Sustainability Performance H2 2023 Q&A

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Q&A

Sylvain Brunet (Exane BNP Paribas): In terms of safety and the contractors vetting process and training, could you give a little bit more of a sense of your assessment after what happened in Chile? Could this happen to Anglo's permanent employees? Is there any penalty system in place to make sure contractors stick to best practices, for instance?

My second question is staying with safety as well. You mentioned a lot of technology solutions. What is the potential across operations for the switch towards more automation & technology systems that would allow you to remove staff from the front line. I don't know if it is possible to get some sort of figure behind that and any sense of the associated time line?

Duncan Wanblad: I'm going to ask Matt just to talk to you about what we're doing in terms of the safety management systems and processes that we are putting in place for our contracting community.

The reality is that the conditions associated with some of these fatalities are not just associated with contractors themselves directly. And I don't want to, for a moment, say this is a problem that is not owned by the management of Anglo American and therefore, it is the contractors' problem at all. This is not true.

There's generally a large turnover of people within the contracting community and just keeping pace with the development and standards is a challenge for us, and we are determined to get on top of that. This is fundamentally more about leadership management systems and culture that you have in the organisation and how that rolls over into everybody that is associated with the company. And we own that, and we will take responsibility for making that more feasible and a more reliable outcome.

On the tech systems side of things, your question very specifically was, is there more scope for more automation within existing operations? And I think the answer to that is a qualified yes. I mean if it was immediately obvious, we would have done it by now. And there are little elements, as Ali pointed out, this is fundamentally about the whole system working together and integrating this into older operations is slightly more challenging than integrating it into new operations like Quellaveco, Woodsmith or Sakatti, where you can start from scratch.

But we have certainly shown that in places like Mogalakwena and Los Bronces, for instance, and in some of our other operations that you can grab great chunks of this thing in terms of reliability, engineering, automation, truck automation and so on, and you can do the conversion. You generally do that conversion along the normal sustainable capital deployment process. So when you are bringing something down, you are changing a piece of kit out, you change it for the new kit, but off a newly installed platform. So it does happen - it just happens at a slightly slower rate. That is what we are trying to accelerate through our systems and planning processes now.

Matt, do you want to just talk a little bit more about the contractor safety processes that we're putting into place, please?

Matt Daley: On the contractor safety processes that we are putting into place - first point, and really important one to make, is that we look at all of our workforce, contractors or employees, in exactly the same way. We have the same rules. We apply the same standards. And we, of course, have the same right for anyone who works for Anglo American at one of our sites to stop work, if they feel like it is not safe.

In terms of the specific programme around our contract workforce, it really started with us listening to our contractors. We have done this through travelling to the different geographies where we operate and having town halls, which really have been about getting feedback from contractors around their experience. They have share their frustrations and the opportunities to improve.

Now that has all been incorporated into a contractor performance management programme, which is really holistic. It is looking at how we select contractors, how we assess capability, and really importantly, how we scope the work - acknowledging that contractors often do one-off, high-risk and specialised work. We are reviewing how we onboard contractors to make sure they are familiar with our systems, our processes and our technical standards. And then really importantly, we are looking at how we supervise and provide assurance across the company.

This programme has kicked off in a number of geographies, but really advancing in South Africa. It is a three-year programme of work. We are into the second year, so running this out over the next 24 months.

Alain Gabriel (Morgan Stanley): The business has made significant progress on the ESG commitments over time. However, the environment in which you operate is never static. Where do you see the external challenges getting worse, both social and regulatory? And where do you see the biggest improvement across your portfolio? And here, I'm referring just to the external factors.

Duncan Wanblad: The one thing that is absolutely true is it is never static, and you have to really be quite adroit and adaptive to it. Certainly, I think that the regulatory environment continues to be relatively challenging in terms of being able to move at pace, particularly in terms of some of the technology development issues that we are looking at.

Every time you are thinking about a new technology and you want to implement it, you have to basically re-permit large parts of the mine. Permitting processes take quite a long time to get there. But, I think the collaborative engagement with many of the regulatory authorities and the governments are very accommodating and understanding of the need to do this. And certainly, in many countries now, driven by this and some other externalities, there is a real will to look to try and accelerate the administration of permitting processes as opposed to change the materiality of any of the content of the permitting processes, but the acceleration of the administration should be extremely helpful.

