AngloAmerican

CORPORATE OFFICE

GROUP FINANCE AND PERFORMANCE MANAGEMENT

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Aldwych House
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UNITED KINGDOM

30 June 2011

Submitted via email

Dear Sir / Madam,

Re: Sharman Inquiry Call for Evidence

1. We welcome the opportunity to respond to the Call for Evidence on Going concern and liquidity risks: Lessons for companies and auditors.

2. This evidence is submitted on a corporate basis, on behalf of Anglo American plc. Anglo American is one of the world's largest mining companies, operating largely in Africa, the Americas, Australia and Asia. Anglo American, is a FTSE 20 company and is also listed on the Johannesburg Stock Exchange. Anglo American had net debt of $7.4 billion at 31 December 2010 (2009: $11.3 billion) and net assets of $38.0 billion (2009: $28.1 billion), representing a gearing level of 16.3% (2009: 28.7%). The Group has experienced treasury and finance teams who are responsible for ensuring that there are sufficient committed loan facilities in place to meet business requirements after taking into account cash flows from operations and holdings of cash, as well as Group distributions.

3. Going concern assessments have become a larger part of our year end and interim processes over recent years, with significant focus and time spent by the finance and treasury functions. Detailed papers are prepared in this regard, supporting our external statements confirming the going concern assumption, which consider and analyse the factors included in the guidance issued by the FRC. During the times of heightened focus on going concern assessments, particularly from the Board and Audit Committee, we found the guidance issued by the FRC helpful in structuring our assessments, supporting our processes and ensuring all relevant factors were given due consideration.

4. We are supportive of the sentiment in the current guidance which refers to directors being best placed to assess those factors likely to be of greatest significance to their company and that these factors will be unique to a specific company, highlighting that those factors will differ even between companies in the same industry. We continue to believe that the directors and senior management will have the requisite skills, experience and judgement required to understand and consider the guidance provided, such that further expansion of such guidance is unnecessary. Indeed, we consider the extension of the guidance could be counter-productive as it runs a risk of becoming a 'checklist' to adhere to, encouraging 'boiler plate' responses, rather than relevant and meaningful disclosures.

Refer to Appendix A for our detailed responses to the questions raised in the call for evidence.

Please do not hesitate to contact us should you have any questions or would like to discuss our comments in greater detail.

Yours faithfully,

Laura Flowerdew
Group Financial Reporting Manager
Anglo American plc

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Appendix A

We have commented below on those areas most relevant for the Anglo American Group.

Transparency of going concern and liquidity risk
Question 1: What combination of information about:
• the robustness of a company's capital;
• the adequacy of that capital to withstand potential losses arising from future risks; and
• the company's ability to finance and develop its business model,
would best enable investors and other stakeholders to evaluate the going concern and liquidity risks that a company is exposed to? How effectively do current disclosures provide this information?

Response:

1. A broad range of information including discussion of the key risks, operational jurisdictions, ongoing and future commitments, supported by more in depth financial analysis outlining the current capital structure, gearing, liquidity position and cash flows would best enable investors and other stakeholders to draw conclusions with respect to going concern and liquidity risks.
2. Key risk discussion should be relevant and specific to the business and its industry taking into account those which have most significant impact for the business and highlighting mitigating actions available to the business to address such risks should they arise. For example for a company in the mining industry, commodity price risk and inflationary cost pressures will impact on operational results.
3. Discussion and financial information related to operating and financing commitments, as well as contingent liabilities, along with discussion of future projects and expected cash flows, supports the analysis of risks.
4. We support the approach of providing qualitative and quantitative information that is useful and informative to lead stakeholders to evaluate going concern and liquidity risks. However, given the broad range of risks and concerns relevant across industries and depending on the location and scale of companies, disclosure around the capital structure and risks pertaining to a Group, must be left to the discretion of the directors, rather than prescriptive guidance being issued to determine relevant factors. Current guidance is considered effective in producing risk based and flexible disclosure appropriate to the UK environment.

Question 2: What type of disclosures (if any) have been made into the market place outside annual and interim corporate reports about current stresses being experienced by the company and about the management of those stresses? How do these disclosures interact with the requirement to disclose principal risks and uncertainties in the Business Review and the required disclosure on going concern and liquidity risk in the annual and interim financial statements?

