MANAGING RISK
OUR APPROACH

The management of risk is critical to the success of Anglo American. The Group is exposed to a variety of risks which can have a financial, operational or reputational impact. Effective management of risk supports the delivery of the Group's objectives and achievement of sustainable growth.

David Challen
Chairman, Audit Committee

Understanding our key risks and developing appropriate responses is critical to our future success. We are committed to a robust system of risk identification and effective response to such risks.

THE RISK MANAGEMENT PROCESS

HOW DO WE MANAGE RISK?

The approach to management of risk is to:

- Identify the key risks that could have a significant impact on the ability of the Group to achieve its objectives, at an early stage
- Analyse risks and controls
- Ensure appropriate responses are put in place to mitigate the risks
- Monitor the effectiveness and implementation of controls
- Regular reports to the audit committee

Identifying risks
A consistently applied methodology is used to identify key risks at Group business units, operations and projects. The risk management process is undertaken through a series of risk workshops at least annually at business units, sites and at key stages in projects. An update is performed every six months.

Analysing risks and controls
Once identified, the process will evaluate those risks to establish financial and non-financial impacts, likelihood of occurrence and root causes. Consideration of current controls to mitigate those risks is also undertaken to enable a prioritised register of risks to be created.

Determining management actions
If additional controls are required these will be identified and responsibilities assigned.

Reporting and monitoring
Management is responsible for monitoring progress of actions to mitigate key risks and is supported through the Group's internal audit programme, which evaluates the design and effectiveness of controls to mitigate key risks.

The results of the key risk management process are reported to the Audit Committee every six months.

ANGLO AMERICAN RISK FACTORS

Commodity prices

Commodity prices for all products that Anglo American produces are subject to wide fluctuation.

Impact: Commodity price volatility can result in material and adverse movement in the Group's operating results, asset values, revenues and cash flows.

Falling commodity prices could prevent the Group from completing certain transactions that are important to its business and which may have an adverse affect on its financial position – e.g. inability to sell assets at values or within timelines expected.

If commodity prices remain weak for a sustained period, the ability of the Group to deliver growth in future years may be adversely affected as growth projects may not be viable at lower prices.

Root cause: Commodity prices are determined primarily by international markets and global supply and demand. The demand for commodities will largely be determined by the strength of the global economic environment.

Mitigation: The diversified nature of the commodities that Anglo American produces provides some protection to this risk, and the policy of the Group is not to engage in commodity price hedging.

The Group constantly monitors the markets in which it operates and reviews capital expenditure programmes to ensure supply of product reflects forecast market conditions.

Liquidity risk

The Group is exposed to liquidity risk in terms of being able to fund operations and growth.

Impact: If the Group is unable to obtain sufficient credit due to capital market conditions, it may not be able to raise sufficient funds to develop new projects, fund acquisitions or meet its ongoing financing needs. As a result, revenues, operating results, cash flows or financial position may be adversely affected.

Root cause: Liquidity risk arises from uncertainty or volatility in the capital or credit markets due to perceived weaknesses of the global economic environment or possibly as a response to shock events.

Mitigation: The Group has an experienced Treasury team who are responsible for ensuring that there are sufficient committed loan facilities in place to meet short term business requirements after taking into account cash flows from operations and holdings of cash, as well as any Group distribution restrictions which exist. The Group limits exposure on liquid funds through a policy of minimum counterparty credit ratings, daily conterparty settlement limits and exposure diversification.

Counterparty risk

The Group is exposed to counterparty risk from customers, certain suppliers and holders of cash.

Impact: Financial losses may arise should those counterparties become unable to meet their obligations to the Group.

Root cause: Severe economic conditions or shock events as experienced in recent years can have a major impact on the ability of financial institutions and other counterparties that the Group has relationships with to meet their obligations.

Mitigation: The Group Treasury team is responsible for managing counterparty risk with banks where Anglo American places cash deposits. However, the Treasury operations of joint ventures and associates, including De Beers, are independently managed and may expose the Group to financial risks.

For other counterparty risks the Group's businesses have in place credit management procedures.

Currency risk

The Group is exposed to currency risk where transactions are not conducted in US dollars.

Impact: Fluctuations in the exchange rates of the most important currencies influencing operating costs and asset valuations (the South African rand, Chilean peso, Brazilian real, Australian dollar, and pound sterling) may adversely affect financial results to a material extent.

