HARMONY GOLD MINING CO LTD
Form 6-K
February 02, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13a-16 OR 15d-16 UNDER THE SECURITIES
EXCHANGE ACT OF 1934

For the second quarter ending 31 December 2006

Harmony Gold Mining Company
Limited

Suite No. 1
Private Bag X1
Melrose Arch, 2076
South Africa
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F X Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No X

SHAREHOLDER INFORMATION

Issued ordinary share capital at 31 December 2006

398 678 500

MARKET CAPITALISATION

At 31 December 2006 (ZARm)

R44 333.04

At 31 December 2006 (US$m)

US$6 279.19

HARMONY ORDINARY SHARE AND ADR PRICES

12 month high (1 January 2006 – 31 December 2006)

R123.00

12 month low (1 January 2006 – 31 December 2006)

R76.00

12 month high (1 January 2006 – 31 December 2006)

US$18.84

12 month low (1 January 2006 – 31 December 2006)

US$11.90

FREE FLOAT

100%

ADR RATIO

1:1

JSE LIMITED

HAR

Range for the quarter

R100.59 – R111.20

Average volume for the quarter

1 096 055 shares per day

NEW YORK STOCK EXCHANGE, INC

HMY

Range for the quarter (closing prices)

US$13.44 – US$15.75

Average volume for the quarter

1 108 868 shares per day

NASDAQ

HMY

Range for the quarter (closing prices)

US$13.44 – US$15.75

Average volume for the quarter

1 727 352 shares per day

QUARTERLY HIGHLIGHTS

Development metres up by 11.6%

Australian hedge book reduced by 50 000oz

A two-year Conops agreement with labour union concluded

Headline earnings 44 SA cents per share

Conversion of Western Areas shares into Gold Fields shares at a profit before tax of R5.25 per share

FINANCIAL SUMMARY FOR THE SECOND QUARTER ENDED 31 DECEMBER 2006

		Quarter December 2006 Unaudited	Quarter September 2006 Unaudited	Q-on-Q % change	Quarter December 2005 Unaudited	Financial year 2006 Audited
Gold produced	– kg	18 724	19 472	(3.8)	20 316	38 196
	– oz	601 999	626 036	(3.8)	653 171	1 228 035
Cash costs	– R/kg	104 132	97 538	(6.8)	83 154	100 770
	– $/oz	442	425	(4.0)	396	433

Cash operating profit
– Rm
755
891
(15.3)
389
1 646
– US$m
103
124
(16.9)
59
228
Cash earnings
– SA c/s
190
225
(15.5)
99
415
– US c/s
26
31
(16.1)
15
57
Basic profit
– SA c/s
118
70
68.6
6
188
– US c/s
16
10
60.0
1
26
Headline profit/(loss)
– SA c/s
44
66
(33.3)
(75)
110
– US c/s
6
9
(33.3)
(12)

15
Fully diluted earnings
– SA c/s
116
69
68.1
6
185
– US c/s
16
10
60.0
1
26
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REVIEW FOR SECOND QUARTER AND SIX-MONTH INTERIM
PERIOD ENDED 31 DECEMBER 2006

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CHIEF EXECUTIVE'S REVIEW

Harmony is and has always been about value creation. Our strategy over the last 10 years may have had different applications, as changing market conditions may have dictated, but we have stayed true to our overarching objective of building a world-class gold mining company. A company that is passionately driven to create more value in everything we do than any of our competitors.

Allow me to expand a little on the above, by tracing the thread of Harmony's value creation in each of the following scenarios:

By creating and applying a business model that enabled us to reduce cost per tonne on new acquisitions, we turned around the original Harmony and successfully acquired the "throwaway" South African assets of AngloGold Ashanti, JCI, Gengold and Gold Fields. In so doing we upgraded and expanded our reserve base.

Being contrarian, we pursued an acquisition strategy in South Africa when no one else did. The result? Unbelievably cheap mining assets. Even more exciting, extraordinarily cheap (in some cases "free") projects.

