



ESG ANALYSIS

Newcrest Mining Ltd
&
James Hardie Industries
Plc

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NEWCREST MINING LTD



ESG RATING - 28.9

IDENTIFIER - ASX:NCM

INDUSTRY - PRECIOUS METALS

28.9 Medium Risk



JAMES HARDIE INDUSTRIES PLC



ESG RATING - 29.7

IDENTIFIER - ASX:JHX

INDUSTRY - CONSTRUCTION MATERIALS

29.7 Medium Risk



KEY ESG ISSUES

CHOSEN FIRM - NEWCREST MINING LTD DURING BUSHFIRES & COVID 19

The company underwent a series of transformation due to two major events that is the bushfires in January 2020 followed by the Covid-19 pandemic that is still undergoing. Newcrest Mining is operates in the regional outbacks of NSW making it severely prone to regular droughts and bushfires. One of its largest mines located in Cadia, NSW experienced a major impact on its operations when the bushfires damaged the train lines that delayed the transport of Cadia's concentrate. This increased the stock holding at the Blayney dewatering facility. The company soon planned to clear the stocks by March quarter by scheduling additional trains however, Covid-19 soon impacted this process causing major disruptions and delays in moving personnel and equipment around Australia as well as to other parts of the world. Their prospective mining ore feasibilities were also hit severely as there were delays to the ground investigation trials due to pandemic related restrictions especially due to strict measures announced by the Australian government related to international travel. Various foreign experts and technologies suitable for projects are delayed due to the pandemic effects. The cash flow impact of managing COVID-19 crisis was estimated to be around \$41million in addition to labour costs due to roster changes, overtime allowances as well as medical expenditure such as screening, testing, quarantining. Thus, ***"Energy efficiency (freshwater use), vulnerabilities to physical climate impacts (Climate change) and risks associated with remote locations which also inhibit complexities of mining (Biosphere integrity)"*** were the noticeable Environmental Issues that were borne due to the bushfires followed by Covid-19.

The social issues that stood out during these two crisis were associated closely with the well being of the employees and the community at large with various labour standards being put to test. Since Newcrest Mining does not deal directly with Customer satisfaction, "Employee, Community and Labour standards" would be the primary areas to inspect. The risks thus determined were pertaining to the labour present at the mining sites and whether they were following all the safety protocols required to keep Covid 19 in check. As stated by the CEO in the earnings call of August 14th, the employees were spending two weeks in an isolation camp during which time they were tested up to three or four times and finally tested again after coming out of isolation. They were also subjected to a two-week on, two-week off roster in their mining sites at Papua New Guinea which later graduated to a three month on, three month off roster. This system of scheduling put them at a ***"severe risk of health as well as put them under an austere living conditions"*** as they might not be guaranteed work on a regular basis.

The governance issues that were predominant under the crisis situation can be directly attributed to the 'political contributions' and put them under the threat of having to resort to bribery or lobbying to get their stalled projects started. The bushfires created havoc in terms of transport and supply chain management however, the situation was exacerbated with the announcement of lockdowns country wide. This coerced the CEO to organise charter flights when all the airlines were barred from running. It required immense ***"political help and lobbying"*** to organise these activities to keep the business running putting the company under relative risks of corruption.

STRATEGIES TO OVERCOME ESG PROBLEMS

"Transition to a lower carbon emitting operation process"

The company relies heavily on fossil fuels and direct mining. A switch to cleaner energy or renewable power generation will lower its greenhouse gas emissions making it energy-efficient and helping maintain the freshwater use aspect of planetary boundaries framework.



"Risk Management Framework to reduce climate impacts"

The vulnerabilities must be considered as potential risks chiefly causing disruptions at the operating site level. Experts must be hired to study the extent of these impacts at its current and planned future operating sites to incorporate these risk factors in the design model for site operations and its infrastructure. A climate modelling must also be used at these sites to understand the extent of endurance of the design to the reoccurring disasters such as droughts and bushfires thus catering to Climate Change in the PB framework.



"Exhaustive research and expenditure on exploration surveys with the foundation on drilling and sampling basis to gauge the extent of availability of minerals"

The remote locations of mining activities cause extreme distress in the event of a climatic impact and thus the company must factor in the risk associated in regions that have no access to basic facilities for work purposes. Since the exploration activity is already a speculative business it is best to carry out an extensive survey even if it requires a substantial expenditure to check the economic viability of the project.



