Conference call transcript

13 February 2015

FULL YEAR RESULTS ANALYST PRESENTATION

Mark Cutifani
Welcome ladies and gentlemen. Thanks for joining us here today. If I were to talk to industry themes that we've all been hearing about for the last few weeks and in particular the last few days, you will have heard commodity prices, capital discipline and returns, restructuring and costs. I'm going to say that you will hear a bit more about it during the course of my conversation. And I would hope that those here representing shareholders will see that we remain absolutely focussed on delivering total shareholder returns.

In terms of Anglo American in the last five quarters we have talked about delivering and we have delivered on commitments. We have actually consistently increased our operations guidance and we have consistently been cutting our capital. You will be in the same conversation, albeit coming off the December results – there is not going to be that much difference in the last two months in terms of what we've done – but again we are continuing to tighten up the business. And if I could say in a very sombre way it is a tough market. In terms of the work we've done we've positioned ourselves to continue to improve, but I would say there is still a lot more to be done. In our view the markets will probably remain tough in the next one to two years.

The real challenge for us is to make sure that when the market does come back our way we've done all the right things to ensure that we pick it up and go forward in a positive, constructive way and that we don't miss the lessons that have needed to be learned coming into the situation we're in. I think going through the conversation the most important point for me to make is as an organisation, and particularly with our strategy and focal points on performance, it is something we are determined we don't miss as a leadership team. And certainly that is a constant conversation with the board given where we have been, given where we are today, and given where we are determined to go in terms of the future.

Rene and I will be presenting. We will be relatively quick in moving through the data. We have just come off a fairly long session in December. And so from our point of view we don't see much point in going back through the ground you already know. What we want to do is try and give you more opportunity to ask questions about what you see as being the critical issues in the business. So from our point of view we will move through fairly briskly. If we don't pick up something during the course of the conversation we are very open to pick it up in the Q&A and then follow with our round table. So it gives you more of an opportunity to ask questions and hear our thoughts on the business from the things that you see as being important.

I will start off with conversations around the meat and potatoes part of the business. We will talk about EBIT of $4.9 billion, down 25%, obviously impacted by lower prices and the platinum strike. I will talk about the impact on platinum a little bit later and if we adjust for what that meant for the business how we have performed against the portfolio. In going through the key numbers – and you will have seen those numbers, and Rene in particular will dissect those numbers in more detail – I won't go through that any further other than to say the net debt number of $12.9 billion is $1.8 billion less than we thought it would be when we were thinking forward 12 months ago.

It reflects an improvement in operating performance, tight control of capital, delivery of projects ahead of schedule and under cost, and it reflects a real focus on making sure that we keep control of those things we can control. There were some timing issues on capital, but not significant. That has been achieved despite the tough pricing environment that we have experienced right across the portfolio. But from our point of view that has been a very important number. And as a consequence of being able to manage the balance sheet and those exposures we've been able to maintain the dividend. And we are confident with where we are and what we are doing in this price environment and that we will manage that and continue to deliver on our commitments both in terms of net debt targets and dividend.

From the operations perspective across the business Sishen delivered 15% above plan and at the same time you will see that our waste numbers were a little bit less than what we were targeting. But remember halfway through the year we said we have stripped 10% out of the life of mine waste schedule, so the waste that was moved is consistent with the new operating plan and the business is on track to deliver ore targets for 2015 and 2016, and we have increased our ore production guidance for 2016. So Norman and the guys have done some good work. 2015 is going to be a big year still, but good performance across those targets with more to be done.

Minas Rio, not much else to be said. Two months ahead of schedule, $400 million lower than in the schedule. The platinum restructure is on track. The divestment process is underway. I will talk about that a little bit later and Rene will pick up divestments. Copper and nickel both turned around. I'm very happy with the progress that has been made.

I won't say much else about nickel later in the presentation. Just to make a comment that we have more than doubled production from where we started. We have cut 30% out of the cost. The furnace rebuild started the day we said it would, and we are tracking ahead of schedule. So I'm very pleased there. The one thing that really pleases me is the operating improvements we've seen at De Beers, and I will pick that up a bit later. So generally delivering on all our major commitments, and I'm pretty happy with the progress, but there is a lot more to be done.

Safety, a key measure for us in any environment. Obviously no one is ever going to accept one fatality in any business. So for us the loss of six colleagues is a tragedy and is something we deeply feel. Having said that, we are pleased with the progress reducing fatality rates by 60%. The single most significant improvement in one year in the Group's history, the best set of safety results we have ever delivered a 25% reduction in our total frequency rate. When you go back to the fatality number, if you remember in 2014 we had one incident when we lost six colleagues. If I compare safety incidents with fatal incidents to fatal incidents our improvement is more like 40%. Still solid, but it is closer to that 25% to 30% improvement across the actions. So I think that is a fair reflection of the progress we have made. So still a lot more work to be done on safety but we are pleased with the progress so far.

On the environmental side again we've focused on all aspects of the business. When we present our results we make sure we touch each of the key cornerstone positions, the things we are focussed on. Our events which are spills or emissions to the environment are down to 15. Seamus and the guys have done a lot of work in the coal business. This was about flooding events across a number of jurisdictions. So big improvements. Still more to be done. I guess when you look at our sustainable approach in environment, community relationships and the broader stakeholder relationships, if you go to any index across the industry we are usually one of the top three, as we should be. For us it is strategic. The world is becoming a tougher place. You have to have the right relationships. You don't want to wake up in the morning and find out that your business has been stopped because you haven't got the right relationships. Again we remain focussed and for us this is a key metric and one that we talk about consistently with all the parts of the business.

From an operations perspective we've made good progress across the portfolio. Each business compared to 2013 has improved. I do make the comment that from a platinum point of view obviously we have adjusted for the strike. All of those operations that continued through the strike were 3% above where they were last year. And we did deliver on all of our contractual commitments. That was important. Chris and the team saw the potential for the strike, and we said we were going to stand our ground and make sure that the outcome was a sustainable outcome. It was tougher than we thought it was going to be, but we did stand our ground.

