



Economic performance

1. Key issues at a glance

- To undertake exploration and joint ventures, or acquisitions, to maintain and grow our gold production profile.
- The optimisation of gold production and processing from our operations, through mine planning, operational performance, high levels of productivity and good cost control.
- To invest capital to maximise returns to shareholders.
- To undertake research and development into both our core business activities, to improve safety and efficiencies, and to create new and alternative markets for our product, gold.
- To maintain and develop the market for our product and to ensure maximum benefit from our sales of gold and other products, including uranium.

Contents

Living our values	56
Our scorecard	56
Review of 2007	57
Case studies	67

Economic performance continued

2. Living our values

At AngloGold Ashanti, our business is the safe and responsible exploring, mining and marketing of our products, primarily gold, but also silver and uranium.

Vision and values

Our vision, values and business principles are important to us and this entire report has been produced so as to reflect the way in which we live our values.

In response to the significant changes within our company over the past year from a shareholder and leadership perspective, and as the world in which we live in continues to change, we have embarked on a review of our values and business principles. *See box on page 75 in the Ethics and governance section.* We will report further on this in our 2008 report as we will be consulting with a broad range of management and employees across our operations.

3. Our scorecard

The following are key features of our performance during 2007:

- Gold production declined by 3% to 5.5 million ounces
- Total cash costs increased by 16% to \$357 per ounce, largely as a result of lower production, cost pressures facing the gold mining industry, inflation, stronger local currencies and by-product losses
- Adjusted headline earnings for the year were \$278 million
- Mineral Resources increased by 34.1 million ounces before depletion, with 6.9 million ounces being added from greenfields exploration discoveries
- Ore Reserves increased by 6.2 million ounces, before depletion, to 73.1 million ounces
- We declared a final dividend of 53 South African cents per share or 7 US cents per share, resulting in a total dividend of 143 South African cents or 20 US cents per share for the year.

The value of gold

The value of gold lies not only in its desirability – in displays of jewellery and as a monetary equivalent – but also for its unique properties. Gold is the most malleable and ductile of metals and is usually alloyed to increase its strength. It is an excellent conductor of electricity and heat, and is not affected by exposure to air or almost all reagents. It is inert and a good reflector of infrared radiation.

Gold's value is enduring given that it can be melted down, re-refined and re-used. It is estimated that around 15% of annual gold consumption is recycled each year – the rest is held and treasured, as a store of value or sentiment or as a useful commodity.



4. Review of 2007

Introduction

We recognise that as a mining company our business entails the recovery, processing and sale of a non-renewable resource. Thus, our direct economic impact in terms of any orebody will always be finite. It is therefore imperative that the economic benefits which are derived from the resources that we exploit are not limited to one particular set of stakeholders, but accrue to a broader stakeholder group in advance of, during and after mining. The economic benefit must also be balanced against the impacts that we have on the broader socio-economic and natural landscapes.

We also recognise that our operations – and indeed our product – are about people: employees and their families, our neighbours, our customers and suppliers, our shareholders and other interested parties. See *the section on Engaging with our Stakeholders on page 18*.

The Economic Performance section of this report is based on information drawn from our Annual Financial Statements which is published concurrently with the Report to Society. On a quarterly basis through the year, a comprehensive review of the operational activities of the group and its individual operations is published in the company's quarterly reports to shareholders, which are available at www.anglogoldashanti.com.

Operational performance

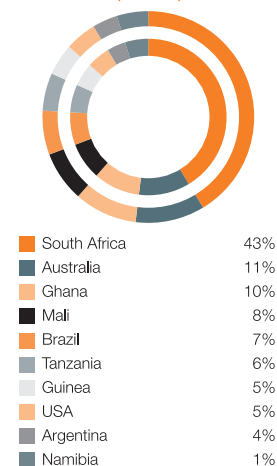
In 2007, AngloGold Ashanti produced 5.5 million ounces of gold from 20 operations in 10 countries, a decline of 3% on gold production achieved in 2006. The table below analyses our production by region.

