Breaking the resource curse

NICK HOLLAND
CEO Gold Fields

The African Mining Network– Johannesburg October 2018
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In particular, the forward looking statements in this document include among others those relating to the Damang Exploration Target Statement; the Far Southeast Exploration Target Statement; commodity prices; demand for gold and other metals and minerals; interest rate expectations; exploration and production costs; levels of expected production; Gold Fields’ growth pipeline; levels and expected benefits of current and planned capital expenditures; future reserve, resource and other mineralisation levels; and the extent of cost efficiencies and savings to be achieved. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the company to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. Such risks, uncertainties and other important factors include among others: economic, business and political conditions in South Africa, Ghana, Australia, Peru and elsewhere; the ability to achieve anticipated efficiencies and other cost savings in connection with past and future acquisitions, exploration and development activities; decreases in the market price of gold and/or copper; hazards associated with underground and surface gold mining; labour disruptions; availability terms and deployment of capital or credit; changes in government regulations, particularly taxation and environmental regulations; and new legislation affecting mining and mineral rights; changes in exchange rates; currency devaluations; the availability and cost of raw and finished materials; the cost of energy and water; inflation and other macro-economic factors, industrial action, temporary stoppages of mines for safety and unplanned maintenance reasons; and the impact of the AIDS and other occupational health risks experienced by Gold Fields’ employees.

These forward looking statements speak only as of the date of this document. Gold Fields undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.
Our operations and projects worldwide

Source: Gold Fields
Gold Fields’ operations are in emerging markets and Australia

1. UN Human Development Index: 1=Maximum human development; 0=No human development
2. Government Effectiveness Index: 2=Complete government effectiveness; -1=Ineffective government

Source: World Bank, UNDP, Index Mundi

Mining’s SLO | Nick Holland | October 2018
Socio-economic profile of Gold Fields’ host communities

A host community is a group residing in a village or town that...

- Is in the vicinity of a mine operation
- Has been directly affected by exploration, construction or operations
- Has a reasonable expectation regarding the duties and obligations of the mine operator

Our host communities: 435,000 inhabitants (of which 195,000 are directly impacted)
Gold Fields workforce: 19,000

Ghana

- 20 host communities with 84,000 people
- 2 mines – Tarkwa and Damang
- 1 JV – Asanko
- 19 villages and 1 town
- Rural, agricultural economy

South Africa

- 14 host communities with 272,000 people
- 1 mine – South Deep
- Peri-urban
- Unemployment >30%
- 64% of employees live in host-community

Australia

- 37,000 people
- 3 mines – Agnew, Granny Smith, St Ives
- Peri-urban
- 1 JV project - Gruyere
- 5 shires
- 13 aboriginal communities

Peru

- 7 host communities with 80,000 people
- 1 mine – Cerro Corona
- Rural, agricultural economy
- 3 cities and 5 villages
- High levels of poverty

Source: Gold Fields
Minning’s SLO | Nick Holland | October 2018
Mining’s contribution is better than perceived

1. Benefits available at country-level and at community-level

2. The bulk of the spending stays in-country

3. The longer mining persists – the more pronounced the impact

4. Mining has positive economic and human development impacts
Mining companies make a significant contribution to our host nation economies and communities

How mines make an impact on a host country

Gross Domestic Product

Foreign Direct Investment

Exports

Infrastructure

Government revenue

Procurement

Employment

Social investment

Proximity to the mine

Extent of economic and social impact

Source: ICMM, Gold Fields
The majority of value created by gold mining value stays in-country

How value from gold mining is distributed (WGC – 2013)

Source: World Gold Council (2013), numbers rounded
The majority of value from global mining stays in-country

How value from the top forty global mining companies is distributed (PWC 2017)

Source ICMM (2016), PWC (2018) and authors’ calculations; approximate revenue flows from Top 40 global mining companies based on revenue allocation for a typical mine. Numbers rounded.
The contribution of mining to a country takes effect over a generation

Capital investment in mining drives liquidity, job creation and skills development

Leveraging mining activities, skills and income develops secondary industries and infrastructure

Secondary industries integrate with wider activity to create diverse, robust economies and maximum socioeconomic development

The starting point is core mining operations

1 – 10 years

10 – 20 years

20 – 30 years

Ongoing in a generation

Mining’s economic multiplier is high: South Africa 2.5X; Peru 1.7X; Ghana 3.2X
Job multiplier is even higher: South Africa 9X; Peru 6X; Ghana 10X
Gold mining is a major driver of Ghana’s economy

Mining in 2017 contributed:

- 16.3% of government revenue
- US$1.23bn annual local spend on suppliers and manufacturers
- US$2.57bn of income that stays in country, 70% of mining revenue
- 43% of export revenues – the largest contributor

Among the top corporate tax payers over the past 20 years are:

Source: Ghana Chamber of Mines (2017), World Bank

Mining's SLO | Nick Holland | October 2018
The potential and the time it takes are seen in our 25-years in Ghana

**Community spend**
- Gold Fields’ Ghana Foundation started in 2004
- US$47m spent to date

**Employment**
- Current workforce of around 7,570 people (8,500 at its peak)
- Supporting 70,000 to 100,000 people
- Dependency ratio of 8-15 times

**In country procurement**
- 90% of supplier spend stays in Ghana
- 25% of supplier spend is now with host community suppliers

**Government revenue**
- US$1.2bn in taxes paid since 1998
- US$100m in shareholder payments to the government

**Infrastructure**
- Rehabilitated over 100km of public roads
- Upgrading Tarkwa-Damang road for S$22m
- Connected communities to the energy grid
Mining’s contribution to welfare and development in resource rich countries (1990 – 2015)

Source: Gap Minder
Countries with mining activity (MDCs) are developing better than those without

Percentage of UN Sustainable Development Goal measures that have improved (1995 – 2015)

Resource rents are the surplus profits generated (revenue above economic costs) through the extraction of resources.

Mining dependent countries (MDCs)
(Mining rent’s contribution to GDP >10%, Or mining constitutes >20% of exports)

Non-Resource dependent developing countries
(Mining rent’s contribution to GDP <10%, or <20% of exports)

Source: ICMM (2018)
If this is all so great, why do we still have a problem?

1. Mining still has a negative perception

2. Conflict is increasing

3. Weak governance in host countries offsets our positive effects
Mining continues to have a negative perception

Public perceptions of mining

- Environmentally polluting
- Ignoring community needs
- Destabilising communities
- Enabling corruption
- Fuelling conflict
- Leaving clean-up to others
Mining related conflicts are rising

Mining-related conflict incidents worldwide and global political risk

1 - Excludes Afghanistan, Yemen, Syria, Iraq and India (recent inclusion)
Source: ICMM, ACLED (Armed Conflict and Event Location and Event Data)
Conflicts negatively affect miners, governments and communities

1 - Papua New Guinea
2 - Dates - period from disruption to full abandonment

**Yamana Gold 2002 - 2006**
- US$379m asset write down
- US$1.33bn in projected reserves undeveloped
  - Anti-mining protests by the community
  - Fears sparked about water supplies

**Newmont 2010 - 2016**
- US$1.5bn capex lost
- US$6.5bn projected reserves undeveloped
  - Community conflict directly with the mine
  - Aggravated by water rights and political interests

**Rio Tinto 1989 - 2016**
- US$24bn in projected reserves undeveloped
- US$5bn restart cost
  - Severe issues with tribal conflict in remote areas
  - Aggravating environmental issues
  - Local government overlooked

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1 - Bougainville, PNG
Even as we work to reduce conflict, mining operations can make them worse

Mining related factors driving conflicts

- Illegal mining revenue used to fund conflicts
- Mining companies working outside the spirit of the law
- Environmental damage and unrehabilitated sites
- Mining used as a channel for corruption
- Transient workers and operations destabilising and displacing communities
- Increased exchange of information
  - Internet availability
  - International groups exchanging campaign information globally

The things responsible miners do to mitigate conflicts

- Community engagement
- Expectation setting
- Community employment
- Development investment
- Humanitarian support at times of crisis
- Mediation between parties
- Co-operation with governments and multilateral organisations
- Industry standards (Conflict-free gold standard, LBMA gold refinery standard)
- Industry collaboration (ICMM)
- Contribution to conflict resolution initiatives

Source: Gold Fields, International Red Cross
Weak governance in many resource-rich countries

Resource governance index results for mining resource dependent countries (2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>Index Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>81</td>
</tr>
<tr>
<td>Australia</td>
<td>71</td>
</tr>
<tr>
<td>Peru</td>
<td>62</td>
</tr>
<tr>
<td>Botswana</td>
<td>61</td>
</tr>
<tr>
<td>South Africa</td>
<td>57</td>
</tr>
<tr>
<td>Ghana</td>
<td>56</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>56</td>
</tr>
<tr>
<td>Niger</td>
<td>54</td>
</tr>
<tr>
<td>Bolivia</td>
<td>54</td>
</tr>
<tr>
<td>Zambia</td>
<td>50</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>47</td>
</tr>
<tr>
<td>Congo</td>
<td>39</td>
</tr>
<tr>
<td>Guinea</td>
<td>38</td>
</tr>
<tr>
<td>Mauritania</td>
<td>29</td>
</tr>
</tbody>
</table>

