

MINING INDABA

KEYNOTE ADDRESS

Mark Cutifani, Chief Executive

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“BUILDING RESILIENCE. REDEFINING MINING TODAY, FOR TOMORROW”

I. Acknowledgements

- Good morning to you all. I look forward to the Mining Indaba each year, and not only because it is in Cape Town—being here—right in the middle of the northern hemisphere winter is a great bonus.
- This industry gathering, now in its 23rd year, has solidified its standing as a platform for productive debate on the path the mining sector is taking, while playing a key role in promoting investment in Africa’s mining industry.
- Let me also acknowledge and thank Minister Zwane for his remarks earlier. I’m sure we can all agree that maintaining a healthy and open relationship with your host government is an imperative for any mining company.

II. Opening Remarks

- Whether it is the UK’s “Brexit”, the US Presidential elections or closer to our turf - the surprise rebound in iron ore demand and coal prices - the past year has kept all of us on our toes. Our views on the world around us have certainly been challenged.

- For the global mining industry, the past year has brought some reprieve. While market watchers were ready to sound a death knell on mining's prospects, we are still here: stronger than we were before, despite the continuing ebb and flow of sentiment and prices.
- To paraphrase a popular quote, attributed to the US writer, Mark Twain, who once had the unenviable task to counter false rumours of his death: "*The reports of mining's death are greatly exaggerated.*"
- Of course, we are not out of the woods yet. We still have a lot of work to do to regain broad stakeholder confidence in the global mining industry.
- In our particular case, many people still don't understand that the owners of most South African publicly listed mining companies are not the "Randlords" or magnates of the previous generations, but rather, ordinary pension and investment fund owners - that is, average South African citizens of all races: Black, White, Coloured and Indian. And so, I hope by the end of my talk today people will understand that white and even black monopoly capital is a conversation that should be condemned to a difficult and dark South African past.
- Despite our challenges and the dubious objectives of those wanting to redefine our current reality, there has never been such an opportune time to reinvigorate "*the promise of mining*".
- The stage is set: we need to do things differently to find new, safe, responsible and cost-effective ways to mine the ore bodies to meet the needs of a rapidly urbanising global population. A population which is estimated to reach 9.5 billion by 2050, with an even faster growing

consumer class in the emerging world. But to realise this opportunity, the current global climate requires that we ask ourselves some tough, but necessary, questions about our shared future.

- Today, I would like to share my thoughts on how we can redefine the future of mining, in order for us to build more resilient and successful companies and, collectively, a more resilient mining industry that society better understands and values.

1. First, it is clear to me, and I know, to many of you too, that **innovation** holds the key to our future.

I will share our holistic view of innovation and how this extends far beyond mining technology - and applies equally to safety, health, the environment and community engagement - helping us deliver better returns to shareholders while creating long term value for all stakeholders.

2. Second, and very much part of the need for innovative thinking - it is only through being responsible and collaborative **partners** that we will be able to achieve that level of trust that society demands for us to become the most valued industrial sector that offers real and sustainable social and economic benefits for our core stakeholders.

3. And third, while increased uncertainty and seismic socio-political and economic changes may be our “new normal”, we must build a more **resilient** mining industry. Resilient in terms of our investments and our businesses, resilient in terms of our returns to shareholders and resilient in terms of the contributions we make to society.

I. Theme 1: Innovation: An imperative to secure mining's future.

- When reflecting on the ever-changing demands of the present, and the future, we - as a company - have taken a hard look at our approach to innovation.
- This led us to develop what we think is a unique approach in the mining world: we call it **FutureSmart**[™] mining.
- **FutureSmart**[™] is not just about how we're innovating using technology in mining, but it is also about how we're approaching the full set of challenges that face any mining company - from safety, environment, social expectations in our host communities and in terms of our relationships with all forms of government.
- The most effective solutions are often already known, but found in adjacent technologies and industries. To identify the possibilities, we have adopted open innovation, bringing together experts from academia, the mining industry and other industries - including oil & gas, technology and aerospace - to develop step-change thinking, technologies and processes that bring all these pieces together.
- Let me share some exciting examples, which cut through the different areas of work in our organisation, to give you a better picture of our approach.

