MATERIAL CONCERNS AND OUR EXTERNAL ENVIRONMENT

In this section, we discuss those matters that:

- Impact or could impact our ability to create value in the short, medium or long-term
- May prevent us from delivering on our strategic objectives
- Influence our economic viability and the sustainability of our business

THE GOLD MARKET

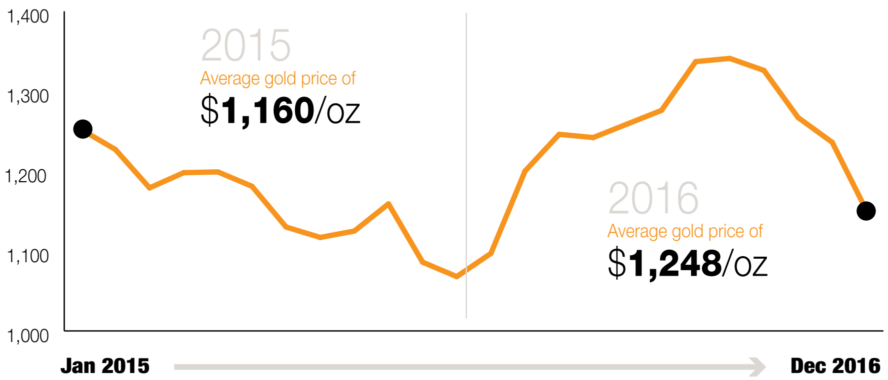
In 2016, the gold market was a story of two halves, where the price increased from late 2015 and continued to rally during the first half of 2016, peaking at $1,375.25/oz on 6 July 2016. The year was eventful worldwide – the sharp sell-off in Chinese equities, heightened friction between Saudi Arabia and Iran, together with surprising Brexit referendum result – helping to drive up the gold price. The unexpected election of Donald Trump as US president created additional volatility in the gold price and financial markets generally.

The most influential factors affecting the gold price during 2016 were the dollar and US monetary policy. The absence of any increase in US interest rates during the first half of the year resulted in an increase in the gold price. However, as the US economy continued to improve towards the end of the year, with a growing likelihood of an increase in US interest rates, the gold price began to wane. At its meeting on 14 December 2016, the Federal Open Market Committee (FOMC) increased US interest rates by 25 basis points and flagged a more hawkish stance ahead on the US interest rate environment. This signalled the potential for further rate hikes in 2017, supporting the US dollar and placing gold under considerable pressure with the price dropping to a low of $1,122.35/oz on 15 December, before recovering and closing the year at $1,151.46/oz.

The rally in the gold price for the first half of the year was also helped by the revival of exchange-traded fund (ETF) demand which saw many investors returning to gold. In addition to the events described above, continued sluggish economic growth across the globe, despite the attempts by central banks to reflate economies, made gold

AVERAGE MONTHLY GOLD PRICE

January 2015 to December 2016 ($/oz)



Source: Bloomberg

Picture: Tropicana, Australia

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a preferred safe-haven asset, increasing demand. ETF holdings were up 45% at their peak, to 72.8Mozs. However, as the outlook for US economic growth improved in the second half of the year, demand for gold decreased. Following the outcome of the US elections in November, demand weakened further, diminished by the outlook for higher interest rates and expectations of a stronger US dollar. This was evident as investment demand continued to decline with gold ETF outflows remaining at a relatively high level of 3.1Moz in December, albeit lower than November outflows of 3.9Moz. ETF holdings closed the year at 65.02Moz, 30% higher than the opening position of 50.2Mozs.

Since 2011, the central bank community has established itself as an important demand side factor, adding to existing gold holdings in order to either diversify or bolster reserves. Central banks continued to be net buyers in 2016, although to a lesser extent compared to previous years. In 2016, central banks collectively purchased 383.6t of gold compared to 566t in 2015, a reduction of 33%. Despite this, 2016 was the seventh consecutive year of net purchases by central banks. Central bank purchases in 2016 were led by Russia, China and Kazakhstan. Together they accounted for around 80% of purchases for the full year.

Sales from central banks were, once again, negligible at 3.07t for the 2015-2016 period (3.39t for 2014-2015). The bulk of these sales were made by the German Bundesbank as part of its gold coin programme.

JEWELLERY DEMAND

Demand from the gold jewellery market, dominated by India and China, which together account for almost 60% of jewellery demand, was somewhat disappointing. In China, households were spending more on luxury items and investing in property rather than in gold. India, on the other hand, was negatively impacted by a six-week strike by jewellers, increased government regulations (including higher taxes and duties on gold imports), and a poor harvest. The latter led to an increase in the rural community selling gold in order to make up for the loss of income from farming, while the impact of demonetisation continued to affect gold demand.

The higher gold prices during the year encouraged an increase in scrap entering the market while recycled gold increased by 17% year-on-year to 42.07Moz in 2016. Mine supply remained virtually unchanged in 2016, from 2015 levels, with production of 3,236t and 3,233t recorded for the two periods respectively.

CAPITAL MARKETS

The volatile gold price inevitably impacts on valuations placed on gold-producing companies. This was reflected in the sharp contraction in the value of gold stocks between mid-August and year-end. The fall was again compounded by the drop in the gold price below $1,200/oz during 2016, though the gold price corrected somewhat in the early part of 2017.

The AngloGold Ashanti share price rose 48% in 2016, broadly in line with the benchmark GDX Market Vectors Gold Index.

AngloGold Ashanti demonstrated value creation and good delivery on the company's strategic objective to generate sustainable free cash flow improvements and returns. This was achieved by self-help measures: reducing debt and overall leverage through cost reductions, strengthening the balance sheet, while generating cash. At the end of July 2016, AngloGold Ashanti eliminated the company's highest-cost debt, by redeeming the outstanding portion of the 8.5% high-yield bonds that were due in 2020. This resulted in reduced interest payments while improving free cash flow and introducing additional balance-sheet flexibility. Sustainable free cash flow generation greatly reduces any need to raise capital in the current volatile market conditions.

REGULATORY CHANGES AND UNCERTAINTY

In South Africa, a revised Mining Charter, was initially issued on 15 April 2016 for public comment. Industry has expressed reservations on key aspects of the revised Mining Charter, including the clause on a perpetual 26% black ownership requirement. There is still no certainty on the finer details of black economic empowerment (BEE), particularly whether the principle of "once empowered, always empowered" will be observed. This uncertainty arose in 2015, when the Minister of Mineral Resources announced that mining companies had not achieved the 26% black ownership level mandated by the 2010-2014 Mining Charter. See more on page 70 in the South Africa regional review.

On the basis that all key targets were met by Chamber of Mines members (including AngloGold Ashanti) in March 2015, the Chamber of Mines, on behalf of the mining industry, sought a declaratory order from the High Court to obtain clarity on this issue. Judgement on this matter is still pending. Uncertainty in the South African mining industry regarding ownership requirements in the Mining Charter could reduce the attractiveness of the country as an investment destination for scarce capital.

The overarching legislation governing the mining industry in South Africa, the Minerals Petroleum and Resources Development Amendment (MPRDA) Bill, is currently being reviewed by the lower house of Parliament, the National Council of Provinces. There are continuing differences of opinion on the

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constitutionality of some of the Bill's provisions, a matter that the Chamber of Mines raised during the consultation process.

On the overall content of the Bill, we had engagements with the DMR focused on crafting legislation that would promote all aspects of the mining industry, bring as much certainty as is practicable and ultimately bolster investor confidence. It is anticipated that finalisation and clarity on these matters will be provided in June 2017.

The South African mining industry remains fully committed to transformation undertaken in a manner that sustains and supports the industry, and does not undermine the laudable goals of the MPRDA, and in order to meet the vision of the government's National Development Plan. AngloGold Ashanti complies with the requirements of MPRDA as well as the Mining Charter.

AngloGold Ashanti's performance on Mining Charter requirements.

BACKGROUND ON THIS REVIEWED LEGISLATION

On 27 December 2012, the Minister published the Draft Mineral and Petroleum Resources Development Amendment Bill, 2012 (2012 Bill) which sought to amend the MPRDA and invited the mining industry and interested and affected parties to comment on it by 8 February 2013. On 21 June 2013, a revised version of the Bill (2013 Bill) was introduced to the National Assembly. The 2013 Bill underwent a public participation process and extensive comments were received from the general public. Following a consultative process with the Department of Mineral Resources (DMR), the State Law Advisors and the general public, the Portfolio Committee on Mineral Resources (Portfolio Committee) introduced an amended version of the 2013 Bill to the South African Parliament. The 2013 Bill was passed by the National Assembly on 12 March 2014 and passed by the National Council of Provinces (NCOP) on 27 March 2014.

On 16 January 2015, the President referred the 2013 Bill back to the National Assembly to accommodate his reservations around the constitutionality of the 2013 Bill. In October 2016, the Bill was passed in Parliament (National Assembly) and has now been referred to the NCOP. In January 2017, the DMR without properly consulting, then proposed an additional 54 amendments to the Bill. Provincial legislatures are now tasked with holding public hearings during March 2017 on these new amendments to facilitate public involvement.

On 15 April 2016, the Minister of Mineral Resources published a draft mining charter (the "Draft 2016 Mining Charter"). The Draft 2016 Mining Charter seeks to align the Revised Mining Charter with the Broad-Based Black Economic Empowerment Act, 53 of 2003, in order to ensure meaningful participation of black people and provide for policy and regulatory certainty to ease the investment in and the development of the mining industry. Interested and affected parties were invited by the DMR to submit written representations on the Draft 2016 Mining Charter until 31 May 2016. AngloGold Ashanti made its comments on the reviewed Mining Charter directly to the Department of Mineral Resources (DMR) on 30 May 2016, and was also part of the Chamber of Mines' reference group that prepared the industry's submissions through the Chamber of Mines Council. The Minister of Mineral Resources indicated that the reviewed Mining Charter is expected to be published in March 2017. This had not been published by the DMR as at 22 March 2017, the date of approval of this report by the board.

In terms of the Mining Charter, in South Africa we are required to deliver on community projects in line with our social development plans, available on our website: www.anglogoldashanti.com. Details of these projects are set out in the <SDR>.

On 20 January 2014, AMCU served strike notices to three gold companies challenging the extension of the 2013 wage agreement to its members. An interim interdict was granted to the Chamber of Mines by the Labour Court in Johannesburg on 30 January 2014, declaring the intended strike unprotected and prohibiting unprotected strike action as well as any conduct that might encourage workers to embark on strike action. Following two labour court interdicts against its strike actions, AMCU appealed the ruling through the Labour Appeal Court. After the Appeal Court also upheld the interdict, AMCU appealed to the Constitutional Court. On 21 February 2017, the Constitutional Court dismissed the appeal by AMCU and held that the 2013 wage agreement was validly extended to AMCU members and the relevant statutory provisions were constitutionally compliant.

CARBON TAX

A final decision on the implementation of the proposed Carbon Tax Bill in South Africa is still pending, after the initial Bill was released in the second half of 2015. During 2016, following public comments received on the draft Bill, the South African government held additional public consultations. A revised Bill is expected to be published and to be tabled in Parliament mid-2017.

The latest developments on this Bill include that, firstly, during the initial phase (estimated to be until 2020), there will be no impact on the price of electricity and, secondly, a revised regulation will be published by mid-2017 for the carbon offset allowance, giving corporations a mechanism to reduce their carbon tax liability. Following the publication of the regulation, it is anticipated that government will provide clarity on the alignment of the carbon tax and carbon budget, which is expected to be after 2020.

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AngloGold Ashanti's direct, Scope 1 emissions in South Africa are dwarfed by the indirect Scope 2 emissions. This is a 101,000t CO_2-e of direct emissions compared to 2,626,000t of CO_2-e of indirect emissions in 2016. Our main environmental exposure in South Africa stems from the fact that we purchase electricity from the national utility provider, Eskom, which is generated from coal. In turn, this may cause exposure to the proposed Carbon Tax, which is expected to have an impact on the cost of electricity and on the carbon tax. The carbon tax is expected to escalate after 2020 when rebates, implemented as a means of ameliorating the impact of the carbon tax on the economy, are expected to be phased out.

In Australia, the government introduced the carbon emissions safeguard mechanism, aimed at limiting future growth in greenhouse gas (GHG) emissions after setting baseline emission thresholds, the safeguard mechanism requires that companies submit carbon credits or pay penalties for excess emissions. Sunrise Dam applied for a baseline emissions in accordance with the regulatory scheme's default mechanism. Tropicana will apply for a baseline emission level using the alternative calculated baseline method during 2017.

MINE CLOSURE

In South Africa, new regulations have been proposed which will form part of the National Environmental and Management Act (NEMA). On 20 November 2015, the Minister of Environmental Affairs published the Regulations Pertaining to the Financial Provision for Prospecting, Exploration, Mining or Production Operations – through Government Notice R. 1147 (the "2015 Financial Provision Regulations").