And in copper I think Duncan is sensitive to how that appears on that overhead. You've got to remember that he has eaten a 7% reduction in head grades. So in terms of throughput he is up almost 10%. He has got longer leads and he is moving more waste. So the performance on an underlying basis has been very strong, and in fact he is 7% above his guidance numbers as well. So we are very pleased with the progress, albeit the actual headline volumes are down. So across the board significant improvements across the business. I think this is the first time that we've out-performed across the portfolio in the last ten years. And that has driven our performance on budget and guidance numbers.

In terms of unit operating cost, as people know we are really focussed on margins. And obviously cost is something we can control aggressively. If I start with the challenges, inflation, in South Africa it is a big challenge for us as a business. Across the portfolio around about 5%. In local dollar terms our costs were 2% above where we were in 2013. In terms of real performance we have reduced our costs by around 3%. The big challenge in South Africa. For us Kumba, coal and platinum have each got structural changes in process to turn those trends around so that we're reducing our costs in local dollar terms. And I will talk about that when we do the quick analysis on each of the businesses. In copper terms as I said we've had the grade plus the increasing waste movements. In real basis the copper team is down 5% in real terms. So real progress, but more to be done.

And we don't try and take the credit for the US dollars. Many will just report the US dollars. We think it is important to report our nominal figures so you know what we are trying to do to turn those trends around. And quite frankly the US dollar will be what it will be. Just to report the final number, we are down about 5% across the portfolio in US dollar terms reflecting the strength of the US dollar. Lots more work to be done on cost. We have certainly made good progress, but a lot more to be done. We haven't bought these costs. That is, we haven't thrown massive amounts of capital at this performance. In some businesses you will see significant capital and volume increase off capital. This is about improving the business and improving the controllables we have without throwing capital. So a lot more work to be done. Good progress, but work to be done.

On a broader basis you will see the business area by business area variations. De Beers I will talk about a little bit later, both cost and operating improvements underpinning a very good result there. The one thing I did want to say though, in terms of our thesis for a diversified miner, being the ability to manage through the cycle and through various commodity cycles, we should be in the long term in a more robust position. Certainly 2014 prices bore that out. Again if I adjust for the platinum strike our drop in earnings of 25% would have been 14%. That puts us top in class across the majors in terms of dealing with the overall price deck drop over the 12 months. We should be doing better than that in our view in terms of managing cost. We have made good progress, but we need to do more. Certainly that was a pretty important chart. Rene will give you another spaghetti chart that pulls across all the commodities to give you a sense of what each one has done.

In terms of the unit analysis, Kumba dominated obviously price, FX and inflation variations in terms of the earnings. We also increased our waste volumes. The good news is for Norman and the team that the unit costs that were reduced per ton moved, which is about 10%, actually offset the increasing waste costs. So there has been good work on unit costs, but there is a lot more to be done. And

Norman and the team through the course of this year will be working on overheads and efficiencies and unit costs in driving out the operating model across the full business. Where they have put the operating model in place they are seeing improvements in efficiency of around 30%. They are seeing in some areas 60% improvements but that is more about equipment and other factors that have been done. We try and separate the improvements so we understand what is working and what is not working.

From a waste movement perspective, as I said, because we have changed the actual configuration of the pit our waste movements have dropped a little. It does shorten the life by about 18 months, so it is not significant, but it does improve the front end loading of the value and is certainly worthwhile in terms of the business. The big focus this year will be to continue the waste movement, make sure that we're opening up the ore to deliver the tonnes for this year and the 38 million ton upgrade on the 37 million tonnes that we forecast this time last year.

On coal, again significant improvement in the costs. And I think we are at about 16% to 17% costs on an apple for apple basis. Grasstree is probably the number one long wall in the country now, Seamus. We did have some challenges at Moranbah with some hydraulic ram challenges that will take us probably until mid-year to sort through and change out. So it is going to take a bit of time. We also had some geotechnical issues. We have got through the worst of the long wall areas, but we will pick that back up. We are very pleased with their performance. And in particular this has been hard-nosed focus on efficiency, reducing costs, overheads, regional, operations, the restructuring of Dawson, the restructuring of Foxleigh, pulling of costs back in the Hunter Valley. So significant performance improvement across the board.

We are now a low quartile cost producer in the global metallurgical coal business with one of the best metallurgical qualities in the world. So certainly improving. We are number one and number three in the long wall rankings in Australia as well, so we have certainly outperformed our peers in those areas if you compare apples with apples. I think Seamus and the team have done some great work.

In copper if you remember from 2012 to 2013 we went from 660,000 tonnes after the problems in the pits with mine development. Duncan and the team have turned that back around last year particularly with a very strong second half. We delivered 770,000 tonnes. This year we are just a tad under 750,000. We knew there were grade and waste headwinds that they were travelling into, but they continued to improve the operation with a 7% to 10% improvement on throughputs. Remember El Soldado and the grade drops at Los Bronces had a big impact. So the underlying performance has been strong. We have consolidated the recovery. The pits are in proper sequence and they are set up to continue to improve performance.

The one risk that we need to flag – and we did do this in December – is Chile is still in drought. It remains a risk, and in fact it was impacting our operating performance in November and December. There is a whole range of things we have put in place. I will pick it up as a broader risk for the business, and for the industry quite frankly, later in the presentation. Good progress. Still a lot more work to be done. Certainly Collahuasi and Los Bronces are key assets for us long term and the improvements continue.

In the platinum business the strike dominates. I will deal with some good news and then come back to the strike. In terms of those assets that continued to operate they were 3% above budget, Mogalakwena in particular up to 370,000 ounces. Chris and the team were able to find some additional process capacity. The mine certainly got the capacity to do that. So I think some good work there. As you know Mogalakwena has got a 45% cash margin. I think 42% in this price environment. But doing very well. And the progress in the pit looks good. If you look out almost every quarter there has been a step change in efficiency and delivery at Mogalakwena. Certainly the guys are making every post a winner.

So good performance. The key now for us is to continue to bed the operation down, settle the relationships, drive the efficiencies and continue on with the disposal programme. Clearly that will create some tension in some of the conversations. The most important thing is we are ahead on the restructuring in terms of reducing numbers. We are making good progress. But we are going to have to tiptoe carefully as we manage all of the key relationships over the next 12 months. But again I'm really pleased with the progress the guys have made and how well they have done since coming back from the strike.

On De Beers, modest price improvements during the course of the year. Obviously the market a bit softer towards the end of the year. Certainly not something we are panicking about. It is what we would expect to see in terms of the market. The good news for us I guess from an operations perspective is that improvement there. Jwaneng is up 10%, costs are down 10%, Orapa is up in terms of volume and down in terms of costs, and we found a lot more resources and reserves at Orapa. That's the really encouraging piece. So some really good work at De Beers. If you then add the benefits of integration, the reduction in overheads, certainly some improvement. Again, more to be done, but encouraging progress.

Minas Rio. Two months early. $400 million. Today as we stand with exchange rates and everything else moving around we are under $50 per ton landed in Asia. Still a lot more work to be done, but we are very pleased with the rate of progress and the commissioning. We are seeing the usual problems, the normal things you see. But the progress has been very good. We have loaded eight ships. I was actually in China the day before our first shipment arrived with one of our customers. The feedback we've had on the ships we have delivered has been very good, very high quality. Remember it is a 67% product, low deleterious elements. So the quality has certainly been a hit. We are very pleased with the progress in terms of the operation.

Clearly it's a challenging market and the team is working on what they've got to do to make sure we remain competitive in the market. That is both a Kumba conversation and a Minas Rio conversation. But we are very pleased with the progress. Paulo and the team are acknowledged. They've done some good work.

On the projects side, Grosvenor. This is Seamus' tunnel borer. I think last week we holed through to the underground workings area. So it is ahead of schedule. It is on budget. So I'm very pleased with the progress. You will see when I talk about driving value that we have now put it in as a potential contributor in 2016. It wasn't in our earlier numbers, but they have done a good job and we are certainly very pleased with the progress.

We are commissioning Boa Vista. It will likely make a nominal contribution in 2016 as well. On the diamond side -55 degrees. The ice road looks like it is good. The biggest risk to the project was getting supplies through the ice road. It looks like it has been navigated, so far so good. I don't want to put the mockers on you, Philippe, so I'm just saying that at the moment it looks pretty good. The one disappointing area is what we did find is the licensing process at Cerrajón through the management company was a bit tougher than we had anticipated, which is something we have seen right through South America.

You can see we haven't nominated a contribution on the project through driving value. What we have found though is Seamus and the team with our colleagues in the asset have identified operating improvements that will likely make a contribution in the operating asset improvement area as opposed to the project area. So for me that is still a good outcome and some lessons to be learnt on the licensing. But other parts of the project have all gone to plan. With that I will hand across to Mr Médori.

Rene Médori
Good morning everybody. Thank you very much, Mark. First to highlight the dividend, we maintained the final dividend at 53 cents. We are fully committed to our dividend policy which is to maintain or increase the dividend through the cycle. In terms of earnings a 17% decline of earnings compared to a 25% decline in EBIT. That is due to the business mix. De Beers contributed in excess of 40% of the group earnings in 2014 compared to 20% in the prior year. Remember the way we account for Debswana, the joint venture in Botswana, we consolidate Botswana on an after-tax basis, so that reduces the reported tax rate. In terms of tax rate for the current year, 2015, we expect a tax rate between 30% and 32%.

We also reported an impairment of $3.9 billion. I flagged this potential impairment at the December investor day. $3.9 billion predominantly for Minas Rio. As you know we completed the project ahead of the revised schedule. And we also know that the total capex will be $400 million lower than the revised number. So no change from an operation standpoint. It is all driven by lower commodity prices, lower iron ore price but also our expectation in the medium to long term.

Both capex and net debt just slightly better than the guidance we gave you back in December. And return on capital employed 8%. At constant June 2013 price deck, 10%, so similar to 2013 again at constant prices.

Turning to the price variance. For the first half we reported a 3% decline in basket price. The price erosion accelerated in the second half so 9% for the full year. That includes for the full year almost $200 million mark to market adjustment for copper. At the end of December we had 165,000 tonnes of copper provisionally priced at $2.87 and the current price is around $2.57. There was some further price erosion since the beginning of the year. The basket price declined 3% again due to copper. There was also, as Mark mentioned a further easing in diamond price in January.

Turning to the EBIT variance. I already covered the price variance of $2.4 billion. The decline in currency in the countries in which we operate had a positive impact of $1.3 billion, $800 million due to the Rand, the benefit of a weaker Aussie Dollar and Chilean Pesos. Inflation 5% on the weighted average for the group. Again South Africa being the main contributor with CPI in excess of 6%.

Then you see the benefit of the operational improvement that Mark has covered, both 4% increase in production but also the 3% decline in nominal prices. And then the platinum strike impact of $760 million, that impact both during the strike as well as during the ramp-up period in the second half of 2014.

Turning to capex, $6 billion capex in 2014. Two main projects in 2014. Minas Rio we spent $1.9 billion and Grosvenor in met coal in Australia $500 million. You see the improvement in SIB capex, a 10% decline to $2 billion despite the production increase of 4% that I mentioned earlier.

In 2015 we have revised our guidance slightly lower at the bottom of the range we gave you in December with expected capex of $5.2 billion in 2015. And you remember that I flagged that we have more flexibility in 2016 with the level of committed capital below $4 billion.

