Anglo American Plc – Interim Results Presentation

Thursday, 27th July 2017

Introduction

Mark Cutifani

Chief Executive, Anglo American

Mark Cutifani

Welcome ladies and gentlemen.

Slide 4 – Delivering on our commitments

The key points to be emphasised start with delivering on commitments. The self-help focus has been a key driver in improving margins.

We continue to improve productivities and that supported the 9% increase in volume compared to H1 2016. As a consequence, EBITDA of $4.1bn is around the consensus range. Free cash flow of $2.7bn was more than the total in 2016. Prices helped, but half of that improvement has been from the self-help work. The balance sheet is in a good position and means the full year net debt target was achieved six months early which allowed an early resumption of the dividend which we are very pleased to be able to talk to today.

The continuing work on sales of the smaller scale lower margin assets that don't fit the portfolio continued with the announcement of the sale of domestic thermal coal assets and the platinum assets during H1. The ramp-up of both Minas-Rio and Gahcho Kue helped support the improved production volumes.

Slide 5 – Safety & Environment

We've made better progress in the second quarter, after the very disappointing first quarter on the safety front. Unfortunately, there were three fatalities and in the end it's not simply about the numbers. It's about the tragedies so we still have work to do on the safety front. I'm encouraged that the performance in the second quarter on a total injury frequency rate was better, but still more work to be done.

On the environment side, we had a pipeline spilled at Los Bronces that was quick cleaned up very quickly. We had a drilling incident and in coal more an incident associated with some of the flooding that we saw both in South Africa and Australia in fact, but overall much better control and the results have been encouraging. We're not yet down to zero, but certainly in terms of where we started we have made good progress and will keep driving the focus on planning, execution and focus on the detail that ultimately ensures that we're driving productivity and costs as well.

Slide 6 – Production

We are up 9% compared to H1 2016. Across the Group, the implementation of the operating model and the performance improvements that go with that remain a key focus. The operating model is a long term change programme and three years into its implementation there are some very obvious benefits we are seeing in the portfolio. De Beers' production is very solid with the Gahcho Kue ramp-up going well. Mogalakwena in Platinum continues to improve and we certainly see more potential.

Sishen has done extremely well. The only disappointment in H1 2017 was Nickel which started poorly in Q1 but had a good recovery in Q2.

Slide 7 – Productivity

Productivity is how much production each person is contributing. This is up almost 70% from when we started with the change programmes. The portfolio changes and the underlying cost efficiencies have reduced headcount from 162,000 to 95,000 and we are forecasting a drop to 87,000 people after the announced disposals in H1 2017. Approximately half of the total reduction was due to portfolio change and half from restructuring efficiencies. We've done most of the portfolio change work now and don't have any active processes in place at the current time.

When you look at our underlying cost structures, we've improved our energy consumption against our products by ~30% over the same four year period.

Slide 8 – Margins

We can control the cost side, but also the change in marketing strategy was important in improving our margins. Against the benchmarks we set marketing in 2013 we are up 4% on realised prices. To explain the see-through margin: we take out the diamond trading business and the purchase of concentrates in platinum so that you can see our margin as you would against our industrial competitors. The reported margin has increased from 26% to 31%. Of the increase in the see-through margin from 34% to 40%, about half was from our efficiency work, and about half from price increases. We've improved, and we are in the game.

Stephen Pearce:

It's a real pleasure to present my first set of Anglo American results.

Slide 10 – Strong results

There's a couple of themes that I want to touch on through today's presentation. Firstly, clearly a good set of operating and financial results which reflects strongly in the numbers. The strength of the underlying cash flows, yes driven by price, but also from the cost-out and efficiency delivery, and from project delivery as well. Clearly a continued focus on the balance sheet, and continuing to drive net debt down as we reset and strengthen our financial position.

We have ongoing discipline around capital allocation which will continue, and pleasingly we have restored the dividend. But there's one overriding theme as we talk through the slides, and that is that we've still got work to do both on the balance sheet and on the cost-out. As I worked through the slides, I'll expand on some of the numbers, but I also try to just give you sort of a flavour of my thinking both on the numbers and how we'll take things forward across the different areas. So let's look at the numbers.

Slide 11 – Strong free cash flow generation

EBITDA of $4.1bn up 68% on H1 2016 resulting an EPS of $1.19 per share.

Capex was lower in H1 2017. I'll talk through the first half/second half split, and we have lowered our guidance for the full year down from $2.5bn to $2.3bn. Attributable free cash flow was $2.7bn. All of that meant we reduced our net debt down to $6.2bn, a decrease of

$2.3bn which is significantly below the $7bn target that we had set ourselves for the end of 2017.