Attributable gold production (000oz)			
	2007	2006	2005
Argentina	204	215	211
Australia	600	465	455
Brazil	408	339	346
Ghana	527	592	680
Guinea	280	256	246
Mali	441	537	528
Namibia	80	86	81
South Africa	2,328	2,554	2,676
Tanzania	327	308	613
USA	282	283	330
Total	5,477	5,635	6,166

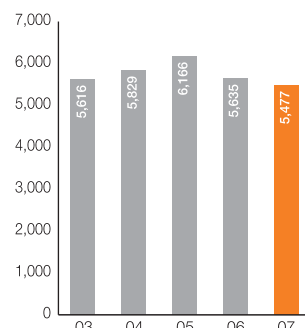
The gold market

Continued strong levels of investor and speculator interest, particularly in the fourth quarter of the year, pushed the gold price to levels just short of record highs, records which were then surpassed soon after year end in an exceptionally buoyant market. The average spot gold price for the year, at \$697 per ounce, was 15% higher than that in 2006. The main contributing factor to the price gains seen in the third and fourth quarters was economic uncertainty relating to credit concerns and the impact of the sub-prime mortgage crisis in the US. Inflationary concerns driven by higher food, oil and commodity prices also played a role, as did the escalation in geopolitical tension.

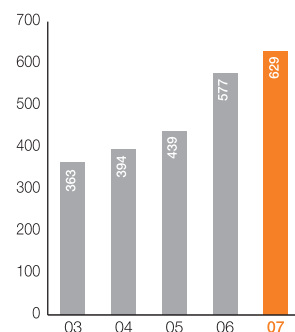
Attributable gold production (000oz)



Gold production (000oz)



Average annual gold price received (\$/oz)



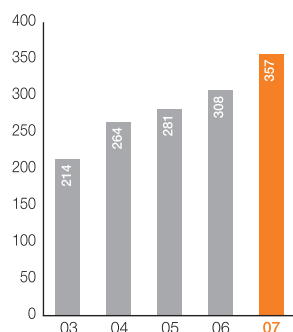
Economic performance continued

Income from gold versus by-products (%)



Gold	96%
Uranium	3%
Silver and Sulphuric acid	1%

Total cash costs (\$/oz)



Total cash cost by country (\$/Oz)

Argentina	264
Australia	313
Brazil	260
Ghana	432
Guinea	464
Mali	350
Namibia	419
South Africa	343
Tanzania	452
USA	282

The average gold price received for the year increased by 9% to \$629 per ounce, from \$577 per ounce in 2006. Total gold income for 2007 was \$3,280 million, total uranium income was \$100 million, and total income from silver and sulphuric acid was \$45 million.

Production costs

Total cash costs increased year-on-year to \$357 per ounce as a result of the lower levels of production, stronger local currencies against the US dollar and local inflationary pressures.

Group value-added statement		2007		2006	
\$ million	%		%		
Value added					
Gold income		3,280		2,964	
Purchases of goods and services in order to operate mines and produce refined metal, including market development costs net of other income		(1,352)		(1,041)	
Value added by operations	68	1,928	85	1,923	
Fair value gain on option component of convertible bond	2	47	1	16	
Profit on disposal of assets	–	7	2	54	
Income from investments and interest received	1	24	1	31	
Government					
– Deferred taxation	3	94	1	30	
Utilised in the group					
– Retained income	26	722	10	217	
Total value added	100	2,822	100	2,271	
Value distributed					
Employees					
Salaries, wages and other benefits	35	998	39	887	
Government					
– Current taxation	9	239	9	210	
Providers of capital					
– Finance costs and unwinding of obligations	4	125	6	123	
– Dividends declared	2	54	8	173	
– Minorities	1	32	1	30	
Other					
– Impairment of tangible and intangible assets	–	2	–	6	
– Loss from discontinued operations	–	–	–	2	
– Exchange loss	–	–	–	2	
– Loss on non-hedge derivatives and other commodity contracts	28	780	11	239	
Total value distributed	79	2,230	74	1,672	
Re-invested in the group					
– Amortisation and depreciation	21	592	26	599	
	100	2,822	100	2,271	

Further details and notes may be found in the Annual Financial Statements at www.aga-reports.com.

Distributing value to employees

In 2007, the group employed some 62,000 people, mostly in South Africa (60%). Total distributions of \$998 million were made to employees (including executive directors), which represents 35% of the value distributed by the group. For further information on AngloGold Ashanti as an employer refer to the Employment section of the report on page 88.

