Third Quarter Results
Period ending 30 September 2012
Operator

Good day, ladies and gentlemen, and welcome to the Gold Fields global third quarter 2012 results. All participants are now in listen-only mode and there will be an opportunity for you to ask questions after today’s presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to Nick Holland. Please go ahead, sir.

Nick Holland – CEO

Thank you very much, Dylan, and good afternoon everyone. Thank you for dialling in to our third quarter results. Also on the call with me are Paul Schmidt, our CFO, Peter Turner, who is the Executive Vice President and Head of South African Operations, and Willie Jacobs, Executive Vice President and Head of Investor Relations and Corporate Affairs.

Before I take your questions I’d like to make a few comments. Let me start with an overview of the high-level numbers. As a result of the strikes at our South African operations during the quarter, as well as the fire at the KDC West shaft, our group production has dropped by 6% to 811,000 ounces for the quarter from 862,000 ounces the previous quarter. In effect, the fire and the strikes account for most of the decline.

Net earnings for the September quarter were $171 million compared to $190 million in June and $293 million a year ago. The lower production has obviously impacted our unit costs because of the high fixed cost nature of the business, with cash costs up 8% to $916 per ounce from $851 per ounce in the previous quarter.

This also resulted in a higher all-in cost – that is operating cost plus all capital expenditure, or NCE, which is our acronym for the total costs for the business. NCE, which we believe is the only true measure in our view as to how the business is doing, went up 11% to $1448 per ounce and resulted in a margin of 13% after capital expenditure compared to 18% in June.

The group’s fatality injury frequency rate improved to 0.08 in the September quarter from 0.15 in June. KDC East, for the first time in its history, achieved three million fatality-free shifts and has passed over a year without a fatal accident. South Deep also recorded three million fatality-free shifts during the quarter and has gone 19 months without recording a fatality. I’m really pleased with the improvement in our safety performance.

Unfortunately we had three fatalities at Beatrix during the quarter, which in some respects blemished our record. But having said that, our safety stats year to date are better than the same stats a year ago. So we have again improved this year and are immeasurably better than what we were three or four years ago.

This quarter also heralded a landmark agreement between the National Union of Mineworkers and Gold Fields to roll out a new operating model at South Deep. This agreement has in fact now been implemented, and we started the new working arrangements last week. So South Deep is now on a 24/7 working arrangement. We have a much more tailored line of sight incentive scheme, and we believe that combined with the new working arrangements, this will lead to an improvement in productivity and efficiency at South Deep, which is very important for Gold Fields.

As you’re aware, all of the difficulties faced by the South African mining sector and the gold sector in
particular over the last three months, will also impact on Q4 as well as Q3. We have estimated that the strike has cost Gold Fields about 145,000 ounces of gold or over R2-billion in lost revenue. Having said that, in my view one of the things that we can look back on with pride over this particularly difficult time is the fact that we managed to get through this strike without any significant safety incidents for our people. We kept our people safe. We avoided damage to property. And we adhered to our 2011 wage agreement. We did not capitulate in the face of this pressure.

We now have everyone back at work and it is good to see that we are starting to get close to steady state. I think in another week or two we should be there. The key for the South African operations is to make sure that they get back to the same production levels we were at in the first half of this calendar year. That will be the objective going into the first and second quarters of 2013.

Our growth and exploration portfolio, like the rest of portfolio, has been subject to a stringent review process in terms of the ability to generate both short, medium and long-term returns and cash flows, and to make sure that we only do projects that are going to get us over the required hurdle rates using robust long-term prices.

The Chucapaca project in Peru is a project that we are looking at again in the sense that we finished a feasibility study there and we are not happy with the outcome in terms of the returns. That doesn’t mean to say that the project is not going to work. It is still a very large ore body, almost 8 million ounces, and one of the most promising high-quality discoveries in South America over the last decade. And our job now is to work out how best to configure the project to generate the kind of robust returns at robust prices that I spoke about earlier. That will be a big area of focus during 2013.

We should also remember that we declared a maiden resource at Far Southeast of 43 million ounces of gold equivalent. That is a high-grade copper gold porphyry underground project in the Philippines that we believe will be an interesting opportunity going forward.

We have five main projects that we are looking at which are all greenfields projects, and in addition we have a number of brownfields projects. The latter include a plant expansion at Tarkwa, a potential expansion at Damang – which could be either a cut-back of the original pit or a much bigger project – a sulphide plant expansion in Peru that will bring forward production ounces – which is an interesting project in terms of its fairly low risk profile, and the return that we get. Finally we will also look at heap leach operation potential in Peru.

