Q1F2010
Results Conference Call
Transcript

29 October 2009

Speaker	Narrative
Operator (Dylan)	Good Afternoon and welcome to the Goldfields first quarter results for the financial year 2010. All participants are now in listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference then please signal an operator by pressing * and then 0. Please also note that this conference is being recorded. I would now like to hand the conference over to Willie Jacobsz. Please go ahead sir.
Willie Jacobsz	Thank you very much Dylan. Thank you for joining us this afternoon ladies and gentlemen, for the Gold Fields Limited first quarter 2010 earnings conference call. Our result announcement was released earlier this morning and a copy is available on our website at www.goldfields.co.za Our conference call today is being broadcast live on the internet and anyone may listen to the call by accessing the webcast link on our internet home page. In addition to analysts and investors the financial press is also invited to listen to the call. A replay will be available by accessing the webcast link on our home page later in the day. The transcript of this call will also be posted to the website within the next 24 hours and mailed out to shareholders. Before we begin today's comments I'd like to remind everybody that today's results announcement and certain of our comments on the call may include forward looking statements. Please refer to the cautionary language included in our results announcement, and to the risk factors described in our SEC filings. On the call today are Nick Holland, our Chief Executive Officer, Paul Schmidt, our Chief Financial Officer, Vishnu Pillay, the Head of the South Africa Region, Peter Turner, the Head of the West Africa Region, Glenn Baldwin, the Head of the Australasia Region and Juancho Kruger, the Head of our South America Region. Nick will start off by briefly summarising our financial and operational results for the quarter, after which we will open the call for questions, at which time you can direct your questions to any member of the team on the call. I would now like to turn the call over to Nick, who will take us through the results for the quarter. Nick, over to you.
Nick Holland	Thank you Willie. Good afternoon and good morning ladies and gentlemen wherever you may be. Thank you very much for joining us for our Q1 F2010 results conference call. **Introduction** I am pleased to report that Gold Fields has maintained production in line with the overall guidance provided on 6 August 2009, demonstrating an ongoing improvement

in the stability, predictability and consistency of our operations.

Particularly gratifying has been the outstanding performances from Cerro Corona, Beatrix and South Deep, all of which exceeded guidance, and Tarkwa which achieved its guidance. Pleasing results were also delivered by Agnew and Damang.

The net result is that we have today announced net earnings for the September 2009 quarter of just over R1 billion, compared with a loss of R293 million and net earnings of R39 million for the June 2009 and the September 2008 quarters, respectively.

Highlights over the last quarter are:

- Gold production that remained steady at 906,000 ounces as I mentioned; and
- Costs that were well contained, which is a significant achievement when considering an exceptionally strong South African rand that has been approximately 10% stronger against the US dollar over the last three months.

Production

As mentioned, our overall production for the quarter was 906,000 ounces which was the same as the previous quarter and in line with guidance but, significantly, higher than that recorded a year ago in the September quarter of 2008, which means that we exceeded last year's production by 108, 000 ounces, which is a 14% increase year on year.

Revenue

Our revenue for the quarter generated an average US dollar gold price of US$959 an ounce, up 4% on the previous quarter, but the rand/US dollar exchange rate strengthened 9% to R7.82 compared with the R8.56 in the June quarter, and as a consequence, the rand achieved price reduced from R253,000 a kilogram to R241,000 a kilogram. That's a 5% decrease.

Operating costs

The Group reported a solid cost performance during the quarter, despite the stronger exchange rate. Cash costs came in on guidance at US$586 an ounce with our Notional Cash Expenditure beating guidance at US$826 an ounce. Significantly also, is that the NCE is approximately 9% lower than in the September quarter a year ago.

Total cash costs increased 14% in dollar terms from US$512 an ounce in the June quarter to US$586 an ounce in the September quarter. The increase was primarily due to the strengthening of the rand against the US Dollar.

Notional Cash Expenditure

Notional Cash Expenditure for the September quarter at US$826 an ounce compared with US$738 an ounce in the June quarter, with a significant part of that increase due to the strengthening of the rand.

