



GOLD FIELDS



Speaker

Narrative

Nick Holland

Thank you very much and good afternoon everyone, or good morning depending on where you might be in the world today. I hope you've had a chance to see the press release that we put out a few hours ago regarding events at South Deep. What I will do is I will summarise the content of that press release.

I have with me Willie Jacobsz, Head of Investor Relations, I have Paul Schmidt, our CFO, I also have Taryn Harmse, our Group General Counsel. So welcome to the call today.

First of all, we've had two fatalities at South Deep on the 17th May and the 27th May. That is very unfortunate because we had gone about 13 months without any fatalities. So this is obviously of concern to us. As a consequence of those two fatalities, which took place at or just outside the workshops, we've had a review by the Inspectorate of Mines.

And they have issued a stoppage order, which is typically called a Section 54 order, whereby they have told us to cease operations in the workshops underground. The workshops are used to essentially maintain and service all of our underground fleet, our trucks, our loaders and our rigs that we use in the mechanised mining process.

That effectively means that mining operations have virtually come to a standstill because those workshops are integral to the mining model. We hope to be able to give a response to the Department of Minerals within the next few days, and we are hopeful therefore that all of the remedial action that we need to take would have been done, explained to the Department of Mineral Resources here in South Africa, and production resumed. But I can't guarantee you exactly when that is going to be.

Part of the process on our side is not just to comply with the DMR instructions, but it is also to put all of the necessary processes and procedures in place to make safe at the operations, to re-evaluate all of the controls, policies, procedures and compliance in the workshops to make sure that our equipment underground is also made safe.

One of the fatalities happened when a dump truck reversed over a contractor. So we're looking at all of the fleet and making sure that all of the necessary safety devices are checked. Where they are not operational, the fleet has been parked up until those controls have been put in place, and they will only be re-commissioned once that is all working to the satisfaction of the senior management on the mine.

The other thing we are doing is going to all of our workshops and re-checking and re-testing all of the procedures. I must say that these two fatalities are almost counter-intuitive in the sense that they've come at a time when we've been doing a lot of work to improve the working conditions underground, to improve the standards of work generally. We've done a lot of work also to improve the condition of our workshops. So it's disappointing that this has happened at a time when we have spent a lot of time and effort on those



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workshops.

As I say, the best case scenario is that we hope to be back into operation maybe early next week. In the worst case scenario it is going to take a little longer. Our estimate at the moment is that these two facilities will cost us in the order of around 10,000 ounces of gold. And we believe that by the time we're finished with this process and all the other interventions as well as taking time to get back to normal operations, it will cost us around 15,000 to 16,000 ounces of deferred production.

So that's the first thing that is set out in the press release. The second thing is that - as most of you know who have been following Gold Fields - we have introduced a new management team onto the operation in the middle of January and early February. That team has come from Australia, around about 15 people at different levels in the organisation from rig operators to blast and drill specialists as well as maintenance specialists.

Part of their mandate from is to help us to address the skills deficit that exists on the operation. That is something I have alluded to both in the annual report and in previous quarterly books and also on conference calls. One of the things that we believe is an impediment to South Deep making the progress that it should have made to date is the lack of skills across the mine, a lack of mechanised skills and too much of a conventional mining mindset.

So that is why we brought in the specialists from Australia, who have been doing this kind of mining for 40 or 50 years, whereas in South Africa we have pockets of excellence, but not a wide range of models that we can look at. That is one of the reasons we brought them in - to really help train up our people and transfer skills and knowledge. Ultimately we want our locals over here to be able to run the operation.

Part of that process is to obviously look at all of the current working practises across the mine. And in the process of that safety is a consideration. One of the things they have raised is the backlog of ground support in our various haulages and ramps. It is something we have known about for quite some time. And we have a programme in place to address those ground support issues and put in the necessary ground support that will make sure that these haulages and ramps will be sustainable over the life of mine. That programme has been ongoing for a couple of years.

However, what has only very recently come to light is the fact that in some of those areas the ground support issues are much more acute than what we had understood them to be. And in fact in some cases we believe that it is not safe for people to transverse through these ramps as they go to the workings. And you will find that if you visit the operation you will see that these ramps are used extensively by people to go to the working place.