So there is a lot to keep us busy. I think our challenge is going to be let’s take those projects, whether they are brownfields or greenfields, evaluate which will give us the best returns and let’s focus on those first. It’s not ounces for ounces’ sake. It’s not growth for growth’s sake.

We will be giving thought and consideration to how best to optimise the portfolio of current assets that we have in production as well as our projects with a view on cash flow and value delivery. That I think is what the gold industry needs to do going forward, if we’re going to get gold equities prices to respond to higher gold prices over time.

I think that is probably enough of an introduction. I’d like to dedicate the rest of the time now to answer any questions that you may have.
Operator

Our first question comes from David Horton of BMO Capital Markets. Please go ahead.

David Horton – BMO Capital Markets

Good morning, Nick, and thank you for the update. Can you just talk us through the procedure in getting back to the working faces in South Africa? Here we are in the later part of November. You’re getting up to the production level. What has been required to get to this stage so far?

Nick Holland – CEO

Okay, David. Thanks for the question. I’m going to ask Peter, who is the head of the SA operations, to specifically deal with that. He will give you some of the background so that you can get a better understanding as to the challenges we face.

Peter Turner – Executive VP: SA Operations

David, you spoke with specific reference to the procedure. Obviously one of the most important aspects of getting back into this environment, and let’s talk about the physical environment first in brief, would be ensuring firstly that our cooling and our ventilation circuits that power and cool these mines are in good shape. Secondly, ensuring that our people that are going down the mine are familiar with all the safety and operational requirement – these are necessary acclimatisation procedures during their first week back at work.

Remember, a lot of these faces would have stood for in excess of three weeks. So very importantly, we have to make sure that proper safety procedures are in place, ensuring that there is a front line and two levels of supervision down the mine at any one time, while our employees go back to work. We have to ensure that we secure the faces and make sure that the stopes and the development ends are production ready. These are but a few of the elements that we speak of.

So rigorous risk assessment, ensuring that your operating environment from a natural ventilation point of view is in good shape, and ensuring that our people can work safely. I’m happy to state that in the start-up process thus far we have seen very good results as per our risk assessment. In the underground operation environment, specifically the stopes, we have been very fortunate and had a very good start-up record.

David Horton – BMO Capital Markets

With three weeks of standing idle have you found any of the faces to be sterilised so that you just can’t get back safely and you’ve had to work around them?

Peter Turner – Executive VP: SA Operations

We have found a few, but it would be less than 5% of our working faces. We would by now have re-established these. One of the things that worked very well for us during this three week period is the technology of using roof bolts and netting in our hanging walls, which is not something that we’ve had before. We commenced with this in February this year. So we’ve really been quite surprised as to the level of support that we’ve had from this roof boltings and the procedures we’ve adopted. Much better than in the past, I must admit.
David Horton – BMO Capital Markets

Okay. So that roof support is quite encouraging because it also helps during the extended Christmas/New Year break as well, which is not that far away.

Peter Turner - Executive VP: SA Operations

That’s right, David.

Nick Holland – CEO

David, it also improves the safety in the sense that we have less falls of ground, which used to be a major source of accidents. And, in fact, over the last four years that has reduced by about 80% or 90%. This has really helped to take it to another level, so it has been a good breakthrough for us.

David Horton – BMO Capital Markets

Just switching to the new projects. Looking at Chucapaca, was there any particular facet of that, that made it difficult to get the returns that you’re after? Was it the capex? Was it the geo-political situation? Was it the assumed operating cost? Is there any particular item that you can do more work on to get this across the hurdle?

Nick Holland – CEO

I think we’ve got to look at different processing configurations, David. We were working on a 30,000 ton a day plant. We’re now going to do sensitivities on 20,000 and 25,000 ton a day operations. We think that will provide more capital efficiency for the project. The project has good grades. And we’re also looking at the potential for an underground extension because we’re seeing that the ore body dips down from east to west, and as it goes west the potential for higher grades is good. The underground option may be able to come in and dissect the higher grade core of the ore body. That could be a smaller tonnage operation, but quite a lot higher grade. Some of the grades at depth are 5g to 6g/ton, so that might be an opportunity. The ground is fairly friable, so we’re going to have to look at that carefully.

