Mark Cutifani Indaba Address
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"Making the right choices in the face of accelerating change"

We should not worry unduly about the market; it's largely out of our control – and some might say it is *out of control* or at least does not reflect the long term underlying fundamentals.

Faced with this turbulence, we must channel our energies on making sure we – as individual companies and as an industry – have the platform to seize the opportunities that are out there.

Introduction

Thank you and good morning, everybody…

Let me start with some numbers that reflect something of the scale of pressure on our industry…

- At the start of 2013, the aggregated market cap of mining stocks in the FTSE All-share was $555 billion; on 1 January this year, that was down to $169 billion. The equivalent figures on the JSE are Rand 2.8 trillion down to Rand 1.3 trillion.

- "Global mining stocks have lost $1.4 trillion of market value since 2011… more than the combined value of Apple, Exxon/Mobil and Google."

… That's pretty sobering stuff and should not be news to anyone in this room. But what can we see in a macro sense to give us some perspective …

For a start, while mining stocks, along with the oil & gas sector, have experienced the steepest price falls on the world's bourses, this is not just an extractives industry downturn. China's growth is moderating off a high base as the country's policymakers try to rebalance its economy from its heavy industry and infrastructure development phase towards a more sustainable and consumer-based economy. There is sluggishness in other emerging markets (India being the stand-out exception); slow progress in the Eurozone; and mixed (though broadly positive) signals from the US.

On the supply side, however, the industry has itself largely to blame, particularly in certain commodities. It's the old story of what appears rational to the detached observer – that is, to adjust supply to align with decreasing demand growth – may not make sense to the 'price maker' who, in seeking to at least maintain market share, sees the compelling logic of competitors being driven out of business, thereby ensuring that he's the last man standing. This strategy generally has a net negative effect.

There is no doubt that the downturn in mining commodities is having a major detrimental impact on people, supply chains and governments at every level. From Western Australia, to South Africa, to Brazil, Chile and the US, resource-rich countries had grown used to the fruits of healthy taxes and royalties in all their planning and budgeting. They now have difficult choices to make, as they've squeezed the pips dry on mining's golden goose – if you'll allow an Aussie miner to horribly mix his metaphors.

Moreover, we can't rely on a reversal of this price slump any time soon. For many of us in the industry, 2016 is already shaping up to be the most challenging yet. Opinions are divided on whether we have reached the bottom of the cycle… So things may still get worse before they get better.

Like the mining companies, the governments of resource-rich countries have choices, many of which will determine their *relative competitiveness* for attracting the next wave of mining investment, which will surely come.

For the miners, at the same time as many endeavour to repair balance sheets and staunch cash outflow, we are facing a great many other pressures – around water, energy, safety, the environment, social scrutiny, and so on. Addressing these will require us all to be much more innovative in how we plan our futures, both technologically and in the way we think about engaging with people. We need to adapt to meet the world's changing needs… If not, we'll be left behind.

All of this has led to questioning of mining companies' preparedness for the future. Are we doing enough to both withstand the pressures of the short term and, at the same time, doing the right things to get ourselves in shape for the inevitable upturn?

… Always remembering that preparing for the future should be all about ‘the art of the possible’ – that is, what we as companies *can* control.

Today, I will touch briefly on 3 themes:

1. **The world is changing at an ever-faster pace**

   I will talk about what that means for different countries and regions, including South Africa’s opportunity.

2. **… But we cannot merely look to the past to guide the future**

   The economic and social certainties of the past few decades (and especially the last commodity boom) may no longer hold true… So how can we do things differently? How can we be smarter?

3. **…and what does that mean for Anglo American – how are we evolving?**

   Throughout its long history, Anglo American has rung the changes many times. As some of you will know from what we set out in December, we are taking a very hard look at our business and we will be setting that out next week.

1. The world is changing at an ever-faster pace

Certain emerging economies are maturing. There is no doubt. Their needs are changing; and we must recognise and be in a position to respond to those secular trends.

China is moving from infrastructure-fuelled growth to a consumer-led economy. This will be bumpy, but it is a super-tanker that is not going to stop. Despite its slowdown (which may well be more pronounced than official figures suggest), in terms of *absolute* quantities of minerals, the dragon is consuming more in annual increments than it was a decade ago, when GDP growth was still in double digits – and it will continue to absorb more… much more.

