

The gold market

Products

AngloGold Ashanti's main product is gold. A small portion of its revenue is derived from the sales of silver, uranium oxide and sulphuric acid. AngloGold Ashanti sells its products on world markets.

Gold market

The gold market is relatively liquid compared with many other commodity markets. Physical demand for gold is primarily for fabrication purposes, including jewellery (which accounts for almost 80% of fabricated demand), electronics, dentistry, decorations, medals and official coins. In addition, central banks, financial institutions and private individuals buy, sell and hold gold bullion as an investment and as a store of value.

The use of gold as a store of value (a consequence of the tendency of gold to retain its value in relative terms against basic goods, and particularly in times of inflation and monetary crisis) and the large quantities of gold held for this purpose in relation to annual mine production have meant that, historically, the potential total supply of gold is far greater than demand at any one time. Thus, while current supply and demand play some part in determining the price of gold, this does not occur to the same extent with other commodities. Instead, the gold price has from time to time been significantly affected by macro-economic factors such as expectations of inflation, interest rate changes, exchange rate changes, changes in reserve policy by central banks, and by global or regional political and economic events. In times of price inflation and currency devaluation, gold is often bought as a store of value, leading to increased purchases and support for the price of gold.

Changes in exchange rates against the dollar particularly affect levels of demand for gold in non-US economies. In South East Asia, for example, during the mid-1990s strong local currencies encouraged robust gold demand due to low real gold prices in local currencies. In contrast, when South East Asian currencies fell sharply against the dollar in 1997, the local currency values of gold increased proportionally, and wholesale selling of the metal ensued in the region. Recoveries in Asian currencies since 1999 have resulted in a decline in gold prices in these currencies, which in turn has led to a rise in gold demand in Asian countries to previous levels. In the investment market, a strong dollar during the 1990s had a negative effect on investment

demand for gold in developed economies. Since 2001, the weakness in the dollar has been an encouragement to investors to buy gold.

While political and economic crises can have either a positive or negative impact on gold, this is not inevitable. As a recent example of this, in 1998, despite negative sentiment caused by the Russian financial crisis and ensuing corrections in the capital markets worldwide, the price of gold remained stable. By contrast, more recent political events in the Middle East have helped to drive the gold price higher.

The market in 2005

New levels of investor and speculator interest in gold during 2005 led to the gold price reaching 25-year highs. Despite a lull at the beginning of 2005, investor interest in gold resumed and significantly exceeded that of 2004. This was most marked towards the end of the year, the fourth year of the current rally in the gold price. The average gold price for the year was \$445 per ounce, an increase of 9% on 2004. In January 2006, the gold price reached a 25-year high of \$567 per ounce.

The weaker dollar in the first half of 2005 continued to influence the dollar gold price. However, this relationship did not apply during the second half of the year when the gold price strengthened in spite of a stronger dollar. A significant feature of the year was the break in the four-year link between the gold price and the dollar/euro exchange rate, and a material increase in the gold price in non-US dollar terms for the first time in the current gold price cycle. After averaging €325 per ounce for the past four years, the gold price reached a high of €457 per ounce on 12 December.

The resurgence in the dollar also contributed to a shift in the local currency and the rand weakened against the US dollar for most of the year. At its weakest point of R6.96/\$1, the South African currency had lost some 19% against the dollar since the beginning of January 2005, when the exchange rate reached R5.64/\$1. The rand however strengthened towards the end of the year and recouped most of its intra-year losses, averaging R6.35/\$1 for the year, compared to an average of R6.42/\$1 for 2004. The relative weakness of the rand during the second half of the year, together with the strong spot price of gold in US dollars, resulted in sharply higher rand gold prices which peaked at R111,000 per

kilogram in December, providing some relief for South African gold producers.

Several circumstances outside of currency markets encouraged interest in gold during the year. Probably the most direct influence on sentiment came from the oil market, where particularly supply disruptions caused by hurricane damage in the USA pushed the spot price of benchmark West Texas Intermediate up to a record price of \$70/barrel in early September. Speculation over the likely impact of increases in the oil price on inflation and on global economic growth led to increased buying interest in gold, and there was a correlation between increases in the gold price and the spot price of oil during the second half of the year.

