Q2 2013 Results
Period ending 30 June 2013

Teleconference Transcript
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Operator

Good day ladies and gentlemen and welcome to the Gold Fields Q2 2013 conference call. All participants will be 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, Dylan, and good morning or good afternoon to everyone depending on where you are in the world today. Thanks for joining us on the call to discuss the Gold Fields results for quarter two 2013. On the line with me I’ve got Paul Schmidt, our CFO, Mike Fleischer, general counsel, and of course Willie Jacobsz, head of investor relations.

In the format that many of you will be familiar with I will talk first through the significant points of our results and then a brief overview of the new acquisition we announced in Australia in Johannesburg this morning. We will have a little time for questions because we need to finish in 45 minutes, so I will try and give you the highlights and leave as much time as I can for questions.

As you will see from the title of the presentation that I did in Johannesburg this morning the main theme in Gold Fields today is to restructure and position this company to survive at a $1,300 gold price. And that is to a large degree what this quarter has been about.

But before I return to some specific actions that we continue to take let me give you some of the highlights of the results. Despite being in line with guidance for the year the results for the quarter ended June 2013 were indicative of the challenges faced by the global mining industry which has affected all of the operations in Gold Fields around the world.

The big issue of course is the decline in the gold price.

The main feature of our results for this quarter was that we posted a net loss of $129 million compared with net earnings of $27 million in the March quarter. The realised price for the quarter was $1,372 per ounce, 16% down on the $1,625 per ounce that we realised in the March quarter. That is a $250 per ounce drop.

The lower price, combined with the fact that our production for the June quarter was 451,000 ounces – that was 5% lower than the 477,000 ounces reported in the first quarter – resulted in a 21% decline in revenue to $637 million compared to $805 million in the March quarter.

That decline in production related almost exclusively to Tarkwa and Damang which both were hit by industrial action early in the quarter, which we in fact reported on in the previous quarter. If you adjust for that we were basically back to the same production as the previous quarter and in line with guidance, even at the lower level of 451,000 ounces.

Impairments

That has caused a once-off impairment of $127 million which relates largely to our decision to stop marginal mining at Tarkwa. That relates largely to the decision that we have made to close the north heap leach operation by the end of 2013, and also the fact that we’ve decided not to proceed with the expansion of
Tarkwa through the construction of another carbon in leach (CIL) plant, which has meant that effectively a large proportion of the equipment on both the south and north heap leaches would be rendered redundant and needed to be impaired along with inventories within those heaps.

So we have taken that hit now and we will position Tarkwa as a CIL only operation by the end of this year.

Now, in terms of any further asset impairments, they still need to be assessed at year end when we have our new life of mine plans in place and of course our new operational plans which will be done at $1,300 an ounce. That compares with what we used for the 2013 operational plan and the 2012 life of mine, which was $1,500. We need to get those technicals done. We need to see what the production profile looks like, and then we will decide on any asset and reserve impairments. At this stage I cannot tell you what the outcome could be, but it could be that further marginal mining is curtailed in the group as we reposition Gold Fields to be sustainable at a $1,300 gold price.

Other key issues that have affected our results this quarter is the fact that South Deep is still cash negative. We need to obviously restructure South Deep as soon as we can, but I will talk more specifically about South Deep in a few moments.

Damang is another challenge, being cash negative, and we have a strategy for that too, which I will cover.

**Dividend**

We passed the dividend for the half year on the basis that we only pay a dividend if we make the earnings. We haven’t made the earnings. But I’m also concerned about gold price volatility. Let’s assess how we do in the second half of the year and decide at the end of the year whether any dividend is merited. But in the first instance we have to make earnings to pay dividends. We have always said our policy is to declare dividends out of earnings.

**Costs**

Turning to costs. We’ve done a lot of work on our costs and in particular I’m pleased that our all-in cost or NCE, which includes capital expenditure for the group, has declined to $1,239 per ounce this quarter compared to $1,291 in the March quarter. That is substantially below guidance and it gives you an idea of the cost reduction measures we’ve taken to restore profitability in Gold Fields.