Operating margin

Our operating margin was 38% compared to 43% in the June quarter with a healthy operating profit of US$356 million in the September quarter compared to US$385 million in the June quarter.

Net Earnings

Net earnings were US$129 million or US$0.18 per share, compared with a loss of US$29 million or a loss of US$0.05 per share in the previous quarter.

Exceptional Gain

Now in this September quarter we did have an exceptional gain of US$85 million which was mainly made up of a gain of some US$95 million on the exchange of our shares in Sino Gold for Eldorado shares and then the subsequent disposal of those Eldorado shares in the same quarter. So that generated a net gain for the company of US$95 billion.

Net Debt

Our net debt increased from US$756 million to US$908 million. That's due to short-term working capital requirements and also, when you translate this into US$ the stronger rand also pushed up the amount. In rand terms the increase was only R600 million.

Our balance sheet is certainly robust and net debt represents just over two quarters of operational cash flow.

Normalised Earnings

Normalised Earnings for the quarter, that's if we strip out all of the exceptional items, gains and losses on forex, financial instruments etc., amounted to US$80 million or US$0.11 per share, compared with earnings of US$109 million or US$0.16 per share in the June quarter.

REGIONAL OVERVIEW

I'm going to briefly touch on each of the four regions and give you some of the highlights before we move into the questions.

South Africa Region

In terms of South Africa, gold production was similar at 528,000 ounces.

- South Deep had an exceptional quarter: production improved by 26% to 65,000 ounces, associated mainly with higher underground volumes as this mine builds up to its 2010 target at 300,000 ounces for the year.

- Beatrix continued its turn-around and increased production by 7% to 110,000 ounces.

- Driefontein and Kloof had difficult quarters after a slow start-up caused by the spill-over effects of safety stoppages late in the June quarter. Whilst gold production at Kloof was similar, quarter on quarter. Driefontein reduced by 11% to 189,000 ounces.

Our development has increased over the quarter with Driefontein showing an 11% increase in development for the quarter and on-reef development increasing by 36%. Also values have improved.

At Kloof development was also up 11 per cent with on-reef development increasing by 1%, again with better values

Beatrix's development declined by 9% because of hoisting constraints at 3 shaft due to winder repairs that should be behind us soon.

South Deep had a massive development increase of 30% for the September quarter from 2,100 metres to 2,700 metres.

As development and flexibility improves over the next 12 to 24 months we expect these mines to improve their performances – that's Driefontein and Kloof. The focus remains on returning these operations to production levels closer to historical levels of around 6.5 tons a quarter at Driefontein and 5.5 tons a quarter at Kloof.

Total cash cost at the South Africa region increased from US$527 an ounce to US$647 an ounce. Operating costs were impacted by the annual wage increases, general increases in electricity tariffs and two months of higher winter electricity tariffs over the period, as well as the stronger rand.

West Africa Region

In terms of the West Africa Region, managed gold production increased by 4% to 226,000 ounces with Tarkwa again showing an increase in production to 175,000 ounces – that's up 6% and that's mainly on the back of increased CIL throughput.

With the Tarkwa CIL plant now having stabilised at its nameplate capacity of more than a million tons milled per month, Tarkwa is now capable of producing between 190,000 and 200,000 ounces per quarter and we will work hard towards achieving this range during the December and the March quarter. However, this is subject to resolution of the current wage negotiations where we have reached deadlock with the union and the matter has been referred to arbitration.

Damang decreased slightly by 4% to 51,000 ounces for the quarter but that was largely due to a planned primary crusher rebuild.

Total cash cost for the Region was flat at US$513 an ounce for the West Africa Region and the NCE decreased from US$687 an ounce to US$678 per ounce.

The installation of the new secondary crusher at Damang is progressing well and it is expected to be commissioned early next quarter. This new crusher will enable us to improve the blend of ore at this mine, replacing lower grade oxides with higher grade harder fresher ore, which will have a positive impact on production rates going forward.

