

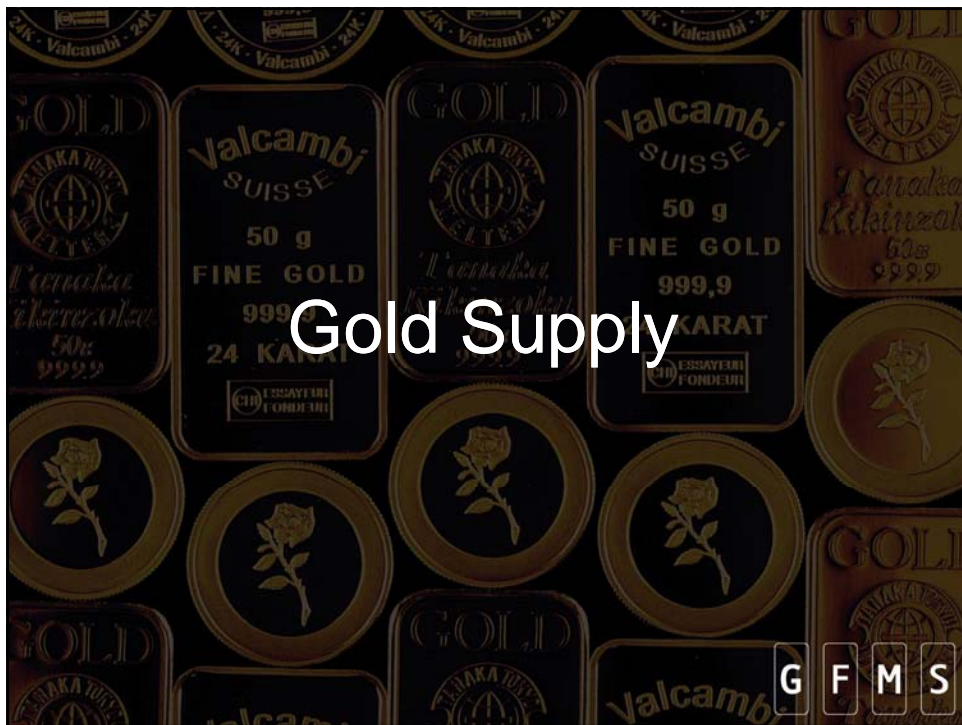
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Mining Indaba 2009

Paul Walker
CEO, GFMS Ltd.

