AngloAmerican

LEVERAGING LOCAL PROCUREMENT TO DRIVE SHARED VALUE

A PRESENTATION TO THE AFRICA MINING NETWORK

February 2015

Real Mining. Real People. Real Difference.

Introduction and Context

The Anglo American Diversified Miner strategy and the idea of Shared Value

Local Procurement and supplier development as tools to build shared value

Our case studies – Brazil and South Africa

Our learnings

WHO WE ARE

Anglo American is a global and diversified mining business that provides the raw materials essential for economic development and modern life.

$31 bn
IN GROUP REVENUE

151,200
PEOPLE WORLDWIDE

$7.8 bn
IN UNDERLYING EBITDA IN 2014

WHAT WE PRODUCE

IRON ORE, MANGANESE

METALLURGICAL COAL, THERMAL COAL

COPPER

NICKEL

NIOBIUM

PHOSPHATES

PLATINUM

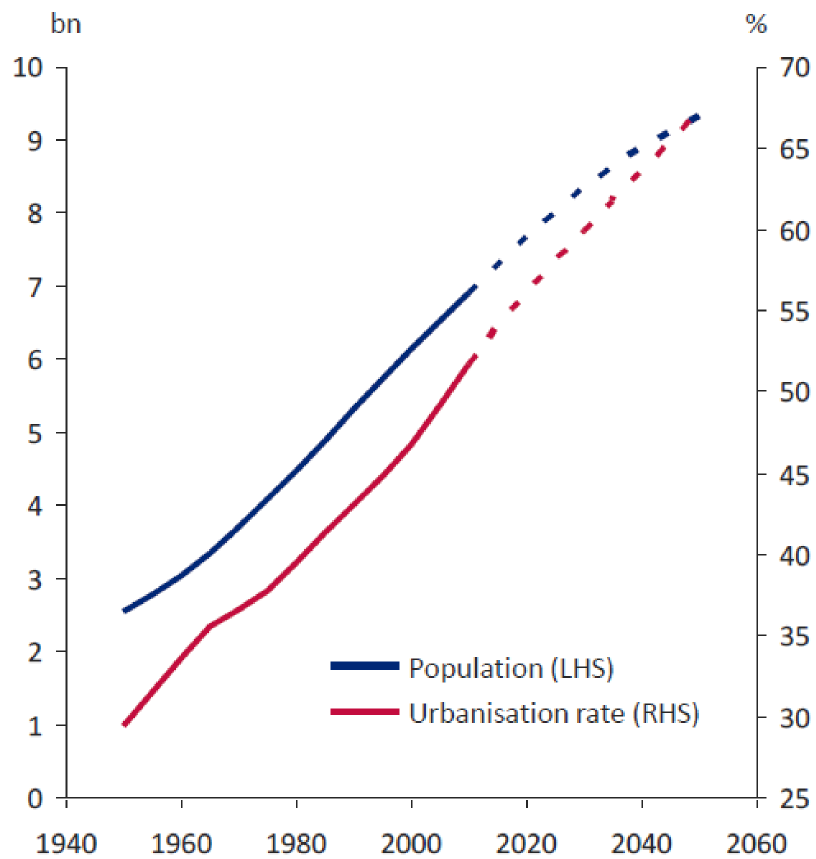
DIAMONDS

Key

- Corporate & representatives offices
- Platinum
- Diamonds
- Copper
- Nickel
- Iron ore and Manganese
- Metallurgical Coal
- Thermal
- Other Mining & Industrial

CONTEXT

The world needs mining…



- The World's population continues to rise
- There is increasing demand for raw materials to build infrastructure, homes and products for an increasingly urbanised population
- Developing countries' needs are significant, and require resources to lift people out of poverty
  - Globally, the number of people in extreme poverty has dropped by 650m since 1980, but…
  - More than 1bn people still need to be lifted out of poverty
- Today, more than ever, mining is the key enabler for modern living
  - End products of mining contribute to making make our lives healthier, safer, more productive, easier and more fun
  - Contribution extends well beyond this by providing raw ingredients for many other sectors (e.g. ~50% of fertilisers are mined)

Source: Data taken from United Nations, Department of Economic and Social Affairs, Population Division

