Interim Results Period ending 30 June 2012
Slides and Transcript
23 August 2012
Willie Jacobsz
Welcome to the second quarter 2012 results for Gold Fields. We do appreciate that you took the time. Also those who are following on television or on the webcast, welcome this morning. Before we proceed I just want to make you aware of the emergency procedures for the room. Behind those curtains there, the door that you came in and at the back there are all exits. In the unlikely event of anything going wrong here, move out, move towards the north as far away from the building on the lawns as you can, and wait there for further instructions.
The forward-looking statement is also in the hand outs that you’ve received this morning. We will assume that you’ve read that. The presentation this morning is going to be done by Nick only. Paul is also here to take any questions.
Nick Holland

Thanks very much, Willie, and good morning everyone. As Willie says, I’ve got Paul Schmidt with me, our Financial Director. I think it’s appropriate that today is a day of mourning. Can I ask everyone to rise please for a moment of silence? Thank you very much.

The tragic events of Marikana are obviously front and centre in the minds of all of us in South Africa and in the mining industry. And obviously we are as keen as anybody else to make sure that we find lasting solutions on this whole issue. We can talk about it a little bit later if there are any particular questions, and I’d be happy to give our views on that.
Q2 2012 Results for the period ended 30th June 2012
23 August 2012

If we move into the quarter, I think what’s important to note is that we’re here to make safe earnings and safe production. And if you look at the second quarter of this year, let’s just analyse what we’ve done, and if you look at the half year what we’ve achieved.

We’ve achieved $676 million of EBITDA. That’s operating profit essentially, which translates to about $1.4 billion for the half year. Normalised earnings were $224 million for the quarter and $500 million for the half year. And that’s in the context of generating $1 billion of earnings last year. So we’re halfway there already halfway through this year.

Operating cash flow - you know we’re very focussed on that. $500 million of operating cash flow for the quarter and almost $900 million for the half year. And free cash flow – that’s after we’ve paid all the bills - $100 million for the quarter and $120 million for the half year. The reason the second quarter is a lot more than the first quarter is because in the first quarter we had the Christmas break, we had half year tax payments and now you’re seeing the full effect of that coming through. So it’s a solid financial performance, and that’s what people are looking for in this industry.

I will talk about the dividend policy a little later, but we’ve clarified our dividend policy, not necessarily to pay more, but to allay the concerns that we’re going to pay less. And we will maintain our position as a leading dividend payer in the industry.
Let’s look at production. Production is up 4% to 862,000 ounces for the quarter. Our cash costs were down 2% to $851 per ounce. Our full guidance for the year was $860, so we’re within that and certainly down from the previous quarter. The weaker Rand has helped somewhat.

And our NCE was up 2% to $1,308. Remember, NCE is the all-in cost of producing an ounce of gold. That’s the most important thing for the industry. And that’s also broadly in line with our guidance.

Good performances from the South Africa region during the quarter. Peru, a mainstay in the group, has done incredibly well. St Ives is very steady, and Tarkwa as well. The two assets that need work to bring them back to a level that we’d be happy with are Agnew and Damang, and I will talk about those a little later.
Our growth projects highlights here; At Chucapaca in Peru, a 7.5 million ounce resource, the feasibility study is expected to be completed by the end of the year.

At Arctic Platinum, we’ve just done a drill-out of an area called Suhanko North, which is about seven kilometres north of the Greater Suhanko area, which comprises the Konttijarvi and Ahmavaara pits. That looks like it is going to add between two and four million ounces of 2PGE plus gold. A very exciting development here. This is looking better all the time.

And the Far Southeast project, we believe we will be in a position with ten rigs currently drilling underground to give a maiden resource before the end of the year. The whole process of getting our foreign license continues, and we expect to have that in place either towards the end of this year or before the first half of next year.
Let’s look at South Africa first. KDC was up 12% to 280,000 ounces. And what’s particularly noteworthy for the team is that if you look at the production at KDC for the half year compared to the half year last year, they have stabilised production. And that’s a first in about three or four years that they’ve managed that.

Cash costs have come down. A little bit of extra gold does a wonder for your cash cost, and also the Rand. So that’s $936 per ounce. And all in, $1,200 an ounce. That means that they made a margin of 26%, which exceeds the hurdle rate. So that’s a good performance.

Production is on track with what I’ve said a year ago. KDC looks like it’s going to be a million to 1.1 million ounce per annum operation. And if you look at the production for this quarter and for the half year it certainly looks like we’re going to be within that range.

The tragic events of 30th June are obviously uppermost in our minds. Tragically we lost five of our people due to a gassing incident at the Ya Rona shaft at Driefontein, KDC West. The fire took place in a worked-out area where we have not been active for many years. So the source of the fire is a mystery to us at this time.

The good news is that the fire is now out, but it is going to take another month for us to flush out all the noxious gasses, make safe and get back into production. So I don’t expect to see any production out of Ya Rona for the entire September quarter.

We’ve lost around about 50,000 ounces out of KDC because of the fire. That’s a combination of shutting down the whole of KDC for around three days, shutting down KDC West for over a week and then the impact of the fire on the highest-grade shaft in KDC, which is Ya Rona. So unfortunately that is going to impact our production for the balance of the year. I will talk about the guidance update a little later on.

The cash flow has been good though, R1.3 billion of free cash flow from the much-maligned South African assets in Gold Fields. Let’s not forget they’ve just made R1.3 billion, so that’s not too bad.
Q2 2012: South Africa Region

Strong performance from South Africa Region

- **Beatrix** production steady at 80k oz.
- Cash costs of US$1,055/oz and NCE of US$1,342/oz.
- NCE margin of 18%
- Production on target to meet guidance of 325 to 350k oz per annum

Beatrix, a steady performance at 80,000 ounces. And again, if you look at the overall production rate it’s in line with what I said to you earlier, about 325,000 to 350,000 ounces. That is what we see Beatrix as being now, a ten to 11 ton operation. That’s what it’s going to be at best going forward. So we’re in the range.