Turning to the cash flow and the debt level. In terms of cash flow and debt for 2014 a negative cash flow of $2.2 billion after the payment of the dividend of $1.1 billion. For 2015 at spot prices with the level of capex around $5.2 billion and the benefit of the disposal of Tarmac we expect the level of debt to peak between $13.5 billion and $14 billion at the end of 2015. In 2016 again at spot prices and with the committed capex of below $4 billion we expect to be cash neutral after the payment of the dividend.

We also highlighted in December the level of liquidity of $15 billion at the end of December and we expect to maintain this level of liquidity over the next two years. Limited refinancing both in 2015 and 2016, $1.7 billion in 2015 and $1.6 billion 2016.

We are progressing the restructuring of the group portfolio. You are familiar with the progress on Tarmac. We expect to close the transaction again subject to the main merger being approved between Holcim and Lafarge. We expect to complete the transaction before June 2015. We have also added two assets to our disposal programme in Australia, Dawson and Foxleigh. Thank you.

Mark Cutifani
Just a quick wrap, guys. Firstly driving value. Progress during the course of the year. You've seen the waterfall chart. I won't dwell. You will notice the top line targets have actually hardened up and we are now on track for $4 billion. If you remember we started at $3.4 billion. We had $500 million worth of projects we believed we could bring through. They have now been identified. Most of them have had plans put against them. We've still got some cleaning up to do, but we are pretty confident now on the $4 billion. We will close that gap. If we take consensus prices that's the difference between the original starting point.

But I think beyond that conversation which you have seen, what we have done is I've put three overheads here to explain the projects which underpin the improvement numbers and give you a sense of the spot price sensitivity so that it will help you reconcile where we are going and what we are doing. I think the most important point to make is that we are on track to deliver the restructuring targets that we set from the outset. That's the key point to make. And certainly we think this might help people in understanding where we are going.

Minas Rio based on all the original parameters will deliver on its targets. Boa Vista Fresh Rock will make a nominal contribution. And Barro Alto in fact is probably going to do a little bit better than we thought, but we still kept it at the $100 million we nominated, which was the furnace rebuild assuming a better contribution. The encouraging thing about Barro is that we were able to pull 30% out of the costs and make improvements even with the furnaces in the condition they were in. So we are on track to deliver our project targets of $900m we originally set. So I should make a point that that number there gives you a sense of the impact of prices on the project delivery component.

The asset improvements. Again I'm not going to go through these. Just to let you know where the broad buckets were and where we are tracking. We said net of headwinds we would have delivered $1.2 billion. It is now looking more like $1.6 billion which takes some of the $500 million that we identified into projects in the improvement. Now, if you go back to my business by business analysis if you look at the green, which is the operating performance improvement, and the red, which is the headwind, you net those two together to come up with this bottom line table. So we net the two. Rene's operating contribution where you saw $700 million is net of the positive operating improvements and the headwinds. And again if there are any questions Paul and the team will guide you through that. It is pretty clear where we see the opportunities.

In terms of those things that have now been worked through in terms of the hard-wiring of timing and schedules, the Kolomela improvements based on what we see and the good work Norman and the team have done. Seamus and the guys, every day is about finding another dollar. Copper, Duncan and the team are working very hard on all of the pieces putting them together. And Philippe and the team working right across the portfolio to improve margins. All very important and all pretty good. Sorry, I should point out the impact of the pricing just to give you a reconciling point.

On this side, which is the driving value leakage, we have already pulled $330 million out of that part of the programme. We will certainly do better than the $300 million but we are holding it at $300 million at the moment. On supply chain some early gains, still some work to do to get the full 2016 target. We have set up new strategic relationships with Joy, Caterpillar, Kamatsu and others. We are just working through the process now, but certainly some good indications.

With this one if I can just make one simple observation, 3% above our reference price the performance from the commercial team has been exceptional in terms of driving value. We've got a hard-wired number we compare to, and they are certainly making a very good contribution. I am certainly pleased with the progress of Peter and the team. We remain low key because some people are a little sceptical but against our references prices we have made significant improvements. I spent time with Peter over in Asia talking to our customers and the different approach we are taking to customers has certainly been appreciated, and we are seeing it across the board. That will move around a little bit depending on the market. When prices are going down you tend to get a little bit more of a benefit. But against our peers our targets are above what our peers are talking to when they talk reference price. We are doing very well and we are very happy with the progress made. The team has done very well.

On overheads a lot more to be done. This year is a big year for us as we roll through the restructuring. Kumba you are aware of. Norman has already started in January. 70 reductions and another 70 to come. He has done all his Section 189s so he is well through the process. He has got the team on site identifying the next level of change. That is going on right across the business and it is one of those things you keep working through to pull the numbers down. So we expect to hit the $500 million target. Across the board we target that $1.5 billion and the pricing impact of that is negligible because it is on the cost side. So we should get full value for that work, and we are making good progress.

In terms of risks, the one thing I think we should always do is tell you where we see the risks. These are industry risks in many cases, and there are specific risks for us across the portfolio. Just to let you know what we are doing. In terms of asset disposals, for us it is strategic. The reason we are pruning back the size of the portfolio is there are a number of assets which aren't making a contribution. The assets we are targeting have made a relatively modest contribution to EBIT and certainly from a life of mine perspective are not going to be the assets to move the dial. That is why we won't be pressed to sell something if it is not for reasonable value, but at the same time we're not going to argue about the last dollar because it is a strategic play. It is not about the simple dollars. For us that's important.

We are going well, as Rene indicated on Tarmac. The issue for us will be across other parts of the portfolio. We have had a number of offers, some very encouraging and some not terribly good for us. Probably the likely pathway will be the listing option in platinum, but we do have cash offers on the table, so it is a matter of how those two will compare over the next few months. But by mid-year Chris will be pretty clear on where he is going. He is making good progress on that. The same for copper. The same for coal. We added two assets which we have been thinking about for some time. Seamus and the team went through the whole analysis. They are very happy that that's the right thing to do with those assets in the portfolio.