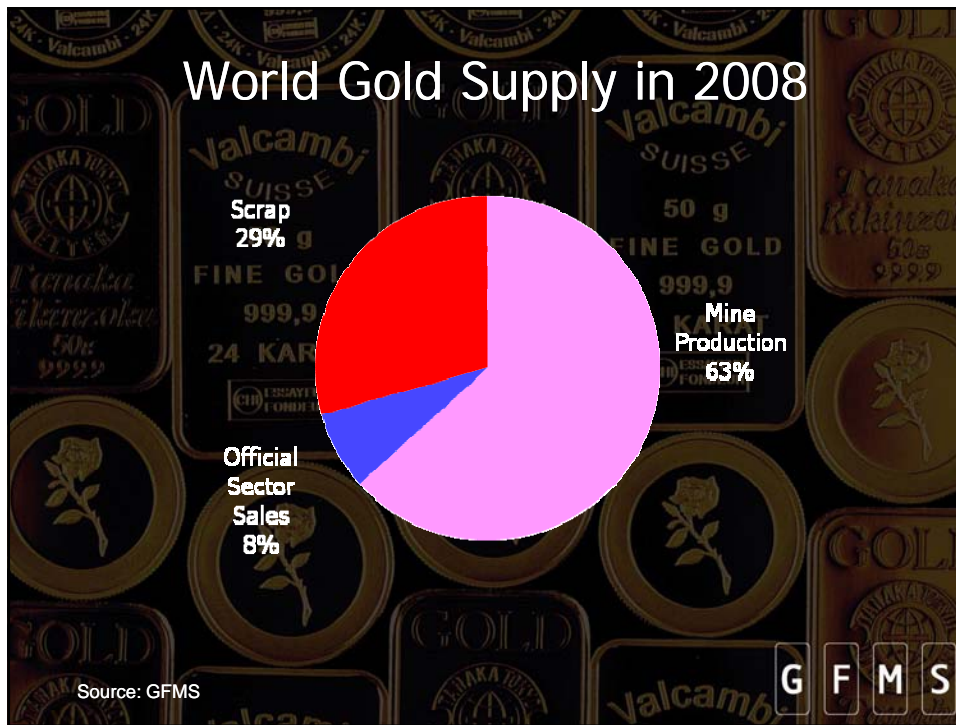
Cape Town, 9th February 2009

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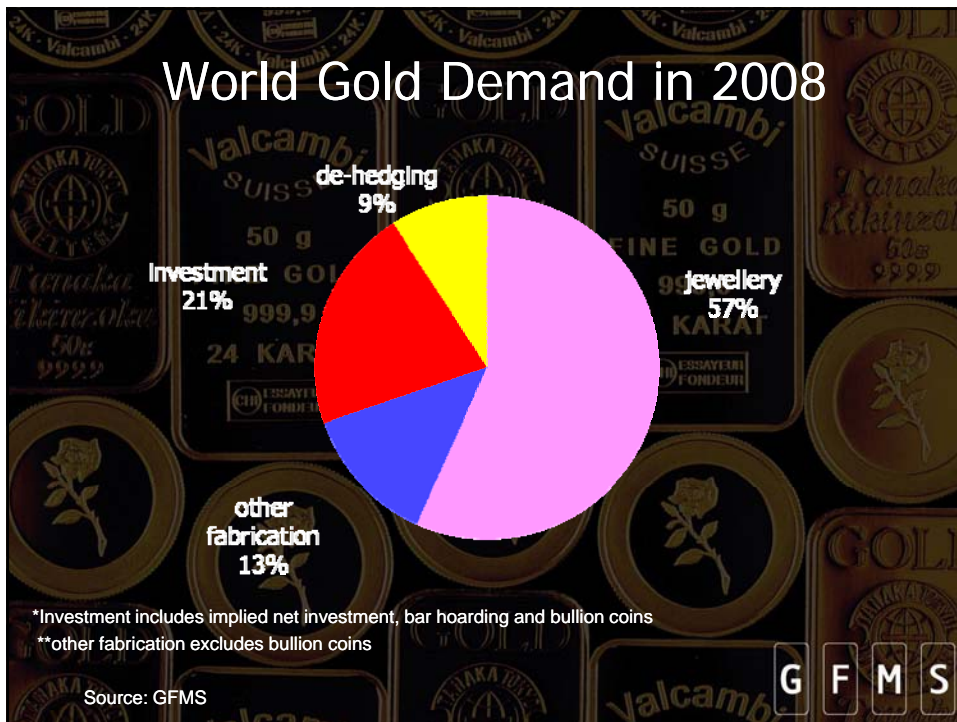
Gold Supply

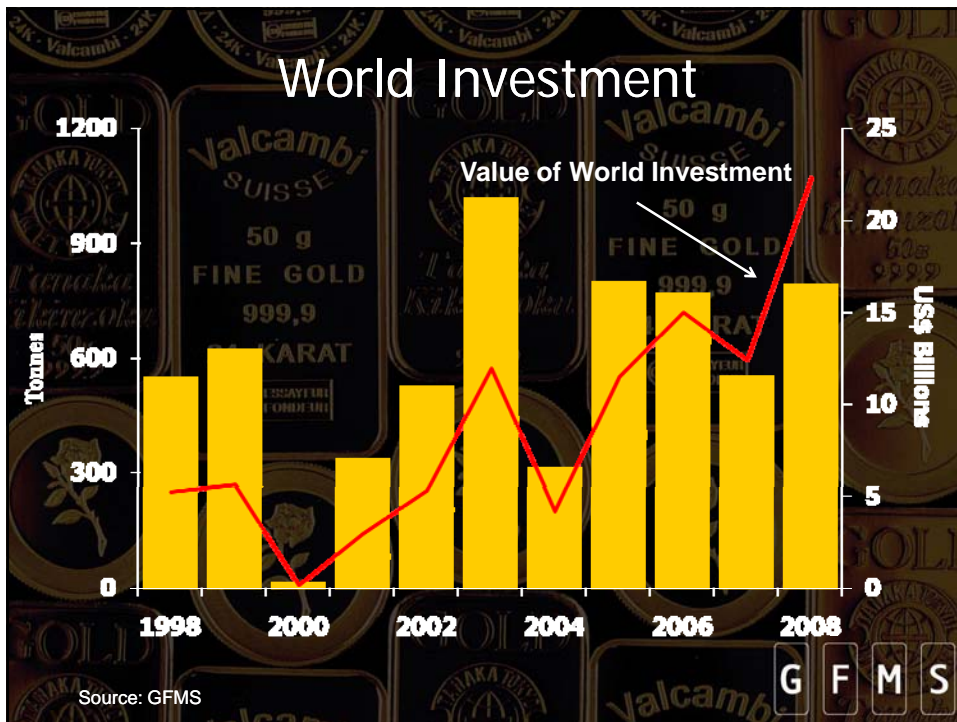
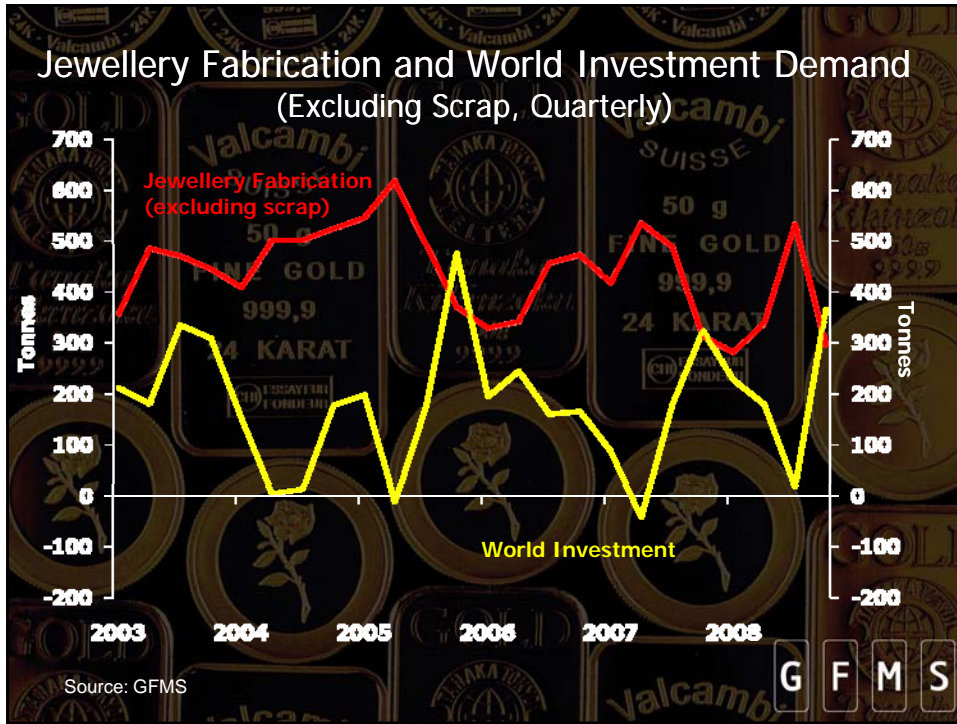
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Supply Summary

