



GOLD FIELDS

Gold Fields
Q1F2008 Conference Call Transcript
25/10/2007



Speaker

Narrative

Operator

Good afternoon and welcome to the Gold Fields quarterly results conference call. All participants are in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference then please signal an operator by pressing star and then zero. If you need to ask a question please press star and then one to join the queue at any time. Please also note that this conference is being recorded. I would now like to turn the conference over to Nerina Bodasing. Please go ahead.

Nerina Bodasing

Good afternoon everyone and welcome to this Gold Fields Q1 F2008 results teleconference call. In the room today I have Ian Cockerill our Chief Executive Officer, Nick Holland our Chief Financial Officer, Terrence Goodlace the head of South African operations and Glen Baldwin our head of international operations. Ian Cockerill is going to start the conference call with an overview of the results and then we will follow on with questions and answers. I hand over to Ian.

Ian Cockerill

Nerina thank you very much. Good morning or good afternoon everybody and thank you for joining me and the team here today so that we can discuss the first quarter's results for the fiscal year 2008. As I mentioned in some of the previous result presentations, Gold Fields is certainly in a period of consolidation and our activities over the past quarter clearly demonstrate that fact.

Gold Fields has delivered a consistent operation performance by maintaining its attributable gold production above the 1 million ounce mark, while continuing to focus on cost control in the face of significant wage increases and ongoing cost pressures, particularly at our international operations.

Production at our South African operations increased from 685 000 ounces to 689 000, while attributable production at the international operations dropped from 330 000 ounces to 312 000 ounces, giving us an aggregate total of more than 1 million ounces of production.

If one looks at some of the key figures of the quarter, our operating profit was \$244 million with normalised earnings of \$56 million.

Total cash costs were up by 7% to \$435 per ounce. And that was due to increased labour costs in South Africa as well as the impact of lower production coming through from St Ives and Tarkwa. Performance on those two assets is certainly anticipated to improve over the next few quarters, which I believe will have a positive impact on costs.

Also during this last quarter agreements were reached for the sale of our stakes in Essakane and Choco 10 for \$210 million and an indicative \$532 million respectively. And Cerro Corona is certainly on track for production of concentrate during the March 2008 quarter.



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Looking more specifically at production, overall attributable production was 1001 000 ounces at \$435 an ounce, with all of our South African operations, with the exception of Beatrix, delivering a very creditable performance. South African production rose by 1% on the back of an unchanged production at Driefontein of 260 400 ounces. Production at Kloof increased by 3% to 235 300 ounces, and that was on the back of an increase in underground tonnage which was partially offset by slightly lower yield. Production at Beatrix did drop to 119 200 ounces, and that was due to lower yields. Principally we did some work during the quarter and we certainly found that excessive fragmentation of the ore was leading to a loss of gold in the working places. We have changes explosives. We are looking at far larger chunks in fragmentation, and this does seem to be having a positive impact on yields. Production at South Deep pleasingly increased by 7% to 74 300 ounces, and that was the result of an increase in underground yield.

At the international operations the attributable production dropped by 5% to 312 000 ounces. Now as we guided the market in previous quarters, production at St Ives was going to drop, and in fact came in on line with our guidance. And that was due to the depletion of the higher grade pits and awaiting the build-up from the underground Cave Rocks as well as Belleisle. I must say its pleasing to report that progress to a return to normal levels is very much on track and certainly in the upcoming quarter we should see a much improved performance from St Ives. Production at Agnew was down slightly by 5%, and that was due to lower yields at Songvang. Disappointingly production at Tarkwa was down 10%. That was due to lower processing volumes which is really a result of excessive rains during the quarter which reduced the availability of competent material to run our mill effectively. Certainly Tarkwa has experienced rainfall levels which are more than 50% higher than the 50 year rainfall averages. In fact rainfall at Tarkwa is more than double the annual averages. And in fact we've had just less than 3m of rain. This excessive rain which comes in a very short period of time has meant that our ability to get our trucks into the pits such as Teberebi has been a little difficult. So we've had to mill more surface, low-grade material. However, once again although it's still raining in Ghana we are seeing a return to more normal production levels, and you will see that coming through in the December quarter. Pleasingly Damang improved production by 21%. That was due to higher yields from an increase in high grade ore which came from the Damang pit cutback. And production at Choco 10 saw a reversion to more normal operating conditions with the advent of decent rainfall there. And we doubled production at Choco to 15 700 ounces.