Cash costs are a little higher than what we’d like to see, and we’re certainly working on that. NCE is also a little bit higher. But they still made a margin of 18%. So they are a little bit off where we’d like them to be – we’d like every asset to generate a margin of 20% - but we’re pretty close to that.
Q2 2012: South Africa Region

South Deep Project

- Production up 33% to 78k oz.
- Cash costs of US$942/oz and NCE of US$1,979/oz
- South Deep 88% self-funding* in Q2 2012
- Build-up to full production run-rate of 700k oz by end of 2015

![Graph showing major progress on key infrastructure on budget and on time]

Key Infrastructure Projects On Track For Completion Q4 2012

The South Deep project, a very good performance over the quarter, with production up 33% to 78,000 ounces compared to the previous quarter. And you can see the impact on cash costs. The cash costs at South Deep are now either at or lower than the other operations in South Africa. And we’re still only at around a third of full production. So I think it gives you an idea of the leverage to this operation once you get the production up. And we almost were at self-funding during the quarter. We managed to cover 88% of the capital and operating costs. I still believe that we should be in a self-funding position by the end of 2013.

What’s particularly noteworthy for South Deep is that we had record de-stress. If you can recall the de-stress are the two metre cuts we do at intervals of about every 17 metres in the deeper parts of the ore body to open up the ore body for long-haul open stoping, which is going to make up about two-thirds of mining in the future. We have to do the criss-cross de-stress development through the ore body to open it up. That was up 52% this quarter compared to the previous quarter. That’s a new record for de-stress. And that is a very positive signal for the future production build-up of this operation, which is targeting 700,000 ounces by the end of 2015.

We’re going to try and organise a visit – I know Willie is working on it – whereby we get as many people as we can to South Deep some time before the end of the year. And part of that should really be a surface tour so that you can see. You can come and see that the ventilation shaft is almost complete. And certainly if you look at the A-frame headgear that we’ve put on top to allow us to hoist rock from 3,000 metres because that shaft was never set up for hoisting, that’s all in place.

The plant expansion, the second ball mill is in. Most of the leach tanks are in place. If you go and see the backfill plant you will see two big thickeners there as well. A whole backfill range of pipes going into the south shaft. Come and see it, folks, and you will see a fantastic mine emerging at South Deep. We’re making really good progress here.
If we look at another interesting development. I mentioned to you some time ago that Neil Froneman and myself had discussed the possibility of putting together our gold and uranium tailings. We have something like 800 million tonnes of tailings between us.

And we’ve been working on putting together our feasibility study that we previously did about two years ago and their previous study and saying, right, let’s do a high-level integrated scoping study of what the potential might be for a consolidated West Rand surface resource project.

And the initial signs are very encouraging. MDM have done that study. We’re in the process of reviewing it. But in essence this allows us to create one major facility between us. It also allows us to utilise our combined, very significant tails capacity, to redeposit the tails that we would mine. And we’d also have a high grade uranium section that would be particularly important to take the high-grade Cooke material and capture that early, and then mix up the gold and the uranium on the rest.

So it is early days, but the internal rates of return that we’re getting out of this are substantial double-digit returns. And we’re looking to recover around about 4 million ounces of gold and about 60 million pounds of uranium over about 20 years.

And that would give you gold equivalent ounces of something like 300,000 ounces a year. So a very interesting addition just by taking existing mined material on surface and re-treating it. There will probably be some current arisings. We will see if we can capture the uranium out of the current arisings. But the big opportunity here is on the historical stuff that we’ve mined.

So this is work in progress. It’s a heads up for you, and there is a lot more work that we’ve got to do, but we’re sufficiently encouraged as a group – and certainly Neil is as excited as we are – that we should take this forward.
Let’s look at West Africa. Let’s just remind ourselves of what a fantastic portfolio this really is. 14 million ounces of reserves and 25 million ounces of resources. That’s what we’re sitting with in West Africa.

If we look at Tarkwa we produced 176,000 ounces in the quarter. That’s broadly in line with our plan. Cash costs of $663. That’s world-class. If you look at the average cash costs around the world this year, the cash cost is probably going to be $700 or higher. So that’s below the average. NCE at $1,000 is also significantly below the average. A margin of 36%.

And just to tell you what an outstanding operation this is, Peet is here and I must give him credit for the great performance the team is doing. They moved 33 million tonnes this last quarter at just over $2 a ton mining cost. That is absolutely world-class. And by the way, that exceeded their plan. So it’s very exciting what they’re doing.

We’ve had a hiccup on the heap leaches which make up about 25% of production. The EPA ordered us to shut that down on the basis they felt that we were not complying with environmental legislation. We don’t agree with that. We believe we were complying and are complying.

But in the interests of environmental stewardship and world-class environmental standards we’ve agreed that we’re going to install two water treatment plants, one at the north and one at the south, which essentially will reduce conductivity levels way below the environmental limit of 1,500 milli-Siemens per cubic metre. We’re going to bring that down. And we expect those plants to be installed by the end of the year at a combined cost of around $27 million. That’s factored into the updated forecast we’ve given you for the group.

We lost three weeks of production, about 15,000 ounces. But we’re back into production. The EPA lifted the ban on us so we’re back stacking and reclaiming from the heap leaches.
One particular issue we haven’t really talked about that much, and I thought it’s important now to get this out there, is we’re looking at building another plant at Tarkwa. As you can recall, we currently have a 12 million CIL plant that we initially started at 4.3 million tonnes. We expanded it to 12 million tonnes about three or four years ago.

We’ve decided now that heap leaching is probably not the way for us to go in the future as dissolutions are around 60% and have a risk of declining particularly as we get into the harder, less amenable ores in the deeper parts of the pit. And we’re losing the benefit of getting an extra 35% recovery on this.

So what we’ve decided to do is to build another plant, an 8 million CIL plant. And this is a modular expansion. We’re providing for the potential to expand it even further than this into the future. And that will likely add about 100,000 ounces a year on improved recoveries to underpin an 800,000 ounce profile going forward. Remember Tarkwa is a 10 million ounce reserve and this will underpin at least 800,000 ounces.

We’re also doing some exploration drilling which we haven’t done for many years at Tarkwa. We’re finding some encouraging extensions into the principle ore sources. We have about four or five main pits, and the potential to expand the size and depth of those pits looks very exciting. So there is more potential at Tarkwa for sure.