Interestingly our NCE for this quarter is the same as what it was 18 months ago. In other words, we have been able to absorb all of the inflationary cost pressures of the last 18 months.

Turning to some specific cost cutting measures. What have we done?

**Starting at the top: Corporate Office has been restructured**

In the corporate office we’ve reduced our corporate office from 106 people to 56 people. That is a decline of 50%. Our corporate G&A is now $10 per ounce for the group.

We have also announced that we have reduced the size of the board from 12 to nine, so the board has come to the party as well in terms of helping us to reduce our costs.

**Regions and operations restructured**

Looking at the regions, we have now devolved more accountability and responsibility to the regions to deliver their plans. And they in turn are in a process of looking at all their cost structures. I think there will be further savings in the regions over and above what they have already achieved.
Total group employees have reduced by 1,784 (9%) to 17,700. And if you look at permanent employees excluding contractor we are now down to 9,900, having reduced our workforce by 400 people or 5%.

The biggest impact in our regions so far has been in Australia where they have reduced their total employees by 23% down to 1,286.

I believe that we are going to see other restructuring in Ghana as well as South Africa as we need to restore profitability and cash flow at some of those operations.

**Reduction Of Marginal Mining**

If you look at marginal mining that’s been reduced. I have said this before. A lot of these initiatives were put in place towards the end of 2012.

We shut down the St Ives heap leach operations. We closed those at the end of last year. They produced about 35,000 ounces a year. We also stopped the low grade Raja and Main lodes at Agnew. That has allowed us to focus on the higher-grade Kim, and that has had a positive outcome on both production and on cost.

We stopped the south heap leach operations at Tarkwa already. That was stopped at the end of the year.

And as I said earlier we are now redoing our reserves and our mine plans at $1,300.

The one key decision we have made is to definitely stop the Tarkwa north heap leach operations, as I mentioned, as part of the rationale behind the impairment. That is going to mean that Tarkwa will revert to a CIL only operation. It makes no sense for us to continue placing material on the heaps and getting reduced recoveries of around 55% when we can take the same material and put it through the plant over time and get 97%. So we are going to pull back our mining operations, drop them from 140 million tonnes a year to 100 million tonnes a year. We’re going to shut down the heap leach. And that will drop our production for Tarkwa to somewhere between 525,000 to 550,000 ounces for 2014. That will be a reduction from 630,000 ounces that we were hoping to do and still hope to do this year. I believe that this will be positive in the long term and will turn Tarkwa into a more profitable operation.

**Rationalisation of Growth activities**

In terms of growth we have rationalised a lot of our growth activities. We continue to do so. Exploration has been cut from $128 million last year to about $70 million this year. International projects have been cut from $153 million to about $74 million. And there has been a commensurate reduction in the numbers of employees.

I don’t think we’re done. I still think we’re going to have to pull back more as we look to mothball or reduce the burn rate on certain projects or alternatively put them up for sale.

**All projects are under review and some have been put up for sale**

On Far Southeast we were successful in getting approval from the indigenous communities for a free prior and informed consent (FPIC) which is enshrined in the legislation in the Philippines. We are now hoping to get our FTAA or our licence which allows foreigners to own a majority interest in Filipino assets during the course of 2014.
At Chucapaca we are looking at the potential for a smaller but higher grade underground operation together with our partners, Buenaventura. All other spend is being severely curtailed. We hope to finish that scoping study by the end of the year.

On Yanfolila we will complete a scoping study by the end of the year, at which time we will make a decision whether that project will be sold or whether we should actually take it to the next stage.

Arctic Platinum has been put up for sale and we have a process that has already started. Similarly on Talas in Kyrgyzstan and Woodjam in British Columbia in Canada, those projects are all going through a potential sales process.

