

Speech by Cynthia Carroll, Chief Executive, Anglo American plc to the China Mining Conference, 13 November 2007.

Title

Mr Chairman, it is a great pleasure for me to speak at this event. I took over as Chief Executive of Anglo American in March and this is my second visit to China in my new role. I am no stranger, as I was a frequent visitor in my previous job at Alcan, where our team succeeded in making our smelter here amongst our best performing assets globally in relation to cost and safety.

In my presentation, I will briefly introduce Anglo American and our activities in China. I will then offer some perspectives on commodity prices; before reflecting on China's emergence as the base for a number of major new players in the mining industry. I will conclude with some observations about what I see to be five key constraints on our industry's ability to significantly increase supply in the short to medium term.

Slide 1
Agenda

Anglo American was founded in 1917 in South Africa. Half of our start-up capital came from Britain and half from America – hence our name. We were central to the development of the gold fields of South Africa and of the Copperbelt of what is now Zambia and we grew to be the largest company in Africa. Having been through a period as a conglomerate, we have recently returned to our roots as a focused mining company. In 1999 we moved our primary listing and Head Office to London and we are now one of the top 10 companies listed on the London Stock Exchange.

Slide 2
History

Today, Anglo American has operations or exploration activities in 40 countries. Our production is primarily from two regions - Southern Africa and South America. We provide work for about 150,000 employees and permanent contractors. We have five core businesses: platinum; base metals; coal; iron ore and diamonds. We are preparing to sell our industrial minerals business, Tarmac.

Slide 3
Our
Business

We are the world's largest producer of platinum accounting for some 40% of global output and De Beers, our diamond business, occupies a comparable position in the market for rough diamonds. We rank 4th in the production of iron ore, 6th in copper and zinc, 6th amongst private sector coal producers and 10th as a producer of nickel.

Our growth in the last decade has been organic and we have what many regard as amongst the best project pipelines in the industry with over \$20 billion of

projects in various stages of construction or review. We have significant growth potential. Our copper production is planned to double by 2017; our nickel output to double by 2012; and our iron ore production has the potential to treble by 2015. We currently anticipate that our platinum output will grow at an average of approximately 5% annually over the next few years.

Slide 4
Expansion

We opened our Beijing representative office in 2002. We have had an aggregates business around Shanghai for over a decade and in 2003 we took control of its source of raw materials – the Huzhou Quarry. We then re-equipped and retrained the quarry's workforce and have dramatically improved its safety performance. So, under the previous management there were many deaths each year; whilst we have had only two minor lost time injuries since we took it over.

We also have significant coal projects under review in China, the most advanced being at Xiwan in Shaanxi province and we have an active platinum exploration programme in Sichuan. To date we have invested some \$400 million in China, including our \$150 million stake as a strategic IPO investor in Shenhua. Including both direct and indirect sales, Anglo American sold around \$2 billion in commodities to China in 2006.

Slide 5
Anglo in
China

For every mining company today there is a clear choice - is China just a market or a place for partnership and wider involvement? Uniquely amongst Western miners, Anglo American has decisively chosen the latter course. Hence our active investment, exploration and project development programmes. Hence too, the team we have established to substantially increase the proportion of our procurement spend sourced from China. We have set ourselves an informal target of achieving a balance of trade between our sales to, and our purchases from, China over the medium term.

Robust Commodity Markets

The commodity cycle is now well into its fourth year of strong upward momentum. The length and strength of the cycle has been unprecedented. Despite the recent concerns around the availability of credit and about the near-term outlook for the US economy, the demand fundamentals look good with the major metals consuming economies in relative alignment and in expansionary mode. With stocks predicted to remain low for most major metals, the price outlook is, therefore, solid.

Slide 6
Commodity
Cycle

The strength of the cycle has been amplified by the activity of investment funds. This has diversified the drivers of demand. Aside from the demand-side impact of these funds, what accounts for the enduring strength of metal prices?

Well, whilst there has been some industry consolidation, but even after this, the top five producers in the copper market only accounted for 40% of production in 2006, compared with 33% in 1993. In zinc the figure is predicted to be 30% in 2007 compared with 23% in 1993. In nickel, it is true that the top five producers currently account for just over 50% but this is, surprisingly, a smaller proportion than in 2003. The iron ore market is a good deal more consolidated but the extent of this has not changed significantly since 2000 and there is little evidence that this lies at the heart of the extraordinary strength of prices in iron ore. So, there has been relatively little increase in the market power enjoyed by the producers of most metals.

According to Macquarie, 90% of global growth of copper demand is attributable to Chinese demand since 2000. Indeed China's growth over the period has been a historical phenomenon, marking the biggest shift in the relative balance of economic power ever seen in peace time. In US\$ terms China is already the third biggest economy in the world and in purchasing parity terms the second. There are, of course, those who see this change as merely marking a return to the accepted order of four or five hundred years ago when China is estimated to have accounted for between a quarter and a third of global GDP.

It should be noted, however, that Chinese consumption of copper does not equate to Chinese end use of copper. Rather a significant proportion – probably between one quarter and one third - is processed and integrated into manufactured consumer goods for export. The Chinese Government might, we believe, usefully conduct research so as to define this figure more precisely.

But, extraordinary though the growth in demand has been, the big story has been our sector's inability to significantly expand supply in a timely manner. Limited investment in exploration from the mid 1990s has played a part but, even where resources have been identified, increasingly rigorous impact assessments and permitting processes, mean that it takes a lot longer to bring new projects to account. Shortages of capital

equipment, skills and infrastructure bottlenecks have reinforced this phenomenon. In addition, shorter-term disruptions, like technical failures, trade union disputes and severe weather events, have been plentiful and have prevented the build up of supply momentum from existing operations.

In recent decades, falls in the real price of metals have been prompted by technological developments which have reduced production costs. Now, conversely, prices going forward are likely to be under-pinned by the significant cost increases which have occurred across the industry – including those relating to energy, transport and labour. In addition, the capital costs of new mines have increased substantially, with the average capital costs of building a new copper mine being estimated to have grown by an average of about \$200 million, or about 60% as shown on the slide between the end of 2004 and early 2007. Estimates of the proportion of these cost increases that are structural, rather than cyclical, range from a third to two-thirds with a lot depending on where energy prices end up.

Slide 8
Rising
capital
costs

Of course, in theory, many key metals are becoming scarcer as the resources available for discovery or for conversion to reserves diminish. Indeed if it were not for the fact that copper deposits in the Congo have recently become accessible again, the average grade for new mines would have shown a significant decline since the turn of the century. So is there an underlying shortfall in the long-term availability of key metals? Frankly, I do not see us as being at the equivalent of what some oil industry commentators see as an impending 'peak oil' moment which might cause a secular shift in prices. Instead, our industry has been consistently successful, through technology, exploration and the price mechanism, in continuing to grow its reserves base and in transforming resources into reserves. Issues may, however, arise in relation to the grade, location and scale of future discoveries.

Slide 9
Replenished
resources

New Chinese international producers

Against this background of high demand and restricted supply, China has increased its involvement as a foreign investor and operator and some Chinese companies are emerging as new and important players in world markets.

Slide 10
Chinese
International
investors

There have been some negative responses to this new source of competition. Some developing country governments, on the other hand, have welcomed it together with

the fact that China has been willing to complement its investment in oil, gas and mining with significant packages of infrastructure investment and development aid.

Concerns have been expressed about the social and environmental standards being applied by some Chinese operators in their investments in Africa and South America. This is certainly not a universal problem and there are, undoubtedly, some good Chinese operators. But, as Chinese companies become more established as international operators, I am sure they will come to share an appreciation of the need for our industry to follow international standards in the management of its environmental and social impacts. In the West we have certainly made our own errors and, in particular, the short-term priorities of some junior companies are not always supportive of sustainable outcomes! Indeed, sadly, the reputation of our industry tends to be set by the standards applied by the worst performers.

Slide 11
International
Benchmarks

The leading international mining companies have developed or adopted an increasing number of standards ranging from the International Council on Mining and Metals Sustainable Development Framework to the IFC (International Finance Corporation) Safeguard Policies, which provide a framework for project lending by the Equator Principles banks. I am sure that Chinese companies will become major players in the industry and I hope that they will participate in future industry consolidation. If we are to ensure that the advances in governance achieved in the industry in recent years – such as through the Extractive Industries Transparency Initiative – gain traction, then we need Chinese companies to come on board. As we begin to partner with each other, in China and in third countries, there will be important opportunities to learn from each other and to work together to raise standards.

Supply Constraints

In the final section of my presentation, I want to return to the issue of supply constraints. I believe that the most intractable issues relate to sustainable development challenges. A number of constraints have emerged which are outside the control of the industry. They will require us to innovate, so as to become more efficient in resource use and to work with governments and communities in seeking solutions. I am referring to five key challenges: skills; energy; infrastructure; water and community consent.

Slide 12
Supply
constraints

Skills shortages are a big problem for every major mining company. In some parts of the world, the supply of technically qualified graduates has almost dried up and it is proving difficult to revitalise the supply of mining engineers, geologists and metallurgists. A big gap has also appeared at the artisan level and here, we are having to take a much more interventionist approach. Thus, for example, in South Africa, we are currently supporting or training over 6,000 apprentices, graduate trainees, bursary students or learnerships. For our new platinum projects in the Limpopo Province of South Africa we have recently established a new training centre which will train up to 2,000 people a year.

We are revamping the way in which we recruit and manage the best potential talent and we are recruiting a number of Chinese graduates to ensure that prior to a major operational expansion in China we have a cadre of experienced Chinese professionals who understand the Anglo way of doing business. But if we expect to continue in the present 'stronger for longer' cycle we will need, as an industry, to take a far more active stance in persuading the brightest and the best that mining is an industry that can make a positive difference to the societies and communities where we work.

As you may have noticed, I am a little different from most other industry chief executives – I am a woman. And whilst I am not driven by political correctness, I do think it extraordinary that our industry has done so little to attract significant numbers of women into its ranks. Thus, I have made clear to my colleagues that I intend that Anglo will become a leader in diversity – compared with our present position where women only make up about 10% of our workforce. I see reaching out to the 51% of the population who are hardly present in our operations to be a key response to the skills shortage in countries like Australia and Chile.

The second major constraint on supply is energy security, and the related issue of climate change. Three years ago the International Energy Agency estimated the cost of resolving outstanding energy infrastructure costs as being \$16 trillion – that is now estimated to be in excess of \$20 trillion. Globally, the industry has the capacity to install some 100 GW of new capacity each year – but 150 GW is what is needed. As in the mining sector, there is a shortage of construction skills and of capital equipment and permitting processes are delaying the construction of new power stations. The world was not ready for the synchronised economic expansion of the last five years

and a lot of old plant is in need of replacement. I also have no doubt that we need to be far more focussed on improving energy efficiency. Within Anglo we have a target of improving energy efficiency by 15% by 2015, but this may not prove to be commensurate with the scale of the task ahead.

Climate change is also a critical factor. There is a scientific consensus that our climate is changing and that human activities, and especially emissions of Green House Gases, are a significant trigger for this. This has important implications for our industry as coal producers and as intensive energy users. Looking at global energy demand, there is no doubt that coal will continue to be needed as a major energy source but this needs to be in the context of clean coal initiatives. Anglo American is active within the US-led FutureGen Alliance to produce electricity from coal with near zero emissions; we have coal bed methane energy projects in Australia that are already saving the annual emissions equivalent of 375,000 vehicles; and we have done significant work on carbon capture and storage as a source of abatement. We also hope to make our Xiwan coal project in Shaanxi a model for clean energy extraction in China.

A third constraint relates to infrastructure development. Many of the places where there are potentially viable mineral deposits are also amongst the most remote. Our industry is used to providing much of our own infrastructure. But this will only continue to be viable if governments are mindful of this outlay when contemplating increases in tax and royalty rates. In addition, they need to remember the cyclical nature of our business and the need for us to generate a competitive return across the cycle.

National and State governments can only derive their tax and economic benefits from our expansion if they are able and willing to deliver on their side of the bargain - which may require them increasingly to look at new funding models to free up the needed investment.

The fourth supply constraint is the availability of water. Water crises beset the globe as many countries struggle to find a balance between reduced rainfall and the increasing water demands of more affluent consumers whilst meeting the needs of agriculture, mining and other major industries. I know in China that water is a major issue and a matter of concern for communities. Indeed, a lack of water may well limit the number

Slide 15
Infrastructure

Slide 16
Water

of operations that can be supported around our Xiwan project. Internationally, water shortages are driving greater efficiency and innovative projects around, for example, the use of community waste water. In the Atacama Desert in Chile, we are working with local groups to establish mist traps to provide new water supplies for farmers.

The final strategic constraint on our ability to expand supply relates to community consent. Such consent may not always be a formal requirement in permitting processes, but the reality on the ground is that it is difficult for a successful major mine to operate in a context of entrenched community hostility.

Slide 17
Community
consent

As mining has become more mechanised and technically advanced, we are generating fewer jobs for local people. Those that are available often require skills that are not readily available in subsistence economies. Moreover, many communities have become more assertive, especially in relation to their own governments, and less inclined to accept that they have no special status in relation to mineral rights under their land. As an industry we have to become better at building trust; understanding the needs, priorities and perspectives of local people; and at working with them and governmental authorities to use mining to generate wider developmental opportunities. The latter are likely to include measures such as pre-employment training initiatives; enterprise development and supply chain programmes; development of greater synergies with farming and support for alternative livelihoods; and institutional and human capacity building. We are not development agencies but in many situations we are development actors and we need to equip ourselves with the relevant skills or to find relevant partners to fulfil the role. A failure to do so will lead to projects being lost or delayed by many years – as has happened in a number of recent cases, especially in South America.

So, in summary, the prospects for our industry remain positive. Commodity prices may go through periods of volatility but the fundamentals are strong both because of strong demand and limited supply growth. Chinese companies will increasingly become major players in world markets and Anglo American looks forward both to establishing partnerships in third countries with them as well as developing operations within China.

Slide 18
Conclusions

The importance of mining companies building sustainable development concepts into our business strategies is clear. While some supply constraints relate to the ability of suppliers to meet our demands, over the medium term, it is a series of bigger challenges which loom and which we can only resolve in co-operation with other major players in society. These are not entirely within our control, and our challenge is to improve our engagement with our key stakeholders, especially communities and governments.

In conclusion, I wish the Ministry of Land and Resources a great success for China Mining 2007. It is a truly world class event and one with which Anglo American is honoured to be associated. Thank you.