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Mining – A Driver for Growth

“Improving South Africa’s competitiveness as an investment destination”

ACKNOWLEDGEMENTS

Thank you Professor Nicola Kleyn for that introduction.

OPENING REMARKS

Good evening ladies and gentlemen. It is a pleasure to be back here at the GIBS business school I’ve been here three times and always enjoyed my time here after all it is in Johannesburg, a city that I called home for almost six years. I have wonderful memories of South Africa is a great city, with a vibrancy that sets it apart as the commercial hub for Southern Africa.

I thought I might start by sharing a recent conversation I had with a Chinese business leadership group in London. In that conversation we explored some of the challenges China is now facing as it moves from a State Development Model to one where private businesses must play an increasingly more important role. We talked about political

leadership versus business leadership and the different imperatives that drive the behaviours in these respective areas.

In an economy such as China, the scale and breadth of its internal market have provided a great base to work with, which is something we don't have the luxury of sharing in SA because of the size, scale and scope in terms of our internal market. In China, relatively low salaries, improving productivity levels and the propensity of the Chinese people to put money away in the form of savings have together helped create a virtuous cycle of investment in infrastructure and in industries, relative wage improvements from that lower base have been driven by productivity improvements, and that has also supported continued investment. Underpinning development and progression has improved productivity.

However, with industrial capacity now exceeding internal consumption, China's industries have to improve quality and reduce costs in order to compete with the best in the world to win market share for their products. Because they cannot rely on their internal markets to take the products that they produce. Competitive growth will only come as discretionary expenditure supports increasing consumption of new products and services.

While I am only reflecting on only a limited part of a much broader conversation, I wanted to raise a point that we did cover in that sweeping landscape. The issue of South Africa and its State Owned Enterprises (SOEs) was a point of comparison. SOEs play a crucial role in our economy in South Africa, as they do in China, and to a large extent the ability of South African industries to compete globally is influenced by the effectiveness of our SOEs. Many South African industries rely on and intersect with the services provided by SOEs at critical points in our processes, whether relating to the provision of energy, rail or port services, for example. Unless all links in the chain develop at the same rate and in collaboration with one another, a pinch point will appear and the chain will break or at least be severely constrained. That then impacts all of us in terms of what we produce and the effectiveness of us being competitive – this applies to the private sector and SOEs

We can see various pinch points with SOEs here in South Africa and no one in this room needs reminding of our current challenges. However, they are an example of the need for private enterprise and government to work together towards achieving broad

based economic prosperity. In simple terms, for South Africa to be successful we have to be equally efficient as successful and continue to transform the effectiveness and productivity of our SOEs along with the private sector. At the end of the day if we are playing by a different set of rules, or not talking and integrating our approaches, then we impact each other and ultimately, it is South Africa that is poorer for that disconnect.

SOEs form an integral part of the backbone of our economic and industrial infrastructure – they must be prioritised for investment and they need to be led through the lens of commercial decision-making. So, as we have adopted a State Development Model – as China has - that assumes almost independent development of both state- and privately-owned enterprises – we need to create the conditions that will help them both be successful and will connect them and help them integrate so that we are successful together. It is not up to me to make judgements about whether the state development fund is the right move for the country. South Africa has free and fair elections, the politicians make decisions, all of us then work within in the system. Our job once that directive is set is to understand how we can be constructive in our part of the world and connect to the other parts of the country – whether they be SOEs, private enterprises, or any other structure that is in place. Government has a responsibility to make sure that we are connecting, that the pieces work and that we are working and we successful as a country in that construct. This is something China is trying to come to grips with and it's been really important conversation in China.

Now, given more than more 90% of our SOEs are losing money we must start to reflect on why this could be so. Further, given the tough conditions our SOEs are experiencing, why would we be surprised to hear our private companies complaining that business in SA is tough? It's tough on all of us, but in private enterprise we can't lose money because it is your money, I represent our shareholder and in many cases our shareholders are average South Africans. That is a responsibility we take very seriously. At the end of the day we have to take tough decisions to ensure that we protect our shareholders investment.