Although expectations of rising inflation rates are often used to justify higher gold prices, there is little conclusive evidence of an increased threat of inflation at present, notwithstanding base metal, commodity and energy price increases in recent years. While headline inflation in the USA rose towards the end of the year, this was due largely to the impact of higher retail pump prices for gasoline, and annual core inflation in the US remains a little over 2%. Most recently, core inflation in Europe remains below 2%. Nevertheless, the impact of higher oil prices has introduced a sense of uncertainty about the health of the global economy, which continues to encourage interest in gold among both investors and speculators.

Speculative demand

To measure the extent of investor interest in the metal, the open position on the New York Comex, and the holdings of the gold exchange traded funds (ETFs) should be considered together. The Comex continued to be the most direct predictor of gold spot price movement for much of the year, with the spot price of metal tracking changes in the buying interest on that exchange until the final quarter of the year. The net open position on the Comex peaked in October 2005 at a little over the previous record level set in April 2004 of over 22 million ounces net long (685 tonnes net long), and this sustained long position on Comex has helped to keep the gold price firm and rising. To the net open Comex interest should be added aggregate investor holdings in gold ETFs, which by January 2006 amounted to some 13 million ounces or 400 tonnes of gold. These ETF holdings were accumulated mostly during the past 12 months, and predominantly from the launch of the New York Stock Exchange's

streetTRACKS fund in late 2004. The combined Comex and ETF holdings today exceed 30 million ounces, or almost 950 tonnes of gold in net investment and speculative positions in developed markets.

Demand

Physical offtake of gold continued to improve during the year. Demand fell back under the weight of the rising gold price during the final quarter of 2005, but overall figures for fabrication offtake for the year remained positive. Consumption of gold in jewellery increased by 5% for the year, largely on the back of strong growth in India and the Middle East. In India, general economic growth has translated to better demand on a wide front and during the first half of 2005, that market was able to adjust to higher and more volatile gold prices, although Indian offtake was to fall sharply during the final quarter of 2005. Improved offtake in the Middle East was sustained throughout the year, primarily on the back of increased oil revenue in that region. There was growth in demand for gold jewellery in both Turkey and China too. As has been the case for some time, however, the offtake of gold jewellery in the developed markets of the United States, Europe and Japan remained disappointing.

Net bullion supply on the market was higher, driven particularly by a year-on-year increase of over 40% in official sales of gold, to 663 tonnes for 2005, and significantly reduced de-hedging by gold producers. The market returned to an over-supply position during the second half of 2005.

With investment demand still positive for gold, the final balance of supply and demand in the gold market will remain of secondary importance. Investor and speculation purchases on the margin will continue to be the price-determining force in the gold market. However, in the longer term it is important that physical demand is healthy given the ability of the physical market to provide offtake and floor price support at times when investor or speculator interest weakens.

Official sector

The most significant issue for gold in the official sector in 2005 was the proposal made by certain members of the International Monetary Fund (IMF) during 2005, to sell outright a portion of the gold reserves of the IMF to provide debt relief for heavily indebted poor countries. While this proposal contributed to a measure of negative sentiment in the gold market at the time, the

announcement by the G8 that such a debt relief programme would not be funded by either a revaluation or sale of the gold reserves of the IMF, removed the uncertainty that IMF sales might cap the gold market in the future.

Hedging

As at 31 December 2005, the net delta hedge position of AngloGold Ashanti was 10.84 million ounces or 337 tonnes, valued at the spot price of gold on that date of \$517 per ounce. The marked-to-market value of the hedge position at this date was negative \$1.941 billion. The increase in the size and negative value of the hedge in the latter half of the year was due mainly to the increase in the spot price of gold against which the hedge is valued, which was 19% higher at the end of 2005 than the spot price of \$435 per ounce at which the hedge had been valued at 31 December 2004.

