Foreign Exchange Risk

We operate on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. Our foreign exchange risk arises primarily with respect to the U.S. dollar and to a lesser extent, the Chilean peso. Our cash flows from Canadian and Chilean operations are exposed to foreign exchange risk as commodity sales are denominated in U.S. dollars, and the majority of operating expenses are denominated in local currencies.

We hedge a portion of our U.S. dollar denominated future cash flows on a quarterly basis with U.S. dollar forward sales contracts. We have elected not to actively manage other foreign exchange exposures at this time.

We also have various investments in U.S. dollar foreign operations, whose net assets are exposed to foreign currency translation risk. This currency exposure is managed in part through our U.S. dollar denominated debt as a hedge against net investments in foreign operations. As at December 31, 2012, $7.2 billion of U.S. dollar debt was designated in this manner.

U.S. dollar financial instruments subject to foreign exchange risk are as follows:

(US$ in millions)	2012	2011
Cash	**$ 17**	$ 792
Accounts receivable	**547**	588
Accounts payable	**(305)**	(269)
U.S. dollar forward sales contracts	**(552)**	(185)
Long-term debt, net of discounts and prepayment rights	**(7,162)**	(6,605)
Net investment in self-sustaining foreign operations	**8,959**	8,450
Net U.S. dollar assets (liabilities) exposed	**$ 1,504**	$ 2,771

As at December 31, 2012, with other variables unchanged, a $0.10 strengthening (weakening) of the Canadian dollar against the U.S. dollar would have a $71 million effect (2011 – $7 million) on profit before tax resulting from our financial instruments. There would also be a $30 million (2011 – $19 million) decrease (increase) in other comprehensive income from our U.S. dollar forward sales contracts designated as cash flow hedges.

Interest Rate Risk

Our interest rate risk mainly arises from our cash and cash equivalents. Our interest rate management policy is generally to borrow at fixed rates. However, floating rate funding may be used to fund short-term operating cash flow requirements or, in conjunction with fixed to floating interest rate swaps, be used to offset interest rate risk from our cash. The fair value of fixed-rate debt fluctuates with changes in market interest rates, but unless we make a prepayment, the cash flows, denominated in U.S. dollars, do not.

We separately valued the prepayment options on our 2016 and 2019 notes prior to their redemption in 2012 (discussed in Note 26(c) below). The value of these options fluctuated with both market interest rates and our credit spread.

Cash and cash equivalents have short terms to maturity and receive interest based on market interest rates.

As at December 31, 2012, with other variables unchanged, a 1% change in the LIBOR rate would have a minimal effect (2011 – $2 million) on profit. There would be no effect on other comprehensive income.