- Mine production dropped modestly in 2008 and is expected to be up only marginally in 2009
- Scrap supply increased in 2008, but was still lower than 2006's record level; for full year 2009 scrap may see some limited gains
- Net official sector sales fell dramatically in 2008 and are likely to remain subdued this year
- Overall, total supply therefore expected to remain little changed year-on-year in 2009 and still well below average levels seen over the last decade





Key Investment Issues

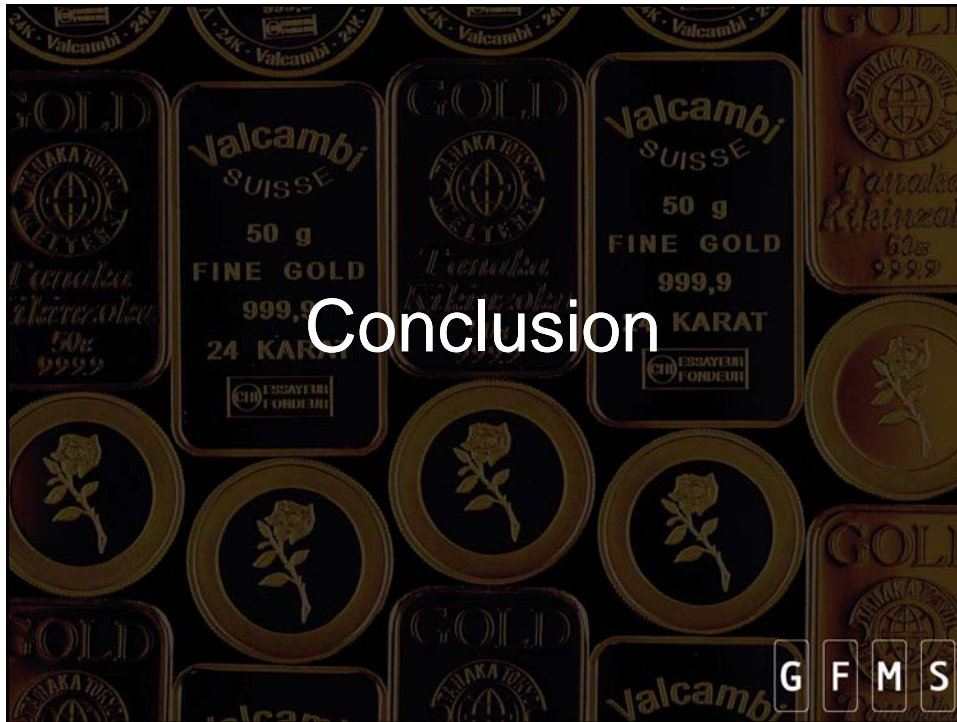
- **Correction in broader commodities complex**
- **Dollar rally**
- **Deteriorating outlook for GDP growth**
- **Financial market turmoil**
- **Deflation risk**
- **Threat of inflation in medium-long term**