Marketing channels

Gold produced by AngloGold Ashanti's mining operations is processed to saleable form at various precious metals refineries. Once refined to a saleable product – either a large bar weighing approximately 12.5 kilograms and containing 99.5% gold, or smaller bars weighing 1.0 kilograms or less with a gold content of 99.5% and above – the metal could be sold by the refineries to the bullion banks or directly by the company to the bullion banks, and the proceeds are paid to the group.

Bullion banks are registered commercial banks that deal in gold. They participate in the gold market in buying and selling gold and distribute physical gold bullion bought from mining companies and refineries to physical offtake markets worldwide. Bullion banks hold consignment stocks in all major physical markets such as India or South East Asia and finance such consignment stocks from the margins charged by them to physical buyers, over and above the amounts paid by such banks to mining companies for the gold.

Where forward sales contracts exist against which AngloGold Ashanti delivers the physical product, the same channel of the refinery is used. In this case, the refinery does not sell the metal on the group's behalf, but instead delivers the finished gold bars to the bullion bank with which the group's forward contract is held. The physical delivery to the counterparty bank of the appropriate amount of gold fulfils AngloGold Ashanti's obligations under the forward contract, and AngloGold Ashanti is paid for this gold by the relevant

bullion bank, at the price fixed under the forward contract, rather than at the spot price of the day.

Gold market development

The challenge for marketing gold is significant. This is especially so given that demand for gold jewellery in many developed markets has declined materially in the past five years, with gold jewellery sales losing ground to other luxury consumer goods in developed markets.

AngloGold Ashanti is committed to growing the market for gold. The group's marketing programme aims to increase the desirability of its product, to sustain and grow demand, and to support the deregulation of the market in key economies.

During 2005, AngloGold Ashanti spent some \$13 million on gold marketing initiatives, of which 66% was spent through the World Gold Council (WGC). Gold marketing expenditure by AngloGold Ashanti in 2004 and 2003 amounted to \$15 million and \$19 million, respectively.

Independently of its support for the WGC, AngloGold Ashanti is active in a number of other marketing projects that support gold. It remains the only gold group in the world to have committed this level of resources to the marketing of the metal it produces.

Downstream initiatives have included GoldAvenue, an internet venture selling gold jewellery, established between AngloGold Ashanti, JP Morgan Chase and Pamp MKS of Geneva in 2000. This venture continued to sell gold jewellery by catalogue and website until early 2004, after which it was wound up.

The United States remains an important focus market for AngloGold Ashanti's marketing initiatives, due to its value and influence on gold jewellery retailing trends. However, AngloGold Ashanti now includes in its international marketing initiatives the emerging markets of India and China. In both of these markets, gold jewellery purchases have a traditional or cultural motivation. Among modern urban consumers in India and China, however, gold jewellery is increasingly competing for consumer spend with other luxury goods. Initiatives in India and China therefore focus on the modernisation of retail channels for gold jewellery consumption and on the development of a modern product offer which can sustain and grow consumer interest in gold jewellery purchases for non-traditional reasons.

AngloGold Ashanti holds a 25% stake in OroAfrica, the largest manufacturer of gold jewellery in South Africa, as an investment in the downstream beneficiation of gold in South Africa. AngloGold Ashanti and OroAfrica have co-operated in a number of projects, including OroAfrica's development and launch of an African gold jewellery brand. An important strategic step has been the establishment of a Jewellery Design Centre at OroAfrica at a cost of \$250,000. The purpose of the Centre is to generate new gold jewellery designs, and to improve product standards through technology, design and innovation. The Centre has been used during the past year to develop a new range of gold jewellery with an African theme. The Design Centre was commissioned by the South African Parliament in 2003 to manage the fabrication of the new Parliamentary mace to celebrate the tenth year of democracy in South Africa. The mace was successfully completed and presented to Parliament in 2003.

