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# Our Sustainability Approach and Material Matters

# Our Sustainability Approach

Our approach to sustainability arises from our values, which are defined in the Lonmin Charter (page 123). Our values are based on Zero Harm to people and the environment, and we strive towards high performance across the business. The importance of sustainability matters is recognised in Lonmin's strategy. The Lonmin strategy has evolved since 2016, taking into consideration the adverse PGM pricing environment that continued and the cost pressures that remained. The strategy aims to preserve value for shareholders, and safeguard the long-term interests of employees and key stakeholders. The strategy remains focused on improving stakeholder relationships, improving efficiencies and our people. We emphasise our role as a responsible corporate citizen, respecting human rights (page 109) and the critical importance of a working and trusting relationship with employees, communities and regulators. Our commitment remains to Zero Harm.

Our values form the basis for the Lonmin Safety and Sustainable Development Policy (page 122), which details the Group's commitment to creating sustainable value for our stakeholders through ethical, and environmentally and socially

responsible practices. Lonmin complies with the ICMM Sustainable Development Framework, principles, applicable position statements and reporting requirements. The 15 Lonmin Sustainable Development Standards<sup>1</sup> align with the ICMM principles and position statements, and provide guidance for the practical implementation of the Lonmin Safety and Sustainable Development Policy. These standards are the cornerstones of the safety and environmental management systems in place at all business units.

Our approach to sustainability considers the United Nations Global Compact (UNGC) principles, relevant legislation, the Mine Health and Safety Council milestones, as well as the Social and Labour Plan commitments. While Lonmin is in the process of aligning its sustainable development agenda with the UN Sustainable Development Goals (SDGs), many of our activities aim to address the issues underlying these goals. Sustainability considerations are incorporated into Lonmin's Life of Business Plan, which spans in excess of 40 years, (excluding any future planned shafts) and details operational plans to mine and process the Company's mineral resources.



<sup>1</sup> See <https://sd-report.lonmin.com/2017/download-manager/> for the 15 Lonmin Sustainable Development Standards.

# Material Focus Areas Overview

The content below provides an overview of Lonmin's material focus areas, outlining why each is deemed to be material. The section starting on page 30 (Reporting According to our Material Focus Areas) discusses how these focus areas were identified. The page references show where the management and performance of these matters are discussed in detail.

## *Employee relationships – page 40*

South Africa's mining industry has a history of confrontational relationships with labour. Maintaining strong relationships with employees, contractors and unions is critical to execute our strategy as labour disputes affect production and threaten the sustainability of the Company.

## *Safety and health – page 54*

Lonmin's ethical approach to doing business includes a commitment to Zero Harm to our employees and the contractors that work at our operations. Health and wellness are critical to improving quality of life, morale, productivity and safety performance. The safety and health of our workforce is a key concern shared by our regulators.

## *Community relationships and investment – page 64*

Lonmin views its corporate social responsibility as a business imperative, and an investment in the future of local communities and the country. Strong and constructive relationships with the communities surrounding our operations create a predictable and stable operating environment.

## *Managing environmental impacts and opportunities – page 76*

Mining and metals processing activities directly impact the environment and are resource intensive. Our strategic commitment to drive our initiatives to minimise our environmental footprint remain. Environmental responsibility is a key concern for the Company, regulators, shareholders and society at large.

## *Constructive engagement: government, regulatory and other stakeholders – page 94*

Building strong relationships with external stakeholders is important to ensure that all the necessary steps are taken to secure a sustainable future and realise shared value for all. Mining is a highly regulated environment, and effective engagement with government and our regulators supports our ability to achieve our strategic goals.

# Our Sustainability Context

## A challenging operating environment

Mining companies in South Africa operate in a challenging operational and socio-political context as well as within difficult global markets, which has negatively impacted costs and production. In recent years, the industry has had to contend with rising wage demands, labour unrest, low labour productivity, above-inflation electricity and water price increases, community protests, and electricity supply disruptions. Continued low global commodity prices combined with rising costs have resulted in sustained pressure on industry margins and forced an increased focus on financial sustainability. Lonmin continued to be hamstrung by its capital structure and liquidity constraints.

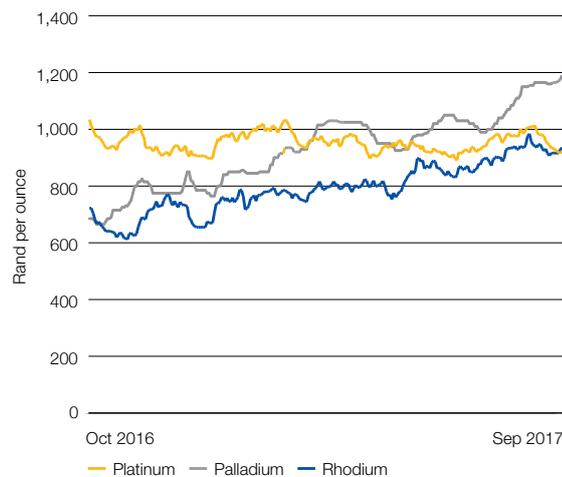
Despite these challenges, Lonmin retains many positives, including its relatively shallow mining assets, processing expertise and an integrated mine-to-market business. Platinum Group Metals (PGMs), Lonmin's primary products, continue to play a key role in reducing harmful emissions through their use in catalytic converters and other green technologies such as hydrogen fuel cells.

## Volatile global commodity markets amid global political uncertainty

### Sales and PGM prices

During the financial year, rhodium and palladium prices performed strongly, gaining 72% and 30% respectively. However, platinum underperformed with the price declining 11%, which resulted in palladium trading at a premium to platinum in September for the first time since 2001.