In terms of water, South America is in the midst of a five year drought. You've got shortages of water in Chile and in Brazil as well. So all companies are going to have to manage access to water very carefully. We have identified alternative sources. We have got a range of things that Duncan and the team have put in place to protect both Collahuasi and Los Bronces, but it is happening across the board. We've got other additional contingencies. There are some residual risks. I guess if you hold assets in South America the good question to ask is, what are you doing about water across the portfolio? For us it is very important and we are working hard to ensure that we minimise any impacts if there are any.

Power in South Africa, again most of you know. We do have flexibility within each of our operations, but there is a limit to that flexibility. We are working with government. Certainly there is a sensitivity in the government to make sure that industry is not starved of power and create more financial pressure. But it is one that we are watching very carefully and working with the government to make sure that we've got options in place. And there are things we can do internally to maybe help the situation. And that is an ongoing conversation. But again generally we have travelled through the last few months pretty well, but the country is tight and so we are watching that carefully.

Finally, right across the globe mining rights is a big issue. The sustainability conversation and the relationship you have with local governments is absolutely critical. It is strategic, and it is one we are certainly taking a lot of interest in to make sure we don't have major surprises in the business.

I'm not going to do a summary. We can just finish off with key deliverables. Minas Rio. We want to see at least an 80% capacity by year end. That will put us in the place to deliver our 26.5 target for 2016. That is where Paulo and the team are very focussed, and at the right costs. We've got the opportunity to keep working those costs down. That is what Paulo is doing. He will be in parallel implementing the new operating model as he commissions the site as well. So he is going to work on both sides of the equation.

The portfolio, Rene talked about Lafarge. The other assets are in process. We have only taken into account the Lafarge Tarmac this year in terms of our numbers. We do expect the bulk of things to be finished off by the end of 2016, but again the only caveat is we are not in a fire sale, we are not pressed. We have managed the balance sheet. Every dollar we pull out of the operations is having a two to three times effect on the debt that we are reporting. That's where the big focus is, but we will work both sides of the street.

The operating model. The key is to get this out faster. The benefits that we've seen in coal at Sishen are now being taken on and rolled out to other parts of the business. Chris, Duncan, Norman in other parts of Kolomela and Philippe have already picked up the elements and are cherry picking and supporting improvements in their operations, and they are making good progress. So it has had a much broader impact. Those are the areas we are focussing on in the next 12 months.

For us, as I said, in managing mining inflation in South Africa it is not simply about mining smarter and efficiency. It is about structural change and efficiencies. And for us productivity is a keyword in South Africa. Norman has already made announcements about what he is doing. Head office overheads. Efficiencies. He has already made a 10% improvement on his unit operating cost. There is more to be had. That is where he is focussed with the team.

In platinum the restructuring of the business so that we ultimately come down to Mogalakwena, Amandelbult, Twickenham and Unki as the core of the asset. Dominating the left-hand side of the cost curve Mogalakwena, 45% margin on these prices today. It will be a very different business within two to three years.

And thermal coal, the early signs in the rollout of the operating model we've seen very good improvements in productivity. In particular we have seen big increases in equipment performance, which is something we want to roll out more broadly in South Africa. And we will learn from what we are doing here and take that into other parts of the business, and vice versa. So a big push this year in getting South African costs back in control and running significantly lower than those nominal inflation rates. With that we are very happy to take questions.

Fraser Jamieson
Fraser Jamieson from JP Morgan. A couple of questions. Firstly going back to your comment about platinum and the listing option at the moment looking most likely. Could you give a bit more context around how you see that unfolding? Do you think that it is practically possible to list 100% of that business? Or would you see Anglo Platinum holding on to a stake in that? And then secondly a question on working capital I guess for Rene. You saw a very small build in working capital through the course of this year which was in contrast to what we saw yesterday with Rio Tinto. You obviously have Minas Rio which is influencing that, some stuff going on at De Beers. I wondered if you could provide some commentary around stripping those one-offs out or special items what do you think the underlying working capital performance was for the business.

Rene Médori
It is unlikely if we go for a straight listing that we will be able to list 100%. On the working capital, flat year on year. On the inventory side you have the benefit of the sell-down of platinum inventory. We increased inventory in 2013 in anticipation of the strike. That enables us to continue to supply our customers. So there was a reduction in platinum inventory especially during the first half of the year during the strike. Going the other way we have a benefit from a production standpoint from the recovery at Kumba and we replenished the level of inventory in Kumba. So flat on the inventory side. On the debtor side there was a reduction of $400 million. Both the price evolution, which is what you saw yesterday with Rio and high levels of debtors at Kumba. And then on the creditor side there was a negative of $400 million due to Cerrajón but also the unravelling of some of the creditors on the capex side, especially with Minas Rio with the suppliers.

Mark Cutifani
One of the things we do in iron ore and coal in particular is we are selling high quality products. So our ability to blend product is as much about making sure we get lump premium and the dollar value for our product. So that is worth something. That is why that working inventory has been established. It is pretty important to us in doing better than most on our realised prices. So in that market it has actually been pretty good, but there is always room to tighten it down.

Jason Fairclough
Jason Fairclough, Bank of America Merrill Lynch. Just a question on copper, maybe for you Mark, maybe for Duncan. You mentioned the drought. I wondered if you could give us a bit more colour. You said it is starting to impact the business. Is that a hydro issue or is it water for the operations? How do you think about that in the short term? And then I guess longer term there is a little bit of chatter about mandated use of seawater. Are you going to be spending some money to keep these operations running longer term?

Mark Cutifani
Just on the water, in Los Bronces we rely on the melt for water. Duncan and the guys have had half a dozen issues where they are improving recovery of water from difference sources. There are also some other sources that they are looking to tap into that they are in negotiation on. So it is not a hydro issue. It is water for processing. Collahuasi is at its limit in terms of water consumption. So for Collahuasi it is more about the future and what alternative water resources we can find to expand the operation. The resource is expandable. The key will be finding water. So Los Bronces we are probably down 10% in terms of production at Los Bronces and we are watching that carefully. But the guys have done some pretty good work. So that is the nature of the impact.

