Conference call transcript

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FY13 RESULTS - ANALYST CONFERENCE CALL

Mark Cutifani
The results from our point of view are encouraging but certainly not where we want to be. So there are some encouraging signs in terms of business improvement and in particular improvement in the second half and in particular the fourth quarter. We're not anywhere near where we need to be as a group and certainly there is a lot of work to be done. We will touch on the progress we've made, where we see our challenges and how we're going forward.

The intention is to not spend too much time in the presentation. I think it's important that we unpack the numbers, but I think it is much more important to get to the questions. You've seen the detail of the work that we've done in December. So I do not want to regurgitate that other than that we've made some modest adjustments upwards in terms of the numbers we expect to hit this year. That is encouraging in of itself. I think we've made one negative adjustment in 2016 on nickel, and that is more a timing of the furnace issue. So we're on track.

I will move fairly briskly through the presentation on the basis of getting to questions and discussion around the things that matter more to yourselves, which is where we should be focussing. I will focus on the business performance. Rene will pick up the financials and unpack the details on the financial numbers, and then I will pick up projects and progress across the businesses.

You will have seen the underlying operating profit up 6%. Again encouraging performance across a number of the businesses, but still a long way to go. Again Rene will unpack the underlying earnings and the impact of minorities in the 7% number. Earnings per share $2.09 so certainly a few things support that in terms of foreign exchange offsetting price weakness. The strength of the portfolio, both in terms of geography and commodity mix with foreign exchange basically offsetting price weakness across the portfolio. So when we talk about being a major diversified and think about our value proposition this is one of the areas where an advantage comes through pretty clearly.

Good news, Platinum and diamonds making improvement performance. Coal guys have done some really good work. Unfortunately a 24% decline in prices hit the numbers, but as I said in December, for every dollar Seamus and the team take-off the costs we seem to get about a 2 dollar hit on prices. And again the operations improved across a number of commodities was encouraging, but certainly not good enough from where we've been.

And again no surprises on dividends, maintained while we're going through the major capital spend. The one message that is important to convey from the board – and I can only relate my experience back in April – we were thinking of scratching our heads about maybe $16 billion to $18 billion net debt by the end of this year. That has changed twice. We headed it back towards $15 billion and $16 billion and Rene will talk about continuing improvement on that prognosis both as a consequence of the improvements that we've made and some improvement on commodity prices, so we continue to improve. We continue to see improvement across the portfolio, but again a long way from where we need to be.

On safety, again a solid improvement on our lost-time injury frequency rate, an 18% improvement. That at least tells me that the way we're working on the cultural aspects and the leadership across the business has been fairly strong. But our fatal incidents if I add the fact that we've still lost two colleagues at Amapá - that is not in the reported number for the year - then we've got a lot of work to do on the safety front, in particular around major hazards. So that will be our key focus area, obviously dominated by the tragedy at Amapá in March last year. So we're very focussed on making sure we get on top of those issues and continue the broader performance improvement. I think it's very important for us.

On the environmental front, the way we've presented the numbers here I think it is important to show water, greenhouse gasses, and energy improvements across the board. And then delivering solid environmental performance consistent with improving the business. You will see the numbers there in terms of reducing our costs. That's part of how we've continued to reduce our costs through the year. So I think the team in particular on the sustainability side should be very proud of the improvements. The guys have done some very good work across the business.

In Iron Ore, the Sishen quarterly production is very encouraging to see the improvement from Q3 to Q4. Clearly we were all very unhappy with the Q3 result. The team has a lot of work to do this year, but certainly I think they've got a good plan. The team is working on a whole range of process initiatives. So certainly I'm excited in terms of the potential. On a full year basis we got some help from pricing and FX gains being in South Africa. And the really bright light in the performance was the Kolomela performance that Norman and the team believe they can continue to hold and in fact improve over time with our business process work. So we will unpack more of that mid-year, but certainly I think we've got our arms around the issues. We've got a plan. The guys are working on the final elements of the execution plan. From our point of view I think we should see continuing improvement during the course of the year. Certainly Norman can field any questions a little bit later in the day.

On met coal, again some good improvements if you look at that 18% improvement in operating costs over the last two years. In the last 12 months the improvements at Moranbah have been well documented. What hasn't been as public and certainly one that we will talk more about in the next few months is the improvement at Grasstree. So taking the lessons from Moranbah where we've almost doubled the cutting hours. I think we're up at about 115 hours a week as we speak. That's a significant improvement from where we were at 59 hours a week. We've taken that model into Grasstree. And taking that model into Grosvenor certainly enhances the returns that we original forecast for Grosvenor. So I'm very pleased with the results. Unfortunately in the industry there is still a lot of sticky production with take or pay contracts on the rail lines in both the US and Australia. Some of that capacity is shaking out, but it might be more than a year before we see the sorts of numbers that are going to be needed to improve the pricing focus. But Seamus and the team are managing what they can manage. If we have to make some tough decisions on reducing our capacity we will go there, but certainly I think the improvement programmes are making a big difference and we still have a way to go.

In thermal coal again fairly significant changes through the business are occurring as we speak. Seamus and the team had to do some tough stuff in the last few days advising people of some reduced numbers in the thermal coal business. We have seen a drop in operating profit, in particular price-driven. We do have some quality issues but we've put some coal into India and those sales have gone well. And from a standing start nine months ago when we said to the team that we won't accept a 30% reduction in the next three years in terms of volumes and a commensurate drop in performance, they've done a great job in identifying how they can hold volumes and improve margins and looking at different contract positions. It might not be exactly the same quality, but in terms of cost, delivery and margins they're doing really good work in terms of preserving our returns. You will see we're better than 20% or 23% returns on thermal coal. From our point of view even though the mix changes we think we can preserve those sorts of margins. So for us an exciting time in thermal coal, to be frank. Seamus has spent time in South Africa working with the team. Again we are exciting by what we see as potential.