In **mining innovation**, we are doing exciting work in four key areas:

- I. **First**, we are building “The Modern Mine” by transforming hard rock mining. Picture an underground mine where our employees are not in harm’s way. A mine where continuous rock cutting machines safely extract the targeted ore - deep underground - without the need for explosive blasting.
 - At our Twickenham platinum mine, here in South Africa, we have created a system that allows us to develop low-profile tunnels in hard rock - safely, quickly and cost-efficiently. This is, as many of you would know, important in preventing the risk of collapse and guaranteeing roof stability in platinum mines.

- II. We are also finding efficient ways to mine more metals and minerals, and less waste rock. We call this concept: **Concentrate the Mine™**. It is an important step-change in minimising our environmental footprint, and reducing our operating and capital costs, while maximising the ratio of metal to ore.
 - Picture a mine where we are no longer processing more than 95% waste rock, and instead, getting more directly to the precious metals and minerals that the world needs. We have seen this approach reap rewards for us at Kumba’s Sishen Mine, where our plant optimisation programme has allowed us to increase our production.

- III. Water availability is a critical risk for the mining industry globally. Approximately 80% of our operations across the world are in water-stressed areas. This is why we are working towards building the “**water-less mine**”.
- Through innovative and existing technologies we are investing in a number of ways to conserve, and where possible, eliminate, the use of freshly drawn water from our mining processes. In 2015, of our total operational water requirements, 64% was met by our recycling of water.
- IV. All of this is bolstered by what we call the “**intelligent mine**”. In the age of big data, robotics and “machine learning”, we are building a more connected mine through smart use of data and integrated systems thinking.
- To reduce maintenance spending and reduce safety risks, we are using advanced analytics to interrogate existing data and to estimate the probability of component failure in some of our most important mining equipment.
 - And to demonstrate this is not simply something to talk about. Since we started thinking about our business in a very different way, our productivity is up by around 40% since 2013. This means that every individual employed at Anglo American is producing around 40% more product than they were just three years ago.

- And as we look forward, I would expect to see the same level of improvement from where we are today, to be delivered through our current programmes, by 2020.

II. Theme 2: Sustainability: A “North Star” for mining’s future

- Some argue that the mining sector has always, and will always have, a “crisis of reputation.” I hold a different view. While I think we have not *fully* been able to tackle the social impact of mining, I am convinced that mining continues to and will play a more significant role in the development of our host communities and regions.
- But this contribution must be renewed, and the notion of true sustainability is important in this regard.
- The imperative for us as an industry is and here I want to paraphrase the founding sentiment that Anglo American was built on: “...*to earn profits, but to earn them in such a way as to make a real and permanent contribution to the wellbeing of the people.*”
- Over the next year, we will set out a number of ambitious targets to *renew* our commitment to sustainability in critical areas, such as safety, education, biodiversity, energy efficiency and job creation.
- Through our “stretch goals” - many of which are anchored in the global Sustainable Development Goals - we will reinforce *how* sustainability is at the heart of our decision-making as a business.

- As an active member of the International Council on Mining and Metals, we have seen how the drive for step-change improvements in social, economic and environmental performance has inspired the industry to think more critically about its contribution to the Global Sustainable Development agenda in areas such as water, indigenous peoples and safety to name only a few.
- Our view is simple: we recognise that the only way that we will be able to maximise business success - in the short, medium and long term - is if we help create **thriving mining communities**, continue to build on the **positive impact of mining, reduce our environmental footprint** and become more **accountable partners**, with our employees, communities, governments and NGOs.
- In this regard, I turn to South Africa, a key mining jurisdiction for us as a global diversified mining company. As a starting point, I often make the point that everything we do relies on stable regulatory frameworks, around which we can plan and invest for the long term.
- Today, I would like to take a different approach. I want to deliberately move away from pointing fingers.
- I want to argue that to unlock South Africa's latent potential, different stakeholder groups - the mining industry, investors and host communities - each require something from our regulators, and government more broadly, in order for us to deliver on mining's transformative promise.

- For investors, it goes without saying that **regulatory certainty and the sanctity of private ownership under the constitution is paramount**. They need to know that their capital is invested in a jurisdiction that has clear, fair and reasonable prescripts on the regulation of mining.
- For us, as mining companies, a business environment that promotes **the ease of doing business** over lengthy and complicated processes - which sometimes land up in the courts unnecessarily - could unlock more opportunities for us and our partners.
- I could go on forever, sketching the vision that would make South African mining the giant it once was. The natural resources that have been bestowed on South Africa provide an opportunity to develop so much potential. It just needs us to all lift ourselves above our narrow individual interests – and work to better serve the needs of our core stakeholders.
- “In today’s world, capital has no colour; it is a powerful tool that can help create a better country for all. In our case, 64% of the mines we operate and those we empowered are effectively owned by South Africans - through direct and indirect shareholdings. If I assume 27% direct black ownership in our mines, and add to this the participation by black South Africans in pension funds and directly on the JSE, black South Africans own more than 45% of our South African operating assets. If people want to see transformation, let them come talk to us at Anglo American!” While we are the first to acknowledge we still have a lot of work to do in this critical area – let no-one mislead the public on what our numbers are in this context.

