# Creating a Sustainable Business at US$1,300/oz

Nick Holland

**Denver Gold Forum**

23 September 2013

# Creating A Sustainable Business at US$1,300/oz

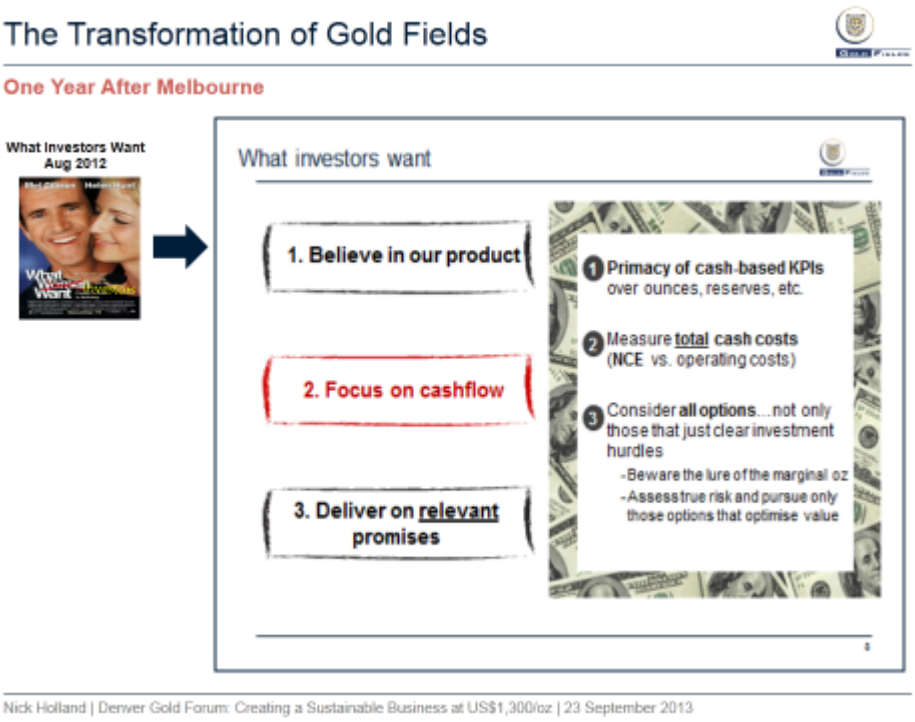
NICK HOLLAND
Chief Executive Officer
Denver Gold Forum, 23 September 2013

## Forward looking statements

Certain statements in this document constitute "forward looking statements" within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934.

In particular, the forward looking statements in this document include among others those relating to the Damang Exploration Target Statement; the Far Southeast Exploration Target Statement; commodity prices; demand for gold and other metals and minerals; interest rate expectations; exploration and production costs; levels of expected production; Gold Fields' growth pipeline; levels and expected benefits of current and planned capital expenditures; future reserve, resource and other mineralisation levels; and the extent of cost efficiencies and savings to be achieved. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the company to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. Such risks, uncertainties and other important factors include among others: economic, business and political conditions in South Africa, Ghana, Australia, Peru and elsewhere; the ability to achieve anticipated efficiencies and other cost savings in connection with past and future acquisitions, exploration and development activities; decreases in the market price of gold and/or copper; hazards associated with underground and surface gold mining; labour disruptions; availability terms and deployment of capital or credit; changes in government regulations, particularly taxation and environmental regulations; and new legislation affecting mining and mineral rights; changes in exchange rates; currency devaluations; the availability and cost of raw and finished materials; the cost of energy and water; inflation and other macro-economic factors, industrial action, temporary stoppages of mines for safety and unplanned maintenance reasons; and the impact of the AIDS and other occupational health risks experienced by Gold Fields' employees.

These forward looking statements speak only as of the date of this document. Gold Fields undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.




Thank you and good afternoon.

A year ago I did a presentation in Melbourne about what I saw being the ills of the gold industry over the past decade. And it got us thinking internally about what we should be doing to try and change the negative perceptions about the gold industry.

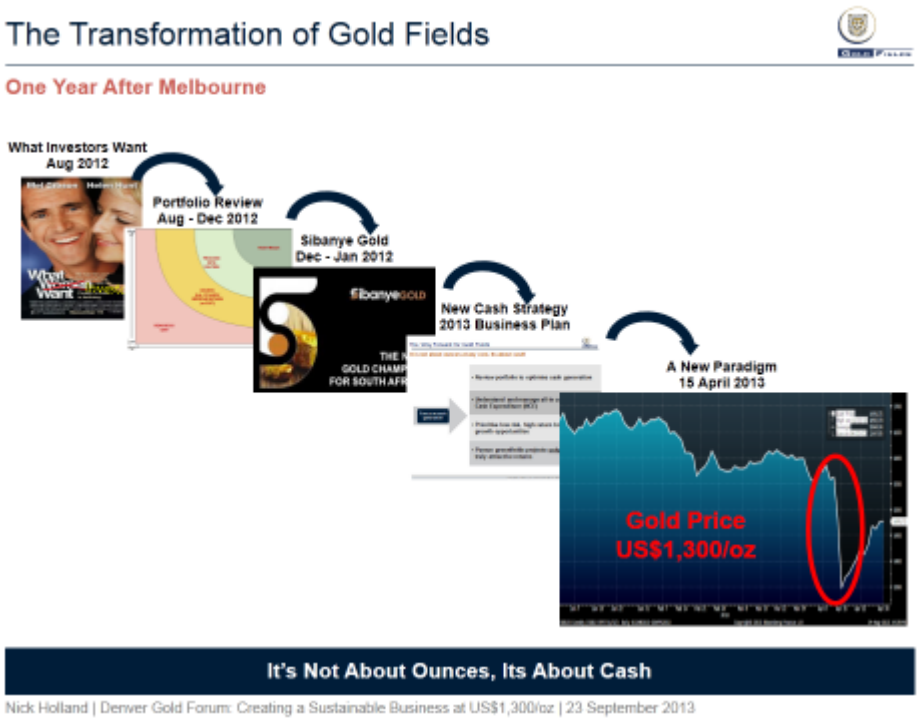
I think first and foremost we needed to get the industry to concentrate on cash flow.

I've been coming to this conference for 15 years and it is amazing how all of us have stood up in the past talking about the long-term production forecasts that we were going to achieve, and that includes us in Gold Fields.

I suppose if we had all achieved the promises that we had made the gold industry would be double the size it is today.

The fact of the matter is we have not been able to do that. And in some respects we felt that we've lost our way in terms of our ability to focus on the things that really matters to everyone.

It's not tonnes and grade and ounces of production. It's actually about cash flow.




So we started repositioning our own company over the last year to focus on improving the margin per ounce.

I guess it is somewhat fortuitous that we were able to start restructuring our company in the second half of 2012, reducing marginal production even though the gold price was still high.

