Anglo American Plc

Recommended cash acquisition of Sirius Minerals plc

Monday, 20 January 2020

Paul

Good morning, everyone, and thank you for joining us. I'll hand over to Mark and Duncan shortly to run through the presentation for 30 minutes or so. Then, we'll open the line to Q&A, and Stephen's here as well. But—and it's a big but—just to remind you that Sirius are now in an offer period under the Takeover Code. We are still limited in what we can say from a regulatory perspective, so apologies in advance if there are some questions that we can't answer at this stage.

Mark, over to you.

Mark

Okay. Thanks, Paul. Good morning, ladies and gentlemen. As most of you know, we have been repositioning the Anglo American portfolio for the last six years. Our offer for Sirius is consistent with our portfolio transformation objectives. This is a quality, potentially Tier 1 asset, and these types of assets do not become available very often.

In my commentary, I will make sure that I'm checking on slide numbers so people can keep pace with our presentation. Just going through the cautionary statement, nothing much else to be added there. Now, I'm on slide 3.

The project, as we see it, is a good fit for Anglo American, and we believe it is a great opportunity for the group. The project consists of an integrated mine development, processing facilities, and a loading operation at the port. It's not a complex operation in terms of the technical side of things, and it does have work on the marketing side that we believe we understand and creates a great opportunity. We believe the asset package can be developed and materially grown over the long term to match the market.

We have conducted detailed due diligence through our various Anglo teams, with some input from outside consultants in the months we've been looking at Sirius. I must commend both Sirius and the due diligence team for the work they've done to this date. We believe we can build on that good work, and take the project to a successful completion.

In terms of the argument for the transaction, we see a clear strategic fit. It is a quality asset. It's a substantial polyhalite resource which has a long life, low cost and is scaleable to the market. It is, in our view, a potential Tier 1 asset.

We are leveraging our capabilities, matched to mining and processing skills and experience, which can be enhanced through our technical processes and our innovation platforms. It is also a good fit with our global Marketing model and our internal expertise. Given the fact that we've been in this market for 50 years, it's a market that we're very comfortable with, albeit this is a new type of product, but it isn't an absolutely new product, and that we'll talk about a little bit later.

The competitive position of the asset supports, in our view, interesting returns. This is a multi-nutrient product. Its position supports the market interest that Sirius has seen and is consistent with our view of the quality of the product. Its low chloride content enhances market attractiveness, and as we see it, value-in-use.

It has a low cost to market, and by that I mean low-cost mining and proximity to key markets supports low-cost delivery. That is, it's a highly competitive cost position across global markets. It is a product that travels well, providing us with good exposure to a range of global customers, and that's very important in terms of our thinking.

Finally, this project is well-established, and the Sirius team has done a great job in getting where they are today. Licenses and infrastructure are in place, and well-positioned to generate an EBITDA margin potentially in excess of 50%, as defined by the Sirius team.

The low cost, quality product and the breadth of the market is something that we think all works in that favour. We also believe it will tie well into the sustainability conversation, as it has a low carbon footprint and non-chemical production characteristics, which again we think plays to the positioning we have over the long term with our broader asset portfolio.

In moving to the agenda slide, the plan for today. A couple more comments from me before I hand over to Duncan. For the benefit of those less familiar with the product, the market, and the project, he will walk you through some of the details, before I then talk to the broader fit within Anglo. Stephen is also here, so the three of us will tag team in terms of Q&A, and as we wrap the conversations up.

I'm on slide 5. To quickly recap some of the key points in our offer, we are offering 5.5p per share in cash. That values Sirius at around $500 million US equity.

The intention is to acquire via a scheme of arrangement. Should it be approved subject to conditions precedent, we expect completion by around the end of March 2020. Pursuant to shareholders, the offer of 5.5p in cash represents a significant premium to the Sirius share price before our first announcement, and indeed a premium to where the Sirius share price has trended ever since their financing update last September.

We recognise that this is below the levels of where the Sirius shares have traded historically, but we believe that what we're offering is fair in an environment which is very challenging to raise capital for large greenfield projects in general, and for Sirius in particular - one mine companies: it is a challenge. And from our point of view we think as Anglo American we offer a break, both in terms of technical, marketing, and our broader financial capacity is certainly something that brings certainty to the project.

In that context, we believe our offer is in the interest of Sirius' broader shareholder groups and stakeholder groups, and that includes its employees, so the broader local community, given the greater certainty that it provides for the future of the project.

For slide 6, first, and before we go further, I want to address one of the key areas we have been asked about since the initial announcements, and that is how this project fits into our capital allocation framework and our specific capital plans. With $1.1 billion incurred to date—that's US dollars—the project has been well-progressed. That's around 25% of the current expected capital to get to 10 million tonnes per annum production. We believe we can help build on this encouraging progress, and we'll do it the right way, consistent with our capital allocation framework and our key control processes that, as of today, have served us well in terms of the Quellaveco project and the projects that we've completed over the last four or five years.

We are comfortable with the Sirius revised development schedule announced in November last year. In the first two years, the plan is to spend somewhere around $300 million in both 2020 and 2021. We expect Quellaveco, our Peruvian copper project, to come on stream and start contributing cash flows in 2022. We will then look to step up the capital on Sirius. We will spend the next 24 months updating and optimising the timeline and the mine design. At the same time, we will integrate the project with our operating standards and practices. I think that's an important piece of work that we want to do to set the organisation up for the long term.

Based on the Sirius model, at a 90% confidence level incremental capex is approximately $3.3 billion in order to reach the target production level of 10 million tonnes per annum. The main capital for this project will only come once Quellaveco is up and running, so we will not dilute our focus on Quellaveco

or compromise our ramp-up on the project, and we will not be focusing on two major multi-billion dollar greenfield projects at once. One does have to remember that by the time we get to a decision point for 2022, the go-forward spend would be around $2.7 billion, and that's based on the current Sirius estimates.

The project is certainly not as complex as Quellaveco, and so from our point of view we are well-positioned in terms of going forward, and making sure we stick to our commitment of one major project at any one time. The spend that we would add to the business are in addition to the amounts we guided in December. That is, the $300 million in 2020 and 2021 would be in addition to the numbers we set out in our previous guidance numbers.

On slide 7, as Stephen would want me to remind you, we will remain balanced in our approach to return capital to shareholders, and in our focus on improving operations and our ongoing business performance. Our disciplined capital framework will of course apply to this project. This fits with our commitment to maintaining a strong balance sheet. We will not go beyond the 1.5 times net debt to EBITDA at the bottom of the cycle without a plan to bring it back into line, and we reiterate our commitment to a 40% of earnings dividend pay-out ratio.

I will now hand over to Duncan to take you through the project, the market, and the other elements that connect.

Duncan

Thank you, Mark. Good morning, everybody. I'd just like to reiterate our focus on asset quality, which is a key driver for us strategically, but I'd like to get to that a little bit later.

Firstly, we need to talk a bit about the product and the market itself. Just to clarify, we have spent indeed considerable time now trying to understand the product, the market, and the project. We're not new to the fertiliser business. We've had exposure to it in some way, shape, or form for most of the last 50 years.

We've been seriously looking at this asset class again over the last two years. Specifically, we've engaged with Sirius on two separate occasions in due diligence. Preliminary assessment was done on the project in 2018, and we took the detailed look from September 2019 after they announced their strategic review. Our own due diligence has been supplemented by third party independent consultants' advice, as well as that from current employees, ex-employees, and industry specialists who have been associated with the industry to get us to this point today.

Moving to slide 9, I'd like to establish from our perspective that whilst POLY4 is new as a product to the market, it's actually not new in and of itself. What is POLY4? It's a multi-nutrient product which contains four of the six key nutrients that plants need to sustain growth. Think of it, if you like, like a mine with co-products, or coming from the polymetallic resource in terms of its form. In addition to containing four of these six nutrients, it is also very low in chloride, and that's a good thing because that works very well for high value crops. I'll talk about that a bit later, too.

The demand for these nutrients is very well-established. POLY4 just packages those nutrients slightly differently. It's more of a physical offering, if you like, than a changed chemical offering. What we really do like about it is where it ultimately sits on the cost curve.

On slide 10, I just want to make two simple points. Firstly, POLY4 is not simply a potash or a K substitute. It is this multi-nutrient product that I refer to. I think it'll ultimately co-exist with potash in its various forms, but if you want to focus only on potash markets, let's look at this in terms of how the industry describes

it by convention in terms of its K_2O, or potassium oxide content, which is the key nutrient of potash.

MOP is the most common form of K fertilisers and contains around 60% of K_2O in a 65 million tonne market, while the more premium product, SOP, contains 50% K_2O in a 7 million tonne market. Simplistically then, in terms of K_2O market terms today, that market is around 45 million tonnes. POLY4, which contains only 14% K_2O, at a production rate of 10 million tonnes per annum, will be adding just 1.4 million tonnes per annum to the potash market, or just 3% of current supply. By the way, this is only expected to occur towards the end of this decade in a market which we are expecting to grow at a rate of somewhere between 1% and 2% on a compounded basis.

The second point is, today the price of MOP is around $275 a tonne, but it contains, as you can see from the picture on the top left-hand side of this chart, a significant quantum of chloride, and it's therefore principally used in bulk applications or for broad acre crops and it doesn't really suit the high value and more specialist crops. SOP, on the other hand, currently trading for around about $500 a tonne, is the premium product because it is low chloride, or lower chloride, and contains a bit of sulphur, which is also a good thing. It is, therefore, more suited to the high-value crops. Of course, it is much more expensive to produce, and the cost curve is extremely steep, and this process is also somewhat environmentally challenging.

A little bit more on that cost curve position on slide 11, and I'd just like to say that I really don't like these curves, mainly because I've just told you that isn't simply a potash substitute, and here I'm comparing it to potash, but this is the benchmark. This is the industry today, and it does give you some sense as to how the cost of this product could be viewed.

If we were to take a look at these cost curves, both MOP and SOP, POLY4 would be a very low-cost alternative, so in Q1 on both of these curves on a co-product basis. Exactly where will depend on the different type of nutrients that are valued by the different types of farmers or different types of crops in the various types of applications. So, it will price itself in a range, but very likely to be in the bottom quarter of both of those cost curves.

That's the product. How do you realise value from it, given that it's a new form of these nutrients? As you know, fertilisers are used to increase yield in crops for food, animal feed, and for biofuels. The big macro themes that are in play here—which we like—is a growing population, so perhaps another billion people on the planet by 2035, finite arable land area, and as well as that, increasing pressure on that land as a result of climate change.

In addition, we have the effect of increasing wealth, too, which is leading to growing demand for higher quality foodstuffs, and in simple terms, globally the desire and a need for more protein. These factors combined points to a positive long-term demand outlook for fertilisers, with experts estimating, 1.3% per annum growth rate for fertilisers, even with the impact of improved agricultural techniques and efficiencies, or precision farming, as it's becoming known.

Turning to slide 13 now, a simple way of trying to understand the potential value of POLY4 is to disaggregate it into its component forms. So, take the components that make it up, as you see in the picture on the top-left again, and you apply current market prices to each one of those components, and you get to approximately $200 per tonne on a Free On Board basis.

Now, that's the value, if you like, that would apply to a customer using every single one of these established components. That's the full potential value to a farmer. Now, let's be clear that this is based on current market prices of the underlying components, and is not in any way intended to be a forecast of future pricing, which of course could be materially different from that. In

addition to the simple value-in-use, there is more upside potential, although we're not banking in our business case on either the full value-in-use price, or indeed any other potential upside.

Sirius has undertaken some 492 agronomy trials of POLY4 over the last seven years. These trials are applied to 54 different crops in 31 different countries, so pretty extensive research. They showed an average of 4% improvement in crop yield, as well as improved resistance to things like drought, frost, insects, and diseases. The product has been certified for organic use, particularly in Europe, and we know that Europe sets a very high bar for these sorts of certifications.

So, a highly effective and sustainable product which delivers a variety of key existing nutrients on a cost-efficient basis relative to the alternatives is what we're looking at here. It's worth noting that the value-in-use price, is significantly in excess of the current price implied in the existing offtake agreements. And of course, at Anglo American, we now have the experience in developing markets for high value-add products through our global Marketing business.

On the next slide, I just wanted to point out that we've done some extensive work around the demand for this product and identified an addressable market of around 65 million tonnes based upon substituting POLY4 into existing products and into existing blends of fertilisers that exist in the market today.

It'll be more highly valued in certain regions, obviously, and for certain crops and naturally, there will be different value points for different users. The strategy will be to drive into those markets where the product, for all of its components, is valued the most. To do this, Sirius has already partnered with established players in the fertiliser industry and incentivised them to help build this market for POLY4 by sharing some of this value-in-use margin that I described on the previous slide.

The offtake agreement applies a discount for customers, so they too share in the prize. Then, the offtake partners themselves, which include established players like Archer Daniels Midland in the US, are commercially incentivised with Sirius to develop demand for the product by an opportunity to significantly improve their own margins.

So as a result of this strategy, Sirius have peak offtake agreements in place for more than 10 million tonnes of POLY4; based on January 2019 prices, the indicative weighted average FOB price for POLY4 would be around $140 a tonne under these offtake agreements, as outlined by Sirius in their May 2019 prospectus. Again, let me stress that this figure is not a forecast of future pricing, because those prices could be very different.

In addition to this value-in-use, POLY4 has other benefits which play very strongly to the demand seen in the modern world. I'm on slide 16, now. Hopefully, the slide is self-explanatory, and it explains, the simplicity of the process of POLY4 from mine to market. What I'm really trying to highlight is that the production of POLY4, which is shown in that block on the right-hand side, is relatively straightforward compared to something like MOP or SOP production. As a result of that, it is much lower in energy, and it is cleaner than the processes that are used for producing MOP and SOP. It's predominantly for that reason why it sits lower on the cost curve.

On slide 17, we can see that as a result of that, processing setup, the carbon dioxide per tonne generated in the production of POLY4 is approximately 93% less than that when producing SOP and 85% less than MOP, and we like that a lot. Previously, as I said, it represents significant opportunity to reduce the carbon emissions associated with fertiliser production and contribute to a cleaner, greener, and more sustainable world.

Moving into my last section now, which is to talk a little bit about the assets and the project itself, and the Tier 1 nature of the business as we see it. The project has all of the material and critical permits in place, and is meaningfully de-risked, we believe. Sirius has already invested $1.1 billion in the development of the project to date.

Slide 19 tries to set out the key components of the project, and in so doing, I hope you would understand the relative simplicity of the project itself. Those three components, moving from left to right of the chart, are simply a mine, a material transport system, which is an underground conveyor taking the product to the processing facilities and the port some 37 kilometres away. The mine consists of two vertical shafts 1.5 kilometres deep, a service shaft and a hoisting shaft. The mining method will be a highly mechanised room and pillar method, using both drill and blast and continuous miners, so something similar to what you might see in a coal mine. We, obviously, are going to be looking to optimise the mine design where we can, and Tony and his team are looking forward to getting their teeth into that.

In the middle, we are showing the mineral transport system. It's designed to be totally unobtrusive to the local national park that sits above it. That's why it's around 300 metres deep, where the material will be offloaded mid-shaft and travel through this conveyor tunnel all the way to the processing facility in Teesside. The tunnel is located in a constant strata, the Redcar Mudstones, which makes a very stable environment for tunnelling. The process to date seems to be going extremely well, where they are ahead of their own schedule on the development of that tunnel.

On the right-hand side, the ore comes to the surface, as I said, where it is granulated at the plant, and then set up an overland conveyor for the final 3.5 km to the outloading facilities at the port in Teesside, where that port could actually take up to capesize vessels. Very important to add the nature of this operation, where it is such that one tonne of ore equals one tonne of product, so there is no waste in terms of tailings dams, etc.

On slide 20, why do we believe this could be a Tier 1 asset? Well, here's why. It's large in scale; it's scalable, it's flexible, and is very low cost. Sirius has reported a reserve of 290 million tonnes, which makes it currently, the world's largest known high-grade polyhalite deposit. At initial production rates of 10 million tonnes per annum, this will give a mine lasting 29 years. The resource is much bigger than that, and that's the flexibility that allows us to believe that the life could be extended or the project could grow, or we could manage more effectively the quality of the product in terms of the options that we have available within the ore body.

The seam thickness and the dedicated infrastructure to that contributes a unit cost which we think will come out at around $40 to $50 per tonne. That includes all of the royalties, including those to landowners and communities, which are facilitated by way of a community trust.

This is a low-cost producer and compares favourably with other fertiliser products, which typically have unit costs in the three figures. As a result of this, the asset has the potential to generate a margin comfortably above 50% through the cycle.

Mark, I think that's it from me. Back to you.

Mark

Thanks, Duncan. Ladies and gentlemen, from our perspective, we see a clear fit with our asset focus strategy, and it adds both quality and breadth to our continuing portfolio evolution. As Duncan pointed out, we have 50 years' experience in the fertiliser business, and whilst this is a new and evolving product, we certainly believe it's a good fit for where we see the industry

going, and where we see technology development going in terms of the industry.

On slide 22, I just want to remind people where we are with our major projects, and how this may fit into our business. Today at Quellaveco, we are very pleased with our progress. We remain comfortable with a 2022 start. The new diamond vessel at Namdeb and the Aquila Met Coal development are also progressing very well. As we said we would, we received the Minas-Rio tailings dam raise licence at the end of 2019. Don't forget that went with our Stage 3 mining licence that we got actually six months ahead of schedule, so we're very pleased with that progress.

Should we be successful in taking ownership of Sirius, we won't be cannibalising capital from other projects, which are all value-adding to shareholders, so no change to the other organic options such as the Moranbah-Grosvenor debottleneck, which is likely to go in front of the board for approval in 2020. The Mogalakwena expansion is being set up, currently in feasibility study, with a target to go forward sometime in 2021. And, we have our attractive copper growth projects that we're working on, and expect to phase through in the medium term.

On slide 23, the Sirius project is also important for a sustainable, cleaner, greener future. We've covered some of these environmental benefits already, and it's consistent with the evolution of the portfolio that we've been talking to over the last few years. This project also brings a significant contribution to the North Yorkshire and Teesside economies. Sirius have previously stated that the project generates over 2,500 high-quality industrial jobs to a region with a very proud industrial heritage. Also, and to quote the Sirius team, they expect the project to increase the size of the local economies, potentially in the range of 15%.

For Anglo, this project has been well progressed. It's a relatively balanced risk project in a developed jurisdiction with a strong associated governance profile. We believe it fits our skills across the business, in particular, fits with our experience and the developments that we've made in our Marketing strategy.

Finally, to wrap, the Sirius team, in our view, have made solid progress on the project, but there is still clear value that we can bring to the construction, operation, and the marketing of the product. Our Operating Model and P101 benchmarking programme have delivered significant safety, productivity, and cost improvements across our existing operations, which we can integrate into the project. We believe we can effectively deploy our relevant technology and digitalisation innovations in due course. Obviously, with a base that the Sirius team has established, we believe that we can work effectively together to take the project forward.

With our established mine-to-market expertise in our leading marketing business, we are set up well to capture the premium that this product could attract, and continue to work with the Sirius team in developing the market's understanding of the value-in-use to customers. I want to be clear, our forward development will all be undertaken in a disciplined manner. During our optimisation over the next two years, we will spend around $300 million each year. That sets us up well to ramp after Quellaveco comes on stream in 2022.

So this project dovetails nicely into the existing growth pipeline and positions us well for the long term, and it maintains our strategy of only having one major project being developed at a particular time. I'll just reiterate that point by sticking to the Sirius revised plan, we'll fit the program as we would like to execute so that we're able to make sure that we're happy with all of the elements, how they fit together, and how it connects into our own engineering and capital development programme.

To conclude, this is, in our view, a Tier 1 asset, a fit for our strategy of holding world-class, high-quality assets. We've been aware of and looking at the project in great detail for some time, and now the timing is right for us to progress the opportunity we can see. We have a strong balance sheet. We have delivered additional returns to our shareholders during the last six months of the year. Now, we are looking to continue to generate long-term shareholder value by maintaining a 30-year asset life across a quality portfolio of assets for now and into the future.

Thanks for listening. Over to Paul.

Paul — Thanks, Mark and Duncan. We'll open the lines now for Q&A. Just to remind you once again, please, that we are very limited in what we can say due to the offer. Also, can I ask each analyst to only ask one question so we can get as many people on the call as possible? Can we open the lines and kick off the Q&A, please? Thank you.

Jason Fairclough (BAML) — Good morning, gents. Thanks for the call today. Look, just a question, I guess on pricing. Buying an asset does often imply taking a bit of a view on commodity prices. Duncan, you've shown us the cost curves, you've highlighted the low-cost position, so, would it be an overstatement to say that you don't care on pricing? I guess I'm asking in the context of BHP's apparent drive to make sure the potash market is very, very well supplied and the fact that we still have latent capacity and existing legacy producers of potash. Do you just not care because this thing is so low cost?

Duncan Wanblad — Jason, I can't really say much more that what I've already told you in terms of how one thinks about setting up an analysis around the value-in-use price, and what the point says quite clearly to our current market prices today, what the implied contract offtake prices would be. The most important thing, I think in all of that, is in fact the position on the cost curve.

Alain Gabriel (Morgan Stanley) — Good morning, gentlemen. Just a follow-on on Jason's question on the pricing. If I compare the prices on slide 13 and 14, clearly, the current offtake agreements on today's market terms is around $140 compared to the value use of $200. I'm not well on top of that market, so if you don't mind explaining to us a little bit more about the value sharing with your clients. Is the $140 reflective of the value sharing, and should we expect a permanent discount to the value-in-use as a feature of the contract that you have in place, and how much scope do you have to review those offtake agreements? Thank you.

Mark Cutifani — Thanks for the question. I think the key point to make, as Duncan's articulated, based on the markets today what the value-in-use of the product is, we have to remember that this is a relatively new product to the market, and the market price today may not reflect how it will trade in the future. You'll have to make your own judgments on that going forward because we still are in the period we're in, so we're restricted on what we can say. We have our views. But we have today, given you all the information that we can provide. You'll have to make your own judgment on what that might mean.

Myles Allsop (UBS) — This is a very helpful presentation. What I don't quite get is that none of the incumbents talk about this as a Tier 1 asset. None of the incumbents are concerned about this project. There's been very little exploration into polyhalite, ICL hasn't expanded the Boulby mine. Why do you think everyone is so far behind the curve with Sirius? It sounds like a fantastic opportunity, but there's that nagging doubt, I guess because of the way the other fertiliser companies are behaving with relation to this.

Mark Cutifani — Thanks, Myles. Duncan is chomping at the bit to answer your question.

Duncan Wanblad Hi, Mules. Listen, I think Mark said, and I pointed out, that it's Tier 1, or has potential to be Tier 1 from our perspective because of the nature and the style of this deposit, which in and of itself makes it quite unique compared to others that are around there. It is extremely large, but not just in terms of total volumes, in terms of how it presents itself. Some of the seam widths here are up to 20 metres and more potentially in certain areas, and so offers a whole bunch of flexibility that existing or known deposits of polyhalite today don't offer. That impacts, I think some of the thinking in terms of where the market is today.

Mark Cutifani Myles, the cost structures are pretty straightforward when you look at the technologies being applied. The Sirius team have done really good work on applying the technologies, particularly in terms of producing a product and producing the form of the product. There is a real elegance in that work and how it presents to the market. There is no doubt that the market will take time. It is relatively new, but the nutrients aren't. Low chloride is known to be a real positive, and our system of valuing use is pretty clear as well.

Again, how it will trade, that's something that people will have to make a judgment on. Certainly, we've given this a lot of thought, we've done our homework, and we believe that what we put on the table is fair, reflecting the risks still going forward. It's an appropriate offer in terms of where that project is today.

Sergey Donskoy (Societe Generale) I have just one, maybe technical question. When you—on slide 11—put POLY4 on cost curves, I guess this requires some sort of adjustments because this product is very different from MOP and SOP in terms of potassium content and other nutrients. Basically, what adjustments do you make when you achieve this comparison? Do you divide the cost by potassium content and then subtract the value of other nutrients, or is it something else that you do to make these things comparable? Thank you.

Duncan Wanblad Hi. Quite simply, you're quite right. We did make adjustments to try and represent it on those curves. Just very simplistically, as I pointed out, the adjustments are all really based on analysing the value of the cost of POLY4 on a co-product basis. So, applying the same margin through all of the products, really.

Richard Hatch (Berenberg) Can I come at it from a different way? You talked a bit at the end about how you can scale up this project should you wish to, on the assumption that you bring on 10 million tonnes, market kind of understands what it's all about, and when you feel that there's a potential to increase the size of it. Can you just talk about what the options are in terms of increasing production should you so wish at some point in the future?

Duncan Wanblad Sure, Richard. Look, let me just say that there are no immediate intentions at all to expand materially beyond 10 million tonnes per annum. That's a big slice of a 65 million tonne market, as I pointed out earlier. To the extent that there is a market for more of it, it is currently permitted to 13.8 million tonnes per annum. Then, I think that logistically the ore body would support somewhere closer to 20 million tonnes per annum if it was ever needed. That would, I think, require additional permitting to go from 13.8 million tonnes to 20 million tonnes. So that really is the flexibility that it has, but I think more important to us, certainly in the short run, is the flexibility that the ore body offers in terms of being able to mine effectively on a consistent and reliable basis the right quality product to get it to the market.

Tyler Broad (RBC) Thanks very much for the call. I missed the first couple of minutes, so apologies if you touched on this, but I guess just in terms of Quellaveco, that was a pretty philosophical decision around moving to a 60% holding. Can you discuss what your thoughts are at the moment, Mark, about where this fits from an equity stake perspective? Thank you.

Mark Cutifani

Yes. Thanks, Tyler. As you would have seen with Quellaveco, we spent a bit of time making sure we had the project right, optimising, understanding all the elements of the project. Once that work was done, we could see where the value was and then decide to syndicate. We still think there's more value we can add in the next year to two years. If we were to consider syndication, I think we'd get a lot more bang for our buck in doing that work first. Now, that's not saying we will syndicate, but certainly we've demonstrated a preference to do that. We'll do the work and see where we end up. Today, we're still in a takeover conversation. It's not done yet. Our intention is to complete, and once we've then done the work that follows, we'll make a decision on how we set the long-term capital structure up as part of the project development.

Ephrem Ravi (Citigroup)

From what I understand, the polyhalite market today is around 200,000 tonnes, so it does require a fair deal of market development. Coming at it sort of in two separate ways, one, how much of those 10 million tonnes of offtake is essentially take or pay, if you can shed some light on it? Secondly, if you can't sell 10 million tonnes from day 1, what would be the break-even volume that you would require to get to your $30 to $40 per tonne—that kind of volume if you can't sell all the 10 million tonnes from the time the mine comes into production? Thanks.

Duncan Wanblad

Ephrem, so the 200 kilotons is I think probably closer to 400 kilotons actually, which is the product that's going into the market today. It's a function of supply, not necessarily demand at this point, so absolutely appreciate that they have lots of wood to chop in terms of making a market, but that is really, as we pointed out earlier, we believe the characteristics of the product are such that it should be in demand in terms of the form and nature of its application.

Secondly, we think that the Sirius team have thought very well and strategically around how they would make that market with the partnership that they've engendered in those offtake agreements. The offtake agreements themselves are all legally binding. I don't want to really say much more than that. I don't think we need to rely on any take or pay kind of nature of those agreements because they're designed effectively to be flexible enough to be able to create the market itself. But they are absolutely legally binding as they are set up today.

On break-even volumes, Stephen, do you want to take that?

Stephen Pearce

Yes, just to say that there's nothing special about this project. Obviously, we're allowed to ramp-up every couple of years, as Sirius have done. Obviously, you'll get the cost of production per tonne of product produced will settle itself over that ramp-up time frame. So, nothing special to note here, but it will do it after that ramp-up period.

Mark Cutifani

Ephrem, I think the other point to add here is the mining and the process are relatively straightforward in terms of technical application. From our point of view, Tony and the guys have gone through every part of the project and are very happy with what the guys have done. The beauty of this project is its simplicity on the front end and the flexibility that you can then introduce in terms of the products that you produce by adding micronutrients as well, which is something that is a little more difficult with the more technically complex SOP and MOP products.

We think this fits into that really surgical approach to adding fertiliser in the future. It's also a great blending product as well. The flexibility that we have in the contracts reflects the flexibility in the nature of the product and what we can do with it. We believe that is certainly an advantage and something that was very interesting, and really only became apparent to us as we worked out and understanding the project and the market potential. This is very important.

Sylvain Brunet (Exane) Hi, good morning, gentlemen. One quick one on the offer itself, actually on convertible bondholders, the offer, unless I missed something, doesn't say that Anglo American would assume liabilities for holders who would choose to continue holding convertible bonds. If you could maybe help us.

Stephen Pearce Yes, thanks. We'll make the normal offers to the convertible holders as we're required to under the takeovers process. Obviously, they will then have different options and choices to make as to how they accept those. Apart from that, it will just be a normal standard, they'll have to make certain elections, and we will take it on, absorb it as required.

Daniel Major (UBS) A follow-up question on Sergey's question around the cost curves and about the assumptions around the co-product's pricing. Clearly, your expected cost position is therefore dependent on your realised price for the other elements within the POLY4. Can you give us a sense of the size of the market and potentially disruptive nature for calcium, magnesium, and sulphur that go into fertilisers as a consequence of adding 10 million tonnes of polyhalite into the market?

Duncan Wanblad Daniel, you're right about the fact that it's co-product basis and it's a function of the price that you get to those things. As I pointed out earlier, we don't—our business case did not rely on us achieving absolutely full value for each one of those things. That's also not implied in the position on the cost curves as I represented them to you. Different crops in different jurisdictions will value certain of these elements differently, and they will apply a price accordingly. Our expectation is that it will be somewhere, and that's why we ranged the position on the cost curve, as opposed to dictate a specific point for it.

Mark Cutifani Okay, guys. I think that's it, Paul.

Paul Galloway Yes. Thanks very much for that, Mark. Do you want to add a final wrap up?

Mark Cutifani Firstly, again, I do want to acknowledge the good work the Sirius team have done. From our first exposure to the team late in 2018, we've been impressed with the work that's been done, with the base that's been established, and with the professionalism of the team. From our perspective, on the basis that if we are able to close the transaction, we're very pleased to be able to work with them to take the project forward. Certainly, a very good position with licences and the technical knowledge have been very well done.

We still have work to do. Obviously, as the questions indicate, the complexity is in the market. But at the same time, we do see value in the market in the way the product is presented to the market. The world fertiliser industry is changing, as you'd expect it to be, given the world climate change and all the other factors, and the importance of the global agricultural industry to improve its intensity of production from available land because, in the long term, we're probably going to have to reduce land available to agriculture if we're going to balance off carbon generation.

So, the surgical application of fertilisers being used in the right places and the multi-nutrient nature and the low chloride nature of this product, we think sets it up well for the long term. We've given that a lot of thought, and hence, we've taken quite a bit of time to make sure that this is a product for today and the future. I think our team has done exceptional work in making sure that we understand all the critical issues, and we've been able to answer and work with external inputs as well, in making sure we have this right.

At the same time, we think taking the fact that we still have a lot of work to do on the project that the offer is fair, and certainly is fair to all the key players, as we think our involvement does also bring more certainty to the project. We hope that the Sirius shareholders see that, as does the local community and the other stakeholders in the business. From our point of view, they are all important points that we have to make sure are done the right way. That's

who we are, that's what we're about, and we think this is absolutely consistent with value from a shareholder perspective, and also value from a key stakeholder perspective, and that includes employees as well.

With that, ladies and gentlemen, thank you for the time.