Response:

5. We choose to include a more detailed analysis of our borrowings and undrawn facilities than is required by accounting standards, as part of our half year external reporting and we have found that this is well received by our stakeholders. We provide additional information on liquidity, if appropriate, in investor slides or discussions. However, we have not experienced significant demand for any additional disclosure in respect of going concern or liquidity risks.

Question 3: Are there any barriers within the current corporate reporting environment to companies providing full disclosure of the risks associated with going concern and liquidity both within and outside the company's annual and interim reporting? Are there any changes that might be made to encourage companies to give fuller and more transparent disclosures in this respect?

Response:

6. We are supportive of the provision of relevant high quality information that provides transparency and clarity to investors. We do not, however, believe that fuller disclosures necessarily achieve this aim. We consider that disclosures are already full and adequate. Inevitably liquidity and going concern disclosures are sensitive and companies face a challenge in balancing investor needs with commercial confidentiality in this area. However we believe that the recent credit crisis showed the transparency of many companies in difficult periods. Thus supporting our view that existing guidance is sufficient and additional clarity may result in a prescriptive rather than a transparent approach to disclosing.

Question 4: Given the current measurement, recognition and disclosure requirements of International Financial Reporting Standards (IFRS), how effective are IFRS financial statements in enabling stakeholders to evaluate the robustness of a company's capital in the context of the going concern assessment? Are there any changes that could be made to these requirements that would better enable them to do so?

Response:

7. In recent years the requirements and application of IFRS have continued to grow in complexity and specify differing measurement approaches to value assets and liabilities including historical cost, revalued historical cost and fair value. This creates difficulties for stakeholders, who may not be as familiar with complex and sometimes counterintuitive measurement and recognition criteria (e.g. relating to derivative and other complex fair value calculations), to make assessments as to the robustness of the company's capital and implication for the going concern assessment.

Company assessment of going concern and liquidity risk

Question 5. What processes are undertaken by directors in making their assessment of whether the company is a going concern when preparing annual and half-yearly financial statements?

• Which records and information are referred to in making this assessment?

• What type of model does the company use to develop scenarios to stress-test the assumptions that have been made when making this assessment?

• What types of risks are included in the going concern assessment: financial, strategic, operational, other? How are these presented in the assessment?

• What is the role of the audit committee and risk management committee (where one exists) in this process and what inputs do they receive in order to carry out this role?

• What impact has undertaking the going concern assessment had on the planning and management of the company?

• How has the assessment of going concern and liquidity risks been incorporated into other aspects of company stewardship and reporting?

• How effective is this assessment in addressing the robustness and adequacy of a company's capital and its ability to continue financing and developing its business model? What, if any, improvements could be made?

Response:

8. When making our assessments we bring together information which is prepared, reviewed and challenged as part of a normal course of business. This will include the most recent forecasts, monthly treasury reports, information on customers and suppliers, and details of commitments across the business.

9. Sensitivity analysis is a regular part of forecasting and budgeting procedures. We consider the impact of changes in key drivers of volatility as well as different strategic scenarios and consider the impact on operating results, cash flows and the Group's net debt position.
10. Key risks specific to the period under consideration are incorporated into the sensitivity analysis as part of forecasting and budgeting procedures and will include financial, strategic and operational risks as appropriate.
11. The Audit Committee will review the conclusions reached in the going concern analysis and will challenge as appropriate.
12. We, along with other large organisations, formalise the going concern assessment twice yearly in order to make appropriate reporting to the Board or Audit Committee. We do this using the output of information and analysis that is prepared throughout the year in the ordinary course of business, albeit formalised for Board purposes.

Question 6. What is different about the review of going concern when raising capital compared to the annual going concern assessment undertaken for accounting purposes? Could some of the different procedures be used in the annual accounting or audit assessments?

Response:

13. The assessment of going concern for financial reporting purposes inevitably focuses on downside risks and assesses the Group's ability to cope with such risks. When making financing and capital decisions, in a normal operating environment, greater consideration is taken of strategic options the Group might want to take advantage of, and ensuring sufficient funding is in place to support that, as well as the condition of the credit and capital markets and assumptions on how that might change in the short term.

Question 7. Does the company assess future cash flows and liquidity on a regular basis throughout the year? If so, how regularly is this done and is the information used any different to that used in the annual and half-yearly assessment for the purpose of preparing financial statements?

Response:

14. The review of cash flows and liquidity forms part of each month's business performance analysis. A full budgeting process is completed each year, with regular updates, and includes rigorous review, challenge and stress testing of the cash flows. The information used in this analysis is consistent with the information used in the going concern assessments.

Question 8. To what extent and how do directors assess the viability of a company over the course of its natural business cycle?

Response:

15. The mining industry is cyclical in nature. In addition to shorter term planning procedures, medium and long term strategic reviews take place on a regular basis. Further all operations viability is assessed on a life of mine basis, taking into account the long term nature of country risks, as well as commodity price cycles and key project risk. All these factors are taken into account in determining the strategy and capital requirements of the Group.

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Question 9. The current model of disclosure identifies three categories of company[1]. What sort of behaviours does this model drive? Is there a different model that might be useful? Would more guidance on the application of the current model be helpful?

Response:

16. We believe that the current model is appropriate, providing suitable options for assessments and taking into account materiality. We also believe that the three categories are helpful to users of financial statements and ensure comparability between the going concern statements of different companies.

Question 10. In your experience, what issues have resulted in a heightened focus on the assessment of going concern? What was the nature of the risks that gave rise to these circumstances? Had these risks been identified in advance, and if so, how?

Response:

17. The mining industry is particularly impacted by changes in commodity prices, with changes directly impacting operating cash flows. Commodity prices are determined primarily by international markets and global supply and demand, with the demand for commodities largely determined by the strength of the global economic environment. Therefore any worsening in the wider economic environment will result in an heightened focus on the sensitivity analysis in our forecasting procedures, and therefore in our formal going concern assessments. In addition, any perceived weaknesses of the global economic environment or shock event can impact the availability of credit in the market. Many companies in the past had relied on short term financing to manage short term funding requirements, which in the immediate aftermath of a perceived shock event can be expensive and in short supply.

The auditor's approach to going concern and liquidity risk

11. How does the auditor approach the assessment of going concern and liquidity risk? To what extent does this involve the testing of the company's processes and what other work is carried out? Is there any specific reporting on the work done by the auditor on going concern and liquidity risk to Audit Committees? Does the assessment of going concern involve different processes in certain industry sectors? Are there different processes used where there is overseas reporting in addition to UK reporting?

Response:

18. We will leave this question for the consideration and response of the Audit firms, however we would like to highlight that additional detailed guidance issued may be used by the auditors as a benchmark against which going concern assessments should be performed, which in a normal environment is unlikely to be warranted by the risks existing.

Feedback on the Guidance for Directors of UK Companies in respect of going concern and liquidity risk

Question 12. Do you believe that amendments to the Guidance for Directors of UK Companies in respect of going concern and liquidity risk would be helpful? For example:

• Guidance for directors on disclosures does not specify the language to be used, whereas auditors use more standardised wording. Is this helpful?

• Is there a need for a clear boundary between the three types of company?

Response:

19. The current guidance is already comprehensive and accurately states that directors are best placed to assess which factors are likely to be of greatest significance to their company. These factors will vary by industry and from company to company within a particular industry. Standardised wording reduces transparency and encourages generic language without specific relevance. Therefore we do not believe that amending the guidance is necessary or helpful.

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20. Furthermore, we do not believe that this is an area where clear boundaries can be set; it is and will remain an area which is judgemental and, as such, it is appropriate that the directors use their discretion, supported by their experience and knowledge of the company, to apply that judgement.

13. Are there any other views that you would like the Panel of Inquiry to take into account?

Response:

20. We would like the panel to take into account the views of the companies as well as stakeholders in reaching their conclusions. In particular we suggest understanding the specific information used by financial institutions which impacts the availability of credit to companies.
21. We encourage the Panel to ensure that they are consistent with their past stance in this area which has been that unless unique extreme circumstances indicate otherwise, previous guidance remains appropriate.