# Letter from the chairman and the deputy chairman

**Dear Shareholder**

The year ended 31 December 2004 was operationally generally sound, except for the newly acquired Ashanti mines, but financially challenging. Although gold production was higher than the previous year, largely as a result of the business combination with Ashanti, and the received price of gold increased by $31 per ounce, lower grades and higher costs driven by the oil price, mining contractor costs and stronger operating currencies pushed adjusted headline earnings 7% lower and, consequently, the dividend was substantially reduced. Additionally, the company's hedge book, which has served us very well in the past during periods of a weaker spot price, presented us with further challenges in the face of a sustained stronger gold price and a restructure of the hedge book was commenced at the end of December and completed in January 2005.

The average spot price for gold of $409 per ounce for 2004 was $46 per ounce stronger than the average price for 2003 and the final quarter of the year saw a spot gold price of $457 per ounce, the highest price in almost 17 years. The driving influence of positive investor sentiment, which appears to be behind this sustained improvement, remained the weakening of the dollar and continued political uncertainty in the Middle East.

The physical market for gold during 2004 showed some encouraging moves in the important markets of Turkey and Vietnam and sustained demand in India. In China, for the first time in several years, sales of gold jewellery grew during 2004 due to the introduction to that market of modern, 18- carat gold jewellery product. With these high population economies achieving growth in the high single digits, there seems good reason for cautious optimism about future demand and pricing for all commodities including gold.

It is against this background that AngloGold Ashanti took the decision to lower its mandate for hedging from 50% to 30% of the next five years of production spread over ten years and to restructure its hedge book. The effect of these moves was to increase the proportion of the company's anticipated 6.5 million ounces of gold production that is exposed to the spot price to 90% in 2005 and 83% in 2006 and to improve the value of remaining forward sales contracts in future years.

Concern that the International Monetary Fund (IMF) might sell part of its substantial gold reserves in order to write down the debt of heavily indebted poorer countries has recently given rise to a degree of uncertainty in the gold market. Such a scheme was previously proposed in 1999; then it seemed to us perverse that an international body such as the IMF should act in a way that would negatively affect gold markets in order to reduce the debt burden of certain developing countries, many of which are significant gold producers. Leading figures in the United States Congress have already indicated their opposition to any sale of IMF gold and, without the support of the United States at the IMF, such a sale would not be permitted. However, in 1999, a means was derived to realise value from the IMF gold reserves through the revaluation of a portion of the IMF gold holdings, from their low balance sheet value of $42 per ounce to the spot price for the metal at that time. This achieved the IMF purpose without impacting either the gold market or the price and we urge the IMF to act in a way on this occasion which will achieve its certainly worthwhile objective without severe and negative consequences for gold producing developing economies.

The positive trends in the gold market have also led gold companies to extend their efforts to find and turn to account, tomorrow's production ounces. In the case of AngloGold Ashanti, this has given rise to a "new frontier" strategy of looking for exploration and acquisition targets outside of the world's recognised and mature gold regions and to dispose of properties which are unlikely to yield real shareholder returns. In Russia, AngloGold Ashanti has acquired a share in London-based Trans-Siberian Gold as an entry point to this region. In China, strategic alliances are being sought to allow the company successfully to extract value from what may well be a prospective region. During the year the company announced joint venture arrangements giving it interests in Laos and the Philippines. In Mongolia, the company continued to acquire land positions in several prospective areas. In the DRC, exploration drilling has commenced in the gold-rich Ituri region of the north-east of the country.

Finally, faced with the combination of improving physical demand for the product, the likelihood of a sustained higher spot gold price, stronger currencies against the dollar and higher operating costs, the major challenge facing management is to grow margins, improve returns on capital and to continue to reward shareholders. We are confident that the company has strategies in place to meet these challenges during the rest of 2005 and in the years beyond.

**RP Edey**
*Chairman*

**TJ Motlatsi**
*Deputy chairman*

10 March 2005

Russell Edey

James Motlatsi