At Tarkwa the High Pressure Grinding Rolls pilot project is commissioning as we speak and the project is aimed at optimizing the fragmentation of and recoveries from heap leach material and we could see an increase in recoveries of between 5% and 10%. Once the pilot project is completed we will look at the results and determine whether we roll this out to the north section of the mine.

On the exploration front there's been exciting progress at Damang. We're spending an additional US$10 million a year with a view to doubling the life of mine and positive results are starting to emanate from that.

With the Glencar purchase that we finalised during the quarter, Gold Fields has consolidated a large position in the Yanfolila Belt which includes 100% owned tenements and the Glencar Projects including Komana which has 1.25 million ounces of resource, Sankarani and Solona.

Field activities, which were suspended during the rainy season, are again underway and our resource delineation drilling at the Komana deposits and initial drilling and target definition work on the other tenements will continue this quarter.

South America Region

The South America Region, we have managed production at Cerro Corona of 88,500 equivalent gold ounces produced, which was up 5% on the previous quarter. The NCE increased by 3% to US$599 per ounce. A very good quarter again for Cerro Corona.

At the very exciting advanced stage to Chucapaca Exploration Project in Southern Peru where Gold Fields can earn a 51% interest in the joint venture with Buenaventura. Resource delineation drilling ramped up to four drill rigs on the Canahuire project in July 2009. Initial drilling is scheduled to commence on the Katrina and Katrina Este satellite targets in the next quarter and drilling results from the Canahuire discovery have confirmed that the potential of the deposit which is open to the West, North and at depth.

Australasia Region

Turning to Australia, gold production decreased by 5% to 146, 000 ounces.

Agnew had a good quarter with production increasing by 1% to 46,000 ounces.

St Ives had a more challenging quarter with its production of 100,000 ounces being 8% below the previous quarter. This was mainly as a result of rehabilitation work in a high grade area of the Belleisle underground mine taking longer than expected due to safety concerns, resulting in lower mining volumes from high grade areas. We look forward to a stronger performance from St Ives over the next few quarters.

St Ives' capital expenditure increased to A$23 million, spent mainly on excavating the Athena box-cut. The Athena development will become the fourth underground mine at St Ives and we expect first gold from this exciting new project within a year from now.

A capital expense of A$308 million was spent on the termination of the Morgan Stanley royalty during the quarter. This is a particularly important development for the future of St Ives, because it will reduce costs at St Ives by approximately A$100 per ounce going forward, which will change the dynamic of this operation, in particular considering the exploration upside which we are now starting to realize, particularly at Athena.

Before I wrap up then I'd like to give you a high level sense of our guidance for the December 2009 quarter. Attributable gold production is forecast to be approximately 925,000 equivalent ounces, with increases expected from Driefontein, Kloof as well as Tarkwa.

Total cash cost in Dollar terms is forecast to be similar to the September quarter at US$590 per ounce, despite the stronger rand. The December quarter cost forecast is based on an exchange rate of R/US$7.40 and US$/A$0.90.

Total cash cost is forecast at US$590 per ounce and NCE at US$870 an ounce.

This guidance is obviously subject to the forward looking statements that Willie mentioned at the start of this call.

So in conclusion as you can see from the brief overview that I have given you, despite a number of challenges, Gold Fields is in good shape and we aim to continue delivering our rising production trend.

Before I open the floor to questions, I would like to remind you that Gold Fields will host an analyst day here in Johannesburg on Tuesday, 3 November, at which we will provide you with a much more detailed account on each of our operations and, in particular, on the many exciting growth projects that we have around the world

