S&P Global
Market Intelligence

Anglo American plc LSE:AAL

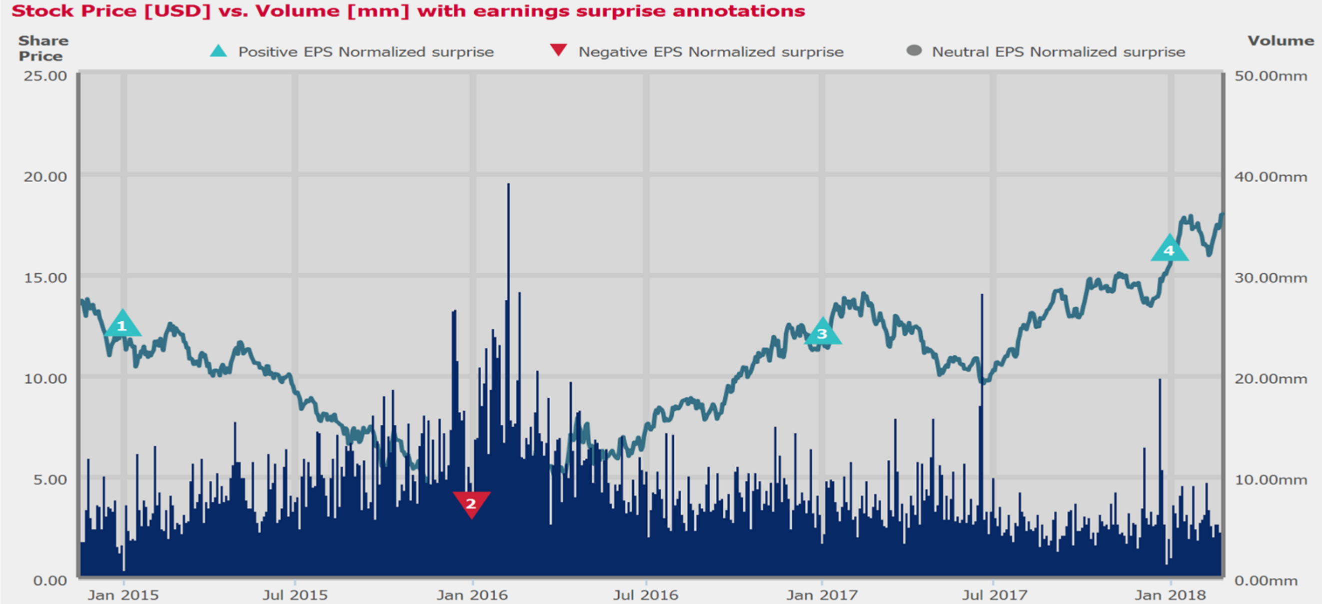
FY 2017 Earnings Call Transcripts

Thursday, February 22, 2018 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.52	2.57	▲1.98	2.77
Revenue (mm)	24985.05	26243.00	▲5.03	24756.50

Currency: USD
Consensus as of Feb-22-2018 8:38 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2016	1.43	1.70	▲1 18.88 %
FY 2017	2.52	2.57	▲2 1.98 %

Table of Contents

Call Participants

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Mark Cutifani
CEO & Director

Stephen Thomas Pearce
Finance Director & Executive Director

Stuart John Chambers
Chairman of the Board

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Presentation

Stuart John Chambers
Chairman of the Board

Good morning, ladies and gentlemen. My name is Stuart Chambers, I'm the Chairman of Anglo American. It's my great pleasure to welcome you all to our 2017 Full Year Results Presentation.

Let me first please just mention about the fire alarms and exits. There are no drills this morning. So if it goes off, it's real. I'm assured there will follow an announcement just in case we haven't spotted that it's a fire alarm, but there are 4 exits. There are 2 at the back, 2 at the front. The simplest way is to go back out this way you came and follow the signs, and you'll be shepherded out, I'm assured.

Let me -- just before I hand over to Mark and Stephen, let me just quickly refresh you on board changes that we had last year. So Stephen, of course, who you know very well already, took over from René Médori. We had 2 new Non-Executive Directors join us, Nolitha Fakude, a South African businesswoman; and Ian Ashby, a long-serving mining -- very experienced miner. And finally, myself, who had the great privilege and pleasure to take over from Sir John Parker as Chairman of Anglo American.

And I think that's enough from me. Let me hand over to Mark, who's going to kick off our results presentation.

Mark Cutifani
CEO & Director

Thanks, Stuart. Okay. Well, welcome, ladies and gentlemen, and thank you very much for taking the time to join us. As always, I'd like to acknowledge Stuart and welcome. I see Jim Rutherford up there in the audience, Jim, another board member. And my colleagues, my executive colleagues that are scattered around the audience.

What I would encourage you to do, again, is to catch them after the presentation. From them, you'll find the real story. I think it's important that you hear from them what changes are occurring. And certainly, from our perspective, I think it's important to get to know who's actually running the business. So, again, thank you very much for joining us here today.

From our point of view in terms of the agenda, I'll kick away with a very short business overview. Stephen will pull apart the numbers and try and help people understand what's behind the results. And then, from my perspective, I'll focus on where to from here and, in particular, I'll be focusing on the quality of our asset portfolio, number one.

I'll talk about our capabilities and the work we're doing to continue to improve the business. And then finally, pull apart our capital allocation and the discipline that I think's been very important behind the performance improvement over the last 5 years and talk about how we're thinking about the future in terms of capital allocation.

So to the numbers. I think the simple message is we've done what we said we'd do. Production volumes are up 5%, reflecting improvements and the commissioning of new projects. Consistent with the performance improvement, we've also exceeded our cost and volume improvements that we targeted for the year. That was $1 billion; we're at $1.1 billion. Earnings and cash flow reflect both the continuing improvements in the business. And yes, we saw some help from prices, but almost half of that improvement has been delivered on the back of the improvements we've seen in the business, what we've delivered in the business.

Cash flow, $4.9 billion, that's been very important in terms of improving our debt position. EBITDA margins are up 15% at 40%. And for us, very important number, return on capital employed now at 19%.

For us, the disappointment in the year, safety. We've improved our fatality frequency rate by 40%, but one would never say that's a good number; 9 fatalities in the year, exceptionally disappointing for us.

We have established an Elimination of Fatalities task force, working across the business looking to drive the next level of performance to 0. And for us, we've still got a way to go. 6 of those fatalities were in platinum and 3 in coal in South Africa. So, in particular, the focus in South Africa is going to be very important for us. And so, a lot of work still to be done.

Across occupational health and the environmental issues have been well managed during the course of the last few years. We continue to improve the business as our planning and execution disciplines have been improved. So still some work to do on safety. Other areas, making good progress.

In terms of driving the results, productivity improvements since 2012 have been significant, around 80%. Half coming from portfolio changes; the other half coming from internal efficiency improvements. The most pleasing aspect of the 2017 year was the 28% improvement in productivity. And that's a significant improvement and explains a good part of the cost-reduction performance during the course of the year.

Yes, again, we got some price pressures -- or we got some price help, but some of that was taken away by foreign exchange and inflation, and Stephen will talk to that. So the 28% productivity improvement's been very important in supporting the improvement work.

Over the same time, we've seen a 27 -- 26% reduction in unit costs. And from our point of view, the real cost improvement has been something like 40% when I take inflation and foreign exchange movements into account.

Despite the sale of 30-odd assets, we've actually delivered 9% more production than what we were doing in 2012. And I think that gives you a sense of the scale of the improvement inside the business.

In terms of EBITDA margins, we're up to 40%, and that's the see-through margin based on the mining business itself. And again, the key drivers, productivity improvements, the efficiencies that we've also achieved through the implementation of the operating model and the technical changes that we talked about back in 2013, 2014 have made a significant improvement. And with our marketing team, the focus on high-quality products, and we'll talk about some of our niche positioning in the bulks in particular, has helped us improve the realized prices, particularly in the bulks area.

And so with that, I'll hand across to Stephen.

Stephen Thomas Pearce
Finance Director & Executive Director

Thanks very much, Mark. Just before I get stuck into the numbers, just a quick anecdote, if I may. So for those of you that were here back in July, it was my first half-year presentation, Mark was trying to convince me to go blue and go with Chelsea. So I have made a decision. It was based around 2 things. One was colors. So the team I batted for back in Australia wears yellow and black. So I had to find a team with yellow and black because I've got some of the gear. And the other one was, being the good finance person I am, about capital discipline and cash flow management. And so I try to apply those same principles that we do in corporate life into my personal life. And one of the other executives, so one of my colleagues at work has membership tickets for Watford, so I thought -- and he travels a lot. So I thought I've got to be a fair chance of at least pick those tickets up at some stage through the season. So I will declare my colors. They're yellow and black. And it's the mighty Hornets that I'm going for.

