MERRILL LYNCH CONFERENCE
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1. **Taking advice**

   I have structured three quarters of this presentation around the advice offered by the manager of a major mining fund, Graham Birch. Speaking at the J B Were Conference in London in March, Graham entitled his speech "Miners Must Make More Money!" He noted:

   "It is far too simplistic to argue that the mining sector's problems are solely the result of low commodity prices. The under performance of the sector is chronic and began long before commodity prices became severely depressed."

   The problem, Birch argues, is that much of the mining industry has been destroying rather than creating wealth. It has consistently produced real returns inferior to those of other industries. It is a problem that the mining industry can solve. The recipe argues Graham is simple. Let me quote:

   - Do everything to keep costs down and maximise cashflow
   - Do everything possible to improve capital efficiency
   - Don't deplete shareholder value by operating mines for long periods at prices that don't generate a return on costs."

   I think Birch has offered our industry - and perhaps gold mining in particular - some very good advice. I want to argue that in AngloGold I am working for a company that is attempting to put this advice into practice.

2. **Measuring performance in real returns for shareholders**

   I am sure everyone in this room would agree that the purpose of a gold mining company - indeed a company of any kind - is to create wealth for its shareholders. How do we know that we are doing this?

   Measurement of performance is contentious. Accounting measures are contested and contestable. Shareholders look for incremental value both today and in the future. Future prospects are clearly important - look at the share price reaction to the results of Amazon.com. In the face of the fourth or fifth consecutive year of losses, the share price rose strongly. Clearly investors see dramatic market growth in e commerce and expect Amazon to benefit from that growth. Clearly this is not the view of a great many shareholders of gold mining companies.

   The management of AngloGold has been on a steep learning curve in understanding what our shareholders expect of us. When the new team took over three years ago, the group of companies which now constitute AngloGold had very poor profitability. Given the inevitable risks of mining, and the particular risks of deep level South African gold mining, it seemed to us that to keep present shareholders, and attract new ones, we must offer better returns than alternative, lower risk forms of investment.

   We have set out to do that. Last year the company AngloGold achieved an increase in headline earnings of 69%, improved the operating margin from 5 to 20%, and achieved a return on shareholders equity of 27% and of capital employed of 21%. All of this was achieved against a background of a flat gold price.

   In the first quarter of 1999 headline earnings rose 29%, the operating margin was 23%, and returns on shareholders equity and capital employed were respectively 32% and 21%.

3. **Growing profitability rather than production**

I further agree with Graham Birch that once you are clear on your objectives the actions needed to achieve them are straightforward, if painful. The first step is to stop mining unprofitable gold. In the last fifteen months we have reduced producing mines from 34 to 22, and cut production by 10%. Over that period earnings per share have risen 20%.

4. **Reducing the cost of production**

Clearly some ore bodies will never generate returns for our shareholders. These ore bodies we have sold or closed. In other cases we can create wealth through mining, but only if we lower our costs. On our South Africa production, still 6 million of our 7 million ounces, we have a five-year programme to completely restructure the workplace, reskill the workforce, and fundamentally retrain the management. Over the last few years we have been able to significantly enhance productivity, and we are convinced that much more improvement lies ahead.

5. **Insisting on rigorously high hurdles for the application of new capital**

The Minorco acquisition presented our team with its first major acquisition opportunity. It also immediately raised the question of how we would know whether we were creating or destroying value for our shareholders by buying these assets. The first dilemma was how to value these assets. Should we apply the production/reserve ounce ratios, which prevail in North American markets? Or should we value the earnings stream these assets would produce. We chose earnings over ounces.

The second question was what discount rate we should apply to our DCF in obtaining a net present value for these assets. This of course has implicit in it a rate of return. It has been common practice to discount gold mining assets at 5%. We choose 9% for the US assets and 12% for those in South America. In general we will be seeking a double digit real rate of return from any acquisition. Of course if we apply these hurdle rates to acquisitions, surely we must do the same to all capital expenditure, including expansion projects of existing projects. We are doing so, and have already terminated one project already in place because of its inadequate rate of return.

6. **Dividends**

South African gold mines have a high dividend yield tradition, in part no doubt linked to their perceived low growth prospects. Clearly the investors in Amazon.com do not expect profits today, let alone dividends. For the foreseeable future we want to be significant dividend payers, though should a wealth creating expansion opportunity present itself we would not hesitate to take this to our shareholders.

In passing I would note that dividends may be more important to individual shareholders - always an important constituency in South African gold companies, and perhaps in our new web world a growing constituency in all investment worldwide.

A final note on dividends is that it is the one accounting number that has unambiguous meaning. It is the number you write on a check. `

7. **Markets**

Well so much for Mr. Birch. One final area of comment: gold miners and commentators on gold expend considerable energy and much time contemplating present and future gold prices. Increasingly this strikes me as an unrewarding exercise. The gold price cannot be predicted. And on recent evidence, while it has been possible to talk this price down (and it regularly is), efforts to talk it up have been far less successful.

If producers have spent too much time bemoaning the gold price, they have spent too little understanding and acting in gold markets.

Broadly gold markets divide into physical and paper markets. 75% of physical offtake is purchased by individuals in the form of jewellery. Jewellery markets in Asia have shown dramatic growth in recent decades, whilst substantial markets continue to exist in the West. Last year nearly 800 million people are estimated to have purchased at least one piece of gold jewellery.

Strong demand also exists in Asia amongst individuals for investment gold. Investment demand has been weak in Western markets for a decade or more.

AngloGold is seeking to be active in all major gold markets - together with other producers, and through agencies such as the World Gold Council, where appropriate, and on its own account in other areas.

Through its activities in physical markets it is seeking to promote design excellence in gold jewellery - to create a fashion good, a product that expresses love, faith, wealth and success, that is ready to compete with other luxury goods in the new millenium. There are displayed here some of the new designs that have come from AnglogGold sponsored design competitions in South Africa. In jewellery markets we are also keen to promote -directly or indirectly - excellence in retail, and are engaged in research to this end. Finally we are concerned by the continuing regulations, taxes and prohibitions which place gold at a disadvantage to other luxury goods in many markets, and are seeking to promote deregulation wherever possible.

The paper market trades a multiple of ounces to the physical market. It has been in this market that prices have been set in recent times.

With regard to this paper market our first need is to understand. Almost everything about this market - including its size - is unknown and uncertain. In the end every paper transaction is tied to some physical exchange. To the extent that market participants are unclear about the nature of the link both transaction costs and market sentiment may not reflect market fundamentals. Together with others we are sponsoring an initial study of this area.

8. **To conclude**

We began with Mr. Birch. Let us give him the last word, again from his March J B Were speech. "If the mining industry learns to create value at low commodity prices then the returns that investors receive at high commodity prices will be truly spectacular. The long and painful wait will then have been worthwhile."

To this, we at AngloGold say "amen".