When the acquisition game no longer presented value, as it inevitably would, we shifted the focus to unlocking latent value from the cheaply acquired projects. The skills required to develop these projects into new mines and bring them on stream are substantial as is the commitment required to the long time horizon and significant capital expenditure. We truly believe that this is the foundation of Harmony of the future, so we have invested in building capacity which can handle major projects both in South Africa and PNG.

Integral to mine design and construction is exploration, thus it is no surprise that we found ourselves taking the next logical step into exploration. How do you create value in exploration? In PNG alone we have created potentially over a billion dollars worth of value by confirming and enhancing gold ounces and copper pounds within our lease areas.

What has the strategy of value creation we have pursued over the last 10 years rendered to us today?

A world-class gold mining company with:

a portfolio of assets of mixed quality in mining-friendly countries;

the best and lowest cost project pipeline;

the largest resource base in the world of gold mining.

Our value creation strategy remains our "True North". Whatever the prevailing market conditions, we look for the opportunity to create value. We don't see the value creation opportunity in the current crazy phase of consolidation with assets fetching ridiculous prices. On the contrary, not pursuing value-destroying acquisitions has allowed us to address the challenge of unlocking value in our existing assets.

Value creation applied to our existing assets means the following:

More consistent performance. This is progressing well as is evident from the further significant improvements in our development rates.

Upgrading our portfolio. This is continuing as we make headway with our new mines. During the last six years we have
invested significantly in our existing and future ore bodies and we are now at the exciting point where we can start
harvesting the benefits. Over the next four years we will bring some 1,5 million quality low-cost ounces on stream. With
the parallel strategy of reducing our exposure to some of our existing lower quality, higher cost or shorter life assets, we
will complete the transformation of Harmony into a world-class gold company. The current cycle of operational planning
will form the basis by which we will determine whether an asset or shaft fits the profile of the company we want to be.
The Internal Harmony Improvement Platform (HIP) as well as the cleaning up of our non-mining portfolio, through the
Harmony of Tomorrow (HOT) initiative, dovetails perfectly with the overall strategy.
However, in the shorter term, we experienced mixed fortunes at our operations during the second quarter ending
December 2006.
Our leveraged assets posted sound operational and financial results through increased tonnages and good cost
containment.
The growth assets – lead by a strong performance from the Elandsrand new mine project – delivered solid production, higher
grades and good cost control. Most of our quality assets, on the other hand, reported lower performance for the quarter with
reduced tonnages, lower yields and therefore higher unit cash costs, despite good cost containment.
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"The Group's higher unit costs for the quarter are a result of lower yields from most of our quality mines and are frustrating at a time when we are harnessing all efforts to reduce costs. Over the next six months, we will continue to develop at these significantly higher levels in order to create sufficient available face length which will not only enable us to increase grades by some 10% to 15%, but will also put us in a position where we will have more consistent production results. This should enable us to reduce unit costs and improved performance."

Harmony's cash operating profit declined by 15.3% to R755 million (R891 million). Headline earnings for the December 2006 quarter decreased to 44 cents per share compared with 66 cents per share for the September 2006 quarter.

Our South African underground operations reported a decrease in production of 4%. Recovery grades declined by 4.4% from 5.0g/t in the previous quarter to 4.8g/t in the December 2006 quarter contributing to a higher cash operating cost of R104 056/kg (R98 302/kg).

Yields decreased by 5.1% to 2.43g/t during the December 2006 quarter at our Australian operations and production was 7.9% lower from 2 049kg to 1 888kg.

Harmony experienced a busy quarter with a number of corporate financial activities taking place. At the beginning of the quarter, Harmony sold the entire infrastructure of Randfontein No. 4 shaft for a total consideration of R55 million.

On 1 December 2006, Harmony accepted Gold Fields' offer of 35 GFI shares for every 100 Western Areas shares held. Harmony had acquired the 29.2% stake (44 985 939 shares) in Western Areas at a cost of R44.23 per share on 9 March 2006. The investment was carried at fair value of R42.01 per share in Harmony's books. The proceeds on the share conversion amounts to R47.26 per Western Areas share, resulting in a profit before tax of R5.25 per Western Areas share.

