

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability-Linked Financing Framework

Anglo American

7 September 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	Sustainability-Linked Instruments
Relevant standard(s)	Sustainability-Linked Bond Principles, as administered by ICMA (June 2021) Sustainability-Linked Loan Principles, as administered by the LMA (February 2022)
Scope of verification	Anglo American Sustainability-Linked Financing Framework (07.09.2022)
Lifecycle	Pre-issuance verification
Validity	As long as Anglo American's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target(s) remain unchanged

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SCOPE OF WORK

Anglo American Plc. (“Anglo American”) commissioned ISS ESG to assist with its Sustainability-Linked Financing Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the Key Performance Indicators (KPIs) selected and Sustainability Performance Targets (SPTs) calibrated – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector, and whether the associated targets are ambitious.
2. Anglo American’s Sustainability-Linked Financing Framework (07.09.2022 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP), as administered by the International Capital Market Association’s (ICMA) and the Sustainability-Linked Loan Principles (SLLP), as administered by the Loan Market Association (LMA).
3. Sustainability-Linked Securities link to Anglo American’s sustainability strategy – drawing on Anglo American’s overall sustainability profile and related objectives.

ANGLO AMERICAN BUSINESS OVERVIEW

Anglo American is one of the world’s largest mining companies with a portfolio of mining and processing operations and undeveloped resources, with more than 95,000 employees across 15 countries.

Anglo American is a producer of diamonds (through De Beers), copper, platinum group metals, iron ore, metallurgical coal for steelmaking, nickel and manganese. Anglo American is committed to being carbon neutral across its operations by 2040.

In June 2021, Anglo American completed the demerger of its thermal coal operations in South Africa through the creation of Thungela Resources. In January 2022, the company announced the completion of a transaction to sell its 33% stake in the Cerrejón coal operation in Colombia to one of the existing shareholders. This transaction completes the exit from thermal coal operations by the group.

ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ¹
Part 1.1:	KPI 1 selection: Core, relevant and moderately material to the issuer's business model and its sustainability strategy.
Part 1.2:	Sustainability Performance Target (SPT) calibration: Ambitious against issuer's past performance Limited information to assess against issuer's sectorial peer group In line with the Paris Agreement
KPI 1: Absolute GHG emissions scope 1 & 2 reduction SPT1: Reduction of absolute GHG Emissions Scope 1 and 2 by 30% by 2030 from the 2016 baseline	ISS ESG finds that KPI 1 selected is core and relevant to the issuer's business model and its sustainability strategy. KPI 1 selected is moderately material to Anglo American from an ESG perspective. While the KPI is material to the direct operations as it covers 100% of Scope 1 and 2 GHG emissions, it is not material to the Whole Corporate Value Chain as it does not cover Anglo American's Scope 3 emissions (that represent 88.19% of the total GHG emissions). It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers 100% of managed operations of Anglo American. ISS ESG finds that SPT 1 is ambitious against past performance because the target reduction rate is more significant than Anglo American's historical trajectory. Besides, SPT 1 is in line with international standards since Anglo American's target is within the trajectories of 37 climate scenarios recognized by the IPCC as 1.5-degree pathways. In addition, the target is assessed independently by Carbon Trust to be in line with a 1.5°C TPI intensity pathway and accepted Net Zero definitions. There is limited information to assess the ambition of SPT 1 against peer companies due to limited comparability between the data reported by the peers. The target is set in a clear timeline, is benchmarkable and supported by a strategy and action plan.-

¹ ISS ESG's evaluation is based on the engagement conducted in October 2021, on Anglo American's Sustainability-Linked Securities Framework (07.09.2022 version) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 30.08.2022).

Part 2.1: KPI 2 selection: Core, relevant and material	
Sustainability Performance Target (SPT) calibration:	
Part 2.2:	• Ambitious against issuer's past performance based on limited evidence² • Ambitious against issuer's sectorial peer group • No international target to assess the level of ambition against
KPI 2:	ISS ESG finds that the KPI 2 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. The historical data for KPI 2 is not yet verified, but Anglo American commits to verify the performance data by an external assurance provider only from 2023 onward starting on their 2022 figures. The KPI 2 covers 19 out of 23 of Anglo American's active operation sites and 100% of the sites which fit the chosen level of water stress at as 2018.
Reduce the abstraction of freshwater, in water-scarce regions	
SPT 2:	ISS ESG finds that the SPT 2 calibrated is ambitious against sectorial peers in terms of defining the most ambitious yearly reduction rates. ISS ESG notes slight differences between the peers' inclusion of regions of different level of water-stress in their targets. The SPT yearly projected reduction rate between 2020-2030 is in line with the historical trajectory between 2015-2020, however, SPT 2 is deemed ambitious against past performance since Anglo American is implementing long-term water-saving measures that will be more difficult to implement than previous short-term reduction measures. The conclusion is limited by the fact that historical data are not externally verified. Due to a lack of international targets on freshwater withdrawal, the level of ambition of the SPT against international targets cannot be assessed. The target is set in a clear timeline, benchmarkable and supported by a strategy and action plan disclosed in the company's framework.
Reduce abstraction of freshwater in water-stressed regions by 50% from 2015 by 2030	
KPI 3 selection: Core, relevant and material	
Sustainability Performance Target (SPT) calibration:	
Part 3.1:	
Part 3.2:	• Ambitious against issuer's past performance based on limited evidence³ • No standardized metric to assess the level of ambition against issuer's sectorial peer group • No international target to assess the level of ambition against
KPI 3: Number of Jobs created/supported off-site for every job on-site	ISS ESG finds that the KPI 3 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. This is because the company's relationship with the communities which are local to the mining locations is a material ESG issue, affecting its social license to operate and involving key processes to develop and improve. The KPI is particularly concentrated on host communities that are most affected by unemployment. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations. The historical data for KPI 3 is not yet verified, but Anglo American commits to verify the performance data by an external assurance provider only from 2023 onward, starting on the 2022 data.
SPT 3:	ISS ESG finds that SPT 3 is ambitious against the company's past performance. However, the conclusion is limited by the fact that historical data are not externally verified. In the absence
Five jobs created/supported off-site for every job	

on-site by 2030.	of international standards, ISS ESG is unable to determine whether SPT 3 is ambitious against international standards. Although it is not possible to assess the ambition of SPT 3 against its sectorial peers on a quantitative level since there are no standardized metrics shared by peers, ISS ESG notes that by defining a unique and novel KPI for the industry, SPT 3 is qualitatively ambitious against industry peers. The target is set in a clear timeline, and supported by a global strategy and an action plan.
Part 2: Alignment with the SLBP and the SLPP	Aligned with ICMA Sustainability-Linked Bond Principles and with the LMA Sustainability-Linked Loan Principles, except that - SPT 2 and 3 will be verified from 2023 onward The Issuer has defined a formal framework for its Sustainability-Linked Securities regarding the selection of KPIs, calibration of Sustainability Performance Targets (SPT), sustainability-linked securities characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA and the Sustainability-Linked Loan Principles (SLPP) administrated by the LMA.
Part 3: Link to issuer's sustainability strategy	Consistent with issuer's sustainability strategy According to the ISS ESG Corporate Rating published 30.08.2022, the company currently shows a high sustainability performance against peers on key ESG issues faced by Mining & Integrated Production industry and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 2nd out of 165 companies within its sector as of 01.09.2022. The KPIs selected by the issuer are related to climate change mitigation, host community employment and environmental risks linked to water conservation. Climate change mitigation, creating thriving communities and protecting its natural environment have been defined as some of the key priorities of the issuer in terms of sustainability strategy and ISS ESG finds that these are material sustainability topics for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPIs' clear link to one of the key sustainability priorities of the issuer and due to an ambitious SPT against the company's past performance and peer group.

² Due to lack of verified historical data for Anglo American's performance on this specific KPI

³ Due to lack of verified historical data for Anglo American's performance on this specific KPI

ISS ESG SPO ASSESSMENT

PART 1: KPI SELECTION & SPT CALIBRATION

1.1. KPI selection

KPI 1: Absolute GHG emissions scope 1 and 2 reduction

FROM ISSUER'S FRAMEWORK

- **KPI:** Scope 1 and 2 GHG emissions for the managed business (in Mt CO₂e)
- **SPT:** Reduction of absolute GHG Emissions Scope 1 and 2 by 30% by 2030 from the 2016 baseline

Long-term goal: Carbon neutrality for Scopes 1 and 2 by 2040. (Anglo American defines carbon neutrality as a condition in which during a specified period there has been no net increase in the global emission of greenhouse gases to the atmosphere as a result of the greenhouse gas emissions associated with the company during the same period.)

Rationale: The company has set the target of achieving carbon neutrality across its operations (Scope 1 and 2 emissions) by 2040.

Scope 1 and 2 emissions are also becoming a more material part of Anglo American's total emissions, due to its exit from its thermal coal operations.

In addition, there is growing awareness of the importance of mining to the energy transition. Anglo American believes it can contribute to delivering on achieving a net-zero future. Its commitment to being part of the solution to climate change is embedded across the business. It recognizes that it must do what it can to minimize the emissions related to the supply of those products as quickly as it can. It also accepts the role it must play in supporting the decarbonization of its value chains.

Baseline: 13.41 MtCO₂e

Baseline year: 2016

2030 goal: 9.39 MtCO₂e

Scope: 100% of Scope 1 and Scope 2 greenhouse gas (GHG) emissions for the managed business (in MtCO₂e) in line with the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) GHG Protocol's 'management control' boundary. Any non-managed joint ventures are not in scope for this KPI.

Scope 1 emissions are those released into the atmosphere as a direct result of Anglo American's own activities. They include CO₂e emissions from fossil fuels, coal seam gas fugitive emissions, renewable fuels and operational processes. Process emissions include those associated with on-site and managed sewerage facilities, on-site water-treatment facilities, the use of carbonates in acid leaching processes at copper-processing facilities, and fugitive emissions during the production of phosphates.

Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider.

Calculation methodology: Anglo American follows the Greenhouse Gas Protocol (GHG Protocol Corporate Standard).

Materiality and relevance

Climate protection is considered a key ESG issue faced by the Mining and Integrated Production sector according to key ESG standards⁴ for reporting and ISS ESG assessment. Mining activities are large consumers of fossil fuel energy and also vulnerable to changing climate patterns and extreme weather events.

ISS ESG finds that the Scope 1 and 2 GHG emissions reduction KPI selected by the issuer is :

- **Relevant** to Anglo American's business as companies in the Mining and Integrated Production sector are highly emissions intensive, partly due to the high use of fossil-fueled power operations. On an average mine site, around half of energy consumption is electricity and the rest comes from the use of fossil fuels, mainly diesel⁵.
- **Core** to the issuer's business as GHG emissions reduction measures affects key processes and operations that are core to the business model of the issuer, such as reducing its energy consumption and switching to lower carbon and renewable energy sources. The issuer plans to rapidly reduce its energy consumption, increase its low carbon energy sourcing through switching to renewable energy, hydrogen and biofuels.
- **Moderately Material** to Anglo American's business model and sustainability profile, from an ESG perspective. This is because it does not include Anglo American's Scope 3 emissions, for which the SBTi criteria⁶ requires a target to be set by companies if the company's Scope 3 emissions represent 40% or more of total Scope 1, 2, and 3 emissions
 - The KPI selected is material to the issuer's direct operations, because the KPI focuses on Scope 1 and 2 emissions.
 - However, the KPI 1, which covers 100% of the Scopes 1 & 2 emissions, accounts for only 11.81% of the company's overall GHG emissions as of December 2020. The Scope 3 GHG emissions, represents 88.19%⁷ of the company's overall GHG emissions. Therefore, KPI 1 is deemed not material to the whole Corporate Value Chain of the company as per ISS ESG's methodology.
 - In 2019, Anglo American undertook a group-wide Scope 3 emissions assessment, including Categories 10 and 11 (Processing and Use of Sold Products). Anglo American separately has a Scope 3 emissions ambition⁹ of reducing by 50% by 2040, but that is not part of this Framework.

⁴ Key ESG Standards include SASB and TCFD, among others.

⁵ ICM, Mitigate GHG emissions, <https://www.icmm.com/en-gb/environmental-stewardship/climate-change/mitigate-ghg-emissions>

⁶ SBTi, October 2021, SBTi Criteria and Recommendations, <https://sciencebasedtargets.org/resources/files/STi-criteria.pdf>

⁷ ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to the GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that the level of disclosure in Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting

⁸ Scope 3 GHG emissions in 2020 excluded Thermal Coal SA

⁹ Anglo American, October 2021, Anglo American sets ambition to halve Scope 3 emissions by 2040, <https://www.angloamerican.com/media/press-releases/2021/29-10-2021>

Consistency with overall company's sustainability strategy

Anglo American is committed to being part of the global response to climate change and has set itself a target of carbon neutrality across its operations by 2040. It is continuing to align its portfolio with the needs of a low carbon world; restructuring its operations towards carbon neutrality, pushing for decarbonisation along its value chains, and Anglo American is considering carefully the social and wider environmental inter-relationships associated with its decarbonisation journey.

In developing its Sustainable Mining Plan, Anglo American recognised that it would need more ambitious targets to play its part in maintaining global temperature rise to well below 2°C as called for by the Paris Agreement. This led Anglo American, in 2018, to set its goal of a 30% absolute reduction in GHG emissions against a 2016 baseline by 2030.

Anglo American has also set itself the target of achieving carbon neutrality (Scope 1 and 2) across its operations before 2040 and is also aiming to have eight of its assets (i.e., before the rest of the company) carbon neutral by 2030.

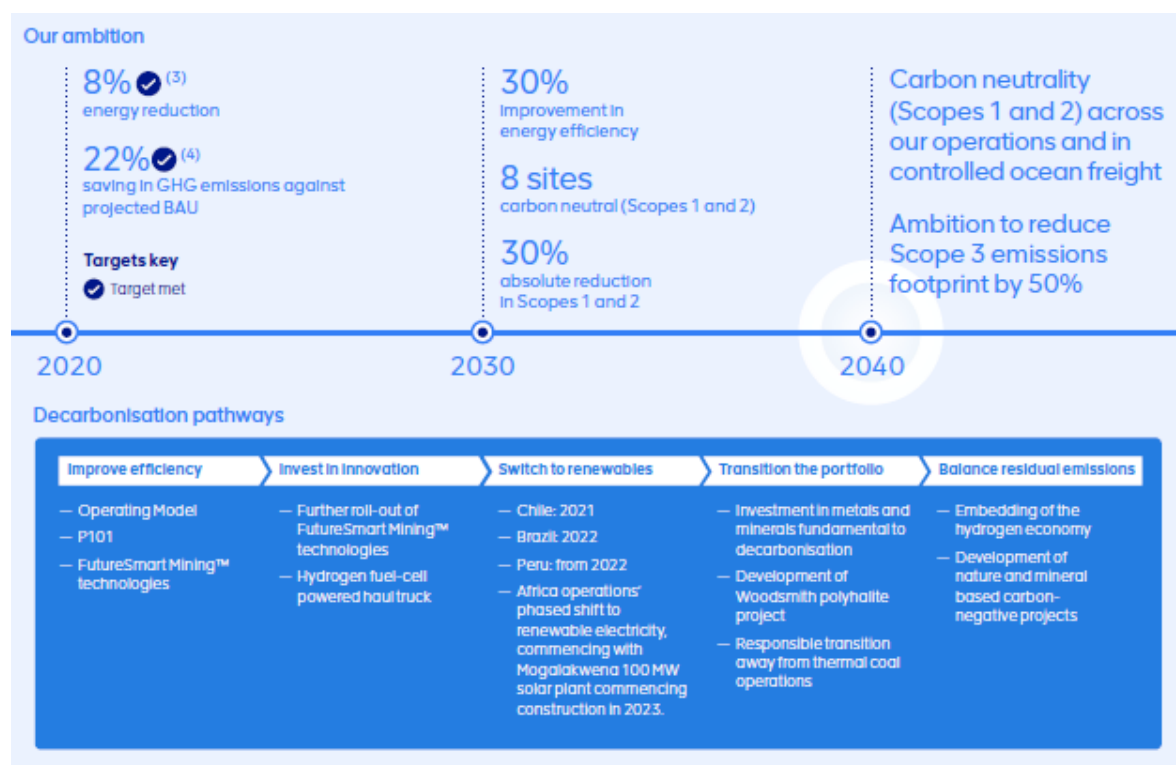


Figure 1. Anglo American's GHG emissions reduction roadmap

Source: Anglo's American Sustainability-Linked Financing Framework

Anglo American is also aiming for a 50% reduction in Scope 3 emissions by 2040 against a 2020 baseline. Emissions from Anglo American's steel value chain make up the significant majority of its Scope 3 emissions and it is therefore dependent to a large extent on the pace of decarbonisation in that sector. Anglo American is working with partners towards increasing that pace.

Anglo American recognises the reality of climate change while acknowledging that the longer-term impacts to the business remain uncertain. As a consequence, its risk management processes embed

climate change in the understanding, identification and mitigation of risk. It has published its climate-related reporting in alignment with the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations for voluntary reporting on climate-related risks. Anglo American provides its stakeholders with transparent disclosures on its approach to climate change in its Climate Change Report¹⁰. In this report, Anglo American also expands its assessment of its strategic and financial resilience to climate-related scenarios to include a 1.5°C pathway.

ISS ESG finds that the KPI selected by the issuer is consistent with the company's overall sustainability strategy.

Measurability

- **Material scope and perimeter:** The KPI selected covers all Scope 1 and 2 GHG emissions, which covers 11.81% of the group's total GHG emissions.
- **Quantifiable and externally verifiable:** The KPI selected is measurable and quantifiable. The GHG emissions are calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (the "GHG Protocol"¹¹). The KPI selected is therefore externally verifiable. The issuer commits to getting third-party verification of its reported GHG emissions annually.
- **Externally verified:** The reported GHG data has been verified with Accountability's AA1000AS v3 (2020) and were conducted to meet the AA1000AS Type II Moderate and High-level requirements respectively.
- **Benchmarkable:** By referring to the GHG Protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation to this KPI has been analyzed in section 2.

Opinion on KPI selection: ISS ESG finds that the KPI 1 selected is core and relevant to the issuer's business model and its sustainability strategy. KPI 1 selected is moderately material to Anglo American from an ESG perspective. While the KPI is material to the direct operations as it covers 100% of Scope 1 and 2 GHG emissions, it is not material to the Whole Corporate Value Chain as it does not cover Anglo American's Scope 3 emissions (that represent 88.19% of the total GHG emissions). It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers 100% of managed operations of Anglo American.

¹⁰ Anglo American, 2021, Climate Change Report 2021, <https://www.angloamerican.com/~media/Files/A/Anglo-American-Group/PLC/sustainability/approach-and-policies/environment/climate-change-report-2021.pdf>

¹¹ World Resources Institute and World Business Council for Sustainable Development, A corporate accounting and reporting standard, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

1.2. Calibration of SPT

SPT 1 set by the issuer: Absolute GHG emissions Scope 1 and 2 reduction

FROM ISSUER'S FRAMEWORK¹²

Sustainability Performance Target: Reduction of absolute Scope 1 and 2 GHG emissions by 30% by 2030 compared to a 2016 baseline year.

Sustainability Performance Target Trigger:

- The Selected KPI has not achieved the SPT(s) on the target observation date, or
- The verification (as per the verification section of this Framework) of the SPT at the target observation date has not been provided and made public as set out in the External Verification section of this Framework

Sustainability Performance Target Observation Date: 31 December 2030

Baseline year: 2016

Baseline: 13.41 MtCO₂e

Link with long-term targets: Net Carbon neutral (scopes 1 and 2) by 2040

Rationale for target selection and ambition:

Anglo American has set itself the target of achieving carbon neutrality across its operations (Scope 1 and 2) by 2040. This SPT, which aims to reduce absolute Scope 1 and 2 GHG emissions by 30% by 2030 compared to a 2016 baseline year, is a step towards its long-term carbon neutrality goal.

In addition, there is growing awareness of the importance of mining to the energy transition. Anglo American believes it can contribute to delivering on achieving a net-zero future. Its commitment to being part of the solution to climate change is embedded across the business. It recognizes that it must do what it can to minimize the emissions related to the supply of those products as quickly as it can. It also accepts the role it must play in supporting the decarbonization of its value chains.

Factors or Risks that support or affect the achievement of the target that are outside of the issuer's control:

Southern African Renewables:

- Strength and stability of national grid in South Africa, under a changing energy landscape. South Africa is a region that poses the biggest renewables challenge for Anglo America, according to the company.
- Collaboration with government on permitting
- Stakeholder engagement and socio-economic benefits programme success

¹² This table is displayed by the issuer in its Sustainability-Linked Bond Framework and have been copied over in this report by ISS ESG for clarity.

Methane in Anglo American's Steelmaking Coal mines:

- Readiness of uncompromising safety systems on Vent Air Methane (VAM) Regenerative Thermal Oxidation (RTO) technology. Although the issuer notes that it could impact on VAM technology through its R&D, the achievement of desirable outcome is still not within complete control of the issuer.

Ambition

Against company's past performance

Anglo American has set the SPT to reduce its absolute GHG emissions (Scopes 1 & 2) by 30% by 2030 compared to a 2016 baseline year. This equates to an interpolated CAGR reduction of -2.51% between 2016 and 2030.

In comparison, Anglo American's GHG yearly change calculated on a compounded basis from 2013 (earliest year of data availability) to 2016 baseline year is 6.06%, and from 2016 baseline year to 2021 (latest year of data availability) is 1.52%. Anglo American's target on a CAGR basis is more ambitious than both of these historical trajectory calculations.

ISS ESG finds that SPT 1 is ambitious against past performance because this target reduction rate is more significant than Anglo American's historical trajectory.

TABLE 1.	2013	2014	2015	2016 (baseline)	2017	2018	2019	2020	2021	2030
Absolute value (in MtCO₂e) (Adjusted as at 31 December 2021 for historical corporate actions) ¹³	11.24	11.69	13.00	13.41	14.82	15.18	16.84	15.38	14.46	9.39
CAGR compared to 2016 baseline	-	-	-	-	-	-			1.52%	-2.51%
CAGR compared to 2013 historical data				6.06%					3.66%	-1.05%

Source: Anglo American's Sustainability-Linked Financing Framework

¹³ Corporate actions include exclusions of De Beers non managed joint operations in Botswana and Namibia and the divestment of the Eskom tied thermal coal operations to Seriti and the subsequent divestment of the remaining South African thermal coal sites to Thungela, the divestment of the metallurgical coal operations (foxleigh, drayton etc), the divestment of the copper operations (Mantoverde, Matos Blancos), the divestment of the niobium and phosphate businesses and the divestment of Thabazimbi

Against company's sectorial peers

ISS ESG conducted a benchmarking of the SPT set by Anglo American against 14 industry peers (including Anglo American), derived from the ISS ESG Universe and identified by ISS ESG Metals and Integrated Mining sector specialists. These companies are identified as suitable for peer comparison because they are assessed by ISS ESG as "Prime" companies within the Metals and Integrated Mining sector and have diversified mining activities, which is similar to Anglo American. This is the same peer list as used in the assessment for the other KPIs.

Out of these 14 companies (including Anglo American), 9 companies have set absolute emissions reduction targets (including Anglo American) and the other 5 companies have set intensity emissions reduction targets. ISS ESG has benchmarked Anglo's targets against the 8 companies with absolute emissions targets by dividing the overall percentage reduction by the number of years between baseline and target year set by each company. Anglo's yearly reduction magnitude places it as 8th out of the 9 companies with absolute targets. This simple comparison shows quantitatively, Anglo American's target is smaller in terms of yearly reduction magnitude than its industry peers starting from the baseline.

However, qualitative information should also be taken into consideration:

- The comparability between companies in the peer analysis is limited by their different corporate profiles. The peers are diversified mining companies with a different mix of mining activities and different operational and geographical footprints. Comparing yearly reduction magnitude is a simplistic approach, that does not capture these nuances.

Anglo American's baseline year is the earliest baseline year out of all 9 companies. A comparison of the peers' historical data since 2015 shows that Anglo American's emissions had one of the largest growths out of the group between 2016 and 2019. According to Anglo American, the company had already anticipated the peak in 2019 with the ramp-up of its steelmaking coal operation at Grosvenor Mine in Australia. Therefore, it can be considered that Anglo American's choice of 2016 as a baseline year is a stringent approach to target setting. In comparison, most of the peers have had relatively flatter emissions trends in recent years. Therefore, considering the earlier baseline year and the comparison of Anglo American's recent emissions performance with its peers, the SPT may be considered more ambitious as it uses a baseline which is earlier in this period of growth.

Overall, ISS ESG finds that there is limited comparability between the data reported by Anglo American and its peers, which impacts on the ability to assess the ambition of SPT 1 against peer companies. This is a result of combining a simple quantitative comparison which shows smaller yearly average reductions than peers, with the complexity of comparing large companies with diverse corporate profiles and mining operations and also when comparing AA's recent emissions growth with the flatter emissions trends of its peers.

Against international targets

According to Anglo American, its Scope 1 & 2 emissions target is aligned with the 1.5°C warming limit. It should be noted that Anglo American's targets are not validated by the SBTi. Anglo American states that one reason for the lack of SBTi validation is that the SBTi has not yet developed a methodology which reflects the specificities of the mining sector. Currently, SBTi indicates that mining companies should use the 'Absolute Contraction Approach' included in the SBTi's general methodology to set

targets. Anglo American has not used this approach because it deems it not suitable for its mining activities.

Instead, Anglo American benchmarked its targets against 37 climate scenarios¹⁴ recognized by the IPCC as 1.5degree pathways which reach net zero emissions by 2050. Anglo American concluded:

- Its Scope 1 and 2 2030 target is within the 37 pathways recognized by the IPCC;
- In 2030 it is slightly above the median pathway (more specifically, it is more ambitious than 19 of the IPCC pathways)

Separately, in early 2022, Anglo American instructed Carbon Trust to conduct an independent gap assessment, comparing the Group's GHG targets and decarbonization trajectory against selected credible pathways and accepted Net Zero definitions.

- A comparison utilizing the Science Based Targets initiative (SBTi) Absolute Contraction (intensity pathway) approach¹⁵ indicates that the Group's target is in range in terms of trajectory and cumulative emissions from 2020, though an increase by 4 percentage points to 34% in the target relative to 2016 would precisely match the SBTi 1.5°C curve.
- An applied Transition Pathway Initiative (TPI) intensity analysis using the Group's forward projections¹⁶, estimating both forward production and decarbonization pathways, indicates that the Group intensity performance is in line with a 1.5°C TPI intensity pathway until 2040, including as at 2030.¹⁷

Overall, ISS ESG finds that SPT 1 is in line with international standards. Anglo American's 2030 target is within the trajectories of 37 climate scenarios recognized by the IPCC as keeping global warming to 1.5 °C above pre-industrial levels while ensuring net zero emissions by 2050. Its target is assessed independently by Carbon Trust to be in line with a 1.5°C TPI intensity pathway and accepted Net Zero definitions.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2016 and provided all yearly GHG emissions intensity data available since then, going beyond the SLBP of providing historical data for the previous 3 years. Historical GHG data since 2013 has been externally verified by assurance providers.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

¹⁴ [page 100](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_Chapter2_Low_Res.pdf), Chapter 2, IPCC Special Report on Global Warming of 1.5°C,
https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_Chapter2_Low_Res.pdf

¹⁵ With a focus on Scope 1 and Scope 2 only and utilizing a 2020 reference year, as suggested by the SBTi methodology.

¹⁶ TPI analysis includes the Group's Category 10/11 Scope 3 outlook as part of the dictated approach and current production forecasts that could change.

¹⁷ The emissions apportionment approach used by TPI differs from the method employed by the Group in the 2020 Scope 3 audit.

Supporting strategy and action plan

To reduce its absolute GHG emissions, Anglo American has identified abatement pathways to achieve its ambition of becoming carbon neutral across its operations by 2040. It is reducing its energy consumption, increasing its low carbon energy sourcing through switching to renewable energy. It will also implement nature-based carbon negative solutions on the land it manages.

More specifically to this SPT, Anglo American has mapped out the following action plan:

Scope 1: Anglo American's ongoing deployment of its FutureSmart Mining™ programme across the portfolio will see a change in low and zero emissions technologies, reducing its Scope 1 emissions. This includes the capture of methane from its mines, which is its largest single source of Scope 1 emissions, as well as innovative means of displacing diesel at the mines, including the development of the world's first hydrogen fuel cell-powered haul truck.

Anglo American is also working on new applications for its metals and minerals that will enable lower emissions, both at its operations and globally. One such example is green hydrogen-powered fuel cell transport using PGMs.

Scope 2: Anglo American is following two separate tracks to reduce its Scope 2 emissions. First, Anglo American is working to consume less energy through the application of FutureSmart Mining™ technologies. For example, Anglo American is deploying energy reduction applications in ore processing, which is the most energy-intensive part of mining. Other ways that Anglo American is reducing its energy consumption and intensity include the application of P101 performance improvements – its transformational asset productivity programme that builds on the stability provided by its Operating Model – as well as new technologies and digitization.

Secondly, Anglo American is increasing the proportion of renewable energy in their mix. In 2021, Anglo American's managed operations in Chile switched to electricity sourced exclusively from renewable sources. Anglo American has also signed contracts in both Peru and Brazil that will allow all of its operations in South America to run on renewable electricity, such that by 2023, it expects to be drawing 56% of its grid supply from renewables. In March 2022 the Group signed a Memorandum of Understanding with EDF Renewables, a global leader in renewable energy, to work together towards developing a regional renewable energy ecosystem in South Africa. The ecosystem is expected to be designed to meet Anglo American's operational electricity requirements in South Africa through the supply of 100% renewable electricity by 2030, thereby also supporting the resilience of the local electricity supply systems and the wider decarbonization of energy in the country.

The ultimate goal would be a regional renewable energy ecosystem that would not only meet the full demand of Anglo American's operations in the region but would also support the resilience of the local electricity supply systems and the wider decarbonization of energy systems in South Africa.

Opinion on SPT calibration: ISS ESG finds that SPT 1 is ambitious against past performance because the target reduction rate is more significant than Anglo American's historical trajectory. Besides, SPT 1 is in line with international standards since Anglo American's target is within the trajectories of 37 climate scenarios recognized by the IPCC as 1.5-degree pathways. In addition, the target is assessed independently by Carbon Trust to be in line with a 1.5°C TPI intensity pathway and accepted Net Zero definitions. There is limited information to assess the ambition of SPT 1 against peer companies due to limited comparability between the data reported by the peers. The target is set in a clear timeline, is benchmarkable and supported by a strategy and action plan.

2.1. KPI selection

KPI 2: Freshwater abstraction

FROM ISSUER'S FRAMEWORK

- **KPI:** Freshwater abstraction, in water-stressed regions (in megalitres per year)
- **SPT:** Reduce the abstraction of freshwater, in water-stressed regions, by 50% from the 2015 baseline by 2030

Rationale: Mining has always been heavily dependent on water. Without water, the extraction of copper, platinum group metals, diamonds and other valuable products would be practically impossible. But water is becoming increasingly scarce: with a predicted shortfall of 40% by 2030, the shortage of clean freshwater represents the greatest global societal and economic risk over the next decade¹⁸.

Freshwater accounts for 30-40% of its total water withdrawals. In 2021, 38% of its total withdrawals were freshwater, and of this, 60% was in water-stressed regions. The top three freshwater withdrawals in water-stressed countries are, in descending order, Los Bronces in Chile, and Sishen and Amandelbult in South Africa. The three sites make up over 50% of all freshwater withdrawals in water-stressed areas.

The group concentrates on reducing its use of the highest quality water (WAF Category 1). Freshwater is high-quality water and by reducing its freshwater withdrawals, Anglo American liberates these critical resources of the highest quality water for drinking, sanitation and hygiene, which are fundamental for creating and maintaining thriving communities. Reducing its freshwater withdrawals also contributes toward achieving its commitment to net positive impact on biodiversity.

In addition, many of Anglo American's freshwater sources are subject to increased climatological variability (esp. surface water supplied but also groundwater) and have produced water security risks to production at many of its sites. Reducing dependence on freshwater is, therefore, a priority for its sustainable mining business both from a resource perspective as well as to ensure water security for operations.

Baseline: 48,666 megalitres per year

Baseline year: 2015

The 50% freshwater reduction target was developed as a stretch goal over the years 2016-17 and published in the Sustainable Mining Plan in 2018 using 2015 as a baseline as this was the most recent closed water reporting year at the time of stretch goal definition.

The 2015 baseline has been recalculated to remove Coal SA.

2030 goal: 24,333 megalitres per year

Scope: Freshwater is defined as "Naturally-occurring water that meets the criteria Water Accounting Framework (WAF) Category 1 Water, excluding precipitation and runoff which reasonably cannot effectively be prevented from entry into our operational processes". The Water Accounting Framework was published by the Mineral Council of Australia in 2014¹⁹.

¹⁸ United Nations University, Institute for Water, Environment and Health, [Global-Water-Crisis-The-Facts.pdf \(unu.edu\)](https://www.unu.edu/publications/global-water-crisis-the-facts)

¹⁹ Minerals Council of Australia, <https://www.minerals.org.au/sites/default/files/MCA%20Adoption%20Explanatory%20Note.pdf>

The KPI applies to Anglo American's operations that meet the following criteria:

- Water-scarce areas as locations classified by the Water Resource Institute (WRI) as having medium-high baseline water stress (20 – 40%) and/or medium-high weighted aggregate quantity risk for mining (2 – 3) or above
- Managed operations in water-scarce areas (as categorised in 2018) that were owned by the Group as at 1 January 2018, but excluding assets that have since been divested or after the date hereof are divested (e.g. Thermal Coal South Africa), closed or placed on care and maintenance, and further excluding projects which had not entered into operation as at 1 January 2018 (e.g. Quellaveco in Peru).

All of Anglo American's operations which are in South Africa, Zimbabwe, Chile, and Australia are in water-stressed areas – this accounts for 19 out of its 23 operations, i.e., 83% of all operations, and over 70% of all freshwater abstraction at actively managed sites, as of 2015 (the baseline year). This number is subsequent to the divestment of Thungela (Coal SA) and excludes non-managed JVs and projects. The operations excluded due to not being in water-stressed regions are Minas-Rio, Barro Alto, and Codemin in Brazil, and Gahcho Kue in Canada.

The WRI Aqueduct tool provides only high-level analysis, so Anglo American has also referred to the regional water balance analyses to verify (as recommended by the WRI).

Other water sources not included in this KPI include treated sewage effluent and mine-affected water from adjacent operations, i.e., water sources of a lower quality.

Materiality and relevance

Environmental risks and impacts of operations are considered as a key ESG issue faced by the Mining and Integrated Production industry according to key ESG standards²⁰ for reporting and ISS ESG assessment. Indeed, mining companies face operational, regulatory, and reputational risks due to water scarcity, costs of water acquisition, regulations on effluents or amount of water used, and competition with local communities and other industries for limited water resources. Globally, the mining and metals industry is considered as one of the most water-intensive industries. In 2020, water scarcity was recognized as the greatest risk to the industry according to investors (Fitch Ratings)²¹.

ISS ESG finds that freshwater withdrawal reduction KPI is:

- **Relevant** to Anglo American's business as its industry is highly water-intensive and exposed to water scarcity as water is used in several processes, such as ore processing, suppressing dust, or heating and cooling machinery. For metal producers, water is also used as a solvent for chemical reagents used to separate target metals. ISS ESG considers this KPI to be relevant given the heavy reliance of the mining industry on water use and freshwater sources.
- **Core** to the issuer's business as its water management strategy affects key processes and operations that are core to the business model of the issuer, such as developing desalination or water treatment technologies or focusing on less water-intensive mining processes.

²⁰ Key ESG Standards include SASB and TCFD, among others.

²¹ ICMIM, Water Stewardship practices, <https://www.icmm.com/en-gb/environmental-stewardship/water/implement-water-stewardship-practices>

- **Material** to Anglo American from an ESG perspective as the KPI covers 100% of the relevant water withdrawal, meaning that the KPI covers 100% of Anglo American freshwater sources from medium to high and above water-stressed regions, which are where this issue of water stress is of most concern.
 - The KPI covers 100% of Anglo American's operations in water-stressed regions, accounting for 19 out of 23 sites (83% of all operations). Using the World Resources Institute's Aqueduct tool²², water-stressed regions included fall within the medium to high or high water-stressed areas, as per SASB' requirements²³.
 - Across the company as a whole, freshwater accounts for about 30 to 40% of Anglo American's total water withdrawals and KPI 2 covers 60% of Anglo American's total freshwater withdrawals as of 2020 (specifically for those 19 sites). Therefore KPI 2 covers approximately 18% to 24% of the company's total water withdrawals from all sources.

Consistency with overall company's sustainability strategy

Water is fundamental for Anglo American's operations and the communities around them. In 2020, its focus was on reviewing and updating its water-accounting methodology to ensure that all data is validated against water balances and that consistent definitions are applied in accordance with ICMM guidelines. This supports Anglo American's continuing commitment to water stewardship, working towards meeting the Sustainable Mining Plan's water goals and the FutureSmart Mining™ vision of a water-less mine.

Its water policy fundamentally focuses on reducing its water risks to ensure resilient operations, while reducing its water footprint. It aims to help Anglo American meet the water-less mine vision while prioritizing water stewardship. The standard ensures that critical controls and best practices are implemented to manage risks at all levels of the value chain. It also addresses the company Sustainable Mining Plan's goals for water: reducing freshwater withdrawal, improving recycling and re-using and preventing Level 3 incidents (level 3-5 incidents being those which have a prolonged impact on the local environment, lasting more than one month and affecting areas greater than several hundred meters on site or extending beyond the boundaries of Anglo American immediate operations). Such measures will significantly enhance its resilience to the changing external conditions, such as drought, flood, water scarcity and competing demands from different stakeholders.

These are Anglo American key milestones to achieving the Sustainable Mining Plan goals, taking 2015 as the baseline year for freshwater withdrawals.

2020 milestone

- Reduce freshwater withdrawal by 20%
- Increase water re-use and recycling levels to 75%
- No Level 3 or greater water incidents.

²² World Resources Institute, <https://www.wri.org/aqueduct>

²³ SASB Standards, December 2021, Metals & Mining Sustainability Accounting standards, https://www.sasb.org/wp-content/uploads/2018/11/Metals_Mining_Standard_2021.pdf

2030 target

- Reduce freshwater withdrawal by 50%

ISS ESG finds that the KPI 2 selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 19 out of 23, or 83% of the company's operations (in number of sites) that are responsible for approx. 18% to 24% of the company's total water withdrawal (including all water sources). The KPI focuses on freshwater sources with medium to high, high and very high water-stressed regions, as defined by WRI.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. Anglo American follows the guidelines of the Water Accounting Framework published by the Mineral Council of Australia in 2014 and is aligned with the ICMM water reporting guideline. The freshwater withdrawal intensity is defined as "Naturally-occurring water that meets the criteria Water Accounting Framework (WAF) Category 1 Water, excluding precipitation and runoff which reasonably cannot effectively be prevented from entry into our operational processes. This data is measured at all sites by measurement."²⁴
- **Externally verified:** The KPI has been reviewed and verified internally and by second-party consultants, but no external third-party assurance has been undertaken. A yearly third-party assurance will be provided from 2023 onward starting on Anglo American's 2022 data.
- **Benchmarkable:** By referring to commonly acknowledged ICMM water reporting guidelines, the KPI is easily comparable with the data reported by other companies. Benchmarking of the SPT in relation to this KPI has been analyzed in section 2.

Opinion on KPI selection: ISS ESG finds that the KPI 2 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. The historical data of KPI 2 is not verified yet, but Anglo American commits to verify the performance data by an external assurance provider from 2023 onward starting on their 2022 figures. The KPI 2 covers 19 out of 23 of Anglo American's operations and 100% of the sites which fit the chosen level of water stress.

²⁴ Measurement devices have been installed at all sites and track water flows internally and externally for each source, usage point (task) and discharge points. All flows are also monitored for quality which allows supply sources to be categorized as fresh or non-fresh water according to the Water Accounting Framework (WAF) methodology.

2.2. Calibration of SPT

SPT 2 set by the issuer: Freshwater abstraction reduction

FROM ISSUER'S FRAMEWORK²⁵

Sustainability Performance Target: Reduce abstraction of fresh water in water-stressed regions by 50% from the 2015 baseline by 2030

Sustainability Performance Target Trigger:

- The selected KPI has not achieved the SPT on the target observation date, or
- The verification (as per the verification section of this Framework) of the SPT has not been provided and made public as set out in the External Verification section of this Framework

Sustainability Performance Target Observation Date: 31 December 2030

2015 Baseline: 48,666 megaliters per year (ML/year)

* The 50% freshwater reduction target was developed as a stretch goal over the years 2016-17 and published in the Sustainable Mining Plan in 2018 using 2015 as a baseline as this was the most recent closed water reporting year at the time of stretch goal definition.

Selection of methodology for calculating the SPT:

Anglo American monitor and report water data using measurement devices at all sites, and use site-wide water balance models to consolidate all water withdrawals, consumption, and discharges in compliance with International Council on Mining and Metals (ICMM) water reporting standards. Withdrawals are tested for quality which allows supply sources to be categorized as fresh or non-fresh water according to WAF methodology. All operations have a competent person responsible for water management. Its reporting system has largely been automated and standardized to increase access to critical information, globally and at site level.

Factors or Risks that support or affect the achievement of the target that are outside of the issuer's control:

The top three freshwater withdrawals in water-scarce countries are, in descending order, Los Bronces in Chile, and Sishen and Amandelbult in South Africa. The three sites make up over 40% of all freshwater withdrawals in water-scarce areas. The achievement of the target is highly dependent on the completion of our FutureSmartMining projects.

Freshwater withdrawals have historically been closely-linked with the annual climate/hydrology in the water catchments in which Anglo American's operations are located. This accounts for the volatility in freshwater withdrawals seen in the period 2015-20. Climate/hydrology-related impacts on freshwater water vary site by site and region by region. For some sites, in wet years, more fresh water is withdrawn from surface water resources to refill storage. At other sites, during dry years, Anglo American needs to withdraw more from wellfields to compensate for lower precipitation harvested.

The climate-dependency reduces significantly with reduced freshwater withdrawal but is not totally eliminated.

²⁵ This table is displayed by the issuer in its Sustainability-Linked Bond Framework and have been copied over in this report by ISS ESG for clarity.

Ambition

Against company's past performance

Anglo American sets the SPT to reduce its absolute freshwater withdrawal by 50% by 2030 compared to the 2015 baseline year. Table 2 displays the past and projected trajectory of this KPI.

The issuer has provided historical data on the KPI for the past five years which demonstrates that between 2015 and 2021 the freshwater withdrawal reduced by 4.51% on average yearly. The projected freshwater withdrawal yearly reduction rate from 2021 to the target year is on par at -4.52%. Therefore, the issuer's future trajectory is in line with that of its historical. In addition, the issuer notes that it has exceeded its milestone in 2020 to reduce freshwater withdrawal by 20%. The issuer also states that, much of the historical water savings between 2015 and 2020 were related to short to medium-term water supply replacement measures implemented in their Chilean operation, Los Bronces, which has the largest single freshwater withdrawals to combat dry season. Anglo American's plan is to replace these short-term measures with long-term savings projects in the future.

Table 2.	2015	2016	2017	2018	2019	2020	2021	2030
Freshwater Withdrawal (ML / yr)	48,666	44,081	45,541	49,188	42,527	37,249	36,888	24,333
Year-on-Year reduction		-9.40%	3.30%	8.00%	-13.50%	-12.40%	-0.97%	
CAGR ₂₀₁₅₋₂₀₂₀							-4.51%	
CAGR ₂₀₂₀₋₂₀₃₀								-4.52%

Besides, Anglo American's CDP rating of A- for Water Scarcity confirms Anglo American's good current performance on water issues. In this context and compared to the baseline year, ISS ESG deems the SPT 2 as ambitious against the issuer's past performance especially as the company is expecting to replace short-term measures by long-term savings projects that would imply continuous water-saving measures. However, this assessment has limitations as the baseline has not been externally verified.

Against company's sectorial peers

ISS ESG reviewed a peer list of 14 companies (including Anglo American) involved in the Mining and Integrated Production Industry, located worldwide, with a diversified mining profile compiled with inputs from the ISS ESG research team. This is the same peer list as used in the assessment for the other KPIs.

Out of the 14 companies in the peer group, 9 companies have defined clear water use reduction targets, of which 5 are absolute targets and 4 are intensity targets.

Out of the 5 companies who have set an absolute target, Anglo American has set the most ambitious target covering 100% of relevant water use in terms of yearly reduction rate. However, it is worth highlighting that the scope and perimeter of the targets differ from one peer to another, some focus on water-stressed regions' operations while others include all their operations including non-water stressed regions' operations.

Additionally, a recent study²⁶ on water security issues in the metals and mining industry by Carbon Disclosure Project (CDP), shows that only 46% of respondents (representing 54 companies) set targets and goals that are monitored at the corporate level.

ISS ESG finds that the SPT set by the issuer is ambitious compared to peer group practices in terms of its yearly reduction rate.

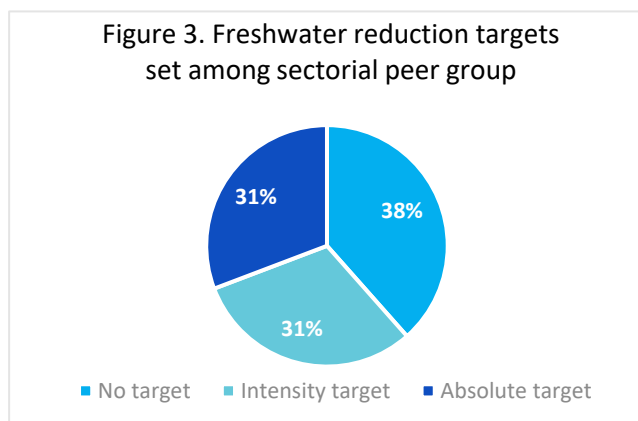
Against international targets

CDP

The Carbon Disclosure Project (CDP) is a non-profit organization that runs a global disclosure system for investors, companies, cities, states and regions to report on their environmental impacts. Their global environmental disclosure system involves an annual scoring exercise of reporting entities. The questionnaires that the reporting entities submit to CDP are aligned with the TCFD recommendations.

CDP ranks companies on different sustainability topics, including water. In 2021, Anglo American scored an A- for the Water Security scoreboard of the CDP. This score was based on CDP's methodology²⁷, which summarizes the responder's progress toward water stewardship evidenced by the company's response and disclosure. The A and A- scores are considered the highest, "leadership" level²⁸.

Figure 3. Freshwater reduction targets set among sectorial peer group



²⁶ CDP, 2019, Analysis for institutional investors of critical water security issues facing the metals and mining sector, https://cdn.cdp.net/cdp-production/cms/reports/documents/000/004/613/original/CDP_Metals_and_mining_report_2019.pdf?1561049112

²⁷ More information: [CDP Water Security 2021 Scoring Methodology](#)

²⁸ The CDP scoring scale goes from A to F, where A is leadership level, B is management level, C is awareness level, D is disclosure level and F is failure to provide sufficient information to be evaluated.

While a CDP score does not equate to an international target, in the absence of quantified freshwater withdrawal targets on an international or sectorial scale, the fact that Anglo American obtained an A-score ranks the company is noteworthy. It does not show the ambition of the SPT, but it reaffirms Anglo American's current performance on water issues.

International Council on Mining & Metals (ICMM)

The ICMM recognizes the mining industry as one of the most water-intensive sectors and in 2017, launched its position statement on water stewardship²⁹, however, there is no industry-wide target or pathway defined yet.

In the absence of an international target for the SPT calibrated by the issuer, ISS ESG cannot conclude on the level of ambition of the SPT against international targets.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2015 and provided all yearly freshwater usage data available since then. However, this data has not been externally verified. A third-party assurance will be provided on KPI 2 data from 2022 onwards.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

To achieve freshwater reductions, Anglo American will both improve its efficiency and also substitute higher quality water used in its operations with supplies of lower quality water.

Anglo American will always need water, but it can get closer to full recovery recycling. Through an integrated system of technologies including coarse particle recovery and hydraulic dry stack, Anglo American is reducing freshwater usage, moving to closed-loop and ultimately dry processing in its operations, thereby eliminating the need for wet tailings and instead creating stable, dry, economically viable land.

The company's key actions are³⁰:

1. Improving water efficiency with a closed-loop recycling system
2. Replacing fresh water with alternative water sources (e.g. desalination, wastewater)
3. Measuring evaporation rates to conserve more water
4. Using (Low-cost) dry tailings disposal to limit water loss
5. Innovating with dry separation techniques that use less water
6. Using less water when separating waste rock from ore

Actions 1 and 2 will have the largest impact on achieving the target

²⁹ ICMM, January 2017, Water Stewardship: Position Statement, <https://www.icmm.com/en-gb/about-us/member-requirements/position-statements/water-stewardship>

³⁰ More information: <https://www.angloamerican.com/futuresmart/stories/our-industry/technology/picture-this-the-waterless-mine>

Opinion on SPT calibration:

ISS ESG finds that the SPT 2 calibrated is ambitious against sectorial peers in terms of defining the most ambitious yearly reduction rates. ISS ESG notes slight differences between the peers' inclusion of regions of different levels of water-stress in their targets. The SPT yearly projected reduction rate between 2020-2030 is in line with the historical trajectory between 2015-2020, however, SPT 2 is deemed ambitious against past performance since Anglo American is implementing long-term water-saving measures that will be more difficult to implement than previous short-term reduction measures. The conclusion is limited by the fact that historical data are not externally verified. Due to a lack of international targets on freshwater withdrawal, the level of ambition of the SPT against international targets cannot be assessed. The target is set in a clear timeline, benchmarkable and supported by a strategy and action plan disclosed in the company's framework.

3.1. KPI selection

KPI 3: Number of jobs supported off-site for every job on-site

FROM ISSUER'S FRAMEWORK

- **KPI:** Number of jobs supported off-site for every job on-site. A target ratio of the number of jobs supported off-site for every job on-site in areas of high unemployment at the target date.
- **SPT:** Five jobs created/supported off-site for every job on-site by 2030

Rationale: Anglo American's operations are often located in remote or rural areas with limited alternative economic activities and high levels of unemployment, particularly youth unemployment. Joblessness dominates many domestic policy agendas and is a frequently cited issue in community consultations. It also represents a major financial pressure on the fiscal resources of many countries in which it operates.

The company seeks to ensure residents in host communities have access to employment opportunities that will allow them to improve their standard of living and their livelihoods³¹. The nature of mining, involving the stewardship of finite resources, means that transitions are an integral part of its work, especially with respect to mine closure. Creating off site non-mining related job opportunities is also particularly important to address the long term trend of increasing labor productivity, leading to a requirement for fewer but higher skilled jobs.

While the company has not determined a specific target of off-site mining related versus non-mining-related jobs (for example, agriculture or tourism) supported under the KPI, the type of job supported depends significantly on the local context and the economic opportunities that exist in a particular region. For example, for sites in Limpopo, South Africa, there may be more agriculture and tourism-related opportunities, while in Chile support is likely to be more focused on manufacturing or services. In areas which will continue to have significant mining activity into the future, jobs supported in mining-related business are still of great value. In general, the company aims to support jobs in sectors with growth potential and, therefore, conduct spatial and value chain analyses as part of its Collaborative Regional Development (CRD) work.

Baseline year: 2018

³¹ According to the issuer, livelihood is described as the capabilities, assets, and activities required for a means of living. A key element of a livelihood is employment.

Scope:

On-site jobs include mine site specific Anglo American employees or contractors engaged in core mining, processing and non-mining activities such as security, cleaning or maintenance services. At the end of 2020, the sites included in the KPI employed nearly 51,000 people on-site.

An off-site job would be a non-Anglo American employee or contractor working outside the Anglo American mine site whose employment is supported by the presence of Anglo American. For example jobs supported through procurement, infrastructure projects or businesses inside or outside the mining value chain, that are part of enterprise development programmes.

Off-site jobs created or supported in host province communities through a range of programmes. including the following:

Category	Description	Example of programmes/ activities
Enterprise and supplier development	Jobs created and maintained through enterprise development, including businesses inside and outside the mining value chain	Zimele (South Africa), Emerge Chile
Procurement	Jobs supported through procurement (direct and indirect) in host communities and in the province	
Agricultural development	Jobs in the agriculture value chain stimulated by Anglo American initiatives (can include on site agricultural initiatives)	Fondo AgroQuellaveco
Youth and skills development	Beneficiaries of vocational training and work readiness training who are successfully placed into work (placements can be outside the region)	Youth development component of Zimele
Collaborative Regional Development	Employment from CRD initiatives which would not have happened but for Anglo American's leadership	Impact Catalyst South Africa
Innovation	Jobs in host regions arising from our market development and innovation work (need not be in the supply chain of in-region operations)	3D printing of spare parts, hydrogen opportunities
Infrastructure	Jobs enabled through investments in infrastructure in support of the operation	For example, transport, water, energy, telecoms, etc.
Licence, permit and other social investments	Jobs supported through other community development initiatives, including the jobs involved in delivery of those initiatives	SLP (Social and Labour Plan, a part of our mining licence) projects in South Africa
Household livelihoods support measures	Initiatives such as support for domestic food gardens (unlikely to be FTEs, so an appropriate proportion of livelihood will be taken per household)	Anglo American Platinum domestic food garden project
Labour and SME ecosystem strengthening	Jobs supported indirectly through strengthening employment and/or business ecosystems	Emerge and EmpleaT, Chile

This KPI covers all Anglo American's operations located in regions with local unemployment above 10%³² in 2018. Isolated mining operations with no surrounding communities within 50km are out of scope, for example the company's Canadian operations are "fly-in, fly out" so there are no local communities to support. The 10% threshold was selected as this is double the usual "natural rate of unemployment", which includes structural and frictional unemployment, which is estimated to be 4-5% unemployment³³.

Any non-managed joint ventures are also not in scope for this KPI.

In terms of perimeters, KPI 3 includes all Anglo American operations in South Africa, Zimbabwe and Chile (on a voluntary basis), which accounts for 13 sites out of Anglo American's 23 sites, accounting for 41% on employees. Peru is still in the phase of construction and an appropriate goal will be defined once it becomes operational. The remaining sites excluded from the KPI 3 scope are either isolated mining operations or in regions with local unemployment below 10% in 2018. The remaining 10 sites are located in Australia, Peru,

³² A threshold of 10% unemployment is used as the definition of high unemployment as this is double the usual definition of full employment used for unemployment rate of 3- 5%.

³³ "World Bank" World unemployment of 5.4% (https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2018&most_recent_year_desc=false&start=2012)

UK, Brazil and Canada where there is either no surrounding communities within 50km, where local unemployment is below 10% or the operations are still under construction.

Calculation methodology:

The on-site jobs number is the full-year average employee and contractor number at the sites in scope. For the ratio calculation, the yearly average number of on-site jobs is utilized to account for variation in employee numbers across the year, using end-of-month data to calculate the yearly average.

The off-site jobs supported indicator consists of jobs sustained (number of jobs the organization already had when entering into the programme or our supply chain) and jobs created through the support of Anglo American (e.g. new jobs created during a mentorship programme). This is measured on 31 December of each year to see the full cumulative impact of the programmes.

Jobs supported is defined as full-time equivalent (FTE), calculated from:

- People working between 21 and 40 hours a week.
- Part-time employees (= 0.5 FTE): People working between 9 and 20 hours a week.
- Day workers (=0.1 FTE): People working 8 hours a week or less

As the jobs supported off-site are not Anglo American employees or contractors, Anglo American does not have access to employment contracts, while entrepreneurs and SMEs are often not willing to provide employment contracts as a means of verification. However, each programme has an appropriate data collection method reflecting local context. Some examples of collection methods include:

- Surveys – Regular questionnaires can be sent to programme participants to obtain details of the number of jobs supported. Data on jobs supported is collected by comparing the number of people employed by the SMEs when joining the programme versus the number declared upon graduating from the programme. The delta between the numbers equates to the jobs supported by the programme.
- Timesheets – Entrepreneurs complete and sign timesheets to identify the number of FTE jobs have been supported during the period.

While external assurance has been completed periodically in the past on some (but not all) of the job programmes data, jobs data for all material programmes from 2022 and onwards will be verified by an external assurance provider using limited assurance.

Materiality and relevance

Community relations is considered as a key ESG issue faced by the Mining and Integrated Production industry according to key ESG standards³⁴ for reporting and ISS ESG assessment. Indeed, mining facilities are frequently active over many years, and can have a wide range of impacts on local communities. Mining companies also rely upon the support of local communities and providing socio-economic benefits is one way to engage with the community.

ISS ESG finds that enhancing the host communities' livelihood by creating/supporting jobs is:

³⁴ Key ESG Standards include SASB and TCFD, among others.

- **Relevant** to Anglo American's business as its relations with local communities is a material ESG issue in its industry. Contribution to the social and the economic development of the host communities is a key part of the company's social responsibility and ways of integrating into the local communities.
- **Core** to Anglo American's business since they reinforce the company acceptance and social license to operate among its communities. Without which, it may be difficult to obtain permits and leases as well as to conduct their activities over the long-term without disruptions. To illustrate Anglo American's commitment to build small-business growth in its host communities through supply chain, ISS ESG notes that in 2021, Anglo American spends €0.9 billion with suppliers based in its host community, accounting for 8% of total suppliers spending.
- **Material** to Anglo American from an ESG perspective
 - The KPI captures all Anglo American's operations located in regions with local unemployment above 10% in 2018 and excluding isolated mining operations with no surrounding communities within 50km. As a result, the KPI covers 13 sites out of the 23 Anglo American's operations. The focus on these specific operations showcases a particularly impactful subset since it is concentrated on host communities that are most affected by unemployment. Indeed, Anglo American mentions that most of their operations are located in the Global South. Based on an internal study, which is not externally verified, they have determined that the relevant unemployment threshold rate at a regional level would be set at 10%. This threshold is double the usual 'natural rate of unemployment' estimated to be between 4%- 5%³⁵. Besides, ISS ESG notes that the national unemployment rates in the four countries covered by the KPI ranges between 5.4% in Zimbabwe to 29.2% in South Africa³⁶. Therefore, a threshold of 10% would appear to be a reasonable level.

Consistency with overall company's sustainability strategy

Anglo American's vision is to create shared, sustainable prosperity for its host communities, supported by education and training. The socio-economic contribution Anglo American makes to the communities in which it operates takes various forms:

- The royalties and taxes the company pays add economic value to a country.
- Business operations that deliver economic value to communities, enhanced by policies on inclusive procurement, local recruitment, and supporting local suppliers.
- Long-running socio-economic development interventions, in collaboration with local partners, which address local needs, building sustainable local economies that are less dependent on its mines.

Taking a long term view, Anglo American designs its operations and community development initiatives so that communities and economies continue to thrive, even after its mines have closed.

³⁵ The World Bank data, https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?end=2018&most_recent_year_desc=false&start=2012

³⁶ World Bank data as of 2021: Brazil : 13.7%, South Africa:29.2%, Zimbabwe: 5.4% and Chile: 11.2%

Health and well-being*

Relevant SDG targets for health to be achieved in our host communities.

2022: Baseline established and strategies in place at every site to achieve the SDG 3 health targets.

2025: Operations to be halfway to closing the gap between baselines and 2030 targets.

2030: SDG 3 targets for health to be achieved in our host communities.

Education

All children in host communities to have access to excellent education and training.

2021: Baselines and strategies in place at every site.

2025: Schools in host communities to perform within the top 30% of state schools nationally.

2030: Schools in host communities to perform within the top 20% of state schools nationally.

Livelihoods

Shared, sustainable prosperity in our host communities.

2021: Baselines and strategies in place at every site.

2025: Three jobs created/supported off site for every job on site.

2030: Five jobs created/supported off site for every job on site.

Figure 4. Global Stretch Goals on Thriving Communities

Anglo American's goal for 2021 of positively impacting livelihoods by continuing to pursue site-specific strategies to meet its targets. These included inclusive procurement, enterprise and skills development, corporate social investment and developing local government capacity.

The new agricultural strategy the company introduced in Zimbabwe at the end of 2019 was driven by its goal of improving income for smallholder farmers and fostering socio-economic development in its host communities. Following the first successful harvest in 2020, Anglo American exported sugar snap peas to supermarkets in the UK and elsewhere in 2021.

Overall, Covid-19 made it challenging for Anglo American to meet its Sustainable Mining Plan Livelihood goals, particularly the goal of supporting five jobs off-site for every job on site. Adjusting to the new situation and being able to move quickly to digital training allowed some progress to be made.

Anglo also continued its partnership with the Inter-American Development Bank (IDB) in Peru. In Peru, they launched a new phase of the initiative in October.

ISS ESG finds that the KPI 3 selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI covers 13 sites out of the 23 company's sites and is composed of all operations with local unemployment above 10% in 2018 and excludes isolated mining operations with no surrounding communities within 50 km. The KPI includes Anglo American operations in Zimbabwe, South Africa, and Chile.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. It will be calculated as Full-Time Equivalent (FTE) jobs created and supported by Anglo American.

- **Externally verified:** The KPI 3 has not been verified yet, but the company commits to having the performance data associated with the KPI verified by an external verifier in the future. The verification of the performance will start on 2022 figures.
- **Benchmarkable:** The KPI is linked to a clearly defined metric (FTE definition) and the issuer provided details on the data collection (i.e. surveys or timesheets) and data treatment for the various programs. The issuer states that the same level of assurance will be consistent across the programmes. However, there are limitations to benchmarking as this KPI is uniquely used by Anglo American and there are no standardized ways of collecting and reporting on this data in the industry.

Opinion on KPI selection: ISS ESG finds that the KPI 3 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. This is because the company's relationship with the communities which are local to the mining locations is a material ESG issue, affects its social license to operate and involves key processes to develop and improve. The KPI is particularly concentrated on host communities that are most affected by unemployment. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations. The historical data for KPI 3 is not yet verified, but Anglo American commits to verify the performance data by an external assurance provider only from 2023 onward starting on 2022 data.

3.2. Calibration of SPT

SPT 3 set by the issuer

FROM ISSUER'S FRAMEWORK³⁷

Sustainability Performance Target: Five jobs supported off-site for every job on-site by 2030

Sustainability Performance Target Trigger:

- The selected KPI has not achieved the SPT on the target observation date, or
- The verification (as per the verification section of this Framework) of the SPT has not been provided and made public as set out in the External Verification section of this Framework.

Sustainability Performance Target Observation Date: December 31, 2030

As at the end of 2020, the ratio was 1.8 off-site jobs (cumulative) for every 1 on-site job.

Factors that support the achievement of the target that are outside of the issuer's control:

- Increased interest for partnership with other stakeholders
- Increased government support for economic recovery
- Increased demand for localization by government

Risks to the target:

- Economic recession; prolonged impact of covid-19
- Significant changes in procurement practices impacting local suppliers

³⁷ This table is displayed by the issuer in its Sustainability-Linked Bond Framework and have been copied over in this report by ISS ESG for clarity.

Ambition

Against company's past performance

	2018	2019	2020	2021	2030
Cumulative off-site jobs supported (FTE)	3,184	7,613	85,028	96,762	
Average on-site jobs (FTE)	50,857	52,581	47,085	50,820	
On-site:Off-site ratio	1 : 0.1	1 : 0.1	1 : 1.8	1:1.9	1 : 5
CAGR calculations Historical (2018 – 2021)				166.84%	
CAGR calculations Historical (2021 – 2030)					11.35%

Source: Anglo American Sustainability-Linked Financing Framework as of 07.09.2022

Note: Data displayed in the first row of the table above are cumulative data that includes jobs lost or resigned but excludes rolling short-term contracts.

Anglo American started to report on its data for the first time in 2018. Between 2018 and 2021, Anglo American has supported in cumulative over these 4 years, 96,762 jobs, with more than 77,000 jobs supported over 2020 thanks to the scale-up of enterprise development programs and more transparency on local procurement. Indeed, in 2020, the company conducted for the first time a survey to compute the number of off-site jobs supported through procurement. The SPT aims for a compounded annual reduction rate of 11.35% between 2021 and 2030, which would be significantly less steep compared to the SPT historical performance between 2018 and 2021. However, ISS ESG notes that the future reduction rate is limited by the number of people that can be employed in Anglo American host communities.

The target would nearly triple the increase of off-site jobs supported compared to the average on-site jobs achieved in 2021 to reach an on-site/off-site supported jobs ratio of 1:5. Therefore, the cumulative off-site jobs supported would be significantly higher than the issuer's past cumulative performance.

Therefore, ISS ESG deems the SPT 3 to be ambitious against past performance, however, there are limitations to this assessment as the data for the previous years have not been externally verified.

Against company's sectorial peers

ISS ESG reviewed a peer list of 14 companies (including Anglo American) involved in the Mining and Integrated Production Industry, located worldwide, with a diversified mining profile compiled with

inputs from the ISS ESG research team. This is the same peer list as used in the assessment for the other KPIs.

As of January 2021, among these 14 companies, only Anglo American has set a quantitative target to enhance host community employment. 9 companies have set up clear and qualitative commitments toward either local or host communities employment/training. It is worth emphasizing that by focusing on off-site job opportunities, Anglo American is providing support to host communities where the transition to a lower-carbon economy may cause detrimental impacts for the employment in those communities. In this way, the company is trying to ensure a 'just transition'³⁸.

Given the fact that there are no standardized metrics for reporting on host community jobs supported, it is not possible for ISS ESG to assess the quantitative level of ambition of this target against Anglo American's peer group. However, ISS ESG notes that as per public information, no other mining companies have issued a Sustainability-Linked Bond with a similar KPI.

Against international targets

While various companies in the industry have an increased focus on host communities' employment, there is currently no quantitative industry benchmarks or targets with metrics similar to the KPI selected.

In the absence of a definite international/regional/local target on the host community employment, ISS ESG is not able to assess the level of ambition of Anglo American's target against international/regional/local objectives.

Measurability & comparability

- **Historical data:** The issuer provides three years of historical data. ISS ESG notes that the historical data have not received an external verification. The first verification of the data will be completed on the 2022 data, when it is compiled and ready.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

Jobs can be supported through a range of different programmes and interventions, including:

- **Enterprise and supplier development:** For over 30 years, Anglo American's capacity-building programme in South Africa, Anglo American Zimele, has helped to fund 4,270 small, medium and micro-sized enterprises and created more than 61,592 jobs. Where its small suppliers have been impacted by Covid-19, Anglo American deferred loan repayments or accelerated payment terms to help them manage their finances and the impact of the pandemic.

³⁸ Anglo American, 2021, Climate Change Report 2021, <https://www.angloamerican.com/~media/Files/A/Anglo-American-Group/PLC/sustainability/approach-and-policies/environment/climate-change-report-2021.pdf>

Table 3. below provides some examples of enterprise development programmes.

Anglo American enterprise development programmes

Country	Name of the programme	Partners
Brazil	Crescer	Crescer, which means 'to grow' in Portuguese, is our enterprise development programme in Brazil. Working with TechnoServe, we are focused on supporting entrepreneurs in the areas around our Minas-Rio iron ore operation.
Chile	Emerge	In partnership with Fondo Esperanza and TechnoServe, we have supported more than 50,000 entrepreneurs and small to medium-sized businesses (SMEs).
Peru	Emerge	Building on Peru's sophisticated micro-credit sector, our enterprise development programme helps SMEs get access to capital. The scheme focuses on supporting businesses in the Moquegua region of southern Peru.
Botswana	Tokafala	In partnership with the Botswana government, De Beers and Debswana, we set up this programme to support up to 5,600 jobs and foster the growth of up to 1,000 SME businesses. The partnership aims to help Botswana leverage the power of the mining sector to diversify its economy.
South Africa	Zimele	Our flagship scheme, now administered by Absa Bank, empowers black entrepreneurs to start or grow businesses. We have now funded 1,885 businesses, which employ in excess of 38,000 people.
Zimbabwe	Takura	IFAD, Ministry of Lands, Agriculture & Rural Resettlement, TechnoServe, UK Trade Partnerships Programme (UKTP), ZIMTRADE

Table 3. Anglo American enterprise development programmes

Source: Anglo Sustainability Report 2020

- Inclusive procurement: Anglo American is committed to inclusive procurement and developing local supply chains that can support resilient communities. The company aims to build these supply chains by supporting small-business growth in its host communities, stimulating job creation, building manufacturing capacity and focusing on creating economic opportunities for previously excluded groups.
- Collaborative Regional Development (CRD) planning: The first step of CRD is the identification of socio-economic development opportunities in the region. Using spatial planning and analysis, and a high level, systemic approach, Anglo American identifies the economic opportunities that have the greatest potential to contribute to the region's economic development. Anglo American also identifies the area's most pressing social issues and how, collectively, they might contribute to resolving them. The company then seeks to catalyze the partnerships – with local businesses, government, community, entrepreneurs, academics and faith-based groups – that are required to realize these opportunities. Through these partnerships, Anglo American develops plans, co-fund and secure external funding to implement sustainable development models that turn these opportunities into reality.
 - Agricultural development: Anglo American has introduced its new agricultural strategy in Zimbabwe at the end of 2019 to achieve its goal of improving income for smallholder farmers and fostering socio-economic development in its host communities. In 2020, the first yield was harvested.
- Capacity/skills development (including youth Programmes) and Innovation-related jobs that are created in non-mining activities to enable an area to diversify its economic activities beyond mining and become more resilient.
- Infrastructure, license, permit;
- Other social investments, household livelihoods support measures, labor and SME ecosystem strengthening and induced employment.

Opinion on SPT calibration: *ISS ESG finds that SPT 3 is ambitious against the company's past performance. However, the conclusion is limited by the fact that historical data are not externally verified. In the absence of international standards, ISS ESG is unable to determine whether SPT 3 is ambitious against international standards. Although it is not possible to assess the ambition of SPT 3 against its sectorial peers on a quantitative level since there are no standardized metrics shared by peers, ISS ESG notes that by defining a unique and novel KPI for the industry, SPT 3 is qualitatively ambitious against industry peers. The target is set in a clear timeline, and supported by a global strategy and an action plan.*

PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

Rationale for Framework

FROM ISSUER'S FRAMEWORK

There is growing awareness of the centrality of mining to the energy transition, and the importance of the contribution Anglo American can make to delivering a more sustainable future. Its commitment to being part of the solution to climate change is embedded across the business. The company recognizes that it must find solutions to minimize the emissions related to the production and supply of its products on an accelerated time frame.

That is why, Anglo American has decided to put in place this Framework, with the aim to further emphasize its commitments to sustainability, and meaningfully link certain of its funding requirements with sustainability objectives that it has set for its business.

This Framework covers bonds, loans, and any other financing instruments whose characteristics are linked to sustainability performance targets that we are party to.

Opinion: ISS ESG considers the Rationale for Issuance description provided by Anglo American as aligned with the SLBP and SLLP. The issuer has introduced its sustainability strategy and goals and explained how they are linked to the issuance of such instruments. It has created and committed to publicly disclose the framework in a comprehensive and credible manner.

2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPIs selection available in section 1 of this report.

Opinion:

ISS ESG finds that the KPI 1 selected is core and relevant to the issuer's business model and its sustainability strategy. The KPI 1 selected is moderately material to Anglo American from an ESG perspective, while the KPI is material to the direct operations as it covers 100% of Scope 1 and 2 GHG emissions, it is not material to the Whole Corporate Value Chain as it does not cover Anglo American's Scope 3 emissions (that represent 88.19%) of the total GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers 100% of managed operations of Anglo American.

ISS ESG finds that the KPI 2 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. The historical data KPI 2 is not yet verified, but Anglo American commits to verify the performance data by an external assurance provider only from 2023 onward starting on their 2022 figures. The KPI 2 covers 19 out of 23 of Anglo American's active operation sites and 100% of the sites which fit the chosen level of water stress at as 2018.

ISS ESG finds that the KPI 3 selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. This is because the company's relationship with the communities which are local to the mining locations is a material ESG issue, affecting its social license

to operate and involving key processes to develop and improve. The KPI is particularly concentrated on host communities that are most affected by unemployment. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable with limitations. The historical data for KPI 3 is not yet verified, but Anglo American commits to verify the performance data by an external assurance provider only from 2023 onward, starting on the 2022 data.

2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in section 1 of this report.

Opinion:

ISS ESG finds that SPT 1 is ambitious against past performance because the target reduction rate is more significant than Anglo American's historical trajectory. Besides, SPT 1 is in line with international standards since Anglo American's target is within the trajectories of 37 climate scenarios recognized by the IPCC as 1.5-degree pathways. In addition, the target is assessed independently by Carbon Trust to be in line with a 1.5°C TPI intensity pathway and accepted Net Zero definitions. There is limited information to assess the ambition of SPT 1 against peer companies due to limited comparability between the data reported by the peers. The target is set in a clear timeline, is benchmarkable and supported by a strategy and action plan.

ISS ESG finds that the SPT 2 calibrated is ambitious against sectorial peers in terms of defining the most ambitious yearly reduction rates. ISS ESG notes slight differences between the peers' inclusion of regions of different level of water-stress in their targets. The SPT yearly projected reduction rate between 2020-2030 is in line with the historical trajectory between 2015-2020, however, SPT 2 is deemed ambitious against past performance since Anglo American is implementing long-term water-saving measures that will be more difficult to implement than previous short-term reduction measures. The conclusion is limited by the fact that historical data are not externally verified. Due to a lack of international targets on freshwater withdrawal, the level of ambition of the SPT against international targets cannot be assessed. The target is set in a clear timeline, benchmarkable and supported by a strategy and action plan disclosed in the company's framework.

ISS ESG finds that SPT 3 is ambitious against the company's past performance. However, the conclusion is limited by the fact that historical data are not externally verified. In the absence of international standards, ISS ESG is unable to determine whether the SPT 3 is ambitious against international standards. Although it is not possible to assess the ambition of SPT 3 against its sectorial peers on a quantitative level since there are no standardized metrics shared by peers, ISS ESG notes that by defining a unique and novel KPI for the industry, SPT 3 is qualitatively ambitious against industry peers. The target is set in a clear timeline, and supported by a global strategy and an action plan.

2.3. Sustainability-Linked Securities Characteristics

FROM ISSUER'S FRAMEWORK

All financing issued under this Framework have a sustainability-linked feature that will result in a coupon or margin adjustment, or a premium payment as the case may be if the relevant trigger event occurs, including:

- One or more of the selected KPIs have not achieved the SPT(s) on the target observation date, or
- The verification of the SPT at the target observation date has not been published as anticipated in this Framework

The relevant KPIs, SPTs, step-up coupon or margin amount or premium payment amount, as applicable, will be specified in the relevant documentation of the applicable loan, security or instrument.

The SPTs will be measured once, at the target observation date. However, progress against the KPIs will be reported annually.

Opinion: ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Anglo American as aligned with the SLBP and SLLP. The issuer gives a detailed description of the potential variation of the financial characteristics of the securities, while clearly defining the KPIs and SPTs and their calculation methodologies in the other sections of the Framework.

2.4. Reporting

FROM ISSUER'S FRAMEWORK

Anglo American will publish information on the progress it is making towards the SPTs in this Framework at least annually on its website, including:

- Periodically publish information on the performance of the selected KPIs, including the baseline where relevant
- Periodically publish information on each selected KPI, outlining the performance against the SPTs and the related impact, and timing of such impact, on a financial instrument performance.

When feasible and possible, information may also include:

- Qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI on an annual basis
- Illustration of the positive sustainability impacts of the performance improvement
- Any re-assessments of KPIs and/or any restatements of SPTs and/or any adjustments of baselines or KPI scopes, if relevant

Opinion: ISS ESG considers the Reporting description provided by Anglo American as aligned with the SLBP and SLPP. This will be made publicly available annually and include valuable information, reflecting best market practices.

2.5. Verification

FROM ISSUER'S FRAMEWORK

Pre-issuance verification: Anglo American's Sustainability-Linked Financing Framework has been reviewed by ISS ESG who provided a second party opinion, confirming the alignment with the Sustainability-Linked Bond Principles (SLBP) as administered by the ICMA. It will be made publicly available on Anglo American's website: www.angloamerican.com

Post-issuance verification: The annual performance of each selected KPI included in Sustainability Report and/or elsewhere on our website will be subject to external verification by a qualified external verifier. Verification of KPI performance will be conducted on an annual basis and at "Limited Assurance" standard. Anglo American's performance on its KPIs according to the SPTs at the relevant target observation dates will be verified by an External Verifier. Note that as KPI 2 and KPI 3 have been newly developed, external verification will be published from 2023.

Amendments to the Framework

Anglo American may review this Framework from time to time, including its alignment to updated versions of the relevant ICMA and LMA principles as and when they are released, with the aim of adhering to best practices in the market. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of ISS ESG or any such other qualified provider of second party opinion.

Opinion: ISS ESG considers the Verification description provided by Anglo American as aligned with the SLBP and the SLLP except for KPI/SPT 2 and 3. The issuer plans on having annual values of SPT 1 published and verified. This will outline the performance against the SPTs, the related impact and timing of such impact on the securities' financial characteristics. However, Anglo American will be able to externally verify its SPT 2 and 3 from 2023 onward on 2022 data.

PART 3: LINK TO ANGLO AMERICAN'S SUSTAINABILITY STRATEGY

The ISS ESG Corporate Rating provides material environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
ANGLO AMERICAN	Mining & Integrated Production	1	VERY HIGH

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by Mining and Integrate Production sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates the highest relative ESG performance out of 10.

ESG performance

As of 01/09/2022, this rating places Anglo American 2nd out of 165 companies rated by ISS ESG in the Mining and Integrated Production.

Key Challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.



Sustainability Opportunities

Anglo American is a highly diversified integrated mining company who produces coal, diamonds, iron ore and manganese, platinum group metals (PGMs), copper, and nickel. The extraction and processing of non-fossil mineral resources neither significantly promote nor impede global sustainable development, as the effects thereof greatly depend on the application of products in downstream value chains.

According to the company, it is undergoing a strategic repositioning to focus on its core assets in diamonds, PGMs and copper, and seeks to dispose all non-core assets, including the coal unit. Anglo American completed the transition from thermal coal via the sale of shareholding in Cerrejon in February 2022. Though the corresponding revenue share from metallurgical coal production decreased, it still accounts for 6.7% of 2021 revenues. Such major involvement in global coal production considerably impedes a desirable progress towards curbing global climate change.

Further, Anglo American's engagement in diamond production can also be viewed critically from a sustainability perspective. The environmental and social impacts of diamond mining are huge, though

the product is mainly used in jewellery and only to a very limited extent in industrial applications, thus its potential positive impacts is limited.

Sustainability Risks

Anglo American's operations are spread across the globe and are located in Africa (e.g., South Africa and Zimbabwe), North America (e.g., Canada), South America (e.g., Brazil, Peru, Colombia and Chile), and Australia. Anglo American actively addresses social and environmental risks inherent in mining through setting industry-leading policies and establishing associated comprehensive technical guidelines. Thus, the company provides sound frameworks for managing almost all material issues, including health and safety, human rights, biodiversity, management of tailings and hazardous substances, and climate protection.

In terms of health and safety, Anglo American has established group-wide health systems at all operations, which are mostly also certified to an international standard. Decreasing accident rates which are at a common industry level (for employees) or comparatively low (for contractors) seem to prove an effective implementation of such systems. Yet, fatal accidents repeatedly occurred in recent years.

As a member of the UN Global Compact, Anglo American is committed to respecting internationally recognized human rights and avoiding complicity in their violation. Furthermore, the company has developed a new, comprehensive Human Rights Policy in 2018, in which it respects indigenous rights, adheres to the Voluntary Principles on Security and Human Rights, as well as the right to free, prior and informed consent (FPIC) and adequate compensation. Sound human rights risk and impact assessments, trainings, audits, and grievance mechanisms are in place to ensure that established human rights policies are observed. Despite these sound standards and due diligence procedures, Anglo American is involved in a controversy over alleged failure to remediate forced displacement and poor stakeholder consultation in South Africa.

On the environmental front, Anglo American sets clear targets to reduce its freshwater use, energy consumption, as well as greenhouse gas emissions. With regard to land use management, a comprehensive biodiversity management approach is demonstrated, including risk assessments, biodiversity action plans, and mitigation measures. Anglo American has established reasonable standards for site closure by developing the Socio-Economic Assessment Toolbox (SEAT), which provides guidelines on closure planning throughout the life cycle of a mine.

To ensure safety and integrity of tailings storage facilities, technical standards and emergency response plans are implemented. Furthermore, the company reports on the resource efficiency performance of the group-wide production in detail. These reports show, for example, decreasing carbon intensities of copper, diamond, PGM and iron ore production, while the company's carbon intensities of coal and nickel have been increasing.

Anglo American's commitment to business integrity manifests itself in a comprehensive code of business ethics that fairly covers all relevant aspects, including corruption and insider trading. Corresponding compliance mechanisms consist of some fundamental components, such as risk assessment and audits, facilitation of non-compliance reporting, and third-party anti-corruption due diligence

Governance opinion

Anglo American's governance structure is designed to enable effective supervision of management. The company's chair, Stuart John Chambers, is considered independent, as are the majority of

remaining board members (as of March 27, 2021). The board has set up fully independent audit and remuneration committees, as well as a nomination committee with more than 80% independent directors. Anglo American further discloses its remuneration policy for some of its executives on an individual basis and incorporates long-term components into the remuneration scheme.

Sustainability at Anglo American is governed through a dedicated board committee, comprised of a majority of independent directors. Additionally, sustainability performance objectives, such as occupational safety and sustainability strategy implementation, are integrated into the variable component of the executive remuneration schemes. Anglo American's commitment to business integrity manifests itself in a comprehensive code of business ethics that fairly covers all relevant aspects, including corruption and insider trading. Corresponding compliance mechanisms consist of some fundamental components, such as risk assessment and audits, facilitation of non-compliance reporting, and third-party anti-corruption due diligence.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Anglo American's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the Anglo American's production process. In particular, the data below is based on Anglo American's reported data from 2020. ISS ESG notes that in January 2022 Anglo American completed the sale of all of its thermal coal mining operations.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Metallurgical coal	6.7%	OBSTRUCTION	
Diamond mining	13%	OBSTRUCTION	

Breaches of international norms and ESG controversies

The company is not facing any severe or very severe controversies.

Contribution of KPIs to sustainability objectives and priorities

ISS ESG mapped the KPIs selected by the issuer for Sustainability-linked instruments with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Mining & Integrated Production sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPIs selected.

KPIs SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Reduction of the GHG Emissions (Scope 1 and 2)	✓	✓	Contribution to a material objective
Job created/supported off-site for every job on-site	✓	✓	Contribution to a material objective
Reduce abstraction of fresh water in water-stressed regions	✓	✓	Contribution to a material objective

Opinion: ISS ESG finds that the KPIs are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing sustainability-linked instruments is clearly described by the issuer.

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1. Validity of the SPO: As long as Anglo American's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target(s) remain unchanged.
2. ISS ESG uses a scientifically based rating concept to analyze and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from Anglo American's 2021 ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

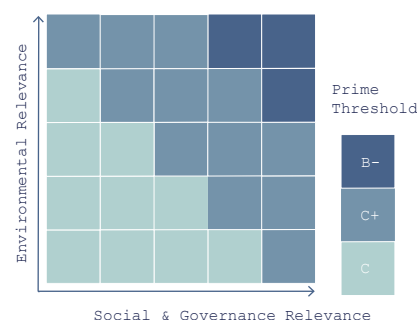
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from industries with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per industry, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of Anglo American, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and Sustainability-Linked Loan Principles administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan market by clarifying the approach for issuance. ISS ESG reviewed the alignment of the concept of the Anglo American's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy.

ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks. ISS ESG analysed the ambition of the SPT against Anglo American's own past performance (according to Anglo American's reported data), against Anglo American's Mining & Integrated Production peers (as per ISS ESG Peer Universe and data), and against international benchmarks such as the Paris agreement (based on data from the Transition Pathway Initiative) and the UN SDGs (according to the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of Anglo American.

ANNEX 3: Quality management processes

SCOPE

Anglo American commissioned ISS ESG to compile a Sustainability-Linked Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Financing Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles
- LMA Sustainability-Linked Loan Principles

ISSUER'S RESPONSIBILITY

Anglo American's responsibility was to provide information and documentation on:

- Anglo American's Sustainability-Linked Financing Framework (August version)
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked securities to be issued by Anglo American based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles.

The engagement with Anglo American took place from December 2021 to September 2022.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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