

The gold and uranium markets



AngloGold Ashanti's primary source of revenue is from gold, with silver and uranium oxide contributing as by-products. The markets for all of these products rose strongly in 2007 with the prices of gold and uranium in particular at or close to record levels.

Products

AngloGold Ashanti's main product is gold. Revenue is also derived from the sales of silver and uranium oxide. AngloGold Ashanti sells its products on world markets.

Gold market

The gold market is relatively liquid compared to many other commodity markets. Physical demand for gold is primarily for fabrication purposes, including jewellery (which accounts for just less than 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 as 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.

The market in 2007

Continued strong levels of investor and speculator interest, particularly in the fourth quarter of the year, pushed the gold price to levels just short of record highs, records which were then surpassed soon after year end in an exceptionally buoyant market. The average gold spot price for the year, at \$697/oz, was 15% higher than that in 2006.

Although prices were relatively range-bound during the first half of the year, the end of the third quarter and the fourth quarter saw a strong surge in the dollar gold price and particularly high levels of investor interest. Fabrication demand followed an inverse pattern, with the more stable prices of the first half leading the market to record high levels of jewellery consumption in certain regions, which then fell away in the fourth quarter as price volatility took its toll, particularly in more price-sensitive markets. The exception to this pattern was the Chinese market, where jewellery demand remained relatively solid in the fourth quarter despite the high levels of price volatility.

The main contributing factor to the price gains seen in the second half of the year was economic uncertainty relating to credit concerns and the impact of the sub-prime mortgage crisis in the US. Inflationary concerns driven by higher food, oil and commodity prices also played a role, as did the escalation in geopolitical tension, particularly at year-end.

Rand gold prices saw new record highs of R187,000/kg during the year and an average spot price for the year of just over R157,000/kg.

Investment

Overall, the investment market saw lower levels of demand than in 2006, however, this demand was heavily concentrated in the last half of 2007, for the aforementioned reasons.

Particular strength was exhibited in trade on commodity exchanges and also in the gold Exchange-Traded Funds (ETFs). Total ETF holdings at year-end stood at close to 28 million ounces, with a total value of over \$23 billion. This represents a significant level of growth over year-end holdings in 2006, even though this itself represented a doubling over levels of funds held the previous year. The majority of ETF investment occurred in the US-listed fund, StreetTracks.

Demand

Over the first half of 2007, physical demand from jewellery fabrication recovered strongly from the low levels of 2006, reaching record highs in several major markets. In the second half of the year, however, this level of demand could not be sustained in the face of a more volatile price environment, which impacted heavily on traditional markets, and with the increasingly difficult consumer and retail environment in developed markets such as the US.

Overall, fabrication demand for jewellery in 2007 increased by 6% in tonnage terms over 2006 levels, with the bulk of that increased contributed by the larger emerging markets of East Asia, India and the Middle East. European demand is expected to remain flat, whereas demand from the US market fell in tonnage terms by 14% over 2006.

It was in the Indian market that the contrast in consumption levels between the two halves of the year was most marked. Demand reached record levels in rupee and tonnage terms for both jewellery and retail investment in the second quarter of the year. Together these totalled 317 tonnes, half of global mine output for the quarter and 90% higher than the relatively low level attained in the same quarter in 2006.

Demand in the first half of the year increased by 72% over the corresponding period in the previous year. This strong level of consumption was fuelled in part by economic growth, particularly in the agricultural sector, as well as by a stable rupee gold price. In the second half of the year, however, the rupee/dollar exchange rate showed significant volatility, and this combined with a period of volatility in dollar gold prices created a set of circumstances unfavourable to gold consumption. Price volatility is a significant deterrent to demand in the Indian market, and in the second half of 2007 the periods of most extreme price volatility coincided with some of the more auspicious gold buying occasions, such as Diwali. Demand in the fourth quarter was particularly poor, and fourth quarter offtake reached the lowest level since the early 1990s. Over the year as a whole, an increase in jewellery offtake in tonnage terms of 6% was recorded.

Demand in the Middle East, specifically in the six Gulf markets, was also dented considerably in the second half of the year, with a sharp shift in consumer sentiment away from gold jewellery consumption brought about by a combination of volatile price levels, inflationary concerns and significant



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escalations in rent charges. As the currencies of these markets are pegged against the dollar, there is no cushioning for consumers against dollar gold price volatility. In the region, Turkey and Egypt experienced healthier demand, with good tourist seasons and increased economic stability helping to fuel consumption.

The Chinese market proved most resilient to the more volatile prices as most retailers maintain a margin of around 10% over the gold price and therefore tend not to adjust prices on a daily basis according to each and every fluctuation in the dollar gold price. The Chinese economy also continued to record strong growth. The demand picture during the first months of 2008 however, may turn out to be less healthy, as manufacturers are already reporting resistance among retailers to restocking at current high prices.

