Homestake Mining Company 1988 Annual Report

About Our Cover

Our cover illustrates the dramatic changes in mining methods that have taken place in the industry during Homestake's 113 years. The labor intensive, back-breaking efforts of miners in the late 1800s are sharply contrasted with the ultra-modern, highly mechanized equipment of today. The new $1.4 million hydraulic shovel shown at Homestake's McLaughlin mine in northern California has a capacity of 17 cubic yards, enabling it to load the 85-ton truck in a minute and a half.

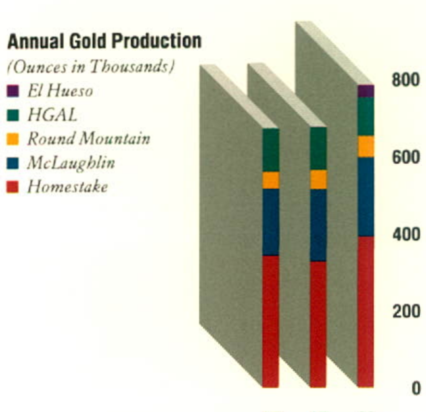
The Company

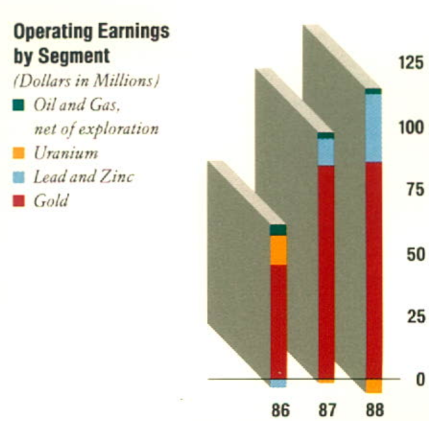
Homestake is an international gold mining company with substantial interests in other natural resources. In the United States, the Company owns and operates the famous Homestake mine in Lead, South Dakota, the oldest and most productive U.S. gold mine, and the McLaughlin gold mine in northern California, discovered by Homestake in 1978. Other U.S. gold mining interests are located in Montana and Nevada. Abroad, Homestake has major gold mining interests in Western Australia and significant interests in Canada and Chile. The Company's gold production was 781,458 ounces in 1988 and is expected to be nearly one million ounces in 1989. Homestake's proven and probable gold reserves are in excess of 11.4 million ounces, and it explores aggressively for new sources. In addition to gold mining, the Company is a partner in The Doe Run Company in Missouri, one of the world's largest integrated lead producers, and owns Felmont Oil Corporation, an exploration and production company, through which the Company participates in a major sulfur discovery in the Gulf of Mexico. Homestake's energy segment also produces uranium.

Table of Contents

(In thousands, except per share amounts, cost and employees)	1988	1987	1986
Revenues	$432,598	$516,226	$347,664
Net Income	$ 66,401	$146,407	$ 22,576
Per share	$ .68	$1.51	$ .23
Capital Expenditures	$111,855	$ 39,305	$ 43,536
Working Capital	$242,404	$334,839	$134,931
Long-Term Debt	$ 60,250	$ 35,000	$ 35,000
Shareholders' Equity	$757,043	$702,871	$554,388
Per share	$7.76	$7.22	$5.73
Shares Outstanding	97,499	97,302	96,668
Employees	2,109	1,992	2,038
Gold Ounces Produced	781.5	677.7	669.6
Cash Production Cost (per ounce)	$ 275	$ 271	$ 253
Gold Reserves (contained ounces)	11,424	10,390	10,174

Share amounts reflect the two-for-one stock split effective November 16, 1987.





TO OUR SHAREHOLDERS:

1988 was a year of solid growth for Homestake. Our worldwide gold production continued to rise, increasing more than 15 percent to 781,458 ounces. Through aggressive mine expansion programs, acquisitions and exploration, we have positioned Homestake for another significant increase in 1989 as we work toward production of one million ounces per year.

Our acquisitions and exploration activities have resulted in a healthy increase in gold reserves to 11.4 million contained ounces at year-end. Our growth in reserves and production are expected to be translated, over time, into increased value for our shareholders.

Net income for 1988 was $66.4 million, or 68 cents per share. 1987 net income of $146.4 million included a $94.9 million gain from the sale of 20 percent of the stock in our Australian subsidiary—Homestake Gold of Australia Limited (HGAL). Excluding the HGAL gain, 1988 results represent a 29 percent increase from 1987.

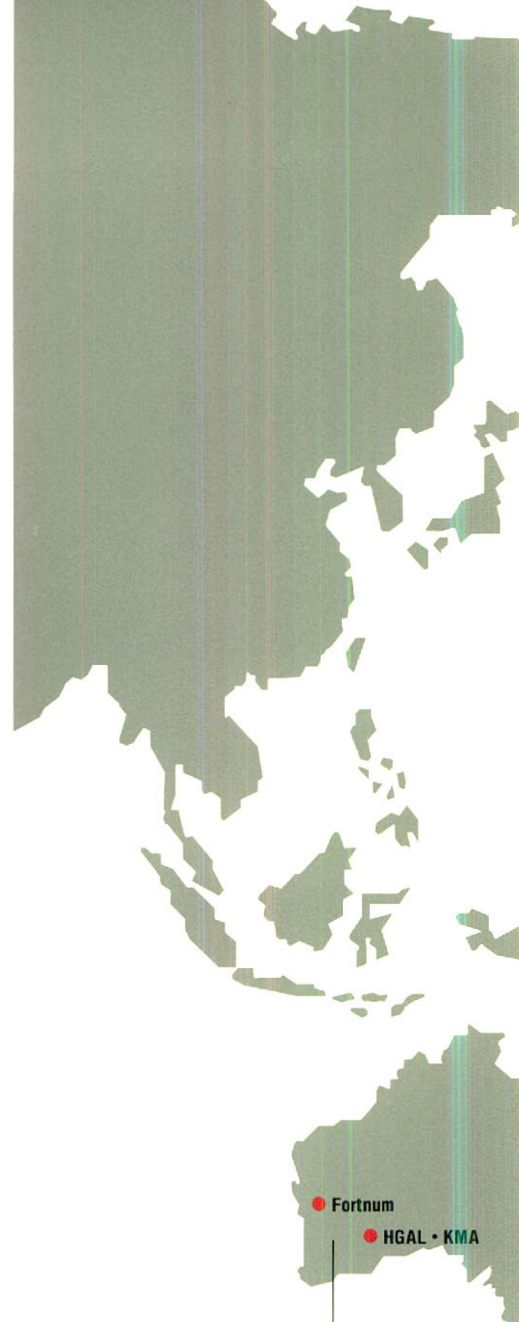
Production cost reductions continue to be the primary focus of our management efforts. During 1988 Homestake's cash production cost per ounce of gold averaged $275, only slightly higher than the 1987 level in spite of continuing inflation and adverse currency movements in Australia. We continue to work to lower costs through expansion of existing facilities, improvement of efficiencies at existing mines and acquisition and development of new mines.

Growth in Gold

Operating earnings from gold contributed $90.2 million during 1988, up slightly from the prior year. Over the past five years, we have increased our gold production at a 13 percent compound annual rate through reinvestment of operating cash flow in three main areas.

Growth by expanding and improving the efficiency of existing mines is a high-priority reinvestment area. Beginning in 1987 with the start of new production from the Open Cut at our Homestake mine in South Dakota, all of our gold mines have undergone substantial expansion.

- At our McLaughlin mine in northern California, a new $25.0 million oxide processing circuit was nearing completion in late 1988. The new facilities will expand production by processing lower grade oxide ores.
- At the Round Mountain mine in Nevada, we are investing $33.0 million for our one-quarter share of an expansion that will increase Homestake's share of the mine's production to an estimated 80,000 ounces per year.
- In January 1989 HGAL entered into an agreement under which it will become 50 percent owner of a group of



- Production figures are 100% of project.
- Ownership percentage is Homestake's effective interest.
- Production shown for start-up mines reflects Life of Mine average.

AUSTRALIA
HGAL*
KMA
38.4%
1988 Production
245,382 Ozs.
Fortnum
80%
Start-Up 1989
Prod. Rate:
50,000 Ozs.
*Does not reflect 1989 proposed amalgamation with Bond properties.

UNITED STATES

Homestake
100%
1988 Production
390,162 Ozs.

McLaughlin
100%
1988 Production
203,827 Ozs.

Round Mountain
25%
1988 Production
234,378 Ozs.

Mineral Hill
50%
Start-Up 1989
Prod. Rate:
36,000 Ozs.

Wood Gulch
100%
First Pour
November 1988
Prod. Rate:
24,000 Ozs.

Doe Run
42.5%
1988 Production
235,903 Tons Lead
85,071 Tons Copper Conc.
46,417 Tons Zinc Conc.

Felmont
100%
1988 Production
672,817 Bbls Oil
12,573 MMCF Gas

Uranium
100%
1988 Production
497,456 Pounds

CANADA

Golden Bear
36.6%
Start-Up 1989
Prod. Rate:
62,500 Ozs.

CHILE

El Hueso
100%
1988 Production
34,600 Ozs.

gold mining properties in Western Australia's Kalgoorlie District. The properties will be consolidated under common management. This transaction, together with the development of previously unexploited resources in the proposed Kalgoorlie Super Pit area,

Harry M. Conger,
Chairman of the Board
and Chief Executive Officer

will increase HGAL reserves three-fold. After new plant construction and development of the Super Pit, at an estimated total cost of $200 million, HGAL's share of production from the combined mine operations could rise to 375,000 ounces in the early 1990s from the 1988 level of 118,000 ounces.

Growth by acquisition has also contributed to increased production.

- In April of 1988 we acquired, for $24.0 million, 73.3 percent of the equity of North American Metals Corporation, a Canadian public company, which holds a half interest in the Golden Bear project in northwest British Columbia. At Golden Bear, construction costs have increased significantly above the estimates at the time of acquisition. We are evaluating alternatives to improve the long-term viability of this project.
- In June 1988 we acquired, for $51.2 million, a 10-year lease on the El Hueso gold mine in northern Chile, which is expected to yield about 85,000 ounces of gold per year. Because El Hueso was a producing mine when acquired, it immediately began to generate significant cash flow.
- During 1988, through several transactions, we sold two exploration-stage mineral properties and invested $10.2 million to acquire a 9.96 percent equity interest in Galactic Resources Ltd. of Vancouver, B.C., and warrants and options that could increase our interest, without dilution, to 23 percent. We view Galactic as an aggressive company that may provide new investment opportunities for Homestake.

Growth by development of exploration discoveries will result in the expected start-up of several smaller new mines during 1989.

- We began construction of the $4.5 million Wood Gulch gold mine in northern Nevada in June and poured our first gold in November. This is the first of several smaller ore bodies we intend to develop that may have limited but profitable ore reserves.
- The Mineral Hill mine near Gardiner, Montana, is also being developed. Homestake has a half interest in this $32.4 million project, which is expected to start up in mid-1989 and to contribute nearly 18,000 ounces per year.
- Preliminary engineering and planning is proceeding at HGAL's wholly-owned Fortnum discovery in Western Australia. Production is expected to begin in late 1989.
- Our team of geologists has shifted the emphasis of our exploration from grassroots discoveries to more advanced gold plays. In January 1989, for example, we reached preliminary agreement with Esso Minerals to acquire most of its advanced mineral exploration and development properties in Canada. Our minerals exploration expenses totaled $31.9 million and are expected to remain at that level during 1989.

Diversification

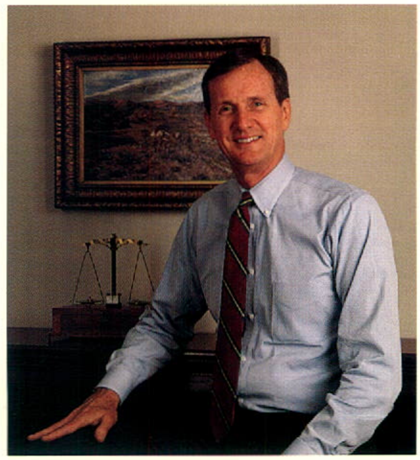
Although Homestake focuses primarily on gold investments, we also pursue diversification opportunities that represent logical extensions of our mining expertise.

A prime example is The Doe Run Company, in which Homestake has a

42.5 percent partnership interest. 1988 was a banner year for Doe Run. Major maintenance outlays in 1987 and early 1988 enabled Doe Run to take advantage of higher lead, zinc and copper prices. As a result, Homestake's share of 1988 earnings more than doubled from the 1987 level to $29.8 million. Doe Run recently announced preliminary plans to construct a secondary lead plant on the site of an existing lead smelting facility.

Along with the rest of the oil industry, our Felmont Oil Corporation continues to suffer from soft market prices and sluggish demand. During 1988 Felmont reorganized its management and consolidated operations to position the Company to compete in 1989 and beyond.

As a result of a volcanogenic sulfur discovery made several years ago by Homestake gold geologists, the Company has continued to be interested in this important industrial mineral. Recently Homestake was invited to participate in a consortium that won bids in March 1988 on 11 federal off-shore sulfur leases in the Gulf of Mexico. At year-end a major sulfur discovery on one of these offshore tracts was announced by the operator, Freeport McMoRan Resources, Inc. Freeport estimates that the potential reserve, in



David K. Fagin,
President and Chief
Operating Officer

which the Company owns a 16.7 percent interest, is at least 50 million tons of Frasch sulfur. This would make it the third largest deposit in North America.

Financial Position

Homestake's financial position remained very strong, with $221.8 million of liquid investments and only $60.3 million of long-term debt at year-end 1988. Due to the large capital requirements for funding the consolidation of the Kalgoorlie District and the Super Pit development, debt will grow significantly over the next year. However, Homestake retains ample credit lines and will continue to maintain significant cash balances to guard against cyclical earnings movements.

Looking Ahead

Our large gold asset base makes Homestake's financial performance sensitive to gold market fluctuations. To diminish the negative impact of price volatility, we are making a concentrated effort to reduce production costs and maximize earnings from non-gold businesses. To this end, we plan to expand our core businesses, pursue acquisitions and participate in new gold mining development opportunities while exploring for new resources, primarily gold.

Our progress in 1988 is described in greater detail in the main body of this report. In every sense, our success in 1988 is a tribute to the ingenuity, loyalty and hard work of our 2109 employees and to the continuing support of our shareholders.

H M Conger

Harry M. Conger
Chairman and
Chief Executive Officer

David K Fagin

David K. Fagin
President and
Chief Operating Officer

February 22, 1989

Gold production and sales set new Company records in 1988. Production increased 15 percent to 781,458 ounces from 677,739 ounces in 1987, and sales increased to 772,041 ounces from 674,480 ounces in 1987. Average realizations declined 2 percent to $437 per ounce from $447 in 1987, which partially offset the sales increase. Gold revenues were a record $313.0 million, compared with $279.1 million in 1987. Gold operating earnings were $90.2 million, compared with $89.0 million in 1987.

EXPLORATION ACTIVITIES

United States

Homestake's U.S. exploration efforts were focused in three areas during 1988. The first was our continued support for ongoing operations at the Homestake mine, McLaughlin mine and Wood Gulch mine. The second area was our continued efforts to develop exploration opportunities in the Basin and Range Geologic Province of Nevada, Arizona, California, Utah and Southeast Oregon, as well as the Northern Rocky Mountain geologic region of Montana, Idaho and Eastern Washington. The third was our program to coordinate efforts with outside companies. Homestake joined forces with Combined Metals Reduction Company during 1988, consolidating mineral properties in west central Nevada, which permits optimum development of the Company's Isabella property.

HOMESTAKE MINE

United States

The Homestake gold mine, located in the historic mining town of Lead, South Dakota, has been operated almost continuously since 1876. It remains one of the largest gold mines in the United States, having produced nearly 36 million ounces of gold.

Operating earnings from the Homestake mine rose to $49.6 million in 1988, up 43 percent from the prior year.