Slide 12 – Self-help

The self-help continued in terms of EBITDA improvement through H1 2017 and brings the total achieved since 2013 to $3.7bn.

In H1 2017, we did have the benefit of higher prices offset a little by inflation and exchange rates. On price, the stand out was met coal with a realised price of $195/tonne. Price increases were offset a little bit by currencies, in particular the strengthening of the rand. The great news is we are on track to make the $1bn target with $600m realised in H1 2017, and $400m to go in H2 2017.

I've spent the first couple of months of joining the Group getting at and about across quite a number of the operations. One of my big impressions was that there was still a huge opportunity in this business to continue to drive efficiency gains, to get better at what we do, and it's going to be I think exciting as we take on that challenge in the years ahead.

Slide 13 – Self-help

Let's look at the $600m that we delivered in the $1bn challenge. De Beers and Los Bronces did well in terms of cost position and setting themselves up for the second half of the year.

Sishen was probably the standout in terms of adopting the operating model and over a period of time adapting to the new mine plan. There is a lot of that happened towards the end of H1 2017 and I think there's a great journey ahead and for that operation.

As we look beyond 2017, we'll come back to you towards the end of this year in terms of how we're going to set the targets for 2018 as we continue that journey.

Slide 14 – Prices and self-help

EBITDA earnings clearly show the benefit from the work done on portfolio, marketing, margins and cost efficiency improvements. I would like to touch on effective tax rate for the year. Guidance for the full year is 28-30%.

Slide 15 – Capital discipline

Capital discipline about how and when we're spending money. When we do spend it we're starting to see some of the same benefits that you're seeing from the operating side of the business flow into the capital side. That should be no surprise because a lot of our capital spend in H1 2017 has been around stay in business and stripping capital and which in many cases is on the same fleet and the same setup that's doing that work so you're starting to see some of that flow through into the capital spend numbers.

In terms of the H1/H2 split, every mining company I've worked with has exactly the same issue. It's a little more exaggerated this time around for a couple of reasons. One is we had a lot of wet weather in South Africa and through the first quarter. We also then had some geotechnical issues at Grosvenor and then Cyclone Debbie which also impacted on our ability to spend some of the capital that we were planning in the first half. So the second half will be higher at $1.5bn and will bring us to $2.3bn which is $0.2bn below our original guidance.

As we look forward to 2018, we've guided to $2.5bn. I'd ask for your patience on 2018 as we are dusting off how we are allocating capital, how we evaluate capital spend, and we are obviously at the start of planning for 2018 so we'll come back and give you some updated guidance there. But there's two things that I'm looking at as we start to set the capital budgets for 2018. Firstly, are we spending what we spend well? And that's got to really drive through every single capital dollar that we do spend. Secondly, are we spending enough, particularly in terms of the projects that are going to be delivered and that next round of innovation and efficiency in the business?

We need to challenge ourselves both not to spend money, but to make sure when we spend it we spend it on the right path.

Slide 16 – Cash flow and returns

Return on capital employed of 18% up from 8% this time last year. Attributable free cash flow of $2.7bn. We delivered $2.5bn of free cash flow for the whole of 2016, so we've significantly stepped up.

Slide 17 – Balance Sheet

A key focus for the Group over the last two years has been getting the balance sheet back into shape. The journey clearly has continued this half so net debt down to $6.2bn, well ahead of our year-end target. But we still have work to do, particularly in respect of our debt portfolio which is relatively short in its average life compared to our long life quality assets. Similar to what we did in March, you should expect us to just gradually work on that over time to extend the maturity profile.

Slide 18 – Balance Sheet metrics

In terms of ratios, our net debt to EBITDA at 0.8x is below our longer term guidance of 1-1.5x through the cycle. Gearing at 19% strongly supports the net debt to EBITDA ratio, and positions us well against our peers and the industry. We will be running a more conservative balance sheet than you've seen in the past, and that's particularly to cope with volatility in metal prices as well as learn from the lessons from the past. We have, and are still, coming off a period of higher than average long term bulk prices.

I've got absolutely no qualms at all in continuing to take the debt lower over the next 18 months. With prices where they are we have a fantastic opportunity to continue to do that.

Slide 19 – Dividend resumption

It's a real pleasure in your first results presentation to reinstate the dividend. Clearly, we have exceeded our targets on balance sheet, cash flow, ratios etc., and that's set us up for what was a fairly straight forward discussion at the board. A 40% payout ratio on H1 2017 earnings is $0.48/share, or $600m back to shareholders. In terms of policy, a 40% payout ratio based on underlying earnings will be paid each half-year. We will consider additional return to shareholders, but right now we've got other priorities in terms of continuing the balance sheet journey so it will be a nice problem to have when we get there.

