

CFO's report



OVERVIEW

The three key financial challenges that faced AngloGold Ashanti during 2008 were:

- Maximising margins by both reducing the hedge book commitments and implementing effective cost controls in an extremely volatile economic environment, which saw significant commodity price and currency swings;
- In a market that was squeezed for credit and liquidity, redeeming the R2.0 billion South African corporate bond and implementing a refinancing plan to be able to redeem, upon maturity in February 2009, the \$1.0 billion convertible bond; and
- Delivering sales of non-strategic assets of \$1.0 billion to create balance sheet flexibility for years 2009 and 2010.

The company successfully met all three challenges. During 2008 the hedge book commitments were reduced by 47% from 11.28 million ounces to 5.99 million ounces, following an oversubscribed rights offering in July 2008 for \$1.7 billion. Total cash operating costs were tightly controlled during a year which saw sharp increases in inflation, power and fuel costs. This enabled AngloGold Ashanti to finish the year at \$444 per ounce which is competitive within the gold mining industry. During August 2008, the company redeemed in full, upon maturity, the R2.0 billion South African corporate bond and in November 2008 obtained a \$1.0 billion term facility from Standard Chartered Bank to place it in a position to repay the \$1.0 billion convertible bond when it matured in February 2009. In January 2009, the company announced the sale of its one-third interest in the Boddington project for an aggregate consideration of up to approximately \$1.1 billion. The above factors should provide AngloGold Ashanti with better gold price leverage and balance sheet flexibility going forward.

RESULTS FOR THE YEAR

- Average dollar gold spot price of \$872 per ounce, 25% higher than in 2007.
- The 2008 average received gold price decreased by 23% to \$485 per ounce due to the effects of hedge restructuring. The average received price, excluding the effects of the hedge restructure, increased by 12% to \$702 per ounce.
- Gold production from continuing operations declined from 5.48 million ounces in 2007 to 4.98 million ounces in 2008.

- Total cash costs increased by 24% to \$444 per ounce, largely owing to the impact of inflation, higher fuel and power costs, lower grades mined during the year, partially mitigated by the weakening of some of the local currencies during the latter part of the year.
- Adjusted headline earnings decreased to a loss of \$897 million from \$278 million in 2007 primarily due to the hedge reduction.
- A final dividend of 50 South African cents per share or approximately 5 US cents per share was declared, resulting in a total dividend for 2008 of 100 South African cents or approximately 11 US cents per share.
- Successful capital raising of some \$1.7 billion in July 2008 provided the necessary liquidity to restructure the hedge position.
- Term facility of \$1.0 billion obtained to redeem the \$1.0 billion convertible bond.

EXCHANGE RATES

The main currency impact on costs reported in US dollars relative to the countries in which AngloGold Ashanti operates, arose from a 17% weaker rand and a 6% stronger Brazilian real against the US dollar.

The average exchange rate for the year ended 31 December 2008 was R8.25:\$1 compared with R7.03:\$1 in 2007. The average value of the Australian dollar versus the US dollar for 2008 was A\$1:\$0.85 compared with A\$1:\$0.84 in 2007. The average value of the Brazilian real versus the US dollar for 2008 was BRL1.84:\$1 compared with BRL1.95:\$1 in 2007.

PRODUCTION

In 2008 gold production approximated 4.98 million ounces compared to 5.48 million ounces in 2007. This was in line with the forecast range of between 4.8 to 5.0 million ounces for the year. This decline in production was largely as a result of reduced volumes mined at the South African operations owing to lower grades, safety related stoppages especially related to increased seismicity, and the interruption to the power supply during the first quarter. Argentina was impacted by poor grades and intermittent plant break downs; Tanzania production was impacted by plant unavailability and delays in accessing the higher grades. The reduction in Australia was in line with plan as the high-grade pit was depleted. Record production was reported at Siguiri in Guinea, and Mponeng and Moab Khotsonq in South Africa, where the ramp up in production continued.