India is following. The IMF predicts growth of 7.5% in 2016 – ahead of China. India presents tremendous opportunities, as do Brazil, Indonesia and others over the medium term.

The US is at the far end of the consumer scale and will long be a critically important market for global consumption – from cars and electronics, to luxury goods and jewellery. With all the distractions of China, people tend to forget that the US, with a ~40% share, is still by some distance the largest single market for diamond jewellery, for example.

Then there's **Africa**. The continent now has more than a billion people and is set to be a great consumer society, but when? Much of Africa, is only at the start of its journey, with a lot of work needing to be done to make sure it is in a position to attract the funding it needs for infrastructure as the foundation of its economic development…

… And funding relies on good governance and stable policy frameworks so that it is both available *and* affordable (and, hence, repayable). Nor must funding be the preserve of global institutions such as the World Bank, the IMF and the IFC on the one hand, and big state-backed players on the other. If Africa is to prosper, the private sector must not stand on the sidelines; it has an important role to play in enabling this – which governments must recognise and encourage.

South Africa of course stands apart in Africa and is advantaged in so many ways – with highly developed physical and financial infrastructure, world-class technology and medical science, an independent judiciary and, we all know, an enviable natural-resource endowment.

We are all well aware that South Africa is experiencing the fall-out from the global economic pressures and the effects of the downturn in commodity markets, like many other countries.

And, like every mining jurisdiction, this great mining country also has challenges of its own. We have seen time and again how a collaborative approach – between government, labour and the private sector is the way to find lasting and positive solutions – it is, for example, an incredible achievement of collaborative effort between government, organised labour and industry that South Africa’s mine safety has recorded its best ever performance in 2015, with fatal incidents less than 10% of what they were 20 years ago. We are once again pulling together – with business demonstrating more willingness to come to the table, and the government showing a greater receptivity to initiative on the part of the private sector – to ensure South Africa regains its place as a competitive jurisdiction for investment, including for mining.

Encouragingly, the South African mining industry has put its weight behind the Phakisa initiative of government, showing an appreciation for government's recognition of what needs to be tackled, and urgently – from broadband constraints, to agricultural reform, to the competitiveness of the mining industry – it is a global market, not only for mining, and South Africa must be in a position to compete.

It is in all our interests that uncertainties are resolved in order to leverage the next upswing, which will be a great opportunity for South Africa's next phase of economic growth and social upliftment.

2. We cannot look to the past to guide the future

We are all often guilty of this – and it is human nature – to look to the past as we try to figure out how we must change for the future.

As a mining industry, we must of course learn the lessons of the past, but we should not necessarily look to the past as a guide to the future.

For example, looking at things more broadly, we have seen how disruptive technology can be. In Africa and in many developing countries, mobile phones have largely displaced any plans for the hugely expensive infrastructure required for universal fixed line telephony. They have also disrupted – in a positive way – long established banking models based on networks of physical buildings. What else must we and those responsible for national planning be thinking about? What's next? What is going to happen and, more importantly, what is not going to happen?

Should developed nation governments really be investing hundreds of billions of dollars in increasing commuting capacity on the roads and railways, instead of in next generation broadband to enable people to work seamlessly from their homes? Technology is changing and society's needs and expectations are changing in tandem. One is driving the other; it is perpetual.

Coming back to mining, we are fortunate in one respect: the physical nature of resources is a constant – at least on any reasonable timescale; we are all aware of the challenges in finding those resources and bringing them to market. As mining companies, we know what operations we have and what untapped resources we have. We, therefore, have a pretty good idea of which ones will turn out to be the great mines of the next hundred years.

What we also know, however, is that proceeding in our traditional business-as-usual ways simply won't cut it in the future. So the question is: how can we be smarter and more-cost-effective in using technology to access those resources to meet both the ongoing needs of the consumer, and the demands of wider society that our activities should be as carbon-neutral, water-neutral and environmentally sound as possible?

You have heard me say before (some of you, many times!) that mining processes are largely unchanged over many decades. Larger scale, yes – but old technology. This is changing, and we all need to be on our toes, form a view on what the future holds and use technology to change a status quo that is no longer good enough.