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Demand Summary

- **Jewellery demand last year hit hard by higher prices, jump in price volatility and, increasingly, the slowdown in GDP growth. Similar story probable in 2009.**
- **De-hedging's contribution to demand declined in 2008. It will fall further in 2009, although any swing to net producer hedging still some way off.**
- **Higher investment will again have to substitute for weaker fabrication and de-hedging demand.**
- **GFMS expect that in 2009 conditions will continue to favour investment and that the net new dollar inflow into gold will increase substantially over 2008's level.**

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Conclusion

Outlook for Gold in 2009?

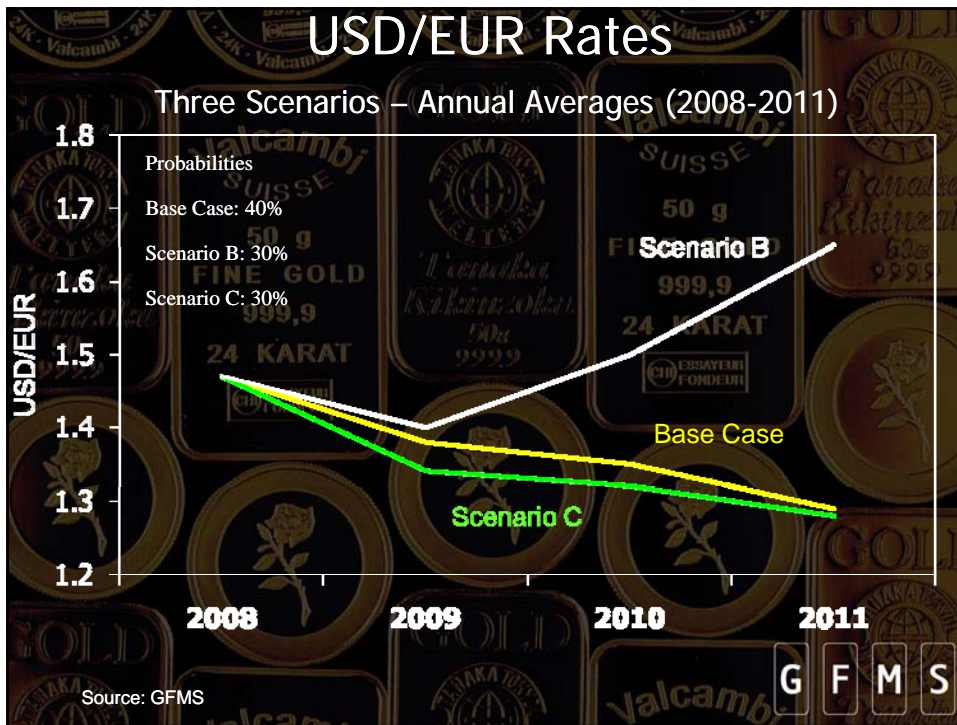
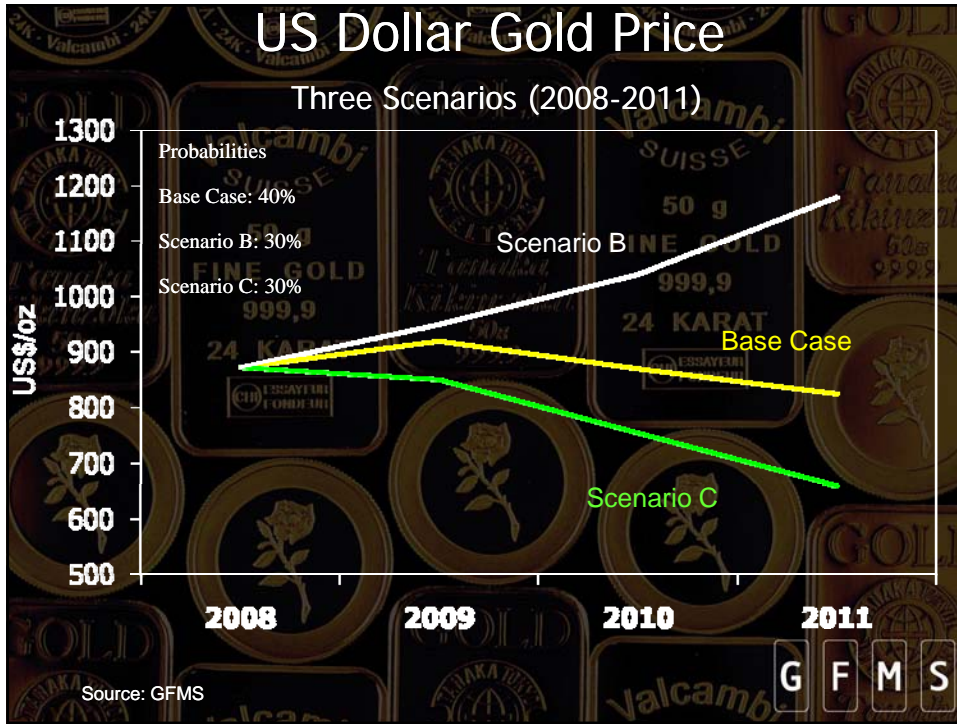
Positives:

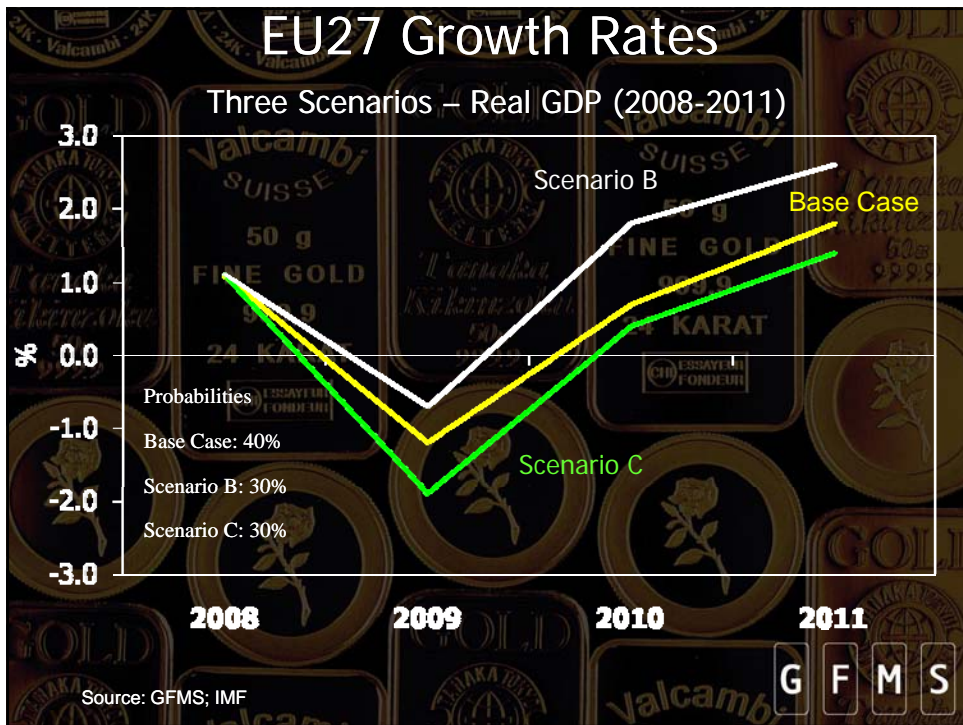
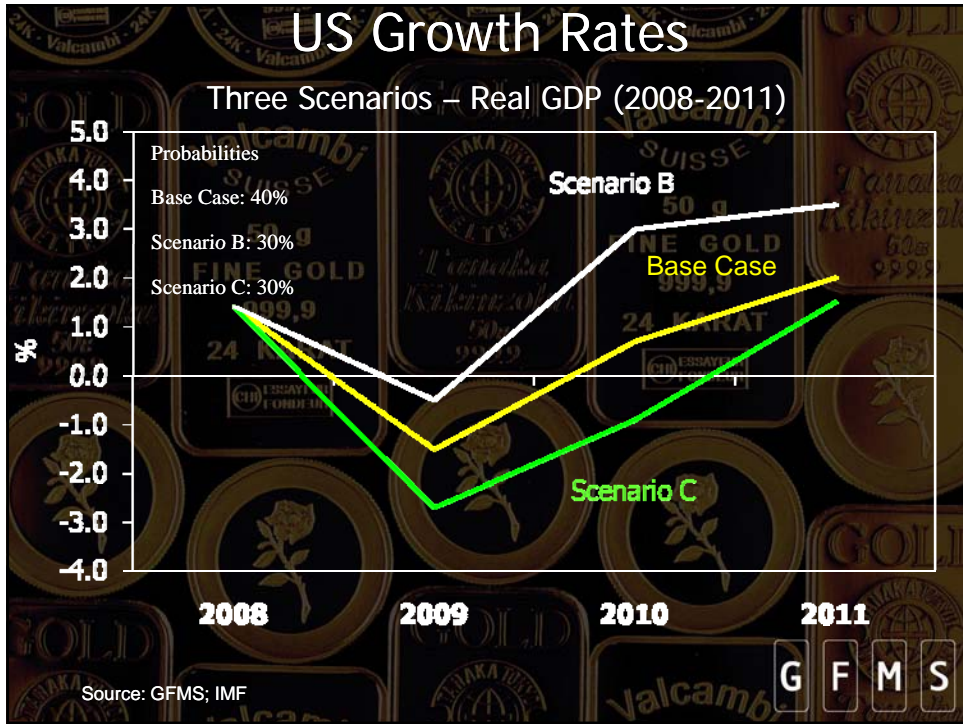
- Growth in mine production will be marginal and does not represent change in trend. Output in 2009 will still come in more than 9% below 2001's peak.
- Scrap needs \$950-plus to stimulate high level of supply.
- Central bank sales proving to be at low end of expectations.
- Jewellery demand will be fairly solid at sub-\$800 prices, in spite of headwinds from lower GDP growth.
- Case for investment very strong due in large measure to 'high risk' (especially in the US) government fiscal and monetary policy responses to the crisis.

