DEFINING PARTNERSHIPS THAT ENDURE COMMODITY BEAR MARKETS

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Chairman, Honourable Ministers and Government Representatives, Distinguished guests, Fellow investors in Mining on the African Continent , ladies and gentlemen, Good morning. I stand here today to you today to talk about the realities of mining in Africa, and its great potential to provide a better life for so many on the continent. But while this is a subject close to my heart as the Chairman of AngloGold Ashanti, it is clearly a testing time, both for the world's mining industry, for emerging markets generally, and for Africa in particular.

I think that on reflection, several years from now, we will look back on this past decade and declare it the perhaps the most challenging in a century or more. It will, I believe, be a decade in which the fortunes of many countries and their mining industries – both in emerging and developed markets, will have been decided, for better or worse. And sadly, if history is any guide, not every country will make it through this crucible intact. What the mining industry is going through is a major structural change of immense proportions.

But before we get onto this, let us start with AngloGold Ashanti. For those of you who may not know, we are the world's third-largest gold producer, and also the largest emerging market miner of precious metals. We currently operate 19 mines across nine countries, spanning the globe from Australia in the east to Argentina and Brazil in the west. In Africa, we have well established operating platforms in South Africa, where we are based, the DRC, Guinea, Tanzania and Ghana. We also, incidentally, are the largest holder of exploration tenements in Colombia, where we have no producing mines as yet, but are progressing ahead with three major projects with resources aggregating more than 50Moz of gold.

We employ more than 50,000 people across our business, about two-thirds of whom are in Africa. We operate large open pit mines, and in South Africa, also the world's deepest mines where we produce gold from stopes some 4km below the surface.

We believe gold mining can be a force for good in the areas we operate, particularly those in the developing world. Aside from the mines that we build and operate, we fund or finance clinics, schools and large-scale infrastructure, and we provide critical investment and revenue to local, regional and national governments.

The World Gold Council estimates that of the top 30 gold producing countries, over 60% are low or lower-middle income countries with substantial socio-economic development needs. In eight of those countries, the production and procurement activities of gold mining companies generate over 10% of each country's GDP. For two of them, this figure rises to over 25%. This study also showed that in these countries, the contribution from gold mining exceeded that of aid.

For all the good the industry is capable of, it is not an endeavour for the faint of heart. Mother Nature didn't put gold resources at the door of the bank of England, or in Switzerland. Any look at a map of the world's largest gold districts will reveal that some of the most attractive terrain lies in emerging markets, whether spanning the length of the Andes in Latin America, or in South Africa's Witwatersrand basin. These gold provinces are in South East Asia's Rim of Fire, the greenstone belts of East and Central Africa, and the Birimian zones of West Africa. We are present in most of these areas.

We believe firmly that if you are going to be a gold producer of any consequence, and if you are to hope for longevity in this game, you simply cannot, over the long term, afford to ignore jurisdictions traditionally classified in the Anglo-Saxon world as 'too risky'. We believe you cannot shy away from risk, or even ignore it. You must grow and nurture the skills to anticipate it, to plan for it, and ultimately to manage it. You must, over time, be able to convince the providers of capital that you are able to do this consistently enough to generate a superior return on their investments.

We have been managing risk in some of the world's foremost mining destinations for decades, and the current market is making a call on every ounce of that experience. It is perhaps worthwhile spending a few minutes to take a 10,000 foot view of what the prevailing environment looks like.

It's hardly news for any of you that the situation the world over is difficult, both for emerging markets and for mining companies. Commodity prices have tanked and emerging market economies, so many of them dependant on extractive industries, are facing increasingly stiff headwinds.

Since the early part of this decade, you have seen mining companies gorge on cheap debt, provided by investors who, in the era of low interest rates, were prepared to change decades of prudent risk behaviour in exchange for short-term yield.

Mining companies were able to raise billions of dollars of debt at what today looks like laughably low interest rates. The companies expanded their balance sheets to fund projects, or in some cases to even buy back shares. After all, it seemed to most that insatiable appetite for commodities from a fast-industrialising China, would forever drive up prices for scarce mineral resources. It was a no brainer to load up on cheap debt to fund expansions for commodities that would be worth more, in years to come. Mines were dug, oil wells sunk, railways laid and factories built, vastly expanding global industrial capacity.

This wealth halo that hung over the resources sector inevitably cast its light over emerging markets. Newly prosperous states also started tapping cash-flush capital markets for cheap debt to fund all manner of projects, like power stations, railways and roads in South Africa, and refineries and stadia in Brazil.

Many, Like Venezuela, also used borrowed money to fund welfare programmes to win favour with restive electorates, paying little mind to ballooning deficits. Whilst the intent here was laudable, this largesse papered over fundamental dysfunction in many economies and obviated the need, in the short term at least, for many countries to institute desperately needed reforms, to make themselves more competitive in the long-term.

All the while, the cheap money created by the developed world to stave off the worst effects of the financial crisis, continued to flow from established markets to mining companies, and to the developing world.

But the unthinkable is now happening. In December the US hiked interest rates for the first time in a decade, slowing the flow of money from North America. At the same time, and not coincidentally, I might add, demand from China has started to weaken dramatically.

This worrying outlook for China has shaken many emerging markets to the core, given that China remains the world's largest importer of commodities and a large importer of capital equipment, making it a critical cog in the global economic machinery. More worrying still, is that the state's interventions, including a battery of different stimulus, has so far failed to restore confidence. Even the proposed steps to deal with that Country's over capacity by reviewing the supply side measures, remain very vague.

And with China slowing, the emerging market tide is well and truly out. And many will have huge debt to repay at precisely the time that growth is slowing. According to The Economist, e*merging market debt has risen from 150% of GDP in 2009 to around 200% today. Corporate debt is up from less than 50% of GDP in 2008 to almost 75%. And perhaps most worrying of* *all, is that China's debt-to-GDP ratio has risen by nearly 50 percentage points in the past four years."*

Those emerging market borrowers, with revenue only in local currencies and growing piles of dollar debt, will need significantly more rands, or cedis, or shillings to repay their loans, almost certainly leading to weaker currencies.

Now add slowing growth to this cocktail. The top six Latin American economies have seen their average annual growth slow from 6% in 2010, to around 1% today. Brazil, by far the largest, is in a deep recession. The worsening macroeconomic picture is almost certain to lead to a slew of rating downgrades, further shrinking the pool of potential lenders and driving borrowing costs up further. In South Africa, we stand at the precipice of a potentially disastrous downgrade of our ratings to sub-investment grade. This has focused the mines of the Country's stakeholders to do all we can to avoid this prospect.

With so much more of these emerging markets' income diverted to debt service; there will be little left for social grants, infrastructure, education and healthcare, not to mention security. You need only look to Venezuela to see the most extreme example. There will almost certainly be others, with tighter state budgets and perhaps necessary spending cuts fomenting social discord and protest, as populations living at, or below the breadline, feel austerity's bite.

And these sovereign balance sheets will remain under pressure as long as commodity prices remain in a bear market, decimating the corporate tax base from loss-making extractive companies. It is against this backdrop that the risk grows of government treasurers looking to captive industries for more revenue.

Already, mining companies operating in Africa will be familiar with the difficulties in securing VAT refunds from some governments, who are increasingly using these funds to bridge their own cash flow gaps, and to cover normal running expenses.

This lock-up of working capital is not only frustrating during a bear market for commodities when cash flow is tight, but it is becoming a real cost of doing business, handicapping returns that now need to be permanently higher to attract new, long-term investors. There are severe long-term ramifications for countries in desperate need of foreign direct investment to develop their natural resource endowments.

There is also likely to be the counter-intuitive response to falling revenues, with some governments looking to bump up taxes, or impose new royalties and capital controls. Already you’re seeing in some Countries ill-advised mining legislation being lined up for revision to extract more revenue to plug budget deficits. While this may provide some short-term revenue relief, there is the similar long-term effect of deterring investors from even considering those countries as viable options for new, discretionary investment.

I started this discussion today by saying that A) we go where the geology is, and B) we are active, experienced risk managers. Like fund managers, we are constantly working to make the best capital allocation decisions possible, and are always confronted with a choice of where to invest that extra dollar of capital.

Right now, we have options for brownfield expansion of our Siguiri mine in Guinea, a life extension of our Geita operation in Tanzania, or the construction of a new plant in Mali to revive a two-decade old operation – which employs almost 2,000 people -- and is near the end of its life. We are looking at the viability of deepening the shaft system at our Mponeng mine in South Africa to unlock millions more ounces, and an even more ambitious plan to revive a century-old mining district near the town of Obuasi in Ghana. In parallel with this, we are progressing the three large, new mining projects in Colombia that will potentially transform the company into one of the world's largest mining companies operating in the Americas.

The fact that there is limited available capital, means there will, inevitably be trade-offs. And in deciding which assets will benefit from investment, we will be looking at a suite of requirements that will limit the ongoing risks related to any mining project, and enhance the long-term returns. This is essential if AngloGold Ashanti is to remain sustainable as a long-term business.

We will be looking for **good governance**, to ensure there is working legislation governing our investments and a legal system that will guarantee our rights as investors. This encompasses consistent and predictable environmental oversight in line with global best practice, even-handed application of minerals legislation, and an ironclad commitment to security of tenure and protection of property rights. Without these, we are certain not to invest.

We will be looking for a **fiscal system** that is not only competitive, but also certain over the long-term, given the size of our investments and the long-term nature of the ore bodies that we favour. To this end, we have stability agreements in all of the jurisdictions we operate in in Africa, outside of South Africa, and we are unlikely to commit new capital without this sort of assurance.

In a research report published last year, looking at the societal impacts of gold mining on host communities, the World Gold Council concluded that the most effective way to transfer the benefit from mining activities, to host countries, is through payments to suppliers and contractors and wages for employees. These activities, which are taxed by governments, account for 70% of total expenditures by mining companies. The more vibrant the mining sector, the greater the potential take for government and host communities alike. And though it appears self-evident, it bears repeating that the more unnecessary roadblocks placed in the way of investment in modern, responsible mining, the greater chance that countries in most need of reaping the benefit of their natural resources, will never be afforded the opportunity do so.

We will also look for **workable labour legislation** that aims to create a symbiosis between labour and capital. It should give workers a fair opportunity at decent employment and provide protection against exploitation. It should provide companies the flexibility to adapt to changing market circumstances, and also ensure reasonable dispute resolution mechanisms that truly leave strikes as the last resort.

In South Africa, where labour disruptions receive a lot of airtime, we believe that there is – for the most part – good labour law, which is perhaps part of the reason the gold industry has had only had one major strike since 1987. There is a solid collective bargaining arrangement that has served labour and business well, but that arrangement threatens being undermined by the lack of a requirement for secret ballots to provide unions the mandate to launch damaging industrial action. In the end, the ‘show of hands’ that often characterises the strike vote, too often allows intimidation to rule the day, and FAVOURS well organised, and often violent minorities. For unions who truly have the best interests of their members at heart, the proper democratisation of this process should be a no-brainer. We are encouraged that constructive conversation, led by the Country’s Deputy President, between Government, Business and Labour has made good progress to address these issues.

Critically, we need the **support of host governments**, and **the communities** in which we operate, in order to develop the natural resource for our mutual benefit. This partnership requires transparency on behalf of companies and governments, ongoing dialogue between all stakeholders, a commitment to a set of objectively relevant values, and an enormous investment of time and resources to build trust with our hosts. If successful, we secure a long-term license to operate. If not, the likelihood of either side making a commitment to a long-term investment or partnership, is severely diminished.

Friends, this may appear an ambitious laundry list for those of you who don’t operate in Africa, but I assure you that we have many, if not all, of these building blocks in place in most of the countries in which we operate. In addition, we have the geology to underpin it all. What we need to ensure, as an industry and as individual investors, is two things. One: that we carry our side of the bargain, and don’t abandon our hosts when the going gets tough. We need to ensure that we can cater for our commitments through the cycle, if we are to retain the trust and support of our host communities. And two: We need to remain vigilant that our rights as guests and investors in any country are not eroded by governments seeking to fill gaps created because they are not able to exercise the same foresight and fiscal prudence. Without these two elements, we will not be able to sustain this industry.

I thank you for your attention.