First Quarter Results
Period ending 31 March 2014
Good morning or good afternoon ladies and gentlemen wherever you may be in the world today. Thanks for joining us to discuss Gold Fields’ results for the first quarter of 2014. On the call with me today is Paul Schmidt, the Chief Financial Officer, as always, and Willie Jacobsz as always as well, our Head of Investor Relations. Let me start with a few key quarterly numbers and salient features.

Obviously no fatalities in the first quarter is something we should not underestimate, and we hope that that is the new norm for Gold Fields in its current guise. Gold production for the March quarter was 557,000 ounces, which is in line with our guidance for the full year. Remember back in February we said that production for the full year would be 2.2 million ounces. So as you can see the 557,000 is tracking that.

Notably if you compare this to the same quarter a year ago we’re 17% higher. Our production a year ago this quarter was 477,000 ounces, and now we’re 557,000 ounces. The increase is largely as a result of the inclusion of the Yilgarn South assets purchased in Australia in October of last year.

At $1,066 per ounce our group All-in Sustaining Cost increased by only 1% from the $1,054 per ounce in the December quarter. And this also was 18% better than the $1,303 per ounce achieved in the March 2013 quarter last year. So really good to see production up from a year ago sizeably, 17%, and costs down 18% over the same period.

At $1,114 the All-in Cost, which includes everything, increased by only 2% from $1,095 in the December quarter. And again this is 25% better than a year ago in March when we had $1,476 per ounce. So a major transformation in the group over the last year which translates into around $450 million a year of savings that we’ve managed to realise.

I would also like to emphasise that the All-in Sustaining Cost was 5% better than our guidance for the full year which was $1,125 per ounce, and the All-in Cost 3% better than the guidance for the year of $1,150 per ounce.

It is all about cash today and the group generated $54 million in cash flow from operating activities after taking into account net capital expenditure, environmental payments, debt service costs as well as non-recurring items. This is a 42% increase on the previous quarter which generated $38 million of cash determined on the same basis.

If you look back a year ago again to the March 2013 quarter, even though the gold price for that period was 21% higher at $1,625 per ounce we had a cash outflow in that period of $46 million. So as you can see despite the significant reduction in the gold price the steps we’ve taken to recalibrate the company at the lower price has meant we’ve had a $100 million swing in our cash flow from March a year ago to the March quarter today.

Free cash flow margin of 13% was achieved in the March quarter, and that is up from 11% in the previous quarter. And we give detail as to how that is calculated if you look on page seven of our results book which is of course also on the website.

Net debt reduced by $49 million from $1.73 billion at the end of December to $1.68 billion at the end of March. That’s in line with a strategy of aggressively paying down debt with the cash that we generate, along of course with paying dividends in accordance with our policy of 25% to 35% of normalised earnings. So if
we make the earnings we will certainly pay the dividends.

And we remain on track to achieve our full year guidance of $1,125 per ounce All-in Sustaining Costs and $1,150 per ounce All-in Costs with attributable production of 2.2 million ounces. We’ve reaffirmed that guidance today.

During this quarter just past the group continued to focus on improving our execution and delivery across the group, and particular attention was focussed on improving our margins and cash flow, as you can see from the results, reducing our net debt, re-basing South Deep to de-risk the build-up plan and look to break even on this operation either later this year or during the first part of 2015.

Damang has also managed to replicate very good performance in this quarter as compared to the previous quarter. And I think it is fair to say that we have now consolidated the Damang turnaround and expect this to continue over the balance of the year.

The newly-acquired Yilgarn South assets have largely bedded down and have been successfully integrated into the group. And I think we have by and large realised most of the synergies now, and that is reflected in the current costs that we have, but with a pick-up in brownfields as we look to also provide for the future and not just cash flow for today.

I’d like to briefly touch on some of the interventions over the last quarter. Firstly, on South Deep we fundamentally changed the way we manage and execute the project with the implementation of a comprehensive transformation process to underpin production build-up and achieve break even, as I mentioned earlier, as soon as we can.