More able to look after their populations | Less able to look after their populations

Source: Natural Resource Governance Institute
Our host countries’ governance varies greatly across levels of government

<table>
<thead>
<tr>
<th></th>
<th>Peru</th>
<th>Ghana</th>
<th>South Africa</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Good capability, gaps in execution</td>
<td>Rising capacity, but mixed transparency</td>
<td>High aspiration, mixed capacity</td>
<td>Highly functional</td>
</tr>
<tr>
<td>Resources</td>
<td>Highly under-resourced</td>
<td>Weak, co-ordinating functions only</td>
<td>Moderately functional, limited resources</td>
<td>Highly functional</td>
</tr>
<tr>
<td>Influence</td>
<td>Moderately functional, but easily influenced</td>
<td>Fragmented, under-resourced</td>
<td>Largely unstable</td>
<td>Highly functional</td>
</tr>
</tbody>
</table>

Source: Gold Fields’ experience, IMF analysis
How can we change this?

1. Engage with central governments over the mining lifecycle

2. Build governance capacity in central governments

3. Collaborate with local governments and communities

4. Create community value

Source: Gold Fields
We match our engagement to the level of development and governance

<table>
<thead>
<tr>
<th>Stage of development</th>
<th>Early resource dependence</th>
<th>Established resource economy</th>
<th>Diversified economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>• Lower capability</td>
<td>• Capability rising</td>
<td>• Formal engagements</td>
</tr>
<tr>
<td></td>
<td>• Suspicious, zero sum</td>
<td>• More sophisticated</td>
<td>• Advanced incentives</td>
</tr>
<tr>
<td></td>
<td>negotiations</td>
<td>tactics and contracts</td>
<td>• Still open to capture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Periodic instability</td>
<td></td>
</tr>
<tr>
<td>Local government and</td>
<td>• Host communities fear</td>
<td>• Communities engaged</td>
<td>• Communities develop</td>
</tr>
<tr>
<td>community position</td>
<td>change</td>
<td>• Some social benefits</td>
<td>beyond the mine</td>
</tr>
<tr>
<td></td>
<td>• Local government</td>
<td>• Local government can</td>
<td>• Mining “just another</td>
</tr>
<tr>
<td></td>
<td>absent or ineffective</td>
<td>be slow to catch up</td>
<td>corporate activity”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold Fields’</td>
<td>• Promote government</td>
<td>• Work within social</td>
<td>• Support royalty, tax</td>
</tr>
<tr>
<td>engagement strategies</td>
<td>capacity</td>
<td>framework</td>
<td>transfers</td>
</tr>
<tr>
<td></td>
<td>• Transparent reporting</td>
<td>• Strong governance</td>
<td>• Support skills, SME</td>
</tr>
<tr>
<td></td>
<td>• Build trust with all</td>
<td>• Strong community,</td>
<td>development</td>
</tr>
<tr>
<td></td>
<td>stakeholders</td>
<td>government engagement</td>
<td>• Focus on sound closure</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure</td>
<td>• Fill local service,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>investment</td>
<td>infrastructure gaps</td>
<td></td>
</tr>
</tbody>
</table>

Source: Blavatnik School of Government, Natural Resource Governance Institute, ICMM, Gold Fields experience
Host governments can create an enabling environment matched to the mining life cycle

- Government exploration incentives to promote investment
- Further incentives and support during construction
- Tax and royalty payments matched to the mining cycle – flexible participation
- Reduced payments – conversion to environmental and social management
- Controlling long-term environmental and social effects

Source: ICMM
Mining’s SLO | Nick Holland | October 2018
Central government engagement is a story of capability and partnership

### Government capacity needs to be built

- **Companies need:**
  - A reliable negotiating and contracting partner
  - Predictability regarding decision-making and legislative processes
  - Capability in economic analysis and legal structuring
  - Collaborative development between central government, local government and communities

### Partnerships are possible in certain areas

- **In areas outside conflicts of interest:**
  - Wider national development priorities – health, employment, skills and overall growth
  - Infrastructure provision: roads, rail, power and water
  - Trade policy and export promotion
  - Value chain upgrade and local manufacturing

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**Third parties can play a vital supporting role**

- Training government officers
- Sharing best practice policies
- Translating positions
- Identifying projects
- Convening engagements
- Structuring co-operation