Also in the area of design innovation, AngloGold Ashanti's Riches of Africa Gold Jewellery Design Competition was established in 1998 to showcase South African jewellery designers, to enhance jewellery manufacturing technical skills in South Africa, and to support the local gold jewellery industry. Training workshops for competition entrants are held each year, while the award-winning works are exhibited and used in fashion shows and other events both locally and abroad. The 2005 competition attracted a record total of 559 entrants and a record number of student and professional jewellers attended training workshops held by AngloGold Ashanti in Johannesburg, Cape Town and Durban.

A biennial gold jewellery design competition in Brazil, the Designers Forum, was launched by the group in 2002. It was the first such competition in that country. The competition generated unprecedented interest in 2004, with a high quality of design and craftsmanship and some 650 projects involved. From these, 33 pieces were selected for the collection.

The Gold of Africa Museum was inaugurated in 2001 in Cape Town with the permanent endowment of the Barbier Mueller collection of West African gold objects purchased by the company in 1998. The museum also serves as a training facility in the jewellery industry in Cape Town. The museum continues to attract a growing number of visitors, and to provide special visits for school groups in the Cape Town area.

Other South African projects in 2005 include the launch of a scheme to provide cost-effective financing for South African gold jewellery manufacturers, in partnership with Gold Fields Limited, BAE Systems/Saab (through defence contract offset obligations) and Standard Bank. The scheme aims to lower the cost of financing gold working inventory to manufacturers, thereby enabling them to compete more effectively in international markets. In 2005, AngloGold Ashanti also worked in conjunction with the Department of Trade and Industry (DTI), the Industrial Development Corporation of South Africa (IDC) and the WGC to produce a publication on the gold industry in South Africa entitled 'Gold in South Africa: Mining, Refining, Fabrication and Trade'. This publication is intended to provide a source of reference on the gold industry in South Africa and is the first attempt to collate data on the South African gold industry in all of its various activities.

AngloGold Ashanti and Mintek, South Africa's national metallurgical research organisation, launched Project AuTEK in 2002 to research and develop industrial applications for gold. Project AuTEK has developed a gold-based catalyst for the oxidation of carbon monoxide at ambient temperatures. Mintek has carried out pilot-scale catalyst production tests. Negotiations for the commercial production of the catalyst have commenced.

An important feature in many of AngloGold Ashanti's marketing projects has been the beneficiation of gold, particularly in South Africa. AngloGold Ashanti's commitment to adding value to gold extends beyond mining and aims to contribute towards the upliftment of people and the sustainability of communities.

AngloGold Ashanti remains a sponsor of the Atteridgeville Jewellery Project, established in 2000 by the Vukani Ubuntu Community Development Project to create opportunities in the jewellery industry in South Africa for the previously disadvantaged through training and development. In 2004, the company also sponsored the expansion of the Soweto Jewellery School to enable it to double its intake of students from 2005.

Financial review

AngloGold Ashanti, with the exception of the former Ashanti mines in Ghana, reported a sound operating performance for the 2005 financial year; this did not, however, translate into an improved financial performance.

Results for the year

- Average dollar gold spot price at \$445 per ounce, 9% higher than 2004.
- 2005 received gold price increased by 11% to \$439 per ounce.
- Adjusted gross profit up by 6% to \$469 million.
- Adjusted headline earnings decreased by 26% to \$200 million or 76 US cents per share, from \$271 million or 108 US cents per share in 2004.
- A final dividend of 62 South African cents per share or approximately 10 US cents per share was declared, resulting in a total dividend for 2005 of 232 South African cents or approximately 36 US cents per share.
- Return on net capital employed decreased from 8% to 5%.
- Return on equity decreased from 7% to 4%.
- Gold production from continuing operations was 6% higher at 6.2 million ounces, largely owing to increased production from the Australia, Ghana and Guinea operations. Their contribution was partially offset, however, by planned reductions in production at the South African operations.
- Total cash costs increased by 6% to \$281 per ounce, largely owing to the impact of stronger operating currencies, inflation and lower grades mined in the year.
- Ore Reserves down 20% to 63 million ounces and Mineral Resources 19% lower at 176 million ounces as at the end of December 2005.