I personally got underground and visited most of the areas last week, and the conclusion that I've reached is that actually we can't fix these areas concurrently with mining, which is what we have been trying to do over the last couple of years. In fact, the conclusion we've reached is that we should



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stop and fix these, which means it has an immediate impact on production. That has been discussed and agreed with the mine management and the regional management in South Africa, and it has also been shared and endorsed by the Board of Gold Fields as recently as last night.

So we've taken the steps to shut these areas down and to remedy the areas as a matter of urgency. And we have indicated it is going to take between three and four months to do that. The obvious question that people will ask is why it wasn't detected earlier. Our view is that it's likely that the skills deficit that we've talked about, particularly underground where the work is done, may have contributed. In fact, it is more likely a significant contributor to this issue, hence the need for us to accelerate the skills transfer and re-training of people in all facets of mechanised mining, of which installation of ground support is only one of a number of components.

And certainly on the current support we're doing, we're taking steps to make sure that it is done correctly and in line with international best practise from the word-go. So this has come to the fore. We believe we've got to deal with it expeditiously. Safety is the number one value in Gold Fields. You've heard me say many times over the years that if we cannot mine safely we won't mine at all. And this is an example of that. We need to stop and fix, and it is going to take us three or four months to do that.

So this is going to have an impact on production of about 48,000 ounces for the year. It's not a loss of ounces. We don't sterilise those ounces. We believe we should be able to get most of it, if not all of these areas, back into next year's production plan. So it's a function of fixing these areas and then making sure that we send the right message down to our workforce and to all of our stakeholders that safety is the number one priority.

I think the silver lining in this – you may find it's difficult to find one – is that this will help us to set up the proper base. This will help us to make sure that we get the right practises in place at an early stage. When you issue a stop and fix instruction like this, which has really come down from high in the company, I think you will get people to take it extremely seriously so that safety really is not compromised in any way.

So that is where we stand on that. We don't think this is going to impact our overall group guidance for the year. We are still sticking to 2.2 million ounces. The reason for that is we're doing particularly well and better than guidance at Granny Smith in Australia, Cerro Corona in Peru and Tarkwa in Ghana. We believe that the improvements there are going to offset the impact of the loss of production, albeit a temporary loss, from South Deep. That's the second issue we wanted to flag.

The third issue is that a new team has come into place at South Deep from the beginning of the year, which includes a new General Manager and a new Mine Executive, replacing around about five senior managers on the operation. Part of their mandate is to look at how best to position South Deep for the future. They have spent a lot of time looking at the entire mining cycle underground. They have looked at the resources we have relative to what you



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<p>Andrew Byrne, Barclays</p> <p>Nick Holland</p>	<p>would find on other operations.</p> <p>The overall conclusion that they have reached is that we are over-capitalised in terms of equipment. In other words, we've got too much fleet. And as a consequence we've probably got too many people resources as well. And even at full production down the road, which we still believe we can achieve by the end of 2017 – full production of 650,000 ounces to 700,000 ounces – we've got more than what we need.</p> <p>We need to decongest the mine to actually move forward. That will help us to get much more productive arrangements in place. So we have started a dialogue, an engagement, with the unions on the mine to work out how best to reposition Gold Fields for the future, so that we can actually harness the significant inherent value that this ore body has. We need to work out something that is agreeable to all stakeholders.</p> <p>That process has commenced some weeks ago. I can't tell you exactly when and if we're going to reach agreement on what we need to do. But there is a full-time task team working behind the scenes as we speak to try and come up with solutions. We will keep you updated as we go. But that in essence summarises the three key messages in the press release of this morning.</p> <p>So I think with that we will open this up for questions and either myself or my colleagues will deal with those questions and answer them for you.</p> <p>A question just around what is driving the four month closure. Obviously the immediate concern is the safety element and fixing those ramps. But then if you were to only be focussing on that element how long would that take to fix? Is it the full four months or could you expedite that process if that is all you are focussing on? Is the formal closure more a case of building skills or is it driven by safety?</p> <p>Let me recap what I said. There is around 1,000 linear metres of really critical ground support that has to be fixed. And that is over four ramps on the mine. Those four ramps are interspersed between the different mining corridors. So we are going to fix these bit by bit and we're going to prioritise the higher grade areas that we have lost for the moment. And we would hope to have one of the corridors back to full production within a week or so, and then move onto the other corridor, fix that and move on.</p> <p>And at the same time let's not forget the fatalities. Assuming that the DMR is satisfied with our response on the fatalities they will lift the Section 54 and we can resume normal operations in all of the workshops and we can get going with production in the areas that are not affected by the support issues in the ramps. We will then incrementally deal with all of the support issues in the ramps. So it wouldn't be that there is a complete loss of production in those areas for four months. We will bring back these areas back step-by-step and incrementally. And we will try and do it quicker as well.</p> <p>But you do remind me of something that is important to mention. It's two things. One is that we're using this opportunity to take as many people out the</p>



