrease of 46% (490.7 Mt) in Mineral Resources, due to the removal of the Zandriverspoort project from Kumba's resource portfolio in 2019
- ✘ **20** environmentally-related community grievances relating mainly to groundwater levels and dust (2018: 20)
- ✘ **14,838 hectares** disturbed by mining, processing and mineral waste disposal



# CREATING VALUE:

## OUR INTERDEPENDENCIES WITH THE CAPITALS CONTINUED

### CAPITALS



#### FINANCIAL CAPITAL

Access to cost-effective financial capital – such as equity, debt, reinvestment and other financial instruments – is an essential basis for sustaining and creating further value across all capital stocks.

### NECESSARY INPUTS

- Market capitalisation: **R91 billion** at end of 2018
- Capital expenditure to execute growth projects: **R537 million**
- Robust balance sheet
- Cash generated from operations: **R34.7 billion**
- **Debt-free** since March 2017
- Good track record

#### Challenges in securing these inputs:

Our ability to generate financial capital for reinvestment in the Company is a function of various internal and external factors reviewed in more detail throughout this report. Access to external financial capital is determined by Company fundamentals, investor sentiment, the status of the mining sector, country risk and the global economy more generally. Current bleak prospects regarding South Africa's economic outlook and fiscal sustainability – compounded by concerns with the public sector wage bill, poor performance of state-owned enterprises, corruption and political uncertainty – are negatively impacting fundamentals and investor sentiment. A potential downgrade by ratings agencies would raise the cost of financial capital.



#### MANUFACTURED ASSETS

Our substantial financial investment in the purchase, development and maintenance of property, plant and equipment has given us the capacity to generate longer-term returns.

- Well maintained and functional property, plant and equipment: 2019 book value of **R39.4 billion**
- Opportunities for growth: **Exploration, development and production** operations in the Northern Cape province
- **Reliable** provision of services from service providers and contractors

#### Challenges in securing these inputs:

Ensuring continued access to reliable manufactured assets at our operations requires targeted investment in the acquisition, maintenance and/or replacement of property, plant and equipment. Key challenge in securing necessary inputs include competing demands for access to financial capital, unexpected events contributing to equipment failure, and potential delivery and other delays from service providers.



#### INTELLECTUAL CAPITAL

Delivering on our strategy and business model requires a strong performance-based ethical culture, effective management systems and continuing innovation in processes and technology to produce the most efficient and effective outcomes.

- **Values-driven** performance-led Company culture
- Anglo Operating Model providing a sequenced and repeatable set of work steps to **deliver** the intended purpose of our teams' work in the most efficient manner
- **R331 million** invested in technology roadmap

#### Challenges in securing these inputs:

Retaining and enhancing intellectual capital is linked to our ability to attract and retain top skills and diverse talent, our effectiveness in instilling a performance-based ethical culture that drives innovation, and our continuing investment in R&D and skills development. Key potential constraints include the increasing competition for talent (both within and external to the mining sector), and competing interests for investment of financial capital.

- ✔ Positive outcome
- Neutral outcome
- ✘ Negative outcome

## ACTIONS

### To optimise FINANCIAL capital

Through the Tswelopele strategy we are focusing on making Kumba more competitive by enhancing the performance and efficiency of our current assets to deliver a substantial improvement in margins and sustainably extend the life of our assets.

To optimise our cost of financial capital and build long term investor relationships while ensuring timeous, transparent and relevant disclosure to enable the fair valuation of Kumba and manage our reputational risks.

Through our commitment to “re-imagine mining to improve people’s lives” we are seeking to make a meaningful positive contribution to the country’s socio-economic transformation.

A review of our activities is provided in the following sections of our 2019 reports:

- **Chief Executive’s review** (IR – p 20)
- **Review of our strategic focus areas** (IR – p 44)
- **Provide leadership through responsible citizenship** (IR – p 48)
- **Building social capital: Making a positive social contribution** (SR – p 64)

### To enhance MANUFACTURED assets

A review of our activities is provided in the following sections of our 2019 reports:

- **Chief Executive’s review** (IR – p 20)
- **Chief Financial Officer’s review** (IR – p 50)
- **Review of our strategic focus areas** (IR – p 44)

### To enhance INTELLECTUAL capital

A review of our activities aimed at enhancing is provided in the following sections of our 2019 reports:

- **Review of our strategic focus areas** (IR – p 44)
- **Our People: Workforce culture and capability** (SR – p 49)

## OUTCOMES

### The effect of our activities on FINANCIAL capital

- ✔ **Strengthened** balance sheet with no debt
- ✔ Improvement in return on capital employed from **49%** in 2018 to **83%** in 2019
- ✔ Ended the year with a net cash position of **R12.3 billion**
- ✔ Earnings before interest, tax, depreciation and amortisation: **R33.4 billion**
- ✔ Total dividend of **R46.78 per share**
- ✔ **47%** increase in share price from R283 per share at end of 2018 to **R417 per share** at end of 2019
- ✔ Increased market capitalisation of **R134.3 billion** at end of 2019

### The effect of our activities on MANUFACTURED capital

- ✔ Manufactured assets enhanced through **R5.6 billion** investment of capital expenditure in plant and equipment
- ✔ **Acquisition of new mining** fleet including haul trucks, drills, shovels, ground engagement tools and secondary support equipment in line with LoM requirement
- ✔ **Construction** of buildings and infrastructure in support of mining and production processes
- ✘ **Loading equipment** breakdowns and weather delays impacting access to logistical support services

### The effect of our activities on INTELLECTUAL capital

- ✔ Sustained growth in the Company’s intellectual capital through various investments and activities
  - Investment in skills development: **R289 million**
  - Investment in technical studies: **R51 million**
  - Rolling out mobile devices and applications as part of our “**connected worker**” initiative that includes an electronic permitting system and using augmented reality for training purposes
  - Introducing **vehicle and personnel detection systems** within blast clearance activities