Now copper. From our point of view I've got to say that we're a little bit sheepish in the copper numbers. The guys did extremely well. We were probably a bit more conservative than we should be in our guidance numbers. In particular both Los Bronces and Collahuasi have really come in strongly in the last quarter. We thought there were a couple of operating risks at Collahuasi that caused us to be prudent and reflecting somewhat on the history of the last couple of years. The team have done exceptionally well. We are very pleased with the numbers, and sheepish in regards that we weren't sandbagging the numbers. We thought there were a few risks. We will certainly look to do better. You will see in our guidance numbers we have kicked the guidance numbers up for the year based on what we've seen. Again we're still being quite prudent, and we will keep an eye on that. If we see reason for further adjustments we will certainly let you know. But it is certainly not our intent to sandbag or try and be overly protective of what those numbers should be.

As an engineer this is the sort of stuff I love to see. We worked with the team in June/July around the whole Barro Alto operating strategy. We agreed at the end of June to actually cut the power back on the furnaces. Do some rebuild work around the walls of the furnace changed some operating practises and really changed the philosophy that is consistent with the operating model we are currently designing for implementation across the group. It is similar to what Seamus and the team are doing at Moranbah and Grasstree, but looking at how we apply it to nickel. We've seen a 44% improvement in nickel production. And it is somewhat counter-intuitive when you reduce the power you expect to see less nickel. This is about getting stability and getting our operations delivering in a controlled environment. So I'm very pleased with the performance.

Nonetheless it has been a tough year in nickel, nickel prices have been tough, but that second half performance has improved our position. I think we have taken a full dollar per pound off our costs for nickel through that strategy. In the next two years the furnace rebuilds have been scheduled. You will see a 2016 adjustment to production guidance. In fact the only negative change since we spoke in December. And that's more about the timing of the second furnace upgrade. We'll do the first; give ourselves another three months between the two to make sure any learnings that we take out of the first upgrade are then taken into the design of the second furnace upgrade. We are also watching the Vale guys very carefully. We're very pleased to see that their programme has gone very well. There are certainly some learnings to be had there, and we know the guys pretty well. We're pretty pleased with that performance. There is still some work to be done by 2016. We've still got a fair bit of the furnace upgrade, but in the second half of the year you will see a much higher production. Again I'm pleased with the progress, but certainly a lot more to be done.

Niobium and phosphates. Again I get a bit of a spring in my step when I look at niobium and phosphates because I hadn't even thought about that as part of the portfolio when I started in April and I saw Ruben who's an old Vale colleague of mine. The Fresh Rock project in niobium will start to make a contribution this year. It is part of our improvement programme. And certainly 2015 and 2016 look pretty good. It is from our point of view a structurally solid market. We're the number two player now. It is dominated by CBMM and so from our point of view they have been behaving rationally in the market and certainly from our point of view it has been a good business with good returns, and we expect to see a continued improvement both in niobium and in the longer term with phosphates. We have upside capacity in our existing operations. We've just found a new deposit. And being in Brazil where Brazil is 40% short of phosphate we are sitting on their doorstep. It is one of the most dynamic agricultural regions in the world, so it is a great place to be. It's a very good business. We're very happy. And we think we can continue to put some incremental capital in and make very good returns. So a great place to invest.

In platinum, again I'd like to acknowledge Chris and the team and the hard work that they've put in. They hit all of the key milestones that they stood up and articulated mid-year. Again it has been a hard road but a very important road. We're obviously having some tough conversations around the industrial front. I think the key message is that we will not move. We are about creating a viable long-term platinum business. The returns as we see today are very challenging, but as we start to move into the reconfiguration I think you will see the ideas around platinum during the course of this year merging around a very different business.

We aim to dominate the low quartile position on the cost curve, drive margins and improve our position and on the assumption that the market doesn't change that much and it's $1,400 or $1,500 an ounce. We've got to make returns at those numbers. Clearly if we see a bit of encouragement in the market we will do extremely well. But either way, it's about quality, it's about returns on capital and it's about a sustainable model. And obviously when you look at that chart you don't have to be Einstein to work out where we're looking at focussing in terms of making a bigger contribution as we go forward. But it has to be done carefully. It has to be done with employees, because it has ramifications in terms of employment. It does have to be done with the government as a partner because we have to take into account all of those considerations.

And Chris has the tough job of making the tough calls and at the same time making sure that we're managing all of our stakeholders. I think in the second of last year you look at the public statements from the government and from other key players we're in a very different conversation around the platinum business. And yes we're going through some tough pieces at the moment on the industrial front. But that's what we need to do. We're standing our ground. We're about creating the world's best platinum business, and a viable and significant contributor to the portfolio. And that's what Chris and the guys are navigating. And certainly they will have the full backing and resources of the organisation in working through our programme. During the course of this year we will continue to open up and explain exactly how we see that occurring in platinum.

Diamonds. A great day to be here, Valentines Day. Philippe went a little bit cross-eyed when I said we're going to have a picture of the world's biggest sump. For those of you who don't know what a sump is, it's where all the water runs when you have a big downpour. Now, I live in Cobham and at the moment I know about water and I know about rainfall. I reckon you could just about put the Thames River and all the water that is sitting around Cobham in the big hole in the Jwaneng pit.

Now, the reason I think this is important to show is as a business we're learning about managing the risks that come with the business. Now, in the context of Jwaneng it is such an important contributor to the diamonds business that it allows us some flexibility in responding to market demand. The fact is you can have significant rain events. We've engineered the right solution that if that occurs again we can continue to be flexible in the market. So it might be the sump in Jwaneng. It might be the design of the cutbacks at Venetia. It may be something different we do at Snap Lake or Victor in terms of the Canadian operations, or it could be about something we are doing in met coal. The issue of risk, understanding what it is and trying to make sure we're more reliable contributors and operators in the business is very much about the technical changes we are ringing through the organisation. While that may take 12 to 18 months to roll through, in the end it improves our reliability, it improves performance, and for us that's how we improve our capital returns across the business in focusing on the basics within the operation.

So with that I will hand across to Rene and encourage him to talk about the former leaders of the football competition.

René Médori

Thank you, Mark. And good morning to everybody. First look at the P&L on slide number 15. Mark mentioned the increase in profit, 6% to $6.6 billion for the year. A much stronger performance in the second half, an increase of 32% in the second half this year versus the prior year. The decline in underlying earnings of 7% is due to the higher tax rate, 32% versus 29%. In 2012 we got the benefit of the reversal of the secondary tax in Chile following the partial disposal of the old Disputada assets [AA Sur]. We also had higher minorities in 2013, again the impact of the disposal in Disputada, the acquisition of De Beers that now we treat as a subsidiary, but also higher contributions from platinum.

