

OPERATING AND FINANCIAL REVIEW: Risk – continued

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 useful economic lives of assets and ore reserves, impairment of assets, restoration, rehabilitation and environmental costs and retirement benefits. 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.

Useful economic lives of assets and ore reserve estimates

The Group's mining properties, classified within property, plant and equipment, are depreciated over the respective life of the mine using the unit of production (UOP) method based on proven and probable reserves. When determining ore reserves, 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 UOP 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

The majority of other property, plant and equipment is depreciated on a straight line basis over their useful economic lives. Management reviews the appropriateness of assets' useful economic lives at least annually

Sensitivity analysis in respect of currency and commodity prices

Set out below is the impact on underlying earnings of a 10% fluctuation in certain of the Group's commodity prices and exchange rates

Commodity	Average price ⁽¹⁾		10% ⁽⁶⁾ sensitivity US\$ million
	2010	2009	
Platinum ⁽²⁾	\$1,610/oz	\$1,211/oz	185
Metallurgical Coal ⁽³⁾	\$176/t	\$141/t	181
Thermal Coal ⁽³⁾	\$82/t	\$64/t	187
Copper ⁽⁴⁾	342 c/lb	234 c/lb	277
Nickel ⁽⁴⁾	989 c/lb	667 c/lb	46
Iron Ore ⁽⁵⁾	\$125/t	\$65/t	180
Palladium ⁽²⁾	\$527/oz	\$266/oz	33
ZAR/USD	7.32	8.41	400
AUD/USD	1.09	1.26	198
CLP/USD	510	559	42

⁽¹⁾ 'oz' denotes ounces, 't' denotes tonnes, 'c' denotes cents, 'lb' denotes pounds.

⁽²⁾ Source: Johnson Matthey plc.

⁽³⁾ Group average realised FOB price of metallurgical (Australia) and thermal coal (South Africa).

⁽⁴⁾ Being the average LME price.

⁽⁵⁾ Average price represents average iron ore export price achieved.

⁽⁶⁾ Excludes the effect of any hedging activities. Stated after tax at marginal rate. Sensitivities are the average of the positive and negative and the impact of a 10% change in the average prices received and exchange rates during 2010. Increases in commodity prices increase underlying earnings and vice versa. A strengthening of the South African rand, Australian dollar and Chilean peso relative to the US dollar reduces underlying earnings and vice versa.

and any changes could affect prospective depreciation rates and asset carrying values.

Impairment of assets

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. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use.

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 value in use calculation. 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

Provision is made, based on net present values, for restoration, rehabilitation and environmental costs as soon as the obligation arises. Costs incurred at the start of each project are capitalised and charged to the income statement over the life of the project through depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage are provided at net present value and charged against profits as extraction progresses. 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 charged to the income statement. Any actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the Consolidated statement of comprehensive income.

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 earnings of the Group going forward.

BASIS OF DISCLOSURE

This operating and financial review (OFR) describes the main trends and factors underlying the development, performance and position of Anglo American plc (the Group) during the year ended 31 December 2010, as well as those likely to affect the future development, performance and position. It has been prepared in line with the guidance provided in the reporting statement on the operating and finance review issued by the UK Accounting Standards Board in January 2006.

FORWARD LOOKING STATEMENTS

This OFR contains certain forward looking statements with respect to the financial condition, results, operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.