This project is a very robust project with a double-digit IRR, accretive cash flows, and short payback period. It’s probably going to take about $450 million. The pre-feasibility study is well underway. We should finish that by the end of the year. I would think we would take an investment decision and start the work on this before the end of next year. That gives you an idea of further potential in West Africa.
If we look at Damang, this is a recent photograph. Just to orientate you, what you can see here is the old Damang pit. You can see it is quite deep and very mature. That has probably got about 18 months or two years to go. And we’ve been saying all along that the greater Damang pit opportunity revolves around Juno to the south and Huni to the north. And you can see we’ve done a massive amount of stripping over here.

At the moment we’re moving about 33 million tonnes per annum. Now, this pit over here is mature, but also we’re moving an area here called the Pillar of Justice, which is like a wedge between Juno and Damang. And if you stand at the base of this pit you can see that it is quite unsafe for us to mine close to that pillar. So mining has had to be curtailed for safety reasons.

And you’ve also got some potential falling rocks on the side here that we’re trying to put nets on. If you go down Chapman’s Peak Drive you will see they have those nets. We’re doing something similar to shore this up. So we’ve had to pull back out of the Damang pit, which is a high-grade source of production. And we’re in a position now to start improving our mining in Huni, but it’s still some time to go. And you can see between those two there is over two million ounces.

That’s going to take us another six to 12 months to really get in a position to improve the longer-term trajectory. Remember the one thing we don’t have a shortage of here is gold. We’ve got 10 million ounces of resource and 3.5 million ounces of reserve. But of course we’ve got to open that ore body and make it amenable for mining. That’s going to be the big focus. So we’ve decided that this is far more important now than rushing ahead with the greater project. Let’s shore up the short term, restore profitability, restore cash flow, but keep an eye on the bigger project and do it over a more sensible timeframe than what we’re doing now.
If we look at Australia, St Ives had a very steady quarter, 111,000 ounces. Cash costs are a little bit higher than what we would have liked, and that is mainly because of some gold in process movements. You often find there are leads and lags between what we mine and what we process, and that often results in either build-ups or releases of gold and working capital.

We’ve got quite a lot of capital at the moment as we look to also extend the life of Cave Rocks, one of our underground mines. We’ve decided to spend some money there. A new tails facility. And remember we’re doing the transition into owner mining which will be expenditure that we’ll see over the rest of this year and probably into early next year.

So I don’t expect to see too much cash flow out of St Ives over the next six to nine months, but we’re certainly setting it up for the future.

Owner mining is going to be very successful here. Like in Damang, we went from owner mining where we were paying $4.50 a ton to currently now on an owner mining basis paying below $3 per ton. And if you’re moving 30 million tonnes per year I think you can see it’s a very short payback on the fleet that we’ve had to acquire.
Let’s look at Cave Rocks. What you’re seeing is 500 metres to the bottom of the pit. This is a long section. These are the mined out areas over here. And there are some pockets we’re going to come back and get. This is the area we’re opening up here. All of the different colours just represent different mining sequences and timeframes.

But more importantly, we’re seeing further mineralisation to the base of this mine, and we’re going to continue our drilling programme. This is still open at depth. So there is potential here for more than two years. We’ve got a programme at the moment of opening this up.

We’ve got an AFE that has been approved. We’re starting that work. But we’re continuing to drill and we believe that we will be able to further extend the life of this underground mine that has been very successful and provided good returns for Gold Fields.

And as we’ve said before, the cheapest way to get extra ounces is to explore where you’re currently mining. If you can find ounces at $50 an ounce it’s a lot cheaper than buying them at $500 of $600 an ounce.
There is another exciting opportunity at St Ives, which is the mine that is south of Cambalda about 60 kilometres. You can see the lease over here. That’s about 35 kilometres long. Cave Rocks, the one I’ve just talked about, is up there.

And then we’ve got this thing called Invincible, which is about eight kilometres from the plant, so it is very strategically positioned. This is a greenfields discovery. And we see a kilometre trend along here. You will find at St Ives most of the mineralisation is hosted in sheer zones, and this is one of the major sheer zones that runs through the lease.

This is actually on the salt lake itself. We’ve got about 100 metres of cover. That is why these things have not been found before. You have to drill through the cover. And we have found some very exciting intercepts over here. I won't go through them. They’re in your book. But we believe this has the potential to be a major new open pit addition to the portfolio at St Ives.
Agnew, that’s the other asset that still needs a bit of work. We’ve fallen short here on our production. 37,000 ounces was not where we want it to be. We really want to get this operation to at least 45,000 ounces. And as a consequence you see it flows through to our cash costs and our NCE and we haven’t hit the targeted margin here.
So the problem we’ve got here is... If you look at the Kim Lode over here, that’s getting quite deep. That’s the area we’ve mined over here. And what we’re doing now is the direction of the ore body is changing and it is moving more this way. We didn’t recognise all of that immediately and we ended up doing some off-reef mining and mining on the periphery of this particular ore body. We have now understood where we’re going. We’ve reconfigured our mining plan and we’re now in the process of getting back to the grades that we’ve always seen. This has always been a 10g double digit grade ore body. We’re getting back into that now, so the future looks good. All of this here we believe has got a high resolution to be mined.

Main Lode on the other side, that’s the old open pit and this is the portal at the base of the pit going into the underground workings. We encountered some tough underground conditions. We had to slow our mining. We had to change our sequence whereby we blast a much smaller open stope, we fill it immediately and then we carry on. When you do it that way it slows up your whole process, but it’s safer and it means that we can mine according to a plan that we can achieve.

So we will be going slower here, restoring that to where it should be. We will get through that in another year or two. There is some very exciting potential here at the base of Main Lode, high-grade lenses, Fitzroy, Bangle and Hastings. So we’re doing some drill work on that. That could be high-grade chutes for the future.

So Agnew continues to surprise us, mostly on the upside. But our quest right now is to restore the short-term mining profile to at least 45,000 ounces and we should do much better this quarter.
Cerro Corona, what can I say? It has been a great operation. It continues to hit its stride. Remember this is a 6 million ounce, 16 year, fully developed asset that has produced 85,000 ounces at cash costs of $482/oz. That’s right up there in terms of quality. NCE of $708/oz and a margin of 48%. Long may it continue to give us fantastic results.

