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CORPORATE PARTICIPANTS

Mark Cutifani – CEO
René Médori – Finance Director

PRESENTATION

Mark Cutifani - CEO

Welcome to first half Anglo American results presentation, which will be featuring a conversation around our Driving Value program.

I do have to apologize, up front; you are going to have an Australian and a Frenchman presenting the results, so we apologize collectively and individually for the accents. We'll do our best to make sure we're understood.

Now, in terms of the double turn, myself and Rene I -- Rene, just to let you know, Rene's got all these strategically placed postage stickers with these numbers. Rene, I changed the decimal points, (laughter) so we really are going to present a great set of results. (laughter)

So as I said, you've got the double turn; you've got the suave and sophisticated, and you've got the Frenchman. (laughter)

So ladies and gentlemen, look, it is a privilege to be here. I would like to acknowledge Sir John Parker, Chairman of the Group, who's here with us today. Members of our GMC and Executive Committee teams are here as well, sharing the results day with us. It's very important that you see that we are team.

We will be talking through some changes in the Group. Very important, but certainly for me, I'd like to thank everyone here, and certainly the team members, for the support and the hard work they've done in the last 3.5 months in putting the Driving Value program together.

We will be talking to that, and this is really an update on where we are with that program. And certainly for us a very important point in terms of the conversation in defining where we are and where we're going with the Group.

I've been in the role 3.5 months. We've got to know each other; we've got to know the business together, again, in understanding what the potential is, where we need to take the business. And I think we will talk about the issues that we see in the Driving Value program.

I think it's important to acknowledge there's been a lot of good work in building and rebuilding the portfolio, and we're building off some great foundations. But also, there are some changes in direction that we need to talk about, and explain, so that people understand how we're taking the business forward, together.

So I think a very important day for us. Both Rene and I will focus on the results up front. We will move through the numbers, and the conversation around the numbers, relatively quickly, so that we can spend a little bit more time on the Driving Value program, which is a very much about the strategy, going forward.

And in many ways it's a works in progress, as you'd expect, at such an early part of the process that I'm involved in with the team. And hopefully, provide some reasonable time for Q&A as well, which may help you provide some detail on the things that you see as critical, or where we may not have been as clear as we could be, in trying to describe how we're taking the business forward.

So I'll start off with the operating focus. I'll hand across to Rene to share with you more detail in terms of the financial numbers, and then I'll pick up and conclude with the Driving Value program, and then open it up for questions, as well.

I understand we have colleagues in South Africa, so I should say hello to all of our friends in South Africa, and I think we'll be throwing across towards the end of the presentation as well, to take some questions. But just to let you know that we've got our South African colleagues very much part of the process, and involved and engaged in the Q&A process in particular.

Okay, with that, we'll jump straight into the results. I'm also going to move around a little bit; I don't like being stuck to the lectern. As people know, I'm half Italian, and if you cut my hands off, I can't talk. (laughter)

In terms of the operations, you've seen the earnings per share result, and also the dividend, retaining -- or even though we've got the capital program we have, prices have dropped away. We've held the dividend; I think that was very important. And certainly, as a statement up front, my commitment to continuing to improve our dividend, over time, I think is very important in sending a message about what we think about the business, and in particular, how we believe we should be delivering against our shareholder expectations.

It's been a tough half year. Prices have fallen away, right across the commodity suite, underlying earnings down 15 -- sorry, Group underlying profit down 15%, generally reflective of prices. If I do adjust those earnings for price movements and foreign exchange movements, our underlying performance is about 10% better than we were at this time last year, so there has been improvement.

We are doing better against our internal targets, but we've still got a long way to go in terms of improving performance against those targets, and I'll pick that process up in terms of the Driving Value program. I think a very important opportunity for us to improve our overall performance.

Consequence, underlying earnings down 28%, to $1.3 billion. Earnings per share, $0.98 is probably a little bit better than people thought. We've had some good performances, along with some physical performances where we've seen improvements.

We've also seen some good cost control across the business, and we've done a little bit better there. But certainly a lot of room to do better, as we go forward.

In terms of looking forward, obviously prices continuing to weaken. So it's a tough space to be in, which, at the end of the day, drives us to be more aggressive in our thinking about restructuring and looking for cost improvements across the operations.

And certainly that's where our focus is, but at the same time, making sure that we don't do things that cut our ability to deliver value through the cycle, and certainly into the upside.

Capital expenditure has been a little bit lower, reflecting timing of expenditures as we work through the big projects. You will see a pickup in the second half, particularly at Minas-Rio, as we start to build momentum in driving the project.

On safety, it was a tough quarter. We lost eight colleagues and we had two missing involved in the Amapa port collapse in northern Brazil. That's not a safety incident out of the Minas-Rio operation; it was the northern part of the operation, which is the other asset that we picked up as part of the transaction.

In terms of general safety performance, we've improved 16% across the total injury frequency rate. To me that's an important metric; it really measures the cultural change that we're making across the business. So I think we're doing the right things.

We've certainly made significant improvement over the last five years, and now it's a matter of focusing on and continuing to improve the management of risk. I'd like to acknowledge the Platinum group, in particular under Chris, they've done some great work in safety.

And certainly we've seen something like a 90% reduction in fatalities, compared to where we were about six to seven years ago, so a massive change, obviously, coming off a tragedy last weekend with two colleagues lost. But the performance and the improvement that's been achieved has been quite remarkable and certainly, from my point of view,

and from the rest of the team, to Chris and his team, there's been great work and looking at how we best support the team, going forward.

We're delivering on a number of our sustainability targets; for us very near and dear. Some great work that's being done across the business and, obviously, the health program remains central to who we are and how we work with all of our employees and stakeholders.

In terms of iron ore, Kumba, good result. Norman and the team have done a good job. They are, at the moment, under a bit of stress in terms of stripping at Sishen, but it's been continuing to improve, which has been very encouraging.

And at the same time, they've done some great work at Kolomela. So where we've had a little bit of a shortage at Sishen, the Kolomela team has picked that up. And so they're looking to make sure that the rail facilities are kept full, the ports kept full with iron ore, and I think the team did a very good job.

Yes, they've got some risks in the next 12 months in particular, but I think we've got the right focus in the operation. Looking at improving Sishen and certainly Kolomela is one that people probably didn't factor in, in terms of improving as much as they have. That's been a great project and all credit to the team.

At Minas-Rio, Paolo has got his arms around the project. I've actually just come from the Minas-Rio project, spent three days with the Brazilian team. Literally walked through the mining operation, the beneficiation plant, through the pipeline and then spent time at the port as well.

I think, of itself, it's not a complex project, but it's a logistically large and spread project. In fact, it's four projects in one. It's a mining operation; we've started mining. I think the focus is in the right place.

We've got to make sure that we've got the mining strategy right for the first two years. I think they're heading in the right direction, looking at opening the pit up so they've got some options in terms of the quality of the feed that we produce in those first two years.

In terms of the beneficiation plant, I think the big stress point is in the wet plant. We're probably two weeks behind the schedule. Paolo and the team area very focused on -- I'm actually looking for Paolo; I've missed him in the front row, where is he? There he is. Doing good work in pulling that together. The guys are on the case.

The pipeline is ahead of schedule. We've got 98% of our hurdles done in terms of the pipeline. That was my biggest worry and I think the guys have done great work there and the port is well ahead of schedule. And I know there are some concerns of our partner but, from our point of view, we're running the construction, we're running the project, so I don't see that as a major issue at all in terms of the project.

Yes, it's a tight schedule. I think we're doing the right thing, so I think we've got our arms around it. I think we've already significantly de-risked the project, but the truth will be in the telling and, as we track over the new few months, being able to demonstrate that we're on top of the game will be very important and we'll keep you posted in terms of that progress.

On Met Coal, I feel a bit for Seamus and the team at the moment. It seems like every time they drop $1 a tonne in terms of the cost, the price seems to go $2 a tonne, but the current market conditions will only make us stronger as a Group.

They now have the highest productivity longwall operation in the country. They've been the most rapidly improving set of operations in the last 18 months.

Obviously, BHP started to do some work and has done a little bit of catch-up in the most recent three months, but Seamus and the team remain well and truly entrenched and certainly ahead of the pack in terms of improvements across the business. And I think, in terms of what they now see as the potential across that business and how they think about growth, I really do think we've got a great business.

I think the team is focused on the right things and I think certainly, from a longer-term perspective, we're well placed in the Met Coal business.

You will have seen some production being pulled back. We closed the Aquila operation, which was a traditional and pillar operation. Very tight in this market; I think we've done the right thing by taking volume off the market. I only hope that some of our competitors follow that lead in some of the other markets. In the end, that's their call.

From our point of view, it is about making sure we're making the right decision and we're not destroying value. We're going to be focused on value, and I think we're going to make the right calls in terms of those sorts of decisions.

