

Business overview – the gold market

Products

AngloGold Ashanti's main product is gold. Revenue is also 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 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 2006

Continued strong levels of investor and speculator interest in 2006 combined with exceptional volatility in the first half of the year pushed the gold price to 26-year highs. After reaching a \$725 per ounce

peak in the second quarter, gold pulled back to \$562 per ounce in June, followed by a renewed bout of investor interest that drove the price back to the mid-\$600s in July. Unsurprisingly, price volatility peaked in the second quarter, with relative stability returning to the gold market in the latter part of August and continuing through to year-end.

In 2006 there was again a correlation between the dollar exchange rate against the euro and the gold price. From an opening exchange rate of \$/€1.18 for the year, the dollar closed the year at \$/€1.33, thus providing strong support for a higher gold price.

During 2006, the South African rand did not appreciate in line with the weaker US currency. The rand opened the year at R6.34/\$1 and closed the year very much weaker at R7.00/\$1. This weakening helped push the rand gold price to new highs of R157,000/kg in July and to an average of R131,335/kg for the year, or some 45% higher than the average rand gold price for the previous year.

Investment

The wholesale market of exchange traded funds (ETFs), commodity exchange activity and over-the-counter purchases was generally strong in 2006, with particularly robust interest evident in the gold ETF market, which saw the launch of several new funds. The total net number of ounces held by ETFs almost doubled over the course of 2006, from 11 million ounces in January to 20 million ounces at year-end, and these investors would appear to be longer-term holders, as the ETFs only experienced small net disinvestment during periods of weakening gold prices.

Another key development in 2006 was the rise in investor interest in physical gold, especially among high net worth individuals seeking wealth preservation instruments in the face of continued geopolitical and economic uncertainty. This type of safe haven buying was a

marked difference to the approach of this group to gold investments in the past several years, when the main focus seemed to be short-term profits.

Gold has also benefited from the move by some investment funds, such as pension funds, to allocate a portion of their assets to commodities. Some of this investment is made through commodity indexed funds, which saw investment values grow by some \$100 billion during the year.

Demand

The decline in physical offtake that began in the last quarter of 2005 continued through the first half of the year and into the early part of the third quarter. Although some recovery was seen in the last months of the year, total global demand for 2006 ended 5% lower year-on-year, or 3,866 tonnes compared with 4,070 tonnes in 2005. The decline was due chiefly to a considerable decrease in jewellery offtake, particularly apparent in the first two quarters of the year, when jewellery demand dipped below total mine production in the face of a high spot price and considerable volatility in the market. Scrap supplies of gold onto the market increased significantly during this period, and gold jewellery manufacturers were further adversely affected as banks made margin calls to cover the higher value of gold inventory loans. In response, manufacturers were generally forced to increase their loan collateral or repay loans by cutting production or liquidating stock.

A marked change in trend was evident in the third quarter when the gold price began to stabilise, albeit at relatively elevated levels. This appeared to denote a move amongst consumers, particularly in Asia and the Middle East, towards accepting gold prices closer to \$600 per ounce. Consumption increases in the second half of the year were evident in key markets such as India, when declining price volatility coincided with the Diwali period, which resulted in

record gold imports for the fourth quarter even as the spot price steadied above \$600 per ounce. To a lesser extent, a late-year recovery in consumption was also evident in most parts of the Middle East, and Chinese jewellery fabrication had actually increased by the end of December, supported primarily by local consumption, with 18-carat gold taking a rising share of the market. North America saw some of the most significant retail price increases in recent years, with gold jewellery consumption in the United States down significantly in tonnage terms in 2006, despite the industry's shift to lighter carat and mixed-material products in response to the year's price volatility.

Despite the recovery in the fortunes of the physical market during the second half of the year, the significant May price rise and the related volatility that was the hallmark of the first six months of the year had a sustained impact on jewellery exports to price sensitive markets, including India and the Middle East. Major gold jewellery manufacturer and export hubs, such as Italy, suffered in turn as many distributors were reluctant to commit to stocks later in the year. The end result of a year of relatively high and volatile gold prices was a 16%, or 437 tonne, decline in global gold jewellery fabrication for the year.

Industrial demand grew healthily through the year, posting a 7% increase, thanks to especially robust demand from the electronics industry, which set a new record of 79 tonnes in the third quarter.

The importance of a strong physical market to provide offtake and floor price support remains. Significantly, research indicates that positive attitude and socio-economic changes have occurred among consumers, particularly women, in key markets towards gold jewellery, which bodes well for gold should investors and speculator interest subside.

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Official market

Official sector sales for the year are estimated to be 330 tonnes, some 50% lower than in 2005. The main cause of this decline was the 34% drop in gold sales by the Central Bank Gold Agreement (CBGA) signatories after this group did not fully utilise their allocation, selling only 104 of their 500 annual permissible tonnes. This was read as a bullish signal for both the gold market and investors, with most market analysts continuing to speculate that the CBGA signatories are indeed unlikely to fulfil their full quota for the remaining three years of the agreement. On an equally positive note, the reserves of many of the Asian central banks continue to grow at a relatively fast rate, and the prospect remains for these banks to diversify their reserve holdings into other investments, including gold.

Hedging

Gold producers continued to reduce their hedging positions during the year through deliveries into hedges and through buybacks. It is estimated that this added some 403 tonnes of demand during 2006. It is expected that the hedged producers will continue this strategy in 2007.

