All-in sustaining costs and all-in costs

Tom Whelan, Global Mining & Metals Assurance Leader

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Background

- The World Gold Council (WGC) established a working group of gold members to establish a new cost disclosure framework.
- The WCG has worked closely with its member companies to develop these non-GAAP measures, which are intended to provide further transparency into the costs associated with producing gold.
- In June 2013, the WGC published a Guidance Note on “all-in sustaining costs” and “all-in costs” metrics.
- Traditionally, cash cost reporting, introduced in 1996, has focused only on the mining and processing costs incurred.
- The new guidance focuses on costs incurred in the complete mining lifecycle from exploration to closure.

Benefits

Terry Heymann, Director Responsible Gold, WGC:

- *"These new metrics have been developed to help provide greater clarity and improve investor understanding. All companies involved in gold-mining, including those which are not Members of the World Gold Council, will be free to use these metrics. Individual companies have responsibility for their own reporting, but we expect that many will use these new metrics, providing further consistency for investors and other stakeholders."*

What is the need for a new framework?

- New metrics will be helpful to investors, governments, local communities and other stakeholders in understanding the economics of gold mining.
- All-in sustaining costs is an extension of the existing “cash cost” metrics and incorporates costs related to sustaining production.
- All-in costs include all additional costs that reflect the varying costs of producing gold over the lifecycle of a mine.
- Inconsistency in cash cost reporting among gold producers.

What is the need for a new framework? (contd)

AngloGold Ashanti SEC response:

- *"The Company believes that current non-GAAP operating measures commonly used in the gold industry do not capture all of the sustaining activities incurred in order to produce gold. Similarly, they do not reflect all of the activities that would be included in the valuation of a gold company*."

Gold producers

Top 10 gold producers	
Barrick Gold	Yamana Gold
Goldcorp	Kinross Gold
Newmont Mining	Gold Fields
Newcrest Mining	Eldorado Gold
AngloGold Ashanti	Polyus Gold

All of the above, and a significant volume of mid-tier gold producers, and some non-gold producers have commenced disclosure of new cost measures in their quarterly reports.

Expected to be fully implemented, effective 1 January 2014.

Gold producers: Q2 reporting

	Cash costs/ oz	All-in sustaining costs/oz
Gold Company # 1	$606	$1,279
Gold Company # 2	$686	$1,034
Gold Company # 3	$775	$960
Gold Company # 4	$551	$659
Gold Company # 5	$762	$1,071
Gold Company # 6	$704	$863
Gold Company # 7	$378	$682

Guidance note on non-GAAP metrics
All-in sustaining costs and all-in costs

		US $ / gold ounces sold
On-Site Mining Costs (on a sales basis)	Income Statement	(a)
On-Site General & Administrative costs	Income Statement	(b)
Royalties & Production Taxes	Income Statement	(c)
Realised Gains/Losses on Hedges due to operating costs	Income Statement	(d)
Community Costs related to current operations	Income Statement	(e)
Permitting Costs related to current operations	Income Statement	(f)
3rd party smelting, refining and transport costs	Income Statement	(g)
Non-Cash Remuneration (Site-Based)	Income Statement	(h)
Stock-piles / product inventory write down	Income Statement	(i)
Operational Stripping Costs	Income Statement	(j)
By-Product Credits	Income Statement	(k) *Note: this will be a credit*
Sub-Total (Adjusted Operating Costs)		(l) = (a) + (b) + (c) + (d) + (e) + (f) + (g) + (h) + (i) + (j) + (k)
Corporate General & Administrative costs (including share-based remuneration)	Income Statement	(m)
Reclamation & remediation – accretion & amortisation (operating sites)	Income Statement	(n)
Exploration and study costs (sustaining)	Income Statement	(o)
Capital exploration (sustaining)	Cash Flow	(p)
Capitalised stripping & underground mine development (sustaining)	Cash Flow	(q)
Capital expenditure (sustaining)	Cash Flow	(r)
All-in Sustaining Costs		(s) = (l) + (m) + (n) + (o) + (p) + (q) + (r)
Community Costs <u>not</u> related to current operations	Income Statement	(t)
Permitting Costs <u>not</u> related to current operations	Income Statement	(u)
Reclamation and remediation costs <u>not</u> related to current operations	Income Statement	(v)
Exploration and study costs (non-sustaining)	Income Statement	(w)
Capital exploration (non-sustaining)	Cash Flow	(x)
Capitalised stripping & underground mine development (non-sustaining)	Cash Flow	(y)
Capital expenditure (non-sustaining)	Cash Flow	(z)
All-in Costs		= (s) + (t) + (u) + (v) + (w) + (x) + (y) + (z)

Excluded costs:
Income taxes
Working capital (except for adjustments to inventory on a sales basis)
All financing charges (including capitalised interest)
Costs related to business combinations, asset acquisitions and asset disposals
Items needed to normalize earnings, for example impairments on non-current assets and one-time material severance charges Costs related to any of the listed line-items used to calculate all-in costs in the above table should not be excluded

Challenges

- Complexity of differentiating between sustaining and non-sustaining capex
  - Non-sustaining costs are costs incurred at new operations and costs related to “major projects” at existing operations where these projects will materially increase production
  - All other costs related to existing operations are considered sustaining
- Does not address discretionary nature of certain capital expenditure
- Calculation is net of by-product credits
- Only focused on the gold industry – interesting to see how the rest of the sector responds

SEC comment letters

- The SEC has sent comment letters to a number of gold producers, posing questions about this issue.
- Key areas of focus include:
  - Categorizing the WGC (which is neither a regulatory body nor a standard setter)
  - Understanding the adjustments (what's in and what's out) and the reconciliation to published financial statements
  - Netting by-product sales (large concern about transparency especially when by-product revenue is material)

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