Thermal Coal and Nickel, again I think Godfrey and the team have done some good work in the Thermal Coal operations. You will see volumes off a bit, not because of anything we have or haven't done in the Thermal Coal business. We've actually been constrained by supply in terms of one of the power stations not able to take full load because it was off for a period of time, and there have been a couple of bottlenecks through the port. But the underlying performance in Thermal Coal has been strong.

Still lots of opportunities to improve, and Godfrey and the team have been doing some very, very good work there. And we're looking at the whole business structure in terms of continuing to improve those returns.

In Nickel, a bit of a tougher story. The Nickel business is tough in its own right. Certainly, I would think that the prices in the next three years are going to be tough as we still see nickel pig iron exports coming out of Indonesia.

I know that part of the world pretty well and I had responsibility for Indonesia when I was at Inco. We still think exports will continue. There's a chance it may even go beyond the targeted 2015, but for Indonesia it's very important to get control of that market, so hopefully, we'll see some improvement there.

At Barro Alto, two furnaces design problems. I've just come from the site with Walter and the team. We agreed that we should progress to a refurbishment with each furnace, one next year, one the year after to make sure we get that capacity up to speed by 2016.

We will give you a progress report in November on that strategy, but from my point of view, the team has done a great job in dealing with a tough problem. In fact, Vale, that's got the same problem just over the road, got their furnace to 30%. It's now off the air because they've had a major collapse and I think they're forecasting another six to eight months, whereas the team's kept these operations going.

We've had one furnace up to about 97%, which is quite remarkable, given the circumstances, and a credit to the operating team. But, quite frankly, I think we need to move in and rebuild both of those furnaces quickly, because there is an underlying problem that will get worse, over time, and so I think our reliability will deteriorate if we don't get in there quickly.

So we've made the decision to do one furnace next year, the following furnace the year after. Walter and the team are working up the program as we speak. We've had some technical people that we've both contacted and had review that program. I think we've got the right strategy. So there's still some work to be done and we'll improve our position, and certainly we're on the case.

In Copper, a tough year last year. We've certainly seen significant improvement in both Los Bronces and Collahuasi. I've been to both operations, sat with John. I think the team's done a good job. We've got the operations at Collahuasi up from 130,000 tonnes a day to 150,000 tonnes a day and, in fact, we've blow through 150,000 tonnes in the most recent weeks, so great progress at Collahuasi.

Still a lot of work to be done in the mine, so we're still at some risk as we open the pit up and get the stripping right, but certainly we're heading it all in the right direction. Mining is also above budget.

At Los Bronces, we've opened the pit up. We've got the stripping improving but, again, still more work to be done. So really good progress since last year; we're very pleased with our progress. There's still some risks, but I think, as each day goes by, that risk lowers. And, again, in November, when we do an update, we'll give you a good view on where we are with the Copper business; we're very pleased with the progress.

And as you can see from our control charts, this is the production before we did the major shutdown and put the new mill motor in; that's been very consistent. Our target was 150,000 tonnes per day and I think, in the last month, we've been at around 157,000/158,000 tonnes per day, John? So good progress, very pleased with what we've done, and I think the right logic and focus in the operation.

Platinum and Diamonds; in Platinum, there's been a lot of conversation about the restructuring work. I think Chris and the team have actually pulled that together well. We've worked with the government. The government has actually been very complimentary in the last couple of months, based on the interactions that occurred.

The basic restructuring hasn't changed. What we'll do is still move to close three operations this year and restructure access and continue extracting platinum from various parts within the operations. There will be an impact of 6,000 jobs, and if you look at overhead administration and other areas of the business, that's about 9,000 jobs.

And the fourth shaft will close within 2.5 years and that's where you have the impact of 14,000 roles. In terms of phasing the program differently, what we do is we're able to soften the blow in terms of employment within the country, which we think is the right thing to do.

So we've got the right restructure, and if the development that's already been in place and with limited development, going forward, we'll continue to make cash from that operations that remain open. If, for any reason, we were to go cash negative in that operation, we will clearly rethink that. At this point in time, I think we've got the right strategy for the government. I think we've got that balance right and the restructuring is going forward.

And, in fact, we're in process, the Section 189 process, which is a legal process with unions and through the government processes, is actually part of the restructuring process and we're now in the process. It has gone as we expected. The unions have been constructive in that process, so it's moving, and we're in it and, by the end of the year, you'll see all those moves start to take shape.

In terms of Diamonds, very pleased with the progress we've seen at De Beers. The recovery at both Jwaneng and Venetia has gone well, with mining from both operations. The production on a month-to-month basis has continued to improve. Prices are up 5.9%.

I've met a number of site holders with Philippe. It's been an interesting exercise and certainly a learning curve for me, because diamonds is the one thing that I haven't had much experience at all. And so I'm on a very rapid learning curve, but I do know what mines look like, and certainly the progress of the operations have been very good.

And I think there's a lot we can learn from De Beers in terms of some of the good parts of the operation, so I think a lot of synergies that will go both ways. From our point of view, in terms of the integration and the operations, we're already into some $30 million to $40 million worth of savings that we can book and put to the numbers. We'll certainly blow through $100 million worth in the next few months.

So very happy and very pleased with the great work that's been done by the team, Philippe, I see Bruce is here as well; in fact, we have Gareth as well.

Finally, my final point, before going to Driving Value, we want to make it very clear that the most important and the quickest improvement that we can make in the business today is to get this stuff right, the daily stuff right. The difference between delivering on our budgets and not delivering on our budgets, based on last year's performance, is somewhere between $1.4 billion and $1.7 billion worth of earnings.

If we get that right, there's a significant shift in the performance that's available to us, and I'll talk a little bit about that in our Driving Value program. And consistent with that, the things that we've already got on the board, my job is to support the Executive to get this stuff moving through.

So the Platinum restructure, I've talked about, my job is to support Chris and the team. We're very pleased with the progress that's being made. Kumba, the work around Sishen, getting the balance with Kolomela and making sure that we get the optimization of the assets right, utilizing every tonne of capacity in the rail line and through the port; Norman's well on the case.

And solving those issues that we have through the legal processes and with the DMR, so that by the end of the year, we've got a clear run going forward; absolutely critical in terms of making sure that we're working the relationships in South Africa the right way.

In the end, ultimately, in defining success as the CEO of Anglo American, one has to think about the nature of the relationship with South Africa and what we do with the business. It's been an 80-year relationship. You don't change the nature of that relationship overnight; it's going to take some time for us to work that through. But we are focused on making sure that we position the business for success in South Africa and make sure that that's consistent with South Africa being successful in its own right. It's a conversation that has to go both ways. It's a relationship that has to change for the better for both parties, and it's my job to lead the conversation.

And for those that said we thought you might be a bit more aggressive on an SA CEO role, I am the CEO of South Africa. With Khanyisile, it's my job to make sure that we've got those relationships right with the Chief Executives in the operating divisions, and that's what we're going to do.

Copper production, as I said, great recovery from John and the team, very pleased with the progress they've made. Barro Alto, we know what we've got to do, again, supporting Walter and the team. We're going over to help him with some technical expertise.

Minas-Rio, we've talked about; Paolo and the team know what they've got to do. They do have their arms around the project and, again, it's my job to support them.

De Beers delivery, very pleased with what we've seen and making sure we're getting information going both ways. And, again, very pleased with the work that's been done in Met Coal. Given the price points and the pressures, Seamus, I think he's on his third overhead and cost iteration, as people say, never waste a good crisis.

So with that, I'll hand across to Rene. Sorry about the cheat sheets, Rene.

René Médori - Finance Director

Thank you, Mark. I know it's quite difficult to understand Mark, but you get used to it (laughter). Okay, now it's going to be much easier for you to understand (laughter).

I turn first to the P&L, and Mark already covered the decline in operating profit. I will go through it in more detail over the next few slides. Let me just highlight a key point on this slide.

First, the effective tax rate, 33% compared to 30% last year. You'll remember last year, we had the benefit of the sale of the stake in Anglo America Sur to Codelco, which allow us to lever some of the secondary category tax in Chile.

Underlying earnings down 28% compared to the decline of operating profit of 15%; three reasons behind the decline. The higher tax rate that I just mentioned; the higher finance cost, the level of debt that we had of June last year was $3 billion compared to a $9.8 billion at the end of June this year; as well as the higher role of minorities, the Anglo American Sur, as well as a 15% stake in De Beers, owned by the Government of Botswana.

Turning to the operating profit waterfall; $1.2 billion of negative price variance, two main variances; one in Met Coal, $418 million; and in Copper $392 million. That includes the mark-to-market adjustment in the first half of $189 million; positive exchange variance mostly the benefit of the decline of the rand, $636 million positive impact.

I will cover in more detail over the next few slides the volume and cash variances, but in terms of the additional contribution from De Beers, $300 million. But even if you look at De Beers' performance on a 100% basis, the operating profit moved from $553 million to $583 million, and that is partly $80 million depreciation associated with the acquisition. De Beers, in fact, the only business which, year on year, delivered a profit improvement.

