



ANGLOGOLD ASHANTI

## Gold: finding value in mining and beyond

Sir Sam Jonah, President

African Mining Indaba  
Cape Town - February 2005

### Overview for the year

- Generally a sound operating performance
- Best ever safety performance
  - For the quarter, lost time injuries declined by 26% (6.56 per million man hours)
  - For the year, the number of fatal accidents decreased by 26%
  - For the year, the rate of fatal accidents dropped by 34%
- Restructuring of the hedge book continues
- Ashanti assets continue to under-perform but interventions are underway to address this

## Obuasi

### Remedial actions

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- Upgrading development
- New drilling equipment is being acquired to improve ore body definition drilling
- Upgrading infrastructure
- Workshop facilities and operator training are being improved
- Mineral resource management is being centralised and improved
- Environmental conditions are being improved

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## Key challenges

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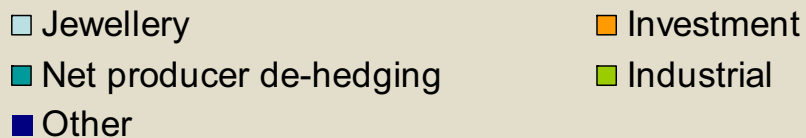
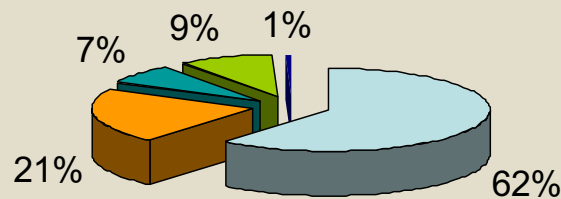
- Managing costs in the face of strong operating currencies, rising mining contractor costs, higher diesel fuel and electricity prices, and high transport charges
- Facing the opportunities and challenges offered by a strong gold price by continuing to simultaneously restructure, reduce and manage our hedge book
- Realising the full potential of Obuasi, both in terms of its existing operations and the prospective area below 50 level

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## Who consumes gold?

Breakdown of gold demand by sector: CY2003



Source: GFMS. Investment figure includes bar hoarding, bullion coin sales and implied net investment

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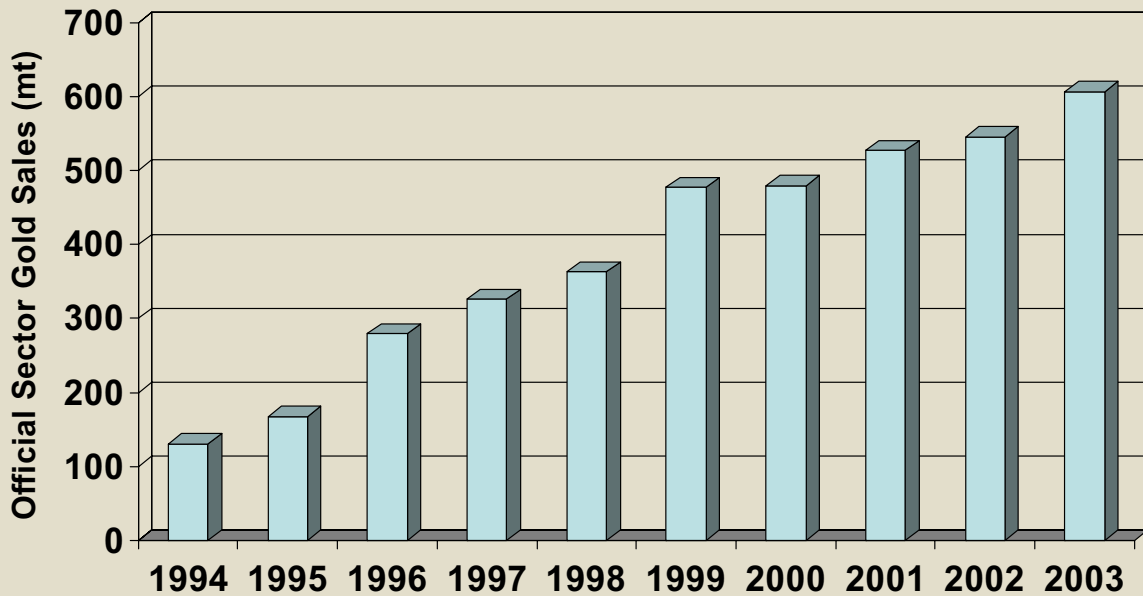
## Industrial Applications of Gold

