

PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA

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LEADERSHIP IN TOUGH TIMES

Acknowledgements

- Honourable guests, Excellencies, Ministers, First Nation Chiefs, Industry Colleagues and Ladies and Gentlemen.
- It is good to see so many people here today. I would like to thank Bob Shafer, President of PDAC and wish him the best of luck in leading such a progressive organisation. We don't do enough to promote our great industry – and the annual PDAC event is an important showcase for our industry. It offers a unique opportunity to find out about new developments, technology, discoveries and investment opportunities from across the mining world. I'm delighted to have been invited by Terrence to share some of my thoughts at the start of this prestigious week.
- Anglo American has a strong contingent here this year. Our Exploration team, Ruben Fernandes, who leads our business in Brazil, Luis Marchese, Head of Peru and colleagues from De Beers Canada are all participating in wider events and discussions. I encourage you to visit our Exploration while at the Conference.
- Furthermore, I would like to acknowledge our workforce who have worked tirelessly to deliver Gahcho Kué, which we opened last year. It is the largest new diamond mine in the world and will secure Canada's position as the third leading diamond producer, by value, globally
- I should also acknowledge the Canadian Government, for a long time one of the leading mining jurisdiction regulators – we are all partners in the future of the mining industry.

Opening remarks

- So, the title of my speech today is “*Leadership in Tough Times*”. When Terence actually asked me to take on this task he was taking on a bit of a risk.
- Anglo American’s share price was wallowing in the wake of historically low commodity prices – driven by concerns on debt taken on in more buoyant times.
- Our company was like many others after the turn of the new century – spending like there was no tomorrow and expecting Chinese growth to bail us out of any bad deals or project commitments.
- I guess he was an optimist, or at least he could see we were taking our medicine, and was thinking that if I could survive through to today, I might have an interesting tale to tell. I will let you be the judge on what he saw and where we ended up.
- I don’t think anyone in this room or the industry could disagree with me when I say that the last 12-18 months have been a rollercoaster for the industry and commodity markets. The key questions for all of us is have we learned our lessons...and where to from here?

Introduction

- I would like to cover three topics today within the theme of resilience:
 - **The contribution we make to society.**
 - **The imperative to adapt and to innovate.**
 - **Resilience and returns.**
- In starting the conversation, we have to understand where we fit in society and how we support life as we know it and the imperative we all have to make things better for the generations that follow.

The contribution we make to society

- I have said it many times before, but the mining industry contributes to 45% of the world’s economic activity directly or indirectly, yet only disturbs less than 0.5% of the earth’s

surface. However, where we have the most impact – in our local communities – we have to manage the perception that in many cases we are not worth the disruption or inconvenience given the rest of the world is the major beneficiary of our activities.

- While locals usually appreciate the jobs – in many cases other community members are lumbered with increasing costs of services and other consequences that do not help them live a better life.
- In my view, we have to do a much better job making sure we contribute in simple ways to our local communities – and – help them secure a better and more equitable slice of benefits that generally go to regional or federal governments.
- Given the changing macro-economic, geopolitical and environmental dynamics, we must consider how to identify and manage the unintended *local* impacts of globalisation that burden our local communities and their ecosystems.
- Furthermore, we must support the development of institutions that help us understand these unintended consequences, and give a voice to the communities affected by them.
- As a company and as industry, it is imperative to reconsider our role in sustainably improving society in a way that brings the greater majority along the journey together.
- Recent events have shown us that now, more than ever, leading companies like Anglo American recognise that we are members of the global and our local communities. As such, to act as partners to create a better future with them in the various contexts that are meaningful to them – both federally and locally.
- To be sustainable in the long-term we need to reconsider how we relate to our stakeholders, working with each as a *trusted* development partner.
- Many of the objectives we wish to achieve are shared among our stakeholders. However, even as a large company, we don't have the resources to do everything. That is where the social equity issue and balance needs rethinking for us to continue to operate in harmony with our immediate neighbours.
- Partnerships make obvious sense in many areas, whether it is promoting human rights and community upliftment, or infrastructure development and R&D.
 - For example, we have partnered with the Inter-American Development Bank and TechnoServe to boost enterprise and supplier development programmes across Brazil, Peru, and Chile. Our target recipients are our local community

members...trying to help them create more diversified commercial infrastructure in those local communities.