And if you look at this on the gold porphyry curve and you measure the grade of gold and copper in this particular asset it is right up there, about 1.1g of gold and about 0.5% of copper. It is one of the highest grade copper-gold porphyries in the world.

We’re doing some more drilling at the base of the pit which is outside of the 6 million pit shell that you see here. These porphyries tend to extend at depth. This is what we call a pencil porphyry. We’re hoping that this thing will extend at depth, but who knows. We will talk to you later if something transpires out of that.

So the guys are doing a great job, and I think all we want to do here is just keep it going.
Here is another interesting photograph for those of you who might have been up to Corona. This is the tails dam here. This is two tails dams that have now coalesced. The initial Gordas dam used to be here, and then we had the Agulas dam that we added over there. And there was a wall in between here. Of course as the water has risen in the dam you can see the whole thing has coalesced into one big dam.

This is a massive engineering feat. We’ve had the best engineers we could find in the world helping us build this thing. So I think it is state-of-the-art. More importantly, what this does is it provides the capacity for us to look for other opportunities. That is why we have been able to increase our reserves by a million ounces to 6 million ounces.

So what are we doing now? We’re looking at how we take a 16 year life and extend by maybe a further 10 years. We’re looking at a feasibility to build an extension to our sulphide plant which might to all intents and purposes be a very similar size to what we’ve got at the moment.

We also have 300,000 ounces of heap leach material and we’re looking to complete a feasibility study next year on doing a heap leach facility on that. That’s about 300,000 ounces at about 1.4g per ton.

These two projects could take Corona up to 500,000 ounces a year and really help to maintain a low-cost profile and high profitability. So we’re very excited about that.
This you’ve seen before. NCE margin, which is the ethos of Gold Fields, it’s what we live for - it is making sure that we can cover all of our capital, make some money so that we can pay dividends to shareholders, so that we can fund our sustaining capital and so that we can grow this company.

We’re the only gold company that reports NCE, but I believe it is crucial to understand where your costs are going and whether you’re making money or whether you’re just trading dollars. We’re making money.
Our balance sheet, thanks to Paul and his team, is in great shape. You can see over here that our debt, $1.4 billion, is about 0.5 net debt to EBITDA. So in essence it’s only six months of operating cash flow. What he and the team have managed to do is put a lot of it out in the long end, and they have also fixed the interest rate of that.

So the liquidity profile of the debt is in really good shape and it gives us the flexibility to not worry too much about this. There are many other things to keep us awake at night, but I don’t think we have to worry about this one keeping us awake at night. Financially Gold Fields is in great shape.
Dividends. Well, here are the facts. If you look on the side here you can see the average payout ratio of dividends as a percentage of EPS. This is against all of the other leading companies, and it’s from Bloomberg, it’s not our stuff. Gold Fields over here is head and shoulders above everybody else in terms of dividend payout for the last four or five years. And our interim dividend I think is no exception.

Notwithstanding that we are trading on a dividend yield that is much higher than everybody else. Again it’s not our information; we’ve taken this off Bloomberg. And I think this shows you that we are now the leading dividend payer in the senior peer group.

What we’ve done is because people don’t recognise that and they don’t really understand our policy we’ve decided to change the policy. Previously we said we’d pay out 50% of our earnings subject to investment opportunities. And that has crystallised in a historic payout of about 30%.

Everyone is saying, well, you’ve got all these growth projects coming; we’re not going to see any dividends any more. We’re saying no, you will. Our dividend policy is 25% to 35% of our normalised earnings. That’s going to be a first priority on our cash flows before anything else.

So you can now model what dividends you think you’re going to get out of Gold Fields. This doesn’t mean that we’re necessarily going to pay more, but it’s going to give you comfort that our policy is going to be applied in a way you will understand into the future.
Let’s look briefly at the growth portfolio. I mentioned the Chucapaca feasibility study by the end of the year. And at the same time we anticipate submitting the environmental impact assessment by quarter four. This project is looking good, but I don’t think we’re there yet. I don’t think we’ve got a sufficiently robust double-digit return that gives us enough confidence to proceed.
So it is likely that we will do a value engineering process that will start next quarter. And we’re going to do more exploration. We’re very confident that there are many more millions of ounces in the area of interest between ourselves and Buenaventura. Certainly it is a good project and I’ve got no doubt that this will be a mine, but we need to do more work in the interests of making sure the projects we build is going to be demonstrably adding value to our shareholders.

But no doubt that this project has got the potential to be possibly the next mine within Gold Fields. It may just take us a little longer to get to that objective.
Far Southeast. Here’s an interesting photo as well. I’ve stood up here on this ridge. This is the existing Lepanto tailings dam that they’ve got there. And if you stand on this ridge and look down over here, I’d be looking down into the crater which is where the underground operation will be which starts at about 500 metres below that crater. That’s just to orientate you.

We’ve got ten drill rigs drilling underground. We’re using an old shaft as a service shaft for all of that. So we’ve got ten cuddies at the moment all equipped and drilling. We anticipate being able to give you a maiden resource by the end of the year at the latest, so watch this space.

Our whole process of getting our license that allows foreigners to own a majority interest in Filipino assets is progressing. We anticipate that we should have that in place by the middle of next year. And it is not hampering our progress either.

The biggest focus here is going to be getting community support and engagement for the project. And that is the big area of focus right now, to get support for the project, to go around and conduct interviews with people, talk to the housewives around. It’s that level of detail we’re going to. So we’ve got a massive programme with many people deployed in doing that.

The highest priority for us at this stage is to get the social acceptance of this project while we continue drilling and doing the other work towards the pre-feasibility study.
Arctic Platinum in Finland. Just to orientate you again this is in the Artic circle about 60 kilometres from a town called Rovaniemi where it’s dark all winter and light all summer - 24 hours a day in Lapland. What we’re doing here is remember we already have a seven million ounce 2PGE plus gold resource in the Greater Suhanko project that comprises the two open pits of Konttijarvi and Ahmavaara.

