Conference call transcript

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INTERIM RESULTS ANALYST & INVESTOR PRESENTATION

Mark Cutifani

Good morning everyone. I'd like to say thank you for making the time to be with us this morning. Before I kick away I just wanted to make sure I acknowledged Jim Rutherford, our NED that is here with us today. Tony O'Neill who has just been appointed to the board, the old guy in the grey suit in the front row, for those of you were wondering which is Tony. Rene is the other old guy up at the front. And I'm Mark Cutifani, the young looking fellow of the three. We have all of our executive colleagues with us today, also a few other members of the team. So thanks guys for what you've done. And in particular I thank you for making the time to come and talk to us.

In November last year as an executive team we sat down and did an uptake and a catch-up on the change programmes we had been introducing, in particular looking at the foundations we'd been setting up in terms of positioning Anglo American for the future. The one thing that struck us at that time was the pressure on commodity prices. And we took the view that it was likely that commodity prices were going to be pressed further. Quite frankly we didn't expect to see the route to be so dramatic. But at that point in time we agreed we needed to put the foot to the accelerator and start moving the change given that we had established relative stability in the operations.

And so the numbers you see today reflect the work that we were getting on with post the first phase of the restructuring. And so cost out, the productivity improvements, announcements you've heard since January where we've been cutting overheads starting with Kumba, platinum, other parts of the business, started in November last year. We were quiet in the process. We had to be, given stakeholders and other people that we had to connect with in those conversations. A $700 million reduction in capital, the next phase of work started as early as November of last year. And together we committed to accelerate the pulling of $1.6 billion out of the cost structure.

Those changes are consistent with the driving value programme. They are not new. What we have been doing is pressing the accelerator. Certainly the capital reductions are new. But in terms of operations we are absolutely consistent with the programme. But given the nature of the market we have been putting the foot to the accelerator to drive that change. So we are at a very important juncture where we have to continue to accelerate because frankly there is a good chance the next six months is going to be even tougher. So for us we've got to continue driving he change and driving that change quicker. That will be the main focus of the presentation that we're going through with you today.

Firstly on the financial highlights you've seen the numbers this morning. I don't have to go back through them with you. EBIT, capex, success on disposals. On the EBIT number whilst we're down 36% if we took prices into account we would be down 50%. The fact that we've pulled back $700 million on costs and productivity improvements has certainly helped. And with a little bit of help on the FX side we've been able to do a bit better than most people thought.

As well as that with pulling back the capital and obviously doing a bit better on the Tarmac proceeds you see our net debt of $11.9 billion. I think it is the most important number on that page, along with maintenance of the dividend. In terms of the dividend Rene will give you a little bit more colour. But simply put we have a dividend policy. We have exceeded our net debt and cash flow targets in the first six months despite $1.7 billion annualised impact from commodity price since we spoke in February.

What we have done is we pulled $1 billion out of our cost base including capital to do that. We have still got a lot of work to do before the end of the year to make sure that we can keep going forward, but again we will look at all of those things in December once we have got the market and once we see how much progress we've been able to make across the group.

In terms of the operations what we tried to do is present our numbers a little differently. We have had feedback that some of the driving value stuff is a little more complex and hard to model. So in these numbers I'm not including the marketing improvements and that 2.5% to 3% improvement we had on realised prices against where we were a couple of years ago. They are not included in the numbers. And some of the other more difficult areas aren't there. Obviously the projects aren't there yet because we are still in commissioning phase. What we show you here is what we have delivered on a cumulative basis as part of the restructuring.

On the right-hand side – and this will be my only reference to the key elements of driving value because we will try and talk to a set of numbers that are easy to model and we will follow up to make sure that you're able to model these numbers. On major projects, all of our major projects from where we spoke two years ago are on track in terms of schedule or doing better than schedule. And you will see six months ahead in one case, three months ahead in another. And below budget, again helping us reduce capital.

On operations productivities are up 17%. Costs are down 22% in US Dollar terms. And we are continuing to focus on rebuilding our technical capability. The announcement yesterday of Tony going to the board was a very clear message that we've made significant progress – but quite frankly I think we're only scratching the surface – and there is a continued commitment to getting the engine room running towards its potential. And for us we see lots of potential. In terms of value leakage Peter and the team continue doing a great job on the marketing side, again doing very well on a relative pricing basis. And overheads and other associated costs are down $600 million. And again Paul and the team will help unpack those numbers outside the forum. Sorry, I would say the $1.7 billion improvement is the important number that you can reconcile back to the numbers we've shown you before in terms of where we've done better in the operations.

Just to present that story a little differently, what we are showing here are EBITDA margins since November 2012. And we show that against the price of our commodities in US Dollar terms down 25%. So clearly under pressure. We have had some help from foreign exchange, but we have also made significant improvements in productivity and costs. So we have pulled costs out of the business. We need to do a lot more because the prices continue to deteriorate. But I just wanted to show you where we've come from. And at the same time we've improved our relative production by 9% despite closing a number of operations in platinum, coal and in other parts of the business.

So for us it is about production productivity from the operations that we do have, and that is a central theme for the longer-term restructuring of the business, and for us absolutely critical in terms for cash, cash flow, maintaining margins and making sure that in the long term every one of the steps we are taking is sustainable. It is not about simply cutting out costs because you have to in a short period of time. It is doing it because you have to and making sure it is sustainable. And that is in our view the key for this organisation to be successful in the long term.

In terms of where we're going to from here, we see $1.5 billion worth of opportunities that we believe we can grab and will grab in the next 18 months. That $1.5 billion is also consistent with the run rate improvement we would expect to be at at the end of 2016 on today's prices. For us, accelerating the change is absolutely critical. So in the next 18 months operating cost reductions, restructuring the overhead base across the organisation, continuing with the focus on productivity, doing the work and making sure that our capital guidance is reduced - $700 million this year and at least another $300 million next year – is absolutely critical in terms of the change programmes. In terms of that work it is both pulling back or eliminating projects that we don't see adding value, and it is about improving the efficiency of mine development consistent with the efficiency changes we have seen on the operating side. So we are getting two hits in each of those cost items.

