

UBS Investment Research

South African gold sector

Sept-quarter results preview

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■ Weaker rand and weaker US\$ gold price

The Sept-quarter was characterised by a decline in the US\$ gold price q/q (1%), offset by a stronger rand gold price (11%), courtesy of a 10% weaker rand. The weaker US\$ gold price is likely to benefit MTM reporting of hedges (ANG and HAR).

■ Cost pressures - wages and power

Other factors that are likely to impact the sector are the inclusion of c.6% wage increases at SA operations (2005 biannual settlement), a rise in electricity costs within South Africa and a continued rise q/q in oil prices. We forecast ANG adj HEPS of R3.53 (R3.34 q/q but down in US\$ terms), GFI R1.40 (R1.08 q/q), HAR R0.68 (R-0.52q/q).

■ HAR likely to be best q/q performer

While we continue to be cautious on HAR's operational recovery and believe current earnings (expect R0.68 at a rand gold price of R142,000/kg) is insufficient to justify the current share price, HAR appears likely to offer the best q/q operational and financial performance; off a low base but specifically offering the greatest exposure to the weaker rand.

■ Valuation: Favour GFI on balance of risk and return

We value the SA gold majors on multiples of '07CY earnings; GFI (Buy2, R153/share) on 15x earnings and HAR (Neutral2, R110) 11x, based on 1999-2003 precedent, and ANG (Neutral2, R330) on 12x on a 20% discount to precedent due to the large Anglo American overhang

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5

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Summary

September quarterly reporting is as follows:

- Gold Fields: 26 October
- AngloGold: 30 October
- Harmony: 31 October
- DRDGold: 2 November

The September quarter was characterised by a decline in the US\$ gold price q/q (1%), but compensated by a stronger rand denominated gold price (11%), courtesy of a 10% weakening in the rand. The weaker rand US\$ gold price is likely to benefit mark-to-market reporting of hedge books (AngloGold and Harmony).

Figure 1: Quarterly gold price and rand trend and forecasts

| | | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 | Sep-04 | Dec-04 | Mar-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 E | Dec-06 E |
|-----------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| US\$ Gold | US\$/oz | 351 | 347 | 364 | 392 | 407 | 394 | 401 | 435 | 429 | 427 | 439 | 485 | 552 | 627 | 622 | 650 |
| Rand | R/US\$ | 8.32 | 7.64 | 7.41 | 6.75 | 6.77 | 6.58 | 6.36 | 6.07 | 5.97 | 6.40 | 6.50 | 6.52 | 6.14 | 6.41 | 7.12 | 7.23 |
| Rand gold | R/kg | 93811 | 85353 | 86638 | 85020 | 88631 | 83440 | 82118 | 84985 | 82316 | 87887 | 91625 | 101642 | 108869 | 129279 | 142369 | 151092 |
| | % chg | -6.5% | -9.0% | 1.5% | -1.9% | 4.2% | -5.9% | -1.6% | 3.5% | -3.1% | 6.8% | 4.3% | 10.9% | 7.1% | 18.7% | 10.1% | 6.1% |

Source: Inet, UBS estimates

Other factors that are likely to impact the sector are the inclusion of c.6% wage increases at South African operations (from the 2005 biannual settlement), a rise in electricity costs within South Africa and a continued rise q/q in oil prices.

While we continue to be cautious on Harmony's operational recovery, and believe current earnings (expect R0.68 at a rand gold price of R142,000/kg) is insufficient to justify the current share price, Harmony appears likely to offer the best q/q operational and financial performance – off a low base but specifically offering the greatest exposure to the weaker rand.

We have adjusted our earnings forecasts as follows, to account for our expectation of a rising cost base.