At the same time we must realise one cannot fund the other. In China, they are also confronting this dilemma. However, they have a very different model – that is – each must survive and make the tough decisions required to survive in this competitive world. They are very tough on their SOES and private enterprise which compete using

the same rules. So if we are going to be successful as a country, I think it is important for us to acknowledge the great work that South Africa has done. The last 21 years have been an absolute miracle, but for us to go forward we have continue to evolve the debate.

We have to survive these tough times together. For SA to be successful it cannot be left to one group to carry the burden and lead with competitive and efficient business practices – we must work together as partners to create a sustainable future together.

And as real partners we must speak the truth and be constructive in speaking to that truth. No point criticising without coming up with something that could make a difference in bringing those pieces together. I hope my comments tonight are taken in that spirit of wanting to be a true partner in terms of our position in South Africa and hopefully it inspires some thought and debate in how we might come together and be more effective in making South Africa more successful.

In my conversation with the Chinese business leadership group, I asked about business leadership. We had interesting debates about private enterprise CEOs, salaries etc. In China it strikes me that the most capable individuals tend to be pulled into the political system, whereas in American capable individuals tend to go into business. The fact is each of these institutions attract people for various reasons. In the USA the rewards of private enterprise tend to attract very capable leadership.

INTRODUCTION

To try to do justice to the chosen topic, I would like to cover the conversation in 3 parts.

First, I would like to start by focusing on what I see as South Africa's natural advantages. Sometimes we forget that we do have some significant advantages over other countries, and that for us to be successful in a global competitive environment, we must use every tool we have available to us. Naturally, however, I'll also say something on the key constraints from experience in operating in the mining sector in South Africa as part of that conversations.

Second, the mining industry is one of the foundations upon which South Africa can build its future. You wouldn't be surprised for me to promote that view. It can be an engine in its own right and it can help us develop skills and expertise that can be

applied across a much broader range of businesses. Some have asked about our operating model at Anglo America and in actual fact we have stolen many ideas from Toyota, Ford, BMW, the petrochemicals sector which is more of a manufacturing approach in the mining industry. We believe learning from other industries is more important for our future because we are generally quite a closed shop, learn from each other and steal each other's good ideas . What we don't tend to do is to steal from other industries or thought leaders and indeed that's the place where we can get really great ideas.

Third, the adoption of the National Development Plan must be something that brings policy, business and people together. It must work for business, it must work for the government and support its social commitments, and it must work for the people of South Africa. South Africa cannot build a sustainable future without touching these key points.

We all have a part to play and, as I have said before – the future of South Africa is too important to be left to politicians alone to do the heavy lifting. We all have a role to play in encouraging dialogue across South Africa's many constituencies, and we must understand how we can work together to make a difference.

OUR NATURAL AND CREATED ADVANTAGES...

So, let's start with our mining industry. There's a lot of doom and gloom around at the moment. Let's remind ourselves that we have a wonderful country, endowed with both natural and man-made infrastructure. To realise our potential, however, we must use every advantage we have... So let's start with our points of competitive advantage:

- We have some of the world's greatest **mining assets** and **minerals resources** – according to estimates, worth between 2.5 and 3 **trillion** dollars – (although perhaps not at today's prices!).
- We have a highly developed **physical infrastructure** of roads, airports and railways – including dedicated rail links and ports for the export of minerals – and mobile communications. We often underestimate and undersell the quality of the infrastructure we have in place. I think we share a frustration that we are

not operating as well as we could and that we could do a lot more to invest in the future, But compared to many other jurisdictions, we are still well positioned in the game and we could do a lot better;

- Our position in Africa as the continent's most diversified and sophisticated economy – the Nigerians might argue – with first-world financial-services, including a stock exchange that is 19th globally in terms of market cap. I would say for those that have visited Nigeria and South Africa which still ranks South Africa well ahead in terms of our infrastructure and the skills that we have available to us;

- We have world-class universities and business schools;

- Our international reputation in the field of medicine is almost second to none;

- We are a first-class tourist destination; if you can get a visa

We rely on Chinese to buy diamonds and it is impossible for the Chinese to come here. I'm mentioning it because it is an important issue.

