

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.