

Business overview – financial review

Results for the year

- Average dollar gold spot price of \$604 per ounce, 36% higher than in 2005.
- 2006 received gold price increased by 31% to \$577 per ounce.
- Adjusted gross profit up by 125% to \$1,058 million.
- Adjusted headline earnings increased by 105% to \$413 million from \$201 million or to 151 US cents per share in 2006 from 76 US cents per share in 2005.
- A final dividend of 240 South African cents per share or approximately 33 US cents per share was declared, resulting in a total dividend for 2006 of 450 South African cents or approximately 62 US cents per share.
- Successful \$500 million equity raising in April 2006 at a discount of less than 1% to the prevailing market price.
- Return on net capital employed increased from 5% to 9%.
- Return on equity increased from 4% to 9%.
- Gold production from continuing operations was 9% lower at 5.6 million ounces, largely owing to decreased production from the Tanzanian operations and planned reductions in production at the South African operations.
- Total cash costs increased by 10% to \$308 per ounce, largely owing to the impact of stronger operating currencies, inflation and lower grades mined in the year.
- Ore Reserves increased 6% to 66.9 million ounces and Mineral Resources 3% higher at 181.6 million ounces as at the end of December 2006.

Exchange rates

The average exchange rate for the year ended 31 December 2006 was R6.77:\$1 compared with R6.37:\$1 in 2005. The average value of the Australian dollar versus the US dollar for 2006 was A\$1:\$0.75 compared with A\$1:\$0.76 in 2005. The average value of the Brazilian real versus the US dollar for 2006 was BRL2.18:\$1 compared with BRL2.44:\$1 in 2005.

Gold production

The decrease in production of 531,000 ounces to 5.6 million ounces was largely a result of delays in the mining schedule to access the high-grade ore at the Geita mine in Tanzania, which reported production of 308,000 ounces in 2006 compared to 613,000 ounces in 2005, a decline of 305,000 ounces. The South African mines reported production of 2,554,000 ounces compared to 2,676,000 ounces in 2005, a reduction of 122,000 ounces, in line with our plans for 2006. With the move to tailings-only production, the Bibiani mine in Ghana produced 37,000 ounces in 2006 compared to 115,000 ounces in 2005, a reduction of 78,000 ounces, before the operation was sold at the end of November 2006. The remaining group mines generally reported production similar to that of 2005.

Income statement

Gold income

The average gold spot price of \$604 per ounce for the year was 36% higher than that in 2005. However, the received gold price increased by \$138 per ounce or 31% to \$577 per ounce.

Gold income increased by 13%, rising from \$2,629 million in 2005 to \$2,964 million in 2006.

This increase was primarily a result of the improvement in the received price of gold offset by the reduction in ounces sold.

Cost of sales

Cost of sales declined by 1% from \$2,309 million in 2005 to \$2,282 million in 2006. This was largely attributable to the lower production, and a mix of currency and inflationary effects, resulting from increased mining contractor costs and higher diesel, fuel, transport and electricity prices. This was partially offset by the effects of cost-saving initiatives.

Cost of sales changes can be analysed as follows:

- Total cash costs decreased to \$1,746 million in 2006 from \$1,766 million in 2005 (although unit costs increased from \$281 to \$308 per ounce), mainly as a result of the 9% reduction in production to 5.6 million ounces in 2006. Of the \$27 per ounce increase in per ounce cash costs, \$14 per ounce was due to inflation and \$36 per ounce to lower grades. These increases were partially offset by efficiency savings of \$10 per ounce, favourable exchange variances of \$7 per ounce, higher by-product effects of \$3 per ounce and other variances of \$3 per ounce.
- The cost savings programme was designed to eliminate \$100 million in costs by the end of 2006 and achieved savings of \$73 million.
- Retrenchment costs were \$22 million in 2006 compared with \$26 million in 2005. The costs in 2005 were incurred as a result of a general cost efficiency drive, the downsizing of operations at Savuka as it moves to closure, and staff reductions at other South African mines. In 2006, the general cost efficiency drive was continued with \$15 million incurred at Obuasi and a further \$7 million at the South African mines.
- Rehabilitation and other non-cash costs decreased by \$60 million compared with the previous year resulting in a credit of \$3 million compared to an expense of \$57 million, largely because of changes to estimates, the effect of interest rates in the discounting and a reassessment of the processes to be undertaken to complete the group's restoration obligations.
- The amortisation of tangible assets at \$597 million was \$94 million higher than in 2005. This increase is largely attributable to a full year's amortisation of Moab Khotsonq, which is in its first full year of production, and a reassessment of the useful lives of our mining assets in accordance with the revisions to the business plans at the beginning of the year.

- Inventory movement increased by \$37 million in 2006 compared with an increase of \$10 million in 2005. 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 Siguiri in Guinea which resulted in more ore being milled than was mined.

Other expenses

- Corporate and other administration expenses increased by \$20 million on the previous year to \$84 million, mainly as a result of the costs associated with share-based payment expenses, increased audit fees related to the implementation of Sarbanes-Oxley and inflation.
- Market development costs amounted to \$16 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. Total exploration spend for 2006 was \$103 million of which \$51 million was for greenfields exploration. The increase in exploration costs of \$24 million on the previous year was a result of increased expenditure particularly in South America and Australia.
- Loss on non-hedge derivatives and other commodity contracts was \$239 million in 2006 compared to a loss of \$135 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.

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- Other operating expenses include post-retirement medical provisions for operations, mainly in South Africa, of \$8 million and other employment costs of \$9 million.
- The group incurred an operating special items loss of \$18 million which arose from an impairment of various assets of \$6 million, underprovisions in indirect taxes of \$28 million and share-based payment expenses of \$38 million arising from performance grants and the costs of the BEE transaction, partially offset by profits on the disposal of and recoveries from various assets of \$54 million.

Operating profit (loss)

The group achieved an operating profit in 2006 of \$246 million compared with an operating loss of \$34 million in 2005, as a result of the increased revenue from the average gold price, reduced costs of sales, offset by the effects of the unrealised loss on the hedges.

Adjusted gross profit increased by 125%, from \$470 million to \$1,058 million. Major factors affecting adjusted gross profit positively were the significantly higher gold price, which contributed \$773 million and the effect of weakening operating currencies, mainly in South Africa of \$54 million, improved by-product credits from sales of uranium, silver and sulphuric acid of \$39 million, and estimate revisions on rehabilitation and restoration of \$60 million. On the negative side was inflation, which reduced profit by \$89 million, lower grades mined \$229 million and increased royalties of \$19 million as a result of the higher average gold price. Amortisation costs increased due to increased capital expenditure.

Loss attributable to equity shareholders

After achieving an operating profit of \$246 million, the loss attributable to equity shareholders resulted from the net effect of the following:

- Interest received increased by \$7 million to \$32 million, mainly as a result of increased funds arising from the share issue completed during the year and the increased positive cash flow from the higher average gold price.
- Finance costs increased by \$15 million to \$123 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 \$16 million for the current year compared to \$9 million in the previous year.
- The taxation charge increased by \$215 million to \$180 million from a credit of \$35 million in 2005, primarily a result of increased earnings for the year and the increase in effective taxation rates; the effect of non-allowable deductions mainly related to the hedge losses in non-taxable jurisdictions, BEE transactions and the effect of certain foreign operations exiting their tax holidays.
- Minorities' share of earnings of \$30 million.

Adjusted headline earnings increased by 105% from \$201 million to \$413 million. Factors affecting adjusted headline earnings were mainly those affecting adjusted gross profit, increases in corporate and operating expenses, increased interest received and finance costs.

Cash flow

Operating activities

Cash generated from operations was a combination of profits before taxation of \$168 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 \$627 million and the amortisation of tangible assets of \$597 million.

Cash generated by operations of \$1,281 million was reduced by normal taxes paid of \$143 million to \$1,137 million.

Net cash inflow from operating activities was \$1,137 million in 2006, which is 86% higher than the amount of \$612 million recorded in 2005. 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 \$1,137 million generated from operating activities were used to grow the group and a sum of \$817 million was invested in capital projects.

Total capital expenditure for 2006 was \$95 million more than in 2005, mainly owing to increased expenditure of \$101 million for the Cuiabá expansion in Brazil and, in Australia, for Sunrise Dam as well as the build-up at Boddington of \$48 million in 2006. This increased expenditure was offset by reduced expenditure of \$34 million in South Africa and \$20 million in Guinea.

Investments acquired during 2006 include an increase in investments in the rehabilitation trust funds established by AngloGold Ashanti in compliance with regulatory requirements, the investments made for the establishment of a listed vehicle fund in uranium by a joint venture.

Proceeds from the disposal of investments, tangible and discontinued assets amounted to \$132 million. This related to the disposal of assets and discontinued assets arising from the cessation of operations at Ergo and various smaller exploration properties and the net proceeds on disposal of part of the interest in the listed vehicle fund in uranium on its initial listing in London.

Financing activities

The net cash flows from financing activities decreased by \$192 million to an outflow of \$110 million in 2006 (inflow of \$82 million in 2005):

- Proceeds from the share issue undertaken in April 2006 and employee share options exercised amounted to \$507 million,
- Proceeds from borrowings during 2006 amounted to \$226 million, and included a \$140 million drawdown on the \$700 million syndicated loan facility and other sundry amounts.
- Repayment of borrowings amounted to \$623 million and included \$415 million on the \$700 million syndicated loan facility, and \$129 million on short-term money market borrowings. Other

loan repayments included normal scheduled payments in terms of loan agreements.

- Dividend payments totalling \$132 million were made during the year, compared with dividends paid of \$169 million in 2005.

The net result of AngloGold Ashanti's operating, investing and financing activities was a net cash inflow of \$289 million which, when combined with the opening balance of \$209 million, and a negative translation of \$3 million, resulted in a closing cash and cash equivalents balance of \$495 million.

Overview of the hedge book

AngloGold Ashanti actively manages its hedged commitments in a value accretive manner. During 2006, in addition to delivering in and buying back a number of hedge contracts, the company also restructured a number of hedge contracts maturing in the near term into later years. The company currently believes that market circumstances favourable to the gold price are likely to remain in place for some time.

Outlook

AngloGold Ashanti expects production for 2007 to improve to 5.8 million ounces as Moab Khotsong continues to ramp up production, the Cuiabá expansion in Brazil is completed and higher grades are accessed at Sunrise Dam in Australia. Total cash costs are anticipated to be \$309 per ounce, based on the following exchange rate assumptions: R7.50/\$, A\$/0.76, BRL2.2/\$ and ARS3.15/\$.

Capital expenditure for 2007 is expected to be \$1,070 million and will be managed in line with profitability and cash flows. The largest increase over prior years is due to Boddington in Australia and some expansion at the South African operations.

In order to simplify the reporting effect of gold hedges on the received price, from 1 January 2007, AngloGold Ashanti will report an average received gold price which will be similar across all of its mines.