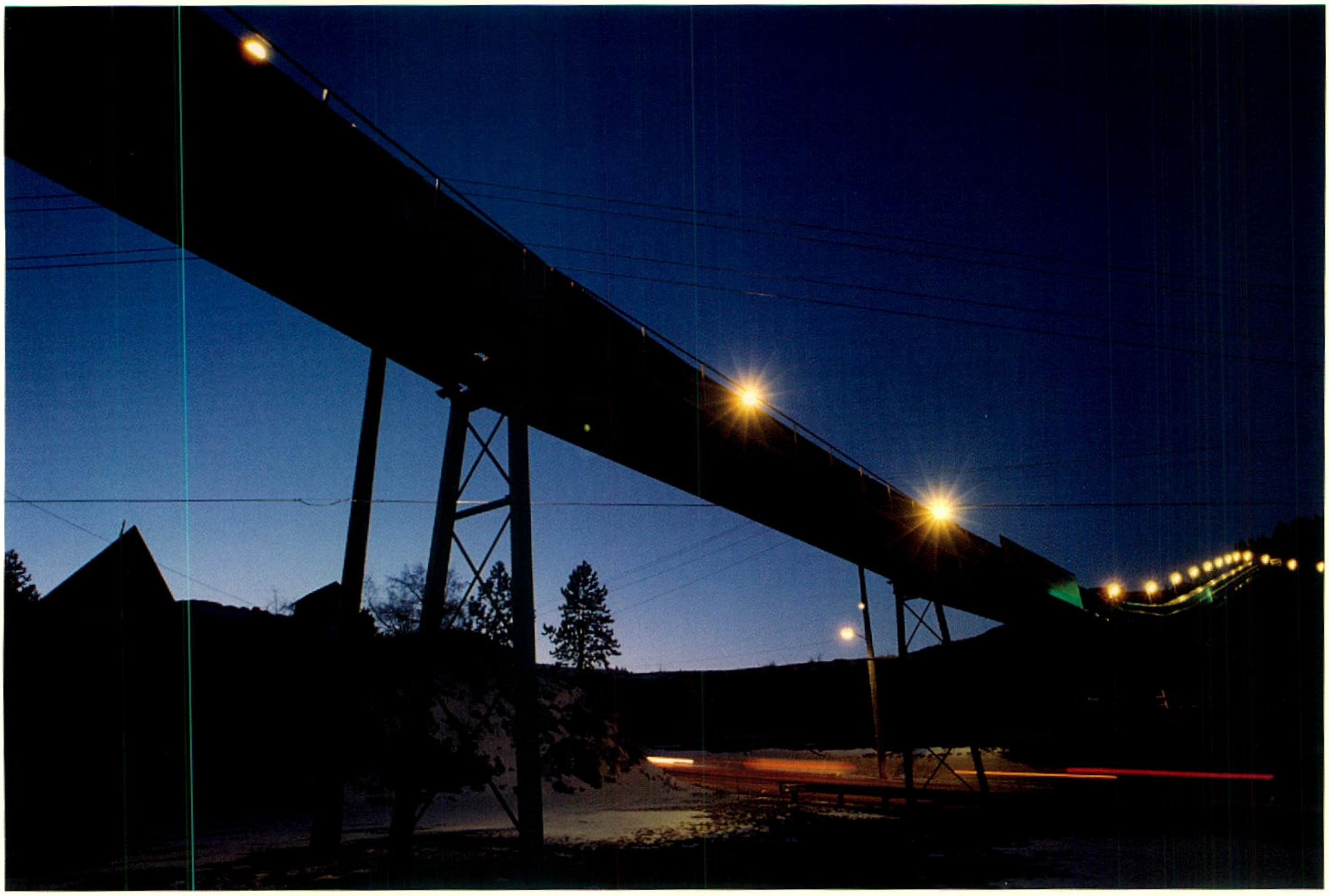
The operation consists of an 8000-foot deep underground mine and a surface or Open Cut mine located on the site of the original Homestake gold strike.

1988 gold production from both sources rose 20 percent to 390,162 ounces, the highest level since 1972. 1987 production totaled 325,621 ounces. The average cash production cost dropped to $298 per ounce from $329 a year earlier.

Improved mine scheduling, higher grade ore blocks and strict grade control led to a 17 percent increase in the grade of underground ore to .187 ounces per ton. Overall grade of ore milled increased 15 percent to .168 ounces per ton. Lower unit costs in the Open Cut were achieved through higher ore production and slightly reduced waste stripping.

Total tons of ore milled improved 5 percent to 2,454,943 tons, from 1987's 2,346,499 tons. The higher throughput reflected the first full year of operation of the new gravity separation circuit installed in 1987. Recovery in 1988 was 95 percent and is expected to improve in 1989 with the start-up of a new sulfide regrind circuit and the addition of a higher capacity carbon absorption plant to process tailings solutions.

A ventilation cooling system was completed and commissioned on the 6950-foot level of the underground mine,



significantly reducing the temperature in the lower portions of the mine. In addition to increasing productivity, this will facilitate expanded exploration and production efforts from deeper mine levels.

A new loading pocket in No. 4 Winze at the 7500-foot level is scheduled for commissioning in early 1989, allowing development of areas previously inaccessible. Exploration diamond drilling from several new locations will be conducted during 1989.

During 1988 the Open Cut operation was expanded to recover additional ore

Top: Ore from the Open Cut is transported to the mill by an innovative 6200-foot pipe conveyer.

Left: New gravity separation circuit installed in 1987 reduces unit costs and improves recoveries.

Above: Mining resumed at the Open Cut in 1987 following a 42-year hiatus after exploration had determined that it contained an estimated 750,000 ounces of gold that could be mined profitably with modern technology at today's gold prices.

discovered along the east wall of the pit. During the year a total of 12.8 million tons of ore and waste were removed, from which we recovered 46,175 ounces of gold.

In 1988 the stepped-up exploration program in the Homestake mine concentrated on new deep-level targets and on expansion of Open Cut reserves. Exploration during 1988 essentially replaced gold ounces produced, leaving 1988 year-end reserves at 4.8 million ounces.

McLaughlin Mine

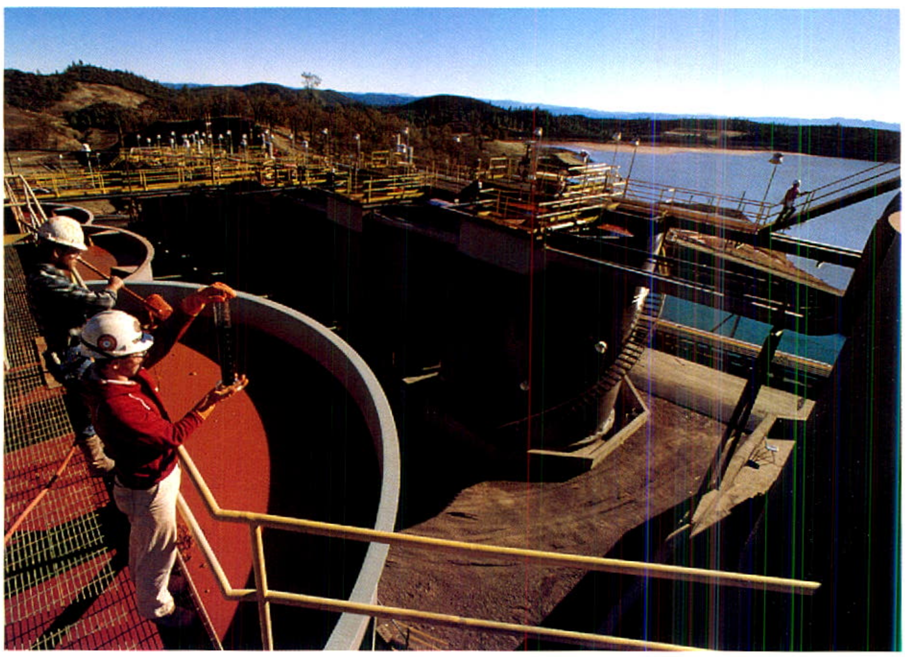
United States

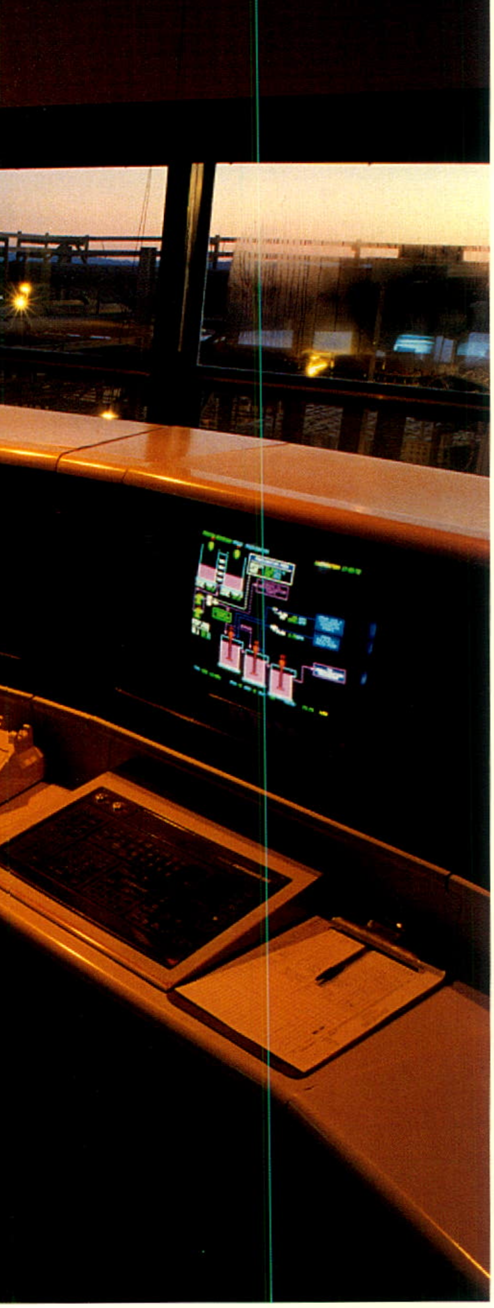
McLaughlin is an open pit mine located nearly 70 miles northeast of San Francisco. Discovered in 1978 by Homestake, it began producing gold in 1985.

McLaughlin's operating earnings in 1988 were $19.1 million, an increase of 6 percent from $18.0 million in 1987. Gold production in 1988 increased 8 percent to a record 203,827 ounces from 188,990 ounces in 1987, reflecting the addition of new equipment and a record gold recovery rate of 95 percent. The average mill head grade was .194 ounces per ton, exceeding budgeted ore grade for the year as a result of stringent ore control and mining higher than predicted ore grade.

The average cash cost per ounce of gold recovered rose 3 percent to $235 from $229 in the prior year.

McLaughlin mined 13.0 million tons of ore and waste, a slight decline from





1987's 13.9 million tons, as hauls lengthened due to North Pit development. To offset the increased hauls, McLaughlin modified work schedules and added a $1.4 million hydraulic shovel.

Installation of a new parallel oxide ore processing circuit was nearing completion by year-end 1988 at a capital cost of $25.0 million. The circuit will add an estimated 50,000 ounces per year to McLaughlin's previously forecast output for at least five years. The ounces produced from this circuit will assist in maintaining the mine's production above 200,000 ounces per year through the mid-1990s.

Drilling was initiated to explore for additional in-pit sulfide resources extending both downward from the central zone and into the western wall of the South Pit. Modest new reserves were developed during the year. Remaining mine reserves at year-end were 2.5 million ounces.

Top: Computerized control room operates highly mechanized autoclave circuit.

Left: In late 1988 a $25 million parallel 3000 ton-per-day oxide circuit was nearing completion to process recently discovered ore not requiring autoclave treatment.

Above: McLaughlin's comprehensive environmental program includes revegetation of the land to pre-mine conditions.

Round Mountain Mine

United States

The Round Mountain mine, located in central Nevada, is the world's largest open pit, heap-leach gold mine. Homestake acquired its 25 percent interest in 1984 through its acquisition of Felmont Oil Corporation. Homestake's share of 1988 operating earnings was $9.3 million, a decrease of 8 percent from $10.1 million in 1987. Cash production costs, including royalties and waste stripping, averaged $248 in 1988, up 15 percent from 1987 due to planned higher stripping.

A $131.0 million expansion program—in which Homestake's share was $33.0 million—is scheduled for completion during the first quarter of 1989. The new facilities will more than double processing capacity to 45,000 tons of ore per day.

The expansion is expected to increase Round Mountain's gold production from 234,378 ounces in 1988 to 320,000 ounces in 1989, raising Homestake's one-quarter share from 58,594 ounces in 1988 to 80,000 in 1989. The mine's cash production cost per ounce should decline as a result of the expansion. Due to the economies of scale created by the expansion, year-end 1988 reserves rose 14 percent to 2.0 million contained ounces (Homestake's share) as more lower grade ore blocks will be economically recoverable.

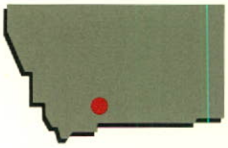
During 1988 Homestake and the other participants in the Round Mountain operation—Echo Bay Mines Ltd. and Case, Pomeroy & Company, Inc.—agreed to consolidate separate property holdings into the Round Mountain operation by contributing the adjacent Gold Hill exploration leases and Echo Bay's modernized Manhattan gold mill and mine. This consolidation will add a total of more than 27,000 combined acres of claims and 400,000 ounces of gold mineralization to Round Mountain. The agreement, which was signed on February 1, 1989, gives the Round Mountain operations greater exploration opportunities and the flexibility to treat some of the higher grade Round Mountain ore at the Manhattan mill.

In early 1988 Round Mountain began a new exploration program for high-grade underground ore. The program includes an underground ramp and underground drilling and sampling to a vertical depth of over 1000 feet. This $8.0 million project is expected to continue into 1990. If successful, it could lead to future development of an underground operation.

Top: Aerial view of the Round Mountain open pit, heap-leach mine.

Above: Radial arm stacker extends the width of leach piles.

Mineral Hill Mine
United States



The Mineral Hill gold mine is a 50-50 joint venture with American Copper & Nickel Company (ACNC), a subsidiary of INCO. Located at Gardiner, Montana, Mineral Hill is an underground mine with reserves of approximately 331,000 contained ounces of gold. ACNC is the project operator.

Construction and development commenced in April 1988 and is scheduled for completion during mid-1989 at a total capital cost of $32.4 million. The mine's 450 ton-per-day mill and crushing facilities were about half completed by year-end, and the mine development program was 75 percent completed. 1988 expenditures were $15.8 million, of which Homestake's 50 percent share was $7.9 million.

When the mine is completed, Homestake's share of annual production is expected to be 18,000 ounces at an average cash production cost of about $225 per ounce.

Wood Gulch Mine
United States

Wood Gulch mine is a small, seasonally operated, open pit, heap-leach project. Located in the Independence Mountain Range in northeastern Nevada, Wood Gulch had year-end reserves of 48,000 contained ounces of gold.

Construction was approved in May, initiated in June, and substantially completed in November at a cost of $4.5 million.

Gold production for 1989 is projected to be about 24,000 ounces at a cash cost per ounce under $200.

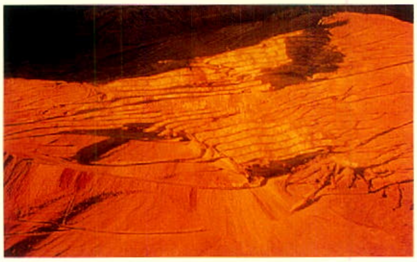
At the nearby Doby Project, exploration efforts have delineated additional ore grade mineralization in three target areas, and feasibility studies are underway. Results continue to be encouraging at this project, which could utilize much of the infrastructure in place at Wood Gulch.

Pre-production ounces were poured at Wood Gulch in late November, five months after initial approval of the project.

El Hueso Mine
Chile

Homestake extended its gold mining operations into South America in June of 1988 by acquiring a 10-year lease on the El Hueso mine at a cost of $51.2 million, plus working capital.

El Hueso is an open pit, heap-leach mine with projected production of approximately 85,000 ounces of gold per year. Its reserves totaled 559,000 ounces of gold at year-end.

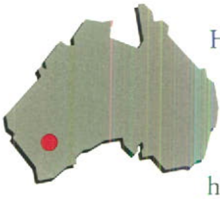


In June 1988 Homestake purchased a 10-year lease for the El Hueso mine, located 600 miles north of Santiago in rugged mountainous terrain.

El Hueso produced 34,600 ounces of gold for Homestake's account during the year. Significant outlays for plant modifications and improvements during the year resulted in relatively high cash costs of $290 per ounce and an operating loss of $1.8 million. However, these modifications will contribute to future cost reductions. A stepped-up exploration program was about 50 percent complete by the end of 1988 with very encouraging results. Projected reserve additions will reduce non-cash mining costs in 1989 and beyond.

