



CONTENT & CREATIVE

INSIGHT INTO IDEAS

Стратегия – примеры из лучшей практики

Ноябрь 2019

Стратегия



- Совет директоров – взаимодействие с ключевыми заинтересованными сторонами. Какие вопросы поднимают ЗС, как компания учитывает их интересы, какие риски и возможности эти вопросы представляют для компании, как менеджмент учитывает их в стратегии.

Обновление стратегии

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Vodafone Group Plc
Annual Report 2019

Chairman's statement

Evolving our strategy to address industry headwinds

During the past year we have experienced a significant fall in our share price. Despite good performance in most markets, we faced increasing competition in Spain and Italy, as well as pressure in South Africa during the second half of the year. Although we met our financial guidance, our revenue growth slowed during the year and 5G spectrum auction costs were high, reducing our financial headroom and contributing to downward pressure on our share price. A decline in the value of our listed stake in Vodafone Idea was a further headwind.

Rebalancing the dividend to support Vodafone's transformation and rebuild headroom

Vodafone is at a key point of transformation – deepening customer engagement, accelerating digital transformation, radically simplifying our operations, generating better returns from our infrastructure assets and continuing to optimise our portfolio. In order to support these goals and to rebuild headroom, the Board has made the decision to rebalance the dividend to 9 euros per share. This will help us to reduce debt and move to the lower end of our targeted 2.5x EV/EBITDA leverage ratio in the next few years. On pages 24 and 25, Margherita describes the comprehensive programme of further deleveraging actions that we are taking, including the sale of our business in New Zealand for £2.1 billion which we announced in May 2019.

The Board's decision to rebalance the dividend was not taken lightly, but we believe it is a necessary step to ensure that we deliver on our ambition to improve return on capital, grow the cash flow and drive shareholder value. Going forward we intend to maintain a progressive dividend policy.

Executing at pace on our new strategic priorities

Under the leadership of our new Chief Executive, Nick Read, the Board has evolved the Group's strategy to respond to ongoing industry headwinds. Nick and his team have executed at pace and made encouraging progress on improving the continuity of our commercial performance, particularly in Spain and Italy. Mobile contract churn fell to a record low level in the year, and we have already put in place actions which will deliver over half of our FY20 cost reduction targets. We are also making rapid progress in our efforts to improve capital efficiency through our 'smart capex' approach in collaboration with a number of important industry partnerships, particularly 5G network sharing.

These sharing agreements also unlock potential to monetise our spectrum. Nick described this revised strategy on pages 12 to 21.

On track to complete the Liberty Global deal in July
In May 2019, we announced the acquisition of Liberty Global's assets in Germany, the Czech Republic, Hungary and Romania. This acquisition positions Vodafone as Europe's largest next generation network (NGN) infrastructure owner, the leading converged challenger to the incumbents with an NPV of over €7.5 billion. We have offered a package of remedies to the European Commission, including a broadband wholesale access agreement with Telefonica Deutschland, and we expect the acquisition to complete in July 2019.

Recognising Vodafone Idea in India
We completed the merger of Vodafone India and Idea Cellular in August 2018, creating a new leading player in Vodafone Idea. However, the competitive environment remained challenging during the year as industry prices remain below cash costs. In response, we have accelerated our integration efforts, targeting full realisation of cost synergies by FY21, two years earlier than originally planned. In addition, we decided to strengthen Vodafone Idea's balance sheet by raising €3.2 billion of new equity through a rights issue, which completed in May 2019. Vodafone contributed €1.4 billion funded by a loan secured against our Indian assets, and our partner Airtel, Vodafone Idea contributed €1.9 billion. This funds, together with the opportunity to monetise its tower and fibre assets, will enable Vodafone Idea to continue to invest and to participate fully in a potential industry recovery.

Improving return on capital and driving commercial and operational performance will be the top priorities for your Board and for the company, aiming to make Vodafone the best value proposition in our industry for customers and for shareholders.

However, policy makers and regulators also need to play their part, ensuring a competitive environment that provides an adequate return on the substantial investments that will be needed to meet these important societal goals. This is especially important in Europe, where return on capital has fallen to unsustainably low levels.

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Gerard Verbeke
Chairman

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Key trends shaping our industry

We operate in a rapidly changing industry where innovation and scale are key

Rising global smartphone penetration, ubiquitous superfast internet access, increasingly converged solutions and remarkable new technologies are rapidly transforming the way that we live and work, while simultaneously creating a range of new commercial, regulatory and societal challenges. These long-term opportunities and risks are reflected in our strategy.