Beyond 2016 – and I will talk about restructuring of the overheads in the next section, another $200 million will come beyond 2016 – we will talk about our progress on assets. We had 68 assets when I first stood up in December 2013. We are down to 55 today. From our point of view we see that going to less than 40. We will see at the same time more than a 30% reduction in labour in terms of numbers. And production is calculated to be marginally above where we are today, which indicates an underlying productivity improvement of 50%. That is why we will improve our relative position on the cost curve. Again I will show that a little bit later.

In terms of what that means when I use H1 prices on a like for like basis we go from a 25% margin to a 35% margin, a 40% improvement on a like for like basis. At the end of the day none of us can forecast what prices will be. All we can do is keep taking costs out, become more efficient and position ourselves to be competitive. And we will show you what those competitive positions look like a little bit later in the presentation.

Now, in terms of restructuring the business I have to make a couple of very important points. As an engineer we started here with 152,000 employees. If you remember at the first presentation I made a very simple observation. We had only hit our budget once in ten years. We were constantly missing our production targets, our cost targets, and we had major issues on projects. So we focused on where 90% of the costs were, the engine room in terms of the operations.

If I say it in a different way and we show it a little differently here, 90% of our costs relate to people who touch product from exploration through to marketing. We see those functions as in the line, and the approach to driving efficiencies in the in-line functions requires a very different approach to the way you drive efficiencies in what we call the indirect cost structures, that 13,000 that don't touch product.

We also look at our overheads and indirects in London, in Jo'burg and in all our regional offices and on the mine sites. If you don't touch product you're an overhead. What we have to do is clean up those structures all over the organisation and eliminate duplication. So it is not 500 here, a bit here and a bit here. We've taken a holistic approach to the way we run the business and the way we've got the business structured. Clearly as we reduce the assets we make a big change and we can change those structures.

So what we've identified today, of 151,000 employees, 13,000 in those indirect functions right through to and including the mine sites in the next couple of years will drop by 3,000 and in the following year another 1,000. That is simply a function of the efficiencies and the elimination of duplication we see across the group. That is the focus of the work today and over the next six months as we as a team redesign the organisation.

The indirects that drop out of the system as a function of the sale of assets is another 2,000. Now, there is 1,000 here that represent regional and corporate overheads that have some association with the assets that are being disposed of. But we have to restructure and make decisions and we don't have to wait for the asset to be disposed of to get those improvements. Some will go with the assets; some we can move earlier.
But overall we will drive from 13,000 to 9,000 is the efficiency improvement we see by getting rid of duplication and other functions that aren't adding value. And then we get down to 7,000 as a function of

the disposals. That is how we get to 98,000 post the disposal and the restructuring of the overhead structure within the business. And that is part of the key to improving our underlying productivity across the business going into 2017 in the new structure, and that is a big part of the change that you're seeing in this organisation.

We very deliberately started with the engine room. In my experience in driving change it is very difficult to take the engine room and also take overheads at the same time, because in fact you create utter confusion here which manifests in massive confusion here. So we started here. We took 15% out in the first six months, and now we are going into the second phase which has been accelerated certainly due to market conditions but it is also logic in terms of change approach that we've adopted.

So with that I will hand across to Rene and then I will pick up the operations once Rene has taken you through the financials.

Rene Médori
Thank you, Mark, and good morning everybody. EBIT down to $1.9 billion for the first six months. I will go through the usual reconciliation on the next page. There is a lower tax rate of 28% compared to 31.5% in 2014. That reflects the commodity mix with a much stronger contribution from De Beers which has impacted that tax rate, and a lower contribution from copper. Our effective tax rate is 36%.

Underlying earnings $0.9 billion again reflects the lower effective tax rate but also the lower minorities and reduced contribution from copper but also Kumba which are significant minorities decline. Earnings per share of 70 cents, that includes 7 cents associated with a one-off contribution in platinum due to the inventory adjustment. The impact at the EBIT level was R2.3 billion.

Capex was down to $2.1 billion as we are completing a number of major projects, especially Minas Rio, but also the focus on SIB capex through what we are doing in terms of SIB capex. Net debt $13.5 billion at end of June. Again as Mark mentioned before reflecting the benefit of the disposal of our 50% stake in the joint venture with Lafarge, $1.6 billion. So on a pro forma basis $11.9 billion.

Return on capital employed 8%. If you go back to our driving value programme and look at the return on capital employed at constant June 2013 prices and excluding the benefit of impairments the return on capital employed for the first half would have been 12%, reflecting what we are doing in terms of controllables. And again excluding the assets that we are planning to dispose, 13.5% for the first six months.

Turning to the EBIT reconciliation on the next page, Mark mentioned the $1.9 billion of price variance. That includes $500 million for copper, $133 million due to the mark to market adjustment in the first half. At the end of June we had 74,000 tonnes of copper provisionally priced at $2.61. We had the benefit of weaker currency, specifically the Rand and Australian Dollar. The weaker Rand contributed $400 million and the Aussie Dollar contributed $200 million.

Inflation, the weighted group average was just above 3% at 3.3%. The benefit of productivity and cash improvement, $700 million. That includes again the one-off in Anglo Plat of R2.2 billion.

De Beers, a negative variance of $300 million. We reduced our level of sales to 13.3 million carats; a decline of 27% compared to the first half of 2014.

Turning to capex, $2 billion in the first half of 2015. We have reduced our guidance both for this year, $4.5 billion, and for 2016. So that is already $1 billion over the 2015/16 period. $400 million of the $1 billion reduction comes from SIB capex. SIB capex and stripping will be down this year to $2.3 billion.

And you see the improvement compared to 2014, $2.8 billion, and if you go back to 2012, $3.2 billion. So that is the benefit of the focus on stay in business capex both in terms of efficiency but also in terms of procurement.

Turning to the cash flow statement and the balance sheet. In the first half of this year we were cash positive before the payment of the final dividend in April of $700 million. And again on a pro forma basis net debt of $11.9 billion. Despite the decline in commodity prices since we met back in February we have reduced our guidance in terms of net debt for the end of this year. Our previous guidance was for net debt between $13.5 billion and $14 billion. We are now projecting a level of net debt at the end of this year between $13 billion and $13.5 billion. So significant progress in terms of cost saving, capex reduction and cash flow generation which allow us to improve our projection in terms of the net debt number for the next of this year.

We have maintained a very healthy liquidity. We raised $2.2 billion in the first half of this year. So $15 billion of liquidity at the end of June. With the cash received a week ago it is $16.6 billion of liquidity as at the end of July.

No further bond maturities for the rest of this year; $1.6 billion of maturity in 2016, $500 million in April and $1.1 billion at the end of 2016.

In terms of impairment Mark will give an update on where we are with Minas Rio. As you remember we commissioned the project at the end of 2014. We are on track in terms of ramp-up. So the impairment is all driven by the sharp decline in iron ore prices at the beginning of this year, but also the review of our projection in terms of mid-term and long-term iron ore prices. Thank you.

Mark Cutifani
Thanks, Rene. It is going to be a tough six months. Commodity prices certainly have deteriorated since the first half. So we are going to have to continue to accelerate and work a lot harder to pull costs out of the business.

Starting with safety on the operations, we have had a disappointing first half given the big improvements we made in the first 18 months. We are focussing on controls around our more critical risk areas. So there is a lot of work being done there. Quite normal to see this flat spot in these types of changes. The important thing now is we come through that and drive again down with much more focus across the operations.

Consistent with the focus on safety and all parts of the business that you have to manage, in terms of environment and social development I think the reduction in spills and environmental incidents reflects a much more important and broader issue across the business. And that is that we're working on all parts of the business in terms of improvement. Whilst it is only one part of the business I think it goes for safety, environmental control cost management, productivity, and marketing getting better prices for our product. We have to touch every part of the business if this is going to be the metal mining company. And that is what we are committed to achieve.

And in our case things are becoming much more difficult and challenging from a social development perspective. Our ability to engage stakeholders first starts with looking after people, making sure that we are looking after their community and the environment and engaging in a constructive way in terms of all of our relationships. It remains critical and it is strategic for us as a business.

On the operating side in terms of production you will see clearly platinum benefiting from a relatively quieter industrial environment. Iron ore making progress. A little bit disappointed in the last couple of months on the Sishen performance, but Norman and the team have got that in hand and will come back pretty strongly. In those areas where we have introduced the operating model we are up about 26% on efficiencies. So I'm very pleased with that progress. We have to get that right across the site. And we are certainly picking up a number of elements across the whole business.

On coal, export coal and thermal, good progress on productivity improvements in Australia. Seamus and the team have done very well. De Beers quite deliberate in pulling back some volume from the market, so again a consequence of deliberate action. Coal, don't forget we closed PRC at the end of last year, and Seamus and the guys have been quite selective in where they are working to make sure that we continue the improvements in coal. I will show that a little bit later. But also some challenges on the hydraulics at Moranbah which will be rectified as we do the long wall changeover in August.

Copper, very much a water story. The operations have been improving consistently, but they are constrained at the moment with water, and that risk stays with us in the second half. On nickel we delivered the first furnace. We are on track, a little bit early, lower cost. The good news is we've taken the learnings from the first furnace rebuild into the second furnace rebuild and we are running 20 days ahead of schedule on the second rebuild. So I said to you about eight months ago that we expect to be at full rate in our nickel business by the middle of next year. You can probably bring that back at least three months, possibly six months. So Duncan has done a fantastic job on the nickel business. And relative to what is happening across the industry we are very pleased with the progress we are making there. Unfortunately the prices are not doing what we would like them to do, but we are certainly improving our cost position.

Across the business I think the two areas that we are working hard on… Kumba is a waste story. And with the changes to configuration… if you remember Norman and the team with Tony and the team looked at the design and we turned the design configuration around. What that has allowed us to do now is be much more flexible in moving to different pit configurations for different price scenarios. So I'm very pleased with the progress there. And that is part of the story on how Kumba is going to do in the current change in price environment.

And on copper again very much constrained. They have continued to strip costs out, but certainly from a production point of view the water issue has had a real impact. I should say on production and cost Duncan and the team have actually delivered on their targets for the first half. These were expected. He is actually 1% ahead of his target. So not a surprise and certainly expected, but the comparison against last year is obviously a little disappointing.

In terms of operating costs across the business we always look at local currencies in terms of what the guys are doing on site. On average inflation was around 5%, so a 5% improvement in nominal terms has been good work. And foreign exchange has helped us to report a 14% reduction in US Dollar terms. And we have to keep the work going and continue the acceleration.

At Kumba very much a price and waste story. The operating improvements continue to come through, albeit with a couple of disappointments. We are driving the overall programme forward. We have seen some good progress on the cost front. If I go to the next page it tells the story better than I probably can. In 2014 we were delivering ore into China at $72/t. Yes, we had some help from freight and other uncontrolled elements. The things Norman is working on have improved this to $56/t. In the second half we expect to be around $52/t, which will be substantially in Norman and the team's hands. And they have the focus. I should explain that tag there, when you see the 62% it reflects both quality and lump premium. You can use $7 as an average. What that says is that at $52 per tonne we break even at $45 per tonne. In my view, and I think Norman and I share this view, we need to do a lot more to make sure that we're competitive.

I still have a view and I said six months ago that Norman has to get a four in front of his costs to be in the right ballpark. And I wouldn't argue with the premise that $40 as a breakeven price is probably the cost that you need to get to in order to be in the right ballpark. I think it probably will get a lot tougher. That is not a commitment as yet. That is what Norman and the team are working on, and we will update you in December in terms of his progress in making sure we get those numbers and what we will look like for next year.

At Minas Rio solid progress in the first four months. A couple of issues on the filters. As we opened the pit up and have variability of the ore we get different ore types going through the system. There are certain ores with a little bit higher alumina. You've got to work out the mineralogy and the chemical requirements in making sure they work optimally. We have solved the problem for the first half. We have seen a significant pick-up in volumes in late May, early June. So we still believe we can hit the 11 million to 14 million tonne range for the tonnes for the year.