Jason Fairclough
And sea water? Do you need to think about desalinating and pumping?

Mark Cutifani
It is one of the options. And there are other options locally that we can tap into with other players who have got excess water. Some other players have got excess water balance, so we may be able to tap into their water balance and help them solve a problem. There are a few things we are looking at. On a broader copper business basis Collahuasi and Los Bronces both have significant potential. So the focus is let's make sure we're working those assets to potential. I think the mining companies that have done well long term are those companies that have worked their resources to their potential. I think that's where the big opportunity is for Anglo American. We've got 15 to 20 resources that aren't being worked to their potential. In the next three to five years the real value proposition in this organisation is getting those assets right up to their potential. That is where we've got more upside than most in terms of the way we are running the portfolio. That is why the disposals is about cleaning up the portfolio and getting the capital directed into those places that will do the most good.

Menno Sanderse
Morning it's Menno at Morgan Stanley. Two questions, one coming back to copper. Collahuasi, clearly huge. You have Los Bronces, clearly huge in terms of resource. And then you have Quellaveco. That seems a lot to digest for Anglo American. How do you sequence those? How do you prioritise those and when do you have to make those decisions? And secondly, Minas Rio, clearly the product works, shipping works, but what are the costs going to be? You said $50 already now. Your target was $60 so you are already running quite a bit below where you said you would be. Do you feel more confident now to give a slightly better insight into the long term running costs, which you said were $35 but it sounds like they could go lower?

Mark Cutifani
Firstly on copper. Clearly the work is going on in getting the scope of the work for the resources at Collahuasi and Los Bronces. Duncan and Tony have talked to the resource base significantly better that what was originally anticipated. Everything we have done today suggests we've got a much bigger resource potential. I won't put numbers to it. That would be inappropriate at this stage. I think water is the key issue. And as you know we are doing environmental work on Los Sulfatos which is adjacent to Los Bronces. And we are also doing the regional exploration. Both are in the early phases and certainly we're not in a position to say it will be this or that. By the end of this year in our December review we will give you much more shape in terms of both of those in terms of direction of travel and what the key issues will be in taking those assets up to their potential.

On Quellaveco specifically I think firstly of all we've got to say good progress on the feasibility work and the project development strategy. We have certainly enhanced the project in many ways. We are very pleased with the progress that has been made. The project will go to the board in June for review. The challenges we have as you all know are around the copper price in the market. So those issues will be taken into account. Our approach to any investment of this type would be to syndicate the project. So all of the things we said from a strategic point of view hold. And from our point of view I think it's important to acknowledge unlike many projects that are being talked about we've got tremendous support from the government at the federal level, the regional level and the local community. So we have done all the work at all the right levels to position the project.

The key will be the market and how we assess things going forward in terms of what we can do. And we will have that discussion with the board mid-year. So far all the things we have said we would do we have done. We have got great support all the way through. The market is absolutely critical. And if we decide to keep going forward – as I said it is one of the world's great prospects – it would be on a syndicated basis and would certainly be within the context of managing capital discipline and debt within the targets that we've talked about as per the business.

Menno Sanderse
And if you don't do it can it be a source of capital?

Mark Cutifani
We are a long-term committed player to the copper business. We are going to build the best copper business in the world. And in our view Quellaveco would certainly be part of the best copper portfolio in the world. That is clear. The key is how do you do it properly, appropriately, and when in terms of shareholder returns.

On Minas Rio, it is still early in the commissioning. We said $33 to $35 operating cost. About 70% of our costs are denominated in Real. 30% in US dollars. We have obviously got a big kick-up on freight. So our delivery costs are well under $50 based on current costs. Paulo and the team see some opportunities to improve the cost base. But we are not going to change the $33 to $35 until he has got six to nine months under his belt on commissioning. We are not going to get ahead of ourselves. But the year-end we will give you a good line on where we think it is. We still think that the operating model has got a lot of possibilities. But at the same time I think it's too early to forecast. The Real is $2.7 and a few weeks back it was $2.3 or $2.4. There is a fair bit of movement. So we will stick with the current guidance until we've got some hard stuff that says we're going to do much better. But if you take freight into account we are well under $50 at the moment.

Rene Kleyweg
Morning. Rene Kleyweg Deutsche Bank. Two things. One, just following on from Minas Rio, your ability to capture the value and use of this high-quality product that is being well received and the fact that you've changed the offtake agreements etc. when can we hope to get some visibility on your capturing of that VIU? Is that is something that we will see coming through this year or is it really a 2016 story in terms of transparency? And then on the operating model side the guidance you've provided in terms of operational gains, with the implementation at Los Bronces, Mogalakwena and Minas Rio, are those estimates already in those 2016 estimates? And you talked about 30% at Kumba. Maybe some easy low-hanging fruit there then at Minas Rio where you are starting from scratch. Can you talk a little bit about the magnitude of potential savings from those changes at the other three operations?

Mark Cutifani
Sorry, Rene, if I start on the last point on the operating model, we have already flagged improvements that we see and believe we can deliver inside the 2016 window. So we go from $1.2 billion net to $1.6 billion. We haven't baked in additional improvements from the operating implementations other than Duncan and the team in copper have already taken into account improvements they will deliver, and that is in my $1.6 billion. There are potentially more benefits to be had which was in the $1.5 billion to $2.5 billion that Tony O'Neill flagged in December. Our intention is to update beyond 2016 in December this year, picking up what we see though the operating model implementations.

We will update you on what additional benefits we see going into 2017, plus we will put more shape around Tony's improvement targets. These are the guys who actually do the work. It is easy for me to talk about it. These guys work together and they do the implementation which will take us beyond 2016. So those that have been planned in the $1.6 billion, the additional benefits that we will talk about in December, and that will look beyond 2016. I think the big challenge for us as a team is try and drive them in early based on the market we're in. I think the more pressure the tougher the cost regime the more urgency in driving the value in terms of our teams. That is I think a big opportunity for us, but we are not putting that on the table at this stage until we are more comfortable that we have the next level of improvement consolidated and we take it to the next. And the first part of that?

Rene
Just Minas Rio in terms of capturing the value in use and when we can get some visibility.

Mark Cutifani
During the course of this year we're still working a few details out. We have certainly finalised one of those marketing relationships. For us we will see upside in terms of the realisations. But that has been baked into the numbers that we give you. If there are any further changes to the marketing structures we will know that probably towards the end of the year and we will pick that up in the December conversations as well.

Myles Allsop
Myles Allsop, UBS. Can you give us a quick update on diamond pricing, but also in the context of Rene's tax guidance of 30% to 32%? Does that imply that diamond profitability is going to be considerably weaker this year? Or is that guidance pretty conservative? Clearly that should point to a lower tax number. Also on the capex side you're saying at spot you're going to wash your face based on the approved projects. Can you remind us what the unapproved projects are and how likely you are to approve some of those in the current price environment? Is there a risk that net debt will increase in 2016 because you've pushed the button on Quellaveco or Twickenham or some of the other projects? Finally on your list of risks I was surprised you didn't have the audit of the Mining Charter as one of the imminent developments. How comfortable are you around the outcome of that audit?

Mark Cutifani
Let me deal with the first one. On risks, I don't see the Mining Charter as a risk. We are in good shape whichever way they choose to measure the key outcomes. There will be some more punchy conversations around social labour plans. But I think that will be an industry conversation. If you look across the industry we're the most significant investor in corporate social investment. We spend twice as much as most on training. So in the end we can stand up in any forum and justify the contribution we've made to South Africa. And the Mining Charter will in my view confirm that we are a responsible corporate citizen. The Mining Charter holds no fears for us in my view. But there will be the usual conversations about could we do it better. The answer is yes, we can. Not a big risk, I don't think.

In terms of diamonds we have said that the market was a little weaker. It is still too early to forecast beyond where we are today. I think we've had one sight this year. Yes, it is a bit weaker post-Christmas. We expected that. I think you've got to be in the second quarter before we get a good sense of how well the market is moving forward. There were some good reports in sales and there were some weaker reports. We certainly are doing better than others are reporting in terms of the value received for their products. Don't forget for quality De Beers is the diamond market in many ways in terms of the quality and what we put out there. So a bit early to pick. We are certainly not suggesting a negative contribution in terms of the tax. Don't connect the two. They are two separate conversations. From our view the De Beers team has done a very good job operationally. And we are looking for those trends to continue during the course of the next 12 to 18 months. So we are very proud of what the De Beers team have done, and we certainly will do everything to support them as they go forward and improve the business the overall. The market is a little bit weaker, but certainly from our point of view we're hopeful in terms of looking forward.

Rene Médori
Two comments. The first one, in 2014 platinum didn't make any contribution. So in 2015 we expect platinum to make a contribution. So that will change the business mix with everything being equal. De

Beers also had a very low tax rate in 2014 because with the Gahcho Kué project approval we were able to recognise the deferred tax asset associated with some tax losses in Canada. So the tax rate for De Beers will be higher in 2015 than it was in 2014. So that is why the guidance I gave you is between 30% and 32%. On the capex side, remember the guidance of below $4 billion doesn't include Quellaveco. That is the project which is on the horizon. The question is when we will approve it, when we will go ahead. But in any case we would syndicate this project. So as we sell down we will be able to monetise some of the value of Quellaveco. We should offset any additional capex if we decide to go ahead in 2016.

Mark Cutifani
I think that is an important point to make. We are currently spending at a rate of $200 million to $250 million on pre-works that we've been doing. From our point of view that has been taken into account in the way we've put the numbers forward. As Rene said, we would syndicate. And the decision to go forward would go with a syndication decision which would manage our capital inside the targets that we've talked to. Other projects will have to then run the gamut of the market and the discipline and the targets we've set for ourselves as a business. I still think there is improvement available in our ongoing capital spend. We've improved our capital efficiencies more than 10%. I still think there is a lot more there in certain areas. Other areas have done really well in pulling their capital down. So from our point of view I think there is a lot more we can do on capital, albeit there have been some really good gains. So if I could make the point, you're not going to see a major capital blow-out in this organisation. We are going to be prudent and careful. But we're also going to make sure that we're making decisions for the long-term benefit of the business. So if it is the right decision to go forward what we will do is we will think about the syndication as a way of financing it, and protecting our flexibility as a business and making the right call.

Richard Hatch
Morning. Richard Hatch, RBC. First one for Rene just on the capex. You've hardened it down to $5.2 billion. Is that a bit of foreign exchange or are you finding more ways to trim it down? What has helped you to refine it down to the $5.2 billion number? And then the second one for Chris, can you give an update on Twickenham and what is going on there please?

Rene Médori
On the capex side it is a combination of continuous improvements on SIB and a benefit from a FX standpoint of around $200 million.

Mark Cutifani
Do you want to make a comment, Chris?

Chris Griffiths
At Twickenham we said that we would be re-planning the mine. So we are doing exactly that. So previously it was set up as a conventional mine and we are re-planning the mine as a trackless mine. At the same time to limit the amount of money that we're spending we've consolidated the two shafts into one. We have closed down the Twickenham shaft, put some of the people across at Hackney and let most of the contractors go. So limiting the amount of money we spend and re-planning the mine. We hope to finish that re-planning this year. Then that project will need to go for full approval in its new format. And that will depend on the process. And if it makes money and it has got the right returns then we will consider it on its merits.

Mark Cutifani
I think one of the things we've haven't talked to is that the restructuring in platinum has been a broad story. It is not just about the Rustenburg shafts. There has been Union shaft access that has been

closed. It is the Twickenham restructure. It is being done right across the board. And it is tracking well, and in fact we are ahead of our targets. And we are certainly making good inroads in terms of where the business is.

Anna Mulholland
Thanks. Anna Mulholland from Deutsche Bank. Two questions please. The first is on the South African thermal coal situation. Where are you with your conversations with stakeholders? I think you said you would aim to start those in the first quarter. Does the electricity situation change any of that, change your approach to that significantly? The second question, the London head office corporate cost restructuring that is happening there. Where are you with that process?

Mark Cutifani
On the thermal coal, no change. We said very clearly to the government that we were looking to reduce. The domestic supply mines are generally smaller scale and shorter life, so from our point of view we are just dialling down our position over time. The government was actually quite supportive of that conversation. They are looking for more than 51% local supply so from their point of view it aligned with what they wanted to see. So we originally started the conversation as a strategic position. If someone were to come in and offer us something to step right back then we would be open to that conversation. But we are certainly not out there canvassing. We will see what comes in. The current situation is no difference, no change to our strategy. And it has been a constructive, open conversation and we see no major barbs on that. The key issue is to make sure whoever comes in can deliver on their social labour plan commitments, appropriate level of transformation in terms of the Mining Charter, and beyond that it is a commercial transaction. It is a free country.

In terms of the head office restructuring when we look at overhead we look at anybody who is not on the site touching the product. And we've been restructuring the overheads right across the group. I think reductions in London were over 150. We are continuing with reductions. We have closed a number of offices around the globe as we have consolidated our base metals in Brazil. Duncan has been rationalising his copper regional structures. Seamus I think was about a 350 reduction between Australia and South Africa. I think this is the fifth time you've gone through this, so we're really squeezing it down. In London we are consolidating some technical functions. We have started that and the programme will continue through the year in terms of reductions. So if I look across the broad spectrum we are about 20% and continuing. For us you will see that we are down 40% on the numbers and by the end of the year we will be at a $500 million run rate. And we expect to go beyond that as we look at the impact of disposals on the structures as well, which will go into 2016. So it will be continuing across the globe.

Tim Clarke
Just if we could get some guidance please on Los Bronces' volumes moved. We've done quite a bit of stripping and opening up. I wondered if we could get some guidance on volumes there. And then secondly, just a bit of an update on Grosvenor please. When Grosvenor was committed it was a very different world to where we are now. The costs have come down in met coal. Is the Grosvenor plan still on track? We haven't heard much of an update on capex or costs or anything there at Grosvenor.

Mark Cutifani
I probably wasn't as articulate as I could have been. Grosvenor is tracking slightly ahead of schedule now. The use of the tunnel borer ended up being very difficult the first three months, and that has turned out to be a real winner. Seamus and the guys took control of the contract there and ended up in the end doubling their productivity. So that has been a real winner. They are going to keep the tunnel borer for future use, it was that good. It is part of our whole innovation strategy. We are restructuring underground, so you are running probably a month or two ahead of scheduled. Costs are under

budget. And whilst it is a tough market in met coal, given we've got two of the top five long wall operations we expect Grosvenor to be right up at the top of the performance curve and certainly a very low-cost operation.

We are hoping that as it is ready to come forward we're going to see a little bit more improvement in the price. We are watching it carefully, but so far everything is going as we said. When we did the review and I was originally asked about Grosvenor we were already 70% committed on the capital so it didn't make a lot of sense to pull it up. Certainly the work so far says we're on track. If anything we have upped our confidence given the big improvement Seamus and the team have delivered on Grasstree and Moranbah. So it looks pretty solid and we are pretty happy with the progress.

Duncan Wanblad
Los Bronces moved 145 million tonnes last year, which is about 10% more than in the previous year. And it is a record for them, predominantly driven by the opening up of Infenillo 5 and Donoso 2. So that was all the work that was done to de-risk the ore for 2016 and 2017 and 2018. So 145 million tonnes is the number.

Mark Cutifani
I don't know if you remember, but one of the things we said why we got ourselves into trouble was that the mine hadn't been developed in the higher levels which had much longer truck leads and is more difficult. So the team has delivered a 10% improvement in volume in the most difficult areas to mine. So the improvement is much better than 10%.

Tim Clarke
We should keep that stripping volume that high because it bumped up quite significantly?

Mark Cutifani
Tim, it levels off now. But the point I was making was he had longer leads on his trucks so his underlying cost structures were higher. And despite that in real terms they made about a 10% cost reduction during the course of the year, which you don't see on the headline numbers because his waste volumes are up and he is actually travelling longer with the trucks. That is why I said the copper performance was actually a bit masked by what was happening physically.

Tim Clarke
Have you got an update on New Largo?

Mark Cutifani
Yes. We are still talking.

Mark Cutifani
As Seamus pointed out, we have signed a memorandum of understanding. So that is a step forward.

Liam Fitzpatrick
Liam Fitzpatrick from Credit Suisse. Two questions. Just on capex, your trend has generally been to reduce guidance through the year. At $5.2 billion if prices were to weaken do you think there is room to move that even lower? Just to clarify on Minas-Rio, you are saying your landed cost is now sub $50 and opex is around $40 versus your guidance of $60 for the year.

Rene Médori
Freight cost is $11, so at $33-35/t the landed price is around $44,$45, $46.

Liam Fitzpatrick
You mean in 2016, not now?

Rene Médori
At spot today if you use $33 with a freight cost of $11 as it is today you have a landed cost in China at $46.

Rene Médori
On the capex side of $5.2 billion I think limited flexibility, it is going to be between $5 billion and $5.2 billion for the year.

Mark Cutifani
We still have that balance of making sure we're making the right calls and not impacting our ability to go forward in a positive and constructive way. But we will do what is required to be in good shape whatever the market throws at us. That's our job. Okay. Ladies and gentlemen, thank you.

END OF TRANSCRIPT