Financial review

AngloGold reports reasonable performance for the year 2003, despite having been affected by lower grade ore in several of the regions.

Results for the year

- Adjusted headline earnings decreased by 23% to $282 million or 127 US cps, from $368 million or 166 US cps in 2002.
- Return on net capital employed decreased from 17% to 11%.
- Return on equity decreased from 21% to 12%.
- Gold production was 5% lower at 5.62Moz.
- Total cash costs increased by 42% to $229/oz, having been impacted by strong local currencies.
- A final dividend of R3.35 per share or $0.50 per share was declared, resulting in a total dividend of R7.10 or $1.01 per ADS.

Exchange rates

The average exchange rate for the year ended 31 December 2003 was R7.55:US$1 compared with R10.48:US$1 in 2002. The average Australian Dollar rate for 2003 was A$1.54:US$1; in 2002 it was A$1.84:US$1.

Gold production

AngloGold's gold production, although 5% lower at 5.62Moz, was in line with planned levels and can be analysed as follows:

Production from operations located in South Africa decreased by 4% to 3.28Moz in 2003 from 3.41Moz produced in 2002. This is attributable to lower grades at Great Noligwa, lower volumes at Savuka and a dwindling reserve tonnage base at Ergo.

Gold production in the East and West Africa region decreased by 10% to 0.98Moz in 2003, from 1.09Moz in 2002. This was primarily owing to the drop in grade at Morila.

South America's production rose by 54,000oz to 0.53Moz in 2003. This 11% increase is explained by the additional 46.25% interest acquired in the Cerro Vanguardia mine in Argentina in July 2002, as well as by increased production at the Córrego do Sítio mine at Morro Velho in Brazil.

The Australian operations produced 0.43Moz of gold during 2003, compared with 0.50Moz in 2002. This 14% decrease, amounting to 70,000oz, was caused by the closure of Union Reefs and lower grades at Sunrise Dam mine.

Gold production in the North America region decreased by 16%, or 72,000oz, to 0.39Moz in 2003 from 0.46Moz in 2002. Jerritt Canyon's production was 0.13Moz below that reported in the previous year because of the sale of the mine to Queenstake Resources, which became effective 30 June 2003. Gold production at Cripple Creek & Victor (CC&V) has been below target levels from 2001 to 2003, due to haul truck and crusher commissioning problems and unfavourable leach pad chemistry. All three factors improved in the second half of 2003, and such improvement has continued into the first quarter of 2004. Both the haul truck fleet and the crusher are now meeting production targets. The leach pad pH level was negatively affected by placing alkaline-consuming historic waste dump ore on the leach pad with the insufficient addition of lime in 2001. Lime addition rates were increased substantially and ammonia was added during 2003 to correct the problem. The pH levels returned to within a normal range in the second half of 2003. Production at CC&V, however, was up by 58,000oz to 283,000oz as a result of the expanded processing facilities following the completion of the expansion project towards the end of 2002.

Gold income

The average spot price of $363/oz for the year was 17% higher than the average for 2002. In Rand terms, the average spot price was 16% lower at R88,058/kg. Against this background, AngloGold's net delta hedge position was 16% lower in 2003 at 8.59Moz, illustrating the company's continued faith in the strength of the gold price.

Gold income increased by 15%, rising from $1,761 million in 2002 to $2,029 million in 2003. This was mainly as a result of a $60/oz or 20% increase in the received gold price of $363/oz. This was partly offset by a 5% reduction in gold production to 5.62Moz in 2003.

Cost of sales

Cost of sales rose by 27% from $1,203 million in 2002 to $1,526 million in 2003. This increase was caused by lower grade ore mined and recovered at certain operations and the strengthening of local currencies, relative to the US Dollar, in the countries in which AngloGold operates.

Cost of sales, comprising total cash costs, retrenchment and rehabilitation costs, changes in gold inventories and amortisation of mining assets, can be analysed as follows:

- Total cash costs increased to $1,294 million in 2003 from $967 million in 2002 (or from $161/oz to $229/oz), following the reduction in gold produced from 5.94Moz in 2002 to 5.62Moz in 2003. Of the $68/oz increase in total cash costs year-on-year, $47/oz relates to stronger currencies relative to the US Dollar, while lower grades contributed a further $17/oz.

- Retrenchment costs were $4 million in 2003 compared with $3 million in 2002. The retrenchment costs in 2003 were incurred through the down-sizing at Savuka mine.

- Rehabilitation and other non-cash costs increased by $1 million from the previous year, while amortisation of mining assets decreased by 5% to $232 million, in line with the lower gold production.

- Inventory increased by $17 million in 2003 compared with an increase of $24 million in 2002. The unfavourable inventory movement was mainly because of the South African operations capitalising on the available spare capacity during the year-end break.