- Electronics
- Dental Alloys
- Other Industrial and Decorative (e.g. decorative plating, catalysts)
- Total annual consumption from industrial sector = 385mt pa (less than 10% of total demand)

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## Official sector gold sales: 1994-2003

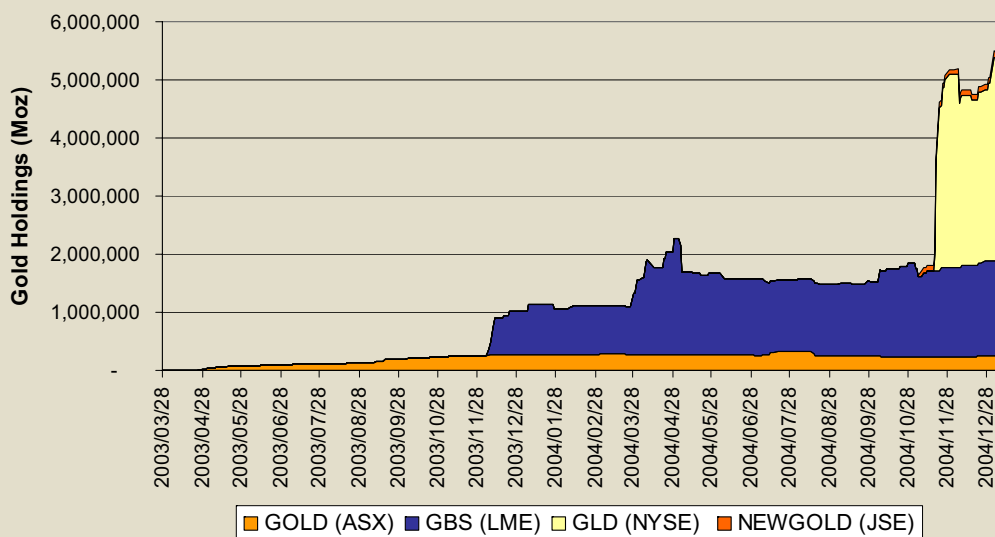


Source: GFMS

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## Gold holdings of ETFs traded in Australia, UK, USA and South Africa



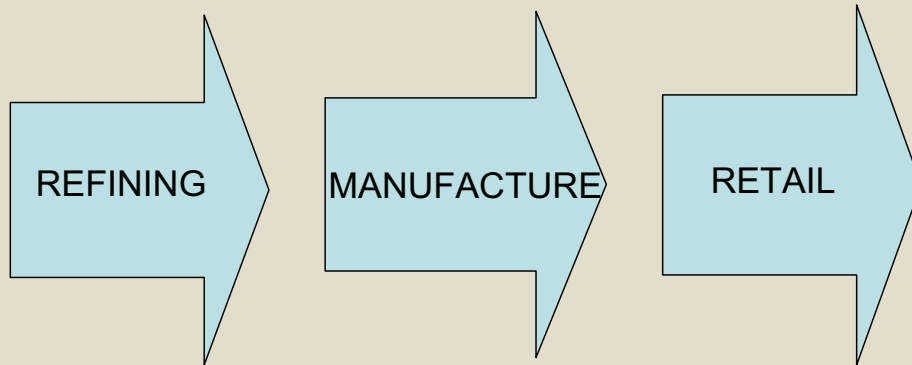
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## Margins in the gold jewellery value chain



14kt Figaro Chain: Total weight 5.57g. Gold content 3.25g  
 @ \$400/oz gold price, cost of gold = \$41.60