I can’t tell you the timing or the outcome as to whether or not we will be successful. But again as a minimum if we can’t find buyers for these at a reasonable price the projects will be mothballed.

**Additional US$230 Million Estimated Savings For 2013**

We’re looking to save around about $230 million in 2013 relative to the guidance we’ve given you, which has entailed about a $20 million reduction in operating costs, a $120 million saving on capital together with $85 million – probably more like $100 million by the time we’ve finished – on projects and exploration.

**Guidance improved**

And that has enabled us to reduce our cost guidance for the year: cash costs down to $830 per ounce from $860 and NCE down from the guidance of $1,360 to $1,240. We are reaffirming, however, our production guidance of 1.83 million to 1.9 million ounces we gave in February of this year.

**Operational Health Check**

**South Deep**

I would like to just mention a few points on some of the operations before we close off and ask questions.

At South Deep we have a new operating model that is bedding down, whereby we are working 24/7 on that operation. We have seen a requisite improvement in reef tonnes, development and de-stress, which is opening up the ore body at depth.

However, I must say that despite the positive trajectory we are not quite at the level of build-up we need to be to support full production in 2016. We are re-evaluating what that build-up profile is going to look like, whether it is going to be a year later or beyond that. At the same time we are restructuring the operation because we believe the cost base is out of synch with where the operation is. And we expect that restructuring to be largely completed by the end of the year.

The key short-term deliverable for South Deep is to get the operation to break even. That’s what we want to try and achieve as soon as possible. At the same time we’re going to reassess the longer term trajectory and what is the best cash generation model for South Deep. It might be that we will look at a different production profile to make sure that we turn this wonderful ore body into a long-term, sustainable cash-generating operation.

**Tarkwa**

At Tarkwa I mentioned already that we’re going to stop the heap leach operation. And that work should be completed and implemented by the end of the year.
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Damang
At Damang we’ve closed the original pit during the last quarter. That is mainly on the back of safety concerns. We had some rock falls in the pit, so we closed that about three months early. We are now looking at all the extensions of the original Damang, because the original Damang pit is now gone.

The extensions are to the south at Juno and to the north at Huni, but more particularly the Huni saddle which is a piece of mineralisation which is adjacent to the old Damang pit and has the same style of mineralisation as the original Damang, being the conglomerate large loads we were seeing at Damang which were giving us good grades. We think that is pretty much a replica of the original Damang.

We’ve done a lot of stripping there. We have now exposed ore. The early indications are the grades are improving. We are looking now to get Damang in the short term to get as close as possible to break even. That has meant that we have deferred a significant portion of capital, principally on a new tails dam that we think we can defer for the moment. There is no immediate need to do it. And at the same time we continue the work to upgrade our 16 year old plant which is in dire need of some maintenance and upgrade.

In particular we have put in a new secondary crusher system to deal with the fact that we have much harder ore, and virtually all of it is now harder ore, as opposed to the past when we had a mixture of fresh, hard ore and softer oxides.

We are also looking to put in a pre-leach thickener to augment the leach reactor that we have put in that will help us to improve gravity recovery of gold, but also recoveries in the back end of the leach circuit, reduce reagent use and improve water balance.

We are also adding an eight leach tank to provide more flexibility. We think the combination of all of these measures will help Damang restore a processing profile of between 4 million and 5 million tonnes a year, because currently we are doing about 3.3 million tonnes a year. So we are about 20% to 25% off the base that we want to achieve. And certainly if we can get to 5 million tonnes that will be a significant improvement from where we are. If we can get there it is going to take a little bit of time.

The other thing we are doing is we have now put a dedicated project team together for Damang to look at how best to bring to account a world-class ore body with 4 million ounces of reserves and 8 million ounces of resources. What does that profile look like at a $1,300 gold price and how do we make money? We think that we will have that work finished by February. I’m very optimistic that we will find solutions here, albeit it that it may not be that we can recover the full 4 million ounce reserve. But it is not about ounces, as we keep saying, it is about how we make cash.