Slide 20 – Capital allocation

The left hand side is the theory, the right hand side is the numbers for H1 2017. Great cash flow generation in the half. We have adjusted the $2.7bn attributable free cash flow to

remove discretionary capital, which makes it $2.8bn. How have we spent that money? Nearly all of it was allocated to reduction in debt, of $2.3bn. The $600m of dividend that we have now declared would drop into the red category in H2 2017. As you can see, a very limited allocation to discretionary capital, studies, exploration etc., and to me that sits really well in terms of where our priorities were for H1 2017, and where that will be for the reminder of this year. Just to leave you on one thought – I think we do have quite a lot of compelling opportunities and projects within the portfolio. We'll consider those in time as we allocate cash, but it is important to realise that those projects have to compete with additional returns to shareholders, and we'll clearly consider that as we think about our cash flow allocation.

Mark Cutifani

Slide 22 – A fundamentally different business

This is a one-slide recap on where we started. Firstly, it is a more efficient business. Today we have 46% fewer assets, and the number of people has similarly reduced, of which, about half is from portfolio reduction and about half from efficiency work. That has improved our competitive position. And with all of that change, our production is up 6%.

We are generating more cash and higher returns. A $4.4bn turnaround in free cash flow, and an improvement in ROCE. The focus on ROCE is absolutely critical because the way you get that cash flow is all about how you allocate capital, and making sure you're delivering efficiency. It changes the mind-set in of the organisation.

Slide 23 – Portfolio streamlined

A lot of the work was done in 2014 and 2015, but we've continued to work on improving the portfolio, and making sure that the assets we have today are competitive, generate cash, generate returns, and continue to improve the underlying performance of the business.

Slide 24 – Competitive position

The increase from 26% to 34% in 2016 was achieved with a lower price deck in 2016 so it was a result of the self-help. For 2017, we are at 40% in H1. The focus on margins drives marketing and efficiency, it's not simply about cost. It's about making sure the assets are working to their potential.

Slide 25 – Uniquely differentiated portfolio

We're focused on the quality of the assets we have and as a consequence we have a nicely diversified portfolio.

From a geographic point of view, it’s the same story. The portfolio is a consequence of the decisions we have made on selling assets and where we've allocated our capital in building new projects to rebalance the portfolio. South Africa is about 25% of capital employed, so the balance is starting to look quite sensible.

Slide 26 – South Africa

We remain committed to the assets that can deliver long term returns in the business. On Mining Charters I and II, we have delivered all of the requirements in terms of transformation.

Anglo American has been the most transformative company in the last 24 years in South Africa. We represented 61% of the JSE in 1987. Today we are about 6-7%. That is a 90% reduction in our configuration in relation to the JSE, where companies were demerged or spun-off in South Africa, and that represent massive transformation on a scale one else is matched across the country.

The Mining Charter III document that has been presented is an unworkable document. It is important we come together with the government and find a solution that works for everyone. There is no point shrinking the pie to zero. We have to create a larger pie and make sure that all benefit. That's where the focus needs to be.

We've been doing a lot of work on restructuring the corporate structure, simplifying overheads, improving the business, focussing on the efficiencies of the operations, and making sure that we are delivering the best performance we can in terms of the assets that we operate in the country. In terms of capital allocation, we have a number of opportunities, many of them outside South Africa, so that is where the capital will go. And as a consequence you will continue to see an adjustment of the relative capital employed across the business, which is a function of the assets and where the opportunities are.

Slide 27 – Asset Quality

Wherever we allocate capital, it's about value for shareholders. More specifically across the commodities, we have very good positions in Copper and De Beers where the prognosis in market dynamics are very strong and we have great assets. So these very much get the green light in allocating capital carefully into those areas where returns are available to us.

In PGMs, we have been restructuring the business to focus the portfolio on those assets that we believe can deliver returns through any price scenario in the market. We have spent quite a bit of time talking about the cost reduction strategy for Amandelbult, and the ongoing improvements to be delivered in Mogalakwena. And you also have to remember that we have got good margins in the processing business, which is delivering reasonable returns. We have the best portfolio in the industry and on these prices we want to make sure that portfolio can deliver better than a 15% return.

In iron ore and coal, we've been thrilled with the operating performance progress that's been made. We have high quality assets, very good cost structures in coal and mid-third quarter cost positions in iron ore, but with a high quality niche product. A lot of thought has gone into us positioning to make sure we can maintain the margins and improve our returns.

We have had a few challenges in the first half on Grosvenor. They have continued to improve and the last month has been very encouraging.