Operating profit

- Operating profit decreased by 4% to $622 million in 2003 from $650 million in 2002. Adjusted operating profit decreased by 12% from $638 million to $559 million. This was mainly owing to lower grade ore in several of the regions and the stronger average Rand/Dollar exchange rate, which were offset by a 20% increase in the received Dollar gold price to $363/oz.

- The adjusted operating margin for the AngloGold group was 27% for 2003 and 35% for 2002, while the cash operating margin was 38% in 2003 compared with 48% in 2002. These margins vary from operation to operation as they are dependent on each region's adjusted operating profit, amortisation of mining assets and gold sales, including realised non-hedge derivatives.

Net profit

Net profit of $312 million includes operating profit as well as the following:

- Corporate and other administration expenses increased by $11 million on the previous year to $36 million mainly as a result of the strengthening of the Rand/US Dollar exchange rate.

- Market development costs amounted to $19 million, of which 55% was spent through the World Gold Council (WGC).

- Exploration continued in countries in which AngloGold has operations, namely in Argentina, Australia, Brazil, Tanzania, Mali, Namibia, South Africa and the United States. In addition, exploration was pursued in highly prospective areas: in Alaska, Canada, Mongolia and Peru. Exploration spending for 2003 amounted to $63 million and, of this total, $38 million was expensed in 2003. In 2002, total exploration expenditure was $51 million of which $28 million was expensed.

- Interest received increased by $2 million to $38 million, mainly as a result of the higher gold price and improved cash position.

- Other net expenses amounted to $21 million for the year and included foreign exchange losses on transactions other than sales ($3 million), post-retirement medical expenses relating to mines sold and a subsidy to address a shortfall in the medical aid ($12 million), additional retirement provisions ($2 million), and the unwinding of the decommissioning obligation ($4 million).

- Finance costs increased by $5 million to $49 million, due to the interest payable on the corporate bond. These costs were partly offset by lower LIBOR rates applicable to several of the loans.

- Abnormal items include a provision for the post-retirement medical liability ($33 million), partly offset by the reversal of over-provisions in decommissioning and restoration liabilities in South Africa ($14 million).

- Goodwill amortised remained fairly constant at $29 million.

- Impairment of mining assets in the amount of $44 million was recognised in 2003. The impairment includes various exploration assets in Australia ($9 million), Savuka mine in South Africa ($34 million) and mining equipment in South America ($1 million).

Financial review (continued)

- The profit on the disposal of investments includes profits on the disposal of shares in East African Gold Mines ($25 million), Randgold Resources Limited ($17 million) and Queenstake Resources ($3 million).

- The taxation charge decreased by $23 million to $142 million in 2003, owing to the reduced earnings for the year, deferred tax credits on losses in South America, a tax break on foreign exchange losses and deferred tax effects an additional medical provisions net of rehabilitation provision reversals.

- The minorities' share of earnings increased to $18 million compared with $15 million in 2002. This was due to the increase of minorities in Cerro Vanguardia from 3.75% to 7.5% with effect from July 2002.

Cash flow

Operating activities

Cash generated from operations was derived from profits on ordinary activities before taxation of $472 million as set out in the income statement, adjusted for changes in working capital and non-cash flow items. The most significant non-cash flow item was the amortisation of mining assets of $232 million.

Cash generated from operations of $592 million was increased by interest received of $33 million, but reduced by payments to outside stakeholders for:

– finance costs of $40 million; and

– mining and normal taxes of $102 million.

Net cash inflow from operating activities was $453 million in 2003, 25% lower than the amount of $605 million recorded in 2002. The decrease in net cash inflow from operating activities was mainly the result of a working capital outflow of $71 million and a decline in AngloGold's profitability.

Investing activities

Funds of $453 million generated from operating activities were utilised to grow the group by investing in capital projects amounting to $363 million. Total capital expenditure during 2003 was $92 million or 34% higher than in 2002, and is mainly attributable to the South African operations. Capital expenditure at these operations increased from $112 million in 2002 to $246 million in 2003, mainly due to the development of Moab Khotsong, the deepening project at Mponeng shaft, the acquisition of a portion of the Driefontein mining area from Gold Fields Limited (adjacent to TauTona, and known as 1C11), and the strengthening of the Rand against the US Dollar.

Capital expenditure decreased in the North America region from $74 million in 2002 to $27 million in 2003, and in the Australia region from $31 million to $21 million. These decreases were mainly because of higher expenditure in 2002 relating to the expansion project at CC&V in North America and at Sunrise Dam in Australia.

The East and West Africa region recorded capital expenditure of $26 million from $27 million in 2002, while capital expenditure in the South America region rose from $27 million in 2002 to $43 million in 2003.