Cerro Corona
On Corona in Peru the operation continues to perform exceptionally well. The challenge for that team is to keep doing what they’re doing. More importantly on the long term we’ve decided to suspend for the moment taking our tails dam up to level 3815 which would have provided capacity for another 30 million tonnes.

That will obviously impact our declared reserve, but at the same time we were only going to use this many years out. We can save life of mine capital of between $300 million and $372 million, including about $12 million just in the current year by adopting this strategy. At the same time we can also obtain the optionality of going back to the 3815 raise in the tails dam and getting that 30 million tonnes.
Agnew & ST Ives

Turning to Australia, I think it is fair to say that both Agnew and ST Ives are delivering good production and cost, and the weighted average NCE for the region there is about $1,100 per ounce. We want to try and get that down some more by improved productivity and cost efficiencies. But it has to be said that has come down from an average of about $1,400 a year ago, so I think the team has done a good job. Those assets are certainly profitable at the current price.

Yilgarn South Acquisition

I just want to turn briefly to the acquisition of the Barrick Yilgam South assets we announced this morning. Just bear in mind we concluded the $300 million deal to buy the three mines that make up the Yilgam South package. That is Granny Smith, Darlot and Lawlers. That is in WA, the same place we operate Agnew and ST Ives.

This represents a really good consolidation opportunity for us in that part of the world. The price is $300 million less around $30 million for expected working capital adjustments between now and closing which we anticipate will be around about another month.

So what are we buying? We are buying 2.6 million ounces of reserves and 1.9 million ounces of resources beyond that. The cost of acquisition for in-production ounces, remember these assets produced about 450,000 ounces last year at an all-in cost of about $1,137. So what are we paying? We are paying $104 per reserve ounce or about $60 per resource ounce.

And on a comparison with deals done in Australia over the last few years this comes in at the low end of the curve in terms of the cost per ounce for in-production ounces, not just for development assets. Remember these mines are producing today.

We can settle all of it in cash if we want to, or alternatively we can elect to pay half in shares. We haven’t made up our minds yet on that. We will make that decision at closing. There are a couple of conditions still to achieve before we can go unconditional, but we don’t anticipate any problem in achieving that.

So why are we doing this? First of all we believe it is a competitively priced acquisition. It is in-production ounces that we believe can be cash-generative today. It enables us to consolidate Lawlers and Agnew, which are contiguous to each other, and to create a consolidated low-cost mine. Remember Agnew is one of the lowest cost producers in Australia.

It has got milling capacity. We might be able to shut down the Lawlers mill and process all of our material at Agnew and reduce the costs quite significantly. Overhead structures can be further rationalised. The two ore bodies we believe merge at depth. And certainly there is an opportunity for us to consider a link drive between the two mines, which would only be about 740 metres and see how we can operate this potentially as an integrated underground complex.

We’ve also got the ability to leverage off the regional structure we already have in Australia, and also more importantly the strong skills base we have, and replicate the kind of work that we’ve done very successfully at Agnew and ST Ives at these three mines.

The style of the mineralisation is similar orogenic style of narrow veins and chutes. You can never really have a large reserve ahead of you, but as you have seen at ST Ives and Agnew since we bought those mines we have added 7 million or 8 million ounces in reserves. We’ve mined about 7 million ounces and we
started off with about 2.3 million ounces. So we have added significantly to those assets over time. We believe that we can do the same to the three mines that we’ve bought, certainly in the case of Lawlers with the synergies.

With Granny Smith we are very excited about the geological potential at Wallaby North which is the underground operation that they are currently mining. We think that certainly extends at depth. So there is more work to be done as we look to integrate that within Gold Fields. We expect to close this deal in about a month from today. We look forward to welcoming the 1,000 permanent employees and some 300 contractors into the Gold Fields fold and for us to turn this into another exciting region in Gold Fields.

