

CHECK AGAINST DELIVERY

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Mining – A Driver for Growth

“Improving South Africa’s competitiveness as an investment destination”

ACKNOWLEDGEMENTS

Thank you Professor Nicola Kleyn for that introduction.

OPENING REMARKS

Good evening ladies and gentlemen. It is a pleasure to be back here at the GIBS business school in a city that I called home for almost six years. Johannesburg is a great city, with a vibrancy that sets it apart as the commercial hub for Southern Africa.

Given my youthful appearance, many of you will not believe that I am now approaching 40 years in the mining industry, having worked across 25 countries and most of the major mined commodities.

I thought I might start by sharing a recent conversation I had with a Chinese business leadership group in London. In that conversation we explored some of the

challenges China is now facing as it moves from a State Development Model to one where private businesses must play an increasingly more important role. We talked about political leadership versus business leadership and the different imperatives that drive the behaviours in these respective areas.

In an economy such as China, the scale and breadth of its internal market have provided a great base to work with, which is something we don't have the luxury of sharing in SA. Relatively low salaries, improving productivity levels and the propensity of the Chinese people to put money away in the form of savings have together helped create a virtuous cycle of investment in infrastructure, relative wage improvements driven from productivity improvements, and continuing investment.

However, with industrial capacity now exceeding internal consumption, China's industries have to improve quality and reduce costs in order to compete with the best in the world to win market share for their products. Competitive growth will only come as discretionary expenditure supports increasing consumption of new products and services.

While I am only reflecting on only a limited part of a much broader conversation, I wanted to raise a point that we did cover in that sweeping landscape. The issue of South Africa and its State Owned Enterprises (SOEs) was a point of comparison. SOEs play a crucial role in our economy in South Africa, as they do in China, and to a large extent the ability of South African industries to compete globally is influenced by the effectiveness of our SOEs. Many South African industries rely on and intersect with the services provided by SOEs at critical points, whether relating to the provision of energy, rail or port services, for example. Unless all links in the chain develop at the same rate and in collaboration with one another, a pinch point will appear and the chain will break or at least be severely constrained.

We can see various pinch points with SOEs here in South Africa and no one in this room needs reminding of our current challenges. However, they are an example of the need for private enterprise and government to work together towards achieving broad based economic prosperity. SOEs form an integral part of the backbone of our economic and industrial infrastructure – they must be prioritised for investment and they need to be led through the lens of commercial decision-making. So, as we have adopted a State Development Model that assumes almost independent development

of both state- and privately-owned enterprises – we need to create the conditions that will help them both be successful, but at the same time recognise their fundamental dependence on each other. Now, given more than 90% of our SOEs are losing money we must start to reflect on why this could be so. Further, given the tough conditions our SOEs are experiencing, why would we be surprised to hear our private companies complaining that business in SA is tough? The key question we have to confront together is pretty clear – what can we do to help both groups be successful for the good of South Africa’s competitiveness and economic growth? At the same time we must recognise one cannot fund the other. In China, they are also confronting this dilemma. However, they have a very different model – that is – each must survive and make the tough decisions required to survive in this competitive world. In our system, a government that supports uncompetitive SOEs cannot criticise private enterprise for taking the necessary actions to survive in these tough times.

We have to survive these tough times together. For SA to be successful it cannot be left to one group to carry the burden and lead with competitive and efficient business practices – we must work together as partners to create a sustainable future together.

And as real partners we must speak the truth and be constructive in speaking to that truth. I hope my comments tonight are taken in that spirit of wanting to be a true partner in creating the new South Africa.

INTRODUCTION

To try to do justice to the chosen topic, I would like to cover the conversation in 3 parts.

First, I would like to start by focusing on what I see as South Africa’s natural advantages. Sometimes we forget that we do have some advantages, and that for us to be successful in a global competitive environment, we must use every tool we have available to us. Naturally, however, I’ll also say something on the key constraints encountered in the mining sector in South Africa.

Second, the mining industry is one of the foundations upon which South Africa can build its future. It can be an engine in its own right and it can help us develop skills and expertise that can be applied across a much broader range of businesses.

Third, the adoption of the National Development Plan must be something that brings policy, business and people together. It must work for business, it must work for the government and support its social commitments, and it must work for the people. South Africa cannot build a sustainable future without touching these three points.