The good news is for us that we haven't seen anything that would worry us in terms of the original price or cost forecast for the operation. What we have done is reflected foreign exchange movements that have gone our way. Paulo and the team are working on additional cost reductions. Given we're only halfway through the commissioning process I think we would be misleading you to say that we're on top of those in terms of the final outcome. We have to be about 80% of the way through the commissioning process to be confident that we can do more on the cost front. But so far we have not seen anything that worries us in terms of hitting those cost targets, hence the confidence in that target.

The key number for us is to actually hit the tonnage rate in the last quarter, because what we want to do is better than 80% capacity so that we've got a running start into 2016. I am not particularly worried by the one or two million tonne variation. It is about making sure we are solving all the technical issues so we hit the ground running going into 2016. And certainly I think we are making good progress on that front. And certainly the costs look pretty good.

In coal Seamus and the team continue to make solid improvements, again losing a lot on price, picking it back in terms of productivity and costs out of the business. So again good progress. We made the tough call on Peace River Coal. A good option but certainly not something that is competitive as it needs to be today. Thinking about different ways of doing that, but a good option longer term. The cost to maintain that option is about $10 million a year, so we think that is a worthwhile investment in thinking about the long-term positioning of the group. And from our point of view we try and get that balance between the two right. So it is good work, a continuing improvement we expect to see in the second half. But very good progress there.

And I'm just showing this is in Aussie Dollars. So the cost performance in currency I think is always the right measure of performance. We've gone from A$95/t to A$75/t. This is across all of our products in Australia. This is in thermal and met coal. And the dollar per ton in met coal would be A$58/t to A$60/t on the long wall. So really significant progress. But good work on the cost side. It is getting a lot tougher to squeeze improvements out. Seamus and the team were the first ones to adopt a formalised operating model. That is what we call the MOS. And that has been a great success. We said we were expecting at least 30% in the first 12 months, and Norman I think is at 26% in those areas. So good progress. And Seamus has been delivering and helping us across other parts of the mine.

In South Africa Seamus took over the operations in January last year. And we are starting to see the improvements come through. It is still very early days, but from that trend to that trend we are starting to see the right things happen. A lot of work still to be done, but encouraging nevertheless.

In copper it has been a lot tougher. Water is substantially a critical issue in terms of volume. There are some issues at Collahuasi around the mill, but I think we have now tracked the problem. It looks like we have had a foundation problem under the main mill at Collahuasi. The good news is we are working on the rectification as we speak, so we think we've got that sorted. So on a look-forward basis water is the key. We've done a lot of work and I think we have now identified and we are using 70% more water from sources we've identified compared to what we had two years ago. There is still a lot of work to be done and we are still in the middle of a pretty significant drought.

In nickel again under Duncan and the team we've taken our costs from $6.20/lb. If you remember in mid-2013 we made a very significant change to the way we were running the furnaces. And we saw in a very short time a significant increase in the operating volumes. That has continued. We finished the first rebuild, learned a lot of lessons. We are now 15 to 20 days ahead of schedule. Costs are coming down. So we believe at full capacity now we are looking at about $4 per pound. Again like all of our operations we are continuing to hunt for opportunities, but that has been a significant improvement in terms of where we are. If we said the base has been $5.50 that is certainly a significant improvement on that. And certainly the progress on the furnace has been a good story.

In platinum as you know Chris and the guys have been very busy on about 57 different fronts. The good news is the recovery post-strike. There is still more to be settled, but we are doing better. We did get a one-off adjustment. Certainly from our point of view a good outcome. It is always better to get a positive stock adjustment than a negative. There is lots of work to be done in what is a particularly tough market.

The good news for us in particular is the long-term asset, Mogalakwena. In 2012 these are the cash operating margins that you've seen. So against that price profile that's what is happening with our margins. So a significant improvement in the operations, the efficiencies at the operating level manifesting in material improvements in our margin. So I think Chris and the team have done a great job there. If you remember we were at 300,000 to 320,000 ounces. In the first six months 400,000 ounces (run-rate), record for the operation with virtually no capital. We have had the help from the Baobab plant, but virtually no capital. We are doing most of this work, in fact all of this work that I've shown you at the moment, focussed on intellectual capital not cash. And I think that's the important thing. And we still see more opportunities across the business.

In Rustenburg lots of work. When you go from 24,000 to 16,500 after all the noise it has been done. And the success in terms of that programme going from a R597 million cash drain in 2012 Chris and the team have turned those operations cash positive. And that change there I think has been significant and probably underappreciated. So in terms of that price line I think that performance has been very credible. And certainly from our point of view Rustenburg has proven to be an asset that has some value. Certainly I think Chris and the guys have done a good job. And Chris would be the first to say that he is nowhere near where he could be in terms of operations across the board. So there is still a lot more work in making improvements.

At De Beers it has been a tough couple of months. The market is certainly tightening up. What we have experienced is a flattening of demand where we were seeing very strong demand in the last two or three years. We have seen a flattening of demand. As a consequence we have pulled our guidance back down to 29 million to 31 million carats. And if you think about the market and the way volumes and sales go we generally sell 55%/45% in terms of distribution of sales in the course of the year. In this year it is more likely to be 50/50. So with that in mind we have pulled our volumes back. And I will let you work out what you think the sales might be as a consequence. But we are working with our customers and all the players in the chain to manage that volume that is sitting in the midstream. From our point of view that's an important piece of work over the next two or three months to make sure that the market becomes stronger so that as we go into 2016 we've got the market in the right place and heading in the right direction for all the stakeholders.

In that we've provided a bit of a description of what we see in the market particularly with the build-up of stock in the midstream. Again working with our customers and working with our stakeholders to make sure that we are managing the areas that we touch consistent with taking a leadership position across those areas that we lead. In terms of our response, production, new sightholder qualification, a lot of work with our sightholders and making sure that we provide our customers with the flexibility they need to manage through this difficult time.

Finally a few slides just to wrap talking about the Anglo American of the future. We started with 68 assets. 55 today. Some of those assets have been closed. So when I talk about the 68 to 55 we have sold some assets, we have closed, we have made some tough decision on assets. We are looking in terms of going from 55 to 40. The dominating theme will be sales through that process. That is a 27% reduction from where we are. The labour force as I said will get under 98,000 across the group. With the addition of a Grosvenor and Gahcho Kué and Minas Rio making its contribution we actually stick our nose up above where we have been.