This will make Australia a million ounce region within Gold Fields. It will make us the third-largest gold producer in Australia. We believe it is a stable jurisdiction. We believe it is a jurisdiction that has good skills and good potential. This would turn Australia into about 42% of Gold Fields’ group production. With that I’m going to leave as much time as I can to deal with questions you might have. Thank you very much, Dylan.

Operator

Thank you. Ladies and gentlemen, at this time if you would like to ask a question please press star and the one on your touchtone phone. If you then decide to withdraw your question please press star and then two to remove yourself from the question queue. Our first question comes from Nesree Yastan [?] of Bluebay Cover [?]. Please go ahead.

Nesree Yastan

Hi there. I just had a quick question about [inaudible segment].

Willie Jacobsz – Investor relations

Sorry, you are disappearing. We can’t hear your question. Could you try again?

Nesree Yastan

Is that better? Could you please give us an update about your bank lines and how often the covenants are tested? Are there any ideas about renegotiating them?

Paul Schmidt

It is Paul Schmidt speaking here. Our covenants sit at 2.5 times net debt to EBITDA. As we stand at the moment if you annualise the six month results earnings we are sitting at 1.05 net debt to EBITDA. So we are quite comfortably within our bank covenants, and no, we have no intention to try and renegotiate our covenants like some of our peers have had to do. We are not close to breaching any of them. We’ve got huge headroom at the moment.

Nesree Yastan

And to the acquisition of $300 million, is there an option for you to pay 50%?

Paul Schmidt – CFO
Ja, there is an option to do it 50% in shares. If you do it like that it will actually be accretive to our net debt to EBITDA matrix. There is a report that came out today from Moody’s which has said that they are quite comfortable with our debt position etc. It came out this morning on the wires. You can read that as well.

Nesree Yastan

Can you give us a bit more colour in terms of the rationale for this deal?

Nick Holland – CEO

The rationale for the deal is first of all it is very competitively priced. If you look at deals like this where you are buying in-production ounces for $100 an ounce, you can’t discover and build mines anywhere near to that. And here you’ve got ready made infrastructure, plants, facilities on site, developed ore bodies available to mine today, not some time in the future.

Secondly, there are significant synergies with Agnew in terms of the Lawlers operation that we think adds significant value as well. Thirdly, on Granny Smith the potential for significant life extension at Wallaby North, the underground operation. We are seeing the same style of mineralisation extend further at depth. And in fact the grades at depth at both Lawlers and Wallaby North, part of Granny Smith, look as though the yare higher and it looks as though the mineralisation lodes are bigger and wider. That bodes well I think for the future. So we see good potential for these assets way beyond what we’ve paid for.

Nesree Yastan

Can you give us an idea about your cash costs?

Willie Jacobsz – Investor relations

Nesree, your line is breaking up. It is a very bad line.

Nesree Yastan

I will give the floor to somebody else. Thank you very much.

Nick Holland – CEO

Thank you very much.

Operator

Ladies and gentlemen, a reminder that if you’d like to ask a question please press star and then one now. We will pause to see if we have any further questions. We have a question from Leon Esterhuysen of CIBC. Please go ahead.

Leon Esterhuysen

Hi guys. Nice deal you’ve done in Australia. Very cheap, as you say. Can I just touch on South Deep? It’s disappointing I guess that we are sitting here again with another downgrade on South Deep and it is just not getting to where it is supposed to be getting. But I would like to know why this is the case. We had a
mine visit there two months ago and the guidance was very concerned at that point. The new infrastructure was brought in particularly to get to these targets that were set before. We are a couple of months after that and we are again taking a step back. I wasn’t on the call this morning, I’m sorry, but if you could just give us a bit more colour on what is happening at South Deep. Why is it not getting to where it is supposed to be?