CONTEXT

… but there are challenges to address

- **The World's resources are limited** and are getting harder to access – the next generation of mines are increasingly located in deserts, up mountains and in jungles
- **There is growing competition for land and water** – it is estimated we will need 70% more food by 2050 to feed the global population
- **People's tolerance is diminishing** for the negative environmental and social impacts of mining
- **Governments and communities expect a greater share** of the value derived from mining
- **Mining has an image problem** – people perceive it to be an industry that takes away rather than creates value
- **The industry faces a skills shortage** – it is not attracting enough young or diverse talent
- **Mining has not kept up with a changing world** – it lags sectors such as manufacturing, automotive and aviation in terms of practices, processes and safety

CONTEXT

What this means to responsible Mining Companies

The implications of this to Companies who wish to contribute meaningfully into the future are:

- Our business **models need to adapt** to provide broader social benefits
- There will be an **increasing expectation** on mining companies to contribute to meaningful, large scale employment and procurement opportunities.
- To maintain legitimacy where we operate, **local content levels need to increase dramatically** – this will lead to faster skills transfer and more job opportunities.
- **Supplier competitiveness and productivity** has to improve dramatically.
- Supply Chains **need to leverage suppliers and contractors** to promote sustainable manufacturing bases in host communities.
- Companies will need to **make the right strategic investments** into supplier training and skills development **which improves supplier competitiveness.**

Doing "business as usual" will not provide solutions to unemployment, poverty and inequality

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ANGLO AMERICAN STRATEGY:THE DIVERSIFIED MINER

- Anglo American is a global and diversified mining business that provides the raw materials that are essential for economic development and modern life.

- As a responsible miner we are the custodians of these precious resources. We need to work together with our key partners and stakeholders to unlock the long-term value that those resources represent for our shareholders – who own the business – but also for the communities and countries in which we operate.

- Why? Because we believe **that attractive returns are sustainable only if we also deliver value to society, as judged by these key stakeholders.**

Source Mark Cutifani' s Strategy presentation - 9th October 2014

OUR SHARED VALUE APPROACH

A response to address poverty, unemployment and inequality

At Anglo American, we believe that through the creation of meaningful entrepreneurial and employment opportunities through our Supply Chain, we will help more people to build sustainable livelihoods.

Our approach of **Shared Value**, hinges on 3 important principles

1

Creating **shared value** through supply chain is a key enabler to reduce poverty, unemployment and inequality.

2

Our existence and competitiveness is linked to health the of the communities.

3

If we are not able to link our company success with community success then we are not relevant

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WHAT LOCAL PROCUREMENT MEANS TO US

- Local procurement initiatives are principal value drivers for the business and for communities around our operations.

- Local procurement aims to create opportunities for local suppliers to provide high quality goods and services to support our mining activities.

- The inclusion of small, medium and micro enterprises in our value chain is a critical priority as this serves to support our ambitions in creating thriving and fulfilled communities while securing our right to mine.