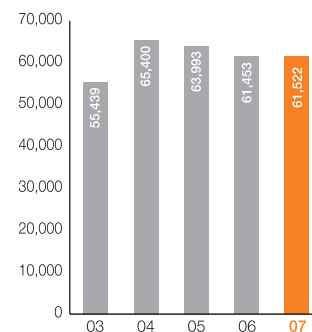
All permanent employees are eligible for certain post-retirement benefits, the specific nature of which varies from region to region. The contribution by the employer varies from 10% to 20% of basic pay.

All employees earn in excess of the minimum wages where these are regulated.

Employee benefits (\$m)				
	2007		2006	
Salaries, wages and other benefits	828	83%	723	82%
Health care and medical schemes, including defined post-retirement medical expenses	70	7%	70	8%
Contribution to pension and provident plans	48	5%	41	5%
Retrenchment costs	19	2%	22	2%
Share-based payment expense	33	3%	31	3%
Total included in cost of sales, other operating expenses operating special items and corporate administration and other expenses	998	100%	887	100%

Around 68% of employees within the group benefit from the participation in a share option scheme or a share ownership programme (ESOP). The latter is specific to South Africa; similar schemes elsewhere in the world are being considered. (See case study in the Report to Society 2006 on Harvesting for the future – Bokamoso_ESOP).

Total number of employees Group, including contractors



Geita, Tanzania

Economic performance continued

Payments to government

AngloGold Ashanti is supportive of the Extractive Industries Transparency Initiative (EITI) and is committed to reporting in line with this initiative in all of the countries in which it operates.

The governments of the following countries are shareholders in the company or in the respective operations:

Shareholding by government

Country	Company/Operation	% interest
Argentina	Cerro Vanguardia	7.5
Ghana	AngloGold Ashanti	3
Guinea	Siguiri	15
Mali	Morila	20
	Yatela	20
	Sadiola	20

Note that the group acquired the 5% stake in the Iduapriem mine that was held by the government of Ghana at the end of September 2007.

The following payments were made to government by AngloGold Ashanti, or its subsidiaries or the joint ventures that the company manages, during the year under review:

Payments to government

	Description	US\$ (000)
Argentina	Dividends	2,671
	Corporate taxation/provision	9,925
	Royalties	10,315
	Other taxes and duties	2,272
	VAT	13,700
	Employee taxes and contributions*	4,731
	Total	43,614
Brazil	Corporate taxation/provision	38,745
	Royalties	–
	Other taxes and duties	13,661
	VAT	9,086
	Employee taxes and contributions*	25,006
	Total	86,498
Australia	Corporate taxation/provision	36,733
	Royalties	8,458
	Other taxes and duties	2,367
	VAT	27,182
	Employee taxes and contributions*	5,813
	Total	80,553

* Note that employee taxes and contributions include remittances made to government but borne by employees as individual taxation.

Payments to government

	Description	US\$ (000)
Ghana	Dividends	4,048
	Corporate taxation/provision	–
	Royalties	9,383
	Other taxes and duties	–
	VAT	365
	Employee taxes and contributions*	1,550
	Total	15,346
Guinea	Dividends***	–
	Corporate taxation/provision***	–
	Royalties	21,577
	Other taxes and duties	914
	VAT	2,901
	Employee taxes and contributions*	2,662
	Total	28,054
Mali	Dividends**	35,040
	Corporate taxation/provision	48,925
	Royalties	15,232
	Other taxes and duties	4,999
	VAT	5,970
	Employee taxes and contributions*	7,665
	Total	117,831
Namibia	Corporate taxation/provision	6,606
	Royalties	1,420
	Other taxes and duties	250
	VAT	2,940
	Employee taxes and contributions*	1,942
	Total	13,158
South Africa	Corporate taxation/provision	93,600
	Royalties	–
	Other taxes and duties	10,496
	VAT	88,708
	Employee taxes and contributions*	76,581
	Total	269,385
Tanzania	Corporate taxation/provision	3,038
	Royalties	6,025
	Other taxes and duties	26,140
	VAT	5,265
	Employee taxes and contributions*	7,186
	Total	47,654

* Note that employee taxes and contributions include remittances made to government but borne by employees as individual taxation.

** Dividend payments (\$4,500,000 by Sadiola, \$16,000,000 by Yatela and \$14,540,000 by Morila).

***No dividends or corporate taxes were paid in 2007. Sigiri has a large shareholders' loan which will be repaid before dividends are declared. Sigiri is not yet in a tax-paying position owing to historic tax losses.