The capital obviously is one of the big concerns. Once you’ve built the project I think the ongoing cost will be competitive, and I think we will find a lot more here in time. But we can’t base our investment decision on gut feel. We’ve got to have hard, technical data. So we’re going to go back and look at the hard technical data. An 8 million ounce ore body like this, I think we will turn into a mine of some kind. We’re just going to need some more time to work it out. I’m sure that we will give some more information during the second half of 2013.

David Horton – BMO Capital Markets

What sort of capex number did the feasibility turn up for the 30,000 ton per day option?

Nick Holland – CEO

We were looking at just under $2 billion on a 100% basis. So that is more than what we were thinking it would be. At our investor day a year ago we thought it would be about $1.3 billion or $1.4 billion. So it has
gone up more than it needs to. If we can get it back to something around that then I think we will be in the race again. But we need to look at the right configuration against that capital as well.

David Horton – BMO Capital Markets

Switching over now to Far Southeast. You’re going through the FTAA process. You’ve got your documents lodged. You’ve got some other work underway. What kind of timeline should we be thinking about for the next major step for Far Southeast, and when would you see it ultimately coming into production, if it passes the various hurdles that you’ve got?

Nick Holland – CEO

It’s too early to say at this stage, David, because the key issue here is going to be getting the FTAA process completed. It is out of our hands. We have to go through an FPIC process as well – free prior and informed consent. We hope to finish that over the next couple of months. So I would say we should have the FTAA during the course of the middle to second half of 2013. In parallel with that we’re doing a lot of work to engage with the communities around the mine to make sure we get broad acceptance of the project. And if we can get over those two hurdles then I think we will be going into a pre-feasibility study, which is likely to be towards the end of 2013 at the earliest. This would still require a whole feasibility after that, detailed engineering, permitting. We’re probably still a good three years away from getting a construction decision. So this project is going to take quite a lot longer.

David Horton – BMO Capital Markets

Have you got your various exploration permits that you need? Earlier this year there had been a hold-up whilst the Mining Act went under review. Have you been able to secure what you need to be able to do the drilling?

Nick Holland – CEO

There’s been no hold up at the underground drilling. We’ve done all of the underground drilling we needed for now, which enabled us to declare the maiden resource of 43 million gold equivalent ounces. The area of delay was on some of the surface geotech drilling that we had to do. There we had some issues with local communities. It wasn’t so much with communities. There was some sporadic NGO activity in the area. By and large we’ve got that behind us, and we are now starting to do more of the geotech drilling in and around the ore body.

Operator

The next question comes from Tanya Jakusconek of Scotiabank. Please go ahead.

Tanya Jakusconek – Scotiabank

Thank you very much. I just wanted to come back to Chucapaca again. You mentioned that the capex sort of moved towards the $2 billion line. What exactly happened with the capex that had this significant growth? In what component of it did this occur?

Nick Holland – CEO
It’s really the resolution you get, Tanya, from doing a full feasibility study that we finished over the course of 2012. The figure that you had earlier was based more on a scoping study level. So a higher level of resolution. We’ve seen that we needed to increase owner’s costs. We needed to increase some of the strip. We had to spend more work on some of the waste storage facilities. We reconfigured how we’re going to do the waste storage facilities compared to where we were in the scoping study because we saw long-term operational cost savings. And that caused some changes in the upfront capital. So it is all down to greater resolution between scoping study results and full-blown feasibility results. I must stress, this is an interim feasibility. We’re going to go back and dissect this and come back with something more definitive once we’ve tested all the options again. So we’re not going to close the book on this yet.

Tanya Jakusconek – Scotiabank

And when you looked at the economics and said it didn’t meet your hurdle rate what sort of hurdle rate are you looking for in Peru? Is it above your cost of capital, or something that we can benchmark ourselves?

Nick Holland – CEO

Well, I’d be looking for double digits.

Tanya Jakusconek – Scotiabank

Okay. It didn’t give you double digits.

Nick Holland – CEO

It’s not giving us double digits at conservative gold prices of around $1,500 per ounce. That’s what we want to get here as a minimum. And then understanding what upside exists. The one thing about this area, it is well mineralised. There are a number of other satellite deposits within the joint area of interest. So as part of our next programme we will be doing some more exploration as well and seeing what further upside exists. The down dip extensions to the west, whether we can develop an underground operation onto this discretely, potentially alongside an open pit. What is the best configuration for the plant, as we’ve discussed? So there are a whole bunch of different options here, and that will be the focus for 2013.