During the December 2006 quarter, Harmony settled 50 000 ounces of hedged forward positions at a cost of R82.9 million (A$14.7 million). Another 42 000 ounces will be settled in the March 2007 quarter.

Hidden Valley and Westpac Bank PNG Ltd concluded a US$31 million fleet financing facility and a master lease agreement has been signed. The funding is available for a period of five years after delivery of the equipment. The facility will carry interest at Libor plus 1.25% until 95% of budgeted production is reached, thereafter the rate will decrease to Libor plus 0.80%.

A 15% deposit on all equipment ordered is payable, with the remaining portion funded by the lease agreement.

The positive labour relations with our union, NUM, has led to a two-year Conops agreement being signed for all Harmony's mines where Conops is implemented and an undertaking was received that the union would support our application to the Minister of Mines for permission to work on Sundays.

Last year, Harmony launched the HOT strategy which examines ways and methods of turning liabilities or under-utilised assets into immediate or future value for all stakeholders. The disposal of the Randfontein No. 4 shaft surface infrastructure and shaft is a good example. We are also in advanced negotiations with regards to the disposal of Deelkraal's surface infrastructure. These unused assets typically sit in our books as significant closure liabilities. The HOT concept has, so far, been implemented in five

business areas, namely property, exploitation of by-products, water, rehabilitation and intellectual property.
Initial results of HOT have illustrated that the areas with the potential for quick savings are the property and by-product exploitation businesses. To this end, we have incorporated a property as well as a rehabilitation company to accelerate the cost-saving process and realise value. We are fast-tracking the capex to increase our gravity recovery circuits at most of our South African plants in order to increase our osmiridium recovery and further reduce our treatment costs. We have also finalised a detailed plan to include uranium in our resource declaration by June 2007. A drilling programme running concurrent with the Mega Dump pre-feasibility programme has commenced to confirm both gold and uranium values. Harmony anticipates that approval of a number of surface prospecting licenses will be obtained in the short term.
The HIP was successfully implemented across all our South African operations. HIP is aimed at addressing the improvement of efficiencies throughout the group through the implementation of best practices as well as new ideas to reduce costs and improve performance. This can be seen as the logical extension of our Services Transformation Project (STP) through which we have, over the last 18 months, significantly improved internal service levels and achieved audited savings of just over R200 million.
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Real benefits associated with the HIP programme are already evident at Masimong, Brand, Unisel and St Helena from more
efficient mining and productivity.

Net annualised value of the ideas currently being implemented is slightly more than R400 million. Over the next 12 months we
should be in a better position to evaluate our conversion rate from idea to real improvements or savings, both in terms of
quantum and time it takes to realise benefits.

SAFETY AND HEALTH REPORT

Three Harmony mines achieved One Million Fatality Free shifts.

Four Harmony mines achieved 500 000 Fatality Free shifts.

Improvements to Wau Health Centre in PNG completed.

Fatality injury rate (per million hours worked)

Harmony's South African operations reported a 27.0% decrease in the Fatality Injury Frequency Rate (FIFR) from 0.26 to 0.19
during the second quarter under review.

Harmony achieved its best safety results on record during the December quarter when three of our South African mines each
achieved One Million Fatality Free Shifts. Unisel, St Helena and Brand mines were the proud achievers. In addition, four other
South African mines, including Evander, Masimong, Doornkop and Bambanani, each achieved half a million fatality free shifts.

Notwithstanding this safety improvement, regretfully four employees lost their lives in separate incidents at the South African
operations.

Over the past quarter Harmony intensified its safety drive and the group saw marked reductions in Lost Time Injury Frequency
Rates (LTIFR) as well as Shifts Lost Frequency Rates (SLFR).

The LTIFR for the Australian operations is at 3.1 which is below the mining industry average of 4.2 and the Australian gold
industry average of 3.9. Unfortunately LTIs occurred at Mt Marion underground mine and at the Checker Treatment Plant in
Mt Magnet which brought to an end a 2.7-year LTI free period at Mt Marion and a seven-year LTI free period at Checker
Treatment Plant.