On 26 October 2016, the Minister published the proposed amendments to the 2015 Financial Provision regulations, which extended the transitional period for compliance to February 2019. In this regard, AngloGold Ashanti only has to comply with the 2015 Financial Provision Regulations in February 2019.

The Department of Environmental Affairs has acknowledged the many challenges raised by the industry, in collaboration with the Chamber of Mines, with the proposed regulations. In the latest draft revisions, some of the main issues, such as the future of existing rehabilitation trust funds have already been favourably amended. AngloGold Ashanti is continuing to engage with the relevant departments through the Chamber of Mines and hopes that these will lead to the company being able to comply with the new regulations once they become effective. In addition, the South Africa region has initiated an internal project in collaboration with an independent consultant, to assess and amend our current closure liability assessments in line with the new requirements.

SOCIAL LICENCE TO OPERATE: SHARING RESOURCES

Mining can create additional competition for resources, such as land, water and electricity. The challenge is for companies to attain the correct balance between successfully conducting their mining operations and limiting and mitigating any negative impact on the communities and societies in which they operate. Our initiatives and work done on the various elements in our quest for sustainable mining, including environmental stewardship, are covered in the stakeholder engagement section, under communities, and are detailed in the **<SDR>** which is available online at www.aga-reports.com.

ELECTRICITY

Since 2013, AngloGold Ashanti's energy consumption has edged downwards 2% as a result of cost savings, energy efficiency initiatives, divestments as well as the scaling down of operations. Furthermore, the recent implementation of Operational Excellence principles for energy management at our international operations has resulted in identifying additional opportunities for savings.

In 2016, energy security in South Africa improved, largely as a result of lower national energy demand. The region reduced its overall energy consumption by 1.06% year-on-year, driven by a disciplined approach which included meticulous energy management and reporting processes, together with various efficiency projects across all the operations. In recognition of the work done, our project, the Vaal River Compressor Real-time Dynamic Control System (REMSDCS) was nominated and won an award for the 2016 South African Association for Energy Efficiency project of the year. This project was initiated as part of the national utility's demand side management initiative and executed at our Vaal River operations. The project not only achieved a reduction of 1.65MW in volumes used during the peak period but it also realised financial savings (approximately $140,000), with further savings derived from multiple parallel projects on compressed air efficiency, yielding almost double the initial savings.

We continue to enforce energy saving measures at all our operations – underground, on surface and in employee residences. Additionally, in South Africa, our mines have back-up generators that ensure employee safety in case of an emergency and prevent infrastructural damage during outages.

Power supply availability and reliability remain a challenge in Ghana, with demand far outstripping supply. This is as a result of the low water levels in the country's three main hydropower dams and uncertainties surrounding the fault in the oil production rig which supplies gas to some of the thermal plants in the country. To mitigate this, at Iduapriem, we are working with our utility supplier, the Electricity Company of

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Ghana, to secure a premium service agreement. In Tanzania at Geita, we initiated a large-scale project to replace an existing generator power station, whose units are now at the end of their economic life, with a new power station utilising fuel-efficient generators and a modern power station design.

As part of a proposed expansion project at our Siguiri mine, we will add a new power plant to our current electricity generation facilities, to replace the mine's current 20-year old power plant and to meet the requirement for the expansion of the mining activities. In Guinea we invested in infrastructure that enables the supply of electricity in the Bouré area, close to our Siguiri operation. Construction of a low-voltage electrical network in nine villages of Bouré including the Area 1 resettlement area brought electrical power to homes.

Electrical power at the Australian operations is generated by onsite power stations predominantly using natural gas delivered by the Eastern Goldfields Pipeline, which was completed in December 2015. Gas delivery during 2016 was uninterrupted and all performance expectations were met. A small number of diesel units remain at each site to provide peak load capability and emergency back-up power for critical systems should gas supply be interrupted.

Hydropower capacity in Brazil recovered from drought conditions in prior years, providing improved reliability in electrical power supply.

