Principal risks and uncertainties

Understanding our key risks and developing appropriate responses to those risks is key to Anglo American's success

Anglo American is exposed to a variety of risks and uncertainties which may have a financial or reputational impact on the Group and which may also impact the achievement of social, economic and environmental objectives. These risks include strategic, commercial, operational, compliance and financial risks. The principal risks and uncertainties facing the Group have been categorised into headline risk areas. The Group's approach to risk management is set out in the corporate governance section on pages 65 to 69.

The key headline risks identified for 2008, potential impacts on the Group and the mitigation strategies are summarised below.

Key headline risks

Safety, health and environment

Mining is a hazardous industry and failure to adopt high levels of safety management can result in a number of negative outcomes; harm to our employees and the communities that live near our mines, harm to the environment as well as fines and penalties, liability to employees and third parties for injury and loss of reputation. Anglo American sets a very high priority on safety, health and environmental issues. Anglo American recognises the HIV/AIDS epidemic in sub-Saharan Africa is a significant threat to economic growth and development. In 2002 the Group announced it would provide anti-retroviral therapy to employees with HIV/AIDS. Anglo American also invests considerable resources in research and development to minimise the impact the Group's operations have on the environment, for example seeking ways to improve energy efficiency. The Group believes it must make an enduring contribution to the societies in which it operates, and implements principles of sustainable development. In doing so the Group aspires to forge good relationships with its local communities.

Treasury and capital risk management

The Group's principal treasury policies are set by the Board. The Group treasury acts as a service centre and operates within clearly defined guidelines that are approved by the Board. Treasury front office and treasury back office are segregated and report to separate executive positions. The Anglo American accounting department provides an independent control function to monitor and report on treasury activities, which are also subject to regular review by internal and external audit.

The treasury operations of the Group's associate, De Beers, are independently managed.

The Group is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. As a consequence of its global operations the Group is exposed to currency risk where transactions are not conducted in dollars, where assets and liabilities are not determined in dollars or where assets and liabilities are not dollar denominated.

Commodity prices determined primarily by international markets and global supply and demand give rise to commodity price risk across the Group. The recent strong commodity price cycle has been due in part to economic growth in China and other developing nations. Any reduction in growth could have a negative impact on commodity prices with a resulting adverse effect on financial performance. Cash deposits and other financial instruments, including trade receivables due from third parties, give rise to counterparty credit risk.

Further details of these risks and their management are provided in note 25 to the financial statements. In addition, the Group's capital structure and its capital risk management policy is set out in note 25 to the financial statements.

The main exchange rates giving rise to currency risk in the Group are shown on page 109.

Sensitivity analysis in respect of currency and commodity prices

Set out below is the impact on underlying earnings of a 10% fluctuation in some of the Group's commodity prices and exchange rates.

Commodity currency	Average price/rate(6)	10% sensitivity US$ million(1)
Platinum	$1,304/oz	152
Palladium	$355/oz	25
Coal	$63/t(2)	199
Copper	323 c/lb(3)(4)	333
Nickel	1,686 c/lb(3)	104
Zinc	147 c/b(3)	85
Iron ore	$61/t(5)	91
ZAR/USD	7.05	278
AUD/USD	1.19	95
CLP/USD	522	27
GBP/USD	0.50	4

(1) Excludes the effect of any hedging activities. Stated after tax at marginal rate. Sensitivities are the average of the positive and negative and reflect the impact of a 10% change in the average prices received and exchange rates during 2007. Increases in commodity prices increase underlying earnings and vice versa. A strengthening of the rand, Australian dollar and Chilean peso relative to the US dollar reduces underlying earnings and vice versa. A strengthening of the pound sterling relative to the US dollar increases underlying earnings and vice versa.
(2) Average price represents RSA-API 4 index. Sensitivity reflects the impact of a 10% change in the average price across the entire Anglo Coal product portfolio.
(3) Being the average LME price. Sensitivity reflects the impact of a 10% change in the average price received.
(4) Copper sensitivity excludes the impact of provisionally priced copper from 2006. At 31 December 2007 there were 140,137 tonnes of provisionally priced copper sales, marked at 302 c/lb (2006: 140,098 tonnes, marked at 287 c/lb).
(5) Average price represents iron ore lump. Sensitivity reflects the impact of a 10% change in the average price across lump and fine.
(6) 'oz' denotes ounces, 't' denotes tonnes, 'c' denotes US cents, 'lb' denotes pounds.

Principal risks and uncertainties continued

Supplier risk
The strong commodity cycle experienced in recent years has resulted in increased competition for critical supplies. This increased demand can cause circumstances where supplies are unable to be fulfilled as required or involves cost increases above normal inflation rates. The Group has a proactive approach to procurement that aims to minimise the impact of this risk through maximisation of purchasing leverage across the business.

Contractors
Mining contractors are used at certain of our operations to mine and deliver ore to processing plants. In periods of high commodity prices, demand for contractors may exceed supply, resulting in increased costs or a lack of availability of key contractors. The group mitigates this risk through relationship management and planning activity.

Political, legal and regulatory
Businesses may be affected by any political or regulatory developments in any of the countries and jurisdictions in which they operate, including changes to fiscal regimes or other regulatory regimes, which may result in restrictions on the export of currency, expropriation of assets and imposition of royalties. The Group has no control over changes in local inflation, market interest rates or political acts or omissions which may deprive the Group of the economic benefits of ownership of its assets. The Group actively monitors regulatory and policy developments.

The Venezuelan mining ministry has initiated proceedings to terminate Anglo American's exploration and exploitation concessions. Further details are provided on page 41.

Inflation
As the Group is unable to control the market price at which the commodities it produces are sold (except for any forward sales or derivative contracts) it is possible that higher inflation in the countries Anglo American operates may result in an increase in future operational costs without a concurrent devaluation of the local currency against the dollar or an increase in the dollar price of the applicable commodities. Cost inflation in the mining sector is more apparent during periods of high commodity prices as demand can exceed supply.

Anglo American mitigates this risk through a close monitoring of costs, implementation of cost saving strategies and maximising leverage of purchasing spend across the business.

Event risk
Damage to or breakdown of a physical asset including risk of fire and explosion, can result in loss of revenue or consequential losses. The Group's operations can be exposed to natural risks such as extreme weather conditions. Specialist consultants are engaged to provide information regarding key event exposures and recommendations to reduce exposures. Anglo American seeks to purchase insurance to protect against catastrophic event risk though conditions in global insurance markets mean this is not always possible or economic at certain times.

Reserves and resources
The Group's mineral resources and ore reserves estimates are subject to a number of assumptions, including the price of commodities, production costs and recovery rates. Fluctuations in these variables may have an impact on the long term financial condition and prospects of the Group. In South Africa, the Minerals and Petroleum Resources Development Act (2002) provides for conversion of existing mining and exploration rights to 'new order rights'. Conversion of these rights is subject to a variety of conditions and undertakings by the applicant, including employment, skills development and ownership by historically disadvantaged South Africans (HDSAs), specifically 15% ownership by 2009 and 26% by 2014. In February 2008, the South African Department of Minerals and Energy confirmed it would award Anglo American with all its new order mining rights, subject to completion of outstanding documentation, by 31 March 2008. Details of this conversion process and the Group's policy on reporting of Ore Reserves and Mineral Resources with reference to the Act are expanded on in the specific section on Ore Reserves and Mineral Resources estimates.

Exploration
Exploration and development of mines is costly and can be unproductive but failure to discover new reserves in sufficient amounts could adversely affect future results and the Group's financial condition. Anglo American mitigates this risk through a dedicated Exploration Division with experience and expertise in mine development.

Employees
The ability to recruit, develop and retain the appropriate skills for Anglo American is made difficult by global competition for skilled labour amongst resource companies, particularly in periods of high commodity prices. A number of strategies are implemented to mitigate this risk including attention to an appropriate suite of reward and benefit structures and ongoing refinement of Anglo American as an attractive employee proposition.

Employees in the key countries that Anglo operates are unionised and risk of strike or other industrial relations disputes could have an adverse effect on results of operations. Anglo American mitigates this risk through a process of constructive dialogue with unions and relationship management.

Operational performance
Failure to meet production targets results in increased unit costs. The impact is more pronounced at operations with a high level of fixed costs. Mitigation strategies include efforts to secure strategic supplies at competitive prices, energy reduction, increased use of green energy and sale of excess emission credits, use of cheaper alternative inputs, application of group water management guidelines and business improvement initiatives to reduce unit costs. In addition, the Group manages a strong project pipeline. In doing so the Group must manage the associated risk of meeting project delivery times and costs.

Community relations
The Group operates in several countries where ownership of rights in respect of land and resources are uncertain and where disputes in relation to ownership or other community matters may arise. These disputes cannot be predicted and hence they may cause disruption to projects. The Group has implemented a process to assess and manage community relationship issues and will work to form good relationships with local communities.

Acquisitions

The Group has undertaken a number of acquisitions in the past. With these, as with any such future transaction, there is the risk that any benefits or synergies identified at acquisition may not be achieved. Rigorous guidelines are applied to the evaluation and execution of all acquisitions, which require approval of the Investment Committee and Chief Executive's Committee and, in the case of acquisitions beyond a certain value, the approval of the Board.

Infrastructure

Inadequate supporting facilities, services, installations (water, power, transportation, etc.) may impact the sustainability and/or growth of the business, leading to loss of competitiveness, market share and reputation. An example of the type of transportation risks that can have an effect on the Group's businesses are described in further detail on page 49. Anglo American promotes early development of strategy and alignment with infrastructure owner/operator, development of relationships, participation in industry groups and lobbying to ensure effective provision of services by key utility providers.

Critical accounting judgements and key sources of estimation and uncertainty

In the process of applying the Group's accounting policies, which are presented in note 1 to the financial statements, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact on the financial statements. The most critical of these are:

Useful economic lives of assets and ore reserves estimates

The Group's mining properties, classified within tangible assets, are depreciated over the respective life of the mine using the unit of production (UOP) method based on proven and probable reserves. When determining ore reserves, assumptions that were valid at the time of estimation may change when new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

The calculation of the UOP rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proven and probable mineral reserves. These factors could include:

- changes of proven and probable mineral reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of mineral reserves.

The majority of other tangible assets are depreciated on a straight line basis over their useful economic lives. Management reviews the appropriateness of assets useful economic lives at least annually and, again, any changes could affect prospective depreciation rates and asset carrying values.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of those assets, or CGU, is measured as the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate CGUs, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the CGU allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Restoration, rehabilitation and environmental costs

Provision is made, based on net present values, for restoration, rehabilitation and environmental costs as soon as the obligation arises. Costs incurred at the start of each project are capitalised and charged to the income statement over the life of the project through depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage are provided at net present value and charged against profits as extraction progresses. Environmental costs are estimated using either the work of external consultants or internal experts. Management uses its judgement and experience to provide for and amortise these estimated costs over the life of the mine.

Retirement benefits

The expected costs of providing pensions and post retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the income statement. Any actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the consolidated statement of recognised income and expense.

Assumptions in respect of the expected costs are set after consultation with qualified actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings of the Group.

Special items

Operating special items are those that management considers, by virtue of their size or incidence, should be disclosed separately to ensure that the financial information also allows an understanding of the underlying performance of the business. The determination as to which items should be disclosed separately requires a degree of judgement.