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Source: Blavatnik School of Government, Natural Resource Governance Institute, ICMM, Gold Fields experience
Our license to operate rests on combined central and local support

<table>
<thead>
<tr>
<th>Central government</th>
<th>But is remote:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sets the operating framework:</strong></td>
<td>• Far from the affected people</td>
</tr>
<tr>
<td>• With reasonable capability</td>
<td>• With far wider interests and priorities</td>
</tr>
<tr>
<td>• Political support</td>
<td>• Has acute national finance issues</td>
</tr>
<tr>
<td>• A development agenda</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local government has difficulty governing:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Limited capability</td>
</tr>
<tr>
<td>• Staff shortages</td>
</tr>
<tr>
<td>• Acute local development needs</td>
</tr>
<tr>
<td>• Unstable populations</td>
</tr>
</tbody>
</table>

**The community counts:**
- Knows what it needs
- Understands what works
- Controls access to the area and even the mine
- Limited resources

Royalty payments do not always get back to the host community
The EITI is starting to enable more transparent revenue flows to host communities

Consistent tax, royalty payment reporting by companies
Matching government and company reported funding
Systems to ensure revenue flows from centre to regions
Systems to ensure distribution of funds to community projects

Revenue flow from the centre to regions is mixed
Regions, cities have poor track record of distribution
Not enough countries are signed up
Transparency is not yet high enough

Source: EITI
Focus on value creation in host communities

**Host community procurement** creates community jobs and supply opportunities

- Support areas where community suppliers can participate
- Identify community suppliers with ability to supply the mine
- Provide skills development to close capability gaps

**Host community employment** maximises local opportunities

- Build skills base in community workforce through education, bursaries, etc
- Make community the first option for hiring staff
- Encourage contractors/suppliers to employ from the community

**Community investment** drives integrated development

- Balanced across services (health, education), enterprise development and infrastructure
- Matched to capacity and development needs of communities
- Shared Value projects benefit both communities and our mines

Source: International Growth Centre, Blavatnik School of Government, ICMM, Gold Fields experience
Gold Fields’ host community value creation at South Deep mine

- 14 host communities with 272,000 people of which 112,000 directly impacted
- Workforce of 5,800 people
- HDSA employees 71%
- HDSA employees in senior management 57%
- R587m spent on facilitating home ownership and improving living conditions
- 2013-2017 Social and labour plan committed:
  - R703m to human resources development
  - R58m social development investment in host and labour sending communities
- 2018-202 SLP, awaiting approval, commits:
  - R256m in human resources development
  - R25m in infrastructure development in host and labour sending communities

Source: Gold Fields
Gold Fields’ commitment to generate value in our host communities

Gold Fields’ Total Value Creation (H1 2018 annualised)

US$m

<table>
<thead>
<tr>
<th>Host community spend</th>
<th>In country spend</th>
<th>Out of country spend</th>
<th>Total</th>
<th>US$546m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Investment</td>
<td>20</td>
<td>498</td>
<td>1,018</td>
<td>1,138</td>
</tr>
<tr>
<td>Workforce payments</td>
<td>186 (43%)</td>
<td>340 (28%)</td>
<td>546</td>
<td></td>
</tr>
<tr>
<td>In-country supplier spend</td>
<td>1,578²</td>
<td>2,434</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total in-country spend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out of country supplier spend</td>
<td></td>
<td>158</td>
<td>214</td>
<td></td>
</tr>
<tr>
<td>Capital providers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total value creation</td>
<td></td>
<td></td>
<td></td>
<td>2,806</td>
</tr>
</tbody>
</table>

1) 43% of workforce excluding corporate office; 2) 88% of procurement is from in-country suppliers; 3) 28% of in-country suppliers are from host communities

The value we create in host communities is: 22% of total in-country value creation & 20% of total value creation

112 1,018 1,138 Total: 2,268 host community jobs at our South Deep mine

Source: Gold Fields

Mining’s SLO | Nick Holland | October 2018
### Summary takeaways

Mining companies are already enabling development in our host countries and host communities. More needs to be done.

Breaking out of the resource trap to create diversified economies depends on good, sound governance at all government levels.

Managing our tax, royalty revenues from central governments through to local spending builds capability, trust and stability at all levels.

We need to work with host communities to close some big gaps in funding, economic wellbeing, service delivery and quality of life.

Getting this chain right enables communities and countries to develop and secures our mining and social licenses to operate during and beyond the mine life.
Breaking the resource curse

Thank you

QUESTIONS AND ANSWERS