Economic performance continued

Geographical distribution of total shares identified (%)



South Africa	52%
North America	29%
United Kingdom	8%
Ghana	3%
Rest of Europe	2%
Asia Pacific/Middle East	2%
Other	2%
Switzerland	1%
Belgium	1%

Geographical distribution of free float (%)



South Africa	45%
North America	37%
United Kingdom	10%
Rest of Europe	3%
Asia Pacific/Middle East	2%
France	1%
Switzerland	1%
Belgium	1%

Payments to government

Description		US\$ (000)
USA	Corporate taxation/provision	1,170
	Royalties	1,190
	Other taxes and duties	3,137
	VAT	–
	Employee taxes and contributions*	3,589
Total		9,086

* Note that employee taxes and contributions include remittances made to government but borne by employees as individual taxation.

Assistance from government

No significant financial assistance was received by the company or the operations from government. Any assistance received is detailed below.

Assistance from government

Country	Value in US\$ (000)	Description
Argentina	–	
Australia	1,216	Fuel rebates
Brazil	–	
Colombia	–	
DRC	–	
Ghana	–	
Guinea	–	
Mali	–	
Namibia	–	
South Africa	3,147	Skills development levy
Tanzania	–	
USA	–	

Distributing value – shareholders

AngloGold Ashanti is a publicly listed company with shareholders located all around the world. Following the placement by Anglo American of a large percentage of its holding in various markets around the world, 80% of the shares are now in free float. The balance (17%) is held by Anglo American plc and (3%) by the Government of Ghana.

A graph depicting the geographical location of the company's shareholders is depicted alongside. The largest percentage shareholding (after removing shareholding of Anglo American plc and the Government of Ghana, that is, free float) is in South Africa (44.5%), followed by North America (36.5%) and then the United Kingdom (9.9%).



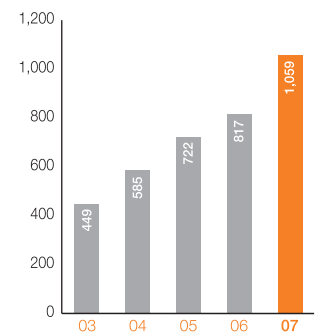
The company is listed on the following exchanges around the world:

<p>JSE Limited – Johannesburg (JSE) – Primary Listing</p> <p>Share code: ANG Security type: Ordinary shares Date listed: 11 August 1944</p> <p>New York Stock Exchange (NYSE)</p> <p>Share code: AU Security type: American Depositary Shares (ADR) Date listed: 5 August 1998 Share ratio: 1 ordinary share: 1 ADR</p> <p>Australian Stock Exchange (ASX)</p> <p>Share code: AGG Security type: CHESS Depositary Interests (CDI) Date listed: 15 November 1999 Share ratio: 1 ordinary share: 5 CDIs</p> <p>London Stock Exchange (LSE)</p> <p>Share code: AGD Security type: Ordinary shares Date listed: 4 February 1949</p>	<p>Ghana Stock Exchange (GhSE)</p> <p>Share code: AGA Security type: Ordinary shares Date listed: 27 April 2004</p> <p>Ghana Stock Exchange (GhSE)</p> <p>Share code: AAD Security type: Ghanaian Depositary Shares (GhDS) Date listed: 27 April 2004 Share ratio: 1 ordinary share: 100 GhDSs</p> <p>Euronext Paris</p> <p>Share code: VA Security type: Ordinary shares Date listed: 28 May 1974</p> <p>Euronext Brussels</p> <p>Share code: ANG BB Security type: International Depositary Receipts (IDR) Date listed: 28 May 1974 Share ratio: 1 ordinary share: 1 IDR</p>
---	--

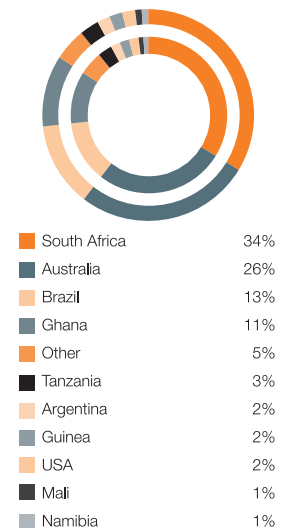
The share depreciated by 11% during the year, from R330 per share on the JSE (primary listing) on 31 December 2006 to R293 per share on 31 December 2007. The share peaked at R359 per share and reached a low of R254 per share, and traded within a range between R273 and R331 during the year.