Okay. So let's get into the real business of the day. So it is a good set of numbers, as Mark said. And importantly, for me, it's a clean set of numbers; so the things that we've been focusing on through the business simply showing through the numbers and the outputs.

The other important thing for me and for Mark and the whole executive team is really that we've been delivering on our commitments. And that's a really important fact for us.

So I'm going to whiz through about 9 slides this morning relatively quickly. We'll touch on EBITDA and how that flows into cash flow; what we did with that cash flow, particularly in terms of capital allocation, EPS and dividends; and we're also providing a little more detail in terms of how we're looking forward and how we're thinking about the business in the years to come.

Clearly, for '17, the priority has been around de-gearing the balance sheet. And you've seen that in how we've allocated the cash flow and the reduction in net debt. We've maintained a sensible spend in terms of stay-in-business capital. And it's really the combination of those things that sets us up also for a very, very strong 2018.

So let's have a look at EBITDA in the first case. So there's really 2 key themes that you can see on this slide. So the left-hand side is really about the macro themes. So we have had some sort of upside from commodity prices. They're up about 16% on the prior year, but offset by strengthening in currencies and underlying inflation in the regions that we work.

On the right-hand side, you can see more of a self-help theme. So continuing on the work we've done over recent years, the cost, the volume, the productivity improvements. If you recall at the start of the year, we'd identified a $1 billion challenge. And at that stage, we'd identified about half of those initiatives, and we backed ourselves to deliver the other half. So really pleasing, we delivered $1.1 billion for the year.

I'm just going to touch on inflation briefly. I know there's been a lot of sort of new talk about inflation. Yes, some of you guys are writing about it as well. And while it's maybe an emerging theme in the U.K., Europe and the U.S., it's really been part of our lives now for a couple of years in terms of the regions that we work in and the countries that we operate in. So it's been vital that we really focus on the productivity and efficiencies, so that we're outpacing that in terms of the things that we're focused on.

We haven't had the benefit of low inflation and even in areas like the Pilbara, you've probably seen deflation in recent years. And obviously, that hasn't applied to us.

I think the other thing I would just remind you of, often, in a period of higher inflation, it's driven by increased activity, which is fundamentally good for commodity prices in most cases. And obviously, the third leg of that is really currencies.

So as we look at the detail, obviously, it's a fifth straight year for us in terms of delivering those improvements. $4.2 billion since 2013.

Now the next dollar gets harder than the last dollar. And similar to last year, we've identified about half of what we're going to look at in terms of our go-forward targets. We did have some headwinds this year. So we had Cyclone Debbie in the first quarter. We had extensive rains through Southern Africa in the first quarter. So we were able to overcome those and deliver the $1.1 billion.

I suppose I would just remind you that, that's a run rate. So the $4.2 billion is a run rate number for us of improvement per annum in underlying EBITDA.

But we're not going to stop here. So we've identified $800 million in terms of our target for 2018. And as I mentioned, we've identified a bit less than half in terms of specific initiatives. We're going to back ourselves to deliver the balance.

It will be sort of a normal theme of operating cost, productivity. And as we look forward then across that period to 2022, we'll really start to pick up some of the themes of innovation and technology. Now we often get asked, "Well, what are the things you're going to focus on?" And it really is the sum of a lot of little things. It is hard work. It's not just one sort of key area of focus or key initiative. It's the sum of an enormous number of parts that help us deliver this.

So as we look at underlying EBITDA and the key numbers here, it really reflects what we've done with portfolio, the improvements we had in marketing, the cost out, all the efficiencies that we have tried to focus on and that's really delivered the step change in underlying earnings, up 48% to $3.3 billion; free cash flow, up 93% to $4.9 billion; and obviously, the measure that we absolutely all love is the return on capital employed, up 73% to 19%.

For those of you that need to balance your books in terms of looking forward, effective tax rate in the low 30s as we go forward.

The year also saw us focus on continued capital discipline. You recall at the start of the year, we'd guided to $2.5 billion. We revised that guidance down to $2.3 billion. And we came in a whisker under that $2.2 billion for the full year.

Focus for me, as I mentioned at the half year is really twofold. One, when we spend it, we spend it well on the things that we need to spend it on. But also, are we spending enough, are we spending enough to maintain the assets in the condition that we want to maintain them?

So to look forward to 2018, our guidance of $2.6 billion to $2.8 billion. So up a smidgen on last year, up about $0.2 billion on what we originally guided for 2017. Couple of reasons. There's a little bit of rollover from 2017 for things that we still need to get done, some stronger currencies that we're assuming as we look forward; and then there's some stay-in-business capital for some of those new projects that we've delivered or for assess that we've maintained within the portfolio.

As we look beyond that in terms of some longer-term guidance, $2.6 billion to $2.9 billion, just to note that, that excludes unapproved projects, but it does include things like the Venetia underground that are already sort of in the system.

So focusing on the balance sheet. Net debt almost halved down to $4.5 billion. That flowed very directly into the EBITDA-to-cash flow ratio, 0.5, and obviously, into the gearing or leverage ratio down to 13%.

For me, it's the combination of all of these 3 measures that I suppose I really focus on, rather than just one in particular. They sort of have their place at different points in the cycle. Obviously, absolute net debt, a real priority for us, and we'll continue in 2018.

We have guided in terms of a net debt-to-EBITDA ratio 1 to 1.5x, but it's really at that low point in the cycle that we wouldn't want to exceed that 1.5x for any sort of extended period, and we'd look to bring it back inside that guideline. Then, obviously, gearing or leverage, really the strength of the underlying balance sheet that allows you to keep that consistency of strategy no matter what point you are in the cycle.

Priority for us is to continue to de-gear. This is really a "once in a financial director's life cycle" that you get to fundamentally reset the balance sheet in the way that we have that opportunity now.

Now we are seeing strong bulk prices, in particular, continue. And that's generating fairly significant cash flow for us. So we do intend to continue to de-gear the balance sheet as we go forward.

As we look at returns to shareholders, I suppose this is, for us, a really good example of just simply doing what we said we'd do. So we reinstated the dividend early at the half-year, and we announced a 40% payout ratio policy. And what that has done is really exactly as it's intended. We had a higher profit in the second half. So dividends are up $0.06 to $0.54, brings the total payment for the year to $1.02 or $1.3 billion to shareholders off the 2017 result. And just to note that, that's the highest dividend we've paid in 10 years.

So finally for me, really, this slide, coming back to my little anecdote at the start, this is what it's all about at the moment in terms of how we're thinking about running the business.

So sustainable cash flow really underpins both the balance sheet and the returns to shareholders. That strength of balance sheet has really been driven well and rapidly over the last 2 years, in particular, but particularly the last 6 to 12 months. That's enabled us to return dividends to payments and significant returns to shareholders. And obviously, then we consider the discretionary options we have post hitting those first lot of key targets.

We will consider additional returns to shareholders as part of that evaluation. So it is as part of our choices, as you see across the bottom. Right now, though, we think we've got the right sort of balance in terms of returns to shareholders, continued de-gearing of the balance sheet and sensible growth where it suits us within the portfolio.

So how did we go? You can see sort of the report card on the right-hand side. Won't talk to the numbers, you can see, clearly, the priority was allocating cash flow to strengthening the balance sheet and appropriate returns to shareholders.

As we look forward, what should you expect? And the answer's pretty much more of the same. So we are going to continue to focus on cash flow, balance sheet and returns to shareholders and should expect that to continue next 6 months, 6 months beyond and in the years following.

Mark, back to you.

Mark Cutifani
CEO & Director

Thanks, Steve. Thank you. For those that know our organization pretty well, you'd be aware that we've actually got 2 Watford supporters sitting on the Executive, Duncan and Stephen. With the amount of -- or with the frequency that they change their coaches, either of you may get a phone call in the next few weeks given performance.

Stephen Thomas Pearce
Finance Director & Executive Director

The reference to the Hornets [indiscernible].

Mark Cutifani
CEO & Director

I think we'll move on.

I think the most important point to make in talking about the future is to draw a line under where we are today. It is a fundamentally different business. 47% less assets, yet we're producing 9% more product. That productivity improvement and the efficiencies that go with it have helped us reduce our cost by 26%.

Our EBITDA margins are up 33%, and this is against the 2013 performance. And that's against a backdrop of an 18% lower price basket today compared to when we did that comparison back in '13. So a 33% improvement in our industrial margins against an 18% lower price basket.

As a consequence, cash flows and returns have substantially improved. And most importantly, return on capital employed at 19% remains a number that we focus on as the measure of whether we delivered those cash flows the right way.

In talking about the future, I want to focus on 3 points. Firstly, we'll outline the key points in the transformed business as it is today, which builds off that foundation tagline. I'd like also to talk about how we think about capital allocation in the context of the future evolution and improvements we see available to us in the business. And then beyond that, where we see further scope for material continuous and step change improvements that will help deliver the $3 billion to $4 billion improvements that Stephen mentioned earlier.