Capex, $6.3 billion, very much in line with the guidance we gave you back in December. And attributable ROCE of 11%. Turning to the operating profit waterfall. Mark already mentioned that the decline in the Rand and Aussie dollar offset the impact of the decline in commodity prices. Commodity price declines had an impact of $1.7 billion predominantly in the first half of the year and predominantly in metallurgical coal and copper.

Sales volumes, a positive variance of $700 million. That's where we had the benefit of the recovery at Los Bronces and Collahuasi. But also it is the increased productivity in met coal but also the increase sales in platinum.

Cash costs, positive variance of $300 million, I will cover in more detail later in my presentation. De Beers, a positive impact on the operating profit level of $400 million. Both the impact of the acquisition but also the improvement in underlying performance both in terms of volume but also in terms of product mix.

Turning to price variance. Iron ore, a slight improvement, $125 a ton compared to $122 a ton in 2012. Better than we were anticipating. We as well as the rest of the market were expecting a decline in prices in 2013, but that has not materialised. We also had the benefit of a favourable product mix in terms of production profiles from Kumba with a high rating in terms of lump products.

Metallurgical coal, a decline in terms of price, $140 a ton compared to $178 the prior year. We were able to mitigate the decline in price by improving the product mix with a strong increase in production especially at Moranbah. And you see the increased proportion in terms of premium metallurgical coal going up to 63% versus 51% in 2012. For the current quarter we have settled at $143 a ton, so down compared to the last quarter at $150 a ton. The spot price is around $125 a ton so still continuing to see price pressure on the met coal in the met coal market.

Turning to base and precious. The decline in copper price was $3.26 per pound in 2013 .that includes the negative mark to market adjustment of $92 million in 2013. At the end of December we had 179,000 tonnes of copper which we provisionally priced at $3.34. The platinum price, relatively stable in US dollar terms, slightly down below $1,500 an ounce. But you see the increase in Rand terms. The number on average for the year was $22,586 per ounce. The spot price today in Rand terms is R26,000.

FX, I think I have already covered quite extensively the positive price variance. In our case it is predominantly around the Rand, probably close to in excess of $1.3 billion in 2013.You have sensitivity analysis in the appendix, 1Rand movement increases or decreases the level of earnings by $390 million.

Turning to the sale volumes variance, a positive $713 million. Copper sales increased 19% on the back of the production increase at Los Bronces and Collahuasi. Platinum sales increased 7% to 2.3 million ounces. And that despite the build-up of stocks at the end of 2013 in anticipation of the strike that we are currently going through in South Africa. Met coal sales increased 6%, predominantly hard coking coal. Thermal coal sales up 2% despite the strike at Cerrejón. The impact of the strike in February was a loss of a million tonnes and Cerrejón was able to recover half of these volumes in the second half of the year. And then Kumba, despite problems at Sishen in the third quarter, was able to maintain the level of export sales at 39 million tonnes.

Cash cost movements. A decrease in real terms of 2%. 3 key drivers; the production increase across the portfolio, the productivity gains especially in metallurgical coal as well as the reduction in overheads especially in metallurgical coal again at the end of 2012.

Capex, $6.3 billion for 2013. That includes $1.9 billion for Minas-Rio. The capex stands for Minas Rio at $5.6 billion. We are confirming our guidance for 2014 of capex between $7 billion and $7.5 billion. That includes $2.3 billion for Minas Rio. We expect the level of capex to start to decline in 2015 to $6 - $6.5 billion.

Turning to cash flow and the balance sheet. Operating cash flow of $7.3 billion for the year, up compared to 2012. That includes a negative movement in working capital of $1.1 billion. $400 million was due to inventory build-up that I mentioned earlier in platinum. But also the sales increase especially in copper but also in Kumba as there was a strong level of shipments in December.

Net debt below $11 billion at the end of 2013, $10.7 billion. For 2014 we are expecting to be cash flow negative. I think the market consensus the level of debt between $14 billion and $15 billion and that is very much in line with our own internal projections, assuming the current level of commodity prices.

We have maintained a healthy level of liquidity, $17 billion, with cash of $7.7 billion; $5.4 billion is outside South Africa. In terms of refinancing this year we have only one bond maturing in 2014, in April, of $1.3 billion.

We had a number of special items including impairments of $1.9 billion on a post-tax basis. Most of these items have been either reported in the first half or covered before the end of the year. We have only two new items, the Barro Alto impairment of $500 million and Foxleigh of $200 million, both driven by what’s happening in terms of market environment for both nickel and PCI. As I mentioned back in December we won’t take credit in terms of achieving our return on capital employed targets for any new impairments, so this would be the case for these two new items. They will be excluded from any calculations of return on capital. Thank you.

Mark Cutifani
Thanks Rene. I think the last point is an important one to make, that we made a commitment in terms of how we would measure progress. And when we talked mid-year last year the $3.5 billion to improve our returns we identified was based on some pretty clear objectives around work we had to do around the business. We advised in December that we’ve nudged that number to $4 billion to get to our 15% return. So we take it very seriously and we understand how over time people can be somewhat jaundiced in the fat the goal posts move and from our point of view the key thing is we’ve got to deliver the 15% return. In the end the prices and other things will move. If the goal post moves then we’ve got to look at other things we’ve got to do to deliver those numbers in any case.

So there is a very firm commitment to deliver on the initiatives that we’ve outlined and secondly to get to the 15% return. And the other part of that is making sure that you’re tracking with us the progress we've made. I do understand that some of the things we have done in the past have been a little bit more complicated and hard to track. We are trying to make sure that this is transparent and works for all of our shareholders so you can continue to track our progress with great interest.

On Minas-Rio, obviously it's a critical one for us. In only a few months we've made good progress. Mine stripping is completed. All the key pieces of mine equipment are on site, assembled, and we are recruiting and training people as we speak. The beneficiation plant, I think we made up an extra two days over a period that we normally lose progress, so I'm very pleased with that. Remember I talked about the period between Christmas and Carnivale that tends to be a tough period in Brazil. We've actually made ground. So from our point of view we're very pleased with that sort of progress.