This is really focussing on improving the skills and mechanised mining culture of the operation, which in turn we believe will improve productivity, availability of equipment and also de-bottlenecking the infrastructure underground. All central to ensuring sustainable improvement in performance.

Part of this transformation process has been the introduction of a team of mechanised mining specialists from Australia, around 15 in total and from all the disciplines all the way down to double boom rig operators at the face to people specialising in performance management.

South Deep employees and representative organisations have largely embraced the change, which is comforting to know, and I think this helps us to make sure we have a unified team. It is early days, but the signs are encouraging and I’m sure that over the balance of the year we will see further improvements in South Deep.

Having said that of course these changes do come with temporary disruptions, particularly as we reposition the operation. There have been some senior staff changes as well. And that unfortunately has been at the expense of short-term momentum in production as well as reductions in de-stress mining and development, which compounds the effects of the Christmas break that is felt in the March quarter.

Just to remind you, even though South Deep is a continuous operation we still shut the mine for around ten days just before Christmas until New Year. And typically you have a slow start-up because people take a few days to make safe and get their productivity levels back to where they were. So seasonally in South Africa the mines here tend to have a lower March quarter than usual, and we have not been any different to that.

As a consequence of the transformation intervention we’ve restated our guidance for the full year to
around 10% lower than the full year guidance of 360,000 ounces for South Deep. In other words we now expect to be around 10% lower than that, but that would still be significantly up on the previous year by around about 10%.

The good thing is that the de-stress is still expected to be on guidance at around 55,000 square metres, and that is critically important to continuing to provide the momentum for the build-up plan. And we are confident still that we can achieve our All-in Cost for the year of $1,150 per ounce.

This transformation process should gain traction through the June quarter, and in the second half of the year in South Africa we tend to have fewer public holidays so we are hoping for a stronger second half compared to the first half with all these interventions we’ve put in place.

Turning to Australia, this is the second consecutive quarter of good performance in the Yilgarn South assets comprising Granny Smith, Lawlers and Darlot which were acquired from Barrick in October 2013. These assets contributed 115,000 ounces of gold production out of the total Australian production profile for the quarter of 245,000 ounces and realises about a million ounces a year. It helped to really reduce the All-in Cost for Australia to $1,100 for the quarter.

The integrated of the Yilgarn South assets, as I’ve said earlier, has been completed and the synergies largely realised. That said, we’ve doubled the exploration budget in Australia to $50 million a year. And that focused on brownfields exploration at all of the mines as we look to upgrade our reserves and resources in this very important region at the end of this year.

Turning to Damang. During the March quarter it further consolidated its turnaround, as I mentioned earlier. And in addition to that it reduced its all-in cost by 12% to $1,100 per ounce from $1,261 achieved in the December quarter. And this was a mine that was haemorrhaging cash during the course of 2013, so a very substantial turnaround and a credit to the team in that region.

It also increased production by 3% to 46,700 ounces. And the mine has now been restored to sustainable profitability. The restructuring of both Tarkwa and Damang has been completed, so we have had further staff reductions of around about 600 across these operations. And the all-in costs for the West Africa region as a whole has reduced by 8% quarter on quarter from $1,132 per ounce to just $1,039 per ounce.

Disposal of the project portfolio does deserve some mention. We’ve indicated that in line with repositioning the group we look to sell some of the projects in our extensive portfolio of projects across the group. So far we’ve managed to dispose of the Talas project in Kyrgyzstan. That has been done. Negotiations are well advanced for the disposal of one of the other key projects, and we hope to be able to give you more news during the course of the quarter.

On some of the other projects things are moving slower, and I think it is fair to say that conditions for disposal of projects at the moment are not easy. It may well be that we have to hold off on this. We’ve contained our holding costs on these projects to a minimum so there is no issue with us holding on to these projects from a cost perspective. We will wait for the right time for us to reconsider our views on some of these projects if we are not able to do sensible disposals at sensible prices.

I think with that that is probably enough of an introduction. Please feel free to ask you questions now.

David Horton – BMO Capital Markets
I have a question for you with the Australian operations. Now that you’ve had it for the second full quarter how are you going with your cost-saving targets? Initially your main target was going to be the synergistic benefits of Agnew and the neighbouring property. But have you been able to find other cost savings?