HOMESTAKE GOLD OF AUSTRALIA

Australia

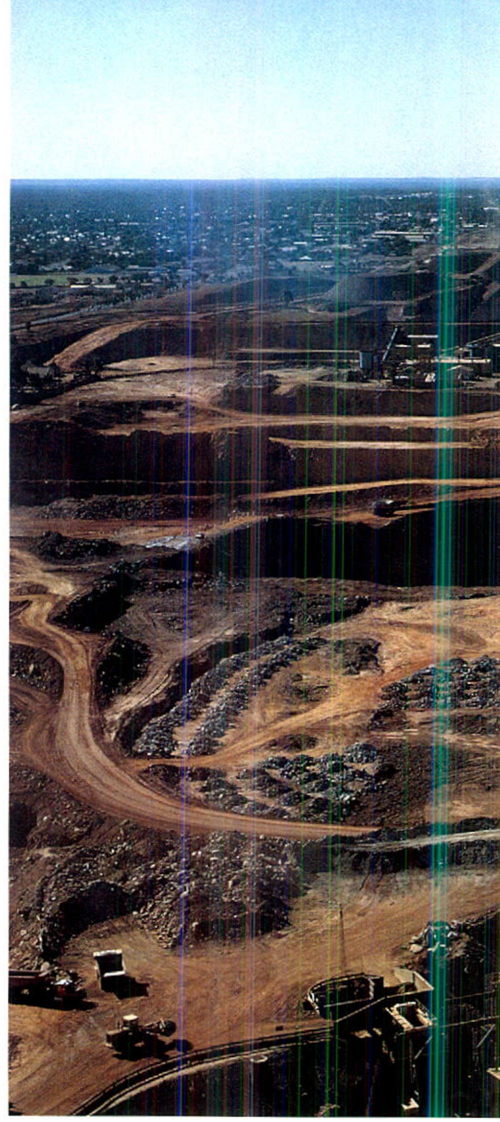


Homestake's gold mining interests in Australia are held by an 80 percent-owned subsidiary, Homestake Gold of Australia Limited (HGAL). In 1988 HGAL held 48 percent of the Kalgoorlie Mining Associates (KMA) partnership, which operates the Mt. Charlotte and Fimiston gold mines in Western Australia and conducts an active gold exploration program on partnership leases.

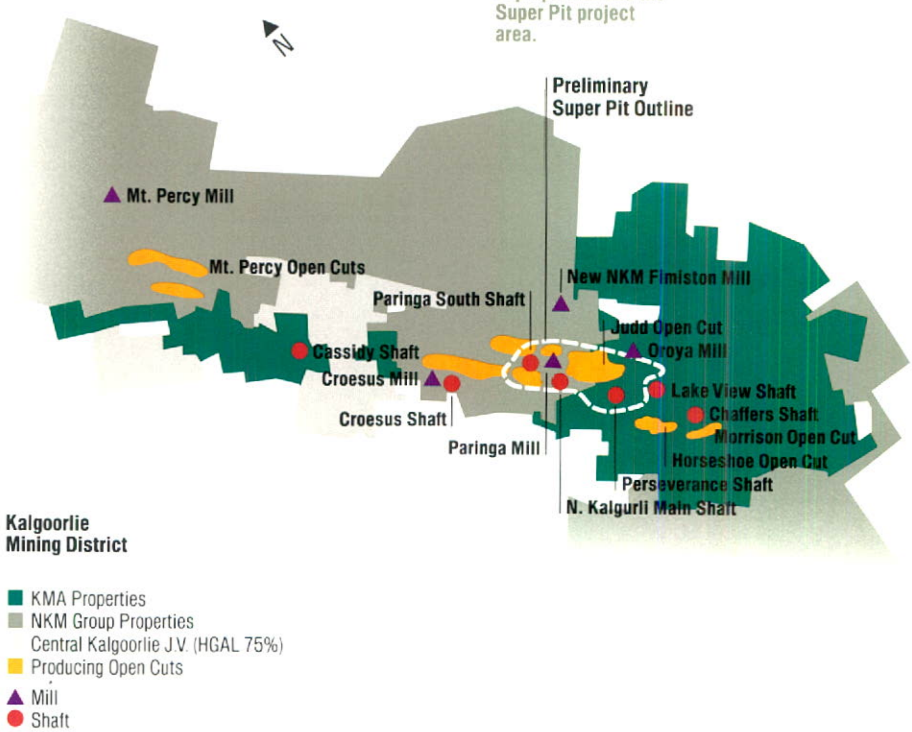
HGAL agreed in January 1989 to acquire for a total of $100 million an additional 2 percent interest in KMA and a 50 percent interest in adjoining gold properties controlled by Bond International Gold, Inc.'s Australian affiliates—the North Kalgurli Mines Limited group (NKM). The properties comprise extensive mining tenements, operating underground and open pit mines, three mills and a new 6000 ton-per-day mill nearing completion. At the transaction's close, HGAL will hold a 50 percent interest in the consolidated Kalgoorlie operations.

Following completion of a feasibility study, HGAL and NKM expect to develop a very large open pit, termed the Super Pit, which will be Australia's biggest open pit gold mine. HGAL's share of the additional capital required will approximate $50 million and will include a doubling of the capacity of the new mill currently under construction.

By the early 1990s total project production is expected to be as much as 800,000 ounces of gold per year from the Super Pit, other open pits and underground operations at an average cash cost of $260 an ounce. HGAL will meet 50 percent of all production costs and receive about 375,000 ounces per year from the total production. Homestake's share will be 300,000 ounces, compared with 94,227 ounces in 1988. A 50-50 owned company will be formed to manage and operate the consolidated properties. HGAL's share of KMA reserves totaled 1.35 million ounces at December 1988 but will rise three-fold



Below: Artist's rendering of the proposed amalgamation of properties and the Super Pit project area.



Aerial view north from KMA's Oroya Mill toward NKM's plant and area of the proposed Super Pit.

if the Super Pit proceeds as expected.

Operating earnings from KMA in 1988 were $14.0 million, compared with $26.3 million in the prior year.

1988 gold production at KMA's mines totaled 245,382 ounces (505 tolled ounces are included), down 2 percent from 251,361 ounces in 1987. HGAL's share was 117,783 ounces, compared with 120,653 ounces in the prior year. Homestake's share declined to 94,227 from 115,484 in 1987. Average cash cost increased 42 percent to US$281 per ounce, reflecting lower grade ores and a significantly stronger Australian dollar in relation to U.S. currency.

Mt. Charlotte produced 111,738 ounces of gold from 1,125,284 tons of ore milled, up 11 percent from 100,937 ounces from 1,039,261 tons in 1987.

Total tons milled in 1988 at Mt. Charlotte's Oroya Mill represented a processing record, as did the total ore milled from all sources. Exploration drilling produced several encouraging gold intercepts at shallow depths south of the mine's Cassidy shaft.

Fimiston produced 133,139 ounces from 1,148,326 tons of ore milled, down from 150,424 ounces from 928,088 tons in the prior year. The decrease in total ounces produced reflects a 24 percent decline in the overall average recovered grade. A comprehensive reassessment of stoping and development is near completion and should result in improved scheduling and higher recovered underground grades during 1989. Open pit mining produced 58,980 ounces of the Fimiston total from 704,755 tons milled, compared with 56,015 ounces from 440,229 tons milled during 1987.

Underground development and exploration at Fimiston focused on the Chaffers shaft on the western leases and the Lake View shaft on the eastern leases. Development activity was increased to maintain underground production after the Perseverance shaft is decommissioned as part of the planned development of the Super Pit. Homestake's share of KMA reserves totaled 1.1 million ounces at year-end 1988 and is expected to rise significantly upon completion of the Super Pit feasibility study.

Outside of KMA, HGAL has delineated a minable open pit ore reserve and excellent resource potential at the Fortnum project in Western Australia. Pre-development began in late 1988, and the project is expected to begin production during late 1989 at an annual rate of 50,000 ounces. HGAL also continued target exploration on two other projects, undertook concept drill testing at six others and initiated nine new reconnaissance projects.

NORTH AMERICAN METALS
Canada

In 1988 Homestake acquired 73.3 percent of North American Metals Corporation (NAM) of Vancouver, British Columbia, for a total cost of $24.0 million. NAM's principal asset is a 50 percent interest in the Golden Bear gold project in northwest British Columbia.

Capital expenditures on the project in 1988 totaled $24.8 million. Total capital expenditures to bring the mine into production are expected to be $58.8 million. This represents a significant increase from the estimate at the time of acquisition.

Operating cost estimates have also risen significantly, and capital and process design alternatives are currently being evaluated in an effort to insure the viability of the project.

EXPLORATION ACTIVITIES
Canada

Homestake's gold exploration in Canada during 1988 centered on the Back River Joint Venture Project in the east MacKenzie District of the Northwest Territories. Homestake has an option to earn a 40 percent interest and become manager of future operations.

In January 1989 Homestake reached preliminary agreement with Esso Minerals Canada to acquire most of its exploration and development properties, including an additional 26 percent interest in the Back River venture and an interest in the Musslewhite gold prospect in Ontario, subject to outstanding rights of first refusal. When this transaction is finalized, Homestake expects to step up its Canadian activities.

THE DOE RUN COMPANY
United States

The Doe Run Company's second full year was enormously successful. With improved and expanded facilities, strong lead prices and record zinc and copper prices, Doe Run contributed operating earnings of $29.8 million, more than double 1987's earnings of $12.2 million.

Doe Run's six mines, four mills and two smelters in southeastern Missouri make it the largest fully integrated lead production complex in North America. Maintenance and capital projects completed during the first year resulted in dramatic production cost reductions and efficiency improvements, and similar programs will continue in 1989.

Aerial view of the Brushy Creek mine head frame in Southeastern Missouri.

Early in 1988 Doe Run recommissioned its mothballed Brushy Creek lead mill to produce copper concentrates, feeding it with high grade copper ore from various lead mines. In June a new \$2.5 million copper flotation circuit was completed at the Buick Mill to allow recovery of previously lost copper. This new circuit increased flexibility in mining Buick's lead/copper ores. As a result of both projects, Doe Run recovered 9749 tons of copper metal, which contributed about \$14.5 million to by-product revenues.

Parts of the Buick Smelter began operating again in 1988, providing additional sinter and refining capacity and permitting maximum production from the Herculaneum Smelter. In October, with the extremely strong lead demand, the Buick Smelter produced 10,500 tons of lead metal from stockpiled sinter. Total production from both smelters was 235,903 tons of lead at an efficiency of 1.78 tons per manshift, a record for both Buick and Herculaneum. Homestake's share of lead metal production was 100,259 tons, up 18 percent from 85,078 tons in 1987.

During the year the smelting division took maximum advantage of the high metal prices to recover previously unmarketed drosses, slags and residues, thereby adding additional by-product revenues.

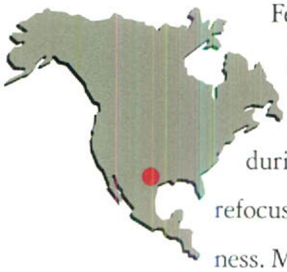
In 1988 Doe Run completed an evaluation of the primary-secondary lead market and laid preliminary plans to enter the secondary business.

Multi-level high back mining at Mine No. 28 uses a remote control loader to maximize operator safety and ore extraction.

Doe Run has selected the Buick site as the initial secondary plant location. Use of the Buick site will reduce capital cost of the new facilities, which will use new state-of-the-art technology to meet current and proposed environmental regulations. The plant is expected to increase refined lead production by 60,000 tons per year, recover plastics from battery cases and produce salable sodium sulfate from treated battery acid. A start-up date of mid-1990 is targeted at an estimated capital cost of \$34.0 million.

FELMONT

United States/Canada



Felmont Oil made significant progress during 1988 in refocusing its business. Management initiated a program to exchange or dispose of certain properties, redirected exploration resources, and pared the organization to reduce operating and administrative expenses.

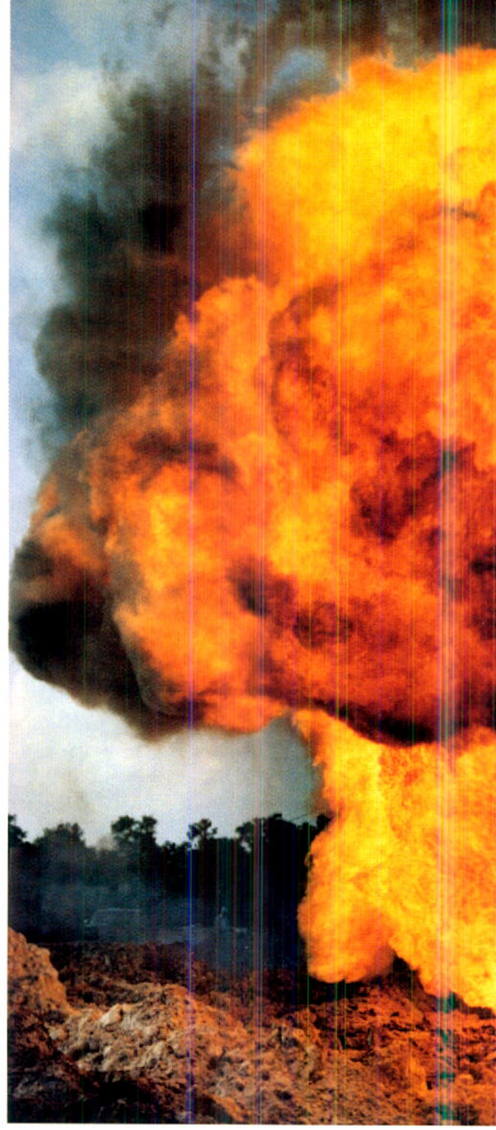
As a part of this program, in late 1988 Felmont and Cabot Oil and Gas Corporation reached agreement in principle to exchange most of Felmont's Appalachian region properties for Cabot's 16.1 percent interest in Ship Shoal Block 229, offshore Louisiana, thereby increasing Felmont's working interest in the block to 25.8 percent. In February 1989 Felmont reached agreement to sell its 20 percent interest in the Eugene Island Blocks 108 and 109 to NERCO Oil and Gas, Inc. for \$23.6 million, with closing to take place in April 1989.

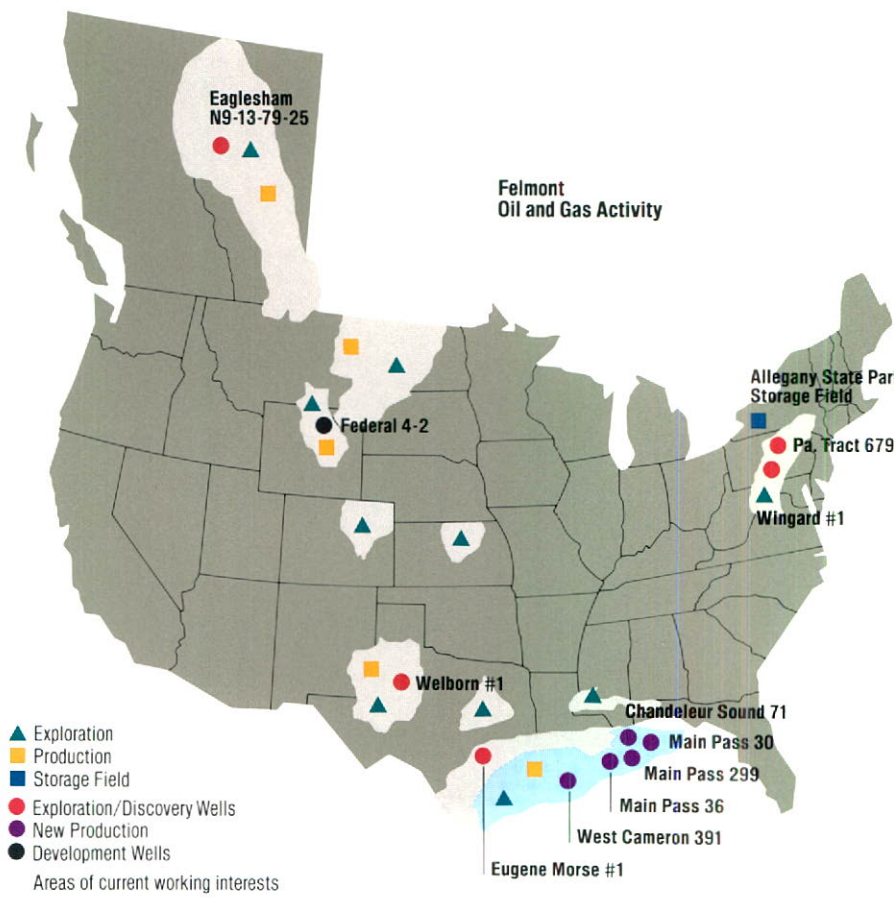
1988 operating earnings declined 28 percent to \$1.3 million, reflecting higher exploration expenses, which doubled to \$10.6 million due to increased focus on properties with higher reserve potential. Crude oil prices dropped 16 percent to \$15.12 per barrel, while natural gas realizations remained flat at \$1.95 per MCF. Revenues from the sale of oil and gas products were flat at \$38.3 million, compared with \$38.6 million in 1987.

Natural gas production from Felmont properties rose 6 percent in 1988 to 12,573 MMCF from 11,835 MMCF during 1987. Oil production decreased by 4 percent versus the prior year to 672,817 barrels. Year-end 1988 reserves totaled 78.8 BCF gas equivalents, down 9 percent from year-end 1987.

Total 1988 property acquisition, exploration and development expenditures rose 83 percent to \$18.3 million from \$10.0 million in 1987.

During 1988 Felmont stepped up its acreage leasing activities by investing a





Eugene Morse #1 well flares excess gas. Felmont holds 20 percent working interest.

total of $2.6 million to acquire 64,000 net acres. With industry partners, Felmont also submitted bids for five off-shore exploration licenses in the Dutch North Sea, which will not be awarded until late 1989 or early 1990.