As at 31 December 2006, the net delta hedge position of AngloGold Ashanti was 10.16 million ounces or 316 tonnes, valued at the spot price of gold on that day of \$636 per ounce. The marked-to-market value of the hedge position at this date was negative \$2.903 billion. Due to the higher gold price of \$636 per ounce at year-end compared with the previous year-end gold price of \$517 per ounce, the hedge position only reduced by 0.68 million ounces while the marked-to-market value increased by negative \$0.962 billion from a negative \$1.941 billion.

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 is sold directly by the refineries 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 such as those in India and 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 elects to deliver 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

Since its inception AngloGold Ashanti has 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 through its membership receives assistance in all its marketing endeavours. Beyond this, AngloGold Ashanti has committed to undertake marketing projects in partnership with the WGC, which also separately ensures that core global co-operative marketing activities are serviced.

Strategic projects

INDIA

In India, the world's largest consumer market in terms of tonnage, gold demand is firmly based on cultural and religious traditions and is seen as a symbol of wealth and prosperity. It is also considered to be an auspicious metal that is bought and given as gifts 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 jewellery that targets the independent, educated woman wishing to express her independence and individuality through accessories in gold.

Together with the retailer, AngloGold Ashanti is co-sponsoring a gold jewellery design competition based on the theme Just Women to encourage the design of gold jewellery profiled on modern and independent Chinese women. The competition jewellery range will be commercialised and retailed through the partner's stores. AngloGold Ashanti has also undertaken to support the development and roll-out of the partner's flagship retail outlets in key cities on mainland China.

USA

The American gold jewellery market – the largest region by value and third largest by volume – is characterised primarily as an adornment market in which gold jewellery is purchased mainly as a fashion accessory. During the past 10 years, there has been slippage in gold jewellery consumption in volume terms in this market relative to other luxury and lifestyle goods. Contributing in part to this decline has been the 'commoditisation' of gold jewellery with the mass-market retail channel tending to sell jewellery according to price rather than design style. Consumer research, however, suggests that customers here shop in a fashion- and trend-conscious way and are therefore receptive to brands and branding. Furthermore, this market is viewed by consumers in other important consumption categories as

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an opinion- and trend-forming market, thus influencing the purchasing motives and buying patterns of the consumer base in the United States which in turn can influence other key consumption regions around the world.

In response to these factors, AngloGold Ashanti, together with the World Gold Council, partnered with a large United States jewellery wholesaler and distributor in 2005 to develop and promote at retail level selected collections of gold jewellery from the new product ranges of the Italian-based Gold Expressions manufacturers. This project was launched at the Vicenza Jewellery Fair in January 2006 and is intended to strategically promote the sale of fashionably-designed and progressively-styled gold jewellery in the United States retail market and to lay the foundation for Italian manufacturers to build either 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 second 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 had a positive impact on gold jewellery consumption. While the challenge from increasingly more prominent lifestyle, luxury and branded products is clearly growing – as it is in other markets – the gold category in the Middle East has so far sustained its already high gold consumption per capita rates compared with 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, some of whom already participate in the Gold Expressions initiative. The project is intended to improve the gold

jewellery product and retailing proposition offered both to the domestic and also to tourist segments in the Middle East.

HOST COUNTRY JEWELLERY SECTOR DEVELOPMENT

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

- corporate image building;
- creation of potential goodwill by supporting, where possible, host governments' beneficiation agendas; and
- providing a platform for strategic market development projects.

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

AuDITIONS

In 2004, following the merger of AngloGold with 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-carat gold around the world in order to raise the profile of and stimulate demand for this jewellery category amongst consumers. By ultimately providing consumers with AuDITIONS-inspired consumer product, the project seeks to promote AngloGold Ashanti to jewellery industry participants and

consumers and to build relationships with stakeholders in key gold markets.

It is the intention to build AngloGold Ashanti AuDITIONS into a global brand and, with the help of the WGC, the competition has been extended to the key gold markets of India and China, with the Middle East to be added in 2007. The first AuDITIONS India competition was launched in 2005, with the final awards event taking place in March 2006, while the first Chinese competition was launched in 2006 and will culminate in an awards event in March 2007.

Uranium

As South Africa's largest uranium producer, AngloGold Ashanti announced in July 2006 that its London-based nuclear fuel marketer and trader, Nufcor International Limited, a 50:50 joint venture with First Rand International had established and listed a new investment company, Nufcor Uranium Limited, on London's Alternative Investment Market (AIM). This new listing, in which Nufcor International holds 10% and the remaining shares are held by institutional investors, for the first time gives equity investors

direct exposure to the uranium price in the form of U_3O_8 on a European exchange. Nufcor Uranium listed on AIM at 205 pence and ended the year up 49% at 304.50 pence. The strategy of Nufcor Uranium is to buy and hold uranium oxide, in the form of U_3O_8 , for the long term and not to trade it actively. Nufcor International is contracted to provide custodial and advisory services to Nufcor Uranium.

More generally, the nuclear fuel market remained strong during 2006 with uranium oxide prices increasing from \$36 per pound to \$72 per pound by year-end and indeed increasing by a factor of 10 this decade. A number of drivers have sustained the price increases, including significant changes in the uranium sales processes. Most notable, however, is the fact that the underlying supply-demand fundamentals for uranium are strong, given robust projected demand for nuclear energy from countries such as India, Russia, and China. In addition, operational difficulties on the supply side in Canada in late October triggered the highest monthly increase in the uranium oxide price on record. Given these strong market fundamentals, further substantial increases in prices can be anticipated in the near term.