INCOME STATEMENT

The most significant income statement event of 2008 was the reduction of the hedge book. During the year the hedge book was reduced by 5.29 million ounces from 11.28 million ounces at the beginning of the year to 5.99 million ounces as a result of the physical settlement of maturing contracts and buy-back of non-hedge derivative contracts. These transactions, which were funded from the proceeds of a rights offer completed in July 2008, have enabled the company to significantly restructure and reduce its existing gold hedging position, which has adversely affected its financial performance in recent years. The company had traditionally used gold hedging instruments to protect the selling price of some sales against declines in the market price of gold and the use of these instruments have prevented the company from fully participating in the significant increases in the market price of gold in recent years.

Also during the year, the group changed its policy regarding the accounting of incorporated joint ventures from the proportionate consolidation method to the equity accounting method. Due to the nature of the group's jointly controlled entities, the presentation in the income statement is more relevant and represents international trends in accounting. Accordingly all comparative data has been restated.

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Gold income

The average gold spot price of \$872 per ounce for the year was 25% higher than that in 2007. However, the received gold price decreased by \$144 per ounce or 23% to \$485 per ounce, primarily as a result of the close out of the hedging transactions effected in the middle of the year. Towards year-end, the price received was at a 13.5% discount to the average spot price as the remaining planned hedge reductions were effected.

Gold income increased by 21%, rising from \$3,002 million in 2007 to \$3,619 million in 2008. This increase was primarily a result of the improved price of gold received (excluding the accelerated settlements of non-hedge derivatives), although this was offset to a certain extent by reduced production.

Cost of sales

Cost of sales increased by 11% from \$2,458 million in 2007 to \$2,728 million in 2008. This was largely attributable to 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 and the weakening of some local currencies during the latter part of the year.

Cost of sales changes can be analysed as follows:

- Total cash costs increased to \$2,113 million in 2008 from \$1,836 million in 2007, equating to an increase in total cash costs per ounce from \$357 in 2007 to \$444 in 2008. This was marginally outside the forecast of \$425 – \$435 per ounce primarily due to higher inflationary trends and higher power and fuel costs. Of the \$87 per ounce increase, \$53 per ounce is attributable to inflation, \$25 per ounce to lower grades, \$20 per ounce to volumes and a net \$11 per ounce for other variances; partially offset by exchange gains of \$22 per ounce.
- Retrenchment costs were \$9 million in 2008 compared with \$19 million in 2007. Costs incurred in 2008 and 2007 were as a result of a general cost-efficiency drive and staff reductions at mines in Africa.
- Rehabilitation and other non-cash costs decreased by \$33 million compared with the previous year resulting in a charge of \$28 million compared to a charge of \$61 million, largely because of changes to estimates, the effect of interest rates in discounting and a reassessment of the processes to be undertaken to complete the group's restoration obligations.
- The amortisation of tangible assets at \$560 million was \$7 million lower than in 2007. This minor reduction is largely attributable to the reassessment of the useful lives of our mining assets in accordance with revisions to the business plans made at the beginning of the year, and due to lower production.

Loss on non-hedge derivatives and other commodity contracts was \$297 million in 2008 compared to a loss of \$792 million the previous year. This loss was primarily a result of the revaluation of non-hedge derivatives resulting from changes in the prevailing spot gold price, exchange rates, interest rates and volatilities compared with the previous year as well as the loss incurred in normal purchases normal sales with a counterparty of \$188 million. During the year, the spot price of gold increased from \$836 per ounce at 1 January, 2008 to \$872 per ounce at year-end. Refer to pages 82 – 86 for a review of the gold market during 2008.

Corporate and other administration expenses increased by \$3 million to \$131 million in 2008, which is significantly less than the normal rate of inflation and is mainly due to the weaker rand against the US dollar.

Market development costs amounted to \$13 million, most of which was spent through the World Gold Council.

Exploration continued around the operations in the countries in which the group operates, namely, Australia, Ghana, Guinea, Tanzania, Mali, Namibia, South Africa and the USA. In addition, exploration activities continued to focus on new prospects in the Democratic Republic of Congo, Colombia, China, Philippines, Russia and Australia. Total exploration expensed (excluding equity accounted joint ventures) during 2008 was \$126 million of which \$94 million was for greenfields exploration. The increase in exploration costs expensed of \$9 million on the previous year was primarily a result of increased expenditure at greenfields sites in Colombia and Australia. For further information on exploration activities refer to pages 87 – 95.

Other operating expenses included post-retirement medical provisions for operations mainly in South Africa of \$2 million, and other employment costs of \$4 million.

The group incurred an **operating special items** loss of \$1,538 million which arose mainly from an impairment charge \$1,608 million. These related primarily to the former Ashanti mines in Ghana and Tanzania. At the time of the Ashanti acquisition, the mines were accounted for by AngloGold Ashanti based on the forward gold curve. Since then, AngloGold Ashanti has consistently applied this methodology i.e. the forward gold curve of a 30-day average spot price during the fourth quarter, to test these assets annually for impairment purposes. However during 2008, although the spot price was higher than the previous year, given the drop in US interest rates, the forward curve was both lower and less steep during the fourth quarter. This has an adverse impact of some \$75-100 per ounce at these long life mines which is material. In addition, the discount rates applied in 2008 are higher than those used in the previous year, reflecting current market and economic conditions. The above two factors i.e. the forward gold curve and discount rates, have been the primary cause of the accounting write down.

There were sundry other items including a reassessment of indirect tax recoverables at the Africa mines, provisions for royalty disputes partially offset by profits on the disposal of and recoveries from various assets.

OPERATING LOSS

The group reported an operating loss in 2008 of \$1,220 million compared with an operating loss of \$542 million in 2007, largely as a result of the effects of asset impairments.



Cerro Vanguardia, Argentina

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LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The loss attributable to equity shareholders was further impacted by the following:

- Interest received increased by \$23 million to \$66 million, mainly as a result of increased funds arising from the higher average gold price; and
- Finance costs approximated those of 2007 mostly as a result of reduced borrowings in a rising interest rate environment for variable overdrafts and bank loans, and the fixed interest rate on the convertible bond.

The **taxation** charge reduced from a charge of \$101 million in 2007 to a benefit of \$197 million in 2008. This was partially due to lower earnings, lower taxation rates in South Africa, and the deferred tax benefit arising from early hedge settlements.

BALANCE SHEET

During 2008, the following events had a significant impact on the balance sheet:

- AngloGold Ashanti's 33.3% interest in Boddington Joint Venture was reclassified to assets and liabilities held for sale. The total amount of assets reallocated amounted to \$792 million and liabilities \$48 million;
- Impairment charges aggregating \$1,608 million mainly in relation to the former Ashanti assets. This adjustment is based on assumptions relating to market conditions which include the lower gold forward curve, higher discount rates, higher power tariffs in Ghana and reduced reserves at Geita. Tangible asset impairments (net of reversals) amounted to \$1,493 million and goodwill impairments amounted to \$109 million;
- The rights offer which closed on 7 July 2008, resulted in the issue of 69,470,442 ordinary shares to shareholders in respect of a rights offer which generated proceeds of some R13 billion (\$1.7 billion) which funds were applied primarily to reduce the hedge book. The company capitalised on a weaker gold market during the year to execute a combination of delivering into and early settling of non-hedge derivatives. During 2008, the total number of committed ounces reduced by 5.29 million and the hedge book reduced by 5.17 million ounces on a net delta basis. The restructuring resulted in the received gold price being around 23% lower and the adjusted headline earnings reducing by an amount after taxation of \$916 million which includes a charge for the uranium contracts of \$11 million. In addition, uranium contracts of 1.0 million pounds were cancelled during the year, which represents a reduction of 20% of uranium contracts outstanding at the beginning of the year. This positions the company to participate more extensively in the uranium spot market from 2009, which in turn will provide by-product revenue to the benefit of total cash costs.
- The \$1 billion convertible bond, due 27 February 2009, issued by AngloGold Ashanti Holdings plc has been reallocated from long-term borrowings to short-term debt;
- Effective 1 July 2008, AngloGold Ashanti acquired 100% of Golden Cycle Gold Corporation (GCGC) through a merger transaction in which the GCGCs shareholders received consideration consisting of 3,181,198 AngloGold Ashanti ADSs which represented an aggregate consideration of approximately \$109 million. GCGC, which was listed and traded on the NYSE ARCA Exchange, was a Colorado-based holding company with its primary investment being its joint venture interest in the Cripple Creek & Victor Gold Mining Company (CC&V) located in Colorado, United States.
- On 27 August 2008, AngloGold Ashanti settled all amounts due in respect of the company's R2 billion corporate bond;
- On 15 December 2008, AngloGold Ashanti purchased the São Bento Gold Company Limited, and its wholly owned subsidiary São Bento Mineração for a consideration of \$70 million through the issue of 2,701,660 ordinary shares.