The Company participated in the drilling of 24 exploratory wells, which resulted in 6 significant discoveries. In Galveston County, Texas, the Eugene Morse Well #1, in which Felmont owns a 20 percent working interest, flowed 656 barrels of oil and 3.2 million cubic feet of gas per day. In Gaines County, Texas, the Welborn #1, which is 24 percent owned by Felmont, flowed oil at a rate of 399 barrels per day from the Mississippian formation. Felmont also holds a 50 percent interest in two deep discoveries in Pennsylvania. On the Peace River Arch in northwestern Alberta, Canada, Felmont participated in two Devonian discoveries.

The Company also drilled four successful development wells. Four new producing properties came on stream in the Gulf of Mexico. In Campbell County, Wyoming, the Company's 100 percent owned Federal 4-2 well began production at 110 barrels of oil per day. In New York state, gas sales were initiated from our 100 percent owned Allegany State Park gas storage field for the first time in several years.

In early 1988 Homestake made the strategic decision to pursue sulfur exploration through Felmont as a natural extension of its Gulf Coast oil and gas expertise. With partners, Felmont acquired 22,601 net acres of sulfur leases on 11 salt domes offshore Louisiana. In December 1988 exploratory drilling was initiated on Main Pass Block 299, in which the Company owns a 16.67 percent working interest. Freeport McMoRan Resource Partners, the operator, has announced an indicated sulfur reserve potential of at least 50 million tons. The size of this deposit ranks it as one of the biggest in the Gulf region. This discovery will be of significant future benefit to Homestake.

Uranium

United States

Domestic uranium prices continued to deteriorate during 1988 to $12 per pound due to excess inventories and continued low demand. Homestake's current uranium activities consist of underground mining of remaining high-grade ore, solution mining and toll milling. During 1988 Homestake's Grants mill operated continuously, with tolled ore accounting for 85 percent of the mill feed. Despite strong operating results at the Grants complex, the poor market conditions, coupled with ongoing environmental obligations, resulted in a uranium operating loss of $5.7 million in 1988.

STATISTICAL SUMMARY

Homestake Mining Company and Subsidiaries

(Quantities in thousands)	1988	1987	1986	1985	1984
GOLD OPERATIONS[1]					
Tons of Ore Processed					
Homestake	2,455	2,346	2,304	2,346	1,897
McLaughlin	1,095	1,082	1,022	660	
Round Mountain	3,225	2,760	1,666	1,339	1,143
El Hueso	1,036				
KMA	873	899	827	786	717
Total	8,684	7,087	5,819	5,131	3,757
Ounces Produced					
Homestake	390	326	342	343	296
McLaughlin	204	189	173	84	
Round Mountain	58	48	42	35	30
El Hueso	35				
KMA	94	115	113	105	107
Total	781	678	670	567	433
Cash Production Cost—per ounce					
Homestake	$ 298	$ 329	$ 285	$ 276	$ 310
McLaughlin	235	229	240	291	
Round Mountain	248	216	203	221	259
El Hueso	290				
KMA	281	198	193	191	217
Weighted Average	$ 275	$ 271	$ 253	$ 259	$ 283
Full Production Cost—per ounce					
Homestake	$ 314	$ 347	$ 298	$ 294	$ 324
McLaughlin	346	352	364	422	
Round Mountain	276	247	234	246	296
El Hueso	470				
KMA	319	229	215	205	246
Weighted Average	$ 327	$ 321	$ 298	$ 294	$ 303

	12/31/88			12/31/87		
ORE RESERVES (Proven and Probable)[1]	Tons	Grade (oz/ton)	Ounces	Tons	Grade (oz/ton)	Ounces
Homestake Mine						
—Underground	18,571	0.218	4,048	19,032	0.213	4,054
—Open Cut	6,613	0.120	792	6,560	0.126	825
McLaughlin Mine[2]						
—Sulfide	16,994	0.131	2,233	22,409	0.120	2,692
—Oxide	4,622	0.060	277			
Round Mountain	62,385	0.032	2,021	51,974	0.034	1,767
Wood Gulch	490	0.098	48			
Mineral Hill	542	0.306	166			
El Hueso	15,958	0.035	559			
Golden Bear	241	0.543	131			
KMA						
—Mt. Charlotte	4,233	0.113	478	4,572	0.115	526
—Fimiston						
Underground	1,729	0.215	372	1,735	0.216	375
Open Pit	2,081	0.111	231	1,186	0.127	151
Fortnum	734	0.093	68			
Total	135,193		11,424	107,468		10,390

[1]Includes Homestake's proportionate share of ownership: Homestake 100%, McLaughlin 100%, Round Mountain 25%, El Hueso 100%, Wood Gulch 100%, Mineral Hill 50%, Golden Bear 36.6%, KMA (Mt. Charlotte and Fimiston) 48% share from 1984 through September 1987, then reduced to 38.4% following the sale of 20% of Homestake Gold of Australia Limited, and Fortnum 80%.

[2]Includes 6,203 tons of stockpiled ore at a grade of 0.073 per ton in 1988 and 4,456 tons at 0.078 ounces per ton in 1987.

- *Projected Australian dollar outlays and expenses have been converted to U.S. dollars at an exchange rate of A$1.00/US$.85*
- *Projected Canadian dollar outlays and expenses have been converted to U.S. dollars at an exchange rate of C$1.00/US$.84*

STATISTICAL SUMMARY

Homestake Mining Company and Subsidiaries

(Quantities in thousands)	1988	1987	1986	1985	1984
BASE METALS[1]					
Tons of Ore Milled	1,909	1,723	576	1,141	750
Lead Content (percent)	6.0	5.8	6.9	6.9	8.1
Zinc Content (percent)	0.8	0.8	1.4	1.4	1.8
Copper Content (percent)	0.7	0.6	1.0		
Tons of Production					
Refined Lead Products	100	85	41	66	58
Zinc Concentrate	20	17	12	24	20
Copper Concentrate	36	20	4		
Tons of Ore Reserves	31,343	31,902	30,175	10,032[2]	18,043
Lead Content (percent)	5.1	5.1	5.5	8.0[2]	5.6
Zinc Content (percent)	0.9	0.9	1.0	2.2[2]	1.4
Copper Content (percent)	0.3	0.3	0.4		
OIL AND GAS					
Production Sold[3]					
Natural Gas (MCF)	12,573	11,835	12,184	10,850	12,614
Crude Oil and Condensate (Bbls)	673	703	785	890	864
Cash Lifting Costs ($ per Equivalent MCF)	.53	.48	.48	.81	.81
Net Proved Reserves					
Natural Gas (MCF)	56,727	65,840	72,900	88,600	93,810
Crude Oil and Condensate (Bbls)	3,681	3,448	3,092	4,214	4,676
Gas Equivalents (MCF, 6:1)	78,815	86,528	91,452	113,884	121,866
URANIUM					
Tons of Ore Processed	29	24	73	62	107
Production U_3O_8 (lbs.)	497	489	605	602	684
Tons of Ore Reserves[5]	65[6]	69[6]	92[6]	103[4]	310[4]
Grade (percent)	0.339	0.339	0.371	0.186	0.200

[1] *Statistics represent Homestake's share of Buick prior to the formation of Doe Run and its 42.5% share of Doe Run starting November 1, 1986.*
[2] *The decrease in ore reserves and the increase in reserve grade reflect adoption of a higher ore cut-off due to low lead prices.*
[3] *Net working interests, excluding royalties.*
[4] *Reduced to reflect only ore reserves that could be economically recovered and sold profitably under existing sales contracts.*
[5] *Does not include quantities of uranium that may be recovered through solution mining and ion-exchange recovery.*
[6] *Reflects only ore reserves that can be economically recovered and sold under current market conditions when produced concurrent with solution mining.*

AVERAGE PUBLISHED METAL PRICES[1]

Homestake Mining Company and Subsidiaries

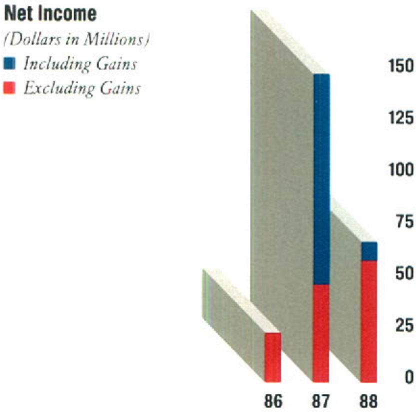
	1989[3]	1988	1987	1986	1985
Gold—Per ounce (London Final)	$400.47	$437.05	$446.47	$367.51	$317.27
Silver—Per ounce (Handy & Harman)	$ 5.94	$ 6.53	$ 7.01	$ 5.47	$ 6.14
Lead—Per pound (Producer)[2]	39.17¢	37.14¢	35.94¢	22.05¢	19.07¢
Zinc—Per pound (U.S.)	80.87¢	60.20¢	41.92¢	38.00¢	40.37¢
Uranium—Per pound (in concentrate)	$ 11.60	$ 14.55	$ 16.78	$ 17.00	$ 15.60

[1] *Source: Metals Week, except for uranium which is NUEXCO.*
[2] *For 1987, 1988 and 1989, North American Producer; for 1985-1986, U.S. Producer.*
[3] *Through February 10, 1989.*

Results of Operations

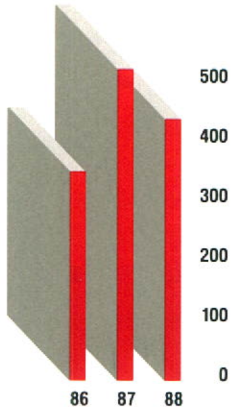
Homestake's net income was $66.4 million in 1988, compared with $146.4 million in 1987 and $22.6 million in 1986. Included in 1988 results were after-tax gains of $6.5 million from the first installment on the sale of certain exploration properties to Galactic Resources Ltd. and $3.1 million due to the early adoption of Financial Accounting Standards No. 96, "Accounting for Income Taxes." 1987 net income included a $94.9 million after-tax gain on the sale of a 20 percent minority interest in the Homestake Gold Australia Limited (HGAL) subsidiary and a $4.1 million after-tax gain on the sale of New Zealand mineral interests. Absent these gains, 1988 net income rose 20 percent to $56.8 million from $47.4 million in 1987.

Net Income
(Dollars in Millions)



Homestake's 1988 revenues were $432.6 million, compared with $516.2 million in 1987 and $347.7 million in 1986. 1987 revenues included the HGAL pre-tax gain of $146.3 million.

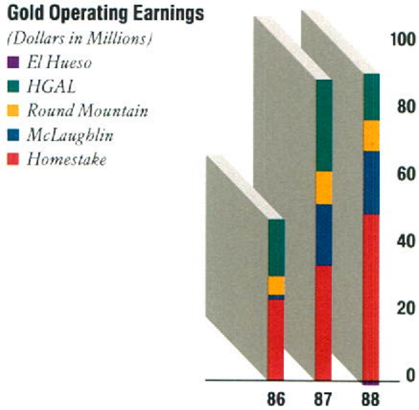
Revenues
(Dollars in Millions)



Gold

Total gold operating earnings, including Homestake's share of Kalgoorlie Mining Associates (KMA), reached $90.2 million in 1988, a gain of 1 percent from $89.0 million in 1987, which was up from $47.9 million in 1986. The improvement in 1988 reflects a 15 percent increase in the Company's share of worldwide production, which offset the adverse effect of lower gold realizations. In contrast, the earnings increase for 1987 over 1986 was largely due to higher gold realizations.

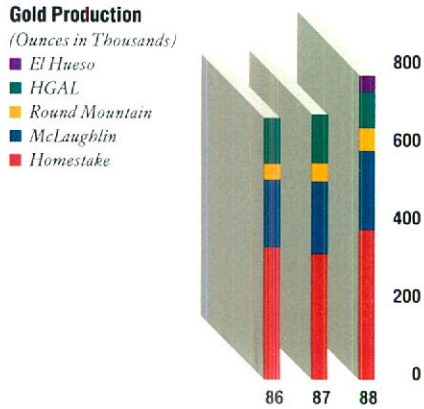
Gold Operating Earnings
(Dollars in Millions)



Total 1988 gold production, including Homestake's share of production from KMA, rose to 781,458 ounces from 677,739 ounces in 1987 and 669,594 ounces in 1986. Production was relatively constant from 1986 to 1987, with the Homestake mine Open Cut expansion starting up and the McLaughlin and Round Mountain expansions still in planning stages. In 1988 gold production rose significantly due to improved grade control and higher throughput at the Homestake mine, improved recoveries at the McLaughlin mine, higher throughput at the Round Mountain mine, and the June 1988 acquisition of the El Hueso mine. Production at KMA decreased slightly in 1988 due to lower ore grades from the open pits. Homestake's share of KMA's production decreased further due to the effect of a full year at 80 percent ownership of HGAL. During 1989 production from existing operations should benefit from the completion of additional mill recovery projects at the Homestake mine, completion of the oxide treatment circuit at the McLaughlin mine, completion of the Round Mountain expansion, and a full year of operation of El Hueso. In addition, Homestake's production will rise due to its recently announced participation in expanded Kalgoorlie operations in Western Australia and the start-up of several smaller mines.

Total 1988 gold sales were 772,041 ounces, compared with 674,480 ounces in 1987 and 669,321 ounces in 1986. The 1988 average gold realization was $437 per ounce, compared with $447 per ounce in 1987 and $364 per ounce in 1986. Due to the higher sales volume, gold revenues (which include Homestake's share of profits from KMA) rose to $313.0 million in 1988,

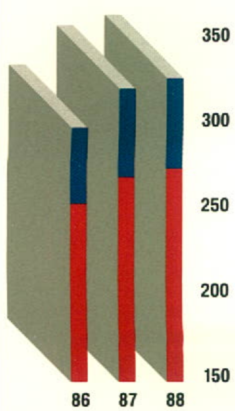
Gold Production
(Ounces in Thousands)



compared with $279.1 million in 1987 and $221.4 million in 1986.

Homestake's 1988 cash production costs rose by 1 percent to $275 per ounce from $271 per ounce in 1987 and $253 per ounce in 1986. Total production costs rose to $327 per ounce in 1988, compared with $321 per ounce in 1987 and $298 per ounce in 1986. The cost increase for 1987 over 1986 was principally due to higher expensed stripping costs during start-up of the Open Cut at the Homestake mine. For 1988, cost reductions at the Homestake mine largely offset cost increases at the McLaughlin and Round Mountain mines and the KMA operations. Lower ore grades in 1989 may penalize McLaughlin's cost performance. The Company's share of Round Mountain's output should be at a lower cost than in 1988. KMA's production costs were higher than in 1987 due to lower mill head grades, but were also adversely affected in the conversion to U.S. dollars as the Australian dollar strengthened in 1988. Due to the amalgamation and expansion of its interests, Homestake is confident that the Kalgoorlie operations are a long-term source of gold that is recoverable at favorable costs.

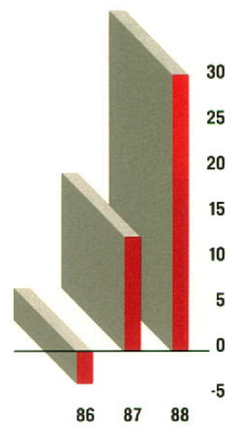
Gold Production Cost
(Dollars per Ounce)
■ *Non-Cash*
■ *Cash*



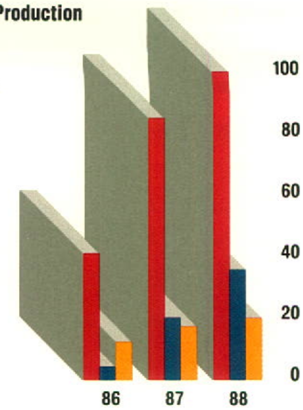
Base Metals

Homestake's investment in base metals is its 42.5 percent partnership interest in The Doe Run Company (DRC). Prior to DRC's formation in November 1986, Homestake held a 50 percent interest in the Buick, Missouri, lead/zinc facilities, until it acquired a 100 percent interest in 1986 and subsequently contributed it to DRC. The formation of DRC has led to steadily improved base metals earnings for Homestake. Earnings rose to $29.8 million in 1988 from $12.2 million in 1987, the first full operating year for the partnership, and a loss of $3.4 million in 1986. DRC has benefitted from generally improved price levels for base metals that began to take effect in mid-1987. In addition, improved productivity has led to an 18 percent increase in lead metal production over 1987 and concurrent improvements in copper and zinc by-product production. Copper concentrate production has risen more sharply due to capital investments, along with increased mine operating flexibility that allowed increased production of copper ores. Homestake expects its share of lead production to remain stable in 1989 and increase in mid-1990, when a currently planned secondary lead plant is expected to start up.

