LUNA INNOVATIONS INC
Form 10-K
April 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(MARK ONE)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 000-52008
LUNA INNOVATIONS INCORPORATED
(Exact name of Registrant as Specified in its Charter)

Delaware	54-1560050
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1 Riverside Circle, Suite 400
Roanoke, VA 24016
(Address of Principal Executive Offices)
(540) 769-8400
(Registrant’s Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company x
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2013, based upon the closing price of Common Stock on such date as reported by the NASDAQ Capital Market, was approximately $13.0 million.
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of March 31, 2014 there were 14,731,652 shares of the registrant's common stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Specified portions of the registrant's Proxy Statement with respect to its 2014 Annual Meeting of stockholders, anticipated to be filed within 120 days after the end of its fiscal year ended December 31, 2013, are incorporated by reference into Part III of this annual report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, including the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” section in Item 7 of this report, and other materials accompanying this Annual Report on Form 10-K contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements other than statements of historical facts are “forward-looking statements” for purposes of these provisions, including those relating to future events or our future financial performance. In some cases, you can identify these forward- looking statements by words such as “intends,” “will,” “plans,” “anticipates,” “expects,” “may,” “might,” “estimates,” “believes,” “should,” “projects “potential” or “continue,” or the negative of those words and other comparable words, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. Similarly, statements that describe our business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also forward-looking statements. These statements are only predictions and may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause actual events or results to be materially different from any future events or results expressed or implied by these statements. These factors include those set forth in the following discussion and within Item 1A “Risk Factors” of this Annual Report on Form 10-K and elsewhere within this report.

You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report on Form 10-K. You should carefully review the risk factors described in other documents that we file from time to time with the U.S. Securities and Exchange Commission, (“SEC”). Except as required by applicable law, including the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise, other than through the filing of periodic reports in accordance with the Securities Exchange Act of 1934, as amended.

PART I

ITEM 1. BUSINESS

Company Overview and Business Model

We develop, manufacture and market fiber optic sensing and test & measurement products focused on bringing new and innovative technology solutions to measure, monitor, protect and improve critical processes in the aerospace, automotive, energy, composite, telecommunications, and defense industries. In addition, we provide applied research services, typically under research programs funded by the United States government, in areas of advance materials, sensing, and healthcare applications. Our business model is designed to accelerate the process of bringing new and innovative products to market. We use our in-house technical expertise across a range of technologies to perform applied research services for companies and government-funded projects. We continue to invest in product development and commercialization, which we anticipate will lead to increased product sales growth.

Our corporate growth strategy is focused on becoming a leading provider of fiber optic strain and temperature sensing solutions and standard test methods for composite, as well as non-composite materials, structures and systems.

We are organized into two main business segments, our Products and Licensing segment and our Technology Development segment. Our Products and Licensing segment develops, manufactures and markets our fiber optic sensing, as well as test and measurement products. Our Products and Licensing segment also includes the funded development of our fiber optic shape sensing technology for minimally invasive medical applications. On January 21, 2014, we sold the assets associated with our fiber optic shape sensing technology in the medical field to affiliates of Intuitive Surgical, Inc. (as referring either to these affiliates in such capacity as buyers or to Intuitive Surgical, Inc., "Intuitive"), as described more fully below. As part of this transaction, we entered into a revocable license agreement with Intuitive pursuant to which we have the right to use all of our transferred technology outside the field of medicine

and in respect of our existing non-shape sensing products in certain non-robotic medical fields. We are continuing to develop and commercialize our fiber optic technology for strain and temperature sensing applications for the aerospace, automotive, and energy industries. Our Products and Licensing segment revenues represented approximately 46%, 43%, and 48% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively.

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Our Technology Development segment performs applied research principally in the areas of sensing & instrumentation, advanced materials and health sciences. Our Technology Development segment revenues comprised approximately 54%, 57% and 52% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Historically, this segment also included our secure computing and communications group ("SCC"), which focused on technologies for ensuring the integrity of integrated circuits used in defense systems. On March 1, 2013, we sold the assets associated with SCC to MacAulay-Brown, Inc. ("Mac-B"), another defense contractor. Most of the government funding for our Technology Development segment outside of SCC is derived from the Small Business Innovation Research ("SBIR") program coordinated by the U.S. Small Business Administration, ("SBA"). Our SBIR research is focused on technological areas with commercial potential and we strive to commercialize any resulting scientific advancements. For the year ended December 31, 2013, approximately 44% of our revenues were generated under the SBIR program, compared to 54% in 2012 and 51% in 2011.

For the years ended December 31, 2011, 2012 and 2013, 64%, 67% and 54%, respectively, of our revenues were derived from the U.S. government.

Products and Licensing

In our Products and Licensing segment we have been successful in developing and marketing fiber optic test and measurement products which provide solutions primarily for the telecommunications industry. In 2011, we first introduced our ODiSI platform of products for distributed sensing of strain and temperature. Our key initiative for long term growth is to become a leading provider of fiber optic strain & temperature sensing systems and standard test methods based upon this product platform. Our Products and Licensing segment includes approximately 44 full-time employees. Our primary product lines and development services in this segment are described in more detail below.

Test & Measurement, Sensing, and Instrumentation Products

Test and Measurement Equipment for Fiber Optic Components and Sub-Assemblies

Our product lines in the test and measurement domain include our Optical Vector Analyzer ("OVA"), our Optical Backscatter Reflectometer ("OBR"), and the Phoenix family of tunable lasers.

Historically, our test and measurement products have primarily served the telecommunications industry, although most of our products have valuable applications in other fields. Our test and measurement products monitor the integrity of fiber optic network components and sub-assemblies. These products are designed for manufacturers and suppliers of optical components and sub-assemblies and allow them to reduce development, test and production costs and improve the quality of their products. Most manufacturers and suppliers of optical components and modules currently use a combination of different types of optical test equipment to identify and measure failures in optical networks, such as bad splices, bends, crimps and other reflective and non-reflective events that can cause defects and negatively impact product performance. Our optical test equipment products replace the need to employ multiple test products by addressing all stages of the end user's product development lifecycle, including design verification, component qualification, assembly process verification and failure analysis. Our OVA platform allows manufacturers and suppliers of optical components and sub-assemblies to reduce development, test and production costs and time-to-market by replacing multiple, time consuming and expensive measurement platforms with a single, integrated and easy-to-use instrument.

Our OBR is a highly sensitive diagnostic device which has application in the telecommunications industry and flexibility to provide measurements in various other applications. Our OBR allows data and telecommunications companies and the service providers who maintain their own fiber optic networks to reduce test time and improve product quality. Our OBR provides the ability to inspect fiber networks with higher resolution and better sensitivity than is possible with other existing test products. Its user-friendly graphical user interface also makes the OBR product suitable for both research and manufacturing applications. The OBR gives end users a very high resolution view that is similar to an "X-Ray" into the inner workings of a fiber optic network. The OBR also has a feature that allows users to turn standard optical fiber into multiple sensors that could be used in a variety of temperature measurement and monitoring applications including power generation; civil structure monitoring; industrial process control; component-level heating in optical amplifiers; strain and load distribution measurements of aircraft harnesses; and temperature monitoring inside telecommunications cabinets and enclosures.

ODiSI Sensing Solution; Optical Distributed Sensor Interrogator

In 2011, we launched our new sensing platform called ODiSI. These products provide fully distributed strain or temperature measurements and deliver an extraordinary amount of data by using an optical fiber as a continuous sensor over up to 50 meters of surface. Compared to traditional sensing methods, such as strain gages, this technology provides greater insight into the performance, tolerances and failure mechanisms of structures and vehicles. We believe the technology can provide

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exceptional value to the aerospace, automotive, and energy industries providing solutions for composite, as well as non-composite materials, structures and systems.

We have significant expertise in distributed sensing systems, such as ODiSI, which are products composed of multiple sensors whose inputs are integrated through a fiber optic network and software. These products use fiber optic sensing technology with an innovative monitoring system that allows several thousand sensors to be networked along a single optical fiber.

Potential key applications and markets of our fiber optic sensing solutions include the airframe industry, integrated structural monitoring of civil structures and space applications. For example, a major airframe manufacturer has explored the use of our system during fatigue testing to measure strain through a network of sensors distributed throughout an aircraft. Our ODiSI platform also enables the direct monitoring of temperature. Potential markets include automotive manufacturing, automotive component manufacturing, motorsports, industrial process control and electrical system monitoring. For example, our network of distributed temperature sensors has been tested by a major manufacturer of electrical generators for the purpose of increasing operational efficiency and prolonging generator life.

Tunable Lasers

We have acquired the rights to manufacture a line of swept tunable lasers to allow us to compete more effectively in our existing fiber optic test and measurement as well as sensing markets. This laser is in production, and this technology is being integrated into current and new products to help us provide our customers with faster, more flexible and cost-effective test and measurement products. The laser has desirable properties in the quality of the laser light produced, the speed at which it can operate, the small size of the package, and the environmental conditions in which it can operate. We believe that these traits make it possible for us to move our fiber optic sensing capabilities out of the laboratory, and into more demanding environments such as aircraft structural health monitoring, automotive manufacturing, green energy, and industrial applications.

Sales & Marketing

We primarily market our fiber optic test and measurement products to telecommunications companies, defense agencies, government system integrators, researchers, original equipment manufactures, distributors, testing labs and strategic partners worldwide. We have a regional sales force that markets and sells our products through manufacturer representative organizations to customers in North America and through partner and distribution channels for other sales around the world. We are building a dedicated sales force for direct marketing of our distributed sensing products, with an initial focus on customers in the automotive, aerospace, and energy industries.

We believe that we provide a high level of support in developing and maintaining our long-term relationships with our customers. Customer service and support are provided through our offices and those of our partners that are located throughout the world.

Fiber Optic Shape Sensing Solutions for Robotic, Non-Robotic and Minimally Invasive Surgical Systems

On January 21, 2014, we sold our assets associated with the development of fiber optic shape sensing for the medical field to affiliates of Intuitive. However, we have a development and supply agreement with Hansen Medical, Inc. ("Hansen") under which we are to develop localization and shape sensing solutions for Hansen’s medical robotics system and under which we would supply fiber optic shape sensing systems to Hansen. Although the terms of our sale to Intuitive generally preclude us from pursuing fiber optic shape sensing in medical applications in the future, we are specifically permitted to continue to develop this technology and supply related products to Hansen. At this time, however, Hansen is not requesting us to perform any development work towards this solution. Our business relationship with Hansen is further described below under “Litigation and Agreements with Hansen Medical, Inc.”

In 2012, we entered into a development agreement with Philips Healthcare, acting through Philips Medical Systems Nederland BV (“Philips”). Under the development agreement, we conducted certain development work during 2012 and during 2013 in cooperation with Philips to advance our fiber-optic shape sensing technology towards commercialization in the non-robotic medical field. Under the development agreement, Philips agreed to pay us monthly on a time and materials basis, less a specified holdback amount, in accordance with corresponding milestones and estimated resource requirements. In addition, under the development agreement, Philips purchased specified prototype systems from us. Our agreement with Philips expired at the end of 2013 and was not renewed or extended.

As a result of the sale of our shape sensing assets related to medical applications to Intuitive in January 2014, we do not expect to do any further work with Philips.

Technology Development

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We provide applied research for customers in our primary areas of focus, including sensing and materials such as nanomaterials, coatings, adhesives, composites and bio-engineered materials. Until our sale of SCC, we also provided applied research in the area of secure computing. We generally compete to win contracts in these areas on a fee-for-service basis. Our Technology Development segment has a successful track record of evaluating innovative technologies to address the needs of our customers.

We seek to maximize the benefits we derive from our contract research business, including revenue generation and identification of promising technologies for further development. We focus primarily on opportunities in which we develop intellectual property rights in areas that we believe have commercialization potential. We take a disciplined approach to contract research to try to ensure that the costs of any contract we undertake will be fully reimbursed. We believe that this model is cost-efficient and significantly reduces our development risk in that it enables us to defray the costs of riskier technology development with third-party funding.

As of December 31, 2013, our Technology Development segment was engaged in more than 70 active contracts, with typical terms ranging from six months to three years. These projects span a wide range of applications across our areas of focus.

Although we conduct our applied research on a fee-for-service basis for third parties, we seek to retain full or partial rights to the technologies and patents developed under those contracts and to continuously enlarge and strengthen our intellectual property portfolio. New technology that we develop may complement existing technologies and enable us to develop applications and products that were not previously possible. In addition, the technologies we develop may also be applicable to commercial markets beyond the scope of the applications originally contemplated in the contract research stage, and we endeavor to capture the value of those opportunities.

As of December 31, 2013, our Technology Development segment consisted of approximately 68 full time employees, of whom 30 hold advanced degrees, including 23 Ph.D. degrees. We also utilize the knowledge and experience of researchers employed through the academic institutions, corporations and government agencies with which we subcontract. Our Technology Development segment is organized into subgroups according to areas of technology, with each subgroup being managed by its own director who is responsible for its financial performance. In addition, we have in place disciplined processes designed to ensure quality control of proposal preparation, program reviews, pipeline reviews, revenue tracking and financial reporting.

Each year, U.S. government federal agencies and departments are required to set aside a portion of their grant awards for SBIR-qualified organizations. SBIR contracts include Phase I feasibility contracts of up to $150,000 and Phase II proof-of-concept contracts, which can be as high as $1,000,000. We have won three National Tibbetts Awards from the SBA for outstanding SBIR performance. We have also won research contracts outside the SBIR program from corporations and government entities. These contracts typically have a longer duration and higher value than SBIR grants. In the future, we will seek to derive a larger portion of our contract research revenues from contracts outside of the SBIR program.

Materials

We are actively developing a wide variety of materials. One of these is a new class of non-halogenated fire retardant additives developed as a possible replacement for brominated fire retardants, which are coming under increasing criticism due to health concerns. Our non-halogenated fire retardant additives are being evaluated for use in composites, such as fiber reinforced composites.

We have developed a range of coatings, including both hydrophobic and superoleophobic coatings. These coatings are being evaluated for use in a number of applications. Other coatings under development include anti-corrosion and damage-indicating coatings.

We are also working on a variety of bioengineered materials for homeostatic agents and wound healing. These materials must be approved by the FDA or similar foreign regulatory agencies before they can be marketed, which we do not expect to occur for at least several years, if at all.

Our nanomaterials activity is focused on fullerenes and tri-metal nitride endohedral fullerene ("Trimetasphere®") materials. The Trimetasphere® nanomaterial is a carbon sphere with three metal atoms and an enclosed nitrogen atom. We have obtained an exclusive license from Virginia Tech to commercialize Trimetasphere® nanomaterials under an issued U.S. patent and pending U.S. patent applications.

We are also researching other applications for nanomaterial-based drugs based on the anti-oxidative characteristics of fullerenes. These products are in the early stages of development, but if successful, could offer new market opportunities for us.

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In 2009, we acquired a patent portfolio from Tego Biosciences, Inc., including in- and out-licenses, generally for the use of carbon fullerene nanomolecules in the treatment of human health. We believe this acquisition strengthened our patent position in this area, but there can be no assurances that we will be able to obtain commercial success as a result of these patents and licenses.

Sensing

Our Technology Development segment also performs a significant amount of applied research towards developing new sensors. This includes sensors for the purpose of corrosion, temperature, strain, pressure, structural health and chemical detection. Much of the work is directed to harsh environments and uses optics. Examples include measuring temperature and neutron flux in nuclear reactors, pressure and temperature in gas turbines, and temperatures of cryogenic lines. The effort utilizes both discrete and distributed sensors. Our technology development work in this area is closely aligned with our Products and Licensing segment and is directed at advancing the technology and the development of new applications.

Intellectual Property

We seek patent protection on inventions that we consider important to the development of our business. We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We control access to our proprietary technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties.

Our success depends in part on our ability to develop patentable products and obtain, maintain and enforce patent and trade secret protection for our products, as well as to successfully defend these patents against third-party challenges both in the United States and in other countries. We will only be able to protect our technologies from unauthorized use by third parties to the extent that we own or have licensed valid and enforceable patents or trade secrets that cover them. Furthermore, the degree of future protection of our proprietary rights is uncertain because we may not be able to obtain patent protection on some or all of our technology and because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

Currently, we own or license approximately 70 U.S. and international patents and approximately 69 U.S. and international patent applications, and we intend to file, or request that our licensors file, additional patent applications for patents covering our products. Our issued patents generally have terms that are scheduled to expire between 2015 and 2031. However, patents may not be issued for any pending or future pending patent applications owned by or licensed to us. Claims allowed under any issued patent or future issued patent owned or licensed by us may not be valid or sufficiently broad to protect our technologies. Any issued patents owned by or licensed to us now or in the future may be challenged, invalidated or circumvented, and, in addition, the rights under such patents may not provide us with competitive advantages. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture or increase their market share with respect to related technologies.

A discussion of our material patents and patent applications is set forth below.

Siemens Patent

We have licensed a U.S. patent and related patents in Canada, Switzerland, Germany, Great Britain, Italy, Netherlands and France from Siemens AG concerning methods of preparing fullerene derivatives for use. We use these methods in our nanotechnology area to attach certain materials to carbon fullerenes. The U.S. patent expires in January 2016. The Canadian patent expires in 2015 and the European patents expire in 2014.

NASA Patents

We have licensed, on a non-exclusive basis, four U.S. patents and related patents in Japan, Canada, Germany, France, Great Britain and Belgium from the National Aeronautics and Space Administration, an agency of the U.S. government (“NASA”), which patents concern the measurement of strain in optical fiber using Bragg gratings and Rayleigh scatter and the measurement of the properties of fiber-optic communications devices. These patents expire

between February 2017 and September 2020.

VTIP Patents

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We have licensed, on an exclusive basis, two U.S. patents from Virginia Tech Intellectual Properties, Inc. (“VTIP”) to commercialize Trimetasphere® nanomaterials for all fields of human endeavor. These patents expire in December 2019 and December 2022.

Coherent Patents

We have licensed, on a non-exclusive basis, several U.S. patents and other intellectual property rights owned or controlled by Coherent, Inc., related to the manufacturing, using, importing, selling and offering for sale of Coherent’s “Iolon” brand of swept tunable lasers, which we market under our “Phoenix” brand of lasers. These U.S. patents expire between 2020 and 2025.

Shape Sensing Patents

As a part of our sale of assets associated with our fiber optic shape sensing technology in the medical field to Intuitive, we transferred our related patents to Intuitive. Also as a part of this transaction, we entered into a revocable license agreement with Intuitive pursuant to which we have the right to use all of our transferred technology outside the field of medicine and in respect of our existing non-shape sensing products in certain non-robotic medical fields. Two U.S. patents that we now license back from Intuitive cover the use of optical frequency domain reflectometry, or OFDR, and multiple, closely spaced Bragg gratings for shape sensing, and the use of the inherent scatter as a strain sensor for shape sensing. These two patents expire in July 2025. We also have a license back from Intuitive for a patent application that covers certain refinements to the measurements covered in the first two patents, which are necessary in order to achieve the necessary accuracies for medical and other applications. This patent application was filed in the United States, the European Patent Office, China, India, Russia, Brazil, Japan and Indonesia. These patents and patent applications can support other nonmedical applications of our fiber optic shape sensing technology.

Corporate History and Chapter 11 Reorganization

We were incorporated in the Commonwealth of Virginia in 1990 and reincorporated in the State of Delaware in April 2003. We completed our initial public offering in June 2006. Our executive offices are located at 1 Riverside Circle, Suite 400, Roanoke, Virginia 24016 and our main telephone number is (540) 769-8400.

On July 17, 2009, we filed a voluntary petition for relief in order to reorganize under Chapter 11 of the United States Bankruptcy Code, including a proposed plan of reorganization, which we refer to in this report as the Reorganization Plan, with the United States Bankruptcy Court for the Western District of Virginia. On January 12, 2010, the Bankruptcy Court approved the Reorganization Plan and we emerged from bankruptcy on that date.

Litigation and Agreements with Hansen Medical, Inc.

In June 2007, Hansen, a company for which we had conducted certain research and performed certain services, filed a lawsuit against us for using allegedly misappropriated trade secrets from Hansen in connection with our work with Intuitive or otherwise. On April 21, 2009, a jury found in favor of Hansen and awarded a verdict of $36.3 million against us. As a result of this jury verdict, we filed for Chapter 11 reorganization in July 2009.

On December 11, 2009, we and our wholly owned subsidiary Luna Technologies, Inc. entered into a settlement agreement with Hansen to settle all claims arising out of the litigation. On January 12, 2010, as part of our Reorganization Plan, we entered into a series of agreements with Hansen and Intuitive that were contemplated by the settlement agreement. Under our license agreement with Hansen (the “Hansen License”), we granted Hansen (i) a co-exclusive (with Intuitive), royalty-free, fully paid, perpetual and irrevocable license to our fiber optic shape sensing/localization technology within the medical robotics field. The license can only be sublicensed by Hansen in connection with Hansen products, except that Hansen can grant full sublicenses to third parties for single degree of freedom robotic medical devices; (ii) an exclusive (and fully sublicenseable) royalty-free, fully paid, perpetual and irrevocable license to our fiber optic shape sensing/localization technology for non-robotic medical devices within the orthopedics, vascular, and endoluminal fields; and (iii) a co-exclusive (with us) royalty-free, fully paid, perpetual and irrevocable license to our fiber optic shape sensing/localization technology for non-robotic medical devices in other medical fields (including colonoscopies but not including devices described in clause (ii) above). In 2011, Hansen entered into certain agreements with Philips Medical Systems (and/or its affiliates) under which Hansen sublicensed

its non-robotic medical rights to our fiber optic shape sensing/localization technology.

In connection with the settlement agreement, we also entered into a development and supply agreement with Hansen. The agreement provides that we will perform product development services with respect to fiber optic shape sensing at Hansen's request and provide our shape sensing products to Hansen. Revenues earned for product development will be determined in a manner consistent with our normal contract development services and will be payable monthly to us. The agreement also sets

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forth certain terms under which we would supply fiber optic components to Hansen. In May 2011, we amended this development and supply agreement with Hansen in order to update the specifications and estimated budget amounts for certain development milestones and provide for additional development milestones and related budget estimates and specifications to be achieved. The amendment also provides for a payment structure whereby we share a specified percentage of the development expenses otherwise payable in connection with certain of the development milestones, up to a certain cumulative maximum, and changes the mechanism for calculating amounts that Hansen may hold back from being paid to us while such expenses are being shared by the parties. Finally, the amendment adjusted the commercial transfer pricing mechanism for our supply of fiber optic components to Hansen. At this time, Hansen is not requesting us to perform any development work under this development and supply agreement. Our sale of assets to Intuitive was made expressly subject to the development and supply agreement with Hansen and the Hansen License.

Material Agreements

Sale of Assets to Intuitive Surgical

On January 17, 2014, we entered into an Asset Purchase Agreement with Intuitive (the "Asset Purchase Agreement"). Under the Asset Purchase Agreement, effective as of 12:01 a.m. on January 21, 2014, we closed on the sale to Intuitive of substantially all of our assets related to our medical shape sensing business, including all of the patents and patent applications used or useful for our fiber optical shape sensing and localization technology, for $6 million in cash at closing and a second $6 million in cash to be paid no later than 90 days after closing, plus up to $8 million upon the accomplishment by Intuitive of certain technical specifications (the "Technical Specifications Payment") and up to $10 million in potential future royalties (altogether, the "Transaction"). We had been engaged since 2007 in a development project for Intuitive developing a fiber optic-based shape sensing and position tracking system to be integrated into Intuitive's products. Also as a part of the Transaction, Intuitive has hired certain of our employees, many of whom were historically engaged in this development project.

The second $6 million to be paid within 90 days has been placed in escrow. The Technical Specifications Payment is tied to the achievement of certain technical specifications that were previously established for the development project between us and Intuitive. If these technical specifications are not achieved but our fiber optical shape sensing and localization technology is nevertheless included in an Intuitive medical system that receives Food and Drug Administration approval as the system's only localization solution, then Intuitive shall pay us $6 million upon such approval. The royalties will be paid at a rate of $10,000 per commercially-sold medical robotic system that includes our fiber optical shape sensing and localization technology. The foregoing deferred and potential payments are subject to set off against any liabilities we may have to Intuitive for any breach of our representations or obligations under the Asset Purchase Agreement.

The Asset Purchase Agreement contains representations and warranties, covenants and indemnification provisions common to transactions of this nature, except that our indemnification obligations are only limited in time until no further payments are due from Intuitive. Any disputes between the parties will be handled by mediation and arbitration in Chicago, Illinois. All of the transfers of technology contemplated in the Transaction have been made subject to our existing licenses and related obligations to Hansen and Philips.

Also, in connection with the Transaction, we and Intuitive entered into a License Agreement of the same date under which we received a license back to all of our transferred technology outside the field of medicine and in respect of our existing non-shape sensing products in certain non-robotic medical fields. The license back to us outside the medical field is exclusive to us except that Intuitive retained certain non-sublicensable rights for itself. This license back to us is revocable if we were, after notice and certain time periods, (i) to challenge the validity or enforceability of the transferred patents and patent applications, (ii) to commercialize our fiber optical shape sensing and localization technology in the field of medicine (except to perform on a development and supply project for Hansen), (iii) to violate our obligations related to our ability to sublicense in the field of medicine or (iv) to violate our confidentiality obligations in a manner that advantages a competitor in the field of medicine and not cure such violation. As a part of

the Transaction, we retained assets and rights necessary to perform on our development and supply project for Hansen if that project is re-started.

Also, as a part of the Transaction, for a period of 15 years after closing, we agreed to exit and not develop or commercialize our fiber optical shape sensing and localization technology in the field of medicine (except for Hansen as described above). For a period of 10 years after closing, Intuitive has agreed not to use any of the assets being acquired in the Transaction, including the key employees being hired, to compete with us outside the field of medicine for shape, strain and/or temperature sensing in the aerospace, automotive, and energy markets and for strain sensing in the civil structural monitoring and composite material markets.

Prior Agreement with Intuitive

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Prior to our recent sale of our shape sensing assets related to medical applications to Intuitive, we were party to an intellectual property licensing, development and supply agreement with Intuitve, which we originally entered into in June 2007. Under this multi-year agreement, we were to develop and supply a fiber optic-based shape sensing and position tracking system for integration into Intuitive's future products.

Under the agreement, Intuitive agreed to pay us an up-front license fee, development fees payable in quarterly installments for the first 18 months of the agreement, and certain other fees, subject to specified termination rights by Intuitive and other rights of repayment or reduction. There were also minimum purchase requirements by Intuitive, which were subject to our successful completion of the development criteria and certain other terms and conditions.

In January 2010, in connection with our settlement with Hansen, and related emergence from Chapter 11 bankruptcy, we amended our agreement with Intuitive in order to make it consistent with our January 2010 license agreement with Hansen and to make certain other changes to provide, among other things, additional development of enhancements to the Intuitive product platform. The amendment also provided that Intuitive could request us to perform additional development work for a period of 10 years ending January 2020 and that this additional development work, if requested, would be paid by Intuitive on a time and materials basis. Under the amendment, Intuitive received a limited credit against a future portion of this development work and against the transfer pricing for the shape-sensing products supplied by us to Intuitive. The amendment also eliminated certain future fees that would have otherwise been payable by Intuitive and also eliminated all of Intuitive's future minimum purchase requirements. Intuitive continued to be obligated to purchase its reasonable commercial requirements of the shape-sensing products from us, subject to Intuitive's right to purchase optical fiber or sensors from other suppliers. The amendment also provided that the exclusive license granted by us to Intuitive in the medical robotics field was modified to allow for the co-exclusive license granted to Intuitive and Hansen and any restrictions or prohibitions on us to develop and manufacture products for Hansen were eliminated.

The agreement was further amended to provide for the development work to be conducted in 2010 and provide a budget for this work. The agreement was amended again in respect of development work to be conducted in 2011, setting certain milestones for us to achieve during 2011, establishing the amounts to be paid by Intuitive to us for this development work and providing that, if we successfully completed the milestones by a certain date, any remaining credit in favor of Intuitive would be eliminated. The agreement was amended again in respect of development work to be conducted in 2012, similarly setting certain milestones to be achieved by us during 2012, establishing the amounts to be paid by Intuitive to us for this development work and confirming that no further credit remained. In June 2013, we again amended our agreement with Intuitive, to cover development work during the period of 2013 through 2015. This amendment established certain milestones for us to achieve during this period, as well as the amounts to be paid by Intuitive for development work during this period.

As amended, the term of our agreement with Intuitive extended to January 2020 and was terminable by either party for cause upon notice and opportunity to cure.

As part of our agreement with Intuitive, we granted Intuitive a co-exclusive (with Hansen), royalty-free, fully paid, perpetual and irrevocable license to our fiber optic shape sensing/localization technology within the medical robotics field. The license can only be sublicensed by Intuitive in connection with Intuitive products and Intuitive and Hansen have the right to enforce the licensed intellectual property within the medical robotics field. Because of the nature of this perpetual license, the license does not provide for a term or termination provisions. Intuitive has granted to us a perpetual, royalty-free license to any intellectual property solely or jointly invented by Intuitive on our development project for all fields outside of medical robotics, which is exclusive to the extent of any patents and patent applications included in such intellectual property.

Although after our sale of assets to Intuitive we no longer have a development and supply relationship with Intuitive and Intuitive no longer has any payment obligations to us, this agreement remains in place.

Philips Healthcare

In 2012, we entered into a development agreement with Philips . Under the development agreement, we conducted certain development work during 2012 in cooperation with Philips on a project to advance our fiber-optic shape sensing technology towards commercialization in the non-robotic medical field. We amended this development

agreement to provide for certain development work to be performed in 2013. Under the development agreement, Philips agreed to pay us monthly on a time and materials basis, less a specified holdback amount, in accordance with corresponding milestones and estimated resource requirements. In addition, under the development agreement, Philips purchased specified prototype systems from us. The term of this development agreement continued until December 31, 2013. The agreement expired on December 31, 2013 and was not

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renewed. In light of the sale of our shape sensing assets related in the medical field to Intuitive, we will no longer conduct any more work for Philips.

Virginia Tech

Our nanomaterials activity is focused on Trimetasphere® materials. The Trimetasphere® nanomaterial is a carbon sphere with three metal atoms and a nitrogen atom enclosed. We have obtained an exclusive license from VTIP to commercialize Trimetasphere nanomaterials under two U.S. patents for all fields of human endeavor. The term of this license ends upon the last expiration date of the underlying patents, which is December 2022. The license provides for certain royalties to be paid as a percentage of our net sales, certain percentages of amounts received from any of our sublicensees and certain milestone payments based on product development phases. We paid VTIP a total of approximately $3,000 in royalties in respect of 2012 and 2011 under the license. We reimburse VTIP for patent costs incurred under the license. VTIP may terminate the license for cause. We may terminate the license at any time for any reason on 60 days notice.

We primarily utilize the VTIP license in our ongoing research into the potential use of Trimetaspheres to improve the safety of contrast agents commonly utilized in magnetic resonance imaging (“MRI”) procedures. We believe that contrast agents utilizing our Trimetasphere nanomaterials may be able to provide a higher image contrast than existing contrast agents but with a lower risk of toxicity. Medical contrast agents for human use, such as our Trimetasphere nanomaterials, must be approved by the FDA or similar foreign regulatory agencies before they can be marketed, which we do not expect to occur for at least several years, if at all. As described below under “Government Regulation,” this approval process can involve significant time and expense and may delay or prevent our products from reaching the market.

Coherent

In December 2006, we entered into an asset transfer and license agreement with Coherent. Under the agreement, we acquired the rights to manufacture Coherent’s “Iolon” brand of swept tunable lasers as well as certain manufacturing equipment and inventory previously used by Coherent to manufacture the lasers. We continue to enhance, produce, and market these lasers under our “Phoenix” brand. Under this agreement, Coherent granted non-exclusive licenses to us for certain U.S. patents and other intellectual property rights owned or controlled by Coherent for making, having made, using, importing, selling and offering for sale the lasers. The term of this agreement is 10 years, but the patent licenses become fully paid and perpetual if we fulfill our royalty obligations during this 10-year period and the license to the other intellectual property rights is perpetual. These U.S. patents expire between 2020 and 2025. As consideration, we agreed to pay Coherent a total of $1.3 million over a period of two years and royalty payments on net sales of products sold by us that incorporate the lasers or that are manufactured using the intellectual property covered by the licenses. We paid Coherent a minimum royalty of $100,000 for 2011 and approximately $60,000 in royalties based on net sales for 2012. We also agreed to sell Coherent a limited number of lasers each year. The agreement is terminable by either party for cause after notice and an opportunity to cure.

The Phoenix laser is a miniaturized, external-cavity laser offering high performance in a compact footprint and is applicable to a range of fiber optic test and measurement, instrumentation, and sensing applications. These products employ frequency-tuned lasers to measure various aspects of the transmission properties of telecommunications fiber optic components and systems. Lasers are also used in fiber optic sensing applications such as distributed strain and temperature mapping, and distributed measurement of shape. We currently use these lasers within our ODiSI platform of products, our fiber optic shape sensing products and certain of our backscatter reflectometer products, and we also sell variations of the Phoenix laser as standalone products. Under our agreements related to our sale of assets to Intuitive, we have certain obligations to supply Intuitive with these lasers and Intuitive has certain rights to require us to transfer and assign this Coherent license to Intuitive, in which case Intuitive would be similarly required to supply us with lasers.

NASA

We have licensed, on a non-exclusive basis, certain patents from NASA under two license agreements. These patents concern the measurement of strain in optical fiber using Bragg gratings and Rayleigh scatter, and also the measurement of the properties of fiber-optic communications devices. Under the license agreements, we pay NASA

certain royalties based on a percentage of net sales of products covered by the patents. We incur a royalty obligation to NASA based upon a specified percentage of the revenue earned on each product sold utilizing these patents subject to combined minimum royalties of $220,000 per year under the license agreements. The term of the license agreements continues until the expiration of the last licensed patent, which is September 2020. These license agreements may be terminated by us on 90 days notice. Either party may terminate the license agreements for cause upon certain conditions.

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Competition

We compete for government, university and corporate research contracts relating to a broad range of technologies. Competition for contract research is intense and the industry has few barriers to entry. We compete against a number of in-house research and development departments of major corporations, as well as a number of small, limited-service contract research providers and companies backed by large venture capital firms. The contract research industry continues to experience consolidation, which has resulted in greater competition for clients. Increased competition might lead to price and other forms of competition that could harm our operating results. We compete for contract research on the basis of a number of factors, including reliability, past performance, expertise and experience in specific areas, scope of service offerings, technological capabilities and price.

We also compete, or will compete, with a variety of companies in several different product markets. The products that we have developed or are currently developing will compete with other technologically innovative products, as well as products incorporating conventional materials and technologies. We expect that we will compete with companies in a wide range of industries, including semiconductors, electronics, biotechnology, textiles, alternative energy, military, defense, healthcare, telecommunications, industrial measurement, security applications and consumer electronics. Although there can be no assurance that we will continue to do so, we believe that we compete favorably in these areas because our products leverage advanced technologies to offer superior performance. If we are unable to effectively compete in these areas in the future, we could lose business to our competitors, which could harm our operating results.

Government Regulation

Qualification for Small Business Innovation Research Grants

SBIR is a highly competitive program that encourages small businesses to explore their technological potential and provides them with incentives to commercialize their technologies by funding research that might otherwise be prohibitively expensive or risky for companies like us. As noted above, we presently derive a significant portion of our revenue from this program, but we must continue to qualify for the SBIR program in order to be eligible to receive future SBIR awards. The eligibility requirements are:

- Ownership. The company must be at least 51 percent owned and controlled by U.S. citizens or permanent resident aliens, or owned by an entity that is itself at least 51 percent owned and controlled by U.S. citizens or permanent resident aliens; and
- Size. The company, including its affiliates, cannot have more than 500 employees.

These requirements are set forth in the SBA's regulations and are interpreted by the SBA's Office of Hearings and Appeals. In determining whether we satisfy the 51% ownership requirement, agreements to merge, stock options, convertible debt and other similar instruments are given "present effect" by the SBA as though the underlying security were actually issued unless the exercisability or conversion of such securities is speculative, remote or beyond the control of the security holder. We therefore believe our outstanding options and warrants held by eligible individuals may be counted as outstanding equity for purposes of meeting the 51% equity ownership requirement. We believe that we are in compliance with the SBA ownership requirements.

In addition, to be eligible for SBIR contracts, the number of our employees, including those of any entities that are considered to be affiliated with us, cannot exceed 500. As of December 31, 2013, we, including all of our divisions, had 138 full- and part-time employees. In determining whether we have 500 or fewer employees, the SBA may count the number of employees of entities that are large stockholders who are "affiliated" or have the power to control us. In determining whether firms are affiliated, the SBA evaluates factors such as stock ownership and common management, but it ultimately may make its determination based on the totality of the circumstances. Eligibility protests can be raised to the SBA by a competitor or by the awarding contracting agency. We understand that the SBA is in the process of performing a formal size determination in connection with some of our SBIR contracts. We cannot provide assurance that the SBA will interpret its regulations in our favor. Regardless of the outcome of the SBA's pending determination, if we grow larger, and if our ownership becomes more diversified, we may no longer qualify for the SBIR program, and we may be required to seek alternative sources and partnerships to fund some of our research and development costs. Additional information regarding these risks may be found below in "Risk Factors."

FDA Regulation of Products

Some of the potential products that we are developing may be subject to regulation under the Food, Drug, and Cosmetic (FDC) Act. In particular, any Trimetasphere® nanomaterial-based MRI contrast agent would be considered a drug, and our ultrasound diagnostic devices for measuring certain medical conditions will be considered medical devices, under the FDC Act. Both the statutes and regulations promulgated under the FDC Act govern, among other things, the testing, manufacturing,

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safety efficacy, labeling, storage, record keeping, advertising and other promotional practices involving the regulation of drug and devices. Compliance with the FDC Act may add time and expense to product development, and there can be no assurance that any of our products will be successfully developed and approved for marketing by the FDA.

Medical Devices

Our existing and future health care products are regulated by the FDA as medical devices. The nature of the requirements applicable to devices depends on their classification by the FDA. A device we develop would be automatically classified as a Class III device, requiring pre-market approval, unless the device is substantially equivalent to an existing device that has been classified in Class I or Class II or to a pre-1976 device that has not yet been classified. Class I or Class II devices require registration through the 510(k) exemption. If we were unable to demonstrate such substantial equivalence and unable to obtain reclassification, we would be required to undertake the costly and time-consuming approval process, comparable to that for new drugs, of conducting preclinical studies, obtaining an investigational device exemption to conduct clinical tests, filing a pre-market approval application and obtaining FDA approval.

Environmental, Health and Safety Regulation

Our facilities and current and proposed activities involve the use of a broad range of materials that are considered hazardous under applicable laws and regulations. Accordingly, we are subject to a number of domestic and foreign laws and regulations and other requirements relating to employee health and safety, protection of the environment, product labeling and product take back. Regulated activities include the storage, use, transportation and disposal of, and exposure to, hazardous or potentially hazardous materials and wastes. Our current and proposed activities also include potential exposure to physical hazards associated with work environment and equipment. We could incur costs, fines, civil and criminal penalties, personal injury and third-party property damage claims, or we could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental, health and safety laws and regulations or requirements. Liability under environmental, health and safety laws can be joint and several and without regard to fault. There can be no assurance that violations of environmental, health and safety laws will not occur in the future as a result of the inability to obtain permits in a timely manner, human error, equipment failure or other causes. Environmental, health and safety laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business. Further, violations of present and future environmental, health and safety laws could restrict our ability to expand facilities and pursue certain technologies, as well as require us to acquire costly equipment or to incur potentially significant costs to comply with environmental, health and safety regulations and other requirements.

We have made, and will continue to make, expenditures to comply with current and future environmental, health and safety laws. We anticipate that we could incur additional capital and operating costs in the future to comply with existing environmental, health and safety laws and new requirements arising from new or amended statutes and regulations. In addition, because the applicable regulatory agencies have not yet promulgated final standards for some existing environmental, health and safety programs, we cannot at this time reasonably estimate the cost for compliance with these additional requirements. The amount of any such compliance costs could be material. We cannot predict the impact that future regulations will impose upon our business.

Employees

As of December 31, 2013, we had approximately 138 total employees of whom approximately 126 were full-time employees, and 42 of whom held advanced degrees, including approximately 29 Ph.D. degrees. None of our employees are covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

Backlog

We have historically had a backlog of contracts for which work has been scheduled, but for which a specified portion of work has not yet been completed. The approximate value of our backlog was $8.7 million at December 31, 2013 of which substantially all was from our Technology Development segment. The approximate value of our backlog was $13.6 million at December 31, 2012, of which substantially all was from our Technology Development segment, including $3.3 million from our SCC group.

We define backlog as the dollar amount of obligations payable to us under negotiated contracts upon completion of a specified portion of work that has not yet been completed, exclusive of revenues previously recognized for work already performed under these contracts, if any. Total backlog includes funded backlog, which is the amount for which money has been directly authorized by the U.S. Congress or for which a purchase order has been received from a commercial customer, and unfunded backlog, which represents firm orders for which funding has not yet been appropriated. Unfunded backlog was $1.0 million as of December 31, 2013 and $0.8 million as of December 31, 2012. Indefinite delivery and quantity contracts and

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unexercised options are not reported in total backlog. Our backlog is subject to delays or program cancellations that may be beyond our control.

Research, Development and Engineering

We incur research, development and engineering expenses that are not related to our contract performance. These expenses were $2.3 million, $2.5 million and $2.7 million for the years ended December 31, 2011, 2012 and 2013, respectively. In addition, during these years, we spent $14.7 million, $12.3 million and $10.7 million, respectively, on customer-sponsored research activities, which amounts are reimbursed as part of our performance of customer contracts.

Operating Segments and Geographic Areas

For information with respect to our operating segments and geographic markets, see Note 13 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Website Access to Reports

Our website address is www.lunainc.com. We make available, free of charge under “SEC Filings” on the Investor Relations portion of our website, access to our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Information appearing on our website is not incorporated by reference in and is not a part of this annual report. A copy of this annual report, as well as our other periodic and current reports, may be obtained from the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding our filings at www.sec.gov.

ITEM 1A. ITEM 1A.

You should carefully consider the risks described below before deciding whether to invest in our common stock. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations and financial results. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. Our filings with the Securities and Exchange Commission also contain forward-looking statements that involve risks or uncertainties. Our actual results could differ materially from those anticipated or contemplated by these forward-looking statements as a result of a number of factors, including the risks we face described below, as well as other variables that could affect our operating results. Past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

RISKS RELATING TO OUR BUSINESS GENERALLY

If there are substantial sales of our common stock, or the perception that such sales may occur, our stock price could decline.

If any of our stockholders were to sell substantial amounts of our common stock, the market price of our common stock may decline, which might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Substantial sales of our common stock, or the perception that such sales may occur, may have a material adverse effect on the prevailing market price of our common stock.

Pursuant to an Investor Rights Agreement, we recently filed a Form S-3 registration statement registering the potential resale of an aggregate of up to approximately 6.3 million shares of our common stock by our then two largest stockholders, Carilion and Dr. Kent Murphy . This registration statement has been declared effective by the Securities and Exchange Commission, and Dr. Murphy has sold substantially all of his approximately 2.8 million shares included in the registration statement. As of the date of this report, Carilion continues to hold its approximately 3.5 million shares covered by the registration statement (including approximately 1.3 million shares issuable to Carilion upon conversion of shares of Series A Convertible Preferred Stock Carilion holds). Because the registration statement

is effective, these shares may be sold freely in the public market. Any sales of these shares, or the perception that future sales of shares by Carilion these or any of our other significant stockholders may occur, may have a material adverse effect on the market price of our stock. Any such continuing

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material adverse effect on the market price of our stock could impair our ability to comply with NASDAQ's continuing listing standards in respect of our minimum stock price, as further described below.

Our technology is subject to a license from Intuitive, which is revocable in certain circumstances. Without this license, we cannot continue to market, manufacture or sell our fiber-optic products.

As a part of the sale of our assets to Intuitive, we entered into a license agreement with Intuitive pursuant to which we received rights to use all of our transferred technology outside the field of medicine and in respect of our existing non-shape sensing products in certain non-robotic medical fields. This license back to us is revocable if after notice and certain time periods, we were to (i) challenge the validity or enforceability of the transferred patents and patent applications, (ii) commercialize our fiber optical shape sensing and localization technology in the field of medicine (except to perform on a development and supply project for Hansen), (iii) violate our obligations related our its ability to sublicense in the field of medicine or (iv) violate our confidentiality obligations in a manner that advantages a competitor in the field of medicine and not cure such violation. Maintaining this license is necessary for us to conduct our fiber-optic products business, both for our telecom products and our ODiSI sensing products. If this license were to be revoked by Intuitive, we would no longer be able to market, manufacture or sell these products which would severely limit our ability to continue operations.

Our narrowed scope and focus may make it more difficult for us to achieve or maintain operating profitability.

Through the recent sales of SCC to Mac-B and of our fiber optic shape sensing technology to Intuitive, we have reduced our overall size and narrowed our focus to one key growth objective: to become the leading provider of fiber optic sensing systems and standard test methods for composite materials. There can be no guarantee that we will be successful in pursuing this objective. Although we anticipate realizing cost savings as a result of the sale of assets to Mac-B and Intuitive, we will continue to incur significant operating expenses associated with our public company infrastructure. Accordingly, we will need to significantly increase the revenue we generate from our remaining operations in order to achieve or maintain operating profitability, and there can be no guarantee that we will be able to do so.

Our failure to attract, train and retain skilled employees or members of our senior management and to obtain necessary security clearances for such persons or maintain a facility security clearance would adversely affect our business and operating results.

The availability of highly trained and skilled technical and professional personnel is critical to our future growth and profitability. Competition for scientists, engineers, technicians and professional personnel is intense and our competitors aggressively recruit key employees. In the past, we have experienced difficulties in recruiting and hiring these personnel as a result of the tight labor market in certain fields. Any difficulty in hiring or retaining qualified employees, combined with our growth strategy and future needs for additional experienced personnel, particularly in highly specialized areas such as nanomaterial manufacturing and fiber optic sensing technologies, may make it more difficult to meet all of our needs for these employees in a timely manner. Although we intend to continue to devote significant resources to recruit, train and retain qualified employees, we may not be able to attract and retain these employees, especially in technical fields in which the supply of experienced qualified candidates is limited, or at the senior management level. Any failure to do so would have an adverse effect on our business. Any loss of key personnel could have a material adverse effect on our ability to meet key operational objectives, such as timely and effective project milestones and product introductions, which in turn could adversely affect our business, results of operations and financial condition. We also have contractual obligations to adequately staff certain development projects, and a loss of key personnel could lead to our inability to meet these obligations, which in turn could expose us to claims for significant damages under any such agreement.

We provide certain services to the U.S. government that require us to maintain a facility security clearance and for certain of our employees and our board chairman to hold security clearances. In general, the failure for necessary persons to obtain or retain sufficient security clearances, any loss by us of a facility security clearance or any public reprimand related to security matters could result in a U.S. government customer terminating an existing contract or choosing not to renew a contract or prevent us from bidding on or winning certain new government contracts.

In addition, our future success depends in a large part upon the continued service of key members of our senior management team. We do not maintain any key-person life insurance policies on our officers. The loss of any

members of our management team or other key personnel could seriously harm our business.

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We rely and will continue to rely on contracts and grants awarded under the SBIR program for a significant portion of our revenues. A finding by the SBA that we no longer qualify to receive SBIR awards could adversely affect our business.

We compete as a small business for some of our government contracts. Our revenues derived from the SBIR program account for a significant portion of our consolidated total revenues, and contract research, including SBIR contracts, will remain a significant portion of our consolidated total revenues for the foreseeable future.

We may not continue to qualify to participate in the SBIR program or to receive new SBIR awards from federal agencies. In order to qualify for SBIR contracts and grants, we must meet certain size and ownership eligibility criteria. These eligibility criteria are applied as of the time of the award of a contract or grant. A company can be declared ineligible for a contract award as a result of a size challenge filed with the SBA by a competitor or a federal agency.

In order to be eligible for SBIR contracts and grants, under current SBA rules we must be more than 50% owned and controlled by individuals who are U.S. citizens or permanent resident aliens, and/or other small business concerns (each of which is more than 50% owned and controlled by individuals who are U.S. citizens or permanent resident aliens) or certain qualified investment companies. In the event our institutional ownership significantly increases, either because of increased buying by institutions or selling by individuals, including any sales of securities by Dr. Kent Murphy under the Form S-3 registration statement described above, we could lose eligibility for new SBIR contracts and grants.

Also, in order to be eligible for SBIR contracts and grants, the number of our employees, including those of any entities that are considered to be affiliated with us, cannot exceed 500. As of December 31, 2013, we had approximately 138 full-time employees. In determining whether we are affiliated with any other entity, the SBA may analyze whether another entity controls or has the power to control us. Carilion Clinic, or Carilion, is our largest institutional stockholder. The SBA has, since early 2011, been in the process of performing a formal size determination that focused on whether or not Carilion is or was our affiliate. Although we do not believe that Carilion has or had the power to control our company, we cannot assure you that the SBA will interpret its regulations in our favor on this question. If the SBA were to make a determination that we are or were affiliated with Carilion, we would exceed the size limitations, as Carilion has over 500 employees. In that case, we would lose eligibility for new SBIR contracts and grants and other awards that are set aside for small businesses based on the criterion of number of employees, and the relevant government agency would have the discretion to suspend performance on existing SBIR grants. The loss of our eligibility to receive SBIR awards would have a material adverse impact on our revenues, cash flows and our ability to fund our growth.

Moreover, if we grow our business, it is foreseeable that we will eventually exceed the SBIR size limitations, in which case we may be required to seek alternative sources of revenues or capital.

As a provider of contract research to the U.S. government, we are subject to federal rules, regulations, audits and investigations, the violation or failure of which could adversely affect our business.

We must comply with and are affected by laws and regulations relating to the award, administration and performance of U.S. government contracts. Government contract laws and regulations affect how we do business with our government customers and, in some instances, impose added costs on our business. A violation of a specific law or regulation could result in the imposition of fines and penalties, termination of our contracts or debarment from bidding on contracts. In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. government may terminate any of our government contracts and, in general, subcontracts, at their convenience, as well as for default based on performance.

In addition, U.S. government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit and investigate government contractors. These agencies review a contractor’s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The U.S. government also may review the adequacy of, and a contractor’s compliance with, its internal control systems and policies, including the contractor’s purchasing, property, estimating, compensation and management information systems. Any costs

found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. In addition, our reputation could suffer serious harm if allegations of impropriety were made against us.

In addition to the risk of government audits and investigations, U.S. government contracts and grants impose requirements on contractors and grantees relating to ethics and business practices, which carry civil and criminal penalties

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including monetary fines, assessments, loss of the ability to do business with the U.S. government and certain other criminal penalties.

We may also be prohibited from commercially selling certain products that we develop under our Technology Development segment or related products based on the same core technologies if the U.S. government determines that the commercial availability of those products could pose a risk to national security. For example, certain of our wireless technologies have been classified as secret by the U.S. government and as a result we cannot sell them commercially. Any of these determinations would limit our ability to generate product sales and license revenues.

A decline in government research contract awards or government funding for existing or future government research contracts, including SBIR contracts, could adversely affect our revenues, cash flows and ability to fund our growth.

Technology development revenue, which consists primarily of government-funded research, accounted for approximately 54%, 57% and 52% of our consolidated total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. As a result, we are vulnerable to adverse changes in our revenues and cash flows if a significant number of our research contracts and subcontracts were to be simultaneously delayed or canceled for budgetary, performance or other reasons. For example, the U.S. government may cancel these contracts at any time without cause and without penalty or may change its requirements, programs or contract budget, any of which could reduce our revenues and cash flows from U.S. government research contracts. Our revenues and cash flows from U.S. government research contracts and subcontracts could also be reduced by declines or other changes in U.S. defense, homeland security and other federal agency budgets. In addition, we compete as a small business for some of these contracts, and in order to maintain our eligibility to compete as a small business, we, together with any affiliates, must continue to meet size and revenue limitations established by the U.S. government.

Our contract research customer base includes government agencies, corporations and academic institutions. Our customers are not obligated to extend their agreements with us and may elect not to do so. Also, our customers' priorities regarding funding for certain projects may change and funding resources may no longer be available at previous levels.

In addition, the Budget Control Act commits the U.S. Government to reduce the federal deficit by $1.2 trillion over ten years through a combination of automatic, across-the-board spending cuts and caps on discretionary spending. This "sequestration" under the Budget Control Act, which is split equally between defense and non-defense programs, went into effect on March 1, 2013. The appropriate resolution reflecting a budget deal for fiscal years 2014 and 2015 reduces but does not eliminate these sequestration cuts. Any spending cuts required by "sequestration" could have a material adverse effect on our technology development revenue and, consequently, our results of operations. While the exact manner in which this "sequestration" may impact our business remains unclear, funding for programs in which we participate could be reduced, delayed or canceled. Our ability to obtain new contract awards also could be negatively affected.

In addition to contract cancellations and changes in agency budgets, our future financial results may be adversely affected by curtailment of or restrictions on the U.S. government's use of contract research providers, including curtailment due to government budget reductions and related fiscal matters or any legislation or resolution limiting the number or amount of awards we may receive. These or other factors could cause U.S. defense and other federal agencies to conduct research internally rather than through commercial research organizations or direct awards to other organizations, to reduce their overall contract research requirements or to exercise their rights to terminate contracts. Alternatively, the U.S. government may discontinue the SBIR program or its funding altogether. Also, SBIR regulations permit increased competition for SBIR awards from companies that may not have previously been eligible, such as those backed by venture capital operating companies, hedge funds and private equity firms. Any of these developments could limit our ability to obtain new contract awards and adversely affect our revenues, cash flows and ability to fund our growth.

We depend on third-party vendors for specialized components in our manufacturing operations, making us vulnerable to supply shortages and price fluctuations that could harm our business.

We primarily rely on third-party vendors for the manufacture of the specialized components used in our products. The highly specialized nature of our supply requirements poses risks that we may not be able to locate additional sources

of the specialized components required in our business. For example, there are few manufacturers who produce the special lasers used in our optical test equipment. Our reliance on these vendors subjects us to a number of risks that could negatively affect our ability to manufacture our products and harm our business, including interruption of supply. Although we are now manufacturing tunable lasers in low-rate initial production, we expect our overall reliance on third-party vendors to continue. Any significant delay or interruption in the supply of components, or our inability to obtain substitute components or materials

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from alternate sources at acceptable prices and in a timely manner could impair our ability to meet the demand of our customers and could harm our business.

The results of our operations could be adversely affected by economic and political conditions and the effects of these conditions on our customers' businesses and levels of business activity.

Global economic and political conditions affect our customers' businesses and the markets they serve. A severe or prolonged economic downturn or a negative or uncertain political climate could adversely affect our customers' financial conditions and the timing or levels of business activity of our customers and the industries we serve. This may reduce the demand for our products or depress pricing for our products and have a material adverse effect on our results of operations. Changes in global economic conditions could also shift demand to products or services for which we do not have competitive advantages, and this could negatively affect the amount of business we are able to obtain. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected as a result.

There was a rapid softening of the economy and tightening of the financial markets in 2008 and 2009. This slowing of the economy has reduced the financial capacity of some of our customers and, to the extent that such economic conditions continue in certain industries, it could continue to affect our potential customers, thereby slowing spending on the products and services we provide. The outlook for the economy in 2014 and beyond remains uncertain, and until there is a sustained economic recovery our revenues and results of operations could be negatively impacted.

We have a history of losses, and because our strategy for expansion may be costly to implement, we may experience continuing losses and may never achieve or maintain profitability or positive cash flow.

We realized a consolidated net loss from continuing operations of $4.1 million for the year ended December 31, 2013 and net loss attributable to common stockholders of $1.5 million, $1.5 million and $0.9 million for each of the years ended December 31, 2011, 2012 and 2013, respectively. We expect to continue to incur significant expenses as we pursue our strategic initiatives, including increased expenses for research and development, sales and marketing and manufacturing. We may also grow our business in part through acquisitions of additional companies and complementary technologies which could cause us to incur greater than anticipated transaction expenses, amortization or write-offs of intangible assets and other acquisition-related expenses. As a result, we expect to incur net losses for the foreseeable future, and these losses could be substantial. At a certain level, continued net losses could impair our ability to comply with NASDAQ continued listing standards, as described further below.

Our ability to generate additional revenues and to become profitable will depend on our ability to develop and commercialize innovative technologies, expand our contract research capabilities and sell the products that result from those development initiatives. We are unable to predict when or if we will be able to achieve profitability. If our revenues do not increase, or if our expenses increase at a greater rate than our revenues, we will continue to experience losses. Even if we do achieve profitability, we may not be able to sustain or increase our profitability on a quarterly or annual basis.

We have obtained capital by borrowing money under a credit facility and we might require additional capital to support and expand our business; our credit facility has various loan covenants with which we must comply and if we need any such additional capital or we fail to comply with our loan covenants, this capital might not be available or only available on unfavorable terms.

We intend to continue to make investments to support our business growth, including developing new products, enhancing our existing products, obtaining important regulatory approvals, enhancing our operating infrastructure, completing our development activities and building our commercial scale manufacturing facilities. To the extent that we are unable to become or remain profitable and to finance our activities from our continuing operations, we may require additional funds to support these initiatives and to grow our business.

If we are successful in raising additional funds through issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, including as the result of the issuance of warrants in connection with the financing, and any new equity securities we issue could have rights, preferences and privileges superior to those of our existing common stock. Furthermore, such financings may jeopardize our ability to apply for SBIR grants or qualify for SBIR contracts or grants, and our dependence on SBIR grants may restrict our ability to raise additional outside capital. If we raise additional

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funds through debt financings, these financings may involve significant cash payment obligations and covenants that restrict our ability to operate our business and make distributions to our stockholders.
We maintain a credit facility with Silicon Valley Bank, or SVB, which requires us to observe certain financial and operational covenants, including maintenance of a specified cash balance, protection and registration of intellectual property rights, and certain customary negative covenants, as well as other customary events of default. If any event of default occurs SVB may declare due immediately all borrowings under our credit facility and foreclose on the collateral. Furthermore, an event of default would result in an increase in the interest rate on any amounts outstanding.

If we are unable to borrow under the SVB credit facility or otherwise obtain adequate financing or financing terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

RISKS RELATING TO OUR OPERATIONS AND BUSINESS STRATEGY

If we cannot successfully transition our revenue mix from contract research revenues to product sales and license revenues, we may not be able to fully execute our business model or grow our business.

Our business model and future growth depend on our ability to transition to a revenue mix that contains significantly larger product sales and revenues from the provision of services or from licensing. Product sales and these revenues potentially offer greater scalability than contract research revenues. Our current plan is to increase our sales of commercial products, our licensing revenue and our provision of non-research services to customers so as to represent a larger percentage of our total revenues. If we are unable to develop and grow our product sales and revenues from the provision of services or from licensing to augment our contract research revenues, however, our ability to execute our business model or grow our business could suffer. There can be no assurance that we will be able to achieve increased revenues in this manner.

If we are unable to manage growth effectively, our revenue and net loss could be adversely affected.

While historically we have developed and commercialized only a few products at a time, we plan to grow our revenues by developing and commercializing multiple products concurrently across many industries, technologies and markets. Our ability to expand our business by developing and commercializing multiple products simultaneously requires that we manage a diverse range of projects and expand our personnel resources. Our inability to do any of these could prevent us from successfully implementing our growth strategy, causing our revenues and profits to be adversely affected.

To advance the development of multiple promising potential products concurrently, we need to manage effectively the logistics of maintaining the requisite corporate, operational, administrative and financing functions for each of these product opportunities. Potentially expanding our operations into new geographic areas and relying on multiple facilities to develop and manufacture different products concurrently pose additional challenges. We have little experience in managing these functions simultaneously for multiple projects in development or in building new infrastructure and integrating the operations of various facilities. If we cannot manage this process successfully, we may experience operating difficulties, additional expenditures and limited revenue growth.

We may need to expand our personnel resources to grow our business effectively. We believe that sustained growth at a higher rate will place a strain on our management as well as on our other human resources. To manage this growth, we must continue to attract and retain qualified management, professional, scientific and technical and operating personnel. If we are unable to recruit a sufficient number of qualified personnel, we may be unable to staff and manage projects adequately, which in turn may slow the rate of growth of our contract research revenue or our product development efforts.

We may not be successful in identifying market needs for new technologies and developing new products to meet those needs.

The success of our business model depends on our ability to correctly identify market needs for new technologies. We intend to identify new market needs, but we may not always have success in doing so in part because our contract research largely centers on identification and development of unproven technologies, often for new or emerging markets. Furthermore, we must identify the most promising technologies from a sizable pool of projects. If our commercialization strategy process fails to identify projects with commercial potential or if management does not

ensure that such projects advance to the commercialization stage, we may not successfully commercialize new products and grow our revenues.

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Our growth strategy requires that we not only identify new technologies that meet market needs, but that we also develop successful commercial products that address those needs. We face several challenges in developing successful new products. Many of our existing products and those currently under development are technologically innovative and require significant and lengthy product development efforts. These efforts include planning, designing, developing and testing at the technological, product and manufacturing-process levels. These activities require us to make significant investments. Although there are many potential applications for our technologies, our resource constraints require us to focus on specific products and to forgo other opportunities. We expect that one or more of the potential products we choose to develop will not be technologically feasible or will not achieve commercial acceptance, and we cannot predict which, if any, of our products we will successfully develop or commercialize. The technologies we research and develop are new and steadily changing and advancing. The products that are derived from these technologies may not be applicable or compatible with the state of technology or demands in existing markets. Our existing products and technologies may become uncompetitive or obsolete if our competitors adapt more quickly than we do to new technologies and changes in customers' requirements. Furthermore, we may not be able to identify if and when new markets will open for our products given that future applications of any given product may not be readily determinable, and we cannot reasonably estimate the size of any markets that may develop. If we are not able to successfully develop new products, we may be unable to increase our product revenues.

We face and will face substantial competition in several different markets that may adversely affect our results of operations.

We face and will face substantial competition from a variety of companies in several different markets. Our competitors in contract research include, but are not limited to, companies such as General Dynamics Corporation, Lockheed Martin Corporation, SAIC, Inc. and SRA International, Inc. In the instrumentation and test and measurement products market, our competitors include, but are not limited to, large companies such as Agilent Technologies, Inc., Analog Devices, Inc., Freescale Semiconductor, Inc., JDS Uniphase Corp., Robert Bosch GmbH and Silicon Sensing, as well as emerging companies.

The products that we have developed or are currently developing will compete with other technologically innovative products as well as products incorporating conventional materials and technologies. We expect that our products will face competition in a wide range of industries, including telecommunications, industrial instrumentation, healthcare, military and security applications.

Many of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. In addition, current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers or other third parties. Accordingly, new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We cannot assure you that we will be able to compete successfully against current or new competitors, in which case our revenues may fail to increase or may decline.

We have limited experience manufacturing our products in commercial quantities in a cost-effective manner, which could adversely impact our business.

In the past, we produced most of our products on a custom order basis rather than pursuant to large contracts that require production on a large volume basis. Accordingly, other than the commercial manufacture of products by our Products and Licensing segment, we have no experience manufacturing products in large volumes. Because our experience in large scale manufacturing is limited, we may encounter unforeseen difficulties in our efforts to manufacture other products or materials in commercial quantities or have to rely on third-party contractors over which we may not have direct control to manufacture our products. We may also encounter difficulties and delays in manufacturing our products for any of the following reasons:

- we may need to expand our manufacturing operations, and our production processes may have to change to accommodate this growth;
- to increase our manufacturing output significantly, we will have to attract and retain qualified employees, who are in short supply, for the assembly and testing operations;

- we might have to sub-contract to outside manufacturers which might limit our control of costs and processes; and
- our manufacturing operations may have to comply with government or customer-mandated specifications.

If we are unable to keep up with demand for our products, our revenues could be impaired, market acceptance of our products could be adversely affected and our customers might instead purchase our competitors' products. Moreover, failure to develop and maintain a U.S. market for goods developed with U.S. government-licensed technology may result in the

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cancellation of the relevant U.S. government licenses. Our inability to manufacture our products successfully would have a material adverse effect on our revenues.

Even if we are able to manufacture our products on a commercial scale, the cost of manufacturing our products may be higher than we expect. If the costs associated with manufacturing are not significantly less than the prices at which we can sell our products, we may not be able to operate at a profit.

Our nanotechnology-enabled products are new and may be, or may be perceived as being, harmful to human health or the environment.

While we believe that none of our current products contain chemicals known by us to be hazardous or subject to environmental regulation, it is possible that our current or future products, particularly carbon-based nanomaterials, may become subject to environmental or other regulation. We intend to develop and sell carbon-based nanomaterials as well as nanotechnology-enabled products, which are products that include nanomaterials as a component to enhance those products' performance. Nanomaterials and nanotechnology-enabled products have a limited historical safety record. Because of their size or shape or because they may contain harmful elements, such as gadolinium and other rare-earth metals, our products could pose a safety risk to human health or the environment. These characteristics may also cause countries to adopt regulations in the future prohibiting or limiting the manufacture, distribution or use of nanomaterials or nanotechnology-enabled products. Such regulations may inhibit our ability to sell some products containing those materials and thereby harm our business or impair our ability to develop commercially viable products.

The subject of nanotechnology has received negative publicity and has aroused public debate. Government authorities could, for social or other purposes, prohibit or regulate the use of nanotechnology. Ethical and other concerns about nanotechnology could adversely affect acceptance of our potential products or lead to government regulation of nanotechnology-enabled products.

We face risks associated with our international business.

We currently conduct business internationally and we might considerably expand our international activities in the future. Our international business operations are subject to a variety of risks associated with conducting business internationally, including:

- having to comply with U.S. export control regulations and policies that restrict our ability to communicate with non-U.S. employees and supply foreign affiliates and customers;
- changes in or interpretations of foreign regulations that may adversely affect our ability to sell our products, perform services or repatriate profits to the United States;
- the imposition of tariffs;
- hyperinflation or economic or political instability in foreign countries;
- imposition of limitations on, or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- conducting business in places where business practices and customs are unfamiliar and unknown;
- the imposition of restrictive trade policies;
- the imposition of inconsistent laws or regulations;
- the imposition or increase of investment and other restrictions or requirements by foreign governments;
- uncertainties relating to foreign laws and legal proceedings;
- having to comply with a variety of U.S. laws, including the Foreign Corrupt Practices Act; and
- having to comply with licensing requirements.

We do not know the impact that these regulatory, geopolitical and other factors may have on our international business in the future.

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We could be negatively affected by a security breach, either through cyber attack, cyber intrusion or other significant disruption of our IT networks and related systems.

We face the risk, as does any company, of a security breach, whether through cyber attack or cyber intrusion over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, or other significant disruption of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

As a technology company, and particularly as a government contractor, we may face a heightened risk of a security breach or disruption from threats to gain unauthorized access to our proprietary, confidential or classified information on our IT networks and related systems. These types of information and IT networks and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. In addition, as certain of our technological capabilities become widely known, it is possible that we may be subjected to cyber attack or cyber intrusion as third parties seek to gain improper access to information regarding these capabilities and cyber attacks or cyber intrusion could compromise our confidential information or our IT networks and systems generally, as it is not practical as a business matter to isolate all of our confidential information and trade secrets from email and internet access. There can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging.

A security breach or other significant disruption involving these types of information and IT networks and related systems could disrupt the proper functioning of these networks and systems and therefore our operations, compromise our confidential information and trade secrets, or damage our reputation among our customers and the public generally. Any of these developments could have a negative impact on our results of operations, financial condition and cash flows.