Dividends declared for 2007 amounted to \$54 million (2006: \$173 million).

Capital expenditure (\$ million)

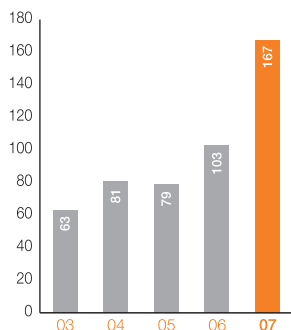


Capital expenditure by country (%)



Economic performance continued

Total annual exploration expenditure (\$ million)



Capital investment

A great deal of emphasis is placed by the company on capital investment both to sustain operations and in developing operations. In 2007, the group spent \$1.1 billion on capital expenditure (2006: \$817 million). Stay-in-business capex, including ore reserve development, amounted to \$570 million while the new project development made up for 45%. Major capital expansion projects are:

In South Africa:

- development of Moab Khotsong South Africa; and
- expansion projects at TauTona and Mponeng.

In Brazil:

- the Cuiabá Expansion project at Brasil Mineração.

In Australia:

- underground expansion at Sunrise Dam; and
- the Boddington Expansion project, a joint venture with Newmont Mining Corporation.

Supporting the gold market

Gold market development

AngloGold Ashanti has since its inception 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. See the case study *AngloGold Ashanti's AuDITIONS launches in China* at www.aga-reports.com/07/auditions-china.htm.

AngloGold Ashanti remains a member of the World Gold Council (WGC) and undertakes its own strategic marketing projects in such a way as to co-operate with and support the WGC's wider objectives.

Exploration and development

The main focus of AngloGold Ashanti's 2007 exploration programme was on greenfields exploration, that is, exploration in new terrains, notably in Australia, Colombia, and the DRC. Brownfields exploration, which is aimed at identifying replacement ounces for production, was undertaken around most current operations, with the most successful programmes being undertaken in Ghana, the United States of America, Australia, and Guinea.

Total exploration expenditure in 2007 amounted to \$167 million, of which \$92 million was spent on greenfields exploration and the balance of \$75 million on brownfields exploration.

The group's exploration programme has yielded a great deal of success during the year and is covered extensively in the Annual Financial Statements to be found at www.aga-reports.com.

Procurement

With significant annual procurement expenditure, the group can and does have a major impact on economic activity. The total amount for the purchase of goods and services in order to operate mines and produce refined metal, including market development costs net of other income, was \$1,352 million in 2007.

It is the group's intention that, as far as it is possible and sensible to do so, goods and services are procured locally and regionally.

In South Africa, the company is aligning its procurement policies with the Department of Trade and Industry's Codes of Good Practice by 2009. The code is a part of the country's transformation process and is aimed at encouraging new and small suppliers, particularly from historically disadvantaged communities. See the case study at www.aga-reports.com/07/BEE-procurement.htm.



Auditions, China

Economic performance continued

Product responsibility

Gold is a unique and valuable product, with most of all the gold ever having been mined still in use or available for recycling. The product itself does not have a significant impact on health and safety. AngloGold Ashanti does, however, look at the full life cycle of its operations when evaluating sustainable development-associated risks and impacts (see pages 10 to 11) and in developing plans to mitigate these risks and impacts.

Uranium is produced as a by-product at three of AngloGold Ashanti's mines in the Vaal River area in South Africa and is extracted from gold-bearing ore as a by-product only. These grades are consequently much lower than those of dedicated uranium mines in other uranium-producing countries. The average grade globally is around 1.5%, and the two largest uranium mines in the world have grades of around 25%. If unprocessed, this uranium is disposed of in the residue of the gold-bearing ore onto the tailings dams, along with other waste from the mining and processing operations. Monitoring of tailings for radioactivity is not necessary as the uranium is in a diluted form, and below environmentally acceptable levels of radiation. The processing of uranium is done in line with strictly enforced international legislation. (See case study in the Report to Society 2005: *Uranium mined as a by-product contributes to the bottom line.*)

No issues of non-compliance with regulations concerning the health and safety effects of products were alleged or proved in 2007.

Products are labelled according to internationally accepted norms and standards. In respect of gold bullion, this typically indicates the name of the refinery and the purity of the bar. No incidents related to product labelling occurred in 2007.

