



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

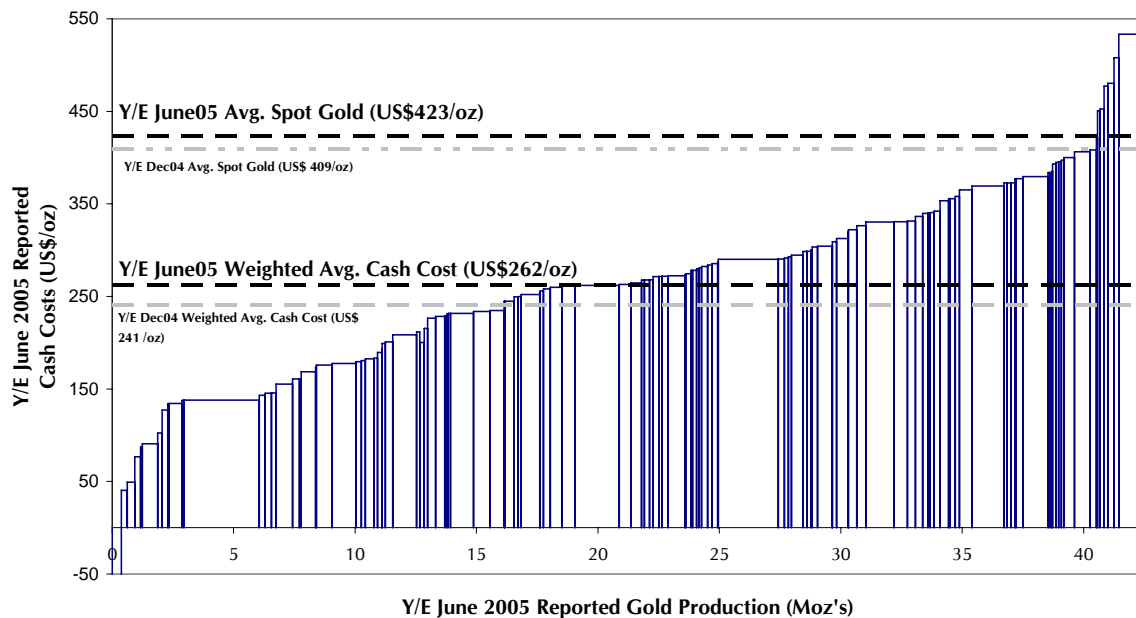
GLOBAL GOLD PRODUCTION – PRICE VS COST

In this edition of the Alchemist we provide a brief update on the cash costs reported by global gold producers for the year ended 30th June 2005. We assess the likely impact on producer margins given the corresponding appreciation of US\$ gold as well as highlight the economies of scale that are evident amongst gold producers.

US\$ CASH COSTS

In order to create the cash cost curve for gold producers, RFC has compiled cost & production data from 125 gold mining operations, representing approximately 50% of global production. The figure below presents the reported \$US/oz cash costs from these operations.

Y/E June 2005 Reported Cash Costs (US\$/oz)



Note: Data has been sourced from publicly reported information and is therefore limited to the results of those producers listed on developed stock exchanges. The data set has not been adjusted to reflect the inclusion of by product credits, assumes consistency of reporting amongst producers and plots the performance of mining operations rather than individual mines.

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The weighted average cash cost for the Y/E June 2005 was US\$262/oz, representing an increase of US\$21/oz (9%) over the figure reported for the Y/E December 2004. During the same period the average US\$ gold price increased by only 3%, leading to lower cash margins on average.

RFC believes that contracting profit margins are a key contributor to the lacklustre equity market performance of gold producers as a whole over the past year. To illustrate this point, the chart below plots the performance of a number of global gold indexes against US\$ gold during the year ended 30th June 2005. Despite a bullish start, the full year gains posted by the indexes are marginal and significantly less than that of US\$ gold. This divergence is highlighted on the chart.

The lesson from the above is that seeking exposure to an appreciating gold price via gold producer equity needs to be considered carefully in view of the increasing cost base faced by the average producer.

Global Gold Mining Indexes vs US\$ Gold



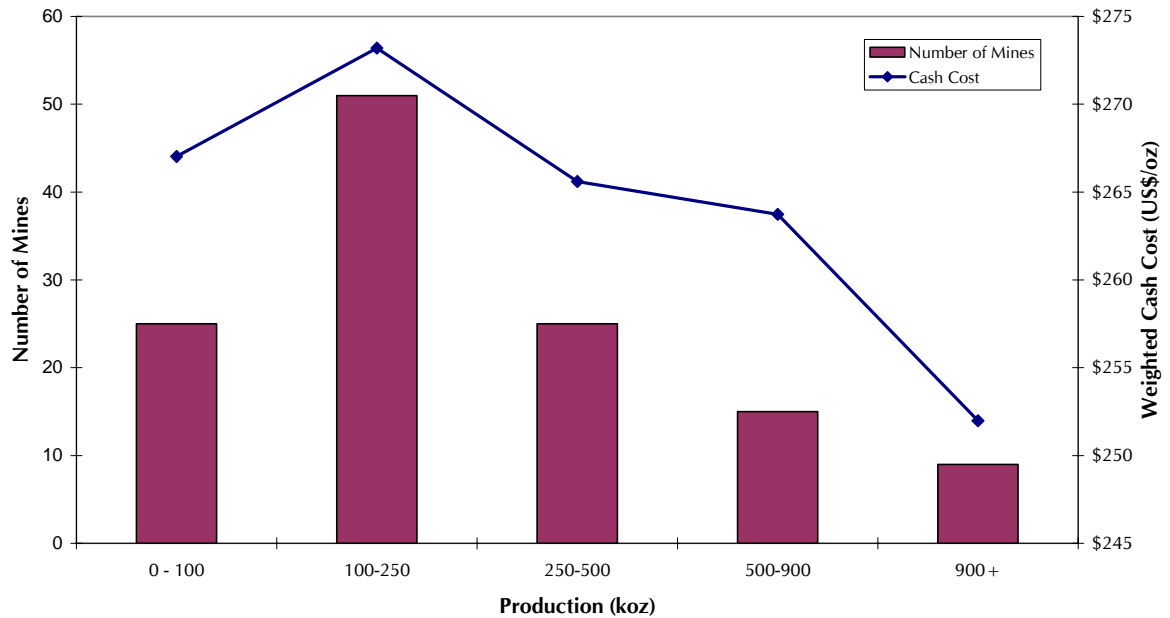
Note: The data series presented on the above chart have been indexed to a common base of 100 as at 1st July 2004.

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 large scale 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 figure below shows an inverse correlation between output and unit cost and highlights the disadvantages faced by smaller producers in terms of the cost structure of their operations.

Y/E June 2005 Production (koz) vs Cash Cost (US\$/oz)



The Alchemist

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