Proposed demerger announcement

Thursday, 8th April 2021

Anglo American – A Leading South African Export Thermal Coal Business

Mark Cutifani

Chief Executive, Anglo American

Introduction and Agenda

Good morning and welcome, everyone. As most of you know, Anglo American has been on a long transformation journey, which includes a clear tilt towards future-enabling products. I believe today's announcement on our intention to demerge the South African thermal coal assets into a separately listed business marks another positive step in this transformation journey.

However, before I say any more, I would ask you to look at your cautionary statement. Obviously, today's statement has a little more relevance, and the lawyers would like me to remind you that today's presentation is only intended as a summary and is no replacement for the Anglo American Circular issued earlier today.

On to the agenda, let me introduce the team that will be presenting. Myself, obviously, July Ndlovu, CEO, and Deon Smith, CFO for Thungela Resources. First, I'll recap the journey that we've been on before handing over to July and Deon, who will give you more detail on the South African thermal coal operations. I will then tail the conversation with a short summary before we take questions.

Delivering a responsible transition

As Anglo American, we strongly believe in a responsible transition from our thermal coal assets. We have been on a pathway for some years, leaning towards a portfolio of future-enabling products. With a healthy but intense competition for capital across the group, the bulk of our discretionary capital is focused on copper, as in Quellaveco, new opportunities in crop nutrients, as in Woodsmith, and in terms of additional investments in brownfield operations and across our broader portfolio in De Beers, PGMs and other positions across the portfolio.

The risk to thermal coal is it is now standing at the back of the queue in terms of capital allocation. Therefore, we think it is much better to free it and give the business the chance it deserves to evolve and improve in its particular market. We think this is the responsible thing to do for the business, for its customers, its employees and for South Africa.

Now, to put that into context, as we see today, thermal coal represents around 4% of group revenue, and what's clear in the feedback that we've received, it is a deterrent to some institutions in investing in Anglo American. On the other hand, it's not a material part of the portfolio for those investors that see thermal coal as an attractive value play. Therefore, there is an increasing dis-synergy between the two businesses, and we think there's a good chance that the separation will solve both sides of the equation.

We've always said that we are committed to delivering a responsible transition. It is very important to us that we go about these things in the right way. This means maintaining the transparency and accountability that comes from the public scrutiny of a listed business.

In order to achieve that outcome, we must set the business up for sustainable success. So from our point of view, there are four key aspects to sustainable success in the context of what we're talking about today.

First, we're making sure we've got the right people. We have that in July, Deon and their team. They've done a great job over the last few years in continuing the transformation of our thermal coal business. They will stay with the new entity, having successfully delivered over the last few years and set the business up for success longer-term.

We've got the right balance sheet. We will provide initial funding of about $170 million, so the new entity will have no debt; in fact, it'll be net cash.

We will provide transitional support in marketing, to enable July and his team to focus on running the assets and getting them set up for continuing improved performance. Our marketing team will offtake the export product for sale over a three-year period. We will then transition the marketing activities to the new team within the following six months.

And then fourth, we will provide contingent capital support to the end of 2022. This agreement includes a price floor to give the new business a buffer while it finds its feet. Details are in the prospectus, as well as a summary in the appendix to this presentation.

The proposed demerger

The mechanics of the demerger are very straightforward. The South African thermal coal assets will be transferred to a new holding company called Thungela Resources that will have a primary listing on the JSE and a standard listing on the LSE. Anglo American shareholders will receive one share in the newly listed business for every ten shares held in Anglo American.

Anglo American will also hold some shares in Thungela due to some uncancelled shares following a buyback many years back, meaning we will retain about 9% interest that we fully intend to exit but will do so over time and in a responsible way.

I'm pleased to say that we've already satisfied all of the substantial conditions and regulatory approvals. So, the next step in the process will be to gain 75% shareholder approval at our AGM next month on the 5th of May. Assuming we get that approval, we would then expect to complete the process a month after that on around the 7th of June. With that, more than happy to hand over to July to give some insights into Thungela Resources.

Thungela Resources – Leading South African Thermal Coal Exporter

July Ndlovu

CEO, Anglo American

Thanks very much, Mark, and great to be here with you all today. I've been chair of the World Coal Association since May 2020. In that role, I am fortunate to have the opportunity to speak to coal players across the coal value chain and to get insights about the future of coal.

The World Coal Association's role is to shape a sustainable path for the future, and I'm excited to share with you the role that this company, Thungela, will play in that future. Let me take a moment to explain the significance of our name.

Thungela is a Zulu word meaning 'to ignite'. This name was inspired by the change we want to see because we know that when we are led by our purpose and guided by our values. We can ignite change that makes individuals, communities, our organisation and society prosper. This is a new beginning for us if you will.

Thungela value proposition

The South African economy, one of the largest in Africa, was built on the back of affordable and reliable thermal coal-generated electricity. Today, in conversations we have as part of the World Coal Association, we hear similar messages in the Pacific basin, (South and South East Asia and the far East, a region representing a third of the world's population) that thermal coal will remain a significant part of the energy mix going forward in countries such as India, China, Pakistan, Vietnam and others. Thermal coal is expected to remain important for South Africa for decades to come.

