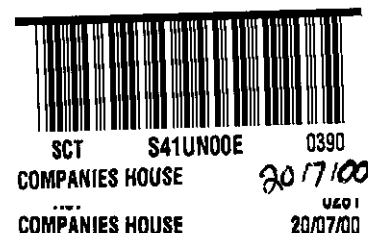


# Report of the Auditors

December 31, 1999

To the Members of  
World Gold Council, an Association



We have audited the accompanying consolidated balance sheet of World Gold Council and its subsidiaries as at December 31, 1999, and the related consolidated statements of revenue and expenditure and cash flows for the year then ended set out on pages 6 to 18. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements give a true and fair view of the consolidated financial position of the World Gold Council as of December 31, 1999, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

# Consolidated Balance Sheets

As at December 31, 1999 and 1998

	Notes	1999 US\$ 000's	1998 US\$ 000's
<b>CAPITAL EMPLOYED</b>			
Reserves	3	25 255	27 975
<b>EMPLOYMENT OF CAPITAL</b>			
Fixed assets	4	1 327	1 843
Other non-current assets - net	5	5 600	5 968
		6 927	7 811
Current assets			
Stocks		60	60
Dues receivable from Members		73	-
Other accounts receivable		918	693
Prepaid expenses		649	711
Cash and cash equivalents		25 130	30 005
		26 830	31 469
Current liabilities			
Market development payables		( 3 123)	( 2 491)
Miscellaneous payables and accrued expenses	6	( 3 677)	( 4 987)
Provisions	7	( 1 217)	( 3 725)
Income taxes		( 485)	( 102)
		( 8 502)	( 11 305)
Net current assets		18 328	20 164
Net assets		25 255	27 975

*Commitments - Note 10*

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statements of Revenue and Expenditure

For the years ended December 31, 1999 and 1998

	Notes	1999 US\$ 000's	1998 US\$ 000's
<b>REVENUE</b>			
Members' dues		27 502	35 014
Members' voluntary contributions		1 002	-
		<hr/> 28 504	<hr/> 35 014
<b>EXPENDITURE</b>			
Market development expenditure	7	( 21 701 )	( 21 720 )
General & administrative expenditure	8	( 9 491 )	( 9 613 )
Restructuring costs	6	425	575
		<hr/> ( 30 767 )	<hr/> ( 30 758 )
(Deficit)/excess of revenue over operating expenditure		( 2 263 )	4 256
Other income / (expense) :			
Interest income		1 276	1 434
Exchange differences – net		( 1 189 )	233
Other income		5	153
		<hr/> 92	<hr/> 1 820
(Deficit)/excess of revenue over expenditure before income taxes		( 2 171 )	6 076
Income taxes	9	( 549 )	( 354 )
(Deficit)/excess of revenue over expenditure		<hr/> ( 2 720 )	<hr/> 5 722
Balance at beginning of year		26 823	21 101
Balance at end of year	3	<hr/> 24 103	<hr/> 26 823

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998

	1999 US\$ 000's	1998 US\$ 000's
<b>FUNDS DERIVED FROM OPERATIONS</b>		
(Deficit)/excess of revenue over operating expenditure	( 2 263 )	4 256
Adjustments for:		
- depreciation and other non cash items	652	525
Restructuring costs net of non cash items	( 1 175 )	( 4 670 )
Exchange differences on non cash balances	( 1 441 )	( 34 )
Income taxes paid	( 307 )	( 436 )
Operating cash flows	( 4 534 )	( 359 )
(Increase)/decrease in dues receivable and other receivables	( 142 )	446
Decrease in stocks	-	17
Decrease in current liabilities excluding taxation and the provision for restructuring costs	( 1 920 )	( 1 576 )
Net cash applied to operations	( 6 596 )	( 1 472 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1 182	1 354
Other income received	5	8
Increase/(decrease) in non-current assets – net	368	( 13 )
Purchase of fixed assets	( 273 )	( 708 )
Proceeds on disposal of fixed assets	187	137
Net cash generated from investing activities	1 469	778
Net decrease in cash and cash equivalents	( 5 127 )	( 694 )
Effect of exchange rate gain on cash and cash equivalents	252	267
Cash and cash equivalents at beginning of period	30 005	30 432
Cash and cash equivalents at end of period	25 130	30 005

*No funds were derived from financing activities in either year.*

*The accompanying notes form an integral part of these financial statements.*

# Statement of Change of Equity

As at December 31, 1999 and 1998

	Donation of Net assets at Formation US\$ 000's	Reserve for Currency Fluctuation US\$ 000's	Accumulated Excess of Revenue Over Expenditure US\$ 000's	Total US\$ 000's
Balance at December 31, 1998	152	1 000	26 823	27 975
Deficit of revenue over expenditure of period	-	-	( 2 720)	( 2 720)
Balance at December 31, 1999	152	1 000	24 103	25 255

# Notes to the Consolidated Financial Statements

At December 31, 1999

## 1 GENERAL

World Gold Council ("WGC" or "the Council") is an Association established under Swiss law. The liability of its members is limited to the amounts of their assessed dues as laid out in the Council's Articles of Association.

Under the Articles of Association, the Board of Directors fixes the dues to be paid to WGC by each member in order to defray the known and anticipated expenses of the Association.

The Council's mission is to maximise the offtake and retention of gold by a) influencing the attitudes and behaviour of actual and potential public and private sector holders of gold, b) inducing lasting-effect structural changes in gold markets through the reduction or removal of taxes and regulatory barriers, and the improvement of distribution systems and products and c) stimulating a sustainable and competitive level of marketing support for gold products by the manufacturing and distributing trades through the use of information and co-operative consumer promotions.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The Association considers that the International Accounting Standards promulgated by the International Accounting Standards Committee may, by analogy, be taken as applicable to WGC. Thus the accompanying financial statements are prepared in accordance with and comply with International Accounting Standards (IAS) under the historical cost convention. The Council's consolidated financial statements are expressed in United States Dollars (US\$), the currency in which revenues are earned and a substantial portion of expenditures incurred.

### 2.1 Consolidation

The consolidated financial statements include the financial statements of the Association, its branches and its wholly owned subsidiaries (see Note 13). All intragroup transactions and balances have been eliminated.

### 2.2 Fixed Assets

Fixed assets are carried at cost less accumulated depreciation and amortization. Leasehold improvements are written-off over the period of the respective leases whilst other assets are depreciated on a straight line basis calculated on the estimated life of each asset, generally between 5 to 13 years.

### 2.3 Stocks

Stocks, principally gold held for research purposes, are stated at the lower of cost or net realizable value.

### 2.4 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits with banks with maturities of three months or less.

## **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.5 Provisions**

The Council recognises provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

### **2.6 Market development expenditure**

Salary and related costs of those personnel engaged full-time in market development work are allocated to market development expenditure.

### **2.7 Members' dues and voluntary contributions**

Member dues are assessed and recognised on a calendar year basis. These revenues are recorded at their estimated net collectible amounts.

### **2.8 Foreign currencies**

Statements of Revenue and Expenditure of foreign operations are translated into US dollars at average exchange rates and the balance sheets are translated at the year end exchange rates. The resulting exchange differences are recognised in the Statement of Revenue and Expenditure.

Foreign currency transactions in Council entities are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Revenue and Expenditure. Such balances are translated at year-end exchange rates.

### **2.9 Income Taxes**

The Association provides for income taxes on the basis of taxable earnings for the year.

### **2.10 Retirement benefit plans / pension obligations**

The Council operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Council entities. The Council's contributions to the defined contribution pension plans are charged to the statement of revenue and recognition in the year to which they relate.

All Council liabilities in respect of pension benefits are maintained on a fully funded basis.

### **2.11 Derivative financial instruments**

The Council uses forward foreign currency exchange contracts in its management of currency risk. Unrealised gains or losses on these contracts are deferred and recognised on maturity which approximates the timing of the specific transactions hedged.

