



## Financial review

**The results for the year reflect the successful progression of the company's profitable growth strategy. Profit before tax was up from US\$48 million to US\$74 million for the year.**

This was the first full year of corporate tax at Morila and the group incurred an income tax charge of US\$23.1 million for the year (2005: US\$0.2 million). Net profit for the year of US\$50.9 million was up by 6% compared to the previous year. The main factors in the improved profit were the first full year of production at Loulo and higher gold prices. These elements were partially offset by lower grades resulting in lower production at Morila and increased costs. Gold prices averaged US\$604/oz compared to US\$445/oz in 2005. Attributable production was up for the third successive year at 448 242 ounces assuming 100% of Loulo's production (399 927 ounces assuming 80% of Loulo's production) as compared to 314 831 ounces in 2005 and 204 194 ounces in 2004. Earnings per share of 70 cents were in line with the 74 cents of 2005 (restated) and up on 32 cents in 2004.

Cash operating costs for the group were US\$258/oz, up from US\$169/oz in 2005 (restated). After royalties, total cash costs for the group were US\$296/oz for the year compared to US\$201/oz in 2005 (restated). This compares to an average for the industry which is now over US\$350/oz. Industry wide cost pressures have continued this year resulting from the weak dollar, high diesel, steel and contract mining costs. Diesel comprised approximately 25% of the production costs in the year. Contract mining costs make up over 30% of production costs. Despite these cost pressures, costs have been well controlled at both locations and the lower grade processed is the main factor in the increased cost per ounce. Grades at Morila decreased from 5.9g/t in 2005 to 4.2g/t this year, and at Loulo from 4.5g/t to 3.2g/t as per the respective Life of Mine plans. However on a cost per tonne basis, Morila performed well by keeping costs steady at just over US\$33/tonne and Loulo's increase year-on-year of 10% to just over US\$30/tonne is explained by the introduction of hard rock mining and crushing.

Expenditure on exploration and corporate costs continues to be an important investment with US\$29 million being spent in the year compared to last year's US\$24 million. Extensive drilling programmes were undertaken in all countries in which the company operates except for Ghana.



Morila's five year Mali corporate profit tax holiday ended in November 2005 and the accounts include a charge of US\$23 million for tax payable compared to US\$0.2 million the previous year. Loulo benefits from exoneration from corporate profit tax for five years from the date of first commercial production which was 8 November 2005.

The company's cash position remains very healthy with US\$143 million of cash and cash equivalents on the balance sheet and borrowings of US\$53 million. Net cash has improved from last year despite the significant expenditure on exploration and corporate costs: US\$32 million was spent on completion of the Loulo capital project and US\$18 million on underground equipment and the commencement of the decline shaft sinking at Loulo. Funds are only invested in fixed deposits and money market instruments with superior credit ratings. US\$19 million of the US\$60 million project financing was paid back during the year.

In view of the strong cash flows from operations and the company's strong balance sheet, the board decided to declare an annual dividend of 10 cents per share, totalling a payout of US\$6.9 million. This is the company's first dividend and is a reflection of the profitable evolution of the business. Shareholders have also enjoyed substantial capital returns in the year with the share price rising 45% from US\$16.13 to US\$23.46 at year end. This follows a 41% increase in 2005.

The main balance sheet movements in the year include a significant increase in property, plant and equipment. This is mainly due to the completion of the Loulo capital project and funds being spent on underground equipment and the decline shaft sinking at Loulo.

The increase in long term stockpiles relates to Morila where the current Life of Mine plan envisages a build up of stockpiles until mining of the pit stops in 2009. After this, the lower grade stockpiles will be processed.

Other significant balances include advances to the main contractor at Loulo, MDM Ferroman (Pty) Ltd (in liquidation) ("MDM"). Significant uncertainties exist as to the recoverability of the amounts due by MDM to the company. While the directors believe that the group will be able to recover in full

the US\$12.1 million included in receivables, the amount recovered will be in part dependent on how much can be recovered from performance bonds, personal guarantees and other assets provided as security and, if these amounts prove insufficient, the outcome of the liquidation of MDM. In addition, the group has a further claim of US\$47.2 million representing all amounts paid in excess of the lump sum contract and damages arising from the delayed completion of the project, which the directors believe the group is entitled to recover from MDM. This amount is not included in the financial statements. Full details are given in note 24 to the annual financial statements. As in the previous year, this significant uncertainty is the subject of an emphasis of matter in the audit report.

Receivables also include US\$20.3 million relating to reimbursable fuel duties and TVA owing by the government of Mali to Morila and Loulo. An additional provision of US\$1.3 million based on an estimate of the time value of money given the slow moving nature of these items has been raised this year.

Accounts payable has increased significantly in the year due to the build up of stores to a normal operating level at Loulo.

Work is underway on the Yalea underground mine at Loulo. The initial capital programme for the next four years is estimated to cost approximately US\$100 million, of which US\$18 million has already been spent. After this capital phase, the Yalea underground will be fully operational. The Gara underground development is planned to start in 2009 with first ore fed to the plant in 2010.

Life of Mine ("LOM") scheduling at Morila anticipates production for 2007 to be approximately 500 000 ounces (200 000 attributable). Loulo's 2007 production is scheduled to exceed 250 000 ounces. Total cash costs for the group are estimated to increase year on year between 10% and 15% depending on diesel price assumptions and the gold price which impacts on Mali government royalties paid. Randgold Resources will continue to invest extensively in its prospective exploration portfolio and the company is well funded to finance its development plans.