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<p>Darren Mader, HSBC</p> <p>Nick Holland</p>	<p>mine as possible for refresher training on all of the key issues around the mining cycle. We are doing that as we speak. And secondly, we are not losing focus on all of the residual capital projects that are necessary for the build-up. The residual capital projects that are left are the ore passes that we've talked about, the crushers in 105 and 100 level, the silos that are being put in place in the new mine development, and of course all of the conveyer belt systems. Thos capital projects continue, so they won't be impacted by this.</p> <p>Obviously mine development in the new mine, we want to get back as well and get that to full speed, particularly as we've now taken that over from the previous contractor who worked there. So those things will continue. We will use the opportunity for training as much as we can. And we will bring back the affected areas piece-meal as we fix them. Hopefully that clarifies it.</p> <p>I would just like to ask two questions please. The first one is relating to the nature of the accident, being workshop related, as well as some of your comments on the lack of skills being a contributing factor to the safety and the support issue that you've raised. Just in terms of the actual development plan for South Deep, the new underground workshop as well as new training centre and progression of skills and training, do you think these were a priority at the time? And if not, why weren't these areas prioritised? And on the second question, is there any detail around the restructuring in terms of how over-complemented you feel you are?</p> <p>Let me deal with the workshop. The new workshop on 93 level is a high priority. And that has already been fully blasted out. We are in the process of doing all of the groundwork on the areas and the equipping. Our target is still to get that into operation by March of next year. That is certainly going to make a big difference in terms of being able to split out all of the different activities in the workshops that we want to do, because we will have the space to do it.</p> <p>In terms of training, on the mine visit in February we did take people through the training centre. We've got simulators on surface which can show you what it is like to be in some of the big gear on a simulated basis. We've got a mock underground set-up on surface so that people can feel what it's like if they are operating equipment in a confined space underground. So all of those facilities have been put in place.</p> <p>But I think we need to step up the resourcing in those training facilities to make sure that the training is tailored and is relevant. And we have brought out an expert in mechanised mining training from Australia, who has been on the ground now for four weeks, who is going to look at all of the facilities we've got, make sure that they are tailored to be fit for purpose and relevant to the underground training that we need.</p> <p>And the second step is that we're going to step up the on-the-job mentoring and coaching. We are expecting to get some more Australians coming out by the end of June. Again they are going to be across all the different disciplines, rig operators, drill and blast specialists, maintenance specialists, so that we can do a lot more on-the-job training as well. That we see as the big</p>
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<p>Kevin Crowley, Bloomberg</p> <p>Nick Holland</p> <p>Arnold Graan, CIBC</p>	<p>ingredient for success here. We've got to up the skills levels across the mine.</p> <p>And the external reviews that we had done late last year indicated to us that the ore body is good. The infrastructure we've put in place is world-class. The shaft system, the backfill plant etc. The long-term plan is sound. It is the execution where we're falling down, and that is linked to the skills. So yes, a big focus over the balance of this year is to step up the work on training and skilling, but on the job as well, not just the theoretical training on surface.</p> <p>The last question you had is on the restructuring. I can't give you any definitive details at this stage because we are engaging with the unions. It is clear that we've got too much fleet, so one of the things we will be doing is bringing fleet out from underground and parking that up on the surface. That will help us to defray further expenditure in the future because now we can park up fleet and use that to replace stuff that is on the ground. So that is going to help us to defray expenses.</p> <p>I think the more challenging engagement is going to be how we deal with the people issues. It is at a sensitive stage. We are in a dialogue with the unions. So I can't tell you when it will be or what the outcome will be. But we will certainly update you as we get more information.</p> <p>You detailed that one of the casualties was a dump truck driving over a contractor. Could you tell us details of the other fatality. I also just wanted to be clear on the ramps you talked about. These are the pathways that allow the miners, the equipment and the rigs to actually get to the ore bodies. Is that correct?