And if we are really being honest with ourselves, the other externalities, that you can look at both positive and negatively at this point in time, is the fact that in an inflationary environment where money costs something today, the rate of development of some of these technologies externally that we could rely on has probably slowed down a little bit. But I think that this will itself be rectifying in the way that some of the governments are thinking about policies and drivers and the real fundamental needs for technology solutions, not only in the mining industry but the world, will of course, become more valuable over time and therefore, will speed up.

Alain Gabriel: In South Africa, how confident are you about your ability to push your climate agenda, given that we're heading into the next election cycle. And clearly, the government priorities may be different than what you would like them to be. How should we think about that?

Duncan Wanblad: The biggest component of South Africa in our climate agenda is the conversion of hydrocarbon-based energy to cleaner and more renewable forms of energy. And whoever the government is going to be in South Africa, they have to deal with an energy scarcity situation within the country.

The solutions that we are looking to provide, which, as I said, fundamentally support and drive our own decarbonisation agenda, are very much linked with the South African government's requirement to provide energy of any shape or sort to foster growth and development from within the country.

So actually, it is a great synergy in terms of the provision of additional energy and especially if it is in the form of clean energy in the way that Envusa is looking to do. So, I don't see any challenges in that respect from the potential elections or change in makeup of government going forward.

Myles Allsop (UBS): We have seen other competitors moving more down the trolley assist routes in terms of electrifying the fleet. Are you still convinced that the hydrogen truck is the right solution? And how flexible will you be in terms of looking at the other options?

Duncan Wanblad: As Ali has pointed out in her part of the presentation, we are completely technology agnostic in terms of what drives better performance in the business, both from an operational, productivity and safety point of view and from our own climate change agenda.

And as Ali pointed out, three or four years ago, when we were looking to find solutions to our Scope 1 and Scope 2 emissions, there were three major drivers of that - and the eradication of carbon emissions associated with diesel usage was one of the key enablers. At the time, Tony O'Neill [previous Technical Director] and myself did a pretty extensive tour of the world and suppliers, in terms of who was prepared to work with us and deal with solutions and try and help come to an outcome that worked for us at the time, and there were not very many takers, I have to tell you.

And at that point in time, we started to say, well, how would we do it, if we could do it. And that sort of led to what I believe is probably one of the world's most rapid and most successful prototypes in the form of a hydrogen electric hybrid vehicle, which we saw running around a mine in real production for about a year.

Trolley assist for us specifically doesn't necessarily answer all of the questions. It may be an extremely expensive solution for us, relatively speaking. To the extent that there was one of our mines that lent itself to a very cost-effective trolley assist solution, we would absolutely deploy that, if we could. So as we have pointed out, we learn a lot. We develop a lot. And we have to keep iterating to get to the answer.

What we need to be is carbon neutral by 2040. And for us to do that, we need a solution for diesel. Hydrogen may very well be a very big part of that solution, but so may other technologies.

Myles Allsop: Going back to your Scope 1 and 2 emissions. Obviously, it has been fantastic progress over the last three years. As you look forward, is the low-hanging fruit gone now and the NPV impact of achieving your 30% reduction going to get more and more challenging? Could you give us a sense as to the capex that you expect to spend to deliver the 30% reduction by 2030 over the next eight years?

Duncan Wanblad: I am not sure there was ever low-hanging fruit in the space, to be honest with you, Myles. For sure, large elements of that are now embedded into the pathway to 2030, with the cost for that embedded in the business between now and 2030.

The bigger challenge is what happens between 2030 and 2040. We have got pretty clear pathways on all of our climate goals from here to 2030 in a relatively deliverable way that is embedded in all the forecasts that we have been providing to you. But it gets a little bit more challenging, particularly in VAM and diesel through to 2040.

That being said, I think you have to look at this not through the lens of what does it cost today. What we are trying to bring to life for you in these projects and sustainable outcomes solutions to projects, development and operations, is that it is actually an investment.

At the time that we were doing Quellaveco, there were many people that were saying to us, this is much higher cost due to capital intensity etc than it needs to be, look at the comparators, etc., etc. But we absolutely stuck firm to believe that the value in doing this right is extraordinarily high on a returns-based NPV basis. Just a few days which leads to a few weeks of stoppage in the development of a mine, or in the operations of a mine, or permits that are not achieved, has an enormous cost. And so will not solving the carbon issues related to emissions by 2040.

So these things will generally have a very positive return. And we see that with the energy equation. We have exited carbon heavy contracts, looked like it was a cost at the time, turns out it is completely NPV positive by hundreds of millions of dollars. And I think this is going to happen with the rest of our carbon journey too.