Nick Holland – CEO

I would respectfully disagree with you. I don’t think we are making steps back. I think we are making steps forward if you look at the reef tonnes that are going up, if you look at the results this quarter, if you look at the de-stress again we’ve had a 40% increase in de-stress, the new operating model is settling down. It is taking longer to realign people to the new working structure. We had hoped that it would bed down within three or four months. We are now sitting at the end of June. It is taking a bit longer.

But there is nothing to suggest that the ore body is going to give us a different answer.

There is also nothing to suggest that this mine can’t build up to a production level that is at or very close to what we’ve indicated.

The key issue here is it looks like it is just going to take longer.

And some of the issues that are plaguing us are things like equipment availabilities that are not quite at the levels we need to have in that. That has hindered us in terms of moving underground material that we’ve broken and getting it out the mine.

We have found that some of the ore passes have been insufficient to get the ore out. In some cases we have had ore passes that have hung up. We have had some seismic events that have affected certain of the ramps in the mine. It has also affected the logistics. So we are getting more ore passes. We are going from six ore passes to nine. That is coming in in stages between now and March next year. That is going to help to alleviate the backlog underground. The equipment availabilities are improving steadily and staff are becoming more accustomed to the new operating model.

Unfortunately these things are just taking longer.

I want to flag now that I think it is going to feed through to a profile that will build up over a longer period of time. But the fundamentals of the build-up plan we believe are still intact.

I want to make that point in case we get into some misunderstanding. Thank you.

Leon Esterhuysen

Thanks for that, Nick. If I can just push a little bit more on this. When you started the presentation you said that you are going to have to cut back at South Deep, that the cost structure there currently is too high. Now, everything you have just said indicates that it is just a little bit behind, that you will get there and that you just need to sort out these intermediate problems. You were also guiding before for an all-in cost of $900 per ounce if I am not mistaken. If we are still aiming for that, and if we are still going to get there but just a little bit later, why are you then now looking at cutting back costs for the labour force at South Deep?
Nick Holland – CEO

Leon, we staffed up for volumes and gold that we are not quite at yet.

What we are now doing is looking to right-size the operation to where we are now. In the future, if we need to bring back people and contractors, we can do that.

My immediate priority is to get the operation to cash break even as soon as we can. Once we have achieved that, we can look to bring people and costs back into the system.

But I think we’ve put costs into the system, investment into the system, that haven’t actually yielded the output yet because of the issues I’ve mentioned. I think Paul wants to add to that.

Paul Schmidt – CFO

Leon, understand that we’re in a $1,300 gold price environment as well, and it is crucial that all operations in the group make cash.

This decision was made to ensure that South Deep returns to cash neutral and goes cash positive.

We have geared up for a higher production level.

It is not there yet, so we’ve said we’ve got to change the cost base to meet the current production level.

Leon Esterhuysen

Well, thanks guys. I’m sure there is still a hell of a lot more detail there. I speak for everybody else I guess, just hoping that South Deep gets there eventually.

Nick Holland – CEO

Absolutely. We are fully committed, Leon, to make sure that we deliver this mine. I can assure you of that. Thank you.

Operator

Gentlemen, we have no further questions. Do you have any closing comments?

Nick Holland – CEO

I don’t think so, Dylan. I just want to thank everyone who did join us on the call today. We look forward to talking to you in the future either face-to-face or on the telephone. If any of you would like to correspond more with us and get more information please feel free to email Willie Jacobsz. He is here to get your mails and to filter them through to either me or any of the other management members. We really would like to hear more about your questions. And in particular for those who weren’t able to ask all the questions they wanted to today, please take up this opportunity. I will also endeavour to speak to you individually if there are any specific questions beyond what we’ve heard today. I would be very happy to do that and try and clarify issues. With that we want to thank you for your time. Have a great day. Talk to you soon. Goodbye.
Operator

Thank you very much. Ladies and gentlemen, on behalf of Gold Fields that concludes this conference. Thank you for joining us.

Nick Holland – CEO

Thank you Dylan.

Operator

You can now disconnect your lines.

END OF TRANSCRIPT