Tanya Jakusconek – Scotiabank

So will it be fair to say, Nick, that the next time we hear about this project in terms of any other detailed numbers would be the end of 2013?

Nick Holland – CEO

I think the earliest would be if we were in Denver in September next year that we might be able to give some sort of an update. That would be a good forum. But I think work on the end of next year to give us enough time to look at this properly.

Tanya Jakusconek – Scotiabank

With the exception of course of any exploration that you do that may be of interest.
Nick Holland – CEO

Yes. I mean exploration can always add more. But that takes time, and we’d have to get the exploration to the right level of resolution. We couldn’t make investment decisions based on inferred resources. We would need to do much closer drilling to get a good feel, at least in the indicated category, and then see how we add that on. So that will take a bit of time, and probably will even go beyond the end of next year. The early work is re-looking at all of the different options and how we can take 7.5 million ounces of high resolution indicated and measured resources and turn that into a project that makes sense. So that is our big area of focus.

Tanya Jakusconek – Scotiabank

Maybe just looking at it from a strategic basis, when you look at the returns of all of your development projects today how would you rank them?

Nick Holland – CEO

Well, I think they’re all looking like they could go at one time or another. Chucapaca, I think with the right configuration it could well be up there. Far Southeast, just the sheer size and the quality of the ore body... even though it is going to be quite a high capital upfront spend, I think that’s going to be high quality and up there.

Tanya Jakusconek – Scotiabank

Would that be one of your first then, Nick? If you had to rank them for us and say based on what we know today in terms of our hurdle rates Far Southeast is our first and Yanfolila is X, Chucapaca us Y, just so we have an idea. Arctic Platinum...

Nick Holland – CEO

The platinum project I think is an interesting project too. They are all pretty close to each other, but if you forced me into a long-term portfolio assessment I think Far Southeast is definitely quality. Something like Yanfolila in Mali is not big, but it is going to be very simple to mine and I think we can get a pretty good payback over there. APP, the platinum project. Given what is happening in South Africa in the platinum industry once you get APP into production, I think it is going to be in the lower half of the cost curve, so that is going to be an interesting one. The question is whether it is for us or not. That’s the key decision, whether that is something that we should try and monetised in some form or another. I have always said that there are a number of different options on APP, and we are getting more resolution on what those should be. But it’s a good project. I think it will be built by someone. And then Chucapaca, depending on the outcome, that could move up the standings pretty quickly. So that is more or less the arrangement.

But don’t forget the brownfields projects too. The second Tarkwa plant is a good project. There is the second Cerro Corona sulphide plant that can move forward a lot of ounces from the back end of the life to the front end. There is the oxide project in Peru as well. And there is some sort of expansion project at Damang. Whether it is the original Greater Damang or whether it is something smaller that focuses on the high-grade core, we’re doing all of those studies now. And so you’ll have to watch this space and we will get back to you when we’ve got more information on that too.
Andrew Byrne – Absa Capital

Just a few questions on South Deep if I may. You’ve obviously started to see some sort of progress there. Pros and cons. It’s good to see the tonnage going up, but a little bit of dilution on the waste. You alluded to the pick-up on that on the call this morning. I was wondering if you could talk us through the milestones for the asset over the next 18 months and the production profile that you’re expecting to see. And then obviously as well the capex, and more importantly the unit costs you expect to see out of that asset as we exit the 18 month period.

Nick Holland – CEO

The key milestones, Andrew, are to get the plant expansion finished, which we are set to do by the end of the year. We’ve got the second ball mill in, which is a good sign. We’ve tested it. That seems to be working. The ventilation shaft. In fact, I was out at the mine not so long ago and saw one of the first hoists of rock, 30 tonnes of rock that we brought through the ventilation shaft. So that is going to be commissioned in stages. The first stage of 48,000 tonnes a month is being commissioned now. And then the subsequent stages will be commissioned through to the end of 2013. So that means by the end of next year we will have enough hoisting and processing capacity to support full production. So now we’ve got a hungry hoist system and a hungry plant that we’ve got to feed. The big focus after that is to de-stress the ore body, which is providing the development so that we can get in and do the long-haul stoping, which is going to be around about two-thirds of the overall mining that will take place in the future.