Overall cash expenditure for the quarter rose by 3% to \$478 million, of which \$298 million was spent in South Africa, which represents a 4% increase. This is really all due to the labour cost increases which came through from the recent wage negotiations. On the international side costs were at \$179 million, largely influenced by GIP movements at several of the operations.

As I said previously the operating profit was \$244 million. Our operating



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margin for the group dropped slightly to 34%. We dropped 1% in South Africa to the 36% margin, and the margin at our international operations is now running at 29%.

Moving on to a topic which I think is relevant and that is safety. Certainly we regret to report that whilst the group fatality rate dropped to one of its lowest levels it is still at an unacceptably high level. We clearly have much work to do if we are to achieve our goals of zero harm. The fatal injury frequency rates for the September quarter was 0.17 million man-hours, which was a big improvement on the previous quarters of 0.26. However, in light of recent incidents relating to safety within the local mining industry, the management at Gold Fields want to reiterate it's commitment to its policy of zero harm through improving the training of its employees by behavioural-based interventions in order to reduce the unacceptable level of safety-related incidents. And importantly to meet our self-imposed benchmark standard of meeting or improving upon the Ontario mine's safety records as well as matching the mine health and safety milestones down here in South Africa for all of our mines. We have also indicated to the minister of mines here our willingness to participate in the upcoming mine safety audit, as we welcome this kind of initiative to improve safety on our mines. And I think it's fair to say that we're certainly looking at a cooperative approach to safety. We see this as one area where cooperation is going to be far more constructive than any form of confrontation.

Moving on and looking at the international side. During the quarter we announced that we had reached agreements to sell our assets in Burkina Faso as well as Venezuela. And these disposals form part of Gold Fields ongoing strategic evaluation of its portfolio of assets. The sale price of the Essakane interest was \$200 million, and that is made up of \$150 million cash and \$50 million worth of Orezone stock. We believe that that represents very good value, when our price going into this in terms of the exploration expenditure and the cost of the feasibility study was \$47 million. It's a very good return to shareholders there. The consideration for the Venezuelan asset sale was an indicative \$532 million. That's made up of \$150 million in cash, \$30 million of convertible debt as well as 140 million Rusoro shares. Which if you valued them at the prevailing 10-day VWAP at the time of the announcement would give you the indicative total of \$532 million.

Now I must emphasise that these sales do not in any way detract us from our commitment to international growth. While Gold Fields continues to look for value-adding international ounces we are in the consolidation phase now and our focus clearly has to be on delivery of the South Deep mine as well as delivering the Cerro Corona mine in the March quarter into production. Consequently we're not going to slavishly follow a "growth at any cost" philosophy. It must be ounce growth than can demonstrably show value or we won't do it. So whilst we still have an aspiration of moving towards 1.5 million additional international ounces, if we can't do it in a way that actually shows value then we're not going to do it. We'd rather stick with what we have and improve our returns.



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	<p>So in conclusion, a short word on the Cerro Corona project which is progressing very well. All our major mechanical components are on site and in position. Cladding of the major buildings is underway as well as the construction of the cable wrapping around the plant. Certainly the cladding of the major buildings will facilitate working under cover during the upcoming rainy season. And finally the construction of the tailings dam wall continues apace. And this remains a critical item for the project. Over at this stage we're still on schedule for delivery of concentrate in the March quarter of next year.</p> <p>Finally looking at the outlook for the next quarter. Gold production should be marginally higher in December when compared with September, and we will be looking at case costs which are similar, hopefully slightly lower than they are this quarter. And I think with that overview of the first quarter's results let me open the floor to any questions that you may have. Thank you very much indeed Dylan.</p>
<p>Operator</p>	<p>Thank you very much Ian. Ladies and gentlemen at this time if you would like to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the question queue. Our first question comes from Sam Robins of Robins Planning Company. Please go ahead.</p>
<p>Sam Robins</p>	<p>I have several questions, but the first question I want to ask you about is South Deep. I'm utterly delighted that you were able to obtain all of those reserves as a long-term protection from the ore reserve position of the company, but I worry that as you go deeper and deeper your costs are going to increase disproportionately. And I'm wondering if you can give us a feeling for what kind of costs you will encounter as you go deeper. I understand four to five miles deep before you've gotten all the gold out of there.</p>
<p>Ian Cockerill</p>	<p>Sam trust me I wouldn't be happy mining at four to five miles deep. I think the bottom of the existing phase one is around about 3000 metres below surface. And then if you go into phase two, that will take you to around about 3700 metres. So that's like fifty years out. And that is actually the same depth that we're currently mining at our other operations. So it's not as though this is going to be a much deeper operation than where we're currently mining already. So I think your concerns about excessive depth are probably somewhat off the track there. Terrence perhaps you'd like to comment on how you see this, looking at the costs of mechanised operation as opposed to a conventional operation?</p>
<p>Terrence Goodlace</p>	<p>Good afternoon Sam. If you look at South Deep and where it is right now, bear in mind that this is still a developing asset and any unit costs you see right now you can't extrapolate into the future. So we've got a</p>



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	<p>long way to go in terms of economies of scale of building up to what we call the 330 000 tones per month. I think the other important thing to realise is that as we build up we're going to be doing more and more from a mechanised perspective. So ultimately you're not going to be doing the narrow reef mining. All of it will be the mechanised de-stress and it will be mechanised mining per se. In the original feasibility in terms of unit costs the detailed costs came out at something like R376 per ton over the life of mine. That was the life of mine average. Time has moved on a bit and we're estimating in our current models that it's still at around about R400 per ton. And that takes into account some eighteen months of escalating and bringing it into today's terms.</p>
Sam Robins	<p>Ok thank you. Can I ask my second question?</p>
Ian Cockerill	<p>Please do Sam.</p>
Sam Robins	<p>With reference to Venezuela, I'm wondering how much of the decision was made because of the political risks there and how much was made because of problems I believe you may have had in brining the mine to its fruition. Do you want to discuss that a little bit?</p>
Ian Cockerill	<p>I think it's actually much more fundamental than that. We were made an offer for the asset that we felt represented very fair value to Gold Fields shareholders. And we had to make a conscious decision. Do we take the value that was offered today or do we take value over the next ten to twelve years? And clearly when you're weighing up that decision you look at a variety of factors; your ability to operate in the country, the conditions there, skills availability, the whole bang shoot. So it wasn't any one particular factor that influenced us to decide to go for the sale. Bear in mind we will still retain a very significant interest in Rusoro. I mean 140 million shares represents about a 38% ownership in the company. So we will still retain an interest and hopefully we'll get some value from the upside from this asset. I guess the other issue is that we felt that with Rusoro's local operating experience perhaps they were better suited to operating in that environment than we were. So it was a variety of factors that led us to saying good value today, let's take that money off the table risk free.</p>
Sam Robins	<p>Ok thank you. Good explanation.</p>
Operator	<p>Our next question comes from Shane Hunter of BJM. Please go ahead.</p>
Shane Hunter	<p>Good afternoon gentlemen. Just a question on the costs. First of all we know that we're working in an environment with labour costs increasing and general inflation. So with your projects you've got project 100 and</p>



Speaker

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Nick Holland

also project beyond. So would it be correct to say that these projects would probably help you to maintain your costs, or are you expecting to see some costs coming down as a result of these projects?

Hi Shane it's Nick Holland speaking here. I think if you look at cost control and what we're trying to do with costs it comes through a variety of sources. First of all we want to upgrade the portfolio. And you've heard us talking previously about bringing in extra ounces at lower costs. Cerro Corona is a good example of that. Cerro Corona is slated to come in around \$300 per ounce. And as you can see the costs in the last financial year were at \$376 per ounce. That just gives you an idea of the comparison between last year's costs and what the likely costs at Cerro Corona are going to be. We're also looking to get South Deep ramped up which will also help.

