Anglo American – Interim Results 2015

Turnaround programme (Mark Cutifani, CEO)

Q: Mark, let's start with the three-year turnaround programme you set out, in which you're now halfway through in terms of time. How have you changed the business operationally, and is it sustainable?

A: Well, any change that we introduce we certainly want to make sustainable. We start with people, we look at the leadership and the guidance and coaching that leaders provide their teams in making sure we're focused on the right things, so we had to make some changes there. Secondly, the processes; we've adopted more of a manufacturing eye for detail in the way we're running our processes, and on the third element, focusing on costs and making sure that every dollar we spend is put to work in the right place.

Those three elements really provide us, we believe, a sustainable basis for improvement today, tomorrow, and for the long term.

Q: And how is that translating to the bottom line?

A: I think if you go straight to the hard numbers, each person in the business today is producing 17% more product than they were in 2012. We've reduced our operating cost, as measured in US dollars, by 25%, or around half that in local currency terms. But then we've eaten a lot of inflation. What that means for EBIT, or the big numbers or the headline numbers, a $1.7bn improvement in the last 18 months, and we're accelerating the change so that we can deliver another $1.5bn improvement in the next 18 months.

Q: When you look at the company as a whole, how much more have you got to do, and are you going quickly enough?

A: When I started in the company, I made a very early judgment that we didn't have the skills in the right places in the organisation, and we were being steered from the top, not always effectively. So we've made some changes. We've focused on getting the skills into the operations to improve the engine-room. That was the first point of focus. The second part was we then looked at the assets that weren't pulling their weight, and we've made decisions about the portfolio. We're in action on that point. We then look at people and cost and start stripping the costs out. If you do it the other way around, you potentially disable the organisation's ability to run the assets, so you've got to do it in that sequence. The good news for us is that, even though it's taken us a while to get

there, we're now at a point where we can accelerate and drive the change much harder, and that's because of the foundations for change that we've built.

Q: So then what is the vision for the future? What does that future look like?

A: In the numbers, we go from 68 assets originally, when I started, to around 38 assets, each about 40% average bigger size and more productive. Secondly, in terms of employee levels, we go from 160,000 to less than 100,000. And in terms of production, it almost won't change, because those assets remaining will be far more productive. So if I sum all that up, we're 50% more productive and our operations have moved from being in the third quartile cost position to low second quartile. That means we're leaner, more productive and certainly far more competitive in terms of the commodities we've chosen to operate in.

Q: So how should a shareholder think about that outcome?

A: Everything we're doing is about driving improvements in returns to shareholders. A 50% productivity improvement, along with $500m that we're taking out of our overhead costs, the tightening of the capital structure and another $700m reduction this year, will help support a 40% EBITDA margin improvement across the portfolio. That improvement, we believe, is sustainable because of the quality of the portfolio that we're creating and the strength and the consistency of the process we're putting in place to support those changes. We believe it's the right way to go for the business.

First half performance (Mark Cutifani, CEO)

Q: Turning to the first half of 2015, the operating environment for the mining sector didn't get any easier. How do you feel Anglo American performed against these prolonged headwinds?

A: Certainly, it's a tough environment out there. We've seen continuing declines in the prices for our commodities, around 7% in the first half. That's resulted in a 36% reduction in our EBIT for the half, so yes, a tough set of results. But against that, I have to point to an 8% increase in production, a 5% decrease in local currency costs, or 14% in US dollar terms. So in terms of the work we've done in the last 18 months to try and swim against those headwinds, we've added $1.7bn in EBIT terms, as a count of the things that we can control. But yes, tough environment. We have to continue to accelerate the improvements to battle against those headwinds.

Financials (René Médori, FD)

Q: Can you explain the driving factors behind the 36% fall in EBIT for the first half to $1.9bn?

A: Prices were much lower in the first half across our portfolio of commodities, a 7% decline in the index. The net impact was a negative $1.9bn. In the same time, we got the benefit of weaker producer countries' currencies, a benefit of $700m. We had a very stronger operational performance, and that generated a positive variance of $700m.

Q: You've announced further impairments today of $3.5bn after tax, including $2.9bn for Minas-Rio. Can we expect to see more to come?

A: The project was commissioned at the end of 2014 as per the revised schedule and within the revised budget. The project is currently ramping up, and we expect to reach full capacity in the second quarter of 2016. The impairment we took at the end of June was all driven by the sharp decline in iron ore prices earlier this year.

Q: You're also cutting capex again. How are you achieving this and will it affect your future growth options?

A: Well, first, we're optimising the level of business capex with an improvement of 30% year on year. We have also reduced overall the level of capex for the next 18 months by $1bn, mostly through the reduction in SIB capex that I mentioned, but also with deferral of nonessential replacement capex.

Q: You announced the completion of the sale of your 50% of Lafarge Tarmac last week, with proceeds of $1.6bn. Can you give us an update on the remainder of your disposal programme and on the health of the balance sheet?

A: Well, first we are very pleased with the completion of the divestment of our 50% stake in Lafarge Tarmac last Friday. In terms of the disposal programme, which includes a disposal of coal assets in Australia, copper assets in Chile, platinum assets in South Africa, it's progressing as expected in a very difficult market environment. In terms of balance sheet, the level of debt at the end of June was $13.5bn, if you factor the proceeds from the divestment of Tarmac - $11.9bn. We have also revised our guidance for the end of this year by $0.5bn.

Q: You've maintained the dividend at $0.32 for the half year. Are you confident that you can continue to maintain your current dividend level, given the on-going pressure on prices?

A: Well, we have maintained our dividend policy, and we have declared a flat interim dividend of $0.32.

Safety (Mark Cutifani, CEO)

Q: You talk about safety performance as a yardstick for how well a business is being run. You recorded an improvement in 2014, but five colleagues have lost their lives this year. What can you do differently? Do you still think that zero harm is achievable?

A: The first thing we have to do is acknowledge the loss of five colleagues, a tragedy for families, for colleagues and for friends, and for that we all feel deeply. The commitment to zero harm in the workplace is felt by every leader and is something that we live by and continue to work for every day. Yes, we believe it can be achieved, and making sure that we understand, when we do have a flat spot that we improve it - because if you remember, in the last two years, we've improved by more than 60%. But there will be times when we may have a flat spot, or there may be an incident that hadn't been planned for that we have to consider very carefully. That's the focus we have in the business. We will continue to improve, and I have no doubt that we will get ourselves back on that journey to zero harm. That's a belief, and that's a belief shared by the leadership team and we hope by every employee in the organisation.

ROCE target (Mark Cutifani, CEO)

Q: When you announced your turnaround programme 18 months ago, you talked about 15% return on capital employed as a breakeven number. Do you still think that's achievable given what's happening to prices?

A: Look, 15% is an important number, because for a whole range of reasons, it's the right sort of number to deliver long-term sustainable returns for shareholders. In our case, the pricing environment has been tough, but it's demanded acceleration, more focus, pulling costs out of the business. So today, with a 50% improvement in productivity coming at us with the changes we're making, we're a better business, and we're going to be a lot better in a very short period of time. That's the key, and then understanding how to make 15% return in whatever environment we have to work in is the key to long-term success. So no change to the philosophy. The world's got a lot tougher. So have we. We're moving quicker, and we'll get there.

Outlook (Mark Cutifani, CEO)

Q: Challenges for the mining sector do feel unrelenting. What do you believe is in store for the sector for the next few years? And can Anglo American realise its potential against that kind of a backdrop?

A: I've been in the industry for 40 years. We've had our highs and our lows. I'd have to say, this is one of the toughest periods I've seen, but the thing that differentiates those who are successful are those that can understand the environment, use that environment to restructure and make themselves more competitive. In our case, with the macro environment and general uncertainties, I think it'll be tough for another two or three years. We've got to keep restructuring and getting costs out of the business to make sure that when we come through the other side, we're fitter, we're quicker, we're leaner, we're more competitive than any of our competitors across this space. That's where we're going to be, so I think we've got to continue to do the hard work, so that when we do come out the other side, we're better than anyone else in terms of where we go from there.

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