At the Wau Health Centre in PNG, work to improve the centre's condition and create a voluntary counselling and testing facility
for HIV/AIDS was completed. The initiative has engendered positive support from the community for Harmony.

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THE SECOND QUARTER ENDED DECEMBER 2006 UNDER REVIEW

Tonnes Milled

The Group’s South African underground operations delivered a stable performance in terms of tonnes milled, totalling 3 361Mt (3 351Mt) for the December 2006 quarter.

Recovery Grades

Good grade performance was achieved at most of our operations, but Tshepong, Masimong and Evander all reported lower recovery grades. Grades from the South African operations decreased by 4.4% to 4.8g/t (5.0g/t); surface mining grades decreased by 7.9% and the grades from the Australian operations were also lower by 5.1%.

Cost Control

The Group’s R/t costs were well contained at R372/t (R376/t), despite a significant increase in development. Gold production was, however, lower due to a decrease in recovery grade, resulting in higher unit costs of R104 132/kg (R97 538/kg).

Development

Total Metres ’000	December 2006	September 2006	Q-on-Q % Variance
Quality	23.7	22.1	7.2
Growth	5.7	6.5	(12.3)
Leverage	14.0	10.3	35.9
Total	43.4	38.9	11.6

Harmony’s programme to improve flexibility at its mines continued unabated. The lower development result for the Growth assets (illustrated above) is due to a reduction from 4.4km to 3.2km made at Elandsrand due to a fraudulent over-measurement in the previous quarter.

The performance of the company is best highlighted in the following table:

	December 2006	September 2006	Q-on-Q % Variance
Production – kg	18 724	19 472	(3.8)
Production			

– oz
601 999
626 036
(3.8)
Revenue
– R/kg
144 467
143 283
0.8
Revenue
– US$/oz
613
625
(1.9)
Cash cost
– R/kg
104 132
97 538
(6.8)
Cash cost
– US$/oz
442
425
(4.0)
Exchange rate
– US$/ZAR
7.32
7.14
2.5
Cash Operating Profit and Margin
December 2006 September 2006
Cash operating profit (Rm)
755.3
891.0
Cash operating profit margin (%)
27.9
31.9
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Quarter on quarter cash operating profit variance analysis
Cash operating profit – September 2006
R891.0 million
– volume change
–
– working cost change
(R50.5) million
– recovery grade change
(R106.3) million
– gold price change
R21.1 million
– net variance
(R135.7) million
Cash operating profit – December 2006
R755.3 million
Analysis of earnings per share
Quarter ended
Quarter ended
Earnings per share (SA cents)
December 2006
September 2006
Cash earnings
190
225
Basic earnings
118
70
Headline earnings
44
66
Fully diluted earnings
116
69
Reconciliation between basic earnings and headline loss
Quarter ended
Quarter ended
Headline earnings per share (SA cents)
December 2006
September 2006
Basic earnings
118
70
Profit on sale of property, plant and equipment
(19)
(4)
Booked profit on conversion of Western Areas shares
(55)
–
Headline earnings
44
66

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CAPITAL EXPENDITURE

During the Group's second quarter, total capital expenditure amounted to R571 million. This is R6 million lower than the September quarter's R577 million.

All five of the Group's Growth projects continue to report good progress. This is despite the fact that Tshepong Sub 66 project continued to encounter poor ground conditions, necessitating additional safety measures resulting in slower than planned progress.

At Hidden Valley the resource definition drilling programme for Hamata started in October and initial results are encouraging.

