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RESPONSIBILITY STATEMENT

for the year ended 31 December 2012

We confirm that to the best of our knowledge:

- (a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of Anglo American plc and the undertakings included in the consolidation taken as a whole; and
- (b) the Operating and financial review includes a fair review of the development and performance of the business and the position of Anglo American plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Cynthia Carroll
Chief Executive

René Médori
Finance Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANGLO AMERICAN PLC

We have audited the financial statements of Anglo American plc for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of changes in equity, the accounting policies, the related notes 2 to 39 and the balance sheet of the Company and related information in note 40. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2012 and of the Group's loss and the Company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' report in relation to going concern;
- the part of the Corporate governance section relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Carl D. Hughes (Senior Statutory Auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

14 February 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

| US\$ million | Note | 2012 | | | 2011 | | |
|---|-------|---|---|-----------------|---|---|----------|
| | | Before special items and remeasurements | Special items and remeasurements (note 5) | Total | Before special items and remeasurements | Special items and remeasurements (note 5) | Total |
| Group revenue | 2 | 28,761 | – | 28,761 | 30,580 | – | 30,580 |
| Total operating costs | | (23,356) | (7,093) | (30,449) | (20,912) | (229) | (21,141) |
| Operating (loss)/profit from subsidiaries and joint ventures | 2, 3 | 5,405 | (7,093) | (1,688) | 9,668 | (229) | 9,439 |
| Non-operating special items and remeasurements | 5 | – | 1,394 | 1,394 | – | 183 | 183 |
| Share of net income from associates | 2, 17 | 493 | (61) | 432 | 978 | (1) | 977 |
| Total profit from operations and associates | | 5,898 | (5,760) | 138 | 10,646 | (47) | 10,599 |
| Investment income | | 597 | – | 597 | 668 | – | 668 |
| Interest expense | | (798) | – | (798) | (695) | – | (695) |
| Other financing (losses)/gains | | (87) | (89) | (176) | 7 | 203 | 210 |
| Net finance (costs)/income | 9 | (288) | (89) | (377) | (20) | 203 | 183 |
| (Loss)/profit before tax | | 5,610 | (5,849) | (239) | 10,626 | 156 | 10,782 |
| Income tax expense | 11a | (1,488) | 1,113 | (375) | (2,741) | (119) | (2,860) |
| (Loss)/profit for the financial year | | 4,122 | (4,736) | (614) | 7,885 | 37 | 7,922 |
| Attributable to: | | | | | | | |
| Non-controlling interests | | 1,283 | (404) | 879 | 1,765 | (12) | 1,753 |
| Equity shareholders of the Company | | 2,839 | (4,332) | (1,493) | 6,120 | 49 | 6,169 |
| (Loss)/earnings per share (US\$) | | | | | | | |
| Basic | 13 | 2.26 | (3.45) | (1.19) | 5.06 | 0.04 | 5.10 |
| Diluted | 13 | 2.24 | (3.43) | (1.19) | 4.85 | 0.04 | 4.89 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

| US\$ million | Note | 2012 | 2011 |
|--|------|----------------|---------|
| (Loss)/profit for the financial year | | (614) | 7,922 |
| Net gain on revaluation of available for sale investments | | 173 | 115 |
| Net loss on cash flow hedges | | – | (94) |
| Net exchange difference on translation of foreign operations (including associates) | | (747) | (4,060) |
| Actuarial net gain/(loss) on post employment benefit schemes | | 165 | (214) |
| Share of associates' expense recognised directly in equity, net of tax | | (6) | (32) |
| Tax on items recognised directly in equity | 11c | (115) | 24 |
| Net expense recognised directly in equity | | (530) | (4,261) |
| Transferred to income statement: disposal of available for sale investments | | (57) | (10) |
| Transferred to income statement: impairment of available for sale investments | | 84 | – |
| Transferred to income statement: cash flow hedges | | 4 | 5 |
| Transferred to initial carrying amount of hedged items: cash flow hedges | | 5 | 54 |
| Transferred to income statement: net exchange difference on disposal of foreign operations | | 24 | 45 |
| Share of associate's net expense transferred from equity | | (10) | – |
| Tax on items transferred from equity | 11c | 29 | (14) |
| Total transferred from equity | | 79 | 80 |
| Total comprehensive (expense)/income for the financial year | | (1,065) | 3,741 |
| Attributable to: | | | |
| Non-controlling interests | | 842 | 1,142 |
| Equity shareholders of the Company | | (1,907) | 2,599 |

CONSOLIDATED BALANCE SHEET

as at 31 December 2012

| US\$ million | Note | 2012 | 2011 |
|---|---------|-----------------|----------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 14 | 4,571 | 2,322 |
| Property, plant and equipment | 15 | 45,089 | 40,549 |
| Environmental rehabilitation trusts | 16 | 393 | 360 |
| Investments in associates | 17 | 3,063 | 5,240 |
| Financial asset investments | 19 | 2,278 | 2,896 |
| Trade and other receivables | 21 | 572 | 437 |
| Deferred tax assets | 27 | 1,223 | 530 |
| Derivative financial assets | 25 | 747 | 668 |
| Other non-current assets | | 236 | 138 |
| Total non-current assets | | 58,172 | 53,140 |
| Current assets | | | |
| Inventories | 20 | 5,005 | 3,517 |
| Financial asset investments | 19 | 102 | - |
| Trade and other receivables | 21 | 3,275 | 3,674 |
| Current tax assets | | 470 | 207 |
| Derivative financial assets | 25 | 101 | 172 |
| Cash and cash equivalents | 31b | 9,094 | 11,732 |
| Total current assets | | 18,047 | 19,302 |
| Assets classified as held for sale | 34 | 3,150 | - |
| Total assets | | 79,369 | 72,442 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 22 | (4,536) | (5,098) |
| Short term borrowings | 24, 31b | (2,604) | (1,018) |
| Provisions for liabilities and charges | 26 | (564) | (372) |
| Current tax liabilities | | (819) | (1,528) |
| Derivative financial liabilities | 25 | (280) | (162) |
| Total current liabilities | | (8,803) | (8,178) |
| Non-current liabilities | | | |
| Trade and other payables | 22 | (18) | - |
| Medium and long term borrowings | 24, 31b | (15,150) | (11,855) |
| Retirement benefit obligations | 28 | (1,409) | (639) |
| Deferred tax liabilities | 27 | (6,069) | (5,730) |
| Derivative financial liabilities | 25 | (801) | (950) |
| Provisions for liabilities and charges | 26 | (2,384) | (1,830) |
| Other non-current liabilities | | (29) | (71) |
| Total non-current liabilities | | (25,860) | (21,075) |
| Liabilities directly associated with assets classified as held for sale | 34 | (919) | - |
| Total liabilities | | (35,582) | (29,253) |
| Net assets | | | |
| EQUITY | | | |
| Called-up share capital | 29 | 772 | 738 |
| Share premium account | | 4,357 | 2,714 |
| Own shares | | (6,659) | (6,985) |
| Other reserves | | (1,201) | 283 |
| Retained earnings | | 40,388 | 42,342 |
| Equity attributable to equity shareholders of the Company | | 37,657 | 39,092 |
| Non-controlling interests | | 6,130 | 4,097 |
| Total equity | | 43,787 | 43,189 |

The financial statements of Anglo American plc, registered number 03564138, were approved by the Board of directors on 14 February 2013 and signed on its behalf by:

Cynthia Carroll
Chief Executive

René Médori
Finance Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

| US\$ million | Note | 2012 | 2011 |
|--|------|----------------|---------|
| Cash flows from operations | 31a | 7,021 | 11,498 |
| Dividends from associates | | 286 | 344 |
| Dividends from financial asset investments | | 54 | 59 |
| Income tax paid | | (1,799) | (2,539) |
| Net cash inflows from operating activities | | 5,562 | 9,362 |
| Cash flows from investing activities | | | |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 32 | (4,816) | - |
| Purchase of property, plant and equipment | 2 | (5,607) | (6,203) |
| Cash flows from derivatives related to capital expenditure | 2 | (71) | 439 |
| Investments in associates | | (114) | (47) |
| Purchase of financial asset investments | | (16) | (16) |
| Net repayment of loans granted | | 81 | 22 |
| Interest received and other investment income | | 279 | 350 |
| Disposal of subsidiaries, net of cash and cash equivalents disposed | 33 | 100 | 514 |
| Sale of interests in joint ventures | 33 | - | 19 |
| Repayment of capitalised loans by associates | | 36 | 4 |
| Proceeds from disposal of property, plant and equipment | | 66 | 77 |
| Net proceeds from disposal of interests in available for sale investments | | 273 | - |
| Other investing activities | | (32) | (12) |
| Net cash used in investing activities | | (9,821) | (4,853) |
| Cash flows from financing activities | | | |
| Interest paid | | (775) | (807) |
| Cash flows from derivatives related to financing activities | | 149 | 226 |
| Dividends paid to Company shareholders | | (970) | (818) |
| Dividends paid to non-controlling interests | | (1,267) | (1,404) |
| Repayment of short term borrowings | | (747) | (1,261) |
| Net receipt of medium and long term borrowings | | 5,633 | 964 |
| Movements in non-controlling interests | | 1,220 | 4,964 |
| Tax on sale of non-controlling interest in Anglo American Sur | | (1,015) | - |
| Sale of shares under employee share schemes | | 24 | 20 |
| Purchase of shares by subsidiaries for employee share schemes ⁽¹⁾ | | (253) | (367) |
| Other financing activities | | (49) | (43) |
| Net cash inflows from financing activities | | 1,950 | 1,474 |
| Net (decrease)/increase in cash and cash equivalents | | (2,309) | 5,983 |
| Cash and cash equivalents at start of year | 31c | 11,732 | 6,460 |
| Cash movements in the year | | (2,309) | 5,983 |
| Effects of changes in foreign exchange rates | | (111) | (711) |
| Cash and cash equivalents at end of year | 31c | 9,312 | 11,732 |

⁽¹⁾ Includes purchase of Kumba Iron Ore Limited and Anglo American Platinum Limited shares for their respective employee share schemes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

| US\$ million | Total share capital ⁽¹⁾ | Own shares ⁽²⁾ | Retained earnings | Share-based payment reserve | Cumulative translation adjustment reserve | Fair value and other reserves (note 30) | Total equity attributable to equity shareholders of the Company | Non-controlling interests | Total equity |
|---|------------------------------------|---------------------------|-------------------|-----------------------------|---|---|---|---------------------------|---------------|
| Balance at 1 January 2011 | 3,451 | (7,159) | 34,305 | 476 | 1,474 | 1,692 | 34,239 | 3,732 | 37,971 |
| Total comprehensive income/ (expense) | - | - | 5,928 | - | (3,404) | 75 | 2,599 | 1,142 | 3,741 |
| Dividends payable to Company shareholders | - | - | (834) | - | - | - | (834) | - | (834) |
| Dividends payable to non-controlling interests | - | - | - | - | - | - | - | (1,401) | (1,401) |
| Changes in ownership interest in subsidiaries | - | - | 3,027 | - | - | - | 3,027 | 788 | 3,815 |
| Issue of shares to non-controlling interests | - | - | - | - | - | - | - | 16 | 16 |
| Equity settled share-based payment schemes | - | 174 | (193) | (18) | - | - | (37) | (167) | (204) |
| IFRS 2 charges on black economic empowerment transactions | - | - | 102 | - | - | - | 102 | 29 | 131 |
| Other | 1 | - | 7 | (5) | - | (7) | (4) | (42) | (46) |
| Balance at 1 January 2012 | 3,452 | (6,985) | 42,342 | 453 | (1,930) | 1,760 | 39,092 | 4,097 | 43,189 |
| Total comprehensive (expense)/ income | - | - | (1,349) | - | (686) | 128 | (1,907) | 842 | (1,065) |
| Dividends payable to Company shareholders | - | - | (970) | - | - | - | (970) | - | (970) |
| Dividends payable to non-controlling interests | - | - | - | - | - | - | - | (1,259) | (1,259) |
| Conversion of convertible bond | 1,677 | - | 185 | - | - | (355) | 1,507 | - | 1,507 |
| Changes in ownership interest in subsidiaries | - | - | (231) | - | - | - | (231) | 982 | 751 |
| Acquired through business combinations | - | - | - | - | - | - | - | 1,423 | 1,423 |
| Issue of shares to non-controlling interests | - | - | - | - | - | - | - | 17 | 17 |
| Equity settled share-based payment schemes | - | 326 | (256) | 96 | - | - | 166 | 28 | 194 |
| Other | - | - | 667 | - | - | (667) | - | - | - |
| Balance at 31 December 2012 | 5,129 | (6,659) | 40,388 | 549 | (2,616) | 866 | 37,657 | 6,130 | 43,787 |

⁽¹⁾ Includes share capital and share premium.

⁽²⁾ Own shares comprise shares of Anglo American plc held by the Company (treasury shares), its subsidiaries and employee benefit trusts. Own shares have previously been aggregated with retained earnings. Comparatives have been reclassified to align with current presentation.

Dividends

| | Note | 2012 | 2011 |
|---|------|------|------|
| Proposed ordinary dividend per share (US cents) | 12 | 53 | 46 |
| Proposed ordinary dividend (US\$ million) | 12 | 676 | 557 |
| Ordinary dividends payable during the year per share (US cents) | 12 | 78 | 68 |
| Ordinary dividends payable during the year (US\$ million) | 12 | 970 | 834 |

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.

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 128.

Changes in accounting policies and disclosures

A number of amendments to accounting standards issued by the International Accounting Standards Board (IASB) were applicable from 1 January 2012. They have not had a material impact on the accounting policies, methods of computation or presentation applied by the Group.

Changes in estimates

Due to the nature of Platinum in-process inventories being contained in weirs, pipes and other vessels, physical counts only take place annually, except in the Precious Metal Refinery which take place once every three years (the latest being in 2010). Consequently, the Platinum business runs a theoretical metal inventory system based on inputs, the results of previous physical counts and outputs. Once the results of the physical count are finalised, the variance between the theoretical count and actual count is investigated and recorded as a change in estimate.

During the year ended 31 December 2012, the change in estimate following the annual physical count has had the effect of increasing the value of inventory by \$172 million (2011: \$61 million), resulting in the recognition of a gain in the income statement.

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, a 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.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss is recognised in the income statement.

1. ACCOUNTING POLICIES *continued*

Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the income statement, where such treatment would be appropriate if that interest were disposed of.

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.

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. For diamond operations, depreciation calculations are based on mineral reserves and resources included in the Life of Mine Plan. 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 the 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. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Intangible assets are amortised over their estimated useful lives, usually between 3 and 20 years, except goodwill and those intangible assets that are considered to have indefinite lives. For intangible assets with a finite life, the amortisation period is determined as the period over which the Group expects to obtain benefits from the asset, taking account of all relevant facts and circumstances including contractual lives and expectations about the renewal of contractual arrangements without significant incremental costs. An intangible asset is deemed to have an indefinite life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the Group. 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, or when events or changes in circumstances indicate that it may be impaired.

Any impairment loss is recognised immediately in the income statement as a special item. 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.

1. ACCOUNTING POLICIES continued**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.

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 of 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 in that taxation authority.

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 the 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.

Non-current assets and disposal groups held for sale

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.

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.

1. ACCOUNTING POLICIES *continued*

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 the 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.

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 the 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 foreign entities 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 shares at the grant date. For all share schemes with non-market 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 own shares, and the carrying value is shown as a reduction 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 principally 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.

1. ACCOUNTING POLICIES continued**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.

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 'Derivative financial assets' or 'Derivative financial liabilities' 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.

The corresponding entry, along with 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 and interpretations 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 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 is effective for annual periods beginning on or after 1 January 2014 although early adoption is permitted.

IFRS 12 *Disclosures of Interests in Other Entities* will accompany IFRS 10 *Consolidated Financial Statements* and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27 *Consolidated and Separate Financial Statements*, related to consolidated financial statements, IAS 31 and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements. This standard is effective for annual periods beginning on or after 1 January 2014 although early adoption is permitted.

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.

As explained above, the Group currently defers costs associated with the removal of overburden or waste material such that the cost of stripping in any period is reflective of the average stripping ratio for the orebody as a whole applied to the actual stripping costs incurred. Amounts deferred on this basis will only be carried forward under IFRIC 20 where they relate to existing components of the orebody.

1. ACCOUNTING POLICIES continued

Amounts deferred to date which do not relate to existing components of the orebody will be written off to reserves.

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

IFRS 10 replaces the portion of IAS 27 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 is effective for annual periods beginning on or after 1 January 2014 although early adoption is permitted.

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 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 *Consolidated and Separate Financial Statements* 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 2014 although early adoption is permitted.

Amendments have been made to IAS 28 *Investments in Associates* 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 2014 although early adoption is permitted.

Amendments to IFRS 1 *Government loans* and to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* are effective for annual periods beginning on or after 1 January 2013.

The amendment to IAS 32 *Financial Instruments – Presentation* is effective for annual periods beginning on or after 1 January 2014.

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, impairment of assets, fair valuation of net assets on acquisition, 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 and future production profile

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, see note 14.

Fair valuation of net assets on acquisition

The Group applies the acquisition method of accounting for acquisitions. This requires all identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate acquired on the date control is obtained, which can be measured reliably, to be recognised at their provisional fair values at the date of acquisition.

The fair value of identifiable assets and liabilities is determined using discounted cash flows or other valuation techniques using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. The assessment of assumptions used in determining the fair value of identifiable assets and liabilities is inherently subjective and the use of inaccurate valuation assumptions could result in a significant impact on financial results.

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 through 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 35 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).

Phosphates and Niobium (previously Copebrás and Catalão) are reported in the Other Mining and Industrial segment. Following a strategic review during the first half of the year, Amapá was transferred to the Other Mining and Industrial business unit, and accordingly is presented as part of the Other Mining and Industrial segment. It was previously reported as part of the Iron Ore and Manganese segment. Comparatives have been reclassified to align with current year presentation. Tarmac is not considered to be individually significant to the Group and is therefore also presented in the Other Mining and Industrial segment. Until November 2012 this reporting segment also included Scaw South Africa.

On 16 August 2012 the Group acquired a controlling interest in De Beers (Diamonds segment). Until this date De Beers was accounted for as an associate of the Group. From 16 August 2012 De Beers ceased to be an associate and has been accounted for as a subsidiary of the Group. For details of this acquisition, see note 32.

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

Segment revenue includes the Group's attributable share of associates' revenue. 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, iron ore, and, until November 2012, steel products.

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

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

Analysis by segment

Revenue and operating (loss)/profit by segment

| US\$ million | Revenue ⁽¹⁾ | | Underlying operating (loss)/profit ⁽²⁾ | |
|--|------------------------|---------------|---|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| Iron Ore and Manganese | 6,403 | 7,643 | 2,949 | 4,400 |
| Metallurgical Coal | 3,889 | 4,347 | 405 | 1,189 |
| Thermal Coal | 3,447 | 3,722 | 793 | 1,230 |
| Copper | 5,122 | 5,144 | 1,687 | 2,461 |
| Nickel | 336 | 488 | 26 | 57 |
| Platinum | 5,489 | 7,359 | (120) | 890 |
| Diamonds | 4,028 | 3,320 | 496 | 659 |
| Other Mining and Industrial | 4,066 | 4,520 | 337 | 315 |
| Exploration | – | – | (206) | (121) |
| Corporate Activities and Unallocated Costs | 5 | 5 | (203) | 15 |
| Segment measure | 32,785 | 36,548 | 6,164 | 11,095 |
| Reconciliation: | | | | |
| Less: associates | (4,024) | (5,968) | (759) | (1,427) |
| Operating special items and remeasurements | – | – | (7,093) | (229) |
| Statutory measure | 28,761 | 30,580 | (1,688) | 9,439 |

⁽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 underlying operating (loss)/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 (loss)/profit from subsidiaries and joint ventures after special items and remeasurements as presented in the Consolidated income statement.

Associates' revenue and underlying operating profit

| US\$ million | Associates' revenue | | Associates' underlying operating profit/(loss) ⁽¹⁾ | |
|--|---------------------|--------------|---|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Iron Ore and Manganese | 831 | 926 | 104 | 165 |
| Metallurgical Coal | 315 | 372 | 111 | 207 |
| Thermal Coal | 970 | 1,080 | 355 | 482 |
| Platinum | 231 | 269 | (63) | (86) |
| Diamonds | 1,675 | 3,320 | 252 | 659 |
| Other Mining and Industrial | 2 | 1 | – | – |
| | 4,024 | 5,968 | 759 | 1,427 |
| Reconciliation: | | | | |
| Associates' net finance costs | | | (58) | (48) |
| Associates' income tax expense | | | (202) | (385) |
| Associates' non-controlling interests | | | (6) | (16) |
| Share of net income from associates (before special items and remeasurements) | | | 493 | 978 |
| Associates' special items and remeasurements | | | (57) | (5) |
| Associates' special items and remeasurements tax | | | (3) | 1 |
| Associates' non-controlling interests on special items and remeasurements | | | (1) | 3 |
| Share of net income from associates | | | 432 | 977 |

⁽¹⁾ Associates' underlying operating profit/(loss) 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 underlying operating profit are as follows:

| US\$ million | Depreciation and amortisation ⁽¹⁾ | | Other non-cash expenses ⁽²⁾ | |
|--|--|----------------------------|--|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Iron Ore and Manganese | 199 | 153 | 31 | 95 |
| Metallurgical Coal | 458 | 375 | 140 | 104 |
| Thermal Coal | 125 | 128 | 30 | 30 |
| Copper | 492 | 289 | 98 | 124 |
| Nickel | 24 | 27 | 25 | 10 |
| Platinum | 658 | 729 | 81 | 76 |
| Diamonds | 142 | - | 52 | - |
| Other Mining and Industrial | 148 | 225 | (59) | 83 |
| Exploration | - | - | 3 | 3 |
| Corporate Activities and Unallocated Costs | 43 | 41 | 70 | 54 |
| | 2,289⁽³⁾ | 1,967⁽³⁾ | 471 | 579 |

⁽¹⁾ In addition the Group's attributable share of associates' depreciation and amortisation is \$233 million (2011: \$286 million). This is split by segment as follows: Iron Ore and Manganese \$50 million (2011: \$33 million), Metallurgical Coal \$14 million (2011: \$13 million), Thermal Coal \$54 million (2011: \$52 million), Platinum \$42 million (2011: \$53 million) and Diamonds \$73 million (2011: \$135 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 \$70 million (2011: \$84 million) of accelerated depreciation and \$41 million (2011: nil) of depreciation and amortisation charges arising due to the fair value uplift of the pre-existing 45% shareholding of De Beers have been recorded within operating special items and remeasurements (see note 5), and \$81 million (2011: \$39 million) of pre-commercial production depreciation has been capitalised.

Capital expenditure and net debt

| US\$ million | Capital expenditure ⁽¹⁾ | | Net debt ⁽²⁾ | |
|---|------------------------------------|--------------|-------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Iron Ore and Manganese | 2,077 | 1,659 | 1,112 | 1,277 |
| Metallurgical Coal | 1,028 | 695 | (510) | (211) |
| Thermal Coal | 266 | 190 | 32 | 81 |
| Copper | 996 | 1,570 | (775) | (781) |
| Nickel | 100 | 398 | 477 | 603 |
| Platinum | 822 | 970 | 98 | 20 |
| Diamonds | 94 | - | 839 | - |
| Other Mining and Industrial | 260 | 225 | (45) | 272 |
| Exploration | 6 | 1 | (8) | (6) |
| Corporate Activities and Unallocated Costs | 29 | 56 | 7,608 | 119 |
| | 5,678 | 5,764 | 8,828 | 1,374 |
| Net (cash) in disposal groups ⁽³⁾ | | | (213) | - |
| | | | 8,615 | 1,374 |
| Reconciliation: | | | | |
| Remove: cash flows from derivatives relating to capital expenditure | (71) | 439 | | |
| Purchase of property, plant and equipment | 5,607 | 6,203 | | |
| Interest capitalised | 280 | 321 | | |
| Non-cash movements ⁽⁴⁾ | 120 | 27 | | |
| Property, plant and equipment additions in disposal groups | (50) | (2) | | |
| Property, plant and equipment additions⁽⁵⁾ | 5,957 | 6,549 | | |

⁽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⁾ Previously reported within the Other Mining and Industrial segment, see note 34.

⁽⁴⁾ Includes movements on capital expenditure accruals, movements relating to deferred stripping and the impact of realised cash flow hedges.

⁽⁵⁾ Property, plant and equipment additions are split by segment as follows: Iron Ore and Manganese \$2,143 million (2011: \$2,052 million), Metallurgical Coal \$980 million (2011: \$681 million), Thermal Coal \$277 million (2011: \$231 million), Copper \$1,069 million (2011: \$1,877 million), Nickel \$207 million (2011: \$405 million), Platinum \$865 million (2011: \$1,014 million), Diamonds \$172 million (2011: nil), Other Mining and Industrial \$207 million (2011: \$232 million), Exploration \$6 million (2011: \$1 million) and Corporate Activities and Unallocated Costs \$31 million (2011: \$56 million).