Exchange rates

The average exchange rate for the year ended 31 December 2005 was R6.37:\$1 compared with R6.44:\$1 in 2004. The average value of the Australian dollar versus the US dollar for 2005 was A\$1:\$0.76 compared with A\$1:\$0.74 in 2004.

Gold production

The increase in production of 6% to 6.2 million ounces was largely a result of a full year's attributable production from the former Ashanti mines in Ghana and Guinea, and higher production at Sunrise Dam,

Morila, Mponeng and Navachab. This increase was partially offset by reduced production from the underground operations in South Africa.

Production from the South African operations decreased by 6% to 2.68 million ounces mainly as a result of the following:

- a drop in the grade and volume mined at TauTona due to a reduction in face advance as a result of geological complexity;
- declines at Tau Lekoa offset by improved grades;
- a decrease in the volumes mined at Savuka as the mine nears closure; and
- the lower grades mined at Great Noligwa.
- these were offset by improvements at Mponeng where the recovered grade increased by 12% and production by 17%.

Australia's production was 45,000 ounces higher at 455,000 ounces as a result of a 1% decrease in tonnes treated and a 12% improvement in grade to 3.9g/t.

Production in Brazil increased by 12,000 ounces. At AngloGold Ashanti Mineração production was 4% higher at 250,000 ounces as a result of the increased tonnages treated, despite this being of a lower grade. Serra Grande production was 2% higher at 96,000 ounces, a result of increased higher grade tonnage.

The Ghanaian operations produced 680,000 ounces for the year compared with 485,000 ounces for the eight months to 31 December 2004. Although production at Obuasi totalled 391,000 ounces, this was hampered by a 9% decline in grade mined to 4.77g/t. Also exacerbating the situation were equipment failures, shortages and adverse weather conditions. Production of 115,000 ounces at Bibiani was also constrained by a 22% decline in grade to 1.45g/t. Mining activities here are nearly complete. At Iduapriem, attributable production was 174,000 ounces at a yield of 1.71g/t.

At Siguiri in Guinea, attributable gold production increased to 246,000 ounces for the year compared with 83,000 ounces for the eight months to December 2004. This increase was mainly due to the processing of the ore through the new CIP plant.

Gold production in Mali increased by 11% or 53,000 ounces to an attributable 528,000 ounces. This was mostly a result of a 28% increase in attributable production at Morila to 262,000 ounces, with the average yield increasing by 22% to 5.41g/t. Attributable gold production at Yatela rose to 98,000 ounces although grade declined to 2.99g/t. At Sadiola, attributable production declined by 3% to 168,000 ounces as milled tonnages decreased and grade declined.

In Namibia, Navachab produced 81,000 ounces, which was 21% up on 2004 with an increase in yield of 29% to 2.05g/t. This increase occurred despite the equipment failures experienced during the year.

At Geita in Tanzania, gold production increased by 8% to 613,000 ounces, largely as a result of the increased tonnage treated although grade declined to 3.14g/t. The move to owner-mining was completed during July 2005.

Gold production at Cripple Creek & Victor in the United States remained steady at 330,000 ounces, mainly owing to the slightly higher recoveries obtained from the increased tonnages processed.

Income statement

Gold income

The average spot price of \$445 per ounce for the year was 9% higher than that in 2004. However, in rand terms, the average spot price was 7% higher at R91,154 per kilogram. The received gold price increased by \$45 per ounce or 11% to \$439 per ounce.

Gold income increased by 14%, rising from \$2,309 million in 2004 to \$2,629 million in 2005. This increase was primarily a result of the improvement in the received price of gold and the increase in ounces sold.

Cost of sales

Cost of sales rose by 20% from \$1,924 million in 2004 to \$2,311 million in 2005. This was largely attributable to currency and inflationary effects, with the latter resulting from increased mining contractor costs and higher diesel, fuel, transport and electricity prices.