**Nick Holland – CEO**

Certainly, David. We’ve merged Lawlers and Agnew and we’re now running only one process plant. That has saved us around $3 million to $4 million a quarter in terms of running one mill and filling it up as opposed to running two mills that are not full to capacity. Across all three mines we reduced the staff complement by 15% because we didn’t feel that we needed all of those people. And from the Perth office of Barrick we only took around about 18 people, and they were carrying substantially more overheads. So I think it is difficult to compare it on a like for like basis. But I think we are around 10% to 15% lower on our overall cost than what Barrick was when it owned the mines. So you probably have to look back to the comparison against Barrick.

So pretty much we’ve realised now most of the benefits in the short term. There are still opportunities for more shared value and shared services type functions between the mines, but I don’t think that is going to be that material. I think we’ve by and large bedded down most of the synergies. Granny Smith, which was the flagship of those three operations, accounting for around 60% of the production from Yilgarn, is coming in at about $900 per ounce. So my understanding is that’s quite a bit lower than what they were operating at under Barrick. That comes back to realising synergies. I think you should look at what we’ve got now, and if you wanted to use that as a projection going forward in terms of cost and production this is probably a reasonable base to project that forward.

**David Horton – BMO Capital Markets**

So what we see in the current quarter is good for a go-forward basis. Typically I would be looking at the dollar per ton kind of basis. Very hard, as you may recall, comparing to Barrick’s cash cost because Barrick had applied their hedge book against it and you don’t have that buffer. Thinking about the transfer of the miners from Australia, I presume from the operations that we’ve just been talking about going over to South Deep, is there a need to re-train some Australians for your existing operations there? If you’ve transferred Australians out of your Australian operation into South Deep I guess have you depleted some of the skill base that you’ve got in Australia?

**Nick Holland – CEO**

No, because some of those people actually didn’t come out of the operations. Some of the people came from outside. The biggest issue was the GM of Agnew, Garry Mills. He came over to be the GM of South Deep. So we have to replace him. And we’ve found a capable replacement who started in January. But of the balance some of them were internal, going down to people like jumbo drill rig operators. Some were outside. No, that hasn’t been a big issue. In fact, we’ve laid off people, as I mentioned earlier. And one of the benefits of having a million ounces of production out of WA is that we’ve got a good talent pool that we can use in the future for South Deep without impacting the viability of our skills base in Australia. No, I’m not concerned about that. The biggest challenge of course was to replace Garry, which we’ve done.

**David Horton – BMO Capital Markets**

Right. With your strategic redirection of moving away from greenfields in favour of in-production ounces you’ve mentioned the difficulties of selling the kind of projects that you’ve got in your portfolio. You’ve
already had some achievements there and I guess negotiations are underway. But on the other side of that equation have you been actively looking at in-production ounces as acquisition targets?

Nick Holland – CEO

Yes, we continue to look at opportunities, David, across the world. And it is difficult to tell you whether we think we will be able to achieve anything or not on that. We continue to hunt for bolt-on opportunities of the scale probably not much more than what you’re seeing in terms of the Yilgarn assets. I don’t think we would be looking for major transformational deals. We would be looking for deals essentially in the areas we are operating if possible so that we can leverage off the same regional cost base and leadership. But let’s see. We do like the Americas. Canada is an area that we quite like. We like Peru. Brazil and Mexico we think are interesting. And West Africa, Burkina Faso and Mali are interesting areas. And we like Australia. We like the work ethos in Australia, and the fact that we’ve got a strong base there already gives us opportunities to build on that. We wouldn’t be adverse to that either. All of this has to be opportunistic and the chances of getting this done are low probability, but let’s see.

Howard Flinker – Flinker & Co

I have three questions. One, what was your exploratory expenditure in the current quarter against the same quarter last year?

Paul Schmidt – CFO

It is $12 million as opposed to $45 million previously. So it is down three quarters, two-thirds to three quarters.

Howard Flinker – Flinker & Co

Second, if you were to exclude the Aussie operations would your production of gold have been down about 30,000 to 40,000 ounces year against year?

Nick Holland – CEO

We’ve gone from 477,000 to 557,000 so that is a delta of 80,000. So you’re down around 35,000 ounces. And one of the chief reasons for that is we’ve closed down the heap leach operations at Tarkwa. So Tarkwa’s production is lower. South Deep quarter on quarter this year versus last year is down around about 5%. It’s not a big change because of the seasonal effects of the Christmas break. But I think if you normalise for Tarkwa that’s the main contributor to the reduction.

Howard Flinker – Flinker & Co

I was just wondering what it was so that in my mind I can calculate industry-wide supply, which is shrinking.

Nick Holland – CEO

It is shrinking for sure on a normalised basis. If you take Tarkwa this year it is going to do 525,000 ounces. Last year it did 632,000. So you’re talking 100,000 ounces down. That is 25,000 a quarter. That is almost all of the delta once you adjust for the Yilgarn assets. As we said, that’s a function of dissolutions getting lower as you get deeper into the pit and it doesn’t make sense economically to keep that going. It has got nothing
to do with the grades. It’s just a function of how the material looks. That is the main delta year on year.

Howard Flinker – Flinker & Co

And in your Aussie operations if you know what they produced last year in the first quarter what was the change in production this year?

Nick Holland – CEO

I don’t have that information. But I think the annualised production that Barrick was doing was somewhere between 400,000 and 450,000 ounces out of these assets. But as we’ve said it is a very difficult cost structure because they tend to account for currency hedges against costs. That makes it difficult to compare it.

Howard Flinker – Flinker & Co

And finally, I noticed your taxes are up by almost 100%. hat was that? Did I see it right?

Paul Schmidt – CFO

Yes you did because the bulk of our interest costs are not tax-deductible, nor is our exploration. The interest costs were quite substantial. So if you start adding that back when we normalise we get a 30% tax rate once you take out the funnies. But we’ve got a lot of non-deductible expenditure, not at the mines but at the group level. The financing sits in an offshore vehicle. It is totally not tax-deductible. Nor is any of the exploration cost deductible either.

Howard Flinker – Flinker & Co

Is the exploration not deductible because it is in a country that doesn’t allow it, or is the exploration also in an offshore vehicle?

Paul Schmidt – CFO

They are in an offshore vehicle. So there is no tax base for them at the moment. Only once they become producing can we start getting tax credits for it.

Howard Flinker – Flinker & Co

And none of your exploration is say in Australia or...

Paul Schmidt – CFO

No, none of the exploration that you see on the exploration line is there. That is all in Mali, in Canada, in the Philippines, where we don’t have actually a producing mine.

James Bender – Scotiabank

I just have two questions. My first one is you mentioned that the production guidance for South Deep is expected to be 10% lower and the overall guidance is unchanged. So is that a rounding thing or are you
offsetting the production with the other assets?

**Nick Holland – CEO**

Look at the first quarter for example. We did 557,000, which if you annualise it - even with the lower production at South Deep – we’ve actually done better. And we’re seeing good performances in particular from Granny Smith and Tarkwa. So we’re confident that 2.2 million is still a good number even with the downgrade at South Deep.

**James Bender – Scotiabank**

And I noticed that there were about 20,000 ounces at Cerro Corona that were unsold this quarter. Is that expected to be sold in Q2?

**Paul Schmidt – CFO**

It was sold three days after quarter end. They couldn’t get a ship into the harbour. Only once we cross the rail at the harbour can we account for the sale. That was done three days after quarter end, so yes, it was sold.

**James Bender – Scotiabank**

And my last question. Your corporate G&A, is it reflected in other expenses?

**Paul Schmidt – CFO**

No. the corporate G&A is accounted for under operating costs. We allocate all our corporate G&A into the mining operations. The bulk of that is the initial financing costs of the $1.4 billion facility that we amortise over the life of the loan that sits in that number. In terms of an accounting standard change our rehabilitation cost is accounted for under other. It doesn’t appear in the mine. Those are the two numbers that make up the $11 million.

**END OF TRANSCRIPT**