Growing demand for mobile data, high speed broadband and converged solutions

Europe Consumer
In Europe the demand for mobile data continues to grow rapidly. Over the last 5 years, mobile data traffic per user increased by 50% per annum and growth over the next three years is expected to remain strong. The challenge for operators is how to monetise this strong volume growth. European total mobile service revenues grew by only 0.2% in 2018, due to substantial unitary price deflation, driven by technological improvements, regulation and a high level of competition. The transition to 5G, with services launching in 2019, will allow operators to significantly reduce the cost of carrying data on their network. 5G will also enable a range of new revenue opportunities over the medium term such as Quality of Service (QoS) – enabling Internet of Things (IoT) services and niche Fixed Wireless Access (FWA) solutions, as well as other new business cases.

In fixed, demand for NGN high speed broadband services over cable or fibre continues to grow rapidly. Over the next five years, Analysts' Mason estimate that over 40 million households in Europe will move to NGN services within Vodafone's European footprint.

Business
In fixed, businesses are currently transitioning from traditional Wide Area Networks (WAN) to Software Defined Networks (SDN) in order to simplify their operations, increase their speed of execution, automate their networks and save costs. This represents a significant opportunity for operators who have the expertise to take advantage of this.

The Internet of Things is also growing at a rapid pace, with a vast array of use cases from sensors used to control industrial machinery and smart bookshelves to automated self-driving vehicles.

Mobile data growth and network quality
Mops
The growth of our group's aggregate mobile data traffic and network quality is a key trend shaping our industry. Over the last 5 years, mobile data traffic per user increased by 50% per annum and growth over the next three years is expected to remain strong. The challenge for operators is how to monetise this strong volume growth. European total mobile service revenues grew by only 0.2% in 2018, due to substantial unitary price deflation, driven by technological improvements, regulation and a high level of competition. The transition to 5G, with services launching in 2019, will allow operators to significantly reduce the cost of carrying data on their network. 5G will also enable a range of new revenue opportunities over the medium term such as Quality of Service (QoS) – enabling Internet of Things (IoT) services and niche Fixed Wireless Access (FWA) solutions, as well as other new business cases.

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Risk management

Our risks and uncertainties

We operate a global risk framework across all of our local markets and group

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Key performance indicators

Turning our strategic priorities into tangible performance indicators

We measure our success by tracking key performance indicators that reflect our strategic, operational and financial progress and performance. These drive internal management of the business and our remuneration.

Leading Operational metrics
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Strengthening our framework

Over the course of the year we have:

- People and skills: worked to develop local risk teams through a series of community events with soft skills training, best practice sharing and technical guidance.
- Governance: improved local oversight of risk by briefing our local market and group entity oversight committees on a regular basis.
- Coverage: extended our risk framework to provide more detailed coverage of some of our largest functions, like Technology, and some specialist areas, such as Partner Markets and M-Pesa.
- Tools and technology: enhanced the use of our global risk tool by incorporating additional control frameworks and assurance

Key changes in the year

Changes to risk:

Allocation of the Group's capital has been split, partly merging with the existing Global economic disruption/adequate liquidity risk and also forming part of the new Successful integration of new assets and management of joint ventures risk.

EMF health related risk has been moved to our watch list as a longer-term potential risk. More detail on this risk can be found in the relevant section on page 51.

Effective data management was removed during the course of risk reviews in FY19 with the Privacy component being merged into the Legal Compliance risk.

New risks:

Geo-political risk in supply chain relates to global trade wars and security concerns that could result in restrictions on key equipment. This could have significant financial, legal, supply chain or operational implications.

Successful integration of new assets and management of joint ventures relates to failure to realise the expected benefits from acquisitions (subject to completion) and jointly controlled businesses that could result if we are unable to effectively manage the integration or any governance failures.

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Digital transformation opportunity

The world is undergoing a rapid digital transformation. Digitalisation is a key operational theme.

Speed of execution will be key in order to:

Changes to KPIs this year

We have updated some of our KPIs to more accurately reflect our strategic priorities.

New KPIs:

– European mobile contract churn

– European net operating expenses reduction

– Emerging Consumer data and 4G data users

– 5G data users

KPIs removed:

– 4G customers

– Average smartphone data usage per customer in Europe

– Consumer mobile net promoter score

– Group adjusted EBITDA before tax service revenue

Financial performance

The Group achieved its financial guidance for the year, a good growth in most markets offset increased competition in Spain and

Обновление стратегии



Chairman's statement Transforming the Group for success in a digital world



At the heart of our success is our purpose to Help Britain Prosper and we are playing a vital role in supporting people, businesses and communities across the UK.

