September Quarter Conference Call Transcript 04 November 2010

Speaker	Narrative
Operator	Good day and welcome to the Gold Fields September quarter for 2010 results. 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 star and then zero. Please also note that this conference is being recorded. I would now like to turn the conference over to Willie Jacobsz. Please go ahead, sir.
Willie Jacobsz	Good afternoon ladies and gentlemen and thank you very much for joining us for this results telephone conference call on Gold Fields Ltd September quarter 2010. We have with us Nick Holland, the Chief Executive Officer, who will give a brief overview of the results. After that there will be an opportunity for questions and answers. Nick, over to you.
Nick Holland	Thank you, Willie, and good morning ladies and gentlemen wherever you may be. Thank you for joining us for the review of Gold Fields' results for the quarter ended September 2010. I'll provide a brief overview and then we'll go straight into questions. I'm fortunate today to have with me Tim Rowland, Acting Executive Vice President of the South African region, Richard Weston, Executive Vice President for the Australasia Region, Peter Turner from the West Africa Region, Juancho Kruger from the South America Region, and Paul Schmidt, our CFO. Attributable gold production for the quarter was 908,000 ounces and, pleasingly that was up from 898,000 ounces in the previous quarter. Despite seasonally high electricity charges in South Africa – remember the higher winter tariffs this last quarter – as well as the implementation of the second year of the two year wage agreement in South Africa, sound cost controls enabled us to maintain our NCE margin of 18%. And in particular, our cash costs were down in Rand terms from R166,000 a kilogram to R164,000 a kilogram. In US Dollar terms they were slightly higher only because of the Rand strength which went down to R7.36 this quarter. The US Dollar gold price received increased from $1,191 per ounce to $1,223 per ounce. And our NCE was $1,007. Now, that was slightly higher than the previous quarter, which is also because of the Rand exchange rate, but also reflects significant inward investment in the quarter concerned. Operating profit increased to $533 million from $496 million in the previous quarter. Normalised earnings increased to $138 million from $125 million. While the operations delivered a solid performance we've also made considerable advances in our growth pipeline with the purchase of an option on the undeveloped copper gold Far Southeast deposit in the Philippines. The agreement will allow us to conduct a major drilling programme and feasibility study over the next 18 months. If successful the FSC acquisition will significantly advance us towards our target of achieving one million ounces for the Australasian region, either in production or in

development, by 2015.

Gold Fields now has exciting growth projects in each of the regions in which it operates. In addition to the FSC project in the Australasia region we have the South Deep project in South Africa, the Yanfolila project in Mali and the Chucapaca project in Peru in South America.

We are also doing new metallurgical tests using a new process on the 12 million ounce APP project in Finland, and early indications from bench scale testing indicate that this is promising. And overlaid on that is the fact that the palladium price has picked up well, and the fundamentals for palladium also look a lot better. Remember, this project has a three to one split of palladium to platinum and the project of course also has gold, nickel and copper.

All of these growth projects are progressing rapidly and are on track towards our target of five million ounces, either in production or development, by the end of 2015.

This strategy is supported by a strong balance sheet which has been further bolstered with the successful issue of a $1 billion ten year bond at a coupon rate of 4.875%. The order book was more than two times over-subscribed, and the interest rate achieved was the lowest by a South African corporate in the US Dollar bond market. Great work by Paul Schmidt and his team. The bond significantly improves our liquidity and maturity profiles without increasing debt levels. The funds raised will be utilised to restructure our existing debt, and we are now well placed to do the growth opportunities mentioned above.

During the June quarter Gold Fields executed the new order mining rights for South Deep. In addition, the three empowerment transactions, which will be critical to achieving our 2014 mining charter ownership target, were approved overwhelmingly by shareholders at the annual general meeting earlier this week.

During our annual results presentation in August we announced our intention of embarking upon a comprehensive business process reengineering exercise. Earlier in the year initiatives commenced at Driefontein, Kloof and Beatrix in South Africa, Tarkwa in Ghana and St Ives in Australia. The BPR involved a review of the mines' underlying organisational structures as well as the operational production processes from the rock face to the plant. The objective is to introduce a new business blueprint model together with an appropriate organisational structure which will support sustainable gold output at an NCE margin of 20% to be achieved over the next 12 to 18 months.