Cost of sales changes can be further analysed as follows:

- total cash costs increased to \$1,768 million in 2005 from \$1,549 million in 2004 (or from \$264 per ounce to \$281 per ounce), despite the 6% increase in production to 6.2 million ounces in 2005. Of the \$17 per ounce increase in total cash costs, \$4 per ounce related to stronger operating currencies relative to the dollar, \$19 per ounce to inflation, and \$8 per ounce to lower grades. Cost savings initiatives helped to negate this by \$14 per ounce. The stringent savings programme was designed to eliminate \$110 million in costs by the end of 2005 but had the effect of achieving savings of \$160 million.
- retrenchment costs were \$26 million in 2005 compared with \$7 million in 2004. These costs were incurred as a result of a general cost efficiency drive, the benefits of which will be felt in coming years; the downsizing of operations at Savuka as it moves to closure, and staff reductions at other South African mines;
- rehabilitation and other non-cash costs increased by \$35 million compared with the previous year, largely because of changes to estimates and a reassessment of the processes to be undertaken to complete the group's restoration obligations;
- the amortisation of tangible assets at \$503 million was \$123 million higher than in 2004. This increase is largely attributable to a full year's amortisation of the former Ashanti assets and a reassessment of the useful lives; and
- inventory movement increased by \$10 million in 2005 compared with an increase of \$18 million in 2004. The favourable movement in inventory arose mainly as a result of the increase in heap-leach inventory at Cripple Creek & Victor in the United States and grade streaming at Siguiiri in Guinea which resulted in more ore being milled than was mined.

Other expenses

- Corporate and other administration expenses increased by \$13 million on the previous year to \$64 million, as the costs associated with the former Ashanti corporate offices were accounted for the full 12 months. In addition, corporate costs were further adversely affected by the strengthening of local currencies against the dollar in a largely rand-driven cost area.

- Market development costs amounted to \$13 million, most of which was spent through the World Gold Council.
- Exploration continued to focus around the operations in the countries in which the group operates, namely, Argentina, Australia, Brazil, Ghana, Guinea, Tanzania, Mali, Namibia, South Africa and the USA. In addition, exploration activities are moving to new prospects in the Democratic Republic of Congo, Colombia, Alaska, China, Mongolia and Russia. The spend for 2005 was \$79 million of which \$45 million was for greenfields exploration. The decrease in exploration costs of \$1 million on the previous year was a result of reduced expenditure in brownfields areas.
- The change in international accounting standards from 1 January 2005 resulted in the amortisation of goodwill reducing to nil. Goodwill is no longer amortised but is considered for impairment on an annual basis.
- Non-hedge derivatives recorded a loss in the current year of \$135 million compared to a loss of \$142 million in the previous year. The loss is primarily a result of the revaluation of non-hedge derivatives resulting from changes in the prevailing spot gold price, exchange rates, interest rates and greater volatilities compared with the previous year.
- Other operating expenses include post-retirement medical provisions mainly in South Africa of \$9 million and other employment costs of \$11 million.
- The group incurred operating special items of \$77 million arising from an impairment of various assets in Ghana of \$38 million at Bibiani, abandoned development in South Africa of \$6 million, the reduced value of the tax concession in Ghana (following a reduction in tax rates) of \$20 million, as well as cancellation fees on the termination of contract mining at Geita and the settlement of various indirect tax disputes, which was offset by the profit on disposal of various exploration properties.

Operating (loss) profit

The group incurred an operating loss in 2005 of \$36 million compared with a profit of \$102 million in 2004, caused mainly by the increase in

cost of sales, increased impairment, contract cancellation fees on the transition to owner-mining and the effects of the unrealised loss on the hedges.

Adjusted gross profit increased by 6%, from \$441 million to \$469 million. Factors affecting adjusted gross profit positively were the significantly higher gold price, which contributed \$45 per ounce, and a full year's results from the former Ashanti operations, which contributed \$29 million. On the negative side was inflation, which reduced profit by \$96 million, lower grades mined \$32 million, lower volumes mined \$7 million and local operating currencies which strengthened marginally relative to the dollar. Amortisation costs increased due to the reassessment of useful lives and increased capital expenditure.

