

Supply Chain

This document provides further detail regarding Lonmin’s supply chain strategy and processes to support the 2017 Sustainable Development Report, which is available at <http://sd-report.lonmin.com/2017/>.

Procurement at Lonmin

The mission statement of Lonmin’s procurement department commits us to optimally manage the inbound supply chain through effective and efficient processes to deliver goods and services aligned to Lonmin’s business operational requirements and objectives.

Lonmin recognises preferential procurement as an important means of increasing the meaningful participation of historically disadvantaged South African (HDSA) communities in the mining industry and the socio-economic mainstream of the country, in line with the requirements of the South African Broad-based Socio-Economic Charter for the South African Mining Industry (the Mining Charter).

We are committed to procuring from local communities where possible to re-invest in communities, drive entrepreneurship, and transfer skills to local businesses to support job creation. Our enterprise and supplier development initiatives aim to establish sustainable standalone businesses that can tender beyond Lonmin’s boundary.

The Reviewed South African Broad-based Socio-Economic Charter for the South African Mining Industry published on 15 June 2017 (Reviewed Mining Charter) increases the target spend of mining companies on HDSAs and local communities. While the Reviewed Mining Charter is the subject of legal dispute and the current targets remain in place until replaced, Lonmin is reviewing the new requirements. One of the challenges of implementation lies in interpreting the various definitions in the Reviewed Mining Charter and those of the regulators monitoring compliance.

Procurement at Lonmin aims to achieve three key objectives:

<i>Financial</i>	<i>Internal processes</i>	<i>Legal requirements</i>
Significantly contribute to the minimisation of the total cost of ownership (TCO) of commodities and services, and manage cash flow through accounts payable and optimised inventories.	Continuously optimise the inbound supply chain through excellent processes and contracting with suppliers, while leveraging business intelligence through enabling collaboration between the business and suppliers.	Meet the Company’s legal requirements, including the Broad-Based Black Economic Empowerment (B-BBEE) Codes and the Mining Charter.

Preferential procurement

The supplier adjudication process emphasises B-BBEE status to increase HDSA representation in the supply chain. Lonmin procures 37% of goods and services from black-owned (more than 50% black ownership) suppliers and 6% from black women-owned suppliers. Appropriate projects are identified, particularly those that form part of the Social and Labour Plans, and these are ring-fenced for companies from the surrounding communities, the Bapo community or black-owned companies. We review our top-200 suppliers by amount spent every month to assess their B-BBEE status and proactively engage with suppliers to improve their B-BBEE performance.

The agreement concluded with the Bapo Ba Mogale traditional community in 2016 included significant contracts for ore transport, passenger transport, yellow equipment and personal protective equipment (PPE), which are described on page 72 of the Sustainable Development Report, available at <http://sd-report.lonmin.com/2017/>.

Local procurement

Lonmin procured 83% from South African suppliers in 2017, 12% from suppliers in the surrounding communities. 9% of international suppliers are only used where there is a local

scarcity of the skill or product, or where the business case is compelling. Discretionary¹ procurement totalled R7.87 billion in 2017 (2016: R7.6 million) across 1,541 suppliers. 8% is non-discretionary (government, parastatals etc).

The procurement process

New suppliers apply to be listed on Lonmin’s supplier database and are evaluated against a range of criteria including:

- Technical capacity and capabilities
- Financial ability
- Document control
- Stock holding and logistics
- Technology, research and development
- B-BBEE status
- General supplier evaluations
- Safety, health, environmental and quality assessments
- Human rights

The evaluation prioritises reliable suppliers that can meet Lonmin’s procurement standards and business requirements, and whose practices align with the Lonmin Sustainable Development Standards. We conduct background checks on suppliers and review supporting documents, including tax

¹ Discretionary procurement is expenditure that can be influenced by a company. It excludes spend that Lonmin has no discretion over, such as procurement from the public sector and public enterprises.

clearance certificates, BEE certification, and company registration certificates. We conduct verification visits if required. During 2017, 178 new suppliers were registered on our database. Lonmin's general terms and conditions are attached to all tenders, request for quotations, vendor applications, contracts and orders. These require suppliers to adhere to various rules, regulations, standards and instructions, including:

- The Labour Relations Act
- The Basic Conditions of Employment Act
- The Lonmin Sustainable Development Standards
- The Lonmin Code of Ethics
- The Compensation for Occupational Injuries and Diseases Act
- Stipulations covering a range of human rights issues that include health and safety, working hours, freedom of association and the right to collective bargaining, child labour, non-discrimination, disciplinary practices, forced labour, modern slavery and human trafficking

Assessment of suppliers

Suppliers on the vendor list are evaluated and audited on an ongoing basis. To manage costs effectively, compliance audits on existing suppliers are currently limited to selected suppliers, such as those working on-site. On-site suppliers are audited to assess compliance with Lonmin's policies and standards. The audit includes reviews of safety training procedures, risk assessments, compliance with the Mine Health and Safety Act (Occupational Health and Safety Act in the case of our PMR) and environmental management practices. Contractors are required to address areas of non-compliance or concerns raised in the audit, or the contract will be terminated. There is a formal process in place to evaluate supplier complaints.

No supplier contracts were terminated as a result of health, safety or environmental non-conformities during 2017, however, five contracts were terminated due to unethical behaviour. No suppliers on the Company's database were identified with any human rights-related concerns, including incidents of forced or compulsory labour or child labour.

Contractors are required to publicise the contact details of Lonmin's 24-hour hotline to all personnel and encourage them to report any breaches of Lonmin's rules, regulations, standards and instructions.

Risk mitigation

We assess supply chain risk for new suppliers at evaluation and when a new procurement or sourcing activity is proposed. Lonmin has contingency plans and formal risk mitigation procedures in place to address this risk.

Suppliers are assessed against a risk matrix and categorised as strategic, tactical or non-critical categories. Strategically important suppliers are those that are critical to the business, are difficult to replace, or have a high value of transactions with the Company. Critical supplies include timber, steel, explosives, fuel, cement, transport, mining contractors and others. Lonmin's Life of Business Plan includes a consideration of procurement to ensure a ready supply of critical supplies for the next 15 years.

Total cost of ownership

The overall cost of owning and using capital equipment and commodities is assessed over their usable lives. This is done to shift procurement decisions away from the short-term upfront costs, to consider the TCO over their full life cycles and incorporate the benefits of efficiency and cost drivers.

Negotiated or reduced costs in the TCO of goods or services are included in Lonmin's source-to-settle intervention, as are initiatives to reduce inventory values, consumption and cost effectiveness. These initiatives aim to create capacity for improved business outcomes, through new arrangements/products/services, which ultimately benefit Lonmin through the joint efforts with the business process owners and partners.

This includes:

- Reduction in prices and/or increases through source-to-settle intervention
- Improved practices
- Standardisation
- Change in specification application or product substitution, which reduces consumption
- When change in application reduces the cost in various departments and/or other cost elements in the TCO model, thus realising further capacity as part of the TCO model, with a direct impact on the TCO unit cost
- Settlement or volume discount negotiated on contracts or once-off purchases
- Quantity surveyors assess all the contractual and financial activities of the project and ensures a close out is done. Close out is done by producing a final account and statement of final account, which indicate all financial and contractual commitments undertaken throughout the project life cycle.

Procurement in conjunction with the business support office implements the TCO project through project plans with key performance indicators to track project benefits and cost savings. Targeted savings for 2017 were R250 million, and we achieved savings of R228 million (2016: R262 million).