As a first step in the review of the operations in the South African region we have implemented a restructuring at Driefontein and Kloof where senior management structures have been merged in an effort to improve operational and financial efficiencies and to ensure long-term sustainability. Let's talk more about that in particular. The Kloof and Driefontein executive offices and the regional office in the region itself will be combined into a new management team with the primary role of servicing the new Driefontein/Kloof complex, which will be renamed in due course, but also has governance oversight across the South African region. The team will be based at the combined mine complex and the regional office in Johannesburg will be closed in the next four weeks.

Driefontein and Kloof shafts and plants have been clustered into six operating units, each with its own senior management (SMO) responsible for safe production as well as ensuring an appropriate cost and manpower base for each operating unit. This will reduce the load on management and increase the spans of control. The new operating units will be comprised of:

1. Driefontein 1 and 5 shafts,
2. Driefontein 2 and 4 shafts,
3. Driefontein 6, 7, 8 and 10, or the older western portion of the mine,
4. Kloof 3 and 4 shafts,
5. Kloof main shaft, 7, 8 and 10, and
6. All of the reef and mineralised waste plants which will be clustered together in one unit to optimise efficiencies and to adopt best practise.

One of the key benefits of the new structure, in fact, I believe probably the most significant benefit, is that accountability, responsibility and line of sight is devolved to a lower level. We've had this structure determined and designed internally, but we also had it extensively reviewed by appropriate outside consultants who have been involved in this process. We spent a great deal of time creating this new architecture.

The operating units will be supported by operations that provide common services across the units. In addition, a strategic management office has been established and will identify cost reductions and revenue-enhancing opportunities. The aim is to reduce the rate of cost increases and improve the NCE margin to at least 20% over the next 12 to 18 months.

Financial reporting of the new Kloof/Driefontein complex will commence in the quarter ending December 2010. The South African region will now consist of three operations, namely the combined Kloof/Driefontein complex, Beatrix, and South Deep.

The organisational designs of Beatrix, because of its geographic location, and South Deep, because of its mechanised mining methods, are being reviewed in order to ensure that they are fit for purpose in the new structure.

We have over the last two years conducted extensive preparatory work in order to improve and sustain the South African region.

The introduction of NCE served as the starting point, followed by an overview of the region's safety and infrastructure, both of which have resulted in safer and more sustainable operations.

This restructuring is the next step to achieving sustainable production and costs which can make sure that the operations can be sustained into the future.

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	With quality ore bodies, existing infrastructure and good people, the South African region has been and will continue to be the bedrock of Gold Fields. As far as Tarkwa is concerned, reengineering is focussed on cost reductions from improved contract management and improved consumable usage. Initiatives include owner maintenance to complement savings and productivity improvement already achieved since adopting owner mining. At St Ives reengineering is focussed on productivity improvements and cost reductions across all areas. These programmes will of course continue throughout 2011. So, in conclusion, Gold Fields is on track to achieve its annual production and cost guidance that we gave back in August, and we're well positioned to deliver growth from all of the exciting projects in the various regions. With that either myself or my colleagues will be glad to take your questions.
Operator	Thank you very much, sir. Ladies and gentlemen, at this time if you'd like to ask a question please press star and then 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. I'll repeat that. If you'd like to ask a question please press star and then one now. Our first question comes from Murray Pollitt of Pollitt & Co. Please go ahead.
Murray Pollitt	Good morning gentlemen. Good afternoon. I thought I saw something in the press recently to the effect that South Africa was fed up with the strong Rand and South Africa was about to embark upon intervention in the currency market with a view to getting the Rand to a more reasonable level to avoid the speculative push which has pushed it so high. Is that correct?
Nicky	Hi Murray, it's Nicky here. It's not correct in the sense that South Africa hasn't changed it policy in terms of the Rand and won't adopt a formal macro economic policy to try and arrest its strength. But what the central bank will do, it will try and absorb foreign currency to the extent that they will grow their reserve base. And they will do that opportunistically. And they have been doing that since 1995, of late not as aggressively as before, but they will obviously pick up the pace because Dollars are currently cheap.
Murray Pollitt	Okay. Next question. If they build up the central reserve bank position of Dollars, the last time I looked I think your country had one third of its central bank assets in gold and two thirds in currencies of one form or another. If that quantity of currency increases will the South African central bank increase its holdings of gold as so many other central banks are doing? It will send a great message to the market, just for the record.
Nicky	Their reserve base is not the size of the bigger countries, so it is difficult for them to

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	diversify. In my personal opinion they should focus on accumulating reserve before they look at diversifying. But given that the Rand remains stronger for longer and they accumulate enough reserves there is a good chance that they will diversify. But I guess that is a question for the central bank.
Nick Holland	I'll tell them to buy gold Murray, but I can't promise you that they're going to listen to us.
Murray Pollitt	It would send a great message out there. There was labour unrest in South Africa. The government needs money. Many other central banks are building up their gold positions.
Nick Holland	It's a good point.
Murray Pollitt	Thank you very much gentlemen. Well done.
Nick Holland	Thank you, Murray. Thanks for your support.
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 for a moment to see if there are any further questions. Our next question comes from Leon Esterhuizen of the RBC. Please go ahead.
Leon Esterhuizen	Hi guys. Just two things. First of all, I think you've done fantastic on the cost front. I don't know how you managed to pull that off, but I think it was a very credible performance. Secondly, I just wanted to ask you about the potential strike at South Deep. Can you give us a bit more colour on what that was about and whether or not it has completely been solved?
Nick Holland	It's about the union wanting to get involved in making key management decisions about things like senior appointments, procurement and what have you. And there are some other issues relating to skills development and audits and the like. And the position at this point is that we've got an interim interdict in the labour court here in South Africa and at some point we've got to go back to court – we don't have a firm return day yet – and go and argue the case with them. Now, that doesn't mean to say that we're not going to try and find solutions. We're going to continue engaging with the branch. This is really a branch issue at South Deep. It is not a national issue and doesn't spill over into any of the other operations. We're going to continue engaging with them to find solutions because clearly this is a very important issue for us. We want to try and get our guys on side and try and get sense out of this. But I can't tell you if that's going to happen, when it's going to happen and if and when we have a strike. So the situation at the moment is very fluid. Our first step is to try and get back to court and get a more permanent interdict against this. If we fail with that then we'll have to see what the impact is and we'll have to see whether the union wants to proceed with strike action against us. But I can assure you of one thing, we will keep engaging all the way. And we're always in favour of finding solutions. In a nutshell, Leon, that's what it's about.
Willie Jacobsz	Operator, we cannot hear what Leon is saying.

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Operator	Mr Esterhuizen, could you please repeat your last question?
Leon Esterhuizen	Thanks Nick. I just wanted to address that because I think it is extremely important that you guys don't fail in this. If the union gets involved in that level of decision making it would be in my opinion a significant negative step for South Africa.
Nick Holland	I agree.
Operator	Our next question comes from Johan Steyn of Citibank. Please go ahead.
Johan Steyn	Hi guys. Johan again. I just have to echo Leon's comment on the cost performance. It was a great cost performance this quarter. If you can maybe just elaborate on where exactly these benefits came from and why all of a sudden we see this coming through? And then also in terms of the outlook, is it just a once-off or is this a step change for Gold Fields in terms of cost performance?
Paul Schmidt	Johan, it is Paul here. I think you finally see the effects of the business process engineering coming through at the South African operations. And also at the Ghanaian operations. This is the initial impact of the business process reengineering. And looking forward this is a new base for Gold Fields.
Johan Steyn	And Paul, what does that include? The business process reengineering, can you give us some specific examples of where these cost benefits came from?
Paul Schmidt	A lot of it is as a result of the reductions in labour, especially in South Africa. Owner mining, owner maintenance in Ghana, some of the initial benefits that we're starting to see, it's all part of the bigger plan BPR. But the bulk of it is the natural attrition of people numbers in South Africa.
Johan Steyn	On a total basis, your employee base, if you compare it to the previous quarter or a year ago in terms of numbers globally?
Nick Holland	In terms of employees in service it has probably reduced by around about 7% since January of this year, which translates to about 3,000 people. That's a combination of voluntary retrenchments and natural attrition - people leave through AWOL, retirement, resignation. And we're looking to fill those positions from within just by redeploying people. And we have a voluntary separation package which people can put themselves up for. We don't have to accept their offer. And clearly we have to look at groups of jobs. Some jobs may be scarce, some jobs we may have excess. We look at it that way. It's slow, but over time it starts to generate reductions. I guess the real thrust for the SA legacy assets, Beatrix, Driefontein and Kloof, is to stabilise the production base and make sure that the cost base talks to that level of production. And over time as we are able to improve our development we can look to try and create more flexibility, open up new areas and try and increase the production. That is always a longer process and there is no point us over-promising that we're going to see delivery over the next quarter or two quarters. But we've certainly mechanised a great deal of our flat end development on the long life shafts,

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	and I know Tim and his team want to get that up to 100% through the course of this year. We haven't yet seen the increase in productivity that you would have expected, and it shows that just making these changes in and of themselves requires a lot more effort to make sure that people understand how to work differently, how to manage the logistics in these underground operations. I think over time we will continue with these initiatives. Tim and his team have got a programme management office where all of these initiatives are coordinated – the projects are at different stages. Some are conceptual, some are in design, some are in implementation. And this will continue I believe for the next 18 to 24 months. This is not a one quarter exercise. It's not a one trick pony. This is going to continue over time. But you won't see benefits come through in step change. You will see them gradually coming through. What you've seen on costs this last quarter has been achieved despite the annual wage increases and despite the winter tariffs that Eskom impose. So I think the team has done a tremendous job. We all recognise that we're still at the front end of this and there is more work to be done and we want to do this in a way that is sustainable. Tim is next to me here. I wonder if Tim wants to add anything to what I've said.
Tim Rowland	Not really. I think you've covered it well.
Johan Steyn	Just looking forward, Nick, you said that you've seen about 7% reduction now in labour through natural attrition etc. Is there any target that you have over the next 18 months in terms of further attrition that you'd like to see?
Nick Holland	I don't want to get stuck into detailed numbers. It's going to depend on what happens in the market and whether we can get the production up to. I think suffice to say that we're not going to be rushing out and recruiting people at this point in time. We're going to make do with what we have and accept that there are people who will leave through natural attrition. So if we just continue with natural attrition it's quite conceivable that we could reduce our labour base probably by approximately 5% or so over the next 12 months. That's quite possible.
Johan Steyn	Thank you very much.
Nick Holland	Very good, Johan.
Operator	Our next question comes from David Pesner of Wrighthall James. Please go ahead.
David Pesner	Thank you. Gentlemen, my questions relate to your hedging policy going forward and your expected gold production over the next 12 months if you have a target for that.
Nick Holland	Let me answer the second and I'll ask Paul to deal with the first. We gave guidance in August that our production for the 12 months ended June 2011 was expected to be between 3.5 million and 3.8 million ounces. We've got no reason at this point to deviate from that.

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David Pesner	Okay. Thank you.
Paul Schmidt	It's Paul here. In terms of gold we don't hedge gold at all. Our view is that in the long term you cannot beat spot. We may do some opportunistic hedging of currency, but in general that is very short term, if and when we see a gap in the market. But in terms of the commodities, we will not be hedging the commodities.
David Pesner	Okay. My other question relates to what kind of currency hedging you might be doing given the extreme weakness of the Dollar. I don't know whether you view it as being extraordinarily weak or just normally weak as a result of US monetary policy. Are you doing anything in the way of hedging your costs which are mostly in Rand?
Paul Schmidt	We're not hedging any of our currency at the moment. We don't see a gap in the market, and we're just following spot.
David Pesner	Thank you very much.
Operator	Gentlemen and ladies, we have no further questions. Would you like to make some closing comments?
Nick Holland	I just want to say thanks for those of you who participated today. Certainly the gold market at the moment is looking quite interesting, and I'm sure that Gold Fields over time will be able to capitalise on these gold prices if they remain at these levels. And we're looking forward to improving our returns for shareholders and also to continue to grow and diversify this portfolio. So thanks once again for your participation today and we look forward to discussing our results with you again in February of next year. Thank you and bye.
Operator	Thanks very much. Ladies and gentlemen, on behalf of Gold Fields that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

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