Base Metals Operating Earnings
(Dollars in Millions)



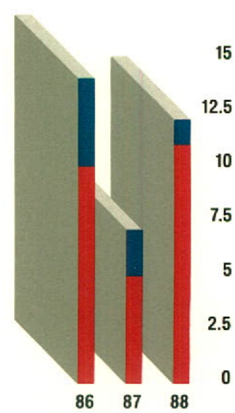
Base Metals Production
(M Tons)
■ *Zinc conc.*
■ *Copper conc.*
■ *Lead*



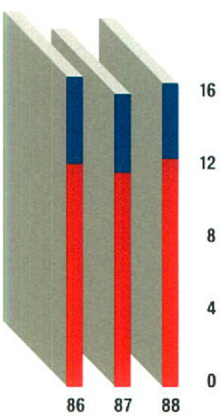
Oil and Gas

During 1988 Homestake's Felmont oil and gas subsidiary began a restructuring to achieve better focus of its expertise and financial resources on areas with higher potential for profitability and significant reserve increases. To make capital available, Felmont has identified a number of producing properties in its portfolio that will be put up for sale because they are only marginally profitable and require disproportionate amounts of management time.

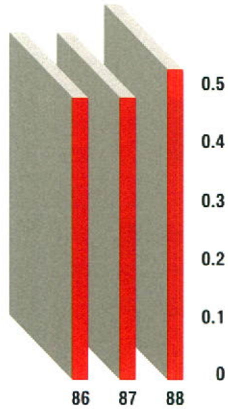
Oil & Gas Operating Earnings
(Dollars in Millions)
■ *Net*
■ *Exploration*



For 1988 Felmont's oil and gas operating earnings declined to $1.3 million from $1.8 million in 1987 and $4.3 million in 1986. The 1988 figure is after $10.6 million in exploration expenses, while 1987 exploration expenses were $4.9 million. In 1986 exploration expenses were $9.6 million, and Felmont had a gain of $8.0 million on the settlement of a take-or-pay contract. The increased level of exploration expenses during 1988 was due to higher dry hole costs. This reflects a higher risk level in Felmont's exploration activities, but also a higher potential for significant discoveries. Operating earnings were also affected by low price realizations in 1988. The average natural gas realization for 1988 remained at $1.95 per MCF, flat versus 1987, but lower than the $2.13 in 1986. The average crude oil realization fell to $15.12 per barrel in 1988, compared with $17.98

Oil & Gas Production
(Eq. MMCF 6:1)


in 1987 and $15.38 in 1986. Felmont's cash lifting cost per MCF equivalent increased in 1988 to $0.53 from $0.48 in 1987 and 1986.

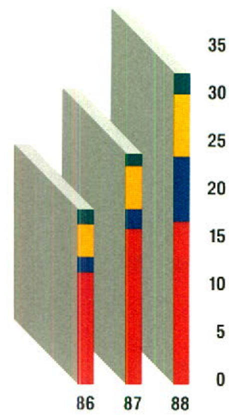
Cash Lifting Cost
(Dollars per eq. MCF at 6:1)


Uranium

Uranium operations recorded a loss of $5.7 million for 1988, versus a loss of $0.5 million in 1987 and operating earnings of $12.7 million in 1986. 1988 results include an addition to previously established reclamation reserves. The company's uranium operations have become unprofitable due to the expiration over time of long-term sales contracts that were negotiated in a strong market. The last of these contracts expired in mid-1987, contributing to a sharp decline in the average price received per pound. The spot market price for uranium concentrate had declined to $11.75 per pound by year-end 1988. During 1988 Homestake's operations continued at reduced levels, and product was toll milled for an outside party in order to reduce the operating loss and to cover ongoing environmental expenses. Until market prices strengthen, uranium operations are unlikely to achieve significant profitability.

Mineral Exploration

Mineral exploration expense, almost all of which was for precious metals exploration, totaled $31.9 million in 1988, compared with $23.5 million in 1987 and $17.7 million in 1986. During the last three years Homestake has increased funding for precious metals projects in Canada, Australia and South America, while maintaining a strong U.S. program. Expenses for Canadian exploration rose to $6.8 million in 1988 from $2.3 million in 1987 and $1.5 million in 1986. Much of the 1988 increase was target-level exploration at the Back River project in Canada's Northwest Territories. Expenses for Homestake's Australian exploration, carried out through its HGAL subsidiary, totaled $6.7 million in 1988,

Mineral Exploration Expense
(Dollars in Millions)


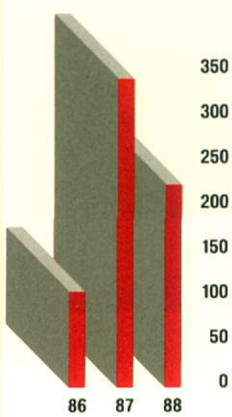
compared with $4.4 million in 1987 and $2.8 million in 1986. Homestake expects total 1989 precious metals exploration expenses to approximate 1988 expenses.

In addition to precious metals exploration, Homestake, through its Felmont subsidiary, is a participant in a venture formed to explore for and develop off-shore Gulf Coast sulfur deposits. Homestake's share of expenses from this activity in 1988 amounted to $1.7 million. In January 1989 the operator announced the discovery of a 50 million ton sulfur geologic resource at Main Pass Block 299, in which the company has a 16.7 percent interest.

Liquidity and Capital Resources

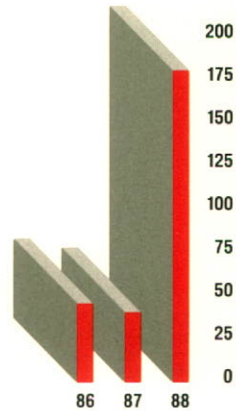
At year-end 1988 working capital totaled $242.4 million, of which $221.8 million was held in cash and equivalents and short-term investments. The 1988 working capital balance represents a decrease of $92.4 million from the 1987 balance of $334.8 million. This decrease was primarily attributable to capital additions and to investment in acquisitions. The sale of a minority interest in HGAL contributed $156.3 million to the year-end 1987 cash balance, of which $35 million was paid out in taxes in early 1988. The year-end 1986 working capital balance was $134.9 million. At year-end 1988 the ratio of current assets to current liabilities remained strong at 4.8, compared with 5.5 in 1987 and 4.4 in 1986. Dividends paid by the Company totaled $19.5 million in 1988.

Cash and Marketable Securities
(Dollars in Millions)



During 1988 the Company's total capital spending reached $183.0 million, including $111.9 million for capital additions to existing production facilities, $51.2 million for the acquisition of the El Hueso mine, and $19.9 million net for the acquisition of a 73.3 percent interest in North American Metals Corporation (NAM).

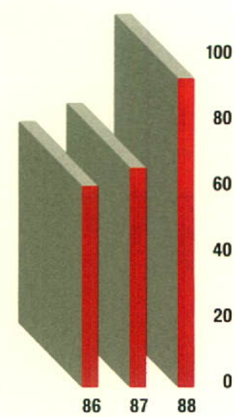
Capital Spending
(Dollars in Millions)



The majority of funding for capital outlays was through working capital and operating cash flows. A $35.0 million loan drawn on a U.S. bank by the Company's wholly-owned Minera Homestake Chile, S.A. subsidiary was used to finance part of the acquisition cost of the El Hueso operating lease. The loan is to be repaid in installments over five years. The Company increased its two revolving loan agreements by $10.0 million in 1988 to provide for a total of $245.0 million. No funds have been borrowed under either agreement. The Company's majority owned NAM subsidiary has established an unsecured $12.0 million line of credit for interim financing needs. Borrowings under the agreement, which are guaranteed by Homestake, totaled $6.0 million at year-end 1988.

Due to ongoing major growth projects, spending will continue to be heavy during 1989. Major projects include completion of the Round Mountain mine expansion, construction of the Golden Bear (NAM), Fortnum (HGAL) and Mineral Hill mines, and initiation of the secondary lead project at DRC. In January 1989 Homestake announced the expansion of its Australian activities at a cost of $100 million through the acquisition of certain of North Kalgurli Mines' assets and the purchase of an additional 2 percent partnership interest in KMA. HGAL also expects to spend approximately $50 million for its share of additional development costs. Funding for development of the sulfur project is expected to rise significantly beginning in 1990. A substantial portion of the funding for these outlays is expected to come from available cash and marketable securities balances and operating cash flow. Homestake is also evaluating available external financing sources for its Australian expansion and for completion of construction on NAM's Golden Bear mine in Canada.

Long-Term Liabilities
(Dollars in Millions)



Homestake has not been significantly affected by inflation during the past three years. However, like most mining companies, it may be adversely affected in the future by inflation resulting in increased operating costs that may not be fully offset by future increases in prices of the Company's products.

For a discussion of certain environmental matters see the Contingencies (Environmental) section in the Notes to the Consolidated Financial Statements on page 34.

STATEMENTS OF CONSOLIDATED INCOME

Homestake Mining Company and Subsidiaries

For the years ended December 31, 1988, 1987 and 1986 (In thousands, except per share amounts)	1988	1987	1986
Revenues:			
Product sales	$345,565	$305,614	$311,873
Share of earnings—Mining Venture Partnerships	43,775	38,773	18,980
Gain on sale of minority interest		146,336	
Interest and dividends	22,427	13,303	6,745
Other income—net	20,831	12,200	10,066
Total	432,598	516,226	347,664
Costs and Expenses:			
Product and shipping	247,173	223,244	248,828
Mineral exploration	31,862	23,504	17,702
Oil and gas exploration	10,610	4,945	9,620
Administrative and selling	61,992	51,045	45,985
Total	351,637	302,738	322,135
Income Before Income Taxes and Minority Interest	80,961	213,488	25,529
Income Tax Provision	16,649	66,420	2,953
Minority Interest	1,036	661	
Income Before Cumulative Effect	63,276	146,407	22,576
Cumulative Effect of Change in Accounting for Income Taxes	3,125		
Net Income	$ 66,401	$146,407	$22,576
Per Share Amounts:			
Income Before Cumulative Effect	$ .65	$1.51	$ .23
Cumulative Effect of Change in Accounting for Income Taxes	.03		
Net Income Per Share	$ .68	$1.51	$ .23
Average Shares Used in the Computation	97,382	97,024	97,264

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Homestake Mining Company and Subsidiaries

December 31, 1988 and 1987 (In thousands, except per share amounts)	1988	1987
Assets		
Current Assets:		
Cash and equivalents	$ 91,370	$139,328
Short-term investments	130,448	199,579
Receivables:		
Trade	22,615	17,568
Interest and other	12,017	8,746
Inventories:		
Finished products	16,657	17,803
Ore and in-process	10,226	6,387
Supplies	19,142	14,968
Other	4,330	4,185
Total current assets	306,805	408,564
Property, Plant and Equipment (at cost)	942,762	765,259
Accumulated depreciation, depletion and amortization	(417,839)	(363,533)
Net property, plant and equipment	524,923	401,726
Investments and Other Assets:		
Mining venture partnerships	111,421	89,689
Mining securities	17,774	1,561
Other assets	23,310	13,891
Total investments and other assets	152,505	105,141
Total	$984,233	$915,431
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 21,230	$ 17,262
Accrued liabilities:		
Payroll and other compensation	12,990	12,469
Income taxes	734	35,508
Severance and other taxes	2,578	3,375
Notes payable	9,136	
Current portion of long-term debt	8,000	
Other	9,733	5,111
Total current liabilities	64,401	73,725
Long-Term Liabilities:		
Long-term debt	60,250	35,000
Other long-term obligations	32,511	31,286
Total long-term liabilities	92,761	66,286
Deferred Income Taxes	59,961	64,600
Minority Interest in Consolidated Subsidiaries	10,067	7,949
Shareholders' Equity:		
Capital stock, $1 par value:		
Preferred—10,000 shares authorized; no shares outstanding		
Common—250,000 shares authorized; shares outstanding (net of treasury shares): 1988, 97,499; 1987, 97,302	99,021	99,021
Other capital	75,770	75,617
Retained earnings	604,992	558,076
Treasury stock (1,522 shares in 1988 and 1,719 in 1987)	(17,125)	(19,334)
Accumulated translation adjustments	(3,243)	(10,509)
Unrealized loss on mining securities	(2,372)	
Shareholders' equity	757,043	702,871
Total	$984,233	$915,431

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

Homestake Mining Company and Subsidiaries

For the years ended December 31, 1988, 1987 and 1986
(In thousands)

	Common Stock	Other Capital	Retained Earnings	Treasury Stock	Accumulated Translation Adjustments	Unrealized Loss on Mining Securities	Total
Balances, January 1, 1986	$ 49,440	$123,467	$410,953	$	$(15,607)	$(939)	$567,314
Net income			22,576				22,576
Dividends			(9,716)				(9,716)
Purchase of 2,505 shares of treasury stock				(28,191)			(28,191)
Exercise of stock options	44	634		775			1,453
Stock issued to employee savings plan	27	802		943			1,772
Foreign currency translation adjustments					(695)		(695)
Unrealized loss on mining securities						(125)	(125)
Balances, December 31, 1986	49,511	124,903	423,813	(26,473)	(16,302)	(1,064)	554,388
Net income			146,407				146,407
Dividends			(12,144)				(12,144)
Two-for-one stock split	49,510	(49,510)					
Exercise of stock options		(366)		6,002			5,636
Stock issued to employee savings plan		590		1,137			1,727
Foreign currency translation adjustments					3,010		3,010
Unrealized loss on mining securities						1,064	1,064
Transfer of accumulated translation adjustment to minority interest					2,783		2,783
Balances, December 31, 1987	99,021	75,617	558,076	(19,334)	(10,509)		702,871
Net income			66,401				66,401
Dividends			(19,485)				(19,485)
Exercise of stock options		(281)		896			615
Stock issued to employee savings plan		434		1,313			1,747
Foreign currency translation adjustments					7,266		7,266
Unrealized loss on mining securities						(2,372)	(2,372)
Balances, December 31, 1988	$ 99,021	$ 75,770	$604,992	$(17,125)	$(3,243)	$(2,372)	$757,043

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

Homestake Mining Company and Subsidiaries

For the years ended December 31, 1988, 1987 and 1986 (In thousands)	1988	1987	1986
Cash Flows from Operations:			
Net income	$ 66,401	$146,407	$22,576
Reconcilation of net income to cash provided by operations:			
Depreciation, depletion and amortization	59,113	56,662	59,379
Increase (decrease) in deferred income	(8)	3,446	(8,079)
Undistributed mining venture earnings	(14,785)	(4,969)	(2,687)
Gain on sale of minority interest		(146,336)	
Loss (gain) on disposal of assets	(7,955)	(8,823)	5,202
Reclamation reserves	3,938	191	1,444
Cumulative effect of change in accounting for income taxes	(3,125)		
Deferred income taxes	1,651	26,963	3,996
Undistributed minority interest	(467)	661	
Other non-cash items—net	(5,074)	3,124	(3,813)
Effect of changes in operating working capital items:			
Receivables	(8,318)	1,312	17,243
Inventories	(14,281)	1,001	15,463
Accounts payable	3,803	1,536	(5,567)
Accrued liabilities	(35,050)	35,085	(1,014)
Other—net	4,477	(3,516)	1,255
Net cash provided by operations	50,320	112,744	105,398
Investment Activities:			
Decrease (increase) in short-term investments	69,131	(190,841)	(3,456)
Additions to property, plant and equipment	(111,855)	(39,305)	(43,536)
Acquisitions:			
El Hueso mine in Chile	(51,193)		
North American Metals Corporation	(19,917)		
Net proceeds from sale of minority interest		156,251	
Proceeds from sale of assets	2,326	10,417	2,000
Investment in mining ventures			(15,132)
Investment in mining securities	(12,033)		
Net cash used in investment activities	(123,541)	(63,478)	(60,124)
Financing Activities:			
Proceeds from notes payable	9,136		
Proceeds from long-term debt	35,000		
Long-term debt repayments	(1,750)		
Dividends paid	(19,485)	(12,144)	(9,716)
Common stock issued			3,225
Treasury stock issued (purchased)	2,362	7,363	(28,191)
Net cash provided (used) by financing activities	25,263	(4,781)	(34,682)
Net Increase (Decrease) in Cash and Equivalents	(47,958)	44,485	10,592
Cash and Equivalents, January 1	139,328	94,843	84,251
Cash and Equivalents, December 31	$ 91,370	$139,328	$94,843

See notes to consolidated financial statements.

Significant Accounting Policies

Consolidated financial statements include Homestake Mining Company and its majority-owned subsidiaries after elimination of intercompany amounts. The Company owns 80% of the stock of Homestake Gold of Australia Limited (HGAL) and 73.3% of the stock of North American Metals Corporation (NAM), with the remaining public interests shown as Minority Interest in Consolidated Subsidiaries in the accompanying consolidated financial statements.

Inventories are stated at the lower of cost or market. The cost of gold derived from the Company's operations is primarily determined by the last-in, first-out (LIFO) method. The cost of other inventories is primarily determined by averaging methods.

Mining Accounting Policies: Mineral exploration costs, both tangible and intangible, including those incurred through partnerships and joint ventures, are charged to operations in the year incurred.

Preoperating and development costs relating to new mines and major programs at existing mines are capitalized. Ordinary mine development costs to maintain production, including underground equipment acquisitions, are charged to operations as incurred.

Depreciation and amortization of mining properties, mine development costs and major plant facilities are principally computed by the units-of-production method (based on estimated proven and probable ore reserves). Equipment and other plant facilities are depreciated by straight-line or accelerated methods principally over estimated useful lives of five to ten years.

Oil and Gas Accounting Policies: Exploration and development costs are accounted for by the successful efforts method.

Property acquisition costs are capitalized when incurred. Geological and geophysical costs and delay rentals are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the wells have discovered reserves. If reserves are not discovered, such costs are expensed as dry hole costs. Development costs, including intangible drilling costs and equipment, are capitalized.

Unproved properties with significant acquisition costs are evaluated on a property-by-property basis, and any impairment of acquisition costs is recognized by providing a valuation allowance. Acquisition costs for other unproved properties are amortized on a straight-line basis over their average holding period.

Costs incurred in connection with proved properties, including leasehold acquisition, exploration and development costs, are depreciated or depleted by the units-of-production method (based on oil and gas reserves). Plant and equipment is depreciated by the straight-line method over estimated asset lives of four to twenty years.

Upon sale or retirement of complete units of depreciable or depletable property, the net cost thereof, less proceeds or salvage value, is credited or charged to income. Upon retirement of a partial unit of property, the cost thereof is charged to accumulated depreciation and depletion.

Mining Ventures: Investments in mining venture partnerships (principally Kalgoorlie Mining Associates (KMA) and The Doe Run Company) are reported using the equity method. Undivided interests in mining properties (principally the Round Mountain gold mine) are consolidated on a proportionate interest basis.

Mining securities are carried at the lower of cost or market. Net realized gains and losses are included in net income. Net unrealized losses are reported as a reduction of shareholders' equity, except that significant declines in market value judged to be permanent are recognized in the determination of net income.

Sales are reported as products are delivered. In the normal course of business, certain sales are subject to adjustment upon final settlement.

Income Taxes: Deferred income taxes are determined on the liability method in accordance with Statement of Financial Accounting Standards No. 96 (SFAS 96), "Accounting for Income Taxes." Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. The provision for deferred income taxes represents the change in the Company's deferred income tax liability during the year, including the effect of enacted tax rate changes.

Foreign Currency: Substantially all assets and liabilities of foreign subsidiaries are translated at year-end exchange rates. Accumulated translation adjustments are included in a separate component of shareholders' equity. Transaction adjustments are included in determining net income.

Pension Plans: Pension costs are determined using the projected unit credit actuarial method. The Company funds these plans through annual contributions.

Share and per share data for all years presented reflect restatement for the two-for-one stock split effective November 16, 1987. Net income per share is computed based upon the weighted average number of outstanding common shares. The effect of common stock equivalents is not significant.

Statements of Consolidated Cash Flows

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Additional disclosures of cash and non-cash activities follow:

(In thousands)	1988	1987	1986
Cash paid during the year for:			
Interest, net of amount capitalized	$ 3,863	$1,952	$1,938
Income taxes	49,178	4,333	2,707

Income taxes paid in 1988 includes approximately $35.0 million related to the 1987 gain on sale of minority interest. If this tax payment had been required in 1987, net cash provided by operations would have been $85,320,000 and $77,744,000 in 1988 and 1987, respectively.

Non-cash activities:

See Acquisitions note for information about 1988 non-cash transactions with Galactic Resources Ltd. (Galactic) of Vancouver, B.C.

The Company invested in The Doe Run Company in 1986 by contributing property and investments of $25,287,000 and working capital of $14,634,000.

Gain on Sale of Minority Interest

In October 1987 the Company completed a public offering in Australia and Europe of 100,000,000 shares of common stock of its previously wholly-owned subsidiary, HGAL. The offering represented 20% of the total outstanding shares of HGAL, with the Company retaining 80%. As a result, the Company realized a gain of $146,336,000. The after-tax gain was $94,869,000 or $.98 per share.

Other Income

Other income in 1988 included $8,246,000 from the sale of mineral properties to Galactic. See Acquisitions note for discussion of the transaction.

Other income in 1987 included $5.7 million from sale of mineral properties in New Zealand.

Other income in 1986 included $8.0 million from settlement of natural gas "take-or-pay," pricing claims and other disputes with two customers.

Inventories

As of December 31, 1988 and 1987 the cost of inventories determined by LIFO methods aggregated $4,439,000, and $3,727,000, respectively; such inventories would have approximated $12,108,000, and $12,351,000, respectively, if stated at the lower of market or current year average production costs.

Subsequent Events

Australian Investment—In January 1989 HGAL reached agreement with certain Australian affiliates of Bond International Gold, Inc. (BIG) to combine mining interests in Western Australia's Kalgoorlie District and develop Australia's largest open pit gold mine (Super Pit). The transaction is expected to close in April 1989. The transaction provides for:

- Payment by HGAL of $26 million for 2% of KMA, increasing HGAL's interest in KMA to 50%.
- Payment by HGAL of $27 million for 50% of Mt. Percy and Fimiston/Paringa mining interests and working capital.
- Payment by HGAL of $48 million as reimbursement for 50% share of the cost of the nearly completed Fimiston mill (estimated to total $96 million) and 50% of the costs to complete construction.
- Formation of a new 50-50 joint venture to operate the Fimiston/Paringa interests and the new mill.
- Formation of a new 50-50 owned management company to manage all of the consolidated operations in the Kalgoorlie District.
- Establishment of a cooperation agreement under which all of the consolidated operations are to be managed for the long-term benefit of all the participating companies.
- Payment by HGAL of 50% of the additional cost of development of the Super Pit. HGAL's share of such additional costs is expected to be about $50 million.

HGAL and the BIG affiliates will share all venture costs equally. However, one of the BIG affiliates will be entitled to receive more gold than its 50% venture interest in a portion of the Super Pit. The amount will depend upon costs, gold prices and production from that part of the Super Pit area contributed by a BIG affiliate until 36.0 million tons of ore have been mined. Based on current production plans, projected costs and current gold prices, HGAL expects to receive 38% of the gold production from that part of the Super Pit area contributed by such BIG affiliate. HGAL expects to receive 47% of total production from the venture.

Acquisition of Mineral Properties — In early 1989 a Canadian subsidiary of the Company reached a preliminary agreement to acquire certain mineral exploration properties from Esso Minerals Canada. The final details of the properties included and the resulting acquisition cost have not yet been determined.

Sale of Felmont Oil Corporation (Felmont) Properties — In February 1989 Felmont signed a definitive agreement to sell its 20% working interest in Eugene Island Blocks 108 and 109 to NERCO Oil and Gas Corporation for approximately $24.0 million. The Company expects to record an after-tax gain of approximately $14.0 million on closing in April 1989.

Acquisitions

NAM — In April 1988 the Company acquired 73.3% of the common stock of NAM for $24.0 million. The acquisition was accounted for using the purchase method of accounting for business combinations. The assets acquired were comprised of $4.0 million of net working capital, $1.3 million of other assets and $20.1 million of mining properties. The minority interest share of net tangible assets was $1.4 million at the acquisition date.

El Hueso Mine — In June 1988 the Company acquired a ten-year lease on an operating gold mine in the El Hueso district of Chile for $51.2 million and certain working capital for $8.8 million. This acquisition was partially funded by the proceeds from a $35.0 million loan (see Long-Term Liabilities note).

Galactic Resources Ltd. — In August 1988 Homestake sold a 50% interest in certain California mineral exploration properties and gave $4.5 million in exchange for 2.5 million Galactic common shares. Other income includes a $8,246,000 gain from the property sale. Galactic has committed to acquire the remaining 50% interest in these properties in two equal installments in August 1989 and 1990 for one million shares or $8,750,000 each. An additional August 1990 payment may be required by Galactic to ensure the then current value of all consideration received by Homestake totals $39,375,000.

Homestake purchased an additional one million Galactic common shares for $5.7 million in a November 1988 private placement and received warrants to purchase an additional one million common shares through November 1991.

At December 31, 1988 the Company's investment in Galactic totaled 3.5 million shares (a 9.96% interest) at a market value of approximately $15.0 million. The acquisition of these shares included a non-cash amount of $8,350,000 related to the properties sold.

Mining Ventures

Undivided Interests:

Round Mountain Gold Mine — The Company has a 25% undivided interest in a gold mine at Round Mountain in Nye County, Nevada. The operation includes an operating gold mine, gold extraction facilities, and surrounding patented and unpatented mining claims. Mining and gold recovery operations are conducted at cost for the tenants in common who take product in kind.

Mining Venture Partnerships:

Kalgoorlie Mining Associates, a partnership in which HGAL, an 80% owned consolidated subsidiary of Homestake, has a 48% interest, operates gold mining and processing facilities in Western Australia and markets the partnership products. HGAL's investment (represented by partnership equity) aggregated $46,753,000, $37,122,000 and $31,796,000 at December 31, 1988, 1987 and 1986, respectively. Summarized financial position at December 31, 1988, 1987 and 1986 and operating earnings for the years then ended are as follows:

Kalgoorlie Mining Associates

(In thousands)	1988	1987	1986
Financial Position:			
Current assets	$ 28,169	$21,207	$16,420
Property and deferred charges — net	90,189	72,675	63,829
Total	$118,358	$93,882	$80,249
Current liabilities	$14,296	$12,217	$10,247
Long-term debt	1,285	533	266
Partners' equity:			
Kalgoorlie Lake View Proprietary Ltd.	56,024	44,010	37,940
HGAL	46,753	37,122	31,796
Total	$118,358	$93,882	$80,249
Operations:			
Revenues	$105,542	$112,678	$85,120
Costs and expenses	76,350	57,984	49,494
Net earnings	$ 29,192	$ 54,694	$35,626

The Doe Run Company — The Company, through a wholly-owned subsidiary, has an investment in a lead and by-product mineral partnership called The Doe Run Company that was formed in November 1986. Homestake has a 42.5% interest in the partnership.

Homestake's investment aggregated $61,823,000 and $49,724,000 at December 31, 1988 and 1987, respectively. Homestake's 42.5% share of the net assets contributed to The Doe Run Company exceeded its investment by $23.2 million at November 1, 1986. Accordingly, Homestake's share of The Doe Run Company's net earnings is being adjusted over the estimated useful lives of the related assets to reflect the Company's cost basis. Summarized financial position at December 31, 1988, 1987 and 1986 and operating earnings for the years ended December 31, 1988 and 1987 and the two months ended December 31, 1986 are as follows:

The Doe Run Company *(In thousands)*	1988	1987	1986
Financial Position:			
Current assets	$111,062	$85,790	$74,440
Property and deferred charges — net	106,363	103,222	109,034
Total	$217,425	$189,012	$183,474
Current liabilities	$21,528	$15,605	$11,909
Long-term debt	6,470	7,000	7,000
Partners' equity:			
St. Joe Minerals Corporation	109,429	95,684	94,625
Homestake	79,998	70,723	69,940
Total	$217,425	$189,012	$183,474
Operations:			
Revenues	$230,222	$174,369	$22,670
Costs and expenses	166,843	149,635	18,700
Net earnings	$ 63,379	$ 24,734	$ 3,970

A reconciliation between Homestake's percentage share of earnings in its mining venture partnerships and its recorded share of earnings of these mining venture partnerships is shown below:

(In thousands)	1988	1987	1986
Percentage share of net earnings:			
Kalgoorlie Mining Associates (48%)	$14,013	$26,254	$17,100
The Doe Run Company (42.5%)	26,936	10,512	1,687
Adjustment to Homestake's share of net earnings	2,826	2,007	193
Total	29,762	12,519	1,880
Total share of earnings Mining Venture Partnerships	$43,775	$38,773	$18,980

Property, Plant and Equipment

Property, plant and equipment at December 31 was as follows:

(In thousands)	1988	1987
Mineral:		
Mining properties	$116,554	$ 36,382
Mine development costs	132,181	111,305
Plant and equipment	399,271	365,243
Land and royalty interests	9,764	9,765
Construction and mine development in progress	56,144	21,169
Total mineral	713,914	543,864
Oil and gas:		
Development costs and equipment on producing oil and gas properties	177,054	172,982
Producing lease and royalty interests	29,010	27,807
Unproved properties	19,660	17,460
Other	3,124	3,146
Total oil and gas	228,848	221,395
Total property, plant and equipment	$942,762	$765,259

Income Taxes

In 1988 the Company elected early adoption of SFAS 96 which requires an asset and liability approach for financial accounting and reporting for income taxes. The cumulative effect of this accounting change increased 1988 net income by $3,125,000 or $.03 per share. The impact of the change on the 1988 tax provision was not material.

The provision for income taxes consists of the following:

(In thousands)	1988	1987	1986
Current:			
Federal	$14,913	$33,588	$(1,463)
State and local	2,446	4,333	420
Foreign	1,190	1,537	
Total current	18,549	39,458	(1,043)
Deferred (principally federal):			
Mine preoperating and development costs — net of amortization	1,890	893	2,767
Net operating loss carryforward		8,789	(9,277)
Investment tax credit carryforward — net of basis reduction		22,573	(3,555)
Accelerated depreciation	8,715	7,591	13,513
Leasehold and royalty costs — net of amortization	(1,217)	(1,314)	1,910
Intangible drilling and development costs — net of depletion	(2,453)	(5,223)	(4,041)
Mineral exploration — net of amortization	(2,119)	(1,414)	(726)
Reclamation reserves	(3,000)		(391)
Deferred income	(1,032)	(2,996)	3,821
Alternative minimum tax carryforward	(2,200)		
Other	(484)	(1,937)	(25)
Total deferred	(1,900)	26,962	3,996
Total	$16,649	$66,420	$ 2,953

The provision for income taxes is based on pre-tax income (loss) as follows:

(In thousands)	1988	1987	1986
United States	$88,376	$194,884	$15,098
Foreign	(7,415)	18,604	10,431
Total	$80,961	$213,488	$25,529

Major items causing the Company's income tax provision to differ from the federal statutory rates of 34% in 1988, 40% in 1987 and 46% in 1986 were:

(In thousands)	1988	1987	1986
Income tax at statutory rate	$ 27,527	$ 85,395	$ 11,743
Percentage depletion	(12,291)	(10,697)	(11,961)
Alternative minimum tax			
(net of carryforward)	2,178		3,652
State income taxes	2,064	4,333	420
Capital gains		(9,335)	
Reclamation reserve benefit	(2,006)		
Other — net	(823)	(3,276)	(901)
Income tax provision	$ 16,649	$ 66,420	$ 2,953

Long-Term Liabilities

Long-term debt at December 31 consists of:

(In thousands)	1988	1987
Notes payable (due 1989-1993)	$33,250	$
Pollution Control bonds:		
Lawrence County, South Dakota (due 2003)	18,000	18,000
State of California (due 2004)	17,000	17,000
Sub-total	68,250	35,000
Less current portion	8,000	
Total long-term debt	$60,250	$35,000

During 1988 Minera Homestake Chile, S.A., a 100% owned subsidiary of the Company borrowed $35.0 million from a U.S. bank to be used in the acquisition of the lease of the El Hueso Mine. Interest is payable in variable installment periods of one to six months and is based on LIBOR or bank certificate of deposit rates. The interest rate was 10.2% at December 31, 1988 and averaged 8.7% during the year. Annual principal payments required are $8.0 million in each year from 1989 through 1992 and $1,250,000 in 1993.

Interest on the pollution control bonds is payable monthly based on variable short-term tax-exempt obligation rates. The rates at December 31, 1988 and 1987 were 6.5% and 6.8%, respectively; the average rates were 5.1% and 4.8%, respectively, for the years then ended. There are no principal payments until cancellation, redemption or maturity. Bondholders have the right to tender the bonds for payment at par at any time on seven days notice. The Company has made arrangements with underwriters to remarket any tendered bonds and with a bank to purchase and hold for up to 15 months any tendered bonds which the underwriters are unable to remarket. The Company has certain rights with respect to bond redemption and changes in the interest rate terms.

The Company has two revolving loan agreements providing for a total of $245.0 million. No funds have been borrowed under either agreement. Additionally, the Company's majority-owned foreign subsidiaries have two unsecured credit facilities providing an aggregate $16.0 million. Borrowings under these credit facilities totaled $9,136,000 at December 31, 1988, with a weighted average interest rate of 12.2%. The Company has guaranteed up to $12.0 million under one of these credit facilities of which $6,035,000 was outstanding at December 31, 1988.

Interest costs of $3,961,000, $1,885,000, and $1,790,000 were expensed in 1988, 1987 and 1986, respectively. During 1988 the Company capitalized interest of $105,000 related to interest incurred during the period required to develop qualified assets.

