Chairman's statement

"During 2007, Anglo American made great progress in becoming a focused mining company and showed it is prepared to pursue new business opportunities more aggressively in order to seek out and unlock value"

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Anglo American delivered another exceptional financial performance in 2007. We made significant progress in achieving our strategic objective of becoming a focused mining group, principally through the demerger of Mondi, the decision to sell Tarmac, our construction materials business, and the further reduction in our holdings in AngloGold Ashanti and Tongaat-Hulett. This greater focus provided a strong platform for the Group to move into a more expansionary mode where value creating opportunities exist.

Given the greater homogeneity between our mining businesses, important steps are being taken to realise the benefits of a 'One Anglo' approach in relation to procurement, support services, talent and knowledge management.

2007 was another disappointing year for safety, with 40 fatalities – a reduction of only four over the prior year. The Board strongly endorsed the much higher profile on safety adopted by our new chief executive. Cynthia Carroll has succeeded in communicating that 'business as usual' is not an acceptable approach in the face of the deaths and injuries occurring at some of our operations. There may be some loss of production in the short term, but this is a sacrifice well worth making if it produces a safety performance based upon a culture of care and respect for our workforce and contractors. Moreover, we believe that safe operations generally excel in terms of efficiency and productivity. There were signs of improvement in the second half of the year, but it is too early to say if this is sustainable.

Changing global economy

The growth of China, India and other emerging markets is transforming the balance of power in the world economy at an unprecedented rate. This will involve the emergence of more customers and competitors as well as potential partners from these countries. Given our well-established presence in China and our commitment to develop projects there, we are well placed to build from this platform.

High commodity prices have sharpened the competition between stakeholders – governments, communities, unions, suppliers – to secure a bigger share of the current market upside. We have seen changes in the fiscal regime of a number of countries to reflect this. As part of our empowerment transactions in South Africa we have sought to encourage equity participation by local communities and employees.

Benefits to communities

Throughout the world we are seeking to increase the beneficial development impacts of our operations. I would highlight two strands of work. Firstly, our Socio-Economic Assessment Toolbox (SEAT) process which progressed to an updated version in 2007. This improves the understanding of people in our operations of the needs and priorities of their local communities and enables them to make a greater contribution to local development. Secondly, we are seeking to replicate the success of our South African enterprise development unit, Anglo Zimele. This is already being achieved in Chile where our microfinance initiative helped over 900 business people to get established last year. During 2008, we hope to establish a similar initiative in Brazil.

However, if companies are to have a continuing incentive to invest and to develop deposits in riskier jurisdictions, all stakeholders need to recall the cyclical nature of our business and the current intense cost pressures facing the industry. Benefit sharing models have to reflect periods of market weakness as well as the good times.

The current commodity cycle has been driven by both strong demand and limited supply. Demand has been strong against a backdrop of synchronised expansion across the major economies and has been fuelled by rapid urbanisation in China.

Significant supply constraints include over-heating in the supply chain and the fact that projects are typically taking longer to secure the necessary consents. But a crucial learning is the role that sustainable development concepts will play as we bring new operations to account. Thus, we find ourselves giving increasing attention to skills, energy security and climate change, water shortages and the legacy in a number of countries of under-investment in critical infrastructure.

In response to skills shortages, we are investing strongly in scholarships, bursaries and internships, pre-employment training and in raising the educational attainments of some of our existing workforce to enable them to progress. For the longer term, the Anglo American-funded Epoch and Optima trusts have identified the teaching of maths and science in South African schools as a priority – resulting in an annual injection of approximately $5 million of additional funds.

Energy and water challenges

Last year will be seen as the year when electricity supplies began to move noticeably out of balance with demand in a number of important countries where we operate, including South Africa, Chile and Brazil. The ability to resolve these shortfalls is constrained by the high costs of construction and limited availability of key capital goods. Thus, a key objective is to achieve a step-change in our energy efficiency. This will, in turn, contribute to our environmental objective of reducing our carbon footprint – alongside abatement projects such as using methane in electricity generation or carbon capture and storage in Australia; co-investment in the FutureGen project in the US; and taking forward Clean Development Mechanism projects.

Water shortages have become more pronounced in a number of important mining countries. This requires us to innovate. In South Africa, for example, it has led to the establishment of the Emalahleni water treatment plant which converts waste mine water into water suitable for domestic and industrial uses. We also need to improve the efficiency of our production processes. An example of this is our Los Bronces expansion project in Chile where we will reduce our use of fresh water by some 40% per tonne of copper produced.

Board and employees

In regard to Board membership, I would like to note the departure of Tony Trahar who stepped down as chief executive in March; David Hathorn, chief executive of Mondi; Simon Thompson, executive director of Anglo American plc; and of Bobby Godsell, who retired last year as chief executive of AngloGold Ashanti and who is stepping down from our Board after many years' service to the Group in both executive and non-executive roles. Ralph Alexander also retired as a non-executive director as a result of other work commitments. I would like to record our thanks to each of them. As part of the process of refreshing the Board, I am pleased that Sir CK Chow has agreed to submit himself for election as a director at the AGM.

In closing, I would like to thank our employees for their work in delivering a further set of impressive results and in contributing to the countries and communities where we work. ■

Sir Mark Moody-Stuart
Chairman