



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

INCREASED MARGINS IN A CHALLENGING ENVIRONMENT

Stagnation in global gold production and the trend for gold producers to unwind hedge books coupled with increased demand for gold has seen the gold price rise significantly since RFC last developed a gold cash cost curve. Since our last cash cost curve there has been a marked increase in both production costs and capital costs. In this issue of The Alchemist we investigate reported cash costs in 2007 and assess the impact on operating margins given the appreciation in gold price and an increasing cost environment. We also highlight the economies of scale that are evident amongst gold producers and review the performance of various operating regions.

2007 GOLD CASH COST CURVE

In order to create the cash cost curve for gold producers, RFC has compiled cost and production data from 145 gold mining operations globally, representing approximately 50% (39Moz) of total global production during 2007.

Data has been sourced from publicly reported information and is therefore limited to the results of those producers listed on developed stock exchanges. It is important to note that the data set has not been adjusted and is as reported (inclusive of by product credits) and assumes consistency of reporting amongst producers.

Figure 1 below presents the reported \$US/oz cash costs from these operations.

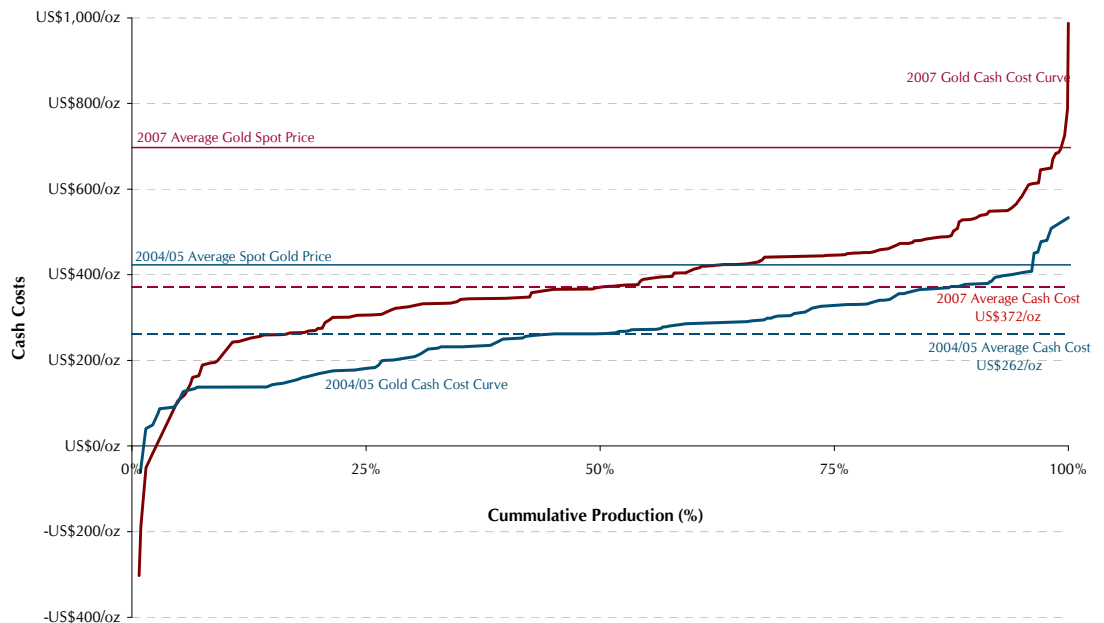


Figure 1: 2007 Reported Global Cash Cost Curve

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The weighted average cash cost in 2007 was US\$372/oz, an increase of US\$110/oz since 2004/05 (the last time RFC conducted similar research). This represents an increase of 42% or a year-on-year increase of 15%. During the same period the US\$ gold price increased by approximately 65% or a year-on-year increase of 22%, more than offsetting the increase in cash costs resulting in higher operating margins than recent years.

ECONOMIES OF SCALE IN GOLD PRODUCTION

RFC has examined the relationship between mine output and unit costs so as to highlight the economies of scale that apply to gold operations. The data set used above has been divided into a series of annual production ranges and the weighted average cash cost calculated for each range. The results are presented below.

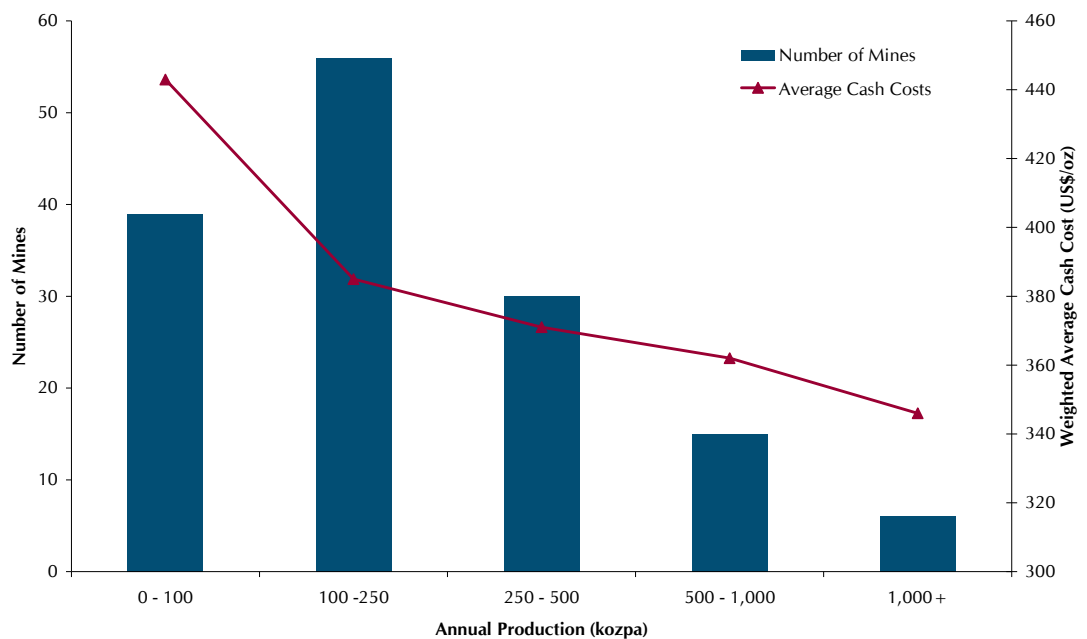


Figure 2: Production vs Cost

Figure 2 shows a clear, inverse correlation between output and unit cost. As production is increased the average cost of production reduces, with the greatest incremental gain in economies of scale achieved by operations producing greater than 100koz per annum.

REGIONAL PRODUCTION AND THE EMERGENCE OF CHINA

The study also investigated the main production regions to establish production and average cash costs within each region. The graph below illustrates production and associated cash costs from various production regions. The graph highlights Africa as both the highest production region but also the highest cash cost region producing 12.6Moz at an average cost of US\$419/oz. Similar average cash costs were identified in Australia (US\$388/oz) and North America (US\$377/oz). Of the major production regions South America was the lowest cost producer, producing 6.6Moz at an average cost of US\$276/oz.

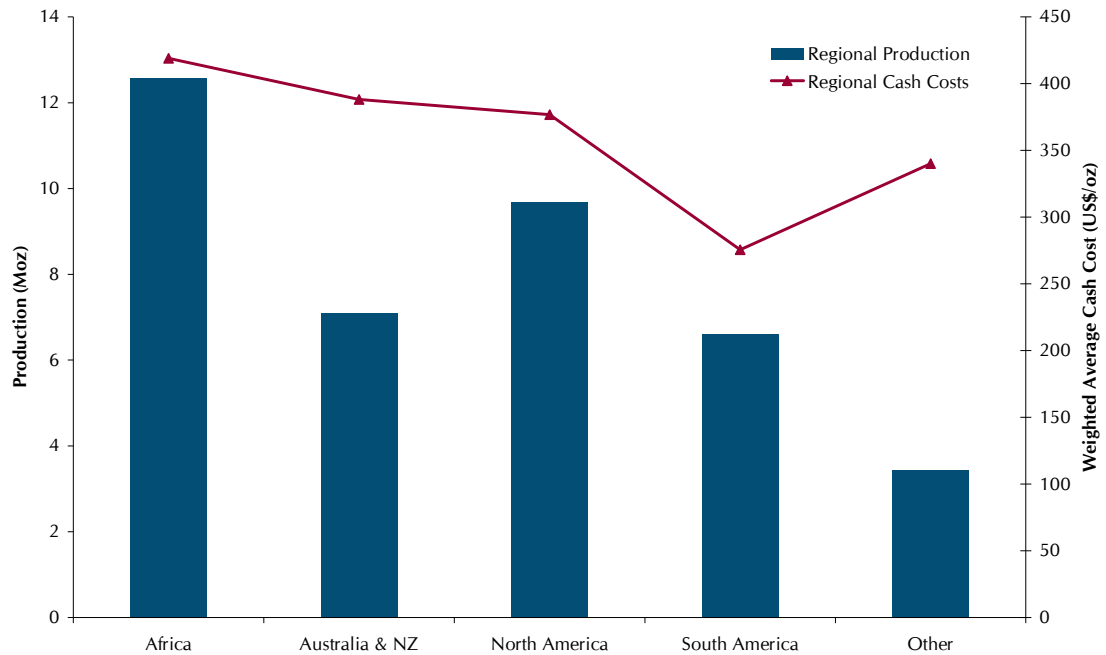


Figure 3: Regional Production and Cash Costs

In 2007 South Africa was surpassed by China as the worlds leading gold producer for the first time since 1905. According to China Gold Association, gold production within China during 2007 was 270t (approximately 8.7Moz). In comparison, Chamber of Mines South Africa reported gold production declined for the eleventh consecutive year to 254t (approximately 8.2Moz).

Current production out of China is driven by a large number of unlisted small scale mining operations. These mines tend to be flexible with the ability to come into production quickly in a high gold price environment. Reliable data is difficult to obtain for these producers and as such only a small percentage of total production within China was captured in this study.

The Alchemist

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