We all have a part to play and, as I have said before – the future of South Africa is too important to be left to politicians alone to do the heavy lifting. We all have a role to play in encouraging dialogue across South Africa's many constituencies, and we must understand how we can work together to make a difference.

OUR NATURAL AND CREATED ADVANTAGES...

So, let's start with our mining industry. There's a lot of doom and gloom around right now concerning South Africa's mining future. So let's remind ourselves that we have a wonderful country, endowed with both natural and man-made riches. To realise our potential, however, we must use every advantage we have... So let's start with our points of competitive advantage:

- We have some of the world's greatest **mining assets** and **minerals resources** – according to estimates, worth between 2.5 and 3 ***trillion*** dollars (although perhaps not at today's prices!).
- We have a highly developed **physical infrastructure** of roads, airports and railways – including dedicated rail links and ports for the export of minerals – and mobile communications;
- Our position in Africa as the continent's most diversified and sophisticated economy – with first-world financial-services, including a stock exchange that is 19th globally in terms of market cap;
- Our world-class universities and business schools;

- Our international reputation in the field of medicine;
- We are a first-class tourist destination;
- Our people, who are eager to learn and upgrade their skills – and who are increasingly entrepreneurially-minded;
- We are a shining beacon for African democracy, with our parliamentary system of government, our Constitution, independent judiciary, free press, and our vibrant public and private institutions.

As a country, we have a lot going for us.

... AND SOME OF THE CONSTRAINTS ON THE MINING INDUSTRY'S COMPETITIVENESS...

Yet the South African mining industry is becoming increasingly uncompetitive for a number of reasons:

- Ore grades continue to decline – which places a huge question-mark over how much of our vast mineral endowment is economically extractable. Obviously, we cannot develop these resources at a cost greater than the anticipated realisable price;
- Many of our underground operations are becoming unviable – as we have to mine at greater depths, with a consequent increase in unproductive time to get to and from the working face;
- Here, as elsewhere, the mining industry has a legacy of inefficient capital allocation, with cost over-runs that have been typically of the order of 20%-30% on major projects;
- Labour, energy and other input costs continue to outstrip inflation – so productivity is steadily going down;

- Because of the ongoing squeeze on costs and returns, the South African mining industry's operating models and technologies are lagging those in other mining jurisdictions;
- We are being constrained by expensive yet inadequate and unstable electricity supply, and by capacity limitations on State-run rail links from mine sites to export terminals – back to my original point about the need for focus on the SOEs;
- Investors in South African mining have been scared off by uncertain mining industry regulation and unfriendly investment policies. This has been reflected in the country largely missing out on the recent mining boom, in growing difficulties in attracting capital, in the ratings agencies marking down mining companies here... and in the travails of the Rand.
- Our long history of adversarial labour relations – and particularly the trust deficit between labour, business and government – which has been accentuated by the Marikana tragedy. This is severely hindering the creation of a more efficient mining industry, and of a more competitive “South Africa Inc.”

On the subject of the Farlam Commission, we take to heart the recommendations of the Farlam Report. We also call on all players in the industry to reflect and learn from the Marikana tragedy. We have made significant progress as Anglo American in the areas of the development of mining communities and the remuneration and housing and living conditions of our people. We acknowledge, though, that there is more work to be done.

- For several years, South Africa's mining industry has been underperforming its global peers. Today, South Africa falls outside the top 50 mining jurisdictions and is languishing at No. 56 in the World Economic Forum's Global Competitiveness Index, having slipped another three places in 2014.

If mining here had come to the party with a growth rate matching the rest of the economy over the past 20 years, we would have seen annual average growth over that period rising from 3.2% to about 4% – a significant 25%

uplift... And there could have been some 20% more jobs – equivalent to 260,000 direct and indirect positions.

MINING AND ITS IMPORTANCE TO SOUTH AFRICA

Despite the challenges on many fronts, they are not insurmountable and South Africa's future is still inextricably linked to what happens in its mining industry:

Mining remains the country's most important industry, contributing about 18% of South Africa's GDP, 60% of exports, more than 500,000 direct jobs, and more than 800,000 indirect jobs. Through taxes and other benefits, mining pays for 20 cents in every Rand that is invested in public infrastructure and social benefits.