The importance of thermal coal goes beyond just providing electricity. In 2018, it was the single largest foreign currency earner. It is a significant employer employing roughly 90,000 people, which represents 20% of mining jobs in South Africa, and it provides significant benefits towards communities.

Coming to our business - a set of well-established, well-managed assets, strategically located in the Highveld coal basin, with well-established export infrastructure. Our assets produce high-quality export coal with a very competitive cost position, well-positioned to benefit from improved market conditions. Over time, we expect to further improve productivity and optimise costs.

We do have significant optionality in the business, but our focus is to remain capital efficient –with our priority being strong cash flow generation to deliver value, including shareholder returns to our stakeholders. However, where appropriate, we'll make investments to extend the life of our mines, with a focus on those projects which are low-risk, provide high returns and have a short payback. We will come back to this later, but first, I would like to turn to ESG.

A robust ESG framework underpins our licence to operate

ESG is fundamental to our business with a robust framework to ensure we manage ESG matters responsibly. We care deeply about the protection of our employees, the delivery of value to our stakeholders, and we ensure that we uphold the highest standards of governance. Our commitments to responsible environmental stewardship are based on the efficient use of resources, climate risk management and promoting biodiversity and land stewardship, which will also deliver significant benefits to our host communities. We are committed to closing our mines responsibly to enable sustainable future land uses. We are also committed to delivering significant benefits to our employees and host communities, and this is an area where we really want to spike; set ourselves apart, if you will.

We want to ensure that our employees and host communities participate meaningfully in the future success of the Thungela, and accordingly, provision has been made for both an employee partnership plan and a community partnership plan that will each hold 5% direct equity in our South African operations.

Each beneficiary employee will receive a minimum dividend of R4,000 per annum, guaranteed until 2024. The community partnership plan will receive a dividend of R6 million rand per annum until 2024. This will be an important part of strengthening our partnerships with our key stakeholders.

All of the above is underpinned by strong governance that is essential to delivering our strategic priorities and building trust with our shareholders, communities, regulators and employees.

A high-quality thermal coal business

In recent years, we've done a lot of work to upgrade our portfolio. We've repositioned it, we've resized it and we've made sure that the portfolio is changed from what we had in 2015 to a far more export-focused producer. Back in 2015, a significant part of our production was tied to supplying ESKOM. Today, we produce 16.5 million tonnes of export product a year at a competitive cost position. This positions us well to generate compelling margins and strong cash flows. We produce a very high-quality product with a competitive and attractive resource base with significant resource potential to be able to invest in quality and competitive extension projects going forward.

High-quality operations delivering premium products

If we look at all this in a bit more detail, we have four open pits and three underground mines. We produce export quality coal in Mafube, Khwezela, and our three underground mines; Zibulo, Greenside and Goedehoop. Isibonelo produces coal for Sasol Synfuel production, while Rietvlei is a mine we recently commissioned supplying the domestic market. Zibulo is by far our largest asset with significant resource potential.

Experienced management team focused on delivery

To ensure that we deliver on our strategic priorities, we have a very experienced management team, and we have deep mining experience; over 100 years between us. The team has been together for a number of years, we've managed the business through tough times yet delivering on operating performance and achieving productivity and progress. We know the industry and have intimate knowledge and understanding of our assets.

The management team has developed a fit-for-purpose operating model—one which is lean in the centre with a relatively small corporate function. Responsibility for delivering value and superior performance rests with the mines, and we've made sure that we have decision-making processes with clear accountability. Although our centre is lean, it has been designed to ensure that we deliver the highest levels of governance.

Our singular mission as a team is to absolutely make sure that we deliver maximum cash flows through these assets; that each one of our assets is able to deliver to its full potential. With a laser-like focus on cost and we continue to drive our costs down using practices which are more appropriate to our business - being a single commodity, single-country-located, we are improving our integrated supply chain management practices.

Well-Positioned Low-Cost Operator

Deon Smith

CFO, Anglo American

As July mentioned earlier, over the last four to five years, we've continued to improve the quality of our thermal coal portfolio.

Firstly, we've delivered on Mafube, which is an export focused mine, delivered on time and on budget, and today boasts around 11-year life of mine.

We've also invested in a life extension for the Khwezela mine, called Navigation pit, again on time and on budget. Navigation is currently in ramp-up and is poised to deliver value over the next couple of years as those volumes tick up.

We've also taken a number of tough decisions where it was necessary to take high-cost production out of the market, most recent example is Bokgoni pit within Khwezela, which was placed on care and maintenance. We also closed Goedehoop South mine, which was also high-cost production.

In terms of improvement initiatives, we've been very privileged to benefit from Anglo American's continued implementation of its Operating Model and clearly, into the future we'll continue to benefit from those gains, mainly in terms of efficiencies into our future. We've also gained much in terms of breakthrough productivity thinking and have, for example, invested in automation-ready dozers and drills at Mafube. Some of our underground mines, where we face narrowing seams into the future, we've implemented prime sections, where rather than having one continuous miner plunging in and stopping to cut intermittently, two continuous miners are in these sections, which dramatically increases the cutting time, as illustrated in the example on the slide at Goedehoop in 2020.

Low-cost position underpins cash generation

All of these decisions and continuous refocusing of our business, coupled with the productivity and efficiency improvements beyond those that I've spoken to, have all proven very necessary in order for us to continue to maintain a relative cost-competitive position as demonstrated on the global seaborne thermal coal cost curve.