</p> <p>Yes, these are the ramps that link the people going from the waiting places underground, which is where they initially arrive in the trackless area, to get to either the de-stress projects or the drifts and bench mining areas, the open stopes. These are areas that are used by a fair degree of traffic. So it is very important that these areas are put to a level of safety that is in line with international practise. So that is really the key ingredient here and why we think we should actually stop and fix it, and put the right controls and safety levels in place that you would normally see on an Australian mine underground or a Canadian mine underground.</p> <p>In terms of your question on the other fatality. This was in a workshop where a 282 jumbo drill rig boom was being lowered to service one of the hydraulic cylinders in the boom. And as it was lowered we have to release some of the oil pressure in the boom, because it is a hydraulic operated boom. As it came down the boom moved outwards as well as coming down. And unfortunately another employee was walking past and he got struck by the boom as it came out sideways. So that was a very unfortunate accident. We have never had these kinds of accidents before. It is unique to South Deep to have these kinds of accidents. And it is counter-intuitive as well to all of the work that the team has been doing underground to improve conditions.</p> <p>I'm not sure whether you will be able to answer my question given what you told Darren before. But do you have any sense of the cost implications of</p>
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<p>Nick Holland</p>	<p>right-sizing the labour component? Obviously you are still going through those discussions, but you must have some handle of what the potential cost implications are. And I guess, following on from that, do you have a sense of when South Deep could be cash flow positive, assuming the current gold price?</p> <p>Sure. I really don't think I can tell you more than what I told Darren already. We need to actually work out the optimal solution in terms of appropriate resourcing. Remember we've got contractors as well on the mine. We've got our own employees. What is the right solution taking all of that into account? There are potentially a number of variations. We are engaging at this stage, so it would be difficult to comment on that.</p> <p>We said earlier that we thought that South Deep could be cash neutral by the end of this year or the first half of next year. I still think that that's possible. I think this is a short-term problem. We said four months. We will try and do it earlier. I think four months is reasonable. And already the team is mobilised and we've got a high prioritisation of this. We are putting in as many people as we can to address this issue, obviously doing it safely.</p>
<p>Jana Marais, Sunday Times</p>	<p>I wondered if you could give us an idea of the number of employees and contractors at South Deep at the moment. And also, could you just give us some information on the second team of Australian experts that is coming in? Are they expected at the end of June? Just how many, and can you give us an idea of how much you're spending on these training guys coming in to help out, including the ones that are already here?</p>
<p>Nick Holland</p>	<p>We've got 4,000 employees and we've got 1,700 to 1,800 contractors. We haven't finalised the details of the actual numbers of Australians who are coming. We hope to get them within the next month or so. And I don't have the costs of these people to hand. Essentially they are employees as well. They are included in the overall payroll cost.</p>
<p>Nick Holland</p>	<p>In conclusion what I would like to say in case anyone hasn't got the strong message is that safety is the number one priority in Gold Fields and at South Deep. And these fatalities are obviously very disappointing. But at the same time we need to make sure that we take all the right steps to remediate the areas underground, learn from these and come out of this stronger.</p> <p>And the other message is that in the past we've shut down infrastructure in Gold Fields when we weren't satisfied from a safety perspective. In fact, over six years ago we shut down Kloof main shaft when we weren't satisfied with the condition of the shaft in terms of steelwork that was corroded over time.</p> <p>So we are not afraid to take the necessary steps. We shut that shaft down for seven months. Here we are actually shutting down a proportion of our production for around about three to four months, but as I said earlier we hope to bring it back incrementally quicker so you won't see the effect of the full four months on all of the four ramps.</p> <p>I think this is a very important message to send that safety is the top priority</p>



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	and we won't compromise safety with anything else. I think we will come out of this stronger. And the investment attraction of South Deep and all the work we're doing - we still believe in this project. Thank you for your time

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