Table 1: Change to earnings forecasts

| | | | 2006FY | | | 2007FY | | | 2008FY | | | TP | Rating |
|-----|------|----------|--------|------|------|--------|------|------|--------|------|------|-----|----------|
| | | | New | Old | %chg | New | Old | %chg | New | Old | %chg | | |
| ANG | HEPS | Rc/share | 304 | 551 | -45% | 2736 | 2898 | -6% | 1743 | 1856 | -6% | 330 | Neutral2 |
| | DPS | Rc/share | 820 | 1082 | -24% | 2060 | 2183 | -6% | 1295 | 1380 | -6% | | |
| GFI | HEPS | Rc/share | | | | 895 | 1027 | -13% | 909 | 1024 | -11% | 153 | Buy2 |
| | DPS | Rc/share | | | | 469 | 538 | -13% | 476 | 537 | -11% | | |

Source: UBS estimates

Note for 2007 FY we are ahead of consensus (I-net); GFI EPS is R7.90/share vs. UBSe of R8.95, ANG is R25.57 vs. UBSe of 27.36 and HAR of R4.84 vs. UBSe of R5.95. We do however see risk to the downside in our earnings forecasts due

to our high gold price forecast of US\$750/oz for 2007 (spot of US\$593/oz), thus our consensus beating estimates do not reflect a high conviction call.

AngloGold

AngloGold is likely to benefit the least of the SA domiciled gold miners from the gold price environment (weaker gold price and weaker rand) because of its diversity away from South Africa.

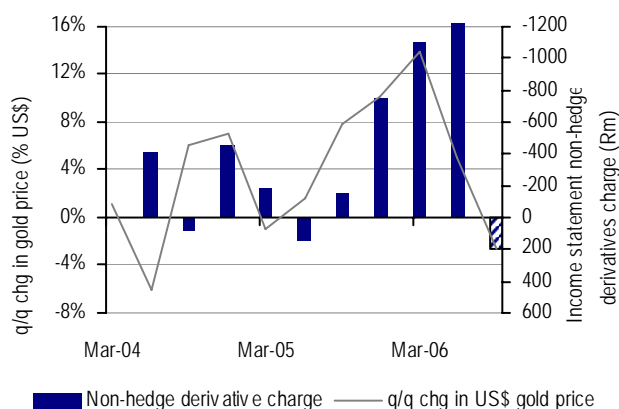
Figure 2: Quarterly operating and financial performance and forecasts

| | | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 | Sep-04 | Dec-04 | Mar-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 E | Dec-06 E |
|---------------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| grade | g/t | 2.19 | 1.95 | 1.96 | 2.30 | 2.14 | 1.98 | 2.21 | 2.34 | 3.14 | 3.08 | 2.82 | 2.76 | 2.66 | 2.71 | 2.62 | 2.66 |
| tonnage | '000 t/q | 19925 | 22876 | 22033 | 18769 | 17992 | 22613 | 22937 | 22598 | 15553 | 15817 | 16914 | 16853 | 15599 | 16234 | 17691 | 17767 |
| kg | kg/quarter | 43605 | 44613 | 43240 | 43208 | 38416 | 44837 | 50623 | 52852 | 48808 | 48792 | 47723 | 46459 | 41571 | 44023 | 46362 | 47254 |
| Revenue | Rm | 3938 | 3907 | 3735 | 3685 | 3298 | 3705 | 4171 | 4174 | 3858 | 4404 | 4151 | 4337 | 4246 | 4798 | 6007 | 6677 |
| Adj Op profit | Rm | 1053 | 975 | 914 | 864 | 717 | 614 | 520 | 564 | 443 | 784 | 404 | 408 | 782 | 1252 | 1787 | 2370 |
| Cash cost | R/kg | 54110 | 55838 | 55008 | 52354 | 55047 | 54014 | 55372 | 53775 | 53969 | 56169 | 58872 | 57141 | 59015 | 61790 | 63822 | 63913 |
| | US\$/oz | 201 | 227 | 231 | 241 | 253 | 255 | 271 | 275 | 281 | 273 | 282 | 272 | 299 | 300 | 279 | 275 |
| HEPS | R/share | 2.72 | 2.30 | 3.03 | 2.62 | 1.28 | -0.09 | 1.04 | 0.62 | 0.39 | 2.51 | -1.45 | -5.32 | -4.02 | -3.80 | 5.03 | 5.62 |
| HEPS* | R/share | 2.76 | 2.32 | 2.23 | 2.27 | 1.79 | 1.27 | 1.06 | 2.43 | 1.75 | 2.28 | 0.03 | 0.94 | 2.00 | 3.34 | 3.53 | 5.62 |
| DPS | R/share | 0.00 | 3.75 | 0.00 | 3.36 | 0.00 | 1.70 | 0.00 | 1.80 | 0.00 | 1.70 | 0.00 | 0.62 | 0.00 | 2.10 | 0.00 | 6.10 |