On the pipeline we're over 500 kilometres of a 525 kilometre installation. So 91% progress. Again very pleased with all the progress. The port is always an interesting one. As you learn and understand how to place these caissons against tides and general weather conditions you tend to do better. So we have literally gone over the 50% mark in terms of caissons to be installed against 33. The next three months are going to be really important to make sure that we're continuing to track. The good news is we are now 50% owners of the facility. We have veto on all key operating decisions. So from a strategic point of view I think we're in a very different position than where we were 12 months ago, certainly one I'm much more comfortable with. I'm in fact happy with the way the facility is being run and the fact we have now got a real influence in the way things play out.

This will be the important piece for Paulo and the team as we come back and report midyear on the progress, the key licenses. So we're working through the progress. We've made good progress on the bureaucratic processes following the early interruptions. So we are certainly optimistic, but still with some risks to be navigated. So generally good progress. As some of you know I've got lots of contacts in Brazil, and when I started the rumour mill, all my industry colleagues, would tell me that we wouldn't be commissioning this project until the end of 2016. I'm encouraged to let you know that the rumour mill is saying that it's starting to head towards the first part of 2015. So in terms of rumour mills versus actual the two pieces are starting to converge. We've still got some ground to make up, but certainly the rumour mill has certainly been encouraging from my point of view in terms of Brazil.

The actual schedule key issues. Clearly the tailings dam is actually now complete, so that has been an important milestone for us. And we've actually put power in the 230 KV power line, again a very important milestone. So we're making good progress, but again a lot of work still needs to be done and those licenses are going to be very important. But we are very pleased with the progress. Manpower we've got the contract split into three parts around the beneficiation plant, so it is a very busy site at the moment, but certainly making good progress and very happy with how those things are being done.

Also very important, if you recall when we started and we did the first part of our asset view – and I should talk about the asset review again to remind people what stands in the way of delivering budgets and short-term expectations on targets was the first part of the brief. The second part of the brief is what we will have to do to reconfigure the business or change in terms of mining strategy to get real value. So for example the Sishen reconfiguration is a good example of the second part of the brief to the team. The third part of the brief is looking at our resources, what's the potential and the way we should be operating this asset in the longer term? I think Mogalakwena and its potential contribution in terms of the platinum business and the mechanised assets was the third part of the brief.

The one that impressed me was the way the business leaders have picked up all three and have really put the focus on getting the basics right, getting the stability right, getting the operating performance right, that's what we've seen in the second half. We are now in that next phase of work which is about the configuration, making sure we can deliver into 2015 and 2016. But the real potential value-add is the resources we have in the ground and what this business can be. So for us 2016 is simply a stepping stone, a milestone to be achieved on creating a much more significant business, a business delivering real returns and continuing to improve that position from 2016. So we are working the three corners of the triangle in terms of creating value.

And the most important measure for us on a short-term basis is back in April we looked back eight quarters and we said that only 11% of our business were either delivering on budget, or delivering and had a business improvement plan going forward. A lot of operations that were not on budget but were already working on improvements to get to budget. So that's what we look like in terms of the performance. 21% on the negative side of the equation. And these assets are our top ten contributors. 70% of the earnings come from these top ten assets. So that's why we did the top ten first when we did the review and they were my first ten visits in terms of going around the business and looking at what we had.

As at the end of December looking back at the last four quarters – we've tried to make sure the data has reasonable validity – the good news is that grouping has now moved into delivering on budgets and in fact has now supplemented that performance with concrete, clear and deliverable business improvement programmes. So to go from 11% delivering on budget to 53% has been a significant shift in the business. It has been short-term focus, reconfiguring to make sure we can deliver and working on the longer-term possibilities. And the third part is still very much early days. The focus has been on those first two steps. For me that has been a critical measure of our ability to deliver on the numbers for 2014 or to do better. For me that's a critical measure that I will talk about each half in terms of the performance of the business and how we're going in our key measures across the portfolio.

Consistent with that, this is our value-add to get to our 15%. We've talked to Minas-Rio. BVFR we will earn a commission in the third quarter this year and will make a contribution this year, but 2015 will be the real contribution. Barro Alto we've talked about in terms of the furnaces over the next couple of years. And the Cerrejón P40 project. Despite the strike, they've done extremely well at Cerrejón and already starting to make a solid contribution.

On the improvement plan this year we have estimated headwinds of $400 million to $500 million. They were hitting us in the last two quarters, for example with the increased waste stripping at Sishen in particular. Less so the copper grades. And with that we saw a $600 million improvement in the underlying performance of the business, $400 million taken back on headwinds, so net net a $200 million improvement, which is part of the drive to the improved performance in the business.

And driving value. Remember driving value was the pipeline, we've cut costs, as Rene showed you, in terms of study costs and costs associated with projects that we think have got a much lower probability of being successful. So making sure we're focussed on the right things. We've made improvements on the commercial side now, you know about the platinum contracts. So from that point of view we've made some really good progress on the driving value part of the programme.

We've still got $500 million that we're working on. This gets us to $3.4 billion against the original $3.5 billion. But to get to the 15% we've got some more work to do. We have a range of possibly opportunities. In the next 12 months we will unpack those to help us try and get to the 15% by 2016. So all in all good progress. We're actually a little bit ahead of where we thought we would be and certainly encouraged with what we've seen. As you can see there is still a lot of work to be done.

In terms of production outlook, again modest adjustments based on what we've seen in the last couple of months. the one negative in nickel reflects the timing of the second furnace upgrade and adding three months to the back of the first furnace upgrade to make sure we've got all of the learnings incorporated in the execution of the furnace rebuild. I guess the possible issue there is the ramp curve is where we may have an opportunity, but we have taken a prudent approach in terms of forward-looking numbers. But we certainly get beyond the 40 in the following year in any case.

In platinum, Chris and the guys are obviously still subject to some estimates in terms of the current union issues, but we don't believe, and certainly with the performance we've seen so far we're comfortable with just touching that up a little bit. But again we will watch that over the next couple of months. And from the diamonds perspective given the work that is being done on getting each of the operations balanced, depending on what the market does, if the market is strong we can move with the market. The Philippe articulates that is we've got some flexibility. We only deliver what we need to deliver, what we can deliver reasonably in the market in terms of making sure that we're getting the right returns. And certainly this suggests that we've got some confidence in the market. We're certainly positioned to deliver, and I think that reflects the good work Philippe and the guys have done.