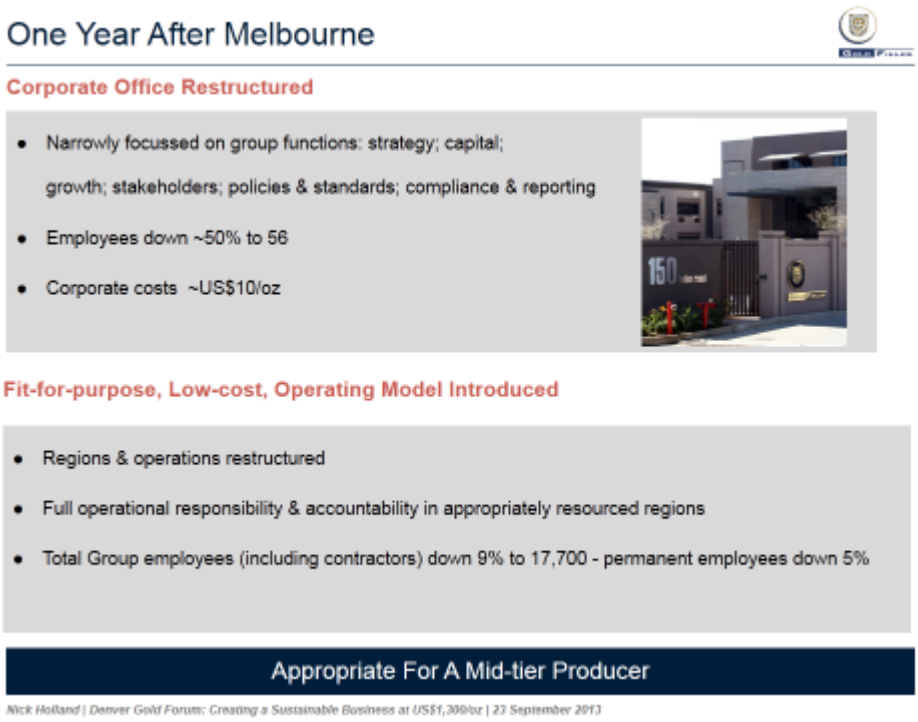
A seminal decision that we made at the back end of last year was to de-merge the company and create two separate companies. The creation of Sibanye Gold took place, and that transaction was completed in February of this year.

That was really motivated by the need for Gold Fields to focus in a different direction and the need for us to separate out assets with different characteristics. And I must say, liberating the older mines of Driefontein, Kloof and Beatrix has given them a new lease of life under very good management. We are seeing very good cash flows coming out of that operation. So I think it has worked.

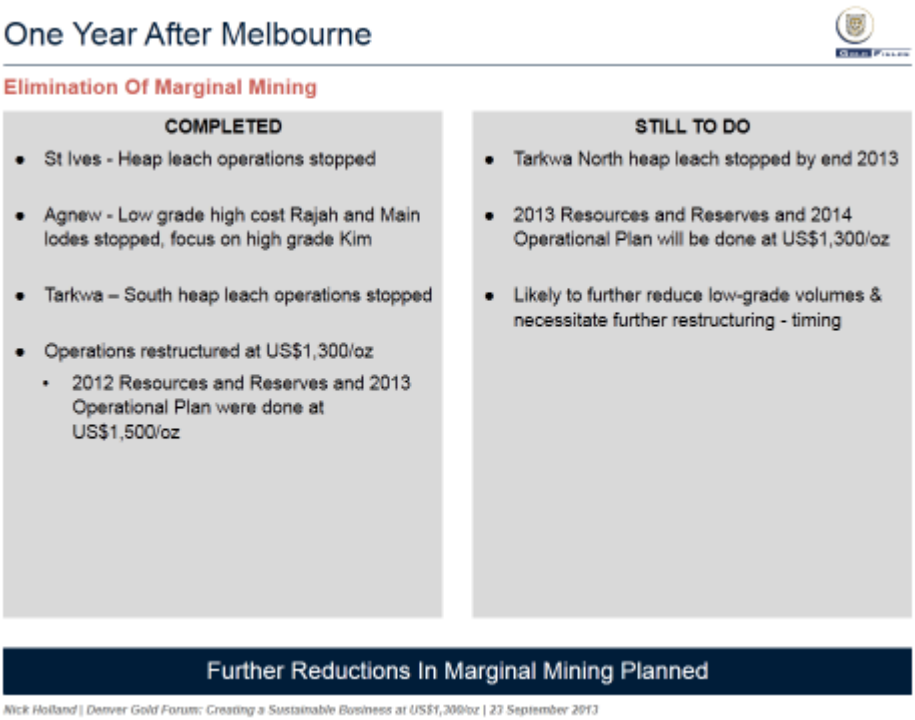
And for Gold Fields, we can really focus on what we want to be, which is a globally diversified producer with lower costs. That has culminated in us re-looking at our entire strategy - not looking at long-term production targets but focussing rather on generating cash.

I'm glad we did all of that because we didn't know that the gold price was going to drop the way that it did over the last few months. Fortunately that has helped us to reposition ourselves for the new price environment and we don't have a huge amount of restructuring to do in order to make money at $1,300, which is our objective.

**We are restructuring the entire company to make a free cash flow margin of about 15% at $1,300 gold**.




First of all, we've done some important things like reducing our corporate costs. It's quite interesting that in Johannesburg we now only have about 56 people in our office. The reason for that is we have adopted a new operating model of devolving more responsibility and accountability to the regions. I don't believe we can solve the problems of Ghana in Johannesburg. I think the operational issues are best managed by capable and properly resourced teams in each of the jurisdictions that we operate. So we have put that in place. And I think it is a fit for purpose structure that will serve us well in to the future.




We have cut out a lot of marginal production already in the back end of last year.

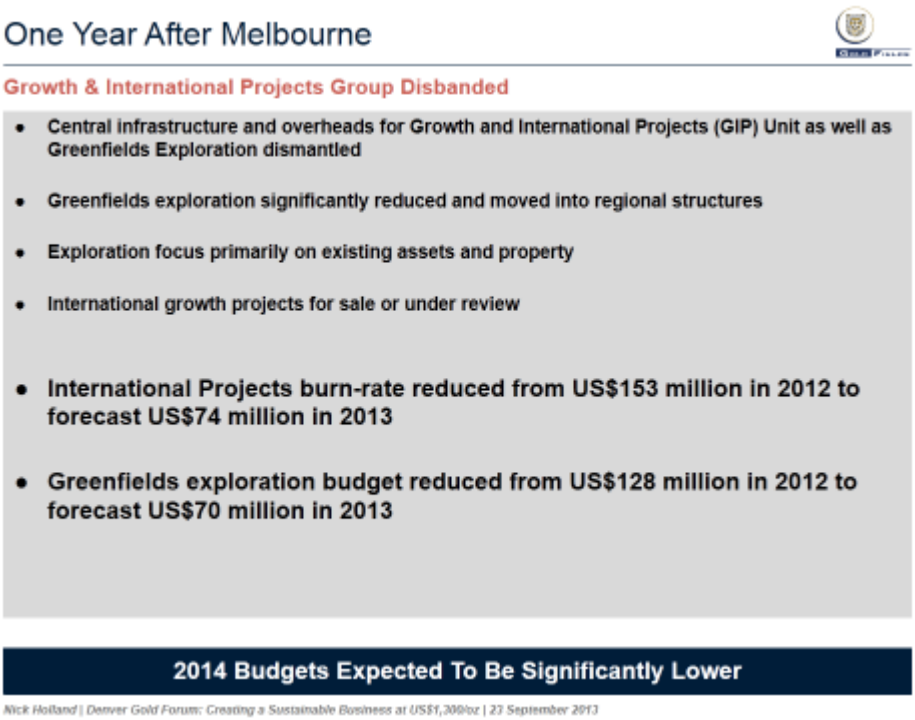
At St Ives we had a heap leach operation that really didn't make money. It was trading dollars. At Agnew we've transformed the operation. It was an operation of about $1,200 to $1,300 per ounce all-in, including sustaining capital. Today it is producing very similar production to what it was, but the costs are now down to around $850 per ounce. It is now one of the lowest-cost producers in our group and the third-lowest cost producer in Australia. And I think it shows what we can achieve with the right focus.

**As I said, we are now restructuring the entire company to make a free cash flow margin of about 15% at $1,300 gold.**

**Essentially what we are looking to do is every operation needs to make around a 15% margin after paying all of the bills, taxes, royalties, capital, you name it. At $1,300 per ounce we are targeting to get us up to around $200 an ounce of cash flow after everything.**

All of our business plans are in the process of being reformatted at that price. That means we have to go and change all of our cut-off grades and re-look at each particular pit and underground operation. We are also doing our reserves at $1,300, and that is a break from the tradition of using a three-year trailing average.