So when you look at those numbers over the next three to five years we are looking at a 50% improvement in productivity. That is the structural cost base shift. And that is absolutely critical. And in my view that is what has really defined or supported those larger companies being successful in the longer term. And I think that is something we weren't focussed on two years ago. I think that in of itself, the nature of the portfolio, the weighting to metals, precious and diamonds versus the bulks, which I think will be tough for the next five to ten years with the supply situation our niche position is very strong. A quality, cost-competitive position, generally good cash generators even in those markets. But our base, precious and diamonds mix is quite unique. And certainly from our point of view we think it positions us well off this strategy.

What that looks like from a competitive position, you see our businesses, diamonds, copper, nickel, straddling the midpoint of the cost curve. In fact on an aggregated basis we are slightly above the midpoint in the cost curve. We need to be much better. The changes in the portfolio – I'm just talking the portfolio changes now – so that we focus on the quality assets we move our positions on a relative basis by commodity. So the after picture sees us straddling the midpoint of the second quartile. And that is a significant structural shift.

Now, we are not assuming business improvements. We are not assuming the operating model adds any value. Just by making a structural change, which is the strategic change that we are making in this business, we shift our relative cost position. That is critical from our point of view. We believe we will continue to make business improvements, and that will keep us up with if not compete with all our competitors in the spaces we're in. but from a structural point of view we improve our relative position. With that the focus on those assets that are industry-leading assets remains critical to continue to improve that performance on a relative basis. That is where we are.

What does that look like? Against the numbers that we posted in the first half post divestments we will move that EBITA margin to 29%. And just so you understand the cost-outs that we're talking about over the next 18 months we improve like for like to about 35%. We will give you more shape and colour on that towards the end of the year. Obviously we will have another six months under our belts and the market is probably going to be tougher. So that will be under pressure. But from an apples for apples perspective that gives you a sense of where we're going.

Finally in terms of the half year production up despite mine closures. Operating unit costs down 5% in local currencies, 14% in US Dollars. Capital spend driven off the efficiencies and keeping a tight rein on the major projects as well as improving our efficiencies. On disposals it is good to see the $1.6 billion hit the bank. Probably a little bit more than $200 million better than most people thought. Copper in progress. Platinum on a dual track. We will continue to keep you informed when we hit significant milestones and we will give you another update obviously in December.

On delivery and looking forward we continue to press the full-on accelerator in terms of driving more cost improvements in the business. In terms of EBIT improvement we are targeting that $1.5 billion that I talked about, again absolutely consistent with the driving value programme. I just hope that is easier to pick up in your models. That includes as part of the programme a 4,000 head count reduction over the period where we are restructuring and reducing our overhead costs.

For us when we talk about Anglo American we believe the portfolio is unique and in of itself provides shareholders with some choices relative to what we have in the business. Beyond that choice, which in of itself is a strategic call from our point of view, the repositioning the portfolio, the restructuring of the assets and the focus on driving the best out of each of those assets for us provides an opportunity to improve where we are and position ourselves more effectively as a standalone unit and relative to our competitors in the commodities in which we compete.

We have no control over the price. We have to deal with what the market throws at us. What we want to make sure we do is make every post a winner in a tough environment so that we are creating a more sustainable and competitive business. We talked about driving value. I think maybe a better way to finish this presentation is we are driving change. This is a different Anglo American. With that I'm happy to take questions.

Jason Fairclough (BoAML)
Two questions from me. You mentioned that the next six months could be even tougher for you. I'm just wondering how you feel the organisation has been placed to weather a bit of a tough period, and what sort of contingency plans you have in case the bottom really drops out of things here. Secondly, Just on copper, it looks like Duncan might get some money to play with.

Mark Cutifani
No, he won't. I will put it a bit differently. Let me say in terms of the next six months we are looking at every dollar and pulling everything back. We have reflected that in our forecast going forward. So I think we've got the capital number right, Jason. I don't think there is much, but we might squeeze a bit here or there. From our point of view we keep a constant book on those operations that aren't making the grade in terms of cash. If that means we have to make a tough call and pull something out we will. We won't hesitate. We have to make the tough calls. I'm not suggesting that there is something there that is going to happen tomorrow. That is not the case. But if it continues to deteriorate there may be other tough calls we have to make. We will keep an eye on all of the operations. Further, each of the executives has improvement programmes to continue improving the business. The question is can they accelerate that programme further. That is the conversation we are in today, as we were in November. So it is a constant process driving our costs, looking for every opportunity we can. Certainly by the end of this year we will have done the London type corporate changes that we've been talking to.

And consistent with that looking at where we reside ultimately that I did say this morning – and I know it did hit one of the headlines – that we will be relocating offices. It won't be in the next few months because we've got commercial considerations. But I think St James is probably too expensive for a mining company considering this environment, and it is not the right place to be. And we are going to make the change, and that goes with some of the changes we are making that is driving a very different culture across the organisation.

In terms of costs Quellaveco is a great project. But in today's market it would be very tough and certainly not something we would be ready to endorse today to go forward. So we have to watch the market carefully. Duncan and the team have done great work. Tony and his team are now going through all of that work with Duncan, making sure that all the loose bits and other opportunities that we can find to make it a better project. That should make some progress. We will give you an update in December. But very unlikely if almost absolutely no chance of an approval this side of Christmas. And next year is about the market and the condition we have to make sure that we can support something. But not something you can expect to see in the next five months.

Menno Sanderse (Morgan Stanley)
Two questions. The first one is really on the same theme. The company says we want to prepare operationally for the future, we don't know how it is going to be. But access to the debt market is critical, you just had a downgrade. Why are you not financially preparing the company more and just scrapping the dividend given that the consequence for the equity if things do go very wrong, as Jason highlighted, could be very severe? And secondly is this cut in diamonds, De Beers cutting diamond sales, enough to stop prices deteriorating?

Mark Cutifani
I will hand to Rene to deal with the debt and the dividend question and I might get Philippe to make a comment on the market.