"Social Outreach Programs by way of surveys, inter personal connection building"

Employees wellbeing at the time of crisis is one of the cardinal issue to cater with. It is important to understand whether the employees feel secure enough or exploited and necessary measures must be carried out at regular intervals to cater to such issues.



STRATEGIES TO OVERCOME ESG PROBLEMS

"Transparency is important to gain the investors confidence"

The two crisis have embedded a sense of concern in the mind of every investor due to the lack of reporting transparency especially pertaining to exemptions that have been granted by the government or official authority. Political corruptions must be kept in check by introducing a transparent code of ethics and must be instilled in every team member so that integrity is not compromised regardless of the crises.

"An incentivised whistleblowing program should be encouraged"

A company that faces plausible scopes of political corruption and lobbying must work towards encouraging honesty within the organisation by encouraging each employee to speak against such crimes taking place.



"Research & Development centred around its Engineering activities"

The survival of Newcrest Mining is highly dependant upon the success and marvel of its latest engineering solutions which would ease its operational efficiency.

The company is highly involved in geotechnical, hydrogeological and geothermal engineering which focusses on removing groundwater and sea water inflow prior to and during mining. Thus, a good amount of capital expenditure must be allocated to improve the efficiency of the engineering solutions which can hence help in dissipating the effects of severe climatic or pandemic based crisis since it would make the operations resilient and less labour intensive.



LONG TERM ESG RESILIENCE PLAN

The long term resilience plan needs to be chalked out by incorporating a framework that understands, manages and reduces the environmental impacts of the business activities through the use of boundaries. In the case of Newcrest Mining Ltd there are four planetary boundaries that need to be considered for long term planning. a. Climate Change, b. Biogeochemical Flows, c. Freshwater Use, d. Novel Entities.

The aforesaid planetary boundaries carry an extensive importance with climate change being a priority for all the major countries. Thus, Newcrest Mining Ltd has mentioned in its Sustainability Report of 2020 that in accordance to the Paris Agreement it is working to reduce its emissions intensity per tonne of ore treated by 30% by the year 2030. They hope to attain zero carbon by 2050. The chief plans that they can carry out to mitigate the vulnerabilities to the climatic impacts and become more resilient by reducing the physical risks, transition risks and market risks.

All operations sites must conduct a catchment-based water risk assessments which determines the water balances to understand the water usage and the respective efficiency status. The employees must undertake a program or a workshop to understand how to effectively work towards operating with water in an efficient manner. Industrial hygiene must be executed at each operational sites to control the occupational exposure risks and thus implement an exposure control plan to reduce pollutant based health hazard for the employees as well as the environment. They also need to create a sustainable program to manage their tailing storage facilities, which contains various harmful chemicals most of the times due to the raw content that has not been processed yet, to be carried out in an alignment with the guidelines as set by the International Council on Mining and Metals. The tailings management is closely aligned with water management. Thus a material risk management program needs to be implemented into their end to end business process. Every operational site is required to carry out a Material risk check and actively engage in assessing key operational hazards that may be present to ensure that there has been no active oversight and that safety is maintained at all levels.

There must be biodiversity management plans executed as per the ICMM or the International Council on Mining and Metals to develop plans that is more supportive of including a resilient and sustainable society. The primary area that needs work is the inclusion of Women in all segments to a minimum level of 20% where they are engaged in the managerial and professional roles. There is also an impending need to include Aboriginal Torres Strait Islander employees by a double digit number at the minimum. Finally, the representation of locals or nationals in management and professional level by 80% . Furthermore, to improve the resilience plans the company should also work towards having a stakeholder engagement plan locally as well as internationally.

To improve the resilience of the business over all and reduce the potential risk exposures a crisis management team must be available to act in the event of a sudden crisis and mitigate the immediate risks pertaining to it. For instance, the crisis management team (CMT) was established to provide Covid 19 related help and primarily deal with strategy to improve robustness of the company by identifying, evaluating and responding to problems that were directly impacting the well-being of employees. Business continuity plans also need to be executed which focus on developing programs that incorporate the problems as stated in the planetary boundaries and successfully implement at each operational level under every scenario, be it risk prone or not. A business continuity plan would help assess various opportunities under different scenarios allowing to put controls there by to safeguard the company from any fatal outcomes. Thus it is important to adopt pro-active demeanor and position each management team effectively such that any crisis can be mitigated, if not immediately then in due course, without impacting the general course of operations of the business, thus attaining robustness.