CASH FLOW

Operating activities

Cash generated from operations of \$632 million was a combination of the loss before taxation of \$1,377 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 impairments of tangible and intangible assets and investments of \$1,608 million and the amortisation of tangible assets of \$560 million.

Cash generated from operations was further increased by the dividends received from the equity accounted joint ventures of \$78 million, reduced by payments to early settle some hedge commitments and uranium contracts of \$1,113 million and normal taxes paid of \$125 million. Consequently, net cash outflow from operations was \$529 million in 2008 compared with an inflow of \$866 million in 2007.

Payments to suppliers increased by 46%, offset partly by the higher average price received (excluding settlements of non-hedge derivatives) for the year which in turn resulted in increased receipts from customers of 20%.

Investing activities

During 2008, capital expenditure totalled \$1,194 million. The capital spend was funded from operating cash flow, debt facilities and in part from the proceeds from a rights offer which raised some \$1.7 billion in July 2008. Total capital expenditure for 2008 was \$179 million more than in 2007, owing mainly to expenditure on the Boddington expansion project during the year.

Proceeds from the disposal of tangible assets include \$14 million from the disposal of certain North American royalty and production related interests of the El Chante and Marigold projects to Royal Gold, \$14 million from the disposal of a 50% interest in Amikan and AS APK to the Polymetal Joint Venture, and \$7 million from real estate activities in Brazil.

Proceeds from disposal of assets of discontinued operations of \$10 million relates to the sale of Ergo assets to a consortium of Mintails South Africa (Pty) Limited/DRD South African Operations (Pty) Limited.

Investments acquired and disposed of during 2008 relate mainly to investments held in rehabilitation trust funds established by AngloGold Ashanti in compliance with regulatory requirements.



Sunrise Dame, Australia

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The proceeds from the disposal of associates includes the net proceeds of \$48 million arising from the sale of the 50% interest in Nufcor International Limited to the Constellation Energy Commodities Group.

Interest received increased by \$32 million when compared with 2007, as a result of higher cash levels resulting mainly from the rights offer in July 2008.

Financing activities

During July 2008, an amount of \$1.7 billion was raised by way of a rights offer at a ratio of 24.6403 rights offer shares for every 100 AngloGold Ashanti shares held on the record date of 6 July 2008. The rights offer resulted in the issuance of 69,470,442 new ordinary shares of 25 SA cents each to ordinary shareholders at a subscription price of R194.00 per share. The transaction was highly successful, with a 98% take up from rights holders to acquire rights offer shares. Applications for additional rights shares representing nearly six times the number of rights offer shares were received.

Proceeds from borrowings amounted to \$853 million during 2008 and included a drawdown of \$743 million on the \$1,150 million syndicated loan facility. The 2007 year included a \$525 million drawdown on the same facility.

Repayments of borrowings amounted to \$614 million and included the repayment of the South African corporate bond of \$242 million, and \$316 million on the \$1,150 million syndicated loan facility. Other loan repayments include normal scheduled payments in terms of loan agreements.

Dividend payments totalling \$58 million were made during the year, compared with \$144 million in the prior year.

The net result of AngloGold Ashanti's operating, investing and financing activities was a net cash inflow of \$186 million, which when combined with the opening balance of \$477 million, and a negative translation of \$88 million, resulted in a closing cash and cash equivalent balance of \$575 million.