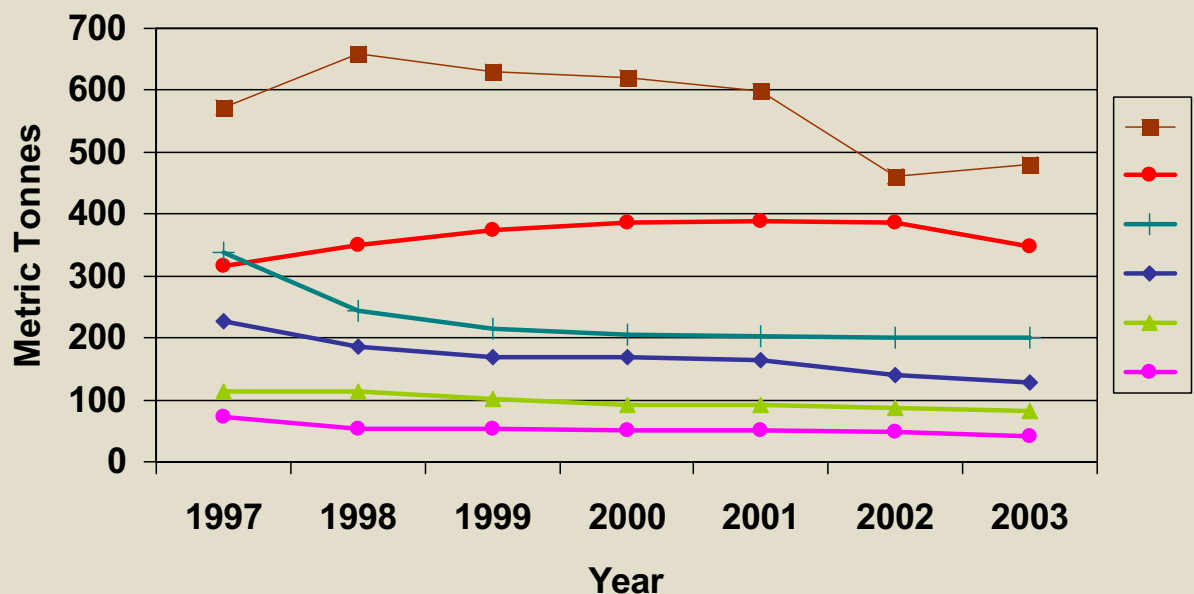


Selling price:	\$41.62	\$45.12	\$90.00
Margin:	\$0.02	\$3.50	\$44.88
%:	<0.5%	8%	50%

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## Gold jewellery consumption is declining in key offtake markets



## The World Gold Council (WGC)

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- WGC is active in all offtake sectors and in five key markets
- 24 members representing 34% of global mine supply
- Income from member dues and trade contributions
- 2005 budget of \$56m

### Limitations

- Not representative
- Fragmented nature of the gold industry
- Funding constraints
- Non-commercial so unlikely to re-invigorate the category

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## AngloGold Ashanti marketing activities

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- Concentration on re-invigorating demand for gold and reasons why consumers are moving away from gold in key markets
- Initiatives are non-generic, strategic, and brandable

### Focus

- Product: developing new, innovative products which delight consumers
- Promotion: generating excitement in gold marketing and advertising
- Branding: incubating new brands of gold jewellery

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## AngloGold Ashanti beneficiation initiatives

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- Oro Africa: the largest SA manufacturer of gold chain for export
- Jewellery design competitions and training in South Africa, Tanzania, Mali, Ghana
- Training and development programmes with South African NGOs
- Gold financing scheme for South African manufacturing jewellers
- African Gold Zone - jewellery manufacturing hub at Rand Refinery
- Market research into the viability of an African-inspired range of gold jewellery for sale in the US market
- Beneficiation handbook for South Africa
- Reciprocal training programmes with South African, Malian and Ghanaian goldsmiths

## **GOLD: FINDING VALUE FROM MINING AND BEYOND**

**Presentation to the African Mining Indaba, Cape Town, 8 February, 2005**

**Sam Jonah KBE, President, AngloGold Ashanti Limited**

The AngloGold Ashanti mission – or what we promise to our shareholders, employees and the public – is simple: We try to create value for anyone with a stake in our company, by finding and mining gold and by developing the market for our product. That's an uncomplicated statement of our intent. As we all know too well, doing it is more difficult and it's in the execution that we'll be judged. It's this topic, as the title our submission to you today suggests, that I'd like to address today in the next 20 minutes.