Other long-term obligations at December 31 consist of:

(In thousands)	1988	1987
Reclamation reserves	$17,247	$13,310
Deferred income	8,346	8,354
Other	6,918	9,622
Total	$32,511	$31,286

See Contingencies — Environmental note for a discussion of reclamation reserves.

Deferred income consists of advance payments received principally on oil and gas sales contracts, which will be recognized as revenue when the related products are delivered.

Employee Plans

The Company has several pension plans covering substantially all employees. Plans covering salaried and other nonunion employees provide pension benefits that are based on years of service and the employee's highest compensation during any 60 consecutive months prior to retirement. Plans covering union employees provide benefits of stated amounts for each year of service.

Pension expense for 1988, 1987 and 1986 included the following components:

(In thousands)	1988	1987	1986
Service cost-benefits earned during the year	$ 2,791	$ 2,678	$ 2,481
Interest cost on projected benefit obligation	8,151	7,452	6,990
Actual return on assets	(15,242)	(5,064)	(15,820)
Net amortization and deferral	6,831	(3,090)	8,571
Early retirement program cost	703		
Net pension expense	$ 3,234	$ 1,976	$ 2,222

Assumptions used in determining pension expense and the status of the plans were:

Discount rate	8%	8%	8%
Rates of increase in compensation levels	6%	6%	6%
Expected long-term rate of return on assets	8%	8%	8%

The funded status and amounts recognized for pension plans in the Company's consolidated balance sheets are shown in the following table:

	December 31, 1988		December 31, 1987	
	Plans Where		Plans Where	
(In thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefits	$ (84,985)	$(2,400)	$(79,087)	$(2,098)
Accumulated benefits	$ (86,733)	$(2,400)	$(81,587)	$(2,098)
Projected benefits	$(103,920)	$(3,909)	$(96,438)	$(3,417)
Plan assets at fair value[1]	119,110		105,028	
Projected benefit obligation (in excess of) or less than plan assets	15,190	(3,909)	8,590	(3,417)
Unrecognized net gain	(11,038)	(1,032)	(7,640)	(1,032)
Unrecognized prior service costs			287	
Unrecognized net transition obligation (asset) amortized over 15 years	(6,871)	2,006	(7,259)	2,188
Pension liability recognized in the consolidated balance sheets	$ (2,719)	$(2,935)	$(6,022)	$(2,261)

[1]*About 56% and 58% of the plan assets were invested in fixed-rate insurance contracts and the balance was invested in listed stocks and bonds in 1988 and 1987, respectively.*

All full-time salaried employees of the Company are eligible to participate in the Company's defined contribution savings plan. The Company's matching contribution, made in the form of Homestake common stock, was $1.4 million in 1988 and $1.1 million in 1987 and 1986.

The Company provides certain health care benefits for retired employees, primarily retirees of the Homestake gold mine. These benefits are expensed as paid. Such payments for retired employees were $891,000, $580,000 and $560,000, in 1988, 1987 and 1986, respectively.

In May 1988 the Company's shareholders approved the 1988 Employee Stock Option and Share Rights Plan. The 1978 Employees' Non-Qualified Stock Option Plan terminated in October 1988 while the 1981 Incentive Stock Plan remained in effect. Under these plans, options to buy 1,774,000 and 1,478,000 common shares at an average price of $13 and $12 per share were outstanding, of which 1,099,000 and 804,000 shares were exercisable, at December 31, 1988 and 1987, respectively. An additional 2,784,000 shares were available for future grants at December 31, 1988.

Stock options exercised:

	1988	1987	1986
Shares	80,000	430,000	147,000
Stock appreciation rights		188,000	16,000
Total shares	80,000	618,000	163,000
Average price per share	$8	$10	$7

Capital Stock

In October 1987 the Board of Directors declared a dividend of one Right for each share of common stock outstanding on and after November 12, 1987. The terms of the Rights are set forth in a Rights Agreement dated as of October 16, 1987 between the Company and Bank of America National Trust and Savings Association, as Rights Agent ("Rights Agreement"). The following summary is qualified by reference to the Rights Agreement.

Rights will become exercisable on the earlier of (i) the tenth day after public disclosure that a person or group acquired, or obtained the right to acquire, 20% or more of the then outstanding common stock of the Company, or, (ii) the tenth day after commencement of, or first public disclosure of an intent to commence, a tender or exchange offer for 20% or more of such common stock. Rights will expire on November 2, 1997.

Rights may be redeemed by the Company at any time before they become exercisable for one cent per Right. Before exercise, the holder of a Right, as such, will not be a shareholder of the Company and will have no right to vote or receive dividends.

When Rights become exercisable, holders will be entitled to purchase from the Company one one-hundredth of a share of

Series A Participating Cumulative Preferred Stock, par value $1 per share, at a price of $75. Until that time, Rights will be evidenced by certificates for common stock and not by separate Rights certificates.

After a Right is exercisable and (i) the Company is thereafter acquired in a merger or other business combination and 50% or more of its assets or assets representing 50% or more of its earning power are disposed of to a publicly traded corporation or (ii) a person or group acquires 30% or more of the Company's common stock and thereafter engages in certain self-dealing transactions, the Rights will entitle each holder of a Right to purchase certain securities of such publicly traded corporation or such an acquiring person or certain of its affiliates, all as provided in the Rights Agreement.

Contingencies

Environmental: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) imposes heavy liabilities on persons who discharge hazardous substances. In 1983 the Environmental Protection Agency (EPA) published a National Priorities List (NPL), in order of priority, of known or threatened releases of such substances. The NPL does not constitute a determination that remedial action is required or that any person is liable for remedial action or environmental damage.

An 18-mile stretch of Whitewood Creek in the Black Hills of South Dakota is site number 21 on the NPL. EPA asserts that discharges of tailings by mining companies, including the Company, for more than 100 years have contaminated soil and water. In late 1985 EPA, the State and the Company completed a joint study. The Company believes that the study establishes that the tailings represent no significant threat to human health or the environment. The Company and the State have petitioned EPA to remove the site from the NPL.

In September 1988 EPA notified the Company that it was a potentially responsible party (PRP) for the site under CERCLA. A PRP may be liable for all response costs for a CERCLA site. In December 1988 the Company agreed to prepare a feasibility study (FS) to evaluate alternatives for remedial action, if any, for the site. The FS is scheduled to be completed during 1989.

In September 1988 a subsidiary of the Company entered into a joint venture to recover gold from the tailings along Whitewood Creek if acceptable conditions can be obtained from EPA and state and local agencies.

The tailings at the Company's uranium mill near Grants, New Mexico, are site number 567 on the NPL. EPA asserts that leachate from the tailings has contaminated a shallow aquifer that serves nearby residential subdivisions. The Company has completed all remedial measures required by an agreement and stipulation with EPA. In October 1986 EPA notified the Company that it was a PRP for the Grants site. Under a June 1987 agreement with EPA, the Company began a long-term study of indoor radon levels in houses in the subdivisions. The Company believes that monitoring shows that radon concentrations exceed the threshold level recommended by EPA in less than 15% of the houses and that concentrations in all the houses are well below naturally occurring residential radon levels reported by EPA surveys in other areas of New Mexico and in other states. The study is expected to be completed in 1989.

In December 1986 the Company submitted to the Nuclear Regulatory Commission (NRC) a plan for decommissioning the Grants mill and reclaiming the tailings as required by NRC regulations. If the plan is approved by NRC, the Company estimates that the work will occur over a 15-year period beginning as early as 1993. Legislation has been proposed which would require the U.S. government and nuclear power facilities to share in the cost of clean-up of mill tailings.

The State of New Mexico has made a claim against the Company for unspecified natural resource damages resulting from the Grants tailings. The State of South Dakota has made a similar claim as to the Whitewood Creek tailings. The Company denies all liability for the two CERCLA sites.

The Company has brought suit to secure indemnity for costs from its liability insurance carriers and declaratory judgments that the carriers must indemnify the Company against any future liabilities in connection with the two sites.

The Company will continue to evaluate these matters and believes that it has adequate reclamation reserves and that the ultimate resolution of these matters will not have a material adverse impact on its financial condition.

Commitments: The Company has made various other commitments in the course of its business, including commitments in connection with long-term contracts for sale of products, and federal and state environmental and health and safety permits.

Segment and Geographic Information

For segment and geographic information for the Company's businesses, see page 38.

Supplementary Oil and Gas Data

The Company's oil and gas producing activities are conducted by Felmont and its wholly-owned subsidiaries, Black Hills Oil and Gas Company, Felmont Natural Gas Storage Company, Inc. and Monogas Oil Corporation. Substantially all of these activities are conducted within the United States.

Capitalized Costs: The costs relating to oil and gas exploration, development and producing activities of the Company, which were capitalized as of December 31, 1988 and 1987 and the related reserves for depreciation, depletion and amortization were as follows:

(In thousands)	1988	1987
Capitalized costs:		
Proved properties	$206,064	$200,789
Unproved properties	19,660	17,460
Total	225,724	218,249
Accumulated depreciation, depletion and amortization	(167,358)	(149,965)
Net capitalized costs	$ 58,366	$ 68,284

Amounts capitalized include lease acquisition costs, interest costs relating to the development of qualifying assets, intangible drilling costs applicable to productive wells and to development dry holes and equipment costs related to the development of oil and gas reserves.

Costs Incurred: The amounts capitalized or charged against income as incurred in the oil and gas acquisition, exploration and development activities of the Company for 1988, 1987 and 1986 were as follows:

(In thousands)	1988	1987	1986
Property acquisition	$ 2,550	$ 1,829	$ 888
Exploration	10,448	4,699	6,647
Development	5,275	3,500	5,999
Total costs incurred	$18,273	$10,028	$13,534

Results of Operations: The results of operations for the Company's oil and gas producing activities, including royalty interests, for 1988, 1987 and 1986 were as follows:

(In thousands)	1988	1987	1986
Revenues[1]	$41,997	$39,271	$49,398
Production costs	8,753	7,767	8,177
Exploration expenses:			
Dry holes, geological, geophysical and other	6,806	1,911	5,745
Amortization of unproved properties	3,804	3,034	3,875
Total exploration	10,610	4,945	9,620
Technical support and other	3,937	3,919	3,754
Depreciation and depletion	17,512	21,581	23,088
Total costs and expenses	40,812	38,212	44,639
Income before income taxes	1,185	1,059	4,759
Income tax provision	200	238	2,242
Results of operations from producing activities	$ 985	$ 821	$ 2,517

[1]*Includes revenues related to the settlement of natural gas contract disputes.*

Reserves (Unaudited): The Company's net proved developed and undeveloped reserves of oil and gas for 1988, 1987 and 1986 have been estimated by the Company's engineers and are shown below. The 1987 reserve estimates have been audited by K&A Energy Consultants, Inc., independent petroleum engineers, in accordance with SEC guidelines. The Company believes that reserve estimates are, by their very nature, inherently imprecise, and may be subject to substantial revision.

	Oil (Bbls)	Gas (MCF)
Net proved reserves:		
As of January 1, 1986	4,213,762	88,599,581
Increase (decrease) during 1986 attributable to:		
Revisions of previous estimates	(200,671)	(5,633,283)
Extensions, discoveries and other additions	56,141	3,642,630
Production[1]	(895,422)	(12,623,509)
Sale of in-place reserves	(81,451)	(1,085,070)
As of December 31, 1986	3,092,359	72,900,349
Increase (decrease) during 1987 attributable to:		
Purchase of in-place reserves	46,789	320,404
Revisions of previous estimates	922,779	1,155,769
Extensions, discoveries and other additions	198,172	3,769,691
Production[1]	(812,311)	(12,220,467)
Sale of in-place reserves		(85,477)
As of December 31, 1987	3,447,788	65,840,269
Increase (decrease) during 1988 attributable to:		
Purchase of in-place reserves	37,138	483,848
Revisions of previous estimates	633,976	1,574,041
Extensions, discoveries and other additions	359,223	2,029,265
Production[1]	(796,666)	(13,163,687)
Sale of in-place reserves	(125)	(36,726)
As of December 31, 1988[2]	3,681,334	56,727,010
Net proved developed reserves:		
As of December 31, 1985	4,075,725	79,983,509
As of December 31, 1986	2,791,510	65,119,216
As of December 31, 1987	3,296,953	62,071,950
As of December 31, 1988[2]	3,668,128	56,027,101

[1]*Includes royalty production as follows:*

1986	110,750	439,918
1987	108,937	385,016
1988	123,849	590,251

[2]*Effective January 1, 1989 Felmont exchanged substantially all of its Appalachian proved reserves with Cabot Oil and Gas Corporation for Cabot's interest in an offshore Louisiana Block. Net proved reserves after the exchange totaled 4,301,096 barrels and 54,741,490 MCF.*

Discounted Future Net Cash Flows (Unaudited): The standardized measure of discounted future net cash flows and the changes therein related to proved oil and gas reserves at December 31, 1988, 1987 and 1986 are shown below. In preparing the following data, the Company's oil and gas prices were based on prices received at December 31, 1988, 1987 and 1986, taking into consideration price changes provided by contractual arrangements and fixed and determinable price escalations. Development and production costs were estimated on the assumption that existing economic conditions will continue. Income tax expenses are calculated based upon the 34% statutory rate in effect in future years. Future net cash flow estimates derived by applying year-end prices and costs as constants to future production activity are largely unreliable for realistic economic evaluation because of constantly changing prices and costs. The standardized measure of discounted future net cash flows at December 31, 1988 includes approximately $7.4 million related to Eugene Island Blocks 108 and 109 which the Company has agreed to sell as discussed in the note on Subsequent Events.

(In thousands)	1988	1987	1986
Discounted future net cash flows:			
Future cash inflows	$168,367	$194,530	$189,183
Future production costs	(41,442)	(39,229)	(37,383)
Future development costs	(12,435)	(17,266)	(10,239)
Future income tax expenses	(26,144)	(38,029)	(33,070)
Future net cash flows	88,346	100,006	108,491
Discount for estimated timing of cash flows (10% discount rate)	(24,130)	(29,310)	(32,232)
Standardized measure of discounted future net cash flows	$ 64,216	$ 70,696	$ 76,259

Following are the principal sources of change in the standardized measure of discounted future net cash flows for 1988, 1987 and 1986:

(In thousands)	1988	1987	1986
Standardized measure of discounted future net cash flows at beginning of year	$70,696	$76,259	$110,501
Sales of oil and gas produced— net of production costs	(29,541)	(30,853)	(32,598)
Net changes in prices and production costs	(11,356)	10,030	(49,386)
Extensions, discoveries and improved recovery less related costs	5,646	5,108	3,408
Development costs incurred during the period	5,275	3,500	5,999
Changes in estimated future development costs	(33)	(5,528)	(4,449)
Revisions of previous reserve estimates	5,986	8,289	(21,555)
Accretion of discount	9,568	9,617	17,590
Net change in income taxes	6,029	(4,981)	53,575
Purchase of minerals in-place	419	844	
Sale of minerals in-place	(27)	(79)	(3,826)
Other	1,554	(1,510)	(3,000)
Standardized measure of discounted future net cash flows at end of year	$64,216	$70,696	$76,259

Independent Auditors' Report

The Shareholders and Board of Directors of Homestake Mining Company:

We have audited the accompanying consolidated balance sheets of Homestake Mining Company and subsidiaries as of December 31, 1988 and 1987 and the related statements of consolidated income, consolidated shareholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based upon our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Homestake Mining Company and subsidiaries at December 31, 1988 and 1987 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in the Income Taxes note to such consolidated financial statements, in 1988 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 96.

Deloitte Haskins & Sells

San Francisco, California
February 21, 1989

Management's Responsibility for Financial Reporting

Homestake Mining Company and Subsidiaries

The accompanying consolidated financial statements of Homestake Mining Company and subsidiaries are prepared by the Company's management in conformity with generally accepted accounting principles. Management is responsible for the fairness of the financial statements, which include estimates based on judgments.

The Company maintains accounting and other control systems which management believes provide reasonable assurance that financial records are reliable for the purposes of preparing financial statements and that assets are properly safeguarded and accounted for. Underlying the concept of reasonable assurance is the premise that the cost of control should not be disproportionate to the benefits expected to be derived from control. The Company's internal control system is reviewed by its internal auditors and by the independent auditors in connection with their audit of the Company's consolidated financial statements.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets periodically with management, internal auditors and the independent auditors to discuss the annual audit, internal control, internal auditing and financial reporting matters. The independent auditors and the internal auditors have direct access to the Audit Committee.