Rene Médori
We have maintained a very healthy level of liquidity, as I mentioned earlier, of $15 billion. If you include the profit from Tarmac it is $16.6 billion. Which means that we have the flexibly not to overreact in the short term. But we have room to implement management action and look at what we can expect in the longer term. Secondly, as I highlighted earlier, we have some data in terms of cash flow generation, in terms of cost savings and in terms of net debt number. So there is no need at this stage to rush to a decision on the dividend.

Philippe Mellier
On the market side clearly we are facing a softer market today and I'm not going to repeat what was written there in terms of why. We have cut marginally production so far, but we are implementing plans to cut it further. This is why we are lowering the guidance. The guidance we had at the beginning of the year was 32 million to 34 million and now we are down to 29 million to 31 million. We think that is adequate. We are always producing to market demand. And we always look forward because what is cut now will be available six or seven months after that in the marketplace. Clearly there will be some restocking before the end of the year because the backlog of polished in the marketplace will come down. So we believe today after very careful consideration that this is the right response. We are not going to rush. The final market demand is still there. I repeat that we are still forecasting for 2015 a stable market versus 2014, which was quite a good year. So we are adjusting not dramatically but in line with what we think the market for H2 2015 and H1 2016 should be looking like.

Mark Cutifani
When Philippe says stable market, global demand is around the same, slightly higher.

Philippe Mellier
Versus 2014 we are looking at a stable market in Dollar terms. We have seen in some local currencies it could be higher, but we are hit there by the strength of the Dollar. So if we look at markets in Dollar terms it should be stable from 2014 to 2015.

Mark Cutifani
Do you want to say something about focus on costs? I think that is important.

Philippe Mellier
We are focussing on costs. And you will see in terms of operational performance we had a very good year so far. Despite the lower volume and preparing for cuts the unit cost is down 1% in local currency and 10% in Dollar terms. So we are cutting costs. We are improving efficiency in all our operations. And if I can add a few words about our projects, we have two key projects, Gahcho Kué and Venetia underground project. I'm not talking about Cut-8 in Jwaneng because Cut-8 has been going well and is still going well. In Gahcho Kué we are 52% complete today, on time, on budget. And Venetia underground project we are now at 18%. I remind you that we are going to start production underground in 2021. And we are also on time and on budget. So our two big new projects are on time and follow the trend that Mark said that big projects are doing well.

Raphael Veverka (Exane BNP Paribas)
I have two questions, first on asset disposals. Can we expect some announcement before year end, or what is the timeframe you have in mind? And also within your current disposal plan which of the assets would you say are running cash positive at spot commodity prices? And my second question is on diamonds. The positive mix had on profitability in H1 versus market parity, can we expect that to be sustainable and to repeat in the second half? Thanks.

Mark Cutifani
You say what assets are going to be cash positive?

Raphael Veverka (Exane BNP Paribas)
Yes, two parts of the question. Within the existing disposal plan which ones of the assets are still running cash positive at the current spot commodity prices? And is there a timeframe now? Can we expect an announcement before year end?

Mark Cutifani
What we have done with the assets for disposals, we had reworked strategies to improve in any case. For example with Rustenburg we had developed a new strategy, and clearly that has been part of our whole approach. And they remain cash positive. Obviously it is getting tougher out there, but the operations continue to improve post the strike. In the platinum operations those assets we have identified are doing pretty well. Union is still on its ramp-up plan, but the Rustenburg assets have been pretty solid. Copper we are still on the right side. It is getting tighter obviously, but we are still on the right side. In coal most of the assets are still in the right. We have got a couple that we are doing work on, for example Foxleigh. We are pulling further costs out of the Foxleigh operation. Generally we have still got our nose above the water line. But if we have got assets there that look like they are under water for any period of time then we will make tougher calls. I think that is appropriate. At the end of the day quite frankly in the 55 down to 40 if two or three of those assets can't be sold in the market that we are in, we will close them if they are losing cash. We will make the tough call, because in the end it is focussing on the assets that make the material differences to the startegy. And people will still buy an asset that is on care and maintenance. We will keep the option open. On the second part, clearly the second half is going to be tougher from what we can see. So I'm hoping that we can get better but it

would be tough to deliver the same sort of result in the second half for De Beers in that environment. It won't be for lack of trying.

Fraser Jamieson (JP Morgan)
Hi, it's Fraser Jamieson from JP Morgan. I just wanted to come back to the acceleration on the cost cuts you are talking about. I think you've done about $1.7 billion. You are now talking about $1.5 billion over the next 18 months, so quite a modest acceleration that you're talking about at a time when clearly commodity prices coming down is helpful on the cost side to an extent. Currencies have been moving in your favour, yet competitors who supposedly didn't have as much low hanging fruit as you have been doing similar amounts. So a simple questions should you be doing more on these cost savings. Why aren't they bigger?

Mark Cutifani
Competitors, you mean the much larger competitors. They have much bigger cost bases in certain parts in percentage terms. They had to spend a lot of capital in areas. Unfortunately we have spent some capital at Minas Rio, but we haven't got that finished yet. What we have been doing is hitting the costs at the operating level in those areas. In South Africa obviously we have had higher inflation but we are dealing with that and starting to turn those around. So we have got some different jurisdiction issues. In terms of the operations we said the first part of the strategy was to stabilise and to get those operations on an even keel. I think we have done that pretty well and been consistent. The $1.7 billion that has been delivered actually includes the productivity benefits and a much higher revenue base. So we talk in EBIT terms being on a much higher revenue base as well. Don't forget we've got a much lower revenue base today so the productivity benefits don't give you the same bang for your buck. So we believe we can deliver the $1.5 billion but we want to do better, we want to do it in a way that is sustainable. And we are also making cuts on our capital so from a cash point of view it is much more significant. Obviously the $700 million this year is about efficiency improvement as well. So that is what we see, and that is what we're working on today, and that is what we see going forward. And we will continue beyond 2016. But it is a real root and branch approach if you see the overhead restructuring as well. So that's where we are.

Fraser Jamieson (JP Morgan)
You talked about dividend coming from free cash flow in 2016 based on commodity prices at the time, which I think surprised, there were misconceptions in the market. What is your view now that we have moved further down in commodity prices? How can we cover that dividend from free cash flow?