### 3 RESERVES

	1999 US\$ 000's	1998 US\$ 000's
Donation of net assets at formation	152	152
Reserve for currency fluctuations	1 000	1 000
Accumulated excess of revenue over expenditure	24 103	26 823
	<u>25 255</u>	<u>27 975</u>

### 4 FIXED ASSETS

	Leasehold improvements US\$ 000's	Furniture, equipment and motor vehicles US\$ 000's	Total US\$ 000's
Cost			
December 31, 1998	1 545	3 249	4 794
Additions	32	241	273
Retirements	( 520 )	( 650 )	( 1 170 )
Disposals	-	( 542 )	( 542 )
December 31, 1999	<u>1 057</u>	<u>2 298</u>	<u>3 355</u>
Accumulated depreciation			
December 31, 1998	1 097	1 854	2 951
Depreciation charge	92	293	385
Retirements	( 422 )	( 547 )	( 969 )
Disposals	-	( 339 )	( 339 )
December 31, 1999	<u>767</u>	<u>1 261</u>	<u>2 028</u>
Net book value			
December 31, 1999	<u>290</u>	<u>1 037</u>	<u>1 327</u>
Net book value			
December 31, 1998	<u>448</u>	<u>1 395</u>	<u>1 843</u>



## 5 OTHER NON-CURRENT ASSETS (NET)

	1999 US\$ 000's	1998 US\$ 000's
Other non-current assets		
Lease and utility deposits	1 464	626
VAT recoverable in Italy – see below and Note 11	4 531	5 242
Other non current assets	64	100
	<hr/> 6 059	<hr/> 5 968
	<hr/>	<hr/>
Other non-current liabilities		
Provision for contractual retiree benefits - see note 7 below	( 459 )	-
	<hr/> 5 600	<hr/> 5 968
	<hr/>	<hr/>

The total VAT recoverable is composed of Italian VAT in respect of the following years :

	1999 Lire millions	1998 Lire millions
1991	1 350	1 350
1992	1 932	1 932
1993	1 380	1 380
1995	1 641	1 641
1996	1 336	1 336
1997	648	648
1998	411	411
1999	53	-
Total	<hr/> 8 751	<hr/> 8 698
	<hr/>	<hr/>
Total in thousands of US\$	<hr/> 4 531	<hr/> 5 242
	<hr/>	<hr/>

## 6 MISCELLANEOUS PAYABLES AND ACCRUED EXPENSES

	1999 US\$ 000's	1998 US\$ 000's
Accrued expenses	3 301	4 324
Miscellaneous payables	376	663
	<u>3 677</u>	<u>4 987</u>

## 7 PROVISIONS

	Restructuring Costs US\$ 000's	Contractual Retiree Benefits US\$ 000's	Office Move Costs US\$ 000's	Other US\$ 000's	Total US\$ 000's
Balance at December 31, 1998	3 083	629	-	13	3 725
Increase in provisions	-	-	489	-	489
Charged to provisions	(1 978)	( 129)	-	( 6)	(2 113)
Amounts reversed	( 425)	-	-	-	( 425)
Balance at December 31, 1999	<u>680</u>	<u>500</u>	<u>489</u>	<u>7</u>	<u>1 676</u>
Analysis between non current/current liabilities					
- Non current liabilities (see note 5)	<u>-</u>	<u>459</u>	<u>-</u>	<u>-</u>	<u>459</u>
- Current liabilities	<u>680</u>	<u>41</u>	<u>489</u>	<u>7</u>	<u>1 217</u>

### Restructuring costs :

The completion of the restructuring process commenced in 1997 and which included the closure of the Geneva headquarters has resulted in a write back to the Statement of Revenue and Expenditure in 1999 of an excess provision of US\$424,968 (1998: US\$575,313). The balance remaining of the provision amounts to US\$680,000 which relates to estimated costs still to be incurred.

### Contractual retiree benefits

A provision of US\$628,453 was made at December 31, 1998 to cover the projected cost of contractual retiree benefits. The provision is calculated on contributions to health insurance

premiums payable each year for the expected life span of the individual payable based on actuarial tables.

Office move costs

This provision covers expected costs to be incurred in 2000 relating to the disposal of the leases of the previous London office premises following the move to new premises in early 2000.

## 8 MARKET DEVELOPMENT

Market development expenditure is analyzed by sector as follows :

	1999 US\$ 000's	1998 US\$ 000's
Official Sector & Institutional Investment	2 816	2 065
Market Communications	5 348	2 791
Physical Markets	13 537	16 864
	<hr/> 21 701	<hr/> 21 720

*Included in market development expenditure are salary and related costs of personnel engaged in market development work totalling US\$8,305,687 (1998: US\$ 8,177,828).*

## 9 GENERAL AND ADMINISTRATIVE EXPENDITURE

General and administrative expenditure is made up as follows:

	1999 US\$ 000's	1998 US\$ 000's
Membership/Governance	689	628
General Management and Finance and Administration Staff		
Staff related	<hr/> 3 840	<hr/> 3 845
Infrastructure Costs		
Premises	2 726	2 360
Office equipment and supplies	685	605
Communication	462	567
Professional fees	745	801
Bank expenses	96	140
Other	248	667
	<hr/> 4 962	<hr/> 5 140
	<hr/> 9 491	<hr/> 9 613

Included in the above are the following expenses :

	1999 US\$ 000's	1998 US\$ 000's
Loss on disposal of fixed assets	126	9
Depreciation and amortization	385	517
Operating lease and rental costs		
- Premises	1 771	1 972
- Other	47	61
Auditors' remuneration	206	226

Employee numbers and contributions to retirement plans (all staff):

	1999 No.	1998 No.
Number of employees (at the year end)	89	86

	1999 US\$ 000's	1998 US\$ 000's
Contributions made to retirement plans		
- Council initiated schemes	751	805
- State run schemes	192	298

## 10 INCOME TAXES

The Council is incorporated in Switzerland but operates in various countries that have differing tax laws and rates. As from April 1, 1999 the Council transferred its headquarters from Geneva to London. Swiss taxation is payable until March 31, 1999 and is based on the Council's net assets and has no correlation with the excess or deficit of revenue over expenditure. The majority of the Council's foreign operations are not subject to any income taxes and those that are taxed are on the basis of an imputed return on annual expenditure (cost plus method). In 1999 the major portion of the Council's taxes were UK taxes which is based only on interest income earned since the date of transfer of the headquarters. The Council's income taxes are not directly related to its deficit or excess of revenue over expenditure and a reconciliation of current taxes to the excess of revenue over expenditure is not possible.

The income tax expense consists of the following for the year ended :

	1999 US\$ 000's	1998 US\$ 000's
Current provision - income taxes	330	73
- capital taxes	224	283
(Over) / under estimate for prior years	( 5 )	( 2 )
Deferred provision / (benefit)	-	-
Total	549	354

There are no significant deferred tax timing differences at the year end.

## 11 COMMITMENTS

### 10.1 Capital commitments

Capital commitments were undertaken in 1999 totalling US\$521,845 (1998: Nil). The capital acquisitions were made in early 2000.

### 10.2 Non-cancellable operating lease commitments

Relating to the rental of office space, furniture and equipment :

	1999 US\$ 000's	1998 US\$ 000's
Due within one year	1 966	1 518
Due between 1 and 5 years	3 959	2 221
Due beyond 5 years	6 294	510
	<hr/>	<hr/>
	12 219	4 249
	<hr/>	<hr/>

## 12 CONTINGENT LIABILITIES

### ITALIAN VAT RECEIVABLE

#### a) Overview

The Council has received assessments for Value Added Tax (VAT) from the Milan tax authorities relating to reimbursement claims made by the Council for VAT paid on funds transferred to Italy. The assessments annulled the reimbursement claims made by the Council for the years 1991, 1992, 1993, 1994, 1995 and 1996 amounting to Lit. 9.1 billion (US\$ 4.7 million).

These amounts are shown in the balance sheet as a receivable under non current assets (see Note 5) except for the claim for the year 1994 for Lit. 1.4 billion (US\$ 0.8 million) which has already been reimbursed but is being reclaimed by the tax authorities. In addition to the annulment of the reimbursement requests, as indicated above, the Council may be liable to penalties totalling Lit. 9.1 billion (US\$4.7 million) which have not been provided for in the accounts. The Council has appealed against these assessments which are being dealt with as separate legal cases.

The Council is confident, based on legal advice, that the VAT receivable will be recovered and that the penalties imposed will be cancelled.

b) Tax years 1991 and 1992 (part)

During April 1998, the tax tribunal hearing relating to the years 1991 and part of 1992 for VAT reimbursement claims totalling Lit. 2.1 billion (US\$ 1.1 million) ruled against the Council. An appeal against this decision has been filed. The case will be examined at the second level tribunal in April 2000.

c) Tax years 1992-1994

A separate case is in course relating to the years 1992-1994 for VAT reimbursement claims totalling Lit. 4 billion (US\$2.1 million) plus penalties of an equivalent amount. During 1998 the tax tribunal found in favour of the Council confirming the recoverability of the VAT balances. The Milan tax office appealed against this decision and their appeal was rejected by the second level court in November 1999. It is expected that the VAT office will appeal to the third and final level court. This is likely to delay the final outcome for some time.

d) Tax years 1995 and 1996

During 1999 the Milan VAT office raised assessments calling for the annulment of VAT reimbursements for the years 1995 and 1996 totalling Lit. 3.0 billion (US\$1.6 million) and calling for penalties of equivalent amounts. The basis of the assessment was the same as for the years 1992-1994. The first court hearing for these tax years has been set for March 2000.

e) Interest due

Under provisions presently in force under Italian tax laws, interest accrues on any VAT amounts receivable from Italian authorities 90 days after the date of filing the tax return until the date that the VAT amounts have been reimbursed. However, given the long time period expected to elapse until collection, and the fact that in similar situations the payment of the interest portion was delayed even longer, the Council has decided to account for the interest portion only at the time of collection. The total estimated unrecorded interest receivable in respect of Italian VAT amounts to some US\$1,469,462 as at December 31, 1999 (1998: US\$1,445,790).

f) Bank guarantees

In connection with the recovery of Italian VAT, bank guarantees totalling Lit. 5.8 billion (US\$3.0 million) have been issued in favour of Banca Nazionale del Lavoro (1998: Lit. 5.8 billion - US\$ 3.5 million) as specifically required by the Italian VAT authorities as a condition of the reimbursement process.

## **13 FINANCIAL INSTRUMENTS**

### **13.1 Credit risk**

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash and short-term deposits. The Council's cash equivalents and short term deposits are placed with high credit quality financial institutions.

With respect to the foreign exchange forward contracts, the Council's exposure is on the full amount of the foreign currency receivable on settlement. The Council minimises such risk by limiting the counterparties to a group of major international banks, and does not expect to incur any losses as a result of nonperformance by these counterparties.

### **13.2 Interest rate risk**

The Council's short term deposits are at fixed and variable interest rates and mature within three months.

### **13.3 Fair values**

At December 31, 1999 and 1998 the carrying amounts of cash and short-term deposits, other accounts receivable, market development payables and miscellaneous payables and accrued expenses approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair values of other non-current assets and liabilities are not materially different from the carrying amounts.

The fair value of foreign exchange forward contracts represents the estimated amounts (using rates quoted by the Council's bankers) that the Group would receive to terminate the contracts at the reporting date, thereby taking into account the unrealised gains or losses of open contracts. There was no open contracts at December 31, 1999 (December 31, 1998: unrealised loss of US\$11,398).

### **13.4 Hedging policy**

The Council's revenues are received in U.S. dollars whereas a sizeable portion of its expenditures are incurred in currencies other than the U.S. dollar and currencies linked to the US dollar. The Council enters into foreign exchange forward contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on this currency imbalance, the contracts being matched with anticipated future cash outflows in foreign currencies. The Council's policy is to enter into foreign exchange forward contracts for up to a maximum of 100% of the anticipated foreign currency expenditures for up to 12 months in advance limited to the approved annual expenditure budget for those currencies.

The Council does not use derivative financial instruments for speculative purposes.

## 14 BRANCHES, REPRESENTATIVE OFFICES AND SUBSIDIARIES

As at March 31, 1999 the Council transferred its headquarters from Geneva to London. The Council legal entity remains as a Swiss registered Association.

The consolidated financial statements incorporate the assets and liabilities and revenue and expenditure (other than intragroup items) of the following branches, representative offices and subsidiary companies through which the Association conducts its operations :

Branches of WGC Geneva	Location
------------------------	----------

Brazil	Sao Paulo
United Arab Emirates	Dubai
United Kingdom	London

Representative Offices	Location
------------------------	----------

China	Beijing and Shanghai
India	Mumbai, Delhi, Chennai and Calcutta
Indonesia	Jakarta
Malaysia	Kuala Lumpur
Mexico	Mexico City
South Korea	Seoul
Taiwan	Taipei
Thailand	Bangkok
Turkey	Istanbul
Vietnam	Ho Chi Minh City

Subsidiaries (all 100% owned)	Location
-------------------------------	----------

World Gold Council Srl	Milan
World Gold Council, Inc.	New York
World Gold Council Ltd	Hong Kong
World Gold Council KK	Tokyo
World Gold Council (Far East) Pte Ltd	Singapore
WGC Financial Services SA	Geneva