The bulk of the group's gold is sold through well-established and long term channels. See case study on: Where does our gold go on page 68. No significant issues relating to customer dissatisfaction were noted in 2007.



5. Case studies

In this report

The following case studies may be found on our website at www.aga-reports.com/07/case-studies.htm, or at the specific urls indicated below.

■ **AngloGold Ashanti's AuDITIONS launches in China** – In March 2007, AngloGold Ashanti launched its first gold jewellery design competition in China, the world's third biggest gold market in terms of consumption. Partnered with the innovative pure gold jewellery retailer, Just Gold®, and the World Gold Council, AngloGold Ashanti's competition encouraged original and striking contemporary gold jewellery design, thereby serving to contribute to the ongoing promotion of its product. This case study includes an analysis of the impact of AuDITIONS on the Chinese gold jewellery market and a full description of the competition itself. See the case study at www.aga-reports.com/07/Auditions-China.htm.



■ **Preparing for a changing BEE procurement landscape** – The Broad-based Socio-economic Empowerment Charter for the Mining Industry provides a framework for the transformation of the industry in South Africa. Black Economic Empowerment (BEE) procurement is one of seven core areas of activity addressed by the Charter. AngloGold Ashanti has made good progress in meeting the requirements stipulated by the Charter and aims to continue gathering information and developing a strategy to meet any shortfalls in 2008. See the case study at www.aga-reports.com/07/BEE-procurement.htm.



■ **From small beginnings: a small business developing** – Trevor Mulaudzi's rise to entrepreneurial success is part of AngloGold Ashanti's ongoing drive to support local initiatives. The company has provided financial assistance during periods of rapid expansion, constant encouragement and support, and introductions to new clients, thereby ensuring the growth of Mr Mulaudzi's cleaning business. See the case study at www.aga-reports.com/07/small-business.htm.





Case study: Where does our gold go – an economic perspective

Much of the reporting undertaken by AngloGold Ashanti focuses on examining where and how AngloGold Ashanti's gold is found and mined. A further question is: Where does the gold go once it has been mined and refined – to whom is it sold and for what purpose? In other words, where and what are the markets for gold, and what drives these markets?

Once the gold has been mined, processed and smelted into doré bars (roughly 85% gold content) at the AngloGold Ashanti operations, these are further refined into saleable form by refineries such as the Rand Refinery (see box on page 40) in South Africa, which refines most of the gold mined by AngloGold Ashanti in Africa, and various other refineries in Brazil, the United States, Australia and Europe.

These refineries sell the gold AngloGold Ashanti produces, generally to bullion banks, such as Rand Merchant Bank and Standard Bank in South Africa or internationally to HSBC, Morgan Stanley, Scotia Mocatta or Société Générale, or to trading houses such as Mitsui or Sumitomo. The exceptions to this are where gold is sold directly to jewellery fabrication industries by refineries, or where forward sales exist and AngloGold Ashanti elects to deliver physical product to fulfil these contracts.

AngloGold Ashanti's gold sales for 2007 can be broken down according to the following geographical regions: South Africa; Europe; North America (this includes the gold mined at AngloGold Ashanti operations in South and North America); and Asia – the gold mined in Australia. (See graph).

Although the supply of newly-mined gold from South Africa has diminished greatly since the peak of 1,000 tonnes of production recorded in 1970, South Africa was the world's largest producer of gold for close on 120 years. China surpassed South Africa's gold production in 2007. In 2007, South African gold production accounted for 11% of global output, with AngloGold Ashanti accounting for almost 27% of this quantity. From a group perspective, AngloGold Ashanti's African operations account for 30% of its total production. Total AngloGold Ashanti production accounts for 7% of global newly-mined gold production.

The international gold price has increased steadily since 2002. In 2007, the gold price reached a 27-year high of \$845.84/oz which approached the previous all-time record high of \$852 per ounce. On 4 February 2008, it reached an all-time high of \$936.50. The average spot gold price for 2007 of \$697 per ounce is 15% up on the average price of \$604 per ounce in 2006 (2005: \$444 per ounce).