The other side though is to optimise the operations. You have mentioned project 100 and project beyond. What we've tried to do with these projects is break them into the operating units of the various operations. I expect that we will continue to gain benefits from these projects. I think the labour optimisation side in particular has great potential on the project 100 side. On the supply chain side, interesting to note that we spend about \$900 million a year, total spend on services and materials, whether that be contractors or bought-in services. That's about 50% of our total spend. And we're looking for ways that we can optimise on that. We have given guidance for costs to be up around 10 to 15% year on year and as you can recall that was \$376 per ounce last year. So that's the guidance. But obviously we'll try and see if we can get better on that and see if we can open this margin.

Shane Hunter

Nick can I just recap one thing there? The phone call was cutting out part-way through your conversation. Are you saying that the guidance for F2008 is in the region of 10% to 15% higher overall on costs? Is that correct?

Nick Holland

10% to 15% higher than the \$376 achieved in 2007. That's correct.

Shane Hunter

Ok thank you. Good.

Operator

Our next question comes from Victor Flores of the HSBC. Please go ahead.

Victor Flores

Thank you. Hi Ian. Could I ask you to just go through a bit of detail on the issues that you face at Beatrix and how this change in the blasting pattern is going to correct it?



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Ian Cockerill	<p>Ja. If you imagine the gold is contained within the conglomerate. A certain percentage of that gold is free gold, that when you fragment the rock it releases very easily. In fact the percentage of gold in the [unclear] was probably somewhere in the order of about 70%. It's exceptionally high. Now when you over-fragment the rock clearly you're creating more surfaces for gold to be lost. And that loss takes place in the stope. You wash the stope out to get the rock out and by doing that you have a very efficient concentrating process where the gold collects in all the little cracks and gaps in the footwall. With multiple re-handling through the system, out of the stope, through the tramming, up the beltways, along the conveyor belts on surface and into the plant the rock tends to fragment each time you handle it even further. So eventually you land up with so-called rock going into the mill which is to all intents and purposes almost like sand. And at each point you have the possibility of losing more and more. This was picked up and the recommendation was made to go for larger fragmentation at the stope. So start with larger rock in the rock face that is a little bit more difficult to clean and to move but reduces the amount of gold which gets lost. And we moved away from ANFO powder onto power gel explosives, which is slightly less energy-intensive. We've opened up the drill burden and spacing, and the net result is that we've now been able to produce chunkier bits of rock in the face. And you can see it going into the plant. And I think just to give you an idea of what that has meant, if you look at the steel consumption in our plant, the steel consumption has dropped by about 25% as well. And that's also indicative that the larger rocks are acting to break up the other rock in the mill, which is exactly what you want. And that has led to slightly higher yields. So we think that it certainly has been a contributory factor to the reduced mine core factor. And we've done something constructive about trying to reverse that trend. And the initial results seem to be quite promising.</p>
Victor Flores	<p>Yeah that makes sense. I would have thought that just sweeping and cleaning out the stopes would have recovered a good deal of that gold, but you're saying it was a very high percentage of free gold in that particular area that you're mining.</p>
Ian Cockerill	<p>We always clean out the stopes anyway. The problem is when you wash the stopes out as you do, with a high percentage of free gold water and gold together is a wonderful collecting agent. And you get concentration of gold into the footwall.</p>
Victor Flores	<p>But what you're telling me is that you're now seeing an improvement in your mill grades as you've changed the blast pattern.</p>
Ian Cockerill	<p>Terrence perhaps you'd like to comment?</p>
Terrence Goodlace	<p>We certainly have. Most of the problem really comes out of 3 shaft. And</p>