2. SEGMENTAL INFORMATION continued**Segment assets and liabilities**

The following balance sheet segment measures are provided for information:

| US\$ million | Segment assets ⁽¹⁾ | | Segment liabilities ⁽²⁾ | | Net segment assets/(liabilities) | |
|---|-------------------------------|---------------|------------------------------------|-----------------|----------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Iron Ore and Manganese | 9,837 | 12,909 | (481) | (482) | 9,356 | 12,427 |
| Metallurgical Coal | 6,078 | 5,660 | (859) | (968) | 5,219 | 4,692 |
| Thermal Coal | 2,726 | 2,650 | (761) | (764) | 1,965 | 1,886 |
| Copper | 9,662 | 8,767 | (1,126) | (1,124) | 8,536 | 7,643 |
| Nickel | 2,613 | 2,655 | (104) | (120) | 2,509 | 2,535 |
| Platinum | 11,490 | 12,288 | (1,071) | (1,097) | 10,419 | 11,191 |
| Diamonds | 14,412 | - | (1,468) | - | 12,944 | - |
| Other Mining and Industrial | 960 | 4,660 | (174) | (817) | 786 | 3,843 |
| Exploration | 8 | 2 | (4) | (3) | 4 | (1) |
| Corporate Activities and Unallocated Costs | 424 | 375 | (709) | (584) | (285) | (209) |
| | 58,210 | 49,966 | (6,757) | (5,959) | 51,453 | 44,007 |
| Other assets and liabilities | | | | | | |
| Investments in associates ⁽³⁾ | 3,063 | 5,240 | - | - | 3,063 | 5,240 |
| Financial asset investments | 2,380 | 2,896 | - | - | 2,380 | 2,896 |
| Deferred tax assets/(liabilities) | 1,223 | 530 | (6,069) | (5,730) | (4,846) | (5,200) |
| Derivative financial assets/(liabilities) | 848 | 840 | (1,081) | (1,112) | (233) | (272) |
| Cash and cash equivalents | 9,094 | 11,732 | - | - | 9,094 | 11,732 |
| Other non-operating assets/(liabilities) | 1,401 | 1,238 | (1,660) | (2,715) | (259) | (1,477) |
| Borrowings | - | - | (17,754) | (12,873) | (17,754) | (12,873) |
| Other provisions for liabilities and charges | - | - | (1,342) | (864) | (1,342) | (864) |
| Assets/(liabilities) classified as held for sale ⁽⁴⁾ | 3,150 | - | (919) | - | 2,231 | - |
| Net assets | 79,369 | 72,442 | (35,582) | (29,253) | 43,787 | 43,189 |

⁽¹⁾ Segment assets are operating assets and consist of intangible assets of \$4,571 million (2011: \$2,322 million), property, plant and equipment of \$45,089 million (2011: \$40,549 million), environmental rehabilitation trusts of \$393 million (2011: \$360 million), biological assets of \$19 million (2011: \$17 million), retirement benefit assets of \$176 million (2011: \$70 million), inventories of \$5,005 million (2011: \$3,517 million) and operating receivables of \$2,957 million (2011: \$3,131 million).

⁽²⁾ Segment liabilities are operating liabilities and consist of non-interest bearing current liabilities of \$3,742 million (2011: \$3,982 million), environmental restoration and decommissioning provisions of \$1,606 million (2011: \$1,338 million) and retirement benefit obligations of \$1,409 million (2011: \$639 million).

⁽³⁾ See note 17 for a split of investments in associates by segment.

⁽⁴⁾ Previously reported in the Other Mining and Industrial segment, see note 34.

Revenue by product

The Group's analysis of segment revenue by product is as follows:

| US\$ million | 2012 | 2011 |
|--------------------------|---------------|---------------|
| Iron ore | 5,508 | 6,830 |
| Manganese ore and alloys | 831 | 926 |
| Metallurgical coal | 3,048 | 3,444 |
| Thermal coal | 4,287 | 4,621 |
| Copper | 5,038 | 5,023 |
| Nickel | 678 | 948 |
| Platinum | 3,441 | 4,578 |
| Palladium | 906 | 1,076 |
| Rhodium | 389 | 703 |
| Diamonds | 4,027 | 3,320 |
| Phosphates | 597 | 571 |
| Heavy building materials | 2,171 | 2,347 |
| Steel products | 798 | 931 |
| Other | 1,066 | 1,230 |
| | 32,785 | 36,548 |

2. SEGMENTAL INFORMATION continued

Geographical analysis

Revenue by destination and non-current segment assets by location

The Group's geographical analysis of segment revenue 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:

| US\$ million | Revenue | | Non-current segment assets ⁽¹⁾ | |
|---|---------------|---------------|---|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| South Africa | 3,115 | 3,589 | 16,452 | 15,215 |
| Other Africa | 715 | 618 | 8,029 | 357 |
| Brazil | 1,093 | 1,177 | 8,700 | 12,622 |
| Chile | 1,241 | 2,030 | 7,470 | 7,001 |
| Other South America | 46 | 50 | 623 | 655 |
| North America | 1,274 | 1,861 | 2,205 | 685 |
| Australia | 340 | 312 | 4,673 | 4,170 |
| China | 5,927 | 6,446 | - | - |
| India | 2,544 | 2,343 | - | - |
| Japan | 4,049 | 4,925 | - | - |
| Other Asia | 3,595 | 3,487 | 31 | 47 |
| United Kingdom (Anglo American plc's country of domicile) | 3,781 | 3,962 | 1,325 | 2,117 |
| Other Europe | 5,065 | 5,748 | 152 | 2 |
| | 32,785 | 36,548 | 49,660 | 42,871 |

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

Revenue and underlying operating profit by origin

Segment revenue and underlying operating profit by origin are provided for information:

| US\$ million | Revenue | | Underlying operating profit/(loss) | |
|---------------------|---------------|---------------|------------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| South Africa | 14,592 | 17,855 | 3,335 | 6,059 |
| Other Africa | 3,256 | 2,763 | 437 | 501 |
| Brazil | 1,274 | 1,404 | 200 | 152 |
| Chile | 5,122 | 5,170 | 1,863 | 2,581 |
| Other South America | 1,131 | 1,364 | 304 | 512 |
| North America | 559 | 615 | (138) | 256 |
| Australia and Asia | 4,616 | 5,058 | 465 | 1,318 |
| Europe | 2,235 | 2,319 | (302) | (284) |
| | 32,785 | 36,548 | 6,164 | 11,095 |

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, are provided for information:

| US\$ million | Segment assets ⁽¹⁾ | | Segment liabilities | | Net segment assets | |
|---------------------|-------------------------------|---------------|---------------------|----------------|--------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| South Africa | 20,155 | 18,364 | (2,922) | (2,620) | 17,233 | 15,744 |
| Other Africa | 8,313 | 385 | (202) | (20) | 8,111 | 365 |
| Brazil | 9,124 | 13,188 | (244) | (303) | 8,880 | 12,885 |
| Chile | 8,695 | 7,950 | (1,094) | (1,101) | 7,601 | 6,849 |
| Other South America | 717 | 808 | (55) | (48) | 662 | 760 |
| North America | 2,500 | 782 | (298) | (107) | 2,202 | 675 |
| Australia and Asia | 5,900 | 5,450 | (838) | (953) | 5,062 | 4,497 |
| Europe | 2,806 | 3,039 | (1,104) | (807) | 1,702 | 2,232 |
| | 58,210 | 49,966 | (6,757) | (5,959) | 51,453 | 44,007 |

⁽¹⁾ Investments in associates of \$3,063 million (2011: \$5,240 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 (LOSS)/PROFIT FROM SUBSIDIARIES AND JOINT VENTURES

| US\$ million | 2012 | 2011 |
|---|----------------|--------------|
| Group revenue | 28,761 | 30,580 |
| Cost of sales ⁽¹⁾ | (25,993) | (17,343) |
| Gross profit | 2,768 | 13,237 |
| Selling and distribution costs | (2,031) | (1,788) |
| Administrative expenses | (2,127) | (2,034) |
| Other gains and losses (see below) | (92) | 145 |
| Exploration expenditure (see note 7) | (206) | (121) |
| Operating (loss)/profit from subsidiaries and joint ventures | (1,688) | 9,439 |

⁽¹⁾ Includes operating special item charges of \$6,977 million (2011: \$164 million), see note 5. Operating remeasurements are included in 'Other gains and losses', see below.

| US\$ million | 2012 | 2011 |
|--|-------------|------------|
| Operating (loss)/profit is stated after charging/(crediting): | | |
| Depreciation of property, plant and equipment (see note 15) ⁽¹⁾ | 2,258 | 1,947 |
| Amortisation of intangible assets (see note 14) ⁽²⁾ | 31 | 20 |
| Rentals under operating leases | 182 | 128 |
| Project evaluation expenditure | 525 | 418 |
| Research and development expenditure | 80 | 38 |
| Operating special items (see note 5) | 6,977 | 164 |
| Employee costs (see note 8) | 5,033 | 4,707 |
| Adjustment due to provisional pricing ⁽³⁾ | (14) | 286 |
| Royalties ⁽⁴⁾ | 554 | 742 |
| Other gains and losses comprise: | | |
| Operating remeasurements (see note 5) | (116) | (65) |
| Other fair value gains/(losses) on derivatives – realised | 9 | (57) |
| Foreign exchange gains on other monetary items | 12 | 256 |
| Fair value gains on biological assets | 3 | 11 |
| Total other gains and losses | (92) | 145 |

⁽¹⁾ In addition \$70 million (2011: \$84 million) of accelerated depreciation and \$35 million (2011: nil) of depreciation arising due to the fair value uplift of the Group's pre-existing 45% shareholding in De Beers have been recorded within operating special items and remeasurements (see note 5) and \$81 million (2011: \$39 million) of pre-commercial production depreciation has been capitalised.

⁽²⁾ In addition \$6 million of amortisation arising due to the fair value uplift of the Group's pre-existing 45% shareholding in De Beers has been included within operating remeasurements.

⁽³⁾ Provisionally priced contracts resulted in a total (realised and unrealised) gain in revenue of \$37 million (2011: loss of \$283 million) and total (realised and unrealised) loss in operating costs of \$23 million (2011: \$3 million).

⁽⁴⁾ Excludes those royalties which meet the definition of income tax on profit and accordingly have been accounted for as taxes.

Auditor remuneration

| US\$ million | 2012 | | | | 2011 | | | |
|--|----------------|------------|-------------|---|----------------|------------|------------|---|
| | United Kingdom | Overseas | Total | Paid/payable to auditor (if not Deloitte) | United Kingdom | Overseas | Total | Paid/payable to auditor (if not Deloitte) |
| Paid to the Company's auditor for audit of the Anglo American plc Annual Report | 2.2 | 4.8 | 7.0 | 0.1 | 1.7 | 4.3 | 6.0 | 0.1 |
| Paid to the Company's auditor for other services to the Group | | | | | | | | |
| Audit of the Company's subsidiaries | 1.1 | 4.8 | 5.9 | 1.1 | 0.7 | 3.2 | 3.9 | 0.6 |
| Total audit fees | 3.3 | 9.6 | 12.9 | 1.2 | 2.4 | 7.5 | 9.9 | 0.7 |
| Audit related assurance services ⁽¹⁾ | 0.8 | 1.0 | 1.8 | – | 0.5 | 0.8 | 1.3 | 0.1 |
| Taxation compliance services | – | 0.2 | 0.2 | 0.3 | – | 0.1 | 0.1 | 0.1 |
| Taxation advisory services | 0.2 | 0.2 | 0.4 | 0.1 | 0.4 | 0.3 | 0.7 | 0.2 |
| Other assurance services ⁽²⁾ | 0.4 | 1.3 | 1.7 | 0.6 | 0.2 | 1.4 | 1.6 | 0.5 |
| Total non-audit fees | 1.4 | 2.7 | 4.1 | 1.0 | 1.1 | 2.6 | 3.7 | 0.9 |

⁽¹⁾ Includes \$1.3 million (2011: \$1.3 million) for the interim review.

⁽²⁾ Includes \$0.1 million (2011: \$0.1 million) for the audit of Group pension plans.

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 2012 Amapá has been reclassified from the Iron Ore and Manganese segment to the Other Mining and Industrial segment to align with internal management reporting. Comparatives have been reclassified to align with current 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 '(Loss)/profit for the financial year attributable to equity shareholders of the Company' to 'Underlying earnings for the financial year', see note 13.

| US\$ million | 2012 | | | | | 2011 | | | | |
|--|--|---|--|---|---------------------|--|---|--|---|---------------------|
| | Operating profit/(loss) before special items and remeasurements ⁽¹⁾ | Operating special items and remeasurements (note 5) | Operating profit/(loss) after special items and remeasurements | Net finance costs, income tax expense and non-controlling interests | Underlying earnings | Operating profit/(loss) before special items and remeasurements ⁽¹⁾ | Operating special items and remeasurements (note 5) | Operating profit/(loss) after special items and remeasurements | Net finance costs, income tax expense and non-controlling interests | Underlying earnings |
| Iron Ore and Manganese | 2,949 | 5,139 | (2,190) | (1,912) | 1,037 | 4,400 | 79 | 4,321 | (2,943) | 1,457 |
| Metallurgical Coal | 405 | 365 | 40 | (130) | 275 | 1,189 | – | 1,189 | (345) | 844 |
| Thermal Coal | 793 | (1) | 794 | (270) | 523 | 1,230 | (1) | 1,231 | (328) | 902 |
| Copper | 1,687 | (9) | 1,696 | (779) | 908 | 2,461 | 1 | 2,460 | (851) | 1,610 |
| Nickel | 26 | 184 | (158) | (15) | 11 | 57 | 72 | (15) | (34) | 23 |
| Platinum | (120) | 921 | (1,041) | (105) | (225) | 890 | 6 | 884 | (480) | 410 |
| Diamonds | 496 | 456 | 40 | (184) | 312 | 659 | 18 | 641 | (216) | 443 |
| Other Mining and Industrial | 337 | 28 | 309 | (108) | 229 | 315 | 70 | 245 | (140) | 175 |
| Exploration | (206) | – | (206) | 11 | (195) | (121) | – | (121) | 3 | (118) |
| Corporate Activities and Unallocated Costs | (203) | 68 | (271) | 167 | (36) | 15 | 2 | 13 | 359 | 374 |
| Total | 6,164 | 7,151 | (987) | (3,325) | 2,839 | 11,095 | 247 | 10,848 | (4,975) | 6,120 |
| Analysed as: | | | | | | | | | | |
| Core operations | 5,996 | 7,127 | (1,131) | (3,278) | 2,718 | 10,964 | 177 | 10,787 | (4,910) | 6,054 |
| Non-core operations ⁽²⁾ | 168 | 24 | 144 | (47) | 121 | 131 | 70 | 61 | (65) | 66 |

⁽¹⁾ Operating profit/(loss) before special items and remeasurements includes attributable share of associates' operating profit before special items and remeasurements which is reconciled to 'Share of net income from associates' in note 2.

⁽²⁾ Non-core operations relate to Amapá, Tarmac and, until November 2012, Scaw South Africa.

Underlying earnings by origin

| US\$ million | 2012 | 2011 |
|--------------------|--------------|--------------|
| South Africa | 1,449 | 2,726 |
| Other Africa | 357 | 326 |
| South America | 1,359 | 2,080 |
| North America | (198) | 218 |
| Australia and Asia | 336 | 967 |
| Europe | (464) | (197) |
| | 2,839 | 6,120 |

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. 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, for example, 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 impacts 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.
- The remeasurement and subsequent depreciation of a previously held equity interest as a result of a business combination.

5. SPECIAL ITEMS AND REMEASUREMENTS continued

| US\$ million | 2012 | | | 2011 | | |
|--|---------------------------------|---------------------------|----------------|---------------------------------|---------------------------|--------------|
| | Subsidiaries and joint ventures | Associates ⁽¹⁾ | Total | Subsidiaries and joint ventures | Associates ⁽¹⁾ | Total |
| Impairment of Minas-Rio | (4,960) | – | (4,960) | – | – | – |
| Platinum operations | (860) | – | (860) | – | – | – |
| Cessation of Loma de Niquel | (159) | – | (159) | (84) | – | (84) |
| Other impairments and related charges | (168) | (62) | (230) | (70) | – | (70) |
| Onerous contract provisions | (386) | – | (386) | – | – | – |
| Reversal of De Beers inventory uplift | (421) | – | (421) | – | – | – |
| Restructuring costs | (23) | – | (23) | (10) | (9) | (19) |
| Operating special items | (6,977) | (62) | (7,039) | (164) | (9) | (173) |
| Operating remeasurements | (116) | 4 | (112) | (65) | (9) | (74) |
| Operating special items and remeasurements | (7,093) | (58) | (7,151) | (229) | (18) | (247) |
| Loss on transfer of Tarmac Quarry Materials to assets held for sale | (135) | – | (135) | – | – | – |
| Loss on transfer of Amapá to assets held for sale | (404) | – | (404) | – | – | – |
| Disposal of Scaw South Africa | (21) | – | (21) | – | – | – |
| Disposal of Mondi | 27 | – | 27 | – | – | – |
| Disposal of Lisheen and Black Mountain | – | – | – | 397 | – | 397 |
| Disposal of Tarmac businesses | – | – | – | (75) | – | (75) |
| Kumba Envision Trust | (77) | – | (77) | – | – | – |
| Platinum BEE transactions and related charges | – | – | – | (141) | – | (141) |
| Other | 16 | – | 16 | 2 | 20 | 22 |
| Non-operating special items | (594) | – | (594) | 183 | 20 | 203 |
| Non-operating remeasurement – net gain on acquisition of De Beers | 1,988 | – | 1,988 | – | – | – |
| Non-operating special items and remeasurements | 1,394 | – | 1,394 | 183 | 20 | 203 |
| Financing special items | – | – | – | – | (9) | (9) |
| Financing remeasurements | (89) | 1 | (88) | 203 | 2 | 205 |
| Total special items and remeasurements before tax and non-controlling interests | (5,788) | (57) | (5,845) | 157 | (5) | 152 |
| Special items and remeasurements tax | 1,113 | (3) | 1,110 | (119) | 1 | (118) |
| Non-controlling interests on special items and remeasurements | 404 | (1) | 403 | 12 | 3 | 15 |
| Net total special items and remeasurements attributable to equity shareholders of the Company | (4,271) | (61) | (4,332) | 50 | (1) | 49 |

⁽¹⁾ Relates to the Iron Ore and Manganese, Platinum and, until 16 August, Diamonds segment in 2012 (2011: Diamonds only).

Operating special items**Minas-Rio**

An impairment charge of \$4,960 million has been recorded in relation to the Minas-Rio iron ore project (Iron Ore Brazil). Of this charge, \$1,105 million has been recorded against goodwill and \$3,855 million has been recorded against mining properties, with an associated deferred tax credit of \$960 million. The post-tax impairment charge is \$4,000 million.

Platinum operations

The impairment charge of \$860 million relates to certain Platinum projects and other assets, not in use, that are not considered economically viable in the current market environment. The charge includes a write-off of fair value uplifts associated with these assets held at a Group level of \$89 million.

Cessation of Loma de Niquel

A charge of \$159 million has arisen at Loma de Niquel due to the cancellation of its mining concessions in November 2012. The charge comprises \$70 million of accelerated depreciation (2011: \$84 million) and \$89 million of related closure and retrenchment costs, including inventory write-offs of \$61 million.

Other impairments and related charges

Other impairments and related charges of \$230 million (2011: \$70 million) relate to various impairments across the Group, including an impairment of \$42 million of fixed assets relating to onerous contracts at Callide (Metallurgical Coal); an impairment of \$44 million relating to Wesizwe, an available for sale asset held in Platinum where the fair value has had a significant and prolonged decline; and \$50 million of asset impairments recognised in Samancor, an associate investment. In 2011 the \$70 million charge related to the impairment of Tarmac Building Products.

Onerous contract provisions

The charge of \$386 million in relation to onerous contracts principally reflects a provision increase of \$292 million for coal supply agreements inherited on acquisition of Callide in 2000. The pricing in the agreements, which extend to 2031, is significantly below market rates resulting in the unavoidable costs of meeting the obligations exceeding the economic benefit expected to be received from the contract.

The settlement of an unused inherited transshipment contract at Amapá resulted in a charge of \$43 million and the settlement of unutilised energy contracts at Minas-Rio resulted in a charge of \$38 million.

Reversal of De Beers inventory uplift

Inventory held by De Beers at the date of acquisition is required to be recognised at fair value under IFRS. This results in negligible margins being realised upon the subsequent sale of inventory held at the acquisition date. The reversal of fair value uplifts on inventory sold in 2012 of \$421 million has been excluded from the Group's underlying earnings so as not to distort the operating margins of De Beers and to provide more useful information about the performance of the Group.

Operating remeasurements

Operating remeasurements reflect a net loss of \$112 million (2011: net loss of \$74 million) principally in respect of non-hedge derivatives related to capital expenditure in Iron Ore Brazil. Derivatives which have been realised during the period had a cumulative net loss since their inception of \$71 million (2011: net gain of \$383 million). The depreciation and amortisation charge arising due to the fair value uplift on the pre-existing 45% shareholding of De Beers, which was required on acquisition of a controlling stake, is \$41 million in 2012.

5. SPECIAL ITEMS AND REMEASUREMENTS continued

Non-operating special items

In May 2012 the Competition Commission approved the formation of a 50:50 joint venture between the Group and Lafarge combining their cement, aggregates, ready-mix concrete, asphalt and asphalt surfacing, maintenance services, and waste services businesses in the UK subject to a number of conditions being met. In July 2012 the Group accepted the conditions of the Competition Commission and consequently the associated Tarmac Quarry Materials assets were classified as held for sale and recognised at fair value less costs to sell. This resulted in a loss being recognised of \$135 million.

In December 2012 the Group agreed the sale of its 70% interest in the Amapá iron ore system. The net assets have been reclassified to held for sale and recognised at fair value less costs to sell. This resulted in a loss being recognised of \$404 million.

The Group completed the sale of Scaw South Africa (Pty) Ltd (Scaw South Africa), an integrated steel maker, in November 2012. This resulted in a net cash inflow of \$100 million, generating a loss on disposal of \$21 million.

The Group sold its 5.28% shareholding in Mondi in November 2012 for net proceeds of \$273 million, realising a net fair value gain recycled from reserves of \$27 million.

The Kumba Envision Trust charge of \$77 million relates to Kumba's broad based employee share scheme provided solely for the benefit of non-managerial Historically Disadvantaged South African employees who do not participate in other Kumba share schemes.

Non-operating remeasurement

The non-operating remeasurement of \$1,988 million (2011: nil) reflects the net gain of \$2,017 million, after transaction costs, resulting from the remeasurement to fair value of the Group's existing 45% shareholding held in De Beers at the date a controlling stake was acquired. This includes a \$2.7 billion uplift on depreciable assets which will unwind through operating remeasurements in the current and future years.

Financing remeasurements

Financing remeasurements reflect a net loss of \$88 million (2011: net gain of \$205 million) and relates to an embedded interest rate derivative, non-hedge derivatives relating to debt and other financing remeasurements.

Special items and remeasurements tax

Special items and remeasurements tax amounted to a credit of \$1,110 million (2011: charge of \$118 million). This relates to a credit for one-off tax items of \$922 million (2011: credit of \$137 million), a tax remeasurement charge of \$189 million (2011: charge of \$230 million) and a tax credit on special items and remeasurements of \$377 million (2011: charge of \$25 million).

The total tax credit relating to subsidiaries and joint ventures of \$1,113 million (2011: charge of \$119 million) comprises a current tax charge of \$8 million (2011: charge of \$12 million) and a deferred tax credit of \$1,121 million (2011: charge of \$107 million).

The credit relating to one-off tax items of \$922 million (2011: credit of \$137 million) relates principally to the net deferred tax credit of \$960 million relating to Minas-Rio and a net deferred tax credit of \$70 million relating to the reassessment of deferred tax assets as a result of changes in tax regimes within operating segments, partially offset by the write-off of the deferred tax asset in Amapá of \$108 million following the decision to sell the system.

The tax credit of \$377 million on special items and remeasurements primarily arises on the impairments at Platinum and the reversal of the De Beers inventory uplift.

6. UNDERLYING EBITDA

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

| US\$ million | 2012 | 2011 |
|--|--------------|---------------|
| Iron Ore and Manganese ⁽¹⁾ | 3,198 | 4,586 |
| Metallurgical Coal | 877 | 1,577 |
| Thermal Coal | 972 | 1,410 |
| Copper | 2,179 | 2,750 |
| Nickel | 50 | 84 |
| Platinum | 580 | 1,672 |
| Diamonds | 711 | 794 |
| Other Mining and Industrial ⁽¹⁾ | 485 | 540 |
| Exploration | (206) | (121) |
| Corporate Activities and Unallocated Costs | (160) | 56 |
| Underlying EBITDA | 8,686 | 13,348 |

⁽¹⁾ In 2012 Amapá has been reclassified from Iron Ore and Manganese to Other Mining and Industrial to align with internal management reporting. Comparatives have been reclassified to align with current year presentation.