We decided to do more drilling in Suhanko North which is about seven kilometres further north of that. And the signs have exceeded our expectations. It’s looking at this stage as though it’s going to be somewhere between two and four million ounces that we’re going to add to this. And remember we’ve still got another five million ounces in a narrow, high-grade reef called Eskay, also in the area which we’re going to be doing some more drilling before the end of December. So this is starting to get bigger than what it was before, and that is certainly going to help us in terms of scheduling, in terms of optimising the mining cost profile and seeing if we can get a longer life out of this particular asset. So strategically this is a very interesting addition to PGMs in an industry that at the moment is finding that there potentially will be shortfalls over the next two or three years depending on what happens with SA’s platinum and palladium production.

We’ve done some PLATSOL amenability tests on the Suhanko North material. Remember this is just an autoclave. You mustn’t get hung up about PLATSOL. It’s basically a derivative of an autoclave, a pressure oxidation where we introduce iron chloride into the autoclave to capture the PGMs early. That’s what it is. There is nothing mystical about this particular process.

We’re going to do another lock-down test of all three pit materials, combine that together. And we will do that in the first half of next year. That will confirm the initial tests. So we think it should work. We’re doing more work on the greater footprint here and we will put in some amendments to our EIA and of course look at all of the marketing and where we think this will sit on the cost curve. This remains a very interesting opportunity that we certainly are getting more excited about.
Growth Portfolio

Damang Super-pit Project

- Resource 10.1 Moz (+118% y-o-y)
- Reserve 3.4 Moz (+63% y-o-y)
- Focus on returning the operation to a stable base
- Super-pit project work on slow-burn while prioritising operational performance

The Damang super pit. I’ve mentioned the potential here, but I’ve also said the focus now is for us to restore profitability and cash flow on the existing mine. But we will continue the work on the super pit and we should be able to give you more information in the first half of next year on this. But our main priority, as I mentioned earlier, is let’s get Damang back to something around a 180,000 to 200,000 ounce per year operation that makes good money.
Guidance. Obviously the fire at Driefontein has hurt us quite badly. A 50,000 ounce reduction for the year. The heap leach closure lost us 15,000 ounces. Safety stoppages at Beatrix. And a lot of this is internal stoppages, not just the DMR. We stop ourselves. If we can’t mine safely we don’t mine. We stop. And we have stopped at Beatrix a number of times. That’s going to cost us about 20,000 ounces over the balance of the year that wasn’t in our initial estimate.

At South Deep we are seeing, regrettably, the initial signs of go slow given that we’ve issued a Section 189 notice on 2nd August. So we factored in something for that. Whether that’s enough, I don’t know. It really depends on what happens in that process. That process now has culminated in the appointment of a facilitator by the CCMA which is provided for in the legislation. That facilitation process has commenced. The 60 day period of course started on 2nd August. All I can say is that we remain hopeful that the facilitation can find a way forward for us on this very important issue.
I want to look very quickly at the industry overview and give you a perspective as to some of the concerns that we’ve got and where the industry is. I think it’s opportune that we should do this. It’s a question that I get asked when I go to the United States and when I go to London. Where is the industry, and more importantly, why are the gold stocks not responding to the gold price?

I got asked to do a presentation at the Melbourne Mining Club on 1st July. It was a hell of a turnout. I had 700 people in the Melbourne town hall. And they said to me, come and talk to us about any topic you want, but you can’t come and market your company. Come and talk to us about any issue in the mining industry.
So the issue that we’ve been studying for months is why the gold stocks are not performing when we’ve seen the gold price going up so much. First of all, let’s look at what investors can do. If you want to buy access to gold you can go and get the ETF. You don’t have to worry about analysing companies, and figuring out whether management is telling you the truth or not, or whether you can believe the guidance updates. Just go and buy gold. It’s very simple.

When we launched this product through the World Gold Council back in 2003 we said if we can get this to 500 tonnes that would be a blow-out. That would be an absolute home run if we could get to that. Today we’re up at 2,500 tonnes. That’s $120 billion. And that $120 billion is now more than the market capitalisation of Barrick, Newmont, Anglo Gold, Gold Fields and probably Goldcorp. We’ve come from nowhere here to create the same market value.

I suppose the one thing that worries a lot of us is that we may have cannibalised certain investments that could have gone into the gold stocks. It does compete for incremental investment. But that’s not all bad because it also has helped us to get the gold price up. It is now our challenge as an industry to make sure we can take that gold price and deliver improved earnings and cash flow as a consequence.

In fact, when it got to here people were saying ETFs are going to start coming down. It has kept on going. And it is only 1% of global funds under management. It’s tiny. The potential to go higher is certainly there.
But of course the tragedy is that we have not been able to capitalise on it as an industry. And you can see the gap here has got bigger between the gold price and how equities have performed. So we’re not able to convince people that the higher gold price can result in higher earnings or value for shareholders, otherwise they would have responded in the gold stocks and they haven’t.
Why is this the case? I’ve been going to investor conferences now for 15 years. And the one thing I’ve seen in 15 years is when you look at everyone’s presentations – including ours in the past – everyone’s production is going to the moon. How have we done? These are the top eight producers. This is Barrick, AngloGold, Newmont, Gold Fields, Kinross, Goldcorp and Newcrest. That makes up 45% to 50% of the industry. What have they done?

Well, over the last six years we’ve gone backwards. Our production has gone down minus 2%. That’s the compound annual reduction in production. The overall production has gone up, but it has come not from the majors. It has come from smaller companies and it has come from more obscure parts of the world like China, Columbia, places like that. It hasn’t come from the established producers.
What has happened in addition? And it’s not just a South African problem. Paul and I have analysed this every which way you can. Operating costs are going up all over the world at around 12% per annum. And if you talk to some of the fund managers they will tell you from here on out it’s going up by 15% per annum. They’ve done some analysis.

Why? It’s energy. It’s not just energy in South Africa. It’s energy in a lot of countries. It’s water. It’s wages of skilled people. Just getting skilled people in this industry is a major challenge. It’s input costs like oil, cement, steel, you name it.

Now remember one thing. 15% per annum increase means you double your costs in five years. Just remember that, because right now we’re at $700. If you maintain your grade but you double your operating costs you would be at something like $1,400 per ounce in five years’ time.