Speaker

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	<p>if we look at the grades going into the plant, the head grades, we have seen an upkick I the last couple of weeks. We've basically moved 80% of 3 shaft onto the new power gel explosives that Ian has mentioned. And we're trusting that we're starting to solve the problem. I think the other thing around Beatrix is that it's not exclusively the fragmentation. There are a couple of other factors that drive the grade. One is that we're probably mining at about 60cm grams per ton lower than planned. So it's our broken grade is a little bit too low. It's a measure of flexibility that is required. And then the other item which also affects the grade is our width. We are basically around about 10cm more than we should be in terms of actual mining width. And that's the other aspect that we're looking at.</p>
<p>Victor Flores</p>	<p>Ok. Great, thank you. I just wanted to ask a couple other quick questions. One is can you give us the terms of that convertible debt on the Rusoro transaction?</p>
<p>Ian Cockerill</p>	<p>Victor it's likely to be around three years with a market-related coupon. And in indicative terms at this stage probably around a 7% coupon is what it will end up. So we'll give you the final terms once the deal is close to closing. Those are the indicative terms at this stage.</p>
<p>Victor Flores</p>	<p>Great thank you. Then just one quick final question. There was a comment I saw. Ian I think they were booing you regarding some changes to the deal with Mvelaphanda and there wasn't any commentary that I saw in the press release so this must have been in response to some other question. Can you comment on that?</p>
<p>Ian Cockerill</p>	<p>I can't comment on something I don't know what the comment is about Victor. What was the thing that was allegedly attributed to me?</p>
<p>Victor Flores</p>	<p>Oh goodness. I hate to waste people's time on a conference call. It said something about issuing shares to Mvela.</p>
<p>Nerina Bodasing</p>	<p>Victor I think it was just a headline that Bloomberg put out in reference to the marked to market on the shares that we put out in the commentary.</p>
<p>Nick Holland</p>	<p>Oh. I can explain that Victor. The floor and cap arrangement, the 45 million minimum shares and the 55 million maximum shares that will be issued to Mvela, that constitutes a derivative instrument in terms of IS32. And accordingly it has to be mark to market through a Black-Scholes model. We've done the Monte Carlo simulation on that and as you know it's like a black box. You put in all these parameters and it spits out a number. We'll only know whether we're going to issue 45</p>



Speaker

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	<p>million shares, 55 million shares or something in between during May of 2009. So it's purely an accounting thing. It has no bearing at all on the commercial arrangements which remain as is.</p>
Victor Flores	<p>Great thank you. Sorry for wasting your time.</p>
Operator	<p>Our next question comes from Muneer Ishmael of Deutsche Bank. Please go ahead.</p>
Muneer Ishmael	<p>Good afternoon guys. Two questions. Nick, for you on the balance sheet. I remember last quarter you spoke of the potential for a convertible instrument to try and match the cap ex profile at South Deep. Now you've done the two deals, or the two deals are in progress at the moment – the sale of Essakane together with the sale of the Venezuelan asset. I'm just trying to understand if that gives you enough cash in the short term or enough funding that you don't see a need for the convertible instrument anymore.</p>
Nick Holland	<p>First of all Muneer the instrument that we were considering was not convertible. We were considering a straight bond issue. A straight debt instrument. If you look at the debt profile at the end of the quarter we're on about \$860 million of net debt. And I think it's important to understand that these deals are not driven by a need to recapitalize the balance sheet. We're very comfortable with the level of debt of \$860 million. We're very comfortable we can fund the capital profile. These deals were driven by strategic merits rather than financial merits. We haven't decided yet what to do with the cash. I think as you saw in the quarterly book we have indicated there are a number of potential uses of proceeds, one of which could be debt reduction. The other one could be to fund some of the capital programme itself, given that we do have \$1 billion this year. Our EBITDA is about \$1 billion but we also have to pay taxes and dividends and what have you, so that would help towards that funding. But even if we did take on more debt I'd still be comfortable. We are still considering a bond, but that's going to drift into 2008 at this stage and we'll give you more detail down the road. But it's really a case of saying, if we do the bond it's not incremental debt. It's actually replacing shorter-term debt that we currently have with longer-term debt that more correctly matches the profile of the asset. So I don't want you to get the impression that we're going to load up the balance sheet with a whole bunch of debt because we have to or we want to. We don't want to do that. And remember the parameters that I previously quoted to you. We wouldn't see ourselves going too far outside those parameters. Maybe \$1 billion, but I wouldn't be too comfortable beyond that. In any event I think we're well positioned not to.</p>



