Anglo American 2022 results

Thursday 23 February 2023

Introductory Comments

Stuart Chambers

Chairman, Anglo American plc

Slide 2 – Introductory comments

Good morning everyone and welcome to our 2022 full year results.

You will have seen our numbers go out a few hours ago, and before I hand you over to Duncan and Stephen to talk you through this set of results, I have a few remarks to make.

Firstly on Board changes – there have been two since I saw you at last July's half year results. Elisabeth Brinton, one of our non executive director's, stepped off the Board in September and Tony O'Neill stepped down at the end of last year before he retires in June. We are at an advanced stage in the appointment of a new non executive director and expect to announce this soon.

While this is our second best EBITDA ever, we are still not satisfied with our delivery in all areas.

The macro environment is undoubtedly more challenging – and I include weather in that, but in spite of such external and somewhat uncontrollable headwinds, there is still more we can do to increase our operational stability – and this will contribute to further improvement in our safety and our operational performance – which go hand-in-hand of course. Duncan will no doubt talk more about this.

Finally allow me to assure you all that the Board of Anglo American, as well as management, have a clear focus on safety and sustainability, and that we recognise the responsibilities we have to the full spectrum of our stakeholders.

Let me now hand you over to our CEO - Duncan.

2022 operating performance

Duncan Wanblad

CEO, Anglo American plc

Slide 3 – Cautionary statement

Thank you, Stuart. Good morning everyone and welcome.

Thanks for joining us in person and on the line. We always appreciate your time.

This slide is one for the lawyers.

Slide 4 – 2022 results agenda

You will be familiar with how we structure these presentations.

I will take you through our operating performance.

Stephen will then canter through the numbers.

And then I will talk about how we are positioning the business for the longer term, as well as outlining the path forward for Woodsmith and why we are incredibly confident in both the project and the product.

Slide 5 – Safe & healthy operations are our first priority

Safety is our first priority. I am deeply saddened by the 2 fatalities due to incidents at our managed operations during the year and extremely disappointed to report a fatality last week at Kolomela.

As you know, we were dissatisfied with our TRIFR performance in the first half of this year. We responded with urgency and implemented a safety reset across the business. I am pleased that we saw a significant improvement in our performance during the second half and remain focused on carrying that momentum into 2023. December's rate was a very much improved 0.96 - but the recent fatality highlights that we still have much to do.

We have a consistent approach to safety, health and environment as we strive to achieve zero harm to both our people and the surrounding environment.

On Health, we had 5 new cases of occupational disease relating to noise-induced hearing loss. Near-term, our focus is on the execution of planned, rigorously risk-assessed work to reduce exposure.

And on the environment – we had one Level 3 water discharge incident towards the end of the year owing to extreme rainfall during the extended maintenance shutdown at the Polokwane smelter, fortunately with a low downstream impact, but nonetheless we must get to zero.

Slide 6 – Striving for a healthy environment & thriving communities

Looking at the key components of our environmental and social performance.

Our energy consumption in absolute terms decreased this year – despite Quellaveco starting up – that is largely a reflection of lower production at our PGM assets.

We saw a pleasing improvement in our scope 1 and 2 emissions, reflecting the transition from Grasstree to Aquila in our Steelmaking Coal business, as well as the renewable electricity contracts across our South America operations that kicked in at the start of 2022, and Quellaveco is the final one that will get under way during this year.

We continue to make progress on our longer term targets – and more to come on that shortly.

On our social performance – good progress on the implementation of our Social Way 3.0 management system, with 66% of foundational requirements implemented. Attaining this level of performance represents a higher bar than any that has been set before in the industry. The programme is a critical underpin to many of our ambitious 2030 Sustainable Mining Plan targets – such as 5 jobs offsite for every onsite job - demonstrating our commitment to partnering with our host communities and governments.

Slide 7 – 2022 summary

As a summary of the numbers, EBITDA of $14.5 billion and an EBITDA margin of 47%. In the face of significant cost pressure, this is testament to the quality and diversification of our portfolio.

As we talked about in December, production was slightly lower compared to 2021. We saw a significant step-up in the second half of the year, as we said, and I am confident that the focus on operational excellence and getting the basics right has put us in good shape to deliver on our guidance for 2023.

Unit costs were impacted by the combination of very high inflation as well as lower volumes. Stephen and I, and the broader GMC, are incredibly focused on those cost drivers.

To reiterate, safe and stable operations are our number 1 and 2 priorities. We are absolutely determined to get both of those right.

So, overall a strong financial performance, but it could have been even better if we had hit all our marks.

Slide 8 – 2022 operating performance

Breaking that operating performance down into the business units:

De Beers had a good year. Operationally, performance was strong – coupled with the benefit of some high grade ore as we mined out the last of the Venetia open pit. That pit closed as planned in December and we are now transitioning to the underground operation. US markets were also strong, particularly in the first half of the year, but we are now seeing some Sightholder caution as a result of the weaker global economic outlook. Long term fundamentals continue to look very promising and I'm pleased with the provenance work the team have delivered this year as that plays in nicely to the underpinning demand themes we are seeing. The GRB remains an important partner and we are looking forward to refreshing that agreement. As you know Bruce transitions to co-chair and Al Cook has taken over as CEO this week.

In Base Metals – very pleased with the delivery of Quellaveco on time and on budget – contributing just over 100,000 tonnes of copper since start-up. It is testament to the project capabilities of Tom and the wider team. In Chile, great work in mitigating the water constraints at Los Bronces as well as the expected lower grades across the operations. The team has taken a number of steps to help manage the impact of the harder ore at Los Bronces and will continue to focus on opportunities through 2023. We also remain confident that we will reach a pragmatic solution on the Los Bronces integrated permit.

At PGMs, a more normalised operating performance following the benefit of having the ACP back up and running in 2021 and despite the impact of the lower grade at Mogalakwena. At Amandelbult we closed some higher cost areas of the mine and concentrators to focus on the lower cost areas. The Polokwane smelter rebuild completed in December as expected, and is now fully ramped up.

For Bulks it was a more challenging year. Both iron ore businesses were hit by wet weather. At Kumba, we continue to monitor the logistics performance closely. While at Minas, the initiatives to address the challenges in the ore characteristics are showing results. Finally, at Steelmaking Coal - we finished the year flat on 2021 but I am encouraged by work the team have done to work under these new operating parameters and I expect to see them optimise those processes further during the course of 2023.

All in all a decent performance and importantly, I'm encouraged that we are focused on the right things as we progress through this year.

Slide 9 – 2022 sustainability highlights

I covered the headlines of our environmental and social performance a moment ago – but that doesn't capture a lot of the great progress we have made towards our Sustainable Mining Plan targets.

On carbon:

- We launched our hydrogen truck prototype in the first half of 2022. Testing so far continues to yield positive results.
- We also announced the first 600MW of renewable energy projects out of our 3-5GW target as part of Envusa Energy, our renewable energy strategy in southern Africa. This has now been given status as a Strategic Integrated Project for South Africa, consolidating the government support for the programme. We are on track for construction to start this year.

In Chile, we secured desalinated water for more than 45% of Los Bronces' needs from 2025, while also providing clean water for local communities. For the second, as yet unapproved phase, we are planning an innovative water swap by exchanging that desal offtake for a larger offtake of industrial water. The local community get the clean water and we use 'dirty' water that would otherwise be discharged.

The social contribution we make is perhaps one of the hardest elements of our ESG performance to measure. It can be the most powerful, though, in terms of the direct impact on improving people's lives. I am very proud of our work on building an inclusive workplace, including our focus on addressing gender-based violence, bullying, harassment and victimisation. We have now established our Living with Dignity Hub in South Africa – an independent support mechanism for our employees, contractors and their families. A similar facility is now in place in Australia.

The numbers

Stephen Pearce

Finance Director, Anglo American plc

Thanks Duncan. Morning all.

As usual, I would like to start with the key themes I want you to take away:

Firstly, despite some operating challenges this year that Duncan has touched on, we have delivered our second highest ever EBITDA performance for a full year. Through the second half of 2022, we have focused on efforts to deliver safe and consistent operational momentum and we are poised to continue that into 2023.

The second theme, we have a strong balance sheet and our 40% dividend pay-out is maintained (giving a yield of around 5%).

Finally, we continue to invest in value-adding growth that positions the portfolio for the two major demand drivers, while our technology and innovation programmes enable us to supply those metals and minerals in the most sustainable way.

Slide 11 – 2022 financial results

Turning to our 2022 performance:

EBITDA of $14.5bn – I'll unpack that for you a little more over the next two slides but healthy pricing helped to mitigate the impact of higher unit costs.

That gave an EPS of $4.97.

Reflecting our 40% pay-out policy, dividends were $1.98 per share, which results in $2.4bn of shareholder returns.

Net debt landed at $6.9bn – better than we expected in December as prices started to rise during the month, with ROCE for the year at 30%.

Slide 12 – Robust EBITDA & margins supported by strong pricing

Breaking that EBITDA performance down into the different businesses:

Diamonds

- Strong operational performance and healthy markets
- Full year EBITDA of $1.4bn
- 52% mining margin.
- 2023 – we are watching the macros carefully and the opening up of China
- 2022 holiday season was robust so while a lower sight 1, we remain hopeful things should pick-up as the year progresses

Base Metals
- $2.6bn EBITDA
- Focusing on Copper, expected lower grades, water and ore hardness at Los Bronces
- High inflation: ~14% across our inputs
- C1 unit costs up 31% (inflation and volumes)
- 2023: Quellaveco much more sizeable contribution expected

PGMs
- Healthy $4.4bn EBITDA
- 54% mining margin. 24% processing and trading margin
- Robust basket price: ~$2,550/oz
- 2022 impacted by Polokwane smelter rebuild

In Bulks:
- $6.6bn EBITDA
- Wet weather impacts across the various operations
- Start of 2023: Continued heavy rainfall at Minas-Rio and in Queensland
- 49% margin reflecting the premium nature of our steelmaking ingredients.

Overall, a strong set of numbers in the circumstances – and I am encouraged by the operational momentum we are carrying into 2023 as we focus on getting that consistency back.

Slide 13 – Strong earnings despite operational & macro headwinds

Looking at the drivers of EBITDA:

A reminder - our 2021 EBITDA was our highest ever – supported by high prices.

Our 2022 EBITDA is now our second highest ever.

Prices have remained robust; although down on 2021, they remain above long-term averages.

There were a number of known factors as we came into 2022 and particularly when comparing to 2021:
- Run down of ACP stocks in 2021 not repeated in 2022
- Planned lower grade in Copper Chile, water challenges at Los Bronces and higher input costs

But we also had factors impacting 2022 with:
- Polokwane smelter
- Ramp-up of Steelmaking Coal longwalls
- Weather impacts

Slide 14 - Inflationary headwinds & lower volumes

Unit costs up 15% - an improvement on our H1 performance. H1 was up 18%.

Breaking that down:

Volumes contributed 5% of that impact – a valuable prize to chase down.

Inflation overall totalled 14%. Diesel was the biggest driver of above-CPI inflation – it was around 75% of the above-CPI inflation impacts. The work we are doing on the sustainability front to lower our emissions should also improve our cost performance as we progressively switch to renewable energy contracts.

And of course, weaker producer currencies helped to mitigate some of those effects.
Looking ahead to 2023, as we said in December, we are expecting around a 3% increase in unit costs.

The step-up in our volumes, particularly Quellaveco, will be a major prize and we are focused on managing our cost drivers across the business.

Slide 15 - Significant economic contribution of $30.6bn

I am very proud of the significant economic contribution that we make – which totalled $30.6bn for this year. A large part of that money has a direct impact on people's lives within the countries we operate.

A key part of that contribution is our tax and royalty payments, which totalled $5.9bn for 2022. That is down on 2021, in line with earnings. The dramatic increase in the royalty rates in Queensland, coupled with higher earnings there, resulted in a significant increase in our royalty payments in Australia. The change in royalty rates meant that we paid an additional $US200m in royalties during the second half compared to the previous regime, with the total royalties payments for the year being over $US700m.

The increase in coal royalty rates was forecast to deliver an additional A$1.2bn to the Queensland government over a four-year period, however the budget measure is now expected to deliver $A3bn in FY2023 alone. With the industry, we continue to seek meaningful dialogue with the Queensland government to review the royalty rates, particularly in light of the miscalculation of the impact of the change.

While in South Africa, the headline corporate tax rate is set to decrease in 2023 from 28% to 27%, but we do see increases elsewhere; tax rates and tax bases in all our operating countries are something we continue to watch closely as governments manage fiscal deficits impacted by the pandemic.

Chile is one such example, where the government is looking to raise additional tax revenues from sectors that have seen increased profits in recent years, such as mining. While the royalty outlook there remains uncertain, the most recent proposal that is now passing through the various approval stages, while still high, has moderated significantly from where it started. We are continuing to actively engage with the full range of stakeholders to ensure they recognise the full economic value that we generate. Our taxes and royalty contributions in Chile increased this year to over $1.0billion.

Slide 16 - Project re-scoping triggered Woodsmith impairment

Turning to the balance sheet.

While Tom and the Woodsmith team are continuing their work across the various streams of the project review – we are clear at this stage, that to maximise the long-term value of this multi-generational ore body, we need to invest more upfront to expand the capacity of some core infrastructure – as we did with Quellaveco - to lock-in the option of future expansions as the market for polyhalite develops.

But we are being prudent, taking a phased approach to the build where we can, to ensure we invest capital in the right way, when we need to, as the market develops. As a result, we expect it to take longer and cost more to bring the configuration that we want for Woodsmith into operation.

We mentioned in December that we would feed this latest thinking into our models for year-end accounting purposes and this results in us impairing the carrying value of $2.6bn by $1.7bn.

As we progress through the remaining studies and de-risk the remaining schedule, I expect the value and discount rate should both move in our favour over time.

For accounting purposes, we continue to take a positive, if still conservative, view of the POLY4 market price in our models. We incorporate various pricing methodologies, including blend substitution, and weight them based on probabilities of outcome. This is a market that we need to develop over time, in order to realise full value for the qualities and attributes of this product. That's why we're comfortable with a longer timeframe and why we're putting so much effort into the marketing capability of the business – we're building up a bank of agronomic, scientific and commercial evidence for both the yield and environmental performance of the product, so that we can market that effectively and attract a significant premium for it in the future. Duncan will talk you through that in more detail shortly – but until we have done the work it is a little early to incorporate that value into these sorts of accounting models.

As you know these valuation models can be highly sensitive to changes in nearer term expenditures, and while this expanded scope will increase the overall cost and push out initial ramp up and cashflow, it also gives us more confidence in our ability to maximise returns from Woodsmith over the long-term.

Slide 17 - Higher capex reflects recovery in sustaining spend

Turning to capex. $5.7 billion for the year.

It was up on 2021 driven by higher sustaining spend partly as we caught up on some of the projects deferred or delayed during the pandemic, as well as projects such as the Collahuasi desalination plant, start-up of Quellaveco, the smelter rebuild in PGMs and higher spend at Los Bronces, and also some impact of inflation.

Growth capex of $1.6 billion largely reflects spending at Quellaveco and Woodsmith.

Guidance for 2023 remains at $6-6.5 billion - higher due to the SA renewables and the nuGen™ truck programme, Collahuasi desal, work at the PGMs smelters and Minas-Rio plant. As well as cost inflation and the ramp-up of operations at Quellaveco and Steelmaking Coal.

Slide 18 - Robust cash generation & resilient balance sheet

Net debt increased to $6.9 billion. Lower than we were expecting at the December update due to higher metals prices running into year-end as well as higher dividend receipts from associate operations.

We paid $3.7 billion to shareholders during the year – which includes the additional dividend declared at the 2021 full year results on that year's record earnings, as well as the remainder of the buyback.

Working capital increased by $2.1 billion, reflecting inventory builds in PGMs owing to the Polokwane smelter rebuild as well as builds at Copper, Kumba and De Beers.

We are making good strides towards our 2030 Sustainable Mining Plan goals and during the course of 2022 we put our money where our mouth is, so to speak, with two sustainability-linked debt issuances. A €745 million bond as well as a $100 million loan with the IFC, which are both linked to delivery against our Sustainable Mining Plan. And importantly, this holds us to account in reporting our progress against these metrics – you'll see that in our reporting suite when it is published in the next week or so.

And with our strong and flexible balance sheet, we are well positioned to continue disciplined investment in our pipeline of value-adding growth.

Slide 19 - Balanced capital allocation framework

So to recap, reporting against our capital allocation scorecard:

Cash generation of $3.3bn after funding sustaining capital.

$2.4bn for the base 40% dividend – with a further $0.6bn being the additional returns we announced this time last year and $0.2bn on the tail-end of the buyback we announced at the 2021 half year.

We then allocated $1.6bn to growth capital.

Slide 20 – Our balanced, disciplined & sustainable approach

We are committed to our capital allocation framework. It delivers a strong balance sheet, an attractive 40% pay-out ratio that translates into a healthy dividend yield and offers flexibility to invest in discretionary capital options – both organic and inorganic – as well as additional shareholder returns.

More than 90% of our growth capex is allocated to value-adding, high margin projects that deliver products into the long-term demand themes that we see.

I'll hand back to Duncan to expand on that a little more.

Enabling the future - sustainably

Duncan Wanblad

CEO, Anglo American plc

Slide 22 – A carbon neutral world requires metals & minerals

Today, demand across our portfolio – and metals and minerals more broadly – is generally good. Many prices have been elevated above their long-term averages for quite some time now. And the demand outlook for most mined products looks set to just get stronger from here.

And yet – there is no flood of mining projects coming to market. I have said this before, supply is constrained. Recycling, substitution and thrifting will be important contributors – but even then there is a structural shortage of metals and minerals. Industry supply continues to disappoint rather than exceed expectations – I suspect this will continue to be the case, with supply getting pushed out due to the pressures that I've spoken about before – permitting, disruptions, more frequent extreme weather events, grade decline, fiscal uncertainty etc.

Independent sources, such as Climate Action Tracker, estimate that the world is currently on a pathway to a ~2.7 degree warming above the pre-industrial level. A significant step-up and acceleration in efforts is required globally if we are to correct this trajectory to within 1.5 degrees. That serves to put even more pressure on metals intensity.

This all likely sets us up for structurally higher prices in the future.

Slide 23 – Diversified product suite aimed at the two major demand trends

Our geographically diverse portfolio is supplying into the two major demand trends that are becoming ever clearer:

Firstly, the decarbonisation of our energy and transport systems to get us to a cleaner, greener, more sustainable world; and

Secondly, the broader drive towards improved living standards for a growing and urbanising global population, meaning demand for everything from homes and electronics, to food and consumer luxuries.

This is what we mean by "future-enabling" – quite literally.

Slide 24 – Quellaveco ramp up progressing

Turning to projects – Quellaveco, our new copper mine in Peru, continues to ramp-up. Both lines are running well and produced around 80kt of copper in the fourth quarter – production in the first quarter of 2023 will be about 30kt lower, driven by 3 main factors.

Firstly, major planned maintenance was deferred from 2022 to 2023 as a result of the later start of ramp up in mid 2022.

Secondly, the Quellaveco tailings dam is currently going through an important phase of its construction that requires a managed slowdown of throughput - this is expected to continue in H1 for a period of 3-6 months, after which the operation should reach full production run rates.

Finally, we are carefully managing the transport of supplies to, and concentrate from, the mine as a result of the civil socio-political situation in Peru, although this does appear to be improving.

Woodsmith update

Duncan Wanblad

CEO, Anglo American plc

Slide 26 – Delivering against our model of mine development

I have said before that we need to design and execute this through an Anglo American lens in order to maximise its long-term value, and that has not changed. I committed in December to updating you on the project dimensions.

A lot has happened since we acquired Woodsmith immediately before the pandemic set in; and 2022 was a big reset year for us following further integration into Anglo American and our technical review.

Firstly, on the core project development. We have made significant changes to the scope, design, and approach to execution, ensuring that we bring the project up to Anglo American's high safety and technical standards, and employing modern mining methods, to set the project and the operation up to deliver its full potential. We have changed the execution strategy to an EPCM model, following the approach we had at Quellaveco, and engaged a specialist contractor to execute the deep shaft sinks.

Secondly, on the project timelines and scope. We are making changes to allow for an expanded scope, which I'll explain shortly, to align with what we see as the market potential for our product, which we want to set up correctly from the beginning. Nobody wants to turn around in ten years' time and wish we had made everything more scalable.

There are considerable additional studies that we still require while we progress the core infrastructure. These are focused on configuring the mine to extract maximum value and ensuring we allocate capital efficiently at the right time.

We have a highly experienced project team, led by Tom, working closely with specialists from across our business to leverage the internal technical capabilities to bring best practice to this project, as well as implementing the learnings we have from the recent successful completion of Quellaveco.

Slide 27 – Significant progress on core infrastructure

We have made significant progress on the core infrastructure, while the scoping work is ongoing.

On the two deep shafts: These are both being excavated using Shaft Boring Roadheaders. We are over 20% down the service shaft, while in January we hit a key milestone as the SBR began cutting on the production shaft, 120 metres below surface.

On the tunnel, we are well over halfway on tunnel boring activities, currently at around 21.7km of the 37km distance between mine and port.

The three shallower intermediate shafts need to sink down to the tunnel at depths of between 320-360m, and are all progressing well. One, Lockwood Beck, has been completed and connected to the tunnel and the other two are planned for completion this year.

Slide 28 – Indicative phased project development pathway to 13Mtpa

Let me lay out what we think will be the project dimensions – and these are different from those considered before our ownership of the asset.

We are setting up to be able to deliver 13Mtpa – a 30% larger operation than the previous plan of 10. We are going bigger because we believe in the asset, we believe in the product and we believe in the market.

The annual spend will vary from year-to-year but is likely to be around the $1bn mark (with $0.8bn approved for 2023) and in the near term that will be spent on progressing the core infrastructure.

While we progress that core infrastructure, we have the time we want to complete those additional studies to ensure that we are building the additional infrastructure in a way that provides optionality for the future to maximise long-term value from this asset.

We expect to hit polyhalite by 2027, from which point we will be in a position to bring some volume to market.

The exact ramp-up pathway will depend on the outcomes of these studies and our market development work to position the product for value, and remains subject to Board approval. But we expect Woodsmith to have the capacity to produce up to 5Mtpa by 2030, with the ability to expand to 13Mtpa as the market develops to support it.

Our project will cost more and take longer than was envisaged under its previous owner – and from an accounting model perspective, you can appreciate how the NPV is affected by pushing out those first cashflows. Stephen has described that.

Let me assure you, in Anglo American's hands we are taking a long-term view focused on maximising value for the asset's life, which extends well beyond 40 years.

Gone are the days where mining companies invest billions on the back of a single bankable feasibility study. You need the detailed technical information to get these things right and to ensure that you are embedding the very latest techniques and technologies. That's critical for assets of this scale and longevity.

Slide 29 – Developing a larger, scalable operation

To help visualise this, here is the core infrastructure needed in any design scenario:

Firstly, two ~1.6km deep shafts sinking down to the mechanised underground operation.

Secondly, given the proximity to the port, only a 37km underground transport tunnel (the MTS) is needed to carry material from the mine to the handling facility near the port, and

Finally, three smaller intermediate access shafts needed for maintenance and ventilation.

To complete the picture - not on the critical path, but still part of core infrastructure, there is the port area where we will have a granulation plant and priority access export facilities. Limited processing helps makes this a very low cost asset.

We are making good progress, but we still need to keep in mind that a lot will depend on ground conditions as we sink, particularly through the water-bearing sandstone strata that we expect to reach during 2024. It is one of the key elements behind the schedule and we need to make sure we progress through this in the safe and right manner. But once through, we expect to be able to increase our confidence in the schedule.

Slide 30 – Developing a larger, scalable operation

Now turning to the 13Mtpa plan:

In underground mines you need to build the core infrastructure (such as the shafts and tunnel) up-front, as changing this later once the operation is up and running becomes very challenging and costly. Do it once and do it properly.

With that in mind, the changes we are reviewing will allow for options for the future at relatively low capital intensity. Some of this will require additional upfront investment, but we believe this is the right thing to do to maximise the potential of the asset and set the operation up properly for the long term.

As an example, on the core infrastructure, we have already taken the decision to widen the deep shafts by 75cm to deliver the operating performance we expect at that larger scale.

This graphic shows some of the key infrastructure that, while not on the critical path, would be required to deliver 13Mtpa. It is important to say that this is an overview of the potential plan, which is subject to further studies, board approval and, in some cases, further permitting, to validate the scopes and phasing. Some changes may not be needed until the ramp up phase from 2027, which means capital will be invested at the right time for maximum value delivery.

The blue shows the potential scope changes to get us to 13Mpta:
Firstly, something that we have previously raised, is addressing additional ventilation requirements. This would bring forward investment that would anyway have been required to allow future expansions.

We also need to do the studies to conclude the optimal mining method. The baseline is continuous mining – but given the rates at which technologies are developing, we think there may be interesting opportunities and we have the time to get that right.

Next, we will review the capacity of the underground conveyor and optimise the tunnel fit out for larger volumes over time.

And finally, we need to get the correct configuration of the materials handling, port and storage facilities to allow all these parts of the process to handle higher volumes of material.

Slide 31 – POLY4 tackles the three key challenges facing the agricultural industry

Now I have talked about the project, but what makes it so exciting is the potential of this unique product, which is one of the things that first attracted us.

It plays into the global mega-trends that we see: farmers must produce more food for a growing global population, whilst meeting increasing consumer, supply chain and governmental expectations for improved sustainability and a reduction in the environmental impact of agriculture.

And that growing global population demands improved living standards, including nutrition.

But this must all be achieved from available arable land that is likely flat in terms of total area, and probably decreasing.

Fertiliser use has helped raise food production by 150% since the 1960s, while arable land area has only increased by 12%.

But this has not been without environmental impacts: greenhouse gas emissions, pollution of waterways and biodiversity loss among them. Farmers and consumers are looking for more sustainable practices.

And thirdly, deteriorating soil health is a key issue that is fast rising to the top of the industry agenda. The long-term use of chemical fertilisers (vs our organic one) has a detrimental effect on soil strength and structure, and therefore on the productivity of that limited arable land.

So, we need fertilisers, but, we can't repeat what we have used in the past. We need a more sustainable solution.

POLY4 is the only product we know of that is positioned to help simultaneously address all three of these interconnected challenges.

There is no other natural, organic mineral that delivers this. And Anglo American has the only scalable source of polyhalite globally. This mineral is distinct in its composition, behaviour, benefit, and therefore its value.

Slide 32 – POLY4 is a differentiated, high value product

We are developing our commercial strategy to realise the full value of this unique product.

We have teams of agronomists and crop scientists working across the globe on numerous crop trials and development projects. We have conducted over ~1,500 commercial scale on-farm demonstrations to show the benefits of our product, with very positive results.

We are seeing, on average, 3-5% yield improvements, which can increase revenue for our customers.
But more than that, we are beginning to see results that really set POLY4 apart from conventional chemical fertilisers:

- First, we have evidence that the use of POLY4 improves uptake of other nutrients, which could reduce the need for so much chemical fertiliser use. We have seen up to a 6% increase in uptake of nitrogen and phosphorous relative to MOP. This is down to its prolonged nutrient release profile and multi-nutrient nature – just like you or me, consuming a more balanced and nutritious diet makes plants stronger, healthier and more productive.
- Second, we know POLY4 works in harmony with the soil. It improves soil health by adding calcium, helping to stabilise the soil structure and improve its strength and resilience.
- And thirdly, it reduces environmental impacts. It is low in waste due to the 1:1 ore to product ratio and has no chemical processing, meaning a carbon footprint up to 85% lower compared to conventional fertilisers. These attributes also underpin the low operating cost of the asset.

Polyhalite is the only known mineral fertiliser product that can do all this. We are expanding our engagements through the value chain from the farmer to the supermarket customer to tell that story. As one example, POLY4 is being used in commercial trials of low carbon fertilisers led by a major UK supermarket to cut the carbon footprint in their food supply chains.

This all gives us confidence that there is significant price potential for POLY4.

Slide 33 – Marketing strategy is key to unlocking the full value potential of POLY4

POLY4 is a marketed product. It is not a commodity, because its worth will reflect the full range of benefits that the product brings, beyond the simple nutrient content in the mineral. The conversion of those benefits into value in the price will depend on the effective execution of our commercial strategy – and this is something that Anglo American has demonstrated capability in, most notably in De Beers, and increasingly so with our premium iron ore products.

This slide outlines how we are looking at value.

Firstly, if we take a nutrient substitution logic to the price; that is, if we gave a customer a bag of POLY4 that contained the same blend of key nutrients that they typically buy, they will pay around $170/t. That's a long-term real price at 13Mt. But this is a "backstop" price, based on simply substituting another source of nutrients for POLY4.