Lord Blackwell
Chairman

Overview and strategy

The Group once again delivered strong financial performance in 2018 while making major strides in executing our strategic transformation. Nevertheless I am conscious it was a frustrating year for shareholders, with a disappointing share price performance despite this progress. While external factors affecting UK investments are outside of our control, the Board are determined to continue building value for shareholders by maintaining our focus on delivering continued improvement in our results whilst simultaneously investing in the transformation required to serve our customers and operate effectively in a digital world. We are committed to building a successful and sustainable Group we can all be proud of.

The Board has been actively involved in the development and ongoing review of the strategy and last year we announced the next phase of our strategic plan. We outlined our four transformation priorities focused on the financial needs and behaviours of the customer of the future further enhancing our leading customer experience, further digitising the Group, maximising Group capability, and transforming ways of working. This programme of change and renewal is an embracing, and our strong capital build is enabling us to invest more than £3 billion in these strategic initiatives over the current three year plan period (2018 to 2020), a significant increase over the prior period.

During 2018, the Board were excited to see the excellent progress that had been made within the first year of this plan. We are now operating in an industry which is experiencing more change through digitisation than in its entire history. Our aim is not just to maintain our position as Britain's biggest digital bank by competing more effectively, but also to seek opportunities to create more value from the wider and deeper relationships we can build with our customers through digital channels and service capabilities.

One important component of this opportunity is the potential to provide a deeper range of financial planning, wealth management and retirement solutions to our bank customers, drawing on the capabilities and expertise within Scottish Widows. During 2018, as well as completing the acquisition of the UK workplace pensions and savings business from Zurich Financial Services, we were delighted to announce a strategic partnership with Schroders in October with the aim of creating a market leading wealth management proposition.

Capital return
At the heart of the Board makes an assessment of the strength of the Group's balance sheet and future prospects relative to opportunities in the external environment. In addition to the increased investment of more than £3 billion over the plan period, I am pleased to announce that, as a result of the financial progress in the year, the Board has recommended an increased final ordinary dividend of 2.14 pence per share, bringing the total ordinary dividend for 2018 to 3.27 pence per share, an increase of 5 pence on last year. In line with the Group's policy to deliver a progressive and sustainable ordinary dividend, whilst distributing surplus capital, the Board also intends to implement a share buyback of up to £1.75 billion. More information on the intended share buyback is provided on page 40.

Our purpose
At the heart of our success is our continued focus on Helping Britain Prosper. The Group plays a vital role in supporting the prosperity of people, businesses and communities across the UK, and in doing so builds depth, consumer understanding and relationships. It is also important to the Board that our strategy is fully consistent with our commitments as a responsible business and during the year we have committed to becoming a leader in supporting the UK to transition successfully

to a more sustainable world. We recognise that inevitably live in this uncertain working hard to and to help lead the continuing a prospect for the UK's ongoing as an open, non-optimistic about In line with these that we have been Employer for 90 Business of the 30 Employer for leading the way

Customers
Over the course across Britain to customers and enable me to support our their change; focused a pre always improve and committed in the Group. Our focus on recognised that this year's year. For the last award, and for Widows won five Strategic Partnerships for Awards

During the year, our performance is inextricably linked to the health of the UK economy. Over 2018, our performance across the UK, and in doing so builds depth, consumer understanding and relationships. It is also important to the Board that our strategy is fully consistent with our commitments as a responsible business and during the year we have committed to becoming a leader in supporting the UK to transition successfully

Group Chief Executive's review Another year of strong strategic and financial performance



Our continued strong performance positions us well to succeed in a digital world.

Antonio Horta-Osorio
Group Chief Executive

In 2018 the Group has again delivered significant benefits for our customers and a strong financial performance, with increased profits and returns. As a result of this performance, we have been able to recommend an increased dividend and share buyback. Our differentiated, customer focused, UK business model continues to position us well for sustainable success and continuing to deliver our purpose of Helping Britain Prosper.

At each year of our customer focus and financial performance. To deliver this sustainable success in the long term we need to ensure we remain focused on enhancing customer experience. With this in mind, in February 2018 we announced our ambitious strategy to transform the Group for success in a digital world, with a significant increase in strategic investment. We have already made a great start in implementing the strategic initiatives which will further digitise the Group, enhance customer experience, maximise our capabilities as an integrated financial services provider and transform the way we work. In addition, towards the end of the year we also announced a strategic partnership with Schroders to create a market leading wealth proposition. Continued delivery against our strategic priorities positions us well for future success and our confidence is reflected in our guidance.

Over the UK focus, our performance is inextricably linked to the health of the UK economy. Over 2018, our performance across the UK, and in doing so builds depth, consumer understanding and relationships. It is also important to the Board that our strategy is fully consistent with our commitments as a responsible business and during the year we have committed to becoming a leader in supporting the UK to transition successfully

and grow our leading digital bank whilst delivering strong financial performance and market leading returns.