The problem is the grade is also going down. And in part that is linked to discoveries becoming less, smaller in size and lower in grade. And the one point that’s becoming more relevant is something that ten years ago you would have laughed at if I said it. Gold is starting to become scarce. It’s not that easy to find. And the above ground stocks are pretty sticky.

Central banks are buying, not selling. People are buying gold. And central banks only tend to sell when the price goes down. They buy when it goes up. Now, in addition to that, capital costs of projects have escalated significantly. And you’ve seen capital costs three or four years ago compared to now. What are they? 50% higher in some cases in three years. So building new projects is becoming very expensive.
That’s why what you’ve seen overall is, when you come back to NCE, which is the only true measure of whether we’re making money or not, what have we found? For the eight majors the gold price has gone up and NCE has gone up at the same rate. We haven’t really expanded the margin as much as investors would have liked.
Now, here’s the problem. We go out as an industry and we go and talk about this. We go and say how wonderful our cash costs are. Some of us even take all of the by-products and credit them against the cash costs and say how even lower our cash costs are. Now, who are we trying to kid? We don’t kid the investors. The money understands the real issues, so the money knows. We don’t kid the sell-side analysts, if I can give some credit to the sell-side analysts. I think they’ve figured it out too.

The people that really we’re kidding are the people like governments and communities that think we’re making so much money. Therefore, we can afford to pay a lot more taxes. We can pay more energy costs. It’s the way we represent our industry, instead of actually saying what it is. That might actually help the gold price if we say what it really is. And that’s the change I think the industry has got to talk about.
Now, let’s talk about the gold price as well. The other problem we’ve got is that the market keeps calling it down. If you look at the last six years this is what the gold price has done. This is the consensus sales side analyst forecast for the last six years. If you look here, six years out of six they’ve got it horribly wrong. That has been their consensus forecast that we’ve pulled out here. This is not my data. This is consensus data. And just when you thought we were going to get it right we’re going to get it wrong again. Except this time what we are prepared to say is, okay, we will buy the fact that it’s going to go up a little bit for a while, but then it’s going back again.

They are now saying the five year forecast is $1,294. It already costs more than that today to produce an ounce of gold. Now, if you put the inflation I’ve talked about earlier, just your cash costs are going to be more than that in five years’ time. We’re living in a dream world, guys. If that’s true then we don’t have an industry.

If you honestly believe that gold is going to be there in five years’ time then there is no industry in the future. Because the costs are going to keep escalating. You might say we think oil is going to pull back, but one thing that we’ve learned consistently is costs are very sticky on the upside. Once they’re in you don’t get them out of the system. Unless you have rise and fall provisions in your contracts, which are very visible, costs keep going up.

So we’re calling down our product. We’ve got to start believing in our product if we’re going to support this industry. And all those related to the industry need to do the same.
There are strong indications that the gold industry recognises that investment cannot be sustained whilst returns remain low

"Barrick Gold slows down expansion"  
Financial Times, 20th July 2012

"The era of gold mega-projects may be fading. The industry is moving into an era of cash flow generation, yields and capital discipline"  
Sean Boyt, CEO Agnico Eagle

"Newmont to cut over $1bn from planned Peru project spend"  
Mineworks, 24th May 2012

"Kinross Gold hunts for ways to cut expenses"  
Financial Post, 8th August 2012

"Barrick replace CEO in board shake-up"  
Financial Times, 6th June 2012

"...ounces at any cost..."  
Johan Steyn

So what does all this mean when we look at the share prices as an industry and we look at the gold price? It should be summer here with the gold price at $1,600, but it feels like it is still winter. What is the response to this? Barrick Gold slows down expansion. The era of the gold mega-projects may be failing. People may be scared to spend big money on big projects.

Two CEOs out of the top eight have gone in the last month. Newmont has deferred projects. Kinross has cut back Tasiat, the very thing they paid $7.5 billion for. They paid their market value today for a mine that they’re cutting back significantly. I don’t think Johan Steyn is here today, but he did put a report out saying ounces at any cost. There is a lot of merit in what he says. We must make sure it isn’t ounces at any cost.
So what does this mean for us? That is going to be the question you’re all going to ask me at the end. It’s not about ounces at any cost. If you set ounce targets for your operations they will give you ounces, but they may not give you any margin. We’ve got to leverage our existing assets to the gold price and make sure we make money. It’s about making a margin per ounce.

We’ve got to reward shareholders with the gold price today and pay them dividends. You take as a priority a
piece of your cash flow from your existing assets and you pay them a dividend. That’s why they’re buying the stock. You take the rest of the money and you sustain the business, make sure every dollar you spend is meaningful.

Take a private equity style approach to managing our business. Only spend the money, if it’s going to make something for you. Only invest in projects that are going to make good returns. I’ve said to you earlier, Chucapaca is a very exciting project, but we’re not ready yet. We’ve got to do more work. That’s the discipline that we’re putting in to our business.

Invest in growth that makes sense. We bought out the minorities in Ghana and Peru last year, assets that we know and understand. And we borrowed money at 5% to buy assets that will yield double digit over the life. Leveraging our balance sheet to generate those kinds of returns and looking at all of our capital.

That is what I think the industry has got to do if we’re going to get investors back to the stocks, and not just for them to default to the ETF. There is a whole new era of investment managers emerging today, which are way beyond the old gold investors. And they are learning about the gold business, and if they get nervous they’re just going to default to the ETF. We’ve got to provide them with a reason to buy us. We’ve got to earn the right to get their money invested in our stock.
Questions and Answers

Allan Cooke – JP Morgan

Good morning, Nick, Paul and Willie. Three quick questions if I may. Maybe they’re not so quick. Given what has happened in the platinum space what is the risk that you see labour unrest and associated trouble extend not just to your mines but the industry, and what are you doing about that risk?

And then also this week we’ve seen another silicosis claim here locally. Now there are court cases in the UK. There are court cases here. Will you be making any provision? Is there any contingent liability? What can you tell your shareholders, the investors about the potential liability for the silicosis claims please?

And then lastly, any update on your negotiations with the Ghanaian government in terms of a stabilisation agreement or some sort of comfort that the royalty and taxation regime in Ghana will not adversely affect you in the future as you expand your mines, Tarkwa and Damang, there?

Nick Holland

If I can deal first with the AMCU issue. Certainly the Chamber’s view which we are members of and have contributed to is that we need to open a dialogue with all parties. We can’t run the risk of excluding people because they may not have recognition agreements on operations. I think to exclude certain elements of organised labour on the basis that they don’t have agreements is not going to help us to calm the current situation. So as a chamber we are actively encouraging dialogue with all parties and will be having dialogue ourselves to try and understand everyone’s position on this and get sense to prevail.

It could be that the organised labour landscape is changing. I think it incumbent upon all involved, industry, organised labour and government, to recognise the changing patterns of this and to respond accordingly. But first and foremost I think we’ve got to restore calm. We’ve got to look back and try and work out what went wrong. We’ve got to learn from these mistakes. We are actively watching, discussing and monitoring the situation and learning for our own operations because we can’t be naïve enough to assume that this issue may not expand to a broader industry problem.

That’s really our approach at this point in time. Let’s open a dialogue. Let’s start talking to people, try and understand their position and see how we can find a positive outcome. It’s very difficult to find a positive outcome today because I think we’re all reflecting on what has happened. But we need to all move forward positively and make sure this doesn’t happen again. We don’t have any significant issues on our operations in this regard at the moment, but I think we are sensible enough to realise that this is a dynamic process and it could change in time.

In terms of silicosis, we were issued with an application on Tuesday to certify a class action. Let’s remember what it is. It’s an application to certify a class action. And we’ve got ten days to determine whether we’re going to oppose it or not, and another 15 days to file our papers. We haven’t decided yet what we’re going to do. We’ve got a whole legal team working on that at the moment.

The second stage, assuming it is certified as a class, is the merits of the claim itself. And then secondly, depending on the outcome of that then there would be a process in terms of this action where claimants...
would have to opt in to qualify for any compensation. So at this stage we’re analysing this. We only got it 48 hours ago. We’re working through it. It’s not entirely a surprise to us. We’ve been working on trying to analyse our situation behind the scenes for some time. And we will see whether or not this develops into a bigger thing.

Right now it is only an application served on Gold Fields. It’s not joint with any other companies. Whether or not it turns into something that is dealt with by Gold Fields alone or dealt with in conjunction with the industry we’ve got to decide. We haven’t made that particular call yet. What I can tell you, however, is in terms of silica dust exposure we’ve made enormous strides in terms of the actions we’ve put in place such that the submissions have declined orders of magnitude over the last five years.

So we’re dealing more with a legacy issue here than a current problem because we are not seeing it in the current submissions. At this stage it’s difficult to comment. There are no numbers given. There are no numbers of people given. There is no magnitude of the potential claim. Our own internal view is that this process is manageable. That’s our position at this point in time.

In terms of Ghana we have been actively engaging with government on stability agreements. I know the government is trying to come up with a new model of a stability agreement. Of course there is the problem of a lack of level playing fields between the major gold producers in the country. Certain people have stability agreements and others don’t, including us. So the levelling of the playing fields is a critical component of any future dispensation that is agreed.

Government is very sensitive to this. They are engaging with the other companies that have stability agreements. We’re engaging with them to try and give them an idea of what we would like to see. We are working with them to try and come up with a positive solution. I am reasonably encouraged that if we’re patient and we give it the time we will get an outcome that provides a competitive environment.

The view I have always expressed, and it is the view that I give to governments across the world in the countries we operate in, is all we’re looking for is a competitive and stable and consistent fiscal environment. Nothing more. We’re quite happy to make our contribution to the government coffers in every country we work in. but we want to know that the rules of the game are clear, consistent and fair.

Brendan Ryan – Paydirt Media

Brendan Ryan, Paydirt Media. Nick, one of the issues you raised in your Melbourne speech was the desirability of a smaller but much more profitable gold company. Is that something you’re looking at for Gold Fields? And if so, how would you implement such a strategy?

Nick Holland

If you look at our strategy over the last 15 years we used to have this philosophy of going for big, long-life, quality assets. 5 million ounce plus was the target we set ourselves. And we set the bar too high, because it’s hard to find those things. You can discover one 5 million ounce opportunity a year if you’re lucky. So we set the bar too high. And the other thing is from a risk perspective having a few large assets in your portfolio gives a concentration risk. If one of them goes wrong, if one of them catches a cold, the whole portfolio feels it. That’s the problem you have. So it is always better to spread the load.

It’s not so much about the size of particular mines. Do they make money? We’re exploring now whether we shouldn’t be prepared to go and build and operate a 100,000 to 150,000 ounce per ounce operation that
can make the kind of margins that Cerro Corona does. What’s wrong with that? If it makes money, it makes money.

You get a very de-centralised management system set up which heavily incentivises and aligns the local management team to the corporate outcomes that you want. And you let them get on with it. I don’t see any problem with that model. That’s really what I’m getting at. We’re moving to a model like that. Our exploration and whole M&A approach may change to cater for that kind of situation.

**Brendan Ryan – Paydirt Media**

But you’re not looking at getting rid of assets which you think are not performing any more or are not capable of giving you what you want, cutting down the size of the group?

**Nick Holland**

I think the portfolio review is always going to be looking at the portfolio overall and examining whether each asset can get over the line. As I said earlier, I went through the portfolio and I said this asset is making it at the moment, this other asset is not making it. What can we do? And then we had to take a longer term view. Maybe in the short term it might be making it, but in the longer term is it making it? That’s all part of this process of saying don’t get fixated about the ounce profile or size of the operation. It’s all about does it make money.

**Willie Jacobsz**

Let’s move to the back of the room. Ruby.

**Ruby Rosenberg**

Thanks, Mr Jacobsz. First question please. What explains the increase in investments to the extent of R1.925 billion?

**Paul Schmidt**

Ruby, it’s the payments that we made to FSE. Until we vested the 40% it was kept under current assets, and it has been reclassified. That would have been the $110 million that we paid plus the previous $120 million. So that’s $230 million that was moved out of current assets into investments.

**Ruby Rosenberg**

I have some difficulty picking that up because the cash flow statement has got a different date line to the balance sheet. I suspected it was the FSE. In total it is the FSE, is that correct?

**Paul Schmidt**

It is the FSE, yes.