Turning to the price variance and first, bulk; iron ore prices declined to $125 per tonne for the first half compared to $134 per tonne last year. China remained the main destination; 68% of sales went to China in the first half, compared to 70% last year.

On the Met Coal side, two things I would like to highlight. First, the positive product mix. We got the benefit of the very strong productivity performance in Moranbah, and you see the split between coking coal and PCI in the first half compared to last year.

It's a market that is also evolving towards shorter-term prices. 12% of sales in the first half were either on a spot or mostly benchmark basis. In fact, this ratio has moved to 35% over the second quarter.

For the third quarter, we have settled at $145 per tonne, compared to $172 per tonne in the second quarter, and we have also placed all our expected volume for the quarter.

Turning to base and precious, the basket price in US dollar was relatively flat, $1,549 in the first half this year, while the basket price in rand increased from ZAR20,000 to ZAR22,500 as a result of the decline of the rand.

Copper price, I already mentioned the mark-to-market adjustment of $189 million. At end of June, we had 134,000 tonnes of copper provisionally priced at $3.06.

Turning to the sales volume variance; platinum sales increased by 11%. In the same time, we have increased availability of inventory in platinum by 150,000 ounces, mostly in the pipeline, in anticipation of the restructuring program that Chris is leading.

Copper, sales increased 7% as we got the benefit of the very strong recovery at both Collahuasi and Los Bronces that Mark highlighted.

Met coal sales increased 4%, and that despite the 600,000 tonnes of product that we lost at Dawson as a result of the flooding.

Kumba sales down 3% as the business was still recovering in the first six months of the year from the strikes at the end of 2012.

Turning to cash cost. Real mining costs, up 1%, so in line with the guidance we gave you at the beginning of the year, with a very strong productivity improvement that Seamus led in Met Coal, offsetting the South African mining inflation, which impacted Platinum and Kumba, but also the increased waste stripping at Sishen that Mark highlighted earlier.

Capex, $2.4 billion for the first six months, compared to $2.5 billion last year. That includes the impact of the change of accounting for waste stripping; that has an impact of $200 million both in 2013 and 2012.

For the full year, our projection is $6.5 billion to $7 billion, and that includes $2.1 billion for Minas-Rio.

Cash flow and debt at end of June; you see the operating cash flow of $3.7 billion for the first six months. That includes a negative working capital movement of $700 million, most of that due to the increase in inventory in Platinum, $312 million.

Net debt increased $1.3 billion to $9.8 billion after the payment of the final dividend, but also the CGT on the sale of a stake in Anglo American Sur in Chile.

Our liquidity at end of June, $16.7 billion. That includes $10.6 billion outside South Africa in the rest of the world, and on the right-hand side, you see our bond maturity profile. We have $1.9 billion maturing in September and then $1.3 billion maturing in April 2014. Thank you.

Mark Cutifani - CEO

Thanks, Rene. Ladies and gentlemen, I joined the Group 3.5 months ago, probably with an advantage to some; I think the changes in leadership in many organizations being well publicized. I think I've got one advantage over the other 11 CEOs that have taken up new roles; I'm the only external appointment. We had a little bit of a tongue in cheek conversation where somebody asked me in a meeting what the brief was, given by the Board, regarding the strategy that I had to follow and I held up a blank sheet of paper.

Now clearly, the conversation was far more complex and appropriate, but the point that Sir John made is, we want a clean view of the organization. We want a different view. We want to think differently about the business in terms of where we go forward, and that you have literally a clean canvass to paint on.

A lot of that discussion was also about the role of the CEO, the Executive team in developing strategy and the interface with the Board. The one thing I would say is the Board has been extremely supportive under Sir John in terms of giving us ideas to think about in terms of the business; to interact and provide a sounding board for the thoughts that we've had, but also being very clear about what they thought were critical elements in terms of shareholder expectations.

And so if I could say that I think the engagement between the Executive and the Board in thinking about where to from here has been very constructive, and certainly the most constructive I've seen in starting in a new business after 3.5 months, they've been both patient. And the Executive has been patient as I've come up a fairly rapid learning curve.

When I open up the presentation, I start with a we hear you. And certainly, in terms of the conversations we've had with the Board, we've had as an Executive and we've had with every employee in the Group, is we understand the messages from the market.

At the same time, it's not a matter of that being the point at which defines the development of our strategy. It certainly is a very important marker in the ground that we've taken into account in putting together a strategy that delivers on the expectations of shareholders; that takes into account the things that we need to do to make sure we've got the right team in place that's motivated to make a difference; and third point, that our relationships with stakeholders becomes a solid foundation for improving performance across the Group.

So when we say we hear you, we've heard all of our key players, our shareholders, our employees and our stakeholders, and in crafting a strategy that we think's right in terms of building a sustainable value proposition for the business over the long term.

Now to unpack the we hear you comment, I think it's pretty important to understand the base that we see. Firstly, in terms of the portfolio, we've been investing in the business and we've certainly grown the investment, and I'll talk about what that looks like, but we've gone from 2007 to the current portfolio, where I think the commodities we're in provide us with a great platform to improve and deliver sustainable value for shareholders. Yes, there were a couple of areas where prices were a bit tight, but, in the longer term, I think we've got a good portfolio.

It doesn't mean to say that we'll stay in every commodity over time. We'll make judgments as we go. But I think we've got a great starting position.

The challenge we have is, since 2007, we've built the balance sheet up from $25 billion to $55 billion, and when we take it to an attributable level, it's around $42 billion. But, in terms of defining the first point and the first challenge we have, is we've built the balance sheet but we need to drive the return.

That's the first thing. At the same time, we were forecasting production growth to be 33%, and we've only delivered 11%. So we're short 20% on the production we were looking to deliver to underpin a return. So the first thing for us is about business execution, both in terms of operations and in terms of new projects.

We've got to get those projects working. We've got to get that production through to make sure that we've got the financial base to deliver against an expanded balance sheet that we've put in place over the last few years.

As a consequence, and obviously prices declining have been an issue, we've seen earnings flatten, and, in fact, decline with the price weak where we are. And our return on capital employed, on a full-year basis, running at around 12%, I think last year; year to date, 11%. But if I take spot prices and where they are today, against the last six months, we're at about an 8% return on capital employed.

And for me, having been in this industry for 38 years, looking at every aspect of the business, I think 15% return on capital employed is a break-even number in terms of delivering value for shareholders.

So that's where we've got to get ourselves to. And, from where we are today, that means we've got to generate somewhere in the range of $3.5 billion of additional cash flow to get those numbers where they should be. And I'll talk about that challenge and what we're doing to address those challenges as I go forward.

In listening to the feedback that we've had from the market, we hear three key messages in particular. The business execution, the fact that we've fallen that 20% short; actually, we've pulled apart the issues and it does include project delivery. We've got to get that business execution right. The discipline, the planning and execution is central to the key point. And I'll talk about budget performance a little bit later.

Capital allocation; we've re-tooled the whole capital allocation conversation, both in terms of how we think about projects internally within the business, and how we think about those projects against delivering the alternative, which is dividends, or value in terms of shares, back to shareholders. Absolutely rebalanced that whole conversation.

Third point; we can't deliver a sustainable business if we don't have the right relationships with stakeholders. And you've heard a number of leaders in the industry talk about the value in what they're going to do. For us, it's just as critical to make sure our stakeholder relationships are right.

And obviously, in the context of South Africa and its role in our business, I'll talk about that a little bit later, absolutely key for us to redefine and work with the Government to redefine that relationship in terms of going forward.

So for us, a starting point; we looked at our commodity suite compared to our peers. As you see, we haven't named the assets. Clearly, some might recognize the Brazilian iron ore company, followed by an Aussie iron ore company, against the assets suite we have.

I think the more important point to focus on, though, in terms of our conversations, is about driving value.

68% of our earnings are coming from assets that are in the bottom half of the cost curve. And that bottom half of the cost curve is less than 50% of the portfolio. The key for us is to improve our cost position and drive our margins. So for us, there's some work to be done with these businesses.

But again, we look at our capital employed, and take a balanced view. But we've got to improve our competitive position across the commodities we're in. And if, at the end of the day, we don't have the right assets, then by virtue of the fact of not being positioned in a commodity, we would think about exiting a commodity if we don't believe we can deliver a return.

However, the point we make is that I think it's wrong to think simply about a commodity and being stuck in a mantra around commodities. If you're going to buy your way into a good commodity that's got good growth prospects, the odds are you're going to pay through the nose.

Others can see the same things you can see. It's about making sure you've got the right assets in those commodities, and you haven't paid for those assets; you haven't overpaid for those assets. That's the key to delivering returns, and that's a very different thinking process that we're going through.

So for us, we've been thinking in terms of structurally attractive commodities. The risk, though, is that everybody else can see the same things we can see. You're likely going to have to pay at the top of the market, or aggressively, unless you can see value no-one else can see.

