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“HOW ANGLO AMERICAN AND SOUTH AFRICA HAVE TRANSFORMED IN THE TEN YEARS SINCE SOUTH AFRICA’S FIRST DEMOCRATIC ELECTION”

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Introduction

Good afternoon Ladies and Gentlemen. It is always a great pleasure to be in Toronto, and I am honoured to be addressing you this afternoon. I would like to touch on three topics. Firstly, changes in South Africa since our first fully democratic election in 1994, secondly, changes at Anglo American, particularly over the last six years since we listed in London and thirdly, some comments on the world economy and some of the risks and challenges we all face.

South Africa: Ten Successful Years as a Democracy

Perhaps I might reflect just a little, and some of you may have been present when my predecessor as Chief Executive of Anglo American, Gavin Relly addressed a dinner in Toronto in 1989. At that time South Africa was in its darkest hours in the last years under the apartheid Government and, at the same time, the Iron Curtain was in tatters and Soviet style Communism was in decline. What struck me about his remarks to you in 1989 was his quiet confidence about the future of Anglo American and South Africa, even at moments of acute historical stress. He commented at that dinner on the impact of the advent of Mr Gorbachev and the fall of the Berlin Wall:

“I believe we stand on the threshold of a genuinely new era in South Africa. ... I think it is common cause in South Africa that we will not have another election again, no not ever, based on the present Constitution which accords the vote only to White, Indian and mixed race people. I repeat this is common cause for the majority of South Africans”.

President de Klerk validated this view when in February 1990 he unbanned the ANC and the PAC and released Nelson Mandela from jail. Though the transition years of 1990 to 1994 were fraught with risk and danger, South Africans proved, as in the past, that we have a unique talent for finding each other and in the process finding ways through seemingly intractable challenges. Hence the long and difficult constitutional negotiations which culminated in the adoption of a modern, liberal democratic Constitution and the holding of astonishingly successful and peaceful elections in April 1994, with South Africa rejoining the world economic and political community of nations.

Today President Mbeki's International Marketing Council describes South Africa as a country "alive with possibility". While this conveys a forward-looking confidence and excitement about prospective opportunity and achievement, it may not do full justice to the extraordinary track record of the country's first 10 years of democracy.

Economic Progress

As a businessman, it is natural that I should turn first to economic achievements. Here the courageous application of a sound macroeconomic framework of policies, personally driven by President Mbeki and by long serving Finance Minister, Trevor Manuel, has seen a self-imposed structural adjustment programme bring ample rewards. Inflation and interest rates have been brought down from historic highs to historic lows. Foreign reserves have been restored from negative levels to in excess of \$15 billion and the economy put onto a growth trajectory which has seen the longest period of GDP growth for 50 years. This year's growth is projected at 4% and the Government is now seeking to accelerate growth to the 7% target identified in Prime Minister Blair's Commission for Africa, of which South Africa's Finance Minister was a leading member.

Over the past three years, disciplined budgeting, together with an efficient Inland Revenue service, have generated increased resources for Government to undertake expanded infrastructural investment programmes as well as expanded social welfare programmes. In order to support these targeted higher growth levels, further attention needs to be given to raising skills levels, both in addressing quality standards in the school and tertiary sectors, especially in Mathematics and Science, and in facilitating the importation of high-level skills. Of even greater importance is achieving a more competitive exchange rate: having dramatically weakened after the Asian crisis, the

Rand has literally doubled in value against the US\$ and this is adversely affecting the manufacturing and export industries, including mining.

Although there are no quick fixes, a number of steps could be taken which should assist, such as accumulating additional foreign exchange reserves more aggressively and using domestic and international confidence in the South African economy as an opportunity to remove the final vestiges of exchange control, which have been eased significantly and progressively in recent years.

Political Progress

Two further general elections have been held since 1994 and these, as well as local government elections, have proceeded smoothly and peacefully. The political violence that characterized the apartheid years and the transitional period between 1990 and 1994 is now a thing of the past. The evidence today is that a free press, an independent judiciary, strong church movement, strong NGO sector and strong private sector continue to ensure that South Africa's young democracy does not erode. In passing it is worth stating that, unlike other emerging societies plagued by intractable conflicts, it was the existence of free and independent institutions that made the successful transition possible in the early 1990s. That model continues to be much admired and indeed, applied to other countries still grappling with their problems.

As a result of its experiences, South Africa has begun to play a leadership role internationally on a number of specific issues, often punching above its weight in a variety of fora. In Africa, President Mbeki's championing of continental progress under the New Partnership for African Development (NEPAD) has succeeded in putting the continent on the international agenda and the President and South Africa have played a leading role in conflict resolution in countries as diverse as Sudan, the DRC, Burundi and Ivory Coast. The Commission for Africa, which reported only last month, has given further impetus to this process and there are reasons for optimism that the UK, with its Presidency of both the G8 and the EU this year, will make 2005 the year of Africa.

Black Economic Empowerment (BEE)

Let me say a few words about BEE. Whilst the laws, regulations and charters that govern the implementation of BEE may appear at times complex, these should not be

allowed to undermine the central necessity for BEE in ensuring a long-term, stable democracy in South Africa. As a leader of a major corporate entity with its roots in and substantial commitment to South Africa, I must emphasise this point and enjoin those who live in stable, developed market democracies to take account of the historical context and remarkable (and positive) contemporary history of South Africa. It is up to all South Africans to ensure that these initiatives in transforming the economy produce a balanced and growth orientated set of outcomes. Certainly business, and Anglo specifically, is deeply engaged in this process and is committed to delivering practical and workable solutions, and we are making progress.

Challenges

There have of course been areas of poorer performance on South Africa's report card. South Africa is one of the countries most affected by the global HIV-AIDS pandemic and, frankly, we took too long to respond adequately. However, over the past three years Anglo American has been able to play a role in breaking the policy logjam regarding the provision of anti-retroviral treatment as part of our overall HIV/AIDS strategy and we now operate the biggest, directly administered, private sector HIV treatment programme in the world. Moreover, Government at all levels, international agencies and foreign governments are all now engaged in a way that makes me much more hopeful that together we can mitigate many of the costs and much of the suffering imposed by the pandemic. Certainly the evidence in Anglo's workforce has been dramatic: of the 2,300 employees on ARVs, well over ninety per cent are back at work leading fully productive lives. These are all people who would previously have been dead or dying and who, instead, are continuing to support their families. Our target is to increase free ARV coverage to all our HIV positive employees when clinically indicated.

Turning to Zimbabwe, I can only reflect that this is a negative mark on all Africa's scorecard and epitomizes all that The New Partnership for Africa's Development (NEPAD) and the African Renaissance is striving to change on the continent. Anglo American has been a long-term investor in Zimbabwe; we have chosen to remain there to seek to protect the livelihoods of our loyal employees and to support the communities which have for so many years been associated with our operations.

Those of us who have long-term investments in Zimbabwe believe in its people and the future of the country over the longer term, but it has been exceedingly difficult to protect these in the short-term.

Anglo American: Change and Growth

It was against the backdrop of these revolutionary years in South Africa that Anglo American came to transform from a South African conglomerate to a \$36 billion London listed global resource group. Anglo American was incorporated in South Africa in 1917 and it grew rapidly as a treasure trove of vast natural resources in gold, diamonds, platinum, manganese, chrome, coal and copper was being discovered across the Southern African continent. By the time South Africa was readmitted into the international economic arena in the early 1990s, South African mining was dominated by a few large conglomerates which were very different from their international counterparts. They were frequently invested not just in mining but also in a wide range of non-mining activities – often through complex holding structures. But for foreign investors in a rapidly globalizing world, such structures were becoming less acceptable and, in response, Anglo American took the initiative to internationalise its businesses and to simplify its structure in a natural resources arena facing increasing global consolidation.

However, the relative smallness of the South African capital markets and the continued existence of exchange controls meant that such global ambitions could not be solely pursued from within South Africa. From Anglo's perspective our existing international operations were held within Minorco and the logic of a merger with Anglo American and a listing of the combined entity in London was compelling. In 1998 we received approval of our global concept from then Deputy President Mbeki and his colleagues. Such agreement required not only an understanding of the logic of global businesses and access to international capital markets, but political courage also, for it was inevitable that some would see the move as Anglo attempting to exit from the newly democratic South Africa. In May 1999 Anglo American and Minorco merged to form Anglo American plc, a focused natural resources group with its domicile and primary listing in London.

Since then, a large number of transactions has seen Anglo shed its non-natural resource operations and consolidate its ownership of core assets.

We are particularly proud of the rebalancing of our portfolio, resulting in a very high quality asset base, including \$15 billion of recent acquisitions, and our track record since 1999 of improving operating efficiencies and cutting costs. We are also expanding through approved greenfields and brownfields projects worth \$5 billion and have another \$8 billion of projects under consideration. This gives us one of the strongest project pipelines in our sector.

Today Anglo American plc is a globally diverse, natural resources group, with a market capitalization of \$36 billion, with operations in more than 60 countries including an expanding presence in key new markets such as China, Russia and India. Our businesses cover gold, platinum, diamonds, base and ferrous metals, paper and packaging, coal and industrial minerals, and last year, despite major investments in our South African platinum and iron ore businesses, South America became our biggest profit contributor, reflecting the rapid rise in base metals and coal prices as well as our significant expansion in these commodities.

Our growth strategy in the global environment still emphasizes the virtues of both product and geographic diversity and remains focused on the three key areas in our portfolio – precious commodities, metals and minerals and paper and packaging – with our strong cash flow enabling us to allocate capital effectively in strengthening these businesses and enhancing their competitiveness for the long term.

Our embracing of the concept of sustainability is increasingly turning up important business opportunities, illustrating that sustainable development, also known as the triple bottom line, has a clear business rationale. Hence for example, I think of a programme driven by the Rocky Mountain Institute, a leading North American environmental consultancy which promises almost revolutionary engineering advances and cost savings in our many large scale, energy intensive operations.

The Global Economic Environment

Finally, may I touch briefly on some of the challenges we face in a rapidly changing world. 2004 was an exceptionally good year for the global economy with growth amongst the highest for several decades. Inflation was low and the synchronised nature of the recovery across virtually all regions of the globe added to its robustness and sustainability. The consensus view currently is that global economic activity will slow this

year, but the overall pace of growth will remain satisfactory. US growth may weaken from the exceptionally rapid pace of 2004 as interest rates return in a “measured” fashion towards more “normal” levels. Euroland growth, pressured by a stronger Euro, may also slow somewhat. But, with continued strong growth in China and India, these outcomes, if realised, should continue to provide a supportive environment for global commodities and this should be reflected in the continued high levels of their US dollar prices. But there are a number of risks to this outcome, principal of which is the manner in which the US adjusts to what are now generally seen as unsustainable current account and fiscal deficits as well as the global impact of alarmingly high oil prices.

For many analysts the solution to the US current account deficit lies in a significant further weakening of the US dollar. This is despite the fact that the Dollar is not overvalued by historical standards. And, because about half of the US current account deficit is with countries whose currencies are effectively fixed against the dollar, the major burden of currency adjustment is expected to be borne by those countries whose currencies float freely on global markets – such as the Euro. Based on our experience of the challenges that strong currencies cause for business, I believe the current consensus view of the world underestimates the potential negative impact on economic growth of projected currency movements. If US current account deficit reduction is the product only of excessive dollar weakness, then it may be achieved only at the expense of recession in Euroland, with inevitable ramifications for transatlantic relations and international trade negotiations.

The greater risk for commodity producers is that exceptionally high oil prices result in a pickup in inflation which in turn requires an unexpectedly sharp and coordinated rise in global interest rates. Such an outcome could be negative for highly indebted consumers and for high house prices in many parts of the world. In this scenario even China would not be immune to the impact of weaker demand for its exports globally.

Nevertheless, even under a slower growth scenario in China, the commodity and resource needs of that economy as well as those of other rapidly growing countries like India probably support the view that commodity prices are in a different, more benign cycle, although we need to remind ourselves that even a “super cycle” is still cyclical, albeit at a higher level. Against this background of uncertainty regarding both global economic growth and the volatility of exchange rates, we believe that Anglo American’s product and global diversity leaves us well positioned to deal with potentially adverse

circumstances. Achieving such diversity, coupled with rapid growth, has been precisely the goal of Anglo American's restructuring over the last six years.

Conclusion

Ladies and Gentlemen, I have tried today to provide you with a snapshot on change and transformation. Anglo American, previously constrained in South Africa under apartheid, transforming from a complex conglomerate into a global natural resources group, South Africa, a country transformed from a minority dictatorship to a democratic and vibrant powerhouse in Africa and both of these transformations occurring in a world which, as we all know, is facing significant economic change. As Napoleon is purported to have said about China, "China is a sleeping giant. Leave it to slumber, because when it awakes the earth will tremble". China has indeed awoken. The impact of the progressive shift of economic balance from the West to the East, with all that this implies for the decades ahead, is difficult to predict with any accuracy or confidence, but it will be profound.

Thank you very much.