In the US, gold demand in 2007 reached the lowest level since 1992. Retailers continued to reduce their focus on the category in the light of rising prices and to seek out product with lower gold content so as to offer a lower-cost range of product to an increasingly price-sensitive consumer. Only the high end of the market, which typically retails 18 carat product, remained strong. Margins in this segment are higher than in the mass market segment and consumers are less sensitive to price increases.

Despite high gold prices, supplies of scrap into the market were weaker than in 2006. In part this seems to have been due to the fact that significant personal gold inventories were

liquidated in 2006 and have not been replaced as yet. Another factor was the price surge which took place towards the end of the year. Consumers were deterred from selling old jewellery by the expectation that prices might rise still further.

Industrial demand increased marginally by 2% over 2006 levels. A slowdown in the demand for electronic goods over the second half of the year impacted on growth in this sector.

Official market

Official sector sales for the calendar year were 485 tonnes, some 30% higher than in 2006. Gold sales by the Central Bank Gold Agreement (CBGA) signatories account for the bulk of this increase and in the third year of the second CBGA agreement (which came to an end on 26 September 2007) 475.8 tonnes of the available quota of 500 tonnes had been released onto the market.

Sales during the first half of 2008 are expected to reach between 200 tonnes and 300 tonnes, with some small-scale purchases offset against this figure.

Hedging

Gold producers reduced their hedging positions considerably in 2007. Over 400 tonnes were bought in the market in this way, a figure only slightly below the record level of de-hedging measured in 2004. The majority of this activity took place in the first half of the year, and was driven by the activities of a small number of major players.



As at 31 December 2007, the net delta hedge position of AngloGold Ashanti was 10.39 million ounces or 323 tonnes, valued at the spot price of gold on that day of \$836/oz. The marked-to-market value of the hedge position at this date was negative \$4.27 billion.

Marketing channels

Gold produced by AngloGold Ashanti's mining operations is processed to a 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 is then sold either through the refineries' channels or directly to bullion banks and the proceeds are paid to the company.

Bullion banks are registered commercial banks that deal in gold. They participate in the gold market by 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 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 physical product, the same channel of the refinery is used. In this case, the refinery does not sell the metal on the company'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 fulfills 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

AngloGold Ashanti has since its inception been committed to growing the market for its product, particularly as gold jewellery sales in many developed markets have declined materially over the years in favour of other luxury goods. In response, the company's marketing programmes aim to increase the desirability of gold to sustain and grow demand and to support the deregulation of the market in key economies.

AngloGold Ashanti's market development activities centre on the following areas:

- Strategic projects undertaken in key and critical gold jewellery offtake markets (USA, India, China, Italy, Middle East), which aim to develop positive corporate identification and recognition while achieving, where sensible and possible, financial returns for AngloGold Ashanti;
- Host country projects of a downstream development nature; and
- AuDITIONS, the company's gold jewellery design competition.

AngloGold Ashanti remains a member of the World Gold Council (WGC) and undertakes its own strategic marketing projects in such a way as to co-operate with and support the WGC's wider objectives.

Strategic projects

India

India is the world's largest consumer market in tonnage terms. Gold demand here is firmly embedded in cultural and religious traditions and is seen as a symbol of wealth and prosperity. It is considered to be an auspicious metal that is bought and given as a gift during religious festivals.

With the assistance of a pre-eminent Indian jewellery retailer, AngloGold Ashanti's projects in India are intended to help bring about the modernisation of the country's traditional gold jewellery sector. One concept centres on transforming the traditional, semi-urban jewellery retailing environment into a more modern and efficient one that presents rural consumers with a high-quality, professional and trusted 'local' jewellery store, which can better compete with stores selling such lifestyle items as electronics and cell phones. Other concepts focus on the development and distribution of branded collections of jewellery into the market.

China

China has been identified as a key strategic market by AngloGold Ashanti both because of its size – it is the third largest market worldwide for jewellery – and because of its potential for growth. In China, AngloGold Ashanti has partnered with a Hong Kong-based retailer to develop and roll-out a retail concept that targets independent, high-income earning women wishing to express their independence and individuality through accessories of gold.

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The roll out of this concept has included the co-sponsoring of AuDITIONS China so as to expand the reach of the company's jewellery design competition to the China mainland. A collection of jewellery for commercial sale was developed on the basis of the competition designs. AngloGold Ashanti has also partnered with the retailer to establish concept stores for gold jewellery in major urban centres in China. The first of these stores will open in Beijing in April 2008.

United States

The American gold jewellery market is characterised primarily as an adornment market in which gold jewellery is purchased mainly as a fashion accessory. During the past ten years, there has been some slippage in gold jewellery consumption in volume terms in the US market relative to that of other luxury and lifestyle goods.

Contributing in part to this decline has been the commoditisation of gold jewellery through the mass-market retail channel, which has tended to sell jewellery on price rather than design style. Consumer research, however, suggests that the US customer shops in a fashion- and trend-conscious way and is therefore generally receptive to brands and branding. Furthermore, the US market is viewed by consumers in other important consumption categories as an opinion- and trend-forming market. Influencing the purchasing motives and buying patterns of the US consumer base can therefore influence other key consumption regions around the world.

In response to these factors, AngloGold Ashanti, together with the WGC, partnered with a large US jewellery wholesaler and distributor to develop and promote at retail level selected collections of gold jewellery from the new product ranges of the Italian-based Gold Expressions (GE) manufacturers. This project is intended to promote the sale of fashionably-designed and progressively-styled gold jewellery in the US retail market and to lay the foundation for Italian manufacturers to build themselves or their products into consumer brands.

Middle East

As a region, the Middle East (comprising the United Arab Emirates, Turkey and Saudi Arabia) is the third largest consumer market for gold in volume terms. The increase in disposable income in this region as a result of both higher oil revenues and rising numbers of tourists has impacted positively on gold jewellery consumption.

While the challenge from increasingly more prominent lifestyle, luxury and branded products is, as it is in other markets, clearly growing, the gold category in the Middle East has so far sustained its already high rate of gold consumption per capita compared to the rates of growth in population and per capita disposable income.

AngloGold Ashanti has partnered with the WGC and a leading jewellery wholesaler in the region to develop a business concept to launch and promote at the local retail level selected collections of mid- to high-end gold jewellery from the product ranges of Italian-based manufacturers. The project is intended to improve the gold jewellery product and retailing proposition offered to both the domestic and the tourist consumer segments in the Middle East.

Host Country Jewellery Sector Development

AngloGold Ashanti's marketing efforts have historically been directed at the growth and development of the jewellery sector in countries that host AngloGold Ashanti operations. These projects are intended to bring benefit to the company on several levels:

- Corporate image-building;
- Supporting host governments' beneficiation agendas; and
- Providing a platform for strategic market development projects.

These projects will continue to be important for jewellery sector development and will be focused primarily in South Africa, Brazil and Ghana. AngloGold Ashanti continues to hold a 25% stake in the Oro Group, the largest gold jewellery manufacturer in South Africa, with projects in Ghana and Brazil currently under investigation.

AuDITIONS

In 2004, following the business combination of AngloGold and Ashanti, the AngloGold Ashanti AuDITIONS brand was created to unite the company's gold jewellery design competitions and to reinforce the company's brand in look, feel and character. The concept of AuDITIONS is premised on the metaphor of the performing arts, with designers auditioning in gold through their pieces.

The overall strategic objective of AuDITIONS is to stimulate innovative design in high-caratage gold around the world in order to raise the profile of and drive demand for this jewellery category among consumers. AuDITIONS competitions also seek, through

their contacts with the jewellery manufacturing and retail trade, to promote the concept of innovative jewellery design and expose the trade to new and innovative design and techniques.

It is intended to build AuDITIONS into an independent global competition brand and, with the help of the WGC, the competition has been extended to the key gold markets of India, China and the Middle East, from its original bases in South Africa and Brazil.

Uranium

AngloGold Ashanti remains South Africa's largest producer of uranium. Several initiatives are under way to boost AngloGold Ashanti's uranium production further. In 2007, a new tailings dam was commissioned in order to segregate untreated uranium-bearing material from material which had previously been treated. Work has begun on an upgrade of the uranium plant at Vaal River and this will be commissioned in 2009. Nufcor Uranium Limited (Nufcor) has also entered into contracts with several other uranium producers to treat their material. The first deliveries under these contracts started in late 2007.

Following a run of price increases lasting more than four years, the spot price of U_3O_8 reached an all-time high of \$136/lb in mid-June 2007. The price weakened thereafter due to weak seasonal demand during the summer months. The spot price dropped to a low of \$75/lb at the start of October before recovering to end the year at \$90/lb.

Recent spot price volatility has been predominantly demand-driven with utilities backing away from the market in light of the record prices for uranium. Conversely, term market prices have remained remarkably steady with published prices remaining at \$95/lb throughout the second half of 2007. Term activity remains the dominant contracting force in the uranium market with up to 90% of utility demand procured via direct multi-year supply agreements with producers.

Forward uranium market fundamentals remain positive with robust demand augmented via an increasing number of new reactor build projects. Market prices are anticipated to remain robust for several years with the potential for price spikes in the event of further supply disruption.