Slide 28 – Positioning for the future

So finally: from a portfolio perspective, it's about the quality of the assets. It's about cash flow and returns, and those assets that we see the best potential in. Everything is focused on improving those positions and making sure those positions are sustainable. We see a lot of smaller scale, small capex opportunities to improve the business. We have improved the efficiency of capital spend. We also have larger scale opportunities that will be very carefully considered in terms of the way we allocate capital.

In terms of capability, you can't make money in this business if you don't have the engine running to its potential. Innovation then becomes a second phase for us in terms of improvement. We still see more from an operations point of view, but the technical stuff that Tony and the team have been working on, on energy, water, mining methods and step changes across the business, are critical. Marketing remains an important part of the business in helping us improve our return to margins and driving the returns.

On returns, balance sheet flexibility has been restored. Stephen made a very important point about keeping our balance sheet flexible so that we're always thinking about the right place to put money to drive the business to improve performance. We've been talking about syndication on major projects ever since we got ourselves in a position where we were building five major projects at the same time, and we were caught stressing the balance sheet. So I want to make the point that the lesson has been learned. We have studied the oil and gas, and other industries on how they effectively manage portfolio and risk in major projects, because there are always things you don't know.

Q&A

Ian Rossouw (Barclays): Firstly on your unit cost guidance, it looks like you're guiding, in four of the eight businesses, unit costs will increase this year. There are there some headwinds in weather, grades, but do you think over the medium term you can actually bring unit costs down through this productivity drive?

Stephen Pearce: Yes, some of the assumptions we have in the second half show that currency has an adverse impact. Also in some of the businesses there are by-product credits and the assumptions on those prices are a little bit softer going forward. We will be working hard to deliver a little bit better than that.

Ian Rossouw: Second question around capital allocation. Just wondering whether you talk about the syndication of some of the projects and bringing Quellaveco into that. Are you still looking to approve that sometime next year?

And you mention the PGM markets where there's some uncertainty around demand and you'll focus on capital allocation for value over volume. It seems like some of those projects still will bring on some volume into the market?

Mark Cutifani: On Quellaveco, we will complete the technical work by the end of 2017. Tony and Duncan have been looking at how we get potential suppliers to do a lot more work in being smarter about capital allocation and capital intensity and making sure the costs are right. Secondly, when we've completed that work we think it's then right to engage with the potential partners. We've had lots of expressions of interest. We want to make sure that we do right by the Peruvian government. Mitsubishi have an option to increase their stake to 30%. We would like to keep 51% and operate the mine because we would like to implement the operating model and drive efficiencies from the beginning. I would expect developments during the course of next year. I don't want to second guess what we find at the end of this year and I certainly don't want to get ourselves ahead of the Board, but that's the order of flow.

Stephen Pearce: Just to add to that, from a cash flow point of view on the basis that we do syndicate down, the cash flow from us would be from 2019 to around 2022 so it is still some way out in terms of any calls on cash.

Mark Cutifani: On platinum, there is a lot of talk on the market. We are seeing higher platinum loadings and automobile numbers increasing so reasonably flat, maybe growing slowly in the next three to five years. The real question will be how quickly the new technologies can come in, particularly those that require PGMs as catalysts: the hybrids, the fuel cells. What we've got to do irrespective of what happen in the market is make a 15% or better return and these prices and lower.

So if that means we trim a bit of production by stopping areas that aren't making money then we will.

Menno Sanderse (Morgan Stanley): First let's focus for a minute on the problem children. Grosvenor had a terrible 12 months, a horrendous second quarter. You mentioned the second panel is coming, hopefully things will get better. Can you be a bit more specific on how that is improving? Secondly Gahcho Kue, clearly revenue per carat seems like you're selling pebbles rather than diamonds. Is that going to improve or not? And operation seem to be doing okay, but realised prices are terrible. And, Los Bronces clearly ground all down. Now it's dealing with rock hardness. Yes, it has higher grades, but something it appears to be popping up every six months. How can you get that better under control?

And then secondly both of you mentioned getting better at what you do a lot and small scale capital opportunities to improve the business. Can you be more specific about what you say because clearly you have a lot of projects that you're thinking over.

Mark Cutifani: On Grosvenor, the first longwall panel in any new mine is likely to be the most difficult and it would be fair to say that we've had subdued technical issues that weren't anticipated and you get the normal teething problems with equipment. The team has had to adjust their practices to the conditions they've found and they have also done a lot of work on the equipment. We were averaging around 80,000 tonnes per week in the period up to the middle of June, and in the last four weeks, we're north of 150,000 tonnes per week, getting closer to 200,000 tonnes a week. I wouldn't book that yet as the geo-technical conditions haven't improved markedly. The practices have improved. The next quarter report will be an important one to show us where we're up to.

