Speech by Sir Mark Moody-Stuart, Chairman of Anglo American plc to the China Mining Conference, Beijing, 15 November 2006

Mr Chairman, I will start with a brief introduction to Anglo American and our presence in China; touch upon my perceptions of China's influence on commodity markets and the mining and metals business; and conclude with some observations about a number of the global challenges for the mining sector in maintaining its 'licence to operate'.

Introduction to Anglo American

Anglo American was founded in 1917, in South Africa – with initial capital drawn half from the UK and half from the US. Hence our name. The Company was principally responsible for opening up the gold resources of South Africa and, subsequently, other mining sectors in Southern Africa including the Zambian Copperbelt. The company is also a long-term investor in De Beers, which was largely responsible for opening up diamond production in Southern Africa and for growing the diamond market worldwide. In 1999 Anglo American, with the full support of the South African Government moved its primary listing and Head Office to London. Since that time we have increased our focus on our core mining portfolio through the sale of some $9 billion of non-core businesses and the investment of $16 billion in acquisitions to strengthen our core portfolio. Currently the Group operates in over 60 countries with six managed business streams consisting of:

- 74% owned Anglo Platinum; the world's largest platinum producer;
- Anglo Base Metals – a wholly owned, and largely Latin American, business;
- Anglo Coal – the fourth largest coal export producer with interests in South Africa, Australia, Latin America and promising opportunities in Canada and China
- Anglo Ferrous Metals – which is dominated by our stake in Kumba Iron Ore;
- Anglo Industrial Minerals – predominantly a European aggregates and construction products business; and

- Anglo Paper and Packaging, which trades as Mondi, and has interests all over Europe, in Southern Africa, the Middle East, North America, Malaysia and China.

We also own a 41% non-managing stake in AngloGold Ashanti, the world's third largest gold producer and a 45% non-controlling, interest in De Beers – the world's leading diamond company. De Beers has had a long-standing presence in China and has worked closely with the Chinese authorities on initiatives like the establishment of National Gem Testing Centres to increase consumer assurance.

In October 2006 we unveiled the latest phase in the ongoing transformation of the Anglo American Group into a focussed mining business. This includes the sale of our interest in Highveld, a South African steel and vanadium business; our intention to list our paper business, Mondi, separately; and to exit AngloGold Ashanti because of the potential thereby to realise value for shareholders, since the current valuation of our stake in AngloGold Ashanti is not reflected in our overall market capitalisation given the distinct approach and perspectives of gold investors.

Because of the confluence of notably high commodity prices which have helped to deliver healthy profits and the difficulty of identifying value accretive acquisitions at current share prices, we are also in the midst of a two year $7.5 billion programme of returning capital to shareholders through a combination of special dividends and share buy-backs.

Anglo American not only has its roots in Africa, it continues to have a strong exposure to developing countries – which collectively accounts for some 70% of our asset base. This exposure makes the Anglo American Group particularly concerned about the role of mining in wider development and governance issues – to which I will return later in these remarks.

Anglo in China

Anglo American's involvement in China is wide but still shallow. Most of our business units have a presence here – from Tarmac's Yang Quarry and asphalt plants near Shanghai to Anglo Coal's potential project in Shaanxi. AngloGold Ashanti, in North Western China, and Anglo Platinum, in Sichuan, both have active exploration programmes. When Shenhua conducted its relatively recent IPO, Anglo American became its strategic industry partner and acquired the largest single stake in Shenhua Energy with around 1.5% of the company.

The Yang Quarry is a particularly interesting enterprise. It is a limestone quarry which serves the Shanghai market and which has recently commenced full production. It was formerly worked by five different small-scale operators with poor levels of capital investment and a track record of suffering 12 to 15 fatalities annually. With the support of the provincial government, Anglo American acquired the consolidated quarry and invested $ 24 million in modernising the operations. Production is now flowing well at around 1.4 million tonnes of aggregate. Moreover, over the last two years rather than having the 25 fatalities which would normally have occurred in the period we have had two minor lost time injuries.

Our biggest potential investment project is the Xiwan clean coal to chemicals project in Shaanxi – which is a JV with the Shaanxi Coalfield Geology Bureau. The investment involved could run to some $4 billion involving a range of beneficiation activities.

Overall, including indirect sales, we sell some $2 billion in product into the Chinese market. Of course for a company like Anglo American the option exists of just treating China as a market into which to sell. But we also see it as an important potential inward investment destination. We want to build businesses here going well beyond the relatively modest $300 million which we have invested to date.

China as a factor in Mining and Metals

The health of the Chinese economy will be a key determinant of metals prices for the foreseeable future. The emergence of the scale of Chinese demand is a marker for perhaps the most rapid shift in the global economic balance of power ever experienced. It is heartening that such a shift has occurred to date with comparatively little controversy or conflict. Although the tide is currently running in a protectionist direction these pressures could have been a great deal worse. China has, thus, emerged as the fourth largest economy in the world, the third largest trading nation and as the country making the biggest progress towards the achievement of the Millennium Development Goals.

In commodity markets, the strength of Chinese demand is frequently compared with the post Second World War period when the reconstruction of, first, Germany and then, in a more pronounced manner, Japan drove demand for key commodities. With the current addition of strong demand from India, there is a reasonable consensus not that commodity cycles have been abolished but that when the market falls from its current peaks, it will stabilise at a higher real terms level than in the late twentieth century. It seems that a floor has been placed under the price for many core commodities.

China's share of demand has grown, for example, from 7% to 29% in the copper market over the last decade; from 9% to 33% in iron ore; and from 8% to 28% in aluminium. China is a critical growth market for platinum, having grown from 5% of the platinum jewellery market in 1995 to about 45% last year – with strong potential for additional growth coming from the automotive sector and, eventually, fuel cell technologies.

China has, in the process of integrating more fully with the global economy, become a substantial net importer of key commodities. Gaining secure access to supplies of natural resources has become an important driver of international economic relations over the last five years. In the West the debate is largely about energy security; in China it perhaps goes wider. Thus, China has shown itself determined to ensure that its economic fortunes are not vulnerable to an interruption in the supply of key commodities. This has helped drive China's overseas investment programme in which oil, gas and mining make up the largest single element.

In terms of geography, whilst most Chinese investment has historically gone into Asia, over the last two years Africa has also seen a notable surge. Indeed, driven in large part by commodities, China's trade with Africa has risen fourfold since 2000. This phenomenon has been underlined by the recent Sino-African Summit. Thus, China is not only the home territory of some world-class companies like Chalco, Minmetals and Shenhua, viewed from the perspective of a Western multinational, it is the base for major emerging competitors and potential partners in third countries.

The emergence of a new source of investment is clearly good news for a number of mineral dependent economies. Some pessimists have, however, predicted that the progress made in recent years in improving the environmental and social performance of mining and the governance around its revenues will be reversed. They argue that Chinese investors will be more prepared to make investments without paying too much heed to NGOs or to current international standards.

I believe, however, that the pessimists will be proved wrong. Chinese mining multinationals will be a permanent feature of the future and they will, I have no doubt, increasingly strive for excellence in their performance. In a global marketplace, with a developing brand they – like the rest of us - will want to ensure that they are a partner of choice and are able to secure talent, community consent and access to land, resources and finance. As the current industry leaders have learned this requires high standards of environmental and social performance.

Global challenges for the mining sector

Certainly some of the improvement in performance of the last 10 to 20 years, has been driven by NGO or media campaigns which have inflicted reputational damage on multinational mining companies in their Western home markets. However, I believe that there are a number of other trends which make the pursuit of sustainable development good business practice for all those mining companies which aspire to a global reach. It is a fact of life, for example, that communities across the world have become a great deal more assertive and empowered – including in China judging by the figures on the rise in incidents of civil disorder related to land issues.

This assertiveness is partly because of the Internet and the advent of a global 24 hour media. But it goes deeper than this. The traditional implied bargain through which a new mine generates tax revenues for governments, profits for companies and jobs for local people has become harder to deliver as mining has tended to move into more remote areas, containing fewer qualified people, and has also become more sophisticated and mechanised. Any major company will seek to command the consent of the people who live in the vicinity of a new mine since the price to pay reputationally and through delays and disruption, for riding rough shod over local opinion is a high one.

Thus, to secure and maintain consent involves companies increasingly finding ways to maximise local economic linkages and benefits through, for example, supply chain initiatives or investment in social and physical infrastructure. Moreover many providers of capital – investors and bankers - are attaching social and environmental performance conditions to their backing for extractive projects and companies. I think many people currently under-estimate the potential impact of the application of the new IFC Performance Standards as an operating norm and as a loan condition by the Equator Principles banks.

Similarly on a macro-level, it is clear that whilst there is no inevitability in resource dependent economies performing poorly in delivering wider development – countries like Chile and Botswana give the lie to such simplistic theories - there have been many instances over the last 25 years when the misuse of mineral endowments have lead to a 'resource curse'. As long-term investors with an interest in the long-term stability and growing prosperity of the societies where we work, we all have an interest in seeking more equitable and sustainable outcomes. That is just as true for Chinese companies, especially given China's own emphasis on the importance of a 'harmonious society'.

The evidence – especially that produced through a recent collaboration between the International Council on Mining and Metals and the World Bank – suggests that good governance and the careful management of social and environmental impacts is a key element in preventing poor development outcomes from mining, oil and gas.

Over the last five years the extractive sector has developed a series of initiatives which involve governments, companies and representatives of NGOs and other civil society groups in seeking to improve governance. These are about producing better and more sustainable outcomes for all the parties involved. I should freely admit that these initiatives against corruption or against alleged corporate complicity in human rights abuses by State security forces, are largely rooted in past poor or insensitive performance by many of the leading Western multinational oil, gas and mining companies. These initiatives are, however, making progress in delivering improved standards on the ground.

Most prominent amongst these multi stakeholder forums are the Kimberley Process, the Extractive Industries Transparency Initiative – or EITI - and the Voluntary Principles on Security and Human Rights. The EITI requires companies to declare the taxes and royalties paid to their host governments and the publication of their receipts by the governments of resource-dependent economies so as to reduce the opportunities for corruption or embezzlement. The process also depends upon independent oversight and the encouragement of discussion about how time-limited resource revenues can be used most sustainably. Some 23 countries have declared their intention of implementing EITI. The commodity booms of the past have often not benefited the people of the producing countries; EITI is one way of ensuring that this time it is different.

The Voluntary Principles on Security and Human Rights encourage companies to adopt conflict-sensitive business practices, to be more aware of the broader context of their security needs and to avoid complicity in the abuse of local people's fundamental human rights by privately engaged or public security forces.

It is difficult to dissent from the objectives of these initiatives – they are, after all, in our own interests - and I very much hope to see the involvement of the Chinese Government and of Chinese companies in them.

Climate Change

I turn, finally and briefly, to a word about climate change. I well understand the reluctance of many developing countries to take on obligations for reducing their carbon emissions when much of the current potential global crisis is the result of emissions from developed and much richer countries. We are, however, all in this together since we have to share a global environment – as is implied by the Kyoto Treaty's concept of 'common but differentiated responsibilities.

I recognise too China's initiatives in the 11^{th} Five Year Plan to improve energy efficiency and to reduce the carbon intensity of your energy use. I welcome too projects such as the Sino-EU scheme on zero emission power generation.

I believe that China has the potential to lead the world in energy and carbon efficient technologies. For example, mandated efficiency standards in the growing Chinese transport sector would have a major impact on the global vehicle market. Likewise it should be possible to devise methods of funding needed for global reductions in energy carbon intensity by investment in schemes in China by companies from major western companies. This transfer of obligations may be the lowest cost way of achieving global reductions, but it will clearly require the development of robust frameworks.

Anglo American's energy use is the equivalent of that of Chile or Finland and we are looking at a range of tools including energy efficiency, biofuels, Clean

Development Mechanism projects and carbon trading to reduce our carbon emissions and energy intensity. Moreover, as a leading coal producer, we recognise both the indispensable role that coal will continue to have in the energy mix and the importance of promoting clean coal technologies. Anglo American is, for example, studying the potential development of the Monash coal to synthetic diesel with carbon capture and storage project in Australia. We are also participants in the US-led FutureGen zero emissions generation project. Here in China our Xiwan clean coal project will use technologies that transform coal to chemicals in a way that adds maximum value to the community in the Yulin region, while having minimum environmental impact and we have received encouraging support for this approach from the Government.

It is essential that business is seen to play its part in bearing down on carbon emissions – if we are to avoid the role of global scapegoat. Business can also bring its powers of innovation to bear in developing new technologies and supporting new trading regimes. But the scale of many of the changes that will be required over the next twenty years is so great as to depend upon much greater clarity about the regulatory and pricing framework which will be put in place after 2013. The signs of greater US acceptance of the nature of the challenge confronting us and engagement in identifying solutions are welcome. I hope that this will also be reflected in the close involvement of all the major players, including China, in designing a new framework.

Conclusion

The dynamics of the mining business have been transformed in recent years. At a commercial level this is reflected in the robust commodity markets – powered in large part by China. Going forward it will be reflected by a growing presence of major Chinese players as competitors and partners. The balance of power is changing.

At a societal level, the changes are no less profound. Our industry has learned the hard way of the need to engage with our critics and to understand their perspectives and concerns. This understanding has led us on occasions to an acceptance that what we have previously defined as the limits of our responsibilities may not be how others see it.

Thus, we have a role in addressing our indirect impacts, we have a role in seeking to promote sustainable development in the places where we operate and we even have a role in supporting the better governance of the revenues which we generate for our host governments. These are not sole responsibilities; they involve us in working in partnerships to be part of the solution rather than the nub of the problem. The importance of good social performance, of good environmental stewardship, of avoiding the ‘resource curse’ and, fundamentally, of building trust are unavoidable challenges for our industry, whatever the nationality of the companies involved.