# Anglo American – Interim Results 2017

## Interim results 2017 – Mark Cutifani, CEO

**Q: This looks like a good set of results for the half year. But to what extent has this performance been driven by the recovery in prices?**

A: Well, first I think our reflection on the results is yes, it's a positive set of results. But it really builds off the good work of 2015 and 2016. In 2016 we delivered a $4bn free cash flow improvement even though prices were actually down 3% compared to 2015.

In 2017 prices have held up pretty well. So, I'd say 50% of the improvement is on the back of prices. And there's another 50% improvement on the back of that $600m worth of improvements that we've delivered during the course of this year as well.

**Q: Where are you against your target of $1bn of cost and volume improvements for the year? And how much more is possible? Because surely you can't keep going at this rate?**

A: Well the good news is we are ahead of schedule with a $600mn booked at the half year. We've still got some work to do to get our full $1bn but we're comfortable that we've got the right things happening. In terms of going forward, we've always said that with the operating model we will continue to improve the business. So I'm not going to put projections forward. But there's still a lot more that we can achieve and certainly we'll continue to focus on improvement well beyond 2017.

**Q: Today you're also announcing that the dividend has been restored. Why have you prioritised this over a further reduction in net debt or investing in the business?**

A: Well if you look back in time we actually said we needed to get our debt down to $6bn. So that's where our first priority was. Today we've reported debt at $6.2bn, we've actually got more assets in the portfolio than we forecast 18 months ago, so we're in a much stronger position. We're generating free cash flow. We think it's time to make sure our shareholders see the benefit of that hard work. So today we're absolutely thrilled to announce, six months early, a return to dividend. For us and for all of us in the business we like paying dividends.

**Q: So the balance sheet's looking healthier, productivity is back on track, you've resumed paying dividends. Is that it, is that job done? Or what more can we expect?**

A: No, I think from our point of view the most important thing to be said about the last four years is that we've rebuilt the foundations for this Group to be able to deliver cash flow and returns for the long-term. Off that foundation we've still got to be absolutely focused on capital discipline. Making sure that those smaller projects with very rapid payback is where we focus our first efforts. And then beyond that there are some opportunities that present themselves that we'll look at. But always through the lens of generating cash and returns and making sure that the performance we deliver is sustainable for the long-term.

**Q: You mentioned smaller projects there. Might we also see a resumption in major projects in the near future? What could you tell us about Quellaveco for example?**

A: Yeah, I think you have to also look at the work we've done in the four years where we've identified great opportunities inside the resources we currently have. So that's where the main focus is because that's where the greatest value is to be had. But also with that we've got some greenfield opportunities that we've kept that we think are quite special and Quellaveco is obviously our first cab off the rank.

With Quellaveco we're also taking a different approach from the normal industry approach. We're looking at syndicating the ownership so that we share the risk. And with those large capital projects we're sharing that cost with other partners, we think it's more prudent, it's a smarter way to run the balance sheet. And in the end, we think, it allows us to build a more diversified portfolio that gives us a better balance of risk and return.

**Q: Let's turn to South Africa. Clearly the political environment is challenging there. What's your view of the situation and will it impact Anglo American's decisions when it comes it investing in the country?**

A: I think all countries can be challenging, particularly when we're going through leadership change. I don't think South Africa is the most challenging but it's certainly got its moments. It is going to be a noisy year as we go through the leadership change. What we're trying to do is make sure we maintain a constructive dialogue with all of the leadership groupings and that includes beyond the ANC as well.

In our case we've focused on the things we can control. We've cleaned up our overheads, we've simplified the business. We're actually selling assets that don't fit the long-term strategy of Anglo American and we've been restructuring and improving the underlying business. That's where our focus will be. I've always said 2017 will be a noisy year. For us, longer term strategy will be articulated in 2018 when we know who the leadership is what the leadership grouping is and how we best go forward. Both in terms of the interests of South Africa and of our shareholders.

**Q: Safety is always a top priority for Anglo American but you had a difficult year in 2016. Have things improved?**

A: Look, the encouraging thing is - and it's by the numbers - we've halved our fatality rates and we've improved our total industry frequency rates. But safety is not about numbers, it's about people. And the fact that we've lost three colleagues for us is a tragedy, for families, for colleagues, for everybody. So we're unhappy although encouraged with the progress. But for us every day is about improving and having zero harm. For 120 days we went fatality free, first time in our history. We've got to keep doing that and much better. So for us it's a long-term commitment to zero harm and we will achieve it. The only debate is by when.

## Financials – Stephen Pearce, Finance Director

**Q: This is your first set of results as finance director. What are the key figures from your point of view?**

A: What's really important to me is the way the numbers work together and how they reflect on the great work that the Anglo American team has done over the last couple of years. So EBITDA of $4.1bn, cash flow of $2.7bn and we've nearly halved debt over the last 12 months down to $6.2bn.

**Q: Can we expect a similar outcome for the second half of the year?**

A: Recognising that commodity prices might be a little bit lower in the second half, we'll still be focused on exactly the same things. And that's the things that we control. So driving efficiencies through the operations, delivering on the $1bn target and continuing to bring debt levels down.

**Q: The dividend is being restored which is clearly good news for shareholders. How do you think about dividends?**

A: So firstly I really like paying dividends. Clearly it's good for shareholders but it also sets up a really healthy competition internally within the business in terms of capital allocation.

So given that we had such strong results for the first half we recommenced the dividend six months early. So we'll be paying a 40% pay-out ratio on underlying earnings. That translates to $0.48 per share and approximately $600mn return to shareholders.

**Q: Looking ahead what do you see as the right kind of pay-out ratio for Anglo American? Will it be possible to maintain a dividend while also investing in new projects?**

A: The dividend policy going forward will be a 40% pay-out ratio based on underlying earnings and paid each half. We think that's the right balance in terms of sustainability of dividends to shareholders, investing in projects that deliver growth over time and importantly also continuing the balance sheet journey. What that means is that the dividend will go up and down with underlying profits each half. But we think that's appropriate given that

Anglo American is in the commodities' business and commodity prices go up and down.

**Q: Are you satisfied with the current state of the balance sheet? Is it where you'd like it to be in terms of the key metrics?**

A: We will be running a more conservative balance sheet than we have in the past. Our debt to EBITDA at June 30 was 0.8 times. Well below our long-term target of 1 to 1.5 times. Our gearing at 19% reflects very favourably with our major peers in the industry. But we have come off a period of very high prices, particularly for bulk commodities of met coal and iron ore. So getting our balance sheet well below our long-term targets is exactly where we should be. But I have absolutely no problems taking our debt down even lower over the next 18 months.

**Q: So are you expecting a credit upgrade on the back of these results?**

A: Our credit metrics are clearly investment grade and the debt markets treat us and price our debt accordingly. Ultimately that's a decision for the rating agencies. But we'll do our best to put pressure on them and deliver great second half results.