Root cause: The global nature of the Group's businesses exposes the Group to currency risk.

Mitigation: Given the diversified nature of the Group, the Group's policy is generally not to hedge currency risk. Mitigation in the form of foreign exchange hedging is limited to debt instruments and capital expenditure on major projects.

Inflation

The Group is exposed to potentially higher rates of inflation in the countries in which it operates.

Impact: Higher rates of inflation may increase future operational costs if there is no concurrent depreciation of the local currency against the US dollar, or an increase in the dollar price of the applicable commodity.

This may have a negative impact on profit margins and financial results.

Root cause: Cost inflation in the mining sector is more apparent during periods of high commodity prices as demand for input goods and services can exceed supply.

Mitigation: The Group manages costs very closely through its asset optimisation and supply chain initiatives and, where necessary, through making efficiencies in employee and contractor numbers.

Health and safety		
Failure to maintain the high levels of safety management can result in harm to the Group's employees, contractors, communities near our operations and damage to the environment. Occupational health risks to employees and contractors include noise-induced hearing loss, occupational lung diseases and tuberculosis (TB). HIV/AIDS in sub-Saharan Africa in particular is a threat to economic growth and development.	**Impact:** In addition to injury, health and environmental damage, impacts could include fines and penalties, liability to employees or third parties, impairment of the Group's reputation, industrial action or inability to attract and retain skilled employees. Government authorities may force closure of mines on a temporary or permanent basis or refuse mining right applications. The recruitment and retention of skilled people required to meet growth aspirations can be impacted by high rates of HIV/AIDS.	**Root cause:** Mining is a hazardous industry and working conditions such as weather, altitude and temperature can add to the inherent dangers of mining, whether underground or in open pit mines. **Mitigation:** Anglo American sets a very high priority on safety and health matters. A safety risk management process, global standards and a safety and environment assurance programme form part of a consistently applied robust approach to mitigating safety risk. Anglo American provides anti-retroviral therapy to employees with HIV/AIDS and undertakes education and awareness programmes to help prevent infection or spread of infection.
Environment		
Certain of the Group's operations create environmental risk in the form of dust, noise or leakage of polluting substances from site operations and uncontrolled breaches of tailings dam facilities, generating harm to the Group's employees, contractors, the communities near the Group's operations, air quality, water purity and land contamination.	**Impact:** Potential impacts include fines and penalties, statutory liability for environmental remediation and other financial consequences that may be significant. Governments may force closure of mines on a temporary or permanent basis or refuse future mining right applications.	**Root cause:** The mining process, including blasting and processing orebodies, can generate dust and noise and will require the storage of waste materials in liquid form. **Mitigation:** The Group implements a number of initiatives to monitor and limit the impact of its operations on the environment.
Exploration		
Exploration and development are costly activities, with no guarantee of success, but are necessary for future growth.	**Impact:** Failure to discover new reserves of sufficient magnitude could adversely affect future results and the Group's financial condition. **Root cause:** Exploration and development are speculative activities and often take place in challenging or remote locations from a climate, altitude or political perspective.	**Mitigation:** The Group invests considerable sums each year in focused exploration programmes to enable resource discovery and development to reserves. This investment includes the use of leading technology in exploration activity.
Political, legal and regulatory		
The Group's businesses may be affected by political or regulatory developments in any of the countries and jurisdictions in which the Group operates, including changes to fiscal regimes or other regulatory regimes.	**Impact:** Potential impacts include restrictions on the export of currency, expropriation of assets, imposition of royalties or other taxes targeted at mining companies, and requirements for local ownership or beneficiation. Political instability can also result in civil unrest, nullification of existing agreements, mining permits or leases. Any of these may adversely affect the Group's operations or results of those operations.	**Root cause:** The Group has no control over local political acts or changes in local tax rates. It recognises that its licence to operate through mining rights is dependent on a number of factors, including compliance with regulations. **Mitigation:** The Group actively monitors regulatory and political developments on a continuous basis.

Climate change

The Group's operations are exposed to changes in climate and the need to comply with changes in the regulatory environment aimed at reducing the effects of climate change.

Impact: Potential impacts from climate change are difficult to assess and will depend on the circumstances at individual sites, but could include increased rainfall, flooding, water shortages and higher average temperatures. These may increase costs, reduce production levels or impact the results of operations.

Policy developments at an international, national and sub-national level, including those related to the 1997 Kyoto Protocol and subsequent international agreements and emissions trading schemes, could adversely affect the profitability of the Group. Regulatory measures may affect energy prices, demand or the margins achieved for carbon intensive products such as coal.

Root cause: The Group is a significant user of energy and one of the key commodities it produces is coal.

Mitigation: In addition to the initiatives to monitor and limit the impact of operations on the environment, the Group continuously seeks to reduce energy input levels into its operations. The asset optimisation programme seeks to make operations more energy efficient.

Supply risk

The inability to obtain key consumables, raw materials, mining and processing equipment in a timely manner.

Impact: Any interruption to the Group's supplies or increases in costs adversely affects the Group's financial position and future performance.

Root cause: During strong commodity cycles, increased demand can be experienced for such supplies, resulting in periods when supplies are not always available to meet demand.

Anglo American has limited influence over manufacturers and suppliers.

Mitigation: The Group takes a proactive approach to developing relationships with critical suppliers and improving the effectiveness of the Group's purchasing leverage.

Reserves and resources

The Group's Mineral Resources and Ore Reserves are subject to a number of assumptions which may be incorrect.

Impact: Fluctuations in the price of commodities, production costs and recovery rates may have an impact on the financial condition and prospects of the Group.

Root cause: All assumptions related to reserves and resources are long term in nature and are subject to volatility owing to economic, regulatory or political influences.

Mitigation: The Group is very experienced in managing reserves and resources and has robust procedures to reduce the likelihood of significant variation. All factors are consistently monitored by management.

The Group's policy on reporting of ore reserves and mineral resources is set out on pages 172 to 194.

Operational performance and project delivery

Failure to meet production targets or project delivery timetables and budgets.

Impact: Increased unit costs may arise from failure to meet production targets affecting the results of operations and financial performance. Failure to meet project delivery timetables and budgets may affect operational performance, delay cash inflows, increase capital costs and reduce profitability, as well as have a negative impact on the Group's reputation.

Root cause: Increasing regulatory, environmental, access and social approvals can increase construction costs and introduce delays.

Mitigation: Management oversight of operating performance and project delivery through regular executive management briefings, a continuous focus on improvement of operations through the asset optimisation programme, and consistent application of the Group's methodology for new projects are key to managing this risk.

Event risk		
Damage to physical assets from fire, explosion, natural catastrophe or breakdown of critical machinery.	**Impact:** The direct costs of repair or replacement combined with business interruption losses can result in financial losses. **Root cause:** Some of the Group's operations are located in areas exposed to natural catastrophe such as earthquake/extreme weather conditions. The impact of climate change may intensify the severity of weather events. The nature of the Group's operations exposes it to failure of mining pit slopes and tailings dam walls, fire, explosion and breakdown of critical machinery, with long lead times for replacement.	**Mitigation:** Specialist consultants are engaged to analyse such event risks on a rotational basis and provide recommendations for management action to prevent or limit the effects of such a loss. Contingency plans are developed within the Group to respond to significant events and recover normal levels of business activity. The Group purchases insurance to protect itself against the financial consequences of an event, subject to availability and cost.
Employees		
The ability to recruit, develop and retain appropriate skills for the Group. A risk of strike or other industrial relations disputes may occur.	**Impact:** Failure to retain skilled employees or to recruit new staff may lead to increased costs, interruptions to existing operations and delay in new projects. Industrial disputes may have an adverse effect on production levels, costs and the results of operations. **Root cause:** The Group is subject to global competition for skilled labour. The location of the Group's assets and development projects can be remote or in countries where it is challenging to recruit suitably skilled employees or transfer employees from other parts of the Group. Employees in the key countries where the Group operates are unionised. Negotiations over wage levels or working conditions can sometimes fail to result in agreement.	**Mitigation:** An appropriate suite of reward and benefit structures is in place for new and existing employees, while work to position Anglo American as an attractive employee proposition is ongoing. The Group also seeks to simplify employee moves across business units and countries. A process of constructive dialogue and maintenance of effective working relationships with union leaders is sought.
Contractors		
Inability to employ the services of contractors to meet business needs or at expected cost levels.	**Impact:** Disruption of operations or increased costs may arise if key contractors are not available to meet production needs. Delays in start-up of new projects may also occur.	**Root cause:** Mining contractors are used at a number of the Group's operations to develop mining projects, mine and deliver ore to processing plants. In periods of high commodity prices, demand for contractors may exceed supply. **Mitigation:** Effective planning and establishment of effective working relationships with key contractors are utilised to mitigate this risk.
Business integrity		
Failure to prevent acts of fraud, bribery, corruption or anti-competitive behaviour.	**Impact:** Potential impacts include prosecution, fines, penalties and reputation damage. The Group may suffer financial loss if it is the victim of a fraudulent act. **Root cause:** In certain countries where the Group operates the risk of corruption is high, as indicated by indices prepared by independent non-governmental organisations (NGOs).	**Mitigation:** The Group has very clear principles on the manner in which it conducts its business and expects all employees to act in accordance with its values. Policies and awareness programmes are in place to ensure consistent understanding of the Group's expectations. The Group's internal control environment is designed to prevent fraud and is regularly reviewed by an internal audit team to provide assurance that controls are designed and operating effectively.

Risk	Impact	Root cause / Mitigation
Joint ventures		
Failure to achieve expected standards of health, safety and environment performance in joint ventures.	**Impact:** If similar standards are not implemented in joint ventures, higher costs or lower production may result and have a bearing on operational results, asset values or the Group's reputation.	**Root cause:** Some of the Group's operations are controlled and managed by joint venture partners, associates or by other companies. Management of non-controlled assets may not comply with the Group's standards. **Mitigation:** The Group seeks to mitigate this risk by way of a thorough evaluation process before commitment to any joint venture and implementation of ongoing governance processes in existing joint ventures.
Acquisitions and divestments		
Failure to achieve expected benefits from any acquisition or value from assets or businesses sold.	**Impact:** Failing to deliver expected acquisitions can result in adverse financial performance, lower production volumes or problems with product quality. The Group could find itself liable for past acts or omissions of the acquired business without any adequate right of redress. Failure to achieve expected values from the sale of assets or delivery beyond expected receipt of funds may result in higher debt levels, underperformance of those businesses and possible loss of key personnel.	**Root cause:** Benefits may not be achieved as a result of changing or incorrect assumptions or materially different market conditions or deficiencies in the due diligence process. Delays in the sale of assets or reductions in value may arise due to changing market conditions. **Mitigation:** Rigorous guidelines are applied to the evaluation and execution of all acquisitions that require the approval of the Investment Committee and Group Management Committee and, subject to size, the Board.
Infrastructure		
Inability to obtain adequate supporting facilities, services and installations (water, power, road, rail and port, etc.)	**Impact:** Failure to obtain supporting facilities may affect the sustainability and growth of the business, leading to loss of competitiveness, market share and reputation. Failure of rail or port facilities may result in delays and increased costs as well as lost revenue and reputation with customers. Failure to procure shipping costs at competitive market rates may reduce profit margins.	**Root cause:** The potential disruption of ongoing generation and supply of power is a risk faced by the Group in a number of countries in which it operates. The Group's operations and projects can be located in countries or regions where power and water supplies are not certain and may be affected by population growth, the effects of climate change or lack of investment by owners of infrastructure. The Group relies upon effective rail and port facilities for its products and will be expected to provide shipment of product in some circumstances to customers' premises. The Group relies on third parties to provide these services. **Mitigation:** The Group seeks to work closely with suppliers of infrastructure to mitigate the risk of failure and has established contingency arrangements. Long term agreements with suppliers are sought where appropriate.
Community relations		
Disputes with communities may arise from time to time.	**Impact:** Failure to manage relationships with local communities, government and NGOs may disrupt operations and adversely affect the Group's reputation as well as its ability to bring projects into production. **Root cause:** The Group operates in several countries where ownership of rights in respect of land and resources is uncertain and where disputes in relation to ownership or other community matters may arise. The Group's operations can have an impact on local communities including the need, from time to time, to relocate communities or infrastructure networks such as railways and utility services.	**Mitigation:** The Group has developed comprehensive processes to enable its business units to effectively manage relationships with communities and actively seeks engagement with all communities impacted by the Group's operations.