Financial performance
Statutory profit after tax of £4.4 billion was 24 per cent higher than 2017 and earnings per share at 5.5 pence per share was 27 per cent higher. This was driven by improved underlying profit including lower remediation charges and we continue to narrow the gap between underlying and statutory profit, a trend we expect to continue as statutory profits increase further. As a result of this performance the Group has delivered a further increase to our return on tangible equity, which is now a market leading 11.7 per cent. Underlying profit of £8.1 billion increased 6 pence, reflecting growth in income and lower costs, partly offset by the expected increase in the impairment charge. Our relentless focus on cost efficiency led to a reduction in operating costs despite increased strategic investment, and our cost income ratio improved further to 89.2 per cent. Asset quality remains strong with the Group's gross asset quality ratio remaining flat at 28 basis points, while the net asset quality ratio increased to 21 basis points, driven by expected lower releases and better facts.

The Group's loans and advances were stable at £44.4 billion with growth in targeted segments including SMEs, SMEs and consumer lending offset by the sale of the £4.6 billion Irish mortgage portfolio in the first half of 2018. The Group's capital position remains strong with a pro forma CET1 ratio of 133.9 after allowing for ordinary dividends and the share buyback.

Given the Group's capital build of 27.5 billion points this year, the Board has recommended a final ordinary dividend of 2.14 pence per share, bringing the total ordinary dividend for the year to 3.27 pence per share. This represents an increase of

5 pence on 2017 and is in line with our progressive and sustainable ordinary dividend policy. In addition, the Board has announced its intention to implement a share buyback programme of up to £1.75 billion, equivalent to 2.6 pence per share, up 76 per cent from last year.

Strategic progress
In February 2018, we launched the third stage of our strategic plan with an increased strategic investment of more than £3 billion over the three year plan period, building on our unique competitive advantages, to transform the Group to succeed in a digital world.

Over the first year of the plan we have delivered significant progress against our strategic priorities of Leading customer experience, Digitising the Group, Maximising the Group's capabilities and Transforming ways of working as outlined on the next page.

Helping Britain Prosper Plan

The Group's success is intertwined with the UK's prosperity and we acknowledge we have a responsibility to help address the economic, social and environmental challenges the country faces. We do this through our Helping Britain Prosper Plan, which was simplified and updated in 2018 to support our three year strategy and focus on areas that have the most impact on people, businesses and communities.

Our business model How we create value, and what sets us apart

We are a simple, low-risk, customer focused UK financial services provider...

OUR PURPOSE
Helping Britain Prosper
Our success is intertwined with the UK's prosperity and we aim to help Britain Prosper through creating a responsible business that focuses on customer needs, and delivering long-term sustainable success.

OUR AIM
Best bank for customers, colleagues and shareholders
Doing the right thing for our customers, colleagues and shareholders by ensuring that financial results, helping them succeed, improving our service proposition and creating value for them, is fundamental to our business model and the long-term sustainability of the business.

OUR PRODUCTS
Our product range is driven by our customers' needs and is informed through comprehensive customer analysis and insight.
Lending Mortgages, credit cards, motor finance, personal and business loans.
Deposit taking Current accounts and savings accounts
Insurance Home insurance, motor insurance and protection
Investment Products Pensions and investment products
Capital Raising Term lending, debt capital markets and private equity

Risk management Interest rate hedging, currency and liquidity
OUR BUSINESS AREAS
Our business areas are structured according to the products and the services we provide to best serve our customers' financial needs. We currently have three business areas:

Retail
Commercial Banking
Insurance and Wealth



As a large, UK focused financial services provider we face several external and internal challenges

EXTERNAL
As previously discussed on pages 28 to 30, the main external challenges we face are:

- Changing and uncertain economic environment, including Brexit uncertainty
- UK economic challenges
- Increasingly competitive environment, including the impact of digital disruption
- Increasingly complex and effective and robust and what we are prepared to do to meet the needs of our customers
- Increasingly complex and effective and robust and what we are prepared to do to meet the needs of our customers
- Increasingly complex and effective and robust and what we are prepared to do to meet the needs of our customers

...with several evolving, distinctive competitive strengths...

UK's largest digital bank, branch reach and customer franchise with leading integrated propositions

Our scale and reach across the UK means that our customer franchise extends to around 20 million customers, with 15.1 million digitally active customers. We are uniquely positioned to deal with customer banking and investment needs.

Prudent, low risk participation choices with strong capital position
Being a bank is fundamental to our business model. Our board expects to be funded through the low level of non-performing loans and on all of them, as well as our relative credit default swap spread. Our financial strength has been transformed in recent years with our capital position amongst the strongest in the sector worldwide.