Stephen Pearce: The good news within the coal portfolio is that most of the other assets had stepped up really well to increase volumes. The movement that you see on cost there yes, Grosvenor didn't run as we'd like it, but it's also a bit of a portfolio change. We are producing is a much bigger margin out of that portfolio than what we were previously with the production mix we had.

Mark Cutifani: Yes, the average quality of the product is significantly higher. At Gahcho Kue, what we have found so far is that whilst the quality has been a lower than we anticipated, the actual carats per tonne has been more than we thought. Therefore the revenues per tonne have been on or better than anticipated, and the production ramp-up has been going very well.

You always have to be careful, particularly in the upper levels of the orebody and it's still very early, but we are not worried by what we have seen so far. On Los Bronces, it is a tight pit, and until we can get that further opened up, things will remain tight. The relationship with Codelco is very good, and very open both ways. On the positive side, we see a great improvement next year on grade.

If you look at the productivity improvement we're up 70%. If you look at Sishen in the areas where we implemented the operating model, we are up about 30 or 40%. In the last six months we're probably up another 20 to 30% on equipment change. Our average truck hours are only a little over 5,000 hours per year. We would like to see that increase to push 6,000 hours on average across the organisation. So those basic numbers tell you that we've still got 20 to 30% underlying productivity across the business that we want to chase.

We have worked on the areas that we could impact the quickest. Energy improvements will continue. The real opportunity is in the technology.

Tony O'Neill: We've got a very active programme on innovation. It's actually far broader than most of the industry is running. Automation is only a small subset of our broader programme. We're concentrating in three main areas. One is the ore body. Getting much better tagging of the mineralogy and the properties of the ore body, and we're generally doing that now with hyperspectral imaging. It's basically processes that will ultimately replace assay. If we then flow that through into our processing plants, what we're trying to do is become much more precise in the way we target the minerals entering in our process.

We are taking this tagging and then working on flotation, in particular, the way we cyclone coarse particle flotation. A lot of the industry rules around flotation and the recoveries you actually get are about to be rewritten. An example of that is some of the new crushers we're developing with partners in Germany. Breaking rock in a very different manner than we've ever been used to, that tends to break along the particle boundaries rather than just smash everything. It will actually set us up for very different chemical recoveries and will see step changes coming out.

Tyler Broda (RBC): You mentioned bringing forward potential projects that are high return on capital. Have you identified within the portfolio and could you share with us any projects that are within that organic portfolio that you'd say right now have a good chance of being above 15% ROCE? A second part to that: if you're syndicating projects, is there a maximum number of projects you do on a syndicated basis just in sort of a more conceptual level? And then, it's an EBITDA margin business of 40% with the capex as low as it is right now and the balance sheet now at below 1x net debt to EBITDA. I guess from a conceptual level as well, is it ever appropriate to run a business like this at net cash? Is that too low? Is there a point at which there's this start to reduce the overall return on equity?

Stephen Pearce: I love the way you're thinking Tyler in terms of the net cash business. At that point, we'd clearly have to start to think about how we're allocating the cash in terms of returns to shareholders versus paying down debt. Debt costs are relatively low at this point in the cycle so they don't provide a huge shelter in any event. I am really comfortable in taking the balance sheet debt down low. You'd be aware we still have a split balance sheet to work through so I wouldn't see that happening in a hurry in terms of getting to a net cash position.

The number of projects that we're committing to, the amount of money that we commit, the balance sheet, the liquidity, and obviously absolute debt levels and the debt portfolio and maturity profile will all be considered in how we're setting up the capital structure for the company going forward.

Mark Cutifani: In looking at the portfolio on the smaller scale stuff I have a few examples. If we start with diamonds. We believe that in our diamond portfolio, we have got a great endowment that we haven't fully tested. So what more can we do at Orapa, Jwaneng in the longer term, Venetia? Gahcho Kue is still too early to make a call for the future, but those diamonds are quite significant. The most significant one for us is Orapa. And we are thinking very hard about how we can get more out of that in the right way and stepping that out with incremental improvements in the operations.

Secondly, in copper, Collahuasi and Los Bronces both have lots of potential. Los Bronces is going to take a little more time. The technology stuff is really important and we've currently got our pilot plants operating on coarse flotation of crushing, and dewatering so that we can materially reduce our water consumption. Those opportunities in copper are quite significant. The reason why they're important is because water allows you to produce more because that's the scarce resource.

In platinum, the incremental options on Mogalakwena are still very good. We put money aside to do debottlenecking to get 400,000 ounces. We didn’t need the money to get that, but instead did simple things smarter. Chris has already highlighted this week his intentions on Amandelbult to try and take $200-300/oz cost-out. He's already building a chrome plant which has a less-than 12 month payback, so lots of opportunities to do things smarter in platinum.

I could talk about the Grosvenor debottlenecking with the processing plant but first let's make sure we get the asset running to potential. It was only going to operate five days a week, we can get it to seven days.

Minas-Rio is going to be a 26.5 million tonne mine, which is linked to the licensing prices and we think we can get it to around 30 million tonnes at the right time with very small capital increment.

So there's a whole raft of projects across the portfolio that are being nurtured through either innovation or basic technical changes that can deliver very good payback and returns well above 15%. In terms of major projects, we prefer not to have more than one big project going at any one time. You might be at the start or the tail of the cycle so you will have some overlaps.

Keeping the balance sheet in the right place and making sure you've got a good balance of opportunities is the key to continually improving the business. We've got a lot of opportunities that we are still scratching at. That's why Stephen is making it clear that $2.5bn is the right number.

Matthew Hasson (Numis Securities Ltd): The market at the moment is currently rewarding deleveraging and capital returns. However, less than 1x net debt / EBITDA seems low. 1x is probably the right number. The market is – if the commodity prices stay the same – is going to reward growth, or start asking for growth in about a year’s time. At the moment,

building mining projects is probably quite cheap; contractors are cheap, everything's cheap at the moment. Wouldn't it make sense to fast track some of these projects instead of paying down net debt and getting on with it, while costs are cheap, rather than having to chase it when everyone else is vying for growth in two or three years' time?

Mark Cutifani: Things are attractive at the moment. We think they will remain attractive for a while yet, but we've got to hold our disciplines.

Stephen Pearce: Some of it comes back to just where we are in the journey, but we've only just got there, and we have come off a period of high commodity prices. There is a general expectation – commodity prices, particularly for the bulks, would ease through H2 2017. Yes, we're below one, just at the moment, but the market is rewarding strength in balance sheet. And whether it be number of projects or dollars within projects, we will be considered and we won't put the balance sheet at risk as we take on those projects. Even on Quellaveco, we're not actually ready to progress the project. We've still got technical work and final costings, reviews, and all those things to do. So it will come through in its right time, but I don't think it's right to accelerate it.

Tom O'Hara (Exane BNP Paribas): I'd like to get a clearer image on the free cash flow generation potential. $2.7 billion is quite a staggering level of free cash flow generation for a company with a market cap of $20 billion. We know that capex is going up in the second half, so we can knock $700 million off that? It doesn't include interest, does it? So interest for the year is $650-$700m?

Stephen Pearce: No, it's about $200m for the half.

Tom O'Hara: If prices stay the same so earnings stay the same, then we're looking $4.7 billion minus $400 or $500 interest, so over $4 billion of free cash flow generation potential. Are there any other components within that which are slightly flattering that we shouldn't extrapolate and assume is sustainable?

Stephen Pearce: There are a couple of things from a cash point of view that didn't show up in the first half and that's where some of the analysts and the numbers were a little bit out. Our cash tax was a little bit lower. Some of that's just a timing thing, depending on the commodity, and the country and where we are in a tax position. That'll probably be a little bit lower in the second half as well. But offsetting that we will have the $600 million dividend to our shareholders but also to Kumba's minorities from their dividend. So you'll see some of that sort self-correct a little bit in the second half. Altogether, if you combine that with a softening in commodity prices, I wouldn't expect to see quite the same movement. But then we'll be focussing on other levers: working capital and all those other things that you'd expect us to focus on.

Tom O'Hara: So if we repeat the commodity price deck of the first half, and we take that ability to generate cash into 2018, where capex will be a ~$200 million higher, would it be fair to assume something in the high $3-billions then, as the sustainable free cash flow?

Stephen Pearce: Probably.

Mark Cutifani: I think it would be fair to say there are no hidden elements there that have not been stated.

Stephen Pearce: Remembering though, we did have some volume issues and cost issues and rain in the first half; we do expect to catch those up in the second. Grosvenor should come through in the second.

Tom O'Hara: The second question is that clearly there's some of concern in the market on South Africa and the challenges that you're going through. Do you see any progress being made in the near term on that? Or are you basically dealing with a lame duck administration ahead of the potential leadership changes later in the year?

Mark Cutifani: On the cash flow side, we were generating 20% free cash flow per share. We would agree with you, we think we look a bit cheap and hopefully, people will give us more credit. But I also acknowledge that South Africa is the question. We're doing all the things we said we'd do on the corporate structures: we're simplifying them; we're working on all of our overheads and our costs across the business, and we've reduced those significantly; we've managed and sold assets that are either small scale or not long term. We don't expect to land a longer term position on South Africa this year because there'll be so much noise around the leadership debate that it will be really difficult to get anyone to focus and align with us on the pieces going forward. We like the assets we have, we're going to continue to improve them, and at some point, there'll be a dialogue on the positioning and the approach on the way forward. In the meantime, we like the businesses. Unfortunately, South Africa tends to be more noisy than most other countries.

Cedar Ekblom (Bank of America Merrill Lynch): Three more questions on South Africa: there's no mention in the presentation of the idea of core-Anglo any more so would it be fair to assume that pursuing asset sales actively is no longer a priority for the management team?

Related to that, how do we think about the South African bulks within the Group? There have been press articles in SA about Anglo potentially considering a partial exit, or an exit of its South African bulks businesses. With no core-Anglo in the presentation, should we assume that that's not something that you're working on?

Following on from that, is an exit, or a partial exit, or some kind of restructuring in SA dependant on the political outcome? Or can you do something in SA without having a more business-friendly leader of the ANC in place?

And then the last point: can you do anything in SA until we get a resolution on the charter, as it relates to transfers of mining rights? We know that there've been some topics in the press about Anglo Platinum maybe not being able to execute on asset sales as quickly as they'd like, because of political interference.

Mark Cutifani: Firstly, in terms of the business, we've said the 37 assets that we have today are assets we'd be happy to operate for the longer term, generating cash and good returns so we can continue to improve the businesses. So, we don't have any active processes. But one thing I will say is that any business has to make sure that it's got the right portfolio. You're always considering your positions over time, and we've landed pretty closely to what we originally defined as the target portfolio.

In terms of the SA bulks: as I've said, we like Kumba. We remain open to where we go in the future, and that conversation is always one that we're in and will be in over the next 12/18 months, whatever it may be. But if nothing changes, we are happy to remain where we are. I

don't want to go any further than that because it's hard speculating on what we don't know, and the politics will change over the next 12 months. Politics it will make a difference but there are a range of factors to take into account in making decisions to allocate capital. If we can make money, if we can operate, then we're happy to there.

Cedar Ekblom: On the charter, can you comment on whether you can actually do anything in SA with the charter?

Mark Cutifani: We think we're in a good position with all of our approvals. We have constitutional support, legal support and in our view, bilateral trading support in terms of our position. The current document that has been tabled is simply not understandable and it's not workable. It has to be started again. And the process will be worked through with our colleagues in the industry. No one wants to go down the legal route but if that's where we have to go, that's where we have to go. I want to make the point that we're committed to transformation, we've been partner to the government for 24 years; that hasn't changed. We want to be part of the solution. As it stands, what we have is simply not workable, and most South Africans know it.

Stephen Pearce: In terms of some of the transactions that we have announced (the sale of the domestic coal assets to Seriti that was announced) an application was lodged back in June. Our engagement with the DMR has actually been quite positive, and from both parties' point of view. So, that's been progressing, and getting through its conditions precedent. Obviously, how it will play out will be seen but so far, our engagement has been quite positive.

Sergey Donskoy (Societe General): Firstly, on your debt and dividends. We understand now that deleveraging is still in progress, so are you going to reduce your net debt further? Do you have any numbers in mind in terms of your leverage versus your through-the-cycle profitability? Second question: you currently have quite significant net cash in South Africa. You have had it for some time and now, it's especially big, and looks especially noticeable in the context of increased political risks. I understand that it helps to balance out net debt for the Group but ultimately, the only thing you can do with this is pay it out as dividends, right? So, why it's still sitting there?

And finally the diamond market outlook. The rough diamond market is performing reasonably well which is in contrast with an unimpressive polished market, where prices are stagnating. There are very mixed signals in terms of demand from jewellery, and midstream. What do you see for the outlook for the second half, and outlook for 2018? Is there a risk that the situation in the rough diamond market could deteriorate sharply as it happened before?

Stephen Pearce: Debt, dividends and South African net cash are all linked. No, we're not changing our long-term targets at this point in terms of the stated target we've had in terms of the net debt to EBITDA ratio which is 1-1.5 times through the cycle. Where we're at periods of higher prices, we should be really right towards the low end or below the low end, so that when you do get back to long-term cyclical prices, you're back in that range, and that's where we are in the journey at the moment. I'm going to make the most of it over the eight or nine months, particularly in terms of getting that as low as we possibly can.

The South African cash has built up partly because of the operations and the pricing, particularly on bulks, but also because we suspended the dividend. Kumba's dividend was

about US$500 million equivalent. Just over half of that flows to us, and half will flow to minorities. So you'll see a little bit of a self-correction of that.

Mark Cutifani: Also, South Africa will over time, simply because we're growing elsewhere in the world, becomes a lower proportion of the overall contribution; it does self-correct a lot quicker than people realise.

On diamonds: We've just got to remain cautious. We said this year will be about clearing out stocks – we did that fairly successfully early in the year. We're just going to continue to take a fairly careful approach with the way we price our products, taking very careful notice of Sightholders feedback; we're in the middle of that process. We want to make sure that we're matching our sales to what's appropriate in the market.

Myles Allsop (UBS): First of all, on your FY18 capex – are you hinting that that's going to creep up? Is that the way we should interpret the comments today, that you have some great opportunities to deliver good returns on slightly higher capex?

Secondly, I'm slightly confused around the cost-savings because you say $1 billion is a stretch target, but in the same breath, you say that there's huge potential across the portfolio. Can you more than offset underlying inflation, or are you just going to be offsetting mining inflation? In the business as a whole going forward – what we should expect in terms of cost?

Mark Cutifani: Generally in South Africa, we've done a good job in offsetting inflation. In the coal business, we've been flat for four years now. It remains our objective – particularly in high inflation environments – to be able to do better than the local inflation rate. It's never linear or without a few bumps. We've picked the lower hanging fruit. The operating model actually drives a continuous improvement. And that's a good guideline for how we're thinking about delivering cost and volume improvement, because they do come hand-in-hand.

Stephen Pearce: Some of those things take a while to gear up and deliver, as well as to identify and then embed through the business.

On Capex, I'm going to stick to my guns and say you're going to have to be patient on FY18, and wait until we do the work. We'll give you guidance when it's appropriate. We have guided $2.5bn in terms of stay-in-business capex. If there are other real opportunities with quick paybacks, in terms of some of the innovation and the concepts that Tony spoke about, we'll have a good look at them if they make sense.

Myles Allsop (UBS): In terms of Mr Agarwal, how are the interactions with him going? Have you had any pressure in terms of Board seats, or anything like that?

Mark Cutifani: No, he's not after a Board seat. He's been very good, very supportive, he likes the strategy, thinks we're doing the right things, he sees lots of value, thinks we're doing all the right things. And we'll continue to be respectful and treat him as the important shareholder that he is.

Fraser Jamieson (JP Morgan): A question on working capital. Given some of the production disruptions that we've seen in the first half of the year, the working capital performance looked exceptionally good, and significantly better than we were expecting. Can you maybe talk about some of the elements that drove that? To what extent might that reverse in the

second half? When we look at you relative to peers, the working capital cycle is significantly longer than some of your peers. So are there actually opportunities for it to get even better?

Stephen Pearce: I'm really starting to delve into the working capital space, literally, now. So we have ~$200m improvement in working capital in H1 2017. It's possible it could have been better if we didn't have a processing issue in Platinum, cyclones in Queensland, swells in South America. You could have seen it come down even lower. It makes me think there's an opportunity in the second half to actually keep improving. We had some positive working capital moves in diamonds. Their stock levels are probably a little bit lower, given the sales they had in the first half. And we might rebuild that a little bit in the second.

We still want to dive into stores, spares and what all the right targets should be by business unit, and really start to drill that down so we're understanding it. And then, chasing if we think there's a prize there to chase.

Hunter Hillcoat (Investec): You've just started paying a dividend, so this is just a question for the future. But some of your peers have a debt target and a dividend pay-out policy, and the two of them don't mix, because either your debt is falling too low, or you're not paying out enough. Now, you talk about a discretionary dividend beyond your 40%. What would be the driver behind that discretionary dividend?

Stephen Pearce: I'm looking forward to the day when we've got that problem. So, if our cash flow comes in H2 2017 and H1 2018, then maybe the problem will come quicker. What'll determine it? We're not going to hang on to cash, just for hanging on to cash's sake. I personally love paying dividends to shareholders. I think it's a great, competitive discipline internally as well in terms of how you think about cash allocation and whether it's to shareholders as dividends or to capital projects. Now in time, we'll have a look at various forms of returns to shareholders. Right now, I think a simple dividend suits us well. How are we going to evaluate it? It will depend on the phase you're in, the capital projects and the growth opportunities that may come through that pipeline. It's hard to give you a hard and fast rule. Ultimately the theory is grand and everyone's got a similar slide. It's how you then apply it over time, and how you demonstrate that discipline. Watch the space and see how we do it as we go forward.

Mark Cutifani: The dividend pay-out ratio was an important policy change, very well supported by the Board. Most people saw it as quite logical. Stephen's been very clear on wanting to keep a conservative balance sheet. The third piece is the capital allocation conversation, making sure cash flow and returns are there to underpin and make sure the other two parts are properly covered.

[END OF TRANSCRIPT]