Harry M. Conger
Chairman of the Board and Chief Executive Officer

Richard W. Stumbo, Jr.
Vice President, Finance and Chief Financial Officer

THREE-YEAR SEGMENT INFORMATION

Homestake Mining Company and Subsidiaries

(In thousands)	1988	1987	1986
Product Sales and Other Revenues:			
Gold[1]	$312,966	$279,137	$221,449
Base metals[2]	29,762	12,302	19,689
Oil and gas	42,260	40,123	49,193
Uranium	9,515	15,325	49,848
Corporate[4]	38,095	169,339	7,485
Total	$432,598	$516,226	$347,664
Operating Earnings:			
Gold[1]	$ 90,243	$ 88,965	$ 47,911
Base metals[2]	29,762	12,157	(3,377)
Oil and gas — net of exploration expense[3]	1,303	1,817	4,326
Uranium	(5,704)	(527)	12,676
Operating earnings	115,604	102,412	61,536
Mineral exploration	(31,862)	(23,504)	(17,702)
Net corporate income (expense)[4]	(2,781)	134,580	(18,305)
Income Before Income Taxes and Minority Interest	$ 80,961	$213,488	$ 25,529
Depreciation, Depletion and Amortization:			
Gold	$ 36,360	$ 30,398	$ 27,067
Base metals			896
Oil and gas	20,950	24,682	25,579
Uranium	13		4,316
Corporate and other	1,790	1,582	1,521
Total	$ 59,113	$ 56,662	$ 59,379
Exploration Expense:			
Gold	$ 30,012	$ 23,230	$ 17,548
Oil and gas	10,610	4,945	9,620
Uranium	140	154	154
Corporate, sulfur and other	1,710	120	
Total	$ 42,472	$ 28,449	$ 27,322
Additions to Property, Plant and Equipment:			
Gold	$ 92,716	$ 29,720	$ 33,366
Base metals			121
Oil and gas	11,583	8,562	8,633
Uranium	43		828
Corporate and other	7,513	1,023	588
Total	$111,855	$ 39,305	$ 43,536
Identifiable Assets as of December 31:			
Gold	$501,267	$397,434	$382,888
Base metals	62,713	50,009	47,715
Oil and Gas	106,399	87,278	105,200
Uranium	22,846	16,005	24,896
Corporate and other	291,008	364,705	132,597
Total	$984,233	$915,431	$693,296

[1] *Includes profits from KMA as follows: 1988, $14,013; 1987, $26,254; 1986, $17,100.*

[2] *Includes profits from The Doe Run Company as follows: $29,762 and $12,519 for the years ended December 31, 1988 and 1987, respectively and $1,880 for the two months ended December 31, 1986.*

[3] *Includes $8,000 gain for settlement of natural gas "take-or-pay," pricing claims and other disputes with two customers in 1986.*

[4] *Includes $8,246 gain from sale of mineral properties in 1988. Includes $146,336 gain on the sale of minority interest and $5,700 gain from sale of mineral properties during 1987.*

THREE-YEAR GEOGRAPHIC AREA INFORMATION

Homestake Mining Company and Subsidiaries

(In thousands)	1988	1987	1986
Product Sales and Other Revenues:			
U.S.	$405,273	$489,972	$330,564
Australia	14,013	26,254	17,100
Chile	13,312		
Total	$432,598	$516,226	$347,664
Operating Earnings:			
U.S.	$103,357	$ 76,158	$ 44,436
Australia	14,013	26,254	17,100
Chile	(1,766)		
Total	$115,604	$102,412	$ 61,536
Exploration Expense:			
U.S.	$ 27,548	$ 21,021	$ 21,979
Australia	6,695	4,412	2,822
Chile	389		
Canada	6,804	2,268	1,487
Other foreign	1,036	748	1,034
Total	$ 42,472	$ 28,449	$ 27,322
Identifiable Assets as of December 31:			
U.S.	$827,314	$873,223	$659,763
Australia	47,489	40,777	33,045
Chile	57,152		
Canada	52,278	1,431	488
Total	$984,233	$915,431	$693,296

NOTES TO THREE-YEAR SEGMENT INFORMATION

Homestake Mining Company and Subsidiaries

The Company is engaged principally in mining, production of oil and gas, and related activities. Its primary products, for which segment information is presented, are gold, base metals, uranium and oil and gas. Partnerships and joint ventures are included in segment operations and identifiable assets. In determining operating earnings, which are defined as revenues less operating costs and expenses, none of the following items has been included: mineral exploration costs, corporate income and expense, and income taxes. Identifiable assets represent those assets used in the segment's operations. Corporate assets are principally cash and equivalents and short-term investments.

Sales to individual customers exceeding 10% of the Company's consolidated revenues were as follows: in 1988 gold sales to three customers of $62,208,000, $51,883,000 and $49,054,000; in 1987 gold sales to two customers of $63,313,000 and $55,825,000; in 1986 gold sales of $36,150,000 to one customer and uranium sales of $36,551,000 to another.

FIVE-YEAR SELECTED FINANCIAL DATA

Homestake Mining Company and Subsidiaries

(In thousands, except per share amounts)	1988	1987	1986	1985	1984
Revenues	$432,598	$516,226	$347,664	$343,171	$319,723
Net Income	66,401[1]	146,407[2]	22,576	23,296	29,158
Net Income per Share[3]	.68[1]	1.51[2]	.23	.24	.30
Total Assets	984,233	915,431	693,296	711,629	692,528
Long-Term Debt	60,250	35,000	35,000	35,000	35,000
Other Long-Term Obligations	32,511	31,286	26,905	29,765	8,066
Minority Interest in Consolidated Subsidiaries	10,067	7,949			
Dividends per Share[3]	.20	.125	.10	.10	.10

[1]*Includes $3,125, or $.03 per share, from the cumulative effect of the change in accounting for income taxes.*
[2]*Includes $94,869 or $.98 per share from gain on sale of minority interest in HGAL.*
[3]*All per share information has been restated to reflect the two-for-one stock split effective November 16, 1987.*

SELECTED QUARTERLY DATA

Homestake Mining Company and Subsidiaries

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1988:					
Revenues	$96,773	$106,569	$103,551	$125,705	$432,598
Net Income	20,133[1]	19,239	11,212	15,817	66,401[1]
Net Income per Share[3]	.21[1]	.19	.12	.16	.68[1]
Dividends per Share[3]	.05	.05	.05	.05	.20
1987:					
Revenues	$75,322	$104,177	$ 87,051	$249,676[2]	$516,226[2]
Net Income	5,793	18,446	10,179	111,989[2]	146,407[2]
Net Income per Share[3]	.06	.19	.11	1.15[2]	1.51[2]
Dividends per Share[3]	.025	.025	.025	.05	.125

[1]*Includes $3,125 or $.03 per share from the cumulative effect of the change in accounting for income taxes.*
[2]*Revenues include a gain of $146,336 from sale of minority interest. The after-tax gain was $94,869 or $.98 per share.*
[3]*All of the per share information has been restated to reflect the two-for-one stock split effective November 16, 1987.*

COMMON STOCK PRICE RANGE

Homestake Mining Company and Subsidiaries

(Prices as quoted on the New York Stock Exchange, restated for two-for-one stock split effective November 16, 1987)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1988: High	$19.00	$16.75	$15.88	$15.00	$19.00
Low	13.38	14.00	13.50	12.13	12.13
1987: High	$17.13	$20.50	$24.06	$24.00	$24.06
Low	12.38	16.13	17.69	12.56	12.38

Board of Directors

Hadley Case
Chairman of the Board and
Chief Executive Officer
Case, Pomeroy & Company, Inc.

***Robert H. Clark, Jr.**
President
Case, Pomeroy & Company, Inc.

Harry M. Conger
Chairman of the Board and
Chief Executive Officer
Homestake Mining Company

David K. Fagin
President and Chief Operating Officer
Homestake Mining Company

Douglas W. Fuerstenau
Professor
Department of Materials Science
and Mineral Engineering
University of California, Berkeley

William A. Humphrey
Executive Vice President
Homestake Mining Company

***Robert K. Jaedicke**
Dean
Graduate School of Business
Stanford University

Wallace Macgregor
Independent Metals and
Minerals Advisor

***Leonard Marks Jr.**
Former Executive Vice President
Castle & Cooke, Inc.

John Neerhout, Jr.
Executive Vice President and Director
Bechtel Group, Inc.

Stuart T. Peeler
Petroleum Industry Consultant

***Glen L. Ryland**
President
RYCO, Inc.

Berne A. Schepman
President
The Adair Company

**Member of Audit Committee*

Officers

Harry M. Conger
Chairman of the Board and
Chief Executive Officer

David K. Fagin
President and Chief Operating Officer

William A. Humphrey
Executive Vice President

Robert R. Beebe
Senior Vice President

Lee A. Graber
Vice President, Corporate Development

Richard R. Hinkel
Vice President, Human Resources

Richard A. Holway
Vice President, Marketing

William G. Langston
Vice President and General Counsel

Robert A. Reveles
Vice President, Government Affairs

Richard W. Stumbo, Jr.
Vice President, Finance and
Chief Financial Officer

Allen S. Winters
Vice President, Mine Operations

Robert L. Watson
Controller

Jonathan J. Williams
Treasurer and Secretary

Dennis B. Goldstein
Corporate Counsel and
Assistant Secretary

Thomas H. Wong
Assistant Treasurer and
Assistant Secretary

Richard J. Stoehr
Senior Consultant to Chairman of the
Board and Chief Executive Officer

Director and Officer Changes

Dennis B. Goldstein was elected Corporate Counsel and Assistant Secretary on May 10, 1988.

Charles T. Undlin resigned as a director on May 10, 1988.

Lynn Walker resigned as a director and officer of the Company on June 24, 1988.

Rex Guinivere resigned as Vice President, Engineering on November 15, 1988.

Robert R. Beebe, formerly Vice President, Project Development, was elected Senior Vice President on November 18, 1988.

Vincent A. Schioppo resigned as Assistant Treasurer and Assistant Secretary on January 12, 1989.

Thomas H. Wong was elected Assistant Treasurer and Assistant Secretary on January 27, 1989.

John Neerhout, Jr. was elected a member of the Board of Directors on January 27, 1989.

Mining Operations

Homestake Mine
Lead, South Dakota

Gary A. Loving
General Manager

Ralph J. Tibble
Assistant General Manager
Administration and Engineering

McLaughlin Mine
Lower Lake, California

Ronald D. Parker
General Manager

Wood Gulch Mine
Mountain City, Nevada

Scott A. Caldwell
Project Superintendent

Uranium Operations
Grants, New Mexico

Thomas G. White
General Manager

El Hueso Mine
Potrerillos, Chile

Ricardo Palma
Operations Manager

Homestake Gold of
Australia Limited (HGAL)
Adelaide, Australia

John B. Roberts
Managing Director

Homestake International
Minerals Ltd. (HIML)

Jack E. Thompson, Jr.
President

Minera Homestake Chile, S.A.
Santiago, Chile

Sergio Chavez
General Manager

Mineral Exploration

Jeffrey T. Abbott
Vice President and Managing Director
HIML
Vancouver, B.C., Canada

Robert T. Boyd
Director
Canadian Exploration
Vancouver, B.C., Canada

Ralph E. Green
Director
U.S. Exploration
Golden, Colorado

Gary E. Maddocks
Exploration Manager
HGAL

Edmundo Hernandez
Exploration Manager
Minera Homestake Chile, S.A.

Oil and Gas

Felmont Oil Corporation
Headquarters
Houston, Texas

Leroy L. Manka
Vice President, Exploration
and Acting President

William J. Gedwed
Vice President, Marketing

Edward J. Vandermark
Vice President, Legal,
Land and Secretary

Corporate Office

Homestake Mining Company
650 California Street
San Francisco, California 94108-2788
Telephone (415) 981-8150

Transfer Agent and Registrar

Bank of America NT & SA
Corporate Agency Service Center
P.O. Box 37002
San Francisco, California 94137
Telephone (415) 624-4100

Exchange Listings

The Company's common stock is listed on the New York Stock Exchange; the Stock Exchange, London; the Frankfurt Stock Exchange, the Paris Bourse; and on the Basel, Geneva and Zurich stock exchanges in Switzerland. The shares are listed under the stock symbol HM.

Annual Meeting of Shareholders

A proxy statement will be mailed to each shareholder in March. The annual shareholders' meeting will be held at 11 A.M. on Tuesday, May 9, 1989 in the Penthouse Board Room of Wells Fargo Bank, N.A., 420 Montgomery Street, San Francisco, California.

Form 10-K

A copy of the Form 10-K Report filed with the Securities and Exchange Commission may be obtained without charge by writing to the Secretary, Homestake Mining Company, 650 California Street, San Francisco, California 94108-2788.

Supplemental Information Booklet

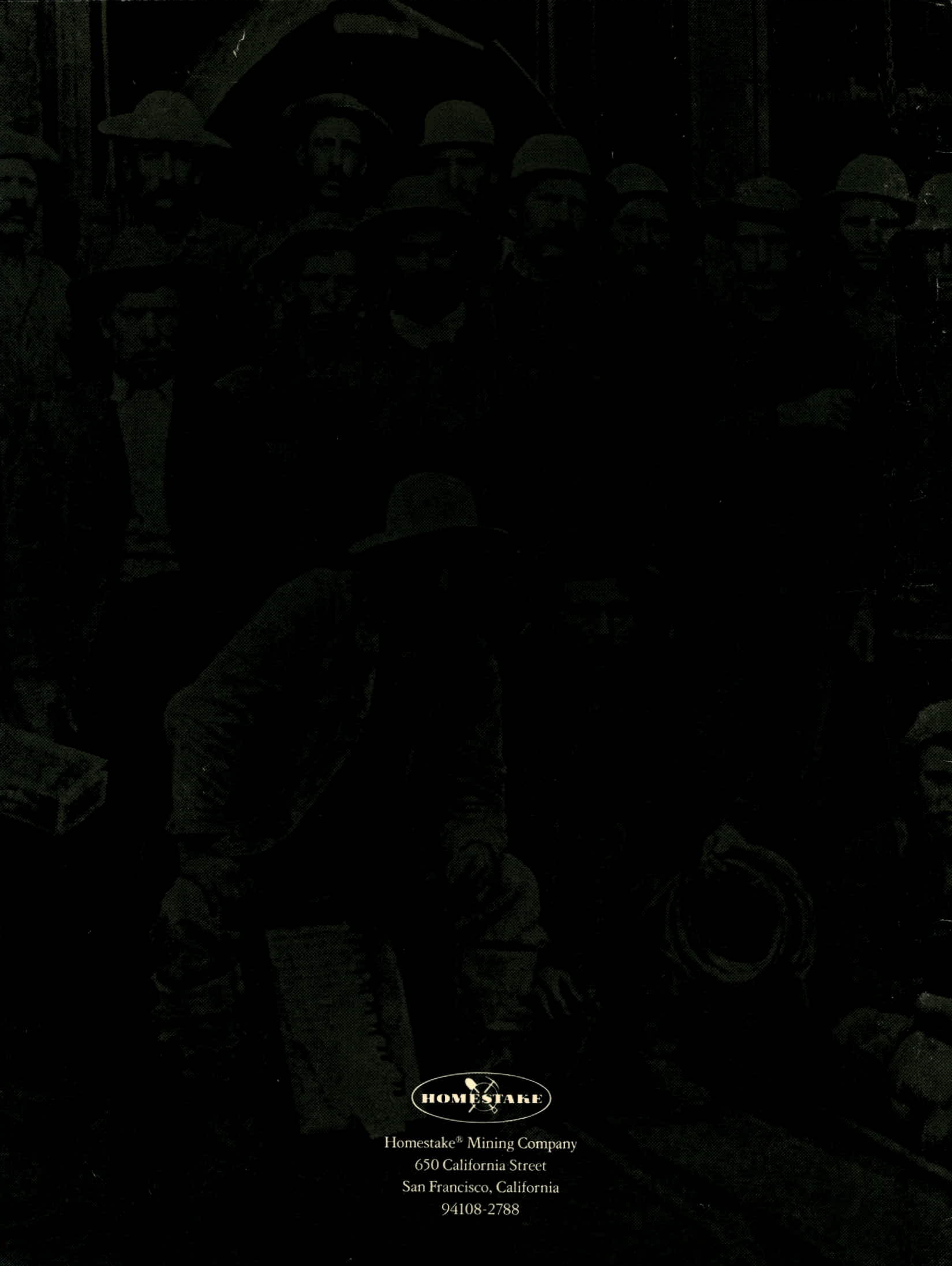
A booklet containing supplemental financial information may be obtained without charge by writing to the Secretary, Homestake Mining Company, 650 California Street, San Francisco, California 94108-2788.

Dividend Reinvestment Plan

Those shareholders interested in Homestake's Dividend Reinvestment Plan should contact the Transfer Agent.

Major Subsidiaries

Felmont Oil Corporation
Homestake Mining Company of California
Homestake Mining (B.C.) Limited
Homestake Gold of Australia Limited
Homestake International Minerals Ltd.
Homestake Lead Company of Missouri
Homestake Mineral Development Company
Homestake Nevada Corporation
Minera Homestake Chile, S.A.



HOMESTAKE

Homestake® Mining Company
650 California Street
San Francisco, California
94108-2788