

John Tumazos Very Independent Research, LLC

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### ***Registration Effective August 27<sup>th</sup> and Now Operational***

#### **ANGLOGOLD (AU \$46.84, rated Neutral) ESTIMATES RAISED WITH GOLD PRICES**

	2007E	2008E	2009E	2010E
Earnings per share revised 9-23	\$1.24	\$2.78	\$1.69	\$1.96
Gold	\$685	\$800	\$750	\$650
Prior EPS revised 5-4-07 @ PRU	\$1.42	\$1.59	\$1.26	\$1.49
Gold	\$650	\$575	\$575	\$575

We raised our earnings estimates as shown above and tables in body following to reflect combinations of higher gold prices, recent global monetary stimulus and tightening of copper markets in which demand appears to grow 2% faster than supply. More commodity price, earnings and price target increases are possible.

The stronger rand, higher costs and increasing gold hedge losses are partial offsets. The company's prediction of 5.7 mm oz produced at \$328 direct cash production costs both for 2007 and something in that broad ballpark for 2008 are not secure.

We cut 2007 to \$1.24 from 1.42 per share. We raised 2008 to \$2.78 at \$800 gold from \$1.59 at \$625, 2009 to \$1.69 at \$750 from \$1.26 at \$575, 2010 to \$1.96 at \$650 from \$1.49 at \$575, 2011 to \$2.05 at \$650 from \$1.57 at \$575, 2012 to \$1.99 at \$650 from \$1.44 at \$575 and 2013 to \$2.12 at \$650 from \$1.47 at \$575.

The board's appointment of outsider Mark Cutafani, formerly a senior executive of Inco and CVRD Inco, appears similar to Anglo-American's appointment of Cynthia Nelson, formerly head of primary smelting at Alcan. Both boards appear similarly to seek to (a) globalize their companies, (b) bring in an experienced leader not dedicated to the same commodity and (c) particularly appoint a leader "new" to South Africa. We conclude that the AngloGold board seeks a leader to challenge past practices concerning safety, labor, equality, risk management, hedging, acquisitions and geographic mix.

Newcrest and Newmont Mining's recent actions to close out their hedge positions increasingly isolates Barrick Gold and AngloGold, the last two prominent large hedged producers. High gold prices add to the press, and we expect AngloGold to continue to reduce its 8.75 mm oz gold short hedge positions that break even near \$350 gold.

First half dividends of \$0.13 down from \$0.29 per share reflect cost pressures and the lack of growth within the near term.

AngloGold has exploration and development projects in uranium, platinum and palladium that we have not yet incorporated into our earnings models. These are upside opportunities.

## GOLD MARKET OUTLOOK RAISED

We raised our gold price estimate to \$685 from \$675 for 2007, to \$800 from \$650 for 2008 and to \$750 from \$650 for 2009 while keeping \$650 from 2010 owing to the nearly \$1 trillion global injection of funds to banking systems, 0.5% September 18<sup>th</sup> U.S. rate cut, weaker dollar and widespread banking fraud in the U.S. This scenario warms the hearts of the \$3,000 gold believers, who are looking smarter daily

Printing money can only enhance the gold market. A nearly \$1 trillion global injection to the world financial system, 0.5% rate cut, record oil prices and related stimulus can only benefit gold. It isn't clear to us that these measures will remedy loans or bonds for which borrower employment was not verified, but we just aren't qualified to be a monetary policymaker.

Reported inflation continues to be minimal, which suggests to us that we have the best economic statistics that our policymakers can make up.

We raised our gold price estimate to \$685 from \$675 for 2007, to \$800 from \$650 for 2008 and to \$750 from \$650 for 2009 while keeping \$650 from 2010 owing to the nearly \$1 trillion global injection of funds to banking systems, 0.5% September 18<sup>th</sup> U.S. rate cut, weaker dollar and widespread banking fraud in the U.S. This scenario warms the hearts of the \$3,000 gold believers, who are looking smarter daily.

We had raised our 2008 onwards gold price estimate in August to \$650 from \$575 per oz when we upgraded Barrick Gold to Overweight on August 2<sup>nd</sup> and wrote on Goldcorp on August 29<sup>th</sup>. This research report, the first written on AngloGold initiating coverage as "John Tumazos Very Independent Research, LLC" updates the May 4, 2007 estimates made at the now shut down Prudential Equities Group based on \$650 fold for 2007 and \$575 thereafter. Thus, the earnings revisions herein incorporate two gold price upward revisions.

## OUR 2010 GOLD OUTLOOK

Our 2010 price estimates of \$650 for gold in 2010 are conservative parameters that leave room for upward revisions. Bond buyers, the happy souls often patient with fraud or nonexistent collateral or a weaker U.S. dollar, could wise up and demand better yields or legitimate principal safety. Hopefully there is room for future upside revisions in our post-2010 estimates.

## EARNINGS ESTIMATES RAISED

We factored \$200 mm of cost of goods sold inflation into our 2008 earnings estimate owing to record oil prices and the weak US \$.

We factored recognized losses on the 8.75 mm oz gold hedge position as well.

We cut 2007 to \$1.24 from 1.42 per share.