OTHER DEVELOPMENTS

On 20 November 2008, AngloGold Ashanti successfully arranged a \$1 billion bridging facility which is available (at the company's discretion) until November 2010 to finance the redemption of the convertible bond that matured on 27 February 2009. The removal of this refinancing risk placed the company in a stronger position to obtain full value from the sale to Newmont of the one-third interest in the Boddington project which was announced on 27 January 2009 and the announced sale of the Tau Lekoa and the adjacent project areas made on 17 February 2009.

The consideration for the sale of Boddington, which is expected to close around the end of the first quarter of 2009, involves the following elements:

- an upfront cash consideration on closing of the sale of \$750 million;
- a deferred payment due at the end of 2009 of \$240 million, payable in cash or freely tradeable Newmont shares;
- full reimbursement upon closing of all cash calls for the project funded by AngloGold Ashanti during 2009;
- royalty payments of up to \$100 million from mid 2010, subject to the project achieving a cash cost margin in excess of \$600 per ounce; and
- a payment from AngloGold Ashanti to Newmont of \$8 million upon closing, being its share of working capital at 31 December 2008.

In addition to saving on a budgeted capital spend of A\$269m during 2009, the proceeds from the sale to be received this year (net of capital gains tax) is expected to be approximately \$907 million (at an exchange rate of A\$/0.8054).

The Boddington sale together with the term facility, in addition to reducing the net debt significantly, will also provide the company with further financial flexibility to November 2010. It is important to note that as a result of these transactions, the company's refinancing need and related risk has been reduced. AngloGold Ashanti now has considerable flexibility to consider its long-term funding options to refinance the residual debt which is due to mature in late 2010.

OVERVIEW OF THE HEDGE BOOK

During 2008, the company reduced its hedge commitments by 47% from 11.28 million ounces to 5.99 million ounces. The hedge book net delta as at 31 December 2008 was 5.22 million ounces. The negative marked to market value of the hedge book as at 31 December 2008 (off a spot gold price of \$872 per ounce, exchange rates of R9.455/\$ and A\$/0.6947) was \$2.5 billion (after the credit risk adjustment of all hedge transactions). The details of the hedge book are provided in note 37 on page 285.

Following the hedge book reduction achieved in 2008, assuming a gold price of \$900 per ounce, the company expects to achieve a received price representing a discount of approximately 6% to the spot price during 2009, which represents a significant reduction to the position that existed prior to the hedge book reduction.

ONE-YEAR FORECAST – 2009

For the year ended 31 December

	Forecast production 000 oz	Expected total cash cost \$/oz ⁽¹⁾	Forecast capital expenditure \$m ⁽²⁾
South Africa ⁽³⁾	2,075	322 – 342	301
Argentina	160	410 – 430	20
Australia	410	530 – 550	17
Brazil	400	292 – 312	150
Ghana	600	593 – 613	150
Guinea	300	495 – 515	27
Mali	350	501 – 521	8
Namibia	70	430 – 450	18
Tanzania	315	800 – 820	17
United States of America	280	350 – 370	77
Other			55
AngloGold Ashanti	4,900 – 5,000	435 – 450	840

Following the sale of Boddington, the 2009 production is estimated at 4.9 million ounces to 5.0 million ounces.

⁽¹⁾ This is based on the following assumptions: R9.75/\$, A\$/0.675, BRL2.25/\$ and Argentinian peso 3.65/\$; fuel at \$50 per barrel and lower consumable costs relative to last year.

⁽²⁾ Capital expenditure for 2009 is estimated at approximately \$840 million (excluding amounts to be spent at Boddington). This is a significant reduction of \$360 million or 30% on levels expended in 2008.

Capital expenditure is managed in line with earnings and cash flows and may fluctuate accordingly. Forecast capital expenditure for operations with minorities is reported at 100%. For entities which are equity accounted, the forecast capital spend is the attributable share.

⁽³⁾ In South Africa, production assumes stable power supply from Eskom.

Srinivasan Venkatakrisnan

Chief Financial Officer

6 March 2009