Source: Company data, UBS estimates

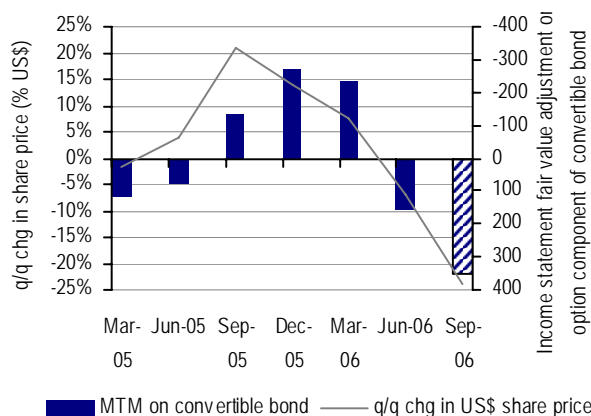
Cost pressures in South Africa are likely to come from wages and the electricity price rise, and internationally from rising oil prices, with Ghana also being affected by power shortages (due to low rainfall impacting the hydroelectric generation capacity). Some positive marking-to-market of the gold hedge (due to weaker gold price) and the option component of the convertible bond (due to weaker US\$ share price) are likely to positively impact HEPS – but are stripped out of adjusted HEPS (see chart below).

Chart 1: q/q chg in US\$ gold price and derivative MTM income statement charge



Source: Company data, UBS estimates

Chart 2: q/q chg in US\$ ANG share price and option component of convertible bond income statement charge



Source: Company data, UBS estimates

Gold Fields

Gold Fields is expected to deliver a slight decline in gold output and rising cost pressures. Gold Fields is expected to change to the South African gold industry standard of capitalising ore development costs, from expensing (ANG made the change in 2004 and Harmony in 2005). This will undermine q/q comparisons, but we expect cost pressures to more than offset apparent declines from accounting changes (while it removes a cost from operating costs, these costs ultimately return in the form of higher depreciation/amortization).