We raised 2008 to \$2.78 at \$800 gold from \$1.59 at \$625, 2009 to \$1.69 at \$750 from \$1.26 at \$575, 2010 to \$1.96 at \$650 from \$1.49 at \$575, 2011 to \$2.05 at \$650 from \$1.57 at \$575, 2012 to \$1.99 at \$650 from \$1.44 at \$575 and 2013 to \$2.12 at \$650 from \$1.47 at \$575.

We did not revise any volume estimates.

Table 1: AngloGold Income Statement

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Gold Sales	2,629	2,964	3,483	4,347	3,870	4,086	4,097	4,025	4,025
Other income	76	142	50	50	51	52	52	54	54
Total revenue	2,705	3,106	3,533	4,397	3,921	4,138	4,149	4,079	4,079
Cash production costs	1,851	1,685	1,877	2,017	2,176	2,257	2,257	2,233	2,206
Extra CGS inflation				200	200	200	200	200	200
Depreciation	505	597	570	596	569	569	569	569	569
Amortization of goodwill	0			28	26	26	26	26	26
Change in inventory	(45)								
SG&A	64	84	90	92	90	92	94	96	97
Marketing	13	16	15	15	15	15	16	16	16
Exploration	45	61	80	80	80	80	80	80	80
Investment income	(25)	(32)	(25)	(17)	(59)	(81)	(110)	(139)	(167)
Other expenses	20	18	9	10	10	10	10	12	12
Interest expense	108	123	112	61	64	65	65	65	65
Settlement of claim									
Profit before exceptionals	93	412	755	1,265	698	852	890	867	921
Non-hedge derivative gain	(176)	(226)	(225)	(100)	50	0	0	0	0
Gain on disposal		0	0	0	0	0	0	0	0
Special Items	(100)	(20)	(25)	(85)	(85)	(85)	(85)	(85)	(85)
Pre-tax income	(183)	166	505	1,080	663	767	805	782	836
Taxes	36	(180)	(152)	(288)	(179)	(207)	(217)	(211)	(226)
Tax rate	19.7%	108.4%	30.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Minority Interest	(36)	(30)	(22)	(22)	(21)	(20)	(20)	(18)	(18)
Net Profit	(183)	(44)	332	769	463	540	567	553	592
Number primary shares	264.6	273.0	281.8	282.8	283.8	284.8	285.8	286.8	287.8
Number f/d shares	265.2	273.0	281.8	282.8	283.8	284.8	285.8	286.8	287.8
Earnings per share	(\$0.69)	(\$0.16)	\$1.24	\$2.78	\$1.69	\$1.96	\$2.05	\$1.99	\$2.12
Dividend per share	\$0.36	\$0.62	\$0.30	\$1.00	\$1.12	\$0.91	\$1.00	\$1.01	\$1.03
Cashflow per share	\$1.30	\$4.26	\$3.49	\$5.41	\$4.05	\$4.35	\$4.44	\$4.36	\$4.50
Free Cashflow per share	(\$1.43)	\$1.26	(\$0.30)	\$4.00	\$2.65	\$2.94	\$3.04	\$2.96	\$3.10
Book value per share	\$9.86	\$10.93	\$11.47	\$13.14	\$13.61	\$14.55	\$15.48	\$16.35	\$17.32
Gold output	6,165	5,634	5,700	5,960	6,325	6,325	6,325	6,325	6,325
Gold output/share	0.0232	0.0206	0.0202	0.0211	0.0223	0.0222	0.0221	0.0221	0.0220
Spot gold price	440	600	685	800	750	650	650	650	650
Realized gold price	438	583	611	729	612	646	648	636	636

Source: AngloGold reports and John Tumazos Very Independent Research, LLC Estimates

## PRICE TARGET AND INVESTMENT POSITION

Our investment rating to Neutral Weight reflects concerns due to (1) cost inflation in South African mines because of an appreciating South African Rand and (2) operational problems, such as the January 24th pit slope failure at Geita in Tanzania and the TauTona seismic shift, that may further reduce production and/or raise costs. We are maintaining our price target at \$50 as it is possible that pit slope failure and seismic events are one-time events and do not recur. However, AngloGold enjoys a higher P/E than Barrick Gold or Goldcorp, and earnings need to exceed \$3.00 per share to drive the shares above \$50.

## RISKS

Risks include gold price fluctuations, which can lower revenues and earnings if the gold price declines or US dollar strengthens owing to high interest rates, lower oil prices, geopolitical tranquility, higher gold supply, lower jewelry fabrication or lower investment demand.

Anglogold's hedge book represents a risk to the company in several ways. First, the large liability increases with gold prices, and vice versa. Second, AU reports large current charges against earnings in periods when gold prices rise such as 2005 and the first-half of 2006 when AU actually booked net losses. Third, it realizes 5%-10% less than the spot gold price each quarter on its current deliveries.

A stronger South African rand, individual mine cost escalations, production declines, reserve declines, exploration success and capital cost requirements are key parameters impacting the company-specific issues. The Australian dollar, Chilean peso to a lesser extent and some other third world currencies impact individual smaller mines of AngloGold.

Anglo-American's sale of 50.9% of the company into the stock market is a risk factor since the supply overhang of those shares depresses the near-term value and no corporate acquirer appeared to seize the moment.

## CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

## DISCLOSURES

"John Tumazos Very Independent Research, LLC" (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide "unbundled" metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-

Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thypin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

#### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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