



2022 Full Year Results Q&A

Thursday, 23rd February 2023

Q&A

Jason Fairclough (Bank of America, Merrill Lynch): You are super excited about Woodsmith, there is all this upside, and then you are taking quite a big write-down very early in the project. What has surprised you about the project? Why the write-down?

Duncan Wanblad: The write-down is very much a function of the application of the accounting rules and the prudence that we would have to apply to these things, given what we know of the project today. It does not build in all of this upside that I've been speaking about and that we are very confident is going to be there, but we have to deliver it right. And that is the work that we are planning to do.

Stephen Pearce: I do not want to talk down the accounting profession in any sense, but there is a fundamental difference between what you have to do, both from management and an audit perspective, in terms of a long-dated discounted cash flow model, and the assumptions that you have to be able to verify and tick off to put in that over time; versus a model and a belief that you would have in terms of the true value that you think you could deliver over time. And we are in that circumstance.

In the detailed note on the carrying value and the write-down (Note 8, page 64 of the Anglo American Preliminary Results 2022), we have included sensitivities because we are using a very high discount rate, which is appropriate for accounting models at the moment as it is greenfield in nature. If that comes back to the corporate WACC (weighted average cost of capital), in theory, the NPV and accounting view of the value rises significantly. Similarly with the price, we have put the sensitivity in there for you as well.

Jason Fairclough: What has surprised you as you have taken over the project?

Duncan Wanblad: When we acquired the project, it was one of the most attractive options that we saw. We knew we were going to have to do a lot of work to really get under the skin of this and do it in a way that was consistent with a project that would exist in Anglo American for multiple decades. A lot of the things that we picked up during the due diligence, which we had access to at that point in time, are all playing out as expected in the design and the delivery of the project.

Danielle Chigumira (Credit Suisse): When Woodsmith goes to board for approval, what form will it be in? Will it be the 5Mtpa version, the 13Mtpa version, or something in between?

Duncan Wanblad: We will take the project in phases to the board for approval. The board approved the \$800 million for 2023. We will have to go back to the board at the end of this year to give them an update on the project, how the development has turned out and we will get partial approvals to get to the point where we have dimensioned all of the risk and have the right level of engineering in the project. I would suggest that there is another couple of years; we would certainly want to get more detail in the sandstone before we had completed the design on this project, and we really want to understand the sink rate and the time to get to the bottom before we took it to the board for final approval. It is at least two years out, I would think, from a final approval for full notice to proceed in the way that you would have thought about Quellaveco.

Danielle Chigumira: In 2024, when you are in the sandstone, you will be in a position to take the 13Mtpa version to the board for approval. Is that how we should think about it?

Duncan Wanblad: I am not sure that it would be 13Mtpa version, but it would certainly, at the very least, be the 5Mtpa at that point.

Danielle Chigumira: Thinking about it from the marketing perspective, you are speaking about up to 5Mtpa in 2030. What would you need to see in terms of feedback from crop studies and so on to have confidence in that 5Mtpa, and then ultimately to the 13Mtpa? Because the commentary that you make around the value of the product and the fairly slow ramp-up, there seems to be a bit of inconsistency in that. How do I think about that?

Duncan Wanblad: That is very much a market development strategy that is coming to play here. We could put quite a lot of this product into the market relatively early on, just simply on the substitution basis. But I think it will be really hard at that point to start building the premium that should be associated with this product. We have to let it earn its stripes in the market. The one thing that the farmer really wants to know and understand is that this is not going to have any detrimental effect to the way that he runs the farm today. It is very important that they get real-life opportunity, not just crop trials and external bodies with whom we work with, who are providing a lot of this information today. Then they learn and they experience the yield benefits and so on. And we can build into it on that basis. This is a very deliberate strategy and the pace of uptake of that might be different in different parts of the world for all sorts of reasons. And that is why we say 'up to' but we will get there.

Sylvain Brunet (BNP Paribas Exane): Why has the discount rate changed compared to when the acquisition took place in 2020?

Stephen Pearce: The discount rate has not changed. We use the same discount rate in the acquisition model as we have in this model. But remember, they are two fundamentally different projects, in terms of what we are building – the time, scale, progress, pre-investment.

The thing I would also encourage you to think about, this is very different to a normal mine – Quellaveco is probably a good example, where you have got a relatively simple mine with more complex processing and logistics piece. Whereas this project is all about the pre-investment in the infrastructure with very simple processing and logistics. It is totally a flip around to how you would normally think about it.

And in terms of the pre-investment that you need to make, I would also liken it a little bit to, a greenfield iron ore mine, where the building of the mine is actually relatively simple, but the investment in the rail and the port infrastructure is nailed to the ground upfront and you get one chance to get that right – yes, you can expand them later, but you get one chance to invest in that and scale it and get the efficiencies right. This is almost an identical scenario here.

Sylvain Brunet: Could you help us understand the difference between the challenges that Kolomela is experiencing versus Sishen. The last few years, Kumba was actually a good example of a good recovery, and it looks like things have become more difficult.

On Botswana, just to understand what is being discussed at the moment. Is it purely fiscal terms? Have you agreed on some of the items already, and why are you sure that 2023 should be the timeline for the final agreement?

Duncan Wanblad: On Kolomela, it was hampered in a slightly different way last year from Sishen. Some of the fundamental underlying issues are associated with the weather and the mine development, which was very similar to Sishen. But it had a 3-4 month period where, in addition to that, it had had a misfire on one of the main benches in the mine. Mpumi and the team needed to navigate that misfire in a very, very careful way. That slowed the mining rate down significantly during that period of time. By the end of the year, Kolomela was doing very well.

In addition, there is a differentiator between Kolomela and Sishen in the context of access to rail, and at the end of the year when we started to really struggle with rail access - during the strike at Transnet and then the extended maintenance period at Transnet - we elected to prioritise the Sishen material onto the rail, and we stocked Kolomela.

At Botswana, the vast majority of all the elements of the negotiation have been completed. I cannot remember how many workstreams there are, but there is only one outstanding workstream. And that is where the team is working at the moment.

Ian Rossouw (Barclays): Firstly, on Woodsmith. From memory, the Sirius plan was to get to 13Mtpa eventually, with a bigger shaft, etcetera - is that ultimately the capacity the shafts can do, or is there upside longer term?

And then, from memory, the long-term price you mentioned at the time of the Sirius deal was like \$120 to \$140/t, explain the bridge to the new long-term price.

And then lastly on working capital, what should we expect for this year and roll-off of the platinum inventories as well, please?

Duncan Wanblad: On the Sirius plan to 13Mtpa, the real constraints in that mine are not the ore body, it is really the shaft capacity and the tunnel capacity to get to the port. And it is not simply the size of the conveyances that you need to put in there, which are really important, but it is fundamentally constrained by the ventilation. And ventilation is very important in the context of the mining method that you select, the equipment that you put down there, and so on.

Our approach was always likely to be different from Sirius. I do not want to comment on the comparison between our plan and the Sirius plan, because from day one, we said we were really attracted to this opportunity because of the nature of the product, the size and scale of this ore body. We wanted to do our own review on it, work out how we were going to optimise the execution of it, and these are our plans.

Stephen Pearce: On the price, your recollection is correct. We were talking around \$140/t at the time that we acquired the project. What have we done since to inform our view? The economists have gone to town in terms of fundamental supply/demand balances across the four main nutrients that make up the four main aspects of the product. And that view of the fundamental supply/demand balance over time is expressed as a real price for the relative percentages that informs the \$170/t. We have then gone through and looked at the balance of probabilities of where some of that value is. In a fairly conservative approach, we have added \$20/t to it. As Duncan mentioned, if you took a different approach, you could add \$100/t pretty quickly and the current market view of that it is over \$300/t.

But we are using the relatively conservative and fundamental economic build-up view of the four main nutrients into the \$170/t as a starting point.

On working capital, De Beers is probably one where we have had a bit of a tick-up in finished goods - and some of that is a view of the team leading into the new year and trying to position for China reopening. The other is because we have got the transition of Venetia this year - the last cut has been completed and the underground transition will ramp up through the year. The team are keen to make sure we have got the appropriate mix of diamonds to take to the market through the year as we go through that transition.

On Copper, we have the Quellaveco ramp-up, and we see a little bit of build-up there, as well as there was a fire at the third-party port that we use to take the product out for Los Bronces. While it is back up and running at lower volumes at the moment, it will take another few months through the half year. But do not expect an impact on full year sales and certainly no impact on production from that.

And PGMs is probably the biggest WIP build-up that we have had across the portfolio. Some of that is the purchase concentrate material that we bring in off of current pricing, impacting our carrying value and some of it is the Polokwane smelter. That will take a little bit of time to run out - so even though it is up and running and processing well, you get another pinch point just this side of the ACP as you balance the right mix and feed through the ACP. So that will take through 2023 and 2024 to run out.

I would love to get at least half of that back in the near term in terms of working capital management.

Alain Gabriel (Morgan Stanley): Duncan, first question is on Woodsmith. Do you have a sense of the operating costs if you were to achieve 5Mtpa and then subsequently 13Mtpa?

And my second question is, outside of Woodsmith, your growth options for the next five years appear to have stalled, especially around Mogalakwena and the Collahuasi expansion. Can you give us an update of where we stand on these growth options outside of Woodsmith, just for the next five years?

Duncan Wanblad: Operating costs at Woodsmith around the 10Mtpa mark are still at a very competitive Q1 position on the cost curve. On our growth options, I would not characterise it as stalling - it just takes longer to get these things done. The big projects in there, other than Woodsmith and Quellaveco, are Collahuasi, Sakatti in Finland and Mogalakwena - so those are the big options and prizes to go for.

At Collahuasi, quite a lot still has to be done on extracting the optionality that exists, and now is the time to start getting our heads around how to bring that forward. But permitting is a very different type of world today than it was just five years ago. The team had to start working out how to re-permit the water that they were using in their current operations before they had to get through thinking about how they were going to expand the operation.

Mogalakwena - Natascha has the six pillars of work that she is working through to get her head around how we were going to expand this - what the best deployment of capital was between the mine and the plant, what the plant configuration could and should look like and the time to do this. We are bang on track in terms of where we should be with that at this particular point in time.

Sakatti is also going great guns from an engineering point of view, but in an interesting world of permitting, given where that resource is located. I spent some time in Finland a month or so ago and people are all very much incentivised to want to try and make this happen, but still quite a lot of work to do from an EIA perspective.

Richard Hatch (Berenberg): You have just bought 9.9% of Canada Nickel for \$25 million. It is a really interesting project and looks like it could be quite big, long life. Junior miner takes a project forward, you then have to recapitalise it, put it right, the capex is significantly more than what was initially envisioned. Why not buy it now? You can buy it for \$150 million, in a commodity you like, which you are underweight on based on your pie chart. Why not buy the whole thing now and get it done?

Stephen Pearce: It is an interesting project, but at a very early stage and we are looking at it from a technology perspective. It is quite low grade, but potentially large scale, and in very early days in its life. We are happy to come in as a 9.9% shareholder with others and to be part of that work programme in the next few years. But let us see how it develops.

Duncan Wanblad: In the first instance, the offtake component of that was very attractive and important to us. And the idea that that we could deploy some of our thinking in terms of the technologies around dry stack managements was also attractive. We have a seat at the table there, which is very helpful for us in terms of thinking about what the options are in the future.

Ephrem Ravi (Citigroup): Going back to Woodsmith, given the \$5 billion upfront capex and using a \$50/t cost, it is hard to see how this project can generate more than single-digit ROICs in 5-10 years down the line. How does this project stack up against all the other options that you have, like Mogalakwena. Going back to the capital allocation framework, was this still the best project you could do now? Or is the sunk cost fallacy holding you back – you have already sunk 300 metres of shaft, so let us go ahead with it.

Duncan Wanblad: This project and the allocation of capital to this project is not holding up either Mogalakwena or Collahuasi in any way, shape or form.

Stephen Pearce: We have a very strong view of the value that we think we can deliver from this project and based on the cash flow that this project can generate for a very, very long period of time, it is very attractive to have as part of that portfolio. Obviously, you are missing a few bits and pieces in terms of your own simple models, and we will hopefully help you with that over time. And you then de-risk the project as it comes through its natural lifecycle of time and certainty, and with our view of the market, we think it will stack up quite attractively.

Also, having a strong cash flow generating business in your home head office country is something that we have not had before and so, to have that as part of the portfolio is also quite an attractive thing in terms of overall economics.

Ephrem Ravi: Is it possible to get further tax benefits given lots of projects in that region have fallen off?

Stephen Pearce: One of the things that this project does bring is very attractive growth and activity to a region of the UK that needs it. It is one of the biggest capital projects north of

London. In terms of both the government priorities, our priorities, and the value of community activity and social aspects, it plays very well into that whole story.

Myles Allsop (UBS): On Woodsmith - would you bring in a partner to derisk like you did with Quellaveco? And on the tax, are we right to say that there is no tax benefit other than the offset to head office costs, but there is no kind of lower tax rate for a certain period of time or anything like that?

Stephen Pearce: There is no lower tax rate and there is no head office tax benefit in the models as we present them today, because under the accounting standards, you are not permitted to do that.

Myles Allsop: The IRR on the project, the base case, is that over 10% or over 15%?

Stephen Pearce: I expect it will meet our hurdles around when we get to that final decision point as we factor in our view of value and the optionality that this project brings through time and how we see the product in the market. We have got to prove up some of those things as we get towards final decision, but where I sit today – as a management team and a board, we are confident that will play out into that sort of territory to cross the hurdles.

Duncan Wanblad: And to your point on potential syndication of the project, always open to that. There are two really good reasons to think about these things from time to time. One - is there a partner that is additive to you and can enhance an outcome that that you on your own could not do? Or is this a good way to manage risk, given the nature and type of the project and location of the project going forward?

All of that said, it has to be the right partner and it should really be at the right time if it is going to be value accretive to shareholders. There are no plans to do it right now, but that does not mean that there will not ever be.

Myles Allsop: Mogalakwena is starting to look like more of a mediocre asset rather than a super-special asset, when you look at the lower grades and the performance over the last 12 months. Could you give us a sense as to how the grade profile will evolve and how we will get Mogalakwena back at the left-hand side of the cost curve?

Duncan Wanblad: Matt Daley's in the room, so I am going to ask him to talk to that grade profile. I think the most important thing to remember is that every asset has a grade profile through the whole of that asset. And there are times in the phasing of the development of that asset where you go through higher grade, lower grade, harder ore characteristics and so on. So this is a phase that Mogalakwena has been in at the moment, and it has had some difficulties that have been made prevalent by the elimination of the inter-processing stockpile associated with the geo-metallurgical model from a predictability point of view.

But we are getting on top of that, and we will solve that during the course of this year. It is still an incredibly good asset.

Matt Daley (Group Director – Technical): Starting from an endowment standpoint, this is a remarkable resource. The extent is 18 kilometres along strike, and it is not closed at depth. The ore body width varies from 40 to a couple hundred metres. Depending on where you are in the pit, there is a lot of variability from north to south. The next few years we are moving into the southern part of the pit, where you see much higher grades in the next two or three pushbacks, which will help that grade profile. When you start to look at the transition to

underground, we would be a lot more selective in how we mine. And we are looking at having grades closer to the 4, 5, 6 gram per tonne instead of the run-of-mine from the open cut at around that two to three gram per tonne. Looking over the next 10-15 years, as some of those potential options become real, I think you will see some exciting things around that grade profile improving.

Liam Fitzpatrick (Deutsche Bank): On the De Beers negotiations, coming back to your comments about everything almost being done - should we take that as meaning that there is not going to be any material change in the ownership and the economics as they have stood for the last 10 years?

Secondly, Anglo is still a fairly complicated business when you look at how many assets you have, the different regions and so on. Do you think about streamlining or divestment steps from here just to perhaps take the simplification another step forward?

Duncan Wanblad: On De Beers, it is a negotiation - one that happens every five years. And it is in both parties' interests to come up with a value-accretive deal on both sides of the fence. We are in the middle of this negotiation at this point in time, but it is being done in good spirits on both sides of the fence.

From an Anglo structure point of view, if I had a blank sheet of paper, it would not look like this from a structure point of view. What I am very comforted by is the quality of the underlying asset base that exists in that structure. There is not a lot I can do about this in the short run. But I know that we are quite effective at being able to manage through that complexity and we will continue to do that for as long as we can.

Tyler Broda (RBC): The Woodsmith project, it is US\$5 billion or U\$1 billion a year for five years, to get to the 5Mtpa. What is the capital intensity we should be looking at for the 5Mtpa to 13Mtpa next step, and then, should we think that you go straight from 5Mtpa to 13Mtpa, depending on how the market develops? Because when do we expect for this to become free cash flow positive?

Duncan Wanblad: The rate at which we progress from 5Mtpa to 13Mtpa, is very much a function on how the market strategies in terms of development are playing out. On the capital intensity numbers it is about a third of the capital intensity to go from 5Mtpa to 13Mtpa, as it was from zero to five million. And that is because of that pre-investment in the main elements of infrastructure to get you there.

Tyler Broda: You are seeing a lot of talk now about M&A in the space. How do you think Anglo American is viewing M&A at this point from an acquisition standpoint?

Duncan Wanblad: Same way we have always viewed M&A. To the extent that there is a M&A opportunity for us where at the end of the day, we can make a differentiated outcome from a value perspective, it is in play. It will always have to compete with any of the internal options that we have. We look at it all of the time. None of that has changed.

Dominic O'Kane (JP Morgan): Duncan, you made the comment that Woodsmith is not constraining your ability to move forward with your growth options, but I would argue that it is having an impact on your shareholder distributions by virtue of your net debt number. Can you remind us of what your guardrails are on excess capital distributions from this point forward?

Secondly, on South Africa generally - I think this is the first full year where you have not been subject to capital controls. Could you remind us of what impact that is having on your day-to-day business and treasury management?

Duncan Wanblad: We are absolutely looking to profitably grow this company and we are doing this because it is definitely in the shareholder's interest for us to do that. From a net debt point of view and how we think about that in terms of distributions, our position on this has not changed a lot. To roughly dimension that, if net debt ever ended up well below \$3 billion, we are almost certain that there would be a redistribution of some of that excess capital. If it were between \$3 billion and \$5 billion, there is always a conversation that we have. In fact, we debate this every half with the board as to where the money is going. And then above \$5 billion, unlikely that there would be major distributions in addition to the 40% pay-out ratio.

Stephen Pearce: It is about that balance that I often speak about. We have had a pretty good track record of considering those extra returns when prices, markets and balance sheet position allow for that. And we do actively consider it and I think we have demonstrated we do act on it as well.

On the second question it has almost been two full years since we have had the restrictions on the capital controls lifted. The country used to have a pretty much 'you can't move it out unless you get permission' policy. Now that has moved to 'everything can go out unless you need to get specific approval' type policy. The main institutions, through finance ministry and the Reserve Bank have been really committed to that journey. We notify them after the event for large things that exceed certain limits, as opposed to having to seek permission in any way for dividend payments or for balance sheet management. It is a routine movement of cash flow across borders like it would be for any other country now.

Paul Galloway (Group Head of Investor Relations): Thank you very much for joining us this morning.

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