And, after 38 years, I've learned that I'm not as smart as I think I am compared to everybody else. And I think the odds are, most people can see the things you can see. So you've got to look at the price you're paying, and I think you've got to be careful.

World class Tier 1 assets; in the end, it's a hackneyed phrase. I'm not sure what it means. For me, it means an asset you can make lots of money from, or great returns from, and that probably differs from a lot of other people.

So everybody again is chasing Tier 1 assets. Most companies in the world can't afford to develop more than one Tier 1 asset at a time. And have a look at the projects that have been on hold, or put on hold in the industry in the last year or two; it's mostly the Tier 1 assets.

The exploration industry is changing. We've got to think differently about the way we look at assets, develop those assets. In my view, we need to think more like the petroleum sector in syndicating capital and risk, to make sure that we're not putting too much of the balance sheet out there.

But again, everybody's chasing them. You're likely going to pay through the nose. There's lots of capital. The government and everybody else wants to jump on. It's tough to make a return. So when I talk about Tier 1 assets, it's 40% or better return. It's about making money. It's not about producing shiny silver or nickel pellets. It's about making money. That's what a Tier 1 asset should be.

And finally, production growth. Like everyone, I think we've been too focused on production growth for growth's sake, not production growth in terms of the mechanism to create value. So in terms of who we are today, it's about asset quality and return potential, and the two go together.

And it's about making sure that our assets have an advantage in the commodity context; if you've got a low cost, competitive position. Or, like our phosphate business, sitting on the edge of the fastest growing agriculture region in the world that is short of phosphates. And we're $100 a tonne advantage against our competitors trying to bring phosphates into Brazil. Great position to be in; delivering a better than 35% return. That's the new Tier 1 for us.

Competitive position within industry structure. In the end, we like to think we know what's going to happen with prices. We have to make sure that we've got an asset that is competitive through the volatility of a cycle that we see.

We want to make sure that our assets are in the bottom half, and that's where I said, looking at our earnings. Our half 1 or H1 assets are doing the best in terms of making a contribution, particularly in the times we're in now.

It's about focus on margins and returns. Value can be defined in two words; cash flow. And with cash flow, we're able to reinvest in the right projects in the business. We're able to share that success with shareholders and deliver a real return to shareholders. Value is cash flow.

Now, in thinking about the business, based on those simple philosophies, we've relooked at the business and thought about how we get out value in terms of improving the business. So we've looked at that business execution issue, how we think about capital, how we make sure that we're building the right relationships to ensure that we've got business returns that are sustainable.

And ultimately, what's the organization that we need to have in place in terms of focus and skills that helps support the delivery of the strategy? Ultimately, what does value look like for us in the work we're doing?

I started with, as you'd expect as an engineer, an honest appraisal of the assets, and we've worked with the Executive looking at each of the assets. Duncan actually led an asset review across the business, where we looked at each of the 57 assets, and we call them asset classes, so there might be two or three mines to a processing plant.

We looked at each asset and categorized each asset, because those that know me will have seen something like this before. First one, negative cash risk, an asset that's not delivering its targets; its bleeding more than $50 million a year out of the organization; doesn't have a recovery plan. At the end of the day, if that's it, then it's likely going to be exited from the portfolio.

But that's not the only story. Do we understand where the value is, and if we do, we should be progressing it through a process of working it up to understand where it is. Does it have an improvement plan, and ultimately, can it deliver and is it going to deliver better than 15% return on capital employed?

And so we looked at each of the assets in that context. In terms of delivering against budget, it's not a one-quarter conversation. We've been looking for assets that deliver on their budget at least 6 times out of 8 quarters. So the last two years, did you deliver your budget better than 6 times out of 8? If you didn't you're not delivering on your commitments, because there will always be some problems.

From our point of view, if 75% of the business is delivering on its budget targets, or better, the odds are the business, as a consolidated entity, is delivering on its budget. If we just hit those numbers, there's a $1.4 billion earnings improvement in the business. So first point of focus; get the business working to its potential, and that doesn't include what we see above and beyond the basics.

Now, 11% of the business delivered to its budget or better on that six quarter criteria. So you'd say, well, why would that be? First point, operations not stable, that is, daily tonnages all over the place. As soon as I see a chart like that I think, 30% improvement.

That's how much potential I see; if you look at volatility and you're a financial person you'll see opportunity and cash availability. For us, operations not stable for a number of reasons, or, this is a capability histogram.

This shows you the frequency or the amount of days at a certain tonnage per day rate. What you would normally expect to see from a well-run operation on a capability histogram is a normal distribution to the right with a skew to the right.

These days, which represent days of very low production, are opportunities, reliability losses. In this particular case, if we can improve and get rid of those days, we move to the right some 13% to 15%.

That's the potential improvement at that asset. That's their target; that's where they're currently operating. So lots of opportunity there. That's why they're not getting there. They haven't got the operation; they haven't got their maintenance or other processes in control.

Or, third point, and this is part of the cultural optimistic budgets; when you implore people to deliver, and you see that conversation reflected through a budget, you've got to test whether the reality of the current circumstance is deliverable against what we've done in the past.

And we've got operations that have been very optimistic. Now, I'm not saying they can't get there, but there's clearly a case of optimistic budgeting which is a conversation we, as an Executive, have had and pulled apart in terms of what have we got to fix, because you've got to know where you are before you start to improve. So a very important set of conversations.

In terms of businesses, we've got good stuff occurring across the business. The only reason I put the Moranbah program up is Seamus and team have been about 12 months into this process. The operating model that they're using is very similar to the operating model we're looking to introduce right across the business. And I'm not expecting to see this sort of improvement across the business.

I'd like to think we could, but if you look at the sort of numbers these guys have posted in the last 12 months as they've implemented a very different operating model, that's the model, or a very good part of that, probably 70% of that model, is what we're talking about in our new operating model.

I think there's great potential and I'm certainly thrilled, when I went to Moranbah to this sort of work. But we've got elements of that in Thermal Coal. We've got elements of that in all types of the business. What we need to do as a Group is align on what it looks like and drive it forward together aggressively. The next 18 months are going to be absolutely critical in terms of getting the operations to their potential.

On Commercial, from our point of view -- and by the way, we haven't hard-wired numbers against the implementation of the model. I'll talk about that a little bit later, but we're still a works in progress. We've done about 30% of the portfolio on the asset review. We'll finish that by about the end of September, and when we give a November update we'll actually tell you what we've seen right across the portfolio and where we think and what we think the numbers could be.

On Commercial, I think we've probably been the most least aggressive of the top five in the way we've been running and developing our Commercial processes. Now, David Western has been leading a design program looking at how we can get at least 1% to 2% more out of the Commercial aspects of business; changing the way we look at contracts.

For example, you would've seen, in the last month, an announcement that we've jettisoned the Johnson Matthey contract for a $40 million saving. We're looking at every contract across the Group to deliver an improvement, which includes looking at improving our realized prices.

Again, there are some good models in the business that we've used to improve the business of improving our prices, and if you look at some of our competitors, done an extremely good job on the commercial aspects.

We're looking to learn and go forward in a different way to tap into that potential. For us, that's a significant margin potential. For us, 20% margin today, a 2% improvement in our realized prices, that's a 10% improvement in the value of the business. The power of 1; 1% for us is 5%. The power of 1.

That's the focus in the Commercial area; driving those volumes and driving those realized prices, and the cost of doing business in terms of logistics and opportunities that we have in the market; plus we think it's worth $500 million a year. And the changes that we're looking to put in place through the Singapore hub will be in place and certainly, tapping that sort of value within by 2016.

In terms of business execution and project delivery, for us if you look at the projects, and this is an analysis over the last five years, net present value at approval. Commodity prices through that period have been very helpful in terms of giving us a better value benefit; a little bit given back on FX and cost escalation.

The big value drain, or value leakage for us, is we haven't thought through the operating models that take up as soon as the project's completed, and that's the one we're working on.

If you remember when I said about Minas-Rio, it's four projects in one. Normally we'll look at the beneficiation plant, the pipeline and the port; we talk about four projects. It's making sure the mine's up and running and capable, got pit [room].

The first two years of the delivery at that project are critical in terms of getting cash flows running, and that's how we're thinking in that project, which is different to the way we've been thinking about a number of our projects in the past.

That's critical; getting that right is so important to the value delivery that we often miss that, and that's where a big point of focus is for us at the moment.

Another point; I used a word this morning that everybody sort of ducked under the chair, and I'll use it again. In terms of our project pipeline we're constipated. We spend $950 million from pre-concept through to approval on new project pipelines. We've been talking about $17 billion; well, it's a hell of a lot less now.

When we apply a tough financial hurdle rate to those projects, we're knocking things out that probably shouldn't be there. What you would normally expect is to see lots of projects, lots of good ideas in early concept days. You'll scrub a lot of them early, as you should, because they're not going to make it, so you'll probably sell them, or actually put them in a desk and dust them off every year to see if there's something changed. So the number of projects should drop rapidly.

As we've been driven by growth, as we've all been driven by growth in this industry, we've tended to push projects through to pre-feasibility. Now the problem with pushing stuff through that doesn't appear to be economic here, is that you've mobilized big teams working on stuff.

So every step you take to improve the economics has a 100 people that have to change 150 things, because every change you make to make it economic means there's a whole lot of other work that has to be done, when you should be doing that work back here.

If I take an inventory -- we then took an inventory of the projects and we looked at an NPV on capital, because that's one of the hurdles we think about is, you're putting $1 billion down on a project you want to make a material shift of value in the business. Not $100 million or $200 million as an incremental change, you want it to be a significant shift. So it's got to be material. So that ratio is very important.

Projects up to about here, this sort of project make a real contribution. So these are pre-feasibility projects; this is projects in this category. The rest, flat and in fact destructive of value. These projects should never have got here. They should be back here somewhere where we've got one person with a piece of paper and a pencil thinking about smarter ways to do things. And talking about the smart people in the organization in terms of getting value, not spending $20 million or $30 million or even more at this level.

If we get that right, this stuff needs to be taken back here or sold. We get this right, and we will, for us that is worth $300 million a year of that $950 million, and it probably should be more than that. We know how to get to $300 million relatively quickly; that's the work we're going to do. And that's an ongoing issue. We're changing the whole way we're looking at projects.

We've been investing in growth. Existing operations represent only $25 billion in terms of market caps, so these are the assets that are driving returns. This is project investments; acquisitions net of disposals, that number you saw earlier. The ROCE from a productive asset sits at about 16%. The drag from works in progress is 5%. At a Group level, we're reporting 11% for the half year of those numbers. If I take the spot price today and apply that or annualize that from the first half, we're at 8%.

For us, 15% is break-even. We need to fix that. It's going to take us $3.5 billion worth of improvement in cash flow to get that above 15% and that's where we are, to get that above 15%. That's what we've got to deliver in the first instance between operations, between projects, and between the value delivery stuff that we see.

And at the same time, net debt's up to $9.8 billion. So Rene and I talking about what have we got to do with the team in terms of protecting our balance sheet, it's all consistent; we're doing better on cash flow. And at that point, we look at our existing operations, remember 16% from that grouping at the $25 billion, 51% of those assets are delivering a 10% or less ROCE. Unacceptable.

We've got no doubt there's lots of opportunity to improve, and some won't make it either. So when we talked about sales programs, towards to the end of the year, we'll have a much clearer view of those assets that we should be thinking about in terms of sales.

It's not a good time to be selling assets, as we know, so it will always be about delivery. But they'll be assets there that we'll think very carefully about in terms of where they fit within the portfolio, and it will change our capital allocation processes and how we think about taking them forward.

In terms of capital allocation, I won't go into the detail. But from a conversation around IRRs and adjustments with various jurisdictions, we've put in place a pretty robust and rigorous process around thinking paybacks in the first instance, in terms of the jurisdiction and how long you can rely on the politics of the jurisdiction and guaranteed returns; the tougher the jurisdiction, the quicker the return. That should be the first set of conversations we have.

Secondly, cost margin. Are we in the bottom half? Do you have protection against price volatility? That's what it takes I think to generate what I call Tier 1 returns. Focus on IRRs; I don't think we're as good as we think we are in estimating capital cost and operating cost. I'd like to see at least a 5% margin on our weighted average cost of capital. And then we discuss around that point in terms of the portfolio. So we've shifted the bar and we have a different conversation about those numbers.

We then look at pipeline that NPV, how that ratio has to be much higher. We've been approving projects with an NPV/I as low as 0.2. That is $200 million generated off $1 billion investment. It's got to be at least 0.5 or better. In a low capitalized industry it's better than 1. Lots of room for improvement there.

For us, the other metric I think is very important, go through the year and add up to commissioning. Look at the cash flow. Are you delivering a better than 20% return on capital employed is usually a good metric to think about in terms of will the shareholders attribute value in your portfolio to that asset? It'll rely on the cash flow that you're generating after you're through your major commissioning phase. I think that's critical.

So it's a three dimensional conversation. I'm oversimplifying the nature of the conversation, but even if it's a different conversation, and it is then balanced against dividends, shareholder returns. What we do and invest in the business, internally the business has to create demonstrable value. Our shareholders will expect nothing less.

On stakeholder engagement, geographic diversity, again against our peers you'll see the predominance of Anglo American in South Africa. And people say, well, that's a problem? Some people are concerned because of looking forward the uncertainty of the jurisdiction. We think the uncertainty conversation has been overdone, but it's still a legitimate concern. But when you look at capital invested where actually it's a smaller proportion, the reason it's higher in terms of earnings is because our return on capital employed are on average higher than the rest of the portfolio.

Obviously, Kumba has been a great asset. But in terms of jurisdictions it's been a good performing jurisdiction for us. The conversation in South Africa is about regulatory certainty, social cohesion and we will fit it in that context, going forward.

Now I'm not going predict where those conversations will go, but it needs us to be careful; it needs us to think carefully about the way we engage. But the relationship does have to change, and we have to work out how we can be more constructive in making sure the new South Africa, going forward, is successful.

In the end, we don't know where those conversations will go. We won't time bound that conversation. The main point for you to be aware, there is a conversation; there will be a conversation. It has to be a different model. Where that takes us, we're not going to preempt. It is an open conversation, but it is a conversation, a very important one.

I talked about this a little bit earlier today. Shareholders own the business; employees are the business; stakeholders are partners in the business. Making sure we understand those three pieces I think is critical in making sure we've got a sustainable business. And as I said, the strategic priority in our work is to make sure that in any country that we working, we've got a solid relationship with government. We know what the future holds, and if we do know what the future holds and we have confidence, we will invest in the future.

We've announced some organizational changes. Yesterday, I had 15 reports; today we're moving to 11. Khanyisile, who's in charge of, and responsible for, South Africa, and our relationships in South Africa. I said earlier that I'm the CEO of South Africa because I take that commitment.

Mervyn, HR; Tony O'Neill, formerly of AngloGold Ashanti, a seasoned Executive, is taking up the technical role. We're consolidating safety and health projects, and the business improvement work under Tony. Peter picks up commercial so that we give him a balanced portfolio. Quite frankly, there will be less M&A activity going forward. It will be about making sure we're driving margins in the business. And we want to make sure we harness intellectual capability in making sure we're supporting that change. Rene, driving the numbers, making sure that all of us are focused on the right things.

Norman in Kumba, Paulo, in Iron Ore Brazil, still two very different characters in the business. We'll look at that over the next 18 months, but I think we've got a major project; we've got a public listed company operating in South Africa. There are lots of synergies and potential synergies between the two. But I think it's too early to make a call on doing anything different. Very comfortable; I think the guys are doing a great job. We'll think about that over the next 18 months.

Seamus French will take on Thermal and Metallurgical Coal. The idea there is to start tapping synergies across the Group, and thinking about our business. And as we continue to increase our footprint, and we don't have plans at this

stage, as I said, we've got 18 months of making sure that we get the business right, we drive returns. But we are positioned, over the long term, to tap the potential across the globe.

Duncan Wanblad, who's been leading the asset review, picks up Copper, Nickel and Niobium & Phosphates, continues with the Amapa responsibility and Tarmac. Obviously, with the Tarmac here, his responsibilities in both Amapa and Tarmac will reduce as the divestments continue. Chris in Platinum, and Philippe, obviously, with De Beers.

That's a reduction of four. It flags our alignment on commodity groupings, and the connections on a global commercial basis to try and improve our returns as we work each part of the business, and we support each other in guiding those returns.

We're also focused on improving our efficiencies as part of the business. And as we reduce those numbers, we're also reducing the layers within the business. In some areas, we've got up to 16 layers up to myself. That adds complexity; it adds bureaucracy; it slows decision-making processes. We've got to be much quicker on the ground, much more aggressive and effective in driving returns. That's what we're going to try and do with the structure.

We see, by continuing work that's already been done, there's another $500 million we need to strip out of the overhead structures. We've done benchmarking. We've learnt from what's been done in Platinum. We've learnt from what's been done in Met Coal. We've learnt from some good projects, and the De Beers' work has also been very good. So for us, we still think there's more to be done on the efficiency side, and we'll have that in place by 2016 as well.

So in bringing that all together, somebody asked me, how do you start in an organization like Anglo American with 57 asset clusters, diverse portfolio. The good news is I've worked in all the commodities, so I don't have to learn about the commodities. I know what a mine looks like. So again, I've got an advantage over many leaders in the industry.

The third point is the complexity of the business is only complex if you let it be. I start the conversation around a value proposition. I said it's like being handed a 1,000-piece jigsaw puzzle without the picture on the front. So where I start with a jigsaw puzzle is to start at the top left-hand corner.

And the question is, what's the value proposition for this business? Why are we here? Why not break up the business, sell off the parts? Isn't that a better strategy for shareholders? Now we've had those conversations. We think there's a value proposition from the diversity of the portfolio and the size that allows for us to deliver.

We need to deliver better than $3.5 billion improvement across the business. We think we know where it is, and where it is to be found. And that conversation started us putting a different picture together for the business.

So what we have today is a new value proposition for the business where we think we can see value within the portfolio, and clearly, some pieces won't fit. And that will emerge over the next few months as we finish our asset reviews and look at where we're going to spend our capital, what commitments we're going to make, and what we're going to do to make sure we're north of 15% return on capital employed, and we're delivering real cash flow across the business.

And if you think about it, $3.5 billion plus, the $2 billion that falls away once we're through the big project spend, is a substantial difference in terms of the cash flow we generate. So this is how we've been thinking about the equation.

We start with current commodity prices and the first-half performance. Our return on capital employed today is 8%. I'll risk adjust, because we're actually still adding, and as you know, we've cash out flows on Minas-Rio and Grosvenor, so we add that to the picture. And that actually takes us down a bit further.

We then look at the risks. And one thing we're going to do in November is pay as much attention reporting to you the risks that we have in the business with the upside. One thing I've found is everybody likes to talk about the good stuff we can do. I think, as an industry, we've got to get better at explaining the risks, and what we're doing to minimize and manage those risks, because you all look at us cross-eyed whether we report $1 billion worth of savings and improvements, and when you look at the assets we've haven't moved the dial. We need to report both sides of that equation.

So things like the stripping of Sishen, the copper challenges, the issues we have in the business, we will report and talk to its risks, and how we're progressing on making sure that we've got the stripping under control, and that we're making good progress. So our job is to make sure we strip that against the basis, if you said what's the number, it's around $1 billion in our view. However, that's not a number I'll commit to at this stage. That's what we're doing when we've finished the asset review. We'll talk about the scale of those numbers when we're there.

For every risk I've seen in the 40% of the business that I've been in, and I think there are two opportunities. So without preempting what we think we can deliver, we'll wait 'til we've finished the full asset review. We think there's certainly upside with the implementation of the operating model. And the basic changes we see in the business, we're seeing sorts of things Norman's Kolomela work, those sorts of things, we see lots of those things already in the business.

And that will be a key focus of our work in terms of making sure that, whatever gap we see in the $3.5 billion, we're looking to drive in getting those two right, shrinking and certainly expanding here.

We see these three areas as sustainable business improvements based on the work that we've done so far, and based on some good work that's already been done. What that does, from our point of view, it certainly gives us a real earnings' kick here by 2016, but it gets us to that 15% target at a tough time in the cycle, which is where you need to be. We want the 15% to bring the sort of return we can deliver at the tough point in the cycle. And beyond that the average would be what it would be based on the prices for the commodities we're in.

Then we look at how we're deploying our capital against those metrics. So that's how we're thinking about restructuring and driving this business. And, by the way, it's the same conversation around cash flow. Cash flow and return on capital employed, we're trying to make sure that that is the same conversation, because ultimately, that impacts the dividend conversation, or whatever else we choose to do that enhances value for shareholders in terms of returns.

We will, in November, give a sign of what we think the scorecard should look like against our seven key value metrics. And what we'll be looking for is feedback from yourselves on how we can improve that transparency. What we're trying to do is provide you with a more transparent and open look at the business. Looking to your feedback we may not always agree, but we're looking for that feedback so that we can report our progress, one way or the other, in a more transparent way and on a regular basis.

And I think there are some good examples, probably outside the mining industry, that we're going to draw on, to think about how we improve. Because at the end of the day, if people said, this is a 2016 recovery program, people need confidence that we're tracking to those targets through that period. So that's going to be very important, and central to the way we try and manage our relationship with you, on a go-forward basis.

To put it as simply as we can, for us it's about making sure the engine is working, and delivering to its potential. It's a task that never ends; it's something we'll continue to work on as we go forward, but we can see significant opportunity.

11% delivery on budget is unacceptable. The opportunities for improvement that we see are significant. We put those two pieces together, we think we can make a material impact on the business, which, at the same time, addresses the risks we see.

In terms of capital, it is a different conversation today than it was three months ago. It is yet to be defined or refined. It's not perfect, but it's certainly far more robust, and has us thinking differently about the projects we have in the pipeline.

And finally, recognizing that we need to build better relationships with our key stakeholders, clearly people see South Africa when I talk about stakeholder relationships. Absolutely. There's a lot of work we've got to do. There is an engagement; there is a dialog. We're thinking about how we go forward, and I think that's just as critical.

But so too it's in Brazil. The approval processes that we've stubbed our toe on is as much about stakeholder relationships as it is about technical stuff. We've got to get that right. And in the world, today, if you live in Australia and the problems that we've generated there, in terms of mining taxes, as an industry we've got to engage much more effectively. And we've all got a responsibility to make sure we do that well, and ensure that we're delivering returns.

So for us, ladies and gentlemen, that's the end of the Driving Value presentation. It is a works in progress. We will be coming back in November with some updates and more clarity around that operating engine that I think is the clue to driving value. I think we've got time to take some questions.

QUESTION AND ANSWER

Des Kilalea - RBC Capital Markets - Analyst

Des Kilalea, RBC. Could I ask you to give your view on the risk you face in extra capital at the port at Minas-Rio because of your partners' problems?

Mark Cutifani - CEO

We're in control of the construction, so from our point of view we're making good progress. We don't see any exposure there. If we were to have to fund the partners share it's a $300 million.

Jason Fairclough - BofA Merrill Lynch - Analyst

Jason Fairclough, BofA Merrill Lynch. A couple of questions on the numbers, just to make sure I've got them right here, Mark. So the $1.3 billion that you've talked about from Commercial, from projects and from overheads, would you define that as aspirational, or you've already clearly identified how you're going to achieve it?

Mark Cutifani - CEO

Clearly, identified where it's going to come from. We'll break it out in detail. What we're working now is the execution plans. So we know what we can deliver; we can see how to get those numbers, and what they are. We're building the execution plans as we speak. We'll give you sight on those in November. We believe that we can readily deliver those numbers by 2016, but we're now putting the detailed execution plans, to make sure they're solid. But we're happy with the numbers. Those numbers, we're very confident on.

Jason Fairclough - BofA Merrill Lynch - Analyst

Is there an upfront cost to deliver that $1.3 billion?

Mark Cutifani - CEO

No, that $1.3 billion is net of cost that we would need to put in place to deliver that figure. And they're not significant, and in fact in many cases, let's say for in terms of the Singapore hub, we've already got 60 or 70 people in Singapore already, 90 people in Singapore, so a lot of that work's been done.

And by the way, we're building off some good stuff that's already been set up. What we're doing now is looking at where the value is, and driving that very hard. And I guess, from my own experience I think we should be doing better on some of our realized prices. And that's from experience in other areas, so it's a little bit of both, but we're pretty confident those numbers are good.

Jason Fairclough - BofA Merrill Lynch - Analyst

Just a follow-up on the other number you mentioned was $1.4 billion in earnings available from hitting your targets, and again, you said that maybe some of that was due to overly-optimistic targets. So how should we think about that?

Mark Cutifani - CEO

Can I split that into two parts? Minas-Rio; Grosvenor; the Platinum restructure; the Copper recovery. That work is in that first step which is stuff they'd already planned, and is in execution. That's about $1.4 billion, depending on the price deck you may use. So based on current prices, it's worth about $1.4 billion. We've got a little bit of contingency in that number. So that was that first step.

The second piece, I've said, look, in round terms we can see $1 billion risk to earnings, if, for example, Sishen's not able to get the tonnage they'd like to get. Seamus [Met Coal] is a little bit slower, in terms of getting some of his improvements. So we see some risks in the business. The copper recovery bounces along. We're a bit tight on stripping.

But on the other side, based on the asset review on the first 30% of the assets, we see well north of $1 billion worth of opportunities. What we want to do is finish that work off on the 90-odd assets, so in November we talk about the balance sheet, the risk, and opportunities. At the moment, I think it's about 2 to 1, but what we want to do is do that properly, so $1 billion versus $2 billion, net there's another $1 billion at least. And I think it's more significant than that, but we don't want to put that down without it being underpinned by a very clear view on where it's going to come from, how we're going to deliver it, and we start putting the execution plan.

So I'm just being a bit cautious. After 3.5 months, I think it's a bit optimistic for me to expect that we'll have all those things in. And I've been in this game a few years now, so if you look at where did I get caught, I was optimistic on some, and didn't see some of the risks. I think we've done a much better job this time of getting that balance right.

Jason Fairclough - BofA Merrill Lynch - Analyst

So you think, though, that $1 billion is a conservative number to work with?

Mark Cutifani - CEO

I think it should be, yes.

Jason Fairclough - BofA Merrill Lynch - Analyst

And so we take the $1 billion there, and then the $1.3 billion, and we take that after tax?

Mark Cutifani - CEO

I'm not going to give you any more than I've given you (laughter).

Tony Robson - BMO Capital Markets - Analyst

Tony Robson, BMO Capital Markets. Mark, the review in November sounds like it's going to be more on the asset optimizations, and how to squeeze more blood out of the stone, and less on asset sales? That would be the first point, as we shouldn't expect too much of asset sales.

Second point, from that, how would you see the balance sheet and the debt levels, going forward?

Mark Cutifani - CEO

Two good observations. Firstly, it's a tough market to be selling assets, so don't get excited. I think a few guys have gone out there saying, I'm going to sell all sorts of things. When they got out and tested the market, they found a few other

surprises, that people aren't buying much. And so I'm not going to be out there. I don't think we'll be out there in November, telling you we're going to sell lots of stuff.

There are certain things we've got to view, that if the opportunity comes we'll let go, but I don't think that'll be central in the conversation, Tony, other than to point to the assets that need lots of work. So we're open to say, that asset, that asset needs lots of work. That's what the team's focused on. So by implication you'll be able to see what we're trying to do.

The second part, or to go to your question, I think it really is about making sure we're clear about where the risks are, and what we're doing to address those risks. And we're clear about where we see the opportunities.

So for example, if you look at Chris' work in Platinum, I think he's done some great work in the restructuring. He's now driving the detail in execution, so he'll be able to give you an update on where their thinking is on the execution in Platinum. So it's like peeling a layer of the onion off to give you a better insight in terms of how he's going to get at that value.

Now I've just come from a strategy session and I think people will be very excited with what they're going to see from Chris and the team in the next six months. Above and beyond what they talked about, I think I am; I'm certainly very excited based on my first Board meeting. So we're going to peel layers off the onion, Tony.

In terms of debt levels, Rene, do you want to talk about where we're going?

René Médori - Finance Director

Yes, thank you for the question. We anticipate the level of CapEx to remain pretty high for the next two years; I gave the guidance for this year \$6.5 billion to \$7 billion. Next year, it will peak between \$7 billion and \$7.5 billion, so we expect to continue to see an increase in the level of debt, both this year and next year. But we are comfortable that we have the balance sheet and the headroom to complete near term projects and then we will start to see a potential decline in CapEx beyond 2014, and start to be cash positive.

Mark Cutifani - CEO

Tony, just to finish, can I add just to that point? If you look back at the steady state, then capital number absent the projects, we're in the range \$5 billion to \$5.5 billion. Part of the opportunity we think is to get that number down as well. So that will be part of the technical review and the process review to get that number down as part of the contribution. But that's going to require a bit more work. But just supporting Rene in that number, and obviously the improvement from where we are around somewhere between \$6.5 billion and \$7 billion; next year it's a bit higher again. So there's a good peel back in the capital out there as well.

Tony Robson - BMO Capital Markets - Analyst

A quick follow-up sorry, if I may? Potential JV partner for Minas-Rio?

Mark Cutifani - CEO

Yes, we've had a lot of enquiries from people, some serious, some not so serious. What we then said is look -- and people know that I've got a view that we should be syndicating some of these types of projects. We've seen guys come out there and get into trouble with the size and scope of some of these projects. I think the industry is changing significantly, and we're not talking about it much, but most of these deposits now are starting to look fairly similar. And I think those teams that can actually get their operating efficiencies right, more like an industrial logic, will actually do better than others, because I think the cost curves are flattening, so your ability to do better is going to be very much around your ability to execute and operate very efficiently.

So I think there's an opportunity to maybe look at a partner. We have started the process. I'll have to say that, from my point of view, I have a mixed view in doing that at this stage because I think, within the next 12 months, we're going to show that we've significantly de-risked the project.

But we have sufficient interest for us to open a room, to have a chat, to see if someone there can see the value we can see in the quality of the asset, both from a cost perspective and a quality physically. But we're well on the way to de-risking the project and maybe it will flush someone out that's willing to pay the right money and it'll be for value. That will be the conversation.

It's not a fire sale. We don't need to do anything. We've got plenty of headroom. We've got a good position. Obviously, with this work we're going to improve our cash flows absent other interventions. So it will be about for value. And we'll see where we go; we may be happily surprised.

Myles Allsop - UBS - Analyst

Myles Allsop, UBS. Just a couple of questions, again on the 15% target, return on capital employed target. How would you adjust that if there are impairments going forward, is one question?

And then the other one is just thinking over the last 10/15 years, there have been some big challenges, and your predecessors have struggled to deliver the potential from Anglo American, what gives you the confidence now? Obviously, this is three or four months into the job, so we won't hold you to it, but what gives you the confidence (laughter) (multiple speakers) where other people have failed?

Mark Cutifani - CEO

Look, I think, in looking at Anglo American at other businesses, there's been some good work done there, and interestingly, and looking for efficiencies, there's already been a number of reductions that have actually been put in place. But there are weaknesses in the organization. But I've got no doubt, and I was asked the question earlier this morning -- if you went somewhere else, would you see something different. Of course you would; you'd be in a different conversation.

So I don't think -- there's a lot of work we've still got to do to improve our competitive position. And the budgeting stuff is more an indication of we haven't got those sorts of issues in control. But in my view, there are certain spaces in this industry we own. I think the sustainability work has been exceptional; I think the relationship stuff that's been done is as good as I've seen anywhere in the industry, but we've got to get the engine working to its potential.

And I think we've seen some really good efforts right across the business in starting that move. I think the guys have been doing that for a little while, and I think we can build off that share and improve the performance.

In terms of impairments, the point I'd make here is a starting point from where we see today. In my view, impairments shouldn't change the target or the imperative that we've laid down today. And it certainly would not be my intention to come back and clearly, if we're going to make some decisions about certain projects, there may be some balance sheet implications.

We're not there yet, we've still got a lot of work to do. If we did have a view, we would have already done them. But I wouldn't use that, and I don't intend to use that, as an excuse for changing the numbers. The numbers are what they are today. But what we will do is be very transparent in the process so you can call me to account if the numbers change. And I've got no doubt there will be some changes.

But we want to make it transparent. We want you to see it so that you can judge on the way if we're making the right calls. And I think that's the issue of trust that we, as a Company, and I think the industry, has to rebuild with our shareholder base.

I don't think we've been as good at reporting the risks, and I think that's an important change that we're going to try and make and be more open and talk to.

As I shared in my last job, I think one of the things that we didn't articulate -- well, even though we tripled earnings, we had the highest growth and return on capital employed across the industry, but what we didn't articulate well were the risks that we saw in South Africa, particularly on [grade] and industrial.

Now some of those risks emerged in the last couple of years, but ultimately, when you stand back and look at the numbers, I think we could have done a much better job articulating some of those positions. And certainly from our point of view, that's been a really important conversation amongst all of us, Chris and the team in Platinum.

So I think we can do a much better job. I think the industry can do a much better job, and I think we're looking outside the industry. And with a Chairman, like Sir John, he's got lots of contacts and he's sharing all of those with us in terms of things we could do better.

I hope that answers the question.

Mark Cutifani - CEO

Thank you. Can I take three questions from my South African colleagues?

Nic Dinham - Cadiz Securities - Analyst

Nic Dinham, BNP Paribas Cadiz. Could you perhaps give us your thoughts about how having listed entities helps or hinders your ability to achieve your targets?

Mark Cutifani - CEO

I think it certainly adds a level of complexity that we've talked about. But if I could say in terms of Norman's participation, Chris' participation and Philippe being new to the team, in practical terms, I haven't seen any barriers in sharing good information and improving the business.

The added complexity comes through making sure that we're respectful and appropriately managing our positions with respect to minorities. And that's where I say to Norman and Chris, obviously, in the roles they're in, that your job is to manage for all the shareholders. We will be robust in giving a shareholder view, but at the same time, we'll be respectful and make sure that we're not inappropriate in terms of dealing with the minorities.

But as the major shareholder, we have a view and we expect it to be heard. And so balancing that and being part of the Group called Anglo American has great advantages for the Group, and I hope that the operating models and the stuff we're doing, we're able to show value.

And if I use Norman's Kumba, the fact that we've got Minas-Rio and the quality that that material has, that may provide all sorts of opportunities for Kumba to get a better price for its product. And Norman and I have been talking about some ideas; David and the team have been articulating where the opportunities may be.

So I think there's a way of getting that balance, but it does add some complexity. I guess in one respect, the market -- there's a see-through price to the market, so that helps pricing for value, although I still think we're seeing a discount within the consolidated Group.

So from a practical point of view, I'm on some Boards. We have to be sensitive to the relationships, but I don't think there's a practical barrier in terms of tapping synergies. And as an Executive, that's why we've put the operating Executives on the new Executive Committee, or GMC, as we call it.

I think we need those guys at the main table driving the whole strategy process across the Group. And that's a significant change I've made in the organization that probably didn't come out as clearly as it could have been earlier, and I think that's important in terms of improving our effectiveness of working with those teams as well.

So some complexity. The good side, you can see value, and I think, hopefully, we'll manage that effectively.

Anna Mulholland - Deutsche Bank - Analyst

Anna Mulholland, Deutsche Bank. Two quick questions, please. The first, Mark, you mentioned that there's potential synergies that you'd be looking at across putting the Thermal and Met Coal businesses together. Could you give us some colour on what you think those synergies could be?

And then the second question is, you've basically reduced your planned capital expenditure for this year by about $1 billion. I'm just interested in where that saving came from. Thank you.

Mark Cutifani - CEO

Okay. On synergies, and this is still a very early part of the process, from an operating point of view, both Seamus and Godfrey have had some great improvement programs they've been implementing across the Group. They're actually quite different in character, and so I think there's a real opportunity to share that more effectively than we have been through the structures that we've had.

Secondly, we're producing thermal coal in Australia, taking it to market. We're producing thermal coal and exporting coals globally. I think there's an opportunity whereby we can mix and match and blend coals products to market.

And if I take -- and I'm going to use Glencore as an example, and I spent a lot of time thinking about the Glencore model when I was in Inco looking after the Inco interest in nickel wars, as we called them, trying to understand how Glencore created value. Understanding geography arbitrage, timing arbitrage, quality arbitrage, I think there's a 2% to 4% net price performance improvement if you get those connections right.

Without going into the detail of that today, I think there's a real opportunity to get those right. And as we expand and build those businesses and the guys continue to improve productivity, I think there's more and more of some connections that we can tap into for both businesses that improves the quality, both from an operating point of view, and in terms of a realized pricing opportunity.

Now they're already on the track and doing some good work. I think we can make that more robust. There's probably some efficiency gains in terms of the way we operate, and we were thinking about those sorts of things when we talked about the broader efficiency improvements across the business.

In terms of capital, you talked about $1 billion. I'd like to say that we've been very aggressive and been able to carve out, but I'd have to say a good part of that is the timing of expenditures on Minas-Rio. And, Rene, do you want to talk about the rest?

René Médori - Finance Director

Yes. In fact, reduced Capex for the year is close to $1.5 billion if you adjust for the change of accounting for waste stripping. Half of that is Minas-Rio. We are planning to spend this year $2.1 billion via the $2.9 billion in our budget. That's the reason that Mark just mentioned. And then the remaining $700 million is across all the business, the regular business Capex, but also, your view that we are progressing in terms of looking at the pipeline of products.

Mark Cutifani - CEO

Yes, I think that point about squeezing the capital, I think costs are tight, prices are coming down. We wouldn't attribute that improvement in the Driving Value program. That's the sort of thing we do under normal circumstances. Some of those won't come back, because those earnings will be tougher in any case, but most of that is a consequence of normal activities.

In the Minas-Rio case, I'd expect that the timing will pick up certainly in the second half, and the first half of next year, as we move our way through execution on the project.

Leng Lau – Group Head of Investor Relations

So we'll go to questions on the phone. Thank you.

Caroline Learmonth - Absa Capital - Analyst

A couple of questions. I may have missed it, but can you give us some timing on when you will be able to give us more detail on the asset review, and on the detailed scorecard?

And then just on Minas-Rio, given that you've used up your contingency in terms of CapEx, are you comfortable that there isn't any upside risk to your cost number there?

And then just finally on Barro Alto, what are the CapEx implications of the rebuilds or is that fairly immaterial? Thanks.

Mark Cutifani - CEO

Okay. On Minas-Rio, we haven't used up our contingency. We had our contingency allocated to various elements in the project, but we haven't consumed it.

In terms of the schedule, I think the schedule's absolutely critical in making sure we come in with the right numbers. Based on what we've seen so far, I talked about a two to three week delay on the beneficiation plant.

Paulo and the team have a recovery team working on that to make sure we still deliver at the right schedule. So we're not consuming any more contingency than we would otherwise do. If we had additional mobilization costs with the project team to close that gap, the change in capital would be immaterial against closing the [business off] at the right time.

However, the main issue will be to make sure we hit that date. We don't see major capital exposures if we hit that date, but if we have a material delay, or a delay that goes beyond a couple of months, then I think you're then talking numbers, I think it's in the range of $100 million a month. Paolo, is that right? But certainly, that's not the conversation we're in, and we do have contingency that remains unallocated.

In terms of the second question on Barro Alto -- third question, sorry, on Barro Alto -- sorry, the asset review, November is about unpacking the results of the asset review, and to give you shape around the risks and the opportunities.

Probably I think second half of November, [Len] is when we're scheduled. So that's when we'll do that work. And it's really about giving you more shape around that middle package of costs and benefits that we see in the business, or risks and benefits that we see in the business.

On Barro Alto, the current numbers that we talk to on a furnace rebuild is about $60 million. That is not a number that is in the budget. It still has to be checked through as the teams build the schedule. That's the number that we've got, based on previous experience. Now we will agree looking at correcting a number of other things as we take the furnaces down. So those numbers may move, but we will give you a better update in November as well.

Caroline Learmonth - Absa Capital - Analyst

Thank you.

Mark Cutifani - CEO

Got more questions, guys? We do have one more question here in London.

Fraser Jamieson - JPMorgan - Analyst

Fraser Jamieson, JPMorgan. Just going back to your points around the asset performance, and looking at 15% return on capital employed being an absolute base case, and a number of the assets not in that position, and you would potentially think about selling those. Obviously, as you've said, it's not an easy market to be selling assets in.

Are you prepared to put any kind of timeline on how long you would accept substandard returns, before you would think about potentially other solutions, shutting assets down, spinning stuff off? Are those kind of discussions ongoing at the moment?

Mark Cutifani - CEO

Two different conversations. Firstly, if an asset's draining cash, and we don't see a very short recovery, and I'm talking months, we would consider closing the asset. I think that's the first point to make that you cannot be -- and that's why that analysis we did on those assets that aren't carrying their weight, that's the first thing we do is make sure you take out those operations that aren't -- or do something with those operations that are actually draining cash resources. Can't afford it, won't accept it.

We have to have a recovery plan; we're tracking it, or it will be closed. First point. That's a tough part of the business, but if we're going to be successful, that's the first thing we have to do, and make sure we do.

And Chris has done that with his Platinum business; he's made that very clear. And in agreeing with the government on a deferral of that last shaft, we had to do it on a cash positive basis. A lot of the material is already developed before it can be done, and I think we've come up with the right solution.

The second part about the 15%, it will be about the plan and their ability to execute the plan. So we will track them on a quarterly basis. And that's why, for me, if they miss two quarters in a row on their recovery plan, then they have to really front the whole committee in terms of what they're doing to change it, and why should we believe them in terms of changing it.

So it's a whole different discipline. In those cases, we wouldn't shut an asset if it's generating cash. What we'd look for is an opportunity to sell an asset or do something different with the asset, so that it's carrying its weight, because that's about opportunity. That's about allocating that capital to a more effective part of the portfolio if it doesn't get a return.

So we have to think as portfolio managers in terms of the capital base, and we'd reallocate it. And so there's some tradeoffs. But we wouldn't shut an asset that's generating cash; we'd look to [parlez] that, or sell it preferably, and reallocate the capital more effectively within the portfolio, or ultimately to shareholders, which is where everything should be measured against. Okay?

Fraser Jamieson - JPMorgan - Analyst

Yes. And can I squeeze a very quick one --?

Mark Cutifani - CEO

Half a question.

Fraser Jamieson - JPMorgan - Analyst

Yes, sure. Dividend obviously got rebased up, or there was quite a big increase last year. To what extent do you -- are you comfortable with that? It's clearly, and depending at how you look at it, being funded from debt over the next couple of years, puts more pressure on the cash flow recovery program. Was this the opportunity to rebase back downwards?

Mark Cutifani - CEO

I think if we were to rebase downwards, we would have sent the wrong message to the market about how we're thinking about shareholders and what we intend to do in terms of the business.

I think we've got it right. I think agreeing that -- we're talking about the recovery plans; we're talking about the improvement plans. We've yet to see those in place. The intention is to improve our ability to pay dividends or to direct funds to improve shareholders' performance -- share price performance. So I think it's the right message.

Clearly, as we develop in the next 18 months, we'll look at the capital. We'll look at whether we've been able to bring a partner in, or maybe sell some assets to continue to improve the balance sheet. But my intention would be to support the strategy that the Board articulated in terms of continuing to improve the dividend return to shareholders. And I think everything we've talked about today is consistent with that strategy. That's it.

Fraser Jamieson - JPMorgan - Analyst

Thanks.

Mark Cutifani - CEO

Okay guys. Thanks, everyone. Thank you for the opportunity.