And frankly if we're going to make this business exciting for investors to come back into that's what we've got to achieve. Because right now we're working for suppliers, we're working for governments, we're working for communities, but we need to remember the poor old shareholder who is putting his money in to the company. If gold prices go down as some people predict to $1,100 or $1,000 we will still be in good shape to survive that.




We've decided now that growth should be consolidated into the individual regions. So we have broken up our growth and exploration group. And that now will be focussed in Africa, South America and Australia. Those are the key areas.

The other thing we've done is we have significantly reduced our burn rate on projects, halving the project spend to around about $74 million this year and exploration has also been significantly reduced.

I would predict for 2014, although we haven't finalised the budgets, that those numbers will be significantly reduced yet again as we look to get razor-sharp focus across our portfolio. We were looking at about 16 exploration projects, which is far too many for a company like Gold Fields today. We are looking to have a handful of the best exploration projects, principally in the Americas. That is one of the key areas of growth.

Once we have concluded our deal in Australia we will have five assets in Australia producing a million ounces, all of them having very significant brownfields growth potential. I would rather prefer us in Australia to focus on bringing to account the near-term opportunity of those individual mines as opposed to pursuing greenfields projects.

In terms of our projects themselves we are having a strategic re-think about some of the projects. Arctic Platinum is a very significant project in Finland, a platinum palladium project with nickel and copper credits. As you would have seen from the resource statement there is about 15 million ounces there. Very significant in a country that could be a good counter in terms of platinum and palladium production to declining production in South Africa. We have a process running on that at the moment .We will see what the interest is.

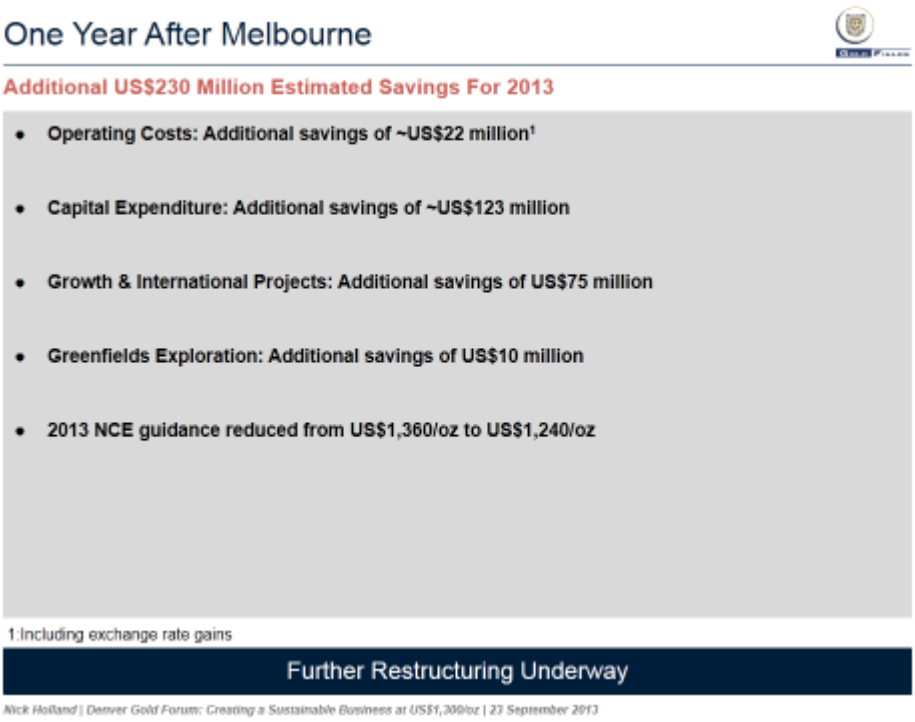
Similarly Talas in Kyrgyzstan, an 11 million ounce resource, we are looking to dispose of that as well. And Woodjam in British Columbia, which is largely a copper project, we are looking to dispose of.

Far Southeast is a very significant deposit, over 900 million tonnes of copper-gold porphyry in the Philippines. We are focusing there on getting our license that allows foreigners to own a majority interest. So we will go slowly on that one until we get that. But we continue to look at the potential of a high-grade starter underground mine.

Chucapaca in Peru, also a very significant discovery over the last five years. 8 million ounces of well-delineated resource. We have done a feasibility study on an open pit. It doesn't really give us the returns that we'd like. Together with our joint venture partner, Buenaventura, we are looking at the potential for a higher-grade but smaller volume underground operation. We expect to be able to report back on progress early next year.

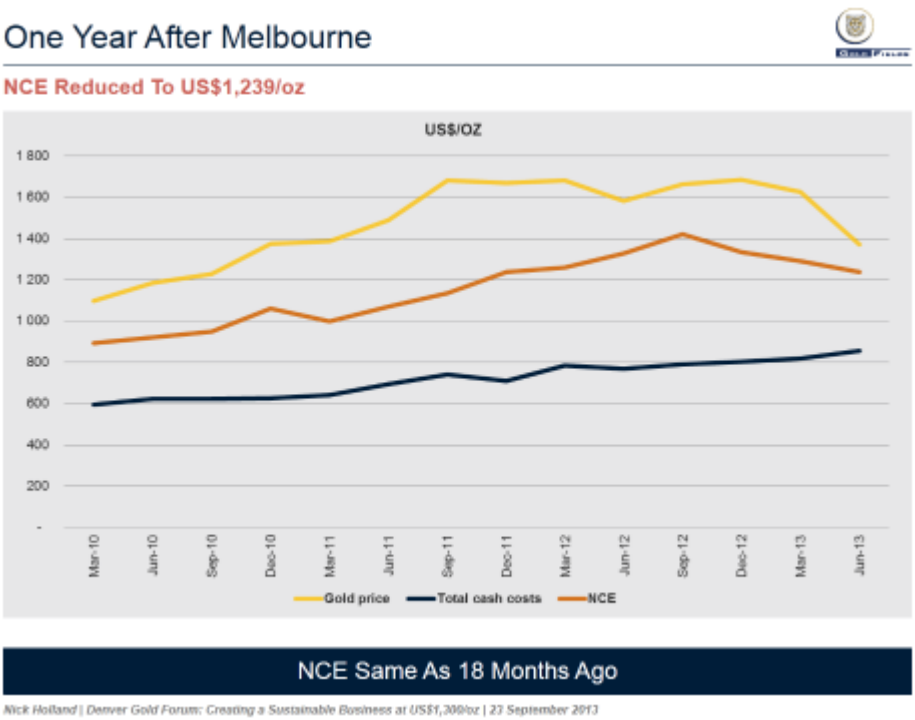
Yanfolila in Mali, we will make a decision on this million ounce resource of fairly good grade, about 2.5g, whether that fits the portfolio or not. But that could also potentially be on the block for sale by the end of the year.

So these project disposals to the extent that we are able to get reasonable proceeds, could be used to upgrade the portfolio, could be used for debt reduction or a combination of both.