Underlying 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 | 2012 | 2011 |
|--|--------------|---------------|
| Underlying EBITDA | 8,686 | 13,348 |
| Depreciation and amortisation: subsidiaries and joint ventures | (2,289) | (1,967) |
| Depreciation and amortisation: associates | (233) | (286) |
| Operating profit, including associates, before special items and remeasurements | 6,164 | 11,095 |
| Operating special items and remeasurements | (7,093) | (229) |
| Non-operating special items and remeasurements | 1,394 | 183 |
| Associates' net special items and remeasurements | (61) | (1) |
| Share of associates' net finance costs, tax and non-controlling interests | (266) | (449) |
| Total profit from operations and associates | 138 | 10,599 |

7. EXPLORATION EXPENDITURE

| US\$ million | 2012 | 2011 |
|--------------------------------|------------|------------|
| By commodity | | |
| Iron ore | 23 | 5 |
| Metallurgical coal | 18 | 5 |
| Thermal coal | 14 | 9 |
| Copper | 39 | 27 |
| Nickel | 32 | 26 |
| Platinum group metals | 4 | 5 |
| Diamonds | 23 | - |
| Phosphates and niobium | 2 | - |
| Central exploration activities | 51 | 44 |
| | 206 | 121 |

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 | 2012 | 2011 |
|--|------------|------------|
| By segment | | |
| Iron Ore and Manganese ⁽¹⁾ | 8 | 7 |
| Metallurgical Coal | 4 | 3 |
| Thermal Coal | 9 | 9 |
| Copper | 5 | 5 |
| Nickel | 2 | 2 |
| Platinum | 57 | 55 |
| Diamonds ⁽²⁾ | 3 | - |
| Other Mining and Industrial ⁽¹⁾ | 16 | 17 |
| Corporate Activities and Unallocated Costs | 2 | 2 |
| | 106 | 100 |

⁽¹⁾ In 2012 Amapá has been reclassified from Iron Ore and Manganese to Other Mining and Industrial to align with internal management reporting. Comparatives have been reclassified to align with current year presentation.

⁽²⁾ The average number of employees in Diamonds reflects the acquisition of De Beers from 16 August 2012.

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

| Thousand | 2012 | 2011 |
|--------------------|------------|------------|
| South Africa | 82 | 79 |
| Other Africa | 2 | 1 |
| South America | 11 | 10 |
| North America | 1 | - |
| Australia and Asia | 4 | 4 |
| Europe | 6 | 6 |
| | 106 | 100 |

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

| US\$ million | 2012 | 2011 |
|--|--------------|--------------|
| Wages and salaries | 4,522 | 4,201 |
| Social security costs | 166 | 142 |
| Post employment benefits ⁽¹⁾ | 378 | 343 |
| Share-based payments (see note 29) | 321 | 260 |
| Total payroll costs | 5,387 | 4,946 |
| Reconciliation: | | |
| Less: employee costs capitalised | (247) | (229) |
| Less: employee costs included within special items | (107) | (10) |
| Employee costs included in operating costs | 5,033 | 4,707 |

⁽¹⁾ Includes contributions to defined contribution pension and medical plans, and current service costs related to defined benefit pension and medical schemes, and other benefits provided to certain employees during retirement, see note 28.

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 | 2012 | 2011 |
|---|-----------|-----------|
| Salaries and short term employee benefits | 24 | 23 |
| Social security costs | 3 | 2 |
| Termination benefits | 2 | - |
| Post employment benefits | 3 | 8 |
| Share-based payments | 25 | 22 |
| | 57 | 55 |

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 (COSTS)/INCOME

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

The weighted average capitalisation rate applied to qualifying capital expenditure was 4.2% (2011: 5.0%).

| US\$ million | 2012 | 2011 |
|--|--------------|--------------|
| Investment income | | |
| Interest income from cash and cash equivalents | 155 | 239 |
| Other interest income | 195 | 194 |
| Expected return on defined benefit arrangements | 200 | 199 |
| Dividend income from financial asset investments | 54 | 59 |
| | 604 | 691 |
| Less: interest income capitalised | (7) | (23) |
| Total investment income | 597 | 668 |
| Interest expense | | |
| Interest and other finance expense | (691) | (615) |
| Interest payable on convertible bond | (25) | (68) |
| Unwinding of discount on convertible bond | (25) | (71) |
| Interest cost on defined benefit arrangements | (230) | (205) |
| Unwinding of discount relating to provisions and other liabilities | (114) | (80) |
| | (1,085) | (1,039) |
| Less: interest expense capitalised | 287 | 344 |
| Total interest expense | (798) | (695) |
| Other financing (losses)/gains | | |
| Net foreign exchange losses | (90) | (16) |
| Net fair value (losses)/gains on fair value hedges | (24) | 16 |
| Other net fair value gains | 27 | 7 |
| Total other financing (losses)/gains | (87) | 7 |
| Net finance costs before remeasurements | (288) | (20) |
| Remeasurements (see note 5) | (89) | 203 |
| Net finance (costs)/income after remeasurements | (377) | 183 |

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 | 2012 | 2011 |
|--|-------|-------|
| At fair value through profit and loss | | |
| Cash flow hedge derivatives transferred from equity ⁽¹⁾ | (4) | (5) |
| Fair value hedge derivatives | (193) | (263) |
| Fair value hedge underlying instruments | 169 | 279 |
| Foreign exchange gains/(losses) | 12 | (9) |
| Other fair value movements ⁽²⁾ | (144) | (205) |
| Loans and receivables | | |
| Foreign exchange gains | 17 | 9 |
| Interest income at amortised cost ⁽³⁾ | 307 | 368 |
| Available for sale | | |
| Net gain transferred on sale from equity | 67 | 10 |
| Dividend income | 54 | 59 |
| Impairment of available for sale investments | (84) | - |
| Foreign exchange losses | (30) | - |
| Other financial liabilities | | |
| Foreign exchange (losses)/gains | (106) | 240 |
| Interest expense at amortised cost ⁽³⁾ | (404) | (345) |

⁽¹⁾ These amounts are included in Group revenue.

⁽²⁾ Includes the impact of provisional pricing, see note 3, and certain operating and financing remeasurements, see note 5.

⁽³⁾ Interest income and expense at amortised cost are shown net of amounts capitalised.

11. INCOME TAX EXPENSE**a) Analysis of charge for the year**

| US\$ million | 2012 | 2011 |
|---|----------------|--------------|
| United Kingdom corporation tax (credit)/charge | (12) | 16 |
| South Africa tax | 802 | 1,307 |
| Other overseas tax | 605 | 1,067 |
| Prior year adjustments | 61 | (92) |
| Current tax⁽¹⁾ | 1,456 | 2,298 |
| Deferred tax | 32 | 443 |
| Income tax expense before special items and remeasurements | 1,488 | 2,741 |
| Special items and remeasurements tax | (1,113) | 119 |
| Income tax expense | 375 | 2,860 |

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

b) Factors affecting tax charge for the year

The effective tax rate for the year of (156.9)% (2011: 26.5%) is lower than (2011: same as) the applicable weighted average statutory rate of corporation tax in the United Kingdom of 24.5% (2011: 26.5%). The reconciling items, excluding the impact of associates, are:

| US\$ million | 2012 | 2011 |
|--|------------|--------------|
| (Loss)/profit before tax | (239) | 10,782 |
| Less: share of net income from associates | (432) | (977) |
| (Loss)/profit before tax (excluding associates) | (671) | 9,805 |
| Tax on (loss)/profit (excluding associates) calculated at United Kingdom corporation tax rate of 24.5% (2011: 26.5%) | (164) | 2,598 |
| Tax effects of: | | |
| Items not taxable/deductible for tax purposes | | |
| Exploration expenditure | 43 | 27 |
| Non-taxable/deductible net foreign exchange loss | 7 | 24 |
| Non-taxable net interest income | (25) | (20) |
| Other non-deductible expenses | 51 | 60 |
| Other non-taxable income | (63) | (57) |
| Temporary difference adjustments | | |
| Current year losses not recognised | 86 | 38 |
| Recognition of losses not previously recognised | (69) | (103) |
| Other temporary differences | (40) | (57) |
| Special items and remeasurements | 305 | 77 |
| Other adjustments | | |
| Secondary tax on companies and dividend withholding taxes | 26 | 407 |
| Effect of differences between local and United Kingdom rates | 68 | (61) |
| Prior year adjustments to current tax | 61 | (92) |
| Other adjustments | 89 | 19 |
| Income tax expense | 375 | 2,860 |

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 2012 is \$205 million (2011: \$384 million). Excluding special items and remeasurements this becomes \$202 million (2011: \$385 million).

The effective rate of tax before special items and remeasurements including attributable share of associates' tax for the year ended 31 December 2012 was 29.0%. The increase compared to the equivalent effective tax rate of 28.3% for the year ended 31 December 2011 is due to the reduced impact of certain non-recurring factors. The non-recurring factors in 2012 include further 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 | 2012 | 2011 |
|---|-------|------|
| Tax on items recognised directly in equity | | |
| Net gain on revaluation of available for sale investments | (79) | (26) |
| Net (gain)/loss on cash flow hedges | (1) | 20 |
| Net exchange difference on translation of foreign operations | (16) | 11 |
| Actuarial net (gain)/loss on post employment benefit plans | (19) | 19 |
| | (115) | 24 |
| Tax on items transferred from equity | | |
| Transferred to income statement: disposal of available for sale investments | 30 | - |
| Transferred to initial carrying amount of hedged items: cash flow hedges | (1) | (12) |
| Transferred to income statement: cash flow hedges | - | (2) |
| | 29 | (14) |

d) Tax amounts recognised directly in equity

Capital gains tax of \$290 million relating to the profit on sale of a 25.4% share in Anglo American Sur SA (AA Sur) in August 2012 has been charged directly to equity (2011: \$1,017 million relating to the profit on sale of a 24.5% share in AA Sur in November 2011). There were no other material current tax amounts charged directly to equity in 2012 or 2011. Deferred tax of \$110 million has been charged directly to equity (2011: charge of \$127 million), see note 27.

12. DIVIDENDS

Dividends payable during the year are as follows:

| US\$ million | 2012 | 2011 |
|--|--------------------|--------------------|
| Final ordinary dividend for 2011 – 46 US cents per ordinary share (2010: 40 US cents per ordinary share) | 559 | 495 |
| Interim ordinary dividend for 2012 – 32 US cents per ordinary share (2011: 28 US cents per ordinary share) | 411 | 339 |
| | 970 ⁽¹⁾ | 834 ⁽¹⁾ |

⁽¹⁾ Of this, \$599 million (2011: \$561 million) was recognised in the parent Company.

Total dividends paid during the year were \$970 million (2011: \$818 million). In 2011 the difference to dividends payable arose due to movements in exchange rates between the date of recognition and the date of payment.

The directors are proposing a final dividend in respect of the financial year ended 31 December 2012 of 53 US cents per share. Based on shares eligible for dividends at 31 December 2012, this will result in an estimated distribution of \$676 million of shareholders' funds, of which \$395 million will be distributed by the parent Company. These financial statements do not reflect this dividend payable as it is still subject to shareholder approval.

As stated in note 29, the employee benefit trust has waived the right to receive dividends on the shares it holds.

13. EARNINGS PER SHARE

| US\$ | 2012 | 2011 |
|--|--------|------|
| (Loss)/profit for the financial year attributable to equity shareholders of the Company | | |
| Basic (loss)/earnings per share | (1.19) | 5.10 |
| Diluted (loss)/earnings per share | (1.19) | 4.89 |
| Headline earnings for the financial year⁽¹⁾ | | |
| Basic earnings per share | 0.95 | 4.89 |
| Diluted earnings per share | 0.95 | 4.69 |
| Underlying earnings for the financial year⁽¹⁾ | | |
| Basic earnings per share | 2.26 | 5.06 |
| Diluted earnings per share | 2.24 | 4.85 |

⁽¹⁾ Basic and diluted earnings per share are also shown based on headline earnings, a Johannesburg Stock Exchange (JSE Limited) defined performance measure, and underlying earnings, which the directors consider to be a useful additional measure of the Group's performance. Both earnings measures are further explained below.

The calculation of basic and diluted earnings per share is based on the following data:

| | (Loss)/profit attributable to equity shareholders of the Company | | Headline earnings | | Underlying earnings | |
|---|--|--------------|-------------------|--------------|---------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Earnings (US\$ million) | | | | | | |
| Basic (loss)/earnings | (1,493) | 6,169 | 1,197 | 5,913 | 2,839 | 6,120 |
| Effect of dilutive potential ordinary shares | | | | | | |
| Interest payable on convertible bond (net of tax) ⁽¹⁾ | – | 50 | – | 50 | 19 | 50 |
| Unwinding of discount on convertible bond (net of tax) ⁽¹⁾ | – | 52 | – | 52 | 19 | 52 |
| Diluted earnings | (1,493) | 6,271 | 1,197 | 6,015 | 2,877 | 6,222 |
| Number of shares (million) | | | | | | |
| Basic number of ordinary shares outstanding | 1,254 | 1,210 | 1,254 | 1,210 | 1,254 | 1,210 |
| Effect of dilutive potential ordinary shares | | | | | | |
| Share options and awards | – | 10 | 5 | 10 | 5 | 10 |
| Convertible bond | – | 62 | – | 62 | 23 | 62 |
| Diluted number of ordinary shares outstanding | 1,254 | 1,282 | 1,259 | 1,282 | 1,282 | 1,282 |

⁽¹⁾ All outstanding convertible bonds were converted or redeemed during the year, see note 24.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. Consequently, in 2012 basic loss per share equals diluted loss per share and 16,325,905 (2011: 270,095) shares have been excluded from the calculation of diluted earnings per share as they are anti-dilutive as at 31 December 2012.

As at 31 December 2012, 10,339,454 (2011: 270,095) shares have been excluded from the calculation of diluted headline earnings per share and diluted underlying earnings per share as they are anti-dilutive.

Basic and diluted number of ordinary shares outstanding represent the weighted average for the year. The average number of ordinary shares in issue excludes shares held by employee benefit trusts and Anglo American plc shares held by Group companies.

13. EARNINGS PER SHARE continued

Underlying earnings is presented after non-controlling interests and excludes special items and remeasurements, see note 5. Underlying earnings is distinct from 'Headline earnings', which is a JSE Limited defined performance measure.

The calculation of basic and diluted earnings per share, based on headline and underlying earnings, uses the following earnings data:

| US\$ million | 2012 | 2011 |
|--|----------------|-------|
| (Loss)/profit for the financial year attributable to equity shareholders of the Company | (1,493) | 6,169 |
| Operating special items | 6,050 | 70 |
| Operating special items – tax | (1,600) | – |
| Operating special items – non-controlling interests | (123) | – |
| Non-operating special items and remeasurements | (1,492) | (347) |
| Non-operating special items – tax | 35 | 36 |
| Non-operating special items – non-controlling interests | (180) | – |
| Financing special items | – | 9 |
| Tax special items | – | (24) |
| Headline earnings for the financial year | 1,197 | 5,913 |
| Operating special items ⁽¹⁾ | 989 | 103 |
| Operating remeasurements | 112 | 74 |
| Non-operating special items and remeasurements ⁽²⁾ | 98 | 144 |
| Financing remeasurements | 88 | (205) |
| Special items and remeasurements tax | 455 | 106 |
| Non-controlling interests on special items and remeasurements | (100) | (15) |
| Underlying earnings for the financial year | 2,839 | 6,120 |

⁽¹⁾ Includes onerous contract provisions, accelerated depreciation and the reversal of the inventory uplift on De Beers.

⁽²⁾ Principally includes Kumba Envision Trust charge and transaction costs relating to the De Beers acquisition (2011: Platinum BEE transactions and related charges).

14. INTANGIBLE ASSETS

| US\$ million | 2012 | | | 2011 | | |
|---|--|-------------------------|--------------|--|-------------------------|--------------|
| | Brands, contracts and other intangibles ⁽¹⁾ | Goodwill ⁽²⁾ | Total | Brands, contracts and other intangibles ⁽¹⁾ | Goodwill ⁽²⁾ | Total |
| Net book value | | | | | | |
| At 1 January | 83 | 2,239 | 2,322 | 85 | 2,231 | 2,316 |
| Acquired through business combinations | 1,588 | 2,355 | 3,943 | – | – | – |
| Additions | 34 | – | 34 | 26 | – | 26 |
| Amortisation charge for the year ⁽³⁾ | (37) | – | (37) | (20) | – | (20) |
| Impairments and losses on assets transferred to held for sale | (30) | (1,169) | (1,199) | – | (15) | (15) |
| Disposals and transfer to assets held for sale | (7) | (441) | (448) | – | (25) | (25) |
| Adjustments relating to deferred and contingent consideration | – | – | – | – | 81 | 81 |
| Currency movements | (14) | (30) | (44) | (8) | (33) | (41) |
| At 31 December | 1,617 | 2,954 | 4,571 | 83 | 2,239 | 2,322 |
| Cost | 1,724 | 2,954 | 4,678 | 182 | 2,239 | 2,421 |
| Accumulated amortisation | (107) | – | (107) | (99) | – | (99) |

⁽¹⁾ Includes \$517 million (2011: nil) of assets with indefinite lives acquired through the acquisition of De Beers. Brands, contracts and other intangible assets are provided net of cumulative impairment charges of \$29 million (2011: \$37 million).

⁽²⁾ The goodwill balances provided are net of cumulative impairment charges of \$1,120 million (2011: \$337 million).

⁽³⁾ Includes \$6 million (2011: nil) of amortisation arising due to the fair value uplift of the Group's pre-existing 45% shareholding in De Beers. This has been included within operating remeasurements.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to cash generating units (CGUs) or groups of CGUs which reflect how it is monitored for internal management purposes. This allocation largely represents the Group's segments. Any goodwill associated with CGUs subsumed within these segments is not significant when compared to the goodwill of the Group (2011: material components of goodwill within Iron Ore and Manganese and Other Mining and Industrial). The allocation of goodwill to CGUs or groups of CGUs is as follows:

| US\$ million | 2012 | 2011 |
|-----------------------------|--------------|-------|
| Iron Ore and Manganese | | |
| Iron Ore Brazil | – | 1,123 |
| Thermal Coal | 88 | 88 |
| Copper | 124 | 124 |
| Nickel | 10 | 10 |
| Platinum | 230 | 230 |
| Diamonds | 2,324 | – |
| Other Mining and Industrial | | |
| Tarmac ⁽¹⁾ | – | 456 |
| Other | 178 | 208 |
| | 2,954 | 2,239 |

⁽¹⁾ The goodwill balance in Tarmac as at 31 December 2012 relates to Tarmac Quarry Materials and has been transferred to assets held for sale, see note 34.

For the purposes of goodwill impairment testing, the recoverable amount of a CGU is determined based on a fair value less costs to sell basis, with the exception of Minas-Rio which is determined on a value in use basis.

14. INTANGIBLE ASSETS *continued*

Value in use is based on the present value of future cash flows expected to be derived from the CGU or reportable segment in its current state. Fair value less costs to sell is normally supported by observable market data (in the case of listed subsidiaries, market share price at 31 December of the respective entity) or discounted cash flow models taking account of assumptions that would be made by market participants.

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including ore reserves and resources, together with economic factors such as commodity prices, discount rates, exchange rates, estimates of costs to produce reserves and future capital expenditure. Management believes that any reasonably possible change in a key assumption on which the recoverable amounts are based would not cause the carrying amounts to exceed their recoverable amounts.

Cash flow projections are based on financial budgets and mine life plans or non-mine production plans, incorporating key assumptions as detailed below:

Reserves and resources

Ore reserves and, where considered appropriate, mineral resources are incorporated in projected cash flows, based on ore reserves and mineral resource statements and exploration and evaluation work undertaken by appropriately qualified persons. Mineral resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the requirements of reserve classification.

For further information refer to the Ore Reserves and Mineral Resources section of the Annual Report.

Commodity prices

Commodity prices are based on latest internal forecasts for commodity prices, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.

Operating costs and capital expenditure

Operating costs and capital expenditure are based on financial budgets covering a three year period. Cash flow projections beyond three years are based on mine life plans or non-mine production plans as applicable, and internal management forecasts. Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith. Underlying input cost assumptions are consistent with related output price assumptions.

Non-commodity based businesses

For non-commodity based businesses, margin and revenue are based on financial budgets covering a three year period. Beyond the financial budget, revenue is forecast using a steady growth rate consistent with the markets in which those businesses operate, and for those periods five years or more from the balance sheet date, at a rate not exceeding the long term growth rate for the country of operation. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.

Discount rates

Cash flow projections used in fair value less costs to sell impairment models are discounted based on a real post-tax discount rate of 6.5% (2011: 6.0%). The discount rate for Minas-Rio is a real pre-tax rate of 8.5% (2011: 8.0%). Adjustments to the rate are made for any risks that are not reflected in the underlying cash flows.

Foreign exchange rates

Foreign exchange rates are based on latest internal forecasts for foreign exchange, benchmarked with external sources of information for relevant countries of operation. Foreign exchange rates are kept constant from 2017 onwards.

Minas-Rio

The Minas-Rio iron ore project (Minas-Rio) in Brazil was acquired in two separate transactions in 2007 and 2008. Minas-Rio is expected to produce 26.5 Mtpa of high quality pellet feed in its first phase of development, with the potential to increase to 29.8 Mtpa following asset optimisation. Pre-feasibility studies for the subsequent expansion phases of Minas-Rio commenced during 2011, supported by an estimated resource base at that time of 5.77 billion tonnes, as detailed in the 2011 Ore Reserves and Mineral Resources statement. We have subsequently converted 1.45 billion tonnes to Ore Reserves.

While progress is being made, construction activities at the beneficiation plant and land access along the 525 km pipeline route have been impeded by a series of challenges, including three legal injunctions. All three injunctions were resolved during the second half of 2012 and construction activity in the affected areas has resumed.

Additional capital expenditure has been incurred as a result of, *inter alia*, the delays arising from the injunctions, scope changes and higher than expected inflation of operational costs. Management has completed a detailed review to assess the impact of these additional costs and the forecast capital expenditure for the first phase of Minas-Rio has increased from \$5.8 billion to \$8.8 billion, including a \$0.6 billion contingency, on an attributable basis.

The delivery of the project on the revised schedule is dependent upon a number of development milestones: suppression of caves at the mine site; completion of the tailings dam before the rainy season; land release for the transmission line to the beneficiation plant and pipeline; and fulfilment of installation licences' conditions such that operating licences can be issued in due course. Subject to no further unexpected interventions and the successful completion of these key milestones in the next 12 months, first ore on ship is anticipated at the end of 2014.

The valuation of Minas-Rio at 31 December 2012 has been assessed by reference to its value in use, determined on a discounted cash flow basis (real pre-tax discount rate of 8.5%). The valuation considers the risk of further escalation in capital expenditure and of further delay to first ore on ship. It also considers the impact of further unanticipated impediments to progress. These risks reflect the history of unforeseen challenges that have affected the project to date. The valuation model employs long term iron ore prices based on detailed analysis of market fundamentals and adjusted for iron ore quality. The long term iron ore price which is used in the valuation from 2022 onwards is within the range of published analyst forecasts and is slightly above the median of \$80 per tonne.

Based on this valuation, the Group has recorded an impairment charge of \$4,960 million (before tax) against the carrying value of the asset. Of this charge, \$1,105 million has been recorded against goodwill and \$3,855 million has been recorded against mining properties, with an associated deferred tax credit of \$960 million. The post-tax impairment charge is \$4,000 million.