This Woodmac curve of seaborne thermal coal positions our assets in the lower half on a relative basis compared to other miners. The exception is clearly Khwezela, which is mainly a result of a low production denominator, which is expected to improve as we ramp the Navigation pit up to full production. Our position on the cost curve has allowed us to weather a period of lower prices over the last two years and should allow for very good margins and a stronger price environment.

Thermal coal to remain a key source of power generation

There are a number of studies, and most of these, including this Woodmac study, forecast a decrease in thermal coal's share of global power generation over the next decade. In this instance, it's from 35% to 31% into 2030. This is as the planet's increased energy demands are generated increasingly from renewable sources.

These studies, however, all point to a continued reliance on coal for baseload power, with the absolute coal contribution flat in most of these studies, or presented by WoodMac as a ~12% increase over the next decade. This increase, coupled with tighter supply as investment into new thermal coal mines reduces, should, in our view, be price-supportive.

Simply put, many developing economies are highly reliant on thermal coal as a baseload source of energy for continued economic development and prosperity and we are well-positioned to deliver into that demand.

Demand outlook from our key export destination (India) is positive

To illustrate this point, India, as July mentioned earlier, remains a key destination for our coal, given the favourable freight differential between South Africa's East Coast, where Richards Bay Coal Terminal is situated, in which we own a 23% share, and India's coastline. Based on this Woodmac study, demand for seaborne coal into India is expected to increase by roughly ~13% between 2020 and 2030. Over the same period, we also see South Africa reducing exports of high-quality thermal coal by ~25% and that's mainly on the back of depleting mines and the lack of new investment.

Positive fundamentals support higher prices

We accordingly believe that the supply and demand dynamics will remain attractive for some time into the future, which should be price-supportive. As the graph which Woodmac's prices are demonstrating, albeit in nominal terms, the trend in real terms is expected to remain steady for the next couple of years and then improve to a gradual improvement over time. Coal prices, in our view, will remain attractive, and margins for those on the right side of the cost curve should be healthy into the next couple of years.

Robust and transparent approach to capital allocation

We've touched on the business's ability to generate cash and we recognise that we have to think responsibly about this. We continue to have a disciplined approach to capital allocation and firstly, to maintain the health of our assets in an efficient manner, spending and sustaining capital will remain a priority.

We will also focus on funding our closure liabilities. Currently, our liabilities are around 45% funded. This is through cash collateral in trust with a balance supported through guarantees. Our intention is to gradually increase this 45% as we believe that it is a critical element of being a responsible operator. We are absolutely committed to delivering strong returns to shareholders, and we're committing to a minimum dividend payout of 30% of net cash flows from operating activities after funding sustaining capital.

We will, however, continue to review that payout ratio in favour of a gradual increase over time. Each of our mines have either value or life-enhancing investment options, but it is important to highlight that we will take a conservative approach to managing capital and preserving cash flow for our shareholders and therefore will only invest in low-risk, quick payback and value-accretive lifex projects where we have a high conviction that our strict investment criteria and hurdles will be met. These projects would need to be very competitive.

Significant endowments provide optionality beyond life of mine

Our assets have lives ranging from 5 years to 11 years, but they also have brownfield projects which have the potential to increase and extend the life of the group's assets to beyond 2035. Of course, these options will need to meet the capital allocation and the strict investment criteria I spoke of earlier. In the interim, we'll continue to study and do work on these projects before we need to make a decision, most likely in 2023. This allows us to prioritise cash returns and balance-sheet strength as a standalone business over the near-term.

In addition to these brownfield options that I'm talking about, we also have replacement options that are longer-dated, such as Dalyshope and Elders. Elders, for example, is actually contiguous to one of our existing operations. These assets would only be developed at the appropriate time and clearly subject to a number of criteria; business, operating performance, macroeconomic conditions, and that coal is actually required and needed.

Sustainable Future

Mark Cutifani

Chief Executive, Anglo American

To recap, in defining what we believe a sustainable future looks like for all stakeholders, we are committed to delivering a responsible transition as we position our forward portfolio towards future-enabled products. Today's announcement, I think, moves us or progresses us strongly in that direction. While representing just a small proportion of Anglo American today, we are laying the foundation for South Africa's leading export thermal coal business, enjoying a low-cost position while producing some of the highest quality thermal coal in South Africa.

We think the business is well-positioned for what could be a very interesting period for thermal coal markets over the next 5, 10, up to 20 years. Importantly, the demerger unlocks sustainable value for all our stakeholders, as it better positions Anglo American within the investable universe of diversified miners for our shareholders, while giving Thungela the opportunity to prosper outside of the Anglo American portfolio, ensuring its sustainable success for the business for all of its stakeholders.

We believe this is the responsible way for us to divest of the business.

In essence, what it does is create a bigger shareholder pool for both Anglo American and Thungela and on a net-net basis, we think that's good news for both shareholders.

A sustainable future for all stakeholders

The Anglo American portfolio provides both geographic and commodity diversity underpinned by quality assets, and certainly, it represents an industry-unique position. And today, that position looks even better as each year goes by.