The funds generated from operating activities were further adjusted by $56 million, which was received following the sale of the shares held in Randgold Resources, East African Gold Mines and Queenstake Resources.

The net cash inflow after investment activities amounted to $137 million.

Financing activities

– Net cash used in financing activities decreased by $260 million to an outflow of $107 million in 2003 ($367 million in 2002).

– This net decrease was the result of the repayment of $30 million of a $400 million unsecured loan facility, while the balance of loan repayments comprised normal scheduled payments in terms of loan agreements. No further drawings or repayments were made under the $600 million borrowings facility which AngloGold entered into during 2002.

– In addition, on 21 August 2003, AngloGold launched and priced a senior unsecured fixed rate bond in an aggregate principal amount of $300 million, with semi-annual coupons payable at a rate of 10.5% per annum. The bond will be repayable on 28 August 2008, subject to early redemption at AngloGold's option. The bond is listed on the Bond Exchange of South Africa.

– On 14 October 2002, a new loan facility of A$50 million was arranged with the Australia and New Zealand Banking Group Limited, at 0.35% over the Bank Bill Swop Reference Rate. During 2003 the facility, originally repayable by September 2003, was extended to September 2004. The undrawn portion of the facility as at 31 December 2003 was A$40 million.

– Dividend payments in the amount of $314 million were made during the year. This compares with a dividend of $260 million in 2002. Dividends were financed from the cash generated from operating activities.

The net result of the operating, investing and financing activities amounted to a net cash inflow of $30 million which, when added to the $9 million cash acquired following the consolidation of Rand Refinery, and an opening balance and translation adjustment, resulted in an amount of $505 million of cash and cash equivalents being on hand at year-end.

Hedging

The company has reduced its hedging contracts by some 1.69Moz during the year. In the light of the continued strength of the gold price and the steady operating performance over the past year, AngloGold has reduced the need for the company to manage revenue through forward pricing. This results in the AngloGold Board encouraging the continued management, restructuring and reduction of the hedge book.

Balance sheet

AngloGold sold its entire 70% interest in the Jerritt Canyon Joint Venture on 30 June 2003. On 27 February 2003, AngloGold and its partner in the Jerritt Canyon Joint Venture announced that they had entered into a purchase and sale agreement with Queenstake Resources USA Inc (Queenstake) for their entire interests in the Jerritt Canyon Joint Venture. In terms of the agreement, Queenstake paid the Jerritt Canyon Joint Venture $1 million in cash and 32 million shares of Queenstake, with $6 million in deferred payments and $4 million in future royalty payments. The transaction closed on 2 July 2003. AngloGold sold its entire interest in Queenstake during November 2003.

Net debt to net capital employed remained constant year-on-year at 20% compared to 19% in 2002, despite increased cash levels with the higher received price of gold, and the stronger Rand/US Dollar closing price of R6.67:US$1 compared with R8.58:US$1 in 2002.

Other issues

In October 2002, the President of South Africa assented to the Mineral and Petroleum Resources Development Act 2002, which had been passed by Parliament in June of that year. It will come into operation in May 2004. Until then the existing regulatory regime for mineral rights will remain in place whereby the holder of mineral rights is entitled to mine on obtaining a mining authorisation from the State of South Africa. AngloGold owns substantially all the mineral rights for which it holds mining authorisations.

Outlook

AngloGold expects production in 2004 to decrease to around 5.32Moz, following the closure in 2003 by AngloGold of Union Reefs and the sale of its 70% interest in the Jerritt Canyon Joint Venture. (In 2003, Union Reefs and Jerritt Canyon collectively contributed 180,000oz towards AngloGold's total production of 5.62Moz.) The merged group's[1] production is expected to be in the region of 6.47Moz.

AngloGold will implement a change in the accounting treatment of Ore Reserve development expenditure from 1 January 2004. Previously, a portion of this expenditure was expensed in the period that such expenditure was incurred. In line with many major gold producers, AngloGold will capitalise Ore Reserve development expenditure and amortise this over the life of the relevant mining area to which such expenditure applies.

Assuming that the exchange rates (relative to the US Dollar) of the currencies in the countries where AngloGold operates remain at similar levels in 2004 to the average exchange rates achieved in 2003, and allowing for the change in treatment of Ore Reserve development expenditure outlined above, AngloGold anticipates that its total cash costs will increase to $245/oz in 2004 compared with $229/oz in 2003. The merged group's[1] total cash costs are expected to be of the order of $243/oz in 2004. AngloGold expects capital expenditure for 2004 to be $477 million, which is higher than the capital expenditure in 2003 of $363 million (merged group[1]: $596 million). This increase is primarily as a result of the inclusion of Ore Reserve development expenditure.

[1] The merged group – in the event of the Ashanti transaction being successfully completed.