- Our people, who are eager to learn and upgrade their skills – and who are increasingly entrepreneurially-minded;

- We are a shining beacon for African democracy, with our parliamentary system of government, our Constitution, independent judiciary, free press, and our vibrant public and private institutions....

AND SOME OF THE CONSTRAINTS ON THE MINING INDUSTRY'S COMPETITIVENESS...

Yet the South African mining industry is becoming increasingly uncompetitive for a number of reasons. Which is a function of a mature mining industry:

- Ore grades continue to decline – which places a huge question-mark over how much of our vast mineral endowment is economically extractable. Obviously, we cannot develop these resources at a cost greater than the anticipated realisable price;

- Many of our underground operations are becoming unviable – as we have to mine at greater depths, with a consequent increase in unproductive time to get

to and from the working face. We are mining at 4 000m no one else in the world is mining anywhere near those levels. The technological achievements of our industry are remarkable and second to none;

- Here, as elsewhere, the mining industry has a legacy of inefficient capital allocation, with cost over-runs that have been typically of the order of 20%-30% on major projects – and in our case more at times;

- Labour, energy and other input costs continue to outstrip inflation – so productivity is steadily going down. That not so much an issue here where viability is the issue and you've got a rising price that is beating inflation. But today that has turned and you've got decreasing prices and we still have increasing costs and the two curves are now starting to intercept. We have seen how companies have declared a crisis in their own circumstances and companies like ours have had to take some tough actions to be competitive and make sure that we don't get into that same situations;

- Because of the ongoing squeeze on costs and returns, the South African mining industry's operating models and technologies are now lagging those in other mining jurisdictions. In our case our utilisation of equipment is in some cases 30%-40% behind our most aggressive competitors. As a company we have to turn that around in the next two years;

- We are being constrained by expensive yet inadequate and unstable electricity supply, and by capacity limitations on State-run rail links from mine sites to export terminals. I would like to acknowledge the work Transnet has done but at the same time the system needs more investment. We have to work together to make sure we can grow and it can grow with us. It does however need to remain economically competitive;

- Investors in South African mining have been scared off by uncertain mining industry regulation and unfriendly investment policies. This has been reflected in the country largely missing out on the recent mining boom, in growing difficulties in attracting capital, and the ratings agencies marking down mining companies here... and in the travails of the Rand. Put simply the cost of capital is rising not falling as you may think. As our credit ratings drop, the cost to

borrow funds for companies like ours are going up, because our credit ratings are being impacted by people's perceptions of the jurisdictions in which we work. So the drop in rate in South Africa is a serious issue for companies that work in South Africa who are not based here

- Our long history of adversarial labour relations – and particularly the trust deficit between labour, business and government – which has been accentuated by the Marikana tragedy remains a great challenge for us to rise to. This is severely hindering the creation of a more efficient mining industry, and of a more competitive “South Africa Inc.” In managing that challenge, we as management have to take responsibility for the things that don't work in that construct. Labour leaders and government also need to take responsibility for their role in that issues. As the management, we will start with ourselves, we have to look at Marikana, there are many things that we can correct to make sure that we are part of the solution.

For us it is good to see the Farlam Commission Report is in, we take to heart the recommendations of the Farlam Report. We also call on all players in the industry to reflect and learn from the Marikana tragedy. We have made significant progress as Anglo American in the areas of the development of mining communities and the remuneration and housing and the living conditions of our people. Many people will know the work we are doing in terms of helping our employees in manage debt. We are also helping them to understand finances and other things as part of our basic training in our organisation. We acknowledge, though, that there is more work to be done, and again we have to do that together.

- For several years, South Africa's mining industry has been underperforming its global peers. Today, South Africa falls outside the top 50 mining jurisdictions and is languishing at No. 56 in the World Economic Forum's Global Competitiveness Index, having slipped another three places in 2014. We have to pull that around. We have the most significant endorsed endowment in the world and to be ranked at No 56 in terms of the Competitive Index is unacceptable for all of us. We can't live with that position we should be top ten. In fact, the consequence of being No 56 is as close as this; If mining here had

come to the party with a growth rate matching the rest of the economy over the past 20 years, we would have seen annual average growth over that period rising from 3.2% to about 4% – a significant 25% uplift... And there could have been some 20% more jobs – equivalent to 260,000 direct and indirect positions created in our industry. We would be in a very difficult conversation, we have to take the long view and work out how that statistic is not repeated in the next 20 years.

MINING AND ITS IMPORTANCE TO SOUTH AFRICA

Despite the challenges on many fronts, they are not insurmountable and South Africa's future is still inextricably linked to what happens in its mining industry:

Mining remains arguably the country's most important industry, contributing about 18% of South Africa's GDP that's in direct and indirect terms, 60% of exports, more than 500,000 direct jobs, and more than 800,000 indirect jobs. Through taxes and other benefits, mining pays for 20 cents in every Rand that is invested in public infrastructure and social benefits.

Moreover, we are still investing heavily in the future of our assets and country. My own Group alone has a multi-billion Rand investment programme in turning around our mines and in new projects across all of our business units here – Iron Ore, Coal, Platinum and Diamonds.

Traditionally, the mining industry has been a great source of competitive advantage for South Africa. But, if we cannot at least arrest its decline in productivity and reduce our costs, we won't have a viable industry to build a country– and the significant decline in shareholder value that investors have experienced in the last 10 years has been significant. The mining industry has declined further, so that relative to our peers we have displayed 40-50% of the underlying value in our industry. That is why we are ranked No 56 that is why we have consistently under achieved on our potential. As a country we cannot continue on that track record as aspire to be the country we aspire to be.

THE NATIONAL DEVELOPMENT PLAN: BUILDING OUR ROADMAP

How can we build a roadmap for South Africa's future?

In order to create a competitive South Africa, government, business and labour must work together – there is no other way. The government has a vital role to play in leading, facilitating and encouraging dialogue around accelerating the implementation of the National Development Plan. We must build bridges and find common ground – hard as that may be – and do so on the basis of mutual respect and trust is a challenge, but personally I have been involved in a number of forums where I have seen that achieved and has built significant progress. South Africa's mining industry has been the most significantly improving industry across the world, in terms of safety the achievements have been remarkable. Every CEO in business has come together and worked with government and labour to create a different outcome. I think we should be proud of what has been achieved, but at the same time not satisfied with where we are.

Anglo American is open to debating the difficult issues and to playing its part in building consensus with all stakeholders. We believe it's time for a **national conversation** – to map out the way forward for South Africa, and to provide its people with greater opportunity for a better life by becoming a more mature, modern, competitive, just and prosperous democracy.

As a mining industry leader, I think our sector should be putting its full weight behind the structural reforms identified in the NDP – and, specifically President Zuma's 9-point plan. I believe the latter shows considerable foresight in looking at the long-term needs of the country, particularly in regard to energy, broadband, and enhancing the value chain in mining and in agriculture.

Government must play its part in creating an attractive climate for investment

Mining, however, can only again become a core driver of South Africa's economy, helping to deliver on the great expectations placed on it in the NDP, to the extent that the conditions are put in place to support an attractive climate for investors.

As we look at the resources investment landscape, and the challenges the mining industry is facing, I would like all of us to keep in mind what one of Anglo American's board members, Jim Rutherford, made a really important point at the Joburg Mining Indaba last year: that **investment follows returns** – not the other way round. If anyone thinks that investment or returns is a dirty word, then please don't expect investment to come to South Africa. "**Investment follow returns**", that is what we are being judged on now. In our mining industry, we are not delivering returns and until that changes we can't hope for people to invest in South Africa. We have to help ourselves turn that position around.