**Ruby Rosenberg**

Next please. Regarding the amount of interest paid of R65 million, that’s a negligible amount when aligned
next to the current negative cash position of approximately R11.5 billion. The immediate question that arises is was the bulk of the new borrowings raised overseas? I assume it was. If so, at what rate of interest? And how much of your current cash portion is sitting overseas?

Paul Schmidt

The bulk of our cash sits overseas and the bulk of our debt sits overseas. Bar the bond, which is at 4.875%, all my bank loans are at 2% interest that I’m paying. And Ruby, the number that you’re seeing there is a net number. It’s interest paid after taking off interest received. The total interest paid is in the region of R110 million a quarter.

Ruby Rosenberg

Sorry, I didn’t catch that. Would you say that again please?

Paul Schmidt

That is net interest paid. It is interest paid after deducting interest received. So the actual gross interest paid is about R110 million.

Ruby Rosenberg

Thank you.

Willie Jacobsz

Darren.

Derryn Maade

Good morning Nick. Good morning Willie. Just given the changes to the dividend policy I would expect competition for capital to intensify within Gold Fields especially on the growth project side. Could you give us an indication as to how you’re prioritising those projects? And are you likely to firm up on guidance for their delivery.

Nick Holland

As we’ve mentioned earlier, Chucapaca is probably going to need more time. The feasibility study completion is not going to be the trigger for an investment decision. As I mentioned earlier there is going to be a process of value engineering and more drilling. FSE is at a stage where it is really a drill-out project. Get a maiden resource. Pre-feasibility is probably going to extend for a couple of years beyond that. So that is still some way out there. Damang, I think depending on the review that Peet and his team are doing, that could be back onto the radar screen in a big way towards the second half of next year. So we would have to look at that one. And Arctic Platinum I think we still need another year to 18 months before we get to any decision.

So the growth projects are all progressing, but they are likely to progress a little slower. So the priority at the moment is the project in Ghana, the second plant. That to us is a very accretive project that can help us get Tarkwa to 800,000 ounces a year consistently. And we think that’s a great project to do. And then of
course the second plant in Corona as well as the heap leach operation. Those three are probably the three that are least risky to us because they are all brown fields expansions. We understand those mines incredibly well. They would likely be the ones that would go first. And they would probably add between them something like 300,000 ounces. So there is potentially 300,000 ounces alone out of those.

We mustn’t forget South Deep. South Deep is in a build-up phase and we’re looking to add another 400,000 ounces from where we are today. So that is another 400,000 ounces on top of that. So between those opportunities there is already 700,000 ounces on the table. And those brown fields extensions we believe could be in place and operating by the end of 2015. So there is already 700,000 ounces that is on the table out of those projects.

The good news on South Deep as well is that next year will be the last big year of capital. And we should go cash positive at the end of 2013. That will stop that from having to be funded by the group. That will also free up capital and give Paul flexibility to help us divert some of the money we’re currently using to fund South Deep into other opportunities. So that will improve the overall cash generation ability of the group.

If we have to sequence the projects we will look at that. We will max out the balance sheet as far as we can within prudent levels. We’ve got quite a lot of headroom that we can put onto the balance sheet at the moment. So between the projects that we have to do in the short run, which are likely not to coincide that much in overlap with the longer-term green fields projects, together with South Deep becoming self-funding, and hopefully a gold price that stays up, we should be in a reasonable shape to take the better quality projects first. Far Southeast will be longer anyway. And then we can tackle the other ones which are more bite-sized and manageable in terms of our existing debt capacity.

**Willie Jacobsz**

Time for one more question.

**Adrian Hammond – BNP Paribas**

Morning gentlemen. Adrian Hammond, BNP Paribas Cadiz. Three questions if I may. The first one, have you received any demands or have you been in negotiations with groups of RDOs talking to and not really representing any union?

**Nick Holland**

Obviously you’re referring to one of the core issues behind the Marikana issue. Obviously we’ve had approaches on RDOs. It’s not a new issue. It’s something that has been around for a while. The difference we’ve got in the gold sector, unlike the platinum sector, and I think this is an important mitigation, is we have a centralised bargaining arrangement, unlike platinum that has a decentralised bargaining arrangement. And that’s very important because it means the gold industry negotiates wages as a group. And so far we’ve never had anyone trying to renege on agreements. I must compliment the unions. They have never tried to renege on a two year wage agreement that we’ve put in place. And I don’t anticipate that any time soon. And as I mentioned earlier we don’t have any representation on the mines at this point in time.

**Adrian Hammond – BNP Paribas**

And on the Section 189 at South Deep, if that progresses to the dismissal of workers what do you think the
impact on production would be for the year?

**Nick Holland**

I think it’s far too early to say what it’s going to end up in. We’re obliged in terms of the Labour Relations Act to go through a facilitation process. And we shouldn’t try and second-guess the outcome of that and try and preordain what we think is going to happen. So if you don’t mind I’m going to say let’s give the facilitation process the best chance we can. Let’s see if we can try and reach a solution. We’re only going to tackle that issue at the end of the 60 day process and see where we stand. We are still hopeful we can and find a solution.

**Willie Jacobsz**

One last question in the front here.

**Bruce Williamson – Imara Asset Management**

Morning. Bruce Williamson, Imara Asset Management. Nick, could you give us an update on lifting the ring fence at Kloof KDC, applying a single ring fence? Could you give us an estimate in the last six months of the cash costs at Kloof and the NCE at Kloof division?

**Paul Schmidt**

We are not progressing at the moment on the lifting of the ring fence. With this whole portfolio review we’ve put it on the backburner at the moment. That is the update I can give you on the ring fence.

**Nick Holland**

On the cash costs at Kloof, what we do on the web in response to questions from people... Since we merged KDC people have asked us for the breakdown. There is a full breakdown on the web, Bruce. The costs are very similar between the two. There is not a hell of a lot of difference. KDC East is slightly lower. But all that information is on the web. If you have any difficulties, let us know.

**Willie Jacobsz**

Thank you very much for your time. We will have a short break now, and then we will have the media briefing in the normal room at the back. The rest of you please join us for refreshments. I just want to remind you that the new Gold Fields book is also available. I see most of you have copies already, but if you don’t, pick one up on the way out. Thank you very much.