Figure 3: Quarterly operating and financial performance and forecasts

| | | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 | Sep-04 | Dec-04 | Mar-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 E | Dec-06 E |
|-----------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| grade | g/t | 3.27 | 3.13 | 2.98 | 2.96 | 2.87 | 3.12 | 3.00 | 2.96 | 2.82 | 2.92 | 2.75 | 2.86 | 2.72 | 2.73 | 2.95 | 2.94 |
| tonnage | '000 t/q | 10792 | 10925 | 11497 | 11640 | 11645 | 10886 | 10899 | 11681 | 12613 | 12027 | 11669 | 11873 | 12401 | 12009 | 10856 | 10957 |
| kg | kg/quarter | 35257 | 34244 | 34257 | 34451 | 33479 | 33987 | 32666 | 34576 | 35616 | 35156 | 32107 | 33999 | 33710 | 32824 | 32036 | 32205 |
| Revenue | Rm | 3352 | 2971 | 2952 | 2923 | 3028 | 2869 | 2705 | 2946 | 2950 | 3156 | 3023 | 3479 | 3734 | 4409 | 4813 | 4962 |
| Op profit | Rm | 1126 | 717 | 570 | 545 | 656 | 545 | 456 | 637 | 537 | 656 | 554 | 958 | 1187 | 1660 | 1779 | 2543 |
| Cash cost | R/kg | 60709 | 63369 | 67566 | 66991 | 67432 | 66239 | 66602 | 64809 | 64949 | 67901 | 72785 | 71684 | 72960 | 76130 | 84351 | 79796 |
| | US\$/oz | 227 | 258 | 284 | 309 | 310 | 313 | 326 | 332 | 339 | 330 | 348 | 342 | 370 | 369 | 368 | 343 |
| EPS | R/share | 1.70 | 1.67 | 0.89 | 0.57 | 0.52 | -0.38 | 0.21 | 0.16 | 0.02 | -0.03 | 0.08 | 0.53 | 0.98 | 1.22 | 1.40 | 2.53 |
| HEPS* | R/share | 1.04 | 0.48 | 0.29 | 0.23 | 0.47 | 0.21 | -0.01 | 0.20 | 0.26 | 0.44 | 0.09 | 0.56 | 0.76 | 1.08 | 1.40 | 2.53 |
| DPS | R/share | 0.00 | 1.00 | 0.00 | 0.40 | 0.00 | 0.40 | 0.00 | 0.30 | 0.00 | 0.40 | 0.00 | 0.40 | 0.00 | 1.21 | 0.00 | 2.30 |

Source: Company data, UBS estimates

In South Africa Driefontein is expected to report a decline in production (lower grade q/q and less gold from clean-up operations), Kloof to report increased production (from a period of depressed performance) and Beatrix flat.

Internationally, Tarkwa is expected to be slightly down on production, Damang about 10% down and Australia about 10% up (from the depressed June-quarter performance). Choco10 in Venezuela experienced a problem with the ball mill drive and production is expected to be down c.15%.

Harmony

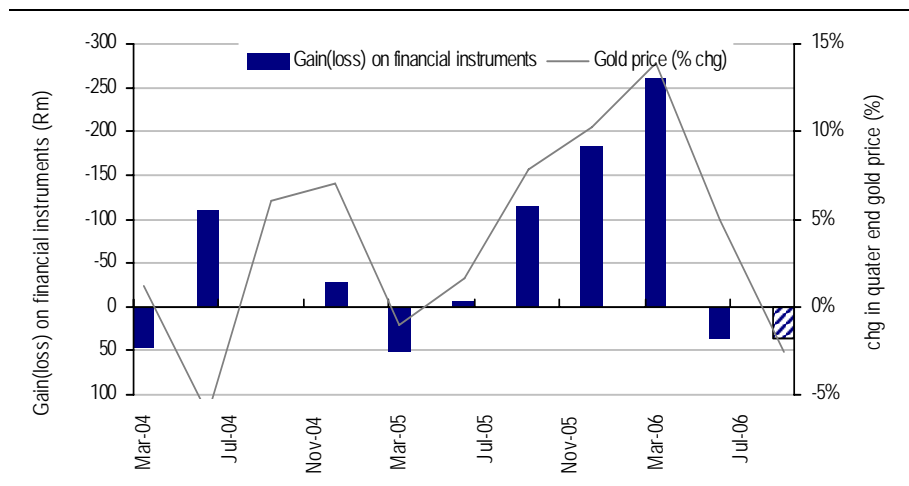
Figure 4: Quarterly operating and financial performance and forecasts

| | | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 | Sep-04 | Dec-04 | Mar-05 | Jun-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 E | Dec-06 E |
|-----------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| grade | g/t | 2.91 | 2.82 | 3.51 | 3.58 | 3.18 | 3.27 | 3.93 | 4.16 | 3.87 | 3.83 | 4.18 | 4.18 | 3.89 | 3.46 | 3.75 | 3.76 |
| tonnage | '000 t/q | 7622 | 7809 | 8594 | 8183 | 7770 | 7704 | 6565 | 5916 | 5464 | 5199 | 4600 | 4857 | 4466 | 4958 | 4829 | 4980 |
| kg | kg/quarter | 22213 | 22001 | 30151 | 29286 | 24740 | 25225 | 25830 | 24600 | 21128 | 19885 | 19215 | 20316 | 17361 | 17140 | 18119 | 18719 |
| Revenue | Rm | 2103 | 1842 | 2603 | 2494 | 2184 | 2055 | 2144 | 2067 | 1750 | 1782 | 1773 | 2076 | 1917 | 2244 | 2618 | 2871 |
| Op profit | Rm | 478 | 183 | 217 | 271 | 134 | -43 | 133 | 163 | -55 | 45 | 119 | 389 | 306 | 645 | 842 | 1000 |
| Cash cost | R/kg | 73155 | 75434 | 75322 | 75950 | 82831 | 80914 | 77858 | 77399 | 85871 | 87464 | 85736 | 83156 | 93464 | 94534 | 98018 | 99951 |
| | US\$/oz | 273 | 307 | 316 | 350 | 381 | 382 | 381 | 397 | 448 | 425 | 410 | 396 | 474 | 459 | 428 | 430 |
| HEPS | R/share | 1.26 | 0.45 | -0.50 | -0.66 | -0.16 | -1.31 | -1.10 | -0.88 | -1.07 | -1.01 | -0.86 | -0.75 | -0.49 | -0.65 | 0.68 | 0.80 |
| DPS | R/share | 0.52 | -0.75 | 0.00 | 0.40 | 0.00 | 0.30 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: Company data, UBS estimates

Harmony is most geared to the q/q rand gold price strength, and together with a stable AUD gold price and WAR share price, operational performance is likely to be supported, rather than negatively impacted, by mark-to-market items. We expect this to provide the first positive quarterly HEPS since June'03.

Chart 3: Mark-to-market income statement charges, vs. q/q chg in US\$ gold price



Source: Company data, UBS estimates

We expect Harmony grades to rise off the low June-quarter base, with underground S.African grades rising from 4.67g/t to 4.93g/t, but for R/t costs to rise faster, resulting in further rises in R/kg unit cash costs.

Valuation and conclusion

We value the South African gold majors on a multiple of 2007CYe earnings (Gold Fields on 15x earnings and Harmony 11x, based on 1999-2003 precedent, and AngloGold on 12x on a 20% discount to precedent due to the large Anglo American overhang – stated intent to exit its 42% stake). We rate Gold Fields Buy 2 (R153/share price target), AngloGold Neutral 2 (R330) and Harmony Neutral 2 (R110).

■ Statement of Risk

We point out to investors the potential risks inherent in the gold sector, including, the volatile nature of the gold price and currencies, specifically the rand, which may differ materially from expectations. Furthermore, the sector is exposed to political, financial and operational risks, each of which has the potential to significantly impact company/industry performance.

AngloGold - Specific risks for AngloGold include risks associated with the merger with Ashanti Goldfields and uncertainty over the timing and gold price realised from the extensive hedge book. Gold Fields - Specific risks pertaining to Gold Fields include project risk at recently announced projects in South America and the bid for South Deep/Western Areas. Harmony - Specific risks pertaining to Harmony include the restructuring of old, high cost operations, economic extraction of reserves/resources, uncertainties associated with benefits of continuous operations and intent of 29% stake in WAR.

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| UBS rating | Definition | UBS rating | Definition | Rating category | Coverage ¹ | IB services ² |
|------------------|---|------------------|--|---------------------|-----------------------|--------------------------|
| Buy 1 | FSR is > 6% above the MRA, higher degree of predictability | Buy 2 | FSR is > 6% above the MRA, lower degree of predictability | Buy | 49% | 34% |
| Neutral 1 | FSR is between -6% and 6% of the MRA, higher degree of predictability | Neutral 2 | FSR is between -6% and 6% of the MRA, lower degree of predictability | Hold/Neutral | 38% | 32% |
| Reduce 1 | FSR is > 6% below the MRA, higher degree of predictability | Reduce 2 | FSR is > 6% below the MRA, lower degree of predictability | Sell | 12% | 27% |

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 30 September 2006.

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Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Companies mentioned

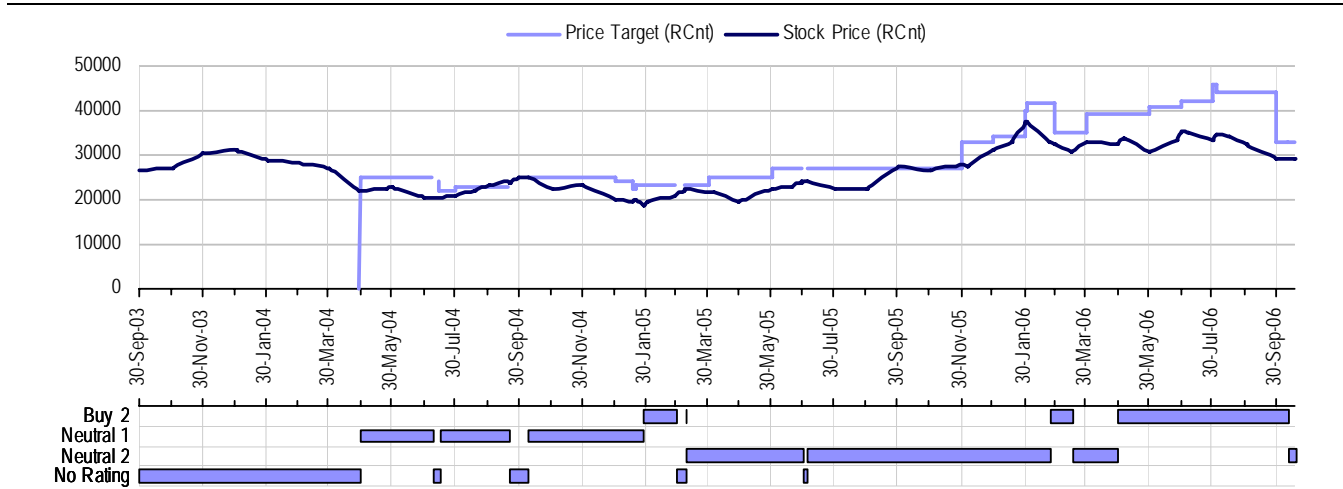
| Company Name | Reuters | Rating | Price | Price date/time |
|--|---------|-----------|------------|-----------------------|
| AngloGold Ashanti ^{2,4,5,14,16} | ANGJ.J | Neutral 2 | RCnt29,216 | 17 Oct 2006 23:39 BST |
| Gold Fields Ltd ¹⁶ | GFIJ.J | Buy 2 | RCnt12,880 | 17 Oct 2006 23:39 BST |
| Harmony ¹⁶ | HARJ.J | Neutral 2 | RCnt10,715 | 17 Oct 2006 23:39 BST |

Source: UBS. BST: British summer time.

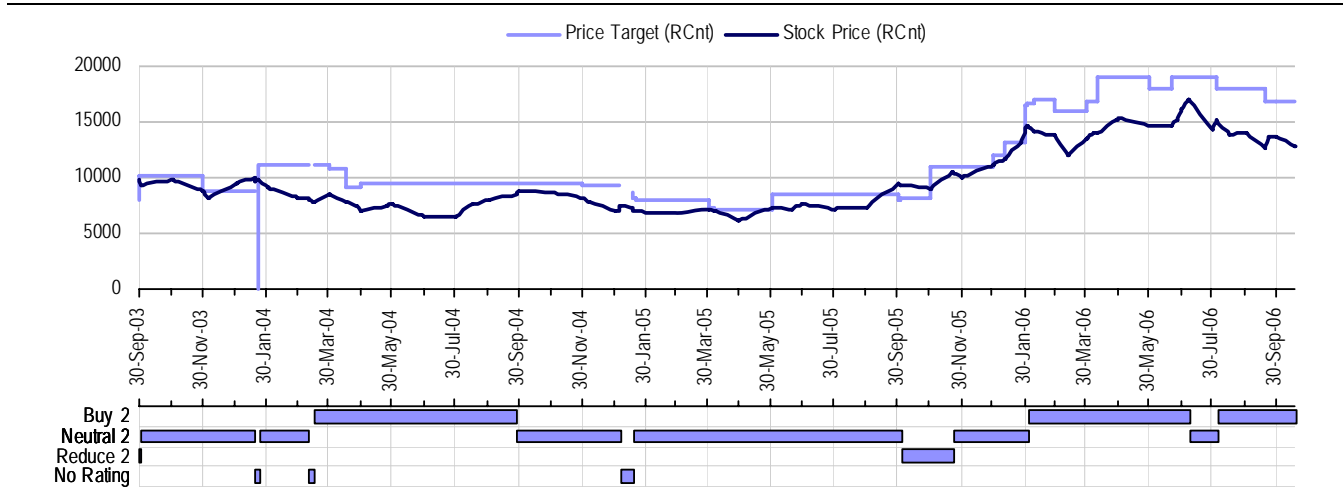
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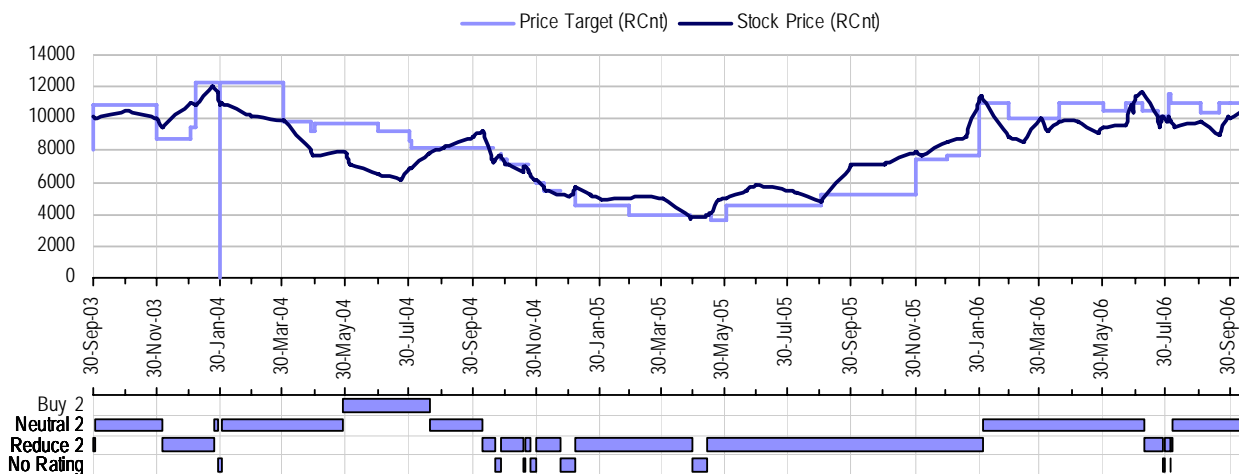
AngloGold Ashanti (RCnt)



Gold Fields Ltd (RCnt)



Harmony Gold Mining Co Ltd (RCnt)



Source: UBS; as of 17 October 2006.

Note: On September 9, 2006, UBS adopted new percentage band criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details). Between October 13, 2003 and September 9, 2006 the percentage band criteria used in the rating system was 10%. Prior to October 13, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential >15%, smaller range around price target; Buy 2: Excess return potential >15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Excess return is defined as the difference between the FSR and the one-year local market interest rate.

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