

# Financial Strategy

“Barrick will continue to improve its financial profile and maintain a conservative financial philosophy as it moves forward with its capital investment program.”

*Moody's Investor's Service (January 2006)*

Barrick continues its long tradition of operating from a strong, prudent financial base. In 2005, the Company:

- brought three new mines on-stream, and advanced a fourth to near-completion, all without issuing any equity to finance them;
- managed cost pressures successfully;
- remained the lowest cash-cost producer of the senior gold mining companies; and
- structured an innovative share and cash transaction for the acquisition of Placer Dome, which included the sale of certain assets to Goldcorp, in order to maximize the resulting synergies.

## Financing

In 2004, we stated that we would execute the industry's most aggressive growth plan without the need to issue additional equity. In 2005 we achieved that objective, bringing three new mines into production and significantly advancing a fourth, which is scheduled to enter production in the first quarter of 2006.

In April, the Company's wholly-owned subsidiary, Minera Barrick Misquichilca S.A., issued \$50 million of bonds in the Peruvian capital markets. The issue, which was at a 28-basis-point discount to Sovereign debt, was one of the highest ever ratings in that country. The money was used to partially fund construction of the new Lagunas Norte Mine in Peru, thereby making Peruvian investors our partners in a project of great importance to their country.

## Cost Control/Cost Management

2005 was another year of challenging cost pressures for the entire mining sector. Many gold producers revised their guidance significantly during the year to reflect the negative impact of these pressures on both production and cash-cost metrics. Barrick, by contrast, did not revise guidance and remained the lowest cash-cost senior gold producer for the year.

This success is due to the range of highly complementary cost-management programs in place. These include currency hedging to mitigate the impact of rising currencies in countries where we operate; hedging of consumables such as fuel costs; supply chain management; and continuous improvement. The collaboration exists across corporate functions and regions, and through the extended enterprise to outside suppliers as well. Individual initiatives reinforce each other and, in combination, create leverage for the Company as a whole.

For example, industry costs in 2005 were affected by stronger currencies in many of the countries where gold is mined. Barrick was less affected than many other companies because 75% of our 2005 costs were denominated in US dollars and we largely eliminated currency exposure on the remaining 25% through our currency hedging program. This allowed us to benefit from higher US-dollar gold prices and thus mitigate the impact on our mining costs of currency appreciation elsewhere.

Continuous improvement (CI) and supply chain management (SCM) are two more important examples of the way interrelated strategies provide cost-mitigation leverage. The CI program helps reduce Company costs by reducing the rate at which materials of all kinds are consumed. Program initiatives focus on improving operational efficiencies, and also on embedding a culture of CI so that improvements are sustained, and later enhanced whenever possible.

While CI addresses consumption of materials, SCM focuses on their cost – total cost, from purchase through the item’s life cycle to eventual salvage or safe disposal. The SCM group not only coordinates Company purchase contracts to gain the leverage of scale, it also ensures that each spend category operates at its most cost-effective level.

We will continue to deploy our full range of cost-containment strategies as part of our overall focus on maintaining and, where possible, reducing our costs in equipment, currencies, oil, interest rates and other areas that affect industry profit margins.

### **Gold Sales Contracts**

During the year, we reduced our fixed-price gold sales contracts position by 1.0 million ounces.

The Company remains committed to its policy of reducing existing gold sales contracts. With the acquisition of Placer Dome, we will inherit additional contracts, but will continue to reduce the total number of contracts we hold, increasing Barrick’s leverage to the gold price.

We have already begun to reduce these contracts. All of Placer Dome’s outstanding call options as well as some of their forward contracts have been eliminated, representing a reduction of approximately 1.5 million ounces. By mid-February 2006, the combined gold

sales commitments totaled 18.5 million ounces. Of this, a total of 9.5 million ounces of the hedge position has been allocated to the Pueblo Viejo and Pascua-Lama development projects. The remaining 9.0 million ounces of Corporate gold sales commitments represent 8% of total reserves excluding ounces allocated to development projects.

A more detailed discussion of our corporate gold sales contracts can be found in the Management’s Discussion and Analysis (“MD&A”) section on page 61.

### **Placer Dome Acquisition**

On October 31, 2005, we announced a bid for all outstanding shares of Placer Dome for a combination of Barrick shares and cash. We increased the bid on December 22 and received the unanimous support of the Board of Directors of Placer Dome.

The strategic rationale and opportunities presented by this transaction are outlined earlier in this report. We will issue additional shares in order to complete the transaction, and in exchange we will receive significant value in the form of Placer Dome operations, assets and development projects. The cash necessary to complete the transaction is to be recouped through our agreement to sell certain assets of Placer Dome to Goldcorp, resulting in no new debt for the combined Company. Barrick remains the most highly rated gold company in the world, with the industry’s only A-rated balance sheet (as rated by Standard & Poor’s).

In the future as in the past, Barrick will maintain a sound and prudent financial foundation. On this solid base, the Company will run existing operations, fund exploration programs, and advance development projects.