Moreover, we are still investing heavily in its future. My own Group alone has a multi-billion Rand investment programme in turning around our mines and in new projects across all of our business units here – Iron Ore, Coal, Platinum and Diamonds.

Traditionally, the mining industry has been a great source of competitive advantage for South Africa. But, if we cannot at least arrest its decline in productivity and reduce our costs, we won't have a viable industry – and the significant decline in shareholder value that investors have experienced in the last 10 years will continue.

THE NATIONAL DEVELOPMENT PLAN: BUILDING OUR ROADMAP

How can we build a roadmap for South Africa's future?

In order to create a competitive South Africa, government, business and labour must work together – there is no other way. The government has a vital role to play in leading, facilitating and encouraging dialogue around accelerating the implementation of the National Development Plan. So we must build bridges and find common ground – hard as that may be – and do so on the basis of mutual respect and trust.

Anglo American is open to debating the difficult issues and to playing its part in building consensus with all stakeholders. The time is right for a **national conversation** – to map out the way forward for South Africa, and to provide its people with greater opportunity for a better life by becoming a more mature, modern, competitive, just and prosperous democracy.

As a mining industry leader, I think our sector should be putting its full weight behind the structural reforms identified in the NDP – and, specifically President Zuma’s 9-point plan. I believe the latter shows considerable foresight in looking at the long-term needs of the country, particularly in regard to energy, broadband, and enhancing the value chain in mining and in agriculture.

Government must play its part in creating an attractive climate for investment

Mining, however, can only again become a core driver of South Africa’s economy, helping to deliver on the great expectations placed upon it in the NDP, to the extent that the conditions are put in place to support an attractive climate for investors.

As we look at the resources investment landscape here, and the challenges the mining industry is facing, I would like all of us to keep in mind what one of Anglo American’s board members, Jim Rutherford, emphasised at the Joburg Mining Indaba last year: that **investment follows returns** – *not* the other way round.

Where investors don’t see a worthwhile return, they won’t invest. In such an investment climate not only will it be difficult to attract the long-term FDI flows needed for new mines, but also the necessary financing just to stay in business – and all the implications that has on investment decisions around refurbishment, extending lives, replacement of existing mines, and so on.

And that means lower national tax receipts, fewer jobs and less sustainable communities. To think otherwise, is to show a profound misunderstanding of how modern global capital markets operate.

In boosting South Africa’s attractiveness to investors, however, we should not look to government to provide all the answers. Government does have a key role to play in facilitating and encouraging dialogue – and in encouraging and fostering an enabling

environment for the embattled South African mining sector, so that mining can make its rightful contribution to the NDP.

In short, I call on government to:

- Demonstrate a strategic orientation in appreciating that mining is a long-term business – and one of South Africa’s few industries that is able to give the country competitive advantage on a global scale.
- Provide greater clarity on ownership – we need to sort out the current impasse on BEE ownership;
- Facilitate consistent policies and legislation across government departments – investors need coherence and stability;
- Create and maintain the supporting energy, water, transport and other infrastructure required for businesses to function;
- Ensure that all mining companies compete on a level playing-field;
- Carefully consider the implications of declaring a mineral as being “strategic” in terms of investment appetite;
- Apply international commercial logic to the beneficiation of mineral products;
- Consider SA’s competitiveness when making amendments to the MPRDA; and,
- Honour its own commitments to our communities in the delivery of basic services and improving livelihoods.

Fortunately, there are those in government who appreciate what the industry’s leadership will need to do to break the mining sector’s downward spiral. Within government itself, I think there is broad agreement that government should provide more policy direction, including a less onerous and more flexible regulatory framework for the industry – because the current situation is deterring investors, stifling growth and denying South Africa of its potential.

In particular, I am encouraged that at last there is a greater degree of co-ordination, and sense of urgency, concerning plans to fix Eskom. Unless we can resolve the country's energy constraints, the mining industry, and the country, cannot sustain its current level of economic activity, let alone expand. Let us encourage this approach across all the enabling SOEs.

BRINGING ALL THE ELEMENTS TOGETHER

The mining industry today has to tackle an increasingly complex set of technical and societal challenges, in an environment riddled with regulatory and social uncertainty, and one that is in the midst of a commodity downturn that is bringing all these issues home to roost in a way that I, in my long mining experience, have never seen before.

