

Review of the gold market

The spot price for the metal reached over \$417/oz during December and touched \$430/oz in early 2004, although the market has since retraced to around \$410/oz. The average gold price of \$363/oz for 2003 was \$53 or 17% above the average price for 2002. The gold price again mirrored moves in the currency markets, particularly the US Dollar exchange rate against the Euro, which fell steadily during the fourth quarter to reach an all-time low of \$1.27 to the Euro in December. This reflects a loss in value of almost 20% during 2003. The Rand proved as volatile and the currency moved in a range of almost 20%, between R6.07 and R7.28 to the US Dollar.

Gold price drivers

The primary mover in gold continues to be strong speculator and investor interest in the metal, driven by a number of fundamental economic circumstances. Amongst these circumstances, is most certainly the anticipation of further declines in the value of the US Dollar. These same circumstances have also pushed up the prices of base metals and other commodities. The last quarter of the year again saw higher levels of derivatives in gold open positions on the New York Commodity Exchange (Comex), reaching an all-time high of 19Moz, or almost 600t, net long in futures and options contracts combined.

launch of a similar fund in Australia earlier in 2003. The WGC continues to work on similar products to offer to investors in other important financial markets elsewhere. This GBS product very quickly took in purchases amounting to 25t of bullion, and has since established two-way liquidity in the London market.

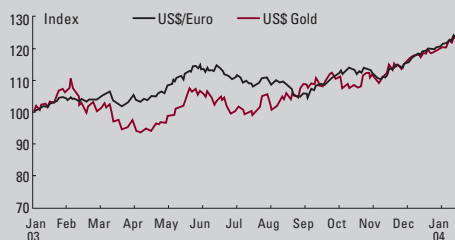
Physical

Physical demand for gold continued to suffer in the face of a rising gold price.

Whilst gold offtake in jewellery for 2003 was off by 7% year-on-year, in the second half of 2003 alone demand fell by over 11% compared with 2002. As usual, India responded immediately to higher prices, and much of the expected seasonal demand in that region was negated by the Indian trade's unwillingness to buy gold in a rising market. With the spot price retracing in mid-January 2004, some recovery in seasonal buying might still occur in that market. However, many other gold jewellery markets also declined in this period.

Lower levels of producer de-hedging added to the lower demand. After six quarters of material levels of de-hedging, the second half of 2003 saw significantly less

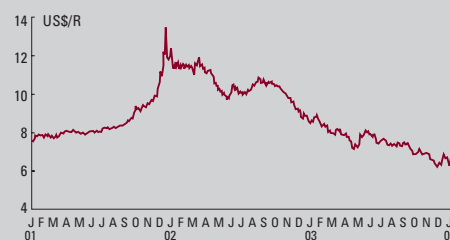
\$ Gold price and \$/Euro indexed: 2003



Rupee gold



US\$/Rand exchange rate



Investment

Investor and speculator interest in gold remained on the rise throughout most of 2003, reflected particularly in the buying on Comex. Overall open interest and the net open position on that exchange are both at all-time high levels since the exchange commenced trading gold over 20 years ago.

Of particular interest was the launch by the World Gold Council (WGC) of the Gold Bullion Securities (GBS) product on the London Stock Exchange in the last quarter of the year. The GBS is a gold-backed fund enabling institutional and private investors to invest directly in gold through a traded instrument. This product followed the

activity in this area, notwithstanding the announcement late in 2003 by Barrick Gold Corporation of its intention to cease new hedges, and to reduce its hedge book. Only a substantial increase in implied net investment demand helped to balance the physical market.

On the supply side, mine production for 2003 was slightly higher than in 2002. However, scrap sales increased again and, at a little less than 1,000t for 2003, now make up almost a quarter of the supply of gold to the current market. Central bank sales of 591t in 2003 reached their highest level in a decade, but there was little negative reaction in the markets to this level of selling.

The physical market remains important as it provides a floor of support when investment interest weakens and prices soften. Whilst making every effort to encourage investor demand for gold in the current market, attention should also be paid to the health of the wider physical market in the medium and longer term.

Official sector

The Washington Agreement on sales of gold by European central banks comes to an end in less than nine months' time. Public statements by a number of senior European central bank officials at the Dubai meetings of the International Monetary Fund in 2003 indicate that there is little doubt that the Agreement will be renewed, and good reason to expect that the signatories to this Agreement will follow the precedent of the orderly and responsible behaviour of these banks over the past four years.

Currency

Whilst all the evidence points to a strong recovery in the United States economy running well into 2004, any benefit that this might have for the US currency is negated by the record levels of budget and current account deficits currently prevailing in the USA, and market commentators and analysts expect the US

The Rand has seen as much movement as the European currency, but greater volatility. Whilst the first three quarters of 2003 saw a continuation of the Rand strengthening against the US Dollar, this strength reversed in the final quarter of the year. During this fourth quarter, the South African currency lost more than R1 or 20% against the US Dollar between its strongest point of R6.07, to its weakest point of R7.28 to the US Dollar.

In just over two years, we have seen the Rand first lose almost 40% in value against the US Dollar, and thereafter recover all of that and more to strengthen by almost 60% against its end-2001 exchange rate. The Rand has strengthened materially more against the US Dollar than have either the Euro or the Australian Dollar, and this occurred particularly during the period in which South African interest rates were either rising sharply, or were at their peak between October 2002 and June 2003. The recent reversal in the direction of the Rand value could reflect the end of the impact of high interest rates, as 2003 has seen the South African Reserve Bank cut the local repo rate by 5.5%, from a peak of 13.5% to 8.0%, mostly during the latter months of 2003.

“The primary mover in gold continues to be strong speculator and investor interest.”

currency to weaken in the year ahead up to a range of \$1.35 – \$1.40 to the Euro. The one element that might temper further Dollar weakness would be real resistance from European monetary authorities to further strengthening of the Euro. This occurred to a degree in mid-January 2004, leading swiftly to a correction in the exchange rate and the weakening in the Euro from \$1.29 back to \$1.25. However, there are no signs yet of any change to the weaker trend for the US currency.

Hedging

As at 31 December 2003, the net delta hedge position of the company was 8.59Moz or 267t at a spot price of \$416/oz. The marked-to-market value of this position as at 31 December 2003 was negative \$664 million. The company continues to manage its hedge positions actively, and to reduce overall levels of forward pricing on gold.