OPPORTUNITIES IN CRISIS

The opportunities gained in the event of crisis primarily would be an introspection that the company faced in terms of its resilience. They were able to overhaul their management system to come up with an entirely new hierarchy which positioned them better not just locally but internationally as well.

The bushfire crisis led to them focussing on improving their supply chain management system as well as ascertaining the feasibility of projects that are based in remote locations. The vulnerabilities to drastic climatic impacts came under the spot light with an impending need to immediately form a crisis management team as well as look into the Environmental, Social and Governance efficiency plans.

The company resorted to working with many organisations including the government and other industry partners to ruminate and develop strategies that faced the mining industry including the workforce movement restrictions, infrastructure pressure, materials and equipment with other consumable supply related risks. These discussions at a large scale opened avenues for the company to think about the mining community as a whole making them incorporate strategies to help the vulnerable people living in remote and regional areas of the country as well. Some of these organisations that they got to work and interact with include mining peak bodies of Western Australia, NSW and Papua New Guinea as well as health organisations in WA, NSW, Papua New Guinea, primary one being UNICEF.

One of the most lucrative opportunity that presented itself was the emergence of 'Work from Home' for many employees. The company even stated in its sustainability report that it was a successful venture during the pandemic and now they are reviewing the opportunity of flexible work hours in conjunction with the business needs since it has become apparent that people do not need to be present on the sites or in the office to work effectively making hiring from remote places more feasible than ever.

Due to the extreme weather changes in 2020 the company felt compelled to carry out a climate modelling check on each of its site that is in Cadia, Telfer and Lihir to better understand the potential physical threats that may be looming upon the future projects of the company. Although the bushfires not directly affect the operational program of the company it affected the operations transport system severely stalling projects for months. Thus, the crisis gave them an opportunity to gauge their standing in the climate crisis and to come up with useful strategies to mitigate all the risks associated to it especially the legal risks, short term transition costs, cost of raw materials increase due to greenhouse gas emissions embedded pricing and their reputational risk. Thus, they were able to open up avenues in times of crisis which helped them take actions soon and take a step closer to resilience.

Comparison with James Hardie Industries Plc

The company is involved in production of fibre cement which ideally shields most houses from hazards and primarily from bushfires. The company is headquartered in Dublin.

In terms of the financial performance it has seen a voracious volatility since the emergence of the pandemic. The geographical location of the business is Ireland, USA and Australia with a very high revenue margin from USA. Thus when the pandemic hit America, the housing industry was heavily affected and so was the company. It was also rated as Negative shortly after the pandemic began reflecting how severely it was impacted due to the crisis in America.

Observing the Key Rating Drivers it can be said that the company has secured a 20% growth in the third quarter of 2020 which was considered a sharp rise after the fall in revenues in the first half of the year. The company immediately channeled its focus on improving its liquidity position by suspending semi-annual dividend pay outs as well as reduce the capital spending to secure the liquidity position. It also announced that it would resort to quarterly instalment payments of its primary raw material, asbestos instead of making lump sum payments.

The outcome of such austerity measures were that the company was able to generate about \$550 million of Free Cash Flow with a strong increase in profitability levels, low capital expenditure and short term suspension of its ordinary dividend payments.

One of the major upside is that the company has secured about 90% of market share in the major countries of its operation. However, the company has a narrow product base especially when comparing with the other building product peers as well as it is highly dependent on the US housing markets. In the recent days it has also come under major scrutiny over Customer Welfare related to asbestos liabilities. The company is liable to pay towards a special purpose fund which provides compensation for Australian asbestos related personal injury as well as death claims that the company incurred. The payment is quite hefty as it requires the company to pay up to 35% of the operating cash flow to the AICF (Asbestos Injuries Compensation Fund) which amounted to a total of AU\$1571million between the years of 2007 to 2020 with another payment amounting to \$153.4million for the FY 2021.

Thus, both the companies belong from very different industries albeit with very similar business operation structure. James Hardie Industries Plc has experienced a higher flak over its incompetence in maintaining a good 'Social' rating. It has shown a steady incorporation of renewable energy based raw material. It slowly stopped producing cement that involved asbestos due to the climatic impact and engineered a more renewable form of fibre cement that proved to be more sturdy and resilient in times of crisis. When comparing with Newcrest Mining it can be said that both companies stand quite at par in terms of their ESG rating but the losses suffered due to the pandemics was higher by Newcrest Mining Ltd due to its geographical location being situated primarily in countries where political decisions severely impacted its operation pushing many projects to a much later date.



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