II. Theme 3: The outcome: Resilience

- For many companies, resilience is a difficult goal to pursue. It is tough - when constantly in the face of uncertain market conditions and a fast changing world - to keep striving for improvement and progress, not knowing what the future holds for you.
- The numbers are telling. A study¹ conducted by a US-based consulting firm in 2012, showed how the 61-year tenure for an average S&P 500 company in 1958, had narrowed to 25 years in 1980, and 18 years in 2012.
- Simply put: the disruption that we see all around us, whether it be social, political, technological and economic, can either make us obsolete, or can propel us into the future.
- It is, therefore, important to reflect on *what* makes a company resilient. Why have some companies, like 3M, Sony and GE, survived and thrived over the years?
- The common characteristic that resilient companies have is a relentless focus on innovation, matched with a firm commitment to sustainability while investing with the future in mind, even during tough times.
- In a few months from now, we will officially commemorate the centenary of Anglo American. We will use this year to celebrate the contributions of many of our employees and partners - past and present - who have played a role in sculpting a company that has stood the test of time.

¹ Innosight Executive Briefing, Winter 2012: Creative Destruction Whips Through Corporate America, *Richard Forster*. (Access here.)

- It is indeed a great honour to be at the helm of a company that has evolved over the decades, and continues to, while making an enormous contribution where we operate around the world.
- From establishing the company in 1917 to diamond trading during the Great Depression in the 1930s, we have often made tough choices and persevered and adapted in the face of enormous change around us.
- A year ago, I stood on this very platform ahead of the tough decisions we were about to make to address the sharp declines in commodity prices.
- We took those decisions and – by selling the likes of our niobium and phosphates businesses in Brazil, by driving very significant cost and productivity improvements and by thinking and doing things differently – we are today emerging significantly stronger.
- And did you know, that despite reducing our number of assets from 68 to 42 – in 2016 we produced more product than we did back in 2012. As some industry commentators remarked...we were trying to shrink ourselves to success. They didn't get it: what we were doing was upgrading the quality of our portfolio, shrinking our cost base, and transforming the contribution from our larger scale and more productive assets.

- Our productivity has improved by around 40% since 2012, and our unit costs are more than one-third lower, while our volumes are up over the same period. I will be updating the market on these figures in a few weeks' time with our year-end results – but make no mistake – we are not the company we were.
- While the worst for the industry may be passing, tough and uncertain times continue to lie ahead. The steep price declines in 2014 and 2015, China's growth slowdown, and the increased volatility of commodity pricing, no longer necessarily driven by supply and demand fundamentals, should be seen as the “new normal” for mining.
- That is why resilience is so important. You must be able to manage your own position and not have to rely on others to help you survive and prosper. We have to be leaner, we have to be hungry and we have to keep evolving quicker than our competitors.

III. Wrap-up

- Resilience, as an end-goal, needs pillars to lean on. If we can assume that you have a sound asset base, an appropriate business model and strategy, then in my view, creating a culture of innovation and thinking differently about sustainability are two areas that can help define a new future for ourselves and our industry.
- Successful innovation is a foundation for resilience - being able to weather the bad times, create change rather than react to it, improve productivity, access the hitherto inaccessible orebodies and actively develop new markets for our products.
- Sustainability has to be mining's "North Star". When we are better stewards of our natural environment, mine safely and responsibly, operate within thriving communities that own our success and have open and co-operative relationships with our stakeholders, the end result is a company that has a competitive edge - a company that will thrive.
- In the opening sentence of his 1953 classic, *The Go Between*, the British novelist, L.P Hartley wrote these words, which have become proverbial for any individual, company or country seeking to pave a way for the future:

"The past is a foreign country: they do things differently there."
- Let us remember that while we can learn lessons from our past, it serves little purpose in defining our future. Ours is to redefine mining today, for our new tomorrow.

ENDS