Where investors don't see a worthwhile return, they won't invest. In such an investment climate not only will it be difficult to attract the long-term FDI flows needed for new mines, but also the necessary financing just to stay in business. We spend a lot toward 'stay in business capital', today 60-70% of the capital we spend is sustaining the current production levels in our mines. We could tomorrow make a decision to cut capital if we cut our stay in business capital and starve our businesses, we won't close tomorrow, we probably won't close in five years' time, but in 10 years' time when we are closing the mines the conversation becomes an ugly one. The problem is you can't reverse it. Now we are committed and putting the capital in place to sustain our mines but if it gets to a point where we don't see a future, the first thing that we hit as an industry is that stay in business capital. The problem is you do not see it until we start closing mines. When we start pulling standard capital business back, that's the disaster. In some cases in our industry today, people are cutting stay in business capital. We are losing our future and unless we turn those conversations around and do everything we can to encourage investments and stay in business capital we won't have a future and you won't even know what has happened until it's too late. That is the challenge we want to make sure that we rise to. Where investors don't see returns they don't invest, and for us in the long term that means lower national tax receipts, fewer jobs and less sustainable communities. To think otherwise, is to show a profound misunderstanding of how modern global capital markets operate. We can have the ideological debates but in the end the capital markets are not efficient on a year by year basis, but in the long term they are. The unfortunate thing is over time, we are being out bid for that discretionary capital.

In boosting South Africa's attractiveness to investors, however, we should not look to government to provide all the answers – as business we have to stand up. Government does have a key role to play in facilitating and encouraging dialogue – and in encouraging and fostering an enabling environment to be supportive of the South African mining sector, so we can be successful and make it's a rightful contribution to the NDP.

In short, I would make the following appeal to government. This is not a list of complaints but rather specific requests in areas that I think we have to do better and we are appealing to the governments to work with us in constructive dialogue to improve our positioning:

- Demonstrate a strategic orientation in appreciating that mining is a long-term business – and one of South Africa's few industries that is able to give the country a competitive advantage on a global scale and in the long term. When we make a decision we make a decision for 30-50 years. Governments that change every five years cannot change policy settings every five years. If that is how we are going to run the country, please do not be surprised that mining will struggle to support the direction of the country.

The constitution is a great example of a document that will give us comfort for the long term that then has to be backed up with a consistency of approach through every five years in terms of the conversation mechanisms.

- Provide greater clarity on ownership – we need to sort out the current impasse on BEE ownership. You have read many books about various political structures and capital but the most important thing in terms of capital and making progress is certainty around ownership and tenure of land. We need to sort out the current policy BEE and BBBEE, we can't keep changing the rules.

Courts are not the place to sort that issue out on a long term sustainable basis, courts should be there to test an interpretation of particular circumstances. Courts should not be there to provide an answer on a far more global and holistic issue we think there has to be a dialogue and that has to start now. We have to make sure we come to a solution that isn't reliant on a single judge or

legal system that is not constructive to provide the answers and guidance in terms of where society goes

- Facilitate consistent policies and legislation across government departments – investors need coherence and stability. We must integrate policy between governments before the policy is inactive because an inconsistent policy in one department can create an absolute crisis in another. We have to get beyond that and an integration of policy is critical in terms of making sure we send consistent and correct messages across all facets and areas of society.