- As an industry we must move the dialogue forward, working with governments, NGOs and other groups on topics such as the delivery of the Sustainable Development Goals to create a more inclusive form of globalisation.
- There is the need for a renewed social contract. A partnership built on trust and the common good.
- We must become good neighbours...where every community demands a local mine because people know it will mean a better opportunity for that community to develop and grow its commercial infrastructure.
- Maintaining our social licences is an imperative for the industry. It is therefore our responsibility to reach out and broker an honest dialogue.
 - Each one of us makes a contribution as we seek to earn the trust that gives us our licence to operate.
 - In South Africa our partnerships with local faith communities are beginning to reap benefits in communities where mining plays an important role as all parties better understand their common challenges and begin to formulate win-win solutions.
- It is about more than just understanding and listening, it is about the doing – *how* we operate.
- To overcome stigma and tackle the challenges of the present and the future, we need to adapt and innovate.
- As Anglo American enters its second century, it is important to understand what drives us and that our values remain front and centre.
- With this in mind, we have recently released a new Group-wide Code of Conduct and in 2017 we will be releasing a full and ambitious Sustainability Strategy, drawing together for the first time the many threads of our multi-faceted societal programmes.
- We will set targets to *renew* our commitment in areas such as education, biodiversity, energy efficiency and job creation, including setting stretch goals to support us to be more resilient for the future.

- This brings me onto my next theme:

The imperative to adapt

- Productivity remains the number one operational challenge for the industry – it has dropped by 30% over the last decade.
- A history of short-term solutions for quick gains has impacted assets across the industry, escalating costs as problems accumulate.
- As grades continue to decline, mines get deeper and resources become more constrained, it is ever more important to get the basics right.
- For Anglo American, creating a platform of operational excellence has been fundamental to delivering something closer to the full potential of our asset base.
 - For example, there is no doubt that since 2012, through improved work planning, that is central to our Operating Model, and the ongoing upgrading of the quality of our asset portfolio, we have increased our productivity by 41%, delivering 8% more product, from a 1/3 fewer assets, while lowering CuEq unit costs by 31%.
 - Through the same disciplines, we have also decreased the number of environmental incidents by 87%.
- But we need to do more. In a world of rapid change, two things will keep us ahead of the curve – our ability to change and our ability to innovate. And this applies to all companies.
- Simply scaling up is no longer enough. As the nature of mining and processing has not really changed for decades, the industry remains behind the curve in terms of technological innovation. Similar to the adoption of SxEw in the Copper industry in the 1980s, a technological step change is required.
- In response to the global drive for a more productive and sustainable approach to mining – economically, socially and environmentally – we have articulated a new approach to innovation and that addresses mining’s major challenges.
- Our FutureSmart™ mining programme adopts the principles and approaches of open innovation, collaborating with a broad range of partners to build resilience through innovation in safety, productivity, energy and water, as examples.

- Through the rapid adoption of current and cutting-edge technologies, we aim to deliver a step-change in our thinking and processes. An illustration of this is our work towards a “waterless mine”.
- While we have exceeded our 2020 water savings for the past three years, we are also investing in innovative ways to conserve, and where possible eliminate, using *freshly drawn* water, in mining processes. For example:
 - **Dry separation** seeks to remove water from mineral processing by combining innovative methods for dry comminution and mineral separation with **non-aqueous processing**.
 - Another initiative is our pilot closed-loop system at Los Bronces in Chile that focuses on dry tailings disposal and aims to reduce water loss by using the same water over and over again.
- Innovation is also driven by the exponential growth of digital technologies. Advanced analytics, robotics and increased automation will transform our industry; whether in continuous hard rock mining or machine learning, to optimise mining processes in real-time.
- However, as we embrace big data, robotics and increased automation, this should not be a cause of concern for our stakeholders. To the contrary, it provides the opportunity to empower and re-skill workers to deliver these productivity and technological gains now and in the future.

So, the imperative to work with our local communities – to be innovative, and be on the leading edge of change are simply the entry points to ensure we are building a resilient company.

Resilient portfolios and long-term returns to shareholders

- On 1 March 2017 Anglo American’s share price opened at £12.81, having risen from an all-time low in mid-January 2016 of £2.21.
- A year ago, the market was in shock and even though many believed the industry had reached the bottom of the cycle, no one knew this with any level of certainty, nor how long it would last.