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	including our exploration potential. For those of you who will not be able to join us in person, all of the presentations on the day will be webcast on the internet, and comprehensive verbatim transcripts of all of the presentations will also be made available. With that I want to open the call up for questions. Just to remind you, Vishnu, Glenn, Peter and Juancho, as well as Paul are all on the call to answer any specific questions that you may have on the individual Regions. Operator, we are now ready to take questions.
Operator	Thank you very much sir. Ladies and gentlemen at this time if you would like to ask a question please press * and then 1. If you then decide to withdraw your question please press * and then 2. I'll repeat that, if you would like to ask a question please press * and then 1 now. Our first question comes from Leon Esterhuizen of the RBC. Please go ahead.
Leon Esterhuizen	Hi guys, hi Nick. Just a quick one on the Australian cost. I just want to check with you – the royalty that you cancelled, was that cancelled for part of the quarter or not at all and will we see that benefit only in the following quarter?
Nick Holland	Glenn?
Glenn Baldwin	Good afternoon. The royalty was cancelled during the quarter so we actually paid royalty up until the end of August and you'll see the benefits coming through in the December quarter.
Leon Esterhuizen	Ok thanks, so are you saying that you've had the benefit of say A$100 per ounce lower cost for September but you still had higher costs and that's obviously due to the bad performance at St Ives but the next quarter will see a drop of at least A$100 an ounce on the cost, is that right?
Glenn Baldwin	From the royalty perspective, yes. We saw probably about three weeks, because we saw about three weeks of the costs without the royalty in them in this quarter. And certainly at the end of the quarter, if the gold price stays where it is at about $1,160 an ounce, that would be worth around about $103 an ounce. So you will see the reduction in the cash costs. You will not see the reduction in the NCE mainly because of the additional spend on capital at Athena. But you are seeing the reduction come through on cash costs. Thanks
Operator	Our next question comes from David Leffell of Deutsche Bank. Please go ahead sir.
David Leffal	Just a question, you were dealing now with probably a five quarters or six quarters past, introduction of this notional cash expenditure for the examination of operations and I wanted to know if holistically is it helping operations? I was just looking back at

my notes and year on year the notional cash costs of the Group has risen by just over 20% by my calculations and I was just wondering, you know as investors, how we start to use this notional cash cost number going forward. Will we see this start to be brought back as you focus on returns on capital or should we expect this to tax operating costs pretty closely?

Nick Holland

Well in fact David what I'll get Nicky to do is send you a graph that shows how notional cash expenditure has in fact moved on a per ounce basis over the last six quarters and what you'll see in fact is notional cash expenditure per ounce has come down about 10% over the last year, so, in fact, it has reduced and we'll show you the graph of that. By tracking the all in costs of our business and managing our business on an all in costs basis it has definitely made a difference and it makes sure that we understand the full impact of all of the spend in our group. So Nicky will send you the graph and it's very clear from that graph that you can see that in fact we've started to open up a margin towards the back end of the last financial year at the NCE level. Particularly as we finished a lot of our major projects, as we started to build up our production profile. So I would say, changing to this methodology has been a resounding success for Gold Fields and you'll see that when you look at the numbers more closely. So I don't have any concerns about it, we're going to manage this on an ongoing basis and as you can see, by this quarter we've just reported as well for the quarter ahead, we're showing a healthy margin between the gold price and the NCE and I'd like to try and maintain at least a 20% margin at that level if we're able to. There may be quarters that we can't but that would be a longer term objective if we could. But let Nicky send you the graph and I think you'll see clearly for now what we've achieved.

David Leffell

Okay, that would be good. And the 20% margin, is that between the spot price of gold and the NCE or what's that 20% you're referring to?

Nick Holland

Between the spot price of gold and NCE.

David Leffal

Okay, I just wanted to make sure. Okay, thanks Nick.

Nick Holland

No problem.

Operator

Ladies and gentlemen, a reminder that if you'd like to ask a question please press * and then 1 now. Our next question comes from Shane Hunter of BJM. Please go ahead.

Shane Hunter

Good afternoon. I just turned to the text in the [unclear] and actually found the answer to what I was actually looking for [unclear] you do have an explanation in the text and I'm happy with that and that's all from me.

Operator

Ladies and Gentlemen, a final reminder that if you'd like to ask a question, please press * and then 1 now. We'll just pause a moment to see if there are any further questions.