We must not let ideological differences in various government departments frame policy that don't link to the broader thrust of the government's platform;

- Create and maintain the supporting energy, water, transport and other infrastructure required for businesses to function. If government is unable to fund that infrastructure then let and encourage private enterprise do the job within the construct of a national infrastructure strategy develop. Let us partner, let us become part of the answer;

- Ensure that all mining companies compete on a level playing-field;

- Carefully consider the implications of declaring a mineral as being “strategic” in terms of investment appetite. While there is nothing wrong with declaring a mineral as “strategic,” but let's make sure that the implications of that declaration protect the rights and ownership of those investing monies per the constitution so that there is no investor is scared to invest because they think government might change rules. Let's not change bi-lateral trade agreements that protect foreign investment without careful thought of the unintended consequences of those actions;

- Apply international commercial logic to the beneficiation of mineral products. We can't create unsustainable industries without building them on a base that we can believe will be competitive over the long;

- Consider SA's competitiveness when making amendments to the MPRDA; and,

- Honour its own commitments to our communities in the delivery of basic services and improving livelihoods.

At the end of the day any policy framework that we develop should be tested against its ability to improve the competitiveness of the country. If it reduces the competitiveness of the country, it should be kicked out. I qualify that in term of social equity and making sure that from a social perspective we remain a socially fair and equitable society.

Fortunately, there are those in government who appreciate what the industry's leadership will need to do to break the mining sector's downward spiral. Within government itself, I think there is broad agreement that government should provide more policy direction, including a less onerous and more flexible regulatory framework for the industry – because the current situation is deterring investors, stifling growth and denying South Africa of its true potential.

In particular, I am encouraged that at last there is a greater degree of co-ordination, and sense of urgency, concerning plans of Eskom. I salute Brian in being so decisive in his actions, he has a tough job and we should all be there to support him. Unless we can resolve the country's energy constraints, the mining industry, and the country, cannot sustain its current level of economic activity, let alone expand. Let us encourage this approach across all the enabling SOEs.

In Minister Nene's words, the SOEs should make a contribution and not draw from the wealth of the country to build a more effective South Africa.

BRINGING ALL THE ELEMENTS TOGETHER

The mining industry today has to tackle an increasingly complex set of technical and societal challenges from our point of view we are struggling with prices for our commodities as a result we have to take direct and decisive and tough action. In an environment riddled with regulatory and social uncertainty, and one that is in the midst of a commodity downturn that is bringing all these issues home to roost in a way that I, in my long mining experience, have ever seen before.

In this scenario, I am not surprised that individual mining companies continue to demonstrate a silo-like insularity at times; for many, running one's own business, as opposed to considering what needs to be done in the greater industry, is tough enough.

But now, more than ever, we're all in it together – and it's only through bringing all the elements together that we'll start to climb out of our present situation. In the end we are all here for South Africa, we may be competitors but there are many forums in which we don't compete at the end of the day South Africa is the winner.

Government's encouraging moves

So, first, let me give the State some credit where credit is due...

I think that Operation Phakisa represents an important initiative on the part of government to bring government policy, business and people together – with stakeholders from the public sector, business, academia and other elements of civil society collaborating with government in order to improve the implementation of the state's programmes and policies. It may well turn out to be a significant milestone on South Africa's journey to improve its competitiveness and attractiveness to investors. That is why Anglo American, (and I personally) with Roger Baxter and the team, will be an enthusiastic participant in the Phakisa mining lab, whose purpose is to develop a shared vision and growth strategy for the mining sector, with the aim of doubling real fixed investment in the industry by 2030. Or to put it in the context of my earlier points, to help the government understand what we need to be competitive so that we work with the DMR to help deliver a mining strategy that works for the industry and people of South Africa.

Phakisa as a whole is a very interesting development as it demonstrates government's willingness not only to work together with a range of South African constituencies, but a keenness to look beyond its shores at Malaysia's proven 'Big Fast Results' transformation methodology, for example. In talking about solutions for government, I did note the comments of the Secretary General of the ANC where he said cutting labour is lazy. In my point of view I understand the observation he makes i.e *have you looked at every avenue to improve your business before cutting jobs*, the answer in our case is yes. We have looked at every angle and opportunity.

Due to a change in commodity prices, we have had to move into areas of change much quicker than we anticipated.

We have proposed that if we can work with labour and the government to negotiate, navigate, talk to a more flexible labour structure, address the issues of migrant labour and social issue in a constructive way – that would actually allow us to operate our plan hours in a year which provides more employment because we are more productive. Then we think we could make a positive difference and could help us preserve some jobs that would otherwise be lost if we stay on the track we are on.

For us we talk about partnerships. If we don't engage in that conversations and create those partnerships where we need to listen and work together to identify a different outcome.

I do want to make a point that when we announced the restructuring in our businesses and sale of assets that the 53 000 – 54 000 jobs that people talk about us shedding, I do want to remind you that only 15% are actual reductions of labour in term of the rolls are in, 85% of this is a reduction of assets.

Effective partnerships are key

Success in what I call bringing the elements together however, depends on the quality of the partnerships we all establish across the stakeholder spectrum. At Anglo American, our vision is to be partners in the future; working together to create sustainable value that makes a real difference. We understand that the welfare and ongoing prosperity of our host communities is as critical to returns over the long term as attracting investors and strong markets. We will only be successful, and secure an ongoing social licence to operate, if we listen to host governments and local communities, and engage and partner with them in an honest, open and transparent manner.

In South Africa, we have partnered with others towards the transformation of the mining industry, and the country, through:

- Our open forums in technical innovation,

- Creating BEE-owned and run mining companies of scale, which are able to compete with the established players,
- Our local-procurement initiatives are a value-adding instrument for the business, and provide the anchor for boosting economic growth in host communities. Our annual expenditure on suppliers based in the communities close to our operations is around \$2 billion, or around 25 billion rand.
- Our enterprise-development initiatives globally have enabled the creation of more than 90,000 jobs. We are proud of our local procurement initiatives and the work we have been doing,
- Boosting the competency of our employees – from adult basic education and training (with a focus on maths, science and English), to building leaders and shaping talent. In this regard, I particularly want to mention the work our Platinum business has been doing to tackle the growing problem of employee indebtedness. In partnership with Summit Financial Training, Platinum is providing free basic financial training to all employees who request it, and also assisting them in any concerns or disputes they may have regarding their garnishee orders – including taking their cases to court,
- Every employee in our Group can join an employee share scheme. Some of these schemes, such as *Envision* at Kumba, have transformed the lives of many of our lower-paid employees,
- The Tripartite Health and Safety initiative between Anglo American, government and labour to improve safety performance, and which has now extended its scope to include key business priority initiatives such as community health, migrant labour, employee housing and employee indebtedness, and
- In light of Mining Charter III, we also wish to be constructively engaged with government to take forward the current transformation conversations in a manner that re-establishes South Africa's leadership position in the global mining industry.

In the same context of creating partnerships I also think it is also important to share a conversation I had with a past mining industry union leader. In that conversation we both agreed we needed to restructure the whole working framework for employees to help improve productivities and reduce operating costs. In that same context we

agreed salaries could rise on a sustainable basis because people would be improving productivity – supporting better salaries. However, the tragic observation from my very good friend was something I will never forget. His comment, we all know this needs to happen – but the minute any union leader puts forward such a proposition, they will be howled down by other competitors in their drive for increased membership. Those leaders seem to be more interested in membership than they are in the actual livelihood of their members. Now some may argue this was a self-serving observation. But it has given me cause to reflect very deeply on where we are as a country.

We need leaders to stand up and lead. If we want to be seen as leader we have to put some personal skin in the game and be prepared to lose. We need to debate these important points in a way that allows people to hear different perspectives and make their own mind up on what is right. They also need to have the courage to fail, as it is only in the face of failure can you demonstrate the passion and strength of your convictions to argue for what is right.

CLOSING REMARKS

Thirty years ago, Anglo American took the lead in seeking a way out of South Africa's political impasse when then chairman Gavin Relly led a delegation of South Africa's business leaders to meet the then-banned ANC in Lusaka.