Our value-added growth trajectory, our growing margins and our continuing business improvements further underline the quality and strength of our business versus our peers. Once this transaction is complete, the remaining 96% of the Anglo American portfolio will be well-positioned to capitalise on broader global themes. A growing population provides consumer-driven demand for diamonds, crop nutrients and PGMs, while the transition to a low-carbon economy and electrification drives demand for our copper, nickel and again, PGMs, which contribute to the hydrogen economy. Our iron ore and met coal businesses are both high-quality, both physically and chemically, making them highly desirable for steel mills that must lower their emissions. We are very much a key driver in the green steel economy as well.

Portfolio positioned for a sustainable future.

We are well-positioned to help our customers lower their carbon impact as the steel industry transitions over the next 15 to 20 years. Our mix across these high-demand growth-sectors positions us well for the next few decades.

Q&A

Alain Gabriel (Morgan Stanley): On the liabilities and other contingencies, is there anything that we need to take into account in addition to the cash injection that you will be making to Thungela, the minimum price guarantee on thermal coal, and also the deconsolidation of ~$450 million of rehabilitation liabilities?

Stephen Pearce: As of the day before this is a separate legal entity in this in its own right, the same shareholders own the same assets and the same businesses, it just now moves across the other side of the line as a separate business, so there's not a huge amount of accounting impact that you need to think about. There will be a little bit of currency translation reserves and things going through retained earnings accounts, but not a huge amount in terms of the key balance sheet items and so on.

Alain Gabriel: From your conversations with ESG-focused investors, do you think that this would be enough for them to re-engage or is Cerrejón an obstacle still going forward?

Mark Cutifani: I would think that this should be seen as one big positive step and probably earlier than most people anticipated. Certainly, for many shareholders, this is the one they wanted to see. They do understand there's a bit more complexity with the Cerrejón position, given we've got two other partners, but again, we're pretty confident that probably within two years, we'll be out of Cerrejón as well. I think compared to what some people are holding in other entities with much bigger carbon footprints, this is a pretty positive step, and I couldn't imagine there'd be too many that would be disappointed. In fact, the feedback we've had so far is very, very positive.

Jason Fairclough (Bank of America): Can you give us any headline numbers here. I understand it's going to be in the prospectus, what's the headline number on the assets that are leaving the business? And is there a gain or loss that's going to happen with the demerger?

Deon Smith: As at the end of December, the gross assets number was ~R19 billion rand, or ~$1.2 billion.

Stephen Pearce: Obviously, there are some liabilities and provisions that go with the business as well.

There's not a huge amount of P&L. There's a little bit of small amounts of tax leakage in South Africa, but relatively minor amounts - less than ~$100 million. The main P&L impact will probably be around accumulated foreign currency translation reserves over time. It's a complicated one that goes back through history, so we're still just finalising the details on that. But outside of that, because of the way this leaves the group as a capital reduction, there are not significant amounts of P&L impacts.

Jason Fairclough: Does that exclude the ~$170 million of cash?

Stephen Pearce: Yes, that does.

Jason Fairclough: How are you thinking about flow back? Are you just going to have to let it happen, or is there some view to having some kind of a roadshow or some kind of a marketed placement?

Stephen Pearce: There will be detailed interaction with the market by July and Deon at the Capital Markets Day, as Paul mentioned, following (hopefully) the approval by our shareholders for the demerger.

We are aware, obviously, that some shareholders may make a choice not to continue to hold the share in the new company. We are maintaining a London Standard Listing for Thungela, so that should help facilitate as smooth as possible a transition and that recognises the fact that a large proportion of Anglo shareholders hold their holdings through the LSE. We do recognise that holding Thungela may not be for all of Anglo's existing shareholders but, as Mark, Deon and July have mentioned, we do expect that there will be a new pool, and some of the existing Anglo shareholders, who will see the value in Thungela and that business going forward.

Brian Morgan (Morgan Stanley): This business struggles to generate cash at a price below $80/t API4, which is not far below where we are today. It's a fair distance, but not too far, and it's not beyond the realms of possibility we could get back down there. We've got R3.2 billion of unfunded liabilities and less than ten years of reserve life. Even with the transitional arrangements, are you sure R2.5 billion of cash is enough?

Stephen Pearce: Anglo will provide capital support in two key forms. First is the ~$170 million, which is that R2.5 billion that you referred to - that's cash on the balance sheet on day one. And the second form of capital support is in terms of contingent price support, and roughly using an index price of ~$80, we would provide up to $100 million for the balance from listing to the end of 2021, and potentially a further $160-170 million for 2022.

Now, that obviously depends where the price goes. There's quite a lot of commentary out there in terms of forwarding-looking thermal coal prices. Prices would have to fall somewhere around 25-30% from today's price for the whole of that period for that contingent support to kick in.

There may be periods of time where it's well above that. That's great for the new business. There may be periods of time where it's below that, and we would provide that contingent support. But the aim of that support is to really help this company get well established, provide a good buffer in terms of working capital and time in particular for the management team to deliver on their plans and really take this business forward.

Deon Smith: The capital support, not only the cash up front, but then also the contingent price support, gives us a very solid foundation as a management team to ensure that our plans, our execution and whatever austerity and other measures we need to take in the lower price environment, to guarantee that the business continues to generate some level of cash over the next year or two, as we stabilise the balance sheet. There are no short-term life extension capital requirements and those decisions, as I said earlier, are only 2023, roughly.

We don't foresee that the capital intensity of those projects would be enormous. It would make it impossible to invest if the capital intensity or the competitive position doesn't justify it. If we invest in some of those projects, it could extend the life of the business by around another ten years from its current 5-11 year life, taking it to around a 19 year life, which gives us a good enough runway to ensure that we could fully achieve the funding of the future environmental liabilities and, with good prices, continue to pay solid dividends to our shareholders. We believe that the package of support through a combination of all of the measures we're putting in place will be sufficient in order to ensure the business' sustainability into the future.

July Ndlovu: To highlight why we think that this is a competitive business that has got the ability to generate cash flows through the cycle, is the number of things that we've done.

Firstly, we have upgraded the quality of the portfolio. I made that point earlier this morning that if you go back to 2015, we produced a relatively poor-quality coal - today we are producing get very high-quality coal at 5,500 CV.

Secondly, if you look at our portfolio in its entirety and how competitive it is, we are in the lower part of the cost curve. That has come about as a result of a number of things. Where necessary, we have taken out high-cost production – such as closing Goedehoop at the beginning of 2020. Recently we put Bokgoni, which is also high-cost production, on care and maintenance. But at the same time, which is the point that Deon made earlier on in his presentation, we also have very intentionally invested in high-quality, competitive production, converting our resources to production. Like, for instance, where we brought in the Mafube lifex, which is a very competitive mine today. We have got Navigation (Khwezela) which is in ramp-up as we speak. And we expect that over time, as we continue all our productivity and cost-improvement efforts, to move in the lower part of the cost curve. That alone should allow you to be able to ride the bottom of the cost curve.

Our intention going forward, and I think Deon said this when he was talking about the capital allocation going forward, is to ensure that we improve the capital intensity of our projects, given the nature of our assets and their lives and where they are.

Anglo American has been on this journey of improving productivity and costs. And that's a journey that we absolutely intend to remain on because if we are cost-competitive, we should be able to continue to generate attractive returns. And of course, one says this with one thing in mind, that we think the fundamentals of coal, certainly in the near-term, are actually improving. We're not seeing the level of investment in coal. Demand is actually projected to either remain flat or slightly improve. So that dynamic, we think is going to be price-supportive. A competitive portfolio from a performance point of view, in a relatively improving dynamic position as well.

Tyler Broda (RBC): Do you see any growing dis-synergies elsewhere? I'm thinking particularly about a met coal assumption?

And then secondly, but I'm just wondering about the scope 1 and 2 emissions of Thungela, and if there are any plans to try and reduce those through hydrogen trucks etc?

Mark Cutifani: The discussion around met coal, we think it's actually quite different.

Firstly, on thermal coal, it is a relatively small part of our business today, let's say between 3-4%. Secondly, the life of mines is ~5-11 years and the team has the potential to extend those lives beyond 20 years. In our case, it becomes harder to justify those extensions because of the amount of shareholders it keeps off our register. And yet, at the same time, Thungela itself is too small to move the dial. You really need to break the two up to broaden and deepen the pond for shareholders so that we both benefit. We've certainly got a lot of interest in South Africa because people know the quality of the assets.

Met coal is a more material business and the case for met coal is very different to thermal coal. Met coal is an absolute necessity in terms of producing steel as it stands today. Steel is key in the decarbonisation of the world's economy, and until we have new technical solutions to that, met coal is absolutely critical for decarbonisation. Over time, that will obviously change, and we'll obviously have to continue to adjust as those things change, but certainly through to mid-2030s, probably to 2040, met coal remains very important.

From our point of view, we have 25% of our Scope 3 emissions in thermal coal so there's a positive step from an Anglo American perspective there. Met coal represents about 30% and our assets have a life to around 2040. And then iron ore represents about 45% of our Scope three emissions. We would expect because we've got high-quality iron ore, it'll be directed preferentially to green steel applications because it's got a much lower carbon footprint relative to say, the Pilbara type products, which have got lower iron ore content and higher deleterious elements.

July Ndlovu: We have set ourselves a target to reduce our emissions by 15% by 2025. You would notice in the materials that we provide that we have reduced by roughly 16% from the baseline up to 2020. That comes out of a combination of things; apart from the efficiency improvements and making sure that our footprint comes down, taking out unprofitable high-cost production also has significant benefits in terms of emissions. That's a trajectory we're going to continue on going into the future because being a carbon company operating responsibly is one of our key objectives.

Tim Clark (SBG Securities): Your rehab liabilities are 45% funded now. Would your goal be to try and move that up towards 100%?

Then, when you come out of a big group, I would imagine there's a big central cost allocation that sits in your numbers. It seems as though the cost allocation change is neutral. Is that fair?

Deon Smith: In terms of the rehabilitation liabilities, what you'll pick up is that we have ~$430 million of total future liabilities for rehabilitation, decommissioning and the like. Of that, ~$193 million roughly is in a trust and cash collateral - that's the 45% you spoke of. We've made a commitment too for the unfunded portion – invest in a green fund, a minimum of 5.5%, ~$12.5 million per annum.

The plan is not only through cash collateral though, but also through steps in and around our mines to manage that liability. There are many facets to managing that type of liability, whether it's technology in water treatment or whether it is a topsoil technologies and the like. So over a period of time, we are committed to gradually to increase that 45% funding to 100%, not only through cash contributions but through all of these mechanisms combined.

If you look at the historical financial information on page 175 of the pre-listing statement/prospectus, you're correct that currently, the central cost that comes into our business is ~R800 million per annum. Of that R800 million, there's a portion of services that will continue to be delivered into Thungela under a transitional services arrangement. Those services are typically those such as short-term information technology, access to platforms and the like.

And the reason we've structured it in that way is to give us a high degree of confidence that the business will continue to operate efficiently and effectively from day one. Over time clearly, as Thungela moves away from some of those services, we are envisaging that that type of cost would reduce and clearly to a level that is, as July pointed out earlier, appropriate for our size, nature and geography of our business. The intent is absolutely to apply a level of austerity on those types of costs and services and to do so, however, at the right time.

Tim Clark: So of the R800 million, the majority will stay, and it'll just sort of work its way down over time?

Deon Smith: There are three buckets to the R800 million. There's a bucket of around a third that would stay for the transitional services. There is roughly a third that would have to be replaced by standalone costs in our business. And then there's a third of opportunity that we need to deliver on in achieving savings and synergies in our own world as we transition to delivering some of our standalone services and functions by ourselves.

Tim Clark: In terms of that environmental liability cost, should we try and work that through over the 20 year period i.e. assuming the lifex projects are going to proceed as they're low capital intensity?

Deon Smith: I think that is a reasonable assumption, but having said what I've just said, some of those environmental liabilities could moderate in chunks rather than necessarily evenly over a period of time, so if you make an assumption that we are unable to develop any good technologies or other enhancements that would limit or reduce that liability over time organically and you assume the liability stays, your assumption of only cash funding over a 20-year period is a reasonable one.

Mark Cutifani: We've also made it clear to July and the team that the work we're doing on rehabilitation technologies, the community support work and the Living Mine concept, are all technologies that we think will mitigate longer-term rehabilitation costs because we can find other uses for land that work with the community needs. All of those are things that we're always going to be happy to talk to the Thungela team about because it's also in all of our interests to make sure that these things are done the right way.

Sylvain Brunet (Exane BNP Paribas): What is the benefit of deconsolidating South African coal on Scope 3? Starting with Scope 1 and 2, is 20-25% reduction a fair assumption?

You’ve been presumably testing investors’ appetites before deciding on the spinoff. Would you say that the structure of the transaction would be actually a good template to think about for Cerrejón if a trade sale could be difficult there?

If we place ourselves forwards to 7th June, you’d be looking at an even simpler portfolio with more cash generation. Is it a fair assumption to think that there’s an even more favourable environment for capital return for shareholders after that transaction?

Mark Cutifani: Firstly, on scope 3, we are still going through a rework on how these numbers are calculated. The one thing that struck us across the industry is everybody has calculated these numbers in slightly different ways. We’re also looking at how scope 3 numbers are reported through the value chain - not stopping at steel industry, but right the way through to auto manufacturers. We don’t think the equation has actually being calculated correctly. But if we use the traditional methods that we’ve talked to, it’s around 25%. It’s a ballpark number that I think is reasonable to use.

Secondly, the feedback we’ve had from literally all of our stakeholders in terms of the demerger proposal has been a positive one. Many shareholders who say, look, we’re worried about holding you, this big step that’s a big positive, and we hope that it’s enough to bring a few other big investors back.

We have handled this in a very careful way, we’ve consulted all stakeholders, we’ve included communities and employees in the restructuring - the feedback has been very positive from everyone. People understand that we have left the entity in a sound position, no debt, and also made sure that people are aware that we’ll help it through what might be a volatile period. We have a 9% holding still that we’ll sit on for a little while and only deal with that in a responsible way. All of those things have provided people with comfort that we have done this the right way and with a lot of thought.

In terms of Cerrejón, a little more complex because we’ve got two partners. Clearly, two are sellers, including ourselves. The other one is probably still trying to work out where their portfolio goes in a broader sense - but I would think those things will probably be resolved in the next six months and then the picture will be pretty clear. Certainly, from our point of view, the feedback we’ve had so far in this process has been very positive, but I wouldn’t necessarily draw a direct line across to this being the right way to deal with Cerrejón. I think we’ll get there in terms of a view in some way, shape or form within the next six months, and I would expect we’d be out within two years.

Stephen Pearce: I don’t think there’s any direct read across in terms of Cerrejón. In terms of post June 7th, does it increase the chances of additional capital returns at the Anglo level? I would say no, not in its own right.

As Mark’s pointed out a couple of times, the thermal coal business as a percentage of contribution to the Anglo result is relatively small. It’s really the price across the portfolio of commodities that we deal in at the Anglo level and the underlying business performance that will drive considerations of additional returns as we consider those every six months per our capital allocation policy.

Andrew Snowdowne (Sanlam Investments): Could just give us a sense of the extent to which you’ve had any potential bidders, and, given the focus on exports, the extent to which any of these came from outside of South Africa.

Stephen Pearce: We were approached by a number of parties. The majority of those were South African rather than international. But for a number of factors that we have often spoken about, we felt this was the best way to go in terms of how the business is set up such as the experienced management team that comes with the business and the support that Anglo can provide both on day one and in the next couple of years. We really did think that this was the best way to go across the balance of all of our stakeholder interests, particularly our community, South African government, etc.