Rene Médori
If you look at the movement in spot prices between February when I gave this guidance to where we are today the net impact of price, FX is negative $1.7 billion. Through the management actions we can recover $1 billion. And through a further reduction of capex, the guidance I gave you was also including the capex number of $3.9 billion. That is based on the guidance we gave today of $3.6 billion to $3.9 billion. A potential $200m to $300m, so as of today we need to do more work to cover the shortfall that we are projecting based on the movement of commodity prices. Is that clear?

Mark Cutifani
If I just pick up the point, the perception of where we sit on a relative basis, I think on the overhead structures we've got a lot more work to do. I think some important statistics might help. Kumba cut 60% out of their head office. Their overhead structure today is a little bit less than $2 per ton. Some of our major competitors are over $3.60 per ton in their overhead structures. So yes, we have a lot of stuff to take out. We are attacking those costs. But Kumba will move a tonne of dirt 20% to 30% cheaper than our competitors. We've got more opportunities to improve our costs. But when you look at the engine room and analyse the numbers, some of those numbers aren't as bad as one thinks or has the

perception of. So what I've got to do is deal with the facts. We work the numbers on the ground that we can see. And we know we've got a lot more work to do on the productivity side in Kumba. We should be doing even better than 20% to 30% per tonne moved.

I will make another statistic. We have now got the highest-productivity long wall operations in Australia by some 20% against our nearest competitor. So we have moved hard in changing the nature of the business. From a competitive position in platinum we are doing pretty well against our competitors on a pound for pound basis. In nickel we have gone from $6.20 to $4/lb. So when we pull each commodity apart and rank us against our peers we are starting to stand up reasonably. But there is a lot more to be done. We've got to get a lot tougher and work the next level of change a lot tougher. And the overhead question I think sends a really important message in terms of cultural change. So I do take your point, but I also want to stand up and say put the metrics side by side. We are not that far back compared to where we were a couple of years ago.

Liam Fitzpatrick (Credit Suisse)
Hi, Liam Fitzpatrick from Credit Suisse. Three questions, one on disposals and two on diamonds. Just on the disposals, is your thinking in this market to expand on the number of assets that you're looking to sell, or are you committed to the ones you already highlighted? And secondly on diamonds, I think you outlined a fairly high capex budget for the next two to three years. If we look forward and the market doesn't recover is there much ability to defer some of that capex? And if you can, can you put a number around that?

Mark Cutifani
I think firstly in terms of capital – I will go to the De Beers question – in terms of Gahcho Kué it would be very hard to pull that up. In fact it would be quite destructive to pull that sort of thing up. Venetia and other parts of the portfolio have a bit more flex in a really tough environment. But we certainly aren't making plans to make those changes. They are the sorts of things we think about incase. We certainly wouldn't put anything forward today. We will come forward in December once we have seen a little bit more of the market and how things pan out in the next three or four months. But certainly what we see today we don't think it is appropriate to make a major change other than to pull the cash costs and things down. If more is required there are other things we can do.

Philippe Mellier
We have lowered the guidance from$750 to $800 million down to $700 million or $750 million this year. And $340 million is in new projects, and as Mark said it is extremely difficult to delay because Gahcho Kué is close to completion. We've got production with our partners, because we are only 51% at the end of 2015. And the Venetia underground project we can certainly improve things, but we can't create a lapse in production between the normal pit and underground operations. So we still have to keep with the timing if we don't want to stop production.

Mark Cutifani
We're looking at all of the operations in the same way. So we continue to look at contingencies and what we would do in that circumstance. On disposals, what we've said is that we have priority three assets which are no-regret disposals. We have other assets where we're debating whether they represent the best use of our capital. And we have other assets that we would consider for sale in the short term to ensure we deliver our $3 billion minimum objective. So yes, we have other options. I'm not going to talk about what they are. If we decide to do something we will talk through it. But at this stage we believe we can hit the $3 billion and we have a couple of contingencies that are available to us. We will see how we go over the next few months and we will update it in December. We will make an announcement if we've decided to press the button on something.

Myles Allsop (UBS)
Myles Allsop, UBS. Just a couple of questions as well. Going back to the potential for further cost savings, I remember Tony in December talking about $1.5 billion to $3 billion potentially from the new operating model. Does that still stand as the potential? How much more work have you done around that number? When will we get a clearer view as to what that medium-term uplift to the cost savings could be? And then secondly on platinum, some of your competitors are taking action in terms of closing capacity. Chris, do you think there is more opportunity within the Amplats portfolio? Can you give us an update as to why prices are quite so weak at the moment?

Chris Griffith
So I think an important thing that we didn't make a big story of, we all knew about the restructuring reductions that we made in 2013 when we took around about 300,000 ounces out the market. What we didn't make much mention of was the reduction of 60,000 ounces last year at the Union mine and about another 30,000 ounces at Dishaba, so areas that were loss-making. If I take a small step back, remember at Union we had 260,000 ounces. We reduced that in the restructuring to around 220,000 ounces. Then we had the two vertical shafts and the decline section. And the decline section was always going to be a replacement as we built up reserve at the two vertical shafts. Last year when those decline sections were loss-making we shut down 60,000 ounces at Union. We also had some loss-making ounces at Dishaba. Although we are building up that production, over a couple of years, in much more profitable areas at Dishaba we shut down probably about 30,000 ounces. So we had 1,000 people that we had to redeploy across the group and reduce at the end of last year, so we did that.

So without a lot of fanfare we have been reducing ounces. In the average guidance that we gave to the market of between 2.3 million and 2.4 million you actually see that we are increasing ounces at areas like Mogalakwena, but overall the number of ounces that you are putting into the market are not increasing. It means that we are having to reduce ounces in other areas. That is actually the right way to go about reducing volume to the market. And then we shut down loss-making areas across the group. And I think you are starting to see that coming from Lonmin today in their announcement this morning, and I think it is the right way. I think it is much easier to do that than to try and shut down some of the very big mines, although as Mark said if we need to we will go that route. But we are reducing ounces on a constant basis out of our portfolio. We have already reduced our own mined ounces from 1.9 million ounces to 1.6 million. Even as we increase out of much more profitable areas you are seeing a pulling back in other areas. We continue to do that.