*Slide: 2004 Performance*

Some of you might remember that last year at this conference, Bobby Godsell and I did a black and white minstrel routine up here in anticipation of the completion of the merger of our two companies. The merger is complete and, while we have our fair share of problems – which I'll deal with in a moment, the integration of the two companies has gone as smoothly as one could have hoped for. Our objective was to combine our two companies into a long-life, low-cost, high margin investment opportunity, bringing together the best that both had to offer, by way of ore bodies, capital and human resources. We are well on the way to achieving that objective.

Although the continuing strength of the rand and our other operating currencies – the Brazilian real, Argentinean peso, Aussie dollar and Central African franc – hasn't been helpful, from an operating point of view, we had a reasonable fourth quarter and year, with gold production increasing by 8% to over 6 million ounces. Our cash costs were \$54 per ounce higher on the previous year, largely as a result of the currency effect, but I'll deal with that in a moment.

For us, one of the most pleasing features of the year has been our dramatic improvements in workplace safety in all of our regions – lost time injuries came

down by 26% for the year and the rate of fatal accidents by 34%. These numbers are a tribute to hard work and dedication to a safe working environment on the part of our operating management.

*Slide: Obuasi*

As I have said, the other key feature of the year was the completed merger of Ashanti Goldfields with AngloGold and, more directly for the purposes of what we're talking about here, the challenge presented to us by the under-performance of Obuasi. I think it's now common cause that the merger made commercial sense for two particular reasons – the combination of Ashanti's mineral inventory with AngloGold's balance sheet and deep level mining background and the impact of Ashanti's resource potential on the combined company's long term value. We all knew that Ashanti had been starved of capital. Had the merger not have taken place, we in Ashanti had fully intended to go to the market to raise the capital to put the operations back on track. The merger made that unnecessary, but it still left the combined company with the challenge of a difficult turnaround process. And so it is turning out to be. In the presentation of our 4<sup>th</sup> Quarter and Year end results to the market two weeks ago, we described the plans which we have in place to overcome Obuasi's production and cost problems and to better understand what we continue to think will prove to be a very substantial reserve in Obuasi Deeps. We also set out in some detail the key parameters which we're going to use publicly to measure our performance between now and the end of the year, in development metres, definition drilling metres, the number of available mining panels and the completion of mining infrastructure projects.

*Slide: AngloGold Ashanti Challenges*

These are the challenges which we face:

- We must manage costs in the face of strong operating currencies, rising mining contractor costs, higher diesel fuel and electricity prices, and high transport charges.

- We must benefit from the opportunities and face the challenges offered by a strong gold price by continuing simultaneously to restructure, reduce and manage our hedge book in the way which we have effectively done this over the past three years, reducing our level of cover by some 8 million ounces, giving us greater exposure to the higher spot price.
- We must realise the full potential of Obuasi, both in terms of its existing operations and the prospective area below 50 level.

As Bobby said with his characteristic candour at the Joburg results presentation, it'll be on our performance in meeting these challenges that the management must and will be judged.

However, the world is not so simple a place and the challenge doesn't stop there. Gold is our product and therefore all aspects relating to the consumption of gold are of concern to us.

*Slide: Who consumes gold?*

Gold has two major markets – the investment and jewellery sectors. Industrial applications constitute a third, much smaller market in which research into new applications has been neglected. The dynamics and volumes consumed in all of these sectors differ, but ultimately it is the jewellery market with its high volumes and broad geographical distribution of manufacturing and demand, that is the natural entry point for producers of gold to value-added markets.

I will deal briefly with industrial and investment demand and activities in before looking in more detail at the jewellery sector.

Quantities of gold consumed in industrial applications are small. Just over 385 metric tonnes each year is used in all industrial applications, compared to over 2,500 metric tonnes per year in jewellery fabrication.

*Slide: Industrial Applications of Gold*

There remains some potential in this market sector. As those of you who went to the AuTek breakfast session this morning will have discovered, we have found through our partnership with Mintek and other gold producers that little research

has been done on both the chemical qualities of gold and more especially on the potential use of gold catalysts. Encouraging future applications seem possible in filtration, safety and especially standing power generation.

On investment gold, during the 150 years of the international gold standard, the largest customers of most gold mining companies were the world's central banks. However, our customers of the past our now significant competitors, as many central banks are sellers of their accumulated gold.

*Slide: Official Sector Gold Sales: 1994-2003*

Today's investment customers are individuals and institutions. With bullion banks set to play a lesser role in the gold market, this vacuum will have to be filled and traditional roles of players in the value chain may have to be re-assessed.

To this end, the Rand Refinery, co-owned by AngloGold Ashanti and Gold Fields, produces gold bars of various sizes and purity levels, as required by Asian jewellery manufacturers and gold investors.

*Slide: Graph showing quantity of gold bought through ETF's from inception*

Through the World Gold Council, which is the international association of gold mining companies, four new gold investment products have been developed in Australia, Britain, the United States and South Africa. These products are exchange traded securities which carry a right to convert into physical gold. Some 5.5 million ounces of gold are currently owned through the medium of these four securities. The value of electronically traded funds (ETF's) is that they make gold investment products accessible to individual investors.

In turning to the role of the jewellery sector of the market, I'd like first to touch briefly on the place of gold refining in the jewellery manufacturing value chain. Here, apart from their obvious technical role, refineries play the part of supplier of gold to jewellery manufacturers, often offering financing to jewellery manufacturers in combination with gold sales. Refineries were traditionally

owned and managed by bullion banks, but increasingly, producers became involved in the refining business, as has long been the case here in South Africa.

Yet, while an essential part of the value chain, refining itself is a low margin business which is unlikely to play a defining role in the search for downstream value. Compared with activities further down the value chain, such as jewellery manufacture and retail, refining adds little value. Also, because of the low costs of transportation of gold in relation to the value of the product, downstream manufacturing businesses are not tied to the country hosting the mining or refining activity.

*Slide: Illustration of value add in the gold jewellery value chain*

The gold industry, from producers to manufacturers and retailers, now face a number of critical challenges. Key among these is that gold jewellery consumption is declining – demand in the jewellery sector has decreased from more than 3 thousand tonnes in 1998 to 2½ thousand tonnes in 2003.

*Slide: Gold decline in key consumption markets*

For new entrant nations that wish to establish manufacturing sectors, but have no sizeable internal consumer markets – and this applies to most African nations at this stage – export markets must be our focal point.

As the African Mining Partnership, which has been meeting over the past three days here in Cape Town has recognised, an important role for African governments, in partnership with gold mining companies, is to seek a lowering of the barriers imposed by countries with which we have otherwise burgeoning economic and political relationships. Europe and the USA are notable exceptions in respect of these tariff barriers. Africa in fact, benefits from advantageous tariff regimes in these regions. But these are developed markets; the preferred caratages are low and there is aggressive price competition. In order to make any sizeable headway into these markets, design, innovation and market promotion along with a cost competitive offering will be required.

This is predicated on a sophisticated jewellery manufacturing infrastructure, which can compete with imports from Italy, the traditional supplier of jewellery to the USA, as well as new entrants such as Turkey and Indonesia.

Manufacturing, marketing and design skills, access to financial resources, a supportive regulatory environment and infrastructure are some of the building blocks required.

In developed markets such as the USA, gold jewellery competes against a range of products which include not only jewellery but all goods which fall into the category of discretionary expenditure. It therefore follows, for example, that handmade gold jewellery from Ghana must compete for share of wallet with the advertising might of Nokia and the Apple iPod.

So, what should be the appropriate response from committed industry bodies, producers and governments?

*Slide: World Gold Council*

At the level of the industry, the World Gold Council is active in all the sectors to which I've referred and in each of the key markets of the US, Italy, the Middle East, India and China. Its income from member dues (at \$1.75 for every production ounce) and trade contributions give it a budget of \$56 million for 2005, 75% of which will be spent on jewellery and investment. However, the Council is hardly representative of a hugely fragmented industry and suffers from the combined effect of low levels of funding which constrain its activity and an unhelpfully broad mandate. In addition to these shortcomings, its industry-wide nature means that its activities must be non-commercial, which limits its ability to develop brands and a retail model which will re-invigorate the jewellery category.