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Muneer Ishmael	<p>Alright. You're expecting both deals to close before the end of the year. Am I correct?</p>
Nick Holland	<p>Ja both deals should close hopefully around the end of November. At this stage we have no reason to believe that there are any material issues that will prevent closing around that time.</p>
Muneer Ishmael	<p>Thanks Nick. Ian if I may, my question for you is a little bit more difficult. Just playing on your words on the consolidation period that we find ourselves in with regards to Gold Fields, how long will this consolidation period last? The issue that I have is I think your IR team is brilliant in the way they guide us in production, but in my estimates normalised production for this company should be just around 32.5 tonnes. I think that's about a 1000 045 ounces. I'm just wondering when does the consolidation period end and what determines a consolidation period? Is that just getting South Deep on its feet or is this a development issue at each of the South African ops and issues with regards to St Ives, getting the grades up?</p>
Ian Cockerill	<p>I think it's a good question. If you look at where Driefontein is at the moment as well as Kloof I think they are operating at reasonable optimal levels. Clearly Beatrix is sub-optimal, we have recognised that. There should be 300 to 400 kg more than they are currently doing. You've heard Terrence talking about some of the initiatives that are being put in place there to take us back over the 4 tonnes. Obviously St Ives, 120 000 per quarter is a more realistic number. We said that in the September quarter we would be down at about 102 000. But over the next two quarters we will be building back up again so that by quarter three we will be back at 120 000 ounces per quarter as we get the impact of Cave Rocks and Belleisle underground coming up to speed. Obviously this last quarter, sadly not even Gold Fields are good enough to control the weather and that really did have a significant impact at Tarkwa. But if you look at what is coming through already this quarter we certainly are back on line with the numbers you've seen previously. So if you look at that suddenly you'll start seeing yourself much closer to the numbers that you're talking about. And we're very pleased with the way that South Deep is starting to pick up the momentum. Over the next two quarters we should see positive impact coming through there from two additional long-hole drilling projects. One will come to light in this quarter and one will come to light in the next quarter. So when we talk about consolidation, it's very much a low point. We're starting to see organic improvements from the existing operations. And then obviously into the June quarter next year you'll start to see the first impact come through from Cerro Corona. And I think that many people haven't appreciated the very positive impact that Cerro Corona is going to have on this group. You will see it breaking through fairly quickly Muneer.</p>



Speaker

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Muneer Ishmael

Alright, brilliant. Sorry one last question just on Tarkwa. You guys are 7% higher than last quarter. I'm just a bit nervous about the chemistry on the heap leach given all the rain. Anything there or am I just being a bit paranoid for no reason?

Ian Cockerill

No obviously when you get a lot of rain you do get some dilution. But the solution to that is to add more cyanide. So you get your solution levels, your cyanide levels in the circulating solution where you want them to be. You do get some short-term impact. Ironically sometimes when you get heavy rain it does tend to saturate the pile a little bit more effectively, and sometimes you do get better solution because it tends to move fluids around away from the channels that tend to develop. So you do almost counter-intuitive get a bit of a kick directly after a fairly heavy rainfall. Obviously that doesn't happen all the time, but you sometimes get better irrigation after rain. It's simply a question of maintaining the cyanide levels that get diluted by the rain and that will actually help you.

Muneer Ishmael

Thank you very much. Thanks for your time.

Operator

Ladies and gentlemen, a reminder that if you would like to ask a question please press star and then one now. We'll just pause to see if there are any further questions. Mr Cockerill we have no further questions. Would you like to make some closing comments?

Ian Cockerill

Dylan thank you very much indeed. Thank you everybody for listening. Certainly we look forward to talking to you again in January. And for those of you who I don't see before Christmas I hope you all have a safe, healthy and profitable Christmas. We look forward to talking to you in January. Thank you very much and goodbye.

Operator

On behalf of Gold Fields that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT