Address to the Brisbane Mining Club

Cynthia Carroll; Brisbane, 28 September 2009

"Shaping up for the upturn"

Mr Andrew Vigar, Chairman of the Brisbane Mining Club; Mr John Story, Chancellor of the University of Queensland; Mrs Georgina Story; members of the Anglo American Advisory Board here in Australia – Graham Bradley, Hugh Morgan, Jerry Ellis and Phil Weickhart; ladies and gentlemen.

I am honoured to be addressing all of you here today at the Brisbane Mining Club. This is really a fantastic turnout. It is – as always – great to be back in Australia, one of the world's great mining countries.

This afternoon I'd like to talk to you on three main topics:

First Anglo American itself how we're reshaping the business and how we're positioning optimally for the upturn.

Second the serious 'carbon challenge' facing society and our industry's role in addressing this challenge.

And, finally a few words on the future of the mining industry and how Anglo American is facing that future.

Let me start with our business at Anglo American.

The Anglo American Group is a leading global player in mining. We employ over 140,000 people we've got a market capitalisation of around US$43 billion and we have a presence in about 45 countries. We have a unique commodity profile through our exposure to platinum and diamonds and we are the clear world leader in both commodities. We're also a major producer of coal and copper and have a growing profile in the highly attractive seaborne iron ore trade.

Anglo American has a long, proud history – although, despite the name, very little of that history is either American or English. The company was founded by the Oppenheimer family in South Africa in 1917, and the name came from the fact that the US and UK provided the seed capital for the new enterprise. Anglo American was born and grew up in South Africa, and during the apartheid years was pretty much cut off from the rest of the world.

Due to exchange controls, which kept profits in South Africa, the group invested widely in the country – with the result that by the time that reform came in 1994, Anglo American was a giant which had investments in more than half of the companies listed on the Johannesburg Stock Exchange, and had interests in everything from trout farms to pineapple canning.

So after 1994, the following years were really spent unwinding the effects of apartheid and making this sprawling conglomerate into an international, and more focused, group. The company listed on the London Stock Exchange in 1999 and with major investments since in places like Australia, Chile, Brazil, Peru, Alaska has greatly enhanced its international profile.

But so much focus on unwinding the history meant that very little time was spent looking to the future, and identifying what Anglo American stood for and where it was going, so that at the time I joined the group, the company really lacked an identity, a strategy and an ambition.

But the group had a lot of great characteristics, and when I accepted the job of chief executive in late 2006, I was attracted by a number of things:

First the Group's reputation as a builder of great resource projects and projects that were intended to make a positive difference in the societies in which it operated.

Second, I admired the way it had forged successful partnerships with its host societies in many parts of the world, and showed so much success in pioneering new territories.

And, third, I appreciated the way it had achieved so much through painstaking organic growth rather than simply making acquisitions.

But the main attraction was the challenge of taking Anglo American forward. It was evident that Anglo American could become a leading global mining company, and part of my remit from the board was to achieve this ambition, and to lead the way as an agent of change to create a performance culture.

After two decades in the commodities industry I knew from experience what it was like to restructure and rebuild businesses from the shop floor upwards. I knew it was possible to build world-class companies organically as well as through mergers and acquisitions. And, in the case of Anglo American, I felt changes had to be made.

To start with we needed a coherent strategy for the future. We needed to shift up a gear in terms of identifying and acquiring new assets as well as accelerating the disposal of non-core assets.

We had to focus on commodities where Anglo American could best consolidate its cost-advantaged position on the commodity cost curves. For our Group, we identified iron ore, copper, metallurgical coal, platinum and diamonds as the commodities with the most attractive fundamentals for the long term, particularly from the perspectives of cost structure returns the level of industry consolidation and the massive ongoing industrialisation and urbanisation programs in the developing world, led by China and followed by India.

But – my very first priority was safety. Our safety record was absolutely appalling. Hundreds of people had died on company business in the years before I arrived, and early 2007 showed no improvement.

Soon after I became CEO there was a multitude of very serious accidents at a deep-level platinum mine in South Africa. So I took the decision to shut down the mine and bring 28,000 people out of the ground. It had never been done before and was not popular but I knew it was right.

People fundamentally believed at the time that fatalities were inevitable and that I should accept this, so this action sent shockwaves around Anglo and around the South African mining industry. It gave a very clear message: safety is fundamental and is not negotiable. It was the first major step in altering the mindset of the business and in sending a signal to the South African mining industry that things were changing. We showed that we were not afraid to take action.

As a result of our safety focus we reduced fatalities in our Group by 52% over the last two years. We've helped set a new safety standard for mining in South Africa, working closely with government and unions, and as a result, fatalities across the industry in South Africa reduced by around a quarter year on year.

Yet, although we have made great strides on safety, I am personally committed to eliminating fatalities from our operations as soon as possible.

After safety, another priority was to do something about the Group's organisational structure and culture. To take just one example there were layers of management above businesses that operated essentially in complete isolation from each other, with 18 layers in one group from mineworker to business unit CEO. Over and above that, people speak multiple languages – in South Africa alone there are 11 official languages, before taking into account the Zimbabweans and Zambians working in our South African operations.

So I started to change the organisational structure. And, of course, it didn't make everyone happy. But you can't expect to make substantial change to standards, practices, approaches and structures without incurring some resistance.

And we also had to come to grips with unlocking the inherent value in our Group. Anglo American had evolved a proven operating model that balanced a centralised management team and considerable operating independence at the business-unit level. But, like all models do from time to time, it needed adjustment. One problem was the lack of sharing of ideas and best practice both across the business units, and even within the business units.

So, we embarked on an initiative called 'One Anglo'. We wanted to revitalise and build greater coherence in the organisation. We simply *had* to learn to work together, in a joined-up and integrated way. This was critical to capturing more value by realising the synergies, cost savings and efficiencies that were vital to our competitiveness.

A key component of One Anglo is our asset optimisation program. This aims to unlock value from our existing assets through ongoing cost and productivity improvements. Asset optimisation leverages existing knowledge and current practice, combining bottom-up continuous-improvement initiatives with a strong top-down value-driven program. Today, we have 60 full-time professionals Group-wide who are assisting the operating units in identifying value-enhancing opportunities.

The second key component of One Anglo is a streamlined supply chain. We are capitalising on the scale of the Group to deliver cost savings and synergies across the supply chain by forming strategic global partnerships with key suppliers. For example, we've reduced conveyor suppliers from over 100 to just six.

Together, these initiatives are yielding strong savings. We announced a commitment to deliver $2 billion of profit enhancement from these initiatives by 2011 – and we are expecting to deliver over $1 billion already by the end of 2009.

And these initiatives are being driven from the centre because to leverage global scale, one has to have in place an organisation that can take advantage of that scale with attributes such as standardisation across the business units clear co-ordination and centrally negotiated contracts.

None of these things is easy to achieve with a decentralised model.

Notably, asset optimisation was put in train more than two years ago – well before an economic downturn was even imagined. However, as business imperatives changed almost overnight from maximising output to satisfy rampant demand to a new era focusing on maximising efficiencies for profitable production, we took early remedial action, on many fronts, balancing the protection of our balance sheet with the need to preserve our cost-advantaged projects.

To do this, we implemented a number of important steps:

Decisive cost-efficiency initiatives were put in place across all the business units. In the first half of 2009, unit cash costs were 4.4% lower than in the first six months of 2008. We also successfully addressed our near-term liquidity, raising US$4.7 billion of funding, including two over-subscribed bond issues. Simultaneously, we cut our 2009 capital expenditure by more than half. And we continued to sell non-core assets, including our residual shareholding in AngloGold Ashanti. These non-core divestments have realised proceeds of some US$2.4 billion in 2009 alone.

Critically, too, we are starting to deliver on our overall objectives at Anglo Platinum. Cash costs per equivalent refined platinum ounce fell by 6.4% in the first half of this year, compared with the previous six months, while mining productivity improved by 12%. Similarly, a successful restructuring has taken place at De Beers, with operating costs reduced by more than 50%, and a 23% reduction in the workforce as production was brought in line with severely curtailed demand.

And, lastly, our high-quality assets – we have no fewer than seven in the top-rated Tier 1 category – and our extensive resource base is being complemented by our preserving our brownfield expansions and world-class pipeline of approved projects.

The key Minas-Rio iron ore and Barro Alto nickel developments in Brazil and the Los Bronces copper expansion in Chile are all well placed on their industry cost curves have long resource lives and are on track to enter production from 2011 onwards, in what is expected to be an environment of growing commodity demand.

In total, our US$17 billion project pipeline is expected to lift organic output growth by a third by 2013. And this figure excludes the huge potential upside in our unapproved project pipeline. Ours is one of the world's largest project pipelines and provides Anglo American with extremely attractive options to grow production well into the future.

My 2½ years at the helm of Anglo American have certainly been a time that was not predicted, requiring us to tackle challenges on several fronts simultaneously, change working practices, reform relations with governments that in some places were frankly strained. But now, 83% of our operations were fatality free in the first half of 2009, we work in a performance culture, and we've determined a clear strategy focused on the most attractive commodities. We've now got a more streamlined structure a much more rigorous approach to capturing costs and synergies and a significantly improved safety performance.

Now the good news is all of these changes are positioning Anglo American to take maximum advantage of the upturn.

And there is clearly a growing consensus that we've seen the worst of the downturn and we're starting to see the first signs of recovery. So we should be in a lot better shape to benefit from this recovery.

Here in Australia, our primary business is coal mining – though we are also a 40% partner with BHP Billiton in the Samancor manganese operations. In 2000, Anglo Coal Australia – ACA – acquired the coal assets of Shell in Queensland and New South Wales and grew over the years bit by bit through acquisition – but frankly never became joined up. We had performance targets that we never delivered, with mines operating pretty much independently. This business made only a marginal profit in 2007 – partly because of logistics issues but also because of operating inefficiencies and being ineffective. Well, we have now turned this situation around substantially under Seamus French's leadership, and his team.

ACA was the first to launch Asset Optimisation, and achieved a record operating profit of well over US$1 billion last year. It is the country's fourth biggest coal producer and No. 2 in metallurgical coal. Our growing presence in the Bowen basin has been boosted by US$1 billion expansions at Dawson and Lake Lindsay which have added nearly 10 million tons a year (on a 100% basis) of coking, semi-soft and thermal coal. We've also taken a 70% interest in Foxleigh which has a capacity of 3.3 million tons a year of PCI coal, principally used in steelmaking. And our recent acquisition of resources at Foxleigh North and Oakpark East provide further mine-life expansion opportunities.

At Anglo Coal Australia we also responded to the downturn quickly by focusing on four key areas:

- Organisational efficiency – We streamlined the organisation shut down marginal production and increased productivity facilitating flexible workforce arrangements. ACA accounted for nearly one quarter of the Anglo American Group’s total asset optimisation improvement in the first half of this year.

- Stringent management of cash flow – a comprehensive restructure has seen the number of employees and contractors reducing by about 18 per cent. This has strengthened our cost position, with cash costs falling by 14 per cent against the second half of 2008, and with continued savings expected through 2009.

- Maintaining our commitment to a growth strategy – with the emphasis on completing brownfields projects in metallurgical coal.

- Working with our partners to create value – the coal industry in Queensland is showing what can be achieved by working in unison to sort out the infrastructural and logistical problems surrounding export coal.

Together these measures have led to a major – and permanent – structural change in our coal business here. ACA’s return on capital employed is now among the highest in the Anglo American Group.

I must add here how impressed I've been with the strong performance of Australia's economy through the current global economic downturn.

Such resilience doesn't just happen. It's the result of sound economic management by successive governments. They have not shied away from reform – especially in minimising protectionism, investing in infrastructure, improving productivity and fostering healthier labour relations.

I'd now like to turn to a subject that's on all our minds especially here in Australia climate change.

It is essential that the discussions at the UN summit in Copenhagen in December provide a long-term framework for investment which will help both reduce emissions and underpin economic development a framework for a sustainable solution.

So I welcome the leadership that the Australian government under Prime Minister Rudd has shown in this area, including bringing forward your own emissions trading scheme – the Carbon Pollution Reduction Scheme. Such leadership is sorely needed.

And Anglo American is pleased to be one of more than 500 companies to have signed the Copenhagen Communiqué, aimed at encouraging world leaders to implement a long-term plan to reduce emissions across both the developed and the developing world. The natural-resource industry must be part of the solution to this global challenge.

The scale of this challenge is quite breathtaking. The Intergovernmental Panel on Climate Change has forecast that if emissions remain at current levels – that is, without any growth – we should expect temperatures to rise by between 2°C and 5°C by 2050.

Over the next 25 years world primary energy demand is projected to increase by around 50%. In the 15 years between 2005 and 2020 around 40% of all power-generation capacity will be newly-built or replacement capacity.

To provide sufficient *clean* power to meet this burgeoning demand will require us to tap into a broad range of energy sources. Yet most of the new technologies such as solar, wind, marine, biofuels, hydrogen as a carrier of energy, remain costly and their commercial viability at scale unproven. Coal, oil and gas – which now supply around 80 per cent of global energy consumption – will continue to form a large part of the mix for many decades.

We look to governments to establish clear rules of the game. We in industry urgently need these rules to be able to make the investments needed to bring technological solutions to the market. We accept some uncertainty. We accept that there will be winners and losers over the decades.

But we need clearer carbon-price signals – what will the price of carbon be? We need stable long-term regulatory frameworks to support the deployment of new technologies and appropriate transitional arrangements to allow business to adapt to huge structural change to the world's economy. Give the private sector these three things and we'll be far better placed to make our investment choices.

The question of technology rarely receives the attention it deserves in the political debate. Yet this is an area where the mining industry has a lot to offer. We're able to bring a healthy dose of realism to the challenges of designing, engineering and delivering complex technological solutions to meet society's needs. This is our core business.

For example as a major platinum producer, we have an exciting partnership with Johnson Matthey exploring the development of fuel-cell technology.

Here in Australia we've been involved in research into Carbon Capture and Storage initially at the Monash Energy coal-to-liquids project where we partnered with Shell. We are a co-funder of the Otway Basis CCS project. And we are a founding member of the Global Carbon Capture and Storage Institute, led by the Australian government. We are an important capturer of methane we've invested in two waste-coal mine gas power stations. The second of these is at Moranbah North, a joint project with Energy Developments Limited, will be officially opened tomorrow by the Queensland Minister for Mines and Energy, Stephen Robertson, and me. These projects together have delivered greenhouse gas savings equivalent to taking around 700,000 cars off the road.

But technology can't solve everything at a stroke for example, it is naïve to view CCS as *the* panacea. CCS is just one of a range of technologies that need to be thoroughly investigated. That's why Anglo Coal and others in the industry are also examining alternative technologies such as in situ gasification of coal, and biological conversion both of which would leave most of the carbon in the ground.

Returning to the CPRS though I welcome the objective I fear that as it stands the scheme does not take does not take proper account of the reality of the technological challenge we face in finding commercial solutions.

So the scheme risks having the perverse effect of undermining the objective we all share of reducing global warming and averting the threat of dangerous climate change.

Unlike in other countries, coal mine fugitive emissions here are included in Australia’s CPRS. As our investment in waste-coal power stations demonstrates, Anglo American is very focused on reducing these emissions.

But technology for abating the low concentration ventilation air methane that comprises the bulk of our fugitive emissions is in its infancy; and there is no known technology capable of abating fugitive emissions from most open-cut coal mines in Australia.

In the absence of available technology, the coal industry here will be paying a massive tax on emissions. The total CPRS bill for the Australian coal industry is an estimated 14 billion Australian dollars in the first 10 years of the scheme, including 118 million Australian dollars each year in respect of Anglo American’s operations here – money that is urgently needed for investment in abatement activity.

So Australia’s coal mines would not only be at a major competitive disadvantage it could also lead to a *larger* carbon footprint from the industry.

And it would impact jobs as well. In Anglo American alone we risk premature closure by 10 years of two major mines and job losses of more than 2,000 people – not to mention royalties of over 1 billion Australian dollars lost to the government.