WATER

South Africa is a water-stressed country. Our mines have, for many years, been using this scarce resource responsibly and proactively lessening consumption by recycling water and using groundwater draining into underground operations that would otherwise have been discharged. “Clean-dirty” water separation principles are applied and rainwater is kept away from operations as much as possible. During 2016, South Africa experienced one of its most severe droughts in history – water levels in rivers and dams were critically low. The Department of Water and Sanitation introduced strict water restrictions across business sectors as well as households. The South Africa operations managed to maintain production without disruption due to the careful water management processes that are in place.

Additionally in our mines in the South Africa region, we face possible risks from extraneous water and, as a result, we have a number of proactive measures in place to ensure the effective management of this potential risk. For instance, at the Vaal River operations, the neighbouring Buffelsfontein Gold Mine began decanting approximately 6ML of water per day into the Great Noligwa mine. This water was evacuated from the underground mine and utilised in the metallurgical operations. At the West Wits operations, additional water from the neighbouring Blyvooruitzicht Mine Shaft 5 began flowing into the Savuka underground workings and is currently being evacuated through the TauTona shaft and utilised in the West Wits process water system. These strategic interventions have safely reduced the risk of flooding at our operations, and enabled the reduction of raw water intake.

In Brazil, some mines have had water shortages in the past. We continue with our concerted water recycling efforts, which have enabled the mines to avoid production slowdowns.

In Guinea, the growth of the tailings storage facility at Siguiri necessitated the expansion of its return water facility. This imperviously-lined dam was successfully expanded during 2016. The increased storm water storage capacity off the tailings facility has resulted in a reduction of about 34% in raw water abstraction from the Tinkisso River, with a corresponding increase in the use of recycled water in the metallurgical operations.

At Obuasi, the pumping of water from the underground workings continued during the year, despite the invasion of the mine by illegal miners. This has been carried out to prevent the underground mines flooding. In addition, water was treated to effluent discharge standards and released to the environment, this being both the underground mine water as well as the rainwater that collected on the inactive tailings storage facilities.

Picture: *Mponeng, South Africa*

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LEGACY ISSUES

The company's legacy issues include social and environmental challenges at Obuasi, Ghana; deep-level groundwater and water pumping obligations in South Africa; migrant labour and housing and accommodation challenges in South Africa; resettlement issues at certain Continental Africa operations; and the incidence of occupational lung disease (OLD).

AngloGold Ashanti has done much work to address the legacy issues it has faced at some of its operations, as explained in various sections in this report. In March 2016, AngloGold Ashanti and Anglo American South Africa entered into a settlement agreement with claimants' counsel on 4 March 2016, for a full and final settlement with no admission of liability of individual claims brought against the companies in respect of OLD allegedly contracted by the claimants. The work of the Q(h)ubeka Trust set up to administer the claim settlement is progressing well.

AngloGold Ashanti, together with Anglo American, African Rainbow Minerals, Gold Fields, Sibanye and Harmony, formed an industry working group in November 2014 – the Mining Industry Working Group on Occupational Lung Disease. The aim of the group is to address issues relating to compensation and medical care for OLD in the gold mining industry. The objective of the working group is to achieve a comprehensive settlement of OLD claims which is both fair to past, present and future employees and sustainable for the sector. The companies in the working group are among respondent companies in a number of lawsuits related to OLD, including a class action application. The group allows for good collaboration among stakeholders in the industry, labour and government with the aim of finding a timely solution to the legacy of the compensation process.

Despite the unfolding legal process, the working group believes in working together to seek a solution to this South African mining industry legacy issue. The group is committed to continuing with its efforts to find common ground with all stakeholders, including government, labour and the claimants' legal representatives. The companies in the working group do not believe that they are liable for the claims brought against them and are defending these.

On 13 May 2016, the High Court of South Africa, Gauteng Local Division ordered, inter alia, that current and former underground mineworkers who have contracted silicosis, and the dependants of underground mineworkers who died of silicosis (whether or not accompanied any other disease), where such mineworkers work or have worked on one or more gold mines listed as part of the judgement, after 12 March 1965 (the "silicosis class") constitute a class. The class also includes current and former underground mineworkers who have contracted pulmonary tuberculosis, and the dependants of deceased underground mineworkers who died of pulmonary tuberculosis (but excluding silico-tuberculosis), where such mineworkers work or have worked for at least two years in one or more of the gold mines listed as part of the judgement after 12 March 1965 (the "pulmonary tuberculosis class").

AngloGold Ashanti, together with the other respondent companies, has been granted leave to appeal the order in the Supreme Court of Appeal.