NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted for use by the European Union, with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and with the requirements of the Disclosure and Transparency rules of the Financial Services Authority in the United Kingdom as applicable to periodic financial reporting. The financial statements have been prepared under the historical cost convention as modified by the revaluation of pension assets and liabilities and certain financial instruments. A summary of the principal Group accounting policies is set out below with an explanation of changes to previous policies following adoption of new accounting standards and interpretations in the year.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus the going concern basis of accounting in preparing the financial statements continues to be adopted. Further details are contained in the Directors' report on page 117.

Changes in accounting policies and disclosures

A number of amendments to accounting standards and new interpretations issued by the International Accounting Standards Board (IASB) were applicable from 1 January 2011. They have not had a material impact on the accounting policies, methods of computation or presentation applied by the Group.

Basis of consolidation

The financial statements incorporate a consolidation of the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the results of subsidiaries, joint ventures and associates to bring their accounting policies into line with those used by the Group. Intra-group transactions, balances, income and expenses are eliminated on consolidation, where appropriate.

For non-wholly owned subsidiaries, a share of the profit or loss for the financial year and net assets or liabilities is attributed to the non-controlling interests as shown in the income statement and balance sheet.

Associates

Associates are investments over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Typically the Group owns between 20% and 50% of the voting equity of its associates. Investments in associates are accounted for using the equity method of accounting except when classified as held for sale.

The Group's share of associates' net income is based on their most recent audited financial statements or unaudited interim statements drawn up to the Group's balance sheet date.

The total carrying values of investments in associates represent the cost of each investment including the carrying value of goodwill, the share of post acquisition retained earnings, any other movements in reserves and any long term debt interests which in substance form part of the Group's net investment. The carrying values of associates are reviewed on a regular basis and if an impairment in value has occurred, the carrying value is impaired in the period in which the relevant circumstances are identified. The Group's share of an associate's losses in excess of its interest in that associate is not recognised unless the Group has an obligation to fund such losses.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds a long term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers under a contractual arrangement.

The Group's share of the assets, liabilities, income, expenditure and cash flows of such jointly controlled entities are accounted for using proportionate consolidation. Proportionate consolidation combines the Group's share of the results of the joint venture entity on a line by line basis with similar items in the Group's financial statements.

Jointly controlled operations

The Group has contractual arrangements with other participants to engage in joint activities other than through a separate entity. The Group includes its assets, liabilities, expenditure and its share of revenue in such joint venture operations with similar items in the Group's financial statements.

Revenue recognition

Revenue is derived principally from the sale of goods and is measured at the fair value of consideration received or receivable, after deducting discounts, volume rebates, value added tax and other sales taxes. Sales of concentrate are stated at their invoiced amount which is net of treatment and refining charges. A sale is recognised when the significant risks and rewards of ownership have passed. This is usually when title and insurance risk have passed to the customer and the goods have been delivered to a contractually agreed location.

Revenue from metal mining activities is based on the payable metal sold.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue on these sales is initially recognised (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recognised in revenue.

Revenues from the sale of material by-products are included within revenue. Where a by-product is not regarded as significant, revenue may be credited against the cost of sales.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Business combinations and goodwill arising thereon

The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate, which can be measured reliably, are recorded at their provisional fair values at the date of acquisition. Goodwill is the fair value of the consideration transferred (including contingent consideration and previously held non-controlling interests) less the fair value of the Group's share of identifiable net assets on acquisition. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Goodwill in respect of subsidiaries and joint ventures is included within intangible assets. Goodwill relating to associates is included within the carrying value of the associate.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognised directly in the income statement in the period of acquisition.

1. ACCOUNTING POLICIES continued

For non-wholly owned subsidiaries, non-controlling interests are initially recorded at the non-controlling interest's proportion of the fair values of net assets recognised at acquisition.

Property, plant and equipment

Mining properties and leases include the cost of acquiring and developing mining properties and mineral rights.

Mining properties are depreciated to their residual values using the unit of production method based on proven and probable ore reserves and, in certain limited circumstances, other mineral resources. Mineral resources are included in depreciation calculations where there is a high degree of confidence that they will be extracted in an economic manner. Depreciation is charged on new mining ventures from the date that the mining property is capable of commercial production. When there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, an impairment loss is recognised in the income statement.

For open pit operations the removal of overburden or waste ore is required to obtain access to the orebody. To the extent that the actual waste material removed per tonne of ore mined (known as the stripping ratio) is higher than the average stripping ratio, costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the life of the area being mined. This reflects the fact that waste removal is necessary to gain access to the orebody and therefore realise future economic benefit. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the mine life, per tonne of ore expected to be mined. The cost of stripping in any period will therefore be reflective of the average stripping ratio for the orebody as a whole applied to the actual stripping costs incurred. However, where the pit profile is such that the actual stripping ratio is cumulatively below the average, no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences. The average mine life stripping ratio is recalculated annually in light of additional knowledge and changes in estimates. Changes in the mine life stripping ratio are accounted for prospectively as a change in estimate.

Properties in the course of construction are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use. Buildings and plant and equipment are depreciated to their residual values at varying rates on a straight line basis over their estimated useful lives or the mine life, whichever is shorter. Estimated useful lives normally vary from up to 20 years for items of plant and equipment to a maximum of 50 years for buildings. Land is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. The gain or loss is recognised in the income statement.

Non-mining licences and other intangibles

Non-mining licences and other intangibles are measured at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are usually between three and five years. Amortisation methods, residual values and estimated useful lives are reviewed at least annually.

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised in the income statement as a special item.

Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or CGU. A reversal of an impairment loss is recognised in the income statement as a special item.

Impairment of goodwill

Goodwill arising on business combinations is allocated to the group of CGUs that is expected to benefit from synergies of the combination and represents the lowest level at which goodwill is monitored by the Group's board of directors for internal management purposes. The recoverable amount of the CGU or group of CGUs to which goodwill has been allocated is tested for impairment annually on a consistent date during each financial year, or when events or changes in circumstances indicate that it may be impaired.

Any impairment loss is recognised immediately in the income statement. Impairment of goodwill is not subsequently reversed.

Exploration, evaluation and development expenditure

Exploration and evaluation expenditure is expensed in the year in which it is incurred. When a decision is taken that a mining property is economically feasible, all subsequent evaluation expenditure is capitalised within property, plant and equipment including, where applicable, directly attributable pre-production development expenditure. Capitalisation of such expenditure ceases when the mining property is capable of commercial production.

Exploration properties acquired are recognised in the balance sheet at cost less any accumulated impairment losses. Such properties and capitalised evaluation and pre-production development expenditure prior to commercial production are assessed for impairment in accordance with the Group's accounting policy stated above.

Inventory

Inventory and work in progress are measured at the lower of cost and net realisable value. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Cost is determined on the following bases:

- Raw materials and consumables are measured at cost on a first in, first out (FIFO) basis or a weighted average cost basis.
- Finished products are measured at raw material cost, labour cost and a proportion of manufacturing overhead expenses.
- Metal and coal stocks are included within finished products and are measured at average cost.

At precious metals operations that produce 'joint products', cost is allocated amongst products according to the ratio of contribution of these metals to gross sales revenues.

Retirement benefits

The Group operates both defined benefit and defined contribution pension plans for its employees as well as post employment medical plans. For defined contribution plans the amount recognised in the income statement is the contributions paid or payable during the year.

For defined benefit pension and post employment medical plans, full actuarial valuations are carried out every three years using the projected unit credit method and updates are performed for each financial year end. The average discount rate for the plans' liabilities is based on AA rated corporate bonds of a suitable duration and currency or, where there is no deep market for such bonds, is based on government bonds. Pension plan assets are measured using year end market values.

1. ACCOUNTING POLICIES continued

Actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the statement of comprehensive income. Any increase in the present value of plan liabilities expected to arise from employee service during the year is charged to operating profit. The expected return on plan assets and the expected increase during the year in the present value of plan liabilities are included in investment income and interest expense respectively.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight line basis over the average period until the benefits vest.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Tax

The tax expense includes the current tax and deferred tax charge recognised in the income statement.

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Leases

In addition to lease contracts, other significant contracts are assessed to determine whether, in substance, they are or contain a lease. This includes assessment of whether the arrangement is dependent on use of a specific asset and right to use that asset is conveyed through the contract.

Rental costs under operating leases are recognised in the income statement in equal annual amounts over the lease term.

Finance lease assets are recognised as assets of the Group on inception of the lease at the lower of fair value or the present value of the minimum lease payments discounted at the interest rate implicit in the lease. The interest element of the rental is recognised in the income statement so as to produce a constant periodic rate of interest on the remaining balance of the liability, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group's general policy on borrowing costs set out below.

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when a sale is highly probable within one year from the date of classification, management is committed to the sale and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) are classified as held for sale from the date these conditions are met and are measured at the lower of carrying amount and fair value (less costs to sell). Any resulting impairment loss is recognised in the income statement as a special item. On classification as held for sale the assets are no longer depreciated. Comparative amounts are not adjusted.

A discontinued operation is a component of the Group's business that has been sold or is classified as held for sale and is part of a single coordinated plan to dispose of either a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to sale. Once an operation has been identified as discontinued, its net profit and cash flows are separately presented from continuing operations. Comparative information is reclassified so that net profit and cash flows of prior periods are also separately presented.

Environmental restoration and decommissioning obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the income statement over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

For some South African operations annual contributions are made to dedicated environmental rehabilitation trusts to fund the estimated cost of rehabilitation during and at the end of the life of the relevant mine. The Group exercises full control of these trusts and therefore the trusts are consolidated. The trusts' assets are disclosed separately on the balance sheet as non-current assets. The trusts' assets are measured based on the nature of the underlying assets in accordance with accounting policies for similar assets.

Foreign currency transactions and translation

Foreign currency transactions by Group companies are recognised in the functional currencies of the companies at the exchange rate ruling on the date of transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Gains and losses arising on retranslation are included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1. ACCOUNTING POLICIES continued

On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period where these approximate the rates at the dates of transactions. Any exchange differences arising are classified within the statement of comprehensive income and transferred to the Group's cumulative translation adjustment reserve. Exchange differences on foreign currency balances with foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future and therefore form part of the Group's net investment in these foreign operations are offset in the cumulative translation adjustment reserve.

Cumulative translation differences are recycled from equity and recognised as income or expense on disposal of the operation to which they relate.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate.

Presentation currency

As permitted by UK company law, the Group's results are presented in US dollars, the currency in which its business is primarily conducted.

Borrowing costs

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The Group makes equity settled share-based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. For those share schemes with market related vesting conditions, the fair value is determined using the Monte Carlo method at the grant date. The fair value of share options issued with non-market vesting conditions has been calculated using the Black Scholes model. For all other share awards, the fair value is determined by reference to the market value of the share at the date of grant. For all share schemes with non-market related vesting conditions, the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

Black economic empowerment (BEE) transactions

Where the Group disposes of a portion of a South African based subsidiary or operation to a BEE company at a discount to fair value, the transaction is considered to be a share-based payment (in line with the principle contained in South Africa interpretation AC 503 *Accounting for Black Economic Empowerment (BEE) Transactions*). The discount provided or value given is calculated in accordance with IFRS 2 and included in the determination of the profit or loss on disposal.

Employee benefit trust

Shares held by the employee benefit trust are recorded as treasury shares, and the carrying value is shown as a reduction in retained earnings within shareholders' equity.

Financial instruments

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet. Cash and cash equivalents in the cash flow statement are shown net of overdrafts. Cash and cash equivalents are measured at amortised cost.

Trade receivables

Trade receivables do not incur any interest, are short term in nature and are measured at their nominal value (with the exception of receivables relating to provisionally priced sales, as set out in the revenue recognition accounting policy) net of appropriate allowance for estimated irrecoverable amounts. Such allowances are raised based on an assessment of debtor ageing, past experience or known customer circumstances.

Investments

Investments, other than investments in subsidiaries, joint ventures and associates, are financial asset investments and are initially recognised at fair value. At subsequent reporting dates, financial assets that the Group has the expressed intention and ability to hold to maturity (held to maturity) as well as loans and receivables are measured at amortised cost, less any impairment losses. The amortisation of any discount or premium on the acquisition of a held to maturity investment is recognised in the income statement in each period using the effective interest method.

Investments other than those classified as held to maturity or loans and receivables are classified as either at fair value through profit or loss (which includes investments held for trading) or available for sale financial assets. Both categories are subsequently measured at fair value. Where investments are held for trading purposes, unrealised gains and losses for the period are included in the income statement within other gains and losses. For available for sale investments, unrealised gains and losses are recognised in equity until the investment is disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement.

Current financial asset investments consist mainly of bank term deposits and fixed and floating rate debt securities. Debt securities that are intended to be held to maturity are measured at amortised cost, using the effective interest method. Debt securities that are not intended to be held to maturity are recorded at the lower of cost and market value.

Impairment of financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Impairment losses relating to available for sale investments are recognised when the decline in fair value is considered significant or prolonged. These impairment losses are recognised by transferring the cumulative loss that has been recognised in the statement of comprehensive income to the income statement. The loss recognised in the income statement is the difference between the acquisition cost and the current fair value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified and accounted for as debt or equity according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1. ACCOUNTING POLICIES continued

Trade payables

Trade payables are not interest bearing and are measured at their nominal value with the exception of amounts relating to purchases of provisionally priced concentrate which are marked to market (using the appropriate forward price) until settled.

Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt and is recognised within borrowings and carried at amortised cost. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the liability.

Bank borrowings

Interest bearing bank loans and overdrafts are initially recognised at fair value, net of directly attributable transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs are recognised in the income statement using the effective interest method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments and hedge accounting

In order to hedge its exposure to foreign exchange, interest rate and commodity price risk, the Group enters into forward, option and swap contracts. The Group does not use derivative financial instruments for speculative purposes. Commodity based (normal purchase or normal sale) contracts that meet the scope exemption in IAS 39 *Financial Instruments: Recognition and Measurement* are recognised in earnings when they are settled by physical delivery.

All derivatives are held at fair value in the balance sheet within Other financial assets (derivatives) or Other financial liabilities (derivatives) except if they are linked to settlement and delivery of an unquoted equity instrument and the fair value cannot be measured reliably, in which case they are carried at cost. A derivative cannot be measured reliably where the range of reasonable fair value estimates is significant and the probabilities of various estimates cannot be reasonably assessed.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from remeasuring the associated derivative are recognised in the income statement.

The gain or loss on hedging instruments relating to the effective portion of a net investment hedge is recognised in equity (part of the cumulative translation adjustment reserve). The ineffective portion is recognised immediately in the income statement. Gains or losses accumulated in the cumulative translation adjustment reserve are included in the income statement on disposal of the foreign operations to which they relate.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, revoked, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Changes in the fair value of any derivative instruments that are not designated in a hedge relationship are recognised immediately in the income statement and are classified within other gains and losses or net finance costs depending on the type of risk to which the derivative relates.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contracts and the host contracts themselves are not carried at fair value with unrealised gains or losses reported in the income statement.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

New IFRS accounting standards and interpretations not yet adopted

The following new or amended IFRS accounting standards not yet adopted are expected to have a significant impact on the Group:

IFRS 9 *Financial Instruments – Classification and Measurement* reflects the first phase of the IASB's three stage project to replace IAS 39. The first phase deals with the classification and measurement of financial assets and financial liabilities. The standard applies to annual periods beginning on or after 1 January 2015.

IFRS 10 *Consolidated Financial Statements* replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 provides a single basis for consolidation with a new definition of control. The standard applies to annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Under IFRS 11 a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted. This standard applies to annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosures of Interests in Other Entities* will accompany IFRS 10 and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27, related to consolidated financial statements, IAS 31 and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements. This standard applies to annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* provides a model for accounting for costs associated with the removal of waste during the production phase of a surface mine, including guidance on the apportionment of the costs incurred for obtaining a current and future benefit and how capitalised costs are depreciated. This interpretation applies to annual periods beginning on or after 1 January 2013.

1. ACCOUNTING POLICIES continued

The following new, amended or revised IFRS accounting standards and interpretations not yet adopted are not expected to have a significant impact on the Group:

IFRS 13 *Fair Value Measurement* provides a single framework for all fair value measurements and applies to annual periods beginning on or after 1 January 2013.

The amendment to IAS 1 *Presentation of Financial Statements* requires items to be grouped in other comprehensive income based on whether those items are subsequently reclassified to profit or loss. The amendment is to be applied for annual periods beginning on or after 1 July 2012.

The amendment to IAS 12 *Income taxes* is to be applied for annual periods beginning on or after 1 January 2012.

The amendment to IAS 19 *Employee Benefits* is to be applied retrospectively for annual periods beginning on or after 1 January 2013.

Amendments have been made to IAS 27 and it has been reissued as IAS 27 *Separate Financial Statements.* The revised standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in consolidated financial statements are prescribed by IFRS 10, IFRS 11 and IFRS 12. The revised standard is to be applied for annual periods beginning on or after 1 January 2013.

Amendments have been made to IAS 28 and it has been reissued as IAS 28 *Investments in Associates and Joint Ventures*. The revised standard prescribes the application of the equity method when accounting for investments in associates and joint ventures. The revised standard is to be applied for annual periods beginning on or after 1 January 2013.

The amendment to IFRS 7 *Financial Instruments: Disclosures* is effective for annual periods beginning on or after 1 July 2011.

Critical accounting judgements and key sources of estimation and uncertainty

In the course of preparing financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. The most critical of these relate to estimation of the ore reserves and useful economic lives of assets and impairment of assets, restoration, rehabilitation and environmental costs, retirement benefits, financial assets and liabilities at fair value through profit and loss and contingent liabilities. These are detailed below. The use of inaccurate assumptions in calculations for any of these estimates could result in a significant impact on financial results.

Ore Reserve estimates and useful economic lives of assets

When determining Ore Reserves, which may be used to calculate depreciation on the Group's mining properties, assumptions that were valid at the time of estimation may change when new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

The calculation of the unit of production rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proven and probable mineral reserves. Factors which could impact useful economic lives of assets and Ore Reserve estimates include:

- Changes to Proved and Probable Reserves
- The grade of Ore Reserves varying significantly from time to time
- Differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves
- Renewal of mining licences
- Unforeseen operational issues at mine sites
- Adverse changes in capital, operating, mining, processing and reclamation costs, discount rates and foreign exchange rates used to determine mineral reserves.

For property, plant and equipment depreciated on a straight line basis over its useful economic life, management reviews the appropriateness of useful economic life at least annually and any changes could affect prospective depreciation rates and asset carrying values.

Impairment of assets

In making assessments for impairment, management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate CGUs, and also in estimating the timing and value of underlying cash flows within the calculation of recoverable amount. Factors which could impact underlying cash flows include:

- commodity prices and exchange rates
- timelines of granting of licences and permits
- capital and operating expenditure
- available reserves and resources.

Subsequent changes to the CGU allocation or to the timing of or assumptions used to determine cash flows could impact the carrying value of the respective assets.

Restoration, rehabilitation and environmental costs

Costs for restoration of site damage, rehabilitation and environmental costs are estimated using either the work of external consultants or internal experts. Management uses its judgement and experience to provide for and amortise these estimated costs over the life of the mine.

Retirement benefits

The expected costs of providing pensions and post employment benefits under defined benefit arrangements relating to employee service during the period are determined based on financial and actuarial assumptions.

Assumptions in respect of the expected costs are set after consultation with qualified actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the Group's other comprehensive income going forward.

Financial assets and liabilities at fair value through profit and loss

The fair value of the Group's financial assets and liabilities held at fair value though profit and loss represents the market value of quoted investments and other traded instruments where available. For financial assets and liabilities held at fair value through profit and loss for which market prices are not readily available, fair value is determined using discounted cash flows or other valuation techniques using assumptions considered to be reasonable and consistent with those that would be used by a market participant.
The assessment of assumptions used in applying valuation techniques is inherently subjective and the use of inaccurate assumptions could result in a significant impact on financial results.

Contingent liabilities

On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty.
A liability is recognised where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 34 unless the possibility of a loss arising is considered remote.

2. SEGMENTAL INFORMATION

The Group's segments are aligned to the structure of business units based around core commodities. Each business unit has a management team that is accountable to the Chief Executive. The Kumba Iron Ore, Iron Ore Brazil and Samancor business units have been aggregated as the Iron Ore and Manganese segment on the basis of the ultimate product produced (ferrous metals).

Following a strategic review during the year, Peace River Coal is now managed as part of the Metallurgical Coal business unit, and accordingly is presented as part of the Metallurgical Coal segment. It was previously reported within the Other Mining and Industrial reporting segment. Comparatives have been reclassified to align with current year presentation.

Catalão and Copebrás, reported in the Other Mining and Industrial segment, are now considered core to the Group. Tarmac and Scaw, which were identified for divestment as part of the restructuring programme announced in October 2009, are not considered to be individually significant to the Group and are therefore also presented in the Other Mining and Industrial reporting segment. Until February 2011, this reporting segment also included the zinc operations.

The Group's Executive Committee evaluates the financial performance of the Group and its segments principally with reference to operating profit before special items and remeasurements which includes the Group's attributable share of associates' operating profit before special items and remeasurements.

Segments predominantly derive revenue as follows – Iron Ore and Manganese: iron ore, manganese ore and alloys; Metallurgical Coal: metallurgical coal; Thermal Coal: thermal coal; Copper and Nickel: base metals; Platinum: platinum group metals; Diamonds: rough and polished diamonds and diamond jewellery; and Other Mining and Industrial: phosphates, niobium, heavy building materials, steel products and, until February 2011, zinc.

The Exploration segment includes the cost of the Group's exploration activities across all segments, excluding Diamonds.

The segment results are stated after elimination of inter-segment transactions and include an allocation of corporate costs.

Analysis by segment

Revenue and operating profit by segment

	Revenue[1]		Operating profit/(loss)[2]	
US$ million	2011	2010	2011	2010
Iron Ore and Manganese	8,124	6,612	4,520	3,681
Metallurgical Coal	4,347	3,522	1,189	780
Thermal Coal	3,722	2,866	1,230	710
Copper	5,144	4,877	2,461	2,817
Nickel	488	426	57	96
Platinum	7,359	6,602	890	837
Diamonds	3,320	2,644	659	495
Other Mining and Industrial	4,039	5,375	195	664
Exploration	–	–	(121)	(136)
Corporate Activities and Unallocated Costs	5	5	15	(181)
Segment measure	36,548	32,929	11,095	9,763
Reconciliation:				
Less: associates	(5,968)	(4,969)	(1,427)	(1,255)
Operating special items and remeasurements	–	–	(229)	158
Statutory measure	30,580	27,960	9,439	8,666

[1] Segment revenue includes the Group's attributable share of associates' revenue. This is reconciled to Group revenue from subsidiaries and joint ventures as presented in the Consolidated income statement.

[2] Segment operating profit is revenue less operating costs before special items and remeasurements, and includes the Group's attributable share of associates' operating profit before special items and remeasurements. This is reconciled to operating profit from subsidiaries and joint ventures after special items and remeasurements as presented in the Consolidated income statement.

Associates' revenue and operating profit

	Associates' revenue		Associates' operating profit/(loss)[1]	
US$ million	2011	2010	2011	2010
Iron Ore and Manganese	926	983	165	382
Metallurgical Coal	372	258	207	122
Thermal Coal	1,080	761	482	308
Platinum	269	237	(86)	(59)
Diamonds	3,320	2,644	659	495
Other Mining and Industrial	1	86	–	7
	5,968	4,969	1,427	1,255
Reconciliation:				
Associates' net finance costs			(48)	(88)
Associates' income tax expense			(385)	(313)
Associates' non-controlling interests			(16)	(9)
Share of net income from associates (before special items and remeasurements)			978	845
Associates' special items and remeasurements			(5)	(22)
Associates' special items and remeasurements tax			1	(2)
Associates' non-controlling interests on special items and remeasurements			3	1
Share of net income from associates			977	822

[1] Associates' operating profit is the Group's attributable share of associates' revenue less operating costs before special items and remeasurements.

2. SEGMENTAL INFORMATION continued

Non-cash items

Significant non-cash items included within operating profit before special items and remeasurements are as follows:

US$ million	Depreciation and amortisation[1] 2011	Depreciation and amortisation[1] 2010	Other non-cash expenses[2] 2011	Other non-cash expenses[2] 2010
Iron Ore and Manganese	180	142	127	90
Metallurgical Coal	375	343	104	76
Thermal Coal	128	113	30	40
Copper	289	269	124	97
Nickel	27	26	10	23
Platinum	729	750	76	57
Other Mining and Industrial	198	230	51	15
Exploration	–	–	3	4
Corporate Activities and Unallocated Costs	41	46	54	61
	1,967[3]	1,919[3]	579	463

[1] In addition the Group's attributable share of depreciation and amortisation in associates is $286 million (2010: $301 million). This is split by segment as follows: Iron Ore and Manganese $33 million (2010: $33 million), Metallurgical Coal $13 million (2010: $11 million), Thermal Coal $52 million (2010: $49 million), Platinum $53 million (2010: $37 million) and Diamonds $135 million (2010: $171 million).

[2] Other non-cash expenses include equity settled share-based payment charges and amounts included in operating costs in respect of provisions, excluding amounts recorded within special items.

[3] In addition $84 million (2010: $97 million) of accelerated depreciation has been recorded within operating special items (see note 5) and $39 million (2010: nil) of pre-commercial production depreciation has been capitalised.

Capital expenditure and net debt

US$ million	Capital expenditure[1] 2011	Capital expenditure[1] 2010	Net debt[2] 2011	Net debt[2] 2010
Iron Ore and Manganese	1,732	1,195	1,211	89
Metallurgical Coal	695	235	(211)	(635)
Thermal Coal	190	274	81	(50)
Copper	1,570	1,530	(781)	(243)
Nickel	398	525	603	561
Platinum	970	1,011	20	(65)
Other Mining and Industrial	152	206	338	385
Exploration	1	–	(6)	(2)
Corporate Activities and Unallocated Costs	56	18	119	7,403
	5,764	4,994	1,374	7,443
Reconciliation:				
Remove: cash flows from derivatives relating to capital expenditure	439	286		
Purchase of property, plant and equipment	6,203	5,280		
Interest capitalised	321	247		
Non-cash movements[3]	27	305		
Net debt in disposal groups			–	(59)
	6,551	5,832	1,374	7,384
Property, plant and equipment additions in disposal groups[4]	(2)	(46)		
Property, plant and equipment additions[5]	6,549	5,786		

[1] Capital expenditure is segmented on a cash basis and is reconciled to balance sheet additions. Cash capital expenditure includes cash flows on related derivatives.

[2] Segment net debt includes related hedges and excludes net debt in disposal groups. For a reconciliation of net debt to the balance sheet see note 31b.

[3] Includes movements on capital expenditure accruals, movements relating to deferred stripping and the impact of realised cash flow hedges.

[4] Relates to additions in businesses held in disposal groups, prior to their sale.

[5] Capital expenditure on an accruals basis is split by segment as follows: Iron Ore and Manganese $2,125 million (2010: $1,536 million), Metallurgical Coal $681 million (2010: $314 million), Thermal Coal $231 million (2010: $297 million), Copper $1,877 million (2010: $1,820 million), Nickel $405 million (2010: $602 million), Platinum $1,014 million (2010: $1,043 million), Other Mining and Industrial $159 million (2010: $153 million), Exploration $1 million (2010: $1 million) and Corporate Activities and Unallocated Costs $56 million (2010: $20 million).

2. SEGMENTAL INFORMATION continued

Segment assets and liabilities

The following balance sheet segment measures are provided for information:

	Segment assets[1]		Segment liabilities[2]		Net segment assets/(liabilities)	
US$ million	2011	2010	2011	2010	2011	2010
Iron Ore and Manganese	13,646	12,333	(577)	(632)	13,069	11,701
Metallurgical Coal	5,660	5,159	(968)	(827)	4,692	4,332
Thermal Coal	2,650	2,897	(764)	(786)	1,886	2,111
Copper	8,767	7,300	(1,124)	(1,009)	7,643	6,291
Nickel	2,655	2,443	(120)	(109)	2,535	2,334
Platinum	12,288	14,701	(1,097)	(1,223)	11,191	13,478
Other Mining and Industrial	3,923	4,148	(722)	(755)	3,201	3,393
Exploration	2	3	(3)	(12)	(1)	(9)
Corporate Activities and Unallocated Costs	375	402	(584)	(377)	(209)	25
	49,966	49,386	(5,959)	(5,730)	44,007	43,656
Other assets and liabilities						
Investments in associates[3]	5,240	4,900	–	–	5,240	4,900
Financial asset investments	2,896	3,220	–	–	2,896	3,220
Deferred tax assets/(liabilities)	530	389	(5,730)	(5,641)	(5,200)	(5,252)
Other financial assets/(liabilities) – derivatives	840	842	(1,112)	(835)	(272)	7
Cash and cash equivalents	11,732	6,401	–	–	11,732	6,401
Other non-operating assets/(liabilities)	1,238	1,518	(2,715)	(2,233)	(1,477)	(715)
Borrowings	–	–	(12,873)	(13,439)	(12,873)	(13,439)
Other provisions for liabilities and charges	–	–	(864)	(807)	(864)	(807)
Net assets	72,442	66,656	(29,253)	(28,685)	43,189	37,971

[1] Segment assets at 31 December 2011 are operating assets and consist of intangible assets of $2,322 million (2010: $2,316 million), property, plant and equipment of $40,549 million (2010: $39,810 million), biological assets of $17 million (2010: $2 million), environmental rehabilitation trusts of $360 million (2010: $379 million), retirement benefit assets of $70 million (2010: $112 million), inventories of $3,517 million (2010: $3,604 million) and operating receivables of $3,131 million (2010: $3,163 million).

[2] Segment liabilities at 31 December 2011 are operating liabilities and consist of non-interest bearing current liabilities of $3,982 million (2010: $3,834 million), environmental restoration and decommissioning provisions of $1,338 million (2010: $1,305 million) and retirement benefit obligations of $639 million (2010: $591 million).

[3] See note 17 for a split of investments in associates by segment.

Revenue by product

The Group's analysis of segment revenue by product (including attributable share of revenue from associates) is as follows:

US$ million	2011	2010
Iron ore	6,830	5,234
Manganese ore and alloys	926	983
Metallurgical coal	3,444	2,711
Thermal coal	4,621	3,707
Copper	5,023	4,782
Nickel	948	824
Platinum	4,578	4,053
Palladium	1,076	697
Rhodium	703	782
Diamonds	3,320	2,644
Phosphates	571	461
Heavy building materials	2,347	2,376
Steel products	931	1,568
Other	1,230	2,107
	36,548	32,929

Geographical analysis

Revenue by destination and non-current segment assets by location

The Group's geographical analysis of segment revenue (including attributable share of revenue from associates) allocated based on the country in which the customer is located, and non-current segment assets, allocated based on the country in which the assets are located, is as follows:

	Revenue		Non-current segment assets[1]	
US$ million	2011	2010	2011	2010
South Africa	3,589	3,307	15,215	17,389
Other Africa	618	502	357	373
Brazil	1,177	1,135	12,622	11,159
Chile	2,030	1,940	7,001	5,628
Other South America	50	207	655	589
North America	1,861	1,805	685	540
Australia	312	474	4,170	4,022
China	6,446	5,075	–	5
India	2,343	2,021	–	–
Japan	4,925	4,198	–	–
Other Asia	3,487	2,818	47	42
United Kingdom (Anglo American plc's country of domicile)	3,962	3,980	2,117	2,331
Other Europe	5,748	5,467	2	48
	36,548	32,929	42,871	42,126

[1] Non-current segment assets are non-current operating assets and consist of intangible assets and property, plant and equipment.

2. SEGMENTAL INFORMATION continued

Revenue and operating profit by origin

Segment revenue and operating profit before special items and remeasurements by origin (including attributable share of revenue and operating profit from associates) are provided for information:

US$ million	Revenue		Operating profit/(loss) before special items and remeasurements	
	2011	2010	2011	2010
South Africa	**17,855**	15,711	**6,059**	5,001
Other Africa	**2,763**	2,329	**501**	501
Brazil	**1,404**	1,127	**152**	82
Chile	**5,170**	5,224	**2,581**	2,967
Other South America	**1,364**	1,141	**512**	367
North America	**615**	679	**256**	14
Australia and Asia	**5,058**	4,141	**1,318**	911
Europe	**2,319**	2,577	**(284)**	(80)
	36,548	32,929	**11,095**	9,763

Segment assets and liabilities by location

The Group's geographical analysis of segment assets and liabilities, allocated based on where assets and liabilities are located, is provided for information:

US$ million	Segment assets[(1)]		Segment liabilities		Net segment assets	
	2011	2010	2011	2010	2011	2010
South Africa	**18,364**	21,294	**(2,620)**	(2,815)	**15,744**	18,479
Other Africa	**385**	377	**(20)**	(26)	**365**	351
Brazil	**13,188**	11,576	**(303)**	(358)	**12,885**	11,218
Chile	**7,950**	6,727	**(1,101)**	(1,005)	**6,849**	5,722
Other South America	**808**	679	**(48)**	(21)	**760**	658
North America	**782**	611	**(107)**	(38)	**675**	573
Australia and Asia	**5,450**	4,849	**(953)**	(851)	**4,497**	3,998
Europe	**3,039**	3,273	**(807)**	(616)	**2,232**	2,657
	49,966	49,386	**(5,959)**	(5,730)	**44,007**	43,656

(1) Investments in associates of $5,240 million (2010: $4,900 million) are not included in segment assets. The geographical distribution of these investments, based on the location of the underlying assets, is disclosed in note 17.

3. OPERATING PROFIT FROM SUBSIDIARIES AND JOINT VENTURES

US$ million	2011	2010
Group revenue	**30,580**	27,960
Cost of sales[(1)]	**(17,343)**	(15,949)
Gross profit	**13,237**	12,011
Selling and distribution costs	**(1,788)**	(1,740)
Administrative expenses	**(2,034)**	(1,815)
Other gains and losses (see below)	**145**	346
Exploration expenditure (see note 7)	**(121)**	(136)
Operating profit from subsidiaries and joint ventures	**9,439**	8,666

(1) Includes operating special item charges of $164 million (2010: $228 million), see note 5. Operating remeasurements are included in Other gains and losses (see below).

US$ million	2011	2010
Operating profit is stated after charging:		
Depreciation of property, plant and equipment (see note 15)[(1)]	**1,947**	1,888
Amortisation of intangible assets (see note 14)	**20**	31
Rentals under operating leases	**128**	121
Research and development expenditure	**38**	29
Operating special items (see note 5)	**164**	228
Employee costs (see note 8)	**4,707**	4,367
Adjustment due to provisional pricing[(2)]	**286**	(168)
Royalties[(3)]	**742**	586
Other gains and losses comprise:		
Operating remeasurements (see note 5)	**(65)**	386
Other fair value (losses)/gains on derivatives – realised	**(57)**	84
Foreign exchange gains/(losses) on other monetary items	**256**	(124)
Gains on initial recognition of biological assets	**11**	–
Total other gains and losses	**145**	346

(1) In addition $84 million (2010: $97 million) of accelerated depreciation has been recorded within operating special items (see note 5) and $39 million (2010: nil) of pre-commercial production depreciation has been capitalised.

(2) Provisionally priced contracts resulted in a total (realised and unrealised) loss in revenue of $283 million (2010: gain of $199 million) and total (realised and unrealised) loss in operating costs of $3 million (2010: $31 million).

(3) Excludes those royalties which meet the definition of income tax on profit and accordingly have been accounted for as taxes.

3. OPERATING PROFIT FROM SUBSIDIARIES AND JOINT VENTURES continued

US$ million	2011	2010
Auditors' remuneration		
Audit		
United Kingdom	2.4	2.6
Overseas	7.5	7.9
Other services provided by Deloitte[1]		
United Kingdom	1.1	1.3
Overseas	2.6	1.7

[1] Includes $0.2 million (2010: $0.1 million) for services required to be undertaken by Deloitte in their capacity as auditors.

A more detailed analysis of auditors' remuneration is provided below:

	2011				2010			
	Paid/payable to Deloitte			Paid/payable to auditor (if not Deloitte)	Paid/payable to Deloitte			Paid/payable to auditor (if not Deloitte)
US$ million	United Kingdom	Overseas	Total	Overseas	United Kingdom	Overseas	Total	Overseas
Statutory audit services								
Paid to the Company's auditor	1.7	–	1.7	–	1.7	–	1.7	–
Subsidiary entities – for purposes of Anglo American plc Annual Report	–	4.3	4.3	0.1	–	4.4	4.4	0.1
Subsidiary entities – additional local statutory requirements	0.7	3.2	3.9	0.6	0.9	3.5	4.4	0.4
Subsidiary entities – total	0.7	7.5	8.2	0.7	0.9	7.9	8.8	0.5
Total	2.4	7.5	9.9	0.7	2.6	7.9	10.5	0.5
Other services[1]								
Other services pursuant to legislation	0.5	0.8	1.3	0.1	0.5	0.8	1.3	–
Tax services	0.4	0.4	0.8	0.3	0.1	0.4	0.5	0.2
Other	0.2[2]	1.4	1.6	0.5	0.7[2]	0.5	1.2	0.2
Total	1.1	2.6	3.7	0.9	1.3	1.7	3.0	0.4

[1] Includes $0.1 million (2010: $0.2 million) in respect of the audit of Group pension plans.
[2] Includes $0.2 million (2010: $0.1 million) for services required to be undertaken by Deloitte in their capacity as auditors.

4. OPERATING PROFIT AND UNDERLYING EARNINGS BY SEGMENT

The following table analyses operating profit (including attributable share of associates' operating profit) by segment and reconciles it to underlying earnings by segment. In 2011 Peace River Coal has been reclassified from Other Mining and Industrial to Metallurgical Coal to align with internal management reporting. Comparatives have been reclassified to align with current year presentation.

Underlying earnings is an alternative earnings measure, which the directors consider to be a useful additional measure of the Group's performance. Underlying earnings is profit for the financial year attributable to equity shareholders of the Company before special items and remeasurements and is therefore presented after net finance costs, income tax expense and non-controlling interests. For a reconciliation from 'Profit for the financial year attributable to equity shareholders of the Company' to 'Underlying earnings for the financial year', see note 13.

	2011					2010				
US$ million	Operating profit/(loss) before special items and remeasurements[1]	Operating profit/(loss) after special items and remeasurements	Operating special items and remeasurements (note 5)	Net finance costs, income tax expense and non-controlling interests	Underlying earnings	Operating profit/(loss) before special items and remeasurements[1]	Operating profit/(loss) after special items and remeasurements	Operating special items and remeasurements (note 5)	Net finance costs, income tax expense and non-controlling interests	Underlying earnings
Iron Ore and Manganese	4,520	4,441	79	(2,995)	1,525	3,681	4,037	(356)	(2,258)	1,423
Metallurgical Coal	1,189	1,189	–	(345)	844	780	803	(23)	(194)	586
Thermal Coal	1,230	1,231	(1)	(328)	902	710	708	2	(198)	512
Copper	2,461	2,460	1	(851)	1,610	2,817	2,832	(15)	(1,096)	1,721
Nickel	57	(15)	72	(34)	23	96	45	51	(21)	75
Platinum	890	884	6	(480)	410	837	765	72	(412)	425
Diamonds	659	641	18	(216)	443	495	466	29	(193)	302
Other Mining and Industrial	195	125	70	(88)	107	664	564	100	(143)	521
Exploration	(121)	(121)	–	3	(118)	(136)	(136)	–	8	(128)
Corporate Activities and Unallocated Costs	15	13	2	359	374	(181)	(192)	11	(280)	(461)
Total	11,095	10,848	247	(4,975)	6,120	9,763	9,892	(129)	(4,787)	4,976
Analysed as:										
Core operations	11,088	10,911	177	(4,962)	6,126	9,245	9,460	(215)	(4,706)	4,539
Non-core operations[2]	7	(63)	70	(13)	(6)	518	432	86	(81)	437

[1] Operating profit includes attributable share of associates' operating profit which is reconciled to 'Share of net income from associates' in note 2.
[2] Non-core operations relate to Tarmac and Scaw Metals and, until February 2011, the zinc operations.

4. OPERATING PROFIT AND UNDERLYING EARNINGS BY SEGMENT continued

Underlying earnings by origin

US$ million	2011	2010
South Africa	2,726	2,218
Other Africa	326	350
South America	2,080	2,154
North America	218	(12)
Australia and Asia	967	668
Europe	(197)	(402)
	6,120	4,976

5. SPECIAL ITEMS AND REMEASUREMENTS

Special items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group. Such items are material by nature or amount to the year's results and require separate disclosure in accordance with IAS 1 paragraph 97. Special items that relate to the operating performance of the Group are classified as operating special items and principally include impairment charges and reversals and restructuring costs. Non-operating special items include profits and losses on disposals of investments and businesses as well as certain adjustments relating to business combinations.

Remeasurements comprise other items which the Group believes should be reported separately to aid an understanding of the underlying financial performance of the Group. This category includes:

- unrealised gains and losses on 'non-hedge' derivative instruments open at the year end (in respect of future transactions) and the reversal of the historical marked to market value of such instruments settled in the year. Where the underlying transaction is recorded in the income statement, the realised gains or losses are recorded in underlying earnings in the same year as the underlying transaction for which such instruments provide an economic, but not formally designated, hedge. If the underlying transaction is recorded in the balance sheet, e.g. capital expenditure, the realised amount remains in remeasurements on settlement of the derivative. Such amounts are classified in the income statement as operating when the underlying exposure is in respect of the operating performance of the Group and otherwise as financing.
- foreign exchange impact arising in US dollar functional currency entities where tax calculations are generated based on local currency financial information and hence deferred tax is susceptible to currency fluctuations. Such amounts are included within income tax expense.

			2011			2010
US$ million	Subsidiaries and joint ventures	Associates[1]	Total	Subsidiaries and joint ventures	Associates[1]	Total
Impairment and related charges	(154)	–	(154)	(107)	(15)	(122)
Restructuring costs	(10)	(9)	(19)	(121)	(10)	(131)
Operating special items	(164)	(9)	(173)	(228)	(25)	(253)
Operating remeasurements	(65)	(9)	(74)	386	(4)	382
Operating special items and remeasurements	(229)	(18)	(247)	158	(29)	129
Disposal of Lisheen and Black Mountain	397	–	397	–	–	–
Platinum BEE transactions and related charges	(141)	–	(141)	–	–	–
Disposals of Tarmac businesses	(75)	–	(75)	(294)	–	(294)
Disposal of Moly-Cop and AltaSteel	–	–	–	555	–	555
Gain on Bafokeng-Rasimone Platinum mine transaction	–	–	–	546	–	546
Disposal of undeveloped coal assets	–	–	–	505	–	505
Disposal of Skorpion	–	–	–	244	–	244
Other	2	20	22	23	19	42
Net profit on disposals	183	20	203	1,579	19	1,598
Financing special items	–	(9)	(9)	–	(13)	(13)
Financing remeasurements	203	2	205	105	1	106
Total special items and remeasurements before tax and non-controlling interests	157	(5)	152	1,842	(22)	1,820
Special items and remeasurements tax	(119)	1	(118)	(110)	(2)	(112)
Non-controlling interests on special items and remeasurements	12	3	15	(141)	1	(140)
Net total special items and remeasurements attributable to equity shareholders of the Company	50	(1)	49	1,591	(23)	1,568

[1] Relates to the Diamonds segment.

Operating special items

Impairment and related charges were $154 million in the year ended 31 December 2011 (2010: $122 million). This principally comprises an impairment of Tarmac Building Products of $70 million (Other Mining and Industrial segment) and accelerated depreciation of $84 million (2010: $97 million), mainly arising at Loma de Níquel (Nickel segment). The accelerated depreciation charge at Loma de Níquel has arisen due to ongoing uncertainty over the renewal of three concessions that expire in 2012 and over the restoration of 13 concessions that have been cancelled.

Restructuring costs principally relate to retrenchment and consultancy costs within the Platinum and Diamond segments (2010: Other Mining and Industrial, Platinum and Diamond segments).

Operating remeasurements

Operating remeasurements reflect a net loss of $74 million (2010: gain of $382 million) principally in respect of non-hedge derivatives of capital expenditure in Iron Ore Brazil. Derivatives which have been realised in the year had a cumulative net operating remeasurement gain since their inception of $383 million (2010: gain of $255 million).

5. SPECIAL ITEMS AND REMEASUREMENTS continued

Profits and losses on disposals

In February 2011 the Group completed the disposal of its 100% interest in the Lisheen operation (Lisheen) and its 74% interest in Black Mountain Mining (Proprietary) Limited (Black Mountain), which holds 100% of the Black Mountain mine and Gamsberg project, resulting in a net cash inflow of $499 million, generating a profit on disposal of $397 million. Lisheen and Black Mountain were included in the Other Mining and Industrial segment.

The charge for Platinum BEE transactions principally relates to an IFRS 2 charge of $131 million resulting from a community economic empowerment transaction involving certain of Platinum's host communities, which completed in December 2011.

The Group sold Tarmac's businesses in China, Turkey and Romania in July, October and November 2011 respectively. Tarmac is included in the Other Mining and Industrial segment.

Financing remeasurements

Financing remeasurements reflect a net gain of $205 million (2010: gain of $106 million) and relate to an embedded interest rate derivative, non-hedge derivatives of debt and other financing remeasurements.

Special items and remeasurements tax

Special items and remeasurements tax amounted to a charge of $118 million (2010: charge of $112 million). This relates to a credit for one-off tax items of $137 million (2010: nil), a tax remeasurement charge of $230 million (2010: credit of $122 million) and a tax charge on special items and remeasurements of $25 million (2010: charge of $234 million).

The total tax charge relating to subsidiaries and joint ventures of $119 million (2010: charge of $110 million), comprises a current tax charge of $12 million (2010: charge of $107 million) and a deferred tax charge of $107 million (2010: charge of $3 million).

The credit relating to one-off tax items of $137 million (2010: nil) principally relates to the recognition of deferred tax assets in Iron Ore Brazil which were originally written off as part of the impairment charges related to the Amapá iron ore system in 2009, and a capital gains tax refund related to a prior year disposal.

6. EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) is operating profit before special items and remeasurements, depreciation and amortisation in subsidiaries and joint ventures and includes attributable share of EBITDA of associates.

US$ million	2011	2010
Iron Ore and Manganese	**4,733**	3,856
Metallurgical Coal[1]	**1,577**	1,134
Thermal Coal	**1,410**	872
Copper	**2,750**	3,086
Nickel	**84**	122
Platinum	**1,672**	1,624
Diamonds	**794**	666
Other Mining and Industrial[1]	**393**	894
Exploration	**(121)**	(136)
Corporate Activities and Unallocated Costs	**56**	(135)
EBITDA	**13,348**	11,983

[1] In 2011 Peace River Coal has been reclassified from Other Mining and Industrial to Metallurgical Coal to align with internal management reporting. Comparatives have been reclassified to align with current year presentation.

EBITDA is reconciled to operating profit, including attributable share of associates, before special items and remeasurements and to 'Total profit from operations and associates' as follows:

US$ million	2011	2010
Total profit from operations and associates	**10,599**	11,067
Operating special items and remeasurements	**229**	(158)
Net profit on disposals	**(183)**	(1,579)
Associates' net special items and remeasurements	**1**	23
Share of associates' net finance costs, tax and non-controlling interests	**449**	410
Operating profit, including associates, before special items and remeasurements	**11,095**	9,763
Depreciation and amortisation: subsidiaries and joint ventures	**1,967**	1,919
Depreciation and amortisation: associates	**286**	301
EBITDA	**13,348**	11,983

EBITDA is reconciled to 'Cash flows from operations' as follows:

US$ million	2011	2010
EBITDA	**13,348**	11,983
Share of operating profit of associates before special items and remeasurements	**(1,427)**	(1,255)
Cash element of operating special items	**(59)**	(94)
Share of associates' depreciation and amortisation	**(286)**	(301)
Share-based payment charges	**254**	219
Provisions	**6**	(37)
Increase in inventories	**(352)**	(309)
Increase in operating receivables	**(264)**	(587)
Increase in operating payables	**457**	516
Deferred stripping	**(171)**	(196)
Other adjustments	**(8)**	(15)
Cash flows from operations	**11,498**	9,924

7. EXPLORATION EXPENDITURE

US$ million	2011	2010
By commodity		
Iron ore	5	14
Metallurgical coal	5	3
Thermal coal	9	21
Copper	27	19
Nickel	26	27
Platinum group metals	5	11
Zinc	–	3
Central exploration activities	44	38
	121	136

8. EMPLOYEE NUMBERS AND COSTS

The average number of employees, excluding contractors and associates' employees, and including a proportionate share of employees within joint venture entities, was:

Thousand	2011	2010
By segment		
Iron Ore and Manganese	8	8
Metallurgical Coal	3	3
Thermal Coal	9	9
Copper	5	4
Nickel	2	2
Platinum	55	52
Other Mining and Industrial	16	20
Corporate Activities and Unallocated Costs	2	2
	100	100

The average number of employees by principal location of employment was:

Thousand	2011	2010
South Africa	79	77
Other Africa	1	1
South America	10	9
North America[(1)]	–	1
Australia and Asia	4	4
Europe	6	8
	100	100

[(1)] The average number of employees in North America during 2011 was less than 500, following the disposal of Moly-Cop and AltaSteel on 31 December 2010.

Payroll costs in respect of the employees included in the tables above were:

US$ million	2011	2010
Wages and salaries	4,201	3,880
Social security costs	142	173
Post employment benefits[(1)]	343	281
Share-based payments (see note 29)	260	223
Total payroll costs	4,946	4,557
Reconciliation:		
Less: employee costs capitalised	(229)	(132)
Less: employee costs included within operating special items	(10)	(58)
Employee costs included in operating costs	4,707	4,367

[(1)] Includes contributions to defined contribution pension and medical plans, current and past service costs related to defined benefit pension and medical schemes and other benefits provided to certain employees during retirement.

In accordance with IAS 24 *Related Party Disclosures (Amended)*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (executive and non-executive) of the Group.

Compensation for key management was as follows:

US$ million	2011	2010
Salaries and short term employee benefits	23	19
Social security costs	2	5
Post employment benefits	8	2
Share-based payments	22	15
	55	41

Key management comprises members of the Board and the Executive Committee.

Disclosure of directors' emoluments, pension entitlements, share options and long term incentive plan awards required by the Companies Act 2006 and those specified for audit by Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the Remuneration report.

9. NET FINANCE INCOME/(COSTS)

Finance costs and exchange gains/(losses) are presented net of hedges for respective interest bearing and foreign currency borrowings.

The weighted average capitalisation rate applied to qualifying capital expenditure was 5.0% (2010: 4.8%).

US$ million	2011	2010
Investment income		
Interest income from cash and cash equivalents	239	118
Other interest income	194	224
Expected return on defined benefit arrangements	199	205
Dividend income from financial asset investments	59	30
	691	577
Less: interest income capitalised	(23)	(9)
Total investment income	668	568
Interest expense		
Interest and other finance expense	(615)	(632)
Interest payable on convertible bond	(68)	(68)
Unwinding of discount on convertible bond	(71)	(65)
Interest cost on defined benefit arrangements	(205)	(219)
Unwinding of discount relating to provisions and other non-current liabilities	(80)	(73)
	(1,039)	(1,057)
Less: interest expense capitalised	344	256
Total interest expense	(695)	(801)
Other financing gains/(losses)		
Net foreign exchange (losses)/gains	(16)	17
Net fair value gains/(losses) on fair value hedges	16	(7)
Other net fair value gains/(losses)	7	(21)
Total other financing gains/(losses)	7	(11)
Net finance costs before remeasurements	(20)	(244)
Remeasurements (see note 5)	203	105
Net finance income/(costs) after remeasurements	183	(139)

10. FINANCIAL INSTRUMENT GAINS AND LOSSES

The net gains and losses recorded in the Consolidated income statement in respect of financial instruments were as follows:

US$ million	2011	2010
At fair value through profit and loss		
Cash flow hedge derivatives transferred from equity[(1)]	(5)	(4)
Fair value hedge derivatives	(263)	(112)
Fair value hedge underlying instruments	279	105
Foreign exchange (losses)/gains	(9)	9
Other fair value movements[(2)]	(198)	752
Loans and receivables		
Foreign exchange gains/(losses)	9	(292)
Interest income at amortised cost[(3)]	361	160
Available for sale		
Net gain transferred on sale from equity	10	–
Dividend income	59	30
Other financial liabilities		
Foreign exchange gains	240	167
Interest expense at amortised cost[(3)]	(345)	(376)

[(1)] These amounts are included in Group revenue.
[(2)] Includes the impact of provisional pricing, see note 3, and operating and financing remeasurements, see note 5.
[(3)] Interest income and expense at amortised cost are shown net of amounts capitalised. Comparatives have been adjusted accordingly.

11. INCOME TAX EXPENSE

a) Analysis of charge for the year

US$ million	2011	2010
United Kingdom corporation tax at 26.5% (2010: 28%)	16	24
South Africa tax	1,307	1,199
Other overseas tax	1,067	1,333
Prior year adjustments	(92)	(7)
Current tax[(1)]	2,298	2,549
Deferred tax	443	150
Income tax expense before special items and remeasurements	2,741	2,699
Special items and remeasurements tax	119	110
Income tax expense	2,860	2,809

[(1)] Includes royalties which meet the definition of income tax and are in addition to royalties recorded in operating costs.

11. INCOME TAX EXPENSE continued

b) Factors affecting tax charge for the year

The effective tax rate for the year of 26.5% (2010: 25.7%) is the same as (2010: lower than) the applicable weighted average statutory rate of corporation tax in the United Kingdom of 26.5% (2010: 28%). The reconciling items, excluding the impact of associates, are:

US$ million	2011	2010
Profit before tax	10,782	10,928
Less: share of net income from associates	(977)	(822)
Profit before tax (excluding associates)	9,805	10,106
Tax on profit (excluding associates) calculated at United Kingdom corporation tax rate of 26.5% (2010: 28%)	2,598	2,830
Tax effects of:		
Items not taxable/deductible for tax purposes		
Exploration expenditure	27	13
Non-deductible/taxable net foreign exchange loss/(gain)	24	(3)
Non-taxable/deductible net interest (income)/expense	(20)	2
Other non-deductible expenses	60	125
Other non-taxable income	(57)	(40)
Temporary difference adjustments		
Current year losses not recognised	38	19
Utilisation of losses not previously recognised	–	(8)
Recognition of losses not previously recognised	(103)	(61)
Enhanced tax depreciation	–	(41)
Other temporary differences	(57)	(69)
Special items and remeasurements	77	(406)
Other adjustments		
Secondary tax on companies and dividend withholding taxes	407	657
Effect of differences between local and United Kingdom rates	(61)	(218)
Prior year adjustments to current tax	(92)	(7)
Other adjustments	19	16
Income tax expense	2,860	2,809

IAS 1 requires income from associates to be presented net of tax on the face of the income statement. Associates' tax is therefore not included within the Group's income tax expense. Associates' tax included within Share of net income from associates for the year ended 31 December 2011 is $384 million (2010: $315 million). Excluding special items and remeasurements this becomes $385 million (2010: $313 million).

The effective rate of tax before special items and remeasurements including attributable share of associates' tax for the year ended 31 December 2011 was 28.3%. The decrease compared to the equivalent effective rate of 31.9% for the year ended 31 December 2010 is due to a number of non-recurring factors that include the recognition of previously unrecognised tax losses and the reassessment of certain withholding tax provisions across the Group. In future periods it is expected that the effective tax rate, including associates' tax, will remain above the United Kingdom statutory tax rate.

c) Tax amounts included in total comprehensive income

An analysis of tax by individual item presented in the Consolidated statement of comprehensive income is presented below:

US$ million	2011	2010
Tax on items recognised directly in equity		
Net gain on revaluation of available for sale investments	(26)	(46)
Net loss on cash flow hedges	20	(2)
Net exchange difference on translation of foreign operations	11	(82)
Actuarial net loss/(gain) on post employment benefit plans	19	(19)
	24	(149)
Tax on items transferred from equity		
Transferred to income statement: cash flow hedges	(2)	(1)
Transferred to initial carrying amount of hedged items: cash flow hedges	(12)	2
	(14)	1

d) Tax amounts recognised directly in equity

Capital gains tax of $1,017 million relating to the profit on sale of a 24.5% share in Anglo American Sur SA (AA Sur) in November 2011, has been charged directly to equity. There were no other material current tax amounts charged directly to equity in 2011 or 2010. Deferred tax of $127 million has been charged (2010: $68 million credited) directly to equity. See note 27.