Compounding the situation, the coal industry is excluded from transitional assistance under its Emissions Intensive Trade Exposed assistance programme. Even though the industry fully meets the criteria for inclusion in the scheme.

Pass-through of CPRS costs is core to the scheme's objective Indeed, the government has acknowledged the inability of certain mines to pass through CPRS costs to domestic purchasers due to the wording of long-term contracts. But it has not yet put forward a solution to the pass-through problem, in order to start changing consumer behaviour in favour of less carbon-intensive options.

Dealing with these design issues is critical if the CPRS is to provide a pathway to a managed transition in the carbon intensity of the Australian economy.

There are solutions at hand, however:

We can exclude coal fugitive emissions from the Scheme until technology allows us to abate them fully; apply the transitional assistance rules fairly to the coal industry; and provide assistance where mines cannot pass through CPRS costs.

I know the industry is actively engaged with the government on these issues. And Anglo American will remain at the forefront of these discussions, and I have recently written to Prime Minister Rudd to share our views on this.

Finally before I close just a few words on the outlook for the mining sector.

In recent weeks, we’ve seen sharp improvements in business sentiment in all of the world’s major economies. Leading indicators are rising and stock markets are surging. The near-term outlook has improved much more quickly than most observers expected. Prices of many commodities have strengthened as well. Copper, nickel, spot iron ore and metallurgical coal prices have all recovered from their low points in late 2008 as inventories are rebuilt.

But there are still some question marks over the sustainability of the recovery. Continued deleveraging by households, companies and banks and the shadow of rising unemployment and large budget deficits in the major western economies are still a great concern.

Still, large-scale policy stimulus has helped to support economic growth, particularly in the developing economies. Looking at China, the engine of growth for bulk commodities and base metals, we’ve seen near-record levels of imports of copper and coking coal in recent months as the government’s huge fiscal stimulus begins to counter the downturn in exports.

We may see some easing in growth in the short term but the longer-term fundamentals remain sound. The BRIC economies are stepping up their spending on infrastructure in coming years. The IMF estimates that, in respect of the G20's emerging economies, increased infrastructure spending accounts for around half of the total fiscal stimulus in 2009-10. In China, the government's stimulus package includes an additional US$250-300 billion of infrastructure spending by the end of 2010 and India is set to invest US$500 billion between now and 2012.

While recognising the interdependence of the world's leading economies, policymakers in both China and India have made clear their determination to support domestic demand growth to offset the weakness of their exports to the major western economies.

The long-term fundamentals for the mining industry remain very robust from both the demand and supply sides. The industry has seen curtailment of many high-cost operations in nickel, iron ore and coking coal. At the same time, the difficult financing conditions are expected to continue, which will impact the funding and timing of many potential new mines and expansions constraining supply as economic growth returns.

From our perspective at Anglo American, recovery in the OECD countries, stimulated further by government spending programs is expected to be particularly positive for platinum group metals and diamonds.

I’d like to conclude where I started on our own business at Anglo American. We have a world-class portfolio of assets and projects in terms of scale, expansion potential and cost position.

- We own seven ‘Tier 1’ assets – which rank among the largest and highest-quality producing mines of their respective commodities. In addition, they all have expandable resource bases and attractive industry cost positions.

- We have an extensive resource base in established mining jurisdictions which is expected to continue to deliver attractive growth options from mine-life extensions, brownfield expansions and greenfield projects.

- Our attractive cost-curve position allows for stable production and sustainable margins. This attractive cost position enhances Anglo American’s profitability through the cycle in its core commodity markets.

- And, finally, the decision to continue with the development of our three key near-term strategic growth projects in iron ore, copper and nickel during the economic downturn and to preserve our US$17 billion approved project pipeline was a good one.

We are exceptionally well positioned to take advantage of the upturn, and we continue to drive to become a leader in all our core commodities, with low cost, efficient, sustainable operations. I believe that Anglo American, through its actions over the last two years, is able to ride out whatever the economy and the industry brings in the future. I believe the outlook for Anglo American is an extremely good one.

Thank you