The platinum price, why is it so weak? Clearly the market has softened quite a bit and we have seen much more uncertainty in some of our key markets, China and Europe. And then of course the strength of the US Dollar continues with perhaps some increased strengthening increase as the rate hikes come at the end of the year. So overall demand is not too bad, but a softening of the market. There may be some downside risk even further. The point Mark made is we've got to manage the business for this environment, not the future price environment.

Mark Cutifani
Thank you. And just picking up the question, the work that Tony and the team have done, we have an operating committee that shares that information as we go. And a lot of that good stuff has already been picked up by the guys and they are already implementing some of those changes. That is part of the improvements we've made. We certainly see a significant potential as Tony described, if not probably more than what we said a period back. But it does take time. I forgot to tell you that we are also the number one ranked copper processing plant. So we went from 88% availability to 96%. That puts us number one against our major peers. We are making improvements across the business. What we will do in December is we will unpack three or four of those key points in terms of where we see the opportunities to improve. And we will talk about some of the innovation work that we have been doing

as well. Tony will do that in the December results, which I think will be a logical progression from where we were.

Rene Kleyweg (Deutsche Bank)
Morning. One for Rene and one for Tony. On the capex, Rene, could you talk about how much of the 2015/16 reductions are deferred and how much are actual cost savings? And secondly in terms of the breakdown between SIB and sustaining capex and growth you don't separate recurring obviously intentionally because it is for 2015/16. Could you provide some guidance on what SIB capex would be for the next two or three years and what is sustainable? And then for Tony, following on from the Kumba conference call, I guess to put Tony on the spot in terms of the mine plan changes in the constrained operating environment, when do you start feeling a bit easier about that given the challenges that have continued there for the last couple of months? What sort of level of confidence do you have in that plan, and how does that plan change again in terms of mine life and a low iron ore price environment long term? Just reflecting in terms of when the next change point is. Thank you.

Rene Médori
In terms of capex we spent last year $2.8 billion on stripping and SIB capex. We are expecting to spend $2.3 billion this year. That includes $800 million on stripping. We expect the same level of SIB and stripping next year. We are not expecting that at some stage we need to catch up in terms of capex. All the benefit of the procurement programme, optimisation, some of that benefit of the revised mine strategy at Kumba – Kumba has indicated they are going to reduce the level of waste stripping – that is some of the main issues in the SIB capex. So $2.3 billion stripping and SIB both in 2015 and in 2016.

Mark Cutifani
On the Kumba stripping that is a more balanced profile, so in actual fact it is a more appropriate strategy. So it is balancing it better through the period. It is a sort of a timing benefit. It is a more sensible profile.

Tony O'Neill
So we are not making any decisions in stripping that compromise the life. There are no short cuts. The capital around $3.7-3.9 billion guidance there isn't a huge amount of wiggle room. Then you start to get into the meat of the business. So I think we are tight. We will look at whatever we can get out of it, but I think to promise anything lower would not be correct.

At Kumba the plan that we put up last year is perfectly good. And we are now adjusting the plan for the lower price. But every mine around the world is doing that. The issue with Kumba is not the plan but the execution of the plan. It is making sure that we have the cultural shift across the company and people stick to their plans. The plan that has been put up is fine. Now we've got to make sure we stick to it. We will make some adjustments with our procedures and ultimately with some of our people to make sure we stick to our plans. The Kumba life in pulling the pit back the very high cash cost material gets pushed to the back end. If you had to operate in the current price environment then we need to see other changes beyond 2025 in the last scenario. But Kumba as it is, it's reserve runs to 2030, so it is just really the back end.

Mark Cutifani
That is where we see additional opportunities to reduce the unit cost per ton. As I said we are doing better than many of our competitors on a unit cost per ton basis, but we are behind them on productivity. We have already done 30%, which is not to be sneezed at, but we've got to keep going. That will take another couple of years, because you're changing cultures. This is not wiggle your nose and hope things change in the next couple of months. This is hard work, and change of this nature and this depth is a broad process.

Anna Mulholland (Deutsche Bank)
Just a couple of questions on disposals. The delay in choosing how you're going to exit Rustenburg and Union, keeping the IPO and sale options open, can I read into the delay that there is a potential sale that is progressing? Can I get excited that you're actually going to sell these things rather than give them to the shareholders?

Mark Cutifani
No change to the approach. And we will tell you when we have something to tell you.

Anna Mulholland (Deutsche Bank)
And just following on Liam's question, I might have missed if you gave some detail, but can we expect some announcement by the end of the year in terms of the other disposals that you've got running now in copper and coal?

Mark Cutifani
Most advanced is copper. Again I am cautious in the market we're in not to say anything because the price keeps dropping. The copper process is the most advanced but it is a tough environment. So I will not promise anything until we see it.

Fiona Perrott-Humphrey (Rothschild)
The benefit from the South African Rand in the first half, I just wondered what you're budgeting for the second half. I saw the reserve bank raised rates yesterday in the attempt to try and turn around the currency. The question is are you assuming it continues to weaken or stays, and what unpleasant surprises lurk if it suddenly starts to strengthen?

Rene Médori
The numbers are now always at spot, so it is very difficult to anticipate what the movement between commodity prices and FX. The guidance I gave you was at spot, around R12.60.

Mark Cutifani
That is why we show our cost in local currency just to tell you what we're doing on the ground.

Richard Hatch (RBC)
I just wonder if you could expand a bit on your capex cuts and where we work them into the model.

Mark Cutifani
We can provide that later.

Des Kilalea (RBC)
We haven't talked about labour. We've got Lonmin reducing people and the unions getting pretty upset, and in other parts of the world. Could you give us a view of what you see for the labour relations outlook over the next six to 12 months?

Mark Cutifani
Generally I think we've got to engage our workforce. We don't have a negotiation in platinum. We are watching the gold conversation very carefully. And we hope that that is going more constructively, but one never knows. So we are watching that carefully. And wherever we are making changes we are talking to our people. Tough, but that's what you've got to do. So thank you very much everyone.

END OF TRANSCRIPT