RISKS RELATING TO OUR REGULATORY ENVIRONMENT

Our operations are subject to domestic and foreign laws, regulations and restrictions, and noncompliance with these laws, regulations and restrictions could expose us to fines, penalties, suspension or debarment, which could have a material adverse effect on our profitability and overall financial position.

Our operations, particularly our international sales, subject us to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to imports, exports (including the Export Administration Regulations and the International Traffic in Arms Regulations), technology transfer restrictions, anti-boycott provisions, economic sanctions and the Foreign Corrupt Practices Act. The number of our various emerging technologies, the development of many of which has been funded by the Department of Defense, presents us with many regulatory challenges. Failure by us or our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil, or criminal liabilities and could result in suspension of our export privileges, which could have a material adverse effect on our business. Changes in regulation or political environment may affect our ability to conduct business in foreign markets including investment, procurement and repatriation of earnings.

Our healthcare and medical products are and may continue to be subject to a lengthy and uncertain domestic regulatory approval process. If we do not obtain and maintain the necessary domestic regulatory approvals or clearances, we will not be able to market and sell our products for clinical use in the United States. Complying with applicable regulations is an expensive and time-consuming process and any failure to fully comply with such regulations could subject us to enforcement actions.

Certain of our current and potential products could require regulatory clearances or approvals prior to commercialization. For example, any nanomaterial-based MRI contrast agent is likely to be considered a drug under the Federal Food, Drug and Cosmetic Act, or the FDC Act. Drugs and some medical devices are subject to rigorous preclinical testing and other approval requirements by the U.S. Food and Drug Administration, or the FDA, pursuant to the FDC Act, and regulations under the FDC Act, as well as by similar health authorities in foreign countries.

Various federal statutes and regulations also govern or influence the testing, manufacturing, safety, labeling, packaging, advertising, storage, registration, listing and recordkeeping related to marketing of pharmaceuticals. The process of obtaining these clearances or approvals and the subsequent compliance with appropriate federal statutes and regulations require the expenditure of substantial resources, which we may not be able to obtain on favorable terms, if at all. We cannot be certain that any required FDA or other regulatory approval will be granted or, if granted, will not be withdrawn. Our failure to obtain the

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necessary regulatory approvals, or our failure to obtain them in a timely manner, will prevent or delay our commercialization of new products and our business or our stock price could be adversely affected as a result.

Our commercially distributed medical device products will be subject to various post-market regulatory requirements, compliance with which will be expensive and time-consuming.

We will also become subject to inspection and marketing surveillance by the FDA to determine our compliance with regulatory requirements. If the FDA determines that we have failed to comply, it can institute a wide variety of enforcement actions ranging from a regulatory letter to a public warning letter to more severe civil and criminal sanctions. Our failure to comply with applicable requirements could lead to an enforcement action that may have an adverse effect on our financial condition and results of operations.

If our manufacturing facilities do not meet Federal, state or foreign country manufacturing standards, we may be required to temporarily cease all or part of our manufacturing operations, which would result in product delivery delays and negatively impact revenue.

Our manufacturing facilities are subject to periodic inspection by regulatory authorities and our operations will continue to be regulated by the FDA for compliance with Good Manufacturing Practice requirements contained in the quality systems regulations. We are also required to comply with International Organization for Standardization, or ISO, quality system standards in order to produce products for sale in Europe. If we fail to continue to comply with Good Manufacturing Practice requirements or ISO standards, we may be required to cease all or part of our operations until we comply with these regulations. Obtaining and maintaining such compliance is difficult and costly. We cannot be certain that our facilities will be found to comply with Good Manufacturing Practice requirements or ISO standards in future inspections and audits by regulatory authorities. In addition, if we cannot maintain or establish manufacturing facilities or operations that comply with such standards or do not meet the expectations of our customers, we may not be able to realize certain economic opportunities in our current or future supply arrangements.

Medical products are subject to various international regulatory processes and approval requirements. If we do not obtain and maintain the necessary international regulatory approvals for any such potential products, we may not be able to market and sell our medical products in foreign countries.

To be able to market and sell medical products in other countries, we must obtain regulatory approvals and comply with the regulations of those countries. These regulations, including the requirements for approvals and the time required for regulatory review, vary from country to country. Obtaining and maintaining foreign regulatory approvals are expensive, and we cannot be certain that we will have the resources to be able to pursue such approvals or whether we would receive regulatory approvals in any foreign country in which we plan to market our products. For example, the European Union requires that manufacturers of medical products obtain the right to affix the CE mark to their products before selling them in member countries of the European Union, which we have not yet obtained and may never obtain. If we fail to obtain regulatory approval in any foreign country in which we plan to market our products, our ability to generate revenue will be harmed.

We are subject to additional significant foreign and domestic government regulations, including environmental and health and safety regulations, and failure to comply with these regulations could harm our business.

Our facilities and current and proposed activities involve the use of a broad range of materials that are considered hazardous under applicable laws and regulations. Accordingly, we are subject to a number of foreign, federal, state and local laws and regulations relating to health and safety, protection of the environment and the storage, use, disposal of, and exposure to, hazardous materials and wastes. We could incur costs, fines and civil and criminal penalties, personal injury and third party property damage claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental, health and safety laws. Moreover, a failure to comply with environmental laws could result in fines and the revocation of environmental permits, which could prevent us from conducting our business. Liability under environmental laws can be joint and several and without regard to fault. There can be no assurance that violations of environmental and health and safety laws will not occur in the future as a result of the inability to obtain permits, human error, equipment failure or other causes. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business. Accordingly, violations of present and

future environmental laws could restrict our ability to expand facilities, pursue certain technologies, and could require us to acquire costly equipment or incur potentially significant costs to comply with environmental regulations. Compliance with foreign, federal, state and local environmental laws and regulations represents a small part of our present budget. If we fail to comply with any such laws or regulations, however, a government entity may levy a fine on us or

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require us to take costly measures to ensure compliance. Any such fine or expenditure may adversely affect our development. We cannot predict the extent to which future legislation and regulation could cause us to incur additional operating expenses, capital expenditures or restrictions and delays in the development of our products and properties.

RISKS RELATING TO OUR INTELLECTUAL PROPERTY

Our proprietary rights may not adequately protect our technologies.

Our commercial success will depend in part on our obtaining and maintaining patent, trade secret, copyright and trademark protection of our technologies in the United States and other jurisdictions as well as successfully enforcing this intellectual property and defending it against third-party challenges. We will only be able to protect our technologies from unauthorized use by third parties to the extent that valid and enforceable intellectual property protections, such as patents or trade secrets, cover them. In particular, we place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products and processes. The degree of future protection of our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. The degree of future protection of our proprietary rights is also uncertain for products that are currently in the early stages of development because we cannot predict which of these products will ultimately reach the commercial market or whether the commercial versions of these products will incorporate proprietary technologies.

Our patent position is highly uncertain and involves complex legal and factual questions. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents. For example:

- we or our licensors might not have been the first to make the inventions covered by each of our pending patent applications and issued patents;.
- we or our licensors might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- it is possible that none of our pending patent applications or the pending patent applications of our licensors will result in issued patents;
- patents may issue to third parties that cover how we might practice our technology;
- our issued patents and issued patents of our licensors may not provide a basis for commercially viable technologies, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties; and
- we may not develop additional proprietary technologies that are patentable

Patents may not be issued for any pending or future pending patent applications owned by or licensed to us, and claims allowed under any issued patent or future issued patent owned or licensed by us may not be valid or sufficiently broad to protect our technologies. Moreover, protection of certain of our intellectual property may be unavailable or limited in the United States or in foreign countries, and we have not sought to obtain foreign patent protection for certain of our products or technologies due to cost, concerns about enforceability or other reasons. Any issued patents owned by or licensed to us now or in the future may be challenged, invalidated, or circumvented, and the rights under such patents may not provide us with competitive advantages. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, and in the case of certain products no foreign patents were filed or can be filed. This could make it easier for competitors to capture or increase their market share with respect to related technologies. We could incur substantial costs to bring suits in which we may assert our patent rights against others or defend ourselves in suits brought against us. An unfavorable outcome of any litigation could have a material adverse effect on our business and results of operations.

We also rely on trade secrets to protect our technology, especially where we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. We regularly attempt to obtain confidentiality agreements and contractual provisions with our collaborators, employees and consultants to protect our trade secrets and proprietary know-how. These agreements may be breached or may not have adequate remedies for such breach. While we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors or scientific and other advisors, or those of our strategic partners, may unintentionally or willfully disclose our information to competitors. If we were to enforce a claim that a third party had illegally obtained and was using our trade secrets, our

enforcement efforts would be expensive and time consuming,

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and the outcome would be unpredictable. In addition, courts outside the United States are sometimes unwilling to protect trade secrets. Moreover, if our competitors independently develop equivalent knowledge, methods and know-how, it will be more difficult for us to enforce our rights and our business could be harmed.
If we are not able to defend the patent or trade secret protection position of our technologies, then we will not be able to exclude competitors from developing or marketing competing technologies and we may not generate enough revenues from product sales to justify the cost of developing our technologies and to achieve or maintain profitability.
We also rely on trademarks to establish a market identity for our company and our products. To maintain the value of our trademarks, we might have to file lawsuits against third parties to prevent them from using trademarks confusingly similar to or dilutive of our registered or unregistered trademarks. Also, we might not obtain registrations for our pending trademark applications, and we might have to defend our registered trademark and pending trademark applications from challenge by third parties. Enforcing or defending our registered and unregistered trademarks might result in significant litigation costs and damages, including the inability to continue using certain trademarks.
Third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result.
Various U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in our technology areas. Such third parties may claim that we infringe their patents. Because patent applications can take several years to result in a patent issuance, there may be currently pending applications, unknown to us, which may later result in issued patents that our technologies may infringe. For example, we are aware of competitors with patents in technology areas applicable to our optical test equipment products. Such competitors may allege that we infringe these patents. There could also be existing patents of which we are not aware that our technologies may inadvertently infringe. We have from time to time, and may in the future, be contacted by third parties, including patent assertion entities or intellectual property advisors, about licensing opportunities that also contain claims that we are infringing on third party patent rights. If third parties assert these claims against us we could incur extremely substantial costs and diversion of management resources in defending these claims, and the defense of these claims could have a material adverse effect on our business, financial condition and results of operations. Even if we believe we have not infringed on a third party's patent rights, we may have to settle a claim on unfavorable terms because we cannot afford to litigate the claim. In addition, if third parties assert claims against us and we are unsuccessful in defending against these claims, these third parties may be awarded substantial damages as well as injunctive or other equitable relief against us, which could effectively block our ability to make, use, sell, distribute or market our products and services in the United States or abroad.
Commercial application of nanotechnologies in particular, or technologies involving nanomaterials, is new and the scope and breadth of patent protection is uncertain. Consequently, the patent positions of companies involved in nanotechnologies have not been tested, and there are complex legal and factual questions for which important legal principles will be developed or may remain unresolved. In addition, it is not clear whether such patents will be subject to interpretations or legal doctrines that differ from conventional patent law principles. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our nanotechnology-related intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our nanotechnology-related patents or in third party patents. In the event that a claim relating to intellectual property is asserted against us, or third parties not affiliated with us hold pending or issued patents that relate to our products or technology, we may seek licenses to such intellectual property or challenge those patents. However, we may be unable to obtain these licenses on commercially reasonable terms, if at all, and our challenge of the patents may be unsuccessful. Our failure to obtain the necessary licenses or other rights could prevent the sale, manufacture or distribution of our products and, therefore, could have a material adverse effect on our business, financial condition and results of operations.
A substantial portion of our technology is subject to retained rights of our licensors, and we may not be able to prevent the loss of those rights or the grant of similar rights to third parties.
A substantial portion of our technology is licensed from academic institutions, corporations and government agencies. Under these licensing arrangements, a licensor may obtain rights over the technology, including the right to require us to grant a license to one or more third parties selected by the licensor or that we provide licensed technology or

material to third parties for non-commercial research. The grant of a license for any of our core technologies to a third party could have a material and adverse effect on our business. In addition, some of our licensors retain certain rights under the licenses, including the right to grant additional licenses to a substantial portion of our core technology to third parties for non-commercial academic and research use. It is difficult to monitor and enforce such non-commercial academic and research uses, and we cannot predict whether the third-party licensees would comply with the use restrictions of such licenses. We have incurred and could incur

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substantial expenses to enforce our rights against them. We also may not fully control the ability to assert or defend those patents or other intellectual property which we have licensed from other entities, or which we have licensed to other entities.

In addition, some of our licenses with academic institutions give us the right to use certain technology previously developed by researchers at these institutions. In certain cases we also have the right to practice improvements on the licensed technology to the extent they are encompassed by the licensed patents and are within our field of use. Our licensors may currently own and may in the future obtain additional patents and patent applications that are necessary for the development, manufacture and commercial sale of our anticipated products. We may be unable to agree with one or more academic institutions from which we have obtained licenses whether certain intellectual property developed by researchers at these academic institutions is covered by our existing licenses. In the event that the new intellectual property is not covered by our existing licenses, we would be required to negotiate a new license agreement. We may not be able to reach agreement with current or future licensors on commercially reasonable terms, if at all, or the terms may not permit us to sell our products at a profit after payment of royalties, which could harm our business.

Some of our patents may cover inventions that were conceived or first reduced to practice under, or in connection with, U.S. government contracts or other federal funding agreements. With respect to inventions conceived or first reduced to practice under a federal funding agreement, the U.S. government may retain a non-exclusive, non-transferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the invention throughout the world. We may not succeed in our efforts to retain title in patents, maintain ownership of intellectual property or in limiting the U.S. government's rights in our proprietary technologies and intellectual property when an issue exists as to whether such intellectual property was developed in the performance of a federal funding agreement or developed at private expense.

RISKS RELATING TO OUR COMMON STOCK

We may not be able to comply with all applicable listing requirements or standards of The NASDAQ Capital Market and NASDAQ could delist our common stock.

Our common stock is listed on The NASDAQ Capital Market. In order to maintain that listing, we must satisfy minimum financial and other continued listing requirements and standards. There can be no assurances that we will be able to comply with applicable listing standards. In the event that our common stock is not eligible for quotation on another market or exchange, trading of our common stock could be conducted in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a major exchange.

Our common stock price has been volatile and we expect that the price of our common stock will fluctuate substantially in the future, which could cause you to lose all or a substantial part of your investment.

The public trading price for our common stock is volatile and may fluctuate significantly. Since January 1, 2009, our common stock has traded between a high of $5.00 per share and a low of $0.26 per share. Among the factors, many of which we cannot control, that could cause material fluctuations in the market price for our common stock are:

- sales of our common stock by our significant stockholders, or the perception that such sales may occur, including sales pursuant to the Form S-3 registration statement described above;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' earnings estimates;
- changes in our status as an entity eligible to receive SBIR contracts and grants;
- quarterly variations in our or our competitors' results of operations;
- general market conditions and other factors unrelated to our operating performance or the operating performance of our competitors;
-

announcements by us, or by our competitors, of acquisitions, new products, significant contracts, commercial relationships or capital commitments;

- pending or threatened litigation;
- any major change in our board of directors or management or any competing proxy solicitations for director nominees;

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- changes in governmental regulations or in the status of our regulatory approvals;
- announcements related to patents issued to us or our competitors;
- a lack of, limited or negative industry or securities analyst coverage;
- discussions of our company or our stock price by the financial and scientific press and online investor communities such as chat rooms; and
- general developments in our industry.

In addition, the stock prices of many technology companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These factors may materially and adversely affect the market price of our common stock.

If our internal control over financial reporting is found not to be effective or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls, investors could lose confidence in our financial reports, and our stock price may be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include an internal control report with our Annual Report on Form 10-K. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year.

We evaluate our existing internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. During the course of our ongoing evaluation of the internal controls, we may identify areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Remedying any deficiencies, significant deficiencies or material weaknesses that we identify may require us to incur significant costs and expend significant time and management resources. We cannot assure you that any of the measures we implement to remedy any such deficiencies will effectively mitigate or remedy such deficiencies. Investors could lose confidence in our financial reports, and our stock price may be adversely affected, if our internal controls over financial reporting are found not to be effective by management or if we make disclosure of existing or potential significant deficiencies or material weaknesses in those controls.

Anti-takeover provisions in our amended and restated certificate of incorporation and bylaws and Delaware law could discourage or prevent a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our amended and restated certificate of incorporation and bylaws and Delaware law contain provisions that might delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. These provisions include:

- a classified board of directors serving staggered terms;
- advance notice requirements to stockholders for matters to be brought at stockholder meetings;
- a supermajority stockholder vote requirement for amending certain provisions of our amended and restated certificate of incorporation and bylaws; and
- the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for five years unless the holder's acquisition of our stock was approved in advance by our board of directors.

The existence of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

We may become involved in securities class action litigation that could divert management's attention and harm our business and our insurance coverage may not be sufficient to cover all costs and damages.

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The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of technology companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Securities class litigation also often follows certain significant business transactions, such as the sale of a business division or a change in control transaction. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could adversely affect our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease approximately 24,000 square feet of space in Roanoke, Virginia from Carilion Clinic, our largest institutional stockholder. This property is used for our corporate headquarters as well as for general administrative functions. Pursuant to a sublease entered into with Mac-B in connection with our sale of SCC to Mac-B, we sublease approximately 12,000 square feet of this space to Mac-B.

We lease approximately 37,000 square feet of space in Blacksburg, Virginia, near Virginia Tech, which is used by both our Technology Development segment and our Products and Licensing segment.

We lease approximately 16,000 square feet of space in Charlottesville, Virginia, near the University of Virginia, for use by certain groups in our Technology Development segment.

We own a 24,000 square foot facility in Danville, Virginia. This property was previously the subject of a lease with the city, and we exercised a purchase option during 2010 to acquire the building for approximately $70,000. Our Technology Development segment primarily uses this facility for nanomaterials research and development and manufacturing.

We believe that our existing facilities are adequate for our current needs and suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in litigation or claims arising out of our operations in the normal course of business. Management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock trades on The NASDAQ Capital Market. The following table sets forth the high and low sales prices of our common stock for each period indicated as reported by NASDAQ.

	2012		2013	
Fiscal Period	High	Low	High	Low
First Quarter	$1.98	$1.20	$1.40	$1.09
Second Quarter	$1.80	$1.23	$1.35	$1.09
Third Quarter	$1.95	$1.31	$2.40	$1.13
Fourth Quarter	$1.92	$1.12	$1.80	$1.15

We have a single class of common stock outstanding. As of March 13, 2014, there were approximately 84 stockholders of record of our common stock. The number of holders of record of our common stock does not reflect the number of beneficial holders whose shares are held by depositories, brokers or other nominees.

STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on our common stock for the previous five years, during which our common stock was traded on the NASDAQ Global Market until being transferred to the NASDAQ Capital Market in 2009, as compared to the cumulative total return of the NASDAQ Composite Index and the Russell 2000 Index over the same period. This graph assumes the investment of $100,000 in our common stock at the closing price on January 1, 2009, and an equivalent amount in the NASDAQ Composite Index and the Russell 2000 Index on that date, and assumes the reinvestment of dividends, if any. We have never paid dividends on our common stock and have no present plans to do so.

Since there is no published industry or line-of-business index for our business reflective of our performance, nor do we believe we can reasonably identify a peer group, we measure our performance against issuers with similar market capitalizations. We selected the Russell 2000 Index because it measures the performance of a broad range of companies with lower market capitalizations than those companies included in the S&P 500 Index.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

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The preceding Stock Performance Graph is not deemed filed with the Securities and Exchange Commission and shall not be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

DIVIDEND POLICY

Since our inception, we have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business, and therefore do not anticipate paying any cash dividends in the foreseeable future. In addition, our line of credit facility with Silicon Valley Bank restricts us from paying cash dividends on our capital stock without the bank’s prior written consent.

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statement of operations data for each of the three years in the period ended December 31, 2013 and the consolidated balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statement of operations data for the years ended December 31, 2009 and 2010 and the consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements that do not appear in this report. The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included at Part II, Item 7 in this Annual Report on Form 10-K. The selected data in this section is not intended to replace the consolidated financial statements, and the historical results are not necessarily indicative of the results to be expected in any future period.

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In thousands, except share and per share data	2009 (a)	2010	2011	2012	2013
Consolidated Statement of Operations Data:					
Revenues:					
Technology development revenues	$16,160	$14,365	$15,586	$15,127	$11,422
Products and Licensing revenues	9,374	12,133	13,196	11,251	10,624
Total revenues	25,534	26,498	28,782	26,378	22,046
Cost of revenues:					
Technology development costs	11,212	10,454	11,483	10,749	8,882
Products and Licensing costs	4,784	5,787	6,590	5,242	5,183
Total cost of revenues	15,996	16,241	18,073	15,991	14,065
Gross profit	9,538	10,257	10,709	10,387	7,981
Operating expense	29,881	14,425	13,557	12,762	13,692
Operating loss	(20,343)	(4,168)	(2,848)	(2,375)	(5,711)
Other income, net	1	77	228	108	347
Interest income, net	(504)	(474)	(388)	(312)	(208)
Loss from continuing operations before reorganization items and income tax	(20,846)	(4,565)	(3,008)	(2,579)	(5,571)
Reorganization Costs	1,898	174	—	—	—
Loss from continuing operations before income tax	(22,744)	(4,739)	(3,008)	(2,579)	(5,571)
Income tax benefit	(500)	(478)	(479)	(441)	(1,454)
Loss from continuing operations, net	(22,244)	(4,261)	(2,529)	(2,138)	(4,117)
Income from discontinued operations, net of income taxes	1,799	1,641	1,137	755	3,314
Net loss	(20,445)	(2,620)	(1,392)	(1,383)	(803)
Preferred stock dividend	—	361	127	120	102
Net loss attributable to common stockholders	$(20,445)	$(2,981)	$(1,519)	$(1,504)	$(905)
Net loss per share from continuing operations:					
Basic	$(1.98)	$(0.33)	$(0.19)	$(0.15)	$(0.29)
Diluted	$(1.98)	$(0.33)	$(0.19)	$(0.15)	$(0.29)
Net income per share from discontinued operations:					
Basic	$0.16	$0.13	$0.08	$0.05	$0.23
Diluted	$0.15	$0.10	$0.07	$0.05	$0.20
Net loss per share attributable to common stockholders:					
Basic	$(1.82)	$(0.23)	$(0.11)	$(0.11)	$(0.06)
Diluted	$(1.82)	$(0.23)	$(0.11)	$(0.11)	$(0.06)
Weighted-average number of shares used in per share calculations:					
Basic	11,232,716	13,009,326	13,647,555	13,930,267	14,336,135
Diluted	12,244,403	15,777,195	15,876,471	16,312,048	16,621,927

	2009	2010	2011	2012	2013
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$5,229	$7,217	$8,939	$6,340	$7,779
Working capital	16,529	8,055	10,928	10,509	10,106
Total assets	21,758	22,876	22,919	20,458	19,704
Total current liabilities	5,556	10,648	8,407	6,932	7,206
Total debt	5,000	6,307	5,250	3,625	2,125

(a) In April 2009, a jury awarded Hansen Medical Inc. (“Hansen”) a judgment of $36.3 million following a trial. In January 2010, we and Hansen entered into a settlement agreement that reduced our liability to $9.7 million. This amount was recognized in operating expenses for the year ended December 31, 2009 and is included in accrued liabilities at December 31, 2009. As a result of the jury award, we performed an interim goodwill and intangible asset impairment analysis. As a result of this analysis, we recognized an impairment of $1.3 million during the quarter ended March 31, 2009. We also determined that our remaining deferred tax asset was no longer likely to be realized and placed a valuation allowance of $0.6 million against the asset. On July 17, 2009, we filed a voluntary petition for relief in order to reorganize under Chapter 11 of the United States Bankruptcy Code. As a result of this action, we incurred significant legal expenses that are included in reorganization expenses for the year ended December 31, 2009 in the table above.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this report. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this report.

Business Overview

We develop, manufacture and market fiber optic sensing and test & measurement products focused on bringing new and innovative technology solutions to measure, monitor, protect and improve critical processes in the aerospace, automotive, energy, composite, telecommunications, and defense industries. In addition, we provide applied research services, typically under research programs funded by the U.S. government, in areas of advance materials, sensing, and healthcare applications. Our business model is designed to accelerate the process of bringing new and innovative products to market. We use our in-house technical expertise across a range of technologies to perform applied research services for companies and government-funded projects. We continue to invest in product development and commercialization, which we anticipate will lead to increased product sales growth.

Our corporate growth strategy is focused on becoming the leading provider of fiber optic strain & temperature sensing solutions and standard test methods for composite, as well as non-composite materials, structures and systems.

We are organized into two main business segments, our Products and Licensing segment and our Technology Development segment. Our Products and Licensing segment develops, manufactures and markets our fiber optic sensing, as well as test and measurement products and also conducts applied research in the fiber optic sensing area for both corporate and government customers. We are continuing to develop and commercialize our fiber optic technology for strain and temperature sensing applications for the aerospace, automotive, and energy industries. Our Products and Licensing segment revenues represented approximately 46%, 43% and 48% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. A breakdown of our operating income (loss) by segment, as well as our total assets by segment, is provided in footnote 13 to our consolidated financial statements included in this report.

Our Technology Development segment performs applied research principally in the areas of sensing and instrumentation, advanced materials and health sciences. Our Technology Development segment comprised approximately 54%, 57% and 52% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Prior to our sale of SCC to Mac-B, SCC provided innovative solutions designed to secure critical technologies within the U.S. government. SCC conducted applied research and provided services to the government in this area, with its revenues primarily derived from U.S. government contracts and purchase orders. Following the sale of SCC, our Technology Development segment predominantly performs applied research in the areas of sensing and materials. Most of the government funding for our Technology Development segment excluding SCC is derived from the Small Business Innovation Research, or SBIR, program coordinated by the U.S. Small Business Administration, or SBA.

We generate revenues through technology development services provided under contractual arrangements, product sales, product development under contractual relationships and license fees. Our Technology Development segment revenues have historically accounted for a large portion of our total revenues, and we expect that they will continue to represent a significant portion of our total revenues for the foreseeable future. Our Technology Development segment revenues decreased from $15.6 million in 2011 to $15.1 million in 2012 and further to $11.4 million in 2013. The decrease from 2012 to 2013 was caused primarily by a decrease in our optical systems group due to the completion of certain large contracts during 2012 that were not renewed or replaced in 2013.

Within the Technology Development segment, we have historically had a backlog of contracts for which work has been scheduled, but for which a specified portion of work has not yet been completed. We define backlog as the dollar amount of obligations payable to us under negotiated contracts upon completion of a specified portion of work that has not yet been completed, exclusive of revenues previously recognized for work already performed under these

contracts, if any. Total backlog includes funded backlog, which is the amount for which money has been directly authorized by the U.S. Congress and for which a purchase order has been received by a commercial customer, and unfunded backlog, representing firm orders for which funding has not yet been appropriated. Indefinite delivery and quantity contracts and unexercised options are not reported in total backlog. The approximate value of our Technology Development segment backlog was $8.7 million at December 31, 2013 and $10.3 million at December 31, 2012, excluding $3.3 million of backlog related to SCC as of December 31, 2012.

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Revenues from product sales currently represent a smaller portion of our total revenues, and, historically, we have derived most of these revenues from the sales of our sensing systems and products that make use of light-transmitting optical fibers, or fiber optics. We continue to invest in product development and commercialization, which we anticipate will lead to increased product sales growth. Although we have been successful in licensing certain technology in past years, we do not expect license revenues to represent a significant portion of future revenues. Over time, however, we do intend to gradually increase such revenues. In the near term, we expect revenues from product sales and product development to be primarily in areas associated with our fiber optic instrumentation, test and measurement and sensing platforms. In the long term, we expect that revenues from product sales will represent a larger portion of our total revenues and that as we develop and commercialize new products, these revenues will reflect a broader and more diversified mix of products.

We incurred net losses attributable to common stockholders of approximately $1.5 million, $1.5 million and $0.9 million for the years ended December 31, 2011, 2012 and 2013, respectively.

We expect to continue to incur increasing expenses as we seek to expand our business, including expenses for research and development, sales and marketing and manufacturing capabilities. We may also grow our business in part through acquisitions of additional companies and complementary technologies, which could cause us to incur transaction expenses, amortization or write-offs of intangible assets and other acquisition-related expenses. As a result, we expect to incur net losses for the foreseeable future, and these losses could be substantial.

In recent years, economic conditions around the world deteriorated, and the outlook for 2014 and beyond remains uncertain. This slowing of the economy, both in the United States and globally, reduced the financial capacities of some of our customers and potential customers, thereby slowing spending on the products and services we provide. Furthermore, reductions in government spending may impact the availability of new program awards in 2014. For example, the Budget Control Act commits the U.S. Government to reduce the federal deficit by $1.2 trillion over ten years through a combination of automatic, across-the-board spending cuts and caps on discretionary spending ("sequestration"). Automatic across-the-board cuts required by sequestration could have a material adverse effect on our technology development revenue and, consequently, our results of operations. While the exact manner in which sequestration will impact our business is unclear, funding for programs in which we participate could be reduced, delayed or canceled. Our ability to obtain new contract awards also could be negatively affected.

On January 21, 2014, we sold our assets associated with the development of fiber optic shape sensing and localization for the medical field to affiliates of Intuitive, for total cash consideration of up to $30 million, including $6 million received at closing, $6 million to be received in April 2014 and up to $18 million that we may receive in the future based on the achievement of certain technical milestones and royalties on system sales if any. Our revenues recognized related to fiber optic shape sensing in medical applications were $3.8 million, $3.3 million and $2.7 million for the years ended December 31, 2011, 2012, and $2013, respectively.

Our sales of SCC in 2013 and our medical shape sensing business, in 2014 are expected to result in lower revenues until we can increase revenues significantly, primarily from product sales. As a result, we may incur greater net losses than we have in prior years.

Description of Our Revenues, Costs and Expenses

Revenues

We generate revenues from technology development, product sales and commercial product development and licensing activities. We derive technology development revenues from providing research and development services to third parties, including government entities, academic institutions and corporations, and from achieving milestones established by some of these contracts and in collaboration agreements. In general, we complete contracted research over periods ranging from six months to three years, and recognize these revenues over the life of the contract as costs are incurred or upon the achievement of certain milestones built into the contracts. Our technology development revenues represented approximately 54%, 57% and 52% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively.

Our products and licensing revenues reflect amounts that we receive from sales of our products or development of products for third parties, as well as fees paid to us in connection with licenses or sub-licenses of certain patents and

other intellectual property, and represented approximately 46%, 43% and 48% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Within product and licensing revenues, revenues from our medical shape sensing business, sold to Intuitive in January 2014, represented approximately $3.8 million, $3.3 million and $2.7 million, respectively, for the years ended December 31, 2011, 2012 and 2013.

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Cost of Revenues

Cost of revenues associated with technology development revenues consists of costs associated with performing the related research activities including direct labor, amounts paid to subcontractors and overhead allocated to technology development activities.

Cost of revenues associated with product sales and license revenues consists of license fees for use of certain technologies; product manufacturing costs including all direct material and direct labor costs; amounts paid to our contract manufacturers; manufacturing, shipping and handling; provisions for product warranties; and inventory obsolescence, as well as overhead allocated to each of these activities.

Operating Expense

Operating expense consists of selling, general and administrative expenses, as well as expenses related to research, development and engineering, depreciation of fixed assets and amortization of intangible assets. These expenses also include compensation for employees in executive and operational functions including certain non-cash charges related to expenses from option grants, facilities costs, professional fees, salaries, commissions, travel expense and related benefits of personnel engaged in sales, product management and marketing activities; costs of marketing programs and promotional materials; salaries, bonuses and related benefits of personnel engaged in our own research and development beyond the scope and activities of our Technology Development segment; product development activities not provided under contracts with third parties; and overhead costs related to these activities.

Interest Expense, net

In February 2010, we entered into a new line of credit facility with Silicon Valley Bank, or SVB, with a borrowing capacity of $5.0 million. In May 2011, we entered into a loan modification agreement with SVB under which we repaid the outstanding balance under the prior line of credit and obtained a term loan in the amount of $6.0 million, along with a new $1.0 million line of credit. In May 2012, we entered into another loan modification agreement with SVB under which we extended the maturity date of the line of credit to May 2014 and adjusted certain covenants. On March 21, 2013, we entered into another loan modification agreement with SVB under which we replaced the previous financial covenants with a single covenant that we maintain a minimum cash balance of $5.0 million. At December 31, 2013, we had $2.1 million outstanding on the term loan and no amounts outstanding on the line of credit. Effective on January 21, 2014, this minimum cash balance covenant was modified to reduce the required minimum balance to $3.5 million.

During the years 2011, 2012 and 2013, interest expense included interest accrued on our outstanding bank credit facilities, and interest incurred with respect to our capital lease obligations. During 2011, interest expense also included interest incurred with respect to amounts owed to Hansen Medical under a promissory note, until such amounts were paid in full in May 2011.

Interest income includes amounts earned on our cash deposits with financial institutions.

Critical Accounting Policies and Estimates

Technology Development Revenues

We perform research and development for U.S. Federal government agencies, educational institutions and commercial organizations. We recognize revenue under research contracts when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered reasonably assured and can be reasonably estimated. Revenue is earned under cost reimbursable, time and materials and fixed price contracts. Direct contract costs are expensed as incurred.

Under cost reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract and paid a fixed fee representing the profit negotiated between us and the contracting agency. Revenue from cost reimbursable contracts is recognized as costs are incurred plus an estimate of applicable fees earned. We consider fixed fees under cost reimbursable contracts to be earned in proportion to the allowable costs incurred in performance of the contract.

Revenue from time and materials contracts is recognized based on direct labor hours expended at contract billing rates plus other billable direct costs.

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Fixed price contracts may include either a product delivery or specific service performance throughout a period. For fixed price contracts that are based on the proportional performance method and involve a specified number of deliverables, we recognize revenue based on the proportion of the cost of the deliverables compared to the cost of all deliverables included in the contract as this method more accurately measures performance under these arrangements. For fixed price contracts that provide for the development and delivery of a specific prototype or product, revenue is recognized based upon the percentage of completion method.

Our contracts with agencies of the U.S. government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, we consider our previous experience with our customers, communication with our customers regarding funding status and our knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is reasonably assured.

Contract revenue recognition inherently involves estimation, including the contemplated level of effort to accomplish the tasks under the contract, the cost of the effort and an ongoing assessment of progress toward completing the contract. From time to time, as part of normal management processes, facts may change, causing revisions to estimated total costs or revenues expected. The cumulative impact of any revisions to estimates and the full impact of anticipated losses on any type of contract are recognized in the period in which they become known.

The underlying bases for estimating our contract research revenues are measurable expenses, such as labor, subcontractor costs and materials, and data that are updated on a regular basis for purposes of preparing our cost estimates. Our research contracts generally have a period of performance of six to 18 months, and our estimates of contract costs have historically been consistent with actual results. Revisions in these estimates between accounting periods to reflect changing facts and circumstances have not had a material impact on our operating results, and we do not expect future changes in these estimates to be material.

Whether certain costs under government contracts are allowable is subject to audit by the government. Certain indirect costs are charged to contracts using provisional or estimated indirect rates, which are subject to later revision based on government audits of those costs. Management is of the opinion that costs subsequently disallowed, if any, would not likely have a significant impact on revenues recognized for those contracts.

Products and Licensing Revenues

We recognize revenue relating to our product sales when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability of the resulting receivable is reasonably assured. For tangible products that contain software that is essential to the tangible product’s functionality, we consider the product and software to be a single unit of accounting and recognize revenue accordingly. We evaluate product sales that are a part of multiple-element revenue arrangements to determine whether separate units of accounting exist, and we follow appropriate revenue recognition policies for each separate unit. For multi-element arrangements we allocate revenue to all significant deliverables based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value, or VSOE, (ii) third-party evidence of selling price or TPE, and (iii) best estimate of the selling price, or ESP. VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. Our product sales often include bundled products, options and services and therefore VSOE is not readily determinable. In addition, we believe that because of unique features of our products, TPE also is not available. ESPs reflect our best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

Our process for determining ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered in developing the ESPs include prices charged by us for similar offerings, our historical pricing practices, the nature of the deliverables, and the relative ESP of all of the deliverables as compared to the total selling price of the product. We may also consider, when appropriate, the impact of other products and services, on selling price assumptions when developing and reviewing our ESPs.

Income Taxes

We estimate our tax liability through calculating our current tax liability, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we record on our balance sheet. Management then assesses the likelihood that deferred tax assets will be recovered in future periods. In assessing the need for a valuation allowance against the net deferred tax asset, management considers factors such as future reversals of existing taxable temporary differences, taxable income in prior carry back years,

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whether carry back is permitted under the tax law, tax planning strategies and estimated future taxable income exclusive of reversing temporary differences and carry forwards. To the extent that we cannot conclude that it is more likely than not that the benefit of such assets will be realized, we establish a valuation allowance to reduce their net carrying value.

As we assess our projections of future taxable income or other factors that may impact our ability to generate taxable income in future periods, our estimate of the required valuation allowance may change, which could have a material impact on future earnings or losses.

We recognize tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities. While it is often difficult to predict the final outcome of timing of the resolution of any particular tax matter, we establish a liability at the time we determine it is probable we will be required to pay additional taxes related to certain matters. These liabilities are recorded in accrued liabilities in our consolidated balance sheets. We adjust this provision, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit. A number of years may elapse before a particular matter for which we have established a liability is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. Settlement of any particular issue would usually require the use of cash. We recognize favorable resolutions of tax matters for which we have previously established liabilities as a reduction to our income tax expense when the amounts involved become known.

Due to differences between federal and state tax law, and accounting principles generally accepted in the United States of America, or GAAP, certain items are included in the tax return at different times than when those items are reflected in the consolidated financial statements. Therefore, the annual tax rate reflected in our consolidated financial statements is different than that reported in our tax return. Some of these differences are permanent, such as expenses that are not deductible in our tax return. Some differences, such as depreciation expense, reverse over time and create deferred tax assets and liabilities. The tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which the differences are expected to reverse. Based on the evaluation of all available information, we recognize future tax benefits, such as net operating loss carry forwards, to the extent that realizing these benefits is considered more likely than not.

Stock-Based Compensation

We recognize stock-based compensation expense based upon the fair value of the underlying equity award on the date of the grant. We have elected to use the Black-Scholes option pricing model to value any awards granted. We amortize stock-based compensation for such awards on a straight-line basis over the related service period of the awards taking into account the effects of the employees’ expected exercise and post-vesting employment termination behavior. To compute the volatility used in this model, we use the lifetime volatility of our common stock.

Long-lived and Intangible Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future un-discounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Results of Operations

The following table shows information derived from our consolidated statements of operations expressed as a percentage of total revenues for the periods presented.

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	Year ended December 31,		
	2011	2012	2013
Revenues:			
Technology development revenues	54.2 %	57.3 %	51.8 %
Product and licensing revenues	45.8	42.7	48.2
Total revenues	100.0	100.0	100.0
Cost of Revenues:			
Technology development costs	39.9	40.8	40.3
Product and licensing costs	22.9	19.9	23.5
Total cost of revenues	62.8	60.7	63.8
Gross Profit	37.2	39.4	36.2
Operating Expense	47.1	48.4	62.1
Operating Loss	(9.9)	(9.0)	(25.9)
Total Other (Expense) Income, net	(0.6)	(0.8)	0.6
Loss from continuing operations before income taxes	(10.5)	(9.8)	(25.3)
Loss from continuing operations	(8.8)	(8.1)	(18.7)
Income from discontinued operations, net of income taxes	3.9	2.9	15.0
Net Loss	(4.9)	(5.2)	(3.7)

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

	2013	2012	$ Difference	% Difference
Technology development revenues	$11,421,868	$15,126,834	$(3,704,966)	(24.5)%
Products and licensing revenues	10,624,350	11,250,717	(626,367)	(5.6)%
Total revenues	$22,046,218	$26,377,551	$(4,331,333)	(16.4)%

Our Technology Development segment revenue decreased $3.7 million from $15.1 million in the year ended December 31, 2012 to $11.4 million in the year ended December 31, 2013. This decrease was due primarily to a decline in revenues from our optical systems group of $3.2 million due to the completion of certain large contracts during the second half of 2012, which contracts were not renewed or replaced in 2013.

Our Products and Licensing segment revenue decreased from $11.3 million to $10.6 million, a decrease of 5.6%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. Our Products and Licensing segment revenues decreased primarily due to a decrease of approximately $0.5 million in prototype medical shape sensing units sold in 2012 compared to 2013.

Cost of Revenues

	2013	2012	$ Difference	% Difference
Technology development costs	$8,882,071	$10,749,335	$(1,867,264)	(17.4)%
Products and licensing costs	5,182,633	5,242,043	(59,410)	(1.1)%
Total costs of revenues	$14,064,704	$15,991,378	$(1,926,674)	(12.0)%

Our Technology Development segment costs decreased to $8.9 million for the year ended December 31, 2013 from $10.7 million for the year ended December 31, 2012 a decrease of 17.4%. The decrease primarily reflects a $2.0 million decrease in costs, including direct labor, overhead, and subcontractor charges, associated with reduced contract work in our optical systems group for 2013 compared to 2012.

Our Products and Licensing segment costs were essentially unchanged at $5.2 million for each of the years ended December 31, 2013 and 2012.

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Operating Expense

	2013	2012	$ Difference	% Difference	
Selling general and administrative expense	$10,970,775	$10,249,444	$721,331	7.0	%
Research, development, and engineering expense	2,721,229	2,512,840	208,389	8.3	%
Total operating expense	$13,692,004	$12,762,284	$929,720	7.3	%

Selling, general and administrative expenses increased by $0.7 million, or 7.0%, to $11.0 million for the year ended December 31, 2013, as compared to $10.2 million for the year ended December 31, 2012. This increase was due to costs recognized of $0.8 million in 2013 in connection with the sale of our shape sensing business in the medical field to Intuitive, which transaction was closed in January 2014.

Research, development, and engineering expenses increased $0.2 million, or 8.3%, from $2.5 million for 2012 to $2.7 million for 2013. This increase was partially attributable to a $0.2 million increase in engineering expenses in our products and licensing segment during the first three months ended March 31, 2013, during which our engineering resources were more heavily directed toward internal development programs rather than third-party funded product development activities.

Interest Expense and Other Income

Our net interest expense was approximately $208,000 for the year ended December 31, 2013 compared to approximately $312,000 for the year ended December 31, 2012. During 2012 and 2013, our primary outstanding borrowing was the term loan provided by SVB. The average monthly loan balance for the year ended December 31, 2013 was $2.9 million as compared to $4.4 million for the year ended December 31, 2012, resulting in a decrease in interest expense.

Other income was approximately $347,000 for the year ended December 31, 2013 and $108,000 for the year ended December 31, 2012. During the year ended December 31, 2013, we received approximately $48,000 from an insurance policy profit share and $265,000 in rent income from a sublease of office space. We also recognized additional income from the amortization of the discount we received on prepayment of the Hansen Note of approximately $38,000, which was fully amortized during the second quarter of 2013. Other income for 2012 was primarily due to the full year amortization of the Hansen Note of approximately $93,000.

Income Tax Expense (Benefit)

We recognized alternative minimum income taxes in the amounts of $14,071 and $21,417 for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013, we have recognized in continuing operations an income tax benefit of $1,453,637, which is offset by the tax expense recognized on the gain on sale of the SCC business included in discontinued operations. For the year ended December 31, 2012, we recognized in continuing operations an income tax benefit of $440,758, which is offset by the tax expense recognized on the results of operations of the SCC business included in the discontinued operations.

Loss from Continuing Operations

As a result of the foregoing, including our $4.3 million decline in revenues and $0.9 million increase in operating expenses during the year ended December 31, 2013, compared to the prior year, we incurred a net loss from continuing operations of approximately $4.1 million, as compared to a net loss from continuing operations of $2.1 million for the year ended December 31, 2012.

Income from Discontinued Operations

For the year ended December 31, 2013, we recognized net income from discontinued operations of $3.3 million, compared to a net income from discontinued operations of $0.8 million for the year ended December 31, 2012. For 2013, this income consisted of a $3.4 million gain realized on the sale of our SCC business, net of income taxes, which occurred during the first quarter of 2013, partially offset by an operating loss of $0.1 million from the SCC business for the two months prior to the sale on March 1, 2013. The decrease in operating income of the SCC business in 2013 was primarily a result of a significant decline in revenue within our SCC business as a result of a decrease in revenue from one government contract.

Preferred Stock Dividend

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In January 2010, we issued 1,321,514 shares of our newly designated Series A Convertible Preferred Stock to Carilion. The Series A Convertible Preferred Stock carries an annual cumulative dividend of 6%, or approximately $0.2815 per share. During 2013 and 2012, we accrued approximately $102,000 and $120,000, respectively, for the dividends payable to Carilion. The dividends are not payable in cash, but rather in shares of our Common Stock, until liquidation event occurs. During each of 2013 and 2012, 79,292 shares of common stock became issuable to Carilion as dividends and have been recorded in the statement of stockholders' equity.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

	2012	2011	$ Difference	% Difference
Technology development revenues	$15,126,834	$15,586,123	$(459,289)	(2.9)%
Products and licensing revenues	11,250,717	13,195,822	(1,945,105)	(14.7)%
Total revenues	$26,377,551	$28,781,945	$(2,404,394)	(8.4)%

Our Technology Development segment revenue decreased $0.5 million from $15.6 million in the year ended December 31, 2011 to $15.1 million in the year ended December 31, 2012. Revenues in our materials groups were $6.5 million for 2012 as compared to $7.1 million for 2011. The decrease of $0.6 million was due primarily to lower contract awards within our Nanotechnology group. Revenues in our biomedical group decreased to $1.5 million, a decrease of $0.4 million from $1.9 million in 2011. This decrease is due primarily to a large contract ending mid-year and a program delay due to subcontractor relocation. These decreases were partially offset by an increase in revenues in our sensing groups, which generated $7.1 million in revenue for 2012, compared to $6.4 million for 2011. This increase of $0.7 million was due to an increase in funding in 2012 of one of our larger phase II contracts.

Our Products and Licensing segment revenue decreased from $13.2 million in the year ended December 31, 2011 to $11.3 million in the year ended December 31, 2012, a decrease of $1.9 million. Within our Products and Licensing segment, product sales revenue decreased by 7.4% to $8.7 million during the year ended December 31, 2012 as compared to $9.4 million for 2011. We experienced an increase of $2.2 million in sales of our sensing products, primarily our ODiSI product, which was offset by a decrease in our telecom industry sales products of $3.1 million, primarily our OBR and OVA products. Our product development revenue also decreased to $2.6 million for the year ended December 31, 2012 as compared to $3.6 million for 2011, a decrease of $1.0 million. This decrease was due to the decreased level of work performed under our development agreements for shape sensing in medical applications.

Cost of Revenues

	2012	2011	$ Difference	% Difference
Technology development costs	$10,749,335	$11,482,856	$(733,521)	(6.4)%
Products and licensing costs	5,242,043	6,589,943	(1,347,900)	(20.5)%
Total costs of revenues	$15,991,378	$18,072,799	$(2,081,421)	(11.5)%

Our Technology Development segment costs decreased to $10.7 million for the year ended December 31, 2012 from $11.5 million in the year ended December 31, 2011. Within the Technology Development segment, our materials groups saw a decline in their cost of revenues from $5.5 million for 2011 to $4.8 million for 2012, a decline of $0.7 million, due to a decrease in direct labor and overhead. Cost of revenues in our sensing groups increased from $4.6 million for 2011 to $5.0 million for 2012, an increase of $0.4 million, with all areas of direct costs in our sensing groups showing increases, commensurate with their increases in revenue.

Our Products and Licensing segment costs decreased from $6.6 million for 2011 to $5.2 million for 2012, a decrease of 20.5%. Within our Products and Licensing segment, product sales costs for 2012 increased to $3.6 million from $3.3 million for 2011. This increase of $0.3 million of costs related to component costs for our increased sensing product sales. Contract development costs of revenues were $1.6 million for 2012, as compared to $3.3 million for 2011, a decrease of $1.7 million. This decrease in costs was primarily associated with a decrease in resources assigned to work performed on the Hansen supply and development agreement.

Operating Expense

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	2012	2011	$ Difference	% Difference
Selling, general and administrative expense	$10,249,444	$11,283,139	$(1,033,695)	(9.2)%
Research, development, and engineering expense	2,512,840	2,273,886	238,954	10.5%
Total operating expense	$12,762,284	$13,557,025	$(794,741)	(5.9)%

Selling, general and administrative expenses decreased by $1.0 million, or 9.2%, to $10.2 million for 2012, as compared to $11.3 million for 2011. This decrease is due primarily to a decrease in incentive compensation of $0.4 million in 2012 and a decrease of $0.3 million in stock-based compensation expense.

Research, development, and engineering expenses increased by $0.2 million, or 10.5%, to $2.5 million for 2012, as compared to $2.3 million for 2011. This increase is due primarily to increased headcount in our engineering team for fiber optic products.

Interest Expense and Other Income

Our net interest expense was approximately $312,000 for the year ended December 31, 2012 compared to approximately $388,000 for the year ended December 31, 2011. During the year ended December 31, 2012 our primary outstanding borrowing was the term loan provided by SVB. During the year ended December 31, 2011 we maintained a $2.5 million balance on our line of credit until May 2011, at which time we refinanced both the line of credit and the remaining balance under the Hansen Note with a $6.0 million term loan also provided by SVB. Interest expense incurred in 2011 included approximately $267,000 associated with our SVB debt facility and approximately $97,000 associated with the Hansen Note. The average principal balance on outstanding borrowings was $4.4 million and $4.5 million for the years ended 2012 and 2011, respectively.

Other income was approximately $108,000 for the year ended December 31, 2012 and $228,000 for the year ended December 31, 2011. Other income in 2012 was primarily due to $93,000 from the discount we received on the final payoff of the Hansen Note in 2011. During the year ended December 31, 2011, we received approximately $154,000 for reimbursement of costs incurred by us in anticipation of a new development agreement. We also recognized approximately $58,000 in Other Income from the discount we received on the final payoff of the Hansen Note in 2011.

Income Tax Expense

We paid alternative minimum income taxes in the amount of $21,417 and $10,307 for the years ended December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, we recognized in continuing operations an income tax benefit of $440,758 and $478,940, respectively, which were offset by the tax expense recognized on the results of operations of the SCC business included in the discontinued operations for each of those years.

Preferred Stock Dividend

During 2012 and 2011, we accrued approximately $120,000 and $127,000, respectively, for the dividends payable to Carilion. During each of 2012 and 2011, 79,292 shares of common stock became issuable to Carilion as dividends and have been recorded in the statement of stockholders’ equity.

Liquidity and Capital Resources

At December 31, 2013, our total cash and cash equivalents were approximately $7.8 million. The sale of SCC on March 1, 2013 significantly increased our cash and cash equivalents by providing us with net proceeds of approximately $5.2 million, after deducting transaction expenses paid by us. Included in the $5.2 million is $125,000, which was placed in escrow to be released in tranches over 18 months after closing, subject to certain events and dates and to any indemnification claims of Mac-B.

On May 18, 2011, we entered into an agreement with SVB under which SVB made a term loan to us in the amount of $6.0 million. The term loan is to be repaid by us in 48 monthly installments, plus accrued interest payable monthly in arrears, and, unless earlier terminated, matures on the earlier of either May 1, 2015 or an event of a default under the underlying loan and security agreement. The term loan carries a floating annual interest rate equal to SVB’s prime rate then in effect plus 2%.

We may prepay amounts due under the term loan at any time with no penalties.

In addition to the terms and conditions of the term loan, we have a revolving credit facility with SVB with a maximum borrowing capacity of $1.0 million and a maturity date of May 18, 2014.

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The annual interest rate on the revolving facility is equal to SVB’s prime rate plus 1.25%, payable monthly in arrears, with an unused line of credit fee one-quarter of one percent (0.25%), payable monthly. We may terminate the line of credit for a termination fee of $10,000, which fee would not be payable in the event that the line of credit is replaced by another loan facility with SVB.

Amounts due under the term loan and the revolving line of credit, which we refer to together as the Credit Facilities, are secured by substantially all of our assets, including intellectual property, personal property and bank accounts.

On March 21, 2013, the Credit Facilities were amended to replace the existing financial covenants with a single covenant that we maintain a minimum cash balance of $5.0 million. Effective on January 21, 2014, in connection with our sale of assets to Intuitive, this covenant was modified to reduce the minimum cash balance to $3.5 million. As of the date of the filing of this report, we are in compliance with all covenants under the Credit Facilities.

The Credit Facilities contain customary events of default, including nonpayment of principal, interest or other amounts, violation of covenants, material adverse change, an event of default under any subordinated debt documents, incorrectness of representations and warranties in any material respect, bankruptcy, judgments in excess of a threshold amount, and violations of other agreements in excess of a threshold amount. If any event of default occurs SVB may declare due immediately all borrowings under the Credit Facilities and foreclose on the collateral. Furthermore, an event of default under the Credit Facilities would result in an increase in the interest rate on any amounts outstanding.

The balance under the term loan at December 31, 2013 was $2,125,000, of which $625,000 was classified as long-term and $1,500,000 was classified as short-term. No amounts were outstanding under the line of credit at December 31, 2013.

In January 2014, we completed a sale of certain assets to Intuitive. Under the terms of the sale agreement we have received $6.0 million in January 2014 and expect to receive an additional $6.0 million in April of 2014.

We believe that our current cash balance, together with our cash flow from operations, the expected payments from Intuitive in 2014 and the funds available to us under the Credit Facilities with SVB, will provide adequate liquidity for us to meet our working capital needs during the remainder of 2014.

Discussion of Cash Flows

	Twelve months ended		
	2011	2012	2013
Net cash provided by/(used in) operating activities	$3,088,264	$(396,768)	$(1,787,292)
Net cash (used in)/provided by investing activities	(675,517)	(595,927)	4,670,448
Net cash used in by financing activities	(690,200)	(1,605,971)	(1,445,076)
Net increase/(decrease) in cash	$1,722,547	$(2,598,666)	$1,438,080

During 2013, operations used $1.8 million of net cash, as compared to 2012, when operations used $0.4 million of net cash, and 2011 in which operations provided $3.1 million of net cash. In 2013, our net loss of $0.8 million included a benefit of an after-tax gain on the sale of SCC of $3.3 million and a tax benefit of $1.5 million. Absent the effects of that gain and the tax benefit, our pre-tax loss from continuing operations was $5.6 million. The pre-tax loss from continuing operations included charges for depreciation and amortization of $0.9 million, share-based compensation of $1.2 million and allowance for doubtful accounts of $0.1 million all of which are non-cash items that do not impact cash flow for the period. Additionally, changes in working capital provided net cash inflow of $1.7 million, principally due to a decrease of $1.5 million in accounts receivable.

In 2012, our net loss of $1.4 million and $2.0 million in net cash outflows from changes in operating assets and liabilities was partially offset by $3.0 million in non-cash expenses.

In 2011, our net loss of $1.4 million was offset by $3.6 million in non-cash expenses, primarily stock based compensation and $0.8 million of net cash inflows from changes in operating assets and liabilities, primarily resulting from a decrease in accounts receivable, which was partially offset by outflows in all other categories.

Cash used in or provided by investing activities relates to the purchase of property and equipment as well as capitalized costs associated with securing intellectual property rights and, in 2013, the sale of SCC. Our overall cash provided by investing activities was $4.7 million in 2013, consisting of a cash inflow $5.1 million from the sale of SCC in March of 2013 and the cash outflow of $0.2 million for the purchase of equipment, compared to $0.4 million and $0.3 million, respectively for 2012

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and 2011, and we incurred $0.3 million in patent costs associated with certain intangible assets, primarily associated with our fiber optic platform, compared to $0.2 million and $0.3 million in 2012 and 2011, respectively.

Cash used in financing activities for the year ended December 31, 2013 was $1.4 million compared to cash used in financing activities of $1.6 million in 2012 and cash used in financing activities of $0.7 million in 2011.
During 2013, we repaid $1.5 million to SVB for principal on our Term Loan. We also paid approximately $57,000 for leased equipment and received approximately $112,000 from the exercise of options and warrants.
During 2012, we repaid $1.6 million to SVB for principal on our Term Loan. We also paid approximately $50,000 for leased equipment and received approximately $90,000 from the exercise of options and warrants.
During 2011, we received $6.0 million in term loan proceeds from SVB, which we used to repay the then outstanding balance on our revolving line of credit with SVB of $2.5 million and the then outstanding balance on our Hansen Note of approximately $3.0 million. We also made additional payments on those loans during 2011 prior to their repayment in full as well as approximately $42,000 in principal on capitalized lease obligations. Also during 2011 we received approximately $317,000 from the exercise of options and warrants.

Summary of Contractual Obligations
The following table sets forth information concerning our known contractual obligations as of December 31, 2013 that are fixed and determinable.

	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations (1)	$2,125,000	$1,500,000	$625,000	$—	$—
Operating facility leases (2)	2,434,894	1,014,131	1,109,023	311,740	—
Other leases (3)	176,924	66,617	102,601	7,706	—
Purchase order obligation (4)	1,405,026	1,180,682	224,344	—	—
City of Danville grant (5)	21,593	21,593	—	—	—
Other liabilities (6)	1,830,000	320,000	850,000	440,000	220,000
Total	$7,993,437	$4,103,023	$2,910,968	$759,446	$220,000

(1) Amounts due under our debt obligations to SVB are payable in monthly installments through May 2015.

(2) We lease our facilities in Blacksburg, Charlottesville and Roanoke, Virginia under operating leases that as of December 31, 2013, were scheduled to expire between November 2014 and December 2018. On March 21, 2013, we amended the lease on our Roanoke office to reduce the square footage covered by the lease effective as of May 1, 2014 and extend the term of the lease through December 2018. Upon expiration of the leases, we may exercise certain renewal options as specified in the leases.

(3) In February 2011 and August 2013 we executed $274,000 and $50,100 leases,respectively, for equipment for our offices in Roanoke, Blacksburg and Charlottesville, Virginia. These equipment leases expire in February 2016 and August 2018, respectively.

(4) In the fourth quarter of 2013 our Luna Technologies subsidiary executed two non-cancelable purchase orders in the amounts of $0.9 million and $0.5 million for multiple shipments of tunable lasers to be delivered over an 18-month period beginning in December of 2013. The amount set forth in the table above represents our remaining obligation as of December 31, 2013.

(5) In March 2004, we received a $900,000 grant from the City of Danville, Virginia. One-half of the grant was to be used to offset certain capital expenditures for leasehold improvements being made at our Danville facility, and one-half was to be used for our creation of new jobs. We satisfied the job creation criteria in full and the capital expenditures criteria in part in 2008 and recognized $668,000 of the grant as income for that year. In 2009 and 2010 we satisfied additional criteria and earned another approximately $124,000 of the grant. In January 2010, we agreed to repay the remaining $108,000 of the grant in quarterly installments through November 2014.

(6) Other liabilities include remaining amounts payable for minimum royalty payments for certain licensed technologies payable over the remaining patent terms of the underlying technology.

Off-Balance Sheet Arrangements

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We have no off-balance sheet arrangements as defined in Regulation S-K, Item 303(a)(4)(ii).

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We do not hold or issue financial instruments for trading purposes or have any derivative financial instruments. Our exposure to market risk is limited to interest rate fluctuations due to changes in the general level of United States interest rates.

Interest Rate Risk

We do not use derivative financial instruments as a hedge against interest rate fluctuations, and, as a result, interest income earned on our cash and cash equivalents and short-term investments is subject to changes in interest rates. However, we believe that the impact of these fluctuations does not have a material effect on our financial position due to the immediate available liquidity or short-term nature of these financial instruments.

We are exposed to interest rate fluctuations as a result of our SVB debt facility having a variable interest rate. However, the loan facility has a minimum fixed interest rate of 6%, which was in effect during both 2012 and 2013. We do not currently use derivative instruments to alter the interest rate characteristics of our debt. For the principal amount of $2.1 million outstanding under the term loan as of December 31, 2013, a change in the interest rate by one percentage point for one year would result in a change in our annual interest expense of approximately $14,000.

Foreign Currency Exchange Rate Risk

As of December 31, 2013, all payments made under our research contracts have been denominated in United States dollars. Our product sales to foreign customers are also denominated in U.S. dollars, and we do not receive payments in foreign currency. As such, we are not directly exposed to currency gains or losses resulting from fluctuations in foreign exchange rates.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Luna Innovations Incorporated

We have audited the accompanying consolidated balance sheets of Luna Innovations Incorporated (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15 (a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Luna Innovations Incorporated and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial consolidated statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP
McLean, Virginia
April 10, 2014

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CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2013
Assets		
Current assets;		
Cash and cash equivalents	$6,340,461	$7,778,541
Accounts receivable, net	7,059,635	5,408,281
Inventory, net	3,336,916	3,346,177
Prepaid expenses	667,773	708,974
Other current assets	35,629	70,208
Total current assets	17,440,414	17,312,181
Property and equipment, net	2,426,638	2,060,709
Intangible assets, net	437,839	288,475
Other assets	152,877	42,710
Total assets	$20,457,768	$19,704,075
Liabilities and stockholders' equity		
Current Liabilities;		
Current portion of long term debt obligation	1,500,000	1,500,000
Current portion of capital lease obligation	54,091	66,617
Accounts payable	1,797,571	1,401,764
Accrued compensation	1,648,064	2,205,612
Accrued liabilities	863,214	1,219,650
Accrued liabilities - other	235,897	121,323
Deferred credits	832,822	691,424
Total current liabilities	6,931,659	7,206,390
Long-term debt obligation	2,125,000	625,000
Long-term capital lease obligation	128,917	110,307
Total liabilities	9,185,576	7,941,697
Commitments and contingencies		
Stockholders' equity;		
Preferred stock, par value $0.001, 1,321,514 shares authorized, issued and outstanding at December 31, 2012 and 2013, respectively	1,322	1,322
Common stock, par value $0.001, 100,000,000 shares authorized, 14,009,280 and 14,527,335 shares issued and outstanding at December 31, 2012 and 2013, respectively	14,245	14,842
Additional paid-in capital	61,361,505	62,756,571
Accumulated deficit	(50,104,880)	(51,010,357)
Total stockholders' equity	11,272,192	11,762,378
Total liabilities and stockholders' equity	20,457,768	19,704,075

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2011	2012	2013
Revenues:			
Technology development revenues	$15,586,123	$15,126,834	$11,421,868
Products and licensing revenues	13,195,822	11,250,717	10,624,350
Total revenues	28,781,945	26,377,551	22,046,218
Cost of revenues:			
Technology development costs	11,482,856	10,749,335	8,882,071
Products and licensing costs	6,589,943	5,242,043	5,182,633
Total cost of revenues	18,072,799	15,991,378	14,064,704
Gross profit	10,709,146	10,386,173	7,981,514
Operating expense:			
Selling, general & administrative	11,283,139	10,249,444	10,970,775
Research, development, and engineering	2,273,886	2,512,840	2,721,229
Total operating expense	13,557,025	12,762,284	13,692,004
Operating loss	(2,847,879)	(2,376,111)	(5,710,490)
Other income (expense):			
Other income, net	227,565	108,061	347,062
Interest (expense), net	(387,587)	(312,372)	(207,538)
Total other (expense) income	(160,022)	(204,311)	139,524
Loss from continuing operations before income taxes	(3,007,901)	(2,580,422)	(5,570,966)
Income tax benefit	(478,940)	(440,758)	(1,453,637)
Loss from continuing operations, net	(2,528,961)	(2,139,664)	(4,117,329)
Income from discontinued operations, net of income taxes	1,136,601	755,279	3,314,179
Net loss	(1,392,360)	(1,384,385)	(803,150)
Preferred stock dividend	127,462	119,754	102,327
Net loss attributable to common stockholders	$(1,519,822)	$(1,504,139)	$(905,477)
Net loss per share from continuing operations:			
Basic	$(0.19)	$(0.15)	$(0.29)
Diluted	$(0.19)	$(0.15)	$(0.29)
Net income per share from discontinued operations:			
Basic	$0.08	$0.05	$0.23
Diluted	$0.07	$0.05	$0.20
Net loss per share attributable to common stockholders:			
Basic	$(0.11)	$(0.11)	$(0.06)
Diluted	$(0.11)	$(0.11)	$(0.06)
Weighted average shares:			
Basic	13,647,555	13,930,267	14,336,135
Diluted	15,876,471	16,312,048	16,621,927

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	$	Shares	$			
January 1, 2011	1,321,514	1,322	13,449,345	$13,526	$56,681,756	$(47,080,919)	$9,615,685
Exercise of stock options and warrants	—	—	249,388	249	219,327	—	219,576
Stock-based compensation	—	—	51,648	52	2,163,238	—	2,163,290
Stock dividends (1)	—	—	—	80	127,382	(127,462)	—
Issuance of Common Stock, Other (2)	—	—	62,109	62	97,813	—	97,875
Net loss	—	—	—	—	—	(1,392,360)	(1,392,360)
Balance—December 31, 2011	1,321,514	1,322	13,812,490	13,969	59,289,516	(48,600,741)	10,704,066
Exercise of stock options and warrants	—	—	182,702	183	69,795	—	69,978
Stock-based compensation	—	—	—	—	1,862,533	—	1,862,533
Stock dividends (1)	—	—	—	79	119,675	(119,754)	—
Issuance of Common Stock, Other (2)	—	—	14,088	14	19,986	—	20,000
Net loss	—	—	—	—	—	(1,384,385)	(1,384,385)
Balance—December 31, 2012	1,321,514	1,322	14,009,280	14,245	61,361,505	(50,104,880)	11,272,192
Exercise of stock options and warrants	—	—	169,277	168	111,789	—	111,957
Stock-based compensation	—	—	337,500	338	1,166,041	—	1,166,379
Stock dividends (1)	—	—	—	80	102,247	(102,327)	—
Issuance of Common Stock, Other (2)	—	—	11,278	11	14,989	—	15,000
Net loss	—	—	—	—	—	(803,150)	(803,150)
Balance—December 31, 2013	1,321,514	$1,322	14,527,335	$14,842	$62,756,571	$(51,010,357)	$11,762,378

(1) The stock dividends payable in connection with the Series A Convertible Preferred Stock are issuable upon the request of Carilion.
(2) Fees paid to our board of directors by issuance of our common stock.

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	2011	2012	2013
Cash flows provided by/(used in) operating activities:			
Net loss	$(1,392,360)	$(1,384,385)	$(803,150)
Adjustments to reconcile net loss to net cash provided/(used in) by operating activities:			
Depreciation and amortization	1,462,511	1,092,027	935,477
Stock-based compensation	2,261,165	1,882,533	1,181,379
Gain on sale of discontinued operations, net of income taxes	—	—	(3,391,451)
Allowance for doubtful accounts or bad debt expense	—	—	134,811
Tax benefit from utilization of loss from current year operations	—	—	(1,507,791)
Changes in operating assets and liabilities:			
Accounts receivable	1,711,539	(1,101,549)	1,533,827
Inventory	(224,173)	(10,482)	(9,261)
Other assets	(321,430)	478,919	(79,180)
Accounts payable and accrued expenses	(288,989)	(724,050)	396,352
Deferred credits	(119,999)	(629,781)	(178,305)
Net cash provided by/(used in) operating activities	3,088,264	(396,768)	(1,787,292)
Cash flows (used in)/provided by investing activities:			
Acquisition of property and equipment	(327,704)	(371,390)	(186,956)
Intangible property costs	(347,813)	(224,537)	(253,451)
Proceeds from sale of discontinued operations, net of fees	—	—	5,110,855
Net cash (used in)/provided by investing activities	(675,517)	(595,927)	4,670,448
Cash flows provided by/(used in) financing activities:			
Proceeds from debt obligations	6,000,000	—	—
Payments on debt obligations	(6,867,393)	(1,625,000)	(1,500,000)
Payments on capital lease obligation	(42,383)	(50,949)	(57,033)
Proceeds from the exercise of options and warrants	219,576	69,978	111,957
Net cash used in financing activities	(690,200)	(1,605,971)	(1,445,076)
Net change in cash	1,722,547	(2,598,666)	1,438,080
Cash and cash equivalents—beginning of period	7,216,580	8,939,127	6,340,461
Cash and cash equivalents—end of period	$8,939,127	$6,340,461	$7,778,541
Supplemental disclosure of cash flow information			
Cash paid for interest	$239,521	$297,875	$178,646
Dividend on preferred stock, 79,292 shares of common stock issuable at each of December 31, 2011, 2012 and 2013	$127,462	$119,754	$102,327
Property and equipment financed by capital leases	$274,145	$—	$—
Cash paid for income taxes	$10,307	$21,618	$14,010

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Luna Innovations Incorporated (“We” or “the Company”), headquartered in Roanoke, Virginia was incorporated in the Commonwealth of Virginia in 1990 and reincorporated in the State of Delaware in April 2003.