Stephen Pearce: So just to refresh on some of the numbers. In South America, in Chile, when we converted to the renewables, it was $600 million plus NPV positive at the time, probably more now. In Brazil, it was $300 million NPV positive when we converted across to the fully renewable system. In South Africa, that is probably where we have got the most of the journey, in terms of the electricity off the grid, to go. But the whole Envusa journey, because we are doing it in partnership in a multiuser way, is expected to cost us around $300-350 million over the decade. What does that deliver for us?

South Africa represents about 40% of our energy off the grid, but about 60% of the emissions from our energy off the grid. And so, a really great journey in front of us and also delivers reliability of energy supply. Really important things and those values are very difficult to determine, but just the investment in Envusa will be probably at least $500 million, closer to $1 billion of NPV positive impact in terms of lower energy costs into the business plus reliability factor.

The other major thing coming up for us is VAM. Dan and the team in Australia have done a brilliant job. We already capture a lot of the vent air methane and put it into electricity generation for the local communities. But they have recently undergone another renewal, if you like, of capturing it by the reticulation system, and that has proved to be very, very positive in terms of outcome of methane capture.

We probably thought a few years ago we might have to spend maybe $600 million on that, but the technology that we are looking at now, while still emerging, looks like it could be quite a bit cheaper. We will do a small trial programme. And in fact, the solution may be applicable across the broader met coal business in Australia.

That leaves us with the trucks, which represents about 15% of our emissions from diesel. Duncan has spoken about the journey, whether that is diesel hybrid initially, battery, electric or ultimately fuel cell. It will be a journey. Technology will change. Cost of hydrogen, for example, we expect will come down dramatically over the next decade into the 2030s. So I think lots of opportunities as we look to implement that. Hopefully, in a similarly cost-effective way as we look to play our part and partner with others. And that is a really important point. If you partner well with other people, this can be quite a value-accretive journey.

So all up, I would say we are hundreds and hundreds of millions dollars ahead of what we have spent versus the value and the cost savings that were generated.

Maxime Kogge (ODDO): Regarding Envusa, you will no longer consolidate this activity because you own less than 50%, so there will be no dedicated capex - but can you still outline the amount of financial investments it is going to represent in the next few years? And, do you see an impact in terms of overall reliability in South Africa, and also in terms of cost and by how much?

Stephen Pearce: We are likely, in combination with others - so EDF Renewables and some local BEE partners - to end up only owning about 35%-ish of Envusa. So you are right, it will be off-balance sheet and so we will be one of the off-takers in terms of the power.

To use really rounded numbers, if we are building out 3 gigawatts of electricity, let's say that is US$4 billion. You normally finance this through Envusa itself and through the generation companies, typical of infrastructure projects, let's call it, 80-20. So if there is about $800 million of equity required, and we have got one-third of that, that is how you roughly get to the $300-odd million that we will contribute over the next decade to build out Envusa. We may go beyond that depending on broader business opportunities.

We become one of the customers of Envusa. It is off balance sheet. It gives us potentially a much lower input cost than what we would see versus remaining with Eskom, given the assumptions around their price inflation, etc. So a really positive journey.

The reliability, it is a harder one to quantify specifically, but we know we are impacted predominantly in PGMs in South Africa. And this year, we guided around 100,000 to 140,000 ounces of impact. And so, if you add that back, and multiply by 5, 6 or 7 times, you are talking hundreds and hundreds of million dollars of benefit from reliability as we progressively build that out. It won't come from day one, fully acknowledge that.

Together, I think private enterprise can play our part in South Africa to provide some of that generation capacity and help build the grid out - and the whole country, including us, end up with both a cost-effective renewable and reliable energy source to energise some industry and development across the country and region.

Maxime Kogge: By the same token, you had issues in South Africa recently in terms of water supply in the PGM business. Do you see here some room to in-source water management? Or is it a bit farfetched to consider that you could one day take care of water management yourself?

Duncan Wanblad: It is unlikely to happen anytime in the short-term future because much of our water is a function of a national system that exists in South Africa. So it is much more about ensuring that that system stays robust.

Duncan Wanblad: Thanks very much for spending the time with us. This is an absolutely critical topic for us. I really like to talk about it at all opportunities that we have got. I think this is a complete competitive advantage if you can think about this in the right way, but more than just think about it, do it.

It takes years and years of learning and experience to build a capability, where it is actually fully integrated into the business. And I think Anglo American is a long, long way down that journey.

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