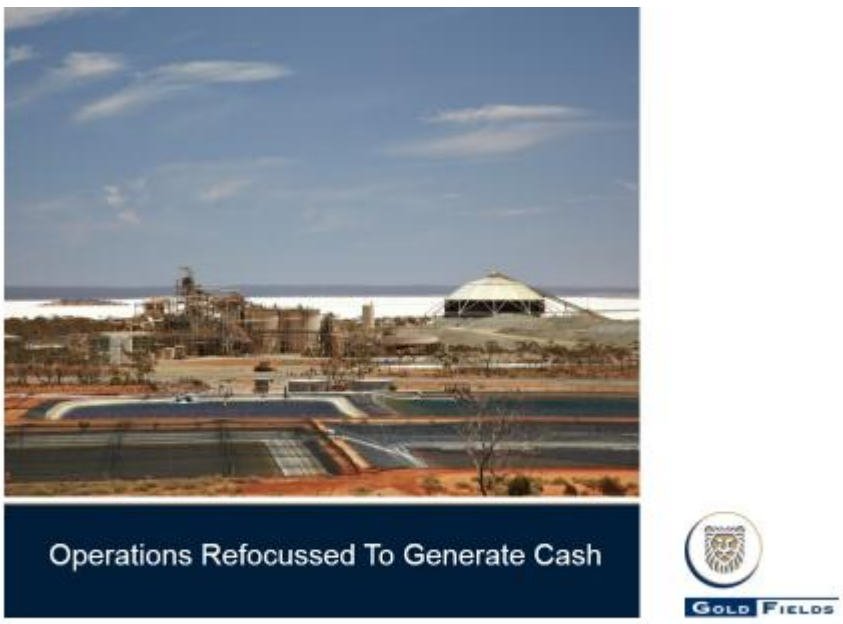


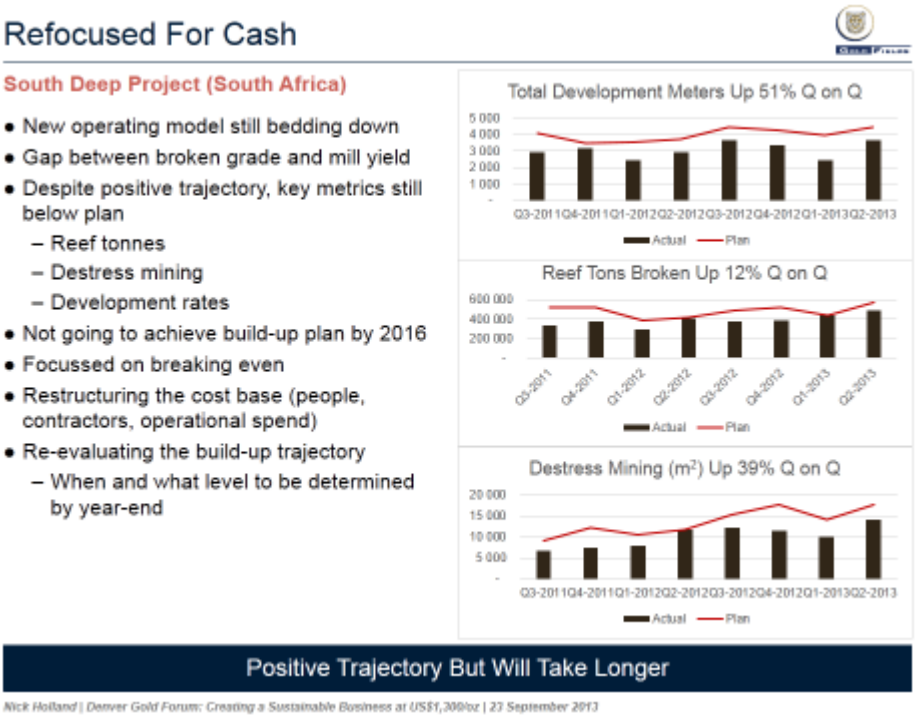

We are also looking at reducing our costs across our portfolio, if you look at our cost reductions now relative to where we started at the beginning of the year we have taken a further $230 million out of our cost. Some of you might say is that project deferrals or is that real savings.

A lot of it is real savings. Some of it is spreading capital over a longer period of time and just doing things smarter. And that is one of the key things that the industry needs to move towards. That has helped us to drop our NCE down to about $1,240.




You can see the benefit of our initiatives over here as you look at the NCE or notional cash expenditure line. That includes all of our costs and capital. That is starting to reduce so that we can try and recalibrate the portfolio to deal with $1,300 gold or even lower than that.






In terms of our operations South Deep remains a key growth asset in the group. It is good to see that we continue to improve the performance over time. We've seen reef tonnes go up significantly quarter on quarter but also year on year, 180,000 tonnes a month at the moment compared to 150,000 tonnes a month last year.

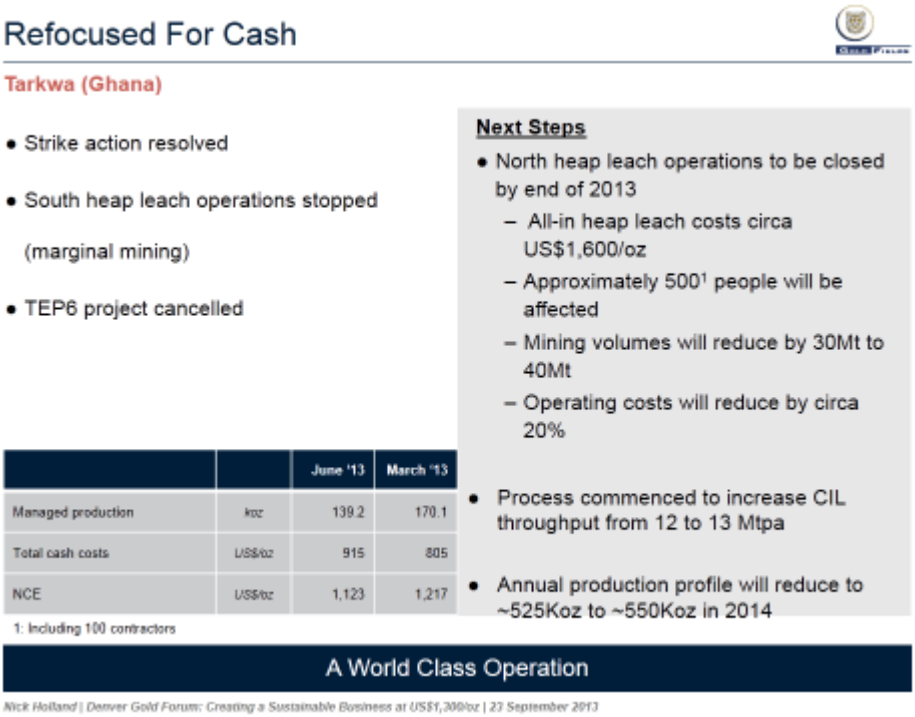
De-stress, which is the most important aspect because it opens up the ore body and provides the development for the open stoping, that is up significantly both quarter on quarter and also year on year.

So this project continues to build up nicely.

Regrettably it is taking longer than we would like. And at the current improvement rate we are seeing year on year we believe that the 2016 target of full production of 700,000 ounces a year – remember we are currently about 300,000 – it is likely that we are going to take longer to achieve that.

But at this stage I'm not seeing anything in the ore body that is telling me that we're not going to achieve the grades.

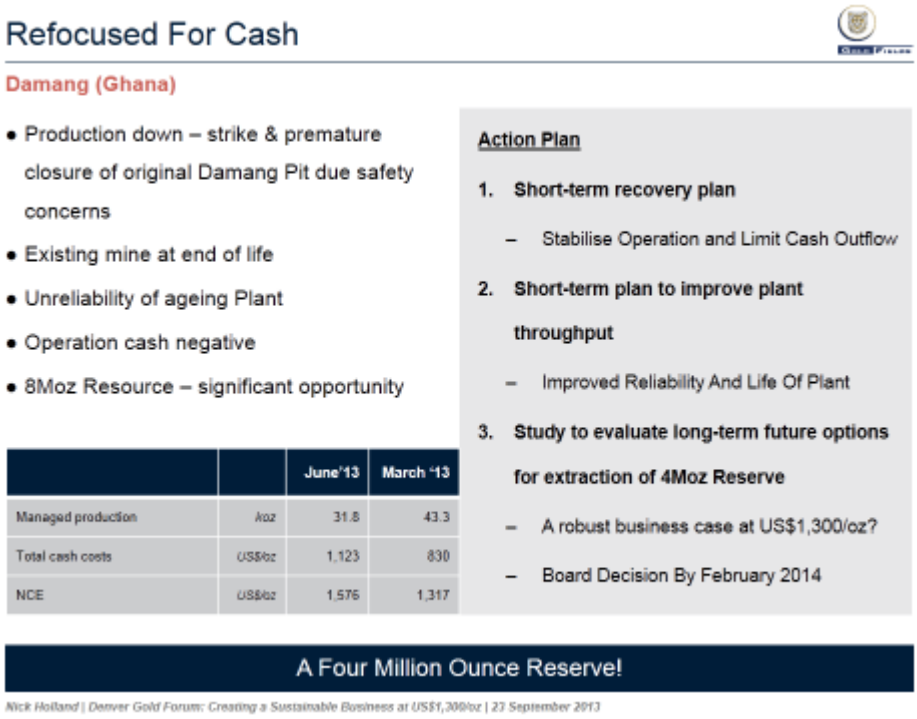
This is more a logistics issue as we deal with the increased throughput that we are getting from the face.




If we look at Tarkwa this continues to be a world-class operation with a 10 million ounce reserve. We've decided to shut down the heap leach operations, which to date have provided about 120,000 ounces a year of production, and to put everything through the CIL.

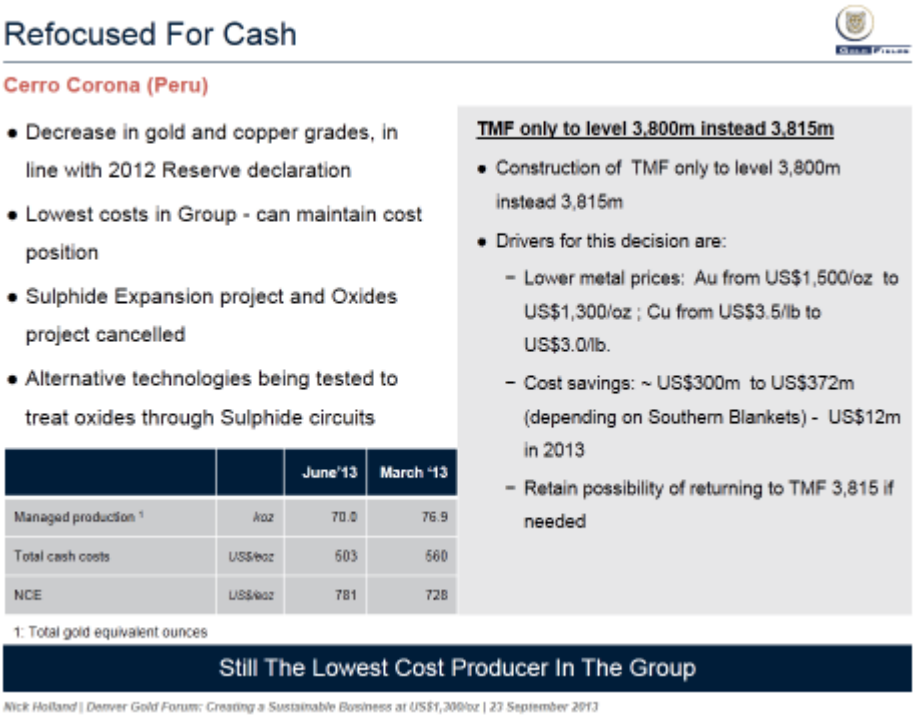
Regrettably the heap leach operations are losing money, and it makes no sense to continue mining and processing material through the heaps given the lower recoveries (circa 50%) that we are now getting if we can put the same material through the CIL.

We would rather actually pull back the mining and take all the material through the CIL plant which gives us 96% recoveries instead of 50% recoveries. I think this is a very logical business decision. In fact this will improve the total gold recovered over the life of the operation and I'm sure it will help us to reduce the costs as well.




If we look at Damang - this is a mine in transition. It has been a great mine for Gold Fields. We bought it for $30 million 11 years ago. And I think we have made many multiples of that back in terms of free cash flow. But the original pit now is at an end. We knew that this was coming. We started doing a lot of drilling about four of five years ago.

We have now delineated through 100,000 metres of drilling an 8 million ounce resource. And we are trying to figure out at this gold price what the extraction configuration needs to be to for us to make money out of Damang. In the meantime we are looking at a short-term recovery plan to stop the negative cash flows and we will make a decision on the optimal long-term profile in February of next year.



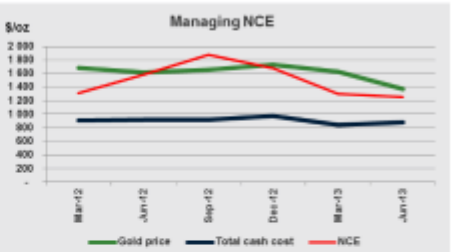

Cerro Corona in Peru continues to be a great acquisition and build for us over the last ten years. The way we are headed we should be able to recover our full capital expenditure by the end of next year. That would be around a five to six year payback on a 16 year operation. So there is much more cash flow still to come out of Cerro Corona.

Importantly we are also looking to rationalise the operation and make sure that we can improve the cash flow going forward. We have found ways for us to reduce capital by around $300 million over life. So this will continue to be a great mine.

## Refocused For Cash

**St Ives (Australia)**

- Fit-for-purpose, low-cost, operating model and structure is delivering results
- Further cost reductions and revenue enhancing measures under review
- Impairments of Reserves and asset base likely at year-end
- Significant exploration potential being realised
  - Cave Rocks extension successful
  - Newly discovered Invincible ore body has significant potential




| | | June '13 | March'13 |
|---|---|---|---|
| Managed production | koz | 97.7 | 102.0 |
| Total cash costs | US$/oz | 879 | 844 |
| NCE | US$/oz | 1,256 | 1,305 |

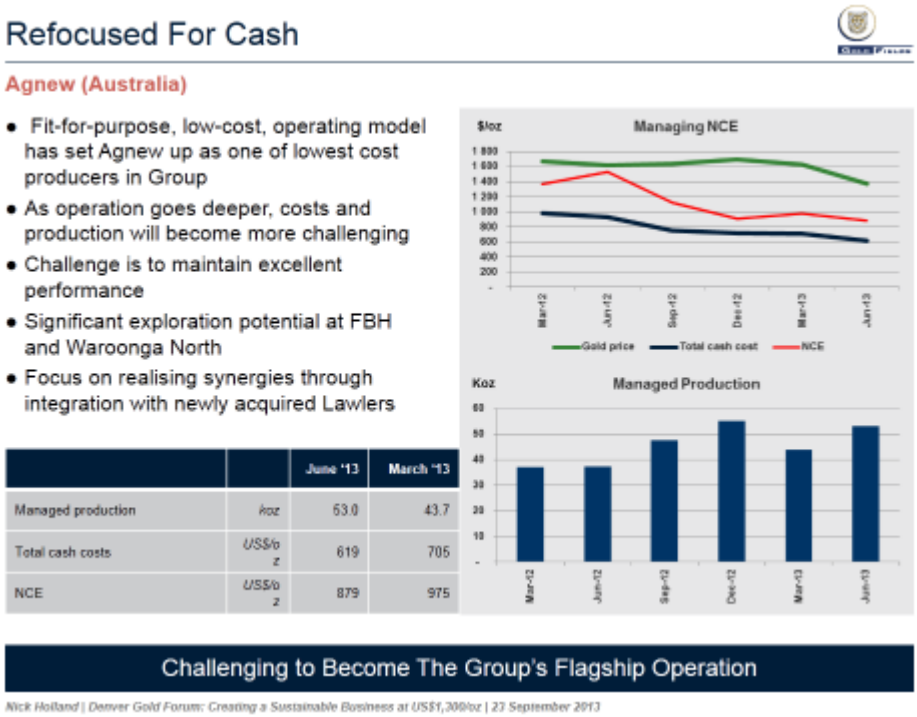
- Excellent cost performance to date
- NCE of US$1,250/oz needs to reduce further to US$1,100/oz to counteract power cost headwinds