- Fortunately, 2016 witnessed new shoots of a turnaround across parts of the industry as bulks in particular saw higher than expected demand from China, and commodity prices and self-help programmes helped to lift mining companies from the lows experienced early in the year.
- That said, average prices for 2016 for the majors were still only marginally above those for 2015 and, in the case of our basket of products, they were still down 3%.
- In the short-term and on the face of it, Chinese economic policy and the direction of US policy both may seem to bode well for the outlook for commodities, but it is early days.
- While China continues to support the market in the near-term, economists are increasingly expressing concern that ongoing stimulus will create bubbles in other parts of the Chinese economy. Credit expansion also adds further complexity and uncertainty to the reformist agenda.
- We should anticipate more volatility as economic superpowers adjust monetary, fiscal and trade policy, and political uncertainty continues.
- It is during the times when markets are uncertain and more volatile that the necessity for operational and capital discipline is ever greater.
- The result is a more resilient business, providing management teams with the headroom to preserve asset integrity, and generally make good strategic decisions concerning the long-term health of the business.
- So how has Anglo American responded to the changes in macro-economic environment?
 - Rather than pulling down the shutters, we accelerated the execution of our strategy set out in 2013.
 - We remain a global and diversified miner with strong market positions in De Beers' diamonds, PGMs and copper, and a number of great individual assets across coal, iron ore and nickel.
 - We now have 27 fewer assets than in 2013 (reduced from 68 to 41). Yet, on a CuEq basis, we are producing more material today than we did in 2013. Our assets are generating substantial cash and are located towards the lower end of the cost curve.
 - In 2016, we have driven down CuEq unit costs by more than 9%, while increasing our productivity by 18% in 2016 as we have rolled-out our

‘Operating Model’, just-in-time approach to streamlining our continuous operations.

- We have also reduced our net debt by 34% in a year, to well below our stated target – and as I said, in a year when our basket of prices was lower than 2015 – and will continue to ensure that capital is deployed effectively, driving returns for our shareholders.
- Resilience is critical and it means building a business that is truly robust irrespective of swings in the cycle. So as Anglo American looks towards its second century, we inevitably look to where we could be in the next 50 or 100 years.
- What we can say for certain is that longer-term shifts in population demographics will change consumption patterns, and as greater proportions of the world enter the burgeoning middle classes, this will increase consumer-led demand.
- And this audience needs no reminding about all the metals and minerals that we produce that our modern lives are reliant upon.
- However, there are macro risks. As IMF global growth forecasts continued to drop in 2016, the global economy has languished with some arguing that the retreat of globalisation is already underway.
- International trade is indeed retreating¹, having been mostly on the rise since the time of Adam Smith.
- Smith famously coined how rational self-interest drives a market economy:

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

- A few centuries on, the perception of a hubristic self-serving elite has driven a wave a populist protectionism as the ‘invisible hand’ of international trade has failed to serve the interests of the masses.
- Despite the benefits of global enterprise and trade in reducing conflicts over access to resources, and reducing poverty and mortality rates, the unseen cost for communities is the impact of substituting local produce with lower cost imported goods.
- There are also the broader societal challenges we will all face, such as climate change.

¹ The WTO 2016 saw the lowest growth since 2009 with the ratio of international trade-to-GDP falling sharply in the same period.

- In 2016, World Meteorological Organisation figures showed global temperatures to be 1.2 degrees Celsius above pre-industrial levels, setting a new record for the third year running. As we all know, climate change will exacerbate other challenges such as water stress.
- However, the legacy of irresponsible operators' negatively impacting communities around mining operations, and the mobilisation of public opinion has created a negative perception of the industry, which we must rise up to collectively address.
- We need to demonstrate in much more tangible ways that we understand these global challenges and are willing to work in partnership with communities on developing sustainable win-win solutions.

Summary

So in summary,

- As an industry, we must listen to and understand the needs of a broader cross-section of stakeholders, working in partnership with them to build greater levels of trust.
- We must continue to adapt and innovate, so that we are more productive and with a lighter footprint learning from other industries and technologies in the short-term, but to also to stay ahead of the curve in the long-term.
- We need to show resilience through our balance sheets, acting responsibly and understanding that increased macro, geo-political and other uncertainties require greater operational discipline, and a different approach to the way we develop and finance our businesses.
- I have dedicated 40 years of my life to this wonderful industry...and it has been very kind to me.
- In most cases the people in this room are the custodians of other people's money – it is with that solemn responsibility we must lead our businesses with passion and invest in opportunities using common sense and an understanding of what needs to be done to deliver sustainable returns. In that context, innovation is not simply a tool – it is a pure survival imperative.

Final words to remember

- We have no choice but to be innovative in our thinking, and adapt what we do to tackle the collective challenges of our future. We all need to step out of our comfort zones.

- To conclude, I would like to quote Shakespeare's, *Julius Caesar*:

There is a tide in the affairs of men which, taken at the flood, leads on to fortune;

Omitted, all the voyage of their life is bound in shallows and in miseries.

On such a full sea are we now afloat...

- For mine – we must not forget ourselves and know that success comes from those that take the time to understand the resources they have, the people that can unlock opportunities and to customers that deliver the demands of society.
- Our opportunity is now; let's take it and reposition mining back to where it should be – both in terms of serving society and being seen to serve society, as we have done for thousands of years.
- We each have this considerable responsibility to the long term health of our great industry.

Thank you.

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