15. PROPERTY, PLANT AND EQUIPMENT

| US\$ million | 2012 | | | | | 2011 | | | | |
|--|---|--------------------|---------------------|----------------------|---------------|---|--------------------|---------------------|----------------------|---------------|
| | Mining properties and leases ⁽¹⁾ | Land and buildings | Plant and equipment | Other ⁽²⁾ | Total | Mining properties and leases ⁽¹⁾ | Land and buildings | Plant and equipment | Other ⁽²⁾ | Total |
| Net book value | | | | | | | | | | |
| At 1 January | 14,643 | 2,620 | 14,822 | 8,464 | 40,549 | 15,376 | 2,004 | 10,839 | 11,591 | 39,810 |
| Acquired through business combinations | 7,307 | 420 | 395 | 790 | 8,912 | – | – | – | – | – |
| Additions | 338 | 44 | 181 | 5,394 | 5,957 | 352 | 76 | 287 | 5,834 | 6,549 |
| Depreciation charge for the year ⁽³⁾ | (559) | (200) | (1,641) | (44) | (2,444) | (414) | (113) | (1,501) | (42) | (2,070) |
| Impairments and losses on transfer to assets held for sale | (4,009) | (35) | (352) | (794) | (5,190) | – | – | (61) | – | (61) |
| Disposal of assets | (5) | (4) | (45) | (12) | (66) | (2) | (7) | (39) | (28) | (76) |
| Disposal and transfer to assets held for sale | (644) | (148) | (1,007) | (155) | (1,954) | (39) | (4) | (13) | (1) | (57) |
| Reclassifications ⁽⁴⁾ | 558 | 346 | 2,149 | (3,053) | – | 532 | 826 | 6,408 | (7,929) | (163) |
| Currency movements | (264) | (47) | (217) | (147) | (675) | (1,162) | (162) | (1,098) | (961) | (3,383) |
| At 31 December | 17,365 | 2,996 | 14,285 | 10,443 | 45,089 | 14,643 | 2,620 | 14,822 | 8,464 | 40,549 |
| Cost | 25,057 | 4,001 | 23,358 | 10,628 | 63,044 | 19,532 | 3,450 | 24,116 | 8,648 | 55,746 |
| Accumulated depreciation | (7,692) | (1,005) | (9,073) | (185) | (17,955) | (4,889) | (830) | (9,294) | (184) | (15,197) |

⁽¹⁾ Includes amounts in relation to deferred stripping.

⁽²⁾ Includes \$10,193 million (2011: \$8,088 million) of assets in the course of construction, which are not depreciated.

⁽³⁾ Includes \$2,258 million (2011: \$1,947 million) of depreciation within operating profit, \$70 million (2011: \$84 million) of accelerated depreciation, a \$35 million (2011: nil) depreciation charge arising due to the fair value uplift on the pre-existing 45% shareholding of De Beers (see note 5) and \$81 million (2011: \$39 million) of pre-commercial production depreciation which has been capitalised. See note 2 for a split of depreciation, and amortisation for intangibles, by segment.

⁽⁴⁾ Relates mainly to amounts transferred from assets in the course of construction. In 2011 the net amount of \$163 million relates to federal tax credits on qualifying capital projects in Brazil. These credits have been reclassified, as appropriate, to reflect the expected realisation.

Included in the additions above is \$280 million (2011: \$321 million) of net interest expense incurred on borrowings funding the construction of qualifying assets which has been capitalised during the year.

Assets held under finance leases relate to plant and equipment with a net book value of \$27 million (2011: \$25 million). Depreciation charges in the year amounted to \$7 million (2011: \$9 million).

The net book value of land and buildings comprises:

| US\$ million | 2012 | 2011 |
|--|--------------|--------------|
| Freehold | 2,952 | 2,604 |
| Leasehold – long | 41 | 8 |
| Leasehold – short (less than 50 years) | 3 | 8 |
| | 2,996 | 2,620 |

16. ENVIRONMENTAL REHABILITATION TRUSTS

The Group makes contributions to controlled funds that were established to meet the cost of some of its restoration and environmental rehabilitation liabilities, primarily in South Africa. The funds comprise the following investments:

| US\$ million | 2012 | 2011 |
|--------------|------------|------------|
| Equity | 150 | 146 |
| Bonds | 151 | 130 |
| Cash | 92 | 84 |
| | 393 | 360 |

These assets are primarily rand denominated. Cash is held in short term fixed deposits or earns interest at floating inter-bank rates. Bonds earn interest at a weighted average fixed rate of 8% (2011: 6%) for an average period of five years (2011: four years). Equity investments are recorded at fair value through profit and loss while other assets are treated as loans and receivables.

These funds are not available for the general purposes of the Group. All income from these assets is reinvested to meet specific environmental obligations. These obligations are included in provisions, see note 26.

17. INVESTMENTS IN ASSOCIATES

| US\$ million | 2012 | 2011 |
|--|--------------|--------------|
| At 1 January | 5,240 | 4,900 |
| Net income from associates | 432 | 977 |
| Dividends received | (286) | (344) |
| Share of expense recognised directly in equity, net of tax | (6) | (32) |
| Other equity movements | (4) | - |
| Investment in equity and capitalised loans | 114 | 47 |
| Interest on capitalised loans | 9 | 23 |
| Acquired through business combinations | 12 | - |
| Repayment of capitalised loans | (36) | (4) |
| Transfer to available for sale investments | - | (66) |
| Disposals ⁽¹⁾ | (2,372) | - |
| Other movements | 1 | (1) |
| Currency movements | (41) | (260) |
| At 31 December⁽²⁾ | 3,063 | 5,240 |

⁽¹⁾ Represents the carrying value of the Group's pre-existing 45% shareholding in De Beers prior to the acquisition of a controlling interest on 16 August 2012, see note 32.

⁽²⁾ The fair value of the Group's investment in Atlatsa Resources Corporation (previously known as Anooraq Resources Corporation) at 31 December 2012 was \$18 million (2011: \$51 million).

The Group's total investments in associates comprise:

| US\$ million | 2012 | 2011 |
|----------------------|--------------|--------------|
| Equity | 2,359 | 4,593 |
| Loans ⁽¹⁾ | 704 | 647 |
| | 3,063 | 5,240 |

⁽¹⁾ The Group's total investments in associates include long term debt which in substance forms part of the Group's investment. These loans are not repayable in the foreseeable future.

The Group's attributable share of the summarised income statement information of associates is shown in note 2. Summarised balance sheet information of associates is as follows:

| US\$ million | 2012 | 2011 |
|--|--------------|--------------|
| Non-current assets | 2,521 | 6,111 |
| Current assets | 1,494 | 2,188 |
| Current liabilities | (379) | (742) |
| Non-current liabilities | (573) | (2,317) |
| Group's share of associates' net assets | 3,063 | 5,240 |

Segmental information is provided as follows:

| US\$ million | Share of net income | | Aggregate investment | |
|------------------------|---------------------|------------|----------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| By segment | | | | |
| Iron Ore and Manganese | 31 | 142 | 902 | 936 |
| Metallurgical Coal | 79 | 141 | 277 | 294 |
| Thermal Coal | 248 | 317 | 1,085 | 932 |
| Platinum | (94) | (65) | 786 | 848 |
| Diamonds | 168 | 442 | 13 | 2,230 |
| | 432 | 977 | 3,063 | 5,240 |

| US\$ million | Aggregate investment | |
|---------------------|----------------------|--------------|
| | 2012 | 2011 |
| By geography | | |
| South Africa | 1,165 | 1,950 |
| Other Africa | - | 996 |
| South America | 1,075 | 917 |
| North America | - | 343 |
| Australia and Asia | 807 | 794 |
| Europe | 16 | 240 |
| | 3,063 | 5,240 |

The Group's share of associates' contingent liabilities incurred jointly by investors is \$33 million (2011: \$112 million).

Details of principal associates are set out in note 38.

18. JOINT VENTURES

The Group's share of the summarised financial information of joint venture entities that are proportionately consolidated in the financial statements is as follows:

| US\$ million | 2012 | 2011 |
|---|--------------|--------------|
| Non-current assets | 10,407 | 2,546 |
| Current assets | 1,000 | 572 |
| Current liabilities | (651) | (434) |
| Non-current liabilities | (1,299) | (703) |
| Group's share of joint venture entities' net assets | 9,457 | 1,981 |
| Revenue | 2,394 | 1,932 |
| Operating costs | (1,915) | (944) |
| Net finance costs | (39) | (44) |
| Income tax expense | (110) | (230) |
| Group's share of joint venture entities' profit for the financial year | 330 | 714 |

The Group's share of joint venture entities' contingent liabilities incurred jointly with other venturers is \$25 million (2011: \$32 million) and its share of capital commitments is \$569 million (2011: \$74 million).

Within the Metallurgical Coal segment, the Group also holds interests in a number of proportionately consolidated jointly controlled operations. The Group's share of net assets of such operations is \$1,802 million (2011: \$1,538 million) and its share of profit for the financial year is \$224 million (2011: \$615 million). The Group's share of these operations' contingent liabilities incurred jointly with other venturers is \$32 million (2011: \$19 million) and its share of capital commitments is \$85 million (2011: \$80 million).

Details of principal joint ventures are set out in note 38.

19. FINANCIAL ASSET INVESTMENTS

| US\$ million | 2012 | | | 2011 | | |
|--|-----------------------|--------------------------------|--------------|-----------------------|--------------------------------|--------------|
| | Loans and receivables | Available for sale investments | Total | Loans and receivables | Available for sale investments | Total |
| At 1 January | 1,690 | 1,206 | 2,896 | 1,920 | 1,300 | 3,220 |
| Additions | 8 | 8 | 16 | 4 | 84 | 88 |
| Acquired through business combinations | 41 | 19 | 60 | - | - | - |
| Interest receivable | 14 | - | 14 | 76 | - | 76 |
| Net repayments | (79) | - | (79) | (22) | - | (22) |
| Transfer to assets held for sale | (16) | - | (16) | - | - | - |
| Disposals | (314) | (273) | (587) | - | (14) | (14) |
| Movements in fair value | 26 | 173 | 199 | (10) | 115 | 105 |
| Currency movements | (54) | (69) | (123) | (278) | (279) | (557) |
| At 31 December | 1,316 | 1,064 | 2,380 | 1,690 | 1,206 | 2,896 |

No provision for impairment is recorded against financial assets classified as 'Loans and receivables' (2011: nil).

Maturity analysis of financial asset investments:

| US\$ million | 2012 | 2011 |
|--------------|--------------|--------------|
| Current | 102 | - |
| Non-current | 2,278 | 2,896 |
| | 2,380 | 2,896 |

20. INVENTORIES

| US\$ million | 2012 | 2011 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 936 | 837 |
| Work in progress | 1,500 | 1,488 |
| Finished products | 2,569 | 1,192 |
| | 5,005 | 3,517 |

The cost of inventories recognised as an expense and included in cost of sales amounted to \$15,776 million (2011: \$16,146 million). An additional \$421 million was recognised as an expense within operating special items (2011: nil) relating to the reversal of fair value uplifts on De Beers inventory, see note 5.

Inventories held at net realisable value amounted to \$352 million (2011: \$285 million).

Write-down of inventories (net of revaluation of provisionally priced purchases) amounted to \$145 million, including write-offs of \$61 million relating to inventory at Loma de Níquel recorded in operating special items (2011: \$16 million).

There were nil inventory write-downs reversed and recognised as a reduction in the inventory expense for the year (2011: nil).

21. TRADE AND OTHER RECEIVABLES

| US\$ million | 2012 | | | 2011 | | |
|--------------------------------|---------------------|--------------------|--------------|---------------------|--------------------|--------------|
| | Due within one year | Due after one year | Total | Due within one year | Due after one year | Total |
| Trade receivables | 2,520 | 204 | 2,724 | 2,704 | 168 | 2,872 |
| Other receivables | 570 | 318 | 888 | 744 | 236 | 980 |
| Prepayments and accrued income | 185 | 50 | 235 | 226 | 33 | 259 |
| | 3,275 | 572 | 3,847 | 3,674 | 437 | 4,111 |

The historical level of customer default is minimal and as a result the credit quality of year end trade receivables which are not past due is considered to be high. Of the year end trade receivables balance the following were past due at 31 December (stated after associated impairment provision):

| US\$ million | 2012 | 2011 |
|---|-----------|------------|
| Less than one month | 29 | 137 |
| Greater than one month, less than two months | 7 | 16 |
| Greater than two months, less than three months | 2 | 7 |
| Greater than three months | 4 | 19 |
| | 42 | 179 |

The overdue debtor ageing profile above is typical of the industry in which certain of the Group's businesses operate. Given this, the existing insurance cover (including letters of credit from financial institutions) and the nature of the related counterparties, these amounts are considered recoverable.

Total trade receivables are stated net of the following impairment provision:

| US\$ million | 2012 | 2011 |
|--|-----------|-----------|
| At 1 January | 54 | 53 |
| Charge for the year | – | 6 |
| Unused amounts reversed | (6) | – |
| Disposals and transfer to assets held for sale | (25) | (3) |
| Currency movements | – | (2) |
| At 31 December | 23 | 54 |

22. TRADE AND OTHER PAYABLES

| US\$ million | 2012 | 2011 |
|---|--------------|--------------|
| Trade payables | 2,701 | 3,001 |
| Tax and social security | 105 | 177 |
| Other payables | 707 | 939 |
| Accruals and deferred income ⁽¹⁾ | 1,041 | 981 |
| | 4,554 | 5,098 |

⁽¹⁾ Includes \$18 million (2011: nil) of deferred income recorded within non-current liabilities.

23. FINANCIAL ASSETS

The carrying amounts and fair values of financial assets are as follows:

| US\$ million | 2012 | | 2011 | |
|--|----------------------|----------------|----------------------|----------------|
| | Estimated fair value | Carrying value | Estimated fair value | Carrying value |
| At fair value through profit and loss | | | | |
| Trade and other receivables ⁽¹⁾ | 581 | 581 | 596 | 596 |
| Derivative financial assets ⁽²⁾ | 848 | 848 | 840 | 840 |
| Loans and receivables | | | | |
| Cash and cash equivalents | 9,094 | 9,094 | 11,732 | 11,732 |
| Trade and other receivables ⁽¹⁾ | 3,031 | 3,031 | 3,256 | 3,256 |
| Financial asset investments | 1,286 | 1,316 | 1,647 | 1,690 |
| Available for sale investments | | | | |
| Financial asset investments | 1,064 | 1,064 | 1,206 | 1,206 |
| Total financial assets | 15,904 | 15,934 | 19,277 | 19,320 |

⁽¹⁾ Trade and other receivables exclude prepayments and accrued income.

⁽²⁾ Derivative instruments are analysed between those which are 'Held for trading' and those designated into hedge relationships in note 25.

For financial assets which are traded on an active market, such as listed investments, fair value is determined by reference to market value. For non-traded financial assets, fair value is calculated using discounted cash flows, considered to be reasonable and consistent with those that would be used by a market participant, unless carrying value is considered to approximate fair value.

23. FINANCIAL ASSETS continued**Fair value hierarchy**

An analysis of financial assets carried at fair value is set out below:

| US\$ million | 2012 | | | | 2011 | | | |
|--|------------------------|------------------------|------------------------|--------------|------------------------|------------------------|------------------------|-------|
| | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total |
| At fair value through profit and loss | | | | | | | | |
| Trade and other receivables | – | 581 | – | 581 | – | 596 | – | 596 |
| Derivative financial assets | 1 | 813 | 34 | 848 | – | 677 | 163 | 840 |
| Available for sale investments | | | | | | | | |
| Financial asset investments | 980 | 11 | 73 | 1,064 | 1,142 | 10 | 54 | 1,206 |
| | 981 | 1,405 | 107 | 2,493 | 1,142 | 1,283 | 217 | 2,642 |

⁽¹⁾ Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares.

⁽²⁾ Valued using techniques based significantly on observable market data. Instruments in this category are valued using valuation techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

⁽³⁾ Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, management determines a reasonable estimate for the input. Financial assets included within level 3 primarily consist of embedded derivatives, financial asset investments and certain cross currency swaps of Brazilian real denominated borrowings, whose valuation depends upon unobservable inputs.

The movements in the fair value of the level 3 financial assets are shown in the following table:

| US\$ million | 2012 | 2011 |
|--|------------|------------|
| At 1 January | 217 | 96 |
| Net (loss)/gain recorded in remeasurements | (141) | 37 |
| Net gain recorded in the statement of comprehensive income | 19 | 9 |
| Cash flow | – | (29) |
| Additions | – | 9 |
| Disposals and transfer to assets held for sale | – | (12) |
| Reclassification from/to level 3 financial liabilities | 14 | 123 |
| Currency movements | (2) | (16) |
| At 31 December | 107 | 217 |

For the level 3 financial assets, changing certain inputs to reasonably possible alternative assumptions may change the fair value significantly. Where significant, the effect of a change in these assumptions to a reasonably possible alternative assumption is outlined in the table below. These sensitivities have been calculated by amending the fair value of the level 3 financial assets at 31 December for a change in each individual assumption, as outlined below, while keeping all other assumptions consistent with those used to calculate the fair value recognised in the financial statements.

| US\$ million | Change in assumption | 2012 | 2011 |
|-----------------------------|--|---|---|
| | | Increase/(decrease) in fair value of assets | Increase/(decrease) in fair value of assets |
| Derivative financial assets | Increase of 5% in dividend forecast | 5 | 10 |
| | Decrease of 5% in dividend forecast | (5) | (10) |
| | Shift of TJLP curve ⁽¹⁾ | n/a | n/a |
| Financial asset investments | Decrease of 10% in liquidity discount percentage | 9 | 11 |
| | Increase of 10% in liquidity discount percentage | (9) | (11) |

⁽¹⁾ TJLP is a Brazilian domestic interest rate. The sensitivities are provided on the net liability position of such level 3 financial instruments and are disclosed in note 24.

Financial asset risk exposures are set out in note 25.

24. FINANCIAL LIABILITIES

The carrying amounts and fair values of financial liabilities are as follows:

| US\$ million | 2012 | | 2011 | |
|---|----------------------|----------------|----------------------|----------------|
| | Estimated fair value | Carrying value | Estimated fair value | Carrying value |
| At fair value through profit and loss | | | | |
| Trade and other payables ⁽¹⁾ | 296 | 296 | 262 | 262 |
| Derivative financial liabilities ⁽²⁾ | 1,081 | 1,081 | 1,112 | 1,112 |
| Designated into fair value hedge | | | | |
| Borrowings | 13,735 | 13,425 | 8,867 | 8,074 |
| Financial liabilities at amortised cost | | | | |
| Trade and other payables ⁽¹⁾ | 4,102 | 4,102 | 4,637 | 4,637 |
| Borrowings | 4,181 | 4,329 | 5,526 ⁽³⁾ | 4,799 |
| Other non-current liabilities | 29 | 29 | 55 | 55 |
| Total financial liabilities | 23,424 | 23,262 | 20,459 | 18,939 |

⁽¹⁾ Trade and other payables exclude tax and social security and deferred income.

⁽²⁾ Derivative instruments are analysed between those which are 'Held for trading' and those designated into hedge relationships in note 25.

⁽³⁾ The fair value of the convertible bond at 31 December 2011 represented the quoted price of the debt and therefore included the portion accounted for in equity.

24. FINANCIAL LIABILITIES continued

For financial liabilities which are traded on an active market, such as listed debt instruments, fair value is determined by reference to market value. For non-traded financial liabilities, fair value is calculated using discounted cash flows, considered to be reasonable and consistent with those that would be used by a market participant, unless carrying value is considered to approximate fair value.

Fair value hierarchy

An analysis of financial liabilities carried at fair value is set out below:

| US\$ million | 2012 | | | | 2011 | | | |
|--|------------------------|------------------------|------------------------|-------|------------------------|------------------------|------------------------|-------|
| | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total |
| At fair value through profit and loss | | | | | | | | |
| Trade and other payables | – | 296 | – | 296 | – | 262 | – | 262 |
| Derivative financial liabilities | – | 865 | 216 | 1,081 | – | 924 | 188 | 1,112 |
| | – | 1,161 | 216 | 1,377 | – | 1,186 | 188 | 1,374 |

⁽¹⁾ Valued using unadjusted quoted prices in active markets for identical financial instruments.

⁽²⁾ Valued using techniques based significantly on observable market data. Instruments in this category are valued using valuation techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

⁽³⁾ Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, management determines a reasonable estimate for the input. Financial instruments included within level 3 primarily consist of embedded derivatives and certain cross currency swaps of Brazilian real denominated borrowings, whose valuation depends upon unobservable inputs and commodity sales contracts which do not meet the conditions for the 'own use' exemption under IAS 39.

The movements in the fair value of the level 3 financial liabilities are shown in the following table:

| US\$ million | 2012 | 2011 |
|---|------------|------------|
| At 1 January | 188 | 60 |
| Net gain/(loss) recorded in remeasurements | 14 | (5) |
| Cash flow | – | 15 |
| Reclassification to/from level 3 financial assets | 14 | 123 |
| Currency movements | – | (5) |
| At 31 December | 216 | 188 |

For the level 3 financial liabilities, changing certain inputs to reasonably possible alternative assumptions may change the fair value significantly. Where significant, the effect of a change in these assumptions to a reasonably possible alternative assumption is outlined in the table below. These sensitivities have been calculated by amending the fair value of the level 3 financial liabilities at 31 December for a change in each individual assumption, as outlined below, while keeping all other assumptions consistent with those used to calculate the fair value recognised in the financial statements.

| US\$ million | Change in assumption | 2012 | 2011 |
|----------------------------------|------------------------------------|---------------------------------------|---------------------------------------|
| | | Increase in fair value of liabilities | Increase in fair value of liabilities |
| Derivative financial liabilities | Shift of TJLP curve ⁽¹⁾ | 17 | 21 |

⁽¹⁾ TJLP is a Brazilian domestic interest rate. The sensitivities are provided on the net liability position of such level 3 financial instruments.

Financial liability risk exposures are set out in note 25.

Analysis of borrowings

An analysis of borrowings, as presented on the Consolidated balance sheet, is set out below:

| US\$ million | 2012 | | | 2011 | | |
|---|---------------------|--------------------|---------------|---------------------|--------------------|---------------|
| | Due within one year | Due after one year | Total | Due within one year | Due after one year | Total |
| Secured | | | | | | |
| Bank loans and overdrafts ⁽¹⁾ | 5 | 21 | 26 | 55 | 276 | 331 |
| Obligations under finance leases ⁽²⁾ | 3 | 19 | 22 | 4 | 17 | 21 |
| | 8 | 40 | 48 | 59 | 293 | 352 |
| Unsecured | | | | | | |
| Bank loans and overdrafts | 251 | 2,871 | 3,122 | 673 | 1,722 | 2,395 |
| Bonds issued under EMTN programme | 994 | 6,382 | 7,376 | 163 | 4,167 | 4,330 |
| US bonds | 767 | 4,628 | 5,395 | – | 3,408 | 3,408 |
| Convertible bond ⁽³⁾ | – | – | – | – | 1,504 | 1,504 |
| Other loans | 584 | 1,229 | 1,813 | 123 | 761 | 884 |
| | 2,596 | 15,110 | 17,706 | 959 | 11,562 | 12,521 |
| Total | 2,604 | 15,150 | 17,754 | 1,018 | 11,855 | 12,873 |

⁽¹⁾ Assets with a book value of \$49 million (2011: \$408 million) have been pledged as security, of which \$35 million (2011: \$170 million) are property, plant and equipment, \$10 million (2011: \$113 million) are financial assets and \$4 million (2011: \$125 million) are inventories. Related to these assets are borrowings of \$26 million (2011: \$331 million).

⁽²⁾ Details of assets held under finance leases are provided in note 15. The minimum lease payments under finance leases fall due as follows:

| US\$ million | 2012 | 2011 |
|---|------|------|
| Within one year | 5 | 4 |
| Greater than one year, less than five years | 14 | 12 |
| Greater than five years | 12 | 13 |
| | 31 | 29 |
| Future finance charges on finance leases | (9) | (8) |
| Present value of finance lease liabilities | 22 | 21 |

⁽³⁾ All outstanding convertible bonds were converted or redeemed during the year, see below.

24. FINANCIAL LIABILITIES continued

Net additional medium and long term borrowings were \$5,633 million (2011: \$964 million) and net repayments of short term borrowings were \$747 million (2011: \$1,261 million) as disclosed in the Consolidated cash flow statement.

Corporate bonds

During 2012 the Group issued corporate bonds with a US\$ equivalent value of \$5.1 billion in the US, European and South African markets. These included \$600 million 2.625% senior notes due 2017, \$750 million 2.625% senior notes due 2017, \$600 million 4.125% senior notes due 2022, €750 million 3.50% guaranteed notes due 2022, €750 million 2.75% guaranteed notes due 2019 and €750 million 2.50% guaranteed notes due 2018 issued under the Euro Medium Term Note (EMTN) programme, and R600 million floating rate notes at 3M JIBAR + 1.38% due 2017 and R1.4 billion 9.27% fixed rate notes due 2019 issued under the South African Domestic Medium Term Note programme.

Convertible bond

On 23 March 2012 Anglo American plc gave notice that it had exercised its right to redeem its \$1.7 billion of convertible bonds (the Bonds) on 22 May 2012 (the optional redemption date). The Bonds were due to mature on 7 May 2014. On 13 April 2012 following the announcement of the recommended 2011 full year dividend, and in accordance with the terms and conditions of the Bonds, the conversion price was adjusted from £18.36 to £18.02.

Of the \$1,700 million Bonds issued, \$1,678 million were converted to equity prior to the optional redemption date, including \$1 million converted in 2011, and the remaining \$22 million were redeemed by the Group. As a result, 62.5 million ordinary shares were issued and the financial liability of \$1,529 million, representing the notional value of the outstanding Bonds of \$1,699 million less unamortised discount of \$170 million, was derecognised. The balance in the convertible debt reserve of \$355 million, which related to the Bonds, was transferred to share premium (\$170 million) and retained earnings (\$185 million).