Loss attributable to equity shareholders

Loss attributable to equity shareholders includes an operating loss of \$36 million as well as the following:

- interest received, which decreased by \$24 million to \$25 million, mainly as a result of the reduction in funds due to the expanded capital expenditure programme and cash required to complete the hedge restructuring in the early part of the year;
- finance costs, which increased by \$21 million to \$108 million, mostly as a result of interest due on overdrafts and bank loans, and the convertible bond. The unwinding of the decommissioning and restoration obligations amounted to \$9 million for the current year compared to \$8 million in the previous year;
- the taxation credit was lower at \$36 million compared with a credit of \$41 million in 2004, primarily a result of the reduced earnings for the year and changes in the estimated deferred tax rate arising from reductions in corporate tax rates in South Africa and Ghana. This credit has a substantial positive effect on adjusted headline earnings;
- the minorities' share of earnings of \$23 million; and
- adjusted headline earnings decreased by 26% from \$271 million to \$200 million. Factors affecting adjusted headline earnings were mainly the factors affecting adjusted gross profit and the increases in corporate and net operating expenses, reduced interest received and increased finance costs.

Cash flow

Operating activities

Cash generated from operations was a combination of losses before taxation of \$160 million as set out in the income statement, adjusted for movements in working capital and non-cash flow items. The most significant non-cash flow items were the movement on non-hedge derivatives of \$262 million and the amortisation of tangible assets of \$503 million.

Cash generated from operations of \$699 million was reduced as a result of the closure and subsequent environmental and tailings activity costs at Ergo of \$31 million; environmental, rehabilitation and other expenditure of \$16 million; costs associated with the termination of an employee benefit plan of \$10 million, and mining and normal taxes paid of \$30 million.

Net cash inflow from operating activities was \$612 million in 2005, which is 15% higher than the amount of \$534 million recorded in 2004. The increase was mainly a result of the higher average gold price received for the year which in turn resulted in increased receipts from customers.

Investing activities

Funds of \$612 million generated from operating activities were used to grow the group and a sum of \$722 million was invested in capital projects. Total capital expenditure during 2005 was \$137 million higher than in 2004, mainly due to the conversion to owner-mining in Tanzania, the inclusion of the former Ashanti operations for a full 12 months and the bringing to commercial production by January 2006 of the Moab Khotsong mine.

Capital expenditure in Namibia declined to \$5 million in 2005 from \$21 million in 2004. The high levels of expenditure in 2004 was a consequence of the conversion at Navachab from contractor-mining to owner-mining. In South Africa, capital expenditure increased by 4% to \$347 million. In Australia, capital expenditure increased from \$28 million to \$38 million, primarily because of the Sunrise Dam trial underground mining project.

Capital expenditure in the United States decreased from \$16 million to \$8 million as a

result of the higher expenditure in 2004 on the expansion project at Cripple Creek & Victor.

Investments acquired during 2005 include an additional stake in Trans-Siberian Gold plc at a cost of \$15 million, increasing the investment in the Russian venture to 29.9%, and an increase in investments in the Rehabilitation Trust Funds established by AngloGold Ashanti in compliance with regulatory requirements.

Proceeds from the disposal of investments, tangible and discontinued assets amounted to \$13 million. This related to the disposal of assets and discontinued assets arising from the cessation of operations at Ergo and various smaller exploration properties in Australia and Peru.

Cash outflows resulting from the restructuring of the AngloGold Ashanti hedge book amounted to \$69 million. The net cash outflow after investment activities amounted to \$771 million.

Financing activities

The net cash flows from financing activities increased by \$50 million to an inflow of \$82 million in 2005 (inflow of \$32 million in 2004):

- Proceeds from borrowings during 2005 amounted to \$659 million, and included a \$470 million drawdown on the \$700 million syndicated loan facility, other short-term money market borrowings of \$129 million and other sundry amounts.
- Repayment of borrowings included \$265 million on the \$600 million syndicated loan facility which was cancelled and \$15 million on the new \$700 million syndicated loan facility. Other loan repayments included normal scheduled payments in terms of loan agreements.