Our next question comes from Paul Durram of the Isleback Grayson. Please go ahead

	sir.
Paul Durram	Thanks so much. Nick, I see you got steady progress with your steady production today and you mentioned you're going to be ramping up a bit more next quarter than 925,000 ounces. Have you given up the million ounces a quarter notion or is that something achievable, you're just working up to it very slowly. What is the time table on that please?
Nick Holland	I think you've summarised it better than what I could have done Paul. We're creeping up slowly, its still a target. I'd love to be able to get there by the end of the fiscal year but it may not be at that time, it may take a bit longer because remember I said at the start of this year we expected our quarterly production to range between 925,000 ounces and 950,000 ounces a quarter. We're sticking to that and it should be closer to the higher level by the end of the year than the lower level and who knows, we might yet get to that target not too far away. It's difficult to give you a precise deadline but certainly if South Deep could continue its build up, that would certainly help us to get to that if all of our other operations could continue their performance. So it's not an unrealistic target Paul, but it's a question of getting there and its obviously taking us a little bit longer but the momentum is right. If the momentum was going the wrong way I'd be concerned. The important thing is the momentum is towards that target.
Paul Durram	Okay, thank you very much.
Operator	Our next question comes from David Leffell of Deutsche Bank. Please go ahead sir.
David Leffal	Yes, sorry, I just want to follow up Nick. On South Deep, it's made some great progress as you had hoped for this financial year so are we pretty much at the expectations for the rest of the financial year on the production rate or have you guys had a look at it and maybe will do a little bit more than the previous guidance around South Deep?
Vishnu Pillay	David, good afternoon, its Vishnu speaking. Our production plans calls for an increase in production on a quarterly basis so we expected this quarter we should be doing marginally better than we did last quarter, taking into account that last quarter was an exceptional quarter by any standards for South Deep. So I guess the answer is yes we expect to see improvements as we progress going forward for the various quarters in this fiscal year.
David Leffal	But a dramatic kind of step change and acceleration with the south shaft open is why, now its just modest increases is that right?
Vishnu Pillay	No all of this increases that we're talking to is coming out of the twin shaft complex. We are in the process of refurbishing the south shaft complex. We have hoisting capacity of 60,000 tons but what we will be doing is bringing that shaft into production at some date soon. We just have our resource plans and mining plans to complete and then we'd like to bring it into production. That would be over and above the production that we anticipate on the twin shaft complex. That's not built

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	into our plan David.
David Leffal	Oh really? The south shaft as an operating shaft is not in your plans and the guidance you've given us for this financial year?
Vishnu Pillay	Yes, the guidance that we've given for this quarter doesn't include south shaft.
David Leffal	Okay, thank you so much.
Operator	Gentlemen, we have no further questions. Would you like to make some closing comments?
Nick Holland	Thank you operator. I think in conclusion Gold Fields continues its upward trend and we also continue to deliver positive results from South Deep as it builds up its production profile and as you can see from the guidance, we expect South Deep to do better again in the next quarter so I guess the one point I would finish with and no one has actually raised this question is the proposed increase in power costs by Eskom where they're asking for 40% per annum over three years. Just to let you know that we are analyzing the potential impact of this on our business because, as you can imagine, this has a flow through not just to our direct energy costs but also our indirect costs. We will also be preparing responses to government in terms of the public participation process giving our views. But certainly, our first indications are that this is a very significant impact on not just Gold Fields, but the gold industry and the mining industry generally, and the national economy overall. We need to engage with government to find creative solutions on this, which don't result in a massive increase in production costs at the front end of most of the industrial and mining companies in South Africa, which. Its probably better to try and encourage government to look at some kind of broad based tax, possibly imposed over a longer period of time, to make sure that we can achieve the vision of the country of providing affordable power for all. We look forward to engaging with government in finding solutions to this issue over the next few months. And with that I'll thank you for your participation, have a good day.
Operator	On behalf of Gold Fields, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT