

MINERALS COUNCIL OF AUSTRALIA

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“A Global Perspective on Doing Business in Australia”

Key Connections

Distinguished guests.

Colleagues of the Minerals Council of Australia.

Ladies and gentlemen.

Opening Remarks

I would like to thank the Minerals Council of Australia for the opportunity to speak here today.

My purpose is to share with you a Global Miner’s perspective on mining, and more particularly to provide a perspective on how Global Miners think about making investment decisions.

To start, in following Mr Ferguson I thought it appropriate to share some perspectives from Politicians from our most significant competitors in the global mining industry:

In South Africa, Mr Gwede Mantashe (General Secretary of the ANC) observed in a business conference in London when asked about Australia’s Super Slug:

“This tax might present an opportunity for South Africa to exploit in terms of redirecting investment from Australia to South Africa”.

Note: SA’s effective corporate tax rate is 29% plus 2.5% on royalties – giving an equivalent total tax rate of 33% compared to Australia’s 41%.

In Canada, Mt Jim Flaherty observed:

“If it is what it appears to be, a significant tax increase, that’s another competitive advantage for Canada. We’re reducing our corporate tax.” Mr Flaherty’s comments were echoed by the Prime Minister Mr Harper where he made the observation regarding improving Canada’s competitive position.

Note: Canada’s effective corporate tax rate is 20% plus 2% on royalties – an equivalent total rate of 23% compared to Australia’s 41%.

In Brazil, after much consultation with the provinces and the mining industry, where an increase in royalties of 1% to 2% is being debated – along with how the Federal and Provinces should split the pie – it was observed by a key commentator:

“The Minister of Finance, however, was opposed to such measures because enforcement would be difficult and the Federal Government would probably have to give up revenues to avoid hurting the competitiveness of Brazilian miners.”

Note: *Brazil's effective corporate tax and royalty rate is 33% compared to Australia's 41%.*

In Zambia, after introducing a disastrous windfall tax back in 2008 and then cancelling it in January 2009, the Finance Minister when pushed by the opposition to reconsider introducing this tax after hearing of Australia's plan observed:

“There was a lack of understanding between a tax management system that could lead to a collapsed economy – and one where economic growth is maintained – which is the path we choose in Zambia.”

Now, before I deal with the detail of my subject matter I would like to set some context around the conversation by sharing some three perspectives on the Minerals Industry and the recent Global Financial Crisis.

My first perspective is a broad observation on our global business environment and the events that had some bearing on the conversations we are sharing today:

A little over 18 months ago the world was plunged into financial chaos:

- **Unparalleled demand for raw materials**, driven by the developing economies of Asia, India, the BRICs and many of the Western economies...consuming or as some would describe it, spending well beyond their means.
- **A lack of supply of raw materials** necessary to support this consumption resulted in price spikes for minerals necessary to produce energy, steel and other construction materials and for those other products that fed the world's apparently insatiable demand for goods and services.

Now the reason the world was short raw materials is due to both spiralling demand and inadequate supply responses, driven by 30 years of under investment in raw-materials production capacity. Why? While not entirely straightforward – a key reason is that the mining industry was a tough business that simply didn't deliver a return adequate to justify the risk of exploration and the development of new operations. If you want to understand why the industry remained under-invested, go and look at the last 30 years of KPMG industry reports on returns in the industry – or should I say lack of returns in the industry – generally averaging in the range 3% up to 10%, on an aggregated basis.

- The US Government and financial institutions decided every person in the US should buy their own home, their own car and their own “everything else”. Aply supported by a banking sector that could only see an enhanced revenue line – a great proportion of the population leveraged their modest financial positions to consume sooner than later...and with these confluence of events we saw oil rise to \$140 a barrel, nickel went to \$25/lb, copper to almost \$4/lb...and so the list goes on...those individuals that consumed yesterday found they could not pay today.

...the financial institutions then put some processes into place that magically made risk disappear...and as the say...the rest is history.

My second perspective follows this story, as it manifested in the mining industry. Now, of course these events are not strictly sequential as it took time to build the capacity response of the miners – just as it took time to build leverage into the banking system.