I mention that not just to wave Anglo American's flag, as it were, but to show that our company has a long tradition of being a development partner that is trying to make a real and positive difference beyond the workplace and for society at large – we take that responsibility very seriously.

Leading a company in an industry with a profile such as mining, requires more than just doing the internal things well – we have to work collectively to create a policy and social environment for our industry to continue to grow and improve its contribution to society. We are committed to being thought leaders and being solution seekers.

This means addressing the 'trust deficit' that in many respects has been widening gulf between the mining industry and its many constituencies, and overcoming the historical lack of trust between the public and private sectors. In terms of South Africa,

business and labour *must* work together. Our current deep suspicion of each other is simply not sustainable and is evidence to the world that the miracle of the Rainbow Nation is floundering, as it cannot get past self-interest and outdated ideological mantras.

This process of coming together is proving to be particularly difficult. However, as job losses continue to rise in the weak pricing environment for commodities I submit that we each have to put our differences aside and come together and look for common solutions. To put the position more bluntly, the mining industry is and must modernise technologies, operating models and management and work practices – and I put the two together. We can see a way that will help protect jobs, but not without associated change that we all must navigate. If we are not met halfway in our need to change and reform we will continue our march towards creating a sustainable future with the courage that is needed to be successful and we have to accelerate that change. There will be many job casualties in current environment but the key is can we create more job opportunities to soften the tough times we are facing and create new foundations for growth that will address and help build the future.

Mining success is a prerequisite for South Africa's success

Our simple reality is it must be confronted, however – without mining and without investment in new capacity, we will not be able to support the delivery of a mining recovery, we will not be in a position to provide jobs, and we will not be able to support the delivery of the National Development Plan's objectives.

Our industry has to be successful if South Africa is to reap the full benefit of its mineral endowment. At the heart of the issue is how we get South Africa's mining industry back on the growth track, where it can generate relatively consistent and attractive returns over the long term.

We need to turn the vicious circle that we are now experiencing into a virtuous circle, with the industry operating in a facilitating environment that is conducive to its making profits, and where investment attracts further investment. And that requires a shift in mind set on all sides – from business, government and labour – if our mining industry is to continue to be a crucial partner in development as a significant contributor to the

fiscus, a major employer and a cornerstone for the ongoing livelihood of host communities.

- As an industry, therefore, we – along with business in general – have to step forward with confidence and conviction and play our part to find solutions to the challenges that now confront our industry. Our solutions must be based on a clear and consistent approach to improving the attractiveness of the country and the industry as an investment destination.
- In that respect, I do feel it is right and fair to point out that the regulatory framework has become increasingly difficult to navigate and that the industry should show its willingness to work with government to simplify this framework.
- Government could play an even bigger role in supporting the industry and to attract investment in mining – not least in providing encouragement to a new generation of business leaders and entrepreneurs.
- Above all, the South African mining industry itself has to be more productive. We need to produce more product per person employed. If we do not get that equation right we don't have a future. Only by doing so, will mining companies be able to both generate profits and safeguard employment through the cycles.
- And we'll only make significant progress on this if we can achieve the required technical, operational and commercial breakthroughs that other industries have managed, along with a significant expansion of the kind of business/government partnering we have seen in areas such as safety and fuel-cell development through our Platinum business in recent times.

I hope I haven't given you the impression that the industry itself is blameless, we are not we take full accountability for our leadership and its failures. We are open to sharing and taking advice and being a part of a solution that works for all South Africans

Finally, we all need to change the nature of the conversation we have in mining so that all constituencies start to work together in tackling the constraints that are hampering the traditional powerhouse of South Africa's economy from being globally competitive once again. Only through success in this will the South African mining industry restore

its competitive advantage, be able to attract essential foreign investment, we have to start working on solutions and stop shouting across the corridors and start working.

In the spirit of its being Mandela month, I would like to leave you all with a quote from our late father of this nation, "Sometimes it falls upon a generation to be great; you can be that generation."

Thank you.