We are very aware of the fact that, in the past, we have been criticised for not sticking to our knitting and interfering in the downstream value chain. However, the message we are being sent by the market is quite clear – nobody, neither Government nor trade organisation, is going to rescue the gold industry from declining consumer trends. It's going to be up to the producers themselves to

play a key role in reversing consumption patterns and restore our product's place amongst the range of desirable consumer goods.

*Slide: AGA Marketing Activities*

With this purpose in mind, AngloGold Ashanti has developed combined strategies for marketing and adding value to the product downstream from the refinery. Our initiatives focus on both understanding and the determinants of consumer behaviour and on re-invigorating demand. These initiatives have been non-generic, seeking to address product development, promotion and branding.

*Slide: Anglogold Ashanti Beneficiation Initiatives*

As far as material value adding (or beneficiation) is concerned, Anglogold Ashanti has developed a range of largely exploratory ventures in design (through our involvement with technical training institutions and design competitions), manufacturing (through our investment in OroAfrica), internet and catalogue-based retail (through the Gold Avenue and Saison projects,) to name just a few. Through this involvement, we have learned that all attempts at beneficiation must be market-led, placing research and market analysis at the forefront of necessary activities.

To this end, we are about to embark on two additional African projects. The first is a market research project aimed at investigating the viability of an African inspired range of gold jewellery specifically targeting the American market. Secondly, we have, together with other partners, created a mechanism for the competitive financing of working capital through a gold loan scheme. This project is South African focused, but there is no reason why the knowledge gained cannot be applied to similar schemes in other African countries.

These initiatives are but a few that exemplify our commitment to the beneficiation process. However, this is not a challenge we can face alone. Unless governments and manufacturers are willing to play a more committed role, we will be partners in name only.

Beneficiation is an area where governments need to work with the private sector in the creation of genuine public-private sector co-operative ventures, even partnerships. But for this to happen each must understand the other. Business needs to develop and demonstrate understanding of Government's policy imperatives. It is unhelpful for business to take the narrow view that the only business of business is business. Business is one stakeholder in society, but its wellbeing depends ultimately on the wellbeing of others, including government.

At the same time, governments should not try to make commercial decisions on behalf of business. The objective of increasing beneficiation of their countries' natural resources should not be pursued blindly. It is too easy for this pursuit to be subverted into a rallying point to raise nationalist sentiment with no commercial foundations. That would be to the detriment of businesses and their shareholders, and of the realisation of the objective as a whole. Partnerships based on a genuine understanding of the other's objectives and operational framework, coupled with an appreciation of the global environment in which we operate, are the key ingredients of success.

As gold producers, we are committed to meeting the challenges of ensuring that we deliver real value to our shareholders through our mining and exploration activities. We are also prepared to seek out opportunities for contributing to the process of building a value-added future for the gold market globally and for African gold. This goes wider than simply building manufacturing capacity; it implies developing an understanding of markets – the opportunities which they present and the constraints they impose. It implies partnerships with Government to build an infrastructure in Africa which can support viable beneficiation initiatives and most of all it implies identifying downstream commercial partners with whom we can work and who can provide the leadership and commercial drive that is required for success.

Mr. Chairman, I'd be grateful if you'd allow me a final word on a topic which I know is of interest to us all in the room. One of the strengths of both Ashanti Goldfields and AngloGold in the past (and which is also a character of the new

company) is the constructive relationships that we have always had with our host Governments. This is particularly so here in South Africa, where our roots are. This positive relationship is proving to be a benefit in bringing to closure the complex process of the conversion of our mining rights in terms of the new Act. We realise that we are dealing with unprecedented areas of law and regulation in this process and we continue to have constructive interactions with the Department of Minerals and Energy to deal with uncertainties which the process reveals. I think that we both realise that it is in neither of our interests for the conversions to be unduly delayed and we're confident of a positive outcome.