So first on the portfolio upgrading. Gahcho Kué delivered on time and budget. Grosvenor completed its first longwall at the end of last year. During the changeover, Seamus and the team corrected some technical problems with the hydraulic supports. We've started in the new year with a second longwall and so far, so good.

Minas-Rio, 26th of January is a very important date in terms of our Stage 3 licensing. During the course of this year, we'll complete the preparation for the next phase of expansion. We require a confirmation that we've built the asset consistent with the Stage 3 license at the end of the year, and that will help us then start the next phase of ramp up through '19 into '20.

On disposals and closures, we've done a lot of cleanup work through the year, and you will see some of those transactions confirmed in January. And I think that demonstrates that continuing focus on making sure that it's the focus on the assets, the focus on margins, the focus on continuous improvement, that's where we're going with in terms of all the assets. But I want to be clear. We like what we have in terms of the assets. And now we're focused on making our current businesses improve in terms of their margins and their performance in terms of delivery of returns.

As a consequence of the focus on asset quality, and again, I make the point that it's about the quality of the assets that we have in the portfolio, we have a business that is diversified by commodity and by geography. Our job, as a leadership team, is to bring the capabilities that we have within the business to bear on those assets and, with the unique nature of the portfolio, provide what we think is a very unique value proposition to our shareholders.

And consistent with the geographic conversation, I should make a couple of points on South Africa. In the last 3 years, we've gone through major restructuring of all our businesses in South Africa. We've gone from 31 assets to 17 assets. And with the efficiency improvements that we've also delivered across the portfolio, our EBITDA margin's around 35%, we generated $2.3 billion free cash flow last year and we delivered a healthy return on capital employed of 23%.

We're encouraged with the leadership changes in the country. And certainly, we're encouraged with the hand that the President has offered to the industry. The deferral of the court case around the Mining Charter, I think's a very important development. And so from our point of view, we're very focused on working across the portfolio and with the government and with other stakeholders to make sure that our South African business remains competitive and continues to improve.

South Africa is like all other jurisdictions. From our point of view, we want policy certainty and that we make sure that we're doing the right things in the country to make sure that we've got a competitive industry. And when it can be demonstrated we can make returns in the country, then investment follows. It's a very simple thesis and one that drives our behavior across the global portfolio.

In terms of capital allocation, Stephen has outlined our broader approach to capital and how we think about capital. I'd like to add some further shape to that conversation, dealing with both discipline and our allocation priorities. Our track record over the last 5 years has been one of discipline and delivery. And we're determined to repeat that in terms of the next 5 years.

One statistic that I think is very important to reflect on, in 2012, our sustaining capital was $2.9 billion. In 2017, it was $1.8 billion. And our production was actually 9% higher than it was in 2012. And yes, there's always a bit of lumpiness in some of those capital numbers. But from a sustaining position, the efficiencies we've improved -- or we've achieved in our capital spend reflect the efficiencies we've achieved throughout the operations with the application of the operating model.

On the portfolio, the focus, again, is on asset quality. Second, any expansion object -- or any expansion proposal that we look at is subject to intense competition for capital and is scrutinized against strict investment criteria at each stage gate.

In copper, we've got significant growth options both inside the assets that we've got operating today and with our greenfields potential in the Quellaveco. We like the commodity, we like the resources we've got, we like the assets we've got. And we believe we've got the potential to continue to improve the copper business.

On De Beers, as you would expect, we continue to supply to market demand. And as we see demand growing, we have the capacity to respond to the market in a sensible way without significant capital allocation.

On platinum, we're still in the business improvement journey. And we're in a market that doesn't require more products. So the focus has to be on continuing efficiency drives and incremental improvements, and that journey is continuing.

On bulks, we've developed Kolomela, Grosvenor and Minas over the last few years. There's been significant capital outlaid, so today, we're working hard to continue to improve our margins, make sure those assets are delivering on their potential. And whilst we'll continue to spend money on incremental improvements, that business is playing a very important role in generating significant cash, helping us with our debt and it certainly has turned out to be a great decision on making sure that we stayed focused on value and kept the quality of the assets. And from our perspective, the team has done a great job in delivering on the expectations that we saw and the ability that we see -- or the potential we see in those assets.

Now continuing with the capital allocation theme, I think it's important to make a few points in respect of important markets from our point of view. We will allocate capital to De Beers if the demand is there for our products. We certainly have incremental improvement opportunities that we'll encourage and support Bruce to pursue. But in terms of understanding the business and where it sits, I'll give you a sense of how we think about the business.

On trading conditions, recent condition -- or recent indicators are the trading conditions, particularly in the U.S., are pretty strong although we also see opportunities in other markets.

One of the most standout features of what we've seen in the market over the last 18 months is the amount of diamonds that millennials are buying and the 45% represents the amount of diamonds bought by millennials in our 4 most significant markets. People say that maybe buying patterns are changing. Well, from our point of view, millennials are our single most important buyers of our product.

And so I think from our point of view, that's a great outcome and certainly shows that people are still buying diamonds for engagement rings, but they're also buying diamonds to celebrate other significant events in their life. And they're looking for something that's special, that's unique and that says something special about the event and the person which they're celebrating that event with.

The other significant change in the market dynamics is that self-purchases by women are growing. And a few years back, it was around 22%. Today, 33%. So the autonomy and the change in the demographics in purchasing behaviors is very much related to women. And certainly, from our point of view, the work Bruce and the team have done in terms of the UN female conversations and positioning the business in a different -- very different way have been very effective in the marketing certainly.

On geographic demand, again, the U.S. remains our most important market. And certainly, in the last 3 months, we've seen encouraging trends. We'll continue to commit to marketing expenditures. And from our point of view, we think that's very important in making sure that we promote our goods and see growth in the market.

And on the other side of the coin in terms of synthetics, I think certainly deserve a comment as we've had a few questions from people in the market. The way I think to characterize synthetics is they're a very different market offering. They compete in a different market, whether it be with crystal or other products such as costume jewelry.

From our point of view, it's important that we continue to differentiate the value proposition for a diamond. It's unique. It's rare. And from our point of view, that proposition still holds. The responsibility of us at De Beers and the industry is to make sure that, that proposition is continued to be articulated in a very clear way.

On PGMs and electrification of the drivetrain, certainly, something that we're aware of and watching very carefully. But let's put it into context. The drivetrain or the small vehicle, electric vehicles or the small diesel vehicles in Europe represent about 15% of the market for our products.

The overall growth in demand for vehicles continues to outweigh the switching from diesel to small-scale electric vehicles. We expect that those trends will hold reasonably well up to 2030. The question we have in our minds is how much will fuel cells play into that market and counterbalance and drive growth across the sector.

Certainly, as an industry, we have to do more to promote our products, but from our point of view, we think the prognosis for our products is very solid over the next few years. And in terms of the longer-term, hydrogen and fuel cells will be the game changer. We're just not sure of the timing.

So we have to make sure that we remain and continue to move to the left of the cost curve in our industry. And we think, from our perspective, there are a lot of things that we can manage and improve and certainly help demand prognosis for us in the industry.

Consistent with our overall thesis on quality of assets, in all markets, we see challenges to the demand for our products. The good thing about our position, particularly with the Mogalakwena, is that even today, where people would say it's a pretty tough market for PGMs, we'd delivered a 54% margin in 2017. And when you look at the character of our revenues, 40% platinum, 40% palladium and over time, base metals and other products will play a more important role in the revenue stream.

So 54% margin off a diversified revenue mix is a very important position. And we've still got a lot of improvement that we can deliver through the operating improvement programs that we see and the application of new technologies that both Chris and Tony are working on across the asset.

Amandelbult, significant resource, needs to continue to improve its cost. Chris is targeting a 25% cost reduction. That will be important in terms of our business, focused on both safety and productivity.

Our processing operations, arguably, the most efficient in the industry, delivering a stable 9% margin. We need to continue to improve to make sure we stay there. But for us, we think we're very well positioned in the industry, drive to the left, protect your margins. And the long-term prognosis is pretty good when you think about the new technologies in fuel cell and hydrogen that are going -- that could impact us in a very positive way.

Again, capital allocation, bulks. We've been very targeted in the way we've developed the bulks portfolio. In going from 68 assets down to 37 assets, we did sell a number of coal and smaller-scale assets. So today, we have niche positions, Kumba, Minas-Rio, metallurgical coal, quality assets, good margins, and we continue to improve our performance in each one of those areas.

Seamus and Peter are partners in positioning those products at the top end of the revenue scale. And so as a consequence, our margins in those businesses are challenging the lower-cost, lower-quality producers out of the Pilbara. And for us, margins drive returns. So making sure we keep our capital allocation tight, we drive our revenues and our costs, and our margins and returns are challenging the major players in the industry.