So encouragement, but still a lot of things to be done. And the three key areas of concern that we have, obviously in terms of delivering on our return on capital employed targets, for Seamus continually to work hard on the cost structures. And at the end of the day one should never waste a crisis in terms of making sure you're working hard to get your costs where they should be, particularly when prices are tight. The next 12 months will be very important in terms of how we think about met coal going forward. We like the business. We like the position we have. A quality product with a very competitive cost. But whether we should be producing as much as we are producing off the variable cost curve is something that Seamus will watch very carefully in the next 12 months. But there is one thing for sure, we've got to do a lot of work to get that up to an acceptable number. That's where the focus is at the moment. We do have the view that prices should improve after this 12 months, but again that's a view and one we will have to track carefully.

Nickel, our strategy will improve the business. As I've said, we've already made a dollar per pound improvement at Barro Alto. But at the moment nickel is going to struggle to justify its place in the portfolio. But having said that, we've got a very good plan to improve that position and deliver on the 15% objective. Indonesia may make the difference. We will wait and see. But certainly still a lot of work to be done there.

And in platinum. As I said, Chris is well through the restructuring. He is delivering on all of his key milestones. The next step will be how we set up the business in terms of reconfiguration. And that story will unfold over the course of the next 12 months. So we know what we've got to do. We know where we're focussed. We may still have to make structural changes or be more aggressive in what we're doing to make sure we get to the numbers.

There are a number of things that we're focussed on across the portfolio. I won't go through them point by point. You can see them. Obviously Q4 has been a solid quarter in particular. There is no reason why we can't continue to do well as we come into the new year. The driving value programme is all about capital allocation, capital efficiency, driving margins and returns. Key areas are heading in the right direction. Improvement foundations have been laid. I think the point again I want to reinforce, I hear people say you guys are in a cost reduction strategy. Well, that's one string to the bow. And you know about the efficiency programmes in driving value.

But the second string is actually about improving the underlying operating performance and the robustness of the business. And that is critical because that helps you drive your margin. It's not only about cost reduction. It's about improving the quality and the performance of the business on a sustainable basis. And that is where there is a big leverage for us as a business. And the third element is we have great resources. If you compare our portfolio against our peers we have an untapped portfolio in terms of potential. And so the most important thing I say as the CEO is making sure that we're getting the short-term issues right, the right configuration in place. My job with this team is to then make sure that the real potential in the portfolio is tapped. And that will be the differentiator that you will see in the next couple of years in terms of looking forward and delivery of value for this business.

For us we're making sure that we're working on each element on a prioritised basis. I think in making a final point, I was asked a question this morning that I thought was an important one that we haven't expressly put here but I think is worth reflecting on for one minute. Obviously we're making lots of changes in the business. We are not out there saying we've cut this or we've cut that, but we're making significant changes. And the reason we're not saying we've cut this and we've cut that, like some, is that we're sensitive to our employees. We are sensitive to the markets and the justifications that we're operating in and we're working to make sure that we're a good partner to all of our stakeholders.

Just to leave you with a final message in terms of the change that is occurring in this organisation. When I started I had 16 direct reports. Today it is 11. I think we have tightened up the leadership team and we have provided the focus that needed to be provided in terms of the work we do in those three buckets. The second point, at the next level this team has gone in and looked at their structures. And we've gone from 124 at the next level to 87. So we've seen more than a 30% reduction in those top two levels of the organisation. Now, the challenge that that creates is a bit more of a bulge at the next level. It is where this group is focussing on over the next three months to make sure that we've got our efficiencies right, we've got the right people in the right role.

So we're systematically working through the strategy, the team that we need in place to deliver on the strategy, and we've talked about the fact that we have been short on the technical expertise. Tony, I think you had eight vacancies in the technical area. So a lot of changes occurred in the business. I think we've got three new recruits already in those eight roles. This is a very different organisation. We are approaching the task in a very different way. And the results will follow, and that's what we're looking to try and help you track with us in the periods that we report on in a going forward basis.

So I hope we have presented a story that is consistent with what you've heard in December, that is relatively straightforward in terms of the numbers and how they continue to support the story going forward. And with that I hope it doesn't take you too long to take the numbers, put them into your models and at least give you some time to spend with your families on Valentines Day. And I hope you have a great weekend. Thanks very much. I'm very happy to take some questions. I think we've got time.

Bank of America Merrill Lynch
Jason Fairlcough, Bank of America Merrill Lynch. Two questions from me, one for you and one for Rene. Just on Minas-Rio, could you talk to us a little bit about the critical path and the sensitivities around the critical path? Is it the port these days or is it the pipeline? The one for Rene is on the net debt. There are a few numbers floating around in the market in terms of where we're going to max out in terms of net debt. I hear the number of $14 billion, but then I also hear the number of $16 billion. Could you maybe talk about the sensitivities around that net debt number and how we may or may not get there?

Mark Cutifani
Minas-Rio, we've got a round table shortly so I'm basically going to pick up the questions quickly. Paulo, if you think I've missed a bit then jump in. The beneficiation plant and more specifically the wet plant. In the slide there you will see piping and electrical work. So it is tradesmen. It's the detail. It's threading all the cables and everything through. We were running 34 days behind schedule before Christmas. I think we're at 32 days now. So we've made ground in what is probably the toughest

period. It still remains a risk. There are a lot of people on site, so you won't be as productive as you would like to be. I think that's the key risk area. And certainly from our point of view if it holds at 32 days there is still a good chance we will get ore on ship by end of the year. But that's where I think the most critical risk is. On the pipeline, at the end of the pipeline I think the filters are going to be an important task for us to do and commission up early. If there is going to be a bottleneck in the process it could be around that area, so we want to test that out early. But Paulo and the team are already doing all of the dynamic simulations preparing for the commissioning strategy with Tony and his team to make sure that if we see any issues we are quick and we are working on them. I think probably the port, the caissons, is the only other area that we want to see another three months of good work before we say we've got it pretty well covered. I think those are the three key areas.

René Médori
In terms of net debt for 2014 we are comfortable with the market consensus of a debt level at the end of this year between $14 billion and $15 billion based on the capex guidance I gave you of $7 billion to $7.5 billion. In 2015 even with the level of capex going down to $6.5 billion we will still be cash flow negative. Obviously depends what happens in terms of prices. That is why we expect the level of debt to peak at the end of 2015 between $15 billion and $16 billion and then start to decline.