Dividend payments totalling \$169 million were made during the year, compared with the dividend paid in 2004 of \$198 million.

On 27 January 2005, AngloGold Ashanti announced the signing of a new three-year loan facility agreement for \$700 million to replace the existing \$600 million facility which matured in February 2005. The facility was used to repay the maturing facility of \$600 million (\$265 million drawn as at 31 December 2004) and for general corporate purposes. This new facility reduced the

group's effective cost of borrowings, as the borrowing margin over LIBOR reduced from 70 to 40 basis points. The facility was arranged with a number of AngloGold Ashanti's relationship banks. The group expects to finance the repayment of debt of \$188 million which is scheduled to mature in 2006 from existing cash resources, cash generated from future operations, existing debt facilities and, potentially, future debt facilities and debt instruments.

The net result of AngloGold Ashanti's operating, investing and financing activities was a net cash outflow of \$77 million which, when deducted from the opening balance of \$289 million, and a negative translation of \$3 million, resulted in a closing cash and cash equivalents balance of \$209 million.

Overview of the hedge book

AngloGold Ashanti actively manages its hedged commitments under changing market circumstances. The company believes that market circumstances favourable to the gold price are likely to remain in place for some time.

Following the completion in January 2005 of a substantial restructuring of the hedge book, as well as the restructuring of the Geita hedge book during the year, the hedge book now stands at 10.8 million ounces. This represents cover equal to 35% of five years' forecast production spread over a ten-year period.

Recent developments

- On 26 October 2005, AngloGold Ashanti announced that it welcomed the announcement by Anglo American plc that it intended to provide AngloGold Ashanti with greater flexibility to pursue its strategy by deciding to reduce its shareholding in the company, whilst still intending to remain a significant shareholder in the medium term.
- The board of directors has approved the Boddington expansion project.
- The group's associate, Trans-Siberian Gold plc, announced the intended development at its Asacha operation, which is subject to completion of project financing, and expected to start underground development in August. The total capital and pre-production costs of the Asacha project are estimated at \$90 million of which \$22 million has already been spent, leaving \$68 million

to be funded through project finance and equity or an equity-linked instrument. The group has agreed to participate in this funding to maintain its shareholding.

- AngloGold Ashanti announced on 27 February 2006 that the group had acquired an effective interest of 8.7% in Dynasty Gold Corporation, an exploration company with projects in China, with a \$2 million private placement in shares and warrants.

Outlook

AngloGold Ashanti expects production to decline marginally to within a range of 5.9 million ounces to 6.1 million ounces, as Bibiani phases into a tailings-only operation in combination with the forecast closure of Savuka. Total cash costs are anticipated to be between \$285 per ounce and \$293 per ounce, based on the following exchange rate assumptions: \$/R6.50, A\$/0.76, BRL/\$2.40 and ARS/\$2.96. Capital expenditure for the year is estimated to be between \$786m and \$818m and will be managed in line with profitability and cash flow. The depreciation and amortisation charge for 2006 is estimated to be approximately \$577 million.

Based on current business planning, in 2007, AngloGold Ashanti expects its gold production to increase to between 6.3 million ounces and 6.5 million ounces. This growth will be driven primarily by forecast increased production at the following operations:

- in South Africa, production at Moab Khotsong is expected to increase by approximately 80% in line with the development plan;
- in Australia, Sunrise Dam production should increase by approximately 25% as the higher grade GQ lobe is accessed;
- in Brazil, at AngloGold Ashanti Mineração, production is anticipated to increase by almost 40% as a consequence of the Cuiabá deepening project;
- in Ghana, both Iduapriem and Obuasi should see planned increases in production of between 10% and 15% respectively; and
- in Tanzania at the Geita mine, production is forecast to rise by over 50% due to mining in the higher grade Nyankanga Cut 4.

These forecast increases in production offset planned reduced production at Tau Lekoa in South Africa, Bibiani in Ghana, Yatela in Mali and at Cripple Creek & Victor in the United States.