In this scenario, I am not surprised that individual mining companies continue to demonstrate a silo-like insularity at times; for many, running one's own business, as opposed to considering what needs to be done in the greater industry, is tough enough.

But now, more than ever, we're all in it together – and it's only through bringing all the elements together that we'll start to climb out of our present situation.

Government's encouraging moves

So, first, let me give the State some credit where credit is due...

I think that Operation Phakisa represents an important initiative on the part of government to bring government policy, business and people together – with stakeholders from the public sector, business, academia and other elements of civil society collaborating with government in order to improve the implementation of the state's programmes and policies. It may well turn out to be a significant milestone on South Africa's journey to improve its competitiveness and attractiveness to investors. That is why Anglo American, (and I personally), will be an enthusiastic participant in the Phakisa mining lab, whose purpose is to develop a shared vision and growth strategy for the mining sector, with the aim of doubling real fixed investment in the industry by 2030. Or to put it in the context of my earlier points, to help the

government understand what we need to be competitive and profitable so we attract enough forward investment make our contribution.

Phakisa as a whole is a very interesting development as it demonstrates government's willingness not only to work together with a range of South African constituencies, but a keenness to look beyond its shores at Malaysia's proven 'Big Fast Results' transformation methodology, for example. I am greatly encouraged by Minister Ramatlhodi's enthusiasm and commitment to the Mining Phakisa, which is due to get under way in October, and I hope the mining industry for its part gives it its full participation and support.

Effective partnerships are key

Success in what I call bringing the elements together however, depends on the quality of the partnerships we all establish across the stakeholder spectrum. At Anglo American, our vision is to be partners in the future; working together to create sustainable value that makes a real difference. We understand that the welfare and ongoing prosperity of our host communities is as critical to returns over the long term as attracting investors and strong markets. We will only be successful, and secure an ongoing social licence to operate, if we *listen* to host governments and local communities, and engage and partner with them in an honest, open and transparent manner.

In South Africa, we have partnered with others towards the transformation of the mining industry, and the country, through:

- Our open forums in technical innovation,
- Creating BEE-owned and run mining companies of scale, which are able to compete with the established players,
- Our local-procurement initiatives are a value-adding instrument for the business, and provide the anchor for boosting economic growth in host communities. Our annual expenditure on suppliers based in the communities close to our operations is around \$2 billion, or around 25 billion rand.

- Our enterprise-development initiatives globally have enabled the creation of more than 90,000 jobs,
- Boosting the competency of our employees – from adult basic education and training (with a focus on maths, science and English), to building leaders and shaping talent. In this regard, I particularly want to mention the work our Platinum business has been doing to tackle the growing problem of employee indebtedness. In partnership with Summit Financial Training, Platinum is providing free basic financial training to all employees who request it, and also assisting them in any concerns or disputes they may have regarding their garnishee orders – including taking their cases to court,
- Every employee in our Group can join an employee share scheme. Some of these schemes, such as *Envision* at Kumba, have transformed the lives of many of our lower-paid employees,
- The Tripartite Health and Safety initiative between Anglo American, government and labour to improve safety performance, and which has now extended its scope to include key business priority initiatives such as community health, migrant labour, employee housing and employee indebtedness, and
- In light of Mining Charter III, we also wish to be constructively engaged with government to take forward the current transformation conversations in a manner that re-establishes South Africa's leadership position in the global mining industry.

In the same context of creating partnerships I think it is also important to share a conversation I had with a past mining industry union leader. In that conversation we both agreed we needed to restructure the whole working framework for employees to help improve productivities and reduce operating costs. In that same context we agreed salaries could rise on a sustainable basis because people would be improving productivity – supporting better salaries. However, the tragic observation from my very good friend was something I will never forget. His comment, we all know this needs to happen – but the minute any union leader puts forward such a proposition, they will be howled down by other competitors in their drive for increased membership. Those leaders seem to be more interested in membership than they are in the actual livelihood of their members. Now some may argue this

was a self-serving observation. But it has given me cause to reflect very deeply on where we are as a country.

We need leaders to stand up and lead. We need to debate these important points in a way that allows people to hear different perspectives and make their own mind up on what is right. They also need to have the courage to fail, as it is only in the face of failure can you demonstrate the passion and strength of your convictions to argue for what is right.