25. FINANCIAL RISK MANAGEMENT AND DERIVATIVES

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures. The risk management processes of the Group's independently listed subsidiaries are in line with the Group's own policy.

The types of risk exposure, the way in which such exposure is managed and quantification of the level of exposure in the Consolidated balance sheet at year end is provided as follows (subcategorised into credit risk, liquidity risk and market risk).

Credit risk

The Group's principal financial assets, including amounts in assets held for sale, are cash, trade and other receivables, investments and derivative financial instruments. The Group's maximum exposure to credit risk primarily arises from these financial assets and is as follows:

| US\$ million | 2012 | 2011 |
|--|---------------|---------------|
| Cash and cash equivalents | 9,312 | 11,732 |
| Trade and other receivables ⁽¹⁾ | 4,003 | 3,852 |
| Financial asset investments ⁽²⁾ | 1,331 | 1,690 |
| Derivative financial assets | 848 | 840 |
| Financial guarantees ⁽³⁾ | 33 | 51 |
| | 15,527 | 18,165 |

⁽¹⁾ Trade and other receivables exclude prepayments and accrued income.

⁽²⁾ Financial asset investments exclude available for sale investments.

⁽³⁾ Financial guarantees issued by the Group in respect of third party liabilities represent an exposure to credit risk in excess of the Group's financial assets.

The Group limits credit risk on liquid funds and derivative financial instruments through diversification of exposures with a range of approved financial institutions. Counterparty limits are set for each financial institution with reference to credit ratings assigned by S&P, Moody's and Fitch Ratings.

Given the diverse nature of the Group's operations (both in relation to commodity markets and geographically), together with insurance cover (including letters of credit from financial institutions), it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers.

An allowance for impairment of trade receivables is made where there is an identified loss event, which based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Details of the credit quality of trade receivables and the associated provision for impairment are disclosed in note 21.

Liquidity risk

The Group ensures that there are sufficient committed loan facilities (including refinancing, where necessary) in order to meet short term business requirements, after taking into account cash flows from operations and its holding of cash and cash equivalents, as well as any Group distribution restrictions that exist. In addition, certain projects are financed by means of limited recourse project finance, if appropriate.

25. FINANCIAL RISK MANAGEMENT AND DERIVATIVES continued

The expected undiscounted cash flows of the Group's financial liabilities (including associated derivatives), by remaining contractual maturity, based on conditions existing at the balance sheet date are as follows:

| US\$ million | 2012 | | | | | | 2011 | | | | | |
|---|-----------------|-------------------|------------------------|------------------|-------------------|-------------------|-----------------|-------------------|------------------------|------------------|-------------------|-------------------|
| | Within one year | | | One to two years | | | Within one year | | | One to two years | | |
| | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment |
| Financial liabilities (excluding derivatives) | (647) | (202) | (6,981) ⁽¹⁾ | (493) | (163) | (2,336) | (549) | (181) | (5,962) ⁽¹⁾ | (549) | (127) | (2,433) |
| Net settled derivatives ⁽²⁾ | 619 | (389) | (127) | 485 | (253) | (27) | 470 | (246) | 2 | 470 | (250) | (140) |
| | (28) | (591) | (7,108) | (8) | (416) | (2,363) | (79) | (427) | (5,960) | (79) | (377) | (2,573) |

| US\$ million | 2012 | | | | | | 2011 | | | | | |
|---|-------------------|-------------------|-------------------|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|-------------------|-------------------|
| | Two to five years | | | Greater than five years | | | Two to five years | | | Greater than five years | | |
| | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment | Fixed interest | Floating interest | Capital repayment |
| Financial liabilities (excluding derivatives) | (1,064) | (218) | (5,746) | (619) | (67) | (7,695) | (798) | (254) | (6,551) | (354) | (104) | (3,952) |
| Net settled derivatives ⁽²⁾ | 1,058 | (551) | (464) | 616 | (308) | (126) | 761 | (305) | (468) | 350 | (127) | (219) |
| | (6) | (769) | (6,210) | (3) | (375) | (7,821) | (37) | (559) | (7,019) | (4) | (231) | (4,171) |

⁽¹⁾ Assumes maximum cash outflow in respect of third party guarantees issued by the Group and repayment of all short term borrowings with no refinancing.

⁽²⁾ The expected maturities are not materially different from the contracted maturities.

The Group had the following undrawn committed borrowing facilities at 31 December:

| US\$ million | 2012 | 2011 |
|--|-------|-------|
| Expiry date | | |
| Within one year ⁽¹⁾ | 2,923 | 1,781 |
| Greater than one year, less than two years | 569 | 1,268 |
| Greater than two years, less than five years | 5,765 | 5,294 |
| Greater than five years | – | 76 |
| | 9,257 | 8,419 |

⁽¹⁾ Includes undrawn rand facilities equivalent to \$1.5 billion (2011: \$1.6 billion) in respect of a series of facilities with 364 day maturities which roll automatically on a daily basis, unless notice is served.

Market risk

Market risk is the risk that financial instrument fair values will fluctuate due to changes in market prices. The significant market risks to which the Group is exposed are foreign exchange risk, interest rate risk and commodity price risk.

Foreign exchange risk

As a global business, the Group is exposed to many currencies principally as a result of non-US dollar operating costs and to a lesser extent, from non-US dollar revenues. The Group's policy is generally not to hedge such exposures as hedging is not deemed appropriate given the diversified nature of the Group, though exceptions can be approved by the Group Management Committee.

In addition, currency exposures exist in respect of non-US dollar approved capital expenditure projects and non-US dollar borrowings in US dollar functional currency entities. The Group's policy is that such exposures should be hedged subject to a review of the specific circumstances of the exposure.

The exposure of the Group's financial assets and liabilities (excluding intra-group loan balances) to currency risk is as follows:

| US\$ million | 2012 | | | | 2011 | | | |
|-------------------------------|--|---|-------------------|--|--|---|-------------------|--|
| | Financial assets (excluding derivatives) | Impact of currency derivatives ⁽¹⁾ | Derivative assets | Total financial assets – exposure to currency risk | Financial assets (excluding derivatives) | Impact of currency derivatives ⁽¹⁾ | Derivative assets | Total financial assets – exposure to currency risk |
| US dollar | 9,241 | (64) | 808 | 9,985 | 10,639 | (186) | 742 | 11,195 |
| Rand | 3,894 | 64 | 37 | 3,995 | 5,761 | 186 | 98 | 6,045 |
| Brazilian real | 728 | – | – | 728 | 839 | – | – | 839 |
| Sterling | 123 | – | 1 | 124 | 467 | – | – | 467 |
| Australian dollar | 494 | – | – | 494 | 383 | – | – | 383 |
| Euro | 45 | – | 1 | 46 | 9 | – | – | 9 |
| Other currencies | 561 | – | 1 | 562 | 382 | – | – | 382 |
| Total financial assets | 15,086 | – | 848 | 15,934 | 18,480 | – | 840 | 19,320 |

| US\$ million | 2012 | | | | 2011 | | | |
|------------------------------------|---|---|------------------------|---|---|---|------------------------|---|
| | Financial liabilities (excluding derivatives) | Impact of currency derivatives ⁽¹⁾ | Derivative liabilities | Total financial liabilities – exposure to currency risk | Financial liabilities (excluding derivatives) | Impact of currency derivatives ⁽¹⁾ | Derivative liabilities | Total financial liabilities – exposure to currency risk |
| US dollar | (8,269) | (8,492) | (1,046) | (17,807) | (6,970) | (5,282) | (1,096) | (13,348) |
| Rand | (3,287) | (5) | (35) | (3,327) | (3,595) | (37) | (16) | (3,648) |
| Brazilian real | (1,597) | 1,119 | – | (478) | (1,608) | 1,138 | – | (470) |
| Sterling | (913) | 785 | – | (128) | (1,181) | 740 | – | (441) |
| Australian dollar | (422) | – | – | (422) | (564) | – | – | (564) |
| Euro | (6,601) | 6,593 | – | (8) | (3,436) | 3,428 | – | (8) |
| Other currencies | (1,092) | – | – | (1,092) | (473) | 13 | – | (460) |
| Total financial liabilities | (22,181) | – | (1,081) | (23,262) | (17,827) | – | (1,112) | (18,939) |

⁽¹⁾ Where currency derivatives are held to manage financial instrument exposures, the notional principal amount is reallocated to reflect the remaining exposure to the Group.

25. FINANCIAL RISK MANAGEMENT AND DERIVATIVES continued**Interest rate risk**

Interest rate risk arises due to fluctuations in interest rates which impact on the value of short term investments and financing activities. The Group's exposure to interest rate risk is particularly with reference to changes in US and South African interest rates.

The Group's policy is to borrow funds at floating rates of interest as, over the longer term, this is considered by management to give somewhat of a natural hedge against commodity price movements, given the correlation with economic growth (and industrial activity), which in turn shows a high correlation with commodity price fluctuation. In certain circumstances, the Group uses interest rate swap contracts to manage its exposure to interest rate movements on a portion of its existing debt. Strategic hedging using fixed rate debt may also be undertaken from time to time if approved by the Group Management Committee.

In respect of financial assets, the Group's policy is to invest cash at floating rates of interest and to maintain cash reserves in short term investments (less than one year) in order to maintain liquidity, while achieving a satisfactory return for shareholders.

The exposure of the Group's financial assets (excluding intra-group loan balances) to interest rate risk is as follows:

| US\$ million | 2012 | | | | | 2011 | | | | |
|---|-----------------------------------|---------------------------|---------------------------------------|--------------|---------------|-----------------------------------|---------------------------|---------------------------------------|--------------|---------------|
| | Interest bearing financial assets | | Non-interest bearing financial assets | | | Interest bearing financial assets | | Non-interest bearing financial assets | | |
| | Floating rate | Fixed rate ⁽¹⁾ | Equity investments | Other | Total | Floating rate | Fixed rate ⁽¹⁾ | Equity investments | Other | Total |
| Financial assets (excluding derivatives) ⁽²⁾ | 9,651 | 508 | 1,062 | 3,865 | 15,086 | 12,623 | 689 | 1,206 | 3,962 | 18,480 |
| Derivative assets | 748 | – | – | 100 | 848 | 638 | – | – | 202 | 840 |
| Financial asset exposure to interest rate risk | 10,399 | 508 | 1,062 | 3,965 | 15,934 | 13,261 | 689 | 1,206 | 4,164 | 19,320 |

⁽¹⁾ Includes \$397 million (2011: \$534 million) of preference shares in BEE entities.

⁽²⁾ At 31 December 2012 and 31 December 2011 no interest rate swaps were held in respect of financial asset exposures.

Floating rate financial assets consist mainly of cash and bank term deposits. Interest on floating rate financial assets is based on the relevant national inter-bank rates. Fixed rate financial assets consist principally of financial asset investments and cash, and have a weighted average interest rate of 11.6% (2011: 12.7%) for an average period of one year (2011: three years). Equity investments have no maturity period and the majority are fully liquid.

The exposure of the Group's financial liabilities (excluding intra-group loan balances) to interest rate risk is as follows:

| US\$ million | 2012 | | | | 2011 | | | |
|---|--|--------------|--|-----------------|--|----------------|--|-----------------|
| | Interest bearing financial liabilities | | Non-interest bearing financial liabilities | Total | Interest bearing financial liabilities | | Non-interest bearing financial liabilities | Total |
| | Floating rate | Fixed rate | | | Floating rate | Fixed rate | | |
| Financial liabilities (excluding derivatives) | (4,296) | (13,444) | (4,441) | (22,181) | (3,254) | (9,610) | (4,963) | (17,827) |
| Impact of interest rate swaps ⁽¹⁾ | (13,135) | 13,135 | – | – | (8,074) | 8,074 | – | – |
| Derivative liabilities | (165) | – | (916) | (1,081) | (158) | – | (954) | (1,112) |
| Financial liability exposure to interest rate risk | (17,596) | (309) | (5,357) | (23,262) | (11,486) | (1,536) | (5,917) | (18,939) |

⁽¹⁾ Where interest rate swaps are held to manage financial liability exposures the notional principal amount is reallocated to reflect the remaining exposure to the Group.

Interest on floating rate financial liabilities is based on the relevant national inter-bank rates. Remaining fixed rate borrowings accrue interest at a weighted average interest rate of 6.2% (2011: 9.3%) for an average period of three years (2011: two years). Average maturity on non-interest bearing instruments is 17 months (2011: 12 months).

Commodity price risk

The Group's earnings are principally exposed to movements in the prices of the commodities it produces.

The Group policy is generally not to hedge commodity price risk, although some hedging may be undertaken for strategic reasons. In such cases, the Group generally uses forward and deferred contracts to hedge the price risk.

Certain of the Group's sales and purchases are provisionally priced and as a result are susceptible to future price movements. The exposure of the Group's financial assets and liabilities to commodity price risk is as follows:

| US\$ million | 2012 | | | | 2011 | | | |
|--|----------------------------|----------------------------|-------------------------------|----------------|----------------------------|----------------------------|-------------------------------|------------|
| | Commodity price linked | | Not linked to commodity price | Total | Commodity price linked | | Not linked to commodity price | Total |
| | Subject to price movements | Fixed price ⁽¹⁾ | | | Subject to price movements | Fixed price ⁽¹⁾ | | |
| Total net financial instruments (excluding derivatives) | 304 | 1,087 | (8,486) | (7,095) | 352 | 945 | (644) | 653 |
| Commodity derivatives (net) | (1) | – | – | (1) | (17) | – | – | (17) |
| Non-commodity derivatives (net) | – | – | (232) | (232) | – | – | (255) | (255) |
| Total financial instrument exposure to commodity risk | 303 | 1,087 | (8,718) | (7,328) | 335 | 945 | (899) | 381 |

⁽¹⁾ Includes receivables and payables for commodity sales and purchases not subject to price adjustment at the balance sheet date.

25. FINANCIAL RISK MANAGEMENT AND DERIVATIVES continued

Derivatives

In accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39, the fair values of derivatives are separately recorded on the balance sheet within 'Derivative financial assets' and 'Derivative financial liabilities'. Derivatives are classified as current or non-current depending on the maturity of the derivative.

The Group utilises derivative instruments to manage certain market risk exposures as explained above. The Group does not use derivative financial instruments for speculative purposes, however it may choose not to designate certain derivatives as hedges for accounting purposes. Such derivatives are classified as 'non-hedges' and fair value movements are recorded in the income statement.

The use of derivative instruments is subject to limits and the positions are regularly monitored and reported to senior management.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contract and the host contract is not carried at fair value. Embedded derivatives may be designated into hedge relationships and are accounted for in accordance with the Group's accounting policy set out in note 1.

Cash flow hedges

In certain cases the Group classifies its forward foreign currency and commodity price contracts, which hedge highly probable forecast transactions, as cash flow hedges. Where this designation is documented, changes in fair value are recognised in equity until the hedged transactions occur, at which time the respective gains or losses are transferred to the income statement (or hedged balance sheet item) in accordance with the Group's accounting policy set out in note 1.

Fair value hedges

The majority of interest rate swaps (taken out to swap the Group's fixed rate borrowings to floating rate, in accordance with the Group's policy) have been designated as fair value hedges. The carrying value of the hedged debt is adjusted at each balance sheet date to reflect the impact on its fair value of changes in market interest rates. Changes in the fair value of the hedged debt are offset against fair value changes in the interest rate swap and classified within net finance costs in the income statement.

Non-hedges

The Group may choose not to designate certain derivatives as hedges. This may occur where the Group is economically hedged but IAS 39 hedge accounting cannot be achieved or where gains and losses on both the derivative and hedged item naturally offset in the income statement, which for example may be the case for certain cross currency swaps of non-US dollar debt. Where derivatives have not been designated as hedges, fair value changes are recognised in the income statement in accordance with the Group's accounting policy set out in note 1 and are classified as financing or operating depending on the nature of the associated hedged risk.

The fair value of the Group's open derivative position at 31 December (excluding normal purchase and sale contracts held off balance sheet), recorded within 'Derivative financial assets' and 'Derivative financial liabilities' is as follows:

| US\$ million | 2012 | | Current 2011 | | 2012 | | Non-current 2011 | |
|---------------------------------------|------------|--------------|-----------------|--------------|------------|--------------|---------------------|--------------|
| | Asset | Liability | Asset | Liability | Asset | Liability | Asset | Liability |
| Cash flow hedge | | | | | | | | |
| Forward foreign currency contracts | 3 | – | 6 | (1) | – | – | – | – |
| Fair value hedge | | | | | | | | |
| Interest rate swaps | 31 | – | – | – | 687 | (6) | 538 | – |
| Forward commodity contracts | 1 | (2) | – | (5) | – | – | – | – |
| Non-hedge ('Held for trading') | | | | | | | | |
| Forward foreign currency contracts | 35 | (124) | 117 | (121) | – | (1) | 11 | (33) |
| Cross currency swaps | 31 | (124) | 49 | – | 60 | (781) | 55 | (908) |
| Other | – | (30) | – | (35) | – | (13) | 64 | (9) |
| | 101 | (280) | 172 | (162) | 747 | (801) | 668 | (950) |

These marked to market valuations are in no way predictive of the future value of the hedged position, nor of the future impact on the profit of the Group. The valuations represent the cost of closing all hedge contracts at year end, at market prices and rates available at the time.

Normal purchase and normal sale contracts

Commodity based contracts that meet the scope exemption in IAS 39 (in that they are settled through physical delivery of the Group's production or are used within the production process), are classified as normal purchase or sale contracts. In accordance with IAS 39 these contracts are not marked to market.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and, with cognisance of forecast future market conditions and structuring, to maintain an optimal capital structure to reduce the cost of capital.

In order to manage the short and long term capital structure, the Group adjusts the amount of ordinary dividends paid to shareholders, returns capital to shareholders (via, for example, share buybacks and special dividends), arranges debt to fund new acquisitions and may also sell non-core assets to reduce debt.

25. FINANCIAL RISK MANAGEMENT AND DERIVATIVES continued

The Group monitors capital on the basis of the ratio of net debt to total capital (gearing). Net debt is calculated as total borrowings less cash and cash equivalents (including derivatives which provide an economic hedge of debt and the net debt of disposal groups). Total capital is calculated as 'Net assets' (as shown in the Consolidated balance sheet) excluding net debt. Total capital and gearing are as follows:

| US\$ million | 2012 | 2011 | 2010 |
|--|---------------|---------------|---------------|
| Net assets | 43,787 | 43,189 | 37,971 |
| Net debt including hedges (see note 31c) | 8,615 | 1,374 | 7,384 |
| Total capital | 52,402 | 44,563 | 45,355 |
| Gearing | 16.4% | 3.1% | 16.3% |

The increase in gearing since 31 December 2011 reflects the \$7.2 billion increase in net debt in the year. Net assets at 31 December 2012 were \$0.6 billion higher than at 31 December 2011 due to net movements in equity, including the conversion of the convertible bond, offsetting the retained loss for the year. Gearing levels remain at a sustainable level given the Group's strong level of operating cash flows.

Financial instrument sensitivities

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments, trade receivables and trade payables. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's financial instruments (at 31 December) to changes in commodity prices, interest rates and foreign currencies.

The sensitivity analysis has been prepared on the basis that the components of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December. In addition, the commodity price impact for provisionally priced contracts is based on the related trade receivables and trade payables at 31 December. As a consequence, this sensitivity analysis relates to the position at 31 December.

The following assumptions were made in calculating the sensitivity analysis:

- All income statement sensitivities also impact equity.
- For debt and other deposits carried at amortised cost, carrying value does not change as interest rates move.
- No sensitivity is provided for interest accruals as these are based on pre-agreed interest rates and therefore are not susceptible to further rate changes.
- Changes in the carrying value of derivatives (from movements in commodity prices and interest rates) designated as cash flow hedges are assumed to be recorded fully within equity on the grounds of materiality.
- No sensitivity has been calculated on derivatives and related underlying instruments designated into fair value hedge relationships as these are assumed materially to offset one another.
- All hedge relationships are assumed to be fully effective on the grounds of materiality.
- Debt with a maturity of less than one year is floating rate, unless it is a long term fixed rate debt in its final year.
- Translation of foreign subsidiaries and operations into the Group's presentation currency has been excluded from the sensitivity.

Using the above assumptions, the following table shows the illustrative effect on the income statement and equity that would result from reasonably possible changes in the relevant commodity price. The Group has determined that at 31 December 2012 and 31 December 2011, based on the above assumptions, there is no significant sensitivity to changes in market interest rates.

| US\$ million | 2012 | | 2011 | |
|---|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| Foreign currency sensitivities⁽¹⁾ | | | | |
| +10% US dollar to rand | (74) | (73) | (81) | (77) |
| -10% US dollar to rand | 74 | 73 | 81 | 77 |
| +10% US dollar to Brazilian real ⁽²⁾ | 190 | 190 | 402 | 405 |
| -10% US dollar to Brazilian real ⁽²⁾ | (194) | (194) | (279) | (282) |
| +10% US dollar to Australian dollar | 41 | 41 | 36 | 36 |
| -10% US dollar to Australian dollar | (41) | (41) | (36) | (36) |
| +10% US dollar to Chilean peso ⁽²⁾ | 29 | 29 | 15 | 15 |
| -10% US dollar to Chilean peso ⁽²⁾ | (36) | (36) | (18) | (18) |
| Commodity price sensitivities | | | | |
| 10% increase in the copper price | 63 | 63 | 37 | 37 |
| 10% decrease in the copper price | (63) | (63) | (37) | (37) |
| 10% increase in the platinum price | (17) | (17) | (15) | (15) |
| 10% decrease in the platinum price | 17 | 17 | 15 | 15 |

⁽¹⁾ + represents strengthening of US dollar against the respective currency.

⁽²⁾ Includes sensitivities for non-hedge derivatives related to capital expenditure.

The above sensitivities are calculated with reference to a single moment in time and are subject to change due to a number of factors including:

- fluctuating trade receivable and trade payable balances
- derivative instruments and borrowings settled throughout the year
- fluctuating cash balances
- changes in currency mix

As the sensitivities are limited to year end financial instrument balances, they do not take account of the Group's sales and operating costs, which are highly sensitive to changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, whilst in reality commodity prices, interest rates and foreign currencies do not move independently.

26. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2012 | | | | |
|---|--|--------------------------------|-------------------|------------|--------------|
| US\$ million | Environmental restoration ⁽¹⁾ | Decommissioning ⁽¹⁾ | Employee benefits | Other | Total |
| At 1 January | 989 | 349 | 257 | 607 | 2,202 |
| Acquired through business combinations | 83 | 129 | 118 | 217 | 547 |
| Charged to the income statement | 90 | – | 218 | 424 | 732 |
| Capitalised | 37 | 42 | – | (9) | 70 |
| Unwinding of discount | 60 | 29 | 1 | 12 | 102 |
| Amounts applied | (37) | (2) | (129) | (109) | (277) |
| Unused amounts reversed | (34) | (1) | – | (143) | (178) |
| Transfer to liabilities directly associated with assets classified as held for sale | (83) | (22) | (10) | (108) | (223) |
| Currency movements | (16) | (7) | (16) | 12 | (27) |
| At 31 December | 1,089 | 517 | 439 | 903 | 2,948 |

⁽¹⁾ The Group makes contributions to controlled funds to meet the cost of some of its environmental restoration and decommissioning liabilities, see note 16.

Maturity analysis of total provisions:

| US\$ million | 2012 | 2011 |
|--------------|--------------|--------------|
| Current | 564 | 372 |
| Non-current | 2,384 | 1,830 |
| | 2,948 | 2,202 |

Environmental restoration

The Group has an obligation to undertake restoration, rehabilitation and environmental work when environmental disturbance is caused by the development or ongoing production of a mining property. A provision is recognised for the present value of such costs. It is anticipated that these costs will be incurred over a period in excess of 20 years.

Decommissioning

Provision is made for the present value of costs relating to the decommissioning of plant or other site restoration work. It is anticipated that these costs will be incurred over a period in excess of 20 years.

Employee benefits

Provision is made for statutory or contractual employee entitlements including long service leave, annual leave, sickness pay obligations and cash settled share-based payment obligations. It is anticipated that these costs will be incurred when employees choose to take their benefits.

Other

Other provisions primarily relate to indemnities, warranties and legal claims. It is anticipated that these costs will be incurred over a five year period. Other provisions also includes obligations for certain long term contracts where the unavoidable costs of meeting the Group's obligations is expected to exceed the benefits to be received, see note 5. It is anticipated these costs will be incurred over a period in excess of 15 years.

