

AUDIT COMMITTEE REPORT

HOW DO WE ENSURE INDEPENDENCE OF THE EXTERNAL AUDITORS?

Anglo American's policy on auditors' independence, is consistent with the ethical standards published by the Audit Practices Board.

A key factor that may impair auditors' independence is a lack of control over non audit services provided by the external auditors. In essence, the external auditors' independence is deemed to be impaired if the auditors provide a service which:

- results in the auditors acting as a manager or employee of the Group
- puts the auditors in the role of advocate for the Group; or
- creates a mutuality of interest between the auditors and the Group.

Anglo American addresses this issue through three primary measures, namely:

- disclosure of the extent and nature of non audit services
- the prohibition of selected services – this includes the undertaking of internal audit services
- prior approval by the Audit Committee chairman of non audit services where the cost of the proposed assignment is likely to exceed \$50,000.

Anglo American's policy on the provision of non audit services is regularly reviewed. The definition of prohibited non audit services corresponds with the European Commission's recommendations on auditors' independence and with the Ethical Standards issued by the Audit Practices Board in the UK.

What other safeguards exist?

- The external auditors are required to adhere to a rotation policy based on best practice and professional standards in the United Kingdom. The standard period for rotation of the audit engagement partner is five years and, for any key audit partner, seven years. The audit engagement partner was appointed in 2010 in accordance with this requirement.

- Any partner designated as a key audit partner of Anglo American shall not be employed by Anglo American in a key management position unless a period of at least two years has elapsed since the conclusion of the last relevant audit.
- The external auditors are required to assess periodically, in their professional judgement, whether they are independent of the Group.
- The Audit Committee ensures that the scope of the auditors' work is sufficient and that the auditors are fairly remunerated.
- The Audit Committee has primary responsibility for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors.
- The Audit Committee has the authority to engage independent counsel and other advisers as they determine necessary in order to resolve issues on auditor independence.
- An annual assessment is undertaken of the auditors' performance, independence and objectivity. The results are shared with the Audit Committee.

What did the Audit Committee conclude for 2011?

The Audit Committee has satisfied itself that the United Kingdom professional and regulatory requirements for audit partner rotation and employment of former employees of the external auditors have been complied with.

The Audit Committee considered information pertaining to the balance between fees for audit and non audit work for the Group in 2011 and concluded that the nature and extent of the non audit fees do not present a threat to the external auditors' independence. Details of fees paid are provided on page 140.

Furthermore, after reviewing a report from the external auditors on all their relationships with Anglo American that might reasonably have a bearing on the external auditors' independence and the audit engagement partner and staff's objectivity, and the related safeguards and procedures, the Committee has concluded that the external auditors' independence was not impaired.

The Audit Committee held meetings with the external auditors without the presence of management on two occasions and the chairman of the Audit Committee held regular meetings with the audit engagement partner during the year.

What will the Audit Committee do in 2012?

During 2012 the Audit Committee will continue its role in monitoring the integrity of the financial statements and reviewing the effectiveness of the Company's internal control and risk management systems. An item of key interest to the Audit Committee will be to understand how the risk and audit processes operate in De Beers and how these will be integrated into Anglo American at the appropriate time.

How is the appointment of the external auditors considered?

The appointment of Deloitte LLP as the Group's external auditors (incumbents since the listing in 1999) is kept under annual review, and if satisfactory, the Committee will recommend the re-appointment of the audit firm. The appointment of Deloitte LLP followed a detailed evaluation, at the time of the listing, of the predecessor audit firms and, rather than adopting a policy on tendering frequency, an annual review of the effectiveness of the external audit is supplemented by a periodic, comprehensive reassessment by the Committee. The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditors until the conclusion of the AGM in 2013. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 19 April 2012.

What is the role of internal audit?

The Group has an internal audit department that reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of Anglo American's operations.

The head of internal audit is responsible for reporting and following up on the findings of this internal audit work to local management and the Audit Committee on a regular basis. Internal audit teams operated in all the Group's principal divisions in the period under review, reporting findings to local senior management. The internal audit function's mandate and annual audit coverage plans were approved by the Audit Committee.

The internal audit activities are performed by teams of appropriate, qualified and experienced employees, supplemented if necessary through the engagement of external practitioners upon specified and agreed terms. A summary of audit results and risk management information was presented to the Committee and Group

senior management at regular intervals throughout the year. The Group's head of internal audit reports to the Audit Committee on the internal audit function's performance against the agreed internal audit plan.

During 2011, over 420 audit projects were completed covering a variety of financial, operational, strategic and compliance related business processes across all business units and functions. In addition, the internal audit department responded to a number of management requests to investigate alleged breaches of our business principles.

HOW IS THE EFFECTIVENESS OF INTERNAL CONTROL AND RISK MANAGEMENT ASSESSED?

The GMC, as mandated by the Board, maintains a Group wide system of internal control to manage significant Group risks.

This system, which has been operating throughout the year and to the date of this report, supports the Board in discharging its responsibility for ensuring that the wide range of risks associated with the Group's diverse international operations is effectively managed in support of the creation and preservation of shareholder wealth. Please see pages 48 to 53 for further information on the key risk factors Anglo American is exposed to. Where appropriate, necessary action has been or is being taken to remedy any failings or weakness identified from review of the effectiveness of the internal control system.

How is assurance obtained on the internal control environment?

The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels defined by the Board. Regular management reporting, which provides a balanced assessment of key risks and controls, is an important component of board assurance. In addition, certain Board Committees focus on specific risks such as safety and capital investment and provide assurance to the Board. The chief financial officers of the Group's business units provide confirmation, on a six monthly basis, that financial and accounting control frameworks have operated satisfactorily. The Board also receives assurance from the Audit Committee, which derives its information, in part, from regular internal audit reports on risk and internal control throughout the

Group and external audit reporting. The Group's internal audit function has a formal collaboration process in place with the external auditors to ensure efficient coverage of internal controls. The Anglo American internal audit function is responsible for providing independent assurance to executive management and the Board on the effectiveness of the risk management process throughout the Group.

Anglo American seeks to have a sound system of internal control, based on the Group's policies and guidelines, in all material associates and joint ventures. In those companies that are independently managed, as well as joint ventures, the directors who are represented on these organisations' boards seek assurance that significant risks are being managed.

Assurance regarding the accuracy and reliability of Mineral Resources and Ore Reserves disclosure is provided through a combination of internal technically proficient staff and independent third parties.

Whistleblowing programme

The Group has had in place for a number of years a whistleblowing programme in all its managed operations. The programme, which is monitored by the Audit Committee, is designed to enable employees, customers, suppliers, managers or other stakeholders, on a confidential basis, to raise concerns in cases where conduct is deemed to be contrary to our values. It may include:

- actions that may result in danger to the health and/or safety of people or damage to the environment
- unethical practice in accounting, internal accounting controls, financial reporting and auditing matters
- criminal offences, including money laundering, fraud, bribery and corruption
- failure to comply with any legal obligation
- miscarriage of justice
- any conduct contrary to the ethical principles embraced in our Business Principles or any similar policy
- any other legal or ethical concern
- concealment of any of the above.

BUSINESS INTEGRITY

During 2011 we continued to implement the necessary procedures to ensure that our Business Integrity policy operates effectively across the Group, and minimises the risk of bribery as far as possible. We have now trained over 2,000 managers through workshops in the business units and developed supplementary online training. During the year we developed enhanced guidelines regarding acceptance and provision of gifts and entertainment and provided specific guidance on due diligence procedures for transactions where risks are considered higher. We conducted an assessment of the risks of bribery and corruption in each of our businesses taking into consideration external and internal factors and identified those areas where additional measures are necessary. We applied a risk assessment process in individual transactions to identify necessary actions that mitigate risk of bribery in those arrangements.

For 2012 we will continue to develop our procedures and obtain assurance that they are being implemented as we expect across the Group.

The programme makes available a selection of telephonic, email, web based and surface mail communication channels to any person in the world who has information about unethical practice in Anglo American and its managed operations. The multilingual communication facilities are operated by independent service providers who remove all indications from information received as to the identity of the callers before submission to designated persons in the Group.

During 2011, 299 reports were received via the global 'Speakup' facility, covering a broad spectrum of concerns, including:

- ethical
- criminal
- supplier relationships
- health and safety
- human resource type issues.

Reports received were kept strictly confidential and were referred to appropriate line managers within the Group for resolution. Where appropriate, action was taken to address the issues raised. The reports are analysed and monitored to ensure the process is effective.

How does risk management work at Anglo American?

The Board's policy on risk management encompasses all significant business risks to the Group, including:

- financial risk
- operational, including safety, technical, fraud and corruption risk
- compliance risk

which could undermine the achievement of business objectives.

This system of risk management is designed so that the different businesses are able to tailor and adapt their risk management processes to suit their specific circumstances. This flexible approach has the commitment of the Group's senior management. There is clear accountability for risk management, which is a key performance area of line managers through the Group. The requisite risk and control capability is assured through Board challenge and appropriate management selection and skills development. Managers are supported in giving effect to their risk responsibilities through policies and guidelines on risk and control management. Support through facilitated risk assessments is provided by

a central team responsible for ensuring a robust process is implemented for risk management. During 2011, over 149 separate risk assessment workshops were conducted reviewing:

- risk in business unit strategies
- risks to achieving mine plans
- risks in capital projects
- risks to key change programmes.

The results of these risk assessments were reported to senior management and the Audit Committee. The process of risk management is designed to identify internal and external threats to the business and to assist management in prioritising their response to those risks. Continuous monitoring of risk and control processes, across headline risk areas and other business specific risk areas, provides the basis for regular and exception reporting to business management and boards, ExCo, the Audit Committee and the Board.

Some of the headline risk areas, which have been elaborated upon in the financial review, set out on pages 48 to 53, are:

- commodity price risk
- political risk
- counterparty risk
- infrastructure and operational performance risks.

The risk assessment and reporting criteria are designed to provide the Board with a consistent, Group wide perspective of the key risks. The reports to the Board, which are submitted at least every six months, include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

In conducting its annual review of the effectiveness of risk management, the Board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

During the course of the year the Board considered the Group's responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which has been operational during

the year, and up to the date of approval of the Annual Report, for identifying, evaluating and managing the significant risks faced by the Group. This includes social, environmental and ethical risks as highlighted in the Disclosure Guidelines on Socially Responsible Investment issued by the Association of British Insurers. A detailed report on social, environmental and ethical issues is included in the Company's Sustainable Development Report 2011.

Accountability and audit

The Board is required to present a balanced and understandable assessment of Anglo American's financial position and prospects. Such assessment is provided in the Chairman's and Chief Executive's statements and the Operating and financial review of this Annual Report. The respective responsibilities of the directors and external auditors are set out on pages 122, 124 and 125. As referred to in the Directors' report, the directors have expressed their view that Anglo American's business is a going concern.