I like to think that Anglo American is at the forefront of that change, having the benefits of critical mass and technical expertise. For example, through FutureSmart™, which is our response to the drive for a more sustainable approach to mining, and through the deployment of digital technologies, there are opportunities to use data to adjust what have been largely analogue mining processes in real time, creating a step-change in the consumption of water, energy and other consumables. These can be game-changers.

The success of individual companies and of the industry as a whole will hang on how smart we are about interpreting what the future looks like, what the world and its seven billion consumers will need, what we can offer our host governments and communities, how we can work together to better understand each other's needs – and how light our footprint will be on the natural world.

We must all ask ourselves: How can we mine smarter? Disruptive changes are all around us.

3. …and what does that mean for Anglo American – how are we evolving?

… And now to Anglo American – which I suspect is what some of you want to hear about.

In the less than three years I have led Anglo American, the commodity markets have been on a perpetual downward curve – the steepest I have seen in almost 40 years in the industry.

Transforming the operational performance of the company, while also taking the hard but necessary choices about some of our assets, has been an essential part of turning around the ship in what I have always said would be a five-year exercise.

We have come a long way already – both in terms of well north of a billion dollars of cost, productivity and other improvements, as well as selling peripheral businesses and other assets. But we are not there yet and the benefits are harder to see when the market is falling away from you faster than you can deliver the positive change. That can be frustrating, but that's life and I've been around long enough to know that it only highlights the need to make the really tough decisions – that some may dodge in sunnier times – that are absolutely necessary if we are going to rebuild this great company's competitive position.

Given the world around us, the need to establish a more robust balance sheet as a platform for the future, and the long-term economic trends that we see, we are making those tough choices about how we prioritise our diversified portfolio, and we will soon be setting that out.

We will be making the appropriate commercial decisions to exit a number of our mines in several countries around the world – but let's not see that as a negative step. For Anglo American, we are ensuring the company's long-term competitive edge and building a more resilient platform from which we can invest. For the assets that we choose to exit, it is about giving many of them and their employees a more sustainable future under new ownership that is better suited to focus attention and capital on those assets. We have a solid track record in acting responsibly, and that is exactly how we will continue.

Anglo American is a 99-year-old company this year, with a long and eventful history that began here in South Africa, involved in financing the mining of one product – gold.

The evolution of Anglo American is one of the more remarkable corporate stories, but it is a company that is used to evolving.

It has long played – and continues to play – its part in the story of South Africa's development and economic growth. It has created or been part of creating or building a wide array of other companies along the way: De Beers and Debswana and Namdeb, Mondi, South African Breweries, Exxaro and Shanduka. Great success stories with South Africa at their roots, many of which millions of South Africans have a deep financial interest in through their public and private pension funds – which are amongst our biggest shareholders, or as equity partners in our businesses, or as employees.

As a company, we are continuing to evolve to make sure we are fit for the future and playing to our competitive strengths… That we are responding to what the world wants, and making sure we do that in a responsible, sustainable way.

Change *is* disruptive, and a time of anxiety for many, but it an essential ingredient to building resilience and success – great companies evolve to succeed, just as we do as individuals.

Summary of key points

To wrap up, the tremendous changes taking place in the world, and particularly the depth and length of this commodity downturn, are forcing mining companies to look at themselves in a different light, and to respond accordingly. No mining company is untouched and each has its own distinct issues to address; to use a wonderful South African turn of phrase – everybody has to make a plan.

Because of the breadth of changes that we face across many industries – take climate change just as one example, the past is unlikely to be a reliable guide to the future… 'business as usual' is no longer an option – business as usual means some will go out of business.

We all need to innovate in the widest sense of the word… We need to reset our industry. But we can only do this, and make the step-changes necessary, by first establishing ourselves as competitive, financially strong businesses that also have the mindset to harness and develop technological and other opportunities, including through learning from other industries.

Conclusion

As the captains of our mining industry, gathered here in Cape Town, how do *we* want to be remembered?

Mining is an ancient industry, not known for moving quickly... But it's within our power to change all that – especially if we work more collaboratively with each other, and with our key stakeholders.

We can see the writing on the wall if we don't show we've got what it takes as the world and the societies we serve change around us. We have no choice but to move, and move decisively, to grasp the undoubted opportunities.

More than ever, this is a time for responsible leadership, for agility, for bold choices.