After 30 odd years in the financial wilderness, miners started to see reasonable returns and started to reinvest in future capacity. The great news for Australia is that investment was focussed on those sectors of the Australian Mining industry that had major resource positions which had remained largely under utilised – reflecting an improving prognosis for commodity prices and confidence in the political structures borne of 18 years of remarkable structural workplace and economic reform. Reform pioneered by successive labour Governments under Hawke and Keating, which were pushed further under Howard and Costello. So, our improving competitive cost structures and the burgeoning demand for products gave your industry the confidence to invest in the future. Of course – as eternal optimists -- we thought the Governments of the world had learnt their lesson and would do things to support Minerals Development to support the world's continuing vision of a better life for all. Looks like we were a little too naïve – or our politicians didn't read their history books or study what really happened over the last 10 years.

Now, for my third perspective – and let me share with you a quote from **Mr Winston Churchill** – which seems appropriate under the circumstances:

“We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket trying to lift himself up by the handle”.

It is not that industries shouldn't pay their fair share of taxes – of course they should. I am therefore assuming that all industries in Australia that achieve a better-than-6% return will now be subject to a Super Tax. After all, this is the land where we all get treated fair and reasonably. If this is not the strategy, I find my self asking: What are we doing?

So maybe the key question to ask is: Do we understand the consequences of taking such actions in an industry that has mobility of capital? Further, do we understand the ramifications we have on the cost structures in these industries, when we decide to tax them so they move into other jurisdictions?

China, India, the BRICs and Africa make up more than 70% of the world's population (more than four billion people) – and the great bulk of people looking to share some fraction of the standard of living we share. At exactly the time when we need to think on a global basis – to mend the wounds of the global financial crisis and to help support continuing global economic growth to help those people secure a future that we take for granted – we make a move that not only threatens the growth in supply of commodities necessary to support regional development, we shoot ourselves in the foot by opening the door to every other commodity supplier to take up that supply opportunity.

Now, you may be right to say that some sectors of the mining industry have been somewhat opportunistic, given prices pushed by dominant players in certain markets. However, two wrongs don't make a right, and it is time for some introspection on our part as well. But either way we both need to reach out and work on a solution that addresses these issues in a way that supports continued investment in the future, to ensure we continue to supply to the people that need our products. Let us not forget what our true business is: We are supporting the people of the world build a new future.

Introduction

In my current role as CEO for AngloGold Ashanti I represent 63,000 colleagues working across 21 countries. We mine gold, silver, copper and uranium. We have one significant gold mining operation in Western Australia – the Sunrise Dam Open Cut and Underground Mines. We also have an exciting new development prospect called Tropicana, also in Western Australia. Or should I say it was exciting until about 4 weeks ago.

AngloGold Ashanti also has a large exploration team looking for more gold. Now, one must remember the Australian gold industry has been in serious decline for more than 10 years, producing 30% less today than it was in our heyday.

The decline of the Australian gold industry can be traced back to a number of factors:

- Australia has been producing gold for more than 200 years and our yellow metal does get harder to find over time.
- Increasing costs and risk for exploration make it difficult to justify significant commitment of exploration resources when you have more prospective regions in Africa, South America and Asia.
- Government support for exploration in Canada, Colombia, Continental Africa and other jurisdictions makes them a lower cost and more effective exploration destination.
- The cost of building an asset in Australia – whether you measure that cost in time for approvals, cost of establishing infrastructure and the cost of doing business i.e. labour, energy and general operating costs, does not make Australia an attractive place to do business.

The premium differential between Australian and North American assets has seen the “depth and breadth” of the Australian industry taken over by companies enjoying higher earnings multiples. Another unintended, but very real consequence of this move will be the value destruction we will see for shareholders – further exposing Australian companies to a paper arbitrage on takeover. On the flipside, we will become a lot less attractive to both capital and investors with this move.

The decline in the Australian gold industry goes with the decline in the silver, lead, zinc, copper, nickel and other metals and mineral products.

...and if you hadn't noticed, that's why so many Aussies are now working offshore in the global mining industry.

While the Australian Gold Industry stands testament to Australia's policy disappointments in mining, one has to admire the resilience of a number of mining businesses that have persevered under difficult conditions, in remote locations and without much government support – operations managed and operated by great people. Unfortunately, the quality of mining assets generally decline over time, a fact understood in the industry. This is one of the reasons why we have seen record investment in the business over the last 10 years – again, investment borne of confidence in our political track record for progressive support and policy transparency and consistency. Or so we all thought.

Now, back to the AngloGold Ashanti story - Around 2 years ago Anglogold Ashanti was the number 13 gold company and around number 30 mining company, as measured by market

capitalisation. In just 2 years we have moved to number 4 in the global gold industry and around number 10 in the global miner league table. Today, we are one of the few global miners with an organic growth pipeline that will drive the organization's growth over the next 10 years, positioning for long-term performance beyond 20 years.

Less than 12 months ago we were talking about Australia being one of our four launching pads for our global growth strategy as we look to grow in Australia, and with a view to using the country as our operating base into Asia. And so today we wonder where the debates on increasing labour regulation, increasing infrastructure costs, carbon taxes, royalty increases and super taxes leaves our Australian strategy.

In the specifics of my conversation I will touch on three aspects that global miners think about:

- **Resource endowment** and our global landscape.
- **The nature of mining and risk** (and how it fundamentally differs from the petroleum industry).
- **Exploration and investment** – explaining the nature of long term commitments.

In wrapping the conversation I will talk to what I see are the key issues and where we need to go to restore confidence in our industry: to restore its faith in good government, in transparency and true engagement in developing positive and constructive minerals policy.

The Nature of the Global Mining Industry

It is not my intention to quote facts or bury the conversation in detail. The most important point to explain is the nature of our business and what drives investment behaviours.

Mining is about real estate: The more valuable the ground the more expensive the real estate. In simple terms, a great residential location can easily be destroyed by the building of a new sewage works, a prison, a highway or industrial rezoning.

In our industry value is a function of a range of neighbourhood factors and zoning issues:

- **On Endowment:** Australia remains an area of significant mineral potential. However, the successes of the past will not be as easy to recreate. We rank behind Africa, Eastern Europe, Russia, Asia and certain parts of South America in terms of potential forward endowment.
- **On Resources:** The great challenge confronting our exploration teams is the Regolith – that thick covering of weathered material that sits above most of our future resource discoveries. While other countries have some areas of deep cover, this feature is more dominant in terms of the current exploration landscape.
- **On Land Access:** The introduction of Native Title, multiple regulatory regimes and the sterilisation of tracts of land for other purposes have continued to add to complexity for achieving land access.
- **On Infrastructure:** This is a major factor in our thinking. While Australian has historically been a leader and supporter of the mining industry, the challenges are increasing while

the support from government is decreasing, moving us down the competitive minerals ladder.

- **On Cost of Labour:** This is now amongst the highest in the world, partly offset by our relative skilled workforce. However, with increasing labour regulation this position will likely progressively decline over time.
- **On Country Culture:** A strength in South Australia, Western Australia and Queensland but becoming progressively more difficult as the Eastern States exercise their political muscle through the Federal Government taking more control of the Minerals Industry.

...and finally

- **On fiscal regime:** We are heading towards the honour of being the world's highest taxing regime. Just to share our current numbers and the key numbers from our major competitors, Australia currently taxes at a gross figure of 41%, South Africa is 33%, Canada is 23% and Brazil is 33%. In our brave new Australian world this figure would go to 57%.

To put all of these points into context, all of Australia's major competitors are improving their relative risk profiles, while looking at how to make their jurisdictions more attractive to resource development dollars. In the context of making long-term exploration decisions, if I can only be certain of a few things, tax being the most certain, the Australian competitive position is starting to look fragile at best and terminal at the extreme.

While we believe we can be innovative and work with other risks, the one thing that is certain is tax. That is why it ends up taking pole position when assessing jurisdictional risk – it is the one thing you can be certain on.

In the 1990's a few basic statistics were published for our industry, based on global mining statistics:

- For every 1,000 occurrences of minerals only 100 get to concept or feasibility study level.
- For every 100 that are studied in detail, only 10 get to development stage.
- For every 10 developments only 1 actually delivers or exceeds its economic objectives.

In Australia, we are now going to do our best to make sure the 1-in-a-1,000 deposit that does become economic does little for its investors...and an unfortunate fact of life in our tough industry is that we have to also fund our failures. With a tax regime that is being contemplated it is better not to risk anything, as it is unlikely you will ever get a deposit that will carry the funds you lost on unsuccessful exploration projects, particularly if 6% was the performance yardstick on a project-by-project basis. After taking general exploration into account, this would put the industry into negative returns territory, particularly those companies that have to fund a range of exploration activities across a range of regions.

The Nature of Mining Operations – An Exercise in Risk Management

To further understand why miners are so sensitive to the issue of fiscal regimes – we have to understand the nature of our operations and not simply the exploration issues.

- **Metal contents are estimated** on the basis of drilling a very small percentage of a total deposit. We estimate tonnes and grades from drill results, within a risk spread ranging plus or minus 10 to 20%. The one thing we know for certain when we plan a deposit is that the answer is wrong. It simply has a weighted probability of being right. And, as Trevor Sykes might observe, the weighted probability is usually wrong.
- **We are competing with other miners from all over the world.** We compete in terms of technology and against the natural advantages or disadvantages we have based on the nature of our deposits. As the Australian mining industry has matured and we are mining tougher deposits, our ability to innovate and improve has been our key to remaining competitive.
- **We have to manage the volatility of our markets** against increasing cost pressures, which are increasing in the range 5% to 10% each year. These annual cost increases reflect increasing depths, deteriorating grades, input inflation, increasing costs of development due to location of operations and tightening regulatory regimes.
- **We must also continue to commit significant sums of capital** to ensure we develop to depth and remain competitive, dealing with slim margins and volatile commodity prices.

While the petroleum industry shares our risk on exploration, their cash operating costs are extremely low once their operations are established. Their ongoing capital costs are also very low and they do not have to deal with the same competitive cost and margin pressures.

We are currently working with our partners in the Middle East to explain to Governments why they are not attractive to mining investment. We have explained the structural differences between the petroleum industry -- which they know well -- and mining. The good news is it looks like they are starting to get it. The ironic thing about this point is that it's right at the time the Australian Government seems to have lost it!

So let me explain this point from a global capital perspective, through the lens of AngloGold Ashanti.

AngloGold Ashanti – A Study in Global Competition

As I mentioned earlier, we see Australia as a challenging environment for exploration and operations. These views are shaped by our experience in exploring across the country and from our Western Australian operations. Over 10 years our operations have declined in size by about 70% and we have sold our minority stake in the Boddington Project.

On the positive front, we have made the local gold industry's most significant gold discovery in the past decade in far Eastern Western Australia, an address we share with the goannas and a few hardy locals. I will talk to our Tropicana project in a few minutes, but first let me explain why our production has contracted and why we sold our share in Boddington.

On the production front, despite committing significant exploration around our near mine properties, we were not able to increase our reserve base sufficient to sustain life of all the local assets. On the positive front, we have had success at Sunrise Dam, where it looks like we will extend the mine life by at least another 10 years. In our case, we allocated 15% of our global exploration budgets within Australia. Now the good news for AngloGold Ashanti's shareholders is that we've been the world's most successful gold explorer over the last 10 years. We have

had significant successes in South Africa, Mali, Ghana, Tanzania, Colombia (the world's most significant gold discovery in the last 20 years), Brazil, Argentina and the USA. In each jurisdiction we have developed or expanded our production base or we are planning new developments. We are also finding favourable geologies in the Solomon Islands, Canada, Egypt, Eritrea, Ethiopia, China and the Democratic Republic of Congo.

Further, we found Tropicana in a new and remote district in Western Australia. After much fanfare we have been drilling and doing concept, scoping and pre-feasibility studies costing us in the range of \$147m. Unfortunately, at the end of 2008 we found the project didn't quite make it economically. The issue of grade, infrastructure-establishment and running costs and operating costs left us with a marginal project. The final nail in this discussion was the prospect of a carbon tax, which was going to add an estimated \$20/oz to \$24/oz to our operating costs. So, we stopped the development cycle and went back into exploration with the aim of building a more robust resource to underpin an economic project. Great news -- we found more gold and so completed our pre feasibility studies. Even better news -- we were able to see an economic project, still with tight margins, but doable. Now, Tropicana moves into competition with Mponeng Deepening, Sadiola Sulphide Deeps, Obuasi Expansion, Cripple Creek Pad Extension, Sao Bento development, Cerro Vanguardia Heap Leach and Underground Development and range of emerging prospects coming out of our exploration portfolio. Tropicana sneaks into the top 10 project list. But only just. On this basis, we give the go ahead to move into full feasibility, with another \$25m commitment.

However, on the 2 May, which happens to be my birthday -- Tropicana is dealt another blow. The Super Tax is announced. So, at present, the best we can make out is we are back to where we were in early 2009. While we are still committed, what should be a 20-year development that our industry so desperately needs, has slipped back down the project priority list. What's more is that it is very difficult for the Board to accept any recommendation when we don't know what it means in terms detail, or we can't guess what great new ideas the Government has up its sleeve.

Today, as I stand here, we have a 1g/t open-pit development project in the country of Guinea that looks like a far better economic bet than Tropicana. While we have security issues and risks, infrastructure costs and other operating costs that go with doing business in remote African locations, we do not have the absolute certainty of a super tax that will eat our shorts. The quality of the deposit in Guinea is sufficiently attractive to put it ahead of all the good things we can do in Australia, based on the fact we are capped on our returns on a project that has significant technical and revenue risks -- a function of its capital requirements and tight operating margins.

On Boddington. We saw a good long-term project but, taking all the foreseeable upside of the project, did not see at the right price that we could create further shareholder value. We had a partner that needed growth and we believed we could better deploy our capital to other parts of the world, a decision that now makes us look like a pack of geniuses. Unfortunately, it's for all the wrong reasons.

Make no mistake; **we will not give up on Australia and Tropicana.** However, if what is arguably Australia's best gold discovery in a generation doesn't work, what hope is there for the salvation or turnaround in the continuing long-term decline of the Australian gold industry.

A Summary of the Mining Perspective

So, to summarise my thoughts from a global mining perspective, Australia is in a global and cut-throat competition to attract capital, to create jobs and ongoing community prosperity.

The Governments of many countries have recognised how important mining is to creating wealth – both direct and indirect.

In South Africa, mining represents 8% of direct GDP and 18% of indirect GDP. Speaking as the Vice President of the Chamber of Mines in South Africa and an Executive Committee Member of Business leadership South Africa, we will do everything to encourage our Government to take the opportunity presented by the Australian Government to attract investment in coal, iron ore, gold, platinum, manganese, uranium and a range of other products that place us in direct competition with Australia. The South African Government understands our importance to the economy and has put in place a well thought through royalty regime based on earnings. This structure was the product of extensive consultations and discussions with both the community and the mining industry.

Just to underline why I think this is important: South African mining companies invested 7% more than they drew in revenues from product sales in 2009. This is because we are confident we have a Government that supports our industry and understands its needs and requirements for future health. At the same time, we have stability agreements in Tanzania, Ghana, Mali, Guinea and Argentina encouraging us to continue to invest in the future. Stability agreements have been negotiated to guarantee that they cannot do an “Aussie” – a new word in the mining industry.

The recent announcements in Australia will have long lasting implications for the industry. The trust between the Government and the investment community has been terribly damaged. The only comparable Government approach I can recollect would be the disastrous Rex Connor strategy to nationalise the industry back in the 1970s. While some might argue this may be a bit unfair to compare these actions, sitting with responsibility for a Global Mining Company I must tell you this is already seriously impacting the way we are developing our global expansion plans. At least Connor and his crew were contemplating paying compensation for expropriation of the industry’s assets, which is more than the current Government is prepared to do for the effective expropriation of 40% of the industry from shareholders. In many cases, these shareholders are ordinary working Australians with a few direct shares or shares held through pension funds.

While we will not threaten or prematurely pull the plug on our expansion plans, we must tell you that this will have serious consequences for exploration and the way in which we rank potential in Australia against other jurisdictions. No country can start as far behind the field and expect to be in the race.

I can only hope cool heads prevail and a real dialogue regarding how to manage the industry and the wealth it creates for the country, is shared in a way that does not destroy its foundations or the potential contributions it can make in the future. We cannot afford to allow this to occur – not for us – but more importantly, not for our children.

Finally, I had always hoped that the mistakes of previous generations that did not support the development of the Minerals Industry would not be visited on our children. The Developing

countries of the world need countries like Australia to efficiently develop their natural resources to provide the raw materials to support the aspirations of the developing world. To feed, provide clean water and health facilities and to house their citizens is something they are each working to deliver. I only hope we all take a step back and consider the big picture in making such massive decisions. This is too important to get wrong. This is too important to jump into without considering both the obvious short term and less obvious long term consequences for all sections of Australian society – and for all of us as part of the Global Village.

I heard the nonsense about the two-speed economy. Don't people realise the Australian Mining Industry, through direct tax and revenue contributions funded almost 20% of the education, health, infrastructure including roads and power, and everything else Government provides to every man woman and child in Australia? It is like comparing a Ferrari racing a Maserati - even if you come second you win. And by the way, the Maserati uses a Ferrari engine.

...and if I leave the final word to one of my AngloGold Ashanti colleagues – our CFO asked an insightful question on hearing the news about the Australian Super Tax. Why would the Australian Government take a leaf out of Zambia's Minerals Policy – a policy position they reversed within 3 months after understanding the dire consequences of their actions?

I think it is a good question.