Andrew Snowdowne: So, there was definitely interest, it wasn't that there was zero interest? This was more to do with what you felt was a good value option?

Stephen Pearce: Yeah, that's the correct conclusion - remembering this transition out is not just about financial value. It's the complete suite of value that we see in terms of the ongoing businesses relationship with communities, governments and country, the resources and its role in society, as well as the dollar value and setting the business up well. As you can see, Anglo's putting in a reasonable sum of money, both in terms of its upfront capital support and then its potential contingent capital support to make sure that it gives the team time to make it a success.

Mark Cutifani: Key point is the business is set-up net cash, low-cost position, high-quality product into an export market that's very strong. The initial set-up is probably as good as you can expect, and all of the stakeholders appreciated that different starting position with a good management team.

Stephen Pearce: And obviously, interested parties are welcome to buy shares in the open market post that date in June. That level of interest that we have seen hopefully bodes well for investors going forward.

Andrew Snowdowne: Page 19, I think is a very good part of the presentation and gives a very good illustration of the profile going forward in terms of production. It's not a very long life of mine, versus some of your coal peers out there. Could give a sense of whether Khwezela's included within that blue section of the chart and then talk with regards to the lifex options. Should I be thinking of this business as most likely maximum 20-year life of mine? Will these expansions be brownfields, or are there any greenfield opportunities that you may potentially have to consider? And then with regard to that plan for expansion, what is the target return that you'd be looking for? Are you thinking maybe in terms of cost per tonne of expansion or percentage target return? Then, in which operations do those lifex options exist?

July Ndlovu: We are studying a number of options as we speak today. And those options could take the life of our assets, in particular the key ones, well into 20 years plus. But there has to be demand, and these have got to be competitive in terms of where they are on the cost curve.

We think that we have better certainty about the next ten years. There's no 100% certainty, but the fundamentals look quite supportive over the next decade, well into the 2030s. Beyond that, there is some uncertainty. And therefore, that's why the key criteria, rather than the traditional metrics like IRR etc, is how these projects should pay back because we cannot afford to put capital into long-life coal assets unless we absolutely have the conviction that it will payback.

Which assets do we think that have got resources? In fact, we've got resources on every single one of our tenements. Some of them are better studied than others. So Zibulo has got by far the biggest export resource; as well as Mafube and Khwezela.

We do have projects around some of our mines like Elders - although we call it a greenfield, it's actually contiguous to Goedehoop and therefore, we should take advantage of the existing infrastructure, which should help us to lower the capital intensity.

Goedehoop has got significant resources that we are beginning to study and think about differently. So, do we have resources? Yes, we do. Do we have the history and capability to convert resources to production? Yes, we do. We've done it at – at a very competitive price, on budget, on time. We've just done it with Navigation.

Rietvlei is a good example from the point of view that a company which is a single commodity, single country like ours, also has got different opportunities about the size of projects you can take. When you have relatively shorter-life assets in coal, we're not always going to look for a 30-year project. Maybe a seven-year project supplying the local markets which meets all that criteria could just be as competitive.

The last point I'll make about looking for opportunities is that in South Africa, it's a well-known and well-spoken issue that there hasn't been enough investment into supplying the local utility in terms of the mines and therefore, there is going to be a shortfall. The timing of that can be debated. But again, that provides new opportunities. What we've shown you on slide 19 is the export profile. We have not spoken to what we could supply in the domestic market. If the economics are compelling, we do have the options to be able to develop projects.

Deon Smith: To answer your question explicitly, Khwezela is indeed part of that blue on slide 19.

As I mentioned earlier, the lifex projects that we need to make decisions on is around 2023 in order to construct in 2024-25. Given they are brownfields and have installed infrastructure already, and it's therefore just opening up additional resource, converting it to reserve, the projects should have a fairly low-capital intensity.

Whilst Rietvlei has two million tonnes of reserves, it has around 10 million tonnes of resource. And the economics of conversion at Rietvlei hinges on a contract. Given the fact that as we stand here today, we have a short-term contract - that defines the life of that particular asset in the domestic market. If we sign up on a contract beyond that at the right economic terms, we would be able to extract that resource, which would elongate Rietvlei quite materially.

To go to your question around the economics of these projects and what would drive our decision making, I think, July scratched at exactly the right point there. It's not about a single particular measure around the large NPV or an IRR. In our mind, we've got good conviction on the supply and demand over the next decade. We, therefore, want to focus on short payback projects. And in doing that, clearly, a number of other measures are also important. It's relative competitiveness, so cost per tonne all-in capital and opex and also the capital intensity because clearly if we have a high conviction view for a decade or two, we certainly don't want to invest in any projects that don't pay back convincingly within that period of time.

So it's a holistic assessment and clearly we cannot make that type of assessment without reflecting carefully on the returns to shareholders and whether or not we are able to continue to pay a compelling dividend doing that and post that type of lifex period. So there are a number of considerations that we would need to carefully reflect on before we make an investment decision.

Richard Hatch (Berenberg): Can you elaborate a bit more on what discounts you're seeing at the moment versus the benchmark and your outlook for that.

Are you able to give any kind of flavour as to what kind of price you're going to pay Anglo to market the coal?

And then, can you give us any numbers to hang around the capital intensity? You say it's low, but what does that capex profile look like as we go out into the mid-2020s?