Again, I've got to acknowledge the bulks team. They've been through a tough time in the last 3 years, but the performance that they've delivered while going through some uncertainty has been exceptional and the fact that we've kept those assets is a reflection of the great work they've done in improving the cost and efficiencies across the business.

With an asset suite of around 35 assets, we've got lots of opportunities to improve the business on an incremental basis. That is small-scale capital, quick-return projects that add cash flow and returns to the business.

A couple of examples, Moranbah, Grosvenor, by de-bottlenecking the processing plant, we get ourselves another 25% capacity, continues to help improve our cost position. It's a no-brainer at $200 million.

In De Beers, some of our highest-value diamonds are delivered from our Marine operations in Namibia, another ship, less than a 3-year payback, again a very strong business case that Bruce and the team are developing.

We have a number of other options across the portfolio, copper, De Beers, PGMs, Mogalakwena, met coal, a number of options that we can kick into place depending on market demand and the margins that we see can be delivered from those assets. So again, an exciting range of portfolio options across the business.

In terms of greenfields, Quellaveco remains a very important resource in the context of Anglo American. We're currently finalizing our feasibility work. So we're going through the verification processes post the feasibility. We expect to bring the project to the board for review at the midyear.

It's a significant resource. We believe there are significant additional resources that could be added to improve the 30-year life that we see today, potentially doubling that life. The current estimates on operating cost, around $1.10 a pound. And we've done a lot of work in de-risking the asset both from a geotechnical point of view. All of the key permits are in place. We've built our relationship with the local community. We've built our relationship with the government. And certainly, from our point of view, we're doing the final work, so that we can bring the project to the board the middle of the year.

We would expect during the course of the year to make a final decision, but I certainly don't want to preempt the decision the board would make. And so again, we are planning to take the project to the board midyear. If there's work to be done to complete, I wouldn't expect it to be significant. So during the course of the year, we'd expect to be moving forward.

The syndication of the project is also an important principle or important point to make. We believe it's appropriate for these types of projects to bring in partners that add value, that can support the development of these types of projects, both from a risk point of view and to bring value forward.

So in syndicating or thinking about syndication would be on the basis of value. So getting that balance right is something that we'll talk to the board, and we are talking to the board about as a part of the process.

Over the last 5 years, we've restructured the business. I talk about an 80% productivity improvement. Half of that productivity improvement has come from portfolio changes. Half of that productivity improvement's come from actual underlying efficiency improvements.

We expect to continue to improve the business. As Stephen said, we've identified $3 billion to $4 billion worth of cost and volume improvements that we'd expect to deliver by 2022. Now that's a run rate number. So for us, we still see a lot of opportunities to improve.

On the continuous improvement front with our operating model, we'd expect most assets to improve in the range 3% to 5% a year. And certainly, we're factoring some of those improvements in our numbers.

On a broader front, the technical team, led by Tony and with the business unit leaders, we've got loftier ambitions in terms of step changes. They will tend to be a little back-end loaded given the innovation work and where we are progressing with energy, water, the concentrate, the mine, coarse particle flotation, but they certainly -- they will certainly start making a contribution inside that time frame.

Embedded in a culture of continuous improvement, every person in the business is responsible for identifying and improving their part of the business. And for us, it's a way of life and an everyday conversation across the business. So we're confident we can deliver at least $3 billion to $4 billion worth of run-rate improvement over the next 3 to 5 years.

With that type of culture, the quality of the portfolio is important. And one measure of quality and potential we have is that we've got a life-of-mine average across those assets of around 30 years.

Our job in the next 5 years is to continue to identify improvements and work that potential so that every year, we're getting better across the asset suite. It also provides us with the flexibility to think about where we are in the market and make judgments inside those assets in terms of the best way to operate them under various market conditions.

That's not about high-grading assets; that's just about making sure we're delivering on their potential and responding to market conditions, which is a lot tougher when you've got high-cost assets.

And with that, we believe with the internal opportunities we have, we can continue to grow profitable production around 16% over the next 5 years. And that includes continuous improvement on some of those projects that I've talked about in terms of opportunities.

So finally, in terms of our investment proposition, we characterize Anglo American today first off the asset base. We've got a portfolio of high-quality assets that have the potential to continue to improve as we get smarter. Second, we've built the people capabilities to get the best out of those assets. And three, we've instilled an operating and capital discipline that understands our job is to deliver cash flow and returns on a sustainable basis.

We've put ourselves in a position where we don't have to do anything outside our portfolio to continue to improve or provide you with quality enhancement opportunities.
So with that, very happy to take questions.

Question and Answer

Mark Cutifani
CEO & Director

Yes, Jason?

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

It's Jason Fairclough, Bank of America Merrill Lynch. Mark, 2 related questions, I guess. First, Minas-Rio, I mean, it's taken a really long time to get this thing ramped up. Why? And then, just from that, you're looking to gear back, though it sounds like we're reaching a decision point. How do you think about the readiness of Anglo American as an organization to do another megaproject? Because to be frank, it didn't really cover itself in glory with Minas-Rio.

Mark Cutifani
CEO & Director

Two good questions. Firstly, on Minas-Rio. And maybe if I reflect for 1 minute on Minas-Rio. We overpaid for the resource. We bought a project that was at concept level. The permits weren't in place. And we underestimated the project cost. A number of errors, and I'm just saying we've turned that upside down and inside out to make sure we've understood every lesson that can be learnt. And that process has been very thorough. On Minas-Rio today, the license -- the final license has remained a constraint on the footprint for the mine. So that Stage 3 license has been very important to us. So the -- with the completion of the license process, we can then step out the mine and mine at the 26.5 million tonne rate. So now it's just physical constraint on the footprint. If you remember the Samarco incident, anything that had anything to do with the tailings dam in Brazil became an issue. And so we lost probably 18 months, Seamus, on that final approval as a consequence of Samarco. So we've got through that process. It's not finished. But certainly, I think the key point to make is the technologies that we've used for the tailings dam at Minas-Rio is very different to the Samarco. It's a downstream lift, so it's a different engineering principle. So that's the key issue. Now going into Quellaveco, as I said, the learnings have been applied. At Quellaveco, we have all of our major permits. We've been through all of the process with the locals, with the government, very supportive of the project. We've gone 3 times back through the engineering. We're doing a final external review. And if anything, they're arguing that we may have been a little bit conservative in the process, that's good news, but let's wait and see what the final outcome is in terms of the review. All of the project disciplines have been renewed. And under Tony and the team and between Tony and Duncan and their teams, we've pulled apart the organization and reconstructed the business. In the last 5 years, against all of the major projects that we had when I started back in 2013, we've delivered all of those projects on time for $1 billion less than the estimate I gave you back in 2013. So the disciplines are there, the learnings have been applied, we've got a different team looking at this business. This is a different business and the approach to a Quellaveco is very different to what would you have seen with Minas-Rio.

Sergey Donskoy
Societe Generale Cross Asset Research

Sergey Donskoy, SocGen. I have a few questions. First, on net debt, which I think was a big positive surprise coming about $1 billion below consensus. I wonder to what extent this could be because of one-off factors. I think there was a $900 million working capital release. And I think the taxes paid were also about $600 million below the -- a figure on the net -- on the income statement. So the total of about $1.5 billion. So I wonder on normalized working capital and excluding this movement in deferred taxes, what would be the adjusted net debt figure for the year? That's question number one. Second, you expect CapEx to increase by about $500 million next year. If you could give us an idea which divisions, which projects will be the main drivers here? Third, the diamond production guidance, you expect 2018 to be a bumpy year and then, production to go down to about 20 -- up to about 32 million carats. Is this because this is the physical constraint, you cannot go higher? Or is this how you see the market, you just don't see more demand? And finally, just very short.

Mark Cutifani
CEO & Director

I think you're going have to spend an extra penny. I'll let Mr. Watford pick up the 2 capital numbers.

Stephen Thomas Pearce
Finance Director & Executive Director

So firstly, on net debt, this really plays with the outcome, and I suppose we appreciate it. It's a bit lower than what people were expecting. But really, I suppose, the thing we're pleased about is the translation of EBITDA into cash flow. That's probably been the primary focus. So I'm pleased about that. Yes, working capital has been a focus. And I think I flagged that at the half year as well. So I can't promise we're going to continue to reduce it. What I can promise is that we will continue to understand it better and better in terms of days, et cetera. So yes, we saw probably a little bit of price increase flow-through in your receivables towards the end of the year. Inventories, in fact, were probably a little bit higher than we'd hoped in a couple of areas, so. In Kumba, and in met coal in particular, we couldn't quite get all the tonnes to the ports that we wanted. But offsetting that was probably a really positive moving creditors, which is probably a little more than what people were expecting. And one of the bigger things in that has been the prepayment that we have through the platinum business increased again this year, and also some of the change in the arrangements as we have moved some of the operations and joint ventures into sort of processing of concentrates and POC contracts. You've seen that translate into some working capital movements as well. So listen, I'm pretty comfortable with where it is, from a working capital point of view, but I wouldn't be banking on major, major steps forward from that, from a dollar point of view. On the tech front, so yes, there's a couple of timing things; probably the major one I'd point out would be met coal in Australia. We will probably have a bit of a -- probably about a $400 million pool pick up, I think, towards the tail end of 2018. And that's just timing, as we have come out of constructions and lower prices into profits. So that will true itself up through 2018. On CapEx, so again, just a reminder, our original guidance was $2.5 billion. Our guidance into next year is $2.6 billion to $2.8 billion. Again, carryover from '17, FX and some additional projects that we've either brought on or kept, are probably the main influences. The majority of the CapEx though, is really around stay-in business, pre-stripping and mine development. So they're really the key things that we're focused on. And some of that's really the continuation of the projects we've already got in play. So Venetia Underground is a great example. That's probably about the major point was this year and next year in terms of expansion of LifeX, top capital. But there's still some work to do in met coal, in terms of, as we get ready for the next long hauls and all that sorts of things. So it's a combination. It's broadly spread. So nothing odd particularly, sort of pull out there. Mark, I'm going to let you to comment on dormant production, but obviously the switch in Venetia from an open pit to underground plays out in sort of years 3 to 4 as well.

Mark Cutifani
CEO & Director

And in terms of the diamonds, we sort of run a 2- to 3-year look ahead. If you think back, we had a big kick up in sales really last year, which was the release of the lower priced carats. This year, Bruce has set the organization up to deliver against what we think the demand will be. We'll continue to adjust as we go. Stephen made the point about the Venetia switch. What Bruce is doing at the moment is looking in the sequencing of some of the other operations, to see that if that demand remains strong, what he can do to bring a bit more production forward to get more balance in the second year. But I think you're going to go with the guidance as it is today, knowing that Bruce and the guys are working hard to watch the demand carefully. And if there's an opportunity to make more sales, we don't want to miss a sale. And so the team's very focused on balancing up, depending on where the market is.

Stephen Thomas Pearce
Finance Director & Executive Director

Mark, also, it's not something we have traditionally guided out years 2 and 3, in terms of market demand for diamond. So which I suppose, we're trying to provide a little bit of extra clarity.

Izak Jan Rossouw
Barclays Bank PLC, Research Division

Ian Rossouw from Barclays. Just 2 questions. First question, just on unit costs. How can we relate these cost improvements that you equate to unit costs, given that they've being going up every -- for the past few years, and it's guided to go up? I understand FX is obviously a key driver in that, but should we just accept that, given your geographical exposure that unit costs should just be higher than peers? And then maybe, looking at this $3 million to $4 billion cost improvements you're targeting out to 2022, do you actually think you can bring unit cost down in nominal terms over that period? And then the second question, just on South Africa. You mentioned that, I guess, in the past that it is now a much smaller part of your overall capital employed base, 25%. Yet it generates almost 50% of your free cash flow. I mean, obviously, this is an imbalance that, as you've said, should normalize over time, but shouldn't you monetize or may take opportunity of this imbalance to monetize some of those assets?

Mark Cutifani
CEO & Director

Firstly, on the unit cost, we're going to continue. For us, the imperative is to continually improve our costs. And we look at 2 moving parts: Firstly, reducing our cost so that we are actually doing better than inflation on a global basis. And we've done a pretty good job of that. In fact, our unit costs on a nominal basis are down 26% over the 5 years. Clearly, inflation is becoming a bigger issue, but we've to deal with inflation in the jurisdictions we're in, over the years, whereas others have got a little bit of a free kick with deflation in Australasia now, and they've also had depreciating currency. So maybe that's starting to turn. So on that basis, we might get a more level playing field in looking forward. We don't want to rely on rising commodities because the one thing that comes with inflation is better commodity prices. We don't want to rely on that. We want to do better than inflation in improving our cost structure. So on a real basis, you're chasing 3% to 5% a year. That's where that 3% of 5% continuous improvement number is very important. Secondly, you want to try and run faster than your competitors. So there are 2 imperatives that we talk about on a monthly basis. So the continuous improvement stuff, and then the step change work that occurs later in the period, which then stands us in good stead beyond the 5 years, will be very important. So we're very focused on the things that we can control. We're not relying on commodity prices or byproduct credits to give us a free pass. It's cost that we control, but. That's what our job is, to make sure the business is setup well. In terms of --

Stephen Thomas Pearce
Finance Director & Executive Director

Can I just add something to that before you move on? So the unit cost guidance that we've given in the appendix, just to be clear on the assumptions that underpin that. So we've said that the currency assumptions, I mean, in that appendix. What we have embedded in there in terms of cost improvement is only those things that we have specifically identified. So that's a little bit less than half of the $800 million. And obviously, as we're still identifying those, we'll allocate those across business units and operating sites as we complete that exercise. So yes, obviously, we'll report against it. Currency does play a part. Probably the other theme is just some timing and maintenance, or moving of long hauls and those sort of things, influences a little bit of volumes through 2018. So yes, we can take you through the detail later, in terms of some of the individual assets in that, but there's some subtle influences in there that are just influencing some of the volumes as they drop out in '18.

Mark Cutifani
CEO & Director

On South Africa. Over 5 years, we've almost halved the number of assets, and we're delivering better results today than we were 5 years ago in a better price environment. So the restructuring Chris, Kumba, Seamus, the rest of the crew, in all parts of the business, the dam has been very successful. So we're not shy about saying the guys have done a good job in South Africa. I think it's great. The political changes, the leadership, the hand that has been extended by the government continues to encourage us, but there's still a lot more work to be done. And what I would say is, we're starting to see more significant contributions outside our portfolio. So the balance is starting to swing. And certainly, from our point of view, in terms of earnings, I think it was about 70-30. Stephen will...

Stephen Thomas Pearce
Finance Director & Executive Director

Roughly that. So the split of the EBITDA is South Africa, 3.7. And the rest of the world, 5.2. So you can see the sort of the rebalancing that's starting to occur.

Mark Cutifani
CEO & Director

Yes, so 25% of our capital employed is in South Africa. We are, at the moment, probably spending more of our capital base outside of South Africa because that's where we see significant opportunities. But that doesn't mean we're not looking after the assets, putting capital into the assets to make sure they deliver. So it's a normal portfolio conversation. But again, we're very pleased with the progress we've made, and with the restructuring, South Africa is in a very competitive position, but there's more to be done.

Matthew Hasson
Numis Securities Limited

Matt Hasson from Numis. Have you taken any steps to mitigate the strength of the rand? Just on your sensitivities, it looks like it could cost you $750 million, the rise in the rand, recently. And just a tiny little anecdote from last summer, Mark, I believe I saw you at Lordswood in England, I thought. Is that true?

Mark Cutifani
CEO & Director

That's another bet I lost. So I've lost the bets in the rugby and the cricket. So I'm not doing well. Yes, I did have -- yes, I do have an English hat. I've got 2 children, and now I sound like they're English. So the family is transforming. I'll let Stephen talk about the rand, and then I'll talk about some other things we're doing on the operating costs, so.

Stephen Thomas Pearce
Finance Director & Executive Director

Yes. So no, just to be clear, we do not hedge currencies, in terms of the operations of the business. I wouldn't pretend to be the smartest person in the room, in terms of picking when the right point to do those things are. We view ourselves as a long-term price taker, and that includes currency as well. To come back to the point I made, when I was earlier, encourage you to think about the other things that move with currencies and inflation, and that's normally commodity prices. So as you've seen this year, the impact of prices far outweighed the impact of FX and inflation. So just to encourage you to think about all of those 3 moving parts, as you think about the currency.

Mark Cutifani
CEO & Director

And on South Africa, in particular, Seamus, with Kumba and the team have got a very focused business improvement program looking forward. And I think that's going to be really important. And we're still not where we want to be in terms of benchmark productivity. So work to be done there. PGMs, you would have seen, I hope noted the Amandelbult come at a 25% cost reduction that Chris and the team are chasing, plus improvements at Mogalakwena, and in thermal coal, July, Seamus again, and the team are focused on driving our cost improvements ahead of the inflation rates and taking into account that FX is going to move. So we've got to run twice as hard, but that's where the guys are focused.

Liam Fitzpatrick
Deutsche Bank AG, Research Division

It's Liam Fitzpatrick from Deutsche Bank. Two questions. Firstly, coming back to South Africa, maybe a bit more directly. If the outcome of the new mine, potential new mine policy is positive for industry or acceptable, does that mean you are committed to your 3 big South African businesses, Kumba, Coal and Platinum? And then, on the $3 billion to $4 million target, can you break that down between cost and volume? And how much of that is approved already and in your volume targets out to 2020?

Mark Cutifani
CEO & Director

Okay. On the mining chair. But first, let me make it clear that we're committed to the assets we have, as I said today, in South Africa. We always will assess if there's a change in policies somewhere, how we will think about capital allocation across the group. But with Kumba, with PGMs in terms of Anglo platinum and in terms of thermal coal, good assets, delivering good returns. We want to make those businesses better. The Mining Charter, however it frames up, will impact our capital allocation decisions as they should. As we've seen in other jurisdictions across the world, policies change. And you can name a few that we've seen in the last few months, both inside of Africa, outside of Africa. So we're encouraged by what the President has said, that he understands for mining to invest, there has to be policy certainty and an encouraging environment where we can make returns. We believe that, that's a good start to the conversation, but I wouldn't want to preempt where those conversations will go. We'll make decisions as we do with any jurisdiction we have in the portfolio, but we're very pleased with what we've seen so far. And we're encouraged, we'll wait to see what we get out of the policy conversations. Stephen, do want to make any?

Stephen Thomas Pearce
Finance Director & Executive Director

Yes, so the $3 billion to $4 billion so rather than, we saw it survive the first $800 million this year. So without being specific on dollars against each initiative, let me give you a flavor of the themes that you'll see that will feed into that. And some are volume and some are costs and in productivity. So you got Minas-Rio ramp up. Clearly, that'll go from where it is. And we're forecasting this year to up to its capacity through that time frame, Moroanbah growth and debottlenecking the dead marine vessel that Mark spoke about. Long haul hours and cutting rights through each of the met coal operations. Amandelbult, cost-out, inefficiencies. Improvements in Mogalakwena, [Quisella], one of the coal assets, getting back on track. It had a pretty tough year in 2017. Copper grades move across the years, which should be a bit better next year. And then there's all the operating efficiencies, so whether that's truck hours, digger rates, process recoveries, automation, use of data, particularly feeding into maintenance programs. Now there's a lot of things that are going to come through and feed through our business as we keep getting more disciplined, and then adapting and running with technology and innovation. And then, particularly on the innovation side, the things that Tony's previously spoken about, about our water use, our crushing technology, our recovery and our use of energy. All of those things will probably feed slightly more into the longer-term, as Mark mentioned, probably more into the 3- to 5-year. And then there's marketing initiatives that Peter will be focused on, in terms of the quality products into the market, remembering $1 extra on revenues, just as good as $1 add-on cost. So there really is no one individual thing. It's the sum of all of those parts. And there's a lot of other things I haven't mentioned, but it is a combination across volume and cost. And we'll be working really hard and backing ourselves to deliver those.

Mark Cutifani
CEO & Director

We run a portfolio of opportunities on a continuous basis and on a step basis, in terms of innovation and then smaller capital options. So we're always looking at ways to best bank to be had for our buck, and for the time, these 2 guys, they're spending on improving the business. So we keep that portfolio running, so it's across a range of opportunities, depending on where we see the markets going at any one particular time. So it's a good range of opportunities, and Stephen's probably touched 30% of them in what he's just said. So that's our job, to look at everything we can see, and then allocate our resources to the best opportunities.

Myles Allsop

UBS Investment Bank, Research Division

Myles Allsop, UBS. Just maybe following up on South Africa to start with. How -- I mean, Chris mentioned 3 to 6 months as a potential time frame to see a new charter. To him, that's realistic. Also the ANC's going to win a general election next year. Are we getting ahead of ourselves, in terms of thinking it's all rosy in South Africa? And the industry's going to have to comprise, I presume, with the new charter, whether it's around, so 26% in power, whatever. But just give us a sense of how you're thinking about what compromises you're prepared to make, and the industry's likely to make? And then, maybe for Steve as well, on net debt, very impressive deleveraging in a relatively short period of time. Is $4.5 billion the right number; should we be thinking about spot free cash? [But I want you to] give us a number on that? How much spot free cash flow you'll be returning to shareholders, is the swing now very much back to shareholders?

Mark Cutifani
CEO & Director

On South Africa, give Stephen a chance to put his thoughts together, very simply put. The future of the industry will be determined by the policy framework the government puts in place. The one thing that I think characterizes Anglo American is the quality of the assets we've got across the globe. And we make the point very simply put. Investment follows returns, not the other way around. And we've made that very clear. And I think the reason that the President has identified the mining industry as one of the great opportunities is, we all got that last conversation wrong. And the elements that were in that charter document, from our perspective, didn't provide a climate for returns. And therefore, capital allocation or capital spending, basically dried up across the industry. So I think we got to give them a bit of time to settle in the chair, have the right conversations. We'll come to the table looking for and providing ideas on how to make the country and the mining industry better, so it'll attract returns, that's our job. And I think, based on what I've seen so far, they're in the same place. So it's a matter of finding what works, and what works for the long term, because our industry is a 30-, 40-year industry. When we make investments, we make it for the long term. We want to see policy certainty that we can bank on. We've got a long way to go yet. And I think the toughest thing for the President is the expectations that are being built up and the expectations over a very short period of time. We've got to give him time. It's going to take time. So South Africa's going to require a lot of work.

Stephen Thomas Pearce
Finance Director & Executive Director

Thanks, Mark. So firstly, on net debt, yes, I would love to see it lower, and I think we've got a real opportunity across these 12 months to continue that journey. How fast will it be, or how far would it go depends where prices are and all that sort of thing. So a little hard to exactly forecast. But would I love to see another couple of million dropped out over the next 6 and 12 months? Yes, absolutely. And as I said, we've got this real opportunity where we have had few calls on our cash flow outside of sustaining and sort of stay in business capital, where we can sort of complete that journey and fundamentally reset the balance sheet. And I think the industry generally and us, in particular, really appreciate the value of a strong balance sheet and it's happened quickly, and that's great, but we have still got a little bit further that we want to take it. Had we consider that versus some incremental shareholder turns? Yes, we got around the wheel, exactly as you would expect. So we had discussions this full year. We'll have discussions at the half year. Right now, we think we've got the right balance, in terms of the 40% payout. It did what it's supposed to. Was it a bit higher than the first half, based on higher profits, balance sheet priorities and returns to shareholders? We think we've got that balance about right for where we sit today, but we will always consider that as we go forward.

Myles Allsop
UBS Investment Bank, Research Division

Spot-free cash flow.

Stephen Thomas Pearce
Finance Director & Executive Director

Spot-free cash flow, yes. Listen, spot prices, probably year-to-date. They're a bit up from where they averaged through '17. So you could conclude from that, that maybe EBITDA, and then a reasonable flow into cash flow would see some similar numbers to this year. So I'm voting for price to stay high.

Mark Cutifani
CEO & Director

Let's work with the back. Back up.

Alon Olsha
Macquarie Research

Alon Olsha from Macquarie. Three questions. Firstly, just on diamonds. Could you give us an indication of the mix of stones you've sold so far this year, certainly versus last year, where you seem to have had greater demand for lower quality goods? How's it shaping up this year, and what's your expectation for that mix going forward, notwithstanding, of course, the lower, lower current stance coming from Gahcho Kué and Orapa. Second question, just on Minas-Rio. You've got the installation license in place. You're still waiting for the bigger, kind of the final permit, the environment permit later on this year. Could you give you an update on the timing around that? And the receipt of that license, would it impact guidance from Minas-Rio at all this year or next year? And then finally, on Quellaveco, is a syndication of that project bringing in a strategic partner? Is that a requirement for this project to go ahead? Would you consider doing it with another partner, and I'm sure you won't give me your long-term copper price assumption, but is it higher or lower than when the last time you evaluated this project?

Mark Cutifani
CEO & Director

Okay. In terms of goods, last year, there was about 3 million carats for us, very early in the year that were sold, so obviously, impacts the quality. This year, we'll do a bit better. On a production basis there, you're right in pointing out that Gahcho Kué and Orapa will drop the headline quality number, but also remember their low cost carat. So even though the carat, the quality number or the pricing that we get for those carats will drop, and we don't like to put a number on that because obviously, there are commercial negotiations that go on, so we don't to flag where we are, but we still think they're wonderful products. From our point of view, they will have an impact, but certainly, our margins are in good shape, because they're lower cost carats as well. So without giving you a forecast forward.

Stephen Thomas Pearce
Finance Director & Executive Director

Just to add to that, early '17 was more the anomaly, because we were clearing the lower stuff that had hung over from India demonetization, et cetera, in '16. We're really back to a normal mix now. So fairly simply, that's probably the high-level answer.

Mark Cutifani
CEO & Director

In terms of Minas-Rio, the important thing for the final approval at the end of this year, means that this year the production's reasonably flat.

Yes, sorry. And we've forecast something similar, although we start to ramp up during the course of next year off that. And then, we start hitting our straps in 2020. In terms of the approvals, there's a process that we can go through, to try and bring a little bit of our movement forward, to try and mitigate imbalanced production, but we won't forecast that. That's an opportunity not yet realized. So there's work going on to look at bringing things forward, but I think the safe thing at the moment is to forecast that flat production as we have done in the forecast. On Quellaveco, we already have a partner. We will only syndicate for value. I think that's important. From our point of view, that's where we'd prefer to be. Asyndication. We think the right number is in the range 50% to 70%, but at the same time, a lot of debate with the Board about getting that balance right. So I wouldn't like to preempt anything other than to say, we believe we'll syndicate somewhere in that range. It's a great project. The debate is, obviously, should you take a bit more of a great project, or should you balance that and take some profits early? That's the debate with the Board that we'll have at the mid-year.

Alon Olsha
Macquarie Research

Anything on the long-term copper price?

Stephen Thomas Pearce
Finance Director & Executive Director

No.

Mark Cutifani
CEO & Director

It will go up or go down. We're not sure in which order.

Stuart John Chambers
Chairman of the Board

An unfortunate suggestion, please limit your questions, we have 2 maximum, please. Just in the interest of time.

Mark Cutifani
CEO & Director

Fraser?

Fraser Rowat Jamieson
JP Morgan Chase & Co, Research Division

Fraser Jamieson from JPMorgan. So another quick one on Minas-Rio. Obviously still, challenges to overcome there, and the priority is to get upwards of 26.5 million tons. Having said that, price achievements are very good. It feels like there's a structural element coming into some of the pricing premiums, et cetera. So very long-term thoughts, phase II, phase III, is that plausible at all? I notice it wasn't on any of your slides, talking about future growth options, et cetera? Should we forget about that forever? Or is it something that may come back in? And then second one, just wondering if Stuart might be willing to answer a question, coming into the organization and the industry from outside, what do you see as your key priorities in terms of guiding the Board, and what are the key challenges for Anglo to be addressing over the next few years?

Mark Cutifani
CEO & Director

So I'll go with the Minas question first. From our point our view, the focus, 100%, is get ourself to the 26.5 and the cost target. Good news is, the quality looks good. And we think the quality premium from a number of perspectives is, both cyclic and structural, we think there's a bit of both occur.

So we think the project is well placed for the long term. Yes, we have options for the future

but we're not going to get ahead of ourselves, we're going to deliver the project, the cost, the margins and the returns. From our point of view, let's get there first, let's not think about the next phase, let's make sure we get to -- we deliver and make sure we're delivering returns. At the moment, we're actually delivering cash flow. That's the encouraging thing. Our costs, I think, are about 15% below what you would've normally expected at this sort of volume. So the guys have done a great job on the cost front. Let's keep the focus on what's important and we'll deliver it and talk about the future when it's appropriate to talk about the future. Mr. Chairman?

Stuart John Chambers
Chairman of the Board

I'm not mic-ed up, so I'll take that. Can you hear me all right? Thank you for the question. I think in terms of observations, let me say the first thing, it's interesting that -- and we had a Board meeting this week, as you'd expect. It's interesting that the Board delightfully continues to challenge itself and beat itself up about what are doing everything we can and we're doing the right thing. But it's interesting, if you come in new and you look back, this business really is a fundamentally different business than it was 5 years ago. I think that really does need to be remembered. Therefore, what are the priorities? I think first of all, whatever happens to the market, whatever happens to prices, whatever happens at the various commodity areas, the one thing that you can never excuse yourself on, is not doing everything you can which is in your control. And I think this annual drumbeat of continuing to drive cost, efficiency, productivity improvements, volume improvements by actually running our mines the best way we now can, we know how, better than the previous year and better than the competition is an annual drumbeat. And I think that's a really, really important thing to do. I think the other thing, I would say, is safety and environmental is so crucial to the mining industry. And that's from somebody who's coming new in. I'm very familiar with the manufacturing environment, but you can't choose where these mines are. They are where they are. So the environmental and their kind of community engagement thing is just so fundamental to success. And I was pleased to see Mark talking very early on about how disappointed we are in our safety performance. That step change remains to be required. In terms of priorities going forward, other than those, run things the best you can. I think we have to look at our business through an asset lens. And assets include mines, also brands. And that's the most important thing, you can -- it's clear to me, you can't market or talk your way out of a fundamental cost curve problem. So I think driving all of our assets regardless of which commodity they happen to sit in, to the left, and continuing to invest in those, which can be brought there, and can stay there, is key. They will therefore result in us being in the commodities we're in. And we will be, and continue to be a successful, diversified mining -- major mining company. And that's kind of -- few words from me.

Mark Cutifani
CEO & Director

Thanks, Stuart. [Minner?]

Unknown Analyst

It's [indiscernible] at [indiscernible]. Just 2 questions, one clarification. First on copper. Clearly the resource endowment is enormous, but the company doesn't seem to be fully in control, because the local extension that the [indiscernible] requires the corporation of Quellaveco to go through that wall between the 2 mines, and clearly, for Collahuasi you need to convince Glencore that is a good idea. And they have plenty of growth elsewhere. So why would they commit more capital? How do you extract yourself from this kind of slight dilemma? And secondly, on diamonds, I'm a bit confused. So when we talked about these last 2 years, the capability was always put at 36 million to 37 million carats from a production perspective. I understand we may be talking about 32 now, because it's so far out, and you don't give guidance that far out. So how should I look at that gap of 5 million? Has it come down to capability, or is it just you being cautious on guidance?

Mark Cutifani
CEO & Director

No, the -- firstly, let me pick up the diamonds point, that we've got the potential to hit 37 million carats, but there is a timing as we swing from open cut to underground, [Minner]. And we're doing some other incremental work. So those numbers are in Bruce's forward-looking forecast. So I won't say when and how, but we have that capacity. And, in fact, we know where those numbers are. What he is doing is making sure that we've got some flexibility in how we respond to the market. Because we don't want to bring that capacity on today, when the market's still reasonably well balanced. So it's a phasing issue as opposed to an absolute quantity issue, first point. Two, on copper, we're in and have been in very constructive conversations with CODELCO around the [indiscernible]. Those conversations continue. One of the difficult issues we have is that with the change of government, the senior management of CODELCO changes, but they're certainly been a good base established now, so we're going to continue working that through, and we think that's important. And we think there is a pathway there. On Collahuasi, we believe there's still a lot more improvement available, and we acknowledge the team's effort, Duncan, in terms of the improvements they've made. We want to keep seeing improvement, but we also believe, with the technical work Tony and Duncan are working on, there are some compelling new technologies that will really shape a different future for our copper business in Chile. And we think those arguments, but that need major capital leaks, in terms of delivery of improvement, by reduced water consumption, which is a no-brainer in that sort of environment. So we think, any partner we have in an asset that is sensible and rational and wants to make a lot in terms of returns, would consider those opportunities, but it's up to us to build the case, and we think we can.

Paul Joseph Douglas Gait
Sanford C. Bernstein & Co., LLC., Research Division

Paul Gait from Bernstein. Two questions, if I could. First on Kumba. So you've upped your guidance in terms of production. I'm just wondering, we used to talk a lot about the changes on the mine plant that had been made there. Should we sort of regard those production increases now as sort of sustainable into the longer term? Or was that sort of, could it come back down, sort of after the next sort of couple years? I know you're able to make those changes without sort of compromising the grade or the sort of lump fraction that you sort of distinguish that mine. The second question is outside South Africa, I mean, obviously, political changes there. We're also seeing Zimbabwe declaring itself open for business. Obviously, the great dike there is this really significant, sort of PGM resource. Do you think about moving outside of that South African footprint into Africa, more broadly?

Mark Cutifani
CEO & Director

Okay. On Kumba, I think, in many cases when I talk to people, I don't think people recognize how significant the changes were in spinning the mine around 90 degrees. When you say it quickly, it doesn't sound like much. And as Tony pointed out, it was a fairly significant change, which took about 2 years to execute. As a consequence, that's been the major shift. And the focus on equipment productivity, I think, we're up by a factor of 150% on our major shovels now. So the reason we're delivering additional tonnage is: one, the big change in the mine; and two, the underlying productivities of the equipment, we're operating track, it used to be 4,000 hours a year, it's now 6,000 hours, so our sustainable capital is also going down. So it's sustainable right -- it's a sustainable right pull. I think the life of mine is 13 to 15 years, Duncan? What Tony and Seamus and the team are working on now, what are the new technologies to try and enhance that resource space and build more life in the asset. So that's where the focus is now, Paul, and continuing cost reduction. We've got a great product. We get a lump premium, and our margins are matching the Pilbara as we speak today. How do we do better and protect that cost base with ongoing improvement? So it's cost and life are the 2 areas of focus for the business.

Stephen Thomas Pearce
Finance Director & Executive Director

The only thing I would add there is, is infrastructure capacity. So yes, we're working closely with Transnet, who provide the rail, and so making sure we're as efficient as we can onto the train, down the train line and in and through the port, is a real area of focus for us, even though we don't own and operate all of that aspect, but we are bumping up against some of those capacity constraints. And so, obviously then, the focus for improvement can be around grade and quality and which tonnes you do move down the lines, so we've got all those options in front of us.

Mark Cutifani
CEO & Director

Don't think, don't forget, Kolomela's making, when we started the work, we're at about $10 million off a design of $9 million, it's up near $14 million now. So again, underlying productivity improves have been quite significant in the operations. So in terms of [indiscernible] keep making each year a better year in terms of the underlying performance. So they've done a very, very good job.

On Unki, or Zimbabwe, I think there have been a number of statements. I think there's still a lot of work to be done. We need to see a lot more in terms of the policy framework, infrastructure, those sorts of things. So we'll continue to nurture Unki, I know Chris [indiscernible] has mastered, in terms of the quality of the resource effect. I think both Chris and Tony agree, it's a great resource, but we'd like to see a lot more color buoy before we think about taking any further steps. But we're continuing to nurture that operation and make sure we're doing the right things.

Sylvain Brunet
Exane BNP Paribas, Research Division

Sylvain Brunet with Exane BNP Paribas. First, on diamonds. We know the first quarter is always quite important for the midstream where they make their decisions. We've seen a couple of bankruptcies in the third quarter. Could you give us a sense of what happened in the fourth? And what is your perception of the mood in the midstream right now? Another question on diamonds, when we see a number of mines still ramping up until 2020, do you believe that this industry could secure enough pricing power before then? Another question on the working capital. To understand clearly the change in the payables and the prepayments you mentioned, should we treat that as a one-off or as a run rate from here or not? And lastly, on the $6 billion of cash you report in the consolidated accounts -- last one, out of the $6 billion, how much is in South Africa?

Mark Cutifani
CEO & Director

So I'll pick up the diamonds, and I know Stephen will have the numbers off the top of his hat. In terms of the mood of the sentiment, yes, there have been some bankruptcies. I'd like to make a point that one of the bankruptcies, and there has been a fraud case that's been broadly reported, has nothing to do with De Beers. It's a separate entity and involves banks, but there are no relationships with our business. And in fact, the financial reporting transparency piece that we have put in place is designed to identify and help us identify where those things may have occurred. And so, there's been a big change in De Beers out of the last 15 years, as you know. So they're not connected to us. Two, the mood generally has been pretty good. I think most importantly, the U.S. selling season was very positive. And the mood coming back has been quite strong. There are always a few that may be struggling for different reasons, but so far, the feedback has been good, and certainly, encouraging from our perspective, and again looking forward where we're cautious and slightly optimistic. I've learned in this business not to get too excited by one or two sites, so. But so far, so good. And certainly, the feedback's been pretty solid. In terms of mood, or in terms of new mines being built, remember, the diamond industry is really in a -- has really got a supply problem '20, '21, '22. So we don't think those new mines will disrupt. The industry needs more mines. I think, as an industry, the key is investing in new demand. And I think the commitment ourselves have made, and are also to the creditors made, those programs are going to be very important in making sure our product is front and center in terms of consumer choices. And I think that's the key for us. From our point of view, we don't think those new mines will materially impact, given what we think we can do with the demand. Stephen?

Stephen Thomas Pearce
Finance Director & Executive Director

Yes, thanks. So firstly on working capital. I suppose, broadly happy with where the levels are at today. So there'll be movements across whether it be creditors, prepayments, dealers, stock levels at different points in time, and at different times through the year. How much you come through with the weather patterns or diamond buying patterns and timing of sites, all that sort of thing. So you'll see some small pluses and minuses, but generally happy with the overall level. On -- I should have probably mentioned, on the debt capital structure and the cash and net debt, so net cash in South Africa, $3.4 billion and net debt in the rest of the world, $7.9 billion. So that's how you get to that net $4.5 billion. What you've seen, I sort of spoke about it more at the half year, and there's a slide in the appendix there in terms of the debt capital structure. So we've been progressively doing a number of things, extending the maturity, shaping the profile of maturities and also then looking at how we think about both the cash we have on hand, the undrawn facilities, and as we get control over our CapEx as we get certainty over our cost performance and cash flow, just bringing all those things down and progressively just tightening up and that don't all come for free. And so, yes, we can save, let's say, $100 million as we work through that strategy to tighten those things up. So that's where our focus is on that front.

Mark Cutifani
CEO & Director

Okay. I'll take one more question, and then we'll go to South Africa for a question.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Tyler Broda from RBC. I guess, the results from all of the companies have sort of shown that having amazingly, a strong balance sheet is no longer a scarce thing.

Stephen Thomas Pearce
Finance Director & Executive Director

It's still very valuable.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Which is, yes, still very valuable, I guess, definitely. But -- in terms of the syndication thoughts around Quellaveco, whether or not is, is the company sort of entertaining any thoughts of recycling that capital that's going to come in for what is a scarce growth, high return growth project in copper? So any thoughts about recycling that capital into another opportunity, to sort of keep the total exposure, but just to have it structured in a more different way?

Mark Cutifani
CEO & Director

I'll let Stephen have first crack, then I'll have a view as well.

Stephen Thomas Pearce
Finance Director & Executive Director

Yes, as you would expect, we're thinking through all the things you would think we would, as what we think about that investment decision and ultimate percentages. So some of it's about value, as Mark mentioned. And some of it is about how do we think about our balance sheet both in this opportunity and for the suite of other opportunities that may emerge largely within our existing portfolio or from without, and making sure that we do have that flexibility through all parts of the cycle, without overstretching on any 1 particular project or locking ourselves out with other value-creating opportunities. So we think about all the things you would expect, CapEx, cash flow, returns, other opportunities, sovereign risk, et cetera, et cetera. So they all are factoring into our decision, and will help inform where we eventually land.

Mark Cutifani
CEO & Director

For us, syndication of a major project is a strategic choice. In the end, we've learned a lot of lessons from Minas-Rio. We've applied those lessons to the project. But at the same time, we don't know what we don't know, irrespective the amount of work we do. The oil and gas industry worked out a long time ago, with these types of bets were near this lumpy, best to share that risk. So it's a strategic choice in the first instance. And we've made that point a number of times, and we'll keep making that point. Because Minas-Rio was also a 100% bet. It would have been a lot more easy to handle if we had shared some of that risk. And so again, we've got Duncan and Tony and the guys, absolute brilliant work on Quellaveco, but there are still things we don't know, we don't know. So it is strategic. And I think, secondly, when we've got capital -- when we've got the business, the allocation model is absolutely critical. So debt, dividend, investment in the right places, and every dollar of capital goes through a stringent justification, competition stage guiding process. I'll keep saying it, because it's a disciplined we as an industry haven't demonstrated to our shareholders. And for 5 years, we've been there and we're going to stay there. South Africa? I do owe 1 back here, but I'll go to South Africa, if I can take South Africa.

Operator

Kieran Daly from UBS.

Kieran Daly
UBS Investment Bank, Research Division

Mark, we are at that point in the cycle where companies have started to look at their, and even list in their presentations, on the potential growth projects, mainly brownfields. You obviously have Quellaveco as your sort of first cab off the ranks, shall we say in terms of growth. Then just to see that you put Moroanbah South in the brownfield slide that you have there. I just wonder, what's the latest on Moroanbah South? I mean I suppose to some extent it is brownfield, a little tie-in with Grosvenor Moroanbah North, as I understand it, but just wondering what's your current thinking around Moroanbah South is? And also obviously, you have partner there that was looking to sell out their share, but it doesn't look like they are going to right now, so just some thoughts on that, please?

Mark Cutifani
CEO & Director

Yes, certainly, Quellaveco is the most advanced. And certainly, from our point of view, it's a great project in what appears to be a very good commodity position. So very excited, but there's still work to be done. What we're trying to demonstrate is we've got portfolio or good opportunities across the portfolio, Seamus and the guys have had a run at some money in terms of Grosvenor. We've got Minas-Rio that we're still working through. But I think as you broaden the -- for people to understand, we've got other options, but the team's got to demonstrate delivery, getting the margins, delivering on cash flow. And in the future, we have other options in the portfolio that the guys are thinking about. And that was the point we wanted to make is, we've got a portfolio of opportunities that will compete for capital. And at some point, when it's appropriate, we will look at all of those options. And that was the point we're making here. And we're certainly not on the -- we've certainly not got it at the stores ready to go, just making a point of opportunity.

Stephen Thomas Pearce
Finance Director & Executive Director

Some of more long-dated than others, [indiscernible].

Stuart John Chambers
Chairman of the Board

I could just take other questions in the -- we'll just have the other questions in the roundtable, please. Thanks.

Mark Cutifani
CEO & Director
Okay. Thank you, ladies and gentlemen. I believe we have a roundtable. Thank you for joining us today. Very much appreciate your participation. And again, focus on the assets, capabilities and making sure that we continue to hold our discipline in terms of delivering returns. Thank you.