PGM prices (R/oz)



Global platinum output was essentially flat compared to 2016, while automotive, jewellery and industrial demand softened, leaving the market close to balance this year (excluding stockpiled resources).

### Market outlook 2018

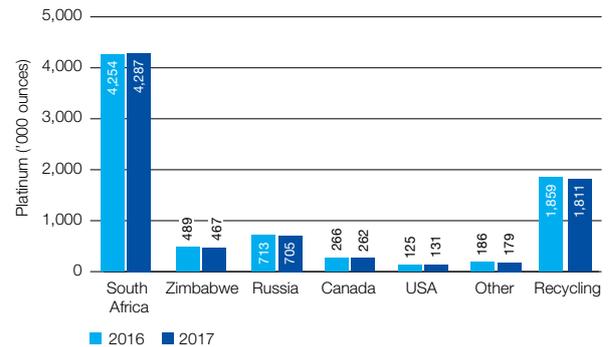
Cuts to production by South African producers in 2017 are expected to result in reduced platinum output next year, while demand is forecast to recover to 2016 levels, leaving the market in a deficit (excluding stockpiled resources).

Automotive demand is expected to be marginally lower as diesel's share continues to decline faster than growth in the vehicle sale market. Most automakers continue to develop new light duty diesel powertrains, recognising their role in meeting tough fleet greenhouse gas targets.

Global demand for jewellery is anticipated to improve as jewellery demand in China is expected to stabilise and growth continues in most other regions, especially India.

Industrial demand is set to grow again in 2018, as glass and petroleum demand cyclically rebounds, as well as demand from chemical catalysis.

Supply review<sup>1</sup>



<sup>1</sup> Data reported in 2016 restated by SFA (Oxford).

## A challenging political environment in South Africa

Local communities are critically important stakeholders in mining operations. The communities around our Marikana operations in the Bojanala Platinum<sup>1</sup> region have grown rapidly with the development of local physical and social infrastructure development not keeping pace. Increasing community unrest is linked to demands for delivery of basic services, employment opportunities, social infrastructure, procurement and business opportunities.

Protests at Lonmin's operations in May 2017 by unemployed youth from the surrounding community kept two shafts closed for 10 days, resulting in the loss of production. In June 2017, there was a march to the Johannesburg Stock Exchange (JSE) by hundreds of people from the Greater Local Mining Communities Business Forum. They demanded jobs and highlighted the socio-economic conditions of miners in the Bojanala Platinum region. Local community unrest has a direct impact on Lonmin's operations and its community infrastructure investments. Lonmin employees commuting to work were targeted during community protests in August 2017, and community-owned buses used to transport employees and school children were burned.

We acknowledge the pressing need for accelerated socio-economic development in our surrounding communities and are committed to contributing to viable solutions to community challenges. We engage with representatives of the various community stakeholder groups to understand their legitimate needs and expectations, and to ensure that our socio-economic development investment projects are effective in addressing the most significant community needs.

Details of the community projects, black economic empowerment (BEE) and preferential procurement transactions, which aim to align the interests of the Company and our local communities, can be found in the Community Relationships and Investment chapter on page 64.

## A changing regulatory and policy environment

The South African mining industry is regulated by various laws, including the Mineral and Petroleum Resources Development Act, 2002 (MPRDA), which directly impact the Company's operating licence and prospecting and mining rights. The Reviewed Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry (the Mining Charter) released in June 2017 (Reviewed Mining Charter) contains several controversial provisions. These could impact the attractiveness of mineral assets in the country and are the subject of several legal challenges. We are collaborating with the Chamber of Mines on its engagements with the Department of Mineral Resources (DMR) in this regard.

Mining companies operating in South Africa face potential risks

from regulatory developments such as changes to laws and policies regarding taxation, royalties, divestment, repatriation of capital and resource nationalism. Potential regulatory changes with the most significant financial impact on the Company include:

- The imposition of increased taxes or royalties
- The obligation to sell at discounted development prices
- The requirement to sell product locally, which could impact long-term supply agreements with existing customers
- The increase and reorganisation of BEE structures

Lonmin views government and regulators as key stakeholders in ensuring compliance with safety, health, environmental and social requirements. The Company remains committed to sustaining constructive relationships with them. The Company interacts with government and regulators through direct engagements and industry bodies to present a unified view with our peers.

More detail on how we interact with and respond to these key stakeholders can be found in the chapter on Constructive Engagement: Government, Regulatory and Other Stakeholders on page 94.

## Growing stakeholder expectations and declining levels of trust in business and government

Many of the mining industry's key stakeholder groups have increasing expectations for the industry to play a role in addressing the broader socio-economic challenges facing the country. This is evident in the rising expectations of mining communities and local and national government. Expectations focus on areas such as job preservation, community infrastructure development and housing delivery, which are traditionally the responsibility of government. Labour relations remain challenging and are compounded by continuing rivalry between labour unions and federations.

At the same time, employees and mining communities face challenges to their health and wellbeing from diseases such as tuberculosis (TB) and HIV/Aids. The industry faces increasing natural resource competition and supply constraints, especially regarding water and energy/electricity, and growing societal demands.

In the context of these broader industry challenges, Lonmin faces a continuing reputation deficit following Marikana 2012<sup>2</sup>, and perceptions regarding the nature of the Company's subsequent actions.

<sup>1</sup> District in the North West province.

<sup>2</sup> Marikana 2012 (referred to by Lonmin as "the week that changed our lives") refers to the week-long protest that took place in August 2012. (See page 53 for further details)



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THE EXPLORATION, MINING,  
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