But, as I have said, POLY4 brings more benefits than just the nutrient content. Crop trials give us more confidence that POLY4 delivers better results than the same blend of nutrients available today. I will try to give you a sense of our early thoughts on this potential. We know POLY4 produces better yields compared to standard practice. If we secured even just around 30% of that additional value, it would translate to roughly $100/t additional price uplift for POLY4. And that is only on the yield benefit, not yet considering the other categories of benefits.

And finally, the demand trends I outlined give us confidence that what constitutes fertiliser 'value' is changing as the industry responds to higher sustainability expectations across the food supply chain.

As that happens, we expect to move to a price reflecting the full range of product and sustainability benefits, including the low CO_2, soil health and organic qualities of this mineral.
We acknowledge that not all of these price premia may be available straight away, and not all customers may pay all of it straight away. We need to develop the market in a way that allows time for those premia to be built and crystallised, and develop the range of products and blends that customers are demanding.

From the results we have seen to date from our market development activities, we have been able to increase our confidence in the price upside, and therefore incorporate some of those potential premia into our models. For now, we have limited that to around $20/t taking us to a price of ~$190/t. As we begin to further unlock that price potential, we will be able to start baking further premia into our valuations in the future.

Slide 34 – A large-scale, long-life Tier 1 asset

So to recap:

First, we are making good progress delivering the critical path infrastructure of the shafts and tunnel;

Second, we will continue to study and optimise the scope and phasing of other areas to ensure efficient use of capital; and

Third, we believe in the product; it is uniquely placed to address the emerging industry challenges, offering significant upside to the simple nutrient value price.

Woodsmith is a Tier 1 asset in a low-risk jurisdiction, offering long term value to Anglo American's shareholders.

- It has structural advantages in the quality of the orebody and proximity to logistics;
- Its scale, low operating costs, low SIB capex and product price will generate significant cash flow for many decades, with upside potential as we crystallise premia; and
- And it has significant long-term potential with optionality for future expansions.

The product and the asset are outstanding, and we are only at the start of the journey. This is a scarce and multi-generational asset, so we will take the time needed to get this right. Our approach will deliver long term value and will set us up to provide future optionality from the enormous endowment.

Finally, whilst I hope that this has given you a deeper understanding of Woodsmith and how we are thinking about it, the only real way is to see it with your own eyes. We are planning a site visit for later this year, likely in early October, where we can show you what we are doing, further demonstrate the market opportunity, and where you can meet the team on the ground who are delivering this project. I think this will give you a real sense of the potential we can see. Paul and the team will be in touch on arrangements.

Delivering attractive growth

Duncan Wanblad

CEO, Anglo American plc

Slide 36 – ~25% organic growth optionality over the next decade

With our focus on operational excellence, coupled with our attractive organic options focused on products aligned to those future demand themes, we offer the potential for ~25% growth over the next decade. And we believe that there is even more upside from fully embedding the Operating Model right across the business and realising the full potential of our assets through our P101 programme.

We believe that FutureSmart Mining™, our technology offering and our integrated approach to sustainability in the round, is both differentiated and industry-leading and will enable us to unlock the full capability of the assets. Alison Atkinson's appointment last month to lead our project and development opportunities will continue to progress our leading edge technology and digital programmes.

Quellaveco and Woodsmith are key contributors to that growth profile, as well as Collahuasi (lots of potential in that ore body), Mogalakwena and Sakatti. We will sequence these options appropriately and compare to any inorganic opportunities.

Our customer-centric marketing capabilities help to optimise value and identify opportunities as a broader materials solutions provider as we take our product to market. We need to ensure that we produce as sustainably as possible and that we supply to those customers who value both the work we are doing to limit our impact on the environment and the positive difference we make around our mines. We are also focused on the circular economy and identifying possible adjacencies that complement our supply of primary metals and minerals throughout their full life cycle.

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Slide 37 – Our investment proposition

In summary – we have shown resilience through 2022 as we navigated some operating challenges amid a volatile macro back drop. We adjusted our plans and focused our efforts on safer and consistent operational execution. I am pleased with progress in the second half of 2022 and so far into 2023 and believe we are well positioned to execute on our strategy.

We offer balance across a number of dimensions – a geographically diverse portfolio delivering many of the metals and minerals that the world desperately needs, underpinned by a strong balance sheet from which we pay attractive returns and develop our pipeline of future-enabling organic growth options.

With that, we are very happy to take your questions.

- END -