Pleasingly, that has increased significantly over the last year. We have gone up about 70% from where we were a year ago, and we are going to need something similar in 2013 to get to the levels we need. That will enable us to get our production rate up. Next year I think we’d like to be heading to somewhere around about 325,000 ounces. This year was about 275,000. So we would be looking at around a 15% to 20% increase next year. Thereafter we will move it up. The intent is to still get to a run rate of around about 700,000 ounces by the end of 2015. And you will see that towards the latter part of that profile we see a bigger pick-up, particularly as the de-stress opens.

We’ve been able to reduce the risk of the de-stress by opening up a lot of attack points in the ore body. And once we get them in full swing, even if we just continue at the levels of productivity we’re at now, that will enable us to open up a lot of those areas. But we also believe we can increase productivity. The new operating model as well will make a big difference. We’ve just gone on to the 24/7 shift arrangements last week where we’re working 24 hours a day, seven days a week. I’m sure that over time once it beds down we will see the requisite benefits. It will give us around 23% more time at the face. That has got to give us a head start in terms of improving the productivity of this operation. So I’m looking forward to a better 2013 now that we’ve got those arrangements agreed together with new incentive schemes.

Andrew Byrne – Absa Capital

Obviously a big hurdle overcome there. With development at the back end of next year and into 2014 what sort of capex should we be plugging in for 2013 and 2014 at the asset?

Nick Holland – CEO

About R1.9 billion for 2013, and then it starts coming down in 2014, probably about R1.5 billion. Then around R1 billion in 2015, and then after that we think sustaining capital is probably going to be about R800 million to R1 billion a year. So once we get through 2013 we should be over the hump of the capital
requirements. And really all of your fixed infrastructure on surface will be in. Our plant expansion will be done. The ventilation shaft will be done. The full plant tailing facility will be in place. We’ve got the new tails dam already - that was done a year ago. Refrigeration capacity has been increased. So a lot of the money that was needed for the infrastructure has been spent, and then it will be ongoing development. I don’t know if you’ve been out to the mine, but it is one hell of an operation. We will be doing a visit there again most likely in February.

Andrew Byrne – Absa Capital

I was hoping there might be something around the Indaba. It would obviously make sense. Just to clarify, obviously this is all subject to the review which you’re looking to make public as and when, but probably at the next major update in February. What capex for the group should we be thinking of for 2013 as it stands at the moment?

Nick Holland – CEO

It is going to be probably somewhere around R10 billion or R11 billion so far. That is more or less what we think it will be for the group as a whole. And of that, as you heard, almost R2 billion is going to be for South Deep. But that is a figure that we are still modelling and looking at, so I may change some of it.

But the idea is that we’re really going to examine every Dollar we spend on all capital requirements, sustaining and project capital, so that we really get a good return. So we’re taking a very hard critical look at all of our spend. And you have to remember that inflation on capital is no less than inflation on working costs. Everything gets hit by all of these factors. But we will give you a fuller update, Andrew, when we give the final year-end results for December.

Andrew Byrne – Absa Capital

Sure. If you really think about it, it is 2014 where the bulk of your capex really sits. For instance, you’ve got R5 billion to R6 billion of sustaining capex across the portfolio plus the South Deep expansion, and then there is obviously other small projects going on throughout the portfolio. But it is really 2014. Is that the right way to think about it?

Nick Holland – CEO

I think it also depends on how many brownfields projects we do. And if we get one of the greenfields projects or more away, obviously we will be looking at all of these numbers again. So I don’t really want to give you a longer-term, year by year, capital profile because it does tend to change depending on the outcome. We haven’t fully finished all of our portfolio review work, and there will be some outcomes as a consequence of that. And I would prefer to give you a better update as to where we are in February, if you can indulge us till then.

Epirus Katsaras – FIA

I have a question with regards to your credit rating and the downgrade by S&P. How come you are able to retain the Moody’s investment grade rating? Do I understand right that S&P’s downgrade had mostly to do with your exposure to South Africa going forward, whereas Moody’s sticks to the financials?

Paul Schmidt – CFO
You’re correct. S&P did a major downgrade of the South African sovereign, and on the back of that they downgraded Gold Fields as well. Moody’s has taken a more benign view on South Africa. They did take away our positive outlook and put us back at BBB positive stable. I think that’s the only difference. It is the two rating agencies’ views on South Africa.

Nick Holland – CEO

I just want to thank everyone for dialling in today. Thanks for your questions. We look forward to chatting to you again soon. Have a wonderful December and Christmas. Thank you very much.