We develop, manufacture and market fiber optic sensing and test & measurement products focused on bringing new and innovative technology solutions to measure, monitor, protect and improve critical processes in the aerospace, automotive, energy, composite, telecommunications and defense industries. Our business model is designed to accelerate the process of bringing new and innovative products to market. We use our in-house technical expertise to perform applied research services on government-funded projects across a range of technologies and also for corporate customers in the fiber optic sensing area. We are organized into two business segments: our Technology Development segment and our Products and Licensing segment. Our Technology Development segment performs applied research principally on government-funded projects. Most of the government funding in our Technology Development segment is derived from the U.S. Government’s Small Business Innovation Research, or SBIR, program coordinated by the U.S. Small Business Administration, or SBA. Our Products and Licensing segment focuses on fiber optic test and measurement, sensing, and instrumentation products and also conducts applied research in the fiber optic sensing area to corporate and government customers. The Products and Licensing segment also includes healthcare products.

We have a history of net losses and negative cash flow from operations with the exception of 2011. We have historically managed our liquidity through cost reduction initiatives, debt financings and capital markets transactions. Since 2008, the increased turmoil in the U.S. and global capital markets and a global slowdown of economic growth created a substantially more difficult business environment. Additionally, during 2013 spending levels for certain government programs were subject to reduction. Our ability to access the capital markets is expected to be extremely limited. Economic and market conditions may not improve significantly during 2014 and could get worse.

Although there can be no guarantees, we believe that our current cash balance, including the proceeds from the sale of our medical shape sensing business to Intuitive in January 2014 described in Note 15, our cash flow from operations, and the funds available to us under the Credit Facility described in Note 3 below, provide adequate liquidity for us to meet our working capital needs through 2014.

Consolidation Policy

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP and include the accounts of the Company and its wholly owned subsidiaries. We eliminate from our financial results all significant intercompany transactions. We do not have any investments in entities we believe are variable interest entities for which the Company is the primary beneficiary.

Preferred Stock Issued to Carilion Clinic

In January 2010, we entered into a transaction with Carilion Clinic (“Carilion”), in which Carilion agreed to exchange all of its Senior Convertible Promissory Notes in the principal amount of $5.0 million plus all accrued but unpaid interest, totaling $1.2 million, for (i) 1,321,514 shares of our newly designated Series A Convertible Preferred Stock and (ii) an additional warrant to purchase 356,000 shares of our common stock at an exercise price of $2.50 per share. This warrant is exercisable until December 31, 2020. We also agreed to reduce the exercise price of Carilion’s prior common stock warrant from $7.98 to $2.50 per share and to extend its expiration date to December 31, 2020. The Series A Convertible Preferred Stock carries a dividend of 6% payable in shares of common stock and maintains a liquidation preference up to $6.2 million. As of December 31, 2013, a cumulative total of 314,525 shares of common stock were issuable to Carilion, on their demand, as dividends and have been recorded in the statement of stockholders’ equity. Each share of Series A Convertible Preferred Stock may be converted into one share of our common stock at the option of the holder. We recorded the fair value of the Series A Convertible Preferred Stock, determined based upon the conversion value immediately prior to the exchange, the fair value of the new warrant issued, determined using the Black-Scholes valuation model, and the incremental fair value of the prior warrant due to the re-pricing and extension of expiration to stockholders’ equity.

Use of Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements and accompanying notes.

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Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may differ from such estimates and assumptions.

Technology Development Revenues

We perform research and development for U.S. government agencies, educational institutions and commercial organizations. We recognize revenues under research contracts when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred and collection of the contract price is considered reasonably assured. Revenue is earned under cost reimbursable, time and materials and fixed price contracts. Direct contract costs are expensed as incurred.

Under cost reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract and are paid a fixed fee representing the profit negotiated between us and the contracting agency. Revenue from cost reimbursable contracts is recognized as costs are incurred plus a portion of the fee earned. Revenue from time and materials contracts is recognized based on direct labor hours expended at contract billing rates plus other billable direct costs.

Revenue from fixed price research contracts that involve the delivery of services and a prototype model is recognized under the percentage of completion method. Fixed price arrangements that involve the delivery of research reports are recognized under the proportional performance method based upon the ratio of costs incurred to achieve contract milestones to total estimated cost as this method more accurately measures performance under these arrangements. Losses on contracts, if any, are recognized in the period in which they become known.

Intellectual Property License Revenues

Amounts received from third parties for licenses to our intellectual property are recognized when earned under the terms of the agreements. Revenues are recognized upon transfer of the license unless we have continuing obligations for which fair value cannot be established, in which case the revenues are recognized over the period of the obligation. If there are extended payment terms, license fee revenues are recognized as these payments become due and collection is reasonably assured. We consider all arrangements with payment terms extending beyond 12 months not to be fixed and determinable.

Certain of our license arrangements have also required us to enter into research and development agreements. Accordingly, we allocate our arrangement fees to the various elements based upon objective reliable evidence of fair value, if available. For those arrangements in which evidence of fair value is not available, we defer revenues from any up-front payments and recognize them over the service period in the arrangement. Certain of these arrangements also include the payment of performance bonuses based upon the achievement of specific milestones. Generally, there are no assurances at the onset of these arrangements that the milestones will be achieved. As such, fees related to such milestones are excluded from the initial allocation of the arrangement fee and are recognized upon achievement of the milestone provided that all other revenue recognition criteria are met.

Product Sales Revenues

Revenues from product sales are generated by the sale of commercial products and services under various sales programs to the end user and through distribution channels. We sell fiber optic sensing systems to end users for use in numerous fiber optic based measurement applications. Revenues are recorded net of applicable sales taxes collected from customers and payable to state or local governmental entities.

We recognize revenue relating to our products when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability of the resulting receivable is reasonably assured. For multi-element arrangements that include tangible products that contain software that is essential to the tangible product’s functionality, we allocate revenue to all deliverables based on their relative selling prices. Other deliverables include extended warranty, training and various add-on products. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value or VSOE, (ii) third-party evidence of selling price or TPE, and (iii) best estimate of the selling price or ESP. VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect our best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

Our process for determining our ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered in developing the ESPs include prices charged by us for similar offerings, our historical pricing practices, the nature of the deliverables, and the relative

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ESP of all of the deliverables as compared to the total selling price of the product. We may also consider, when appropriate, the impact of other products and services on selling price assumptions when developing and reviewing our ESPs.

Revenues from product sales that require no ongoing obligations are recognized as revenues when shipped to the customer, title has passed and collection is reasonably assured. In transactions in which a right-of-return exists, revenues are deferred until acceptance has occurred and the period for the right-of-return has lapsed.

Allowance for Uncollectible Receivables

Accounts receivable are recorded at their face amount, less an allowance for doubtful accounts. We review the status of our uncollected receivables on a regular basis. In determining the need for an allowance for uncollectible receivables, we consider our customers' financial stability, past payment history and other factors that bear on the ultimate collection of such amounts. The allowance was $0 at December 31, 2012 and approximately $134,811 at December 31, 2013.

Cash Equivalents

We consider all highly liquid investments purchased with maturities of three months or less to be cash equivalents. To date, we have not incurred losses related to cash and cash equivalents. The Company regularly maintains cash balances with financial institutions which exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. At December 31, 2013 and December 31, 2012, the Company had approximately $7.5 million and $6.1 million, respectively, in excess of FDIC insured limits.

Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3—Valuations derived from valuation techniques in which significant value drivers are unobservable.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments. The carrying value of the promissory notes approximate fair value as the interest rate is comparable to the interest rate on our credit facility with Silicon Valley Bank, which we consider to be at market.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We record depreciation using the straight-line method over the following estimated useful lives:

Equipment	3 – 7 years
Furniture and fixtures	7 years
Software	3 years
Leasehold improvements	Lesser of lease term or life of improvements

Intangible Assets

Intangible assets consist of patents related to certain intellectual property that we have developed or acquired. We amortize our patents over their estimated useful life of five years, and analyze them whenever events or circumstances indicate that the carrying amount may not be recoverable to determine whether their carrying value has been impaired.

Research, Development and Engineering

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Research, development and engineering expenses not related to contract performance are expensed as incurred. We expensed $2.3 million, $2.5 million and $2.7 million of non-contract related research, development and engineering expenses for the years ended December 31, 2011, 2012 and 2013, respectively.

Valuation of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of by sale are reflected at the lower of their carrying amount or fair value less cost to sell.

Inventory

Inventory consists of finished goods, work in process and parts valued at the lower of cost (determined on the first-in, first-out basis) or market. We provide reserves for estimated obsolescence or unmarketable inventory equal to the difference between the carrying value of the inventory and the estimated market value based upon assumptions about future demand and market conditions.

Net Loss per Share

Basic per share data is computed by dividing net loss attributable to common stockholders by the weighted average number of shares outstanding during the period. Diluted per share data is computed by dividing net loss attributable to common stockholders by the weighted average shares outstanding during the period increased to include, if dilutive, the number of additional common share equivalents that would have been outstanding if potential common shares had been issued using the treasury stock method. Diluted per share data would also include the potential common share equivalents relating to convertible securities by application of the if-converted method.

The effect of 2.2 million, 2.4 million and 2.3 million common stock equivalents (which include outstanding warrants and stock options) are not included for the years ended December 31, 2011, 2012 and 2013 respectively, as they are antidilutive to earnings per share, due to Company being in a loss position.

Stock-Based Compensation

We have a stock-based compensation plan, which is described further in Note 8. We recognize compensation expense based upon the fair value of the underlying equity award as of the date of grant. The Company has elected to use the Black-Scholes option pricing model to value any awards granted. We amortize stock-based compensation for such awards on a straight-line method over the requisite service period of the awards taking into account the effects of the employees' expected exercise and post-vesting employment termination behavior.

The Company recognizes expense for equity instruments issued to non-employees based upon the fair value of the equity instruments issued.

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions:

	2011	2012	2013
Risk-free interest rate range	1.48% – 2.81%	1.02% – 1.49%	1.27% – 2.34%
Expected life of option-years	7.5	7.5	7.5
Expected stock price volatility	111%	108%	108%
Executive turnover rates	33.3%	—%	—%
Non-executive turnover rates	17.7%	18.5%	14.7%
Expected dividend yield	—	—	—

The risk-free interest rate is based on U.S. Treasury interest rates, the terms of which are consistent with the expected life of the stock options. Expected volatility is based upon the average volatility of our common stock. The expected life and estimated post-employment termination behavior is based upon historical experience of homogeneous groups, executives and non-executes, within our company. We do not currently issue dividends nor do we expect to in the foreseeable future.

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Advertising

We expense the cost of advertising as incurred. Historically such amounts have not been significant to our operations.

Income Taxes

We account for income taxes using the liability method. Deferred tax assets or liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when the differences reverse. A valuation allowance against net deferred tax assets is provided unless we conclude it is more likely than not that the deferred tax assets will be realized.

We recognize tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities.

2. Inventory

Inventory consists of finished goods, work-in-process and parts valued at the lower of cost (determined on the first-in, first-out basis) or market. We provide reserves for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions.

Components of inventory are as follows:

	December 31, 2012	December 31, 2013
Finished goods	$195,578	$719,574
Work-in-process	252,227	361,754
Parts	2,975,297	2,339,595
	3,423,102	3,420,923
Less: Inventory reserves	86,186	74,746
Total inventory, net	$3,336,916	$3,346,177

3. Debt

Silicon Valley Bank Facility

We currently have a Loan and Security Agreement with Silicon Valley Bank (“SVB”) under which we have a term loan with an original borrowing amount of $6.0 million (the “Term Loan”). The Term Loan is to be repaid by us in 48 monthly installments, plus accrued interest payable monthly in arrears, and unless earlier terminated, matures on the earlier of either May 1, 2015 or an event of a default under the loan agreement. The term loan carries a floating annual interest rate equal to SVB’s prime rate then in effect plus 2%. We may repay amounts due under the Term Loan at any time with no penalties.

In addition to the terms and conditions of the Term Loan, we also have a revolving credit facility (the “Line of Credit” and together with the Term Loan, the “Credit Facilities”) with a maximum borrowing capacity of $1.0 million. The interest rate on the Line of Credit is SVB’s prime rate plus 1.25%, payable monthly in arrears, and we are required to pay an unused Line of Credit fee of one-quarter of one percent (0.25%), payable monthly. We may terminate the Line of Credit for a termination fee of $10,000, which fee would not be payable in the event that the Line of Credit is replaced by another loan facility with SVB. The Line of Credit has a maturity date of May 18, 2014.

Amounts due under the Credit Facilities are secured by substantially all of our assets, including intellectual property, personal property and bank accounts.

On March 21, 2013, we entered into a Fourth Loan Modification Agreement with SVB that replaced the existing financial covenants with a single covenant that we maintain a minimum cash balance of $5.0 million with SVB. Effective on January 21, 2014, in connection with our sale of assets to Intuitive, this covenant was modified to reduce the required minimum cash balance to $3.5 million. The Credit Facilities also require us to observe a number of operational covenants, including protection and registration of intellectual property rights, and certain customary negative covenants. As of December 31, 2013, we were in compliance with all covenants under the Credit Facilities.

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In addition, the Credit Facilities contain customary events of default, including nonpayment of principal, interest or other amounts, violation of covenants, material adverse change, an event of default under any subordinated debt documents, incorrectness of representations and warranties in any material respect, bankruptcy, judgments in excess of a threshold amount, and violations of other agreements in excess of a threshold amount. If any event of default occurs SVB may declare due immediately all borrowings under the Credit Facilities and foreclose on the collateral. Furthermore, an event of default under the Credit Facilities would result in an increase in the interest rate on any amounts outstanding. As of December 31, 2013, there were no events of default on our Credit Facilities.

The balance under the Term Loan at December 31, 2013 was $2.1 million of which $0.6 million was classified as long-term and $1.5 million was classified as short-term. No amounts were outstanding under the Line of Credit and the available credit capacity was $1.0 million at December 31, 2013. The effective rate of our Term Loan at December 31, 2013 was 6%.

Note Payable to Hansen (the “Hansen Note”)

In January 2010, we issued a promissory note to Hansen in the principal amount of $5.0 million, payable in 16 quarterly installments beginning in April 2010. The Hansen Note bore interest at a fixed rate of 8.5% and was secured by substantially all of our assets. The Hansen Note was subordinated to our primary bank credit facility. In 2011, we and Hansen entered into an Amendment to Secured Promissory Note and Payoff Letter (the “Payoff Letter”).

Under the terms of the Payoff Letter, we and Hansen agreed upon a final payoff in the amount of approximately $3.0 million as payment in full for all principal and accrued interest under the Hansen Note, which represented a $190,000 discount from the then outstanding balance, which discount was amortized into income over the remaining life of the Company’s Development and Supply Agreement with Hansen. At December 31, 2013 we had completely amortized this discount. On May 23, 2011, we repaid the Hansen Note in full. Upon receipt of this final payment, all security interests in our assets held by Hansen as collateral for our obligations under the Hansen Note were terminated and released.

The following table presents a summary of debt outstanding as of December 31, 2012 and 2013:

	December 31,	
	2012	2013
Silicon Valley Bank Term Loan	$3,625,000	$2,125,000
Less: current portion	1,500,000	1,500,000
Total long-term debt	$2,125,000	$625,000

Maturities on long-term debt are as follows:

Year	Amount
2014	1,500,000
2015	625,000
Total	$2,125,000

Costs associated with loans outstanding were as follows:

	Years Ended December 31,		
	2011	2012	2013
Interest expense	$377,096	$286,529	$189,151
Amortization of transaction costs	10,491	25,843	18,387
Total interest expense	$387,587	$312,372	$207,538

4. Accounts Receivable—Trade

Accounts receivable consist of the following:

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	December 31,	
	2012	2013
Billed	$5,175,395	$3,552,184
Unbilled	1,873,376	1,755,439
Other	10,864	235,469
	$7,059,635	$5,543,092
Less: allowance for doubtful accounts	—	(134,811)
	$7,059,635	$5,408,281

Unbilled receivables result from contract retainages and revenues that have been earned in advance of billing and can be invoiced at contractually defined intervals, milestones, or at completion of the contract.
Unbilled amounts are expected to be billed in future periods and are classified as current assets in accordance with industry practice.

5. Property and Equipment

Property and equipment, net, consists of the following at:

	December 31,	
	2012	2013
Building	$69,556	$69,556
Equipment	7,222,208	7,239,017
Furniture and fixtures	622,944	562,485
Software	1,185,290	1,092,484
Leasehold improvements	3,196,590	3,168,377
	12,296,588	12,131,919
Less—accumulated depreciation	(9,869,950)	(10,071,210)
	$2,426,638	$2,060,709

Depreciation for the years ended December 31, 2011, 2012 and 2013 was approximately $1.0 million, $0.8 million and $0.5 million, respectively.

6. Intangible Assets

The following is a summary of intangible assets:

	December 31,	
	2012	2013
Patent costs	$2,264,441	$2,496,560
Accumulated amortization	(1,826,602)	(2,208,085)
	$437,839	$288,475

Amortization for the years ended December 31, 2011, 2012 and 2013 was approximately $0.5 million, $0.3 million and $0.4 million, respectively. Estimated aggregate amortization, based on the net value of intangible assets at December 31, 2013, for each of the next five years is as follows:

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Year Ending December 31,	
2014	188,616
2015	53,371
2016	24,844
2017	10,578
2018	6,013
	$283,422

7. Income Taxes

Deferred tax assets and liabilities consist of the following components:

	2012		2013	
	Current	Long-Term	Current	Long-Term
Bad debt and inventory reserve	$41,243	$—	$88,077	$—
Deferred revenue	—	—	—	59,673
Depreciation and amortization	—	1,005,697	—	1,024,784
Net operating loss carryforwards	—	11,358,044	—	10,896,286
Research and development credits	—	386,161	—	386,161
Accrued liabilities	731,831	—	836,011	—
Deferred compensation	—	123,797	—	163,655
Stock-based compensation	—	1,208,970	—	1,519,513
AMT credit	—	28,555	—	42,711
Total	773,074	14,111,224	924,088	14,092,783
Valuation allowance	(773,074)	(14,111,224)	(924,088)	(14,092,783)
Net deferred tax asset	$—	$—	$—	$—

The reconciliation of expected income tax benefit (expense) to actual income tax expense benefit (expense) was as follows:

	2011	2012	2013
Statutory federal rate	34.00 %	34.00 %	34.00 %
State tax net of federal benefit	3.96 %	3.73 %	3.96 %
Change in valuation allowance	2.79 %	(4.16)%	(16.88)%
Incentive stock options	(35.85)%	(35.60)%	(41.60)%
Provision to return adjustments	(3.44)%	(1.80)%	24.11 %
Meals and entertainment	(0.54)%	(0.74)%	(1.33)%
Other Permanent differences	(1.67)%	(0.60)%	(4.37)%
Income tax (expense)	(0.75)%	(5.17)%	(2.11)%

The income tax expense consists of the following for:

	2011	2012	2013
Current:			
Federal	$10,307	$18,268	$14,071
State	—	3,149	—
Deferred Federal	—	—	—
Deferred State	—	—	—
Income tax expense	$10,307	$21,417	$14,071

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The realization of our deferred income tax assets is dependent upon sufficient taxable income in future periods. In assessing whether deferred tax assets may be realized, we consider whether it is more likely than not that some portion, or all, of the deferred tax asset will be realized. We consider scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies that we can implement in making our assessment. We have net operating loss carryforwards at December 31, 2013 of approximately $28.7 million expiring at varying dates through 2025. We have research and development tax credit carryforwards at December 31, 2013 of approximately $0.4 million, which expire at varying dates through 2024.

We have undertaken a formal section 382 study and determined that we do not have a limitation on our net operating loss available to offset income.

The U.S. federal statute of limitations remains open for the year 2005 and onward. We currently have no federal income tax returns under examination. U.S. state jurisdictions have statutes of limitation generally ranging from three to seven years. We currently have no state income or franchise tax returns under examination. We currently do not file tax returns in any foreign tax jurisdiction.

We currently have no positions for which we expect that the amount of unrecognized tax benefit will increase or decrease significantly within twelve months of the reporting date. We have no tax interest or penalties reported in either our statement of operations or statement of financial position for any year reported herein. Management believes it is not more likely than not that the deferred tax assets at December 31, 2012 or December 31, 2013 will be realized, and therefore a valuation allowance was established against all such deferred tax assets.

We are evaluating the potential impact of the final Treasury regulations released on September 13, 2013 concerning amounts paid to acquire, produce or improve tangible property and recovery of basis upon disposition. We are determining whether or not any changes in accounting method will be required and if they will result in a material impact to our financial statements. At this time, we do not anticipate there being a material impact.

Windfall equity-based compensation deductions are tracked, but will not be recorded to the balance sheet until management determines more likely than not that such amounts will be utilized. As of December 31, 2013, the Company had approximately $165,000 of windfall stock compensation deductions. If and when realized, the tax benefit associated with these deductions will be credited to additional paid-in capital. These excess benefit deductions are included in the total federal net operating losses disclosed above.

8. Stockholders’ Equity

Series A Convertible Preferred Stock

In January 2010, we entered into a transaction with Carilion, in which Carilion agreed to exchange all of its Senior Convertible Promissory Notes in the principal amount of $5.0 million plus all accrued but unpaid interest, totaling $1.2 million, for 1,321,514 shares of our newly designated Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock is non-voting, carries a dividend of 6% payable in shares of common stock and maintains a liquidation preference up to $6.2 million. As of December 31, 2013, 314,525 shares of common stock were issuable to Carilion as dividends and have been recorded in the statement of stockholders’ equity. These dividends are issuable on demand. Each share of Series A Convertible Preferred Stock may be converted into one share of our common stock at the option of the holder. We recorded the fair value of the Series A Convertible Preferred Stock, determined based upon the conversion value immediately prior to the exchange, the fair value of the new warrant issued to Carilion (as described below), determined using the Black-Scholes valuation model, and the incremental fair value of the prior warrant due to the re-pricing (as described below) and extension of maturity to stockholders’ equity.

Hansen Warrant

In January 2010, we issued 1,247,330 shares of common stock to Hansen, representing 9.9% of our common stock then outstanding. In addition, we issued to Hansen a warrant entitling Hansen to purchase a number of shares of our common stock as necessary for Hansen to maintain a 9.9% ownership interest in our common stock, at an exercise price of $0.01 per share. During 2011, Hansen exercised warrants acquiring 41,538 shares of our common stock. During 2012, Hansen did not exercise any of its outstanding warrants. During 2013, Hansen exercised warrants acquiring an additional 32,180 shares. The warrant expired on January 12, 2013 in accordance with its terms. For the

years ended December 31, 2011, 2012 and 2013, we recognized expense of $60,338, $17,190 and $0, respectively, which is included in operating expenses. We recognized expense based upon the fair market value of our stock at the date the shares were issuable, updated quarterly for non-exercised warrants, to Hansen.

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Stock Option Plans

In April 2003, we adopted the Luna Innovations Incorporated 2003 Stock Plan, or the 2003 Plan. Under the 2003 Plan, our Board of Directors was authorized to grant both incentive and non-statutory stock options to our employees, directors and consultants to purchase Class B shares of Common Stock. Options generally had a life of 10 years and exercise price equal to or greater than the fair market value of the Class B Common Stock as determined by the Board of Directors. On February 4, 2006, our Board of Directors increased the number of shares reserved under the 2003 Plan to 9,715,000. There were options outstanding under the 2003 Plan to purchase an aggregate of 945,472 shares as of December 31, 2013. Following the adoption of the 2006 Equity Incentive Plan in January 2006, no shares or options are available for future grant under the 2003 Plan, except to satisfy grants outstanding as of June 5, 2006.

In January 2006, we adopted our 2006 Equity Incentive Plan or the 2006 Plan. Under the 2006 Plan, our Board of Directors is authorized to grant both incentive and non-statutory stock options to purchase common stock and restricted stock awards to our employees, directors, and consultants. Stock option awards generally have a life of 10 years and exercise prices equal to the closing price of our common stock on the date of the option grant. On January 1 of each year, the number of shares available for issuance increases by the lesser of (a) 10% of the outstanding shares of our common stock on the last day of the preceding fiscal year; (b) 1,695,690 shares; or (c) such other amount as our Board of Directors may determine. A total of 8,872,540 and 10,468,175 shares were available for future grant under the 2006 Plan as of December 31, 2012 and 2013, respectively.

Vesting for employees typically occurs over a five-year period.

Total non-cash stock option expense for the years ended December 31, 2011, 2012 and 2013 was $2.2 million, $1.9 million and $1.2 million, respectively.

The following table sets forth the activity of the options to purchase common stock under the 2003 Plan and the 2006 Plan:

	Options Outstanding				Options Exercisable		
	Number of Shares	Price per Share Range	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
Balance at January 1, 2011	4,716,439	0.35–7.08	$2.35	$1,632,396	2,904,435	$2.2	$1,233,778
Forfeited	(514,883)	0.35–7.08	3.48				
Exercised	(208,117)	0.35–1.77	0.72				
Granted	647,600	1.18–2.17	1.83				
Balance at December 31, 2011	4,641,039	$0.35–6.74	$2.23	$1,509,270	3,206,994	$2.23	$1,258,740
Forfeited	(64,245)	0.65–5.50	1.91				
Exercised	(182,702)	0.35–1.77	0.38				
Granted	1,028,038	1.40–1.75	1.67				
Balance at December 31, 2012	5,422,130	$0.35–6.74	$2.19	$639,904	3,775,388	$2.37	$604,292
Forfeited	(693,644)	0.35–6.74	2.08				
Exercised	(137,097)	0.35–1.18	0.56				
Granted	687,840	1.20–1.31	1.29				
Balance at December 31, 2013	5,279,229	$0.35 - 6.55	$2.11	$784,154	4,012,378	$2.28	$697,826

(1) The intrinsic value of an option represents the amount by which the market value of the stock exceeds the exercise price of the option of in-money options only. The prices represent the closing price of our Common Stock on the NASDAQ Capital Market on the respective dates.

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	Options Outstanding				Options Exercisable	
	Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
Year ended December 31, 2011	$ 0.35–6.74	4,641,039	6.60	$2.23	3,206,994	$2.23
Year ended December 31, 2012	$ 0.35–6.74	5,422,130	6.39	$2.19	3,775,388	$2.37
Year ended December 31, 2013	$0.35 - 6.55	5,279,229	5.88	$2.11	4,012,378	$2.28

	Total intrinsic value of options exercised	Total fair value of options vested
Year ended December 31, 2011	$ 216,576	$1,435,186
Year ended December 31, 2012	$ 215,541	$1,170,738
Year ended December 31, 2013	$ 111,595	$1,248,067

For the years ended December 31, 2011, 2012 and 2013, the weighted average grant date fair value of options granted was $1.62, $1.10 and $1.29, respectively. We estimate the fair value of options at the grant date using the Black-Scholes model.

We recognized $1.2 million in share-based payment expense which is recorded in selling, general and administrative expenses on the Statement of Operations for the year ended December 31, 2013, and we will recognize $1.6 million over the remaining requisite service period. For all options granted through December 31, 2013, the weighted average remaining service period is 1.7 years.

9. Commitments and Contingencies

Obligation under Operating Leases

We lease facilities in Blacksburg, Charlottesville and Roanoke, Virginia under operating leases that as of December 31, 2013, were scheduled to expire between November 2014 and December 2018. Certain of the leases are subject to fixed escalations and provide for possible termination prior to their expiration dates. We recognize rent expense on such leases on a straight-line basis over the lease term. Rent expense under these leases recorded in our selling, general and administrative expense line on our statement of operations totaled approximately $1.2 million, $1.3 million and $1.0 million, respectively, for the years ended December 31, 2011, 2012 and 2013. During 2013, we subleased a portion of the office space formerly occupied by Secure Computing and Communications group (“SCC”) to Mac-B. The amount of the sublease income recognized in 2013 was approximately $266,000. The sublease continues through April 30, 2014.

We are obligated under operating leases covering certain equipment that expire at various dates during the next two years.

Minimum future rentals, as of December 31, 2013, under the aforementioned operating leases for each of the next five years are:

2014	1,014,131
2015	503,760
2016	299,635
2017	305,628
2018	311,740
	$2,434,894

Purchase Commitment

In the fourth quarter of 2013 we executed two non-cancelable purchase orders totaling $1.4 million for multiple shipments of tunable lasers to be delivered over an 18-month period beginning in the fourth quarter of 2013. At December 31, 2013, approximately $1.4 million of this commitment remained.

Royalty Agreement

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We have licensed certain third-party technologies from vendors for which we owe minimum royalties aggregating $1.8 million payable over the remaining patent terms of the underlying technology.

10. Employee Profit Sharing Plan

We maintain a salary reduction/profit-sharing plan under provisions of Section 401(k) of the Internal Revenue Code. The plan is offered to employees who have completed three months of service with us. We contribute 25% of the salary deferral elected by each employee up to a maximum deferral of 10% of annual salary.

We contributed approximately $240,000, $250,000 and $175,000 to the plan for the years ended December 31, 2011, 2012 and 2013, respectively.

11. Litigation and Other Contingencies

From time to time, we may become involved in litigation in relation to claims arising out of our operations in the normal course of business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations or liquidity, the ultimate outcome of any litigation is uncertain.

We have made, and will continue to make, efforts to comply with current and future environmental laws. We anticipate that we could incur additional capital and operating costs in the future to comply with existing environmental laws and new requirements arising from new or amended statutes and regulations. In addition, because the applicable regulatory agencies have not yet promulgated final standards for some existing environmental programs, we cannot at this time reasonably estimate the cost for compliance with these additional requirements. The amount of any such compliance costs could be material. We cannot predict the impact that future regulations will impose upon our business.

12. Relationship with Major Customers

During the years ended December 31, 2011, 2012 and 2013, approximately 64%, 67% and 54%, respectively, of our consolidated revenues were attributable to contracts with the U.S. government.

At December 31, 2011, 2012 and 2013, receivables with respect to contracts with the U.S. government represented 40%, 34% and 25% of total billed trade receivables, respectively.

13. Financial Information About Segments

Our operations are divided into two operating segments: Technology Development and Products and Licensing. The Technology Development segment provides applied research to customers in our areas of focus.

Our engineers and scientists collaborate with our network of government, academic and industry experts to identify technologies and ideas with promising market potential. We then compete to win fee-for-service contracts from government agencies and industrial customers who seek innovative solutions to practical problems that require new technology. The Technology Development segment derives its revenue primarily from services.

The Products and Licensing segment develops and sells products or licenses technologies based on commercially viable concepts developed by the Technology Development segment. The Products and Licensing segment derives its revenue from product sales, funded product development and technology licenses.

Our President and Chief Executive Officer and his direct reports collectively represent our chief operating decision makers, and they evaluate segment performance based primarily on revenue and operating income or loss.

Information about the results of operations for each segment is set forth in the table below. There were no significant inter-segment sales during the three years ended December 31, 2013. There was an insignificant amount of product sales made outside the United States during these three years.

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	Year Ended December 31,		
	2011	2012	2013
Technology Development revenue	$15,586,123	$15,126,834	$11,421,868
Products and Licensing revenue	13,195,822	11,250,717	10,624,350
Total revenue	28,781,945	26,377,551	22,046,218
Technology Development operating loss	(3,210,228)	(1,703,370)	(3,169,605)
Products and Licensing operating income (loss)	362,349	(672,741)	(2,540,885)
Total operating loss	$(2,847,879)	(2,376,111)	$(5,710,490)
Depreciation, Technology Development	$619,035	$499,439	$286,894
Depreciation, Products and Licensing	370,808	266,327	266,862
Amortization, Technology Development	295,600	212,790	197,765
Amortization, Products and Licensing	177,067	113,471	183,956

Additional segment information is as follows:

	December 31,	
	2012	2013
Total segment assets:		
Technology Development	$13,342,725	$10,208,433
Products and Licensing	7,115,043	9,495,642
Total	$20,457,768	$19,704,075
Property plant and equipment and intangible assets, Technology Development	$1,868,235	$1,217,083
Property plant and equipment and intangible assets, Products and Licensing	$996,242	$1,132,101

14. Quarterly Results (unaudited)

The following table sets forth our unaudited historical revenues, operating loss and net (loss) income by quarter during 2012 and 2013. The amounts reflected for the loss from continuing operations and income/ loss from discontinued operations for each quarter of 2012 differ insignificantly from the 2012 amounts reported in our Forms 10-Q filed during 2013 due to a reallocation of our total tax expense for the given period between continuing operations and discontinued operations. This reallocation did not impact the total income tax expense recognized in any period nor did it impact the net loss recognized in any period.

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	Quarter Ended							
(Dollars in thousands, except per share amounts)	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues:								
Technology	$3,943	$3,895	$3,691	$3,598	$2,627	$ 2,807	$3,130	$2,858
Products and licensing	2,714	2,846	3,156	2,535	1,870	3,166	2,588	3,000
Total revenues	6,657	6,741	6,847	6,133	4,497	5,973	5,718	5,858
Gross Margin	2,710	3,145	2,891	2,038	1,393	2,408	2,208	1,973
Operating loss	(632)	(391)	(329)	(1,049)	(1,957)	(917)	(572)	(2,264)
Loss from continuing operations, net	(567)	(351)	(330)	(892)	(1,148)	(791)	(484)	(1,694)
Income/(loss) from discontinued operations net of income taxes	232	109	110	304	3,934	(161)	(130)	(329)
Net loss	(335)	(242)	(220)	(588)	2,786	(952)	(614)	(2,023)
Net (loss)/income attributable to common stockholders	$(369)	$(269)	$(254)	$(612)	$2,762	$ (978)	$(640)	$(2,049)
Net loss per share from continuing operations:								
Basic	$(0.04)	$(0.03)	$(0.02)	$(0.06)	$(0.08)	$ (0.06)	$(0.03)	$(0.12)
Diluted	$(0.04)	$(0.03)	$(0.02)	$(0.06)	$(0.08)	$ (0.06)	$(0.03)	$(0.12)
Net income/(loss) per share from discontinued operations:								
Basic	$0.02	$0.01	$0.01	$0.02	$0.28	procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls		

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in

all material respects, the financial position of the group and company as at 31 December 2007, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.
Registered Auditor
Johannesburg, Republic of South Africa
7 March 2008

Report of the independent auditors to the members of AngloGold Ashanti Limited

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Nature of business

AngloGold Ashanti Limited conducts mining operations in Africa, North and South America and Australia and undertakes exploration activities worldwide. In addition, the company is involved in the manufacturing, marketing and selling of gold products, as well as the development of markets for gold.

Major shareholder

Anglo South Africa Capital (Proprietary) Limited, a wholly owned subsidiary of Anglo American plc (incorporated in England and Wales) ceased to be AngloGold Ashanti's major shareholder in October 2007, following the sale of 69.1 million of the 115,102,929 ordinary shares it held in the company. The sale reduced the effective shareholding of Anglo American plc in the issued ordinary share capital of the company to 16.6%.

Share capital

Authorised

The authorised share capital of AngloGold Ashanti at 31 December 2007 is made up as follows:

400,000,000 ordinary shares of 25 South African cents each	R100,000,000
4,280,000 E ordinary shares of 25 South African cents each	R1,070,000
2,000,000 A redeemable preference shares of 50 South African cents each	R1,000,000
5,000,000 B redeemable preference shares of 1 South African cent each	R50,000

The following are the movements in the issued and unissued capital from the beginning of the accounting period to the date of this report:

Issued

Ordinary shares	Number of shares	Rand	Number of shares	Rand
	2007		2006	
At 1 January	276,236,153	69,059,038	264,938,432	66,234,608
Issued during year				
– $500 million equity raising (effective 20 April 2006)	–	–	9,970,732	2,492,683
– Bokamoso ESOP and BEE transaction (approved by shareholders on 11 December 2006)	31,410	7,852		

928,590 232,147
– Bokamoso ESOP on conversion of E ordinary shares
8,026
2,007
–
–
– Exercise of options by participants in the AngloGold
Share Incentive Scheme
1,181,882 295,471
398,399 99,600
At 31 December
277,457,471 69,364,368
276,236,153 69,059,038
Issued subsequent to year-end
– Exercise of options by participants in the AngloGold
Share Incentive Scheme
205,632 51,408
At 31 January 2008
277,663,103 69,415,776
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E ordinary shares

On 11 December 2006, shareholders in general meeting authorised the creation of a maximum 4,280,000 E ordinary shares to be issued
pursuant to an Employee Share Ownership Plan and a Black Economic Empowerment transaction ("BEE transaction").

	Number of shares	Rand	Number of shares	Rand
	2007		2006	
At 1 January	4,185,770	1,046,443	–	–
Issued during year				
– The Bokamoso ESOP Trust	94,230	23,557	2,785,770	696,443
– Izingwe Holdings (Proprietary) Limited	–	–	1,400,000	350,000
Cancelled in exchange for ordinary shares in terms of the cancellation formula	139,770	34,943		
At 31 December	4,140,230	1,035,057	4,185,770	1,046,443
Issued/cancelled subsequent to year-end				
– Issued	–	–		
– Cancelled and exchanged for ordinary shares issued in terms of the cancellation formula	11,196	2,799		
At 31 January 2008	4,129,034	1,032,258		

In terms of the authority granted by shareholders, on vesting, E ordinary shares are cancelled in exchange for ordinary shares, in
accordance with the cancellation formula. All E ordinary shares which are cancelled may not be re-issued and therefore, do not form part
of the authorised but unissued share capital of the company.

E ordinary share capital amounting to R5,603,292 in respect of 44,190 unconverted but cancelled E ordinary shares was transferred to
ordinary share premium. E ordinary shares do not convert to ordinary shares in the instance when the market price of an AngloGold
Ashanti ordinary share is less than the value of the E ordinary share as calculated in accordance with the cancellation formula.

Redeemable preference shares

The A and B redeemable preference shares, all of which are held by a wholly owned subsidiary Eastvaal Gold Holdings Limited, may not

be transferred and are redeemable from the realisation of the assets relating to the Moab Lease area after cessation of mining operations
in the area. The shares carry the right to receive dividends equivalent to the profits (net of royalty, ongoing capital expenditure and taxation)
from operations in the area. No further A and B redeemable preference shares will be issued.
Further details of the authorised and issued shares, as well as the share premium, are given in Note 27 to the group's financial statements.
Unissued
Ordinary
E ordinary
Number Number
Number
Number
of shares
of shares
of shares
of shares
2007
2006
2007
2006
At 1 January
123,763,847
135,061,568
94,230
–
Authorised during the year
–
–
–
4,280,000
Issues during year
1,221,318
11,297,721
94,230
4,185,770
At 31 December
122,542,529
123,763,847
–
94,230
Issues subsequent to year-end
205,632
At 31 January 2008
122,336,897

Unissued ordinary shares under the control of directors

In terms of the authority granted by shareholders at the annual general meeting held on 4 May 2007, 10% of the authorised but unissued
ordinary share capital remaining at that date, after setting aside so many ordinary shares as may be required to be allotted and issued
pursuant to the Share Incentive Scheme; the Bokamoso Employee Share Ownership Plan, the black economic empowerment transaction
and for the purposes of the conversion of the $1 billion, 2.375% guaranteed convertible bonds, issued by AngloGold Ashanti Holdings
plc, are placed under the control of the directors. This authority expires at the annual general meeting to be held on 2 May 2008.

The unissued ordinary shares under the control of the directors at 31 December 2007 were as follows:

	Shares	Rand
Authorised ordinary share capital	400,000,000	100,000,000
Ordinary shares in issue at 4 May 2007	276,827,589	69,206,897
Unissued ordinary shares at 4 May 2007	123,172,411	30,793,103
Less: Ordinary shares set aside in terms of:		
– Share Incentive Scheme	7,612,759	1,903,190
– ESOP and BEE transaction	6,071,410	1,517,852
– Guaranteed Convertible Bonds	15,384,615	3,846,154
Net unissued ordinary shares at 4 May 2007	94,103,627	23,525,907
Unissued ordinary shares under the control of the directors at 4 May 2007(10% of net unissued ordinary shares)	9,410,362	2,352,590
Less: Ordinary shares issued at the discretion of the directors	–	–
At 31 December 2007	9,410,362	2,352,590

In terms of the Listings Requirements of the JSE, shareholders may, subject to certain conditions, authorise the directors to issue the

ordinary shares held under their control for cash other than by means of a rights offer to shareholders. In order that the directors of the
company may be placed in a position to take advantage of favourable circumstances which may arise for the issue of such ordinary
shares for cash, without restriction, for the benefit of the company, shareholders will be asked to consider an ordinary resolution to this
effect at the forthcoming annual general meeting.
The company has not exercised the general approval to buy back shares from its issued ordinary share capital, granted at the annual
general meeting held on 4 May 2007. At the annual general meeting to be held on 2 May 2008, shareholders will be asked to renew the
general authority for the acquisition by the company, or a subsidiary of the company, of its own shares.

American Depositary Shares

At 31 December 2007, the company had in issue through The Bank of New York as Depositary, and listed on the New York Stock
Exchange (NYSE), 82,550,854 (2006: 73,572,341) American Depositary Shares (ADSs). Each ADS is equal to one ordinary share. At
31 January 2008, there were 78,190,823 ADSs in issue and listed on the NYSE.

Ghanaian Depositary Shares

At 31 December 2007, the company had in issue through NTHC Limited as Depositary, and listed on the Ghana Stock Exchange (GSE)
18,256,500, (2006: 18,256,500) Ghanaian Depositary Shares (GhDSs). Every 100 GhDSs has one underlying AngloGold Ashanti ordinary
share and carries the right to one vote. At 31 January 2008, 18,475,000 GhDSs were listed on the Ghana Stock Exchange.

AngloGold Share Incentive Scheme

AngloGold Ashanti operates a share incentive scheme for the purpose of providing an incentive to executive directors, executive officers
and managers of the company and its subsidiaries to identify themselves more closely with the fortunes of the group and its continued
growth, and to promote the retention of such employees by giving them an opportunity to acquire shares in the company.
Non-executive directors are not eligible for participation in the share incentive scheme.

The maximum number of ordinary shares that may be allocated for the purposes of the scheme is equivalent to 2.75% of the total
number of ordinary shares in issue at any time. At 31 December 2007, 7,630,080 ordinary shares (2006: 7,596,494) were available
for purposes of the scheme, while the maximum aggregate number of shares which may be acquired by any one participant in the
scheme is 5% of the ordinary shares allocated for the purposes of the share incentive scheme (or 0.1375% of the total number of
ordinary shares in issue) – at 31 December 2007 381,504 (2006: 379,824).
Employees participate in the share incentive scheme to the extent that they are granted options or rights to acquire shares, and
accept them. All options or rights which have not been exercised within ten years from the date on which they were granted,
automatically expire.
The incentives offered by AngloGold Ashanti are reviewed periodically to ensure that these incentives are globally competitive, so as
to attract, reward and retain management of the highest calibre. As a result, several types of incentives, each with their own issue
and vesting criteria have been granted to employees – collectively known as the "AngloGold Share Incentive Scheme or share
incentive scheme".
Although the Remuneration Committee has the discretion to incentivise employees through the issue of shares, only options or rights
have so far been granted. The type and vesting criteria of the options or rights granted are:

Time-related

The granting of time-related options was approved by shareholders at the general meeting held on 4 June 1998 and amended by
shareholders at the annual general meeting held on 30 April 2002, at which time it was agreed that no further time-related options
will be granted and all options granted hereunder will terminate on 1 February 2012, being the date on which the last options granted
under this criteria may be exercised or will expire.
Time-related options vest over a five-year period from date of grant and may be exercised in tranches of 20% each in years two,
three and four and 40% in year five. As of the date of this report, all options granted and outstanding have vested in full.

Performance-related

The granting of performance-related options was approved by shareholders at the annual general meeting held on 30 April 2002
and amended at the annual general meeting held on 29 April 2005 at which time it was agreed that no further performance-related
options will be granted and all options granted hereunder will terminate on 1 November 2014, being the date on which the last
options granted under this criteria may be exercised or will expire.
Performance-related options granted vest in full, three years from date of grant, provided that the conditions under which the options
were granted, are met. All options granted and outstanding vested in full on 1 November 2007.

Bonus Share Plan (BSP)

The granting of rights in terms of the BSP was approved by shareholders at the annual general meeting held on 29 April 2005.

Executive directors, executive officers and other management groups are eligible for participation. Each award made in respect
of the BSP entitles the holder to acquire one ordinary share at "nil" cost. Awards granted vest in full, three years from date of
grant, provided that the participant is still in the employ of the company at the date of vesting unless an event, such as death, occurs
which may result in an earlier vesting.

Long-Term Incentive Plan (LTIP)

The granting of rights in terms of the LTIP was approved by shareholders at the annual general meeting held on 29 April 2005. Executive
directors, executive officers and selected senior management are eligible for participation. Each award made in respect of the LTIP entitles
the holder to acquire one ordinary share at "nil" cost. Awards granted vest three years from date of grant, to the extent that the stretched
company performance targets under which the rights were granted, are met and provided that the participant is still in the employ of the
company, or unless an event, such as death, occurs which may result in an earlier vesting.

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Options and rights

As is required to be disclosed in terms of the AngloGold Share Incentive Scheme and stock exchange regulations, the movement in
respect of options and rights granted and the ordinary shares issued as a result of the exercise of options and rights during the year
1 January 2007 to 31 January 2008 is:

Average
Long-
exercise
Perfor-
Bonus
Term
price per
Ordinary
Time-
mance
Share Incentive
ordinary
shares
related
related
Plan
Plan
Total
share
issued

At 1 January 2007
473,260
2,585,800
480,585
660,175 4,199,820
166.64 3,114,077

Movement during year

– Granted
–
*12,600
296,495
321,664
630,759
–

– Exercised
266,300
874,874
40,708
– 1,181,882
210.31 1,181,882

– Lapsed – terminations
–
85,326

50,704
198,414
334,444
62.78
At 31 December 2007
206,960
1,638,200
685,668
783,425 3,314,253
130,74 4,295,959
Average exercise/issue price
per share
– R
124.68
248.76
–
–
130.74
Subsequent to year-end
– Exercised
6,600
196,419
2,613
–
205,632
242.00
205,632
– Lapsed – terminations
–
–
–
–
–
At 31 January 2008
200,360
1,441,781
683,055
783,425 3,108,621
123.38 4,501,591
Average exercise/issue price
per share
– R
124.50
248.77
–
–
123.38
* Correction of prior year lapsings in error.
Analysis of options and rights outstanding at 31 December 2007
Number of
Holding

	Holders	options
1 to 100	185	13,518
101 to 500	643	137,261
501 to 1,000	119	82,710
1,001 to 5,000	302	798,881
5,001 to 10,000	94	693,451
10,000 to 100,000	68	1,588,432
Over 100,000	–	–
Total	1,411	3,314,253

Directors' report continued

Financial results

The financial statements set out fully the financial position, results of operations and cash flows of the group and the company for the
financial year ended 31 December 2007.

Review of operations

The performance of the various operations are comprehensively reviewed on pages 54 to 98.

Dividend policy

Dividends are proposed by, and approved by the board of directors of AngloGold Ashanti, based on the interim and year-end financial
statements. Dividends are recognised when declared by the board of directors of AngloGold Ashanti. AngloGold Ashanti expects to
continue to pay dividends, although there can be no assurance that dividends will be paid in the future or as to the particular amounts
that will be paid from year to year. The payments of future dividends will depend upon the board's ongoing assessment of AngloGold
Ashanti's earnings, after providing for long term growth, cash/debt resources, the amount of reserves available for dividend using the
going concern assessment and restrictions placed by the conditions of the convertible bond and other factors.

Dividends declared since 1 January 2007:

	Final dividend number 101	Interim dividend number 102	Final dividend number 103
Declaration date	12 February 2007	30 July 2007	6 February 2008
Last date to trade ordinary shares cum dividend	2 March 2007	17 August 2007	22 February 2008
Record date	9 March 2007	24 August 2007	29 February 2008
Amount paid per ordinary share			
– South African currency (cents)	240	90	53
– United Kingdom currency (pence)	16.859	6.0721	3.484
– Ghanaian currency (cedis)	3,041.21	11.1	6.530

Amount per CDI* – Australian currency (cents)
8.4144
2.997
1.484
Payment date
16 March 2007
31 August 2007
7 March 2008
Amount per GhDS** – Ghanaian currency (cedis)
30.41
0.111
0.0653
Payment date
19 March 2007
3 September 2007
10 March 2008
Amount per ADS*** – United States currency (cents)
32.384
12.435
7.37
Payment date
26 March 2007
10 September 2007
17 March 2008
Amount per E ordinary share South African currency (cents)
120
45
26.50
Payment date
16 March 2007
31 August 2007
7 March 2008
*
Each CDI (Chess Depositary Interest) is equal to one-fifth of one ordinary share
**
Each GhDS (Ghanaian Depositary Share) is equal to one-hundredth of one ordinary share
***
Each ADS (American Depositary Share) is equal to one ordinary share
#
Illustrative value assuming the following rates of exchange: {R14.068:£; R:¢1,289.29; R5.571:A$; R7.19:$}. The actual rate of
payment will depend on the exchange rate on the currency conversion date and/or date of payment
Shareholders on the South African register who have dematerialised their ordinary shares receive payment of their dividends electronically,
as provided for by STRATE. For those shareholders who have not yet dematerialised their shares, or who may intend retaining their
shareholding in the company in certificated form, the company operates an electronic funds transmission service, whereby dividends may
be electronically transferred to shareholders' bank accounts. These shareholders are encouraged to mandate this method of payment
for all future dividends.

Borrowings
The company's borrowing powers are unlimited. As at 31 December 2007, the group's borrowings totalled $1,872 million, R12,750 million
(2006: $1482 million, R10,376 million).
On 12 December 2007 AngloGold Ashanti announced the successful closing of a US$1.15 billion syndicated revolving loan facility (RCF).
The new 3-year facility will be used to refinance an existing US$700 million RCF, an AUD200 million facility and for general corporate
purposes.
Significant announcements during the year under review and subsequent to year-end
On 5 February 2007, AngloGold Ashanti informed the market that a partial slope failure had occurred in an intermediate
footwall of the Nyankanga pit at Geita Gold Mine on Saturday 3 February 2007. The pit had been monitored by slope stability radar
and was safely evacuated in advance of the failure. No injury to employees or contractors occurred and there was no damage to
equipment.
On 13 February 2007, the AngloGold Ashanti board approved a project to develop the Mponeng mine below the 120 level, adding some
2.5 million ounces of gold and 8 years to the mine's life, at a capital cost of $252 million. Production is due to commence in 2013.
On 4 May 2007, AngloGold Ashanti announced that Messrs CB Brayshaw and AJ Trahar retired from the board effective 5 May
2007. AngloGold Ashanti further announced that Mrs C Carroll had been appointed as a non-executive director with effect from
5 May 2007.
On 1 June 2007, AngloGold Ashanti Australia Ltd announced the commencement of a pre-feasibility study at the Tropicana gold project
in Western Australia. Tropicana, located 400 kilometres north-east of Kalgoorlie, is a joint venture between AngloGold Ashanti Australia
(70%) and Independence Group NL (30% free carried to completion of the pre-feasibility study). The study is expected to be completed
in mid-2008 and will focus on the Tropicana and Havana zones and will only consider open-cut resources.
On 8 June 2007, AngloGold Ashanti announced that it would sell, subject to certain conditions, to a consortium of Mintails South Africa
(Pty) Limited / DRD South African Operations (Pty) Limited Joint Venture most of the remaining moveable and immovable assets of Ergo,
the surface reclamation operation east of Johannesburg, discontinued in March 2005. The site is currently being rehabilitated by
AngloGold Ashanti. The assets and associated liabilities will sell for R42.8 million (approximately $6 million). The joint venture will operate,
for its own account, under the AngloGold Ashanti authorisations until new order mining rights have been obtained and transferred to the
joint venture. A specific exclusion from the sale to the joint venture is the Brakpan Tailings Storage Facility which will continue to be
rehabilitated by AngloGold Ashanti.
On 11 July 2007, AngloGold Ashanti announced the resignation from the board of Mr AH Calver as Mr WA Nairn's alternate.

On 31 July 2007, the board of directors announced the retirement of Mr RM Godsell, (AngloGold Ashanti's Chief Executive Officer) and
the resignation of Mr R Carvalho Silva (Chief Operating Officer – International) from the company effective 30 September 2007 and the
appointments of Mr M Cutifani as Chief Executive Officer and Mr N Nicolau, (formerly Chief Operating Officer – Africa) as Chief Operating
Officer for all operations as of 1 October 2007. Subsequently, on 12 November 2007, it was announced that due to further operational
management restructure, Mr N Nicolau had resigned from the board to pursue other opportunities.
In August 2007, AngloGold Ashanti through the South African Chamber of Mines, signed a two-year wage agreement effective from 1 July
2007, with the three recognised mining unions. This agreement covers some 29,000 category 3 – 8 workers, miners, artisans and officials
in the company's South African operations and was achieved through a mediated outcome without the unions resorting to any industrial
action. In terms of the agreement: the first year increases from 1 July 2007 range from 10% for the lower categories of worker to 8% for
officials or junior management and include a special dispensation for the benefit of artisans and some skilled occupations. Some
improvements to leave conditions and housing allowances were also agreed. Second year increases from 1 July 2008 will be determined
at South African CPIX plus 1% with a minimum of an 8% increase.
The company completed the acquisition of minority interests previously held by the Government of Ghana (5%) and the International
Finance Corporation (10%) in the Iduapriem and Teberebie mine effective 1 September 2007 for a total cash consideration of $25 million.
Iduapriem and Teberebie are now wholly owned by AngloGold Ashanti.

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On 18 September 2007, AngloGold Ashanti announced that Mr M Cutifani was appointed to the board effective 17 September 2007, as
Chief Executive Officer designate. Mr M Cutifani succeeded Mr RM Godsell as Chief Executive Officer, on his retirement with effect from
1 October 2007.
On 1 October 2007, AngloGold Ashanti noted the announcement by Anglo American plc that it intended to offer for sale, 61 million ordinary
shares of AngloGold Ashanti in the form of ordinary shares and American Depositary Shares pursuant to the registration of such securities
under AngloGold Ashanti's automatic shelf registration statement. Goldman Sachs International acted as the global co-ordinator for the
offering and Goldman Sachs International and UBS Investment Bank were joint book runners for the offering.
On 2 October 2007, AngloGold Ashanti noted the announcement by Anglo American plc that Anglo American had completed an offering
of 67.1 million ordinary shares of AngloGold Ashanti in the form of ordinary shares and American Depositary Shares (ADS) priced at
US$44.00 per ADS (US$44.11 inclusive of uncertificated securities tax payable by investors in ADSs) and R300.61 per ordinary share
(exclusive of uncertificated securities tax). The offering which was launched on 1 October 2007 was increased from the earlier announced
61 million ordinary shares. The offering price represented discounts of 6.16% and 7.84% to the closing prices of the ADSs and
ordinary shares in New York and Johannesburg respectively on Friday, 28 September 2007. The offering settled on 9 October 2007.
On completion of the offering, Anglo American's holding in AngloGold Ashanti was 17.3%. An additional 2 million shares were sold by Anglo
American in a private placement, further reducing its shareholding to 16.6%.
Following the settlement of the secondary offering and the consequent reduction in shareholding, all the directors representing Anglo
American plc on the AngloGold Ashanti board, namely Mrs C Carroll and Mr R Médori, together with his alternate Mr PG Whitcutt resigned
from the AngloGold Ashanti board, effective 9 October 2007.
On 12 December 2007, AngloGold Ashanti announced the successful closing of a $1.15 billion syndicated revolving loan facility. The new
three-year facility will be used to refinance an existing $700 million revolving credit facility (due January 2008), an A$200 million facility and
for general corporate purposes.
On 14 January 2008, AngloGold Ashanti announced that it had agreed to acquire 100% of Golden Cycle Gold Corporation (GCGC) through
a merger transaction in which GCGC's shareholders will receive 29 AngloGold Ashanti ADRs for every 100 shares of GCGC common stock
held. GCGC currently hold a 33% shareholding in Cripple Creek & Victor while AngloGold Ashanti hold the remaining 67%. The merger
transaction will result in Cripple Creek & Victor being wholly owned by AngloGold Ashanti. The transaction is subject to a number of
regulatory and statutory approvals, including approval by GCGC shareholders. The transaction, at the date of announcement was valued
at approximately $149 million.
On 18 January 2008, AngloGold Ashanti provided operation guidance to its fourth quarter 2007 results, in which it was stated that the

company's South African and Geita operations had experienced production difficulties resulting in the group's production for the quarter to
be of the region of 1.4 million ounces.
On 25 January 2008, AngloGold Ashanti announced that following notification from Eskom regarding interruptions to power supplies, it
had halted mining and gold recovery operations on all of its South African operations. Only underground emergency pumping work was
being carried out.
On 27 January 2008, AngloGold Ashanti announced it had agreed a process with Eskom, whereby the supplier would give its normal
guarantees for sufficient power for the company to undertake shifts from that day for the purpose of re-establishing safe workplaces at
each of the deep level underground mines in South Africa. The company was anticipating a ramp up in additional power later in the week
that should enable a phased return to normal mining operations. A protocol had also been agreed with the electricity supplier whereby
Eskom will provide the company with four hours warning, prior to having to reduce power supply.
On 29 January 2008, AngloGold Ashanti announced that following a meeting between Eskom and industrial electricity consumers, the company
had commenced the process of bringing back into production all of its underground mines and their associated gold treatment plants. On
7 February 2008, AngloGold Ashanti stated that following extensive discussions with Eskom and government, a power supply of 90% had been
offered which has resulted in first quarter production from the South African operations being severely disrupted. Equally important is Eskom's
ability to maintain a continuous power supply at a 90% level in order to return to normal production levels and milling rates.
On 14 February 2008, AngloGold Ashanti announced amendments to its agreement with B2Gold in respect of exploration activities in
Colombia.

Investments
Particulars of the group’s principal subsidiaries and joint venture interests are presented on page 304.
Litigation
There are no legal or arbitration proceedings in which any member of the AngloGold Ashanti group is or has been engaged, including
any such proceedings which are pending or threatened of which AngloGold Ashanti is aware, which may have, or have had during
the 12 months preceding the date of this Annual Report 2007, a material effect on the group's financial position, other than those
disclosed in group note 38 of the financial statements.
Material change
There has been no material change in the financial or trading position of the AngloGold Ashanti group since the publication of its
results for the quarter and year ended 31 December 2007.
Material resolutions
Details of special resolutions and other resolutions of a significant nature passed by the company and its subsidiaries during the year
under review, requiring disclosure in terms of the Listings Requirements of the JSE, are as follows:
Nature of resolution
Effective date
AngloGold Ashanti Limited
Passed at the annual general meeting held
on 4 May 2007:
General approval for the acquisition by the company,
or a subsidiary of the company, of its own shares.
6 July 2007
Annual general meetings
At the 63rd annual general meeting held on 4 May 2007, shareholders passed ordinary resolutions relating to:
the adoption of the financial statements for the year ended 31 December 2006;
the re-election of Mr FB Arisman, Mr RE Bannerman, Mr WA Nairn, and Mr SR Thompson as directors of the company;
the election of Mr JH Mensah; Prof WL Nkuhlu and Mr SM Pityana, who were appointed since the previous annual general
meeting, as directors of the company;
the renewal of a general authority placing 10% of the unissued ordinary shares of the company, after setting aside sufficient
shares attributable to the Share Incentive Scheme and guaranteed convertible bonds, under the control of the directors;
the granting of a general authority to issue ordinary shares in the capital of the company for cash, subject to certain limitations
in terms of the Listings Requirements of the JSE; and
the increase in directors' annual remuneration with effect from 1 June 2007, as follows:
R135,000 (previous: R110,000) per annum for each director, other than for the offices of the chairman, deputy chairman and
those who are non-residents of South Africa.
$150,000 per annum (previous: $130,000) for the office of the chairman.
R360,000 (previous: R300,000) for the office of the deputy chairman.
$25,000 (previous: $16,000) per annum for directors who are non-residents of South Africa.
An additional $5,000 (previous: $4,000) per meeting for each director, including the chairman and deputy chairman, travelling

internationally to attend board meetings.
Details concerning the special resolution passed by shareholders at this meeting are disclosed above.
Directors' report continued

Notice of the 64th annual general meeting, which is to be held in the Auditorium, 76 Jeppe Street, Newtown, Johannesburg at
11:00 (South African time) on Friday, 2 May 2008, is enclosed as a separate document with the Annual Report 2007. Additional
copies of the notice of meeting may be obtained from the company's corporate contacts and the share registrars or may be
accessed from the company's website.

Directorate and secretary

The following movements to the board of directors have taken place for the period from 1 January 2007 to 31 December 2007.

Executive directors:

Mr RM Godsell (CEO) retired from the board effective 30 September 2007.
Mr M Cutifani was appointed to the board on 17 September 2007 and as CEO effective 1 October 2007.
Mr R Carvalho Silva resigned from the board effective 30 September 2007.
Mr NF Nicolau resigned from the board effective 12 November 2007.

Non-executive directors:

Mr SM Pityana was appointed to the board effective 13 February 2007.
Dr SE Jonah resigned from the board effective 12 February 2007.
Mr CB Brayshaw retired from the board effective 5 May 2007.
Mr AJ Trahar retired from the board effective 5 May 2007.
Mrs C Carroll was appointed to the board effective 5 May 2007 and resigned from the board effective 9 October 2007.
Mr R Médori resigned from the board effective 9 October 2007.

Alternate directors:

Mr AH Calver (alternate to Mr WA Nairn) resigned as alternate effective 1 January 2007
Mr PG Whitcutt (alternate to Mr R Médori) resigned as alternate effective 9 October 2007 following Mr Médori's resignation from
the board.

The directors retiring by rotation at the forthcoming annual general meeting in terms of the articles of association are Dr TJ Motlatsi,
Mr WA Nairn and Mr SM Pityana who, being eligible, offer themselves for re-election.
Mrs E Bradley who retires by rotation has not made herself available for re-election.
In addition to the abovementioned directors, Mr M Cutifani, who was appointed as a director during the year, will retire at the annual
general meeting and offer himself for re-election.
In terms of the company's memorandum and articles of association, there is no mandatory resignation age for directors.
Non-executive directors do not hold service contracts with the company.
The names and biographies of the directors of the company are listed on pages 16 and 17.
There has been no change in the offices of the vice president – compliance and corporate administration and the company secretary.
The names, business and postal addresses of the vice president – compliance and corporate administration and the company
secretary are set out on page 326 of this report.

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Directors' interests in shares

The interests of the directors and alternate directors in the ordinary shares of the company at 31 December 2007, which did not
individually exceed 1% of the company's issued ordinary share capital, were:

Beneficial
Non-
Beneficial
Non-
Direct
Indirect
beneficial
(1)
Direct
Indirect
beneficial
(1)
31 December 2007
31 December 2006
Executive directors
M Cutifani
–
–
–
–
–
–
R Carvalho Silva (resigned 30 September 2007)
–
–
–
–
–
–
RM Godsell (retired 30 September 2007)
–
–
–
13,010
–
–
NF Nicolau (resigned 12 November 2007)
–
–
–
3,000
–
–
S Venkatakrishnan
652

–
–
652
–
–
KH Williams (retired 6 May 2006)
–
–
–
–
–
–
Total
652 –
–
16,662
–
–
Non-executive directors
FB Arisman
–
2,000
–
–
2,000
–
Mrs E le R Bradley
–
23,423
3,027
–
23,423
3,027
CB Brayshaw (retired 5 May 2007)
–
–
–
–
–
–
C Carroll (appointed 5 May 2007,
resigned 9 October 2007)
–
–
–
–
–
–
RP Edey
–
1,000

–
–
1,000
–
Dr SE Jonah (resigned 12 February 2007)
–
–
–
–
18,469
–
R Médori (resigned 9 October 2007)
–
–
–
–
–
–
Dr TJ Motlatsi
–
–
–
–
–
–
WA Nairn
–
–
–
–
–
–
WL Nkuhlu
–
–
–
–
–
–
SM Pityana
–
–
–
–
–
–
SR Thompson
–
–
–
–

–
–
AJ Trahar (retired 5 May 2007)
–
–
–
–
–
–
PL Zim (retired 4 August 2006)
–
–
–
–
–
–
Total
–
26,423
3,027
–
44,892
3,027
Alternate directors
DD Barber (resigned 4 August 2006)
–
–
–
–
–
–
AH Calver (resigned 11 July 2007)
–
–
–
–
–
–
PG Whitcutt (resigned 9 October 2007)
–
–
–
–
–
–
Total
–
–
–
–
–

–
Grand total
652
26,423
3,027
16,662
44,892
3,027
(1)
The director derives no personal benefit.
Except for Mr Arisman, who, after receiving permission to do so from the chairman of the company, acquired an additional
2,000 AngloGold Ashanti shares (in the form of ADSs) on 22 February 2008, there have been no other changes in the above interests
since 31 December 2007.
A register detailing directors' and officers' interests in contracts is available for inspection at the company's registered and
corporate office.
Directors' report continued

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Annual financial statements
The directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the
preparation of the annual financial statements which fairly present the state of affairs of the company and the AngloGold Ashanti group
at the end of the financial year, and the results of operations and cash flows for the year, in conformity with Generally Accepted Accounting
Practice (GAAP) and in terms of the JSE Listings Requirements.
In preparing the annual financial statements reflected in dollars in the English language as issued by the International Accounting
Standards Board (IASB) and South African rands on pages 170 to 303, the group has complied with International Financial Reporting
Standards (IFRS) in the English language as issued by the IASB and has used appropriate accounting policies supported by reasonable
and prudent judgements and estimates. The directors are of the opinion that these financial statements fairly present the financial position
of the company and the group at 31 December 2007, and the results of their operations and cash flow information for the year then
ended.
AngloGold Ashanti, through its Executive Committee and Treasury Committee, reviews its short-, medium- and long-term funding,
treasury and liquidity requirements and positions monthly. The board of directors also reviews these on a quarterly basis at its meetings.
Cash and cash equivalents at 31 December 2007 amounted to $496 million, R3,381 million, together with cash budgeted to be
generated from operations in 2008 and the net incremental borrowing facilities available are, in management's view, adequate to fund
operating, mine development and capital expenditure and financing obligations as they fall due for at least the next twelve months. Taking
these factors into account, the directors of AngloGold Ashanti have formed the judgement that, at the time of approving the financial
statements for the year ended 31 December 2007, it is appropriate to use the going concern basis in preparing these financial
statements.
The external auditors, Ernst & Young Inc., are responsible for independently auditing and reporting on the financial statements in
conformity with International Standards of Auditing and the Companies Act in South Africa. Their unqualified report on these financial
statements appears on page 149.
To comply with requirements for reporting by non-US companies registered with the SEC, the company has prepared a set of financial
statements in accordance with US Generally Accepted Accounting Principles (US GAAP) which will be available from The Bank of New
York Mellon to holders of the company's securities listed in the form of American Depositary Shares on the NYSE. Copies of the annual
report on Form 20-F, which must be filed with the SEC by no later than 30 June 2008, will be available to stakeholders and other
interested parties upon request to the company's corporate office or its contacts as listed on page 326 of this report.
Under the Sarbanes-Oxley Act, the chief executive officer and chief financial officer are required to complete a group certificate stating

that the financial statements and reports are not misleading and that they fairly present the financial condition, results of operations and
cash flows in all material respects. The design and effectiveness of the internal controls, including disclosure controls, are also included
in the declaration. As part of the process, a declaration is also made that all significant deficiencies and material weaknesses, fraud
involving management or employees who play a significant role in internal control and significant changes that could impact on the internal
control environment, are disclosed to the Audit and Corporate Governance Committee and the board.

The Remuneration Committee sets and monitors executive remuneration for the company, in line with the executive remuneration policy.
This policy has as its objectives to:
attract, reward and retain executives of the highest calibre;
align the behaviour and performance of executives with the company's strategic goals, in the overall interests of shareholders;
ensure the appropriate balance between short-, medium- and long-term rewards and incentives, with the latter being closely linked
to structured company performance targets and strategic objectives that are in place from time to time; and
ensure that regional management is competitively rewarded within a global remuneration policy, which recognises both local and
global market practice.
In particular the Remuneration Committee is responsible for:
the remuneration packages for executive directors of the company including, but not limited to, basic salary, performance-based
short- and long-term incentives, pensions, and other benefits; and
the design and operation of the company's executive share option and other incentive schemes.
Remuneration Committee
For 2007, members of the Committee comprised the following non-executive directors:
Russell Edey (Chairman)
Reginald Bannerman
Prof Wiseman Nkuhlu (appointed 27 July 2007)
Frank Arisman (appointed 27 July 2007)
Sipho Pityana (appointed 27 July 2007)
Dr James Motlatsi (appointed 27 July 2007)
Colin Brayshaw (resigned 5 May 2007)
Tony Trahar (resigned 5 May 2007)
During the year, four meetings of the Remuneration Committee were held. Attendance by members or their designated alternates
was as follows:

	Number of meetings attended
RP Edey	4
RE Bannerman	4
CB Brayshaw *	1
AJ Trahar *	1
WL Nkuhlu **	3
FB Arisman **	3
SM Pityana **	3
TJ Motlatsi	2

* Entitled to attend only one meeting.
** Attended all meetings since appointment to committee.

Remuneration report

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All meetings of the committee are attended by the chief executive officer and executive vice president – organisational development
except when their own remuneration or benefits are being discussed. The services of Deloitte & Touche are retained to act as
independent, expert advisers on executive remuneration.
The following principles are applied in determining executive remuneration:
Annual remuneration is a combination of base pay and short-, medium- and long-term incentives, with salary comprising about 50%
of annual remuneration.
Salary is set at the median for the relevant competitive market.
All incentive plans align performance targets with shareholder interests.
Bonus Share Plan (BSP) and Long-Term Incentive Plan (LTIP)
BSP
Shareholders approved the introduction of two new schemes to replace the old share incentive scheme at the annual general meeting
held on 29 April 2005. The purpose of both schemes is to align the interests of shareholders and the efforts of executives and managers.
To the extent that structured company performance targets are achieved, the BSP allows for the payment of an annual bonus, paid in
part in cash and in part in rights to acquire shares.
Proposed changes to the BSP
The global scramble for skills in the resources sector has had the effect of greatly increasing levels of remuneration for skilled professionals
and managers. Whilst AngloGold Ashanti has been relatively successful in retaining many of its skilled professionals and managers, its
competitive position in respect of remuneration has been significantly eroded. This is especially true of the awarding of shares and the
magnitude of bonuses paid, which compare unfavourably both within South Africa and globally.
At the forthcoming annual general meeting, the company will propose raising the levels of maximum performance bonus payable and the
maximum levels of bonus share awards, reducing the vesting period of bonus shares from three years to two years, and altering the split
between company and individual performance in determining the bonus.
LTIP
The LTIP allows for the granting of rights to acquire shares, based on the achievement of stretched company performance targets over
a three-year period.
These targets are based on the performance of earnings per share (EPS) and relative total shareholder return (TSR), whereby the
company will need to consistently outperform its gold company peers. Additionally, certain strategic business objectives, which the
Remuneration Committee will determine from time to time, will also need to be met.

Executive remuneration
Executive director remuneration currently comprises the following elements:
Basic salary, which is subject to annual review by the Remuneration Committee and is set in line with the median of salaries in similar
companies in the relevant markets both in South Africa and globally. The individual salaries of executive directors are reviewed
annually in accordance with their own performance, experience, responsibility and company performance.
Annual bonus, which is determined by the achievement of a set of stretching company and individual performance targets. The
company targets include safety, EPS, cost control, and global production. The weighting of the respective contribution of company
and individual targets is 70% company and 30% individual. Failure to achieve safety improvement targets results in the reduction of
bonuses for executive directors and executive management – 50% of the bonus is paid in cash and 50% in the awarding of rights
to acquire shares. The awards have a three-year vesting period.
LTIP: The CEO and executive director are granted the right to acquire shares of value equivalent to 120% and 100% of their annual
salaries respectively, subject to the achievement of stretched company performance targets over a three-year period. These targets
are based on the performance of EPS and TSR, whereby the company will need to consistently outperform its gold company peers.
Additionally, strategic business objectives will also need to be met.
The first tranche of LTIP awards was made to executive directors in 2005. The performance period in respect of the 2005 LTIP award
ended at the end of 2007. Only one of the performance targets, TSR, was met, which means that only 40% of the award of shares
will vest, whilst the balance will lapse.
Pensions: All executive directors who are South African citizens, are members of the AngloGold Ashanti Pension Fund, a defined
benefit fund which guarantees a pension on retirement equivalent to 2% of final salary per year of service. All executive directors who
are not South African citizens have other retirement benefit plans, to which the company contributes, to the level required by local
practice. Death and disability cover reflects best practice amongst comparable employers in South Africa.
Other benefits: Executive directors are members of an external medical aid scheme, which covers the director and his immediate family.
Directors' service contracts
Service contracts of executive directors are reviewed annually. Mark Cutifani, as chief executive officer, has an initial contract of
24 months, but with a 12-month notice period. The notice period for the chief financial officer and executive director, Srinivasan
Venkatakrishnan, is nine months. The contracts also deal with compensation if an executive director is dismissed or if there is a material
change in role, responsibilities or remuneration following a new shareholder assuming control of the company. Compensation for these
particular circumstances is calculated at twice the notice period earnings.

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Non-executive directors’ remuneration

The following table details fees and allowances paid to non-executive directors in 2007:

Resigned/
All figures stated to the
Appointed
retired
Com-
Com-
nearest R000
(1)
with effect with effect **Directors'**
mittee
Directors'
mittee
from
(2)
from
(2)
fees
(3)
fees
Travel
(4)
Total
fees
(3)
fees
Travel
(4)
Total
2007
2006
RP Edey (Chairman)
1,005
220
128
1,353

Dr TJ Motlatsi (Deputy chairman)
335
186
–
521
300 130
– 430
FB Arisman
141
212
128
481

RE Bannerman
10 Feb 06
150
107
128
385
Mrs E le R Bradley
125
195
–
320
110 150

CB Brayshaw
(5)
5 May 07
46
78
–
124

Mrs C Carroll
5 May 07
9 Oct 07
29
–
–
29
– – – –
Dr SE Jonah (President)
12 Feb 07
90
62
–
152
157 120
– 277
R Médori
9 Oct 07
107
–
–
107
111 3 –
114
JH Mensah
4 Aug 06
150
77
128

355
47 – 28 75
WA Nairn
125
157
–
282
110 130
– 240
Prof WL Nkuhlu
4 Aug 06
125
110
–
235
46 25 – 71
SM Pityana
13 Feb 07
115
109
–
224
– – – –
SR Thompson
141
92
64
297
111 80 –
191
AJ Trahar
5 May 07
48
38
–
86

PL Zim
4 Aug 06
–
–
–
–
83 60 –
143
Total – non-executive directors
2,732
1,643
576
4,951
2,440

1,263 313
4,016
Alternates
DD Barber
4 Aug 06
–
–
–
–
– – – –
AH Calver
1 Jan 07
–
–
–
–
PG Whitcutt
(7)
9 Oct 07
–
33
–
33
– 37 – 37
Total – alternate directors
–
33
–
33
– 37 – 37
Grand total
2,732
1,676
576
4,984
2,440 1,300 313 4,053
(1)
Where directors' compensation is in dollars, amounts reflected are the actual South African rand values at the date of payment.
(2)
Fees are disclosed only for the period from or to which, office is held.
(3)
At the annual general meeting of shareholders held on 4 May 2007 shareholders approved an increase in directors fees with effect
from 1 May 2007.
– Chairman
– $150,000 per annum
– Deputy chairman and president
– R360,000 per annum
– South African resident directors
– R135,000 per annum

– Non-resident directors
– $25,000 per annum
(4)
A payment of a travel allowance of $5,000 per meeting is made to non-executive directors who travel internationally to attend board
meetings. In addition, AngloGold Ashanti is liable for the payment of all travel costs.
(5)
Mr Brayshaw received fees from AGRe Insurance Company Limited, a wholly owned subsidiary, for his roles as both director and as
a member of its audit committee.
Executive directors do not receive payment of directors' fees or committee fees.
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Non-executive directors' remuneration
The following table details fees and allowances paid to non-executive directors in 2007:
Resigned/

Appointed
retired
Com-
Com-

(1)
with effect with effect **Directors'**

from

fees

fees
(3)
fees

Total

RP Edey (Chairman)
1,005

128
1,353
919 160
(6)
Dr TJ Motlatsi (Deputy chairman)

–
521

FB Arisman

128
481
113 140
(6)
113 366
RE Bannerman
10 Feb 06

128
385
113 26
(6)
59 199
Mrs E le R Bradley

–
320

(6)
– 260
CB Brayshaw
(5)
5 May 07
46

–
124
110 138
(6)
– 248
Mrs C Carroll
5 May 07

29
–
–
Dr SE Jonah (President)

90

–
152

R Médori

–
–
107

114
JH Mensah
4 Aug 06

128
355

WA Nairn

–
282

Prof WL Nkuhlu
4 Aug 06

–
235

SM Pityana
13 Feb 07

–
224

AJ Trahar
5 May 07
48

–
110 40
(6)
– 150
PL Zim
4 Aug 06
–
–
–
–
143

Total – non-executive directors
2,732
1,643
576
4,951

4,016
Alternates
DD Barber
4 Aug 06
–
–
–
–
AH Calver

–
–
–
–
– – – –
PG Whitcutt

–

–

Total – alternate directors
–

–

Grand total
2,732
1,676

4,984

(1)

(2)
(3)

– R360,000 per annum

(4)

(5)

(6)

Executive directors do not receive payment of directors' fees or committee fees.
113 1,192

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Annual Financial Statements 2007

Executive directors', executive officers and executive management remuneration – 2007

Following the appointment of Mark Cutifani as chief executive officer, AngloGold Ashanti re-organised its executive management teams
with effect from 1 November 2007, in line with the renewed strategic focus of the company. A decentralised regional operating structure
was established with three executive vice presidents for Africa, the Americas and Australasia reporting directly to the chief executive
officer. In addition, the heads of business strategy, business development, business effectiveness, sustainability and organisational
development were made executive vice presidents. These operations and functional executive vice presidents, together with the vice
president – treasurer, the vice president – compliance and corporate administration, the chief executive officer and the chief financial
officer, constitute the company's executive management.

Resigned/ Compen-
Per-
Pre-tax
Appointed retired
sation formance
Pension
gains
on
with with
and
related
scheme
share
effect effect
recruit-
pay-
contri-
Other Encashed
Sub
options
All figures in R000
from
(1)
from
(1)
Salary ment
(2)
ments
(3)
butions benefits
(4)
leave
(5)
total exercised
Total

Executive directors'
remuneration 2007
M Cutifani
17 Sep 07
1,594
15,197
963
–
704
–
18,458
–
18,458
R Carvalho Silva
(6)
30 Sep 07
4,468
20,240
1,001
2,121
1,594
1,496
30,920
4,574
35,494
RM Godsell
30 Sep 07
5,029
9,794
–
763
92
1,853
17,531
35,664
53,195
NF Nicolau**
12 Nov 07
4,925
16,688
958
783
826
125
24,305
2,367
26,672
S Venkatakrishnan
4,563
–
1,714

774
–
244
7,295
–
7,295
20,579
61,919
4,636
4,441
3,216
3,718
98,509
42,605 141,114
Executive officers'
remuneration to
30 November 2007
Representing 15
executive officers
28,400
–
6,219
3,590
259
670
39,138
11,483
50,621
Executive officers'
remuneration from
1 December 2007
Representing 10
executive officers
2,422
–
513
299
43
360
3,637
–
3,637
Total executive directors,
executive officers and
executive management
remuneration – 2007
51,401
61,919
11,368
8,330
3,518

4,748 141,284
54,088 195,372
**
Resigned from board effective 12 November 2007 and left the company effective 31 January 2008.
(1)
Salaries are disclosed only for the period from or to which office was held except in respect of Messrs Godsell, Carvalho Silva and
Nicolau, which amounts reflect total payments made to the date of this report.
(2)
Compensation and recruitment expenses relate to the once-off payments made to Messrs Godsell, Carvalho Silva and Nicolau
on their retirement/resignation from the board and company, and to Mark Cutifani on his appointment as chief executive officer.
(3)
In order to more accurately disclose remuneration received/receivable by executive directors, executive officers and executive
management, the tables above include the performance related payments calculated on the year’s financial results.
(4)
Includes health care, personal travel and relocation expenses, and in respect of Mr Carvalho Silva, a compulsory payment to an
unemployment insurance fund and a medical promise payout in respect of Mr Nicolau.
(5)
In 2005, AngloGold Ashanti altered its policy regarding the number of leave days that may be accrued. As a result surplus leave days
accrued are compulsorily encashed.
(6)
Mr Carvalho Silva’s earnings were paid in Brazilian real and US dollars. For the purposes of this annual report, values have been
converted to South African rands using the monthly average rates of exchange.
Remuneration report continued

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Executive directors' and executive officers' remuneration – 2006

Pre-tax
Appointed Resigned/
Perform-
Pension
gains on
with retired
ance
scheme
share
effect with effect
related
contri-
Other Encashed
Sub
options
All figures in R000
from
(1)
from
(1)
Salary payments
(2)
butions
benefits
(3)
leave
(4)
total
exercised
(5)
Total
Executive directors'
remuneration 2006
RM Godsell (Chief
Executive
Officer)
6,334 2,400 935
63
– 9,732 2,197
11,929
R
Carvalho
Silva
5,159 1,165 2,088
50 437 8,899
– 8,899
NF
Nicolau
3,692

1,165 561 24 143
5,585 3,452
9,037
S
Venkatakrishnan
3,801
1,165
646 – –
5,613 –
5,613
KH Williams
6 May 06
1,186
–
175
88
–
1,449
–
1,449
20,171 5,895 4,406 226 580
31,278 5,649
36,927
Executive officers'
remuneration 2006
Representing 16
executive officers
29,410 6,658 3,208 1,419 265
40,960 7,461
48,421
Total executive directors
and executive officers
remuneration – 2006
49,581
12,553 7,614 1,645 845
72,238 13,110
85,348
(1)
Salaries are disclosed only for the period from or to which, office is held.
(2)
In order to more accurately disclose remuneration received/receivable by executive directors and executive officers, the tables above
include the performance related payments calculated on the year's financial results.
(3)
Includes health care, personal travel and relocation expenses.
(4)
In 2005, AngloGold Ashanti altered its policy regarding the number of leave days that may be accrued. As a result, surplus leave days
accrued are compulsorily encashed.
(5)

On exercising of options granted in terms of the AngloGold share incentive scheme, Messrs Godsell and Nicolau applied proceeds
from the sale of the shares to acquire 3,833 (2005: 8,717) and 2,900 AngloGold Ashanti shares respectively.

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Annual Financial Statements 2007
Share incentive schemes
Options and rights to subscribe for ordinary shares in the company granted to, and exercised by, executive directors, executive officers/
management and other managers during the year to 31 December 2007 and subsequent to year-end.
Executive directors, executive officers/management and other managers
M Cutifani
RM Godsell
Granted and outstanding at 1 January, 2007
Number –
R
–
259,925
Granted during the year
Number –
R
–
32,540
Exercised during the year
Number –
R
–
147,728
Pre-tax gain after expenses at date of exercise
– R000
–
35,664
Lapsed during the year
Number –
R
–
78,737
Held at 31 December 2007
Number –
R
–
66,000
Subsequent to year-end
(to 31 January 2008)
Exercised
Number –
R
–
–
Pre-tax gain after expenses at date of exercise
– R000
–
–
Lapsed
Number –

R
–
–
Held at 31 January 2008
Number –
R
–
66,000
Latest expiry date
–
30 Sep 2008
Of the 3,314,253 options and rights granted and outstanding at 31 December 2007, 1,845,160 options are fully vested, and
208,551 options vest on 4 May 2008 in terms of the BSP, while 105,640 options vest on 4 May 2008 with 158,460 options lapsing in
terms of the LTIP.
For the average weighted exercise/issue price per share, refer to the section on 'Options and rights' in the Directors' report on page 154.
#
Venkat refers to S Venkatakrishnan.
Remuneration report continued

169
Total
executive
Total
officers/
Total
Total
R Carvalho Silva
NF Nicolau
Venkat#
directors
management
other
scheme
69,160
53,380
29,590
412,055
508,225
3,279,540
4,199,820
15,806
15,806
15,806
79,958
100,391
450,410
630,759
37,096
23,400
–
208,224
72,552
901,106
1,181,882
4,574
2,367
–
42,605
11,484
87,538
141,627
41,870
–
–
120,607
12,698
201,139
334,444
6,000
45,786

45,396
163,182
523,366
2,627,705
3,314,253

–	–	–	–	–		

205,632
205,632

–	–	–	–	–	–	

–

–	–	–	–	–	–	–

6,000
45,786
45,396
163,182
523,366
2,422,073
3,108,621
30 Sep 2008
12 Nov 2008
15 Mar 2017
15 Mar 2017
15 Mar 2017

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Annual Financial Statements 2007
SA Rands
US Dollars
2006
2007
Figures in million
Notes
2007
2006
21,104
24,383
Revenue
3
3,472
3,106
20,137
23,052
Gold income
2,3
3,280
2,964
(15,482)
(18,495)
Cost of sales
4
(2,636)
(2,282)
Loss on non-hedge derivatives and other commodity
(1,955)
(5,081)
contracts
39
(780)
(239)
2,700
(524)
Gross (loss) profit
(136)
443
(567)
(885)
Corporate administration and other expenses
(126)
(84)
(108)
(115)
Market development costs
(16)
(16)
(417)

(839)
Exploration costs
(120)
(61)
(129)
(134)
Other operating expenses
5
(20)
(18)
(130)
(139)
Operating special items
6
(21)
(18)
1,349
(2,636)
Operating (loss) profit
(439)
246
–
16
Dividend received from other investments
3
2
–
218
312
Interest received
3
45
32
(17)
4
Exchange gain (loss)
1
(2)
137
333
Fair value adjustment on option component of convertible bond
47
16
(822)
(880)
Finance costs and unwinding of obligations
7
(125)
(123)
(6)
(164)

Share of associates' loss
8
(23)
(1)
859
(3,015)
(Loss) profit before taxation
9
(492)
168
(1,232)
(1,039)
Taxation
12
(145)
(180)
(373)
(4,054)
Loss after taxation from continuing operations
(637)
(12)
Discontinued operations
(12)
7
Profit (loss) from discontinued operations
13
1
(2)
(385)
(4,047)
Loss for the year
(636)
(14)
Allocated as follows
(587)
(4,269)
Equity shareholders
(668)
(44)
202
222
Minority interest
32
30
(385)
(4,047)
(636)
(14)
Basic and diluted (loss) profit per ordinary share (cents)
14
(211)

(1,519)
Loss from continuing operations
(237)
(15)
(4)
3
Profit (loss) from discontinued operations
–
(1)
(215)
(1,516)
Loss
(237)
(16)
Dividends
(1)
15
450
143
Dividends declared per ordinary share (cents)
20
62
(1)
Dividends are translated at actual rates on date of payment. The current period US dollar amount is an indicative amount only.
Group income statement
For the year ended 31 December

171

SA Rands
US Dollars
2006
2007
Figures in million
Notes
2007
2006
ASSETS
Non-current assets
42,382
45,783
Tangible assets
16
6,722
6,054
2,909
2,996
Intangible assets
17
440
415
300
140
Investments in associates
18
21
43
884
795
Other investments
19
117
126
2,006
2,217
Inventories
21
325
287
405
566
Trade and other receivables
23
83
58
45 –
Derivatives
39
–

6
432
543
Deferred taxation
33
80
62
313
278
Other non-current assets
22
41
44
49,676
53,318
7,829
7,095
Current assets
3,424
4,603
Inventories
21
676
489
1,300
1,587
Trade and other receivables
23
233
185
4,546
3,516
Derivatives
39
516
649
5
2
Current portion of other non-current assets
22
–
1
75
264
Cash restricted for use
24
39
11
3,467
3,381
Cash and cash equivalents

25
496
495
12,817
13,353
1,960
1,830
123
210
Non-current assets held for sale
26
31
18
12,940
13,563
1,991
1,848
62,616
66,881
Total assets
9,820
8,943
EQUITY AND LIABILITIES
22,083
22,371
Share capital and premium
27
3,285
3,154
(1,188)
(6,167)
Retained earnings and other reserves
28
(906)
(169)
20,895
16,204
Shareholders' equity
2,379
2,985
436
429
Minority interests
29
63
62
21,331
16,633
Total equity
2,442
3,047

Non-current liabilities
9,963
10,441
Borrowings
30
1,533
1,423
2,785
3,361
Environmental rehabilitation and other provisions
31
494
398
1,181
1,208
Provision for pension and post-retirement benefits
32
177
169
150
79
Trade, other payables and deferred income
34
12
21
1,984
1,110
Derivatives
39
163
283
7,722
7,159
Deferred taxation
33
1,051
1,103
23,785
23,358
3,430
3,397
Current liabilities
413
2,309
Current portion of borrowings
30
339
59
3,701
4,549
Trade, other payables and deferred income

34
668
528
12,152
18,763
Derivatives
39
2,755
1,736
1,234
1,269
Taxation
35
186
176
17,500
26,890
3,948
2,499
41,285
50,248
Total liabilities
7,378
5,896
62,616
66,881
Total equity and liabilities
9,820
8,943
Group balance sheet
As at 31 December

172
Annual Financial Statements 2007
SA Rands
US Dollars
2006
2007
Figures in million
Notes
2007
2006
Cash flows from operating activities
21,237
24,059
Receipts from customers
3,424
3,134
(12,438)
(16,144)
Payments to suppliers and employees
(2,303)
(1,853)
8,799
7,915
Cash generated from operations
36
1,121
1,281
(6)
(14)
Cash utilised by discontinued operations
(2)
(1)
–
1
Dividends received from associates
–
–
(968)
(1,664)
Taxation paid
35
(237)
(143)
7,825
6,238
Net cash inflow from operating activities
882
1,137
Cash flows from investing activities
Capital expenditure
(2,117)

(3,440)
– project expenditure
16
(489)
(313)
(3,416)
(3,758)
– stay-in-business expenditure
(535)
(504)
–
(284)
Acquisition of assets from Trans-Siberian Gold plc
37
(40)
–
393
197
Proceeds from disposal of tangible assets
29
57
63
9
Proceeds from disposal of assets of discontinued operations
1
9
(471)
(190)
Other investments acquired
(27)
(71)
(63)
1
Associate loans and acquisitions
–
(9)
449
174
Proceeds from disposal of investments
25
66
–
16
Dividend received from other investments
3
2
–
(19)
(177)
Increase in cash restricted for use
(25)

(3)
173
260
Interest received
37
25
(5)
(7)
Loans advanced
(1)
(1)
38
10
Repayment of loans advanced
1
6
(4,975)
(7,189)
Net cash outflow from investing activities
(1,022)
(738)
Cash flows from financing activities
3,068
247
Proceeds from issue of share capital
34
512
(32)
(4)
Share issue expenses
–
(5)
1,525
6,111
Proceeds from borrowings
870
226
(3,957)
(3,932)
Repayment of borrowings
(560)
(623)
(586)
(511)
Finance costs paid
(73)
(88)
(913)
(1,050)
Dividends paid
(144)

(132)
(895)
861
Net cash inflow (outflow) from financing activities
127
(110)
1,955
(90)
Net (decrease) increase in cash and cash equivalents
(13)
289
184
4
Translation
14
(3)
1,328
3,467
Cash and cash equivalents at beginning of year
495
209
3,467
3,381
Cash and cash equivalents at end of year
25
496
495
Group cash flow statement
For the year ended 31 December

173
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
283
(99)
Actuarial (loss) gain on pension and post-retirement benefits (note 28)
(14)
42
Net loss on cash flow hedges removed from equity and reported
1,274
1,421
in gold sales (notes 28 and 29)
202
217
(1,604)
(1,173)
Net loss on cash flow hedges (notes 28 and 29)
(168)
(229)
–
69
Hedge ineffectiveness (note 28)
10
–
78
8
Gain on available-for-sale financial assets (note 28)
1
12
50
36
Deferred taxation on items above (note 28)
5
8
2,292
(169)
Translation (notes 28 and 29)
6
281
2,373
93
Net income recognised directly in equity
42
331
(385)
(4,047)

Loss for the year
(636)
(14)
1,988
(3,954)
Total recognised (expense) income for the year
(594)
317
Attributable to
1,755
(4,169)
Equity shareholders
(627)
289
233
215
Minority interest
33
28
1,988
(3,954)
(594)
317
Group statement of recognised income and expense
For the year ended 31 December

1
Accounting policies
Statement of compliance
The consolidated and company financial statements are prepared in compliance with International Financial Reporting Standards
(IFRS) and Interpretations of those standards, as adopted by the International Accounting Standards Board (IASB) and applicable
legislation.
During the current financial year, the following new and revised accounting standards, amendments to standards and new
interpretations were adopted by AngloGold Ashanti Limited:
IAS1
Amendment – Capital Disclosures
IFRS 7
Financial Instruments: Disclosures
In addition, the following revised accounting standard and new interpretations were early adopted by AngloGold Ashanti Limited
during the current financial year:
IAS 23
Borrowing Costs (revised)
IFRIC 11
IFRS 2 – Group and Treasury Share Transactions
IFRIC 12
Service Concession Arrangements
IFRIC 13
Customer Loyalty Programmes
IFRIC 14
IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
The adoption of the accounting standards, amendments to standards and new interpretations had no material financial impact on
the annual financial statements identified above.
The following accounting standards, amendments to standards and new interpretations, which are not yet mandatory for
AngloGold Ashanti Limited, have not been adopted in the current year:
IAS 1
Presentation of Financial Statements
Effective years beginning on or after 1 January 2009
IFRS 8
Operating Segments
Effective years beginning on or after 1 January 2009
The group has assessed the significance of these new standards, amendments to standards and new interpretations, which will
be applicable from 1 January 2009 and later years and concluded that they will have no material financial impact. Currently, we do
not expect IFRS 8 to have an impact on the geographic segments definition but may have an impact on the amounts reported
using the requirement to report data as reported to the Chief Operating Decision Maker, when adopted.

1.1

Basis of preparation

The financial statements are prepared according to the historical cost accounting convention, except for the revaluation
of certain financial instruments to fair value. The group's accounting policies as set out below are consistent in all material
respects with those applied in the previous year, except for the adoption of the new and revised standards mentioned above.

AngloGold Ashanti presents its consolidated financial statements in South African rands and US dollars for the benefit of
local and international investors. The functional currency of a significant portion of the group's operations is the South
African rand. Other main subsidiaries have functional currencies of US dollars and Australian dollars.

Basis of consolidation

The group financial statements incorporate the financial statements of the company, its subsidiaries and its proportionate
interest in joint ventures.

The financial statements of subsidiaries, the Environmental Rehabilitation Trust Fund and joint ventures, are prepared for
the same reporting period as the holding company, using the same accounting policies, except for Rand Refinery Limited
which reports on a three-month time lag. Adjustments are made to the subsidiary financial results for material transactions
and events in the intervening period.

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1
Accounting policies (continued)
1.1
Basis of preparation (continued)
Basis of consolidation (continued)
Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial
and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence
and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether
the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the
group. They are de-consolidated from the date on which control ceases.
The acquisition of minority interests are reflected as an equity transaction. The entire difference between the cost of the
additional interest and the minority's share at the date of acquisition is reflected as a transaction between owners.
Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are
eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset
transferred.
Subsidiaries are accounted for at cost and are adjusted for impairments where appropriate in the company financial
statements.
1.2
Changes in accounting policies
The adoption of the following new/revised standards, amendments to standards and interpretations did not have any
consequential effect on the accounting policies:
IAS1
Amendment – Capital Disclosures
IAS 23
Borrowing Costs (revised)
IFRS 7
Financial Instruments: Disclosures
IFRIC 11
IFRS 2 – Group and Treasury Share Transactions
IFRIC 12
Service Concession Arrangements
IFRIC 13
Customer Loyalty Programmes
IFRIC 14
IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
IAS 1 Amendment – Capital Disclosures
The group adopted IAS 1 Amendment – Capital Disclosures as of 1 January 2007. The amendment requires additional
disclosures about the group's objectives, policies and processes of managing capital. The adoption of the amendment
did not have any effect on the financial position or performance of the group.
IAS 23 Borrowing Costs (revised)
The group adopted IAS 23 – Borrowing Costs (revised) as of 1 January 2007. This revision to the standard will have no
financial effect on the results of operation or the reporting of the financial condition of AngloGold Ashanti Limited as the

group had already adopted the capitalisation of interest principle for qualifying assets under the allowed alternative of the
previous statement.

IFRS 7 Financial Instruments: Disclosures

The group adopted IFRS 7 – Financial instruments: Disclosures as of 1 January 2007. The statement introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative
information about the exposure to risks arising from financial instruments including a sensitivity analysis to market risk.

The adoption of the statement did not have any effect on the financial position or performance of the group.

1
Accounting policies (continued)
1.2
Changes in accounting policies (continued)
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
The group elected to adopt IFRIC Interpretation 11 as of 1 January 2007. This interpretation requires arrangements whereby an employee of the group is granted rights, by the parent, to an entity or its parent's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders
provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position
or performance of the group.
IFRIC 12 Service Concession Arrangements
The group elected to adopt IFRIC Interpretation 12 as of 1 January 2007. This interpretation requires arrangements where a
public-to-private service concession has been established to be accounted for as balance sheet assets and liabilities at inception. The adoption of this interpretation did not have any effect on the financial position or performance of the group.
IFRIC 13 Customer Loyalty Programmes
The group elected to adopt IFRIC Interpretation 13 as of 1 January 2007. This interpretation requires the entity that grants
the customer loyalty award to account for the sales transaction that gives rise to the award credits as a "multiple element
revenue transaction" and allocate the fair value between the award credits granted and the other components of the revenue transaction. The adoption of this Interpretation did not have any effect on the financial position or performance
of the group.
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
The group elected to adopt IFRIC Interpretation 14 as of 1 January 2007. This interpretation requires the entity to measure
any economic benefits available to it in the form of refunds or reductions in future contributions at the maximum amount that
is consistent with the terms and conditions of the plan, when determining the limit on a defined benefit asset. The adoption
of this interpretation did not have any effect on the financial position or performance of the group.
1.3
Significant accounting judgements and estimates
Use of estimates: The preparation of the financial statements requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at
the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.
The determination of estimates requires the exercise of judgement based on various assumptions and other factors such
as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.
The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that

are the basis of future cash flow estimates and unit-of-production depreciation, depletion and amortisation calculations;

environmental, reclamation and closure obligations; estimates of recoverable gold and other materials in heap leach pads;

asset impairments (including impairments of goodwill), write-downs of inventory to net realisable value;

post-employment,

post-retirement and other employee benefit liabilities; the fair value and accounting treatment of financial instruments and

deferred taxation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
As a global company, the group is exposed to numerous legal risks. The outcome of currently pending and future proceedings cannot be predicted with certainty. Thus, an adverse decision in a lawsuit could result in additional costs that
are not covered, either wholly or partly, under insurance policies and that could significantly influence the business and
results of operations.
The judgements that management have applied in the application of accounting policies, and the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities
within the next financial year are discussed below.
Carrying value of goodwill and tangible assets
All mining assets are amortised using the units-of-production method where the mine operating plan calls for production
from well-defined mineral reserves over proved and probable reserves.
For mobile and other equipment, the straight-line method is applied over the estimated useful life of the asset which does
not exceed the estimated mine life based on proved and probable mineral reserves as the useful lives of these assets are
considered to be limited to the life of the relevant mine.
The calculation of the units-of-production rate of amortisation could be impacted to the extent that actual production in the
future is different from current forecast production based on proved and probable mineral reserves. This would generally arise
when there are significant changes in any of the factors or assumptions used in estimating mineral reserves.
These factors could include:
changes in proved and probable mineral reserves;
the grade of mineral reserves may vary significantly from time to time;
differences between actual commodity prices and commodity price assumptions;
unforeseen operational issues at mine sites;
changes in capital, operating, mining, processing and reclamation costs, discount rates and foreign exchange rates; and
changes in mineral reserves could similarly impact the useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the mine.
The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the gold price assumption may change which may then impact the estimated
life of mine determinant and may then require a material adjustment to the carrying value of goodwill and tangible assets.
The group defers stripping costs incurred during the production stage of its open-pit operations, for those operations, where this is the most appropriate basis for matching the costs against the related economic benefits. This is generally the case where there are fluctuations in stripping costs over the life of the mine.
In the production stage of some open-pit operations, further development of the mine requires a phase of unusually high
overburden removal activity that is similar in nature to preproduction mine development. The costs of such unusually high

overburden removal activity are deferred and charged against reported profits in subsequent periods on a units-of-production basis. This accounting treatment is consistent with that for stripping costs incurred during the development phase of a mine, before production commences.

1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
Carrying value of goodwill and tangible assets (continued)
If the group were to expense production stage stripping costs as incurred, this would result in volatility in the year to
year
results from open-pit operations and excess stripping costs would be expensed at an earlier stage of a mine's operation.
Deferred stripping costs are included in 'Mine development costs', within Tangible assets. These form part of the total
investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in
circumstances
indicate that the carrying value may not be recoverable. Amortisation of deferred stripping costs is included in
operating
costs, or in the group's share of the results of its equity accounted units, as appropriate.
The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the
carrying
amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped
at the
lowest level for which identifiable cash flows are largely independent of cash flows of other assets. If there are
indications that
impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.
Expected
future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could
materially change over time. They are significantly affected by a number of factors including published reserves,
resources,
exploration potential and production estimates, together with economic factors such as spot and future gold prices,
discount
rates, foreign currency exchange rates, estimates of costs to produce reserves and future capital expenditure.
An individual operating mine is not a typical 'going-concern' business because of the finite life of its reserves. The
allocation of goodwill to an individual mine will result in an eventual goodwill impairment due to the wasting nature
of the
mine reporting unit. In accordance with the provisions of IAS 36, the group performs its annual impairment review of
assigned goodwill during the fourth quarter of each year.
The carrying amount of goodwill in the consolidated financial statements at 31 December 2007 was $418m, R2,844m
(2006: $391m, R2,739m). The carrying amount of tangible assets at 31 December 2007 was $6,722m, R45,783m
(2006:
$6,054m, R42,382m). There is no goodwill in the company financial statements. The carrying amount of the
company's
tangible assets at 31 December 2007 was R13,297m (2006: R12,484m).
Production start date
The group assesses the stage of each mine construction project to determine when a mine moves into the production
stage. The criteria used to assess the start date are determined by the unique nature of each mine construction project
and include factors such as the complexity of a plant and its location. The group considers various relevant criteria to
assess when the mine is substantially complete and ready for its intended use and moves into the production stage.
Some of the criteria would include but are not limited to the following:
the level of capital expenditure compared to the construction cost estimates;
completion of a reasonable period of testing of the mine plant and equipment;

ability to produce gold in saleable form (within specifications and the de minimis rule); and
ability to sustain ongoing production of gold.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs
ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, underground mine development or reserve development.

Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations
for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax
outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income
tax and deferred tax provisions in the period in which such determination is made.

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1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
Income taxes (continued)
The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that
the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income
tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of
future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the
group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.
Additionally, future changes in tax laws in the jurisdictions in which the group operates could limit the ability of the group
to obtain tax deductions in future periods.
Carrying values of the group at 31 December 2007:
– deferred tax asset: $80m, R543m (2006: $62m, R432m)
– deferred tax liability: $1,051m, R7,159m (2006: $1,103m, R7,722m)
– taxation liability: $186m, R1,269m (2006: $176m, R1,234m)
Carrying values of the company at 31 December 2007:
– deferred tax liability: R1,888m (2006: R2,197m)
– taxation liability: R591m (2006: R561m)
Provision for environmental rehabilitation obligations
The group's mining and exploration activities are subject to various laws and regulations governing the protection of the
environment. The group recognises management's best estimate for decommissioning and restoration obligations in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates.
Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect
the carrying amount of this provision. Such changes could similarly impact the useful lives of assets depreciated on a straight-line-basis, where those lives are limited to the life of mine.
The carrying amount of the rehabilitation obligations for the group at 31 December 2007 was $446m, R3,036m (2006: $361m, R2,525m). The carrying amount of the rehabilitation obligations for the company at 31 December 2007 was R882m (2006: R1,087m).
Stockpiles, gold in process, ore on leach pad and product inventories
Costs that are incurred in or benefit the production process are accumulated as stockpiles, gold in process, ore on leach pads and product inventories. Net realisable value tests are performed at least annually and represent the estimated future
sales price of the product, based on prevailing and long-term metals prices, less estimated costs to complete production
and bring the product to sale.
Stockpiles and underground gold in process are measured by estimating the number of tonnes added and removed from
the stockpile and from underground, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile and underground ore tonnages are verified by
periodic surveys.

1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
Stockpiles, gold in process, ore on leach pad and product inventories (continued)
Although the quantities of recoverable metal are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to precisely monitor recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates
are refined based on actual results over time.
The carrying amount of inventories for the group at 31 December 2007 was $1,001m, R6,820m (2006: $776m, R5,430m). The carrying amount of inventories for the company at 31 December 2007 was R476m (2006: R405m).
Recoverable tax, rebates, levies and duties
In a number of countries, particularly in Africa, AngloGold Ashanti Limited is due refunds of input tax which remain outstanding for periods longer than those provided for in the respective statutes.
In addition, AngloGold Ashanti Limited has unresolved tax disputes in a number of countries, particularly in Tanzania and
Mali. If the outstanding input taxes are not received and the tax disputes are not resolved in a manner favourable to AngloGold Ashanti Limited, it could have an adverse effect upon the carrying value of these assets.
The carrying value for the group at 31 December 2007 was $168m, R1,140m (2006: $124m, R872m). The carrying value
for the company at 31 December 2007 was R115m (2006: R49m).
Pension plans and post-retirement medical aid obligations
The determination of AngloGold Ashanti's obligation and expense for pension and provident funds, as well as post-retirement health care liabilities, depends on the selection of certain assumptions used by actuaries to calculate amounts.
These assumptions include, among others, the discount rate, the expected long-term rate of return of plan assets, health
care inflation costs, rates of increase in compensation costs and the number of employees who reach retirement age before the mine reaches the end of its life. While AngloGold Ashanti believes that these assumptions are appropriate, significant changes in the assumptions may materially affect pension and other post-retirement obligations as well as future expenses, which may result in an impact on earnings in the periods that the changes in these assumptions occur.
The carrying value of the defined benefit plans (including the net asset position disclosed under non-current assets) at 31 December 2007 was $138m, R944m (2006: $129m, R896m). The corresponding balance for the company at 31 December 2007 was R877m (2006: R827m).
Ore Reserve estimates
Ore Reserves are estimates of the amount of product that can be economically and legally extracted from the group's properties. In order to calculate Ore Reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.
Estimating the quantity and/or grade of Ore Reserves requires the size, shape and depth of orebodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.
The group is required to determine and report Ore Reserves in accordance with the SAMREC code.

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1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
Ore Reserve estimates (continued)
Because the economic assumptions used to estimate Ore Reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of Ore Reserves may change from period to period. Changes in reported Ore Reserves may affect the group's financial results and financial position in a number of ways, including the following:
asset carrying values may be affected due to changes in estimated future cash flows;
depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the units-of-production basis, or where the useful economic lives of assets change;
overburden removal costs recorded on the balance sheet or charged in the income statement may change due to changes in stripping ratios or the units-of-production basis of depreciation;
decommissioning site restoration and environmental provisions may change where changes in estimated Ore Reserves affect expectations about the timing or cost of these activities; and
the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.
Exploration and evaluation expenditure
The group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation. This policy requires
management to make certain estimates and assumptions as to future events and circumstances, in particular whether an
economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.
The carrying value of capitalised exploration assets at 31 December 2007 was $55m, R372m (2006: $30m, R211m).
The corresponding balances for the company at 31 December 2007 was nil (2006: nil).
Development expenditure
Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist such that development may be sanctioned. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any
such estimates and assumptions may change as new information becomes available. If, after having started the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written
off to the income statement.
Share-based payments
The group issues equity-settled share-based payments to certain employees and third parties outside the group. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the group's estimate of the shares that will eventually vest and
adjusted for the effect of non-market-based vesting conditions.
Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.
The income statement charge for the year was $33m, R232m (2006: $50m, R344m). The corresponding charge in the

company was R216m (2006: R331m).

1
Accounting policies (continued)
1.3
Significant accounting judgements and estimates (continued)
Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment
of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.
Litigation and other judicial proceedings as a rule raise difficult and complex legal issues and are subject to uncertainties
and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each suit is brought and differences in applicable law. Upon resolution of any pending legal matter,
the group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the group could be materially affected by the unfavourable outcome of litigation.
1.4
Summary of significant accounting policies
Joint ventures
A joint venture is an entity in which the group holds a long-term interest and which the group and one or more other venturers jointly control under a contractual arrangement, that provides for strategic, financial and operating policy decisions relating to the activities requiring unanimous consent of the parties sharing control. The group's interests in jointly controlled entities are accounted for by proportionate consolidation on a line-by-line basis.
The group does not recognise its share of profits or losses that result from the group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides
evidence of a reduction in the net realisable value of current assets, or an impairment loss.
Joint ventures are accounted for at cost and are adjusted for impairments where appropriate in the company financial statements.
Associates
The equity method of accounting is used for an investment over which the group exercises significant influence and normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the effective date of acquisition to the effective date of disposal.
As the group only has significant influence, it is unable to obtain reliable information at year end on a timely basis. The
results of associates are equity accounted from their most recent audited annual financial statements or unaudited interim
financial statements, all within three months of the year end of the group. Adjustments are made to the associates' financial results for material transactions and events in the intervening period. Any losses of associates are brought to account in the consolidated financial statements until the investment in such associates is written down to zero. Thereafter, losses are accounted for only insofar as the group is committed to providing financial support to such associates.
The carrying values of the investments in associates represent the cost of each investment, including goodwill, balance outstanding on loans advanced, any impairment losses recognised, the share of post-acquisition retained earnings and losses, and any other movements in reserves. The carrying value of associates is reviewed on a regular basis and if any impairment in value has occurred, it is recognised in the period in which these circumstances are identified.

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1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Associates (continued)
Profits realised in connection with transactions between the group and associated companies are eliminated in proportion
to share ownership. Such profits are deducted from the group's equity and related balance sheet amount and released in the group accounts when the assets are effectively realised outside the group. Associates are accounted for at cost and are adjusted for impairments where appropriate in the company financial statements.
Foreign currency translation
Functional currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary
economic environment in which the entity operates (the 'functional currency').
Transactions and balances
Foreign currency transactions are translated into the functional currency using the approximate exchange rates prevailing
at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for derivative balances that are within the scope of IAS
39. Translation differences on these balances are reported as part of their fair value gain or loss.
Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as
part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-
for-sale financial assets, are included in other comprehensive income in equity.
Group companies
The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that
have a functional currency different from the presentation currency are translated into the presentation currency as follows:
equity items other than retained earnings are translated at the closing rate on each balance sheet date;
retained earnings are converted at historical average exchange rates;
assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
income and expenses for each income statement presented are translated at monthly average exchange rates
(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the
transaction dates, in which case income and expenses are translated at the rates prevailing at the date of the transaction); and
all resulting exchange differences are recognised as a separate component of equity (foreign currency translation).
Exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other
currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. For the company, the exchange differences on such monetary items are reported in the company income statement.
When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of

the foreign operation and translated at the closing rate.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Management has determined that the group operates primarily in one segment, gold. A geographical segment provides products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.
Tangible assets
Tangible assets are recorded at cost less accumulated amortisation and impairments. Cost includes pre-production expenditure incurred during the development of a mine and the present value of related future decommissioning costs. Interest on borrowings relating to the financing of major capital projects under construction is capitalised during the construction phase as part of the cost of the project. Such borrowing costs are capitalised over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalisation ceases when construction is interrupted for an extended period or when the asset is substantially complete. Other borrowing costs are expensed as incurred.
If there is an indication that the recoverable amount of any of the tangible assets is less than the carrying value, the recoverable amount is estimated and an allowance is made for the impairment in value.
Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the group, and the cost of the addition can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
To the extent a legal or constructive obligation to a third party exists, the acquisition cost includes estimated costs of dismantling and removing the asset and restoring the site. A change in estimated expenditures for dismantling, removal
and restoration is added to and/or deducted from the carrying value of the related asset. To the extent that the change would result in a negative carrying amount, this effect is recognised as income. The change in depreciation charge is recognised prospectively.
Amortisation of assets is calculated to allocate the cost of each asset to its residual value over its estimated useful life for
those assets not amortised on the units-of-production method as follows:
buildings up to life of mine;
plant and machinery up to life of mine;
equipment and motor vehicles up to five years;
computer equipment up to three years; and
leased assets over the period of the lease.
Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
Gains and losses on disposals are determined by comparing net sale proceeds with the carrying amount. These are included in the income statement.

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1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Tangible assets (continued)

Mine development costs

Capitalised mine development costs include expenditure incurred to develop new orebodies, to define further mineralisation in existing orebodies and to expand the capacity of a mine. Where funds have been borrowed specifically
to finance a project, the amount of interest capitalised represents the actual borrowing costs incurred. Mine development
costs include acquired proved and probable Mineral Resources at cost at the acquisition date.

Depreciation, depletion and amortisation of mine development costs are computed by the units-of-production method based on estimated proved and probable mineral reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These
reserves are amortised from the date on which commercial production begins.

Stripping costs incurred in open-pit operations during the production phase to remove additional waste are charged to operating costs on the basis of the average life of mine stripping ratio and the average life of mine costs per tonne. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of
mine per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the orebody, divided by the number of tonnes expected to be mined. The average life of mine stripping
ratio and the average life of mine cost per tonne are recalculated annually in the light of additional knowledge and changes
in estimates.

The cost of the “excess stripping” is capitalised as mine development costs when the actual mining costs exceed the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonnes multiplied by the
average life of mine stripping ratio, multiplied by the life of mine cost per tonne. When the actual mining costs are below
the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonne multiplied by
the average life of mine stripping ratio, multiplied by the life of mine cost per tonnes, previously capitalised costs are expensed to increase the cost up to the average.

The cost of stripping in any period will be reflective of the average stripping rates for the orebody as a whole. Changes in
the life of mine stripping ratio are accounted for prospectively as a change in estimate.

Mine infrastructure

Mine plant facilities, including decommissioning assets, are amortised using the lesser of their useful life or units-of-production method based on estimated proved and probable mineral reserves. Other tangible assets comprising vehicles
and computer equipment, are depreciated by the straight-line method over their estimated useful lives.

Land

Land is not depreciated and is measured at historical cost less impairments.

Mineral rights and dumps

Mineral rights are amortised using the units-of-production method based on estimated proved and probable mineral reserves. Dumps are amortised over the period of treatment.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Mine development costs (continued)
Exploration and Evaluation assets
All exploration costs are expensed until the directors conclude that a future economic benefit will more likely than not be
realised. In evaluating if expenditures meet this criterion to be capitalised, the directors use several different sources of information depending on the level of exploration. While the criterion for concluding that expenditure should be capitalised
is always probable, the information that the directors use to make that determination depends on the level of exploration.
Costs on greenfields sites, being those where the group does not have any mineral deposits which are already being mined or developed, are expensed as incurred until the directors are able to demonstrate that future economic benefits are probable, which generally will be the establishment of proved and probable reserves at this location.
Costs on brownfields sites, being those adjacent to mineral deposits which are already being mined or developed, are expensed as incurred until the directors are able to demonstrate that future economic benefits are probable, which generally will be the establishment of increased proved and probable reserves after which the expenditure is capitalised as a mine development cost.
Costs relating to extensions of mineral deposits, which are already being mined or developed, including expenditure on the definition of mineralisation of such mineral deposits, is capitalised as a mine development cost.
Costs relating to property acquisitions are capitalised within development costs.
Intangible assets
Acquisition and goodwill arising thereon
Where an investment in a subsidiary, joint venture or an associate is made, any excess of the purchase price over the fair
value of the attributable mineral reserves including value beyond proved and probable, exploration properties and net assets is recognised as goodwill. Goodwill in respect of subsidiaries and proportionately consolidated joint ventures is disclosed as goodwill. Goodwill relating to associates is included within the carrying value of the investment in associates
and tested for impairment when indicators exist.
Goodwill relating to subsidiaries and joint ventures is tested annually for impairment and carried at cost less accumulated
impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the
entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.
Royalty rate concession
Royalty rate concession with the government of Ghana was capitalised at fair value at agreement date. Fair value represents a present value of future royalty rate concessions over 15 years. The royalty rate concession has been assessed to have a finite life and is amortised on a straight-line method over a period of 15 years, the period over which
the concession runs. The related amortisation expense is charged through the income statement. This intangible asset is
also tested for impairment when there is an indicator of impairment.
Impairment of assets

Intangible assets that have an indefinite useful life and separately recognised goodwill are not subject to amortisation and
are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-
generating units).

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Impairment of assets (continued)
Impairment calculation assumptions include life of mine plans based on prospective reserves and resources,
management's estimate of the future gold price, based on current market price trends, foreign exchange rates, and a
pre-
tax discount rate adjusted for country and project risk. It is therefore reasonably possible that changes could occur
which
may affect the recoverability of tangible and intangible assets.
Leased assets
Assets subject to finance leases are capitalised at the lower of fair value or present value of minimum lease payments
measured at inception of the lease with the related lease obligation recognised at the same amount. Capitalised leased
assets are depreciated over the shorter of their estimated useful lives and the lease term. Finance lease payments are
allocated using the rate implicit in the lease, which is included in finance costs, and the capital repayment, which
reduces
the liability to the lessor.
Operating lease rentals are charged against operating profits in a systematic manner related to the period the assets
concerned will be used.
Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered
principally
through a sale transaction rather than through continuing use. This condition is regarded as having been met only
when
the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.
Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale
within one year from the date of classification.
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous
carrying
amount and fair value less costs to sell.
Exploration and research expenditure
Pre-licence costs are recognised in profit or loss as incurred. Exploration and research expenditure is expensed in the
year in which it is incurred. These expenses include: geological and geographical costs, labour, mineral resources and
exploratory drilling costs.
Inventories
Inventories are valued at the lower of cost and net realisable value after appropriate allowances for redundant and slow
moving items. Cost is determined on the following bases:
gold in process is valued at the average total production cost at the relevant stage of production;
gold doré / bullion is valued on an average total production cost method;
ore stockpiles are valued at the average moving cost of mining and stockpiling the ore. Stockpiles are classified as a
non-current asset where the stockpile exceeds current processing capacity;
by-products, which include uranium oxide and sulphuric acid are valued on an average total production cost method.
By-products are classified as a non-current asset where the by-products on hand exceed current processing
capacity;
mine operating supplies are valued at average cost; and
heap leach pad materials are measured on an average total production cost basis. The cost of materials on the leach
pad from which gold is expected to be recovered in a period longer than 12 months is classified as a non-current asset.
A portion of the related depreciation, depletion and amortisation charge is included in the cost of inventory.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Provisions
Provisions are recognised when the group has a present obligation, whether legal or constructive, because of a past event
for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
and a reliable estimate can be made of the amount of the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised only when the reimbursement is virtually certain. The amount to be reimbursed is recognised as a separate asset. Where the group has
a joint and several liability with one or more other parties, no provision is recognised to the extent that those other parties
are expected to settle part or all of the obligation.
Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.
Litigation and administrative proceedings are evaluated on a case-by-case basis considering the information available, including that of legal counsel, to assess potential outcomes. Where it is considered probable that an obligation will result
in an outflow of resources, a provision is recorded for the present value of the expected cash outflows if these are reasonably measurable. These provisions cover the estimated payments to plaintiffs, court fees and the cost of potential
settlements.
AngloGold Ashanti Limited does not recognise a contingent liability on its balance sheet except in a business combination.
A contingent liability is disclosed when the possibility of an outflow of resources embodying economic benefits is not remote.
Borrowed commodities
When commodities are borrowed to meet contractual commitments, the fair value at inception is charged to the income
statement as cost of sales, and it is reflected as a liability on the balance sheet. The liability is subsequently measured at
fair value with changes in fair value recorded through the income statement until settlement occurs.
Employee benefits
Pension obligations
Group companies operate various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit
that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and
compensation.
A defined contribution plan is a pension scheme under which the group pays fixed contributions into a separate entity.

The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to
pay all employees the benefits relating to employee service in current and prior periods. The contributions are recognised
as our employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future contribution payments is available.

The asset/liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit
method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are immediately recorded in the statement of recognised income and expenditure.

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1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Employee benefits (continued)
Other post-employment benefit obligations
Some group companies provide post-retirement health care benefits to their retirees. The entitlement to these benefits is
usually conditional on the employee remaining in service up to retirement age and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology on the same basis as that used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the statement of recognised income and expenditure immediately. These obligations are valued annually by independent qualified actuaries.
Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee
accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan
without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary
redundancy based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to present value.
Profit-sharing and bonus plans
The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the group's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.
Share-based payments
The group's management awards certain employees bonuses in the form of equity settled share-based payments on a discretionary basis.
The fair value of the equity instruments granted is calculated at measurement date, for transactions with employees this
is at grant date. For transactions with employees, fair value is based on market prices of the equity instruments granted,
if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices of the equity instruments granted are not available, the fair value of the equity instruments granted is estimated using an appropriate valuation model. Vesting conditions, other than market conditions, are not taken into account when
estimating the fair value of shares or share options at measurement date.
Over the vesting period, the fair value at measurement date is recognised as an employee benefit expense with a corresponding increase in other comprehensive income based on the group's estimate of the number of instruments that will eventually vest. The income statement charge or credit for a period represents the movement in cumulative expense
recognised as at the beginning and end of that period. Vesting assumptions for non-market conditions are reviewed at each reporting date to ensure they reflect current expectations.
When options are exercised or share awards vest, the proceeds received, net of any directly attributable transaction costs,
are credited to share capital (nominal value) and share premium.
Where the terms of an equity settled award are modified, as a minimum, an expense is recognised as if the terms had not

been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-
based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of the modification.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Employee benefits (continued)
Share-based payments (continued)
In the company financial statements, share-based payment arrangements with employees of other group entities are recognised by charging that entity its share of the expense and a corresponding increase in other comprehensive income.
Environmental expenditure
The group has long-term remediation obligations comprising decommissioning and restoration liabilities relating to its past
operations which are based on the group's environmental management plans, in compliance with current environmental
and regulatory requirements. Provisions for non-recurring remediation costs are made when there is a present obligation,
it is probable that expense on remediation work will be required and the cost can be estimated within a reasonable range
of possible outcomes. The costs are based on currently available facts, technology expected to be available at the time of the clean up, laws and regulations presently or virtually certain to be enacted and prior experience in remediation of contaminated sites.
Annual contributions for the South African operations are made to the Environmental Rehabilitation Trust Fund, created
in accordance with local statutory requirements where applicable, to fund the estimated cost of rehabilitation during and
at the end of the life of a mine. The amounts contributed to this trust fund are accounted for as non-current assets in the
company. Interest earned on monies paid to rehabilitation trust funds is accrued on a time proportion basis and is recorded as interest income. For group purposes the trusts are consolidated.
AngloGold Ashanti is the sole contributor to the funds and exercises full control through the respective boards of trustees,
hence the funds are consolidated.
Environmental rehabilitation obligations in respect of the non-South African operations are not funded through an established trust fund. Bank guarantees and reclamation bonds are provided for some of these liabilities.
Decommissioning costs
The provision for decommissioning represents the cost that will arise from rectifying damage caused before production
commenced. Accordingly an asset is recognised and included within mine infrastructure.
Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning obligation is included in the income
statement. Estimated future costs of decommissioning obligations are reviewed regularly and adjusted as appropriate for
new circumstances or changes in law or technology. Changes in estimates are capitalised or reversed against the relevant
asset. Estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money.
Gains or losses from the expected disposal of assets are not taken into account when determining the provision.

Restoration costs

The provision for restoration represents the cost of restoring site damage after the start of production. Increases in the provision are charged to the income statement as a cost of production.

Gross restoration costs are estimated at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

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1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Revenue recognition
Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the group and revenue can be reliably measured. The following criteria must also be present:
the sale of mining products is recognised when the significant risks and rewards of ownership of the products are transferred to the buyer;
dividends are recognised when the right to receive payment is established;
interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the group; and
where a by-product is not regarded as significant, revenue is credited against cost of sales, when the significant risks and rewards of ownership of the products are transferred to the buyer.
Taxation
Deferred taxation is provided on all qualifying temporary differences at the balance sheet date between the tax bases of
assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred tax assets are only recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be
utilised.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.
Deferred tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively
enacted at the balance sheet date.
Current and deferred tax is recognised as income or expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period directly in equity; or a business combination that is an acquisition.
Current tax is measured on taxable income at the applicable statutory rate enacted or substantially enacted at the balance
sheet date.
Special items
Items of income and expense that are material and require separate disclosure, in accordance with IAS 1.86, are classified
as ‘special items’ on the face of the income statement. Special items that relate to the underlying performance of the business are classified as ‘operating special items’ and include impairment charges and reversals. Special items that do not relate to underlying business performance are classified as ‘non-operating special items’ and are presented below ‘operating (loss) profit’ on the income statement.
Dividend distribution
Dividend distribution to the group’s shareholders is recognised as a liability in the group’s financial statements in the period
in which the dividends are declared by the board of directors of AngloGold Ashanti Limited.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Financial instruments
Financial instruments are initially measured at fair value when the group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit and loss. The subsequent measurement of financial instruments is dealt with below.
A financial asset is derecognised when the right to receive cash flows from the asset has expired or the group has transferred its rights to receive cash and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.
On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount
of the asset is included in income.
On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in income.
Regular way purchases and sales of all financial assets and liabilities are accounted for at settlement date.
Derivatives
The group enters into derivatives to ensure a degree of price certainty and to guarantee a minimum revenue on a portion
of future planned gold production. In addition, the group enters into derivatives to manage interest rate risk.
The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. The group designates derivatives as either, hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges), or hedges of the fair value of recognised asset or liability or a firm
commitment (fair value hedges).
For cash flow hedges, the effective portions of fair value gains or losses are recognised in equity (other comprehensive income) until the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting.
Then, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually
recognised in the income statement or included in the initial measurement of covered assets and liabilities. When a forecast
transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred
to the income statement and then the gains or losses are recognised in earnings or included in the initial measurement of
covered assets or liabilities. The ineffective portion of fair value gains and losses is reported in earnings in the period to which
they relate. For fair value hedges, the gain or loss from changes in fair value of the hedged item is reported in earnings,
together with the offsetting gains and losses from changes in fair value of the hedging instrument.

All other derivatives are classified as held for trading and are subsequently measured at their estimated fair value, with the
changes in estimated fair value in the balance sheet as either a derivative asset or derivative liability, including translation
differences, at each reporting date being reported in earnings in the period to which it relates. Fair value gains and losses
on these derivatives are included in the income statement.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Financial instruments (continued)

Derivatives (continued)

Commodity based (normal purchase or normal sale) derivative contracts that meet the requirements of IAS 39 are recognised in earnings when they are settled by physical delivery.

Hedge accounting

Hedge accounting is applied to derivatives designated as hedging instruments in a cash flow hedge provided certain criteria are met. At the inception of a hedging relationship, the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge, is documented. A documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged
risks in the cash flows of the hedged items, is also prepared.

Hedge ineffectiveness is recognised in the income statement in 'Loss on non-hedge derivatives and other commodity contracts'.

The estimated fair values of derivatives are determined at discrete points in time based on the relevant market information.

These estimates are calculated with reference to the market rates using industry standard valuation techniques.

Unearned premiums

Call option premiums received are recorded as trade and other payables until the option matures at which time the premium is recorded in revenue. This only applies to normal sale exempt designated deliverable call options.

Other investments

Listed equity investments and unlisted equity investments, other than investments in subsidiaries, joint ventures, and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Listed investments fair values are calculated by reference to the quoted selling price at the close of business on the balance sheet date. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost
less impairment. Changes in fair value are recognised in equity (other comprehensive income) in the period in which they
arise. These amounts are removed from equity and reported in income when the asset is derecognised or when there is evidence that the asset is impaired.

Investments which management has the intention and ability to hold to maturity are classified as held-to-maturity financial
assets and are subsequently measured at amortised cost using the effective interest rate method. If there is evidence that
held-to-maturity financial assets are impaired, the carrying amount of the assets is reduced and the loss recognised in the
income statement.

Investments in subsidiaries, joint ventures, associates and the rehabilitation trusts are carried at cost less any accumulated
impairments in the company's separate financial statements.

Other non-current assets

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. If there is evidence that loans and receivables are impaired, the carrying amount of the assets is reduced and the loss recognised in the income statement.

Post-retirement assets are measured according to the employee benefits policy.

1
Accounting policies (continued)
1.4
Summary of significant accounting policies (continued)
Financial instruments (continued)
Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less accumulated impairment. Impairment of trade and other receivables is established when there is objective evidence as a result of a loss event that the group will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence includes failure by the counterparty to perform in terms of contractual
arrangements and agreed terms. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is
recognised in the income statement.
Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are measured at cost which is deemed to be fair value as they have a short-term maturity.
Cash restricted for use
Cash which is subject to legal or contractual restrictions on use is classified separately as cash restricted for use.
Financial liabilities
Financial liabilities, other than derivatives, are subsequently measured at amortised cost, using the effective interest rate
method.
Financial guarantee contracts are accounted for as financial instruments and measured initially at estimated fair value. They are subsequently measured at the higher of the amount determined in accordance with IAS 37 (Provisions, contingent liabilities and assets), and the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with IAS 18.
Foreign currency convertible bonds
Foreign currency convertible bonds issued are accounted for entirely as liabilities. The option component is treated as a
derivative liability and carried at fair value with changes in fair value recorded in the income statement. The bond component is carried at amortised cost using the effective interest rate method.
Treasury shares
Own equity instruments which are reacquired or held by subsidiary companies (treasury shares) are deducted from equity.
No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments.
Accounting for BEE transactions
Where equity instruments are issued to a BEE party at less than fair value, these are accounted for as share-based payments.
Any difference between the fair value of the equity instrument issued and the consideration received is accounted for as
an expense in the income statement.
A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition, but is factored into the fair value determination of the instrument.

2

Segmental information

Based on risks and returns the directors consider that the primary reporting format is by business segment. The directors consider
that there is only one business segment being mining, extraction and production of gold. Therefore the disclosures for the primary
segment have already been given in these financial statements.

The secondary reporting format is by geographical analysis by origin and destination.

Group analysis by origin is as follows:

	Net operating assets		Total assets		Capital expenditure	
Figures in million	**2007**	2006	**2007**	2006	**2007**	2006
US Dollars						
South Africa (1)	1,843	1,726	2,293	2,199	361	313
Argentina	189	177	244	268	20	19
Australia (2)	791	497	1,278	921	281	86
Brazil (2)	524	430	709			

566
142
186
Ghana
1,758
1,655
1,953
1,779
119
97
Guinea
220
216
312
282
21
16
Mali
(2)
217
209
352
336
9
6
Namibia
38
35
79
61
6
5
Tanzania
(2)
1,002
954
1,418
1,377
27
67
USA
426
389
530
509
23
13
Other, including corporate and
non-gold producing subsidiaries
(1)
206

150
652
645
50
9
7,214
6,438
9,820
8,943
1,059
817
SA Rands
South Africa
(1)
12,550
12,084
15,616
15,392
2,535
2,116
Argentina
1,287
1,239
1,659
1,876
141
129
Australia
(2)
5,386
3,483
8,705
6,447
1,975
584
Brazil
(2)
3,571
3,013
4,826
3,961
995
1,258
Ghana
11,969
11,589
13,301
12,456
836
656
Guinea

1,496
1,510
2,127
1,974
146
110
Mali
(2)
1,478
1,460
2,399
2,350
61
44
Namibia
258
242
536
424
43
33
Tanzania
(2)
6,826
6,681
9,654
9,642
187
452
USA
2,898
2,722
3,608
3,566
161
89
Other, including corporate and
non-gold producing subsidiaries
(1)
1,412
1,053
4,450
4,528
364
62
49,131
45,076
66,881
62,616
7,444
5,533

(1)
Assets held for sale in respect of the Weltevreden mining participation rights of $15m, R100m (2006: $15m, R100m) are included in the South Africa
segment. Exploration properties acquired from Trans-Siberian Gold plc of $15m, R100m and properties held by Rand Refinery of $1m, R10m are
included in the Other segment.
(2)
Includes allocated goodwill of $266m, R1,814m (2006: $238m, R1,672m) for Australia, $109m, R742m (2006: $109m, R763m) for Tanzania, $23m,
R151m (2006: $23m, R156m) for Brazil and $20m, R137m (2006: $21m, R148m) for Mali (note 17).