Jason Fairclough
Help me understand why barring a complete collapse of commodity prices why does net debt continue to grow as capex comes down?

René Médori
Because even at $6 - $6.5 billion we are still cash negative after payment of the dividend to minority shareholders and after payment of the dividend to our own shareholders.

Jake Greenberg, Bank of America Merrill Lynch
Just two questions on South Africa. Can you help us to quantify what the impact of the strikes are on the platinum business right now? Can you also talk about how concerned you are now that AMCU has got a foothold at Kumba? Do you anticipate that we're going to see the same kind of industrial action a year or two years down the road at your iron ore business that we're seeing now in platinum?

Mark Cutifani
I might just answer the question on AMCU. On AMCU, this is one that I've tracked very closely, both when I was in South Africa. I think in terms of the strike action in platinum clearly AMCU has been a dominant player in the platinum industry. They have been losing members as I understand it. And they have been ruled against legally in the gold business. So they are an emerging force, but quite frankly their recruitment across the industry is what I would see flattening off. The fact that they've got a 5% toehold is a process where if you've got anything more than 5% you do have some rights, but quickly the rights are quite minimal. So for me I'm surprised it is so low. For me that is not a concern. I think it does say that we have to work hard to make sure we've got a good relationship with our employees, but I am certainly not saying that is a big issue at all, particularly with the way the options work and the arrangements with the Kumba staff. For them to contemplate anything would be seriously negative in terms of their own returns. So I think we've got to work our relationships out. I saw some concerns that I think are bit overblown. But at the end of the day it's a risk that we've got to manage carefully. AMCU is a concern, but from my point of view the fact that we've got the government, all the industry and most of the social groups working with us to make sure that we come out with an outcome in platinum will change the landscape to some degree. Certainly we've been very happy with the support we've received. Chris, do you want to make a comment on the platinum?

Chris Griffiths
We've lose at the moment half our production, so we're losing about 4,000 ounces a day versus a daily production of 9,000. We are the only company that have been able to keep our processing operations running. Lonmin and Impala have shut theirs. We are still producing about 5,000 ounces a day. So we have lost just over 60,000 ounces, which is a revenue of R1.5 billion. We have been able to build up stock. We are still selling our volumes, so we sold just over 200,000 ounces in January. We continue our sales because of the stock both Mark and Rene spoke about. We've built that up. We can give our customers the comfort that they're receiving the metal that we're contractually obliged to give them. Actually the market is fairly comfortable, and you can see that because the prices haven't picked up. So we anticipated the position that we were going to be in. We've managed it well. It is pay day in a week's time. And then for a second month in a row our employees will take pain. I think at the end of pay day we're going to start seeing movement in this process. We also have a court process at the moment to hold some of the leaders in contempt of court around the picketing. And we also have a damages claim against AMCU. So the pressure against AMCU is rising from all different scenarios, but I think it has been well managed and not a position that we're overly concerned about at the moment.

Mark Cutifani
I think it's important to make one point on that too. There are no jelly bags in this business. It has to be sorted. This is about the future. It will be sorted.

Menno Sanderse, Morgan Stanley
Two questions, one slightly boring and one on the programme. Mark, you were ahead of schedule on the programme. Can you give us an indication of where you're ahead of schedule and why? Are you using your good leg to kick harder? Some things fall in place you didn't expect to? And the second one, coming back to the $14 billion to $15 billion of debt for 2014 is a bit of a surprise to me given you were so much better in 2013. Is it your working capital or cash taxes that will be a negative outflow in 2014 that you need to take into account?

René Médori
In 2014 we are first increasing the capex and not much difference in terms of operating cash flow, in terms of production. In 2013 we had a negative cash outflow of $2.2 billion. So you would expect an increase in the level of net debt in 2014. I think you need to look at my cash flow statement.

Morgan Stanley
You are delivering towards the improvement programme. So yes, the cash flows are negative but you're delivering on all the benefits. So something doesn't add up. We will talk about it in the round table.

Mark Cutifani
You're on the ramp at Minas-Rio, so your margins you don't start off day one. You're ramping up through 2015. So your free cash flow at Minas is small as you're working through the ramp-up. That's an 18 month ramp-up process. You're still spending on Grosvenor as well. I looked at the improvement. I went to Moranbah and I saw Grasstree. We talked about the coal improvements. I think we took probably 12 months to get the real benefits of Moranbah through the system. Glen and the team then went to Grasstree and they're starting to hit numbers within six months. So for me the underground guys have done an exceptional job, and done it in half the time. It tells you about the learning in the organisation.

If you look at the copper business I think the improvements we've seen in the higher cutback areas of Los Bronces, the continuing improvements to Collahuasi, the change to the crusher relocation strategy in Collahuasi, I'm very happy with what I've seen in copper. We've still got a lot of work to do on the smaller assets, but the two big assets I'm very pleased with the assets. At thermal coal for them to come back in six months after saying we're going to be done 30% and say actually we can hold it that for me was about six months ahead of what I would have expected we would be able to do. And the fact that Seamus is already with the team making changes to the org structures. He only took over in January. So I'm very pleased with the progress there.

Sishen is already about 90% of the way through the final designs on the execution plan. They will be executing in the second quarter in terms of the reconfiguration. In fact they have already done a haul load. There is a whole range of things where usually it takes you six to 12 months to convince people that we've got to do stuff. The guys have picked it up and run. That's what has impressed me. Again Chris's work in platinum. All those things have been very encouraging. So I'm encouraged by what I've seen.

Rene Kleweg, Deutsche Bank
Just following on from that theme. Previously we had the Six Sigma performance charts with the fact that 82% of your projects were assets out of control in terms of where they needed to be. Would we be able to see those charts updated for those assets that are now delivering according to the buckets so we can see that things are operating as they should be?

Mark Cutifani
We can provide more transparency for both the good performance and those that aren't up to potential. We will do that as we go forward.

Deutsche Bank
Just two points. In terms of the $0.2 billion that we've saved and the $0.6 billion that we've saved in 2013 in terms of progress. Can you give us an idea of what the actual run rate is on that as you head out of the year, what was actually achieved in 2013? So what's in the bag for 2014?

Mark Cutifani
If you look at 2013 we're up $1.5 billion contribution. Headwinds across the board are $700 million. They hit you during the course of this year. Those improvements are in the forecast numbers. We believe that we will pick up another $200 million to $300 million as we go through the course of this year. For example Sishen, you really only start hitting the Sishen improvements at the end of 2015. There is still a lot of basic work being done. But you've got the platinum contracts in place. We're doing well on our met coal contracts relative to our competitors. They're already in some of the numbers. The $1.5 billion less $700 million is what we expect to see for 2014. There is another $200 million to $300 million that we think we might be able to pick up, but being January it is still a bit too early to call. The real numbers start hitting us in 2015. So 2014 is very much getting the foundations right. 2015 is your delivery. But at the mid-year we will update you on the run rate for 2014.

Deutsche Bank
Just a last question, just a follow-up on what you were saying in terms of people. You've moved assets in terms of buckets and you've got execution plans now to roll those out. In terms of the people you've got in place there, have you got the people that you need? Where is morale? What is changing culturally? At head office I understand there are still some structural changes to be done. Where are you on the six to 12 months in terms of convincing people? Where are we further down in terms of bringing people along this journey?

Mark Cutifani
We've just announced Paulo Mitchelton, John [inaudible segment] at the next level we will have those in place by June. There is still concern at head office in particular because we are now starting to work

into the next levels, which is where it's a lot tougher. And that will be work throughout the next two to three months. So by mid-year those areas will have been done. Other parts of the business would have been worked through. So the next two levels will be there by mid-year and have those sorted out in terms of the key roles. Corporate office is tough at the moment. I think one thing that we did underestimate is the organisation model we're applying is very different. And unpacking the detail people are finding some of that work pretty hard. Generally we've had great support across the board. We've made a lot of changes, but there is a lot more work to be done and we've got to do it carefully. I think we're going to have to hold it there because we've got to give South Africa the chance to ask questions. Can I throw it to South Africa? I promise not to mention the cricket.

Tim Clark, Standard Bank,
I wondered if we could just talk a little bit about platinum. You made a comment that you want to dominate the low quartiles and focus on the qualities returned type of business. Clearly as the dominant platinum producer in a market that's in deficit and potentially as it recovers you need scale to move volumes up in order to protect that industry, it's quite a different strategy to being a low-cost returns margins focussed business. I wondered if you could talk to that briefly. And then just a sort of a couple of questions quickly, one on Quellaveco. Is there any progress on when we'll hear on approval on Quellaveco and what's happening with Quellaveco and partnerships potentially? And then the last one perhaps is just a Rene question quickly. A lot of the capex comes out of South Africa. A lot of it is in Rand. The Rand is clearly weaker but your capex numbers haven't changed in dollars. Is that conservative or does that mean that some of the capex numbers are coming through higher in South Africa?

Mark Cutifani
Just to pick up the first question, what I would say is we want to dominate the low quartile position in platinum. That is low costs, high margins, great returns. I'm not interested in being the dominant player in terms of production. We want to be the dominant player in terms of returns. I want that to be clear. We are not interested in volume for volume's sake. We are interested in having the best quality ounces, the best returns in the industry. That's where we're going. It's not a volume strategy. I want to make that absolutely crystal clear. This is about quality. It's about returns and making sure that we are the ones that are generating the best value in this industry. That is where we're going. It's not about volume. That's point one. I hope that answers the question as clearly as I can.

Secondly, on Quellaveco. We've got an 18 month programme of a different mining strategy and we're working through the feasibility studies now in delivering a project that certainly well above our hurdles. And if you recall the IRR hurdle, amongst others, cost position, NPV, making sure that we tick every one of our capital allocation boxes and deliver against the 12.5% IRR hurdle, that's about 18 months to work off a new strategy. How we think about partners, think about the way that's done, that is all part of that work over the next 18 months. We are not going to rush into major projects necessarily by ourselves. We like the idea of syndicating those types of projects so that we reduce our capital exposure, bring partners in, make sure it is done properly. But we will make sure it is right before we make the commitment. If that means we take another 12 months, so be it. But we are certainly focussed on getting our strategy right. And the work we did as part of the asset review doubled the potential returns. That's what we're about. Quality production, low costs, good returns, long-term assets in a great position. That's what Quellaveco is about.

René Médori
Thank you Tim and good morning. If you look at the capex profile it is predominantly outside South Africa. If you look at 2014's $7.5 billion capex probably about $1.2 billion capex is in South Africa. We have all the major projects, Minas-Rio, Grosvenor, Fresh Rock are outside South Africa. So it is going to be a small proportion of the total capex. But also if you look at the content of this capex, very often

it's in US dollars. When you buy a Komatsu truck at Kumba it doesn't matter what happens to the Rand. You are going to pay US dollar.

Caroline Learmonth
Caroline Learmonth, Barclays Africa. On Sishen and the 21% right, you've noted that conditions might be attached to that right. Can you say anything yet about the type of conditions they might be? In other words, they would not be the sort that would be likely to impact your Sishen optimisation plans. Thanks.

Mark Cutifani
If I could say, very simply put, no they are not likely to be any type of condition that would impact our Sishen optimisation plan. Norman, do you want to say anything more than that?

Norman Mbazima
You're right. There are no changes to the operational mining, from 2009 when this thing started up till now. The lawyers say that the conditions have to be in accordance with the MPRDA and we are only now just starting to discuss those conditions. We will give the market advice as we go along. There has been no colour on what type of conditions there might be right now.

Mark Cutifani
I think if I can say this, Norman. The definition or the flag that there will be conditions simply reflects the right of the department to impose certain conditions on the mining of the 21% right because you have to apply for it. I don't expect anything Draconian. But we do make the point that they do have the right to apply some conditions. But one would have to say the team has done very well in conversations with the DMR. The fact that we resolved that railway issue so quickly is a really important marker for me in terms of the nature of the relationship. And across the board we've been working very hard to make sure we get our South African relationships right. We really are about creating a partnership and making sure for shareholders and for our stakeholders we're delivering a win-win.

Business Report
I'm [unclear]. I'm from Business Report. Yesterday the State of the Nation address President Zuma plead to unions and mining companies to stop the strikes that are leading to job losses. Can you give us your thoughts responding to the unions and the mining industry at large? And also can you just give us some colour on how the shut down at Richard's Bay terminal is affecting exports of products, and also what sort of contingency plans does the company have? Thank you.