Market leading efficiency through tech-enabled productivity improvements
Our simpler operating model and focus on operational efficiency provides a cost advantage, which benefits both customers and shareholders.

Rigorous execution and management discipline
Experience of delivering change and transformation in recent years provides benefit as we further transform the business.

Multi-brand, multi-channel customer proposition with data driven customer experience
Operating in an integrated way through a range of distribution channels ensures our customers can interact with us when and how they want.

Offering our services through a number of recognised brands enables us to address the needs of different customer segments more effectively.

...that underpin our clear strategy to transform the Group for success in a digital world...

In February 2018, we launched our new three year strategy to transform the Group for success in a digital world. We identified four strategic initiatives over the plan period:

OUR STRATEGIC PRIORITIES
@ pages 10 to 16



...enabling us to Help Britain Prosper and deliver for all our stakeholders.

Successful implementation of our strategy will ensure we Help Britain Prosper and deliver success to all our stakeholders.

KEY STAKEHOLDER OUTCOMES

- Customers**
 - Market leading digital proposition with UK's largest digital network
 - Simple home for our customers' banking and insurance needs
 - Personalised customer propositions
 - Better experience across channels
- Shareholders**
 - Sustainable and low risk growth
 - Market leading efficiency
 - Superior returns and lower cost of equity
 - Strong capital generation and attractive distribution policy

INTERNAL
We also face a number of internal challenges:

- Changing and uncertain economic environment, including Brexit uncertainty
- UK economic challenges
- Increasingly competitive environment, including the impact of digital disruption
- Increasingly complex and effective and robust and what we are prepared to do to meet the needs of our customers
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Our strategic priorities Digitising the Group

Our market leading cost position and customer franchise are sources of competitive advantage. However, we must not be complacent and must further digitalise our operations to ensure we remain competitive and able to deliver for our customers.

Our strategic priorities are:

- 1. Leading customer experience
- 2. Digitising the Group
- 3. Maximising the Group's capabilities
- 4. Transforming ways of working

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Стратегия

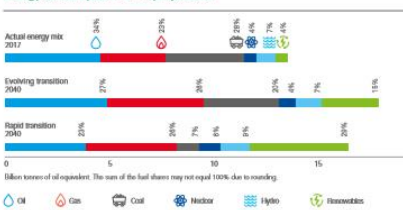


The changing energy mix

The *BP Energy Outlook* explores the forces shaping the global energy transition out to 2040 and the key uncertainties surrounding that transition. We use the scenarios in the Outlook together with a range of other analysis and information when forming our long-term strategy.

The demand for energy is set to increase significantly – growing economies need energy to support their industry and infrastructure. In all the scenarios considered, world GDP more than doubles by 2040 driven by increasing prosperity in fast-growing developing economies. In the evolving transition scenario, this improvement in living standards causes energy demand to increase by a third by 2040, driven mainly by India, China and other developing Asian economies. The rate of growth however is slower than in the previous 20 years, as the world increasingly turns to produce more with less energy. Despite this, a substantial proportion of the world's population in 2040 could live in countries where the average energy consumption per person is relatively low. At the same time, the energy mix is changing as technology advances, consumer preferences shift and policy measures evolve. Renewables are now the fastest-growing energy source in the world today and in our evolving transition scenario we estimate that they could account for 15% of all energy consumption in 2040 – and in other scenarios more.

Energy consumption – 2040 projections



- Evolving transition**
- World energy demand increases by one third from 2017 to 2040.
 - CO₂ emissions from energy use increase by 7% by 2040.
 - Oil and gas account for more than half of global energy in 2040.

- Rapid transition**
- Oil demand in 2040 decreases by 14Mbd. Biofuels grow by 4Mbd.
 - CO₂ emissions from energy use decline by around 45% by 2040.
 - Global energy consumption grows by around one fifth.

Our strategy

Society is demanding solutions for more energy, delivered in new and better ways for a low carbon future. Our strategy is designed to meet this dual challenge.

Through new technologies, energy will be produced more efficiently and in new ways, helping to meet the expected rise in demand. Our strategy allows us to be competitive at a time when price, policy, technology and customer preferences are evolving rapidly. We believe having a balanced portfolio with advantaged oil and gas, a competitive downstream and a range of low carbon activities, with the flexibility of our strategy, gives us optimality whatever path the transition takes. With the experience we have and the portfolio we've created, we can embrace the energy transition in a way that enhances our investor proposition, while continuing to meet the need for energy.

More information

Financial framework
How the strategies are combined to deliver investment and growing shareholder value. See page 13.