195

2
Segmental information (continued)
Gold production
(oz '000)
(kg)
2007
2006
2007
2006
South Africa
2,328
2,554
72,429
79,427
Argentina
204
215
6,338
6,683
Australia
600
465
18,675
14,450
Brazil
408
339
12,689
10,551
Ghana
527
592
16,388
18,399
Guinea
280
256
8,715
7,948
Mali
441
537
13,703
16,700
Namibia
80
86
2,496
2,690
Tanzania
327

308
10,166
9,588
USA
282
283
8,766
8,817
5,477
5,635
170,365
175,253
Gold income
US Dollars
SA Rands
Figures in million
2007
2006
2007
2006
Geographical analysis of gold income by origin is as follows:
South Africa
1,399
1,347
9,843
9,151
Argentina
140
125
988
841
Australia
348
271
2,437
1,851
Brazil
285
228
2,001
1,558
Ghana
337
263
2,365
1,781
Guinea
211
141
1,483
960

Mali
278
317
1,951
2,146
Namibia
52
50
364
336
Tanzania
114
127
807
857
USA
116
95
813
656
(note 3)
3,280
2,964
23,052
20,137
Geographical analysis of gold income by destination is as follows:
South Africa
1,039
1,082
7,301
7,350
North America
741
803
5,208
5,457
Australia
90
18
632
121
Asia
267
202
1,875
1,369
Europe
734
646
5,163
4,390

United Kingdom
409
213
2,873
1,450
(note 3)
3,280
2,964
23,052
20,137

197
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
3 Revenue
Revenue consists of the following principal categories:
20,137
23,052
Gold income (note 2)
3,280
2,964
749
1,003
By-products (note 4)
145
110
–
16
Dividend received from other investments
2
–
Interest received (note 36)
19
30
– loans and receivables
(1)
4
3
11
12
– held to maturity investments
2
2
31
37
– available-for-sale assets
6
4
157
233
– cash and cash equivalents
33
23
21,104
24,383
3,472
3,106

(1)
Interest received from loans and receivables comprises:
3
7
– related parties
1
1
16
23
– other loans
3
2
19
30
4
3
4 Cost of sales
11,994
14,257
Cash operating costs
(1)
2,033
1,770
(749)
(1,003)
By-products (note 3)
(145)
(110)
11,245
13,254
1,888
1,660
354
628
Royalties
89
76
240
77
Other cash costs
11
10
11,839
13,959
Total cash costs
1,988
1,746
152
131
Retrenchment costs (note 10)
19

22
(35)
445
Rehabilitation and other non-cash costs
65
(3)
11,956
14,535
Production costs
2,072
1,765
4,059
4,143
Amortisation of tangible assets (notes 9, 16 and 36)
590
597
13
14
Amortisation of intangible assets (notes 17 and 36)
2
2
16,028
18,692
Total production costs
2,664
2,364
(546)
(197)
Inventory change
(28)
(82)
15,482
18,495
2,636
2,282
(1)
Cash operating costs comprises:
4,251
4,917
– salaries and wages
700
628
3,461
3,910
– stores and other consumables
557
511
2,197
2,697
– fuel, power and water
384

323
1,955
2,382
– contractors
340
288
130
351
– services and other charges
52
20
11,994
14,257
2,033
1,770

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
5 Other operating expenses
57
23
Pension and medical defined benefit provisions
3
8
Claims filed by former employees in respect of loss of
employment, work-related accident injuries and diseases,
67
97
governmental fiscal claims and costs of old tailings operations
15
9
5
14
Miscellaneous
2
1
129
134
20
18
6 Operating special items
202
184
Indirect tax expenses
(1)
26
28
Siguiri royalty payment calculation dispute with the Guinean
–
27
Administration
4
–
–
23
Buildings located at Siguiri destroyed by fire (note 14)
3
–
–
7
Impairment of goodwill (note 14 and 17)
1

–
44
6
Impairment of tangible assets (notes 14 and 16)
1
6
Profit on disposal and abandonment of land, mineral rights,
(333)
(79)
tangible assets and exploration properties (note 14)
(2)
(10)
(48)
–
(29)
Recovery of exploration costs
(4)
–
129
–
Performance related option expense (note 11)
–
19
Cost of E-shares issued to Izingwe (Pty) Ltd, a Black Economic
131
–
Empowerment company (note 11)
–
19
(36)
–
Recovery of exploration loan (note 14)
–
(5)
(9)
–
Profit on disposal of shares in Nufcor Uranium Limited (note 14)
–
(1)
2
–
Other (note 14)
–
–
130
139
21
18
(1)
The current year indirect tax expenses include the following:

AngloGold Ashanti Brasil Mineração anticipate that the recovery conditions of VAT will not be met and recovered from the Brazilian Government $5m, R34m;
VAT claimed by the Tanzanian Revenue Authority on the difference between fuel invoiced at the contract rate against the prevailing market rate $3m, R21m;
Audited and approved VAT claims rejected by the Tanzanian Revenue Authority $3m, R26m;
Guinea Revenue Authority claiming withholding tax not held back from UK drilling contractor Amco $7m, R48m;
The Malian Revenue Authority has raised assessments for various taxes and penalties based on their audit of 2005 and 2006 financial years at the Malian operations $7m, R48m; and
Other indirect tax expenses of $1m, R7m.

199

Figures in million

6 Operating special items (continued)

(1)

The 2006 year indirect tax expenses include the following:
VAT payable to the Tanzanian Revenue Authority on a penalty charged to Golden Construction for excessive fuel consumption during the power plant commissioning phase $2m, R14m. The Tanzania Tax Appeals Board ruled against Geita Gold Mining Company Limited and a decision was taken to expense this amount;
VAT claimed by the Tanzanian Revenue Authority on the difference between fuel invoiced at the contract rate against the prevailing market rate $13m, R92m;
VAT claimed by the Tanzanian Revenue Authority on fuel consumed in operating the power plant $5m, R35m;
Serra Grande and AngloGold Ashanti Brasil Mineração anticipated that the recovery conditions of VAT will not be met and recovered from the Brazilian Government $7m, R55m and $2m, R14m;
Provision for tax write-offs of $2m, R10m. Following claims by Malian tax authorities for payment of indirect taxes after audits at Sadiola and Yatela in 2005, management decided to settle the claims and expensed the amounts in question; and
Reversal of a VAT provision at Siguiri $3m, R18m.

(2)

The profit on disposal and abandonment of land, mineral rights, tangible assets and exploration properties includes amongst others the following:
On 23 August 2006, AngloGold Ashanti Limited announced that it had entered into an agreement with Central African Gold plc (CAG) to sell its entire business undertaking for $40m, R280m, related to the Bibiani mine and Bibiani North prospecting permit and to transfer all assets, including all of Bibiani's employees, fixed mining and non-mining assets, inventory, trade debtors and intellectual property as well as the Bibiani lease and the North prospecting license, and procure the cessation and delegation of all contracts related to Bibiani to CAG. The delivery of the North lease permit valued at $4m, R28m was not concluded at 31 December 2006, consequently during 2006 only proceeds of $36m, R253m were recognised, resulting in a profit of $25m, R173m. The North lease permit was delivered during 2007 resulting in recognition of proceeds and profits of $4m, R31m;
The sale of AngloGold Ashanti's Alaskan mineral and exploration properties during 2006 to International Tower Hill Mines Limited resulted in a profit on disposal of $13m, R91m; and
Sundry profit on the disposal and abandonment of land, mineral rights, tangible assets and exploration properties amounted to $6m, R48m (2006: $10m, R69m).

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
7 Finance costs and unwinding of obligations
342
353
Finance costs on convertible bonds
(1)
50
50
214
214
Finance costs on corporate bond
(1)
31
32
133
134
Finance costs on bank loans and overdrafts
(1)
19
21
49
41
Discounting of long-term trade and other receivables
6
7
18
29
Finance lease charges
4
3
28
20
Other
3
4
784
791
113
117
(71)
(68)
Amounts capitalised (note 16)
(10)
(10)
713

723
103
107
38
84
Unwinding of decommissioning obligation (note 31)
12
6
71
71
Unwinding of restoration obligation (note 31)
10
10
–
2
Unwinding of other provisions (note 31)
–
–
822
880
(note 36)
125
123
(1)
Finance costs have been determined using the effective interest
rate method.
8 Share of associates' loss
103
120
Revenue
17
15
(105)
(123)
Operating expenses
(17)
(16)
(2)
(3)
Gross loss
–
(1)
(1)
(6)
Finance costs
(1)
–
(3)
(9)
Loss before taxation
(1)

(1)
(3)
(1)
Taxation
–
–
(6)
(10)
Loss after taxation
(1)
(1)
–
(154)
Impairment (note 14)
(1)
(22)
–
(6)
(164)
(note 18)
(23)
(1)
(1)
In 2007, Trans-Siberian Gold plc and the Margaret Water Company Limited investments were impaired. The impairment tests considered the investments' fair value and anticipated future cash flows. Impairments of $22m, R154m (2006: nil) were recorded.
9 (Loss) profit before taxation
(Loss) profit before taxation is arrived at after taking account of:
Auditors' remuneration
61
37
– audit fees
5
9
2
18
– under provision prior year
3
–
6
12
– other assurance services
2
1
69
67
10
10
Amortisation of tangible assets
4,040

4,118
– owned assets
586
594
19
25
– leased assets
4
3
4,059
4,143
(notes 4, 16 and 36)
590
597
52
56
Grants for educational and community development
8
8
467
568
Operating lease charges
81
68
200
Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December

201
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
10 Employee benefits
Employee benefits including executive directors' salaries and
4,897
5,820
other benefits
828
723
Health care and medical scheme costs
379
398
– current medical expenses
57
56
94
94
– defined benefit post-retirement medical expenses
13
14
Pension and provident plan costs
274
358
– defined contribution
51
40
11
(19)
– defined benefit pension plan
(3)
1
152
131
Retrenchment costs (note 4)
19
22
213
232
Share-based payment expense (note 11)
33
31
Included in cost of sales, other operating expenses, operating
6,020
7,014
special items and corporate administration and other expenses

998
887
Actuarial defined benefit plan expense analysis
Defined benefit post-retirement medical
7
6
– current service cost
1
1
90
92
– interest cost
13
13
(3)
(4)
– expected return on plan assets
(1)
–
94
94
13
14
Defined benefit pension plan
50
47
– current service cost
7
7
109
125
– interest cost
18
16
(148)
(191)
– expected return on plan assets
(28)
(22)
11
(19)
(3)
1
Actual return on plan assets
420
191
– defined benefit pension and medical plans
27
62
Refer to the Remuneration report for details of directors' emoluments.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
11 Share-based payments
Share incentive schemes
No new share incentive schemes were approved by the
shareholders of AngloGold Ashanti Limited during the current
financial year. New awards were made under the existing BSP
and LTIP plans. ESOP awards that were surrendered by
participants during the year were re-issued to new employees.
The total cost relating to share incentive schemes was $33m,
R232m (2006: $50m, R344m) and is made up as follows:
12
64
Employee Share Ownership Plan (ESOP) – Free shares
9
2
Employee Share Ownership Plan (ESOP) – E ordinary shares
12
64
to employees
9
2
37
70
Bonus Share Plan (BSP)
10
5
23
11
Long-Term Incentive Plan (LTIP)
2
4
Performance-related share-based remuneration scheme (PRO)
69
–
– 1 May 2003
–
10
Performance-related share-based remuneration scheme (PRO)
60
23
– 1 November 2004
3
9
213
232

Total employee compensation cost (note 10)
33
31
Employee Share Ownership Plan (ESOP) – E ordinary shares
131
–
to Izingwe
–
19
344
232
Total share incentive scheme cost
33
50
Included in:
49
134
– cost of sales
19
7
35
98
– corporate administration and other expenses
14
5
260
–
– other operating special items (note 6)
–
38
344
232
33
50
Employee Share Ownership Plan (ESOP)
On 12 December 2006, AngloGold Ashanti Limited announced the finalisation of the Bokamoso Employee Share Ownership Plan (Bokamoso ESOP) with the National Union of Mineworkers, Solidarity and United Association of South Africa. The Bokamoso ESOP creates an opportunity for AngloGold Ashanti Limited and the unions to ensure a closer alignment of the interest between South African-based employees and the company, and the seeking of shared growth solutions to build partnerships in areas of shared interest. Participation is restricted to those employees not eligible for participation in any other South African Share Incentive Plan.

203
Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
The company also undertook an empowerment transaction with a Black Economic Empowerment investment vehicle, Izingwe Holdings (Proprietary) Limited (Izingwe).
In order to facilitate this transaction the company established a trust to acquire and administer the ESOP shares. AngloGold Ashanti Limited allotted and issued free ordinary shares to the trust and also created, allotted and issued E ordinary shares to the trust for the benefit of employees. The Company also created, allotted and issued E ordinary shares to Izingwe.
The key terms of the E ordinary shares are:
AngloGold Ashanti Limited will have the right to cancel the E ordinary shares, or a portion of them, in accordance with the ESOP and Izingwe cancellation formulae, respectively;
the E ordinary shares will not be listed;
the E ordinary shares which are not cancelled will be converted into ordinary shares; and
the E ordinary shares will each be entitled to receive a dividend equal to one-half of the dividend per ordinary share declared by the company from time to time and a further one half is included in the strike price calculation.
The award of free ordinary shares to employees
The fair value of each free share awarded on 10 December 2007 is R305.99 (awarded on 13 December 2006: R320.00).
The fair value is equal to the market value at the date-of-grant.
Dividends declared and paid to the trust will accrue and be paid to ESOP members, pro rata to the number of shares allocated to them. An equal number of shares vests in 2009 and each subsequent year up to the expiry date of 1 November 2013.
Accordingly, for the awards issued, the following information is available:
–
–

Awards outstanding at beginning of year
928,590
–
928,590
–
Awards granted during the year
77,490
–
–
–
Awards lapsed during the year
49,230
–
–
–
Awards exercised during the year
46,590
–
928,590
–
Awards outstanding at end of year
910,260
–
–
–
Awards exercisable at end of year
–
–
Up to 31 December 2007, the rights to a total of 49,230 (2006: nil) shares were surrendered by the participants. A total of 46,590 (2006: nil) shares were allotted to deceased, retired or retrenched employees. The income statement charge for the year was $9m, R64m (2006: $1,7m, R12m).

Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
The award of E ordinary shares to employees
The average fair value of the E ordinary shares awarded to employees on 10 December 2007 was R79.00 per share (awarded on 13 December 2006: R105.00). Dividends declared in respect of the E ordinary shares will firstly be allocated to cover administration expenses of the trust, whereafter they will accrue and be paid to ESOP members, pro rata to the number of shares allocated to them. At each anniversary over a five-year period commencing on the third anniversary of the original 2006 award, the company will cancel the relevant number of E ordinary shares as stipulated by a cancellation formula. Any E ordinary shares remaining in that tranche will be converted to ordinary shares for the benefit of employees. All unexercised awards will be cancelled on 1 May 2014.
Accordingly, for the E ordinary shares issued, the following information is available:
–
–
Awards outstanding at beginning of year
2,785,770
289.00
2,785,770
288.00
Awards shares granted during the year
232,470
307.13
–
–
Awards shares lapsed during the year
147,690
296.97
–
–

Awards shares cancelled during the year
–
–
–
–
Awards shares converted during the year
139,770
298.15
2,785,770
289.00
Awards shares outstanding at end of year
2,730,780
307.49
The weighted average exercise price is calculated as the initial grant price of R288.00 plus an interest factor less dividend apportionment. This value will change on a monthly basis, to take account of employees leaving the company and those shares being reissued to new employees. The income statement charge for the year was $9m, R64m (2006: $1,7m, R12m).
Up to 31 December 2007, the rights to a total of 147,690 (2006: nil) shares were surrendered by participants. A total of 139,770 (2006: nil) shares were allotted to deceased, retired or retrenched employees.

205
Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
The award of E ordinary shares to Izingwe
The average fair value of the E ordinary shares granted to
Izingwe on 13 December 2006 was R90.00 per share.
Dividends declared in respect of the E ordinary shares will
accrue and be paid to Izingwe, pro rata to the number of shares
allocated to them. At each anniversary over a five year period
commencing on the third anniversary of the award, Izingwe has
a six month period to instruct the company to cancel the
relevant number of E ordinary shares as stipulated by a
cancellation formula. Any E ordinary shares remaining in that
tranche will be converted to ordinary shares for the benefit of
Izingwe. If no instruction is received at the end of the six month
period, the cancellation formula will be applied automatically.
–
–
E ordinary shares outstanding at beginning of year
1,400,000
289.00
1,400,000
288.00
E ordinary shares granted during the year
–
–
–
–
E ordinary shares cancelled during the year
–
–
–
–
E ordinary shares converted during the year
–

–
1,400,000
289.00
E ordinary shares outstanding at end of year
1,400,000
307.49

The weighted average exercise price is calculated as the initial grant price of R288.00 per share plus an interest factor less dividend apportionment. There was no income statement charge for the year as the full amount was expensed in 2006 (2006: $19m, R131m).

The fair value of each share granted for the ESOP and Izingwe schemes was estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option award and share price volatility. The expected term of award granted is derived from historical data on employee exercise behaviour for the ESOP award. Expected volatility is based on the historical volatility of our shares. These estimates involve inherent uncertainties and the application of management judgment. In addition, we are required to estimate the expected forfeiture rate and only recognise expenses for those options expected to vest. As a result, if other assumptions had been used, our recorded share-based compensation expense could have been different from that reported. The Black-Scholes option-pricing model used the following assumptions for the year, weighted-average risk free interest rates of 7% (2006: 7%); dividend yields of 2.06% (2006: 2.3%) and volatility of 33% (2006: 36%).

Figures in million

11 Share-based payments (continued)

Bonus Share Plan (BSP)

The BSP is intended to provide effective incentives to eligible employees. An eligible employee is one who devotes substantially the whole of his working time to the business of AngloGold Ashanti Limited, any subsidiary of AngloGold Ashanti Limited or a company under the control of AngloGold Ashanti Limited, unless the board of directors (the board) excludes such a company. An award in terms of the BSP may be made at any date at the discretion of the board, the only vesting condition being three years' service.

The board is required to determine a BSP award value and this will be converted to a share amount based on the closing price of AngloGold Ashanti Limited's shares on the JSE on the last business day prior to the date of grant. The AngloGold Ashanti Limited's Remuneration Committee has at their discretion, the right to pay dividends, or dividend equivalents, to the participants of the BSP. Having no history of any discretionary dividend payments, the fair value includes dividends and was used to determine the income statement expense. The fair value is equal to the award value determined by the board.

Accordingly, for the awards made, the following information is available:

Award date	2005	2006	**2007**
Calculated fair value	R197.50	R308.00	R322.00
Vesting date	4 May 2008	8 Mar 2009	1 Jan 2010
Expiry date	3 May 2015	7 Mar 2016	31 Dec 2016

207
Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
Bonus Share Plan (BSP) (continued)
271,945
–
Awards outstanding at beginning of year
480,585
–
254,110
–
Awards granted during the year
296,495
–
41,221
–
Awards lapsed during the year
50,704
–
4,249
–
Awards exercised during the year
40,708
–
480,585
–
Awards outstanding at end of year
685,668
–
–
–
Awards exercisable at end of year
–
–
Up to 31 December 2007, the rights to a total of 50,704 (2006:

41,221) shares were surrendered by the participants. A total of 40,708 (2006: 4,249) shares were allotted to deceased, retired or retrenched employees.

The income statement charge for the year was $10m, R70m (2006: $5m, R33m).

Long-Term Incentive Plan (LTIP)

The LTIP is an equity settled share-based payment arrangement, intended to provide effective incentives for executives to earn shares in the company based on the achievement of stretched company performance conditions. Participation in the LTIP will be offered to executive directors, executive officers/management and selected members of senior management of participating companies. Participating companies include AngloGold Ashanti Limited, any subsidiary of AngloGold Ashanti Limited or a company under the control of AngloGold Ashanti Limited, unless the board excludes such a company.

An award in terms of the LTIP may be granted at any date during the year that the board of AngloGold Ashanti Limited determine and may even be more than once a year. The board is required to determine an LTIP award value and this will be converted to a share amount based on the closing price of AngloGold Ashanti Limited's shares on the JSE on the last business day prior to the date of grant. AngloGold Ashanti Limited's Remuneration Committee has at their discretion the right to pay dividends, or dividend equivalents to the participants of the LTIP. Having no history of any discretionary dividend payments, the fair value includes dividends and was used to determine the income statement expense. The fair value is equal to the award value as determined by the board.

11 Share-based payments (continued)

Long-Term Incentive Plan (LTIP) (continued)

The main performance conditions in terms of the LTIP issued in 2005 are:

- up to 40% of an award will be determined by the performance of total shareholder returns (TSR) compared with that of a group of comparative gold-producing companies;
- up to 40% of an award will be determined by real growth (above US inflation) in an adjusted earnings per share over the performance period;
- up to 20% of an award will be dependent on the achievement of strategic performance measures which will be set by the Remuneration Committee; and
- three-years' service is required.

The main performance conditions in terms of the LTIP issued in 2007 and 2006 are:

- up to 40% of an award will be determined by the performance of total shareholder returns (TSR) compared with that of a group of comparative gold-producing companies;
- up to 30% of an award will be determined by an adjusted earnings per share compared to a planned adjusted earnings per share over the performance period;
- up to 30% of an award will be dependent on the achievement of strategic performance measures which will be set by the Remuneration Committee; and
- three-years' service is required.

Accordingly, for the awards made, the following information is available:

Award date	2005	2006	**2007**
Calculated fair value	R197.50	R327.00	R322.00
Vesting date	4 May 2008	1 Aug 2009	1 Jan 2010
Expiry date	3 May 2015	31 Jul 2016	31 Dec 2016

209
Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
Long-Term Incentive Plan (LTIP) (continued)
Accordingly, for the awards made, the following information
is available:
363,500
–
Awards outstanding at beginning of year
660,175
–
316,675
–
Awards granted during the year
321,664
–
20,000
–
Awards lapsed during the year
198,414
–
–
–
Awards exercised during the year
–
–
660,175
–
Awards outstanding at end of year
783,425
–
–
–
Awards exercisable at end of year
– –

The income statement charge for the year was $2m, R11m
(2006: $4m, R23m).
Performance-related share-based remuneration scheme
– 1 May 2003
The options, if vested, may be exercised at the end of a three-year period commencing 1 May 2003. The share options were granted at an exercise price of R221.90. The performance condition applicable to these options was that the US dollar EPS must increase by at least 6% in real terms, after inflation, over the next three years, in order to vest. As none of the performance criteria were met, in the initial three years, the grantor decided to roll the scheme forward on a "roll over reset" basis, in February 2006, to be reviewed annually. The performance criteria of these options was achieved during 2006. The remaining weighted average contractual life of the options granted is 5.33 years. An employee would only be able to exercise his options after the date upon which he receives written notification from the directors that the previously specified performance criteria have been fulfilled.
999,400
221.90
Options outstanding at beginning of year
885,900
221.90
–
–
Options granted during the year
– –
112,000
221.90
Options lapsed during the year
21,400 221.90
1,500
221.90
Options exercised during the year
414,600
221.90
–
–
Options expired during the year
– –
885,900
221.90
Options outstanding at end of year
449,900
221.90
885,900
221.90
Options exercisable at end of year
449,900
221.90

During 2006 1,500 options were exercised by the estate of a deceased employee. On death, the performance criteria were set aside in accordance with the scheme rules.

Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
There was no income statement charge for the year, as the total compensation cost was expensed up to the date of vesting in 2006 (2006: $10m, R69m).
Performance-related share-based remuneration scheme
– 1 November 2004
The options, if vested, may be exercised at the end of a three-year period commencing 1 November 2004. The share options were granted at an exercise price of R228.00. The performance condition applicable to these options was that US dollar EPS must increase from the 2004 year by at least 6% in real terms, i.e. after inflation, over the following three years in order to vest. The performance criteria was met during 2006. The remaining weighted average contractual life of options granted is 6.83 years. An employee would only be able to exercise his options after the date upon which he has receives written notification from the directors that the previously specified performance criteria have been fulfilled.
1,012,900
228.00
Options outstanding at beginning of year
911,400
228.00
–
–
Options granted during the year
–
–
100,200
228.00
Options lapsed during the year
40,526
228.00
1,300

228.00
Options exercised during the year
197,974
228.00
–
–
Options expired during the year
– –
911,400
228.00
Options outstanding at end of year
672,900
228.00
–
–
Options exercisable at end of year
672,900
228.00
During 2006 1,300 options were exercised by the estate of a deceased employee. On death, the performance criteria were set aside in accordance with the scheme rules. The income statement charge for the year was $3m, R23m (2006: $9m, R60m).
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211
Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
There are currently two share incentive schemes that fall outside the transitional provisions of IFRS 2, as the options were granted prior to 7 November 2002. The details of these schemes are as follows:
Performance-related share-based remuneration scheme – 1 May 2002
The share options were granted at an exercise price of R299.50 per share. The performance condition applicable to these options was that US dollar EPS must increase by 7.5% for each of the three succeeding years. On 24 December 2002, AngloGold Ashanti Limited underwent a share split on a 2:1 basis therefore the EPS target was reduced accordingly. As none of the performance criteria was met, in the initial three years, the grantor decided to roll the scheme forward on a "roll over reset" basis, to be reviewed annually. The performance criteria of these options were achieved during 2006. The remaining weighted average contractual life of options granted is 4.33 years. An employee would only be able to exercise his options after the date upon which he receives written notification from the directors that the previously specified performance criteria have been fulfilled.
884,700
299.50
Options outstanding at beginning of year
788,500
299.50
–
–
Options granted during the year
–
–
94,700

299.50
Options lapsed during the year
23,400 299.50
1,500
299.50
Options exercised during the year
249,700
299.50
–
–
Options expired during the year
–
–
788,500
299.50
Options outstanding at end of year
515,400
299.50
788,500
299.50
Options exercisable at end of year
515,400
299.50

Weighted
Weighted
Number
average
Number
average
of
exercise
of
exercise
shares
price
shares
price
SA Rands 2006
Figures in million
SA Rands 2007
11 Share-based payments (continued)
Time-related share-based remuneration scheme
– granted up to 30 April 2002
Except where the directors at their sole and absolute discretion decide otherwise, a grantee may not exercise his options until after the lapse of a period calculated from the date on which the option was granted. The remaining weighted average contractual life of options granted is 2.36 years. The period in which and the extent to which the options vest and may be exercised are as follows:
after two years – up to 20% of options granted
after three years – up to 40% of options granted
after four years – up to 60% of options granted
after five years – up to 100% of options granted
864,710
126.91
Options outstanding at beginning of year
473,260
125.82
–
–
Options granted during the year
– –
1,600
211.00
Options lapsed during the year
–
–
389,850
127.89
Options exercised during the year
266,300
125.89
–

–
Options expired during the year
– –
473,260
125.82
Options outstanding at end of year
206,960
124.69
465,260
123.90
Options exercisable at end of year
206,960
124.69
No grants were made with respect to the time related scheme options and performance related options during 2005, 2006 and 2007. The value of each option granted during 2002, 2003 and 2004 is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option award and share price volatility. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behaviour. Expected volatility is based on the historical volatility of our shares. These estimates involve inherent uncertainties and the application of management's judgment. In addition, we are required to estimate the expected forfeiture rate and only recognise expense for those options expected to vest. As a result, if other assumptions had been used, the recorded share-based compensation expense could have been different from that reported.
The Black-Scholes option-pricing model used the following assumptions, at grant date:
2002
2003
2004
Risk-free interest rate
11.00%
11.00%
8.18%
Dividend yield
4.27%
4.27%
2.27%
Volatility factor of market share price
0.390
0.390
0.300
Weighted average expected life
7 years
7 years
7 years
Calculated fair value

R100.20
R77.76
R94.65
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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
12 Taxation
South African taxation
193
371
Mining tax
(1)
55
27
257
212
Non-mining tax
29
39
57
47
Under provision prior year
6
8
Deferred taxation:
565
285
Temporary differences
(2)
41
81
Unrealised non-hedge derivatives and other commodity
(771)
(634)
contracts
(93)
(110)
412
57
Change in estimated deferred tax rate
(3) (4)
8
59
713
338
46
104
Foreign taxation
933

1,065
Normal taxation
(1)
151
137
(8)
(15)
Over provision prior year
(2)
(1)
Deferred taxation:
(294)
(310)
Temporary differences
(2)
(45)
(43)
Unrealised non-hedge derivatives and other commodity
29
(39)
contracts
(5)
4
(141)
–
Change in estimated deferred tax rate
(5)
–
(21)
519
701
99
76
1,232
1,039
145
180
Tax reconciliation
A reconciliation of the effective tax rate charged in the income
statement to the prevailing corporate tax rate is set out in the
following table:
%
%
%
%
144
(34)
Effective tax rate
(29)
107
Disallowable items:

(116)
66
Derivative losses
58
(90)
(5)
9
Other
9
(5)
29
(2)
Foreign income tax allowances and rate differentials
(2)
23
56
(5)
Current tax assets recognised (previously unrecognised)
(4)
43
(5)
7
Current unrecognised tax assets
6
(4)
(47)
2
Change in estimated deferred tax rate
(4) (5)
2
(35)
(6)
1
Prior year under provision
1
(4)
(13)
(7)
Other
(4)
2
37
37
Estimated corporate tax rate
(3)
37
37
(1)
Included in South African mining taxation is tax on the
disposal of tangible assets of $3m, R21m (2006: nil).
Included in normal foreign taxation is tax on the disposal of

tangible assets of $3m, R19m (2006: $2m, R13m) (note 14).
(2)
Included in temporary differences in South African taxation is tax on the impairment and disposal of tangible assets of $1m, R6m (2006: nil). Included in temporary differences of foreign taxation is a tax credit on the impairment and disposal of tangible assets of $4m, R24m (2006: tax charge of $8m, R56m) (note 14).

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
12 Taxation (continued)
(3)
Mining tax on mining income in South Africa is determined according to a formula based on the profit and revenue from mining operations. The company has elected to be exempt from STC and is taxed at a higher rate of company tax for mining and non-mining income tax purposes.
All mining capital expenditure is deducted to the extent that it does not result in an assessed loss and depreciation is ignored when calculating the South African mining income. Capital expenditure not deducted from mining income is carried forward as unredeemed capital to be deducted from future mining income. South Africa operates under two tax paying entities, Vaal River Operations and West Wits Operations. Under ring-fencing legislation, each entity is treated separately and deductions can only be utilised against income generated by the relevant tax entity.
The formula for determining the South African mining tax rate is:
$Y = 45 – 225/X$
where Y is the percentage rate of tax payable and X is the ratio of mining profit net of any redeemable capital expenditure to mining revenue expressed as a percentage.
(4)
In South Africa the mining operations are taxed on a variable rate that increases as profitability increases. The tax rate used to calculate deferred tax is based on the group's current estimate of future profitability when temporary differences will reverse. Depending on the profitability of the operations, the tax rate can consequently be significantly different from year to year. The change in the estimated deferred tax rate at which the temporary differences will reverse amounts to $8m, R57m (2006: $59m, R412m).
(5)
The Ghanaian tax authorities have granted an extension on tax losses which would have been forfeited during the prior year $21m, R141m.
Unrecognised tax losses
The unrecognised tax losses of the US operations which are
1,943
1,692
available for offset against future profits earned in the USA
248
277

1,943
1,692
248
277
Analysis of tax losses
Tax losses available to be used against future profits
–
8
– utilisation required within one year
1
–
1,943
1,684
– utilisation in excess of five years
247
277
1,943
1,692
248
277
Unrecognised tax losses utilised
448
191
Assessed losses utilised during the year
28
64
214
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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
13 Discontinued operations
On 8 June 2007, AngloGold Ashanti announced that it would
sell, subject to certain conditions, to a consortium of Mintails
South Africa (Pty) Ltd/DRD South African Operations (Pty) Ltd
joint venture, most of the remaining assets of Ergo, the surface
reclamation operation east of Johannesburg.
The Ergo reclamation surface operation, which forms part of the
South African operations and is included under South Africa for
segmental reporting, has reached the end of its useful life and the
assets are no longer in use. After a detailed investigation of several
options and scenarios, and based on management's decision
reached on 1 February 2005, mining operations at Ergo ceased on
31 March 2005, with only site restoration obligations remaining.
The environmental rehabilitation programme to restore the site
continues until all the legal and sale conditions have been met.
The results of Ergo are presented below:
26
5
Gold income
1
4
(2)
(22)
Cost of sales
(3)
(1)
(37)
37
Reversal (increase) in environmental provision
5
(5)
(13)
20
Gross profit (loss)
3
(2)
–
10
Other income
2
–
(13)
30

Profit (loss) before taxation
5
(2)
(17)
(2)
Normal taxation (note 35)
–
(2)
18
(21)
Deferred taxation (note 33)
(4)
2
(12)
7
Net profit (loss) after taxation
1
(2)
SA Cents
US Cents
14 Earnings per ordinary share
Basic (loss) profit per ordinary share
(211)
(1,519)
– Continuing operations
(237)
(15)
The calculation of basic loss per ordinary share is based on
losses attributable to equity shareholders of $669m, R4,275m
(2006 losses of: $42m, R575m) and 281,455,107 (2006:
272,808,217) shares being the weighted average number of
ordinary shares in issue during the financial year.
(4)
3
– Discontinued operations
–
(1)
The calculation of basic profit (loss) per ordinary share is based
on profits (losses) attributable to equity shareholders of $1m,
R7m (2006 losses of: $2m, R12m) and 281,455,107 (2006:
272,808,217) shares being the weighted average number of
ordinary shares in issue during the financial year.
Diluted (loss) profit per ordinary share
(211)
(1,519)
– Continuing operations
(237)
(15)
The calculation of diluted loss per ordinary share is based on
losses attributable to equity shareholders of $669m, R4,275m
(2006 losses of: $42m, R575m) and 281,455,107 (2006:

272,808,217) shares being the diluted number of ordinary shares. In 2006 and 2007, no adjustment was made since the effect is anti-dilutive.

SA Cents
US Cents
2006
2007
2007
2006
14 Earnings per ordinary share (continued)
Diluted (loss) profit per ordinary share (continued)
(4)
3
– Discontinued operations
–
(1)
The calculation of diluted profit (loss) per ordinary share is
based on profits attributable to equity shareholders of $1m,
R7m (2006 losses of: $2m, R12m) and 281,455,107 (2006:
272,808,217) shares being the diluted number of ordinary
shares. In 2006 and 2007, no adjustment was made since the
effect is anti-dilutive.
Number of shares
In calculating the diluted number of ordinary shares outstanding
for the year, the following were taken into consideration:
Ordinary shares
276,805,309
272,214,937
E ordinary shares
(1)
4,117,815
194,954
Fully vested options
(2)
531,983
398,326
Weighted average number of shares
281,455,107
272,808,217
Dilutive potential of share options
(3)
–
–
Diluted number of ordinary shares
281,455,107
272,808,217
(1)
As E ordinary shares participate in the profit available to
ordinary shareholders, these shares were included in basic
earnings per share.
(2)
Employee compensation awards, are included in basic
earnings per share from the date that all necessary conditions
have been satisfied and it is virtually certain that shares will be

issued as a result of employees exercising their options.
(3)
The calculation of diluted earnings per share did not take into
account the effect of 575,316 (2006: 854,643) shares, issuable
on share awards as the effect of this was anti-dilutive for
this period.
The calculation of diluted earnings per share for 2007 did not
take into account the effect of 15,384,615 (2006: 15,384,615)
shares, issuable upon the exercise of convertible bonds, as the
effect of this was anti-dilutive for this period.
SA Rands
Figures in million
US Dollars
Headline loss
The loss attributable to equity shareholders was adjusted by the
following to arrive at headline loss:
(587)
(4,269)
Loss attributable to equity shareholders
(668)
(44)
–
7
Impairment of goodwill (notes 6 and 17)
1
–
44
6
Impairment of tangible assets (notes 6 and 16)
1
6
(376)
(56)
Profit on disposal of assets (note 6)
(7)
(54)
Taxation on items above
13
40
– current portion (note 12)
6
2
56
(18)
– deferred portion (note 12)
(3)
8
–
154
Impairment of investment in associates (note 8)
22

–
(850)
(4,136)
Headline loss
(648)
(82)
216
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217
SA cents
US cents
2006
2007
2007
2006
14 Earnings per ordinary share (continued)
Cents per share
Headline loss removes items of a capital nature from the
calculation of earnings per share, calculated in accordance with
Circular 8/2007 issued by the South African Institute of
Chartered Accountants (SAICA).
The calculation of headline loss per ordinary share is based
on headline losses of $648m, R4,136m (2006: $82m, R850m)
and 281,455,107 (2006: 272,808,217) shares being the
weighted average number of ordinary shares in issue
(312)
(1,470)
during the year.
(230)
(30)
SA Rands
Figures in million
US Dollars
15 Dividends
Ordinary shares
No. 99 of 62 SA cents per ordinary share was declared
on 9 February 2006 and paid on 10 March 2006
164
–
(10 US cents per share).
–
26
No. 100 of 210 SA cents per ordinary share was declared
on 26 July 2006 and paid on 25 August 2006
578
–
(29 US cents per share).
–
81
No. 101 of 240 SA cents per ordinary share was declared
on 12 February 2007 and paid on 16 March 2007
–
664
(32 US cents per share).
90
–
No. 102 of 90 SA cents per ordinary share was declared
on 30 July 2007 and paid on 31 August 2007
–

249
(12 US cents per share).
34
–
No. E1 of 120 SA cents per E ordinary share was declared on 12 February 2007 and paid on 16 March 2007
–
4
(16 US cents per share).
1
–
No. E2 of 45 SA cents per E ordinary share was declared on 30 July 2007 and paid on 31 August 2007
–
2
(6 US cents per share).
–
–
742
919
(note 28)
125
107
No. 103 of 53 SA cents per ordinary share was declared on 6 February 2008 and will be paid on 7 March 2008 (approximately 7 US cents per share). The actual rate of payment will depend on the exchange rate on the date of currency conversion.
No. E3 of 26.5 SA cents per E ordinary share was declared on 6 February 2008 and will be paid on 7 March 2008 (approximately 4 US cents per share). The actual rate of payment will depend on the exchange rate on the date of currency conversion.

16
Tangible assets
Mineral Exploration
Mine
rights
and
Land
development
Mine
and
evaluation
and
Figures in million
costs
infrastructure
dumps
assets
buildings
Total
US Dollars
Cost
Balance at 1 January 2006
5,128
2,244
1,218
33
27
8,650
Additions
– project
expenditure
293
8 2 – –
303
– stay-in-business expenditure
405
97 – – 2
504
Disposals
(2)
(14)
(3)
(2)
(2)
(23)
Transfers and other movements
(1)
(66)
173 (31)
– – 76
Finance costs capitalised (note 7)

10
–
–
–
–
10
Translation
(191)
(71)
(1)
– (1)
(264)
Balance at 31 December 2006
5,577 2,437
1,185 31 26
9,256
Accumulated amortisation
Balance at 1 January 2006
1,569
1,035
137
1
–
2,742
Amortisation for the year (notes 4, 9 and 36)
466
107
23
1
–
597
Impairments (notes 6 and 14)
(3)
2
4 – – – 6
Disposals
(1)
(3)
– (1)
– (5)
Transfers and other movements
(1)
(92)
62 (1)
– –
(31)
Translation
(66)
(39)
(2)
– –

(107)
Balance at 31 December 2006
1,878 1,166
157 1 –
3,202
Net book value at 31 December 2006
3,699 1,271
1,028 30 26
6,054
Cost
Balance at 1 January 2007
5,577 2,437
1,185 31 26
9,256
Additions
– project expenditure
458
21 – – –
479
– stay-in-business expenditure
350 184 – –
36
570
Acquisition of exploration assets
(2)
–
3 –
25 –
28
Disposals
(3)
(12)
– (1)
(1)
(17)
Transfers and other movements
(1)
(184)
225 – – –
41
Finance costs capitalised (note 7)
10
– – – –
10
Translation
158 25
12
–
3
198
Balance at 31 December 2007

6,366
2,883
1,197
55
64
10,565
Accumulated amortisation
Balance at 1 January 2007
1,878 1,166
157 1 –
3,202
Amortisation for the year (notes 4, 9 and 36)
364 203
21 – 2
590
Impairments (notes 6 and 14)
(3)
1
– – – – 1
Disposals
(1)
(8)
– (1)
–
(10)
Transfers and other movements
(1)
(37)
5 – – –
(22)
Translation
63
15 4 – –
82
Balance at 31 December 2007
2,268
1,391
182
–
2
3,843
Net book value at 31 December 2007
4,098
1,492
1,015
55
62
6,722

For the year ended 31 December

219
16
Tangible assets
Mineral Exploration
Mine
rights
and
Land
development
Mine
and
evaluation
and
Figures in million
costs
infrastructure
dumps
assets
buildings
Total
SA Rands
Cost
Balance at 1 January 2006
32,536
14,241
7,731
206
174
54,888
Additions
– project
expenditure
1,977
55
14 – –
2,046
– stay-in-business
expenditure
2,745 660 – –
11
3,416
Disposals
(13)
(98)
(20)
(11)
(11)
(153)
Transfers and other movements
(1)
(427)

1,171 (210)
–
(3)
531
Finance costs capitalised (note 7)
71
–
–
–
–
71
Translation
2,153 1,036
783 22 14
4,008
Balance at 31 December 2006
39,042 17,065
8,298 217 185
64,807
Accumulated amortisation
Balance at 1 January 2006
9,957
6,565
874
4
1
17,401
Amortisation for the year (notes 4, 9 and 36)
3,167
730
152
10
–
4,059
Impairments (notes 6 and 14)
(3)
13
28 – – 3
44
Disposals
(7)
(20)
– (9)
–
(36)
Transfers and other movements
(1)
(620)
422 (9)
– (3)
(210)

Translation
634 442
90 1 –
1,167
Balance at 31 December 2006
13,144 8,167
1,107 6 1
22,425
Net book value at 31 December 2006
25,898 8,898
7,191 211 184
42,382
Cost
Balance at 1 January 2007
39,042 17,065
8,298 217 185
64,807
Additions
– project expenditure
3,225 147 – – –
3,372
– stay-in-business expenditure
2,453
1,295 – –
256
4,004
Acquisition of exploration assets
(2)
–
24 –
174 –
198
Disposals
(18)
(86)
(3)
(9)
(4)
(120)
Transfers and other movements
(1)
(1,309)
1,581 – – –
272
Finance costs capitalised (note 7)
68
– – – –
68
Translation
(106)
(388)

(140)
(10)
(2)
(646)
Balance at 31 December 2007
43,355
19,638
8,155
372
435
71,955
Accumulated amortisation
Balance at 1 January 2007
13,144 8,167
1,107 6 1
22,425
Amortisation for the year (notes 4, 9 and 36)
2,559 1,426
147 – 11
4,143
Impairments (notes 6 and 14)
(3)
5
1 – – – 6
Disposals
(9)
(57)
– (7)
–
(73)
Transfers and other movements
(1)
(262)
108 – – –
(154)
Translation
6 (169)
(12)
1 (1)
(175)
Balance at 31 December 2007
15,443
9,476
1,242
–
11
26,172
Net book value at 31 December 2007
27,912
10,162
6,913

372
424
45,783
Included in the amounts above for mine infrastructure are assets held under finance leases with a net book value of $9m, R60m (2006:
$15m, R105m). Included in land and buildings are assets held under finance leases with a net book value of $34m, R235m (2006: nil).
The majority of the leased assets are pledged as security for the related finance lease.
The carrying value of assets encumbered by project finance amounts to nil (2006: $12m, R85m).
The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 9.75%
(2006: 8.23%).
A register containing details of properties is available for inspection by shareholders or their duly authorised agents during business
hours at the registered office of the company.
(1)
Transfers and other movements comprise amounts from deferred stripping, change in estimates for decommissioning and asset
reclassifications.
(2)
Exploration assets of $43m, R298m were acquired from Trans-Siberian Gold plc (TSG). Assets to the value of $15m, R100m has
been tranferred to non-current assets held for sale (note 26).

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
16 Tangible assets (continued)
(3)
Impairments include the following:
44
6
Write-off of various minor tangible assets and equipment
1
6
44
6
(note 6)
1
6
The above impairments relate to mining properties, mine development costs and mine plant facilities and have been recognised in operating special items (note 6). The recoverable amount was determined by reference to value in use.

Impairment calculation

Management assumptions for the value in use of tangible assets and goodwill include:

The forward gold price curve for the first 10 years, where a forward gold market and quoted prices exist (starting point based on a 30-day average during the fourth quarter of 2007: $749/oz, (2006: $630/oz)). Thereafter, the estimated future gold price has been increased by 2.25% (2006: 2.25%) per annum over the remaining life of the mines. These prices have been adjusted for the effects of including normal sale forward contracts to arrive at an average received price across all of the cash generating units (CGUs).

Annual life of mine plans which take into account the following:

Proved and probable ore reserves included in pages 106 to 111;

value beyond proved and probable reserves (including exploration potential) determined using the gold price assumption referred to above;

a real pre-tax discount rate adjusted for country risk and project risk for cash flows relating to mines not yet in commercial production and deep level mining projects based on the discount rate applicable to the long-term dollar market rates;

foreign currency cash flows are translated at estimated forward exchange rates and then discounted using appropriate discount rates for that currency;

cash flows used in impairment calculations are based on life
of mine plans which exceed five years for the majority of the
mines; and
variable operating cash flows are increased at local
Consumer Price Index rates.

221

US Dollars

Figures in million

	2007	2006

16 Tangible assets (continued)

Impairment calculation (continued)

The real pre-tax discount rates applied in impairment calculations are based on a calculated weighted average cost of capital (WACC) of 4.53% (2006: 4.00%), adjusted for appropriate factors being country risk, project risk, value and timing of tax payments. The WACC is based on the average weighting of AngloGold Ashanti and those of its main peers.

Real pre-tax discount rates applied in impairment calculations on CGU's for which the carrying amount of goodwill is significant are as follows:

		2007	2006
Sunrise Dam	(1)	11.0%	10.2%
Boddington	(1)	8.3%	7.7%
Geita	(1)	10.5%	10.3%

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as spot and forward gold prices, discount rates, foreign currency exchange rates, estimates of costs to produce reserves and future capital expenditure.

Should management's estimate of the future not reflect actual events, further impairments may be identified. Factors affecting the estimates include:

changes in proved and probable Ore Reserves as well as value beyond proven and probable reserves;

the grade of Ore Reserves as well as value beyond proved and probable reserves may vary significantly from time

to time;
differences between actual commodity prices and commodity price assumptions;
unforeseen operational issues at mine sites; and
changes in capital, operating mining, processing and reclamation costs and foreign exchange rates.
(1)
The discount rates for 2006 were calculated on a consistent basis to the 2007 discount rates.

SA Rands
US Dollars
Figures in million
16 Tangible assets (continued)
Impairment calculation (continued)
Based on an analysis carried out by the group, the carrying value and value in use of cash generating units that are most sensitive to a 5% movement in gold price, ounces, costs and discount rate assumptions are:
Carrying
Value in
Carrying
Value in
value
use
2007
value
use
10,890 12,048
Obuasi
1,599 1,769
647 783 Sadiola
95 115
933 933 Morila
(1)
137 137
3,654 3,876
Sunrise Dam
(1)
537 569
2006
10,760 11,065
Obuasi
1,537 1,580
782 880 Tau Lekoa
112 126
Should any of the assumptions used change adversely and the impact not be mitigated by a change in other factors, this could result in an impairment of the above assets.
It is impracticable to disclose the extent of the possible effects of changes in the assumptions for the future gold price and hence life of mine plans at 31 December 2007 because these assumptions and others used in impairment testing of tangible assets and goodwill are inextricably linked. In addition, for those mines with a functional currency other than the US dollar, movements in the US dollar exchange rate will also be a critical factor in determining life of mine and production plans.
Therefore it is possible that outcomes within the next financial year that are different from the assumptions used in the impairment testing process for goodwill and tangible assets could require a material adjustment to the carrying amounts

disclosed at 31 December 2007.
(1)
The above carrying value of Morila and Sunrise Dam includes
goodwill of $20m, R137m and $133m, R907m respectively
(note 17).

223
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
17 Intangible assets
Goodwill
Net carrying value
2,366
2,739
Balance at beginning of year
391
373
–
(7)
Impairment of goodwill (notes 6 and 14)
(1)
(1)
–
373
112
Translation
28
18
2,739
2,844
Balance at end of year
418
391
Net carrying amount allocated to each of the cash
generating units:
836
907
Sunrise Dam
133
119
836
907
Boddington
133
119
763
742
Geita Gold Mining Limited
109
109
148
137

Morila Limited
20
21
100
97
AngloGold Ashanti Brasil Mineração
15
15
56
54
Serra Grande Company Limited
8
8
2,739
2,844
418
391
(1)
Goodwill has been allocated to its respective cash
generating units (CGUs) where it is tested for impairment as
part of the CGU (note 16). The group reviews and tests the
carrying value of goodwill on an annual basis for impairment.
Following the impairment review, goodwill to the value of
$1m, R7m at Morila was impaired.
Royalty and tax rate concession
Cost
312
344
Balance at beginning of year
49
49
32
(9)
Translation
–
–
344
335
Balance at end of year
49
49
Accumulated amortisation
145
174
Balance at beginning of year
25
23
13
14
Amortisation (notes 4 and 36)
2

2
16
(5)
Translation
–
–
174
183
Balance at end of year
27
25
170
152
Net book value
22
24
2,909
2,996
Total intangible assets
440
415
The government of Ghana agreed to a concession on the royalty payments by maintaining a rate of 3% for 15 years from 2004.
The tax rate concession was granted at a rate of 30% for the Ashanti business combination in 2004. During 2005, the corporate tax rate in Ghana decreased to 25% and the tax rate concession, which expires in 2019, was fully impaired.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
18 Investments in associates
The group has a 25% (2006: 25%) interest in Oro Group (Pty)
Ltd which is involved in the manufacture and wholesale of
jewellery. The year-end of Oro Group (Pty) Ltd is 31 March.
Equity accounting is based on results to 30 September 2007
adjusted for material transactions.
The group has a 29.8% (2006: 29.9%) interest in Trans-Siberian
Gold plc (listed on the London Stock Exchange), which is
involved in the exploration and development of gold mines. The
year-end of Trans-Siberian Gold plc is 31 December. Equity
accounting is based on results to 30 September 2007 adjusted
for material transactions.
The carrying value of associates consists of:
218
203
Shares at carrying value brought forward
32
35
(15)
12
Share of retained earnings (loss) brought forward
(1)
(3)
203
215
31
32
(6)
(10)
Share of associates' loss after taxation (note 8)
(1)
(1)
–
(154)
Impairment (note 8)
(1)
(22)
–
–
3
Investment acquired in Margaret Water Company Limited
–
–
18

3
Translation
1
–
85
83
Loans advanced
(2)
12
12
300
140
21
43
(1)
In 2007, the Trans-Siberian Gold plc and Margaret Water Company Limited investments were impaired. The impairment tests considered the investments fair value and anticipated future cash flows. Impairments of $22m, R154m were recorded.
(2)
Loans advanced consist of $10m, R68m (2006: $10m, R70m) to Trans-Siberian Gold plc and $2m, R15m to the Oro Group (Pty) Ltd (2006: $2m, R15m).
The Trans-Siberian Gold plc loan bears interest at LIBOR + 4% and is convertible into equity under certain circumstances at the option of the borrower.
The Oro loan bears interest at a rate determined by the Oro Group (Pty) Ltd's board of directors and is repayable at their discretion.

225
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
18 Investments in associates (continued)
The carrying value consists of the following:
Share capital and reserves
20
23
Oro Group (Pty) Ltd
4
3
195
34
Trans-Siberian Gold plc
5
28
215
57
9
31
Loans advanced
15
15
Oro Group (Pty) Ltd
2
2
70
68
Trans-Siberian Gold plc
10
10
300
140
21
43
63
41
Market value of listed associate
6
9
The group's effective share of certain balance sheet items of its
associates at 30 September 2007 is as follows:
117
100
Non-current assets
15

17
97
147
Current assets
22
14
214
247
Total assets
37
31
50
44
Non-current liabilities
7
7
30
42
Current liabilities
6
4
80
86
Total liabilities
13
11
134
161
Net assets
24
20
Reconciliation of the carrying value of investments in associates
with net assets:
134
161
Net assets
24
20
101
99
Goodwill
14
14
235
260
38
34
70
68
Loan advanced to Trans-Siberian Gold plc
10

10
–
(154)
Impairment
(22)
–
(5)
(5)
Repayment of Oro Group (Pty) Ltd shareholders' loan
(1)
(1)
–
(43)
Elimination of profits within the group
(6)
–
–
14
Translation
2
–
300
140
Carrying value
21
43

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
19 Other investments
Listed investments
Available-for-sale
97
310
Balance at beginning of year
44
15
512
30
Additions
4
76
(388)
(23)
Disposals
(3)
(57)
77
8
Fair value adjustments
(1)
1
11
12
(2)
Translation
2
(1)
310
323
Balance at end of year
48
44
Available-for-sale listed investments consist of investments in
ordinary shares, associated purchase warrants and options.
The available-for-sale investments primarily consists of:
91
96
Nufcor Uranium Limited
14
13
101
76

International Tower Hill Mines Limited
11
14
22
56
Red 5 Limited
8
3
Various listed investments held by Environmental
80
89
Rehabilitation Trust Fund
13
11
16
6
Other
2
3
310
323
48
44
Held to maturity
118
124
Balance at beginning of year
18
19
–
15
Additions
2
–
–
(39)
Maturities
(6)
–
6
4
Interest earned
1
1
–
–
Translation
–
(2)
124
104

Balance at end of year
15
18
Rehabilitation Trust Fund administered by RMB Private
Bank comprising:
90
72
Government bonds
10
13
34
32
Quasi-Government bonds
5
5
124
104
15
18
434
427
Book value of listed investments
63
62
434
430
Market value of listed investments
63
62
The market value of held to maturity bonds above is $15m,
R107m. The market value has a sensitivity of R27,433 for a
basis point change in interest rates.
226
Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December

227
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
19 Other investments (continued)
Unlisted investments
Available-for-sale
2
2
Balance at beginning of year
–
–
2
2
Balance at end of year
–
–
Available-for-sale unlisted investments consist primarily of the
Chamber of Mines Building Company Limited.
2
2
Directors' valuation of unlisted investments
(2)
–
–
Held to maturity
428
448
Balance at beginning of year
64
68
52
15
Additions
2
7
(74)
(102)
Maturities
(15)
(11)
36
9
Interest earned
1
5
6

(4)
Translation
2
(5)
448
366
Balance at end of year
54
64
Additions to unlisted investments consist of contributions to the Environmental Rehabilitation Trust Fund and Environmental Protection Bond. These investments are collateral for certain of the group's environmental obligations.
Unlisted investments – held to maturity include:
Negotiable Certificates of Deposit – Rehabilitation Trust Fund
367
274
administered by RMB Private Bank
40
52
Environmental Protection Bond – fixed-term deposit required
64
76
by legislation
12
9
17
16
Other
2
3
448
366
54
64
450
368
Book value of unlisted investments
54
64
450
366
Fair value of unlisted investments
54
64
884
795
Total book value
117
126
884

796
Total fair value
117
126
(1)
The exposure to equity price risk on equity investments is not significant.
(2)
There is no active market for the unlisted equity investments and fair value cannot be reliably measured. The unlisted equity investments are carried at cost. The group does not intend to sell the investments in the foreseeable future.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
20 Interest in joint ventures
The group's effective share of income, expenses, assets and
liabilities of joint ventures, which is included in the consolidated
financial statements, is as follows:
Income statement
2,146
1,951
Gold income
278
317
(1,101)
(1,217)
Expenses
(173)
(161)
1,045
734
Operating profit
105
156
9
10
Interest received
1
1
(46)
(35)
Finance costs and unwinding of obligations
(5)
(7)
1,008
709
Profit before taxation
101
150
(219)
(304)
Taxation
(43)
(34)
789
405
Profit after taxation
58

116
Balance sheet
Non-current assets
832
688
Tangible assets
101
119
148
137
Intangible assets
20
21
91
96
Other investments
14
13
485
410
Inventories
60
69
161
180
Trade and other receivables
26
23
74
113
Deferred taxation
17
11
Current assets
702
850
Inventories
125
100
204
232
Trade and other receivables
34
29
170
135
Cash and cash equivalents
20
24
2,867
2,841

Total assets
417
409
1,957
2,043
Equity
300
280
Non-current liabilities
59
25
Borrowings
4
8
248
244
Provisions and deferred taxation
36
35
Current liabilities
184
136
Current portion of borrowings
20
26
419
393
Trade and other payables
57
60
2,867
2,841
Total equity and liabilities
417
409
Refer to pages 304 and 305 for details of joint ventures.

229
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
21 Inventories
Non-current
Raw materials
1,048
1,296
– heap-leach inventory
190
150
922
913
– ore stockpiles
134
132
Finished goods
24
–
– by-products
(1)
–
3
1,994
2,209
Total metal inventories
324
285
12
8
Mine operating supplies
1
2
2,006
2,217
325
287
Current
Work in progress
464
581
– gold in process
85
66
Finished goods
292

281
– gold doré/bullion
41
42
455
392
– by-products
(1)
58
65
Raw materials
621
1,315
– ore stockpiles
193
89
345
382
– heap-leach inventory
56
49
2,177
2,951
Total metal inventories
433
311
1,247
1,652
Mine operating supplies
243
178
3,424
4,603
676
489
5,430
6,820
Total inventories
(2)
1,001
776
(1)
Uranium by-products of $3m, R22m (2006: $6m, R45m) are pledged to bankers in support of an inventory repurchase programme (note 30).
(2)
The amount of the write-down of by-products, gold in process, gold on hand and ore stockpiles to net realisable value, and recognised as an expense is $55m, R372m (2006: $4m, R28m). This expense is included in cost of sales which is disclosed in note 4.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
22 Other non-current assets
Unsecured
267
244
AngloGold Ashanti Pension Fund (note 32)
36
38
Defined benefit post-retirement medical asset for Rand Refinery
17
19
employees (note 32)
3
2
1
1
Retiree Medical Plan for Nufcor South Africa employees (note 32)
–
–
Loans and receivables
Loan repayable between 31 December 2009 and
4
4
31 December 2011 bearing interest at 3% per annum
–
–
Other interest-bearing loan – repayable over five years at South
5
5
African prime bank overdraft rates less 2%
1
1
Other non-interest bearing loans and receivables – repayable
24
7
on various dates
1
4
318
280
41
45
Current portion of other non-current assets included in
(5)
(2)

current assets
–
(1)
313
278
41
44
23 Trade and other receivables
Non-current
18
14
Trade debtor
2
3
38
56
Prepayments and accrued income
8
5
329
496
Recoverable tax, rebates, levies and duties
(1)
73
47
20
–
Other debtors
–
3
405
566
83
58
Current
291
302
Trade debtors
44
41
407
546
Prepayments and accrued income
80
58
14
19
Interest receivable
3
2
543

644
Recoverable tax, rebates, levies and duties
(1)
95
77
6
29
Amounts due from related parties
4
1
39
47
Other debtors
7
6
1,300
1,587
233
185
1,705
2,153
Total trade and other receivables
316
243
The non-current trade debtor is non-interest bearing and
repayable over three years.
Current trade debtors are non-interest bearing and are
generally on terms less than 90 days.
There is no concentration of credit risk with respect to trade
receivables, as the group has a large number of internationally
dispersed customers.
230
Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December

231
Figures in million
23 Trade and other receivables (continued)
There is a concentration of risk in respect of recoverable value added tax and fuel duties from the Malian and the Tanzanian governments.
(1)
Recoverable tax, rebates, levies and duties includes the following:
Recoverable value added tax due from the Malian government amounts to an attributable $42m, R286m at 31 December 2007 (31 December 2006: $34m, R237m). The last audited value added tax return was for the period ended 31 March 2007 and at balance sheet date an attributable $25m, R170m (2006: $19m, R131m) was still outstanding, and $17m, R116m (2006: $15m, R107m) is still subject to audit. The accounting processes for the unaudited amount are in accordance with the processes advised by the Malian government in terms of previous audits.
Recoverable fuel duties from the Malian government amounts to an attributable $7m, R48m at 31 December 2007 (31 December 2006: $11m, R73m). Fuel duty refund claims are required to be submitted before 31 January of the following year and are subject to authorisation by, firstly, the Department of Mining, and secondly, the Customs and Excise authorities. The Customs and Excise authorities have approved an attributable $2m, R14m (2006: $5m, R34m), which is still outstanding, while an attributable $5m, R34m (2006: $6m, R39m) is still subject to authorisation. Accounting processes for the unauthorised amount are in accordance with the processes advised by the Malian government in terms of previous authorisations. As from February 2006 all fuel duties have been exonerated.
The government of Mali is a shareholder in all Malian owned entities. Management is in negotiations with the government of Mali to agree a protocol for the repayment of the outstanding amounts. The amounts outstanding have been discounted to their present value at a rate of 6.5%.
Recoverable value added tax due from the Tanzanian government amounts to $16m, R109m at 31 December 2007 (31 December 2006: $14m, R97m). The last audited value added tax return was for the period ended 30 June 2007 and at 31 December 2007 $14m, R95m (31 December 2006: $9m, R63m) was still outstanding and $2m, R14m (31 December 2006: $5m, R34m) is still subject to audit. The accounting processes for the unaudited amount are in accordance with the processes advised by the Tanzanian government in terms of previous audits. The amounts outstanding have been discounted to their present value at a rate of 7.8%.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
23 Trade and other receivables (continued)
Recoverable fuel duties from the Tanzanian government amounts to $37m, R252m at 31 December 2007 (31 December 2006: $18m, R128m). Fuel duty claims are required to be submitted after consumption of the related fuel and are subject to authorisation by the Customs and Excise authorities. Claims for the refund of fuel duties amounting to $21m, R143m (31 December 2006: $12m, R83m) have been lodged with the Customs and Excise authorities, which is still outstanding, whilst claims for refund of $16m, R109m (31 December 2006: $6m, R45m) have not yet been submitted. The accounting processes for the unauthorised amount are in accordance with the processes advised by the Tanzanian government in terms of previous authorisations. The amounts outstanding have been discounted to their present value at a rate of 7.8%.
24 Cash restricted for use
15
45
Cash restricted by the prudential solvency requirements
7
2
Cash balances held by the Environmental Rehabilitation
31
179
Trust Fund
26
5
23
33
Cash balances held by the Boddington Joint Venture
5
3
6
7
Other
1
1
75
264
(note 39)
39
11
25 Cash and cash equivalents

2,649
2,471
Cash and deposits on call
363
378
818
910
Money market instruments
133
117
3,467
3,381
(notes 39 and 40)
496
495
232
Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December

233
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
26 Non-current assets held for sale
Effective 30 June 2005, the investment in the Weltevreden mining rights of $15m, R100m (2006: $15m, R100m) was classified as held for sale. This investment was previously recognised as a tangible asset. Weltevreden's rights were sold to Aflease Gold and Uranium Resource Limited on 15 June 2005. On 19 December 2005, Aflease was acquired by sxr Uranium One (formerly Southern Cross Inc.) and the sale agreement was amended to recognise this change. The conditions precedent to the agreement were not fulfilled before the expiry date of 31 December 2007. Consequently the agreement lapsed and a new agreement is being negotiated with Aflease Gold Limited. In terms of the draft agreement, the purchase price will be paid in the form of Aflease shares to be issued to AngloGold Ashanti.
The draft agreement currently contains conditions precedent including that the Minister must approve of the cession of the Weltevreden mining right from AngloGold Ashanti to Aflease, unconditional approval of the transaction by the Competition Commission and approval by the JSE of issue and allotment of the Aflease shares.
Rand Refinery allocated parts of its premises $1m, R10m previously recognised as a tangible asset, to held for sale. Rand Refinery intends to sell off parts of the estate that are no longer utilised within the next 12 months. A buyer has been found and a sale agreement has been drawn up, the parties are in the process of finalising the agreement.
Effective 30 June 2007, exploration properties of $15m, R100m acquired from Trans-Siberian Gold plc situated in Russia were classified as assets held for sale. The expected cash sale of these exploration properties would form part of the joint venture agreement between Polymetal and AngloGold Ashanti which is expected to be concluded during 2008.
Arising from the sale of Bibiani, effective 1 December 2006, to Central African Gold plc (CAG), the group decided to apply $3m, R23m of the partial proceeds to an investment in 15,825,902 CAG shares. Subsequent to this decision, local regulators required that the 15,825,902 shares in CAG be sold within 90 days of 28 December 2006.
On 14 February 2007, the company disposed of 7,000,000 CAG shares yielding total proceeds of $1m, R11m and during April 2007, disposed of the remaining 8,825,902 CAG shares
123

210
yielding total proceeds of $2m, R13m.
31
18

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
27 Share capital and premium
Share capital
Authorised
100
100
400,000,000 ordinary shares of 25 SA cents each
15
14
1
1
4,280,000 E ordinary shares of 25 SA cents each
–
–
1
1
2,000,000 A redeemable preference shares of 50 SA cents each
–
–
–
–
5,000,000 B redeemable preference shares of 1 SA cent each
–
–
102
102
15
14
Issued and fully paid
277,457,471 (2006: 276,236,153) ordinary shares of
69
69
25 SA cents each
10
10
4,140,230 (2006: 4,185,770) E ordinary shares of
1
1
25 SA cents each
–
–
2,000,000 (2006: 2,000,000) A redeemable preference
1
1
shares of 50 SA cents each

–
–
778,896 (2006: 778,896) B redeemable preference shares
–
–
of 1 SA cent each
–
–
71
71
10
10
Treasury Shares held within the group:
2,778,896 (2006:2,778,896) A and B redeemable preference
(1)
(1)
shares held within the group
–
–
–
–
913,410 (2006: 928,590) ordinary shares held within the group
(1)
–
–
2,740,230 (2006: 2,785,770) E ordinary shares held
(1)
(1)
within the group
(1)
–
–
69
69
10
10
Share premium
19,293
22,976
Balance at beginning of year
3,282
3,045
3,330
283
Ordinary shares issued
40
550
353
(6)
E ordinary shares (cancelled) issued
(1)

50
–
–
Translation
94
(363)
22,976
23,253
Balance at end of year
3,415
3,282
(312)
(312)
Redeemable preference shares held within the group
(46)
(45)
(297)
(292)
Ordinary shares held within the group
(43)
(43)
(353)
(347)
E ordinary shares held within the group
(51)
(50)
22,014
22,302
3,275
3,144
22,083
22,371
Share capital and premium
3,285
3,154
(1)
These shares relate to the Black Economic Empowerment
transactions more fully described in note 11 and as a result
participate in dividends declared by the group.
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Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December

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27 Share capital and premium (continued)

The rights and restrictions applicable to the A and B redeemable preference shares.

A redeemable preference shares are entitled to:

an annual dividend, after payment in full of the annual dividend on the B preference shares, equivalent to the balance of after tax profits from mining the Moab Lease Area; and

on redemption, the nominal value of the shares and a premium per share equal to the balance of the net proceeds from disposal of assets relating to the Moab Lease Area, after redemption in full of the B preference shares and payments of the nominal value of the A preference shares.

B redeemable preference shares are entitled to:

an annual dividend limited to a maximum of 5% of their issue price from the period that profits are generated from the Moab Lease Area; and

on redemption, the nominal value of the shares and a premium of up to R249.99 per share provided by the net proceeds from disposal of the assets relating to the Moab Lease Area.

The Moab Lease Area consists of the Moab Khotsong mine operations.

28
Retained earnings and other reserves
Non-
Foreign
Other
distri-
currency
Actuarial
compre-
Retained
butable
translation
gains
hensive
Figures in million
earnings
(1)
reserves
(2)
reserve
(losses)
income
(3)
Total
US Dollars
Balance at December 2005
(58)
22 (66)
(36)
(261)
(399)
Actuarial gains recognised
42
42
Deferred taxation thereon (note 33)
(15)
(15)
Loss attributable to equity shareholders
(44)
(44)
Dividends (note 15)
(107)
(107)
Net loss on cash flow hedges removed from
equity and reported in gold sales
215 215
Net loss on cash flow hedges
(227)
(227)
Deferred taxation on cash flow hedges
(note 33)

25 25
Gain on available-for-sale financial assets
12
12
Deferred taxation on available-for-sale financial assets (note 33)
(2)
(2)
Share-based payment for share awards and BEE transaction
48 48
Translation
(2)
307 3
(25)
283
Balance at December 2006
(209)
20 241 (6)
(215)
(169)
Actuarial loss recognised
(14)
(14)
Deferred taxation thereon (note 33)
5 5
Loss attributable to equity shareholders
(668)
(668)
Dividends (note 15)
(125)
(125)
Acquisition of minority interest
(12)
(12)
Transfers to foreign currency translation reserve
(6)
6 –
Net loss on cash flow hedges removed from equity and reported in gold sales
200 200
Net loss on cash flow hedges
(166)
(166)
Hedge ineffectiveness
10 10
Deferred taxation on cash flow hedges and hedge ineffectiveness (note 33)
– –
Gain on available-for-sale financial assets

1
1
Deferred taxation on available-for-sale financial assets (note 33)
– –
Share-based payment for share awards
27 27
Translation
11 (1)
(5) 5
Balance at December 2007
(1,020)
20
258
(16)
(148)
(906)

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Annual Financial Statements 2007

Notes to the group financial statements continued

For the year ended 31 December

237
28
Retained earnings and other reserves (continued)
Non-
Foreign
Other
distri-
currency
Actuarial
compre-
Retained
butable
translation
gains
hensive
Figures in million
earnings
(1)
reserves
(2)
reserve
(losses)
income
(3)
Total
SA Rands
Balance at December 2005
1,115 138
(1,910)
(227)
(1,655)
(2,539)
Actuarial gains recognised
283
283
Deferred taxation thereon (note 33)
(102)
(102)
Loss attributable to equity shareholders
(587)
(587)
Dividends (note 15)
(742)
(742)
Net loss on cash flow hedges removed from
equity and reported in gold sales
1,264 1,264
Net loss on cash flow hedges
(1,592)
(1,592)
Deferred taxation on cash flow hedges

(note 33)
167 167
Gain on available-for-sale financial assets
78
78
Deferred taxation on available-for-sale
financial assets (note 33)
(15)
(15)
Share-based payment for share awards and
BEE transaction
338 338
Translation
2,346 1
(88)
2,259
Balance at December 2006
(214)
138 436 (45)
(1,503)
(1,188)
Actuarial loss recognised
(99)
(99)
Deferred taxation thereon (note 33)
36 36
Loss attributable to equity shareholders
(4,269)
(4,269)
Dividends (note 15)
(919)
(919)
Acquisition of minority interest
(81)
(81)
Transfers to foreign currency translation
reserve
(41)
41 –
Net loss on cash flow hedges removed from
equity and reported in gold sales
1,407 1,407
Net loss on cash flow hedges
(1,161)
(1,161)
Hedge ineffectiveness
69 69
Deferred taxation on cash flow hedges and
hedge ineffectiveness (note 33)
(1)
(1)

Gain on available-for-sale financial assets
8
8
Deferred taxation on available-for-sale
financial assets (note 33)
1 1
Share-based payment for share awards
190 190
Translation
(139)
(21) (160)
Balance at December 2007
(5,524)
138
338
(108)
(1,011)
(6,167)
(1)
$402m, R2,729m (2006: $286m, R2,004) of retained earnings arising at the joint venture operations and certain subsidiaries may not be remitted
without third party shareholder consent.
(2)
Non-distributable reserves comprise a surplus on disposal of company shares of $21m, R141m (2006: $20m, R141m) and other transfers.
(3)
Other comprehensive income represents the effective portion of fair value gains or losses in respect of cash flow hedges until the underlying
transaction occurs, upon which the gains or losses are recognised in earnings, fair value gains or losses on available-for-sale financial assets and
the equity item for share-based payments.

For the year ended 31 December
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
29 Minority interests
374
436
Balance at beginning of year
62
59
202
222
Profit for the year
32
30
(171)
(131)
Dividends paid
(19)
(25)
–
(91)
Acquisition of minority interest
(1)
(13)
–
Net loss on cash flow hedges removed from equity and
10
14
reported in gold sales
2
2
(12)
(12)
Net loss on cash flow hedges
(2)
(2)
33
(9)
Translation
1
(2)
436
429

Balance at end of year
63
62
(1)
With effect 1 September 2007, AngloGold Ashanti acquired
the remaining effective 15% minorities of Iduapriem.
30 Borrowings
Unsecured
6,656
6,654
Convertible bonds
(1)
977
951
Semi-annual coupons are paid at 2.375% per annum. The
bonds were issued on 27 February 2004 and are convertible at
the holders' option into ADSs up to February 2009, and are
US dollar-based. The bonds are convertible at a price of
$65.00 per ADS.
If the bonds have not been converted by 20 February 2009,
they will be redeemed at par on 27 February 2009. AngloGold
Ashanti Holdings plc has the option of calling an early
redemption of all the bonds three years after their issuance, if
the price of the ADSs exceeds 130% of the conversion price for
more than 20 days during any period of 30-consecutive trading
days.
Syndicated loan facility ($1,150m) – Drawn down in US dollars
–
3,556
and Australian dollars
(2)
522
–
Interest charged at LIBOR plus 0.4% per annum. Loan is
repayable in December 2010 and is US dollar-based and is
subject to debt covenant arrangements for which no default
event occurred.
2,066
2,070
Corporate bond
(3)
304
295
Semi-annual coupons are paid at 10.5% per annum. The bond
is repayable on 28 August 2008 and is rand-based.
151
68
FirstRand (Ireland) plc
10
22
Interest charged at LIBOR plus 0.8% per annum. Loan is of a

short-term nature, has no fixed repayment date and is
US dollar-based.

239
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
30 Borrowings (continued)
Unsecured (continued)
10
10
Government of Mali
1
1
Interest charged at LIBOR plus 2% per annum. Loan is
repayable by December 2011 and is US dollar-based.
1,271
–
Syndicated loan facility ($700m)
–
181
Interest charged at LIBOR plus 0.4% per annum. This
US dollar-based loan was repaid in December 2007 and was
subject to debt covenant arrangements for which no default
event occurred.
13
–
Bank Belgolaise
–
2
Interest charged at LIBOR plus 1.5% per annum. Loan is
repayable in 24 equal monthly instalments commencing
October 2005 and is US dollar-based.
57
37
Bank overdraft
5
8
Bank overdrafts at market related rates are US dollar-based
(2006: Ghanaian cedi-based).
10,224
12,395
Total unsecured borrowings
1,819
1,460
Secured
Finance leases
–
249
Turbine Square Two (Proprietary) Limited

37
–
The leases are capitalised at an implied interest rate of 9.8% per annum. Lease payments are due in monthly instalments terminating in March 2022 and are rand-based. The buildings financed are used as security for these loans.
55
35
Senstar Capital Corporation
5
8
Interest charged at an average rate of 6.9% per annum. Loans are repayable in monthly instalments terminating in November 2009 and are US dollar-based. The equipment financed is used as security for these loans.
27
18
Rolls Royce
3
4
Interest is charged at a variable rate of approximately 20% per annum, based on the lease contract. Loan is repayable in monthly instalments terminating in March 2010 and is US dollar-based. The equipment financed is used as security for this loan.

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Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
30 Borrowings (continued)
Secured (continued)
Finance leases (continued)
15
17
Terex Africa (Proprietary) Limited
2
2
Interest charged at a rate of 9% per annum. Loan is repayable
in January 2008 and is US dollar-based. The equipment
financed is used as security for this loan.
5
4
Kudu Finance Company
1
1
Interest charged at LIBOR plus 2% per annum. Loan is
repayable in monthly instalments terminating in December 2010
and is US dollar-based. The equipment financed is used as
security for this loan.
–
1
Vehicle leases
–
–
Interest charged at a rate of 15.5% per annum. Loans are
repayable in monthly instalments terminating in February 2011
and are rand-based. The vehicles financed are used as security
for these loans.
Unsecured
Finance lease
–
5
Csilatina Arrendamento Mercantil S.A.
1
–
Interest charged at an average rate of 5% per annum. Loans
are repayable in monthly instalments terminating in October
2010 and are Brazilian real-based.
Other loans

50
26
Nulux Nukem Luxemburg GmbH
4
7
Uranium sale and repurchase agreement, US dollar-based, with
repurchases commencing in December 2006 and terminating
in December 2008. Rate of finance is 5.4% per annum.
Uranium inventory is secured against this contract.
10,376
12,750
Total borrowings (notes 39 and 40)
1,872
1,482
(413)
(2,309)
Current portion of borrowings included in current liabilities
(339)
(59)
9,963
10,441
Total long-term borrowings
1,533
1,423
Amounts falling due
413
2,309
Within one year
339
59
3,321
6,645
Between one and two years
976
475
6,632
3,631
Between two and five years
533
947
10
165
After five years
24
1
10,376
12,750
(notes 39 and 40)
1,872
1,482

Currency
The currencies in which the borrowings are denominated
are as follows:
8,253
9,406
US dollars
1,380
1,179
2,066
2,320
SA rands
341
295
–
1,019
Australian dollars
150
–
–
5
Brazilian real
1
–
57
–
Ghanaian cedis
–
8
10,376
12,750
(notes 39 and 40)
1,872
1,482

241
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
30 Borrowings (continued)
Undrawn facilities
Undrawn borrowing facilities as at 31 December are as follows:
–
4,270
Syndicated loan ($1,150m) – US dollar
627
–
350
341
FirstRand Bank Limited – US dollar
50
50
294
286
Absa Bank Limited – US dollar
42
42
14
14
Nedbank Limited – US dollar
2
2
25
102
FirstRand (Ireland) plc – US dollar
15
4
260
260
Standard Bank of SA Limited – SA rand
38
37
220
220
FirstRand Bank Limited – SA rand
32
31
48
50
Nedbank Limited – SA rand
7
7

30
30
Absa Bank Limited – SA rand
4
4
20
20
Commerzbank AG – SA rand
3
3
10
10
ABN Amro Bank N.V. – SA rand
1
1
46
50
ABN Amro Bank N.V. – Euro
7
7
553
–
Australia and New Zealand Banking Group Limited – AUD
–
79
3,641
–
Syndicated loan ($700m) – US dollar
–
520
5,511
5,653
828
787
(1)
Convertible bonds
7,001
6,810
Senior unsecured fixed-rate bonds
1,000
1,000
(401)
(211)
Unamortised discount and bond issue costs
(31)
(57)
6,600
6,599
969
943
56

55
Accrued interest
8
8
6,656
6,654
977
951
(2)
Syndicated loan facility ($1,150m)
–
3,576
Drawn down in US dollars and Australian dollars
525
–
–
(27)
Unamortised loan issue costs
(4)
–
–
3,549
521
–
–
7
Accrued interest
1
–
–
3,556
522
–
(3)
Corporate bond
2,000
2,000
Senior unsecured fixed-rate bond
293
286
(7)
(3)
Unamortised discount and bond issue costs
–
(1)
1,993
1,997
293
285
73
73

Accrued interest
11
10
2,066
2,070
304
295

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
31 Environmental rehabilitation and other provisions
Environmental rehabilitation obligations
Provision for decommissioning
908
1,225
Balance at beginning of year
175
143
(19)
–
Adjustments due to disposal of assets
–
(3)
245
88
Change in estimates
(1)
13
36
38
84
Unwinding of decommissioning obligation (note 7)
12
6
(2)
(19)
Utilised during the year
(3)
–
55
2
Translation
6
(7)
1,225
1,380
Balance at end of year
203
175
Provision for restoration

1,235
1,300
Balance at beginning of year
186
194
(17)
–
Adjustments due to disposal of assets
–
(2)
11
340
Charge to income statement
48
2
(33)
49
Change in estimates
(1)
7
(5)
71
71
Unwinding of restoration obligation (note 7)
10
10
(67)
(104)
Utilised during the year
(15)
(10)
100
–
Translation
7
(3)
1,300
1,656
Balance at end of year
243
186
Other provisions
122
260
Balance at beginning of year
37
19
137
59
Charge to income statement
9

20
–
(6)
Change in estimates
(1)
–
–
2
Unwinding of other provisions (note7)
–
–
(29)
(23)
Utilised during the year
(3)
(4)
30
33
Translation
6
2
260
325
Balance at end of year
48
37
Other provisions comprise the following:
– provision for labour and civil claim court settlements
186
299
in South America
(2)
44
26
6
4
– provision for employee compensation claims in Australia
(3)
1
1
60
–
– provision for onerous uranium contracts
(4)
–
9
– provision for long-term management incentives in
8
22
Nufcor International Limited
3

1
260
325
48
37
2,785
3,361
Total environmental rehabilitation and other provisions
494
398
(1)
The change in estimates relates to changes in laws and regulations governing the protection of the environment and factors relating to rehabilitation estimates and a change in the quantities of material in reserves and a corresponding change in the life of mine plan. These provisions are expected to unwind beyond the end of the life of mine.

243
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
31 Environmental rehabilitation and other provisions
(continued)
Other provisions (continued)
(2)
Comprises claims filed by former employees in respect of
loss of employment, work-related accident injuries and
diseases, governmental fiscal claims relating to levies and
surcharges and closure costs of old tailings operations. The
liability is expected to unwind over the next two- to five-year
period.
(3)
Comprises workers compensation claims filed by employees
in Australia with regard to work-related incidents. The liability
is expected to unwind over the next three- to five-year
period.
(4)
Relates to onerous uranium contracts in Nufcor International
Limited. The amount indicates the estimated cost of exiting
the contracts and results from the market price increase
above the contracted sales price. The onerous contracts
have maturities up to 2011.
32 Provision for pension and post-retirement benefits
Defined benefit plans
The group has made provision for pension provident and medical
schemes covering substantially all employees. The retirement
schemes consist of the following:
(267)
(244)
AngloGold Ashanti Pension Fund (asset)
(36)
(38)
Post-retirement medical scheme for AngloGold Ashanti
1,094
1,121
South African employees
165
156
69
67
Other defined benefit plans
(1)
9
11

896
944
Sub-total
138
129
Transferred to other non-current assets (note 22)
267
244
AngloGold Ashanti Pension Fund
36
38
17
19
Post-retirement medical scheme for Rand Refinery employees
3
2
1
1
Retiree Medical Plan for Nufcor South Africa employees
–
–
1,181
1,208
177
169
(1)
Other defined benefit plans comprise the following:
5
–
– Ashanti Retired Staff Pension Plan
–
1
62
67
– Obuasi Mines Staff Pension Scheme
9
9
– Post-retirement medical scheme for Rand Refinery
(17)
(19)
employees (asset)
(3)
(2)
13
13
– Retiree Medical Plan for North American employees
2
2
– Supplemental Employee Retirement Plan (SERP) for North
7
7

America (USA) Inc employees
1
1
– Retiree Medical Plan for Nufcor South Africa employees
(1)
(1)
(asset)
–
–
69
67
9
11

For the year ended 31 December
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
AngloGold Ashanti Pension Fund
The plan is evaluated by independent actuaries on an annual
basis as at 31 December of each year. The valuation as at
31 December 2007 was completed at the beginning of 2008
using the projected unit credit method. In arriving at their
conclusions, the actuaries took into account reasonable long-
term estimates of inflation, increases in wages, salaries and
pension as well as returns on investments.
A formal statutory valuation is required by legislation every three
years. The previous statutory valuation had an effective date of
31 December 2005, and was completed in June of 2006. The
next statutory valuation will have an effective date no later than
31 December 2008.
All South African pension funds are governed by the Pension
Funds Act of 1956 as amended.
Information with respect to the AngloGold Ashanti Pension
Fund is as follows:
Change in benefit obligation
1,408
1,568
Balance at beginning of year
224
222
50
47
Current service cost
7
7
108
124
Interest cost
18
16
12
14
Participants' contributions
2
2

84
77
Actuarial loss
11
12
–
7
Increase as a result of transfers into the fund
1
–
(94)
(84)
Benefits paid
(12)
(14)
–
–
Translation
6
(21)
1,568
1,753
Balance at end of year
257
224
Change in plan assets
1,459
1,835
Balance at beginning of year
262
230
146
191
Expected return on plan assets
28
22
272
(6)
Actuarial (loss) gain
(1)
40
40
40
Company contributions
6
6
12
14
Participants' contributions
2
2

–
7
Increase as a result of transfers into the fund
1
–
(94)
(84)
Benefits paid
(12)
(14)
–
–
Translation
7
(24)
1,835
1,997
Fair value of plan assets at end of year
293
262
267
244
Funded status at end of year
36
38
267
244
Net amount recognised
36
38

245
SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Pension benefit obligation
1,568
1,753
Benefit obligation
257
224
1,835
1,997
Fair value of plan assets
293
262
Components of net periodic benefit cost
108
124
Interest cost
18
16
50
47
Current service cost
7
7
(146)
(191)
Expected return on assets
(28)
(22)
12
(20)
Net periodic benefit cost
(3)
1
Assumptions
Assumptions used to determine benefit obligations at the end
of the year are as follows:
Discount rate
8.25%
8.00%
Rate of compensation increase
(1)
6.00%

5.50%
Expected long-term return on plan assets
11.14%
10.50%
Pension increase
4.73%
4.28%
(1)
The short-term compensation rate increase is 8%
(2006: 6%) and the long-term compensation rate increase is
6% (2006: 5.5%).
The expected long-term return on plan assets is determined
using the after tax yields of the various asset classes as a guide.
Plan assets
AngloGold Ashanti's pension plan asset allocations at the end
of the year, by asset category, are as follows:
Equity securities
68%
68%
Debt securities
27%
28%
Other
5%
4%
100%
100%
Investment policy
The Trustees have adopted a long-term horizon in formulating
the Fund's investment strategy, which is consistent with the
term of the Fund's liabilities. The investment strategy aims to
provide a reasonable return relative to inflation across a range
of market conditions.
The Trustees have adopted different strategic asset allocations
for the assets backing pensioner and active member liabilities.
The strategic asset allocation defines what proportion of the
Fund's assets should be invested in each major asset class.
The Trustees have then selected specialist investment
managers to manage the assets in each asset class according
to specific performance mandates instituted by the Trustees.
The Trustees have also put in place a detailed Statement of
Investment Principles that sets out the Fund's overall
investment philosophy and strategy.
Fund returns are calculated on a monthly basis, and the
performance of the managers and Fund as a whole is formally
reviewed by the Fund's Investment Sub-Committee at least
every six months.

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Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December
32
Provision for pension and post-retirement benefits (continued)
Percentage
Percentage
Number
of total
Number
of total
of shares
assets
Fair value
of shares
assets
Fair value
2007
2006
US Dollars million
Related parties
Investments held in related parties are
summarised as follows:
Equity securities
Anglo American plc
(1)
40,400 0.8%
2
AngloGold Ashanti Limited
88,458 1.3%
4
32,960 0.6%
2
4
4
Other investments exceeding 5% of total
plan assets
Bonds
RSA R157 Government Bonds 13.5%
5.4%
16
–
SA Rands million
Related parties
Investments held in related parties are
summarised as follows:
Equity securities
Anglo American plc
(1)
40,400 0.8%

14
AngloGold Ashanti Limited
88,458 1.3%
26
32,960 0.6%
11
26
25
Other investments exceeding 5% of total
plan assets
Bonds
RSA R157 Government Bonds 13.5%
5.4%
107
–
Cash flows
Contributions
The company expects to contribute $6m, R38m (2007: $6m, R40m) to its pension plan in 2008.
(1)
During April 2006, AngloGold Ashanti launched an equity offering which, together with the shares placed by Anglo American plc,
reduced Anglo American plc's interest in AngloGold to 41.7%. In October 2007, Anglo American plc further reduced their
investment in AngloGold Ashanti Limited to 16.6%.

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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Estimated future benefit payments
The following pension benefit payments, which reflect the
expected future service, as appropriate, are expected to be
paid:
104
2008
15
103
2009
15
102
2010
15
101
2011
15
100
2012
15
1,243
Thereafter
182
Post-retirement medical scheme for AngloGold Ashanti
South African employees
The provision for post-retirement medical funding represents
the provision for health care benefits for employees and retired
employees and their registered dependants.
The post-retirement benefit costs are assessed in accordance
with the advice of independent professionally qualified
actuaries. The actuarial method used is the projected unit credit
funding method. This scheme is unfunded. The last valuation
was performed as at 31 December 2007.
Information with respect to the defined benefit liability is
as follows:
Change in benefit obligation
1,172
1,094
Benefit obligation at beginning of year
156
185
7

6
Current service cost
1
1
88
86
Interest cost
12
13
35
33
Participants’ contributions
5
5
(112)
(111)
Benefits paid
(16)
(17)
(96)
13
Actuarial loss (gain)
2
(14)
–
–
Translation
5
(17)
1,094
1,121
Balance at end of year
165
156
(1,094)
(1,121)
Unfunded status at end of year
(165)
(156)
(1,094)
(1,121)
Net amount recognised
(165)
(156)
Components of net periodic benefit cost
7
6
Current service cost
1
1
88

86
Interest cost
12
13
95
92
Net periodic benefit cost
13
14

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Assumptions
Assumptions used to determine benefit obligations at the end of
the year are as follows:
Discount rate
8.25%
8.00%
Expected increase in health care costs
6.75%
4.75%
Assumed health care cost trend rates at 31 December:
Health care cost trend assumed for next year
6.75%
4.75%
Rate to which the cost trend is assumed to decline (the ultimate
trend rate)
6.75%
4.75%
1% point
Assumed health care cost trend rates have a significant effect
1% point
increase
on the amounts reported for health care plans. A 1% point
increase
change in assumed health care cost trend rates would have
the following effect:
11
Effect on total service and interest cost
2
113
Effect on post-retirement benefit obligation
17
1% point
1% point
decrease
decrease
(9)
Effect on total service and interest cost
(1)

(97)
Effect on post-retirement benefit obligation
(14)
Cash flows
Contributions
AngloGold Ashanti Limited expects to contribute $28m, R189m
(2007: $25m, R178m) to the post-retirement medical plan in
2008.
Estimated future benefit payments
The following medical benefit payments, which reflect the
expected future service, as appropriate, are expected to be paid:
86
2008
13
88
2009
13
90
2010
13
92
2011
14
94
2012
14
671
Thereafter
98
Other defined benefit plans
Other defined benefit plans include the Ashanti Retired Staff
Pension Plan, the Obuasi Mines Staff Pension Scheme, the
Post-retirement medical scheme for Rand Refinery employees,
the Retiree Medical Plan for North American employees, the
Supplemental Employee Retirement Plan for North America
(USA) Inc. employees and the Nuclear Fuels South Africa
(NUFCOR) – Retiree Medical Plan for Nufcor South African
employees.
Information in respect of other defined benefit plans for the year
ended 31 December 2007 has been aggregated in the tables
of change in benefit obligations, change in plan assets and
components of net periodic benefit cost, and is as follows:

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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Other defined benefit plans (continued)
Change in benefit obligation
116
132
Balance at beginning of year
19
18
3
7
Interest cost
1
–
12
5
Actuarial loss
–
2
(11)
(10)
Benefits paid
(1)
(1)
12
–
Translation
(1)
–
132
134
Balance at end of year
18
19
Change in plan assets
56
63
Fair value of plan assets at beginning of year
8
8
5
4
Expected return on plan assets

–
–
–
2
Actuarial gain
–
–
(2)
(2)
Benefits paid
–
–
4
–
Translation
1
–
63
67
Fair value of plan assets at end of year
9
8
(69)
(67)
Unfunded status at end of year
(9)
(11)
13
20
– funded plans
3
1
(82)
(87)
– unfunded plans
(12)
(12)
(69)
(67)
Net amount recognised
(9)
(11)
Components of net periodic benefit cost
3
7
Interest cost
1
–
(5)
(4)
Expected return on plan assets

–
–
(2)
3
Net periodic benefit cost
1
–
Cash flows
The other retirement defined benefit plans are all closed to new members and current members are either retired or deferred members. The company does not make contributions to these plans.
Estimated future benefit payments
The following pension benefit payments, which reflect the expected future service, as appropriate, are expected to be paid:
6
2008
1
6
2009
1
6
2010
1
6
2011
1
5
2012
1
105
Thereafter
13

US Dollars
Figures in million
2007
2006

32 Provision for pension and post-retirement benefits (continued)

Other aggregated defined benefit plans comprise the following:

Ashanti Retired Staff pension plan

The pension scheme provides a retirement benefit to former Ashanti employees who were based at the former London office. The plan is evaluated by actuaries on an annual basis using the projected unit credit funding method. No contributions are made to the plan and it is funded with a marginal shortfall.

Information with respect to the Ashanti Retired Staff pension plan is as follows:

Assumptions

Assumptions used to determine benefit obligations at the end of the year are as follows:

	2007	2006
Discount rate	5.50%	5.00%
Expected long-term return on plan assets	6.81%	6.13%
Pension increase	2.00%	2.50%

The expected long-term return on plan assets is determined using the after tax return of domestic bonds and fixed-term investments.

Plan assets

The Ashanti Retired Staff defined benefit pension plan asset allocations at the end of the year, by asset category, are as follows:

	2007	2006
Equity securities	59%	55%
Debt securities	36%	40%
Property	0%	1%
Cash	5%	

4%
100%
100%
No investments are made in related party entities.
Obuasi Mines Staff Pension Scheme
The scheme provides monthly payments in Ghanaian currency (indexed to the US dollar) to retirees until death. The benefits under the scheme are based on years of service and the compensation levels of the covered retirees. The scheme is unfunded and accordingly, no assets related to the scheme are recorded. The scheme is evaluated by actuaries on an annual basis.

251
US Dollars
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Information with respect to the Obuasi Mines Staff Pension
Scheme is as follows:
Assumptions
Assumptions used to determine benefit obligations at the end of
the year are as follows:
Discount rate
4.50%
5.00%
Pension increase
4.50%
4.50%
Post-retirement medical scheme for Rand Refinery
employees
The Rand Refinery Retiree Medical Plan (Medipref) is a non-
contributory defined benefit plan in respect of certain past
qualifying employees. The accumulated post-employment
medical aid obligation was determined by independent
actuaries in September 2007 using the projected unit credit
funding method. Movements that could affect the valuation
between the interim date and the date of the balance sheet
have been considered. The plan is fully funded and evaluated
by independent actuaries on an annual basis.
Information with respect to the post-retirement medical
plan and obligation for the Rand Refinery Limited past
employees is as follows:
Assumptions
Assumptions used to determine benefit obligations at the end
of the year are as follows:
Discount rate
8.25%
8.50%
Expected increase in health care costs
6.75%
6.50%
Expected return on plan assets
7.65%
7.77%
Plan assets
The asset allocation of the Rand Refinery post-retirement medical
fund as at the end of the year, by asset category, is as follows:
Debt securities
76%
76%
Cash

24%
24%
100%
100%
No investments are made in related party entities.

US Dollars
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Retiree Medical Plan for North American employees
AngloGold Ashanti USA provides health care and life insurance
benefits for certain retired employees under the AngloGold
North America Retiree Medical Plan (the Retiree Medical Plan).
With effect from 31 December 1999, no additional employees
were eligible to receive post-retirement benefits under the
Retiree Medical Plan. Curtailment accounting was applied at
31 December 1999.
The Retiree Medical Plan is a non-contributory defined benefit
plan. This plan is evaluated by independent actuaries on an
annual basis. It was last evaluated by independent actuaries in
September 2007 who took into account reasonable long-term
estimates of increases in health care costs and mortality rates
in determining the obligations of AngloGold Ashanti USA under
the Retiree Medical Plan. The Retiree Medical Plan reflected
liabilities of $2m, R13m (2006: $2m, R13m). The Retiree
Medical Plan is an unfunded plan. The Retiree Medical Plan is
evaluated using the projected unit credit funding method. The
company does not share in future cost increases and therefore
the rate of compensation increase is not applicable.
Information with respect to the Retiree Medical Plan is as
follows:
Assumptions
Assumptions used to determine benefit obligations at the end of
the year are as follows:
Discount rate
4.50%
5.00%
Benefits are fixed and independent from inflation and
consequently increases in the cost of health care are not
relevant.
Supplemental Employee Retirement Plan for North
America (USA) Inc. employees
Certain former employees of Minorco (USA) Inc. were covered
under the Minorco (USA) Inc. Supplemental Employee
Retirement Plan (SERP), a non-contributory defined benefit
plan. The SERP was last evaluated by independent actuaries in
September 2007 who took into account long-term estimates of
inflation and mortality rates in determining the obligation of
AngloGold Ashanti USA under the SERP. The SERP is an
unfunded plan and is evaluated annually by actuaries using the

projected unit credit funding method.

253
US Dollars
Figures in million
2007
2006
32 Provision for pension and post-retirement benefits
(continued)
Information with respect to the SERP is as follows:
Assumptions
Assumptions used to determine benefit obligations at the end
of the year are as follows:
Discount rate
4.50%
5.00%
Nuclear Fuels South Africa (NUFCOR) – Retiree Medical
Plan for Nufcor South African employees
The Nufcor South Africa Retiree Medical Plan (Mascom) is a
defined benefit plan in respect of certain past qualifying
employees. The accumulated post-employment medical aid
obligation was determined by independent actuaries in
September 2007 using the projected unit credit funding
method. Movements that could affect the valuation between
the interim date and the date of the balance sheet have been
considered. The plan is fully funded.
Information with respect to the Retiree Medical Plan for
Nufcor South Africa employees is as follows:
Assumptions
Assumptions used to determine benefit obligations at the end
of the year are as follows:
Discount rate
8.25%
8.50%
Expected increase in health care costs
6.75%
6.50%
Expected return on plan assets
9.25%
8.50%
Plan assets
The asset allocation of the Nufcor South Africa post-retirement
medical fund as at the end of the year, by asset category, is as
follows:
Unit trust investment funds
100%
100%
No investments are made in related party entities.

32
Provision for pension and post-retirement benefits (continued)
Five-year Defined Benefit Plan disclosure
Figures in million
2007
2006
2005
2004
2003
US Dollars
AngloGold Ashanti Pension Fund
Defined benefit obligation
257
224
222
216
163
Plan assets
(293)
(262)
(230)
(204)
(138)
Net (funded) unfunded
(36)
(38)
(8)
12
25
Experience adjustments on plan liabilities
3
14
6
10
–
Experience adjustments on plan assets
1
(40)
(41)
(19)
(4)
Post-retirement medical scheme for AngloGold
Ashanti South African employees
Defined benefit obligation
165
156
185

150
128
Unfunded
165
156
185
150
128
Experience adjustments on plan liabilities
(2)
(8)
6
15
(9)
Other Defined Benefit Plans
Defined benefit obligation
18
19
18
41
18
Plan assets
(9)
(8)
(8)
(23)
(11)
Unfunded
9
11
10
18
7
Experience adjustments on plan liabilities
1
–
(1)
3
2
Experience adjustments on plan assets
–
–
–
(2)
(1)
SA Rands
AngloGold Ashanti Pension Fund
Defined benefit obligation
1,753
1,568
1,408

1,218
1,089
Plan assets
(1,997)
(1,835)
(1,459)
(1,150)
(920)
Net (funded) unfunded
(244)
(267)
(51)
68
169
Experience adjustments on plan liabilities
23
95
37
64
–
Experience adjustments on plan assets
6
(272)
(260)
(125)
(28)
Post-retirement medical scheme for AngloGold
Ashanti South African employees
Defined benefit obligation
1,121
1,094
1,172
849
850
Unfunded
1,121
1,094
1,172
849
850
Experience adjustments on plan liabilities
(13)
(57)
38
99
(60)
Other Defined Benefit Plans
Defined benefit obligation
134
132
116

238
110
Plan assets
(67)
(63)
(56)
(143)
(77)
Unfunded
67
69
60
95
33
Experience adjustments on plan liabilities
5
3
(4)
19
14
Experience adjustments on plan assets
(2)
–
(2)
(9)
(10)

255
32
Provision for pension and post-retirement benefits (continued)
Defined Contribution Funds
Contributions to the various retirement schemes are fully expensed during the year in which they are made and the cost of
contributing to retirement benefits for the year amounted to $51m, R358m (2006: $40m, R274m).
Australia (Boddington and Sunrise Dam)
The region contributes to the Australian Retirement Fund for the provision of benefits to employees and their dependants on
retirement, disability or death. The fund is a multi-industry national fund with defined contribution arrangements. Contribution rates
by the operation on behalf of employees varies, with minimum contributions meeting compliance requirements under the
Superannuation Guarantee legislation. Members also have the option of contributing to approved personal superannuation funds.
The contributions by the operation are legally enforceable to the extent required by the Superannuation Guarantee legislation and
relevant employment agreements. The cost to the group of all these contributions amounted to $3m, R20m (2006: $2m, R14m).
Ghana and Guinea (Iduapriem, Obuasi and Siguiri)
AngloGold Ashanti mines in Ghana and Guinea contribute to provident plans for their employees which are defined contribution
plans. The funds are administered by Boards of Trustees and invest mainly in Ghana and Guinea government treasury instruments,
fixed term deposits and other projects. The cost of these contributions were $4m, R22m (2006: $3m, R21m).
Mali (Sadiola, Yatela and Morila)
The Malian operations do not have retirement schemes for employees. All employees (local and expatriate) contribute towards the
government social security fund, and the company also makes a contribution towards this fund. On retirement, Malian employees
are entitled to a retirement benefit from the Malian government. Expatriate employees are reimbursed only their contributions to the
social security fund. AngloGold Ashanti seconded employees in Mali remain members of the applicable pension or retirement fund
in terms of their conditions of employment with AngloGold Ashanti. The cost to the group of all these contributions amounted to
$1m, R7m (2006: $1m, R6m).
Namibia (Navachab)
Navachab employees are members of a defined contribution provident fund. The fund is administered by the Old Mutual insurance
company. Both the company and the employees contribute to this fund. AngloGold Ashanti seconded employees at Navachab
remain members of the applicable pension or retirement fund in terms of their conditions of employment with AngloGold Ashanti.
The cost to the group of all these contributions amounted to $1m, R6m (2006: $1m, R7m).
North America (Cripple Creek & Victor)
AngloGold Ashanti USA sponsors a 401(k) savings plan whereby employees may contribute up to 60% of their salary, of which up
to 5% is matched at a rate of 150% by AngloGold Ashanti USA. AngloGold Ashanti USA's contributions were $1m, R10m (2006:

$2m, R11m).
South Africa (Great Noligwa, Kopanang, Moab Khotsong, Mponeng, Savuka, Tau Lekoa and TauTona)
South Africa contributes to various industry-based pension and provident retirement plans which covers substantially all employees
and are defined contribution plans. These plans are all funded and the assets of the schemes are held in administrated funds
separately from the group's assets. The cost of providing these benefits amounted to $36m, R257m (2006: $29m, R201m).
South America (AngloGold Ashanti Brasil Mineração, Cerro Vanguardia and Serra Grande)
The AngloGold Ashanti South America region operates defined contribution arrangements for their employees in Brazil. These
arrangements are funded by the operations (basic plan) and operations/employees (optional supplementary plan). A PGBL fund,
similar to the American 401(k) type of plan was started in December 2001. Administered by Bradesco Previdencia e Seguros (which
assumes the risk for any eventual actuarial liabilities), this is the only private pension plan sponsored by the group. Contributions
amounted to $5m, R36m (2006: $2m, R14m).
Tanzania (Geita)
Geita does not have a retirement scheme for employees. Tanzanian nationals contribute to the National Social Security Fund (NSSF)
or the Parastatal Provident Fund (PPF), depending on the employee’s choice, and the company also makes a contribution on the
employee’s behalf to the same fund. On leaving the group, employees may withdraw their contribution from the fund. From July
2005, the company has set up a supplemental provident fund which is administered by the Parastatal Provident Fund (PPF) with
membership available to permanent national employees on a voluntary basis. The company makes no contribution towards any
retirement schemes for contracted expatriate employees. AngloGold Ashanti employees seconded in Tanzania remain members of
the applicable pension or retirement fund in terms of their conditions of employment with AngloGold Ashanti. The company
contributes to the National Social Security Fund (NSSF) on behalf of expatriate employees. On termination of employment the
company may apply for a refund of contributions from the NSSF.

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
33 Deferred taxation
Deferred taxation relating to temporary differences is made up
as follows:
Liabilities
11,293
11,548
Tangible assets
1,696
1,613
107
108
Inventories
16
15
639
488
Derivatives
71
91
120
38
Other
5
17
12,159
12,182
1,788
1,736
Assets
1,215
1,425
Provisions
209
173
2,321
2,521
Derivatives
370
331
1,117
1,465
Tax losses
215
160

216
155
Other
23
31
4,869
5,566
817
695
7,290
6,616
Net deferred taxation liability
971
1,041
Included in the balance sheet as follows:
432
543
Deferred tax assets
80
62
7,722
7,159
Deferred tax liabilities
1,051
1,103
7,290
6,616
Net deferred taxation liability
971
1,041
The movement on the deferred tax balance is as follows:
7,041
7,290
Balance at beginning of year
1,041
1,110
15
(1)
Taxation on fair value adjustments (note 28)
–
2
(200)
(641)
Income statement movement
(94)
(30)
(18)
21
Discontinued operations (note 13)
4
(2)

(167)
1
Taxation on cash flow hedges and hedge ineffectiveness (note 28)
–
(25)
102
(36)
Taxation on actuarial (loss) gain (note 28)
(5)
15
–
38
Acquired properties
5
–
517
(56)
Translation
20
(29)
7,290
6,616
Balance at end of year
971
1,041
No provision has been made for South African income tax or
foreign tax that may result from future remittances of
undistributed earnings of foreign subsidiaries or foreign
corporate joint ventures because it is expected that such
earnings will not be distributed as a dividend in the foreseeable
future. Unrecognised taxable temporary differences pertaining
to undistributed earnings totalled $427m, R2,910m at
31 December 2007 (2006: $353m, R2,471m).

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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
34 Trade, other payables and deferred income
Non-current
150
75
Deferred income
11
21
–
4
Related parties
1
–
150
79
12
21
Current
2,040
2,862
Trade creditors
419
292
1,172
1,182
Accruals
174
167
136
162
Deferred income
24
19
289
291
Unearned premiums on normal sale exempted contracts
43
41
64
52
Other creditors
8
9
3,701

4,549
668
528
3,851
4,628
Total trade, other payables and deferred income
680
549
Current trade and other payables are non-interest bearing and
are normally settled within 60 days.
35 Taxation
710
1,234
Balance at beginning of year
176
112
(968)
(1,664)
Payments during the year
(237)
(143)
1,432
1,680
Provision during the year
239
210
Transfer to recoverable tax in non-current trade and other
–
6
receivables
1
–
17
2
Discontinued operations (note 13)
–
2
43
11
Translation
7
(5)
1,234
1,269
Balance at end of year
186
176
36 Cash generated from operations
859
(3,015)
(Loss) profit before taxation

(492)
168
Adjusted for:
Movement on non-hedge derivatives and other commodity
4,590
7,232
contracts
1,088
627
4,059
4,143
Amortisation of tangible assets (notes 4, 9 and 16)
590
597
822
880
Finance costs and unwinding of obligations (note 7)
125
123
(160)
287
Environmental rehabilitation and other expenditure
42
(22)
161
168
Operating special items
25
22
13
14
Amortisation of intangible assets (notes 4 and 17)
2
2
(528)
(431)
Deferred stripping
(63)
(75)
(137)
(333)
Fair value adjustment on option component of convertible bond
(47)
(16)
(218)
(312)
Interest receivable (note 3)
(45)
(32)
213
520

Other non-cash movements
75
27
(875)
(1,238)
Movements in working capital
(179)
(140)
8,799
7,915
1,121
1,281
Movements in working capital:
(1,852)
(1,489)
Increase in inventories
(240)
(211)
(27)
(501)
(Increase) decrease in trade and other receivables
(79)
19
1,004
752
Increase in trade and other payables
140
52
(875)
(1,238)
(179)
(140)

SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
37 Related parties
Material related party transactions were as follows:
Sales and services rendered to related parties
89
104
Joint ventures
15
14
–
5
Associates
1
–
Purchases from related parties
54
–
Third parties
–
8
Outstanding balances arising from sale of goods and
services and other loans due by related parties
14
37
Joint ventures
5
2
84
89
Associates
13
12
Outstanding balances arising from purchases of goods
and services and other loans owed to related parties
–
4
Third parties
1
–
Amounts owed to/due by third party and joint venture related
parties are unsecured non-interest bearing and under terms
that are no less favourable than those with third parties. Terms
relating to associate related parties are detailed in note 18.
AngloGold Ashanti, who holds an equity investment of 29.8% in
Trans-Siberian Gold plc (TSG), entered into a significant

transaction during the June 2007 quarter with TSG in which two exploration companies were acquired for a cash consideration of $40m, R284m. The companies acquired consist of Amikan (which holds the Veduga deposit and related exploration and mining licences) and AS APK (which holds the Bogunay deposit and related exploration and mining licences).
Details of guarantees to associates are included in note 38.
Directors and other key management personnel
Details relating to directors' emoluments and shareholdings in the company are disclosed in the Remuneration and Directors' reports. (Detailed on pages 150 to 169).
Compensation to key management personnel included the following:
90
133
– short-term employee benefits
19
13
–
8
– post-employment benefits
1
–
31
54
– share-based payments
8
5
121
195
28
18
In connection with the relocation of Roberto Carvalho Silva, an executive director of the company since 2005, to Nova Lima, Brazil, in 2000, Mr Carvalho Silva commenced renting a house in Nova Lima from a Brazilian subsidiary of the company.
Mr Carvalho Silva purchased the house from the company’s subsidiary in January 2005. The total purchase price of the house was BRL1,150,000 ($429,923). Mr Carvalho agreed to pay the purchase price of the house in 60 instalments, the first being BRL19,168 and 59 instalments of BRL19,167 each starting on 28 January 2005. Such monthly instalments were adjusted annually by the cumulative INPC (a Consumer Price Index in Brazil) in lieu of interest.
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Notes to the group financial statements continued
For the year ended 31 December

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SA Rands
US Dollars
2006
2007
Figures in million
2007
2006
37 Related parties (continued)
As at 31 December 2006, BRL728,580 ($340,458) of the purchase price remained to be paid to the company's subsidiary with BRL657,717 ($341,352) remaining to be paid as at 20 June 2007. The remaining balance was repaid on or about 31 August 2007.
A Brazilian subsidiary of the company received marketing, communications and corporate affairs services from a Brazilian company in which a son of Roberto Carvalho Silva owns a one-third interest. The amounts paid by the company's subsidiary to this company in respect of such services during the years were: 2006: BRL903,465 ($414,433); 2005: BRL311,923 ($127,837) and BRL634,023 ($329.055) was paid in 2007. The company subsequently terminated the agreement with the Brazilian marketing, communications and corporate affairs services company with effect July 2007.
Shareholders
The major shareholders of the company are detailed on pages 150 and 323.
Refer to page 304 for the list of principal subsidiaries and joint ventures.
38 Contractual commitments and contingencies
Operating leases
At 31 December 2007, the group was committed to making the following payments in respect of operating leases for among others, the hire of plant and equipment and land and buildings. Certain contracts contain renewal options and escalation clauses for various periods of time.
Expiry within
304
246
– one year
36
43
181
58
– between one and two years
8
26
76
11
– between two and five years
2

11
5
1
– after five years
–
1
566
316
46
81
Finance leases
The group has finance leases for plant and equipment, buildings and motor vehicles. The leases for plant and equipment and buildings have terms of renewal but no purchase options. The motor vehicle leases have no purchase options. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:

38
Contractual commitments and contingencies (continued)
SA Rands
US Dollars
Present
Present
value of
Minimum
Minimum
value of
payments
payments
payments
payments
2007
Figures in million
2007
37 62 Within one year
9 5
38 142 Within one year but not more than five years
21 6
244 411 More than five years
60 36
319 615 Total minimum lease payments
90 47
– (296)
Amounts representing finance charges
(43)
–
319 319 Present value of minimum lease payments
47 47
2006
2006
35
45
Within one year
7
5
67
80
Within one year but not more than five years
11
10
102
125
Total minimum lease payments
18
15
–
(23)
Amounts representing finance charges

(3)
–
102
102
Present value of minimum lease payments
15
15
2006
2007
2007
2006
Capital commitments
Acquisition of tangible assets
2,475
2,968
Contracted for
436
354
5,120
5,511
Not contracted for
809
731
7,595
8,479
Authorised by the directors
1,245
1,085
Allocated to:
Project expenditure
2,572
2,874
– within one year
422
367
1,855
2,119
– thereafter
311
265
4,427
4,993
733
632
Stay-in-business expenditure
2,925
3,208
– within one year
471
418
243

278
– thereafter
41
35
3,168
3,486
512
453
124
113
Share of underlying capital commitments of joint ventures
17
18
Purchase obligations
Contracted for
1,920
2,975
– within one year
437
274
1,327
2,524
– thereafter
370
190
3,247
5,499
807
464
906
392
Share of underlying purchase obligations of joint ventures
58
129

261
38
Contractual commitments and contingencies (continued)
Purchase obligations represent contractual obligations for the purchase of mining contract services, power, supplies, consumables,
inventories, explosives and activated carbon.
To service these capital commitments, purchase obligations and other operational requirements, the group is dependent on
existing cash resources, cash generated from operations and borrowing facilities.
Cash generated from operations is subject to operational, market and other risks. Distributions from operations may be subject to
foreign investment, exchange control laws and regulations, and the quantity of foreign exchange available in offshore countries. In
addition, distributions from joint ventures are subject to the relevant board approval.
The credit facilities and other finance arrangements contain financial covenants and other similar undertakings. To the extent that
external borrowings are required, the group's covenant performance indicates that existing financing facilities will be available to
meet the commitments detailed above. To the extent that any of the financing facilities mature in the near future, the group believes
that these facilities can be refinanced on terms similar to those currently in place.
Summary of contracted uranium sales as at 31 December 2007
The group has the following forward pricing uranium commitments.

Year	000 lbs (1)	Average contracted price ($/lbs) (2)
2008	1,751	18.13
2009	919	29.91
2010	988	33.46
2011-2013	1,482	35.94

Great Noligwa, Kopanang and Tau Lekoa produced 1.23 million pounds of uranium oxide in 2007 (2006: 1.38 million pounds).
(1)
Certain contracts allow the buyer to adjust the purchase quantity within a specified range.
(2)
Certain contracts are subject to market related price adjustment mechanisms. In these cases the price disclosed indicates the
previous periodic price reset.
In addition, the group has gold sale commitments as disclosed in note 39.

For the year ended 31 December
SA Rands
US Dollars
Liabilities Guaran- Liabilities
Guaran-
Guaran- Liabilities
Guaran- Liabilities
included tees
included
tees
tees
included tees
included
on and
on
and
and
on
and
on
balance
contin-
balance
contin-
contin-
balance
contin-
balance
sheet
gencies
sheet
gencies
gencies
sheet
gencies
sheet
2006
2007
Figures in million
2007
2006
38 Contractual commitments and
contingencies (continued)
Contingent liabilities
– – – –
Groundwater pollution – South Africa
(1)
– –

– –
– 329
– 429 Sales tax on gold deliveries – Brazil
(2)
63 –
47 –
– 71 – 108 Other tax disputes – Brazil
(3)
16 –
11 –
– 33 – 57
Other immaterial contingencies
(4)
8 –
5 –
Guarantees
Financial guarantees
– 100
– 100 Oro Africa
(5)
15 –
14 –
Hedging guarantees
(6)
1,756 7,334 3,382 10,176
Ashanti Treasury Services
(7)
1,494 497
1,047 251
1,741 2,032 3,539 3,539 Geita Management Company
(8)
520 520
290 249
959 959
1,501 1,501
AngloGold South America
(9)
220 220
137 137
459 1,576 1,547 2,610
AngloGold USA Trading Company
(9)
383 227
225 66
584 584 542 542
Cerro Vanguardia S.A.
(9)
80 80
83 83
5,499 13,018 10,511 19,062
2,799 1,544

1,859 786

(1)

AngloGold Ashanti Limited has identified a number of groundwater pollution sites at its current operations in South Africa and has
investigated a number of different technologies and methodologies that could possibly be used to remediate the groundwater pollution. The
geology of the area is typified by a dolomite rock formation that is prone to solution cavities. Polluted process water from the operations has
percolated from pollution sources to this rock formation and has been transported three dimensionally, creating pollution plumes in the
dolomite aquifer. Numerous scientific, technical and legal reports have been produced and the remedying of the polluted soil and
groundwater is the subject of a continued research programme between the University of the Witwatersrand and AngloGold Ashanti.
Subject to the technology being developed as a proven remediation technique, no reliable estimate can be made for the obligation.

(2)

Mineração Serra Grande S.A.(MSG), the operator of the Crixas mine in Brazil, has received two tax assessments from the State of
Goiás related to payments of sales taxes on gold deliveries for export, one for the period between February 2004 and June 2005 and
the other for the period between July 2005 and May 2006. The tax authorities maintain that whenever a taxpayer exports gold mined
in the State of Goiás through a branch located in a different Brazilian State, it must obtain an authorisation from the Goiás State
Treasury by means of a Special Regime Agreement (Termo de Acordo re Regime Especial – TARE). The MSG operation is co-owned
with Kinross Gold Corporation. AngloGold Ashanti Brasil Mineração manages the operation and its attributable share of the first
assessment is approximately $39m, R266m. Although MSG requested the TARE in early 2004, it was only granted and executed in
May 2006. In November 2006 the administrative council's second chamber ruled in favour of MSG and fully cancelled the tax liability
related to the first period. The State of Goiás has appealed to the full board of the State of Goiás's tax administrative council. The
second assessment was issued by the State of Goiás in October 2006 on the same grounds as the first assessment, and the
attributable share of the assessment is approximately $24m, R163m. AngloGold Ashanti Limited believes both assessments are in
violation of Federal legislation on sales taxes.

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38
Contractual commitments and contingencies (continued)
(3)
VAT Disputes – Brazil – MSG received a tax assessment in October 2003 from the State of Minas Gerais related to sales taxes
on gold allegedly returned from the branch in Minas Gerais to the company head office in the State of Goiás. The tax
administrators rejected the company's appeal against the assessment. The company is now dismissing the case at the judicial
sphere. The company’s attributable share of the assessment is approximately $8m, R54m. Other tax disputes – Morro Velho
and AngloGold Ashanti Brasil Mineração are involved in disputes with tax authorities. These disputes involve eleven federal tax
assessments including income tax, social contributions and annual property tax based on ownership of properties outside of
urban perimeters (ITR). The amount involved is approximately $8m, R54m.
(4)
The group has several other insignificant contingent liabilities, including uncertainty around various tax assessments received by
Sadiola from the government of Mali.
(5)
The group has provided surety in favour of the lender in respect of gold loan facilities with two wholly owned subsidiaries of Oro
Group (Pty) Ltd, an associate of the group. The group has a total maximum liability, in terms of the suretyships of $15m, R100m.
The suretyship agreements have a termination notice period of 90 days. The group receives a fee from the associate for
providing the surety.
(6)
The difference between the amounts stated under guarantees and contingencies, and liabilities included on balance sheet, is
the NPSE hedges which are covered by guarantees but not included on the balance sheet.
(7)
The group, together with its wholly owned subsidiary, AngloGold Ashanti Holdings plc, has provided guarantees to several
counterparty banks for the hedging commitments of its wholly owned subsidiary Ashanti Treasury Services Limited (ATS).
(8)
AngloGold Ashanti Limited and its wholly owned subsidiary AngloGold Ashanti Holdings plc have issued hedging guarantees to
several counterparty banks in which they have guaranteed the due performance by the Geita Management Company Limited
(GMC) of its obligations under or pursuant to the hedging agreements entered into by GMC, and to the payment of all money
owing or incurred by GMC as and when due.
(9)
The group has issued gold delivery guarantees to several counterparty banks in which it guarantees the due performance of its
subsidiaries AngloGold USA Trading Company, AngloGold South America Limited and Cerro Vanguardia S.A. under their
respective gold hedging agreements.

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Financial risk management activities

In the normal course of its operations, the group is exposed to gold price, other commodity price, foreign exchange, interest rate,
liquidity, equity price and credit risks. In order to manage these risks, the group may enter into transactions which make use of both on-
and off-balance sheet derivatives. The group does not acquire, hold or issue derivatives for trading purposes. The group has developed
a comprehensive risk management process to facilitate, control and monitor these risks. The board has approved and monitors this risk
management process, inclusive of documented treasury policies, counterpart limits, controlling and reporting structures.

Controlling risk in the group

The Executive Committee and the Treasury Committee are responsible for risk management activities within the group. The
Treasury Committee, chaired by the independent chairman of the AngloGold Ashanti Audit and Corporate Governance Committee,
comprising executive members and treasury executives, reviews and recommends to the Executive Committee treasury
counterparts, limits, instruments and hedge strategies. The treasurer is responsible for managing gold price, foreign exchange,
interest rate, liquidity and credit risk. Within the treasury function, there is an independent risk function, which monitors adherence
to treasury risk management policy and counterpart limits and provides regular and detailed management reports.

The financial risk management objectives of the group are defined as follows:

safeguarding the group's core earnings stream from its major assets through the effective control and management of gold price
risk, other commodity price risk, foreign exchange risk and interest rate risk;

effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity
management planning and procedures;

ensuring that investment and hedging transactions are undertaken with creditworthy counterparts; and

ensuring that all contracts and agreements related to risk management activities are coordinated and consistent throughout the
group and that they comply where necessary with all relevant regulatory and statutory requirements.

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Financial risk management activities (continued)
Gold price and foreign exchange risk
Gold price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of gold.
The group has transactional foreign exchange exposures. Such exposure arises from sales or purchases by an operating unit in
currencies other than the unit's functional currency. The gold market is predominately priced in US dollars which exposes the group
to the risk that fluctuations in the SA rand/US dollar, Brazilian real/US dollar, Argentinean peso/US dollar and Australian dollar/US
dollar exchange rates may also have an adverse effect on current or future earnings. The group is also exposed to certain by-
product commodity price risk.
A number of products, including derivatives, are used to manage the gold and silver price and foreign exchange risks that arise out
of the group's core business activities. Forward sales contracts and call and put options are used by the group to manage these
risks. At year end, the volume of outstanding forward sales contracts was 108,403kg (2006: 122,133kg).
As the group does not enter into financial instruments for trading purposes, the risks inherent to financial instruments are always
offset by the underlying risk being hedged. The group further manage such risks by ensuring that the level of hedge cover does
not exceed expected sales in future periods, that the tenor of instruments does not exceed the life of mine and that no basis
risk exists.
Cash flow hedges
The group's cash flow hedges consist of commodity and foreign exchange forward contracts that are used to protect against
exposures to variability in future commodity and foreign exchange cash flows. The amounts and timing of future cash flows are
projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors,
including estimates of prepayments and defaults. The contractual cash flows across all portfolios over time form the basis for
identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions. Gains
and losses are initially recognised directly in equity (other comprehensive income) and are transferred to earnings when the forecast
cash flows affect the income statement.
The cash flow hedge forecast transactions are expected to occur over the next three years, in line with the maturity dates of the
hedging instruments and will affect profit and loss simultaneously in an equal and opposite way.
The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the
year to 31 December 2007, a loss of $10m, R69m (2006: nil) was recognised due to hedge ineffectiveness.
Non-hedge derivatives

Loss on non-hedge derivatives and other commodity contracts is summarised as follows:

Figures in million	2007	2006
US Dollars		
Loss on non-hedge derivatives	(808)	(215)
Unrealised gain (loss) on other commodity physical borrowings	7	(1)
Provision reversed (raised) for loss on future deliveries and other commodities	21	(23)
Loss on non-hedge derivatives and other commodity contracts per the income statement	(780)	(239)
SA Rands		
Loss on non-hedge derivatives	(5,272)	(1,791)
Unrealised gain (loss) on other commodity physical borrowings	49	(9)
Provision reversed (raised) for loss on future deliveries and other commodities	142	(155)
Loss on non-hedge derivatives and other commodity contracts per the income statement	(5,081)	(1,955)

Loss on non-hedge derivatives and other commodity contracts was $780m in 2007 compared to a loss of $239m in the previous
year. The loss is primarily the result of the revaluation of non-hedge derivatives resulting from changes in the prevailing spot gold
price, exchange rates, interest rates and greater volatilities compared to the previous year.

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Financial risk management activities (continued)

Net open hedge position as at 31 December 2007

The marked-to-market value of all derivatives, irrespective of accounting designation, making up the hedge position was negative
$4.27bn (negative R29.10bn) as at 31 December 2007 (as at 31 December 2006: negative $2.9bn, negative R20.32bn). These values
were based on a gold price of $836.30 per ounce, exchange rates of $1 = R6.8104 and A$1 = $0.8798 and the prevailing market
interest rates and volatilities at 31 December 2007. The values as at 31 December 2006 were based on a gold price of $636.30 per
ounce, exchange rates of $1 = R7.0010 and A$1 = $0.7886 and the market interest rates and volatilities prevailing at that date.

The group had the following net forward-pricing commitments outstanding against future production.

Summary: All open contracts in the group's commodity hedge position as at 31 December 2007

Year	2008	2009	2010	2011	2012	2013-2015	Total
US Dollar/Gold							
Forward contracts							
Amount (kg)	22,817	21,738	14,462	12,931	11,944	12,364	96,256
$/oz	$314	$316	$347	$397	$404	$432	$357
Forward contracts (Long)							
Amount (kg)	11,304 (1)						11,304 (1)
$/oz	$647						$647
Put options sold							
Amount (kg)	25,962	3,748	1,882	1,882	1,882	3,764	39,120
$/oz	$682	$530	$410	$420	$430	$445	$607
Call options purchased							
Amount (kg)	9,813						9,813
$/oz	$427						$427

Call options sold
Amount (kg)
58,570 45,950 36,804 39,385 24,460 39,924
245,093
$/oz
$521 $498 $492 $517 $622 $604 $535
Rand/Gold
Forward contracts
Amount (kg)
933
933
R/kg
R116,335 R116,335
Call options sold
Amount (kg)
2,986 2,986 2,986
8,958
R/kg
R202,054 R216,522 R230,990
R216,522

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Financial risk management activities (continued)
Summary: All open contracts in the group's commodity hedge position as at 31 December 2007 (continued)
2013-
Year
2008
2009
2010
2011
2012
2015
Total
Australian Dollar/Gold
Forward contracts
Amount
(kg)
16,018 3,390 3,110
22,518
A$/oz
A$848 A$644 A$685
A$795
Put options sold
Amount (kg)
7,465
7,465
A$/oz
A$882 A$882
Call options purchased
Amount
(kg)
3,110 1,244 3,110
7,464
A$/oz
A$680 A$694 A$712
A$696
Call options sold
Amount (kg)
5,599
5,599
A$/oz
A$954 A$954
Total net gold
Delta (kg)
(2)
(69,805)
(70,154)
(51,200)

(51,137)
(33,123)
(47,702)
(323,121)
Delta (oz)
(2)
(2,244,280) (2,255,500) (1,646,116) (1,644,090) (1,064,928) (1,533,653) (10,388,567)
The open delta hedge position of the group at 31 December 2006 was 10.16Moz or 316t.
(1)
Indicates a long position resulting from forward purchase contracts. The group enters into forward purchase contracts as part
of its strategy to actively manage and reduce the size of the hedge book.
(2)
The delta of the hedge position indicated above, is the equivalent gold position that would have the same marked-to-market
sensitivity for a small change in the gold price. This is calculated using the Black-Scholes option formula with the ruling market
prices, interest rates and volatilities as at 31 December 2007.
US Dollar/Silver
Put options purchased
Amount (kg)
43,545
43,545
$/oz
$7.66 $7.66
Put options sold
Amount (kg)
43,545
43,545
$/oz
$6.19 $6.19
Call options sold
Amount (kg)
43,545
43,545
$/oz
$8.64 $8.64
Certain of the hedging positions reported in the tables above are governed by early termination clauses in favour of certain
counterparts.

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Financial risk management activities (continued)
Summary: All open contracts in the group's currency hedge position as at 31 December 2007
2013-
Year
2008
2009
2010
2011
2012
2015
Total
Rand/US Dollar (000)
Forward contracts
Amount ($)
35,000
35,000
R per $
R6.94
R6.94
Put options purchased
Amount ($)
120,000
120,000
R per $
R6.98
R6.98
Put options sold
Amount ($)
120,000
120,000
R per $
R6.65
R6.65
Call options sold
Amount ($)
135,000
135,000
R per $
R7.35
R7.35
Australian Dollar/US Dollar (000)
Forward contracts
Amount ($)
190,000
190,000
$ per A$
$0.84
$0.84

Put options purchased
Amount ($)
140,000
140,000
$ per A$
$0.83
$0.83
Put options sold
Amount ($)
140,000
140,000
$ per A$
$0.87
$0.87
Call options sold
Amount ($)
140,000
140,000
$ per A$
$0.81
$0.81
Brazilian Real/US Dollar (000)
Forward contracts
Amount ($)
31,000
31,000
BRL per $
BRL1.99
BRL1.99
Put options purchased
Amount ($)
24,000
24,000
BRL per $
BRL1.87
BRL1.87
Call options sold
Amount ($)
68,000
68,000
BRL per $
BRL1.92
BRL1.92
The mix of hedging instruments, the volume of production hedged and the tenor of the hedging book is continually reviewed in the
light of changes in operational forecasts, market conditions and the group's hedging policy.
Forward sales contracts require the future delivery of the underlying at a specified price.
A put option gives the put buyer the right, but not the obligation, to sell the underlying to the put seller at a predetermined price
on a predetermined date.

A call option gives the call buyer the right, but not the obligation, to buy the underlying from the call seller at a predetermined price
on a predetermined date.

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Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December
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Financial risk management activities (continued)
Interest rate and liquidity risk
Fluctuations in interest rates impact on the value of short-term cash investments and financing activities, giving rise to interest rate risk.
In the ordinary course of business, the group receives cash from the proceeds of its gold sales and is required to fund working
capital requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve market-related returns
while minimising risks. The group is able to actively source financing at competitive rates. The counterparts are financial and
banking institutions of good credit standing.
The group has sufficient undrawn borrowing facilities available to fund working capital requirements (note 30).
The following are the contractual maturities of financial liabilities, including interest payments
Non-derivative financial liabilities

	Within one year		Between one and two years		Between two and five years		After five years		Total
		Effective rate		Effective rate		Effective rate		Effective rate	
	Million	%	Million	%	Million	%	Million	%	
2007									
Borrowings	418		1,042		573		60		2,093
– In USD	90	5.8	1,038	2.4	410	8.5	–		1,538

– ZAR in USD equivalent
327
10.5 3
9.9 12
9.9 60
9.8
402
– AUD in USD equivalent
1 7.7
1 7.7 150 7.7
–
152
– BRL in USD equivalent
– – 1
5.0
–
1
Trade and other payables
601 1 – –
602
2006
Borrowings
143 559
1,008
2
1,712
– In
USD
95 5.8 244 5.9 1,008 2.4
2 7.4
1,349
– ZAR in USD equivalent
40
10.5
315
10.5
–
–
355
– GHC in USD equivalent
8
19.0
–
–
–
8
Trade and other payables
468
–
–
–

468

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Financial risk management activities (continued)

The following are the undiscounted forecast principal cash flows arising from all on balance sheet derivative contracts (cash flow hedges and non-hedges)

Derivative financial assets and (liabilities)

	Within one year	Between one and two years	Between two and five years	After five years	Total
US Dollars million					
At 31 December 2007					
Cash inflows from assets	381	72	59	44	556
Cash outflows from liabilities	(697)	(575)	(1,113)	(685)	(3,070)
Net cash outflows	(316)	(503)	(1,054)	(641)	(2,514)
At 31 December 2006					
Cash inflows from assets	423	172	81	46	722
Cash outflows from liabilities	(482)	(364)			

(767)
(592)
(2,205)
Net cash outflows
(59)
(192)
(686)
(546)
(1,483)
SA Rands million
At 31 December 2007
Cash inflows from assets
2,595 490
402
300
3,787
Cash outflows from
liabilities
(4,747)
(3,916)
(7,580)
(4,665)
(20,908)
Net cash outflows
(2,152)
(3,426)
(7,178)
(4,365)
(17,121)
At 31 December 2006
Cash inflows from assets
2,965
1,203
568
321
5,057
Cash outflows from
liabilities
(3,377)
(2,545)
(5,370)
(4,142)
(15,434)
Net cash outflows
(412)
(1,342)
(4,802)
(3,821)
(10,377)
Credit risk

Credit risk arises from the risk that a counterpart may default or not meet its obligations timeously. The group minimises credit risk
by ensuring that credit risk is spread over a number of counterparts. These counterparts are financial and banking institutions of
good credit quality. Where possible, management tries to ensure that netting agreements are in place. No set-off is applied to the
balance sheet due to the different maturity profiles of assets and liabilities. The combined maximum credit risk exposure at the
balance sheet date by class of derivative financial instrument is $516m, R3,516m (2006: $655m, R4,591m) on a contract by
contract basis.

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For the year ended 31 December

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Financial risk management activities (continued)

Credit risk (continued)

The combined maximum credit risk exposure of the group is as follows:

	US Dollars		SA Rands	
Figures in million	**2007**	2006	**2007**	2006
Commodity option contract	200	242	1,365	1,697
Foreign exchange option contracts	14	2	94	13
Forward sale commodity contracts	255	367	1,736	2,572
Forward foreign exchange contracts	12	4	82	29
Gold interest rate swap	35	40	239	280
All derivatives	516	655	3,516	4,591
Other investments (note 19)	69	82	470	572
Other non-current assets				

2
5
16
33
Trade and other receivables
60
56
411
388
Cash restricted for use (note 24)
39
11
264
75
Cash and cash equivalents (note 25)
496
495
3,381
3,467
Total financial assets
1,182
1,304
8,058
9,126
Financial guarantees – Oro Africa
15
14
100
100
Total
1,197
1,318
8,158
9,226
In addition, the group has also guaranteed the hedging commitments of several subsidiary companies as disclosed in note 38.
Credit risk exposure netted by counterparts amounts to $123m, R839m (2006: $68m, R477m). Trade and other receivables that
are past due but not impaired totalled $1m, R5m (2006: $1m, R6m). No other financial assets are past due but not impaired.
Trade debtors mainly comprise banking institutions purchasing gold bullion. Normal market settlement terms are two working days.
No impairment was recognised as the principal debtors continue to be in a sound financial position.
The group does not generally obtain collateral or other security to support financial instruments subject to credit risk, but monitors
the credit standing of counterparts. The group's reserves and financial strength has allowed it to arrange unmargined credit lines
of up to 10 years with counterparties.
Fair value of financial instruments
The estimated fair values of financial instruments are determined at discrete points in time based on relevant market information.

These estimates involve uncertainties and cannot be determined with precision. The estimated fair values of the group's financial
instruments as at 31 December 2007 are as follows:

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Financial risk management activities (continued)

Type of instrument	Carrying amount	Fair value	Carrying amount	Fair value
Figures in million	**2007**		2006	
US Dollars				
Financial assets				
Other investments (note 19)	117	117	126	126
Other non-current assets	2	2	5	5
Trade and other receivables	0	60	56	55
Cash restricted for use (note 24)	39	39	11	11
Cash and cash equivalents (note 25)	496	496	495	495
Derivatives	516	570	655	698
Financial liabilities				
Borrowings (note 30)	1,872	1,903	1,482	1,551
Trade and other payables	602	602	468	468
Derivatives	2,918	4,937	2,019	3,724
SA Rands				
Financial assets				
Other investments (note 19)	795	796	884	884
Other non-current assets				

16 16
33 32
Trade and other receivables
411 411
388 385
Cash restricted for use (note 24)
264 264
75 75
Cash and cash equivalents (note 25)
3,381 3,381
3,467 3,467
Derivatives
3,516 3,884
4,591 4,889
Financial liabilities
Borrowings (note 30)
12,750 12,965
10,376 10,859
Trade and other payables
4,100 4,100
3,276 3,276
Derivatives
19,873 33,623
14,136 26,074
The amounts in the tables above do not necessarily agree with the totals in the notes as only financial assets and liabilities are
shown.
The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Cash restricted for use, cash and cash equivalents and trade and other payables
The carrying amounts approximate fair value because of the short-term duration of these instruments.
Trade and other receivables
The fair value of the non-current portion of trade and other receivables has been calculated using market interest rates.

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Annual Financial Statements 2007
Notes to the group financial statements continued
For the year ended 31 December
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Financial risk management activities (continued)
Type of instrument (continued)
Investments and other non-current assets
Listed equity investments classified as available-for-sale are carried at fair value while fixed income investments and other non-
current assets are carried at amortised cost. The fair value of fixed income investments and other non-current assets has been
calculated using market interest rates.
Borrowings
The fair values of listed fixed rate debt and the convertible bonds are shown at their closing market value as at 31 December 2007.
The interest rate on the remaining borrowings is reset on a short-term floating rate basis, and accordingly the carrying amount is
considered to approximate fair value.
Derivatives
The fair values of derivatives are estimated based on the ruling market prices, volatilities and interest rates as at 31 December 2007.
The fair value amounts for derivatives include off balance sheet normal sale exempted gold contracts, which are not carried on the
balance sheet and are excluded from the carrying amount. All other derivatives are carried on balance sheet at fair value.
The group uses the Black-Scholes option pricing formula to value option contracts. One of the inputs into the model is the level of
volatility. These volatility levels are themselves not exchange traded and are not observable generally in the market. The group uses
volatility inputs supplied by leading market participants (international banks). The group believes that no other possible alternative
would result in significantly different fair value estimations.
Derivative assets (liabilities) comprise the following:
Assets
Liabilities
Normal
Cash flow
Non-
Normal
Cash flow
Non-
sale
hedge
hedge
sale
hedge
hedge
exempted accounted accounted
Total
exempted accounted accounted

Total
Figures in million
2007
2007
US Dollars
Commodity option contracts
– –
200
200
(708)
–
(2,230)
(2,938)
Foreign exchange option contracts
– –
14
14
– –
(20)
(20)
Forward sale commodity contracts
54 3
252
309
(1,284)
(339)
(302)
(1,925)
Forward foreign exchange contracts
– 4 8
12
– – (1)
(1)
Gold interest rate swaps
– –
35
35
(27)
– (1)
(28)
Sub-total hedging
54 7
509
570
(2,019)
(339)
(2,554)
(4,912)
Option component of convertible bonds
– – –
–

– –
(25)
(25)
All derivatives
54 7
509
570
(2,019)
(339)
(2,579)
(4,937)
2006
2006
Commodity option contracts
–
–
242
242
(567)
–
(1,298)
(1,865)
Foreign exchange option contracts
–
–
2
2
–
–
(14)
(14)
Forward sale commodity contracts
43
34
333
410
(1,104)
(409)
(225)
(1,738)
Forward foreign exchange contracts
–
2
2
4
–
–
–
–
Gold interest rate swaps
–

–
40
40
(34)
–
(1)
(35)
Sub-total hedging
43
36
619
698
(1,705)
(409)
(1,538)
(3,652)
Option component of convertible bonds
–
–
–
–
–
–
(72)
(72)
All derivatives
43
36
619
698
(1,705)
(409)
(1,610)
(3,724)

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39
Financial risk management activities (continued)
Derivatives (continued)
Derivative assets (liabilities) comprise the following: (continued)
Assets
Liabilities
Normal
Cash flow
Non-
Normal
Cash flow
Non-
sale
hedge
hedge
sale
hedge
hedge
exempted accounted accounted
Total
exempted accounted accounted
Total
Figures in million
2007
2007
SA Rands
Commodity option contracts
– –
1,365
1,365
(4,822)
–
(15,190)
(20,012)
Foreign exchange option contracts
– –
94
94
– –
(136)
(136)
Forward sale commodity contracts
368 19
1,717
2,104 (8,745)
(2,307)
(2,056)
(13,108)
Forward foreign exchange contracts
– 28 54

82
– – (9)
(9)
Gold interest rate swaps
– –
239
239 (181)
– (5)
(186)
Sub-total hedging
368 47
3,469
3,884
(13,748)
(2,307)
(17,396)
(33,451)
Option component of convertible bonds
– – –
–
– –
(170)
(170)
All derivatives
368 47
3,469
3,884
(13,748)
(2,307)
(17,566)
(33,621)
2006
2006
Commodity option contracts
–
–
1,697
1,697
(3,971)
–
(9,085)
(13,056)
Foreign exchange option contracts
–
–
13
13
–
–
(97)
(97)

Forward sale commodity contracts
298
240
2,332
2,870
(7,730)
(2,867)
(1,574)
(12,171)
Forward foreign exchange contracts
–
13
16
29
–
–
–
–
Gold interest rate swaps
–
–
280
280
(238)
–
(10)
(248)
Sub-total hedging
298
253
4,338
4,889
(11,939)
(2,867)
(10,766)
(25,572)
Option component of convertible bonds
–
–
–
–
–
–
(504)
(504)
All derivatives
298
253
4,338
4,889
(11,939)

(2,867)
(11,270)
(26,076)
Sensitivity analysis
Derivatives
A principal part of the group's management of risk is to monitor the sensitivity of derivative positions in the hedge book to changes
in the underlying factors, viz. commodity price, foreign exchange rate and interest rates under varying scenarios.
The following table discloses the approximate sensitivities of the US dollars marked-to-market value of the hedge book to key
underlying factors at 31 December 2007 (actual changes in the timing and amount of the following variables may differ from the
assumed changes below).
The table below sets out the impact on the marked-to-market value of the hedge book of an incremental parallel fall or rise in the
respective yield curves at the beginning of each month, quarter or year (as is appropriate) from 1 January 2008. The yield curves
match the maturity dates of the individual derivative positions in the hedge book. These figures incorporate the impact of any option
features in the underlying exposures.

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Notes to the group financial statements continued

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Financial risk management activities (continued)

Cash
Total
Total
Normal flow
Non-
change
change
sale
hedge
hedge
in fair
in fair
Change
exempted
accounted
accounted
value
value
in rate (+)
(million)
(million)
(million)
(million)
(million)
US Dollars
2007
2006
Currency (R/$)
1.00
–
(10)
(24)
(34)
(17)
Currency (A$/$)
0.10
22
1
39
62
3
Currency (BRL/$)
0.10 –
– (4)
(4)

(1)
Gold price ($/oz)
200.00 (792)
(147)
(1,156)
(2,095)
(2,016)
USD interest rate (%)
1.00
(25)
(2)
(74)
(101)
(91)
ZAR interest rate (%)
1.50
–
(1)
(5)
(6)
(3)
AUD interest rate (%)
1.50
(4)
–
2
(2)
(1)
Gold interest rate (%)
0.50
39
3
73
115
74
Cash
Total
Total
Normal flow
Non-
change
change
sale
hedge
hedge
in fair
in fair
Change
exempted
accounted
accounted

value
value
in rate (-)
(million)
(million)
(million)
(million)
(million)
US Dollars
2007
2006
Currency (R/$)
1.00 –
14
15
29
11
Currency (A$/$)
0.10
(22)
(1)
(52)
(75)
(3)
Currency (BRL/$)
0.10
–
–
4
4
1
Gold price ($/oz)
200.00
790
147
991
1,928
1,982
USD interest rate (%)
1.00
26
2
76
104
91
ZAR interest rate (%)
1.50
–
1
5
6

3
AUD interest rate (%)
1.50
4
–
(2)
2
1
Gold interest rate (%)
0.50
(39)
(3)
(76)
(118)
(74)
Interest rate risk on other financial assets and liabilities (excluding derivatives)
The group also monitors interest rate risk on other financial assets and liabilities.
The following table shows the approximate interest rate sensitivities of the other financial assets and liabilities at 31 December 2007
(actual changes in the timing and amount of the following variables may differ from the assumed changes below). As the sensitivity
is the same (linear) for both increases and decreases in interest rates only absolute numbers are presented.
Change in
Change in
Change in
Change in
Change in
interest
interest
Change in
interest
interest
interest
amount in
amount
interest
amount in
amount
rate
currency
US dollars
rate
currency
US dollars
(%) (million)
(million)
(%) (million)
(million)
2007
2006

Financial assets
USD denominated (%)
1.00
1
1
1.00
1
1
ZAR denominated (%)
(1)
1.50
13
2
1.50
13
2
AUD denominated (%)
1.50
1
1
1.50
1
1
BRL denominated (%)
2.50
2
1
2.50
1
–
NAD denominated (%)
1.50
1
–
–
–
–
Financial liabilities
USD denominated (%)
1.00
4
4
1.00
2 2
AUD denominated (%)
1.50
3
2
–
–
–

GHC denominated (%)
–
–
–
2.50
1,842
–
(1)
This is the only interest rate risk for the company.

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40 Capital management

The primary objective of managing the group's capital is to ensure that there is sufficient capital available to support the funding requirements of the group, including capital expenditure, in a way that optimises the cost of capital, maximises shareholders' returns and ensures that the group remains in a sound financial position. There were no changes to the group's overall capital management approach during the current year.

The group manages and make adjustments to the capital structure as opportunities arise in the market place, as and when borrowings mature or as and when funding is required. This may take the form of raising equity, market or bank debt or hybrids thereof.

The group monitors capital using a gearing ratio, which is defined as net debt divided by equity and capital employed. While the group does not set absolute limits on the ratio, the group believes a ratio of between 15% and 35% is optimal in the current market conditions. The elements considered to form part of capital are as listed in Non-GAAP disclosure note 9.

Figures in million	**2007**	2006
US Dollars		
Borrowings (note 30)	1,872	1,482
Cash and cash equivalents (note 25)	(496)	(495)
Net debt	1,376	987
Net capital employed (1)	5,362	5,588
Gearing ratio	26%	18%
SA Rands		
Borrowings (note 30)	12,750	10,376
Cash and cash equivalents (note 25)	(3,381)	(3,467)
Net debt	9,369	6,909
Net capital employed (1)		

36,518
39,119
Gearing ratio
26%
18%
(1)
Refer to Non-GAAP note 9 on page 30.
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Recent developments
Golden Cycle acquisition
On 14 January 2008, AngloGold Ashanti announced that it had agreed to acquire 100% of Golden Cycle Gold Corporation
(GCGC) through a merger transaction in which GCGC's shareholders will receive 29 AngloGold Ashanti ADRs for every 100 shares
of GCGC common stock held. GCGC holds a 33% shareholding in Cripple Creek & Victor while AngloGold Ashanti holds the
remaining 67%. The transaction is subject to a number of regulatory and statutory approvals, including approval by
GCGC shareholders. The transaction, at the date of announcement, was valued at approximately $149m, R1,003m.
Eskom power supply
Following the announcement made on 25 January 2008, in which AngloGold Ashanti advised that Eskom would be interrupting
power supplies to the company's South African operations, AngloGold Ashanti halted mining and gold recovery at these
operations. Subsequently, AngloGold Ashanti announced on 29 January 2008, that it had begun the process to restart production
at its South African operations following a meeting with Eskom and industrial electricity consumers at which Eskom had agreed to
provide AngloGold Ashanti with 90% of its electricity demand prior to the shut down so as to return the operations to normal
production. At this stage the company estimates the effect of the reduction in the available power supply to negatively affect
production by approximately 400,000 ounces (12,440 kilograms). The estimated financial effect of a 400,000 ounce
(12,440 kilograms) decrease in production is lower revenue of $348 million (R2,501 million) at an assumed average spot price of
$870/oz (R201,000/kg). Total cash costs in South Africa, which includes the effect of lower uranium production, are likely to
increase from $309/oz to $402/oz (R77,000/kg to R 100,000/kg).
Change in South African Income Taxation Rates
The Minister of Finance announced on 20 February 2008 a reduction to the gold mining taxation formula from Y = 45-225/X to
Y = 43-215/X and a non-mining rate reduction from 37% to 36%. The impact of this is a net reduction to the deferred taxation
liability of $17m, R117m and a lower income statement taxation charge of $20m, R138m. The financial impact of the rate changes
are calculated based on the results for the year ended 31 December 2007.
Investment in B2Gold
AngloGold Ashanti announced on 14 February 2008 the signing of an agreement with B2Gold, in which B2Gold will have the option
to earn 51% of the Gramalote Project. AngloGold Ashanti will be issued, subject to certain conditions precedent, with 25 million
shares at a deemed price of Canadian $2.50 per share and 21.4 million warrants in B2Gold in exchange for this an

additional
interest in mineral concessions in Colombia. The interest in B2Gold including the warrants, if exercised, will be 26%.

The company annual financial statements represent the South African operations and corporate office.
These company annual financial statements are a statutory requirement and are accordingly presented in South African rands only.
The functional currency of the company is South African rands.
SA Rands
Figures in million
Notes
2007
2006
Revenue
1
10,669
9,520
Gold income
1
9,971
9,151
Cost of sales
2
(7,528)
(6,546)
Loss on non-hedge derivitaves and other commodity contracts
29
(1,205)
(936)
Gross profit
1,238
1,669
Corporate administration and other expenses
(782)
(501)
Market development costs
(68)
(58)
Exploration costs
(28)
(31)
Other operating expenses
3
(19)
(50)
Operating special items
4
79
(239)
Operating profit
420
790
Dividends received from other investments
1
16

–
Dividends received from subsidiaries
376
52
Interest received
1
146
52
Net inter-company management fee and interest
(6)
(4)
Exchange gain (loss)
11
(75)
Finance costs and unwinding of obligations
5
(257)
(255)
Impairment of investment in Margaret Water Company Limited
10
(3)
–
Profit before taxation
6
703
560
Taxation
8
(297)
(636)
Profit (loss) after taxation from continuing operations
406
(76)
Discontinued operations
Profit (loss) from discontinued operations
Group 13
7
(12)
Profit (loss) for the year
413
(88)
276
Annual Financial Statements 2007
Company income statement
For the year ended 31 December

277

Company balance sheet

As at 31 December

SA Rands

Figures in million

Notes

2007

2006

ASSETS

Non-current assets

Tangible assets

9

13,297

12,484

Investment in associates

10

30

30

Investments in subsidiaries

Page 304

17,900

17,191

Investment in joint venture

Page 304

18

18

Other investments

11

16

16

Investment in Environmental Rehabilitation Trust Fund

13

294

309

Intra-group balances

200

339

Trade and other receivables

15

–

21

Derivatives

29

–

36

Other non-current assets

14

250

274

32,005

30,718

Current assets
Inventories
12
476
405
Trade and other receivables
15
296
236
Derivatives
29
1,239
1,574
Cash restricted for use
7
6
Cash and cash equivalents
16
1,283
1,260
3,301
3,481
Non-current assets held for sale
17
100
100
3,401
3,581
Total assets
35,406
34,299
EQUITY AND LIABILITIES
Share capital and premium
18
23,324
23,047
Retained earnings and other reserves
19
(4,947)
(4,534)
Total equity
18,377
18,513
Non-current liabilities
Borrowings
20
248
1,993
Environmental rehabilitation provisions
21
882

1,087
Provision for pension and post-retirement benefits
22
1,121
1,094
Intra-group balances
1,490
1,578
Derivatives
29
615
858
Deferred taxation
23
1,888
2,197
6,244
8,807
Current liabilities
Current portion of borrowings
20
2,072
73
Trade and other payables
24
1,460
1,354
Derivatives
29
6,662
4,991
Taxation
25
591
561
10,785
6,979
Total liabilities
17,029
15,786
Total equity and liabilities
35,406
34,299

SA Rands
Figures in million
Notes
2007
2006
Cash flows from operating activities
Receipts from customers
10,160
9,650
Payments to suppliers and employees
(6,172)
(4,606)
Cash generated from operations
26
3,988
5,044
Dividends received from subsidiaries
1
376
52
Cash utilised by discontinued operations
(14)
(6)
Taxation paid
25
(565)
(435)
Net cash inflow from operating activities
3,785
4,655
Cash flows from investing activities
Capital expenditure
– project expenditure
9
(557)
(448)
– stay-in-business expenditure
(2,050)
(1,696)
Proceeds from disposal of tangible assets
96
30
Proceeds from disposal of assets of discontinued operations
9
63
Associate loan advanced
–
5
Dividend received from other investments
1
16

–
Increase in cash restricted for use
(1)
–
Additional investment in subsidiaries
(617)
(2,396)
Intra-group loans
89
(260)
Interest received
143
52
Loans advanced
(72)
(4)
Repayment of loans advanced
73
5
Net cash outflow from investing activities
(2,871)
(4,649)
Cash flows from financing activities
Proceeds from issue of share capital
247
3,068
Share issue expenses
(4)
(32)
Repayment of borrowings
–
(805)
Finance costs paid
(184)
(199)
Dividends paid
Group 15
(919)
(742)
Intra-group dividends paid
(31)
(48)
Net cash (outflow) inflow from financing activities
(891)
1,242
Net increase in cash and cash equivalents
23
1,248
Cash and cash equivalents at beginning of year
1,260
12

Cash and cash equivalents at end of year
16
1,283
1,260
278
Annual Financial Statements 2007
Company cash flow statement
For the year ended 31 December

Company statement of recognised income and expense

For the year ended 31 December

SA Rands Figures in million	**2007**	2006
Actuarial (loss) gain on pension and post-retirement benefits (note 19)	(95)	283
Net loss on cash flow hedges removed from equity and reported in gold sales (note 19)	649	553
Net loss on cash flow hedges (note 19)	(695)	(969)
Hedge ineffectiveness (note 19)	31	–
Deferred taxation on items above (note 19)	40	63
Net expense recognised directly in equity	(70)	(70)
Profit (loss) for the year	413	(88)
Total recognised income (expense) for the year	343	(158)

279

SA Rands
Figures in million
2007
2006
1
Revenue
Revenue consists of the following principal categories:
Gold income
9,971
9,151
By-products (note 2)
160
265
Dividends received from subsidiaries (note 26)
376
52
Dividend received from other investments (note 26)
16
–
Interest received (note 26)
– loans and receivables
17
2
– cash and cash equivalents
129
50
10,669
9,520
2
Cost of sales
Cash operating costs
(1)
5,733
5,137
By-products (note 1)
(160)
(265)
5,573
4,872
Other cash costs
29
40
Total cash costs
5,602
4,912
Retrenchment costs (note 7)
34
49
Rehabilitation and other non-cash costs
56
22

Production costs
5,692
4,983
Amortisation of tangible assets (notes 6, 9 and 26)
1,806
1,634
Total production costs
7,498
6,617
Inventory change
30
(71)
7,528
6,546
(1)
Cash operating costs comprises:
– salaries and wages
2,960
2,698
– stores and other consumables
1,364
1,304
– fuel, power and water
666
625
– contractors
117
89
– services and other charges
626
421
5,733
5,137
3
Other operating expenses
Pension and medical defined benefit provisions
19
50

281
SA Rands
Figures in million
2007
2006
4
Operating special items
Profit on disposal, derecognition and abandonment of land and tangible assets
(72)
(30)
Recovery of exploration costs
(7)
–
Recovery of exploration loan
–
(2)
Performance related option expense
–
129
Cost of E-ordinary shares issued to Izingwe (Pty) Ltd, a Black Economic Empowerment company
(group note 11)
–
131
Impairment of tangible assets (note 9)
–
10
Loan waived
–
1
(79)
239
5
Finance costs and unwinding of obligations
Finance costs on corporate bond
(1)
214
214
Finance lease charges
16
–
Finance costs on bank loans and overdrafts
(1)
–
14
Other
12
14
242
242
Amounts capitalised (note 9)
(51)

(39)
191
203
Unwinding of decommissioning obligation (note 21)
52
38
Unwinding of restoration obligation (note 21)
14
14
(note 26)
257
255
(1)
Finance costs have been determined using the effective interest rate method.
6
Profit before taxation
Profit before taxation is arrived at after taking account of:
Auditors' remuneration
– audit fees
24
39
– under provision prior year
18
1
– other assurance services
10
6
52
46
Amortisation of tangible assets
– owned assets
1,795
1,634
– leased assets
11
–
(notes 2, 9 and 26)
1,806
1,634
Grants for educational and community development
22
21
Operating lease charges
271
180

SA Rands
Figures in million
2007
2006
7
Employee benefits
Employee benefits including executive directors' salaries and other benefits
3,625
3,262
Health care and medical scheme costs
– current medical expenses
313
308
– defined benefit post-retirement medical expenses
92
95
Pension and provident plan costs
– defined contribution
228
201
– defined benefit pension plan
(20)
12
Retrenchment costs (note 2)
34
49
Share-based payment expense
(1)
216
200
Included in cost of sales, other operating expenses, operating special items and corporate administration and other expenses
4,488
4,127
Actuarial defined benefit plan expense analysis
Defined benefit post-retirement medical
– current service cost
6
7
– interest cost
86
88
92
95
Defined benefit pension plan
– current service cost
47
50
– interest cost
124
108

– expected return on plan assets
(191)
(146)
(20)
12
Actual return on plan assets
– South Africa defined benefit pension plan
185
417
Refer to the Remuneration report for details of directors' emoluments
(1)
Details of the equity-settled share-based payment arrangements of the group have been disclosed in group note 11. These arrangements consist of awards by the company to employees of various group companies. The income statement expense of R216m (2006: R200m) for the company is only in respect of awards made to employees of the company.
8
Taxation
Current taxation
Mining tax
(1)
371
193
Non-mining tax
175
176
Under provision prior year
47
57
(note 25)
593
426
Deferred taxation
Temporary differences
(1)
281
569
Unrealised non-hedge derivatives and other commodity contracts
(634)
(771)
Change in estimated deferred tax rate
(3)
57
412
(note 23)
(296)
210
297
636
282
Annual Financial Statements 2007

Notes to the company financial statements continued
For the year ended 31 December

283
8
Taxation (continued)
Tax reconciliation
A reconciliation of the effective tax rate charged in the income statement to the prevailing mining and non-mining tax rate is set out
in the following table:
Non-mining
Mining
Non-mining
Mining
%
%
%
%
2007
2006
Effective tax rate
47 45
43 70
Disallowable items
(2)
(4)
6 (5)
Dividends received
(17)
–
(2)
–
Taxable items not forming part of the income statement
2 – (20)
–
Impact of prior year under provisions
5 –
6 –
Change in estimated deferred tax rate
(3)
– (4)
– (28)
Other
2 –
4 –
Estimated corporate tax rate
(2)
37 37
37 37
(1)
Included in mining tax is taxation on the disposal of tangible assets of R21m and included in temporary differences is taxation
of R6m.
(2)

Mining tax on mining income is determined according to a formula based on profit and revenue from mining operations. The
company has elected to be exempt from STC and is taxed at a higher rate of tax for mining and non-mining income tax
purposes.
All mining capital expenditure is deducted to the extent that it does not result in an assessed loss and depreciation is ignored
when calculating mining income. Capital expenditure not deducted from mining income is carried forward as unredeemed capital
to be deducted from future mining income. The company operates under two tax paying entities, Vaal River Operations and West
Wits Operations. Under ring fencing legislation each entity is treated separately and deductions can only be utilised against
income generated by the relevant tax entity.
The formula for determining the South African mining tax is:
$Y = 45 – 225/X$
where Y is the percentage rate of tax payable and X is the ratio of mining profit net of any redeemable capital expenditure to
mining revenue expressed as a percentage.
The maximum statutory mining tax rate is 45%, non-mining statutory tax rate 37% and statutory company tax rate 29%, all
unchanged from prior year.
(3)
The mining operations are taxed on a variable rate that increases as profitability increases. The tax rate used to calculate deferred
tax is based on the company's current estimate of future profitability when temporary differences will reverse. Depending on the
profitability of the operations, the tax rate can consequently be significantly different from year to year. The change in the
estimated deferred tax rate at which the temporary differences will reverse amounts to R57m (2006: R412m).

9
Tangible assets
Mineral
Mine
rights
Land
development
Mine
and
and
Figures in million
costs infrastructure
dumps
buildings
Total
SA Rands
Cost
Balance at 1 January 2006
15,014
4,134
545
20
19,713
Additions
– project expenditure
357
52 – –
409
– stay-in-business expenditure
1,471
225 – –
1,696
Disposals
(1)
(60)
– (4)
(65)
Transfers and other movements
(1)
(15)
110 – –
95
Finance costs capitalised (note 5)
39
–
–
–
39
Balance at 31 December 2006
16,865 4,461 545
16

21,887
Accumulated amortisation
Balance at 1 January 2006
5,314
2,334
133
–
7,781
Amortisation for the year (notes 2, 6 and 26)
1,425
176
33
–
1,634
Impairments (note 4)
(2)
6 4 – –
10
Transfers and other movements
(1)
(14)
(9)
– 1
(22)
Balance at 31 December 2006
6,731 2,505 166
1 9,403
Net book value at 31 December 2006
10,134 1,956 379
15
12,484
Cost
Balance at 1 January 2007
16,865 4,461 545
16
21,887
Additions
– project expenditure
466
40 – –
506
– stay-in-business expenditure
1,732 314
– 250
2,296
Disposals
(4)
(16)
– (1)
(21)
Transfers and other movements

(1)
(136)
(103)
– –
(239)
Finance costs capitalised (note 5)
51 – – –
51
Balance at 31 December 2007
18,974
4,696
545
265
24,480
Accumulated amortisation
Balance at 1 January 2007
6,731 2,505 166
1 9,403
Amortisation for the year (notes 2, 6 and 26)
1,600
167 28 11
1,806
Disposals
(2)
(3)
– – (5)
Transfers and other movements
(1)
(96)
75 – –
(21)
Balance at 31 December 2007
8,233
2,744
194
12
11,183
Net book value at 31 December 2007
10,741
1,952
351
253
13,297
The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 10.65% (2006: 10.65%).
Included in land and buildings are assets held under finance leases with a net book value of R235m (2006: nil).
A register containing details of properties is available for inspection by shareholders or their duly authorised agents during business
hours at the registered office of the company.
(1)

Transfers and other movements comprise amounts from changes in estimates of decommissioning assets and asset reclassifications.

(2)

Impairments include the following:

SA Rands Figures in million	**2007**	2006
Write off of various minor tangible assets and equipment.	–	10
	–	10

The impairment calculation methodology is included in group note 16.

285
SA Rands
Figures in million
2007
2006
10
Investment in associates
The company has a 25% (2006: 25%) interest in Oro Group (Pty) Ltd which is involved in the manufacture and wholesale of jewellery. The year-end of Oro Group (Pty) Ltd is 31 March.
The carrying value of the associate consists of:
Unlisted shares at cost less impairments
15
15
Investment acquired in Margaret Water Company Limited
3
–
Impairment
(1)
(3)
–
Loans advanced
(2)
15
15
30
30
Directors' valuation of the unlisted associate
30
30
(1)
In 2007, the Margaret Water Company Limited's investment was impaired. The impairment test considered the investment's fair value and anticipated future cash flows. An impairment of R3m was recorded.
(2)
The Oro loan bears interest at a rate determined by the Oro Group (Pty) Ltd's board of directors and is repayable at their discretion.
The company's effective share of certain balance sheet items of its associate at 30 September 2007, is as follows:
Non-current assets
14
14
Current assets
69
63
Total assets
83
77
Non-current liabilities
23
24
Current liabilities

34
29
Total liabilities
57
53
Net assets
26
24
11
Other investments
Unlisted investments
Available-for-sale
Balance at beginning of year
(1)
2
2
Balance at end of year
2
2
Available-for-sale unlisted investments consist primarily of the Chamber of Mines Building Company Limited.
Held to maturity
Balance at beginning of year
14
14
Balance at end of year
14
14
Total other investments (note 29)
16
16
Directors' valuation of unlisted investments
16
16
Investments held to maturity are primarily the Gold of Africa Museum.
(1)
There is no active market for the unlisted equity investment and fair value cannot be reliably measured. The unlisted equity investment is carried at cost. The company does not intend to sell the investment in the foreseeable future.

SA Rands
Figures in million
2007
2006
12
Inventories
Work in progress
– gold in process
240
219
Finished goods
– gold doré / bullion
15
45
– by-products
68
27
Total metal inventories
323
291
Mine operating supplies
153
114
476
405
The amount of the write-down of by-products, gold in process and gold on hand to net realisable value, and recognised as an expense is R139m (2006: R13m). This expense is included in cost of sales which is disclosed in note 2.
13
Investment in Environmental Rehabilitation Trust Fund
Balance at beginning of year
309
284
Contributions
5
25
Rehabilitation expenditure reclaimed
(20)
–
Balance at end of year
294
309
The fund is managed by Rand Merchant Bank and mainly invested in government long bonds and other fixed-term deposits.
14
Other non-current assets
Unsecured
AngloGold Ashanti Pension Fund (note 22)
244
267
Loans and receivables

Loan repayable between 31 December 2009 and 31 December 2011 bearing interest
at 3% per annum
4
4
Other non-interest bearing loans and receivables – repayable on various dates
2
3
250
274
286
Annual Financial Statements 2007
Notes to the company financial statements continued
For the year ended 31 December

287
SA Rands
Figures in million
2007
2006
15
Trade and other receivables
Non-current
Other debtors
–
21
–
21
Current
Trade debtors
20
47
Prepayments and accrued income
85
98
Interest receivable
7
8
Recoverable tax, rebates, levies and duties
115
49
Amounts due from related parties
43
10
Other debtors
26
24
296
236
Total trade and other receivables
296
257
Current trade debtors are non-interest bearing and are generally on terms less than 90 days.
16
Cash and cash equivalents
Cash and deposits on call
783
810
Money market instruments
500
450
(note 29)
1,283
1,260
17
Non-current assets held-for-sale

Effective 30 June 2005, the investment in the Weltevreden mining rights of R100m (2006: R100m) was classified as held for sale. This investment was previously recognised as a tangible asset. Weltevreden's rights were sold to Aflease Gold and Uranium Resource Limited on 15 June 2005. On 19 December 2005, Aflease was acquired by sxr Uranium One (formerly Southern Cross Inc.) and the sale agreement was amended to recognise this change. The conditions precedent to the agreement were not fulfilled before the expiry date of 31 December 2007. Consequently the agreement lapsed and a new agreement is being negotiated with Aflease Gold Limited. In terms of the draft agreement, the purchase price will be paid in the form of Aflease shares to be issued to AngloGold Ashanti.

The draft agreement currently contains conditions precedent including that the Minister must approve of the cession of the Weltevreden mining right from AngloGold Ashanti to Aflease, unconditional approval of the transaction by the Competition Commission and approval by the JSE of issue and allotment of the Aflease shares.

100

100

18
Share capital and premium
Share capital
Authorised
400,000,000 ordinary shares of 25 SA cents each
100
100
4,280,000 E ordinary shares of 25 SA cents each
1
1
2,000,000 A redeemable preference shares of 50 SA cents each
1
1
5,000,000 B redeemable preference shares of 1 SA cent each
–
–
102
102
Issued and fully paid
277,457,471 (2006: 276,236,153) ordinary shares of 25 SA cents each
69
69
4,140,230 (2006: 4,185,770) E ordinary shares of 25 SA cents each
1
1
2,000,000 (2006: 2,000,000) A redeemable preference shares of 50 SA cents each
1
1
778,896 (2006: 778,896) B redeemable preference shares of 1 SA cent each
–
–
71
71
Share premium
Balance at beginning of year
22,976
19,293
Ordinary shares issued
283
3,330
E ordinary shares (cancelled) issued
(6)
353
Balance at end of year
23,253
22,976
Share capital and premium
23,324
23,047
The rights and restrictions applicable to the A and B redeemable preference shares.
A redeemable preference shares are entitled to:

an annual dividend, after payment in full of the annual dividend on the B preference shares, equivalent to the balance of after tax profits from mining the Moab Lease Area; and
on redemption, the nominal value of the shares and a premium per share equal to the balance of the net proceeds from disposal of assets relating to the Moab Lease Area, after redemption in full of the B preference shares payments of the nominal value of the A preference shares.
B redeemable preference shares are entitled to:
an annual dividend limited to a maximum of 5% of their issue price from the period that profits are generated from the Moab Lease Area; and
on redemption, the nominal value of the shares and a premium of up to R249.99 per share provided by the net proceeds from disposal of the assets relating to the Moab Lease Area.
The Moab Lease Area consists of the Moab Khotsong mine operations.

For the year ended 31 December
SA Rands
Figures in million
2007
2006

289
19
Retained earnings and other reserves
Other
Non-
Actuarial
compre-
Retained
distributable
gains
hensive
Figures in million
earnings
reserves
(1)
(losses)
income
(2)
Total
SA Rands
Balance at December 2005
(2,732)
141 (232)
(569)
(3,392)
Actuarial gain recognised
283
283
Deferred taxation thereon (note 23)
(102)
(102)
Loss for the year
(88)
(88)
Dividends (group note 15)
(742)
(742)
Preference dividends
(48)
(48)
Net loss on cash flow hedges removed from
equity and reported in gold sales
553
553
Net loss on cash flow hedges
(969)
(969)
Deferred taxation on cash flow hedges
(note 23)
165 165
Share-based payment for share awards and

BEE transaction
319 319
Deferred issuance costs from ESOP Share
Trust establishment
(630)
(630)
Deferred taxation on cost from ESOP
Share Trust (note 23)
117 117
Balance at December 2006
(3,610)
141 (51)
(1,014)
(4,534)
Actuarial loss recognised
(95)
(95)
Deferred taxation thereon (note 23)
35 35
Profit for the year
413 413
Dividends (group note 15)
(919)
(919)
Preference dividends
(31)
(31)
Net loss on cash flow hedges removed from
equity and reported in gold sales
649 649
Net loss on cash flow hedges
(695)
(695)
Hedge ineffectiveness
31 31
Deferred taxation on cash flow hedges and
hedge ineffectiveness (note 23)
5 5
Share-based payment for share awards
222 222
Deferred issuance cost from ESOP Share
Trust establishment
(22) (22)
Deferred taxation on cost from ESOP
Share Trust (note 23)
(6)
(6)
Balance at December 2007
(4,147)
141
(111)

(830)
(4,947)
(1)
Non-distributable reserves comprise a surplus on disposal of company shares of R141m (2006: R141m).
(2)
Other comprehensive income represents the effective portion of fair value gains or losses in respect of cash flow hedges until
the underlying transaction occurs, upon which the gains or losses are recognised in earnings and the equity item for share-based
payments.

SA Rands
Figures in million
2007
2006
20
Borrowings
Unsecured
Corporate Bond
(1)
2,070
2,066
Semi-annual coupons are paid at 10.5% per annum. The bond is repayable on 28 August 2008
and is rand-based.
Secured
Finance leases
Turbine Square Two (Proprietary) Limited
249
–
The leases are capitalised at an implied interest rate of 9.8% per annum. Lease payments are
due in monthly instalments terminating in March 2022 and are rand-based. The buildings
financed are used as security for these loans.
Vehicle leases
1
–
Interest charged at a rate of 15.5% per annum. Loans are repayable in monthly instalments
terminating in February 2011 and are rand-based. The vehicles financed are used as security for
these loans.
Total borrowings (note 29)
2,320
2,066
Current portion of borrowings included in current liabilities
(2,072)
(73)
Total long-term borrowings
248
1,993
Amounts falling due
Within one year
2,072
73
Between two and five years
83
1,993
After five years
165
–
(note 29)
2,320
2,066
Undrawn facilities
There were no undrawn borrowing facilities as at 31 December 2007 (2006: nil).

(1)
Corporate bond
Senior unsecured fixed-rate bond
2,000
2,000
Unamortised discount and bond issue costs
(3)
(7)
1,997
1,993
Accrued interest
73
73
2,070
2,066
290
Annual Financial Statements 2007
Notes to the company financial statements continued
For the year ended 31 December

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SA Rands
Figures in million
2007
2006
21
Environmental rehabilitation provisions
Provision for decommissioning
Balance at beginning of year
642
498
Change in estimates
(1)
(198)
107
Unwinding of decommissioning obligation (note 5)
52
38
Utilised during the year
(3)
(1)
Balance at end of year
493
642
Provision for restoration
Balance at beginning of year
445
424
Charge to income statement
25
(12)
Change in estimates
(1)
(17)
53
Unwinding of restoration obligation (note 5)
14
14
Utilised during the year
(78)
(34)
Balance at end of year
389
445
Total environmental rehabilitation provisions
882
1,087
(1)
The change in estimates relates to changes in laws and regulations governing the protection
of the environment and factors relative to rehabilitation estimates and a change in the
quantities of material in reserves and a corresponding change in the life of mine plan. These

provisions are anticipated to unwind beyond the end of the life of mine.
22
Provision for pension and post-retirement benefits
Defined benefit plans
The company has made provision for pension, provident and medical schemes covering
substantially all employees. The retirement schemes consist of the following:
AngloGold Ashanti Limited Pension Fund (asset) (group note 32)
(244)
(267)
Post-retirement medical scheme for AngloGold Ashanti Limited's South African employees
(group note 32)
1,121
1,094
877
827
Transferred to other non-current assets (note 14)
AngloGold Ashanti Limited Pension Fund
244
267
1,121
1,094

SA Rands
Figures in million
2007
2006
23
Deferred taxation
Deferred taxation relating to temporary differences is made up as follows:
Liabilities
Tangible assets
4,940
4,625
Inventories
92
87
Derivatives
–
93
Other
10
3
5,042
4,808
Assets
Provisions
671
620
Derivatives
2,359
1,813
Tax losses
13
37
Other
111
141
3,154
2,611
Net deferred taxation liability
1,888
2,197
The movement on the net deferred tax balance is as follows:
Balance at beginning of year
2,197
2,185
Income statement charge (note 8)
(296)
210
Discontinued operations (group note 13)
21
(18)
Taxation on cash flow hedges and hedge ineffectiveness (note 19)

(5)
(165)
Taxation on actuarial (gain) loss (note 19)
(35)
102
Taxation on cost from ESOP Share Trust establishment (note 19)
6
(117)
Balance at end of year
1,888
2,197
24
Trade and other payables
Trade creditors
588
405
Accruals
647
651
Amounts due to related parties
–
9
Unearned premiums on normal sale exempted contracts
225
289
1,460
1,354
Trade and other payables are non-interest bearing and are normally settled within 60 days.
25
Taxation
Balance at beginning of year
561
553
Payments during the year
(565)
(435)
Provisions during the year (note 8)
593
426
Discontinued operations (group note 13)
2
17
Balance at end of year
591
561
292
Annual Financial Statements 2007
Notes to the company financial statements continued
For the year ended 31 December

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SA Rands
Figures in million
2007
2006
26
Cash generated from operations
Profit before taxation
703
560
Adjusted for:
Movement on non-hedge derivatives and other commodity contracts
1,616
2,126
Amortisation of tangible assets (notes 2, 6 and 9)
1,806
1,634
Finance costs and unwinding of obligations (note 5)
257
255
Interest receivable (note 1)
(146)
(52)
Dividends receivable from other investments and subsidiaries (note 1)
(392)
(52)
Operating special items
(72)
241
Environmental rehabilitation and other expenditure
(29)
(39)
Other non-cash movements
191
172
Movements in working capital
54
199
3,988
5,044
Movements in working capital:
Increase in inventories
(68)
(64)
(Increase) decrease in trade and other receivables
(65)
110
Increase in trade and other payables
187
153
54

199
27
Related parties
Material related party transactions were as follows:
Sales and services rendered to related parties
Joint ventures
104
89
Associates
5
–
Subsidiaries
264
–
Purchases from related parties
Third parties
–
54
Subsidiaries
277
284
Outstanding balances arising from sale of goods and services and other loans due by
related parties
Joint ventures
37
14
Associates
21
15
Subsidiaries
491
654
Outstanding balances arising from purchases of goods and services and other loans
owed to related parties
Joint ventures
–
2
Subsidiaries
1,490
1,585
Amounts owed to related parties are unsecured non-interest bearing and under terms that are
no less favourable than those with third parties.
Management fees, royalties, interest and net dividends from subsidiaries amounts to R342m
(2006: R4m). This consists mainly of dividends received from AngloGold Ashanti Holdings plc of
R326m (2006: Nil).
Doubtful debts expensed during the year amounted to R4m (2006: nil).
Details of guarantees to associates are included in note 28.

SA Rands
Figures in million
2007
2006
27
Related parties (continued)
Directors and other key management personnel
Details relating to directors' emoluments and shareholdings in the company are disclosed in the Remuneration and Directors' reports. (Detailed on pages 150 to 169).
Compensation to key management personnel included the following:
– short-term employee benefits
133
90
– post-employment benefits
8
–
– share-based payments
54
31
195
121
28
Contractual commitments and contingencies
Operating leases
At 31 December 2007, the company was committed to making the following payments in respect of operating leases for among others, the hire of plant and equipment and land and buildings. Certain contracts contain renewal options and escalation clauses for various periods of time.
Expiry within
– One year
44
24
Finance leases
The company has finance leases for buildings and motor vehicles. The building leases have terms of renewal but no purchase options. The motor vehicle leases have no purchase option. Renewals are at the option of the lessee. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:
Present
Minimum
value of
payments
payments
2007
Within one year
20 2
Within one year but not more than five years
101 4
More than five years
411 244
Total minimum lease payments
532 250

Amounts representing finance charges
(282)
–
Present value of minimum lease payments
250 250
2006
Within one year
– –
Within one year but not more than five years
–
–
More than five years
– –
Total minimum lease payments
– –
Amounts representing finance charges
–
–
Present value of minimum lease payments
–
–

295
SA Rands
Figures in million
2007
2006
28
Contractual commitments and contingencies (continued)
Capital commitments
Acquisition of tangible assets
Contracted for
428
473
Not contracted for
4,916
3,127
Authorised by the directors
5,344
3,600
Allocated to:
Project expenditure
– within one year
667
398
– thereafter
2,120
674
2,787
1,072
Stay-in-business expenditure
– within one year
2,279
2,285
– thereafter
278
243
2,557
2,528
Purchase obligations
Contracted for
– within one year
367
360
– thereafter
523
–
890
360
Purchase obligations represent contractual obligations for the purchase of mining contract services, supplies, consumables, inventories, explosives and activated carbon.
To service the above capital commitments, purchase obligations and other operational requirements, the company is dependent on existing cash resources, cash generated from

operations and borrowing facilities.

Cash generated from operations is subject to operational, market and other risks. Distributions from operations may be subject to foreign investment, exchange control laws and regulations and the quantity of foreign exchange available in offshore countries. In addition, distributions from joint ventures are subject to the relevant board approval.

The credit facilities and other finance arrangements contain financial covenants and other similar undertakings. To the extent that external borrowings are required, the company's covenant performance indicates that existing financing facilities will be available to meet the commitments detailed above. To the extent that any of the financing facilities mature in the near future, the company believes that these facilities can be refinanced on terms similar to those currently in place.

28
Contractual commitments and contingencies (continued)
Liabilities
Liabilities
Contingency included on
Contingency included on
or balance
or balance
guarantee
sheet
guarantee
sheet
Figures in million
2007
2006
SA Rands
Contingent liabilities
Groundwater pollution – South Africa
(1)
– –
– –
Guarantees
Financial guarantees
Convertible bond
(2)
6,810 –
7,001 –
Syndicated loan facility
(3)
3,556 92 1,271 –
Oro Africa
(4)
100
100
Hedging guarantees
(5)
Geita Management Company
(6)
3,539 –
2,032 –
Ashanti Treasury Services
(7)
10,176 –
7,334 –
AngloGold South America
(8)
1,501 –
959 –
AngloGold (USA) Trading Company
(8)
2,610 –

1,576 –
Cerro Vanguardia S.A.
(8)
542 –
584 –
28,834 92
20,857 –
(1)
AngloGold Ashanti Limited has identified a number of groundwater pollution sites at its current operations in South Africa. The
company has investigated a number of different technologies and methodologies that could possibly be used to remediate the
groundwater pollution. The geology of the area is typified by a dolomite rock formation that is prone to solution cavities. Polluted
process water from the operations has percolated from pollution sources to this rock formation and has been transported three
dimensionally, creating pollution plumes in the dolomite aquifer. Numerous scientific, technical and legal reports have been
produced and the remedying of the polluted soil and groundwater is the subject of a continued research programme between
the University of the Witwatersrand and AngloGold Ashanti. Subject to the technology being developed as a proven remediation
technique, no reliable estimate can be made for the obligation.
(2)
The company has guaranteed all payments and other obligations of AngloGold Ashanti Holdings plc regarding the convertible
bonds issued during 2004, with a maturity date of 27 February 2009, and a fixed coupon of 2.375% payable semi-annually. The
bonds issued amounted to $1,000m, R6,810m. The company obligations regarding the guarantee will be direct, unconditional
and unsubordinated.
(3)
The company has guaranteed all payments and other obligations of the wholly owned subsidiaries AngloGold Ashanti Holdings
plc, AngloGold Ashanti Australia Limited and AngloGold Ashanti USA Inc. regarding the $1,150m syndicated loan facility. The
prior year figure relates to the $700m, R4,901m syndicated loan facility that was repaid during 2007.
(4)
The company has provided surety in favour of the lender in respect of gold loan facilities with two wholly owned subsidiaries of
Oro Group (Proprietary) Limited, an associate of the company. The company has a total maximum liability, in terms of the
suretyships, of R100m. The suretyship agreements have a termination notice period of 90 days.
(5)
Included in the amounts stated are NPSE accounted contracts fair valued at R7,857m (2006: R6,695m).
(6)
The company, together with AngloGold Ashanti Holdings plc, has issued hedging guarantees to several counterparty banks in
which they have guaranteed the due performance of the Geita Management Company Limited of its obligations under or
pursuant to hedging arrangements entered into. Refer group note 38.

(7)
The company, together with AngloGold Ashanti Holdings plc, has provided guarantees to several counterparty banks for the
hedging commitment of Ashanti Treasury Services Limited. Refer group note 38.

(8)
The group has issued gold delivery guarantees to several counterparty banks in which it guarantees the due performance of its
subsidiaries AngloGold USA Trading Company, AngloGold South America Limited and Cerro Vanguardia S.A. under their
respective gold hedging agreements.

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Financial risk management activities
In the normal course of its operations, the company is exposed to gold price, other commodity price, foreign exchange, interest
rate, liquidity, equity price and credit risks. In order to manage these risks, the company may enter into transactions which make
use of both on- and off-balance sheet derivatives. The company does not acquire, hold or issue derivatives for trading purposes.
The company has developed a comprehensive risk management process to facilitate, control and monitor these risks. The board
has approved and monitors this risk management process, inclusive of documented treasury policies, counterpart limits and
controlling and reporting structures.
Controlling risk in the company
The Executive Committee and the Treasury Committee are responsible for risk management activities within the company. The
Treasury Committee, chaired by the independent chairman of the AngloGold Ashanti Audit and Corporate Governance Committee,
comprising executive members and treasury executives, reviews and recommends to the Executive Committee treasury
counterparts, limits, instruments and hedge strategies. The treasurer is responsible for managing gold price, other commodity
price, foreign exchange, interest rate, liquidity and credit risks. Within the treasury function, there is an independent risk function,
which monitors adherence to treasury risk management policy and counterpart limits and provides regular and detailed management reports.
The financial risk management objectives of the company are defined as follows:
safeguarding the company’s core earnings stream from its major assets through the effective control and management of gold
price risk, other commodity risk, foreign exchange risk and interest rate risk;
effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity
management planning and procedures;
ensuring that investment and hedging transactions are undertaken with creditworthy counterparts; and
ensuring that all contracts and agreements related to risk management activities are coordinated, consistent throughout the
company and comply where necessary with all relevant regulatory and statutory requirements.
Gold price, foreign exchange risk and cash flow hedging
Gold price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of gold.
The gold market is predominately priced in US dollars which exposes the company to the risk that fluctuations in the SA rand/US
dollar exchange rate may also have an adverse effect on current or future earnings. The company is also exposed to certain by-
product commodity price risk.
A number of products, including derivatives, are used to manage the gold price and foreign exchange risks that arise out of the
company's core business activities. Forward sales contracts and call and put options are used by the company to manage these
risks. At year-end, the volume of outstanding forward sales contracts was 4,520kg (2006: 7,362kg).

As the company does not enter into financial instruments for trading purposes, the risks inherent to financial instruments are always
offset by the underlying risk being hedged. The company further manages such risks by ensuring that the level of hedge cover
does not exceed the company life of mine and that no basis risk exists.

Cash flow hedges

The company's cash flow hedges consist of commodity and foreign exchange forward contracts that are used to protect against
exposures to variability in future commodity and foreign exchange cash flows. The amounts and timing of future cash flows are
projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors,
including estimates of prepayments and defaults. The aggregate principal cash flows across all portfolios over time form the basis
for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions.

Gains and losses are initially recognised directly in equity and other comprehensive income, and are transferred to earnings when
the forecast cash flows affect the income statement.

The cash flow hedge forecast transactions are expected to occur over the next 3 years, in line with the maturity dates of the
hedging instruments and will affect profit and loss simultaneously in an equal and opposite way.

The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the
year to 31 December 2007, a loss of R31m (2006: Nil) was recognised due to hedge ineffectiveness.

29
Financial risk management activities (continued)
Non-hedge derivatives
SA Rands
Figures in million
2007
2006
Loss on non-hedge derivatives and other commodity contracts is summarised as follows:
Loss on non-hedge derivatives
(1,308)
(826)
Unrealised gain (loss) on other commodity physical borrowings
23
(9)
Provision reversed (raised) for loss on future deliveries and other commodities
80
(101)
Loss on non-hedge derivatives and other commodity contracts per the income statement
(1,205)
(936)
Loss on non-hedge derivatives and other commodity contracts was R1,205m in 2007 compared to a loss of R936m in the previous
year. The loss is primarily the result of the revaluation of non-hedge derivatives resulting from changes in the prevailing spot gold
price, exchange rates, interest rates and greater volatilities compared to the previous year.
Net open hedge position as at 31 December 2007
The company had the following net forward pricing commitments outstanding against future production.
The marked-to-market value of all derivatives, irrespective of accounting designation, making up the hedge position was R10.57bn
as at 31 December 2007 (as at 31 December 2006: R7.82bn). These values were based on a gold price of $836.30 per ounce,
an exchange rate of $1 = R6.8104 and the prevailing market interest rates and volatilities at 31 December 2007. The values as at
31 December 2006 were based on a gold price of $636.30 per ounce, an exchange rate of $1 = R7.0010 and the market interest
rates and volatilities prevailing at that date.
Summary: All open contracts in the company's commodity hedge position as at 31 December 2007.
2013-
Year
2008
2009
2010
2011
2012
2015
Total
US Dollar/Gold
Forward contracts
Amount (kg)
(6,925)
(1)

1,414 1,571 1,882 1,882 3,764 3,588
$/oz
$816 ($343)
(2)
$142 $490 $500 $515 ($588)
(2)
Put options sold
Amount
(kg)
8,009 3,748 1,882 1,882 1,882 3,764 21,167
$/oz
$642 $530 $410 $420 $430 $445 $528
Call options sold
Amount
(kg)
18,614 20,147 18,833 20,202 4,899 12,784 95,479
$/oz
$408 $404 $409 $437 $536 $552 $439
Rand/Gold
Forward contracts
Amount (kg)
933
933
R/kg
R116,335 R116,335
Call options sold
Amount
(kg)
2,986 2,986 2,986
8,958
R/kg
R202,054 R216,522 R230,990
R216,522
Total net gold
Delta (kg)
(3)
(10,737)
(24,020)
(22,007)
(23,322)
(6,366)
(15,364)
(101,816)
Delta (oz)
(3)
(345,193)
(772,250)
(707,534)
(749,805)
(204,675)
(493,963)

(3,273,420)
The open delta hedge position of the company at 31 December 2006 was 3.61Moz or 112t.
(1)
Indicates a long position resulting from forward purchase contracts.
(2)
Indicates a net short position where the contractual value of the total short position is less than the contractual value of the total
long position.
(3)
The delta of the hedge position indicated above, is the equivalent gold position that would have the same marked-to-market
sensitivity for a small change in the gold price. This is calculated using the Black-Scholes option formula with the ruling market
prices, interest rates and volatilities as at 31 December 2007.

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29
Financial risk management activities (continued)
Summary: All open contracts in the company's currency hedge position as at 31 December 2007 (continued)
2013-
Year
2008
2009
2010
2011
2012
2015
Total
Rand/US Dollar (000)
Forward contracts
Amount ($)
35,000
35,000
R per $
R6.94
R6.94
Put options purchased
Amount ($)
120,000
120,000
R per $
R6.98
R6.98
Put options sold
Amount ($)
120,000
120,000
R per $
R6.65
R6.65
Call options sold
Amount ($)
135,000
135,000
R per $
R7.35
R7.35
The mix of hedging instruments, the volume of production hedged and the tenor of the hedging book is continually reviewed in the
light of changes in operational forecasts, market conditions and the company's hedging policy.
Forward sales contracts require the future delivery of the underlying at a specified price.
A put option gives the put buyer the right, but not the obligation, to sell the underlying to the put seller at a predetermined price
on a predetermined date.
A call option gives the call buyer the right, but not the obligation, to buy the underlying from the call seller at a predetermined price

on a predetermined date.

29
Financial risk management activities (continued)
Sensitivity analysis
Derivatives
A principal part of the company's management of risk is to monitor the sensitivity of derivative positions in the hedge book to
changes in the underlying factors,viz. commodity price, foreign exchange rate and interest rates under varying scenarios.
The following table discloses the approximate sensitivities of the US dollars marked-to-market value of the hedge book to key
underlying factors at 31 December 2007 (actual changes in the timing and amount of the following variables may differ from the
assumed changes below).
The table below sets out the impact on the marked-to-market value of the hedge book of an incremental parallel fall or rise in the
respective yield curves at the beginning of each month, quarter or year (as is appropriate) from 1 January 2008. The yield curves
match the maturity dates of the individual derivative positions in the hedge book. These figures incorporate the impact of any option
features in the underlying exposures.
Cash
Total
Total
Normal flow
Non-
change
change
sale
hedge
hedge
in fair
in fair
Change
exempted
accounted
accounted
value
value
in rate (+)
(million)
(million)
(million)
(million)
(million)
2007
2006
Currency (R/$)
1.00
–
(68)
(163)

(231)
(119)
Gold price ($/oz)
200.00 (1,886)
(632)
(1,940)
(4,458)
(5,200)
ZAR interest rate (%)
1.50
–
(4)
(33)
(37)
(18)
Cash
Total
Total
Normal flow
Non-
change
change
sale
hedge
hedge
in fair
in fair
Change exempted
accounted
accounted
value
value
in rate (-)
(million)
(million)
(million)
(million)
(million)
2007
2006
Currency (R/$)
1.00 –
95
102
197
77
Gold price ($/oz)
200.00
1,883
632
1,664

4,179
5,113
ZAR interest rate (%)
1.50
–
4
32
36
18
Interest rate risk on other financial assets and liabilities (excluding derivatives)
Refer note 39 in the group financial statements.
The following are the contractual maturities of financial liabilities, including interest payments
Non-derivative financial liabilities
Between one
Between two
Greater than
Within one year
and two years
and five years
five years
Effective
Effective
Effective
Effective
rate
rate
rate
rate
Currency Million
%
Million
%
Million
%
Million
%
2007
Borrowings
ZAR
2,229 10.5
22
9.9
78
9.9
411
9.8
Trade and
other payables
ZAR
1,198 –
–

–
USD in
ZAR equivalent
37 –
–
–
2006
Borrowings
ZAR
282
10.5
2,204
10.5
– – –
–
Trade and
other payables
ZAR
947
–
–
–
USD in
ZAR equivalent
118
–
–
–

301
29
Financial risk management activities (continued)
Credit risk
Refer note 39 in the group financial statements.
The combined maximum credit risk exposure of the company is as follows:

SA Rands Figures in million	**2007**	2006
Commodity option contracts	–	302
Foreign exchange option contracts	26	9
Forward sale commodity contracts	1,209	1,286
Forward foreign exchange contracts	1	–
Gold interest rate swaps	3	13
All derivatives	1,239	1,610
Other investments (note 11)	16	16
Other non-current assets	6	7
Trade and other receivables	96	110
Cash restricted for use	7	6
Cash and cash equivalents (note 16)	1,283	1,260
Total financial assets	2,647	3,009
Financial guarantees	10,466	8,372
Hedging guarantees	10,511	

5,499
Total
23,624
16,880
No trade and other receivables are past due but not impaired. No other financial assets are past due but not impaired.
Fair value of financial instruments
The estimated fair values of financial instruments are determined at discrete points in time based on relevant market information.
These estimates involve uncertainties and cannot be determined with precision. The estimated fair values of the company's financial
instruments as at 31 December 2007 are as follows:
Type of instrument
Carrying
Fair
Carrying
Fair
amount
value
Amount
Value
Figures in million
2007
2006
Financial assets
Other investments (note 11)
16 16
16 16
Other non-current assets
6 6
7 7
Trade and other receivables
96 96
110 107
Cash restricted for use
7 7
6 6
Cash and cash equivalents (note 16)
1,283 1,283
1,260 1,260
Derivatives
1,239 1,239
1,610 1,610
Financial liabilities
Borrowings (note 20)
2,320 2,308
2,066 2,097
Trade and other payables
1,235 1,235
1,065 1,065
Derivatives
7,277 12,099

5,849	9,820

The amounts in the tables above do not necessarily agree with the totals in the notes as only financial assets and financial liabilities
are shown.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash restricted for use, cash and cash equivalents and trade and other payables

The carrying amounts approximate fair value because of the short-term duration of these instruments.

29
Financial risk management activities (continued)

Trade and other receivables
The fair value of the non-current portion of trade and other receivables has been calculated using market interest rates.

Investments and other non-current assets
Listed equity investments classified as available-for-sale are carried at fair value while fixed income investments and other non-
current assets are carried at amortised cost. The fair value of fixed income investments and other non-current assets has been
calculated using market interest rates.

Borrowings
The fair value of listed fixed rate debt is shown at its closing market value as at 31 December 2007. The remainder of debt re-
prices on a short-term floating rate basis, and accordingly the carrying amount is considered to approximate fair value.

Derivatives
The fair values of derivatives are estimated based on the ruling market prices, volatilities and interest rates as at 31 December 2007.
The fair value amounts for derivatives include off balance sheet normal sale exempted gold contracts, which are not carried on the
balance sheet and excluded from the carrying amount. All other derivatives on balance sheet are carried at fair value.
The company uses the Black-Scholes option pricing formula to value option contracts. One of the inputs into the model is the level
of volatility. These volatility levels are themselves not exchange traded and are not observable generally in the market. The company
uses volatility inputs supplied by leading market participants (international banks). The company believes that no other possible
alternative would result in significantly different fair value estimations.
Derivative assets (liabilities) comprise the following:

	Assets				Liabilities			
	Normal sale exempted	Cash flow hedge accounted	Non-hedge accounted	Total	Normal sale exempted	Cash flow hedge accounted	Non-hedge accounted	Total
Figures in million								

2007
2007
Commodity option contracts
–
–
–
–
(4,822)
–
(4,671)
(9,493)
Foreign exchange option contracts
– –
26
26
–
–
(26)
(26)
Forward sale commodity contracts
– 21
1,188
1,209
–
(1,367)
(1,208)
(2,575)
Forward foreign exchange contracts
–
–
1
1
–
–
(1)
(1)
Gold interest rate swaps
–
–
3
3
–
–
(4)
(4)
All derivatives
–
21
1,218
1,239
(4,822)

(1,367)
(5,910)
(12,099)
2006
2006
Commodity option contracts
–
–
302
302
(3,971)
–
(3,168)
(7,139)
Foreign exchange option contracts
–
–
9
9
–
–
(7)
(7)
Forward sale commodity contracts
–
240
1,046
1,286
–
(1,567)
(1,098)
(2,665)
Gold interest rate swaps
–
–
13
13
–
–
(9)
(9)
All derivatives
–
240
1,370
1,610
(3,971)
(1,567)
(4,282)
(9,820)

303

29

Financial risk management activities (continued)

The schedule of undiscounted forecast principal cash flows arising from all on balance sheet derivative contracts (cash flow hedges
and non-hedges) as at 31 December 2007 is as follows:

SA Rands million	Within one year	Between one and two years	Between two and five years	After five years	Total
At 31 December 2007					
Cash inflows from assets	811	354	98	–	1,263
Cash outflows from liabilities	(1,377)	(1,712)	(2,975)	(1,860)	(7,924)
Net cash outflows	(566)	(1,358)	(2,877)	(1,860)	(6,661)
At 31 December 2006					
Cash inflows from assets	1,202	425	211	–	1,838
Cash outflows from liabilities	(1,337)	(917)	(2,581)	(1,713)	(6,548)
Net cash outflows	(135)	(492)	(2,370)		

(1,713)
(4,710)
30
Capital management
Capital is managed on a group basis only and not on a company basis. Refer note 40 in the group financial statements.
31
Recent developments
Eskom power supply
Following the announcement made on 25 January 2008, in which AngloGold Ashanti advised that Eskom would be interrupting
power supplies to the company's South African operations, AngloGold Ashanti halted mining and gold recovery at these
operations. Subsequently, AngloGold Ashanti announced on 29 January 2008, that it had begun the process to restart production
at its South African operations following a meeting with Eskom and industrial electricity consumers at which Eskom had agreed to
provide AngloGold Ashanti with 90% of its electricity demand prior to the shut down so as to return the operations to normal
production. At this stage the company estimates the effect of the reduction in the available power supply to negatively affect
production by approximately 400,000 ounces (12,440 kilograms). The estimated financial effect of a 400,000 ounce
(12,440 kilograms) decrease in production is lower revenue of R2,501 million at an assumed average spot price of R201,000/kg.
Total cash costs in South Africa, which includes the effect of lower uranium production, are likely to increase from approximately
R77,000/kg to R100,000/kg.
Change in South African Income Taxation Rates
The Minister of Finance announced on 20 February 2008 a reduction to the gold mining taxation formula from Y = 45-225/X to
Y = 43-215/X and a non-mining rate reduction from 37% to 36%. The impact of this is a net reduction to the deferred taxation
liability of R117m and a lower income statement taxation charge of R138m. The financial impact of the rate changes are calculated
based on the results for the year ended 31 December 2007.

Annual Financial Statements 2007
Investment in principal subsidiaries and joint venture interests
For the year ended 31 December
Shares held
Country of
Nature of
2007
2006
incorporation
business
Direct inve
stments
Advanced Mining Software Limited
18
C
40,000
40,000
AGRe Insurance Company Limited
18
F
2
2
AngloGold American Investments Limited
5
B
1,001
1,001
AngloGold Ashanti USA Incorporated
21
B
100
100
AngloGold Ashanti USA Incorporated
21
B
500*
500*
AngloGold Ashanti Health (Pty) Limited
18
E
8
8
AngloGold Ashanti Holdings plc
5
B
2,077,313,678
2,077,313,678
AngloGold Offshore Investments Limited
10
B

5,000,000
5,000,000
Eastvaal Gold Holdings Limited
18
B
454,464,000
454,464,000
Masakhisane Investment Limited
18
B
100
100
Nuclear Fuels Corporation of SA (Pty) Limited
18
D
1,450,000
1,450,000
Rand Refinery Limited **
18
G
208,471
208,471
Xinjiang Yunhai Mining Company Limited
7
H
–
–
Indirect investments
AG Mali Holdings 1 Limited
5
B
10,002
10,002
AG Mali Holdings 2 Limited
5
B
10,002
10,002
AngloGold Argentina Limited
5
B
1
1
AngloGold Argentina S.A.
1
B
1,331,093
1,331,093
AngloGold Ashanti Australia Limited
2
B

257,462,077
257,462,077
AngloGold Ashanti (Colorado) Corp.
21
B
1,250
1,250
AngloGold Ashanti Exploration (Ghana) Limited
9
H
2
2
AngloGold Ashanti (Ghana) Limited
9
A
132,419,585
132,419,585
AngloGold Ashanti (Iduapriem) Limited
9
A
66,270
53,010
AngloGold Ashanti (Nevada) Corp.
21
B
100
100
AngloGold Ashanti North America Inc.
21
B
7,902
7,902
AngloGold Australia Investment Holdings Limited
5
B
1,000
1,000
AngloGold Australia (Sunrise Dam) Pty Limited
2
A
2
2
AngloGold Ashanti Brasil Mineração Ltda
4
A/B
8,827,437,875
8,827,437,875
AngloGold Brazil Limited
4
B
1

1
AngloGold CV 1 Limited
5
B
11,002
11,002
AngloGold CV 2 Limited
5
B
1,002
1,002
AngloGold CV 3 Limited
5
B
1,002
1,002
AngloGold Finance Australia Holdings Limited
16
B
2
2
AngloGold Finance Australia Limited
16
B
2
2
AngloGold Geita Holdings Limited
5
B
3,513
3,513
AngloGold Investments Australasia Limited
5
B
1,000
1,000
AngloGold Investments Australia (Pty) Limited
2
B
1
1
AngloGold Investments (Sadex) Limited
5
B
1,000'A'
1,000'A'
AngloGold Morila Holdings Limited
5
B
1,000
1,000

AngloGold Namibia (Pty) Limited
17
A
10,000
10,000
AngloGold Offshore Investments Limited
5
B
422,510,000*
422,510,000*
AngloGold South America Limited
5
B
488,000
488,000
AngloGold South American Holdings Limited
5
B
1
1
Ashanti Goldfields Belgium S.A.
3
B
2,500
2,500
Ashanti Goldfields (Cayman) Limited
6
B
2
2
Ashanti Goldfields Holding (Luxembourg) S.A.
14
B
3,000,000
3,000,000
Ashanti Goldfields Kilo Scarl
8
H
15,520
15,520
Ashanti Goldfields Services Limited
20
B
588,409
588,409
Ashanti Goldfields Teberebie Limited
6
B
2
2
Ashanti Treasury Services Limited

12
I
250,000
250,000
Australian Mining & Finance (Pty) Limited
2
B
48
48
Cerro Vanguardia S.A.
1
A
13,875,000
13,875,000
Chevaning Mining Company Limited
20
B
1,000
1,000
Cluff Mineral Exploration Limited
20
B
500,000
500,000
Cluff Oil Limited
20
B
19,646,377
19,646,377
Cluff Resources Limited
20
B
93,638,562
93,638,562
Cripple Creek & Victor Gold Mining Company
21
A
–
–
Erongo Holdings Limited
5
B
13,334'A'
13,334'A'
Geita Gold Mining Limited
19
A
2
2
Golden Shamrock Mines Limited
14

B
2,000,000
2,000,000
GSM Gold S.A.
2
B
325,000
325,000
Mineração Serra Grande S.A.
4
A
499,999,997
499,999,997
Morila Limited
13
B
1
1
Pioneer Goldfields Limited
5
B
75,000,000
75,000,000
Sadiola Exploration Limited
5
B
5,000'A'
5,000'A'
Societé Ashanti Goldfields de Guinée S.A.
11
A
3,486,134
3,486,134
Teberebie Goldfields Limited
9
A
2,066,667
1,860,000
Joint ventures
Nufcor International Limited **
20
D
3,000,000
3,000,000
Société des Mines de Morila S.A.
15
A
400
400
Société d'Exploitation des Mines d'Or de Sadiola S.A.
15

A
38,000
38,000
Société d'Exploitation des Mines d'Or de Yatela S.A.
15
A
400
400
BGM Management Company (Pty) Ltd
2
A
3'B'
3'B'
Nature of business
Countries of incorporation
A – Mining
1 Argentina
8 Democratic Republic of Congo
15 Mali
B – Investment holding
2 Australia
9 Ghana
16 Malta
C – Software development
3 Belgium
10 Guernsey
17 Namibia
D – Market agent
4 Brazil
11 Republic of Guinea
18 Republic of South Africa
E – Health care
5 British Virgin Islands
12 Isle of Man
19 Tanzania
F – Short-term insurance and
6 Cayman Islands
13 Jersey
20 United Kingdom
re-assurance, captive
7 China
14 Luxembourg
21 United States of America
insurance
G – Precious metal refining
H – Exploration
I
– Treasury

305
*
Indicates preference shares
**
The statutory year-ends of Rand Refinery Limited and Nufcor International Limited are 30 September and 30 June respectively. The management accounts of
Rand Refinery Limited and Nufcor International Limited for the periods ended 30 September and 31 December respectively, have been included in the group's
results for the year ended 31 December 2007.
In terms of IAS 27, the Environmental Rehabilitation Trust Fund is deemed to be a subsidiary.
The aggregate interest in the net profits and losses in subsidiaries is as follows:
Figures in million
2007
2006
Profit attributable to equity shareholders
205
364
Losses attributable to equity shareholders
(931)
(530)
(726)
(166)
Percentage held
Book value
Net loan account
2007
2006
2007
2006
2007
2006
%
%
Rm
Rm
Rm
Rm
100
100
2
2
(6)
(8)
100
100
14
14
–
–
100
100

849
849
(48)
(49)
100
100
1,197
768
–
–
100
100
655
655
–
–
100
100
–
–
29
48
100
100
13,823
13,172
(511)
(538)
100
100
313
272
–
–
100
100
917
917
(604)
(602)
100
100
–
–
5
5
100
100
7
7
(44)

5
53.03
53.03
116
116
–
–
60
–
7
–
–
–
100
100
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23
18
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80
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86.22
86.22
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92.50
92.50
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67
67
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100
100
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(13)
(13)
100
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11
14
100
100
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100
100
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50
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3
1
50
50
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100
100
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50
50
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–
–
85
85
–
–
21
16
100
90
–
–
–
–
17,900
17,191
(1,292)
(1,237)
50
50
18
18
–
(2)
40
40
–
–
1
–
38
38
–
–
1
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40
40
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33.33
33.33
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18
18
2
(2)

The process of producing gold
The process of producing gold can be divided into six main phases:
finding the orebody;
creating access to the orebody;
removing the ore by mining or breaking the orebody;
transporting the broken material from the mining face to the plants for treatment;
processing; and
refining.
This basic process applies to both underground and surface operations.
Finding the orebody
AngloGold Ashanti's global exploration group identifies targets and undertakes exploration, on its own or in conjunction with joint venture partners.
Creating access to the orebody
There are two types of mining which take place to access the orebody:
underground mining: a vertical or decline shaft (designed to transport people and/or materials) is sunk deep into the ground, after which horizontal development takes place at various levels of the main shaft or decline. This allows for further on-reef development of specific mining areas where the orebody has been identified; and
open-pit mining: where the top layers of topsoil or rock are removed in a process called 'stripping' to uncover the reef.
Removing the ore by mining or breaking the orebody
In underground mining, holes are drilled into the orebody, filled with explosives and then blasted. The blasted 'stopes' or 'faces' are then cleaned and the ore released is then ready to be transported out of the mine.
In open-pit mining, drilling and blasting may also be necessary to release the gold- bearing rock; excavators then load the material onto the ore transport system.
Transporting the broken material from the mining face to the plants for treatment
Underground ore is transported by means of vertical and/or horizontal transport systems. Once on surface, conveyor belts usually transport the ore to the treatment plants.
Open-pit mines transport ore to the treatment plants in vehicles capable of hauling large, heavy loads.
Services
Mining activities require extensive services, both on the surface and underground, including:
mining engineering services;

mine planning; ventilation;
provision of consumable resources;
engineering services;
financial, administration and human resource services; and
environmental/sustainable development services.

Processing

Comminution is the process of breaking up ore to make gold available for treatment. Conventionally, this process occurs in multi-stage crushing and milling circuits. Modern technology is to use large mills fed directly with run-of-mine material.

AngloGold Ashanti is in the business of exploring for, mining and processing gold. These activities alter the original nature of environment, and of land in particular. AngloGold Ashanti has in place closure plans at all its operations to return the land to a productive state once mining has ceased.

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Gold ores can typically be classified into:

refractory ores, where the gold is locked within a sulphide mineral and not readily available for recovery by the cyanidation process; or

free milling, where the gold is readily available for recovery by the cyanidation process.

Refractory ore treatment: after fine grinding, the sulphide materials are separated from the barren gangue material using flotation to produce a high-grade sulphide concentrate. The sulphide concentrate is oxidised by either roasting as at AngloGold Ashanti Mineração or bacterial oxidation (BIOX) as at Obuasi. The oxidation process oxidises the sulphide minerals, liberating the gold particles and making them amenable to recovery by the cyanidation process.

Free milling and oxidised refractory ores are processed for gold recovery by leaching the ore in agitated tanks in an alkaline cyanide leach solution. This is generally followed by adsorption of the gold cyanide complex onto activated carbon-in-pulp (CIP).

An alternative process is the heap-leach process. This process is generally considered applicable to high-tonnage, low-grade ore deposits, but it can be successfully applied to medium-grade deposits where the ore deposit tonnage cannot economically justify constructing a process plant. Run-of-mine ore is crushed and heaped on a leach pad. Low strength alkaline cyanide solution is applied, generally as a drip, to the top of the heap for periods of up to three months. The dissolved gold bearing solution is collected from the base of the heap and transferred to carbon-in-solution (CIS) columns where the gold cyanide complex is adsorbed onto activated carbon. The stripped solution is recycled to the top of the heaps.

Gold adsorbed onto activated carbon is recovered by a process of re-dissolving the gold from the activated carbon (elution), followed by precipitation in electro-winning cells and subsequent smelting of that precipitate into doré bars that are shipped to the gold refineries.

Retreatment of tailing stockpile from previous decades' operations is also practiced by AngloGold Ashanti. The old tailings are mined by water sluicing followed by agitator leaching in alkaline cyanide solution and recovery of dissolved gold onto activated carbon.

At AngloGold Ashanti operations, the main by-products produced are:

silver, which is associated with gold in ratios ranging from 0.1:1 to 200:1 silver to gold;

sulphuric acid which is produced from the gases generated by the roasting plants; and

uranium which is recovered in a process which involves initial acid leaching followed by recovery of the leached uranium

onto resin and subsequent stripping with ammonium
hydroxide and precipitation of crude yellow cake.
The tailings from the process operations are stored in designated
tailings storage facilities designed to enhance water recovery.
Refining
The doré bars are transported to a refinery for further refining, to
as close to pure gold as possible. This is known as good delivery
status. This gives the assurance that the bar contains the
quantity and purity of gold as stamped on the bar.
The process of mine-site rehabilitation
In all the jurisdictions in which the company operates, it is
required to conduct closure and rehabilitation activities to return
the land to a productive state once mining has been completed.
Additionally, the company is required to provide financial
assurance, in a form prescribed by law, to cover some or all of
the costs of the anticipated closure and rehabilitation costs for
the operation. Rehabilitation refers to the process of reclaiming
mined land to the condition that existed prior to mining or to a
pre-determined post-mining use.
Closure plans are devised prior to the start of operations and are
regularly reviewed to take into account life-of-mine projections.
Although the final cost of closure cannot be fully determined
ahead of closure, appropriate provision is made during the
mine's economic operation.

Rights to mine and title to properties

In a number of countries in which AngloGold Ashanti operates there are, in some cases, certain restrictions in terms of the group's ability to independently move assets out of that country and/or transfer the assets within the group, without the prior consent of the local government or minority shareholders involved.
Argentina
According to Argentinean mining legislation, mines are the private property of the nation or a province, depending on where they are located. Individuals are empowered to explore for, exploit and dispose of mines as owners by means of a legal licence granted by a competent authority under the provisions of the Argentine Mining Code. The legal licences granted for the exploitation of mines are valid for an undetermined period, provided that the mining title holder complies with the obligations settled in the Argentine Mining Code. In Argentina, the usual ways of transferring rights over mining licences are: to sell the licence; to lease such licence; or to assign the rights under such a licence by a beneficial interest or Usufruct Agreement. In the case of Cerro Vanguardia – AngloGold Ashanti's operation in Argentina – the mining title holder is its partner, Fomicruz, and due to the Usufruct Agreement signed between them and Cerro Vanguardia SA on 27 December 1996, the latter has the irrevocable right to the exploitation of the deposit for a period of 40 years. This agreement expires on 27 December 2036.
Australia
In Australia, with few exceptions, all onshore mineral rights are reserved by the government of the relevant state or territory. Exploration for, and mining of, minerals is regulated by the general mining legislation and controlled by the mining ministry of each respective State or Territory.
Where native title has not been extinguished, native title legislation may apply to the grant of tenure and some subsequent administrative processes. Federal and State Aboriginal heritage legislation also operates to protect special sites and areas from disturbance although to date there has not been any adverse impact on any of AngloGold Ashanti's operating properties.
AngloGold Ashanti's operating properties are located in the state of Western Australia. The most common forms of tenure are exploration and prospecting licences, mining leases, miscellaneous licences and general purpose leases. In most Australian states, if the holder of an exploration licence establishes indications of an economic mineral deposit and complies with the conditions of the grant, the holder of the exploration licence has a priority right against all others to apply for a mining lease which gives the holder exclusive mining rights with respect to minerals on the property.

It is possible for an individual or entity to own the surface of the property and for another individual or entity to own the mineral rights. Typically the maximum initial term of a mining lease is 21 years, and the holder has the right to renew the lease for a further period of 21 years. Subsequent renewals are subject to the discretion of the respective State or Territory's minister responsible for mining rights. Mining leases can only be assigned with the consent of the relevant minister.

Government royalties are payable as specified in the relevant legislation in each State or Territory. A general purpose lease may also be granted for one or more of a number of permitted purposes. These purposes include erecting, placing and operating machinery and plant in connection with mining

AngloGold Ashanti's rights to own and exploit mineral reserves and deposits are governed by the laws and regulations of the jurisdictions in which the mineral properties are located.

operations, depositing or treating minerals or tailings and using the land for any other specified purpose directly connected with mining operations.
AngloGold Ashanti owns the mineral rights and has 21-year term mining leases with rights of renewal to all of its mining areas in Australia, including its proportionate share of joint venture operations, and both the group and its joint venture partners are fully authorised to conduct operations in accordance with relevant laws and regulations. The mining leases and rights of renewal cover the current life-of-mine at AngloGold Ashanti's operations in Australia.
Brazil
In Brazil, there are two basic mining rights:
a licence for the exploration stage, valid up to three years, renewable once; and
a Mining Concession or Mine Manifest, valid for the life of the deposit.
In general, exploration licences are granted on a first-come, first-served basis. Mining concessions are granted to the holders of exploration licences that manage to prove the existence of a Mineral Resource and have been licensed by the environmental competent authority.
Mine Manifests (mining titles granted in 1936) and Mining Concessions (mining titles presently granted through an order signed by the Secretary of Mines of the Ministry of Mines and Energy) are valid for an undetermined period until depletion of reserves, provided that the mining title holder complies with current Brazilian mining and environmental legislation, as well as with those requirements set out by the National Department of Mineral Production (DNPM) who acts as inspecting entity for mining activities. Obligations of the titleholder include:
the start of construction, as per an approved development plan, within six months of the issuance of the concession;
extracting solely the substances indicated in the concession;
communicating to the DNPM the discovery of a mineral substance not included in the concession title;
complying with environmental requirements;
restoring the areas degraded by mining; refrain from interrupting exploitation for more than six months; and
reporting annually on operations.
The difference between a Mine Manifest and a Mining Concession lies in the legal nature of these two mining titles, since it is much more difficult and complicated for the public administration to withdraw a Mine Manifest than a Mining Concession although, in practice, it is possible for a Manifest to be cancelled or to become extinct if the abandonment of the mining operation is formally proven. All of AngloGold Ashanti's operations in Brazil have indefinite mining licences.
Ghana

Mining activities in Ghana are primarily regulated by the new Minerals and Mining Act, 2006 (the Mining Act.) The Mining Act replaces the repealed Minerals and Mining Law, 1986 (PNDCL 153). The Mining Act replicates many of the provisions of the old Law. Under the Constitution and the Mining Act, all minerals in Ghana in their natural state are the property of the State and title to them is vested in the President on behalf of and in trust for the people of Ghana, with rights of prospecting, recovery and associated land usage being granted under licence or lease.

The key material modifications to the previous mining regime effected by the Mining Act are:

the right of the government to acquire a 10% 'free-carried' interest in a mining company continues, but any further interest in the mining company shall be acquired on terms to be agreed with the holder of the mining right. The Act does not prescribe any terms;

compensation principles for disturbance of an owner's surface rights; and

although the right of the government to be issued with a special share in a mining company still exists, the consent of the special shareholder will only be required for the disposal of a mining lease and/or material assets, which are situated in Ghana.

A licence is required for the export or disposal of such minerals and the government has a right of pre-emption over all such minerals. The government of Ghana shall acquire, without payment, a 10% interest in the rights and obligations of the mineral operations in relation to a mineral right to reconnaissance, prospecting or mining, and shall have the option to acquire a further 20% interest where any mineral is discovered in commercial quantities, on terms agreed between the government and the holder of the mining lease subject to arbitration if the parties fail to agree.

A licence or lease granting a mineral right is required to prospect for or mine a mineral in Ghana and the Minister of Energy and Mines has the power to negotiate, grant, revoke, suspend or renew any mineral right, subject to a power of disallowance exercisable within 30 days of such grant, revocation, suspension

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or renewal by the Cabinet. The powers of the Minister of Mines are to be exercised on the advice of the Minerals Commission, which is responsible for regulating and managing the utilisation of natural resources and coordinating policies relating to them. The grant of a mining lease by the Minister of Mines is normally subject to parliamentary ratification unless the mining lease falls into a class of transactions exempted by Parliament. A mineral right is deemed a requisite and sufficient authority over the land in respect of which the right is granted, although a separate licence is required for some other activities, including the diversion of water, and additional consents may be required for certain developments. A mineral right or interest therein may not be transferred, assigned or otherwise dealt with in any other manner without prior written approval of the Minister of Mines.

Control of mining companies

The Minister of Mines has the power to object to a person becoming or remaining a ''shareholder controller'', a ''majority shareholder controller'' or an ''indirect controller'' of a company which has been granted a mining lease if he considers that the public interest would be prejudiced by the person concerned becoming or remaining such a controller. In this context:

shareholder controller means a person who, either alone or with certain others, is entitled to exercise or control the exercise of 20% or more of the voting power at any general meeting of a mining company or of any other company of which it is a subsidiary;

majority shareholder controller means a shareholder controller in whose case the percentage referred to above also exceeds 50%; and

indirect controller means a person in accordance with whose directions or instructions the director of a mining company, or of another company of which it is a subsidiary, or the shareholder controllers of that mining company, are accustomed to act.

A person may not become a shareholder controller, a majority shareholder controller or an indirect controller of a mining company unless he has served written notice on the Minister of Mines of his intention to that effect and the Minister of Mines consents to his becoming such a controller or does not object within a period of six months.

Where a person becomes or continues to be a controller of the relevant description after a notice of objection has been served on him, or is otherwise in contravention of the procedures prescribed by the Mining Act, the Minister of Mines may notify the controller that, until further notice, any specified shares are subject to restrictions. The relevant restrictions include restrictions on transfer, voting rights, receipt of further shares and distributions. The Minister of Mines may apply to the High Court

to order the sale of any shares which are the subject of such a restriction. There is no legal restriction on the foreign ownership of a mining company.
Where a person, either alone or with others, acquires an interest in 5% or more of the voting power of a mining company he is required to notify the Minister of Mines. A person who is a controller of a mining company must give notice of his ceasing to be such a controller before he disposes of his interest. In addition, the mining company itself has to give notice to the Minister of Mines of the fact that any person has become or ceased to be a controller.
Violation of these provisions of the Mining Act is a criminal offence. The Mining Act also gives the Minister of Mines power to investigate and report on the ownership and control of any mining company.
The Act provides for stability agreements as a mechanism to ensure that the incentives and protection afforded by laws in force at the time of the stability agreement are guaranteed for 15 years. A stability agreement is subject to ratification by Parliament.
Under the Act, the Minister may enter into a development agreement under a mining lease where the proposed investment by the holder will exceed $500 million. A development agreement may contain provisions relating to the mineral right or operations to be conducted, the circumstances or manner in which the Minister may exercise discretion conferred by the Act, stability terms, and in relation to environmental issues and obligations of the mineral right. A development agreement is also subject to ratification by Parliament.
Prior to the business combination between AngloGold and Ashanti, AngloGold and the government of Ghana agreed the terms of a Stability Agreement to govern certain aspects of the fiscal and regulatory framework under which AngloGold Ashanti would operate in Ghana following the implementation of the business combination.
Payments and allowances
The Mining Act provides that royalties are payable by the holder of a mining lease to the State at rates of between 3% and 6% of total minerals revenue, depending on a formula set out in mineral royalty regulations. The laws of Ghana currently provide for

income tax at a rate of 25%. The Mining Act provides for an entitlement to certain specified capital allowances and various additional fiscal and other benefits.

AngloGold Ashanti and the Government of Ghana have entered into the Stability Agreement with respect to the payment of royalties and taxes.

Under the Stability Agreement, the government of Ghana agreed:

to extend the term of the mining lease relating to the Obuasi mine until 2054 on terms existing prior to the business combination;

to maintain for a period of 15 years, the royalties payable by AngloGold Ashanti with respect to its mining operations in Ghana at a rate of 3% per annum of the total revenue from minerals obtained by AngloGold Ashanti from such mining operations;

to ensure that the income tax rate would be 30% for a period of fifteen years. The agreement was amended in December 2006 to a tax rate equal to the prevailing corporate rate for listed companies;

that a sale of AngloGold Ashanti's or any of its subsidiaries' assets located in Ghana remain subject to the government's approval;

to permit AngloGold Ashanti and any or all of its subsidiaries in Ghana to retain up to 80% of their exportation proceeds in foreign currencies offshore, or if such foreign currency is held in Ghana, to guarantee the availability of such foreign currency; and

to retain its special rights (Golden Share) under the provisions of the mining Act pertaining to the control of a mining company, in respect of the assets and operations in Ghana.

The Government of Ghana also agreed that AngloGold Ashanti's Ghanaian operations will not be adversely affected by any new enactments or orders or by changes to the level of payments of any customs or other duties relating to mining operations, taxes, fees and other fiscal imports or laws relating to exchange control, transfer of capital and dividend remittance for a period of 15 years after the completion of the business combination. In consideration of these agreements and undertakings, AngloGold Ashanti issued to the government of Ghana 2,658,000 ordinary shares and paid to the government of Ghana $5 million in cash, promptly after the implementation of the business combination. AngloGold Ashanti also paid to the government of Ghana, on the date of the completion of the business combination, an additional $5 million in cash towards the transaction costs incurred by the government of Ghana in its role as regulator.

Retention of foreign earnings

Holders of mining leases have certain limited rights to retain foreign exchange earnings overseas and to use such earnings for the acquisition of machinery and equipment as well as for certain other payments, such as debt service payments and dividends.

Where the net earnings of a holder of a mining lease are in foreign currency, the holder is permitted to retain not less than 25% of foreign exchange earnings in an external bank account for acquiring machinery and equipment, spare parts and raw materials as well as for certain other payments, such as dividend and debt service payments.

AngloGold Ashanti's operations in Ghana are permitted to retain 80% of its foreign exchange earnings in such an account. In addition, the company has permission from the Bank of Ghana to retain and use, outside of Ghana, dollars required to meet payments to the company's hedge counterparts which cannot be met from the cash resources of its treasury company.

Leases

Mining leases may be applied for either by a prospecting licence holder who has established the existence of minerals in commercial quantities or by others who do not hold such licences, who establish the same to the satisfaction of the Minister of Mines. Mining leases are normally granted for a period not exceeding 30 years and the holder may apply to the Minister of Mines for renewal, on such conditions as the Minister of Mines may determine, for up to another 30 years. This period has been extended in terms of the Stability Agreement. They are to have a maximum size (subject to derogation by the President where it is considered to be in the national interest) of 50 square kilometres for any grant and 150 square kilometres in aggregate.

A holder may apply for an enlargement of the mining area, which, subject to the Mining Law, the Minister of Mines may grant if satisfied that such approval is in the national interest. The rights conferred by mining leases include those to take all reasonable measures on or under the surface to mine the mineral to which the mining lease relates, to erect necessary equipment, plant and buildings, to prospect within the mining area and to stack or dump mineral waste in an approved manner.

Reconnaissance and prospecting licences are normally granted for up to 12 months and three years respectively, subject to renewal. A detailed programme must be submitted for the recruitment and training of Ghanaians with a view to achieving 'localisation', being the replacement of expatriate personnel by Ghanaian personnel. In addition, the holder must give preference

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to Ghanaian products and personnel, to the maximum extent possible, consistent with safety, efficiency and economies.
Prior notification to the Minister of Mines is required for ceasing, suspending or curtailing production. Approval to such actions may be given, subject to conditions determined on the advice of the Minerals Commission.
There are also provisions relating to surrender, suspension and cancellation of mineral rights in certain circumstances. The Minister of Mines may suspend or cancel a mineral right if, among other things, the holder:
fails to make payments under the Mining Act when due;
is in breach of any provisions of the Mining Actor the conditions of the mineral right or the provisions of any other enactment relating to mines and minerals;
becomes insolvent or bankrupt;
makes a statement to the Minister of Mines in relation to the mineral right which he knows, or ought to have known, to be false; or
for any reason, becomes ineligible to apply for a mineral right under the provision of the Mining Law.
Except as otherwise provided in a specific mining lease, all immovable assets of the holder under the mining lease vest in the State on termination, as does all moveable property that is fully depreciated for tax purposes. Moveable property that is not fully depreciated is to be offered to the State at the depreciated cost. The holder must exercise his rights subject to such limitations relating to surface rights as the Minister of Mines may prescribe. Subject to the proper conduct of the mining operations, the holder must affect as little as possible the interest of any lawful occupier, whose grazing rights are retained but who is precluded from erecting any building without the consent of the holder (or, if such consent is unreasonably withheld, without the consent of the Minister).
An owner or occupier of any land subject to a mineral right may apply to the holder of the mineral right for compensation and the amount of the compensation shall, subject to the approval of the Land Valuation Board, be determined by agreement between the parties concerned (or, if they are unable to reach agreement, by the Minister of Mines in consultation with the Land Valuation Board). The Land Valuation Board has in the past increased amounts of compensation payable to owners and occupiers.
The holder, in the exercise of his rights, is required to have due regard to the effect of the mineral operations on the environment and is to take such steps as may be necessary to prevent pollution of the environment as a result of such operations.
A range of activities and breaches of the Mining Law, including obstructing the government from exercising its pre-emption right and conducting mining, prospecting or related activities other than

in accordance with the Mining Law, constitute offences punishable by fine or imprisonment. The maximum fine is 500,000 cedis (at the current exchange rate, equivalent to approximately $50) and the maximum term of imprisonment is two years.
Mining properties
The current mining lease for the Obuasi area was granted by the government of Ghana on 5 March 1994. It grants mining rights to land with an area of approximately 334 square kilometres in the Amansie East and Adansi West districts of the Ashanti region for a term of 30 years from the date of the agreement. In addition, the application for a mining lease over the adjacent 140 square kilometres has also been granted resulting in the total area under mining lease conditions increasing to 474 square kilometres, "the Lease Area". The company is required to pay to the government of Ghana rent (subject to review every five years, when the rent may be increased by up to 20%) at a rate of approximately $5 per square kilometres and such royalties as are prescribed by legislation, including royalties on timber felled within the Lease Area.
Iduapriem has title to a 33 square kilometre mining lease granted on 19 April 1989 for a period of 30 years. The terms and conditions of the lease are consistent with similar leases granted in respect of the Obuasi mining lease.
Teberebie has two leases, one granted in February 1998 for a term of 30 years, and another granted in June 1992 for a term of 26 years. The terms and conditions of these leases are consistent with similar leases granted in respect of the Obuasi mining lease.
Guinea
In Guinea, all mineral substances are the property of the State. Mining activities are primarily regulated by the Mining Code, 1995. The right to undertake mining operations can only be acquired by virtue of one of the following mining titles: surveying permit, small-scale mining licence, mining prospecting licence, mining licence or mining concession.
The holders of mining titles are guaranteed the right to dispose freely of their assets and to organise their enterprises as they wish, the freedom to engage and discharge staff in accordance with the regulations in force, free movement of their staff and their products throughout Guinea and freedom to dispose of their products in international markets.

The group's Guinea subsidiary, Société Ashanti Goldfields de Guinée SA (SAG), has title to the Siguiri mining concession area which was granted on 11 November 1993 for a period of
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years. The agreement provides for an eventual extension/renegotiation after 23 years for such periods as may be required to exhaust economic Ore Reserves.

The original area granted encompassed 8,384 square kilometres which the subsidiary was required to reduce to five or fewer single blocks of not less than 250 square kilometres per block totalling not more than 1,500 square kilometres by 11 November 1996. The retrocession reduced the Siguiri concession area to four blocks totalling 1,495 square kilometres.

SAG has the exclusive right to explore and mine in the remaining Siguiri concession area for a further 22-year period from 11 November 1996 under conditions detailed in a Convention de Base predating the new Guinea Mining Code.

Key elements of the Convention de Base are:

the government of Guinea holds a 15% free-carried or non-contributory interest; a royalty of 3% based on a spot gold price of less than $475, and 5% based on a spot gold price above $475, as fixed on the London Gold Bullion Market, is payable on the value of gold exported; a local development tax of 0.4% is payable on the gross sales revenues; salaries of expatriate employees are subject to a 10% income tax; mining goods imported into Guinea are exempt from all import taxes and duties for the first two years of commercial production; and

SAG is committed to adopt and progressively implement a plan for the effective rehabilitation of the mining areas disturbed or affected by operations.

The Convention de Base is subject to early termination if both parties formally and expressly agree to do so, if all project activities are voluntarily suspended for a continuous period of eight months or are permanently abandoned by our subsidiary or if SAG goes into voluntary liquidation or is placed into liquidation by a court of competent jurisdiction.

In addition to the export tax payable to the government of Guinea, a royalty on production may be payable to the International Finance Corporation (IFC) and to Umicore SA, formerly Union Miniere (UM). Pursuant to the option agreement between UM and Golden Shamrock Mines Limited (GSM), a royalty on production may be payable to UM by Chevaning Mining Company Limited (CMC) or GSM, which payment obligation has been assigned to AngloGold Ashanti (Ghana) Limited, on a sliding scale of between 2.5% and 7.5%, based on the spot gold price per ounce between $350 and $475, subject to indexing from 1 January 1995, to a cumulative maximum of $60 million. In addition, under the terms of the restructuring agreement with the IFC, a sliding scale royalty on production may be payable to the IFC calculated on the same basis but at

half the rate payable to UM, to a maximum of $7.8 million.
Mali
Mineral rights in Mali are governed by Ordinance No. 99-32/P-RM of 19 August 1999 enacting the mining code, as amended by 013/2000/P-RM of 10 February 2000 and ratified by Law No. 00-011 of 30 May 2000 (the "Mining Code"), and Decree No. 99-255/P-RM of 15 September 1999 implementing the Mining Code.
Prospecting activities may be carried out under prospecting authorisations (autorisation de prospection) which is an exclusive right for an individual or corporate entity to carry out prospecting activities over a given area for a period of three (3) years renewable without a reduction in the area of the authorisation.
Research activities may be carried out under research permits (permis de recherche). The latter are granted to corporate entities only by order of the Minister in charge of Mines.
Research permits are granted for a period of three (3) years, renewable twice for additional three-year periods. Each renewal of the research permit requires a relinquishment of 50% of the area covered by such permit. The entity applying for such a permit must provide proof of technical and financial capabilities.
An exploitation permit (permis d'exploitation) is required to mine a deposit located within the area of a prospecting authorisation or a research permit. The exploitation permit grants exclusive title to prospect, research and exploit the named substances for a maximum period of thirty (30) years renewable three times for an additional 10 years). The exploitation permit is granted only to the holder of an exploration permit or of a prospecting authorisation and covers only the area covered by the exploration permit or the prospecting authorisation. An application must be submitted to the Minister in charge of Mines and to the National Director of Mines.
As soon as the exploitation permit is granted, the holder of the exploitation permit must incorporate a company under the law of Mali. The holder of the permit will assign the permit for free to this company. The State will have a 10% free carry interest. This interest will be converted into priority shares and the State's participation will not be diluted in the case of increasing the capital.
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Applications for exploitation permits must contain various documents attesting to the financial and technical capacity of the applicant, a detailed environmental study in respect of the impact of the project on the environment, a feasibility study, and a bank deposit. The permit is granted by decree of the Head of Government. A refusal to grant a permit may only be based on two grounds: lack of evidence of the exploitability of the deposit and/ or a failure of the environmental study.

Applications for prospecting authorisations and research permits must contain various documents attesting to the financial and technical capacity of the applicant, a detailed works and cost programme, a map defining the area which is being requested and the geographical coordinates thereof, the exact details relating to the identity of the applicant and evidence of the authority of the signatory of the application. Such titles are granted by Ministerial Order. Any refusal to grant such titles shall be notified by simple letter from the Minister in charge of Mines to the applicant.

The mining titles mentioned above all require an establishment convention (Convention d'Etablissement) to be signed by the State and the titleholder defining their rights and obligations. A standard form of such establishment convention has been approved by decree of the Head of Government.

AngloGold Ashanti has interests at Morila, Sadiola and Yatela, all of which are governed by establishment conventions (Convention d'Etablissement) covering exploration, mining, treatment and marketing in a comprehensive document. These documents include the general conditions with regard to exploration (work program, fiscal and customs regime) and exploitation (formation of a local limited liability company and mining company, state shareholdings, the fiscal and customs regime during construction and exploitation phases, exchange controls, marketing of the product, accounting regime, training programmes for local labour, protection of the environment, reclamation, safety, hygiene and settlement of disputes).

Due to the fact that the establishment conventions contain stabilisation clauses, the mining operations carried out by the AngloGold Ashanti subsidiaries in Mali are subjected to the provisions of the previous mining codes of 1970 and 1991 but also, for residual matters, to the provisions of the Mining code of 1999.

AngloGold Ashanti has complied with all applicable requirements and the relevant permits have been issued. Morila, Sadiola and Yatela have thirty (30) year permits which expire in 2029, 2024 and 2030, respectively.

Namibia

Mineral rights in Namibia vest in the State. In order to prospect or mine, the Ministry of Mines and Energy initially grants an exclusive prospecting licence and on presentation of a feasibility study, a

mining licence is then granted taking into account the abilities of the company, including mining, financial and technical capabilities, rehabilitation programmes and payment of royalties. The relevant licence has been granted to AngloGold Namibia (Pty) Ltd in respect of its mining and prospecting activities in Namibia. The current 15-year Mining licence expires in October 2018.

South Africa

In October 2002, the President of South Africa assented to the Mineral and Petroleum Resources Development Act (MPRDA), which was passed by the Parliament of South Africa in June 2002 and came into effect on 1 May 2004. The objects of the Act is to allow for state sovereignty over all mineral and petroleum resources in the country, to promote economic growth and the development of these resources and to expand opportunities for the historically disadvantaged. The object is also to ensure security of tenure concerning prospecting, exploration, mining and production operations. The state ensures that holders of mining and prospecting rights contribute to the socio-economic development of the areas in which they are operating. AngloGold Ashanti Limited currently holds eight mining licences, five of which have been successfully converted. The remaining three are still in the process of being executed and registered. The deadline for the conversion process is April 2009. The South African government expects to finalise the Royalty Bill towards the end of 2008.

Tanzania

Mineral rights in the United Republic of Tanzania are governed by the Mining Act of 1998 (the Act), and property and control over minerals are vested in the United Republic of Tanzania. Prospecting for the mining of minerals, except petroleum, may only be conducted under authority of a mineral right granted by the Ministry of Energy and Minerals under this Act.

The three types of mineral rights most often encountered, which are also those applicable to AngloGold Ashanti, are:

prospecting licences;

retention licences; and

mining licences.

A prospecting licence grants the holder thereof the exclusive right to prospect in the area covered by the licence for all minerals, other than building and gemstones, for a period of three years. Thereafter, the licence is renewable for two further

periods of renewal of two years each. On each renewal of a prospecting licence, 50% of the area covered by the licence must be relinquished. Before application is made for a prospecting licence with an initial prospecting period ("a Prospecting Licence"), a prospecting licence with a reconnaissance period ("a Prospecting Reconnaissance") may be applied for a maximum area of 5,000 square kilometres is issued for a period of two years after which a three-year Prospecting Licence is applied for a company applying for a prospecting licence must, inter alia, state the financial and technical resources available to it. A retention licence can also be requested from the Minister, after the expiry of a Prospecting Licence period, for reasons ranging from funds to technical considerations.

Mining is carried out through either a mining licence or a special mining licence, both of which confer on the holder thereof the exclusive right to conduct mining operations in or on the area covered by the licence. A mining licence is granted for a period of 10 years and is renewable for a further period of 10 years. A special mining licence is granted for a period of 25 years or for the estimated life of the orebody, whichever is shorter, and is renewable for a further period of 25 years. If the holder of a prospecting licence has identified a mineral deposit within the prospecting area which is potentially of commercial significance, but it cannot be developed immediately by reason of technical constraints, adverse market conditions or other economic factors of a temporary character, it can apply for a retention licence which will entitle the holder thereof to apply for a special mining licence when it sees fit to proceed with mining operations.

A retention licence is valid for a period of five years and is thereafter renewable for a single period of five years. A mineral right may be freely assigned by the holder thereof to another person or entity by notifying the Commissioner for Minerals, except for a mining licence, which must have the approval of the Ministry to be assigned.

However, this approval requirement for the assignment of a mining licence will not apply if the mining licence is assigned to an affiliate company of the holder or to a financial institution or bank as security for any loan or guarantee in respect of mining operations.

A holder of a mineral right may enter into a development agreement with the Ministry to guarantee the fiscal stability of a long-term mining project and make special provision for the payment of royalties, taxes, fees and other fiscal imposts.

AngloGold Ashanti has complied with all applicable requirements and the relevant licences have been issued for 25 years and expire in 2024.

United States of America

Mineral rights, as well as surface rights, in the United States are owned by private parties, state governments and the federal

government. Most land prospective for precious metals exploration, development and mining are owned by the federal government and are obtained through a system of self-initiated mining claim location pursuant to the General Mining Law of 1872, as amended. Individual states typically follow a lease system for state-owned minerals. Private parties have the right to sell, lease or enter into other agreements, such as joint ventures, with respect to minerals that they own or control. All mining activities, regardless of whether they are situated on privately- or publicly-owned lands, are regulated by a myriad of federal, state and local laws, regulations, rules and ordinances, which address various matters including environmental protection, mitigation and rehabilitation.

Authorisations and permits setting forth the activities and restrictions pertaining thereto are issued by the responsible governmental agencies for all phases of mining activities.

The Cripple Creek & Victor Gold Mining Company joint venture consists almost entirely of owned patented mining claims from public lands, with a small percentage of private and state lands being leased. The total area of control is approximately 7,100 acres. Patented claims vest ownership in the holder, including the right to mine for an indefinite tenure. All life-of-mine reserves are within these property controls. The mining and rehabilitation permits issued by the State of Colorado are life-of-mine permits.

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All terms

Adjusted gross margin
Adjusted gross profit (loss) divided by gold sales including realised non-hedge derivatives.

Adjusted gross profit (loss)
Gross profit (loss) excluding unrealised non-hedge derivatives and other commodity contracts.

Adjusted headline earnings
Headline earnings excluding unrealised non-hedge derivatives, fair value adjustments on the option component of the convertible bond, fair value gain (loss) on interest rate swap, adjustments to other commodity contracts and deferred tax thereon.

Available-for-sale financial asset
A financial asset that has been designated as available-for-sale or a financial asset other than those classified as loans and receivables, held-to-maturity investments or derivative instruments.

Average number of employees
The monthly average number of production and non-production employees and contractors employed during the year, where contractors are defined as individuals who have entered into a fixed-term contract of employment with a group company or subsidiary. Employee numbers of joint ventures represents the group's attributable share.

BIF
Banded Ironstone Formation. A chemically formed iron-rich sedimentary rock.

By-products
Any products that emanate from the core process of producing gold, including silver, uranium and sulphuric acid.

Calc-silicate rock
A metamorphic rock consisting mainly of calcium-bearing silicates such as diopside and wollastonite, and formed by metamorphism of impure limestone or dolomite.

Capital expenditure
Total capital expenditure on tangible assets which includes stay-in-business and project capital.

Carbon-in-leach (CIL)
Gold is leached from a slurry of gold ore with cyanide in agitated tanks and adsorbed on to carbon granules in the same circuit. The carbon granules are separated from the slurry and treated in an elution circuit to remove the gold.

Carbon-in-pulp (CIP)
Gold is leached conventionally from a slurry of gold ore with cyanide in agitated tanks. The leached slurry then passes into the CIP circuit where carbon granules are mixed with the slurry and gold is adsorbed on to the carbon. The granules are

separated from the slurry and treated in an elution circuit to remove the gold.

Cash flow hedge

A hedge of the exposure to variability in cash flows, that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Cash gross margin

Cash gross profit (loss) divided by gold sales including realised non-hedge derivatives.

Cash gross profit (loss)

Adjusted gross profit (loss) plus amortisation of tangible and intangible assets less non-cash revenues.

Comminution

Comminution is the crushing and grinding of ore to make gold available for treatment. (See also "Milling").

Contained gold

The total gold content (tons multiplied by grade) of the material being described.

Cut-off grade (surface mines)

The minimum grade at which a unit of ore will be mined to achieve the desired economic outcome

Depletion

The decrease in quantity of ore in a deposit or property resulting from extraction or production.

Development

The process of accessing an orebody through shafts and/or tunnelling in underground mining operations.

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Discontinued operation

A component of an entity that, pursuant to a single plan, has been disposed of or abandoned or is classified as held-for-sale until conditions precedent to the sale have been fulfilled.

Doré

Impure alloy of gold and silver produced at a mine to be refined to a higher purity, usually consisting of 85% gold on average.

Electro-winning

A process of recovering gold from solution by means of electrolytic chemical reaction into a form that can be smelted easily into gold bars.

Elution

Recovery of the gold from the activated carbon into solution before zinc precipitation or electro-winning.

EBITDA

Operating profit (loss) before amortisation of tangible and intangible assets, impairment of tangible and intangible assets, profit (loss) on disposal of assets and investments and unrealised non-hedge derivatives, plus the share of associates' EBITDA, less profit (loss) from discontinued operations.

Effective tax rate

Current and deferred taxation as a percentage of profit before taxation.

Equity

Shareholders' equity adjusted for other comprehensive income, actuarial gain (loss) and deferred taxation. Where average equity is referred to, this is calculated by averaging the figures at the beginning and the end of the financial year.

Financial asset

Cash or cash equivalents, an equity instrument, a contractual right to receive cash, or a contractual right to exchange a financial instrument under favourable conditions.

Financial liability

A contractual obligation to pay cash or transfer other benefits or a contractual obligation to exchange a financial instrument under unfavourable conditions. This includes debt.

Free cash flow

Net cash inflow from operating activities less stay-in-business capital expenditure.

Gain (loss) on non-hedge derivatives and other commodity contracts

Fair value changes on derivatives that are neither designated as meeting the normal sale exemption under IAS 39, nor designated as cash flow hedges and other commodity contracts.

Gain (loss) on realised non-hedge derivatives

Represents the current year income statement effect of non-hedge derivatives that were settled during the current year.

Gain (loss) on unrealised non-hedge derivatives and other commodity contracts

This represents the change in fair value, including translation differences, of all open non-hedge derivatives positions and adjustments to other commodity contracts from the previous reporting date to the current reporting date.

Gold produced

Refined gold in a saleable form derived from the mining process.

Grade

The quantity of gold contained within a unit weight of gold-bearing material generally expressed in ounces per short ton of ore (oz/t), or grams per metric tonne (g/t).

Gross margin %

Adjusted gross profit (loss) as a percentage of gold income including realised non-hedge derivatives.

Held-to-maturity investment

A financial asset with a fixed maturity and fixed or determinable future payments, that management has the positive intent and ability to hold to maturity.

The financial asset is classified as a non-current asset, except when it has a maturity within twelve months from the balance sheet date, in which case it is classified as a current asset.

Indicated Mineral Resource

An ‘Indicated Mineral Resource’ is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource
An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.
Interest cover
EBITDA divided by finance costs and unwinding of obligations.
Leaching
Dissolution of gold from crushed or milled material, including reclaimed slime, prior to adsorption on to activated carbon.
Life of mine (LOM)
Number of years that the operation is planning to mine and treat ore, and is taken from the current mine plan.
Loans and receivables
A financial asset with fixed or determinable repayments that are not quoted in an active market, other than, a derivative instrument, or a financial asset classified as available-for-sale.
Marked-to-market
The fair value change of all financial instruments since initial recognition, net of premiums.
Measured Mineral Resource
A 'Measured Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
Metallurgical plant
A processing plant erected to treat ore and extract gold.
Milling
A process of reducing broken ore to a size at which concentrating can be undertaken. (See also "Comminution")
Mine call factor
The ratio, expressed as a percentage, of the total quantity of recovered and unrecovered mineral product after processing with the amount estimated in the ore based on sampling. The ratio of contained gold delivered to the metallurgical plant divided by the estimated contained gold of ore mined based on sampling.
Mineral deposit
A mineral deposit is a concentration (or occurrence) of material of possible economic interest in or on the Earth's crust.
Mineral Resource

A 'Mineral Resource' is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

Monetary asset

An asset which will be settled in a fixed or easily determinable amount of money.

Net asset value per share

Total equity per the balance sheet divided by shares in issue.

Net capital employed

Equity as defined above plus minority interests and interest-bearing borrowings, less cash and cash equivalents. Where average net capital employed is referred to, this is the average of the figures at the beginning and the end of the financial year.

Net debt

Borrowings less cash and cash equivalents.

Net operating assets

Tangible assets, current and non-current portion of inventories, current and non-current trade and other receivables (excluding recoverable tax, rebates, levies and duties), less current and non-current trade and other payables and deferred income (excluding unearned premiums on normal sale extended contracts).

Net tangible asset value per share

Total equity per balance sheet less intangible assets, divided by the number of ordinary shares in issue.

Normal-purchase normal-sale exemption (NPSE)

Hedge contracts designated as meeting the exemption criteria under IAS 39.

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Ore Reserve

An ‘Ore Reserve‘ is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that at the time of reporting, extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.

Ounce (oz) (troy)

Used in imperial statistics. A kilogram is equal to 32.1507 ounces. A troy ounce is equal to 31.1035 grams.

Pay limit

The grade of a unit of ore at which the revenue from the recovered mineral content of the ore is equal to the total cash cost including Ore Reserve Development and stay-in-business capital. This grade is expressed as an in-situ value in grams per tonne or ounces per short ton (before dilution and mineral losses).

Precipitate

The solid product of chemical reaction by fluids such as the zinc precipitation referred to below.

Price received ($/oz and R/kg)

Attributable gold income including realised non-hedge derivatives divided by attributable ounces or kilograms sold.

Probable Ore Reserve

A ‘Probable Ore Reserve’ is the economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Productivity

An expression of labour productivity based on the ratio of grams of gold produced per month to the total number of employees in underground mining operations.

Proved reserve

A ‘proved ore reserve’ is the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal,

environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Project capital

Capital expenditure to either bring a new operation into production; to materially increase production capacity; or to materially extend the productive life of an asset.

Reclamation

In the South African context, reclamation describes the process of reclaiming slimes (tailings) dumps using high-pressure water cannons to form a slurry which is pumped back to the metallurgical plants for processing.

Recovered grade

The recovered mineral content per unit of ore treated.

Reef

A gold-bearing sedimentary horizon, normally a conglomerate band that may contain economic levels of gold.

Refining

The final purification process of a metal or mineral.

Region

Defines the operational management divisions within AngloGold Ashanti, namely South Africa, Argentina, Australia, Brasil, Ghana, Guinea, Mali, Namibia, Tanzania and United States of America.

Rehabilitation

The process of reclaiming land disturbed by mining to allow an appropriate post-mining use. Rehabilitation standards are defined by country-specific laws including, but not limited to the South African Department of Minerals and Energy, the US Bureau of Land Management, the US Forest Service, and the relevant Australian mining authorities, and address among other issues, ground and surface water, topsoil, final slope gradient, waste handling and re-vegetation issues.

Related party
Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on equity
Adjusted headline earnings expressed as a percentage of the average equity, adjusted for the timing of acquisitions and disposals.

Return on net capital
Adjusted headline earnings before finance costs and unwinding of decommissioning and restoration obligations expressed as a percentage of average net capital employed, adjusted for the timing of acquisitions and disposals.

Seismic event
A sudden inelastic deformation within a given volume of rock that radiates detectable seismic energy.

Shaft
A vertical or subvertical excavation used for accessing an underground mine; for transporting personnel, equipment and supplies; for hoisting ore and waste; for ventilation and utilities; and/or as an auxiliary exit.

Significant influence
The ability, directly or indirectly, to participate in, but not exercise control over, the financial and operating policy decision of an entity so as to obtain economic benefit from its activities.

Smelting
A pyro-metallurgical operation in which gold is further separated from impurities.

Stay-in-business capital
Capital expenditure to maintain existing production assets. This includes replacement of vehicles, plant and machinery, ore reserve development and capital expenditure related to safety, health and the environment.

Stope
Underground excavation where the orebody is extracted.

Stoping
The process of excavating ore underground.

Stripping ratio
The ratio of waste tonnes to ore tonnes mined calculated as total tonnes mined less ore tonnes mined divided by ore tonnes mined.

Tailings
Finely ground rock of low residual value from which valuable minerals have been extracted.

Tailings dam (slimes dam)
Dam facilities designed to store discarded tailings.

Tonne
Used in metric statistics. Equal to 1,000 kilograms.

Ton

Used in imperial statistics. Equal to 2,000 pounds. Referred to as a short ton.

Tonnage

Quantity of material measured in tonnes or tons.

Total cash costs

Total cash costs include site costs for all mining, processing and administration, reduced by contributions from by-products and are inclusive of royalties and production taxes. Amortisation, rehabilitation, corporate administration, retrenchment, capital and exploration costs are excluded.

Total cash costs per ounce are the attributable total cash costs divided by the attributable ounces of gold produced.

Total production costs

Total cash costs plus amortisation, retrenchment, rehabilitation and other non-cash costs. Corporate administration and exploration costs are excluded. Total production costs per ounce are the attributable total production costs divided by the attributable ounces of gold produced.

Waste

Material that contains insufficient mineralisation for consideration for future treatment and, as such, is discarded.

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Weighted average number of ordinary shares

The number of ordinary shares in issue at the beginning of the year, increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the group, and increased by share options that are virtually certain to be exercised.

Yield

The amount of valuable mineral or metal recovered from each unit mass of ore expressed as ounces per short ton or grams per metric tonne.

Zinc precipitation

Zinc precipitation is the chemical reaction using zinc dust that converts gold in solution to a solid form for smelting into unrefined gold bars.

Abbreviations

$

United States dollar

A$ or AUD

Australian dollar

ADS

American Depositary Share

ADR

American Depositary Receipt

ARS

Argentinean peso

ASX

Australian Securities Exchange

Au

Contained gold

BCM

Bank cubic metres, ie ore in the ground

BRL

Brazilian real

bn

Billion

capex

Capital expenditure

CDI

Chess Depositary Interests

CHF

Swiss franc

CLR

Carbon Leader Reef

FCFA

Franc Communauté Financiére Africaine

FIFR

Fatal injury frequency rate per million hours worked

g

Grams

g/t
Grams per tonne
g/TEC
Grams per total employee costed
GHC
Ghanaian cedi
GhDS
Ghanaian Depositary Share
GSE
Ghana Stock Exchange
HKD
Hong Kong dollar
JORC
Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves
JIBAR
Johannesburg interbank agreed rate
JSE
JSE Limited
King Code
South African King Code on Corporate Governance, 2002
kg
Kilograms
LSE
London Stock Exchange
LIBOR
London interbank offer rate
LOM
Life of mine
LTIFR
Lost-time injury frequency rate per million hours worked
(1)
m^2/TEC
Square metres per total employee costed
M or m
Metre or million, depending on the context
Moz
Million ounces
Mt
Million tonnes or tons
Mtpa
Million tonnes/tons per annum
N$ or NAD
Namibian dollars
NOSA
National Occupational Safety Association
NYSE

New York Stock Exchange
oz
Ounces (troy)
oz/t
Ounces per ton
R or ZAR
South African rand
RIFR
Reportable injury frequency rate per million hours worked
SAMREC
South African Code for the Reporting of Mineral Resources and Mineral Reserves
SEC
United States Securities and Exchange Commission
SRP
South African Securities Regulation Panel
SOx
Sarbanes-Oxley Act of 2002
t
Tons (short) or tonnes (metric)
tpm
Tonnes/tons per month
tpa
Tonnes/tons per annum
tpd
Tonnes/tons per day
VCR
Ventersdorp Contact Reef
VCT
Voluntary counselling and testing

(1)
Note that AngloGold Ashanti utilises the strictest definition in reporting lost-time injuries in that it includes all disabling injuries (where an individual is unable to return to his place of regular work the next calendar day after the injury) and restricted work cases (where the individual may be at work, but unable to perform full or regular duties on the next calendar day after the injury) within this definition.

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Annual Financial Statements 2007
Stock exchange listings
The primary listing of the company's ordinary shares is on the JSE Limited (JSE). Its ordinary shares are also listed on stock exchanges
in London, Paris and Ghana, as well as being quoted in Brussels in the form of International Depositary Receipts (IDRs), in New York in
the form of American Depositary Shares (ADSs), in Australia, in the form of Clearing House Electronic Subregister System Depositary
Interests (CDIs) and in Ghana, in the form of Ghanaian Depositary Shares (GhDSs).
Stock exchange information at 31 December
2007
2006
2005
2004
2003
JSE (Share code: ANG)
Rands per share:
Market price
– high
358.89
387.00
319.90
319.00
339.00
– low
254.00
247.00
187.00
192.05
191.00
– year end
293.00
329.99
314.00
199.01 313.99
Shares traded
– 000
216,717
131,476
88,946
102,811
88,025
London Stock Exchange (Share code: AGD)
Pounds per share:
Market price
– high
23.15
34.72
28.25
26.45

23.68
– low
18.43
17.50
11.00
14.77
16.58
– year end
21.25
20.55
26.04
19.25
26.42
Shares traded
– 000
648
421
259
19,769
1,187
Euronext Paris (Share code: VA)
Euros per share:
Market price
– high
37.95
52.15
42.00
37.92
41.23
– low
25.21
28.00
24.18
24.90
24.10
– year end
29.05
35.40
41.29
26.60
38.00
Shares traded
– 000
1,609
1,209
855
1,552
841
Ghana Stock Exchange (Share code: AGA)
(listing commenced 27 April 2004)
Cedis per share:

(1)
Market price
– high
30.00
30.00
30.00
30.00
–
– low
30.00
30.00
30.00
30.00
–
– year end
30.00
30.00
30.00
30.00
–
Shares traded
– 000
–
1
–
14
–
Euronext Brussels (Share code: ANG)
Euros per IDR:
Market price
– high
37.55
51.00
41.30
37.78
40.50
– low
25.90
28.10
24.50
25.00
24.10
– year end
30.00
36.00
41.30
27.00
36.55
IDRs traded
– 000
704

1,028
711
477
973
Each IDR is equal to one ordinary share
New York Stock Exchange (Share code: AU)
US dollars per ADS:
Market price
– high
49.88
62.20
49.88
48.25
49.95
– low
33.80
35.58
30.50
29.91
32.80
– year end
42.81
47.09
49.33
36.35
46.70
ADSs traded
– 000
352,041
348,040
191,698
225,286
249,791
Each ADS is equal to one ordinary share
Australian Stock Exchange (Share code: AGG)
Australian dollars per CDI:
Market price
– high
12.37
16.40
13.60
12.60
13.55
– low
8.85
9.75
7.95
8.60
8.61
– year end
10.10

11.90
13.40
9.40
12.80
CDIs traded
– 000
14,993
5,424
13,691
875
12,788
Each CDI is equal to one-fifth of one ordinary share
Ghana Stock Exchange (Share code: AADS)
(listing commenced 27 April 2004)
Cedis per GhDS:
(1)
Market price
– high
30.00
31.01
30.06
30.06
–
– low
30.00
30.00
30.00
30.00
–
– year end
30.00
31.01
30.00
30.06
–
GhDSs traded
– 000
–
–
20
62
–
Each GhDS is equal to one-hundredth of one ordinary share
(1)
Adjusted to address change in currency
Shareholder information

Major shareholders

According to information available to the directors, the following are the only shareholders beneficially holding, directly or indirectly, in excess of 5% of the ordinary share capital of the company:

	Ordinary shares held					
	31 January 2008		31 December 2007		31 December 2006	
	Number	%	Number	%	Number	%
The Bank of New York*	78,190,823	28.16	82,550,854	29.75	73,559,916	26.63
Anglo American plc (AA plc)	46,002,929	16.57	46,002,929	16.58	115,102,929	41.67
Public Investment Corporation	26,937,476	9.70	26,937,476	9.71	–	–

* Shares held through various custodians in respect of ADSs issued by the Bank.

Voting rights

The articles of association provide that every member present at a meeting in person or, in the case of a body corporate, represented, is entitled to one vote only on a show of hands. Upon a poll, members present or any duly appointed proxy shall have one vote for every share held. There are no limitations on the right of non-South African shareholders to hold or exercise voting rights attaching to any shares of the company. CDI holders are not entitled to vote in person at meetings, but may vote by way of proxy.

Options granted in terms of share incentive schemes do not carry a right to vote.

Top 20 shareholders

The 20 largest holders of the ordinary share capital of the company as at 31 December 2007 were:

	Ordinary shares held	
	Number	%
Anglo American plc (though Anglo Capital SA (Pty) Ltd)	46,002,929	

16.60
Allan Gray Ltd
26,369,033
9.51
Tradewinds Global Investors LLC
22,858,453
8.25
Public Investment Corporation
22,090,123
7.97
Sanlam Investment Management (Pty) Ltd
9,608,321
3.47
Government of Ghana
9,031,650
3.26
Old Mutual Investment Group (South Africa) (Pty) Ltd
7,942,975
2.87
Investec Asset Management (South Africa)
6,935,551
2.50
Oppenheimer Funds Inc
5,330,500
1.92
First State Investment Management (UK) Limited
4,247,454
1.53
Liberty Life Assurance Company
4,093,520
1.48
Cadiz African Harvest Asset Management (Pty) Ltd
4,014,020
1.45
Franklin Advisers Inc.
3,686,703
1.33
Northern Cross Investments Ltd
2,794,800
1.01
Newton Investment Management Ltd
2,594,077
0.94
Barclays Global Investors, N.A
2,491,440
0.90
STANLIB Asset Management
2,295,223
0.83
Duquesne Capital Management LLC
2,253,800

0.81
BlackRock Investment Management (UK) Ltd
2,248,080
0.81
Capital Research & Management Company
2,093,096
0.76
The above list of shareholders may not necessarily reflect the beneficial shareholders.

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Annual Financial Statements 2007

Analysis of ordinary shareholdings
at 31 December 2007

Size of shareholding	Number of shareholders	% of total shareholders	Number of shares	% of shares issued
1 – 100	3,214	38.16	225,613	0.08
101 – 500	3,038	36.07	735,887	0.27
501 – 1,000	670	7.95	505,146	0.18
1,001 – 5,000	671	7.97	1,596,391	0.58
5,001 – 10,000	173	2.05	1,222,618	0.44
10,001 – 100,000	470	5.58	15,598,894	5.62
Over 100,000	186	2.21		

257,572,922
92.83
Total
8,422
100.00
277,457,471
100.00
Shareholder spread
as at 31 December 2007
Pursuant to the Listings Requirements of the JSE, with the best knowledge of the directors and after reasonable enquiry, the spread of
shareholders was as follows:
Number %
of
Number
Class
of shares
shares issued
of holders
%
Ordinary shares
Non-public shareholders:
– Directors
30,102
0.01
4
0.02
– Strategic holdings
55,035,579
19.84
2
0.01
Public shareholders
222,391,790
80.15
19,244
99.97
Total
277,457,471
100.00
19,250
100.00
A
redeemable preference shares
}
All shares are held by a wholly owned subsidiary company
B
redeemable preference shares
Shareholder information continued

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Shareholders' diary
Financial year-end
31 December 2007
Annual financial statements
posting on or about
27 March 2008
Annual general meeting
11:00 SA time
2 May 2008
Quarterly reports
Released on or about
– Quarter ended 31 March 2008
2 May 2008
– Quarter ended 30 June 2008
31 July 2008
– Quarter ended 30 September 2008
30 October 2008
– Quarter ended 31 December 2008
To be advised
Dividends
Last date
to trade
Date ordinary
Payment
Payment
dividend
shares
date to
date to
Dividend number
declared
cum dividend
shareholders
ADS holders
Final – number 103
6 February 2008
22 February 2008
7 March 2008
17 March 2008
Interim – number 104
30 July 2008*
15 August 2008*
29 August 2008*
September 2008*
Final – number 105
4 February 2009*
20 February 2009*
6 March 2009*
16 March 2009*
* Approximate dates.

Dividend policy:
Dividends are proposed by, and approved by the board of directors of AngloGold Ashanti, based on the interim and year-end financial statements. Dividends are recognised when declared by the board of directors of AngloGold Ashanti. AngloGold
Ashanti expects to continue to pay dividends, although there can be no assurance that dividends will be paid in the future or as to the
particular amounts that will be paid from year to year. The payments of future dividends will depend upon the Board's ongoing
assessment of AngloGold Ashanti's earnings, after providing for long term growth and cash/debt resources, the amount of reserves
available for dividend using going concern assessment and restrictions placed by the conditions of line convertible bond and
other factors.
Annual general meeting:
Shareholders on the South African register who have dematerialised their shares in the company (other than
those shareholders whose shareholding is recorded in their own names in the sub-register maintained by their CSDP) and who wish to
attend the annual general meeting in person, will need to request their CSDP or broker to provide them with the necessary authority in
terms of the custody agreement entered into between them and the CSDP or broker.
Change of details:
Shareholders are reminded that the onus is on them to keep the company, through its nominated share registrars,
apprised of any change in their postal address and personal particulars. Similarly, where shareholders received dividend payments
electronically (EFT), they should ensure that the banking details which the share registrars and/or CSDPs have on file are correct.
Election to receive summary or electronic documents:
In terms of legislation, all shareholders are entitled to receive the company's
annual report, unless such shareholders have, in writing, elected not to receive same. AngloGold Ashanti wishes to offer to its
shareholders, the opportunity of receiving the company's financial results in a more user-friendly form, either as a hard-copy summary
document which would highlight relevant information, or by way of a full report on CD, or to receive the information electronically. In order
to achieve this, the onus is on the shareholder to notify the company (either directly or through its share registrars), in writing, that they
wish to receive a summary or electronic document going forward. Make a difference – save paper. Send written confirmation to: The
Company Secretary, PO Box 62117, Marshalltown, South Africa, or email companysecretary@anglogoldashanti.com or fax to
+27 11 636 6677.
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Financial year-end
31 December 2007

– Quarter ended 31 December 2008
To be advised

Last date
to trade

dividend
shares
date to
date to
Dividend number
declared
cum dividend

ADS holders
Final – number 103
6 February 2008
22 February 2008
7 March 2008
17 March 2008
Interim – number 104
30 July 2008*
15 August 2008*

September 2008*
Final – number 105
4 February 2009*

Dividend policy:
Dividends are proposed by, and approved by the board of directors of AngloGold Ashanti, based on the interim and year-end financial statements. Dividends are recognised when declared by the board of directors of AngloGold Ashanti. AngloGold
Ashanti expects to continue to pay dividends, although there can be no assurance that dividends will be paid in the future or as to the
Annual general meeting:

those shareholders whose shareholding is recorded in their own names in the sub-register maintained by their CSDP) and who wish to

attend the annual general meeting in person, will need to request their CSDP or broker to provide them with the necessary authority in
terms of the custody agreement entered into between them and the CSDP or broker.

Election to receive summary or electronic documents:
In terms of legislation, all shareholders are entitled to receive the company's
annual report, unless such shareholders have, in writing, elected not to receive same. AngloGold Ashanti wishes to offer to its

wish to receive a summary or electronic document going forward. Make a difference – save paper. Send written confirmation to: The

AngloGold Ashanti Limited
Registration No. 1944/017354/06
Incorporated in the Republic of
South Africa
Share codes:
ISIN: ZAE000043485
JSE: ANG
LSE: AGD
NYSE: AU
ASX:
AGG
GhSE (Shares):
AGA
GhSE (GhDS):
AADA
Euronext Paris:
VA
Euronext Brussels:
ANG
JSE Sponsor:
UBS Limited
Auditors:
Ernst & Young Inc.
Offices
Registered and Corporate
76 Jeppe Street
Newtown 2001
(PO Box 62117, Marshalltown 2107)
South Africa
Telephone: +27 11 637 6000
Fax: +27 11 637 6624
Australia
Level 13, St Martins Tower
44 St George's Terrace
Perth, WA 6000
(PO Box Z5046, Perth WA 6831)
Australia
Telephone: +61 8 9425 4602
Fax: +61 8 9425 4662
Ghana
Gold House
Patrice Lumumba Road
(PO Box 2665)
Accra
Ghana
Telephone: +233 21 772190
Fax: +233 21 778155
United Kingdom Secretaries
St James's Corporate Services Limited
6 St James's Place
London SW1A 1NP

England
Telephone: +44 20 7499 3916
Fax: +44 20 7491 1989
E-mail: jane.kirton@corpserve.co.uk
Directors
Executive
M Cutifani † (Chief Executive Officer)
S Venkatakrishnan *
Non-Executive
RP Edey * (Chairman)
Dr TJ Motlatsi (Deputy Chairman)
FB Arisman #
RE Bannerman ‡
Mrs E le R Bradley
JH Mensah ‡
WA Nairn
Prof WL Nkuhlu
SM Pityana
SR Thompson *
* British
# American
‡ Ghanaian
† Australian
Officers
Vice President Compliance and Corporate
Administration:
Ms YZ Simelane
Company Secretary:
Ms L Eatwell
Contacts
Charles Carter
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Fax: +27 11 637 6400
E-mail: cecarter@AngloGoldAshanti.com
Himesh Persotam
Telephone: +27 11 637 6647
Fax: +27 11 637 6400
E-mail: hpersotam@AngloGoldAshanti.com
General e-mail enquiries
investors@AngloGoldAshanti.com
AngloGold Ashanti website
www.AngloGoldAshanti.com
Annual report website
www.aga–reports.com
Company secretarial e-mail
companysecretary@AngloGoldAshanti.com
Share Registrars
South Africa
Computershare Investor Services
(Pty) Limited
Ground Floor, 70 Marshall Street

Johannesburg 2001
(PO Box 61051, Marshalltown 2107)
South Africa
Telephone: 0861 100 724 (in SA)
Fax: +27 11 688 5222
web.queries@computershare.co.za

United Kingdom

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
England
Telephone: +44 870 702 0000
Fax: +44 870 703 6119

Australia

Computershare Investor Services
Pty Limited
Level 2, 45 St George's Terrace
Perth, WA 6000
(GPO Box D182 Perth, WA 6840)
Australia
Telephone: +61 8 9323 2000
Telephone: 1300 55 7010 (in Australia)
Fax: +61 8 9323 2033

Ghana

NTHC Limited
Martco House
Off Kwame Nkrumah Avenue
PO Box K1A 9563 Airport
Accra
Ghana
Telephone: +233 21 238492-3
Fax: +233 21 229975

ADR Depositary

The Bank of New York (BoNY)
Investor Services, P O Box 11258
Church Street Station
New York, NY 10286-1258
United States of America
Telephone: +1 888 269 2377 (Toll free in
USA) or +9 610 382 7836 outside USA)
E-mail: shareowners@bankofny.com
Website: http://www.stockbny.com

Global BuyDIRECT
SM

BoNY maintains a direct share purchase
and dividend reinvestment plan for
AngloGold Ashanti.
Telephone: +1-888-BNY-ADRS

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Annual Financial Statements 2007
Administrative information
The Annual Financial Statements 2007 is available in printed or CD format from the contacts whose details appear above or on the
Internet at the above website address. In addition, AngloGold Ashanti must by no later than 30 June 2008, produce a Form 20-F (a report
required by the Securities and Exchange Commission in the United States), copies of which will be available free of charge on EDGAR
at www.sec.gov, or from the contacts detailed above. A signed copy of the Annual Financial Statements 2007 may be viewed at the
company's registered address.
Supplementary information on Mineral Resources, Ore Reserves and development, prepared on a business unit basis, is obtainable from
the above sources as well as in PDF format on the AngloGold Ashanti website. Plans of the South Africa region underground workings
are also available on request.

Forward-looking statements
Certain statements contained in this document other than statements of historical fact contain forward-looking statements regarding
AngloGold Ashanti's operations, economic performance or financial condition, including, without limitation, those concerning the
economic outlook for the gold mining industry, expectations regarding gold prices, production, total cash costs and other operating
results, growth prospects and the outlook of AngloGold Ashanti's operations, including the completion and commencement of
commercial operations of certain of AngloGold Ashanti's exploration and production projects, its liquidity and capital resources and
expenditure, and the outcome and consequences of any pending litigation or enforcement proceedings. Although AngloGold Ashanti
believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such
expectations will prove to be correct. Accordingly, results could differ materially from those set out in the forward-looking statements as
a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in
the regulatory environment and other government actions, fluctuations in gold prices and exchange rates, and business and operational
risk management. For a discussion on such factors, refer to the risk management section of these Annual Financial Statements.
AngloGold Ashanti is not obliged to update publicly or release any revisions to these forward-looking statements to reflect events or
circumstances after the date of the Annual Financial Statements or to reflect the occurrence of unanticipated events. All subsequent
written or oral forward-looking statements attributable to AngloGold Ashanti or any person acting on its behalf are qualified by the
cautionary statements herein.
As announced on 14 January 2008, AngloGold Ashanti has entered into an agreement with Golden Cycle Gold Corporation. AngloGold
Ashanti has filed with the SEC a registration statement on Form F-4 and GCGC will mail a proxy statement/prospectus to its stockholders,
and each will be filing other documents regarding the proposed transaction with the U.S. Securities and Exchange Commission ("SEC")
as well. BEFORE MAKING ANY VOTING OR INVESTMENT DECISION, INVESTORS ARE URGED TO READ THE PROXY
STATEMENT/PROSPECTUS REGARDING THE PROPOSED TRANSACTION AND ANY OTHER RELEVANT DOCUMENTS CAREFULLY
WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED
TRANSACTION. The final proxy statement/prospectus will be mailed to GCGC's stockholders. Stockholders will be able to obtain a free
copy of the proxy statement/prospectus, as well as other filings containing information about AngloGold Ashanti and GCGC, without
charge, at the SEC's Internet site (http://www.sec.gov <http://www.sec.gov/>). Copies of the proxy statement/prospectus and the filings
with the SEC that will be incorporated by reference in the proxy statement/prospectus can also be obtained, without charge, by directing

a request to AngloGold Ashanti, 76 Jeppe Street, Newtown, Johannesburg, 2001 (PO Box 62117, Marshalltown, 2107) South Africa,
Attention: Investor Relations, +27 11 637 6385, or to Golden Cycle Gold Corporation, 1515 S. Tejon, Suite 201, Colorado Springs, CO
80906, Attention: Chief Executive Officer, (719) 471-9013.
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www.anglogoldashanti.com

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AngloGold Ashanti Limited

Date: March 31, 2008

By:

/s/ L Eatwell________

Name: L EATWELL

Title: Company Secretary