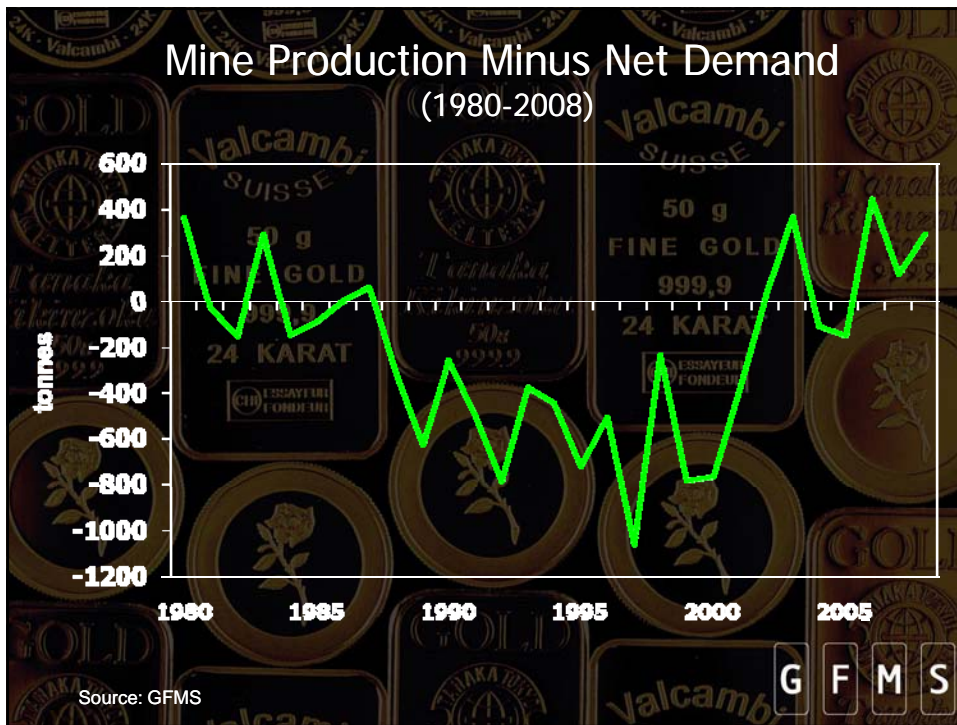
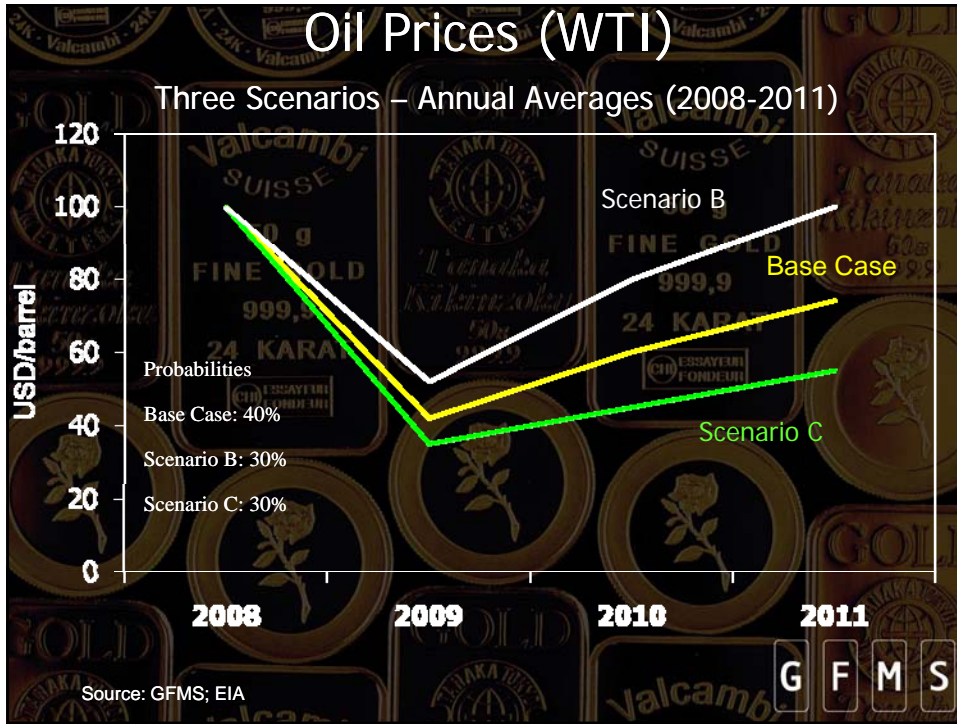
Negatives:

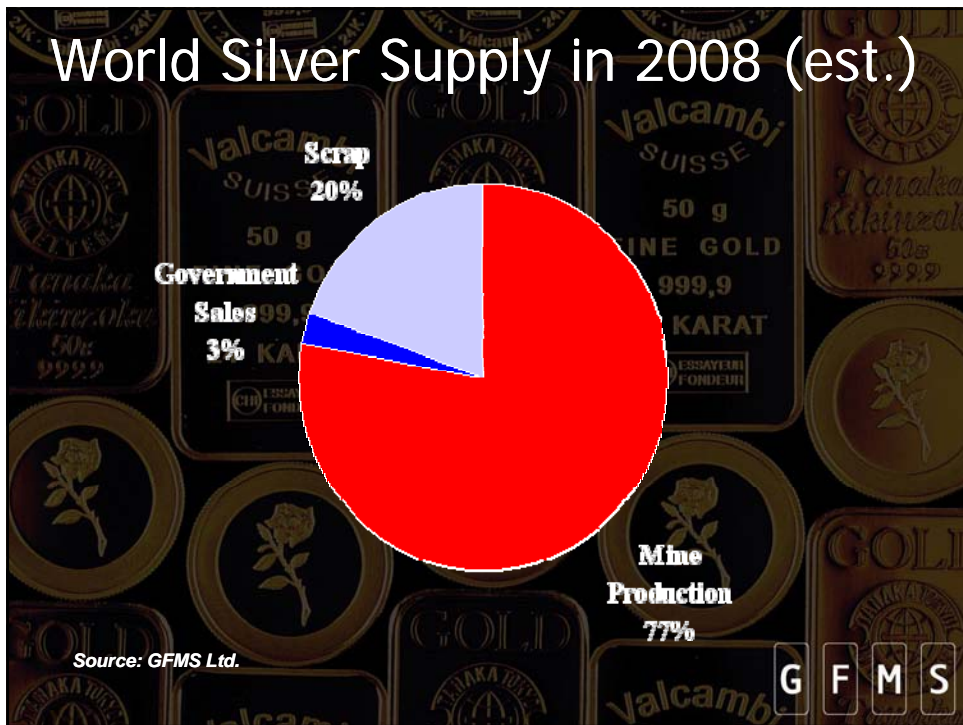
- De-hedging has almost run its course.
- Fabrication demand likely to suffer heavily from any move back to or above the \$900 level, especially given added problem of weak economy.

GFMS' forecast last week in conjunction with annual LBMA analyst survey is for average price of \$970 in 2009.









Mine Production + Hedging

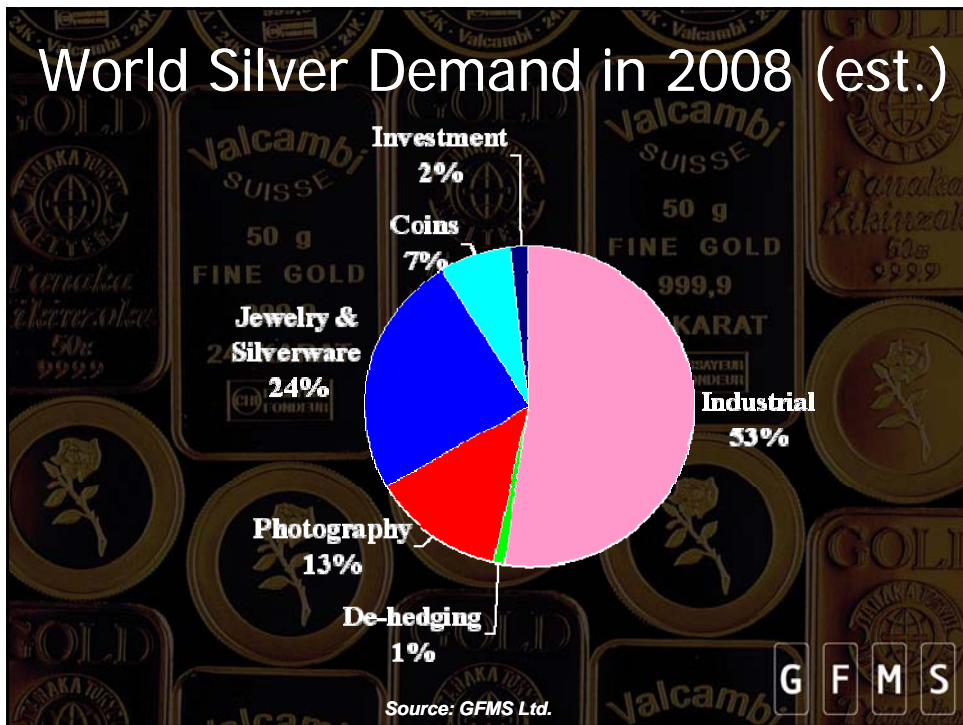
- World silver mine production up moderately (<1%) in 2008; at beginning of this year 3% plus was looking probable (“shortfall” of approx. 15 Moz between the two).
- Silver mine output expected to push towards 700 Moz in 2009: Full year production at Kupol, San Bartolome (Bolivia) plus anticipated growth in Mexico (Peñasquito). However, downside risk if base metal closures continue. Also, prior to crash in silver/base metals prices output in 2009 was expected to reach close to 730 Moz!
- De-hedging expected to have slowed this year from the elevated level seen in 2007.

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Scrap Supply

- Scrap expected to fall just over 6% in 2008 due to the decline in volumes from photographic sources.
- Price not high enough to stimulate much scrapping of jewelry and silverware, except in India.
- Scrap supply for silver far less price-sensitive than for gold due to different composition of above-ground stock of fabricated products and much higher margins over metal value on silver than gold jewelry.

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Demand Summary

- Total fabrication demand forecast to be around 1% higher year-on-year in 2008.
- Industrial demand will still be up for full year 2008 but has slowed down a lot in recent months. Substantial decline is expected in 2009.
- Photographic demand continues to fall rapidly due to impact of digital technology and, at the margin, some increased thrifting.
- Jewelry & Silverware demand will fall slightly year-on-year; Indian demand has surged in last couple of months.
- Coin demand has increased substantially in 2008.
- Investment demand positive overall but "two way".



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Economic Outlook #1

- Significant fall in Global GDP Growth Rate is Certain
 - Economic downturn could well turn out to be the worst since the Great Depression!
 - US, EU and Japan in synchronised recession.
 - Developing countries, including China, also hard hit.
 - Some degree of recovery in 2010 is possible but by no means certain.
- What will be the Impact on Commodity Prices?
 - Commodity prices will remain under pressure in 2009 due to demand destruction outpacing cuts to supply, however for some raw materials lows may have already been seen.
 - The scene is being set for major rebound in commodity prices if, as seems likely, supply growth is curtailed and when demand returns.
 - Although focus currently is on danger of deflation, there is a growing threat of inflation in future, particularly if governments and central banks resort to printing money to finance fiscal programmes and bail-outs. Any jump in inflation would be good for commodity prices.

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Economic Outlook #2

- Gold's "competitors" set to perform badly for much of 2009, although the financial backdrop for gold investment may be much less supportive in 2010 unless the threat of future inflation grows.
- Stock prices should remain under pressure for the best part of 2009 as GDP growth and earnings disappoint. Expect a massive 'overshooting' to the downside, similar to previous recessions.
- Government bond prices set to fall. Current flight to 'safety' in e.g. US Treasuries will be swamped by huge new debt issuance.
- Short term interest rates on the three major currencies will drop to minimal or zero levels and stay there at least through 2009.
- US dollar decline will be resumed, certainly for part of 2009 and potentially much longer if Americans resort to massive "quantitative easing" (i.e. printing money).

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Gold Investment in 2008

- The first seven months of the year generally saw net buying by “western” investors:
 - Growth in investment led to surge above \$1,000.
 - US dollar decline substantial, due in part to falling short term US interest rates and downturn in US housing.
 - Commodities saw large inflows, partly because of rising inflation.
 - Financial market turmoil led to safe haven buying of gold.
- After mid-July, however, the gold market experienced a massive sell off, driven primarily by a major rebound in the dollar and liquidation in the overall commodities complex, particularly crude oil.
- From September onwards a huge “deleveraging” by funds in futures and OTC markets has taken place. In contrast, purchases of physical gold both directly and via ETFs have grown strongly.

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