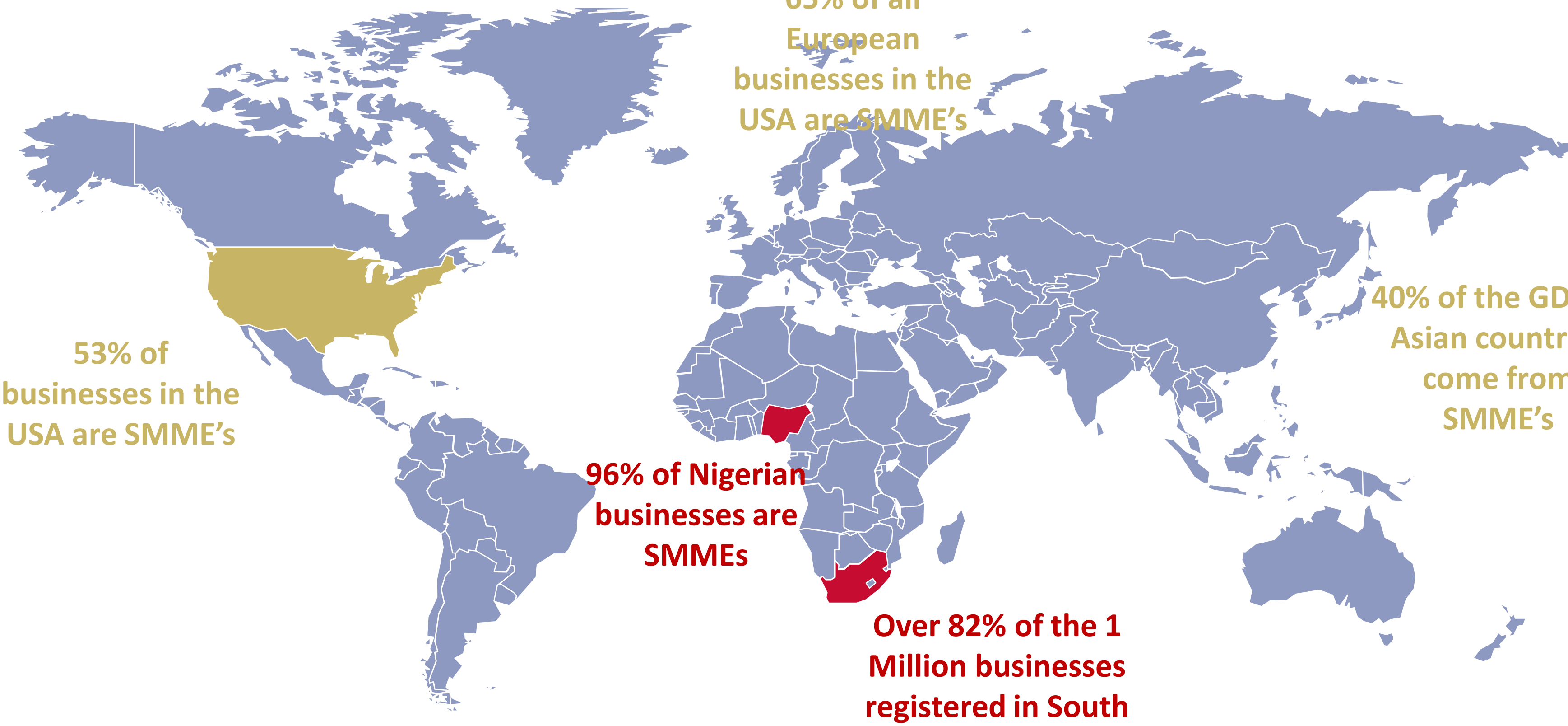
- Increasing our local procurement efforts means more money, skills and opportunities being made available to our host communities – this has a multiplier effect which grows the local GDP.

- Annual global procurement spend is in excess of US$ 16.5 billion, in 2014 expenditure with suppliers based in the communities close to our operations accounted for **over 14%** of our spend.

- 2015 Local spend in South Africa included:
  - Kumba Iron Ore – R 4.4 bn
  - Platinum – R 3.6 bn
  - DeBeers – R 2.5 bn
  - Coal – R 2.1 bn


OUR POLICY

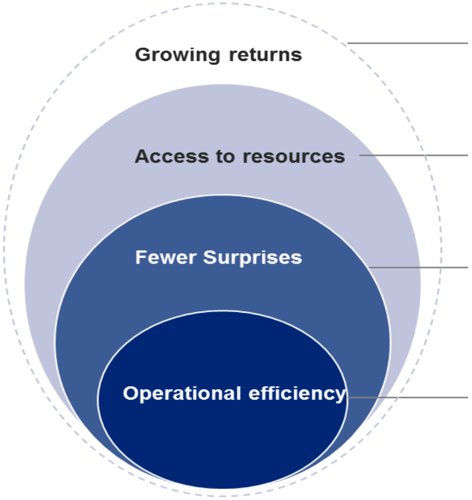
WHY WE FOCUS ON SMME'S



We believe that any meaningful response to poverty, unemployment & inequality in Africa must focus on leveraging supply chains to **build**, **incubate** and **unleash** entrepreneurs.

OUR BUSINESS CASE FOR LOCAL PROCUREMENT

While there is an unprecedented social benefit by increasing local procurement, effective programmes also need to be driven by a strong business case. In our business, we have identified some of these critical factors:



Create Supply Chain efficiencies and reduced inventory cost – by having more suppliers closer to our sites we reduce lag times. As suppliers develop we will optimise supplier relationships to drive value, reduce costs and unlock localised innovation

Ensure reliable access to critical supply – moving away from single-source suppliers to a range of suppliers that can provide us with high quality goods and services.

Assure our right to mine – building trust by prioritising our host communities and ensuring that they have access to supply chain opportunities.

Reduce Risks – through increasing the local skills pool, local supplier base and meeting host community expectations.

Attract and develop talent – local procurement is aligned to our corporate values, being excellent at local procurement allows us to attract, retain and develop the best talent available.

WHAT WE DELIVER THROUGH SUPPLIER DEVELOPMENT

Local procurement is only effective when complimented by the right supporting programmes. Successful initiatives needs to deliver a combination of targeted benefits to the right suppliers, we structure our programmes to include:

Supplier access to finance
Access to sources of funding which build the supplier businesses, this is done by our businesses and Zimele.

Management of finance
We support suppliers to ensure basic controls and financial management skills underline their operations

Access to Markets and opportunities
We support suppliers to ensure that their product and services fit with Anglo American needs, then help suppliers to build a pipeline of other (potential) customers

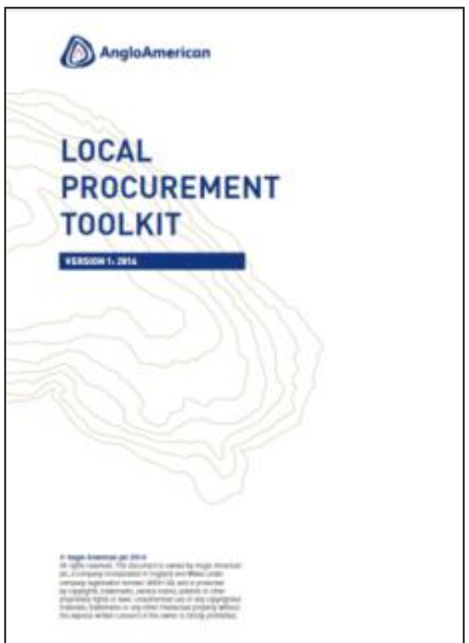
Developing Skills and Mentorship
We target interventions aimed at improving management capacity

Building Efficiencies and innovating
We support suppliers to improve their processes, productivity, cycle times and efficiency, making their businesses more profitable

OUR LOCAL PROCUREMENT TOOLKIT

To support consistent application of our local procurement programmes, we have developed a 188 Page toolkit which contains

- Policy & Definitions
- Case studies & examples
- Best practice guidance for strategies
- Exercises and scenarios to build internal capability to deliver
- Communication and engagement tools
- References to other Anglo American tools and outside resources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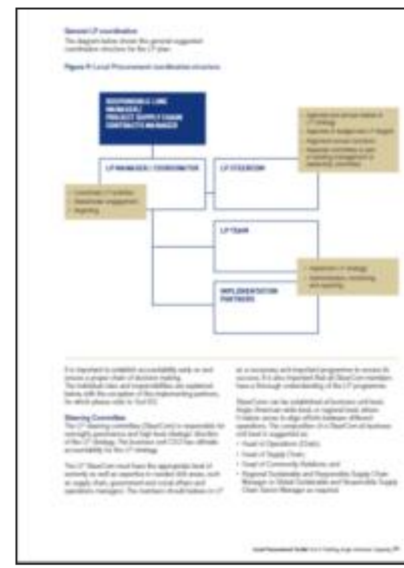
LOCAL PROCUREMENT TOOLKIT


OUR POLICY


TOOL 1.3:
DEFINING LOCAL PROCUREMENT



OUR 10 STEP LOCAL PROCUREMENT PROCESS

© The Anglo American Local Procurement approach

(1) Establish a Business Case

(2) Determine Demand Opportunities for LP

(3) Assess Local Supply Capacity

(4) Develop a Local Procurement Strategy

(5) Build internal capacity to deliver

(6) Ensure Accessibility and Visibility of opportunities

(7) Integrate Local and Large Suppliers

(8) Build Supplier Capability

(9) Support Community Entrepreneurs

(10) Monitor Progress and Impact

Tactics include:

1. Unbundling contracts
2. Ring-fenced opportunities
3. Preferential pricing
4. Simplified tendering and contracting
5. Communicating opportunities
6. Early payment terms
7. Introducing suppliers across our BU's

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CASE STUDY 1: SOUTH AFRICA (PLATINUM)

A response to address poverty, unemployment and inequality at the Modikwa JV

As a pilot at our Modikwa JV, our team agreed to focus on **3 high potential entrepreneurs**, provide them with the right resources, high value opportunities and support to build their businesses and **create wealth**.