**A Solid, Low Cost Operation**

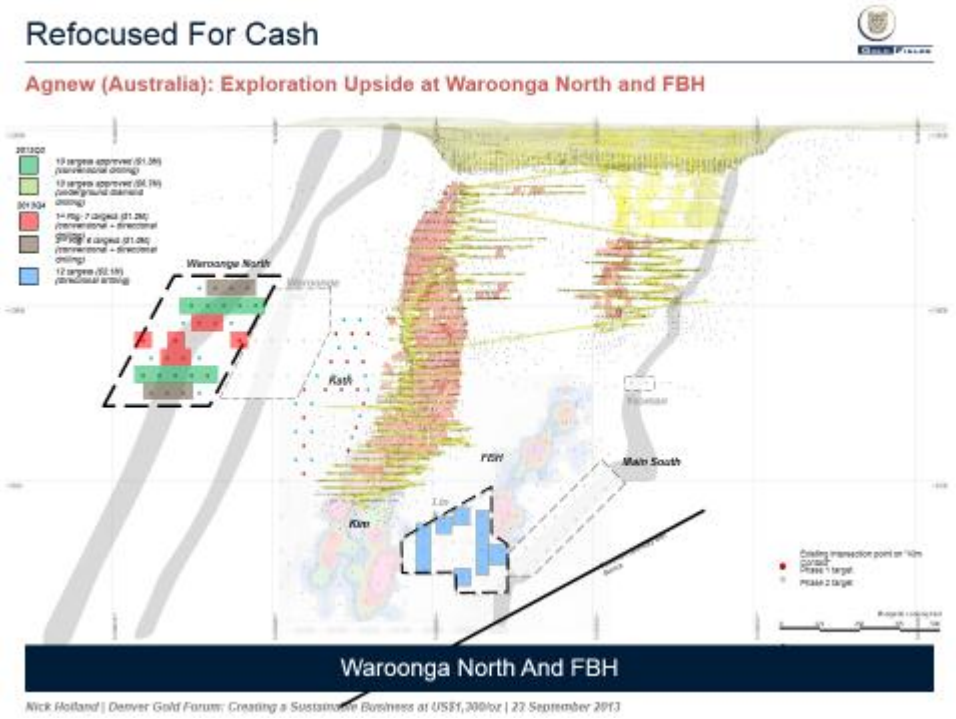
*Nick Holland | Denver Gold Forum: Creating a Sustainable Business at US$1,300/oz | 23 September 2013*

St Ives has gone through a major restructuring over the last year as we moved operations to owner mining, and as we looked for life extension of these good operations. And you can see the red line there, our costs have come down significantly and St Ives today is one of the best operations in the group and makes money at these prices.

Similarly if you look at the potential into the future, what is the new St Ives going to look like? We've got a very important discovery called Invincible, and I'm sure it will prove to be invincible over time. Around a 2km strike. We're seeing open pit grades here as high as 3g per ton. And we have the potential to explore further because it is open in all directions, both north and south and at depth. It is clearly something that will help to bolster St Ives into the future.




Agnew, as I've mentioned, has been a real turnaround in the sense that we've moved off the low-grade lodes in the Waroonga underground mine. We are now only mining the high grade Kim lode. We've moved away from Main and Raja. As a consequence of that we've seen an operation that has dropped its costs by $400 per ounce.




Some people might say is this a one-trick pony, we're going to do this for a year and then it's all over. No. we believe that we can keep going here for seven or eight years. That is just based on the reserve and resource. We are seeing the potential here for another Kim look-alike ore body in a parallel sheer zone about 500 metres away. We've done some drilling there. The grades look good. And also we're seeing an extension of the Kim lode alongside that called Kath, It looks like we can have a wider mineralised zone that we can mine. So a lot more to come at Agnew.

## Overview

### Salient Features

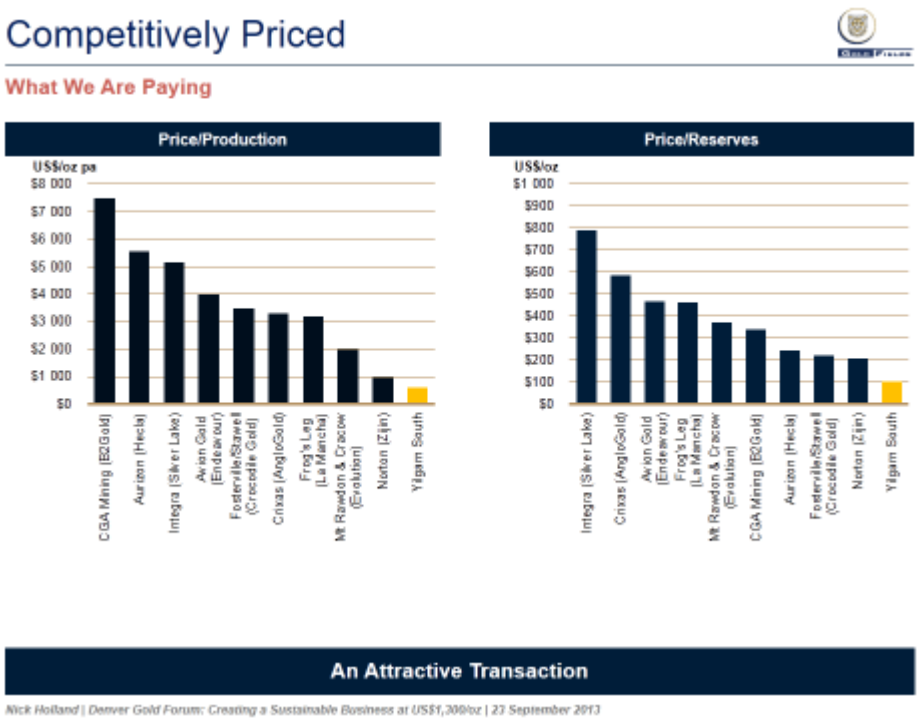
- **Binding agreement to acquire Barrick's Yilgarn South Assets**
  - Granny Smith, Darlot and Lawlers mines in Western Australia
- **US$300 million less ~US$30 million working capital adjustment at closing**
  - 2.6 Moz of Reserves[1] (US$104/reserve ounce)
  - 1.9 Moz of Resources[2] (US$60/resource ounce)
- **Cash consideration with election to pay half in shares**
- **Closure expected end of September 2013**

1: As per Barrick's 2012 40-F filing. Barrick have used US$1500 per ounce and an exchange rate of 1.00 $US/$Aus for their Yilgarn Reserves. Mineral Reserves are 36.7 Mt at 2.2 g/t for 2.6 Moz. This includes 1.1 Moz in the open pit at Granny Smith, which was not modelled by Gold Fields. The cost calculation is based on an acquisition price of US$300 million, excluding any possible downward working capital adjustments.
2: Barrick reports Mineral Resources exclusive of Mineral Reserves. Figures as per Barrick's 2012 Annual Financial Report and 40-F filing. Mineral Resources are 11.7 Mt at 5.0 g/t for 1.9 Moz. Taking account of the Barrick reporting protocol, a view on the Resource and Reserve positions of the Yilgarn

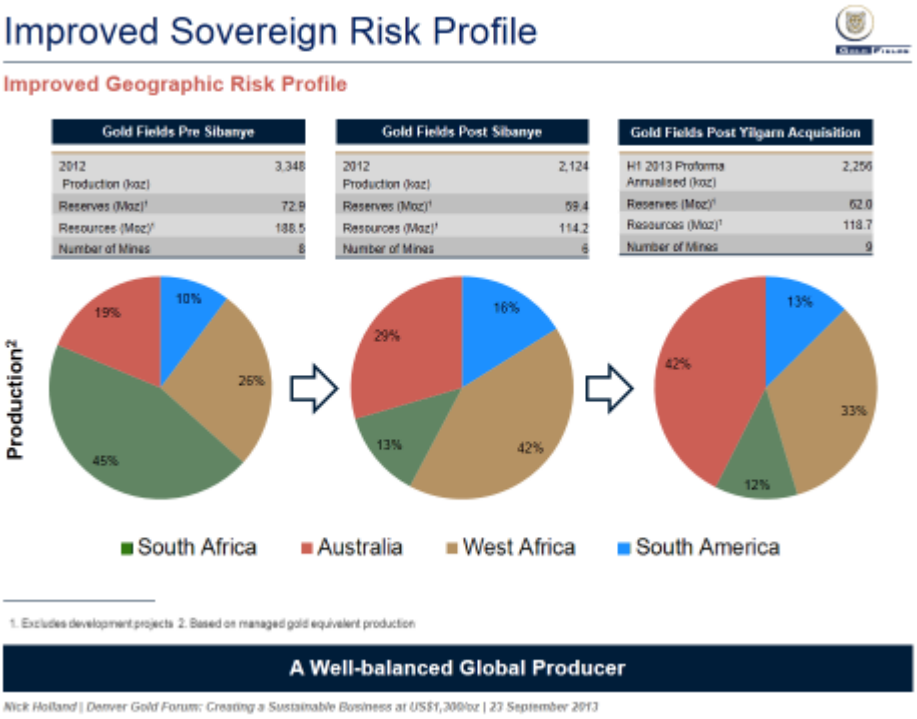


Just spending a couple of minutes on the deal we announced not so long ago to acquire Barrick's Yilgam assets in western Australia. Three mines are going to cost us about $270 million net.

What are we buying? We're buying about 400,000 ounces of production, reserves and resources together of about 4.5 million ounces. And it is in our own back yard where we operate. A lot of synergies, particularly as Agnew and Lawlers are contiguous, and the fact that we've been able through St Ives and Agnew to significantly extend the lives of those operations.

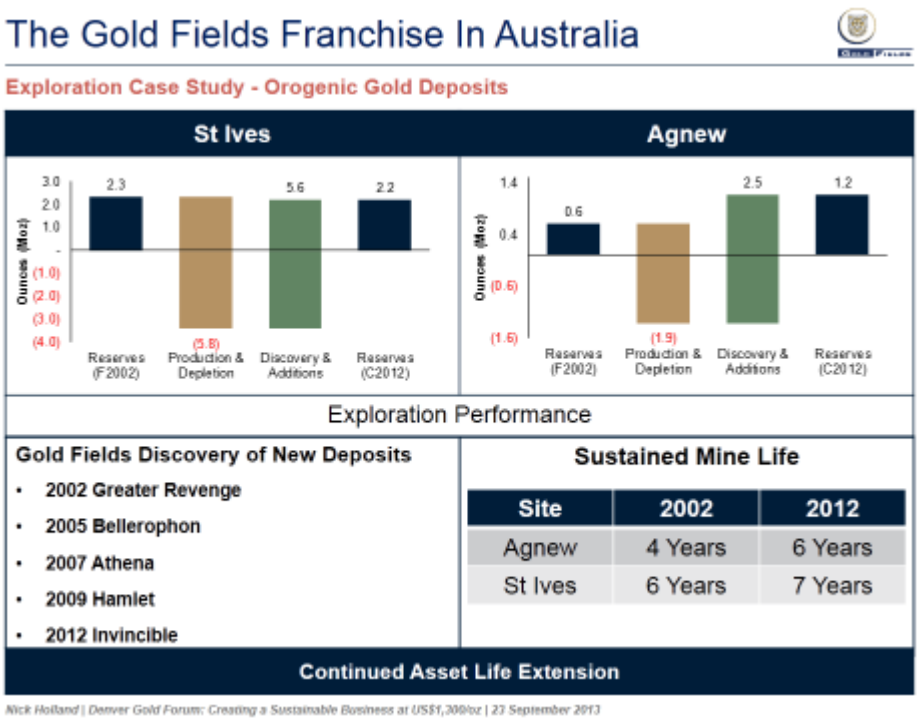



We are paying about $100 per reserve ounce. That is pretty cheap.




We are seeing a significant change in the portfolio. In fact, if I go back five and a half years when I became CEO we had about 68% of our production out of South Africa and we were considered by and large a South African company. We then did the Sibanye split, and now with the acquisition we're finalising we truly are a global company. South African production now is about 12% of the portfolio. All other things being equal that will get up to about 20% as South Deep ramps up.

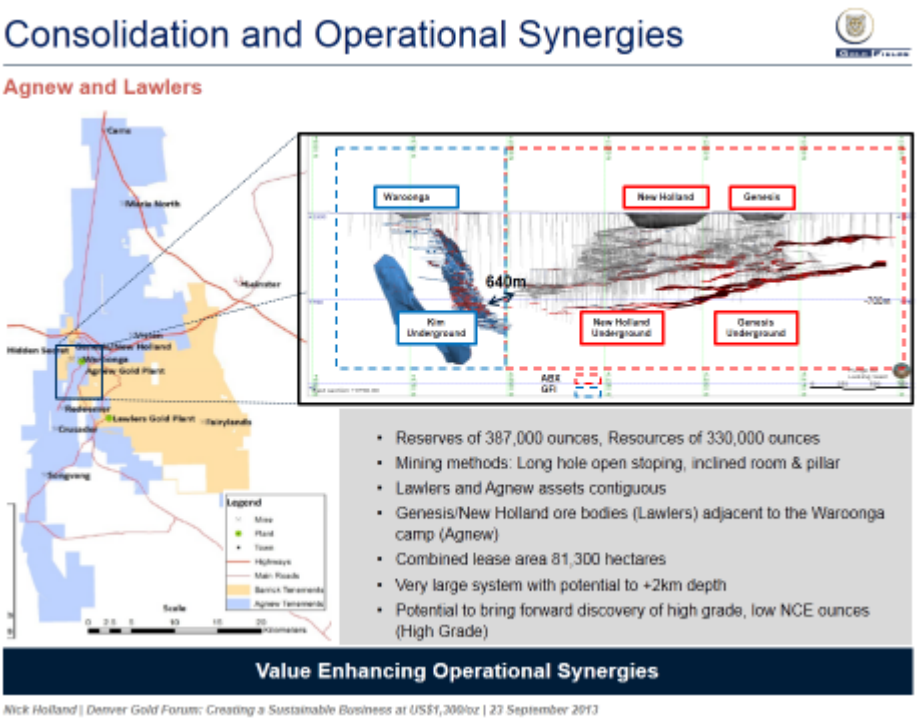
Today the company is fundamentally different and globally diversified.



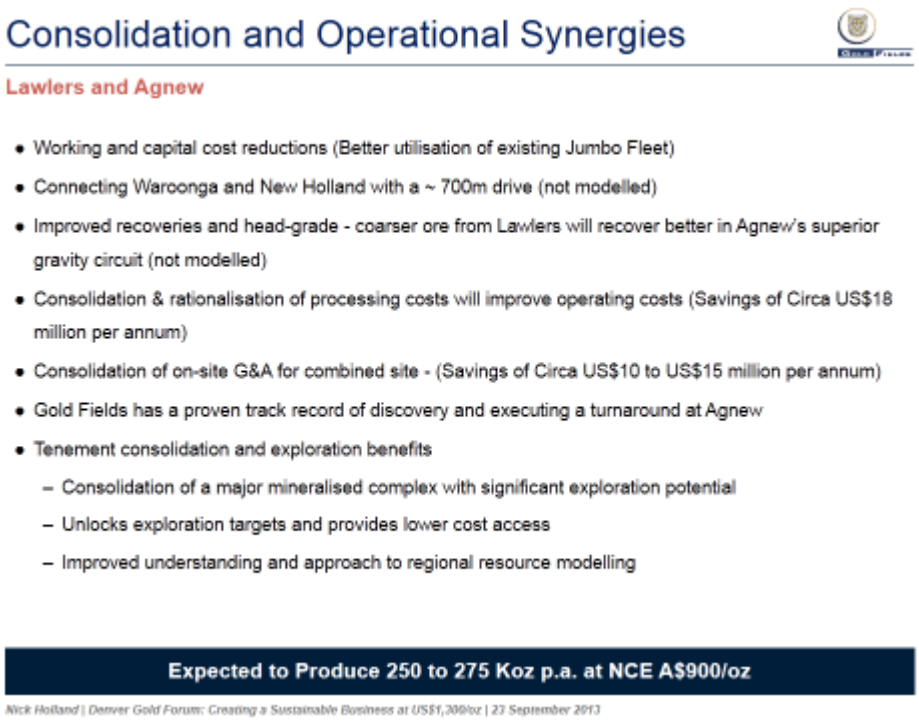

This is what we have achieved at St Ives and Agnew over the 11 years that we've owned these operations.

We have mined 8 million ounces and we still have a reserve that is even more than we had when we started. It gives you an idea of the way that you can continue to extend the lives of these orogenic-style ore bodies. The trick to look for is if every year you can put back into reserves what you've mined, you've got a good operation with longevity.

We believe this knowledge and experience can be applied at the new assets.




Here are the synergies between Agnew and Lawlers. Essentially the ore bodies are 600 metres apart. I'm sure in time we will do a link drive joining them up, and that will allow us to optimise ventilation requirements and underground equipment. And of course we think the ore bodies extend. There is lots of unexplored terrain, about 81,000 hectares, between the two operations, and immediately we can rationalise the processing infrastructure.




We could close down the Lawlers plant and put all of their material through our own plant. That would drop our processing cost by about $15 per ton. We can rationalise the combined G&A, which is about $40 million. So straight away we can realise a lot of synergies even before we look at the greater opportunities of the combined mined, which coalesce at depth we believe.

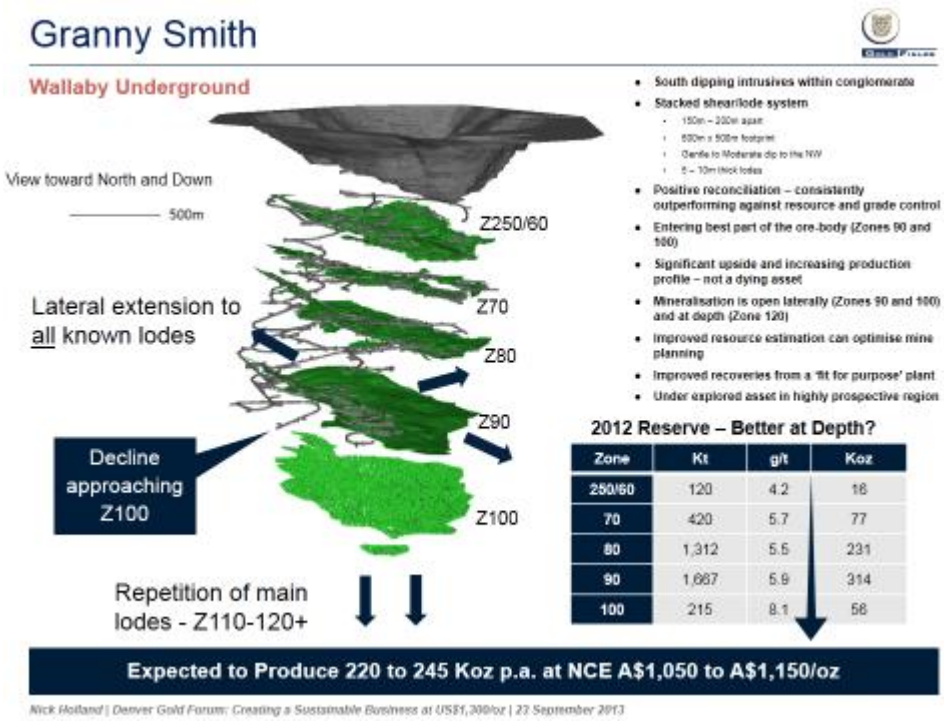
## Granny Smith

### Location

- Reserves of 1.9 Moz, Resources of 1.3 Moz
- Mining methods: Long hole open stoping and inclined room & pillar
- 400km north of Kalgoorlie
- Wallaby underground is only active mine
- Granny Smith mill is located 11km northeast of Wallaby Underground
- Total production from Granny Smith Project - ~6.2Moz

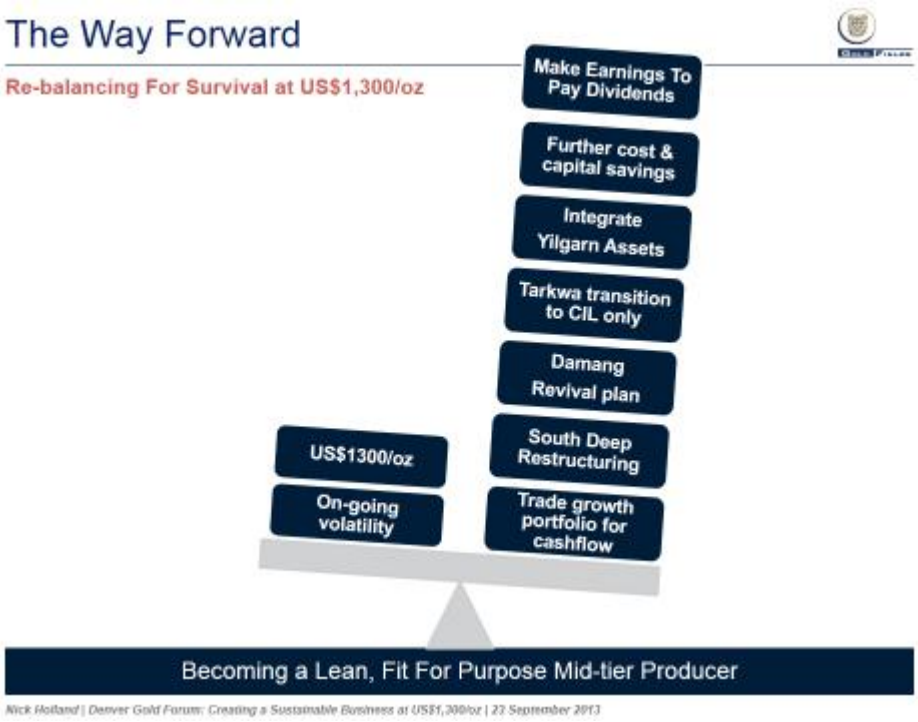


Also Granny Smith is a very good operation that we're very excited about. Why are we excited?




We are seeing here the key mine - Wallaby underground which is an intrusive with a number of stacked, gently-dripping lodes about 100 metres to 150 metres apart. They continue at depth. And one of the things you can see in the bottom-right table is an indication of what the grades are doing at depth. We are seeing two things. One, the mineralised zones are getting wider, and secondly the grades are getting better. So a lot of good ahead of us at Granny Smith.

## Conclusions




So in wrapping up, what has Gold Fields done? We are very focussed on cash flow, because unless we can generate cash at $1,300 I don't think growth is going to be a reality for the company.

We continue to be one of the best dividend payers in the industry. Look at our record over the last four to five years. And we reaffirm our commitment to paying 25% to 30% of our earnings as dividends.

We believe there is further optimisation we can make in the portfolio. This is very much a work in progress to make sure that we can generate cash.

One of the key steps going forward is to integrate the Yilgam assets into our portfolio. That will make us a million ounce producer in western Australia at a time when I think mining is coming more in favour with the country and the government.

We have to fix our operation in Ghana, being Damang. We have to make sure that Tarkwa, being a 10 million ounce reserve, continues to be a world-class deposit.

South Deep will continue its upward trajectory, and that's one of the key objectives of our team.

With that I want to thank you for your attention today.

QUESTIONS

Investor Relations Contact

**Willie Jacobsz**
Senior Vice President
Head of Investor Relations &
Corporate Affairs
Office: +27-11-562-9775
Mobile: +27-(0)82-971-9238
Willie.jacobsz@goldfields.co.za

www.goldfields.co.za