Group chief executive's letter



Our strategy is delivering value for you, our shareholders, while being flexible and agile for the energy transition underway.

Growing advantaged oil and gas in the upstream

Invest in more oil and gas, producing both with increasing efficiency.

Key highlights

Transforming US onshore



Purchased unconventional assets from BP's giving us access to some of the best basins in the onshore US.

Collaborative partnerships

Signed a new production-sharing agreement with SOCAR, Azerbaijan's state oil and gas company, to jointly explore and develop block D220 in the Caspian Sea. And formed a strategic alliance with Petrobras to explore joint projects in upstream, downstream, trading and low carbon in Brazil.

Project approvals

Sanctioned Chezar in Oman – the second phase of development in the Khazzan gas field, Alghail and Wajid in the UK North Sea, the Cassia Compression and Matlapa gas projects in Trinidad, KG-D6 Satellite in India, Zha-2 in Angola, Mozambique Atlantic Phase 3 in the Gulf of Mexico, and Tortuga in Mauritania and Senegal.

Major project start-ups

Started up six major projects, making a significant contribution to the 900,000 barrels per day of expected new production from major project start-ups between 2016 and 2021.

Market-led growth in the downstream

Innovate with advanced products and strategic partnerships.

Convenience partnerships



Opened more than 220 additional NEVC to Co-Op retail sites in Germany, taking the total number of convenience partnership sites to around 1,400 across our global retail network.

Growing retail in new markets

Expanded our network to 440 BP-branded retail sites in Mexico and opened our first sites in Indonesia.

Sustainable aviation fuel

Entered into an innovative collaboration between Air BP and Neste, a leading renewable products producer, to secure and promote the supply of sustainable aviation fuel.

Strong brands and partnerships

Strengthened our lubricants and fuels partnership with Renault Sport Racing – extending our BP Castrol sponsorship and broadening the relationship to include joint development of advanced mobility solutions and new technologies.

Venturing and low carbon across multiple fronts

Pursue new opportunities that are consistent with our strategy and investor policy trends.

Harvesting battery power



Made a series of investments in electric vehicle technology and infrastructure to help us respond to rising demand for battery charging facilities, including the acquisition of Chargeplace, operator of the UK's largest electric vehicle charging network.

Advancing solar

Lightsource BP has doubled the number of countries where it has a presence since December 2017.

Turning waste to fuel

Licensed technology, developed by BP and Johnson Matthey, to produce bio-refinery* for use at their planned US commercial-scale waste-to-fuels plant.

Cleaner power

Working with the Oil and Gas Climate Initiative to progress the Clean Gas Project, which plans to use natural gas to generate power, and then capture and transport the CO₂ by pipeline for storage in a formation under the southern North Sea.

Modernizing the whole group

Simplify our processes and enhance our productivity through digital solutions.

Using wearable technologies



Trained new technologies, such as smart glasses, in the US and digital work in Oman, to help increase safety and efficiency at our operations.

Cloud-based technologies

Deployed Platform Operations Advisor on our four platforms in the US Gulf of Mexico. The cloud-based tool helps reduce the time it could take engineers to diagnose a problem from hours to minutes.

Intelligent operations

Installed APEX technology across all our upstream BP-operated assets to gather data about every well and help identify efficiency improvements.

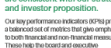
Process automation

Reduced the time it takes to complete manual tasks, such as contract management and customer data processing, by using robotic process automation. This is helping to optimize our business processes, drive productivity and improve customer satisfaction.

Measuring our progress

So far

That 1 process safety event*



Improved recordable injury frequency*



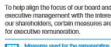
Changes to KPIs



Underlying replacement cost profit (\$ billion)



Operating cash flow (\$ billion)



Return on average capital employed (%)



Total shareholder return (%)



Fit for the future

Reserves replacement ratio (%)



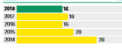
Production (mtoe)



Upstream unit production costs (\$/toe)



Upstream plant reliability (%)



Employee engagement (%)



Стратегия и назначение

STRATEGIC REPORT THE PURPOSE TO REWARD JOURNEY

THE PURPOSE TO REWARD JOURNEY

OUR PURPOSE

Anglo American is re-imagining mining to improve people's lives. Mining has a smarter, safer future.

Using more precise extraction technologies, less energy and less water, we are reducing our physical footprint for every ounce, carat and kilogram of precious metal or mineral.

We are combining smart innovation with the utmost consideration for our people, their families, local communities, our customers, and the world at large – to better connect the resources in the ground to the people who need and value them.

And we are working together to develop better jobs, better education and better businesses, building brighter and healthier futures around our operations in our host countries and ultimately for billions of people around the world who depend on our products every day.

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And we are working together to develop better jobs, better education and better businesses, building brighter and healthier futures around our operations in our host countries and ultimately for billions of people around the world who depend on our products every day.

OUR STRATEGY

1

Portfolio

The quality and long life of our mineral assets are the foundation of our global business. We focus on securing and continuously improving assets that offer the most attractive long term value creation potential, as measured by sustainable cash flow and returns.

The scale and diversity of our portfolio allow us to leverage our financial resources, technical expertise, and supplier relationships towards delivery on our full potential and to the benefit of our customers, creating a measured risk profile and supporting strong returns, through the cycle.

For more on Portfolio See pages 18-23

2

Innovation

Across every aspect of our business, we are thinking innovatively about how we ensure the safety of our people, enhance our sustainability performance, and deliver enduring value for all our stakeholders.

From exploration to delivering our products to our customers, FutureSmart Mining™ is our innovation-led pathway to sustainable mining. Coupled with the best-in-class operational improvements being delivered from our unique Operating Model, we are fundamentally changing the way we extract, process and market our products, and will provide the next step change in operating and financial performance.

For more on Innovation See pages 24-33

3

People

Our people are critical to all that we do. The partnerships we build locally and globally are central to maintaining our regulatory and social licences to operate and our sustained commercial success.

We create inclusive and diverse working environments that encourage and support a high performance culture and innovative thinking.

Our Organization Model ensures we have the right people in the right roles doing the right value-adding work at the right time, with clear accountabilities that minimise work duplication and increase capability and effectiveness.

For more on People See pages 34-39

Capital allocation

Underpinning our strategy, we have a value-focused approach to capital allocation, with clear prioritisation: sustaining capital to maintain asset integrity (including Reserve Life), then the base dividends to our shareholders, determined on a 40% underlying earnings-based payout ratio, while ensuring a strong balance sheet. Discretionary capital is then allocated, based on a balanced approach, to growth investments or upgrades to our portfolio, that are subject to a demanding risk framework and that meet our stringent value criteria, or is considered for additional returns to shareholders.

For more on Capital allocation See pages 40-41

OUR VALUES

We are committed to six values which guide how we conduct ourselves. We are creating an organisation where all people are treated in such a way that they bring the

best of who they are to work. Our values and the way in which we, as individuals, are expected to behave are the foundation of our Code of Conduct.

FutureSmart Mining™

FutureSmart Mining™ is our innovation-led pathway to sustainable mining. These are the step-change innovations that will transform the nature of mining – how we mine, process, move and market our products – and how our stakeholders experience our business, in terms of our physical and societal footprint.

For more on FutureSmart Mining™ See www.angloamerican.com/futuresmart



Sustainable mining

Anglo American has applied its FutureSmart Mining™ programme to what we believe is an industry-leading approach to sustainability. This is focused on three global sustainability pillars – trusted corporate leader, thriving communities, and healthy environment – each encompassing three global stretch goals. Deliberately ambitious, these goals will challenge our business to innovate and change, and we are mobilising our people and resources to deliver them by 2030.

For more detail on our approach to sustainability See www.angloamerican.com/sustainability



MEASURING DELIVERY OF OUR STRATEGY

We track our strategic progress on an ongoing basis using KPIs that are based on our seven pillars of value:

SAFETY AND HEALTH
To do no harm to our workforce

ENVIRONMENT
To minimise our impact on the environment

SOCIO-POLITICAL
To partner in the benefits of mining with local communities and government

PEOPLE
To create a sustainable competitive advantage through capable people and an effective, Purpose-led, high performance culture

PRODUCTION
To sustainably produce valuable product

COST
To be competitive by operating as efficiently as possible

FINANCIAL
To deliver sustainable returns to our shareholders

For our KPIs See pages 48-62

BALANCED REWARD

Anglo American's directors' remuneration policy is designed to encourage delivery of the Group's strategy and creation of stakeholder value in a responsible and sustainable manner, aligned to our Purpose. The main elements of the remuneration package are basic salary, annual bonus and Long Term Incentive Plan (LTIP).

Basic salary

Basic salary levels are reviewed annually by the Remuneration Committee, taking into account company performance, individual performance, levels of increase for the broader population and inflation. Reference may be made to the market median of FTSE 50 and natural resource companies, or other peer groups, to ensure market alignment.

Annual bonus

Annual bonus performance measures include:

- 50% on underlying earnings per share (EPS). EPS is one of the Group's key financial measures of performance and is set on an annual basis to ensure targets are demanding yet realistic.
- The remaining measures include project delivery, business improvement, stakeholder engagement, sustainability and talent management.
- A modifier is applied depending on the extent to which safety and sustainability targets are met.
- From 2018 onwards, our business leaders are held personally accountable for any failures on our journey to the goal of zero harm with the introduction of a safety deducter.
- To help ensure sustainable long term performance, 30% of any annual bonus is deferred into shares for a minimum of three years and is subject to clawback.

Long Term Incentive Plan (LTIP)

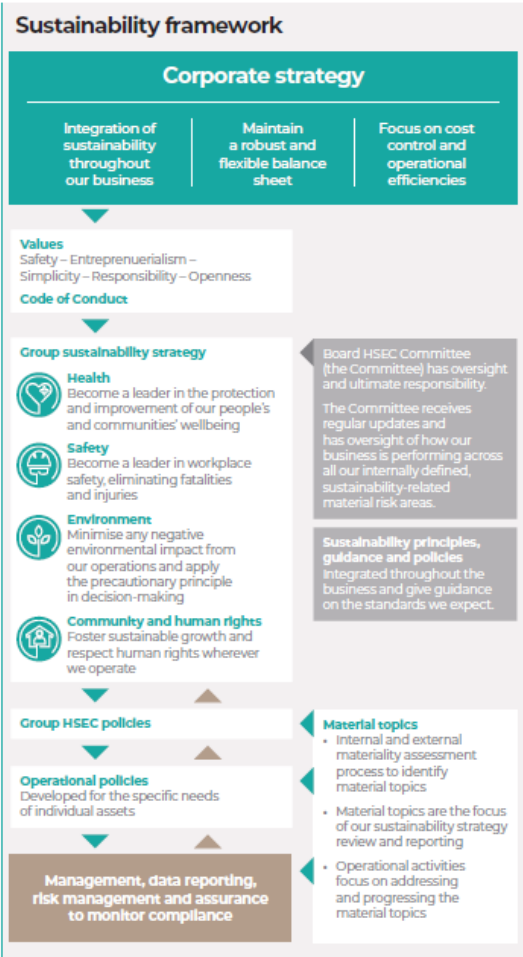
The LTIP performance measures are aligned to our strategic objectives over a three-year performance period. Vesting LTIP awards are subject to clawback and must be held for an additional two years to encourage alignment of executive and shareholder interests.

- 70% subject to Group Total Shareholder Return (TSR), with two-thirds relative to the Eurozone Global Mining Index and one-third relative to the constituent of the FTSE 100 index.
- 30% subject to a balanced scorecard of financial and strategic objectives, including environmental and sustainability targets.

For our Remuneration Report See pages 100-125



Стратегия + Существенность + КПЭ



Performance overview					
✔ Achieved ➤ On track ✗ Not achieved					
Material topic	2015–2020 strategic priority	Performance indicator	2017	2018	Status
Catastrophic hazard management	• No major or catastrophic environmental incidents	Number of health and safety incidents (major and catastrophic)	9	13	✗
		Number of environmental incidents (major and catastrophic)	0	0	✔
		Total number of catastrophic and major incidents	9	13	✗
Workplace health and safety	• No fatalities • 50% reduction of Group LTIFR by the end of 2020, against 2015 figure of 1.34 ¹ • 50% reduction in TRIFR by the end of 2020 using 2014 figures as baseline of 5.02 ¹ • Year on year reduction in the number of new cases of occupational disease	Fatalities at managed operations	9	13	✗
		Lost time injury frequency rate	1.02	1.06	➤
		Total recordable injury frequency rate	3.1	3.2	➤
		New occupational disease cases	46	32	✔
		Number of HPRLs reported ¹	368	434	✔
Climate change	• 5% (minimum) carbon emission intensity reduction on 2016 baseline by 2020	CO ₂ e Scope 1 (million tonnes)	21.6	18.5	➤
		CO ₂ Scope 2 – Location based (million tonnes)	11.6	11.8	➤
		Total energy use (petajoules)	202	208	➤
		Carbon emissions intensity (tGHG/tCu)	4.38	4.09	➤
Water and effluents	• Complete implementation of water management guideline	Share of sites that have implemented the water management guideline by the end of 2019 (%)	n/a	n/a	➤
Human rights and grievance mechanisms	• No serious human rights incidents	Serious human rights incidents	0	0	➤
Community engagement and social commitment compliance	• Implement our social value creation strategy • Distribute the community leadership Programme Toolkit	Community investment spend (\$ million)	90	95	➤
Product stewardship	• Ongoing engagement with organisations and interested stakeholders on responsible sourcing	Continued engagement with a broad range of stakeholders, including customers, regulatory organisations and industry associations			➤

¹ Baseline figures include Glencore Agriculture.