27. DEFERRED TAX

The movement in net deferred tax liabilities during the year is as follows:

| US\$ million | 2012 | 2011 |
|---|----------------|----------------|
| At 1 January | (5,200) | (5,252) |
| Credited/(charged) to the income statement | 1,090 | (550) |
| (Charged)/credited to the statement of comprehensive income | (86) | 10 |
| Charged directly to equity | (110) | (127) |
| Acquired through business combinations | (850) | – |
| Transfer to assets held for sale | 118 | – |
| Disposal of businesses | – | 5 |
| Currency movements | 192 | 714 |
| At 31 December | (4,846) | (5,200) |
| Comprising: | | |
| Deferred tax assets | 1,223 | 530 |
| Deferred tax liabilities | (6,069) | (5,730) |

The amount of deferred tax recognised in the balance sheet is as follows:

| US\$ million | 2012 | 2011 |
|--|----------------|----------------|
| Deferred tax assets | | |
| Tax losses | 374 | 273 |
| Post employment benefits | 118 | 35 |
| Share-based payments | 9 | 15 |
| Enhanced tax depreciation | 560 | – |
| Other temporary differences | 162 | 207 |
| | 1,223 | 530 |
| Deferred tax liabilities | | |
| Capital allowances in excess of depreciation | (3,311) | (3,334) |
| Fair value adjustments | (2,582) | (1,806) |
| Tax losses | 29 | 103 |
| Derivatives | 15 | (167) |
| Provisions | 416 | 393 |
| Chilean withholding tax | (570) | (656) |
| Other temporary differences | (66) | (263) |
| | (6,069) | (5,730) |

27. DEFERRED TAX continued

The amount of deferred tax credited/(charged) to the income statement is as follows:

| US\$ million | 2012 | 2011 |
|--|----------------------|--------------|
| Capital allowances in excess of depreciation | (22) | (615) |
| Fair value adjustments | (133) | (118) |
| Tax losses | 11 | 167 |
| Derivatives | 99 | 36 |
| Provisions | 41 | 82 |
| Chilean withholding taxes | 86 | (137) |
| Other temporary differences | 1,008 ⁽¹⁾ | 35 |
| | 1,090 | (550) |

⁽¹⁾ In 2012 this principally relates to Minas-Rio (\$960 million credit). This is made up of a deferred tax credit of \$1,360 million in relation to the impairment of Minas-Rio and a deferred tax charge of \$400 million in relation to the partial derecognition of a deferred tax asset for enhanced tax depreciation in Minas-Rio.

The current expectation regarding the maturity of deferred tax balances is as follows:

| US\$ million | 2012 | 2011 |
|---------------------------------|----------------|----------------|
| Deferred tax assets | | |
| Recoverable within one year | 131 | 52 |
| Recoverable after one year | 1,092 | 478 |
| | 1,223 | 530 |
| Deferred tax liabilities | | |
| Payable within one year | (368) | (505) |
| Payable after one year | (5,701) | (5,225) |
| | (6,069) | (5,730) |

The Group has the following balances in respect of which no deferred tax asset has been recognised:

| US\$ million | 2012 | | | | 2011 | | | |
|---|----------------------|----------------------|-----------------------------|---------------|----------------------|----------------------|-----------------------------|--------------|
| | Tax losses – revenue | Tax losses – capital | Other temporary differences | Total | Tax losses – revenue | Tax losses – capital | Other temporary differences | Total |
| Expiry date | | | | | | | | |
| Within one year | 17 | – | – | 17 | – | – | – | – |
| Greater than one year, less than five years | 286 | – | – | 286 | – | – | – | – |
| Greater than five years | 3 | – | 2,997 | 3,000 | 111 | – | – | 111 |
| No expiry date | 4,467 | 1,097 | 1,953 | 7,517 | 3,082 | 1,067 | 403 | 4,552 |
| | 4,773 | 1,097 | 4,950 | 10,820 | 3,193 | 1,067 | 403 | 4,663 |

The Group also has unused tax credits of \$16 million (2011: \$18 million) for which no deferred tax asset is recognised in the balance sheet. All of these credits expire within five years.

No deferred tax has been recognised in respect of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such investments in subsidiaries, branches and associates and interests in joint ventures is represented by the contribution of those investments to the Group's retained earnings and amounted to \$22,442 million (2011: \$25,876 million).

28. RETIREMENT BENEFITS

The Group operates a number of defined contribution and defined benefit pension plans. It also operates post employment medical arrangements, principally in southern Africa.

Defined contribution plans

The defined contribution pension and medical cost represents the actual contributions payable by the Group to the various plans. At 31 December 2012 there were no material outstanding or prepaid contributions and so no accrual or prepayment has been disclosed in the balance sheet in relation to these plans.

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans is calculated on the basis of the contribution payable by the Group in the financial year. The charge for the year for defined contribution pension plans (net of amounts capitalised) was \$262 million (2011: \$254 million) and for defined contribution medical plans (net of amounts capitalised) was \$69 million (2011: \$57 million).

Defined benefit pension plans and post employment medical plans

Following the Group's acquisition of De Beers on 16 August 2012, the Group has consolidated the defined benefit pension and post employment healthcare plans of De Beers.

The majority of the defined benefit pension plans are funded. The assets of these plans are held separately from those of the Group, in independently administered funds, in accordance with statutory requirements or local practice throughout the world. The unfunded liabilities are principally in relation to termination indemnity plans in South America.

The post employment medical arrangements provide health benefits to retired employees and certain dependants. Eligibility for cover is dependent upon certain criteria. The majority of these plans are unfunded, and are principally in southern Africa.

The Group's provision of anti-retroviral therapy to HIV positive staff has not significantly impacted the post employment medical plan liability.

Independent qualified actuaries carry out full valuations every three years using the projected unit credit method. The actuaries have updated the valuations to 31 December 2012.

28. RETIREMENT BENEFITS continued

Actuarial assumptions

The principal assumptions used to determine the actuarial present value of benefit obligations and pension charges and credits under IAS 19 *Employee Benefits* are detailed below (shown as weighted averages):

| % | 2012 | | | 2011 | | |
|--|--------------------|--------------|--------------------|--------------------|--------------|--------------------|
| | Southern Africa | The Americas | Europe | Southern Africa | The Americas | Europe |
| Defined benefit pension plans | | | | | | |
| Average discount rate for plan liabilities | 8.1 | 6.9 | 4.3 | 8.5 | 7.8 | 4.8 |
| Average rate of inflation | 6.3 | 3.5 | 2.8 | 6.5 | 3.6 | 2.7 |
| Average rate of increase in salaries | 8.3 ⁽¹⁾ | 6.2 | 2.9 ⁽²⁾ | 7.8 ⁽¹⁾ | 6.5 | n/a ⁽²⁾ |
| Average rate of increase of pensions in payment | 6.3 | 3.2 | 3.1 | 6.5 | 3.3 | 3.0 |
| Average long term rate of return on plan assets ⁽³⁾ | 8.4 | 10.2 | 4.2 | 9.2 | 12.8 | 5.0 |
| Post employment medical plans | | | | | | |
| Average discount rate for plan liabilities | 8.0 | n/a | 3.7 | 8.5 | n/a | n/a |
| Average rate of inflation | 6.3 | n/a | 2.3 | 6.5 | n/a | n/a |
| Expected average increase in healthcare costs | 7.7 | n/a | 7.0 | 7.9 | n/a | n/a |

⁽¹⁾ With the exception of De Beers, plans in southern Africa have ceased future accrual of benefits but some benefits remain linked to salary increases.

⁽²⁾ With the exception of De Beers, European plans have ceased future accrual of benefits.

⁽³⁾ The long term expected return on plan assets has been set with reference to current market yields on government and corporate bonds, plus expected equity and corporate bond-outperformance over government bonds in the relevant jurisdictions. The expected return on cash assets has been set with reference to current bank base rates. The overall long term expected rate of return for each asset class is weighted by the asset allocation to the asset class at the balance sheet date.

Mortality assumptions are determined based on standard mortality tables with adjustments, as appropriate, to reflect experience of conditions locally. In southern Africa, the PA90 tables (2011: PA90 tables) are used. The main plans in Europe use the SAPS tables with plan specific adjustments based on mortality investigations (2011: SAPS tables). The main plans in the Americas use the RV2009 and AT2000 tables (2011: RV2009 and AT2000 tables). The mortality tables used imply that a male or female aged 60 at the balance sheet date has the following future life expectancy:

| Years | Male | | Female | |
|-----------------|------|------|--------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Southern Africa | 20.1 | 20.9 | 24.9 | 25.8 |
| The Americas | 23.3 | 23.2 | 27.4 | 27.2 |
| Europe | 28.5 | 27.4 | 30.1 | 30.0 |

Summary of plans by geography

The Group's plans in respect of pension and post employment healthcare are summarised as follows:

| US\$ million | 2012 | | | | 2011 | | | |
|--|-----------------|--------------|--------|---------|-----------------|--------------|--------|-------|
| | Southern Africa | The Americas | Europe | Total | Southern Africa | The Americas | Europe | Total |
| Assets⁽¹⁾ | | | | | | | | |
| Defined benefit pension plans in surplus | 176 | – | – | 176 | 70 | – | – | 70 |
| Liabilities | | | | | | | | |
| Defined benefit pension plans in deficit | – | (225) | (603) | (828) | – | (181) | (171) | (352) |
| Post employment medical plans in deficit | (573) | – | (8) | (581) | (287) | – | – | (287) |
| | (573) | (225) | (611) | (1,409) | (287) | (181) | (171) | (639) |

⁽¹⁾ Amounts are included in 'Other non-current assets'.

Five year summary of plan assets and liabilities

| US\$ million | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------|---------|---------|---------|---------|
| Defined benefit pension plans | | | | | |
| Fair value of plan assets | 5,327 | 2,583 | 2,732 | 2,731 | 2,073 |
| Present value of plan liabilities | (5,862) | (2,792) | (2,840) | (2,975) | (2,157) |
| Net deficit | (535) | (209) | (108) | (244) | (84) |
| Surplus restriction | (117) | (73) | (59) | (106) | (61) |
| Net deficit after surplus restriction | (652) | (282) | (167) | (350) | (145) |
| Actuarial gain/(loss) on plan assets ⁽¹⁾ | 151 | (32) | 76 | 184 | (392) |
| Actuarial gain/(loss) on plan liabilities ⁽²⁾ | 66 | (135) | 19 | (361) | 208 |
| Post employment medical plans | | | | | |
| Fair value of plan assets | 21 | 22 | 25 | 20 | 17 |
| Present value of plan liabilities | (602) | (309) | (337) | (322) | (241) |
| Net deficit | (581) | (287) | (312) | (302) | (224) |
| Actuarial gain on plan assets ⁽³⁾ | – | 1 | 2 | – | 1 |
| Actuarial (loss)/gain on plan liabilities ⁽⁴⁾ | (35) | (22) | (13) | (10) | 16 |

⁽¹⁾ Net experience gains on pension plan assets were \$151 million (2011: losses of \$32 million; 2010: gains of \$76 million; 2009: gains of \$184 million; 2008: losses of \$392 million).

⁽²⁾ Net experience losses on pension plan liabilities were \$123 million (2011: losses of \$10 million; 2010: gains of \$38 million; 2009: losses of \$17 million; 2008: losses of \$29 million).

⁽³⁾ Net experience gains on medical plan assets were nil (2011: gains of \$1 million; 2010: gains of \$2 million; 2009: nil; 2008: gains of \$1 million).

⁽⁴⁾ Net experience losses on medical plan liabilities were \$32 million (2011: losses of \$1 million; 2010: gains of \$5 million; 2009: losses of \$3 million; 2008: losses of \$7 million).

28. RETIREMENT BENEFITS continued

The actuarial gain recognised in the Consolidated statement of comprehensive income of \$165 million (2011: loss of \$214 million) includes a charge for the increase in the surplus restriction of \$17 million (2011: charge for the increase of \$26 million). The movement in the surplus restriction in the Consolidated statement of comprehensive income differs from that in the table above due to the exclusion of a surplus restriction on De Beers' pension plans of \$30 million arising from the acquisition, and exchange differences. Cumulative net actuarial losses recognised in the Consolidated statement of comprehensive income are \$427 million (2011: \$592 million; 2010: \$378 million; 2009: \$509 million; 2008: \$292 million).

Income statement

The amounts recognised in the income statement are as follows:

| US\$ million | 2012 | | | 2011 | | |
|--|---------------|-------------------------------|-----------|---------------|-------------------------------|-----------|
| | Pension plans | Post employment medical plans | Total | Pension plans | Post employment medical plans | Total |
| Analysis of the amount charged to operating profit | | | | | | |
| Current service costs | 18 | 4 | 22 | 18 | 3 | 21 |
| Effects of settlements | 9 | – | 9 | – | – | – |
| Total within operating costs | 27 | 4 | 31 | 18 | 3 | 21 |
| Analysis of the amount charged to net finance costs | | | | | | |
| Expected return on plan assets ⁽¹⁾ | (199) | (1) | (200) | (197) | (2) | (199) |
| Interest costs on plan liabilities ⁽²⁾ | 196 | 34 | 230 | 181 | 24 | 205 |
| Net charge to net finance costs | (3) | 33 | 30 | (16) | 22 | 6 |
| Total charge to the income statement | 24 | 37 | 61 | 2 | 25 | 27 |

⁽¹⁾ Included in 'Investment income', see note 9.

⁽²⁾ Included in 'Interest expense', see note 9.

Pension plan assets and liabilities by geography

The split of the present value of funded and unfunded obligations in defined benefit pension plans, the fair value of the pension assets and the long term expected rate of return at 31 December are as follows:

| | 2012 | | | | | | | 2011 | | | | | | |
|---|------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|-------------------------|
| | Southern Africa | | The Americas | | Europe | | Total | Southern Africa | | The Americas | | Europe | | Total |
| | Rate of return % | Fair value US\$ million | Rate of return % | Fair value US\$ million | Rate of return % | Fair value US\$ million | Fair value US\$ million | Rate of return % | Fair value US\$ million | Rate of return % | Fair value US\$ million | Rate of return % | Fair value US\$ million | Fair value US\$ million |
| Equity | 9.5 | 652 | 7.0 | 11 | 5.5 | 1,150 | 1,813 | 11.5 | 283 | 14.6 | 13 | 7.0 | 726 | 1,022 |
| Bonds | 7.8 | 1,077 | 10.5 | 133 | 3.8 | 1,605 | 2,815 | 8.1 | 512 | 12.6 | 124 | 3.7 | 715 | 1,351 |
| Other | 7.7 | 116 | 10.7 | 3 | 2.6 | 580 | 699 | 6.5 | 42 | 11.8 | 5 | 1.4 | 163 | 210 |
| Fair value of pension plan assets ⁽¹⁾ | | 1,845 | | 147 | | 3,335 | 5,327 | | 837 | | 142 | | 1,604 | 2,583 |
| Present value of funded obligations ⁽¹⁾ | | (1,589) | | (163) | | (3,895) | (5,647) | | (718) | | (150) | | (1,751) | (2,619) |
| Present value of unfunded obligations | | – | | (209) | | (6) | (215) | | – | | (173) | | – | (173) |
| Present value of pension plan liabilities | | (1,589) | | (372) | | (3,901) | (5,862) | | (718) | | (323) | | (1,751) | (2,792) |
| Net surplus/(deficit) in pension plans | | 256 | | (225) | | (566) | (535) | | 119 | | (181) | | (147) | (209) |
| Surplus restriction related to pension plans | | (80) | | – | | (37) | (117) | | (49) | | – | | (24) | (73) |
| Recognised pension plan assets/(liabilities) | | 176 | | (225) | | (603) | (652) | | 70 | | (181) | | (171) | (282) |
| Amounts in the balance sheet | | | | | | | | | | | | | | |
| Pension assets | | 176 | | – | | – | 176 | | 70 | | – | | – | 70 |
| Pension liabilities | | – | | (225) | | (603) | (828) | | – | | (181) | | (171) | (352) |
| | | 176 | | (225) | | (603) | (652) | | 70 | | (181) | | (171) | (282) |

⁽¹⁾ The fair value of assets was used to determine the funding level of the plans. The fair value of the assets of the funded plans was sufficient to cover 94% (2011: 99%) of the benefits that had accrued to members after allowing for expected increases in future earnings and pensions. Companies within the Group are paying contributions as required in accordance with local actuarial advice.

28. RETIREMENT BENEFITS continued

Movement analysis

The changes in the fair value of plan assets are as follows:

| US\$ million | 2012 | | | 2011 | | |
|---|--------------------|-------------------------------|--------------|---------------------|-------------------------------|--------------|
| | Pension plans | Post employment medical plans | Total | Pension plans | Post employment medical plans | Total |
| At 1 January | 2,583 | 22 | 2,605 | 2,732 | 25 | 2,757 |
| Acquired through business combinations | 2,417 | – | 2,417 | – | – | – |
| Effects of settlements | (50) | – | (50) | (31) | – | (31) |
| Expected return | 199 ⁽¹⁾ | 1 | 200 | 197 ⁽¹⁾ | 2 | 199 |
| Actuarial gains/(losses) | 151 ⁽¹⁾ | – | 151 | (32) ⁽¹⁾ | 1 | (31) |
| Contributions paid by employer ⁽²⁾ | 90 | – | 90 | 81 | – | 81 |
| Benefits paid | (151) | (1) | (152) | (136) | (1) | (137) |
| Contributions paid by plan participants | 1 | – | 1 | 1 | – | 1 |
| Currency movements | 87 | (1) | 86 | (229) | (5) | (234) |
| At 31 December | 5,327 | 21 | 5,348 | 2,583 | 22 | 2,605 |

⁽¹⁾ The actual return on assets in respect of pension plans was \$350 million (2011: \$165 million).

⁽²⁾ The Group expects to contribute approximately \$162 million to its pension plans and \$32 million to its post employment medical plans in 2013.

The changes in the present value of defined benefit obligations are as follows:

| US\$ million | 2012 | | | 2011 | | |
|---|----------------|-------------------------------|----------------|----------------|-------------------------------|----------------|
| | Pension plans | Post employment medical plans | Total | Pension plans | Post employment medical plans | Total |
| At 1 January | (2,792) | (309) | (3,101) | (2,840) | (337) | (3,177) |
| Acquired through business combinations | (2,974) | (302) | (3,276) | – | – | – |
| Current service costs | (18) | (3) ⁽¹⁾ | (21) | (18) | (3) | (21) |
| Effects of settlements | 41 | – | 41 | 31 | – | 31 |
| Interest costs | (196) | (30) ⁽¹⁾ | (226) | (181) | (24) | (205) |
| Actuarial gains/(losses) | 66 | (36) ⁽¹⁾ | 30 | (135) | (22) | (157) |
| Benefits paid | 151 | 24 ⁽¹⁾ | 175 | 136 | 16 | 152 |
| Contributions paid by plan participants | (1) | – | (1) | (1) | – | (1) |
| Transfer to liabilities directly associated with assets held for sale | – | 39 | 39 | – | – | – |
| Currency movements | (139) | 15 | (124) | 216 | 61 | 277 |
| At 31 December | (5,862) | (602) | (6,464) | (2,792) | (309) | (3,101) |

⁽¹⁾ Movements in post employment medical plans exclude movements within the obligations transferred to held for sale.

Healthcare sensitivity analysis

Amounts recognised in the Consolidated income statement in respect of post employment medical plans are sensitive to assumed healthcare cost trend rates. A 1% change in assumed healthcare cost trend rates would have the following effects:

| US\$ million | 1% increase | | 1% decrease | |
|---|-------------|------|-------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Effect on the sum of service costs and interest costs | 8 | 4 | (5) | (3) |
| Effect on defined benefit obligations | 78 | 35 | (63) | (28) |

29. CALLED-UP SHARE CAPITAL AND SHARE-BASED PAYMENTS

Called-up share capital

| | 2012 | | 2011 | |
|--|----------------------|--------------|----------------------|--------------|
| | Number of shares | US\$ million | Number of shares | US\$ million |
| Called-up, allotted and fully paid: | | | | |
| 5% cumulative preference shares of £1 each | 50,000 | – | 50,000 | – |
| Ordinary shares of 54 ⁸⁶ / ₉₁ US cents each: | | | | |
| At 1 January | 1,342,967,458 | 738 | 1,342,932,714 | 738 |
| Allotted during the year | 62,492,295 | 34 | 34,744 | – |
| At 31 December | 1,405,459,753 | 772 | 1,342,967,458 | 738 |

During 2012, 8,354 ordinary shares of 54⁸⁶/₉₁ US cents each were allotted to certain non-executive directors by subscription of their post-tax directors' fees (2011: 5,487 ordinary shares). In addition, 62,483,941 ordinary shares of 54⁸⁶/₉₁ US cents each were allotted upon the conversion of Anglo American plc convertible bonds due 2014 (2011: 29,257), see note 24.

Excluding shares held in treasury (but including the shares held by the Group in other structures, as outlined in the Tenon and Employee benefit trust sections below) the number and carrying value of called-up, allotted and fully paid ordinary shares as at 31 December 2012 was 1,390,954,633 and \$764 million (2011: 1,323,428,547; \$727 million).

At general meetings, every member who is present in person has one vote on a show of hands and, on a poll, every member who is present in person or by proxy has one vote for every ordinary share held.

29. CALLED-UP SHARE CAPITAL AND SHARE-BASED PAYMENTS continued

In the event of winding up, the holders of the cumulative preference shares will be entitled to the repayment of a sum equal to the nominal capital paid up, or credited as paid up, on the cumulative preference shares held by them and any accrued dividend, whether such dividend has been earned or declared or not, calculated up to the date of the winding up.

No ordinary shares were allotted on exercise of employee share option plans (2011: nil).

Own shares

| Number of ordinary shares of 54 ^{00/101} US cents | 2012 | 2011 |
|---|--------------------|-------------|
| Own shares | | |
| Treasury shares | 14,505,120 | 19,538,911 |
| Own shares held by subsidiaries and employee benefit trusts | 115,970,790 | 115,226,079 |
| Total own shares | 130,475,910 | 134,764,990 |

The movement in treasury shares during the year is as follows:

| Number of ordinary shares of 54 ^{00/101} US cents | 2012 | 2011 |
|--|-------------------|-------------|
| Treasury shares | | |
| At 1 January | 19,538,911 | 22,880,468 |
| Transferred to employees in settlement of share awards | (5,033,791) | (3,341,557) |
| At 31 December | 14,505,120 | 19,538,911 |

Tenon

Tenon Investment Holdings (Pty) Limited (Tenon), a wholly owned subsidiary of Anglo American South Africa Limited (AASA), has entered into agreements with Epoch Investment Holdings Limited (Epoch), Epoch Two Investment Holdings Limited (Epoch Two) and Tarl Investment Holdings Limited (Tarl) (collectively the Investment Companies), each owned by independent charitable trusts whose trustees are independent of the Group. Under the terms of these agreements, the Investment Companies have purchased Anglo American plc shares on the market and have granted to Tenon the right to nominate a third party (which may include Anglo American plc but not any of its subsidiaries) to take transfer of the Anglo American plc shares each has purchased on the market. Tenon paid the Investment Companies 80% of the cost of the Anglo American plc shares including associated costs for this right to nominate, which together with subscriptions by Tenon for non-voting participating redeemable preference shares in the Investment Companies, provided all the funding required to acquire the Anglo American plc shares through the market. These payments by Tenon were sourced from the cash resources of AASA. Tenon is able to exercise its right of nomination at any time up to 31 December 2025 against payment of an average amount of \$6.41 per share to Epoch, \$9.96 per share to Epoch Two and \$8.27 per share to Tarl which will be equal to 20% of the total costs respectively incurred by Epoch, Epoch Two and Tarl in purchasing shares nominated for transfer to the third party. These funds will then become available for redemption of the preference shares issued by the Investment Companies. The amount payable by the third party on receipt of the Anglo American plc shares will accrue to Tenon and, in accordance with paragraph 33 of IAS 32, any resulting gain or loss recorded by Tenon will not be recognised in the Consolidated income statement of Anglo American plc.

Under the agreements, the Investment Companies will receive dividends on the shares they hold and have agreed to waive the right to vote on those shares. The preference shares issued to the charitable trusts are entitled to a participating right of up to 10% of the profit after tax of Epoch and 5% of the profit after tax of Epoch Two and Tarl. The preference shares issued to Tenon will carry a fixed coupon of 3% plus a participating right of up to 80% of the profit after tax of Epoch and 85% of the profit after tax of Epoch Two and Tarl. Any remaining distributable earnings in the Investment Companies, after the above dividends, are then available for distribution as ordinary dividends to the charitable trusts.

The structure effectively provides Tenon with a beneficial interest in the price risk on these shares together with a participation in future dividend receipts. The Investment Companies will retain legal title to the shares until Tenon exercises its right to nominate a transferee.

At 31 December 2012 the Investment Companies together held 112,300,129 (2011: 112,300,129) Anglo American plc shares, which represented 8.1% (2011: 8.5%) of the ordinary shares in issue (excluding treasury shares) with a market value of \$3,455 million (2011: \$4,125 million). The Investment Companies are not permitted to hold more than an aggregate of 10% of the issued share capital of Anglo American plc at any one time.

Although the Group has no voting rights in the Investment Companies and cannot appoint or remove trustees of the charitable trusts, the Investment Companies continue to meet the accounting definition of a subsidiary in accordance with IAS 27. As a result, the Investment Companies are consolidated in accordance with the definitions of IAS 27 and the principles set out in SIC-12.

Employee benefit trust

The provision of shares to certain of the Company's share option and share incentive schemes may be facilitated by an employee benefit trust or settled by the issue of treasury shares. During 2012 no shares (2011: nil) from the trust were transferred to employees in settlement of share awards. The employee benefit trust has waived the right to receive dividends on these shares.

The market value of the 985 shares (2011: 985 shares) held by the trust at 31 December 2012 was \$30,000 (2011: \$36,000).

The costs of operating the trust are borne by the Group but are not material.

Share-based payments

During the year ended 31 December 2012 the Group had share-based payment arrangements with employees relating to shares of the Company, the details of which are described in the Remuneration report. All of these Company schemes are equity settled, either by award of ordinary shares (BSP, LTIP and SIP) or award of options to acquire ordinary shares (ESOS, DOP and SAYE). The ESOS is now closed to new participants, having been replaced with the BSP. The DOP has since replaced the ESOS for use in special circumstances, relating to the recruitment or retention of key executives. No options have been granted under the DOP.

29. CALLED-UP SHARE CAPITAL AND SHARE-BASED PAYMENTS continued

The total share-based payment charge relating to Anglo American plc shares for the year is split as follows:

| US\$ million | 2012 | 2011 |
|---|------------|------------|
| BSP | 103 | 92 |
| LTIP | 46 | 36 |
| Other schemes | 8 | 15 |
| Share-based payment charge relating to Anglo American plc shares⁽¹⁾ | 157 | 143 |

⁽¹⁾ In addition, there are equity settled employee share-based payment charges of \$89 million (2011: \$47 million) relating to Kumba Iron Ore Limited shares and \$72 million (2011: \$72 million) relating to Anglo American Platinum Limited shares. Certain business units also operate cash settled employee share-based payment schemes. These schemes had a net charge of \$3 million (2011: credit of \$2 million).

Schemes settled by award of ordinary shares

The fair value of ordinary shares awarded under the BSP, LTIP and LTIP – AOSC, being the more material share schemes, was calculated using a Black Scholes model. The fair value of shares awarded under the LTIP – TSR scheme was calculated using a Monte Carlo model. The assumptions used in these calculations are set out below:

| Arrangement ⁽¹⁾ | 2012 | | | | 2011 | | | |
|---|-----------|-----------|-------------|------------|-----------|----------|-------------|------------|
| | BSP | LTIP | LTIP – AOSC | LTIP – TSR | BSP | LTIP | LTIP – AOSC | LTIP – TSR |
| Date of grant | 02/03/12 | 02/03/12 | 02/03/12 | 02/03/12 | 04/03/11 | 04/03/11 | 04/03/11 | 04/03/11 |
| Number of instruments | 4,579,741 | 1,044,808 | 329,665 | 329,665 | 3,364,610 | 879,630 | 267,407 | 267,407 |
| Share price at the date of grant (£) | 26.41 | 26.41 | 26.41 | 26.41 | 32.08 | 31.99 | 31.99 | 31.99 |
| Contractual life (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Vesting conditions | (2) | (3) | (4) | (5) | (2) | (3) | (4) | (5) |
| Expected volatility | 40% | 40% | 40% | 40% | 40% | 40% | 40% | 40% |
| Risk free interest rate | 0.5% | 0.5% | 0.5% | 0.5% | 1.9% | 1.9% | 1.9% | 1.9% |
| Expected departures | 5% pa | 5% pa | 5% pa | 5% pa | 5% pa | 5% pa | 5% pa | 5% pa |
| Expected outcome of meeting performance criteria (at date of grant) | 100% | 100% | 100% | n/a | 100% | 100% | 100% | n/a |
| Fair value at date of grant (weighted average) (£) | 25.78 | 26.41 | 26.41 | 15.24 | 33.25 | 33.25 | 33.25 | 21.80 |

⁽¹⁾ The number of instruments used in the fair value models may differ from the total number of instruments awarded in the year due to awards made subsequent to the fair value calculations. The fair value calculated per the assumptions above has been applied to the total number of awards. The difference in income statement charge is not considered significant.

⁽²⁾ Three years of continuous employment with enhancement shares having variable vesting based on non-market based performance conditions.

⁽³⁾ Three years of continuous employment.

⁽⁴⁾ Variable vesting dependent on three years of continuous employment and Group AOSC target being achieved.

⁽⁵⁾ Variable vesting dependent on three years of continuous employment and market based performance conditions being achieved.

The expected volatility is based on historic volatility over the last five years. The risk free interest rate is the yield on zero-coupon UK government bonds with a term similar to the expected life of the award.

The charges arising in respect of the other Anglo American plc employee share schemes that the Group operated during the year are not considered material.

The movements in the number of shares for the more significant share-based payment arrangements are as follows:

Bonus Share Plan⁽¹⁾

Ordinary shares of 54.86/91 US cents may be awarded under the terms of this scheme for no consideration.

| | 2012 | 2011 |
|-----------------------------------|------------------|-------------------|
| Outstanding at 1 January | 10,106,373 | 9,020,260 |
| Conditionally awarded in year | 4,579,239 | 3,366,076 |
| Vested in year | (4,264,598) | (1,052,193) |
| Forfeited in year | (764,181) | (1,227,770) |
| Outstanding at 31 December | 9,656,833 | 10,106,373 |

⁽¹⁾ The BSP was approved by shareholders in 2004 as a replacement for the ESOS. Further information in respect of the BSP, including performance conditions, is shown in the Remuneration report.

Long Term Incentive Plan⁽¹⁾⁽²⁾

Ordinary shares of 54.86/91 US cents may be awarded under the terms of this scheme for no consideration.

| | 2012 | 2011 |
|-----------------------------------|------------------|------------------|
| Outstanding at 1 January | 3,720,535 | 4,012,568 |
| Conditionally awarded in year | 1,704,138 | 1,414,444 |
| Vested in year | (1,060,822) | (730,807) |
| Forfeited in year | (378,080) | (975,670) |
| Outstanding at 31 December | 3,985,771 | 3,720,535 |

⁽¹⁾ The early vesting of share awards is permitted at the discretion of the Company upon, *inter alia*, termination of employment, ill health or death.

⁽²⁾ The LTIP awards are contingent on pre-established performance criteria being met. Further information in respect of this scheme is shown in the Remuneration report.

Share Incentive Plan

Ordinary shares of 54.86/91 US cents may be awarded under the terms of this scheme for no consideration.

| | Awards outstanding at 31 December 2012 | Awards outstanding at 31 December 2011 | Latest release date |
|----------------------|--|--|---------------------|
| Share Incentive Plan | 1,115,426 | 1,016,074 | 7 December 2015 |

29. CALLED-UP SHARE CAPITAL AND SHARE-BASED PAYMENTS continued**Schemes settled by award of options**

The fair value of options granted under the SAYE scheme, being the only material option scheme, was calculated using a Black Scholes model. The assumptions used in these calculations for the current and prior years are set out in the table below:

| Arrangement ⁽¹⁾ | 2012 SAYE | 2011 SAYE |
|--|-----------|-----------|
| Date of grant | 20/04/12 | 20/04/11 |
| Number of instruments | 245,790 | 115,026 |
| Exercise price (£) | 19.68 | 25.47 |
| Share price at the date of grant (£) | 24.60 | 31.85 |
| Contractual life (years) | 3.5-7.5 | 3.5-7.5 |
| Vesting conditions ⁽²⁾ | 3-7 | 3-7 |
| Expected volatility | 40% | 40% |
| Expected option life (years) | 3.5-7.5 | 3.5-7.5 |
| Risk free interest rate (weighted average) | 0.9% | 2.3% |
| Expected departures | 5% pa | 5% pa |
| Fair value per option granted (weighted average) (£) | 6.14 | 11.77 |

⁽¹⁾ The number of instruments used in the fair value models may differ from the total number of instruments awarded in the year due to awards made subsequent to the fair value calculations. The fair value calculated per the assumptions above has been applied to the total number of awards. The difference in income statement charge is not considered significant.

⁽²⁾ Number of years of continuous employment.

The expected volatility is based on historic volatility over the last five years. The expected life is the average expected period to exercise. The risk free interest rate is the yield on zero-coupon UK government bonds with a term similar to the expected life of the option.

A reconciliation of option movements for the more significant share-based payment arrangements over the year to 31 December 2012 and the prior year is shown below. All options outstanding at 31 December 2012 with an exercise date on or prior to 31 December 2012 are deemed exercisable. Options were exercised regularly during the year and the weighted average share price for the year ended 31 December 2012 was £21.43 (2011: £27.96).

Executive Share Option Scheme⁽¹⁾

Options to acquire ordinary shares of 54⁸⁶/₉₁ US cents were outstanding under the terms of this scheme as follows:

| | 2012 | | 2011 | |
|-----------------------------------|------------------|-----------------------------------|------------------|-----------------------------------|
| | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ |
| Outstanding at 1 January | 2,500,107 | 11.42 | 3,488,329 | 11.22 |
| Exercised in year | (809,259) | 10.83 | (949,341) | 10.75 |
| Forfeited in year | (56,051) | 13.42 | (38,881) | 10.09 |
| Outstanding at 31 December | 1,634,797 | 11.64 | 2,500,107 | 11.42 |

⁽¹⁾ The early exercise of share options is permitted at the discretion of the Company upon, *inter alia*, termination of employment, ill health or death.

SAYE Share Option Scheme⁽¹⁾

Options to acquire ordinary shares of 54⁸⁶/₉₁ US cents were outstanding under the terms of this scheme as follows:

| | 2012 | | 2011 | |
|-----------------------------------|------------------|-----------------------------------|------------------|-----------------------------------|
| | Number | Weighted average exercise price £ | Number | Weighted average exercise price £ |
| Outstanding at 1 January | 1,520,677 | 12.91 | 1,669,812 | 12.33 |
| Granted in year | 245,790 | 24.60 | 115,026 | 25.47 |
| Exercised in year | (589,299) | 10.11 | (125,333) | 14.99 |
| Forfeited in year | (128,664) | 20.86 | (138,828) | 14.47 |
| Outstanding at 31 December | 1,048,504 | 16.26 | 1,520,677 | 12.91 |

⁽¹⁾ The early exercise of share options is permitted at the discretion of the Company upon, *inter alia*, termination of employment, ill health or death.

30. CONSOLIDATED EQUITY ANALYSIS

Fair value and other reserves comprise:

| US\$ million | Convertible debt reserve | Available for sale reserve | Cash flow hedge reserve | Other reserves ⁽¹⁾ | Total fair value and other reserves |
|--------------------------------------|--------------------------|----------------------------|-------------------------|-------------------------------|-------------------------------------|
| Balance at 1 January 2011 | 355 | 468 | 38 | 831 | 1,692 |
| Total comprehensive income/(expense) | - | 108 | (33) | - | 75 |
| Other | - | - | - | (7) | (7) |
| Balance at 1 January 2012 | 355 | 576 | 5 | 824 | 1,760 |
| Total comprehensive income | - | 118 | 10 | - | 128 |
| Conversion of convertible bond | (355) | - | - | - | (355) |
| Other | - | - | - | (667) | (667) |
| Balance at 31 December 2012 | - | 694 | 15 | 157 | 866 |

⁽¹⁾ Following a capital reduction in the Corporate segment, \$667 million has been transferred from the legal reserve to retained earnings, reducing the legal reserve from \$675 million to \$8 million. Other reserves also comprise a revaluation reserve of \$34 million (2011: \$34 million) and a capital redemption reserve of \$115 million (2011: \$115 million).

31. CONSOLIDATED CASH FLOW ANALYSIS

a) Reconciliation of (loss)/profit before tax to cash flows from operations

| US\$ million | 2012 | 2011 |
|--|--------------|--------|
| (Loss)/profit before tax | (239) | 10,782 |
| Depreciation and amortisation | 2,289 | 1,967 |
| Share-based payment charges | 233 | 254 |
| Non-operating special items and remeasurements | (1,394) | (183) |
| Operating and financing remeasurements | 205 | (138) |
| Non-cash element of operating special items | 6,913 | 105 |
| Net finance costs before remeasurements | 288 | 20 |
| Share of net income from associates | (432) | (977) |
| Provisions | (127) | 6 |
| Increase in inventories | (330) | (352) |
| Increase in operating receivables | (31) | (264) |
| (Decrease)/increase in operating payables | (166) | 457 |
| Deferred stripping | (148) | (171) |
| Other adjustments | (40) | (8) |
| Cash flows from operations | 7,021 | 11,498 |

b) Reconciliation to the balance sheet

| US\$ million | Cash and cash equivalents | | Short term borrowings | | Medium and long term borrowings | |
|--|---------------------------|---------------|-----------------------|----------------|---------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Balance sheet | 9,094 | 11,732 | (2,604) | (1,018) | (15,150) | (11,855) |
| Balance sheet – disposal groups ⁽¹⁾ | 227 | – | (14) | – | – | – |
| Bank overdrafts | (9) | – | 9 | – | – | – |
| Net debt classifications | 9,312 | 11,732 | (2,609) | (1,018) | (15,150) | (11,855) |

⁽¹⁾ Disposal group balances are shown within 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' on the balance sheet.

c) Movement in net debt

| US\$ million | Cash and cash equivalents ⁽¹⁾ | Debt due within one year | Debt due after one year | Net debt excluding hedges | Hedges ⁽²⁾ | Net debt including hedges |
|---|--|--------------------------|-------------------------|---------------------------|-----------------------|---------------------------|
| Balance at 1 January 2011 | 6,460 | (1,535) | (11,904) | (6,979) | (405) | (7,384) |
| Cash flow | 5,983 | 1,261 | (964) | 6,280 | (226) | 6,054 |
| Unwinding of discount on convertible bond | – | – | (71) | (71) | – | (71) |
| Disposal of businesses | – | 5 | – | 5 | – | 5 |
| Reclassifications | – | (777) | 777 | – | – | – |
| Movement in fair value | – | – | (264) | (264) | 404 | 140 |
| Other non-cash movements | – | (18) | (38) | (56) | – | (56) |
| Currency movements | (711) | 46 | 609 | (56) | (6) | (62) |
| Balance at 1 January 2012 | 11,732 | (1,018) | (11,855) | (1,141) | (233) | (1,374) |
| Cash flow | (2,309) | 747 | (5,633) | (7,195) | (149) | (7,344) |
| Unwinding of discount on convertible bond | – | – | (25) | (25) | – | (25) |
| Conversion of convertible bond | – | – | 1,507 | 1,507 | – | 1,507 |
| Acquired through business combinations | – | (3) | (1,578) | (1,581) | (15) | (1,596) |
| Disposal of businesses | – | 53 | 228 | 281 | – | 281 |
| Reclassifications | – | (2,396) | 2,396 | – | – | – |
| Movement in fair value | – | 2 | (198) | (196) | 229 | 33 |
| Other non-cash movements | – | (14) | (21) | (35) | – | (35) |
| Currency movements | (111) | 20 | 29 | (62) | – | (62) |
| Balance at 31 December 2012 | 9,312 | (2,609) | (15,150) | (8,447) | (168) | (8,615) |

⁽¹⁾ The Group operates in certain countries where the existence of exchange controls may restrict the use of certain cash balances (principally South Africa and Venezuela). These restrictions are not expected to have a material effect on the Group's ability to meet its ongoing obligations.

⁽²⁾ Derivative instruments that provide an economic hedge of assets and liabilities in net debt are included above to reflect the true net debt position of the Group at the year end. These consist of net current derivative liabilities of \$116 million (2011: assets of \$82 million) and net non-current derivative liabilities of \$52 million (2011: \$315 million) which are classified within 'Derivative financial assets' and 'Derivative financial liabilities' on the balance sheet.

32. ACQUISITIONS**De Beers**

On 16 August 2012 Anglo American plc acquired an additional 40% of the share capital of De Beers Société Anonyme (De Beers) to bring its total shareholding to 85%. De Beers is a leading diamond company with expertise in the exploration, mining and marketing of diamonds.

The Group funded the acquisition by way of cash consideration of \$5.2 billion, less cash acquired of \$0.4 billion. The acquisition has been accounted for as a business combination using the acquisition method of accounting with an effective date of 16 August 2012, being the date the Group gained control of De Beers.

The provisional fair values of identifiable assets and liabilities of De Beers as at the date of acquisition were:

| US\$ million | 2012 |
|---|----------------|
| Assets | |
| Intangible assets | 1,588 |
| Property, plant and equipment (including mineral properties and projects) | 8,912 |
| Investments in associates | 12 |
| Deferred tax assets | 247 |
| Inventory | 2,133 |
| Other assets ⁽¹⁾ | 328 |
| Total assets | 13,220 |
| Liabilities | |
| Provisions for liabilities and charges (including contingent liabilities ⁽²⁾ and retirement benefit obligations) | (1,487) |
| Deferred tax liabilities | (1,097) |
| Loans and borrowings | (1,581) |
| Other liabilities | (468) |
| Total liabilities | (4,633) |
| Net assets acquired | 8,587 |
| Non-controlling interests ⁽³⁾ | (1,423) |
| Net attributable assets acquired | 7,164 |
| Goodwill | 2,355 |
| Net attributable assets including goodwill | 9,519 |
| Consideration | |
| Cash | 5,223 |
| Net cash acquired with the subsidiary | (407) |
| Book value of existing shareholding | 2,686 |
| Fair value gain on existing 45% shareholding ⁽⁴⁾ | 2,017 |
| Total consideration | 9,519 |

⁽¹⁾ The fair value of other assets includes receivables of \$202 million.

⁽²⁾ Contingent liabilities of \$185 million relating to legal claims in various jurisdictions.

⁽³⁾ Non-controlling interests have been measured at their proportionate share of De Beers' identifiable net assets.

⁽⁴⁾ Recognised as a non-operating remeasurement, see note 5.

Goodwill recognised arises principally from the significant synergies associated with the Group having control of De Beers, the value associated with the De Beers' workforce and the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets acquired and their tax bases. No goodwill is expected to be deductible for tax purposes. Intangible assets acquired relate to brand names, customer relationships and contracts.

From the acquisition date, De Beers has contributed \$2,353 million of revenue and \$159 million of underlying earnings to the Group. If the acquisition had completed on 1 January 2012, De Beers would have contributed revenue of \$6,074 million for 2012 (an increase of \$3,721 million) and underlying earnings of \$399 million (an increase of \$87 million).

The Group's attributable share of De Beers' earnings from the acquisition date after special items and remeasurements (including special items and remeasurements charges of \$319 million (after tax) relating to the reversal of fair value uplifts of inventory and depreciation and amortisation on fair value uplifts of the Group's pre-existing 45% shareholding) amounted to a \$160 million loss. If the acquisition of De Beers had been completed on 1 January 2012, the Group's attributable share of De Beers' earnings (including special items and remeasurements charges of \$485 million (after tax) relating to the reversal of fair value uplifts of inventory and depreciation and amortisation on fair value uplifts of the Group's pre-existing 45% shareholding) would have amounted to a \$80 million loss (increasing the Group's loss attributable to equity shareholders by \$76 million to \$1,569 million).

Other

On 20 July 2012 Anglo American plc increased its shareholding in Kumba Iron Ore Limited by 4.5% through the exercise of options acquired in 2011 and 2012. This increased the Group's shareholding from 65.2% to 69.7%, for a total cost of \$948 million.

The Group made no material acquisitions in 2011.

33. DISPOSALS OF SUBSIDIARIES AND JOINT VENTURES

| US\$ million | 2012 | 2011 |
|---|------------|------------|
| Net assets disposed | | |
| Property, plant and equipment | 208 | 167 |
| Other non-current assets | 65 | 79 |
| Current assets | 347 | 461 |
| Current liabilities | (187) | (55) |
| Non-current liabilities | (273) | (108) |
| Net assets | 160 | 544 |
| Non-controlling interests | (5) | (42) |
| Net assets disposed | 155 | 502 |
| Cumulative translation (gain)/loss recycled from reserves | (6) | 45 |
| Other charges | 2 | - |
| Net (loss)/gain on disposals ⁽¹⁾ | (21) | 337 |
| Net sales proceeds | 130 | 884 |
| Net cash and cash equivalents disposed | (38) | (358) |
| Accrued transaction costs and similar items | 8 | 3 |
| Net cash inflow from disposals⁽²⁾ | 100 | 529 |

⁽¹⁾ Included in non-operating special items, see note 5.

⁽²⁾ Net cash inflow in the year ended 31 December 2012 was nil in respect of disposals in 2011 (2011: \$4 million in respect of disposals in 2010). Total net cash inflow from disposals in 2012 was \$100 million (2011: \$533 million). Of this, a net cash inflow of \$100 million (2011: \$514 million) related to disposals of subsidiaries and nil (2011: \$19 million) related to the sale of interests in joint ventures.

Disposal in 2012

On 24 April 2012 the Group announced the sale of Scaw South Africa and related companies to an investment consortium led by the Industrial Development Corporation of South Africa (IDC) and Anglo American's partners in Scaw South Africa, being Izingwe Holdings (Pty) Limited, Shanduka Resources (Pty) Limited and the Southern Palace Group of Companies (Pty) Limited, for a total consideration of \$440 million on a cash and debt free basis. Following this announcement, Scaw South Africa was transferred to assets held for sale.

The completion of the sale took place on 23 November 2012 for a combined net cash inflow of \$100 million.

Disposals in 2011

Disposals of subsidiaries during 2011 mainly related to the disposal of Lisheen and a 74% interest in Black Mountain (the Group's remaining zinc operations) and disposals of Tarmac businesses (China, Turkey and Romania) in the Other Mining and Industrial segment.

34. ASSETS AND LIABILITIES HELD FOR SALE

The following assets and liabilities were classified as held for sale at 31 December 2012. The Group expects to complete the sale of these businesses within 12 months of the reporting date. There were no assets or liabilities classified as held for sale at 31 December 2011.

| US\$ million | 2012 | | |
|---|--------------|-------------------------|----------------------|
| | Amapá | Tarmac Quarry Materials | Total ⁽¹⁾ |
| Intangible assets | 1 | 418 | 419 |
| Property, plant and equipment | 171 | 1,655 | 1,826 |
| Other non-current assets ⁽²⁾ | 4 | 11 | 15 |
| Total non-current assets | 176 | 2,084 | 2,260 |
| Inventories | 103 | 111 | 214 |
| Trade and other receivables | 157 | 292 | 449 |
| Cash and cash equivalents | 26 | 201 | 227 |
| Total current assets | 286 | 604 | 890 |
| Total assets classified as held for sale | 462 | 2,688 | 3,150 |
| Trade and other payables | (149) | (406) | (555) |
| Short term borrowings | (11) | (3) | (14) |
| Provisions for liabilities and charges | (3) | (24) | (27) |
| Total current liabilities | (163) | (433) | (596) |
| Deferred tax liabilities | - | (150) | (150) |
| Provisions for liabilities and charges | (59) | (97) | (156) |
| Other non-current liabilities ⁽²⁾ | - | (17) | (17) |
| Total non-current liabilities | (59) | (264) | (323) |
| Total liabilities associated with assets classified as held for sale | (222) | (697) | (919) |
| Net assets | 240 | 1,991 | 2,231 |

⁽¹⁾ The Group's investments in Amapá and Tarmac Quarry Materials are included in the Other Mining and Industrial segment.

⁽²⁾ Other non-current assets relate to loans and receivables and investments in associates. Other non-current liabilities relate to government grants received.

A loss on transfer to assets held for sale of \$404 million for Amapá and \$135 million for Tarmac Quarry Materials have been recognised in non-operating special items, see note 5.

35. CONTINGENT LIABILITIES

The Group is subject to various claims which arise in the ordinary course of business. Additionally, and as set out in the 2007 demerger agreement, Anglo American and the Mondi Group have agreed to indemnify each other, subject to certain limitations, against certain liabilities. Anglo American has also provided Mitsubishi Corporation LLC with indemnities against certain liabilities as part of the sale of a 24.5% interest in AA Sur. Having taken appropriate legal advice, the Group believes that a material liability arising from the indemnities provided is unlikely.

The Group is required to provide guarantees in several jurisdictions in respect of environmental restoration and decommissioning obligations. The Group has provided for the estimated cost of these activities.

No contingent liabilities were secured on the assets of the Group at 31 December 2012 or 31 December 2011.

