

# 2008 – An Important Year for the LBMA

Editorial Comment by Richard England, Chairman, LBMA Finance Committee

Over the past decade the LBMA's income and expenditure have both grown steadily. On the income side, the increase reflects a number of factors: Membership has grown steadily, particularly in the Associate category; the income from the conference reflects the success of the event in attracting large numbers of delegates each year (2008 having set a new record for attendance);



and a significant part of the Association's income is now related to the Good Delivery List. The growth in Good Delivery income is partly because the Executive took over the main responsibility for processing applications for Good Delivery accreditation from the London vaults in 2004 and partly because of the introduction of proactive monitoring in the same year.

On the expenditure side, costs have generally lagged the rise of income in most years, so that a modest surplus was carried forward, which allowed the LBMA to build up a reserve in case of unexpected financial challenges. The area where such a challenge was thought most likely was the annual conference.

More recently, it was felt that the reserve had become, if anything, too large and that it would be preferable to budget for a breakeven position or a deficit. To this end, the LBMA has organised some of its annual events to be free of charge for participants (including last year's annual social function for Members).

The annual accounts will be presented at the AGM on 11 June and I hope that as many Members as possible will be represented in order to hear about the Association's activities and to receive the accounts. This is especially because it is already clear that the financial results for 2008 will diverge significantly from the trend of previous years. In particular, the LBMA has experienced a substantial loss on its ordinary activities in 2008. This was due to a number of

increases on the cost side, some of which were foreseen while others were the result of unexpected developments. Thus the budget for 2008 allowed for increases in rent and rates as a result of the Executive's relocation to a somewhat larger office and it was also expected that the conference in Kyoto would be significantly more expensive than the one the previous year in Mumbai. Unfortunately, the conference costs were even higher than the forecast,

primarily due to the fall in value of sterling against the yen in the latter part of the year when the conference was held.

Another unexpected development was the requirement to undertake a large amount of work on the subject of REACH including three Members' seminars and the employment of a range of consultants to advise the LBMA and its Members on the issue. A further unbudgeted cost was the result of a decision by the Management Committee to provide seed capital for the Reference Materials Project (though this will be repaid on completion of the Project this year). Good Delivery costs have also risen because of an increase in testing fees levied by the LBMA's referees and the increase in the cost of reference samples, which are used in both proactive monitoring and for the testing of Good Delivery Applicants.

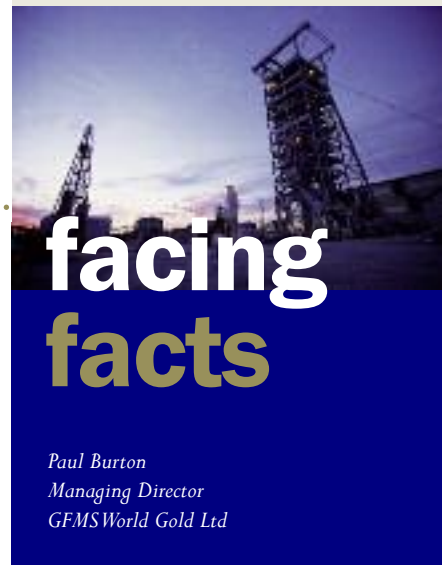
Given the deterioration of the LBMA's financial position, the Finance Committee recommended a course of action to bring the accounts back into balance. This has included both cutbacks on the expenditure side and increasing income from Membership subscriptions (the first increase since 1999) as well as increasing the maintenance fees for Good Delivery accreditation (the first increase since 2004).

I hope that all Members with an interest in the Association's finances will come to the AGM on 11 June to hear a more detailed account of our financial position. ■

## Charitable Giving – April 2009

The GOFO & SIFO Non-Contributor Fines collected in 2008 have allowed the LBMA to make a number of donations to charities supported by market participants

- **Arthritis Research Campaign** - Donna Kehoe of the Bank of England recently ran the London Marathon in support of Arthritis Research. Donna is responsible the Bank's custody operations, including the bullion vault. For further information or to contribute, please see Donna's webpage: [www.charitriestrust.org/members\\_data/event/donnakehoerunthemarathonagain/index.html](http://www.charitriestrust.org/members_data/event/donnakehoerunthemarathonagain/index.html)
- **Get Kids Going!** - Alan Wallis of Comdaq Metals recently ran the London Marathon in support of Get Kids Going, a charity that helps disabled children and grown-ups participate in sporting activities. Alan is also collecting funds for Demelza House, a donations-only run charity supporting a children's hospice which is located in his hometown. For further information or to contribute, please see Alan's webpage: [www.justgiving.com/alanwallis](http://www.justgiving.com/alanwallis)
- **National Association for Colitis and Crohn's Disease** - Ross Norman of TheBullionDesk is running the Great North Run, in support of the NACC. Ross will be running this half marathon in Newcastle in September. For further information or to contribute, please see Ross's webpage: [www.justgiving.com/rossnorman1](http://www.justgiving.com/rossnorman1)



## facing facts

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*It can hardly have  
escaped anyone's notice  
that the past year has  
been a turbulent and  
difficult time for those  
involved in the gold  
industry and the mining  
industry as a whole.*

Although good gold prices have sustained producers, the equity markets have provided little comfort for shareholders. Nowhere was this more apparent than in London. 2008 was a pretty brutal year for London's Alternative Investment Market (AIM), home of most gold and other mineral companies. Ernst & Young, which tracks its "Mining Eye" index of the twenty largest mining companies on AIM, saw it lose 75% of its value over the course of the year. EY also notes that mining companies on AIM at year end were worth just a quarter of their £16 billion value of six months earlier. *Mining Eye* quarterly notes: "Perhaps most shocking was the speed and intensity with which one extreme gave way to another. It was just March when the *Mining Eye* index reached an all-time, five-year high, supported by historically high metals' prices, at least in nominal terms."

Not only did the market value of the sector decline, but the

level of listing activity fell off dramatically. Ernst & Young reports that the last mining IPO was in June 2008 and, in total, only around £1 billion was raised on the exchange, less than half that of the previous year. The gold companies were somewhat insulated from this rapid decline in commodity demand but nevertheless were hit by the general sell-off of equities.

One can sense the industry mood, if not the market mood, at the various investor conferences around the world, of which there are many in the first few months of the year. The overriding impression from talking to companies in Vancouver, Cape Town and Toronto in recent months is that deals will result from these get-togethers, but these deals will represent consolidation of the industry, rather than expansion through new investment, as cash-rich companies pick off struggling one-project companies.

At least the capital markets have picked up, with some financings at the producer or near producer level. The following list is not exhaustive but some of the more significant financings include:

- Great Basin Gold raised C\$130 million for its Hollister and Burnstone development projects.
- Lihir Gold completed a US\$325 million institutional placement.
- Newmont Mining issued shares and convertible notes for total proceeds of US\$1.7 billion (net) to fund the minority stake in Boddington.
- Agnico-Eagle completed a US\$290 million private placement.
- Kinross raised gross proceeds of US\$415 million through an underwritten share offering.

- Newcrest raised A\$750 million through an equity placement to institutions.
- Alamos Gold raised C\$83 million.
- Osisko Mining raised C\$403 million through a bought-deal public offering.

So it looks as though major development projects will have the necessary funds to progress, whether in single-project or multinational companies, and some of the majors are increasing their war chests.

### Operating Costs on the Decline

Another glimmer of good news for the industry is that operating costs are finally being reined in. Cash costs for Q3 2008 recorded a massive 31% year-on-year increase, the highest year-on-year increase on record. The average cash costs of the 70 or so producers we report on in *World Gold Analyst* reached US\$474/oz, a record quarterly high. However, quite remarkably, cash costs actually dropped in Q4 to US\$439/oz, a fall of 7% from Q3. Although on a year-on-year basis, average cash costs were once again up, the rise was half that of what we have witnessed over the past few years (see chart).

Why is this happening? We have been hearing from producers anecdotally over the past few months that the financial crisis in the markets has led to the suspension of many development activities, with the result that labour and equipment is more freely available now and the collapse of the oil price has led to lower power charges, so it's not that surprising that after many inflationary years, cash costs may have peaked.

This improvement is despite

the fact that many of the polymetallic producers saw their costs increase significantly as the offsetting credits from by-products were severely curtailed because of the rapid and extreme decline in base metal prices. In some cases, this meant the disappearance of the negative cash cost phenomena.

### The Majors in 2008

The majors, the most valuable companies in the gold industry by market capitalisation, remain the backbone of gold output. Barrick Gold is the largest gold company in the world, with gold production of 7.7 Moz in 2008. Newmont Mining's gold sales were 5.2 Moz, putting it in second place. Although it is the second most valuable gold company, Goldcorp is the second-smallest gold producer of the selection, with 2008 production of just 2.3 Moz.

2008 Gold Production (Moz)	
Barrick Gold	7.66
Newmont	5.18*
AngloGold Ashanti	4.98
Gold Fields	3.34**
Goldcorp	2.32
Kinross	1.84

\* Gold sold

\*\* Gold Fields has a June financial year end. This figure is taken from quarterly reports by World Gold Analyst.

The reserve base held by the companies is another important measure that indicates whether or not the majors can sustain such production rates. Barrick Gold holds the largest reserve base, with almost 139 Moz, more than 63% greater than its two nearest rivals Newmont and Gold Fields.

2008 Reserves (Moz)	
Barrick Gold	138.5
Newmont	85.0
AngloGold Ashanti	74.9
Gold Fields	84.8
Goldcorp	46.3
Kinross	45.6

In terms of cash costs Barrick, Newmont and AngloGold are all bunched round the US\$440/oz mark (within the second quartile on the 2008 cash cost curve), with the two outliers Gold Fields

at US\$525/oz and Goldcorp at US\$305/oz. Goldcorp costs are presented on a by-product basis after accounting for credits from by-product copper revenue for Peak and Alumbra, and by-product silver revenue for La Coipa, Marlin and San Dimas. On a co-product basis, Goldcorp's cash costs are US\$391/oz.

2008 Cash Cost (US\$/oz)	
Barrick Gold	443
Newmont	440
AngloGold Ashanti	444
Gold Fields	525**
Goldcorp	305
Kinross	421

Finally, as I alluded to earlier, the cash-rich companies are in a strong position at present, as there are many cheap projects around that could be snapped up in order to grow resources. The table below shows how much cash the major producers were holding at the end of 2008. ■

End 2008 Cash (US\$ million)	
Barrick Gold	1,440
Newmont	435
AngloGold Ashanti	575
Gold Fields	109
Goldcorp	262
Kinross	491



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Average Cash Costs for Q4 since 2001 (US\$/oz)