Deon Smith: Over the last two years, the price realisation as a percentage of the benchmark price has widened slightly to around 74% price realisation of API4. The calculation there is in the first instance, a linear calorific value (CV) adjustment for the inherent quality of the product that we sell.

Our qualities have remained (and are set to remain) stable at around 5,500 relative to that 6,000 benchmark price. We therefore do not foresee that first linear adjustment moving materially in the short to medium term.

In terms of the product discounts, which are non-linear and more reflective of supply and demand, those have increased in recent times primarily driven by a lot of uncertainty around COVID in 2020 and supply-demand dynamics in 2019. We, therefore, see that that additional discount is likely to moderate slightly into the future. To put just sort of some perspective on that in terms of the capital support until the end of 2022, whilst the headline API4 number where that capital support kicks in is around $80/tonne, the price realisation level is around $60/tonne.

So we see that that discount is likely to narrow slightly over the next year or two as normality returns. But we've also seen recent price support, no doubt due to Australia/China sensitivities, with increased China interest, and that clearly is helpful not only for the top line but also for the discounts.

In terms of the marketing fee, the terms that we've agreed with Anglo American are very much at arm's length. It shouldn't be a very material consideration because what's more important for us is the ability to achieve the best realised price and recognising Anglo American Marketing's prowess on achieving that best possible realised price. There's obviously good value for the small fee that we pay for that marketing service.

In terms of the lifex, I'm hesitant to hazard a guess as to exactly where we will land. As you can imagine, with the birth of a company of our nature, we will be on a journey to re-evaluate every critical standard and ensure that it's fit for purpose for our business into the future. We also need to reflect that the projects that we want to invest in are necessarily shorter life than typically a Quellaveco or Mogalakwena or Woodsmith - and therefore, some of the standards that you might want to apply are very different. We have progressed, and we continue to progress, at least two of our key lifex studies. So Zibulo, Khwezela and Elders are to be ready at an appropriate time for us to trade off against, as not all of them are likely to get funding at the same time in order to plan the most appropriate investment sequence for the options that we have. We clearly also want to achieve a level of capital efficiency in our business that would support our equity story into the mid-20s.

Richard: Are we talking like a dollar or so a tonne for marketing fees? Do you think you can drag opex costs out of this as you become more nimble, rather than as part of a diversified mining company?

Stephen Pearce: Sad to see Deon go because he's a great negotiator! - he'll be missed from that point of view and I can assure you he's done a very good job in minimising any fees across from Anglo.

Deon Smith: On the $1/tonne that requires a very healthy market price to get to those types of levels, given that it's been struck in the percentage land rather than in a dollar-per-tonne.

July Ndlovu: You are right, that Anglo has done a good job in terms of driving costs. We have kept our costs flat over the last three years. We are single country, single commodity with all operations within a 70 km radius. There are therefore still opportunities that we will continue to look at both in terms of cost reduction, but more importantly, driving productivity, to keep our assets in the lower part of the cost curve because that's what will immunise our portfolio against price cycles. Deon shared an example of some of the work we've been able to do by changing our mining methods underground that to drive productivity by in excess of 50% per section. Those kinds of efforts are all geared towards making sure that our all-in sustaining cost remains in the right part of the cost curve.

Mark Cutifani: The guys have been important players in improving their own business. At the Anglo American level, we're investing in long-term cost drivers, and we all share a bit of that cost. The good thing for Thungela is they get to enjoy a little bit of a run-off as they don't carry the same broader cost base, which has a longer-run payoff, but inside that five years, they've got to look at new opportunities, but they get a real benefit over the next five years in terms of their ability to drive the near-term work. We'll keep the relationship and compare notes on ways to improve things because we want to see them successful as well.

Sergey Donskoy (Societe Generale): Is it possible to quantify in what range of export prices these lifex options make sense?

July Ndlovu: Ultimately, we're not going to put any money unless that project is compelling. Remember, we said it's not just a price issue, we've got to take all the suite of measures to decide whether the project goes ahead or not.

You do not want to make an investment based on spot prices because if you did that, you could run the risk of starting a project just because short-term prices are very high. You have got to ask yourself whether you've got a conviction about your long-term. It just happens that our long-term is not 20 years – our long-term, as we've just said, with absolute conviction is about the next ten years. Beyond that, there's some uncertainty. If we cannot get a project to pay back within that period, we probably wouldn't do it.

Deon Smith: We have, over the last number of years, demonstrated that we're certainly not shy to take high-cost tonnes out of production, and we're certainly not shy to have to do the right things for the business to ensure that the residual portfolio we have even at that point at a slightly lower level is a robust portfolio.

It's not about a spot price or about a particular conviction on one price line that would drive decision making; it is about our conviction on the relative competitiveness of the tonnes that enable both capital and opex. Clearly, if you have one, a high conviction on price into the future, but two, on top of that, the tonnage that you're enabling or that you're investing in either replaces higher-cost tonnes or will be competitive globally, then clearly that makes the investment decision easier than not having those two features available to you at the same time.

Paul Galloway: The next date is 5th May, which is the AGM and the shareholder vote; and the 6th May will be the Thungela investor day. Thank you all for your time and your interest this morning. Please do let us know if we can help with anything else on Thungela or anything to do with Anglo American, and until then, go well, go safe.