Operational Capex	Actual September 2006 Rm	Actual December 2006 Rm	Forecast March 2007 Rm
South African Operations	307	303	275
Australasian Operations	40	42	60
Total Operational Capex	347	345	335

Project Capex				Capital invested to date Rm
Doornkop South Reef	53	57	53	441
Elandsrand New Mine	35	32	36	509
Tshepong North Decline	16	16	16	

215
Phakisa Shaft
53
62
59
448
PNG
73
59
190
227
Total Project Capex
230
226
354
1 840
Total Capex
577
571
689
1 840
UPGRADING OUR PORTFOLIO OF ASSETS TO WORLD-CLASS STATUS
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Cash position

Harmony Group cash reconciliation for December 2006

(R'million)

Cash and equivalents on 30 September 2006	867.7
Operational	(25.7)
Operating profit	755.3
Capex – net	(337.2)
Development cost capitalised	(234.1)
Corporate/Exploration expenditure	(122.6)
Employment termination, restructuring and care and maintenance costs	(19.5)
Interest paid	(103.4)
Movement in working capital	(8.0)
Movement in accrued liabilities	36.1
Other items	7.7
Other	61.8
Net sundry revenue	121.2
Foreign exchange losses	(42.8)
Shares issued – net of expenses	66.3
Australian hedges close outs	(82.9)
Cash and equivalents on 31 December 2006	903.8

Of significance in the cash reconciliation for the December quarter is the R8 million in Movement in Working Capital which comprises: Harmony's gold receivables decrease amounting to R76.5 million; increases in insurance pre-payments and claims was R91.2 million; the receivables for the sale of Randfontein 4 shaft was R55 million; increases in trade creditors totalled R42.7 million, and other working capital changes (includes inventories) amounted to R19.1 million.

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OPERATIONAL REVIEW
South African Operations
Quarterly profit comparison for operations
OPERATION
WORKING PROFIT (Rm)
VARIANCES (Rm)
Dec-06
Sep-06
Variance
Volume
Grade
Price
Costs
South African operations
Quality ounces
357.5
580.8
(223.3)
(84.4)
(122.8)
3.6
(19.8)
Growth ounces
84.5
37.3
47.2
0.7
54.8
2.3
(10.5)
Leverage ounces
203.8
141.0
62.8
69.2
(13.5)
3.9
3.2
Surface operations
49.6
38.8
10.8
22.3
(10.4)
(6.4)
5.4
Australasian operations
59.9
93.1
(33.2)
(7.8)

(14.4)
17.7
(28.8)
Total Harmony
755.3
891.0
(135.7)
–
(106.3)
21.1
(50.5)
Quality operations
Includes the following shafts: Target, Tshepong, Masimong, Evander and Randfontein's Cooke shafts
Q-on-Q
December 2006 September 2006
December 2005
% Variance
U/g tonnes milled
('000)
1 561
1 665
1 574
(6.2)
U/g recovery grade
(g/t)
5.09
5.64
6.10
(9.7)
U/g kilograms produced
(kg)
7 953
9 392
9 604
(15.3)
U/g working costs
(R/kg)
99 318
81 992
74 725
(21.1)
U/g working costs
(R/tonne)
506
463
456
(9.3)
Tshepong Mine
Tshepong's tonnes milled declined from last quarter's record levels by 8.4% to 420 683 tonnes (459 115 tonnes) quarter on
quarter due mainly to a 5.4% decrease in area mined and fewer milling shifts in December.

Average Mining Grade for the quarter was lower at 1 365 cmg/t (1 472 cmg/t) resulting in a 1g/t decrease of broken grade
which impacted negatively on recovered grade. Grade fell from 6.6g/t to 5.6g/t, resulting in a 15.4% drop in gold produced to
2 353.5kg (3 036.5kg).
Lower tonnes together with lower grades resulted in 34.9% higher cost per kilogram to R88 619/kg (R65 656/kg). Costs per
tonne increased by 14% to R496 (R434) due to tonnage targets not being achieved.
A disappointing quarter, but with real prospects that this operation should recover in the next quarter.
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Target Mine

Target's tonnages milled declined by 9.6% to 189 400 tonnes (209 600 tonnes) for the quarter, after being affected by both loader and dump-truck availability as well as the increased distances for tramming waste rock from development areas. Large rocks in the older massive stopes which resulted in decreased loading rates and the need for significant secondary blasting, further impacting on volumes.

Total unit costs increased by 80% to R72 581/kg (R40 350/kg) due to Target's high fixed costs and the lower volumes for the quarter.

Grade decreased by 3.7% to 5.2g/t (5.4g/t) ascribed to a 15% dilution resulting from anomalies occurring in three massive stopes mined in the quarter. One of the stopes is being mined between two backfilled stopes, the other is a pillar adjacent to Nos. 1, 2, 6 and 7 stopes that has holed into the gathering drive above and the third is being mined below a destress cut which collapsed into the massive stope. Excessive dilution and the inability to achieve the right mix impacted on grade. Mining will move to new stopes for the March quarter.

In addition to operational challenges, Target is also one of our operations faced with remuneration pressures to retain skilled staff.

Masimong Mine

Development at Masimong rose by 10.5%, reaching record levels in December. Tonnes milled decreased by 4.4% to 238 000 tonnes (249 000 tonnes), as a result of increased waste being trammed and hoisted due to higher development tonnages and yields fell by 14.8% to 4.4g/t (5.2g/t).

Working costs were well contained, but costs per kilogram were 23% higher R118 307 (R96 209). Mud loading and inadequate control of water into the ore passes is affecting Masimong's grade. New plans and methods are being put in place and improvements should be evident in the next quarter.

Evander

Tonnes milled at Evander were 6.7% lower at 375 000 (402 000). Higher development rates and waste treated as reef, resulted in a flat yield of 4.5g/t (4.6g/t) and higher unit costs of R115 082/kg (R106 724/kg).

Evander experienced ventilation problems and No. 7 shaft continues to be affected by the footwall sill that replaced the reef in certain areas. However, the ledging in raises which had been delayed previously is progressing well and stores and overhead costs were well contained.

Randfontein operations

At Randfontein tonnes milled decreased by 2% to 337 925 tonnes (344 865 tonnes). The drop in volumes is associated with a reduction in channel widths for the December production month.

Flexibility remains a challenge, but volume improvements are anticipated for the next quarter due to significant improvements in development metres.

Randfontein's significant cost saving of R10.4 million resulted in improved unit cost of R569/t (R587/t). Cash cost per kg was 4.5% up to R101 972/kg (R97 619/kg) due to a lower grade of 5.6g/t (6.0g/t), resulting in a 18.9% reduction in quarterly contribution to profits.

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Leveraged operations

Shafts included under this section are Bambanani, Joel, West Shaft, St Helena, Harmony, Merriespruit, Unisel, Brand and Orkney.

Q-on-Q
December 2006 September 2006 December 2005
% Variance
U/g tonnes milled
(‘000)
1 401
1 288
1 252
8.8
U/g recovery grade
(g/t)
4.20
4.27
4.88
(1.6)
U/g kilograms produced
(kg)
5 885
5 497
6 113
7.1
U/g working costs
(R/kg)
109 427
117 741
90 074
7.1
U/g working costs
(R/tonne)
460
503
440
8.5

Our leveraged assets reported a much improved quarter, with volumes up by 9% to 1 401 tonnes (1 288 tonnes). Mines reporting outstanding results included, Merriespruit with improved reef development, higher tonnages and belt grade
improvements, Bambanani had its best quarter in years on the back of improved flexibility and Orkney produced sound profits
for the quarter.

SA surface operations (includes Kalgold)

Q-on-Q
December 2006 September 2006 December 2005
% Variance
Surface tonnes milled
(‘000)
1 097
905
938

21.2
Surface recovery grade
(g/t)
0.70
0.76
0.99
(7.9)
Kilograms produced
(kg)
770
692
926
11.3
Working costs
(R/kg)
79 000
95 750
89 849
17.5
Working costs
(R/tonne)
55
73
89
24.7
Kalgold
Tonnages at Kalgold were slightly lower than the previous quarter. The plant continued to operate at maximum throughput.
Grade increased by 7.5%, offsetting cost increases of 3% when compared with the previous quarter.
Tonnages from the pit remained low due to poor availability of key mining equipment resulting in two months' slippage in
finishing the final cut-back. Despite the backlog of waste tonnage in D-Zone Pit, the lower grade from A-Zone Pit has continued to augment feed to the mill.
Project Phoenix
This project did well and was able to deliver R11 million in working profit. An additional R6 million capex was approved to
increase capacity from 400 000 to 500 000 tonnes by upgrading the CIL tanks and the residue disposal system.
Current quarter performance
December 2006
Actual
Tonnes treated
(R'000)
396
Recovered grade
g/t
0.278
Kilograms recovered
110
Working profit
(R'000)
10 763

Working cost
(R/tonne)
12.87
Working cost
(R/kilogram)
46 202
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AUSTRALIAN OPERATIONS

Highlights

South Kal Mine increased mined ounces by 30%

Mt Magnet open pits increased production by 50%

Continued success in delineating the Shirl underground resource

Drilling success at Golden Stream and Eastern Jaspilite open pit prospects

Hedge book reduced by further 50 000oz

Australian Operations

					Q-on-Q
		December 2006	September 2006	December 2005	% Variance
Tonnes milled	(‘000)	777	799	781	(2.8)
Recovery grade	(g/t)	2.43	2.56	2.45	(5.1)
Kilograms produced	(kg)	1 888	2 049	1 917	(7.9)
Working costs	(R/kg)	115 024	91 914	80 820	(25.1)
Working costs	(R/tonne)	279	236	198	(18.2)

The Australian operations generated an operating profit of A$10.6 million, 37% down compared with A$16.9 million in the previous quarter, primarily due to a 7.8% decrease in gold production from 65 877oz in the September quarter to 60 707oz for this quarter. The decrease in financial performance was primarily due to shortfalls in tonnage and grade under performance at

Hill 50 and St George underground mines at Mt Magnet.
During the quarter, 50 000 ounces of hedged forward positions were settled at a cost of A$14.7 million. These out-of-the-
money hedge positions, inherited with the acquisition of Hill 50 Gold NL, had an average strike price of A$518. The negative
marked-to-market valuation of the remaining hedge commitments at quarter-end amounted to A$87.3 million, based on an
A$ spot price of A$801/oz. During the March quarter an additional 42 000 ounces of hedged positions will be settled. Closure
costs of these positions at current prices should amount to some A$12 million.

Mount Magnet

Mt Magnet operations produced 35 242oz of gold (46 220oz) for December, from milling of 462 446 tonnes (435 885 tonnes).
This resulted in a lower cash operating profit of A$5 million (A$14 million), primarily due to shortfalls in tonnage and grade
performance at both underground mines. Capital expenditure amounted to A$2.4 million for the quarter.
Underground production dropped to 19 643oz in the current quarter (32 181oz), from the milling of 110 635 underground
tonnes (151 184 tonnes) at 5.5g/t compared with 6.6g/t milled in the previous quarter. Open pit production increased
significantly from 9 351oz in the September quarter to 14 279oz in the December quarter, from the milling of 307 372 tonnes
at 1.44g/t compared to 100 307 tonnes at 2.90g/t milled in the previous quarter.
Mt Magnet purchased the Western Queen South prospect from Dalgaranga JV (AXG Mining and Equigold). The acquisition will
provide 160 000 tonnes at 4.3g/t Au for 19 000 recovered ounces to the Mt Magnet open pit operations. The mine plan calls
for gold production from Western Queen South to commence in May 2007 and will continue until September 2007. Cash costs
are expected to be A$560/oz.

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South Kal Mines

During the December quarter, South Kal Mines produced 25 465oz of gold (19 664oz) from the milling of 314 722 tonnes of ore at an average head grade of 2.52g/t. This resulted in an increased cash operating profit of A$5.6 million compared with A$2.9 million in the previous quarter. Capital increased from A$3.6 million to A$5.1 million, predominantly as a result of the HBJ open pit cutback capital project commencing and reaching planned activity levels.

Mill throughput was slightly less than the previous quarter due to mill availability being affected by repairs to one of the leach tanks and several power outages caused by severe thunderstorms in the area. Throughput was also hampered by problems with treating the clay rich Shirl Open Pit ore.

Gold recoveries through the Jubilee Process Plant have improved and increased production from Mt Marion underground mine again resulted in increased high grade feed to the processing plant compared with the previous quarter.

GROWTH PROJECTS