CLOSING REMARKS

Thirty years ago, Anglo American took the lead in seeking a way out of South Africa's political impasse when then chairman Gavin Relly led a delegation of South Africa's business leaders to meet the then-banned ANC in Lusaka.

I mention that not just to wave Anglo American's flag, as it were, but to show that our company has a long tradition of being a development partner that is trying to make a real and positive difference beyond the workplace and for society at large.

Leading a company in an industry with a profile such as mining, requires more than just doing the internal things well – we have to work collectively to create a policy and social environment for our industry to continue to grow and improve its contribution to society. We are committed to being solution seekers.

This means addressing the 'trust deficit' that in many respects has been widening between the mining industry and its many constituencies, and overcoming the historical lack of trust between the public and private sectors. In particular, if we are to create a more competitive South Africa, business and labour *must* work together. Our current deep suspicion of each other is simply not sustainable and is evidence to the world that the miracle of the Rainbow Nation is floundering, as it cannot get past self-interest and outdated ideological mantras.

This process of coming together is proving to be particularly difficult. However, as job losses continue to rise in the weak pricing environment for commodities I submit that we each have to put our differences aside and look for common solutions. To put the position more bluntly, the mining industry is and must modernise

technologies, operating models and management and work practices. We can see a way that will help protect jobs, but not without associated change that we all must navigate. If we are not met halfway in our need to change and reform we will continue our march towards creating a sustainable future with the courage that is needed to be successful. There will be many job casualties – not because we didn't have the courage to engage – but because we could not find partners with similar courage to help us write a new chapter to create a new future for South Africa.

Mining success is a prerequisite for South Africa's success

Our simple reality must be confronted, however – without mining and without investment in new capacity, we will not be able to support the delivery of a mining recovery, we will not be in a position to provide jobs, and we will not be able to support the delivery of the National Development Plan's objectives.

Our industry has to be successful if South Africa is to reap the full benefit of its mineral endowment. At the heart of the issue is how we get South Africa's mining industry back on the growth track, where it can generate relatively consistent and attractive returns over the long term.

Quite simply, it is because acceptable, consistent returns over the long term are proving so elusive that investor confidence has taken a beating, and why investors continue to shy away from the mining industry here.

So we need to turn the vicious circle that we are now experiencing into a virtuous circle, with the industry operating in a facilitating environment that is conducive to its making profits, and where investment attracts further investment. And that requires a shift in mindset on all sides – from business, government and labour – if our mining industry is to continue to be a crucial partner in development as a significant contributor to the fiscus, a major employer and a cornerstone for the ongoing livelihood of host communities.

- As an industry, therefore, we – along with business in general – have to step forward with confidence and conviction and play our part to find solutions to the challenges that now confront our industry. Our solutions must be based on

a clear and consistent approach to improving the attractiveness of the country and the industry as an investment destination.

- In that respect, I do feel it is right and fair to point out that the regulatory framework has become increasingly difficult to navigate and that the industry should show its willingness to work with government in simplifying this.
- Government could play an even bigger role in supporting the industry and to attract investment in mining – not least in providing encouragement to a new generation of business leaders and entrepreneurs.
- Above all, the South African mining industry itself has to be more productive. Only by doing so, will mining companies be able to both generate profits and safeguard employment through the cycles.
- And we'll only make significant progress on this if we can achieve the required technical, operational and commercial breakthroughs that other industries have managed, along with a significant expansion of the kind of business/government partnering we have seen in areas such as safety and fuel-cell development through our Platinum business in recent times.

I hope I haven't given you the impression that the industry itself is blameless in this regard. Some of us have been slow to come to the table when it comes to assisting government and showing we can be a true development partner – and there are still laggards when it comes to embracing transformation in such areas as: local procurement and supplier development, housing provision, migrant labour and safety.

Finally, we all need to change the nature of the conversation we have in mining so that all constituencies start to work together in tackling the constraints that are hampering the traditional powerhouse of South Africa's economy from being globally competitive once again. Only through success in this will the South African mining industry restore its competitive advantage, be able to attract essential foreign investment, and regain its rightful position near the top of world mining's Premier Division.

In the spirit of its being Mandela month, I would like to leave you all with a quote from our late father of this nation, "Sometimes it falls upon a generation to be great; you can be that generation."

Thank you.