DRIVE CONSISTENT DELIVERY

As global economic and political uncertainty continues and commodity prices remain generally volatile, it is important to continue driving improvements through our business. In this challenging environment, we are committed to managing what is in our control; achieving cost and productivity improvements; to enhance cash flows through the cycle; and further strengthen our balance sheet.

34% NET DEBT◊ REDUCTION

$8.5 billion

COST AND VOLUME IMPROVEMENTS◊

$1.5 billion

NET DEBT: EBITDA RATIO◊

1.4x

CAPITAL EXPENDITURE◊(1) IN 2016

$2.5 billion

For more information
See pages 21-23

PILLARS OF VALUE

- **Production**
- **Cost**
- **Financial**

For more on pillars of value and our KPIs
See page 34

SISHEN – COMING THROUGH THE DOWNTURN, PREPARED FOR THE UPTURN

During 2015, confronted by steadily declining prices as iron ore markets continued to deteriorate, Kumba Iron Ore took bold action to ensure that South Africa's premier iron ore producer remained profitable.

In a series of moves in response to the worsening price environment, the huge open pit at Sishen mine was progressively redesigned, with a final pit design achieved in late 2015. This design called for considerably less waste rock stripping, which would allow Sishen to operate at a reduced cash break even price. More generally, it enabled a more flexible and responsive approach to mining operations, with lower execution risk.

The ramifications of the reconfiguration of pit design and change in mining approach, however, were to be felt far more widely – and it would take a multi-disciplinary team effort if Kumba was to successfully deliver on its plans.

On the operational side, the mine and the Group's technical and financial teams worked closely together on a series of business improvement projects, with additional support provided by the ongoing implementation of Anglo American's Operating Model.

Two areas of the business merited particular focus: operating hours and mining fleet utilisation had to increase materially – by as much as 30%; and substantial changes needed to be made to the shift-roster system. The first was largely achieved by the fourth quarter as a new rigour was applied to seeking greater efficiencies. Secondly, new rosters enabled a more effective handover between shifts and reduced break times, leading to a 10% increase in productivity in this area.

In many ways, however, the impact on people's lives was even more challenging. The changes meant that some 1,500 employees, along with 1,000 contractors, would have to leave the operation. Through a comprehensive process of engagement, at all levels of the organisation, with affected stakeholders, Kumba was able to undertake the largest restructure in its history while avoiding industrial action.

The introduction of Anglo American's operating model at Kumba's Sishen iron ore mine in South Africa, in tandem with progressive redesign of the huge open pit in light of a worsening price environment, has led to a more resilient operation able to operate at a reduced cash break even price.

(1) Excludes capitalised operating cash flows.

We are continuing to implement Anglo American's Operating Model in order to deliver ongoing productivity improvements, lower operating costs and to carry out work safely. Leveraging the Group's considerable technical expertise, the Operating Model provides the structure and discipline to optimise the operation of our world class assets and provides the foundation for improvements across the business.

These operational improvements, our rigorous approach to capital allocation, and the proceeds received from asset disposals in the year have improved free cash flows, reducing net debt to significantly below $10 billion and materially strengthening the Group's balance sheet.

BUILDING A STABLE OPERATIONAL PLATFORM

Delivery of the Operating Model is leading to greater confidence in our ability to deliver to our plans and improve work management, as work is now planned, scheduled and resourced well ahead of execution. The Operating Model also provides greater role clarity, with distinct accountabilities and responsibilities, enabling sustainable and stable processes that deliver the expected outcomes.

Although there are three components to the Operating Model, which address operational strategy, work management, and continuous improvement, the focus to date has been on work management execution. By the end of 2016, various components of the Operating Model had been fully or partially implemented at nine sites.

At **Kolomela**, implementation of the Operating Model in the plant area has seen a marked improvement in work execution, with scheduled work completion now in excess of 95%. Screening-tonnes throughput improved by 18% during the 'go-live' phase, and a further 18% during the stabilisation phase. The plant's process stability has also improved significantly.

At **Sishen**, initial mining work management implementation resulted in significant improvements in the amount of ore and waste moved. The restructuring of the business, however, and the resultant lower production and waste removal targets for the year, has reduced the extent of operational improvements compared with previous roll-outs. Work management for the reconfigured mining set-up is now under way.

At **Jwaneng**, the Operating Model went live in September, and is currently in the stabilisation phase, with early indications showing promising results. The model's work management component is now being implemented at the **Letlhakane Tailings Retreatment** plant.

At De Beers' **Venetia** mine, implementation of the Operating Model is in the project set-up phase while at **Gahcho Kué**, the implementation of the Operating Model is more advanced.

Delivery of the Operating Model continued at **Mogalakwena** (production and maintenance) at the South Concentrator, while implementation at the North concentrator was completed earlier in the year.

The improvement in work performance indicators has already led to an increase of approximately 10% in daily milling output.

A significant improvement has also been realised in work execution performance at **Minas-Rio**, with scheduled work completion currently standing at 85%.

At both **Los Bronces**' processing operations, milling circuit availability has increased, while there has been a reduction in process variability. Implementation of the work management component in the mining operations went live at the end of 2016. All remaining work at Los Bronces is scheduled to be completed in 2017.

During 2017, the main focus of the Operating Model's work management component will be on the Platinum business, with Amandelbult scheduled to go live towards the end of the year. Additional projects will also be carried out concurrently at the Rustenburg Base Metal Refinery.

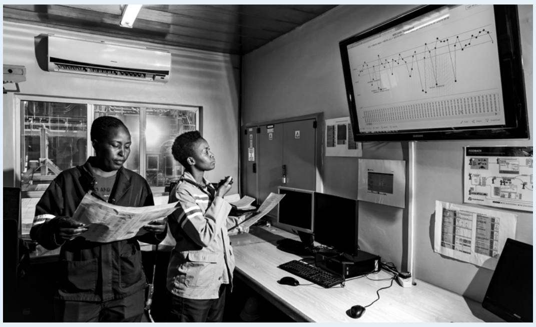
ENHANCING PERFORMANCE AT MOGALAKWENA

Anglo American's Operating Model is aimed at getting the best out of the company's assets – and particularly assets such as Mogalakwena in South Africa.

At the mine's North Concentrator, where PGM-bearing ore is processed into high-grade PGM-bearing concentrate, we are unlocking value through continually modernising processing technologies and through maximising efficiencies in processing.

Key initiatives to enhance concentrator productivity and profitability include: measures to enhance flotation kinetic response; the optimisation of fine grinding techniques in order to mitigate metal losses of locked minerals; modifications to the configuration of the flotation circuit; and taking a hard look at equipment constraints.

Such measures have led to improved nominal throughput rates, which have assisted in increasing metal production while also lowering unit costs.



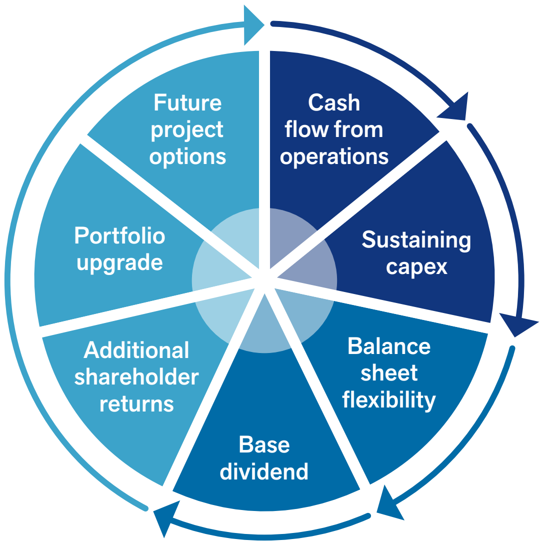
New processing technologies being adopted at Mogalakwena, following the implementation there of Anglo American's Operating Model, are leading to higher ore-milling rates and increased plant throughput. Here, control room operators Priscilla Tsheole (left) and Maggy Botsanara monitor the stability of operations at the North Concentrator.

DRIVE CONSISTENT DELIVERY continued

CAPITAL ALLOCATION

Effective capital allocation throughout the cycle is critical to delivering value, given the long term and capital intensive nature of our business. The Group applies a dynamic capital allocation process, while maintaining a strong focus on capital discipline.

In the near term, the focus remains on further strengthening the balance sheet and to restore an investment grade credit rating, while continuing to allocate the capital expenditure needed, across our portfolio of assets, to both sustain our business and to protect value. We aim to reinstate dividend payments as soon as possible and expect to do so by the end of 2017. The Group will continue to seek to upgrade the quality of its portfolio of assets, including through ensuring an appropriate geographic balance. Excess capital will be returned to shareholders unless there are compelling value-accretive opportunities for investment.



CASH FLOW FROM OPERATIONS

Anglo American seeks to improve operating free cash flow through five key levers: improving productivity and lowering input costs across all operations (including through deployment of the Operating Model); reducing overhead expenditure (including through implementation of the Functional Model); timely delivery of new projects (primarily Grosvenor and Barro Alto during 2016); maximising revenue (including through improvement in our marketing activities); and optimising our investment in working capital.

During 2016, cash flows from operations increased to $5.8 billion (2015: $4.2 billion), driven by the delivery of cost and volume improvements of $1.5 billion, which included a recovery in sales volumes at De Beers, contributions from recently completed projects, and cost reductions across the Group. Working capital cash inflows improved by $0.4 billion following improvement initiatives across all areas. The recently completed Grosvenor (Coal Australia) and Barro Alto (Nickel) projects both ramped up during 2016, together contributing $0.2 billion to cash flow from operations. Results from Gahcho Kué (De Beers) are expected to cease to be capitalised in the first quarter of 2017, and from Minas-Rio (Iron Ore Brazil) with effect from January 2017, after which these assets will also contribute to cash flow from operations.

SUSTAINING CAPITAL EXPENDITURE

We continue to focus on capital discipline and stay-in-business capital efficiency, while maintaining the operational integrity of all our assets. A sustainable level of total capital expenditure for the current portfolio of assets, excluding growth projects, is approximately $2.5 billion per year.

Stay-in-business capital expenditure decreased to $1.0 billion (2015: $1.4 billion), primarily due to a focus on capital discipline and the continued roll-out of the Operating Model across our assets.

Development and stripping capital expenditure decreased to $0.6 billion (2015: $0.7 billion), primarily as a result of the redesign of the pit at Kumba's Sishen iron ore operation, where the transition was made to a lower strip ratio and operational cost position.

During 2016, continued progress was made on our ongoing expansion projects, including the construction of De Beers' Venetia underground mine in South Africa, where the decline advanced to more than 2,000 metres. The project is now 26% complete, with the underground operation expected to be the mine's principal source of ore from 2023.

BALANCE SHEET FLEXIBILITY

Consistent with our objective to restore an investment grade credit rating, our near term objective is to continue to reduce net debt and ensure the Group's net debt/EBITDA ratio remains below 1.5.

Net debt at 31 December 2016 was $8.5 billion, significantly lower than the year-end target of $10 billion, resulting in a net debt/EBITDA ratio of 1.4. The $4.4 billion reduction in net debt since 31 December 2015 was primarily driven by strong operating cash inflows of $5.8 billion, capital expenditure of $2.5 billion[(1)] and cash proceeds from disposals, before tax, of $1.8 billion[(2)].

BASE DIVIDEND

The commitment to a sustainable dividend remains a critical part of the overall capital allocation approach.

Given the need to conserve cash and reduce debt, dividend payments remained suspended for 2016. The Board has recommended that, upon reinstatement, Anglo American should adopt a payout ratio in order to provide shareholders with exposure to improvements in commodity prices, while retaining cash flow flexibility during periods of weaker pricing. It is currently expected that dividend payments will be reinstated for the end of 2017 (payable in 2018).

(1) Excludes capitalised operating cash flows.

(2) Proceeds from disposals of $1.8 billion were received in 2016. Total nominal cash inflows are expected to reach $2.0 billion over time, subject to prices.

ADDITIONAL SHAREHOLDER RETURNS

Excess capital will be returned to shareholders unless there are compelling value-accretive opportunities for investment.

The current focus remains on deleveraging the balance sheet further and to restore an investment grade credit rating.

PORTFOLIO UPGRADE

We remain focused on upgrading the portfolio, through improving asset quality, maintaining future optionality and seeking the appropriate geographic balance.

During 2016, we received $1.8 billion[(1)] from divestment transactions. The sale of the niobium and phosphates business in Brazil to China Molybdenum Co. Ltd ($1.5 billion) supported our balance sheet recovery goal, while we also continued to upgrade the portfolio through the divestment of a number of other assets: the Rustenburg platinum mines to Sibanye Gold; our 9.7% interest in Exxaro Resources; and our interests in the Callide and Foxleigh coal mines in Australia. The disposal of Dartbrook (Coal Australia) was agreed in 2015, and is expected to complete in the first half of 2017. The disposal of the remaining interests in Tarmac operations located in the Middle East was completed in 2016. Twickenham (Platinum) was placed onto care and maintenance during the year. In February 2017, we agreed the sale of our 85% interest in the Union platinum mine in South Africa to Siyanda Resources. We will continue to refine the portfolio in this way, ensuring that capital is deployed to generate enhanced returns through the cycle.

FUTURE PROJECT OPTIONS

Strict value criteria are applied to the assessment of future options. Where appropriate, we will seek partners on major greenfield projects, and are likely to not commit to more than one major project at any given time. No major new project approvals are planned until dividend payments are resumed. The Group will continue to maintain optionality to progress with value-accretive projects, should market conditions and capital availability permit.

We continue to retain and advance select studies, maintaining our established social commitments and managing the costs of maintaining these options appropriately. Our approach to studies and evaluation has a strong emphasis on assessing a broad range of options early on in the study phase, so that we can mitigate risk, identify opportunities and minimise sunk costs. This position is enhanced by the application of innovative concepts and new technologies stemming from our FutureSmart™ mining (FutureSmart™) programme in order to build and maintain a portfolio of high-value replacement and organic options.

Our 81.9% investment in the open-cut Quellaveco copper project in Peru remains one such key option for the Group, with feasibility costs of $0.1 billion spent in 2016. At the Gahcho Kué diamond mine in Canada, which accounted for capital expenditure of $0.2 billion in 2016, production has commenced and ramp-up is nearing completion.

(1) Proceeds from disposals of $1.8 billion were received in 2016. Total nominal cash inflows are expected to reach $2.0 billion over time, subject to prices.

(2) Excludes capitalised operating cash flows.

Evaluation expenditure reduced to $105 million in 2016 (2015: $145 million) and expenditure on exploration activities decreased by 31% to $107 million (2015: $154 million).

GROUP CAPITAL EXPENDITURE◊

Capital expenditure[(2)] decreased to $2.5 billion (2015: $4.0 billion), owing to rigorous capital discipline applied to all project investments, as well as to the benefits accruing from the commissioning of the Minas-Rio, Gahcho Kué and Grosvenor projects. In 2017, we expect capital expenditure to be approximately $2.5 billion.

Capital expenditure*

$ million	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Expansionary	**967**	1,936
Stay-in-business	**1,042**	1,384
Development and stripping	**551**	740
Proceeds from disposal of property, plant and equipment	**(23)**	(30)
Total	**2,537**	4,030
Capitalised operating cash flows	**(150)**	147
Total capital expenditure	**2,387**	4,177

* See page 189 for the definition of capital expenditure.

Group historical capital expenditure◊ 2012–2016