Mark Cutifani
Thank you. On the State of the Nation I've actually read the speech. I think the President – and I think it was actually very encouraging to hear him talk about South Africans coming together and making sure that we create the country we want South Africa to be. And that means all stakeholders coming together and look for solutions. In terms of what's going on in the platinum industry you've seen basically the bulk of the industry has agreed on affordable pay increases. And certainly the role of the government in trying to bring us all together to make sure the platinum industry comes together as the rest of the country has I think is very important. He is asking the key players that if companies are providing you with a reasonable pay increase which is consistent with the rest of the industry for God's sake, for the sake of the country do the right thing. And that's how I read the speech. I thought it was a great speech. I thought it was very appropriate. The fact that the Deputy President is trying to find a way through this, I think that is good sign. From my point of view I'm very pleased. And we are very encouraged by the conversations we've had on the MPRDA with the DMR and the government conversations and with most of our stakeholders. I think we've made good progress. This is the one we've got to resolve. But that doesn't mean we step back from doing the right things. We will do the right thing. We will hold our ground.

Seamus French
Based on the duration of the Richard's Bay adage - it has potential impact on exports of about 500,000 tonnes this year. But we would expect in this period the port and rail parties are doing scheduled maintenance that was planned for the second half for the rest of the year. So I'm not casting that as a definitive numbers. But based on the duration announced at this point, the final number will depend on how much opportunistic maintenance can be done in this adage period.

Mark Cutifani
I think we're going to try and take a couple of questions on the phone as well, so hopefully they will pick up points that haven't been picked up.

Operator
We have two questions from the conference call. The first one is from Brian Morgan from BNP Paribas.

Brian Morgan, BNP Paribas
Just two questions from my side. The first is can you give me your opinion on the changes contained in the MPRDA, just your views on that? The second question is the portfolio review during the year, impairments, do you think the closet is clean now or are there other under-performing mines which you will be looking at closely in 2014 which show an indication of impairment during the year?

Mark Cutifani
If I could say that on the MPRDA we had ten items that we took to the government that we were concerned about. And I'm going to say August/September last year there was a real engagement that occurred. I think we very happily resolved eight, almost nine of those issues. And I think we are already in a very good conversation about the remaining issues. So I'm very happy with where those conversations have gone. I think we've all moved and worked together, so I think we're in a good place. If I look at Norman and Chris I think the guys are pretty happy with the way those conversations are going.

I've seen some brick bats handed out to the government or some barb wire bouquets. Quite frankly, that's been a bit unfair. I think the conversations have been constructive and positive. To the cowards who sit in the shadows and criticise, and don't reflect on the change in that conversation in the last three or four months, it is both unreasonable and quite frankly denigrates South Africa and is actually misrepresenting what is happening on the ground. Yes, there are real issues, things to be resolved, but those conversations have come quite a long way. I get quite fired up when I hear one or two people bitching on the sidelines. When you look at the changes to the MPRDA they are very constructive. So I'm happy where we're going. The second point?

Brian Morgan
Potential impairment for assets which might show potential for impairment in 2014.

René Médori
We went through a thorough review at the end of the year. One area we continue to monitor very closely is metallurgical coal because of the price issues that Mark has mentioned. That's where we see some pressure. It will also depend on what we might define in terms of structure. So that area we are watching in terms of potential impairments.

Mark Cutifani
It's more an issue that is outside our control. Having said that, what is in our control is what the team is doing on the ground. And every month we're seeing improvement. And the key for us to manage that risk is to continue to improve our productivity both in platinum, met coal and our nickel business. And that is where we will focus. We will manage what we can control and position those businesses to be successful. If that means tough calls, then that means tough calls. I should make the point about the six or seven assets that we talked about in terms of the portfolio. What we've seen is when we did our asset review those assets that aren't making a contribution, that we think will be stretched in making a contribution, have been given the opportunity to show us by mid-year what they can do. Then we will take some views on a go-forward basis. But the point I do make is if we think something is not going to make it, you will hear about it. Or if we've made a decision to think about a sale you will hear about it the day after we've made the sale. One more from the phone.

Alain Williams, Société Generale
Good morning gentlemen. I have a quick question regarding the road map to 15% return on capital employed. I just wondered if you have disclosed a kind of retention rate for the savings you are using in the bridge?

Mark Cutifani
I didn't understand the question. The retention rate?

Alain Williams
Retention rate. Are you going to keep it all or do you have to deliver much more and retain less? I just wanted to understand what the retention rate is on the savings.

Mark Cutifani
So you're saying are the things we are doing long-term sustainable in terms of delivering on the return?

Alain Williams
Yes.

Mark Cutifani
Firstly, the run rate that we've delivered is sustainable. That's why we call it the run rate. That's the first point. There are other things we have done that have improved the business that may not be sustainable. Smaller things you get from time to time. But from our point of view the numbers we have up there are sustainable numbers. That is reviewed within the business and externally to make sure that we're comfortable putting up those savings. That's really important. That's why 2014 requires a lot of structural work to put sustainable savings in place. That's why I'm saying 2014 was always going to be a year of hard work with the benefits starting to show through in 2015 and as we go into 2016. But you will see a lot of that starting to come through in 2015.

If you're asking me what we are going to do with the cash, we are committed to continuing to improve our dividend once we get through the capital programmes and the improvement programmes. And if I can say, we're committed to two things. We're committed to return on capital employed or returns on capital, and we're also committed to appropriate returns of capital to shareholders. So the dividend policy remains. Obviously in the next couple of years there is prudence as we look at the debt. We don't want to fund dividends from debt. In the longer term we think we've got to get that dividend flow right. If I look at players in the industry in the last ten years 50% of the real returns to shareholders have actually been in the form of dividends. So we are absolutely sensitive to and we have listened to shareholders in making that commitment. That's why we think we need to deliver a 15% return on capital or better to be able to provide a reasonable dividend yield in terms of the stock. That's what's driving our behaviour.

Mark Cutifani
Paul, we are going to have to run. I'm more than happy to pick up a couple of people on the way through. Can we go to the round table? Okay. Thanks everyone.

END OF TRANSCRIPT