1. Supplier Selection

- We chose 3 suppliers who were role models and could inspire other Community members to build and run successful businesses
- We focused on hands-on entrepreneurs who had existing businesses or potential to start businesses
- We prioritised employment and empowerment in their business design

2. Supplier orientation and incubation (An intensive 9 month programme)

We incubated the opportunity by providing the right levels of support, including financial support and helped the suppliers get ready for the mining opportunity.

3. Growing the supplier business (18 months structured mentorship)

Some of the processes we gradually introduced included:

- Building a supplier performance measurement process
- Setting monthly mentoring meetings with the suppliers and the Executive Team
- Parallel running of a structured 18 Month business support programme

OUR DIRECT INVESTMENT IN A SMALL SUPPLIER

Modikwa JV Supplier Development Programme (Engineering workshop)

Pre - Anglo American investment

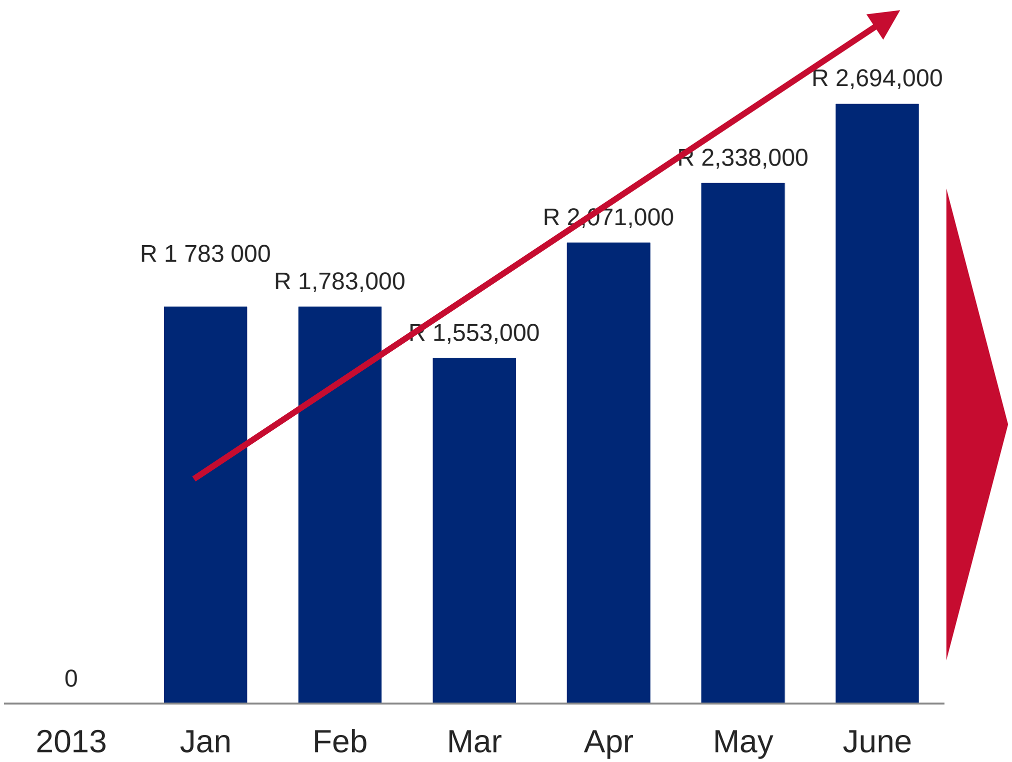
Construction of new facility

A World class facility today

CASE STUDY 1: SOUTH AFRICA (PLATINUM)

Modikwa JV Supplier Development Programme

Monthly Spend with the 3 targeted Modikwa JV suppliers



R 12 272 000

increase in purchases between January – June 2014

+

R 14 050 000

in direct investment

=

R 26 332 000

Total financial commitment to date*
(*excluding programme costs)

Estimated cash flow into Communities over **R40 000 000** in December 2014 and more jobs created

0
new jobs

253
new jobs created

WHAT ELSE WE DO IN SOUTH AFRICA

- We support **supplier development programmes** across our 4 Business Units
- Via Zimele – we provide **enterprise funding** at preferential rates, then follow this up with post-investment mentoring
- We provide **lucrative early payment plans** (7 and 15 day terms) supported by policies – this helps our SMME suppliers better manage their cash reserves.
- **Progressive targets** are set across our organisations (cascading targets from CEO's up until -site level engineers and buyers) on localised procurement
- We typically exceed the requirements for procurement from HDSA businesses against the **Mining charter requirements** (services – 70%, capital goods – 40% and consumables – 50%)
- We employ a series of **local procurement strategies** based on the demands of our operations, these include:
  - Unbundling of large contracts
  - Creating ring-fenced / set aside opportunities for host communities
  - Partnering with SME's to understand their ambitions
  - Driving a localisation agenda aimed at building manufacture and assembly capability at our host communities