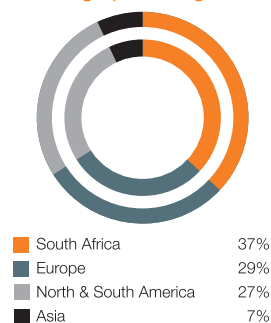
The rise in the gold price has been a result of several factors. The most recent surge, towards the end of 2007 and continuing into 2008, can be attributed to a steadily weakening dollar, the global credit crises (the matter of the enormous US trade deficit remains unresolved, and the lingering problem regarding the sub-prime mortgage market in the United States has ramifications for the international credit market) and continuing geopolitical tensions – all of which are bullish for gold and have encouraged investment and speculative demand for the metal. Fears of global inflation, which effectively devalues currencies and enhances the value of gold, have been spurred by increases in the prices of oil and other commodities, which in turn have been driven by world economic growth, all of which has contributed positively to the gold price. Note though that although the price of gold has almost doubled since 2004, it has not risen by nearly as much as that of industrial commodities such as nickel, copper and lead.

Secondly, positive market fundamentals, including strong demand especially from the jewellery and investment sectors, have boosted demand for gold. This has also been as a consequence of positive global economic growth, and the strength of demand for gold, particularly in emerging markets. Jewellery consumption/fabrication demand accounts for approximately 68% of total gold consumption annually, and investment demand for approximately 28%.

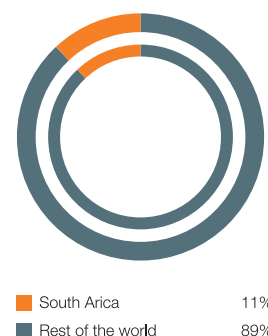
Continued growth in physical consumption is, however, hostage to other gold price movements. High gold prices and high levels of gold price volatility tend to deter buyers in price-sensitive markets from gold purchases; this phenomenon was evident particularly in the last quarter of 2007.

During the first half of 2007, however, on the back of a more stable gold price, gold demand reached unprecedented levels, particularly in China and India where strong economic growth has resulted in increased demand for gold jewellery. Gold jewellery sales in Russia and the Middle East (Turkey) also soared during this period.

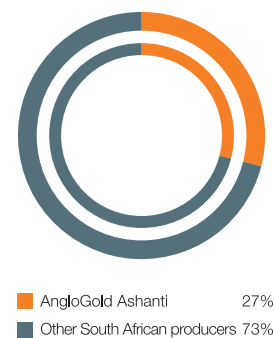
AngloGold Ashanti's gold sales for 2007 Geographical regions



South Africa's role in gold production – 2007



AngloGold Ashanti's role in South African gold production – 2007



Case study: Where does our gold go – an economic perspective *continued*

AngloGold Ashanti's role in global gold production – 2007



AngloGold Ashanti 7%
Other gold companies 93%

Overall, during 2007, jewellery demand in tonnage terms was 6% higher than in 2006. In India, consumer demand for gold was 7% higher than 2006. Demand in the first 8 months of the year was well supported by a buoyant economy and stock market, however the latter part of the year volatile gold prices impacted on demand. Similarly in China, a booming economy together with the start of the auspicious Year of the Golden Pig in early 2007, resulted in gold demand there increasing by 23% over 2006 levels with gold jewellery demand reaching 302 tonnes for the full year, exceeding 300 tonnes for the first time since 1997. The Middle East (Turkey in particular) and Russia recorded increases in gold demand of 20% and 27% respectively.

Global net retail investment rose by 51% to 133 tonnes and by 60% in value to \$2.9 billion in Q2 2007. The major change in recent years has been the introduction of gold-based exchange traded funds (ETFs), for which physical holdings of gold back the value of shares in these funds. The first such fund to be launched, and now the largest, was StreetTracks Gold Shares in 2004. The price of the ETF shares track the gold price and they have made it very simple for retail investors to invest in physical gold – around 70% of investors in StreetTracks are from the retail sector. As at the end of the year, the major gold ETFs had combined physical holdings close to 28 million ounces, with a total value of over \$23 billion.

Although industrial demand for gold is negligible, there is ongoing research into several promising industrial and chemical applications.