Other

Kumba Iron Ore (Kumba)

Sishen Supply Agreement Arbitration

A dispute arose between Sishen Iron Ore Company Proprietary Limited (SIOC) and ArcelorMittal South Africa Limited (AMSA) in February 2010, in relation to SIOC's contention that the contract mining agreement concluded between them in 2001 had become inoperative as a result of the fact that AMSA had failed to convert its old order mining rights. This dispute has been referred to arbitration. On 9 December 2011 SIOC and AMSA agreed to delay the arbitration proceedings in relation to the Sishen Supply Agreement until the final resolution of the mining rights dispute. This arbitration is only expected to commence in the fourth quarter of 2013, with possible resolution only expected in the third quarter of 2014 at the earliest.

An Interim Pricing Agreement (IPA 2) between SIOC and AMSA was in place until 31 July 2012 and was extended to 31 December 2012.

In December 2012 a further interim agreement was concluded, after negotiations which were facilitated by the Department of Trade and Industry (DTI). The further interim agreement will govern the sale of iron ore from the Sishen mine to AMSA for the period 1 January 2013 to 31 December 2013, or until the conclusion of the legal processes in relation to the 2001 Sishen Supply Agreement (whichever is the sooner), at a weighted average price of \$65 per tonne. Of the total 4.8 Mt, about 1.5 Mt is anticipated to be railed to Saldanha Steel and the rest to AMSA's inland operations.

21.4% undivided share of the Sishen mine mineral rights

On 3 February 2012 both the Department of Mineral Resources (DMR) and Imperial Crown Trading 289 Proprietary Limited (ICT) submitted applications for leave to appeal against the High Court judgment. SIOC applied for leave to present a conditional cross-appeal, in order to protect its rights. The Supreme Court of Appeal (SCA) hearing will be held on 19 February 2013, and the SCA judgment is expected to be received early in the second half of 2013.

The High Court order did not affect the interim supply agreement between AMSA and SIOC. SIOC will continue to take the necessary steps to protect its shareholders' interests in this regard.

Anglo American South Africa Limited (AASA)

AASA, a wholly owned subsidiary of the Company, is a defendant in 24 separate lawsuits in South Africa each one on behalf of a former mineworker (or his dependents or survivors) who allegedly contracted silicosis working for gold mining companies in which AASA was a shareholder and to which AASA provided various technical and administrative services. In addition, AASA is a defendant in one lawsuit filed in the High Court in London, England on behalf of 19 former mineworkers or their dependents, a second lawsuit filed there on behalf of 1,106 named former mineworkers or their dependents and also as a "representative claim" on behalf of all black underground miners in "Anglo gold mines" who have been certified as suffering from silicosis and related diseases, a third lawsuit filed there on behalf of 630 named former mineworkers or their dependents and a fourth lawsuit filed there on behalf of 1,232 former mineworkers or their dependents. AASA is also named as one of 30 defendants in a class certification application filed in South Africa purportedly on behalf of 17,000 claimants.

The aggregate amount of claims in the 24 South African lawsuits is less than \$5 million. No specific amount of damages has been specified in the claims filed in England or the class certification application filed in South Africa.

If the individual claims are determined adversely to AASA there are a substantial number of additional former mineworkers (or their dependents or survivors) who may seek to bring similar claims or whose claims could become part of the representative claim filed in England or the class action claim in South Africa. The arbitration hearing for 11 of the individual South African claims is expected to begin in October 2013.

AASA is contesting the jurisdiction of the English courts to hear the claims filed against it in that jurisdiction and will oppose the application for class certification in South Africa.

Platinum

At 31 December 2012 Platinum has certain unresolved tax matters that are currently under dispute with the South African Revenue Service (SARS). Platinum management has consulted with external tax and legal advisers, who support the positions taken. Nonetheless, Platinum management are actively discussing the issue with SARS with a view to seeking resolution and believe that the accounting for these matters is appropriate in the results for the year ended 31 December 2012.

36. COMMITMENTS

At 31 December the Group had the following outstanding capital commitments:

| US\$ million | 2012 | 2011 |
|-----------------------------|-------|-------|
| Contracted but not provided | 2,792 | 2,131 |

In addition, Anglo American Marketing Limited had outstanding commitments under contracts relating to shipping services of \$1,033 million. In 2011 these commitments of \$1,186 million were met by Kumba Iron Ore Limited.

At 31 December the Group had the following commitments under non-cancellable operating leases:

| US\$ million | 2012 | 2011 |
|--|------------|------------|
| Expiry date | | |
| Within one year | 154 | 161 |
| Greater than one year, less than two years | 122 | 112 |
| Greater than two years, less than five years | 200 | 185 |
| Greater than five years | 277 | 347 |
| | 753 | 805 |

Operating leases relate principally to land and buildings, vehicles and shipping vessels.

37. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries, joint ventures and associates, see note 38.

The Company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with joint ventures and associates and others in which the Group has a material interest. These transactions are under terms that are no less favourable to the Group than those arranged with third parties. These transactions are not considered to be significant, other than purchases from De Beers' joint ventures which amounted to \$1,049 million in the period from 16 August 2012 (the date the Group obtained control of De Beers, see note 32) to 31 December 2012.

The Group had the following amounts receivable from joint ventures and associates:

| US\$ million | Joint ventures | | Associates | |
|---------------------------------|----------------|------|------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Loans receivable ⁽¹⁾ | 261 | 263 | 305 | 572 |
| Dividends received | – | – | 286 | 344 |

⁽¹⁾ These loans are included in 'Financial asset investments'.

At 31 December 2012 the directors of the Company and their immediate relatives controlled 0.1% (2011: 0.1%) of the voting shares of the Company.

Remuneration and benefits received by directors are disclosed in the Remuneration report. Remuneration and benefits of key management personnel including directors are disclosed in note 8.

Information relating to pension fund arrangements is disclosed in note 28.

Other related party transactions in relation to De Beers

The Group has in prior years entered into various transactions with DB Investments SA and De Beers SA (together 'De Beers') which were considered to be related party transactions for the purposes of the United Kingdom Listing Authority's Listing Rules as a result of the interest in De Beers held by CHL Holdings Limited (CHL) and certain of its subsidiaries in which Mr N. F. Oppenheimer, a director of the Company at the time of these transactions, had a relevant interest for the purpose of the rules.

The related party transactions entered into and which continued to be relevant in the year ended 31 December 2012 are detailed below.

On 4 November 2011 Anglo American announced it had entered into an agreement with CHL and Centhold International Limited ('CHL Sellers'), together representing the Oppenheimer family interests in De Beers, to acquire their 40% interest in De Beers for a total cash consideration of \$5.1 billion, subject to adjustment and conditions as provided for in the agreement (the 'Transaction').

In view of the fact that the CHL Sellers were ultimately controlled through intermediary companies by trusts (the 'Seller Trusts') of which Mr N. F. Oppenheimer is a potential discretionary beneficiary and Mr N. F. Oppenheimer had been a director of Anglo American within the 12 months preceding agreement of the Transaction, the Transaction was categorised as a related party transaction requiring the approval of Anglo American shareholders (other than Mr N. F. Oppenheimer and his associates). This approval was obtained at a general meeting of the Company held on 6 January 2012. Further information in relation to the Transaction was set out in the circular posted to the Company's shareholders in December 2011.

The Government of the Republic of Botswana elected not to exercise its pre-emption rights to participate in the Transaction on a proportionate basis and accordingly Anglo American's interest in De Beers increased to 85% on completion of the Transaction on 16 August 2012, following the obtaining of certain specified regulatory and government approvals to which the Transaction was subject. Anglo American paid a total cash consideration of \$5.2 billion, comprising the adjusted purchase price under the Transaction.

At 31 December 2012 the amount of outstanding loans owed to the Group by De Beers was \$599 million (2011: \$301 million), which includes loans acquired from the CHL Sellers at the closing of the Transaction of \$277 million.

38. GROUP COMPANIES

The principal subsidiaries, joint ventures, associates and proportionately consolidated joint arrangements of the Group and the Group percentage of equity capital, joint arrangements and joint venture interests are set out below. All these interests are held indirectly by the parent company and are consolidated within these financial statements. As permitted by section 410 of the Companies Act 2006, the Group has restricted the information provided to its principal subsidiaries in order to avoid a statement of excessive length.

| Subsidiary undertakings | Country of incorporation | Business | Percentage of equity owned ⁽¹⁾ | |
|--|--------------------------|---|---|-------|
| | | | 2012 | 2011 |
| Iron Ore and Manganese | | | | |
| Kumba Iron Ore Limited (see note 32) | South Africa | Iron ore | 69.7% | 65.2% |
| Anglo Ferrrous Brazil SA | Brazil | Iron ore | 100% | 100% |
| Anglo American Minério de Ferro Brasil SA ⁽²⁾ | Brazil | Iron ore project | 100% | 100% |
| Metallurgical Coal | | | | |
| Anglo American Metallurgical Coal Holdings Limited | Australia | Coal | 100% | 100% |
| Peace River Coal Inc. | Canada | Coal | 100% | 100% |
| Thermal Coal | | | | |
| Anglo Coal ⁽³⁾ | South Africa | Coal | 100% | 100% |
| Copper | | | | |
| Anglo American Sur SA | Chile | Copper | 50.1% | 75.5% |
| Anglo American Norte SA ⁽⁴⁾ | Chile | Copper | 100% | 100% |
| Minera Quellaveco SA | Peru | Copper project | 81.9% | 81.9% |
| Nickel | | | | |
| Anglo American Brasil Limitada (Barro Alto) | Brazil | Nickel project | 100% | 100% |
| Anglo American Brasil Limitada (Codemin) | Brazil | Nickel | 100% | 100% |
| Minera Loma de Níquel, CA | Venezuela | Nickel | 91.4% | 91.4% |
| Platinum | | | | |
| Anglo American Platinum Limited | South Africa | Platinum | 79.9% | 79.8% |
| Diamonds | | | | |
| De Beers Société Anonyme | Luxembourg | Diamonds | 85% | 45% |
| Other Mining and Industrial | | | | |
| Anglo American Fosfatos Brasil Limitada ⁽⁵⁾ | Brazil | Fertilisers and acid | 100% | 100% |
| Anglo American Nióbio Brasil Limitada ⁽⁶⁾ | Brazil | Niobium | 100% | 100% |
| Anglo Ferrrous Amapá Mineração Limitada ⁽⁷⁾ | Brazil | Iron ore system | 70% | 70% |
| Tarmac Group Limited | UK | Construction materials | 100% | 100% |
| Tarmac Building Products Limited | UK | Construction materials | 100% | 100% |
| Scaw South Africa Proprietary Limited ⁽⁸⁾ | South Africa | Steel, engineering works and grinding media | – | 74% |

See page 187 for footnotes.

38. GROUP COMPANIES continued

| Joint ventures | Country of incorporation | Business | Percentage of equity owned ⁽⁹⁾ | |
|--|--------------------------|------------------------|---|------|
| | | | 2012 | 2011 |
| LLX Minas-Rio Logística Comercial Exportadora SA | Brazil | Port | 49% | 49% |
| Compañía Minera Doña Inés de Collahuasi SCM | Chile | Copper | 44% | 44% |
| Debswana ⁽¹⁰⁾ | Botswana | Diamonds | 50% | – |
| Namdeb Holdings | Namibia | Diamonds | 50% | – |
| Al Futtain Tarmac Quarry Products Limited | Dubai | Construction materials | 49% | 49% |
| Midland Quarry Products Limited | UK | Construction materials | 50% | 50% |
| Tarmac Oman Limited | Hong Kong | Construction materials | 50% | 50% |
| Midmac Tarmac Qatar LLC | Qatar | Construction materials | 50% | 50% |

| Associates | Country of incorporation | Business | Percentage of equity owned ⁽⁹⁾ | |
|---|--------------------------|-----------|---|-------|
| | | | 2012 | 2011 |
| Samancor Holdings Proprietary Limited ⁽¹¹⁾ | South Africa | Manganese | 40% | 40% |
| Groote Eylandt Mining Company Pty Limited (GEMCO) ⁽¹¹⁾ | Australia | Manganese | 40% | 40% |
| Tasmanian Electro Metallurgical Company Pty Limited (TEMCO) ⁽¹¹⁾ | Australia | Manganese | 40% | 40% |
| Jellinbah Group Pty Limited ⁽¹²⁾ | Australia | Coal | 33.3% | 33.3% |
| Cerrejón Zona Norte SA | Colombia | Coal | 33.3% | 33.3% |
| Carbones del Cerrejón LLC | Anguilla | Coal | 33.3% | 33.3% |

| Proportionately consolidated jointly controlled operations ⁽¹³⁾ | Location | Business | Percentage owned | |
|--|-----------|----------|------------------|-------|
| | | | 2012 | 2011 |
| Drayton | Australia | Coal | 88.2% | 88.2% |
| Moranbah North | Australia | Coal | 88% | 88% |
| German Creek ⁽¹⁴⁾ | Australia | Coal | 70% | 70% |
| Foxleigh | Australia | Coal | 70% | 70% |
| Dawson | Australia | Coal | 51% | 51% |

⁽¹⁾ The proportion of voting rights of subsidiaries held by the Group is the same as the proportion of equity owned.

⁽²⁾ Anglo Ferrous Minas-Rio Mineração SA changed its name to Anglo American Minério de Ferro Brasil SA in 2012.

⁽³⁾ A division of Anglo Operations Limited, a wholly owned subsidiary.

⁽⁴⁾ Non-controlling interest of 0.018%.

⁽⁵⁾ Copebrás Limitada changed its name to Anglo American Fosfatos Brasil Limitada in 2012.

⁽⁶⁾ Mineração Catalão de Goiás Limitada changed its name to Anglo American Nióbio Brasil Limitada in 2012.

⁽⁷⁾ Anglo Ferrous Amapá Mineração Limitada has been reclassified from Iron Ore and Manganese to Other Mining and Industrial to align with internal management reporting.

⁽⁸⁾ On 23 November 2012 the Group disposed of Scaw South Africa and related companies, see note 33.

⁽⁹⁾ All equity interests shown are ordinary shares.

⁽¹⁰⁾ Consolidated on a 19.2% proportionate basis, reflecting economic interest.

⁽¹¹⁾ These entities have a 30 June year end.

⁽¹²⁾ The Group's effective interest in the Jellinbah operation is 23.3%.

⁽¹³⁾ The wholly owned subsidiary Anglo American Metallurgical Coal Holdings Limited holds the proportionately consolidated jointly controlled operations.

⁽¹⁴⁾ The German Creek operation includes both Capcoal Open Cut and Underground operations.

Changes in ownership interests in subsidiaries

In July 2012 the Group increased its shareholding in Kumba Iron Ore Limited by 4.5% through the exercise of options acquired in 2011 and 2012, thereby increasing its shareholding from 65.2% to 69.7%.

In August 2012 the Group sold a 25.4% interest in Anglo American Sur to a Corporación Nacional del Cobre de Chile (Codelco) and Mitsui & Co., Ltd. joint venture company controlled by Codelco, for proceeds of \$1.9 billion. As disclosed in note 11d, capital gains tax of \$290 million relating to the profit on sale has been charged directly to equity.

In August 2012 the Group acquired an additional 40% of the share capital of De Beers Soci  t   Anonyme, see note 32.

39. EVENTS OCCURRING AFTER END OF YEAR

Platinum

On 15 January 2013 the Group announced the outcome of its review of the Anglo American Platinum business to create a sustainable, competitive and profitable platinum business for the long term benefit of all stakeholders. The key proposals from the review were to place the Khuseleka and Khomanani mines on care and maintenance, reconfigure the Rustenburg operations into three operating mines, close the Union Mine North declines and place other processing assets on long term care and maintenance. Anglo American Platinum is engaging with the South African government, organised labour and other stakeholders and would pursue the consultation process in terms of the requirements of South African law prior to implementing these proposals.

As a result, if the Group is not expected to receive future economic benefits from these mines, property, plant and equipment, a post-tax impairment of up to \$0.6 billion could be recognised as an operating special item in the income statement in 2013.

The gross cash costs associated with the implementation of the Portfolio Review and overhead review, which is expected to be approximately \$0.3 billion (after tax: \$0.2 billion), would be expensed as incurred as an operating special item in the income statement during the course of 2013.

Other

On 7 January 2013 the Group announced the completion of the 50:50 joint venture with Lafarge, which combined their cement, aggregates, ready-mix concrete, asphalt and asphalt surfacing, maintenance services, and waste services businesses in the United Kingdom. The joint venture will be known as Lafarge Tarmac.

On 4 January 2013 the Group announced the sale of its 70% interest in the Amap   iron ore system in Brazil to Zamin Ferrous Ltd. The transaction is subject to state regulatory approval.

With the exception of the above and the proposed final dividend for 2012, see note 12, there have been no material reportable events since 31 December 2012.

40. FINANCIAL STATEMENTS OF THE PARENT COMPANY**a) Balance sheet of the Company, Anglo American plc, as at 31 December 2012**

| US\$ million | Note | 2012 | 2011 |
|---|------|---------------|---------|
| Fixed assets | | | |
| Fixed asset investments | 40c | 12,361 | 13,046 |
| Current assets | | | |
| Amounts due from subsidiaries | | 14,950 | 13,496 |
| Prepayments and other debtors | | 4 | 4 |
| Cash at bank and in hand | | 41 | 23 |
| | | 14,995 | 13,523 |
| Creditors due within one year | | | |
| Amounts owed to group undertakings | | (448) | (395) |
| Other creditors | | (4) | (12) |
| | | (452) | (407) |
| Net current assets | | 14,543 | 13,116 |
| Total assets less current liabilities | | 26,904 | 26,162 |
| Liabilities due after more than one year | | | |
| Convertible bond | 40d | - | (1,504) |
| Net assets | | 26,904 | 24,658 |
| Capital and reserves | | | |
| Called-up share capital | 40b | 772 | 738 |
| Share premium account | 40b | 4,357 | 2,714 |
| Capital redemption reserve | 40b | 115 | 115 |
| Other reserves | 40b | 1,955 | 1,955 |
| Share-based payment reserve | 40b | 1 | 1 |
| Convertible debt reserve | 40b | - | 355 |
| Profit and loss account | 40b | 19,704 | 18,780 |
| Total shareholders' funds (equity) | | 26,904 | 24,658 |

The financial statements of Anglo American plc, registered number 03564138, were approved by the Board of directors on 14 February 2013 and signed on its behalf by:

Cynthia Carroll

Chief Executive

René Médori

Finance Director

40. FINANCIAL STATEMENTS OF THE PARENT COMPANY continued

b) Reconciliation of movements in equity shareholders' funds

| US\$ million | Called-up share capital | Share premium account | Capital redemption reserve | Other reserves ⁽¹⁾ | Share-based payment reserve | Convertible debt reserve | Profit and loss account ⁽²⁾ | Total |
|--|-------------------------|-----------------------|----------------------------|-------------------------------|-----------------------------|--------------------------|--|---------------|
| Balance at 1 January 2011 | 738 | 2,713 | 115 | 1,955 | 6 | 355 | 12,650 | 18,532 |
| Profit for the financial year | - | - | - | - | - | - | 6,520 | 6,520 |
| Dividends paid ⁽³⁾ | - | - | - | - | - | - | (561) | (561) |
| Issue of treasury shares under employee share schemes | - | - | - | - | - | - | 18 | 18 |
| Share-based payments | - | - | - | - | 1 | - | - | 1 |
| Capital contribution to Group undertakings | - | - | - | - | - | - | 147 | 147 |
| Shares issued on conversion of bond | - | 1 | - | - | - | - | - | 1 |
| Transfer between share-based payment reserve and profit and loss account | - | - | - | - | (6) | - | 6 | - |
| Balance at 1 January 2012 | 738 | 2,714 | 115 | 1,955 | 1 | 355 | 18,780 | 24,658 |
| Profit for the financial year | - | - | - | - | - | - | 1,152 | 1,152 |
| Dividends paid ⁽³⁾ | - | - | - | - | - | - | (599) | (599) |
| Issue of treasury shares under employee share schemes | - | - | - | - | - | - | 24 | 24 |
| Share-based payments | - | - | - | - | 1 | - | - | 1 |
| Capital contribution to Group undertakings | - | - | - | - | - | - | 161 | 161 |
| Shares issued on conversion of bond | 34 | 1,643 | - | - | - | (355) | 185 | 1,507 |
| Transfer between share-based payment reserve and profit and loss account | - | - | - | - | (1) | - | 1 | - |
| Balance at 31 December 2012 | 772 | 4,357 | 115 | 1,955 | 1 | - | 19,704 | 26,904 |

⁽¹⁾ At 31 December 2012 other reserves of \$1,955 million (2011: \$1,955 million) were not distributable under the Companies Act 2006.

⁽²⁾ At 31 December 2012 \$2,685 million (2011: \$2,685 million) of the Company profit and loss account of \$19,704 million (2011: \$18,780 million) was not distributable under the Companies Act 2006.

⁽³⁾ Dividends paid relate only to shareholders on the United Kingdom principal register excluding dividends waived by Greenwood Nominees Limited as nominees for Butterfield Trust (Guernsey) Limited, the trustee for the Anglo American employee share scheme. Dividends paid to shareholders on the Johannesburg branch register are distributed by a South African subsidiary in accordance with the terms of the Dividend Access Share Provisions of Anglo American plc's Articles of Association. The directors are proposing a final dividend in respect of the year ended 31 December 2012 of 53 US cents per share, see note 12.

The audit fee in respect of the parent company was \$7,792 (2011: \$7,156). Fees payable to Deloitte for non-audit services to the Company are not required to be disclosed because they are included within the consolidated disclosure in note 3.

c) Fixed asset investments

| US\$ million | Investment in subsidiaries | |
|--------------------------------------|----------------------------|---------------|
| | 2012 | 2011 |
| Cost | | |
| At 1 January | 13,374 | 13,232 |
| Capital contributions ⁽¹⁾ | 147 | 140 |
| Additions | 2,776 | 2 |
| Capital reduction | (823) | - |
| Transfer to subsidiary | (3,096) | - |
| At 31 December | 12,378 | 13,374 |
| Provisions for impairment | | |
| At 1 January | (328) | (328) |
| Impairment charge | (9) | - |
| Transfer to subsidiary | 320 | - |
| At 31 December | (17) | (328) |
| Net book value | 12,361 | 13,046 |

⁽¹⁾ This amount is net of \$14 million (2011: \$7 million) of intra-group recharges.

During 2012 Anglo Coal Holdings Limited undertook a capital reduction and repayment of share premium to Anglo American plc to the value of \$823 million. This resulted in a \$9 million impairment of the remaining investment in Anglo Coal Holdings Limited.

During 2012 the Company transferred its holding in Anglo American Finance (UK) Limited to another subsidiary, Anglo American Services (UK) Limited, in exchange for shares in Anglo American Services (UK) Limited. This additional investment in Anglo American Services (UK) Limited was recognised at the net carrying value of the Company's previous investment in Anglo American Finance (UK) Limited.

d) Convertible bond

On 23 March 2012 Anglo American plc gave notice that it had exercised its right to redeem its \$1.7 billion of 4% senior convertible bonds (the Bonds) on 22 May 2012 (the optional redemption date). The Bonds were due to mature on 7 May 2014. On 13 April 2012 following the announcement of the recommended 2011 full year dividend, and in accordance with the terms and conditions of the Bonds, the conversion price was adjusted from £18.36 to £18.02.

Of the \$1,700 million Bonds issued, \$1,678 million were converted to equity prior to the optional redemption date, including \$1 million converted in 2011, and the remaining \$22 million were redeemed by the Group. As a result, 62.5 million ordinary shares were issued and the financial liability of \$1,529 million, representing the notional value of the outstanding Bonds of \$1,699 million less unamortised discount of \$170 million, was derecognised. The balance in the convertible debt reserve of \$355 million, which related to the Bonds, was transferred to share premium (\$170 million) and retained earnings (\$185 million).

40. FINANCIAL STATEMENTS OF THE PARENT COMPANY continued**e) Accounting policies: Anglo American plc, the Company**

The Anglo American plc (the Company) balance sheet and related notes have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) and in accordance with UK company law. The financial information has been prepared on a historical cost basis as modified by the revaluation of certain financial instruments.

A summary of the principal accounting policies is set out below.

The preparation of financial statements in accordance with UK GAAP 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 period. Actual results may differ from those estimated.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit after tax for the year of the Company amounted to \$1,152 million (2011: \$6,520 million).

Significant accounting policies**Deferred tax**

Deferred tax is provided in full on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, subject to the recoverability of deferred tax assets. Deferred tax assets and liabilities are not discounted.

Share-based payments

The Company has applied the requirements of FRS 20 *Share-based Payment*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

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

The Company also makes equity settled share-based payments to certain employees of certain subsidiary undertakings. Equity settled share-based payments that are made to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest.

Any payments received from subsidiaries are applied to reduce the related increases in investments in subsidiaries.

Accounting for share-based payments is the same as under IFRS 2 and details on the schemes and option pricing models relevant to the charge included in the Company financial statements are set out in note 29 to the consolidated financial statements of the Group for the year ended 31 December 2012.

Investments

Investments represent equity holdings in subsidiaries and are held at cost less provision for impairment.

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 Company, 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.