A BIT MORE ABOUT ZIMELE FUNDS

ZIMELE

	Anglo In-house Funds			Partnership Funds		
	Supply Chain Fund	Community Fund	Green Fund	Anglo American sefa Mining Fund	Sebenza Fund	Godisa Supplier Development Fund
Commenced:	1989	2008	2011	2003	2013	2014
Termination:	Ongoing	Ongoing	Ongoing	Perpetuity	March 2016 + 2 years monitoring	2024 or when fully funded
Target Market:	Supply chain Investments for BUs	Entrepreneurs around Anglo American's mines, and labor sending areas	Environmentally sustainable projects/ enterprises	Junior scale mining JV with gov. entity sefa	Jobs focused JV with gov. (National Treasury) – Jobs Fund	Supply chain investments for Transnet
Funding Structure:	Minority equity and/or loans	Loans	Minority equity and/or loans	Minority equity and/or loans	Minority equity and/or loans	Minority equity and/or loans
Deal Size:	Max R5m ($0.45m)/deal	Max R2m ($0.18m)/deal	Max R10m ($0.89m)/deal	Max R30m ($0.68m)/deal	Flexible – but <10% of net fund size	Max R5m ($0.45m)/deal
Pricing:	Loans @ Prime % p.a.	Loans @ 6% p.a.	Loans @ Prime % p.a.	Loans @ Prime % p.a.	Loans @ 6% p.a.	Loans @ Prime % p.a.
	Fund size: R200m ($17.9m)	Fund size: R500m ($44.6m)	Fund size: R100m ($8.9m)	Fund size: R200m ($17.9m)	Fund size: R500m ($44.6m)	Fund size: R165m ($14.7m)
	(12%)	(30%)	(6%)	(12%)	(30%)	(10%)

Total fund size - R1.7b ($148.6m)

Note: Conversions at R11.2/$

CASE STUDY 2: BRAZIL (IRON ORE)

PROMOVA Supplier Development Programme

PROMOVA is a supplier development programme established in 2012 between Anglo American and the communities that were potentially affected by the expansion of the Minas Rio project.

The main objective of PROMOVA was focused on the development of small and medium sized local suppliers so they could be provided access to Anglo American's supply chain in a responsible and sustainable way.

PROMOVA was developed around three core pillars:

1. **Businesses development:** incentivising local businesses to engage and interact within other local companies, Commerce Chambers and other large customers.

2. **Capacity building**: through online and face-to-face training modules for community businesses and the workforce.

3. **Financing**: offering innovative options for suppliers to access finance through Banks where Anglo American has a commercial relationship, (for example invoice discounts or better interest rates).

CASE STUDY 2: BRAZIL (IRON ORE)

Results and impact by 2014

45 targeted SMME suppliers

US$ 64 Million

Savings in interest rates for 45 community based suppliers between December 2012 and March 2014

+

US$ 73.5 Million

Purchases from local communities Since 2013

=

6.62% increase in local GDP

0 → **66** →

Free online training courses provided to local SME businesses

Courses focused on management for small businesses, sales techniques, cost management, being an entrepreneur, professional etiquette, first aid and workplace vocational skills.

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SOME OF OUR LEARNINGS

Principles for an effective local procurement and supplier development approach

Through our local procurement journey, we have found a balance which makes our approach work, some of the key principles learnt include:

- **Selection of the right entrepreneurs** are critical
- Understand differences and complementarities around Enterprise Development approaches and the work being done by the development community. **Avoid duplication of effort and bring something unique.**
- Driving active change management within the business and supply chain is challenging, local procurement needs to **touch the hearts and minds of everyone making decisions**.
- Supplier development **business cases need to be driven by demand** – developing businesses who you have no intention to purchase from is irresponsible.
- **Transparency** of processes, mechanisms and supply opportunities are critical for credibility.
- Seek to **share best practices** across your industry and learn from other industries
- **Efficient management of spend on supplier development** programmes will increase credibility of your efforts.

Multi-faceted	Inclusive	Sound Governance	Work in Partnership

AngloAmerican

THANK YOU