The supply side

On the supply side, there have been some constraints. The market in recent years has been characterised by declining global output and reduced sales by central banks. Production of newly mined gold globally has peaked, despite the strength of the gold price in recent years. This is largely a function of depleted resources and the costs of developing a new mine – existing miners are experiencing rising costs, ever deeper resources and declining grades. Regarding central banks, the Central Bank Gold Agreement (CBGA), or the Washington Agreement, the second one of which (CBGA2) came into effect in September 2004, provides for sales of up to 2,500 tonnes (500 tonnes annually) of gold over five years (i.e. until September 2008) as compared to the 2,000 tonnes (400 tonnes annually) provided for in the initial agreement in 1999. These agreements reaffirmed gold's status as a monetary reserve asset and set out to limit the sales of gold by individual signatory central banks. In recent years these sales have lagged and it is thought that certain central banks (China, Russia, and possibly some South American countries) have in fact been net purchasers of gold.

In terms of CBGA2, gold sales by central banks totalled 1,269 tonnes by the end of the third year of this agreement, which is less than the maximum of 1,500 tonnes permitted. An additional 117 tonnes has been sold since in the fourth year of CBGA2.



The role of Rand Refinery

Rand Refinery is the only gold refining operation in South Africa accredited by the London Bullion Market Association, which implies that the good delivery status of the gold, as endorsed by the London Bullion Market Association, guarantees assurance that a bar of gold produced by Rand Refinery contains the quantity and purity of gold as stamped on the bar. It is one of 52 such accredited refiners around the world, the seven largest of which have sufficient capacity to refine three times the current global output of newly mined gold. The refining market is extremely competitive and Rand Refinery's profitability is driven largely by the value it is able to add to product sold, rather than revenue from refining fees.

Rand Refinery is an unlisted public company whose major shareholders are the South African gold mining companies, AngloGold Ashanti (53%) and Gold Fields (35%). Rand Refinery refines and sells almost 100% of the gold mined in South Africa and 80% of that mined in the rest of Africa. This includes most of the gold mined by AngloGold Ashanti's African operations.

The gold (doré) received by Rand Refinery from the gold mines is 70% to 85% pure and contains silver, iron and various other by-products. Rand Refinery refines the gold up to a purity level of 99.5% which is then saleable on international gold markets. Rand Refinery refines the gold even further by means of an electrolytic process to achieve a purity level of 99.99%. After this, the gold can be 'alloyed down' in terms of customers' requirements.

Less than 50% of the gold refined and sold by Rand Refinery is in the form of 400 ounce London Good Delivery bars. Gold in this form is effectively sold at a discount as the price received by the Rand Refinery is that quoted in London and the gold still has to be transported there, and the travel and insurance costs paid.

Rand Refinery currently refines around 400 tonnes of gold per annum – with a ratio of 65:35 in terms of Value Add versus London Good Delivery. Thus around 35% of the gold refined by Rand Refinery is sold into the London market where the purchasers are mostly the bullion banks, exchange traded

funds and some central banks while 65% is sold to India, Turkey, Italy and the Middle East. Gold demand from India for South African gold in 2007 is estimated at around 160 tonnes (2006: 95 tonnes), which has increased substantially following the successful introduction of more direct marketing. The three main groups of consumers of gold in India are farmers (who buy and store gold as a currency hedge in order to finance the next season's crops), jewellery fabricators and investors. In Turkey (estimated to account for around 70 tonnes of South African gold in 2007), jewellery fabrication demand has increased exponentially in the last five to six years, largely as a result of the significantly cheaper labour and production costs there as compared to those in Italy where jewellery fabrication demand has fallen from some 400 tonnes to around 200 tonnes. Italy nevertheless remains a major destination for Rand Refinery's gold, as is the Middle East (Dubai, Saudi Arabia and Yemen).

Additional factors in determining the destination of Rand Refinery's gold on world markets are transport logistics and market proximity. Australia, the third largest producer of gold, competes with South Africa to supply the Indian market which is fortunately large enough to accommodate both. Australia also supplies gold to South East Asia (Malaysia, Singapore and Bangkok), in which markets are more readily accessible. The United States and Canada are self-sufficient regarding demand for beneficiated gold while China, which became the world's largest producer of gold in 2007, may shortly become a net exporter of gold.

In order to understand the gold market, Rand Refinery has found that it is necessary to 'own' the value chain and it has formed alliances with the security and freight forwarding companies which carry the risk of transportation and insurance. Rand Refinery arranges to collect the doré from the mine sites by helicopter. It oversees the refining of the gold and its transportation to its vaults at OR Tambo International Airport in Johannesburg, South Africa. From here around 1,500 kilograms of gold is transported to world markets every day. This 'ownership' of the value chain gives Rand Refinery closer links and access to important market intelligence concerning the gold market.

