



## **Q1 2011 Results**

### **Conference Call Transcript**

**19 May 2011**



**Operator**

Welcome to the Gold Fields quarter one 2011 call. (Operator Instructions). Please also note that this conference is being recorded. I would now like to turn the conference over to Nick Holland. Please go ahead, sir.

**Nick Holland - Gold Fields Limited - CEO**

Thank you, Dylan. Thank you, everyone, for dialing into this conference call this afternoon -- or this morning depending on where you are -- to discuss Gold Fields' first-quarter results for the period ending 31 March, 2011. I'm joined today by Paul Schmidt, our Chief Financial Officer; our Investor Relations Senior Manager here in Johannesburg, Nikki Catrakilis-Wagner, who you all know.

Also, we have Willie Jacobsz, who is in Boston, on the line, and we also welcome Zakira Amra to the Gold Fields fold. Zakira joined us at the beginning of May as Senior Vice President Investor Relations and Corporate Affairs, so we welcome Zakira into the group.

I trust you have had an opportunity to look at our set of results which were put out this morning.

Before I open up the line to questions, I would like to provide a few highlights.

Production for the quarter was 830,000 ounces, which was 5% ahead of the comparative quarter in March of 2010. And why that comparison is important is because both quarters have the December Christmas break in South Africa included in them. For those who are not aware, remember we generally have a two-week shut-down in South Africa for Christmas, and that typically falls in the March quarter. It does not affect the December quarter; it affects the March quarter.

So despite the shutdown in this quarter, and compared to the same quarter last year, we look 5% better on a like-for-like basis. That is an important improvement. And compared to the December quarter, our production is 8% down as we expected it to be as a result of the impact of those year-end holidays.

I guess the thing that I'm pleased about is that we have managed to improve our production in South Africa in this March quarter compared to the March quarter last year, which is a function of improving our production overall and managing the Christmas break a little better than we did last year. We managed to process a lot more over the Christmas break this year than what we did last year.

We forged ahead with our focus on cost containment, with operations continuing to benefit from our business process reengineering process, which is now ingrained into our business.

For a third consecutive quarter, Gold Fields has reduced its operating costs, which fell to \$699 million this quarter from \$724 million in the previous quarter. And also, what is pleasing is that, compared to the same quarter last year, our cash costs has been well contained despite the currency strengthening and have gone up from \$703 an ounce to \$751 an ounce, which is around about a 6% increase.

Again, the impact of the business process reengineering has helped us to limit the increase in those costs and also to help us improve our operating margin. Operating margin improved from 35% in the March 2010 quarter to 46% in the March 2011 quarter.

And that is a clear indication that we were able to deliver a lot of the gold price increase to the bottom line, which is also indicated in our net earnings, excluding gains on losses on foreign exchange and financial instruments and nonrecurring items. In other words, the normalized core earnings in the business have gone up from \$44 million in the March 2010 quarter to \$165 million in the March 2011 quarter. I think that gives you a good indication that the increase in the gold price over that period, which went up from \$1100 to \$1389, that a significant proportion of that increase has been delivered into higher operating margins and also into higher earnings.

Our national cash expenditure margin rose from 20% to 21% during the quarter. And, as I said some time ago, our minimum objective is to get to a 20% NCE margin. Now our objective is to attempt to get every asset in our group to a 20% margin. That will be the next target that we set ourselves, and that certainly puts us in good position to generate sustainable margins at a range of long-term gold prices.

So net earnings for the quarter, a significant increase compared to both the previous quarter and compared to the comparative quarter last year.

**Let's talk briefly about growth.**

The progress on our growth projects continues apace, and we are well positioned to achieve our goal of having 5 million ounces in production or in development by 2015.



#### **Chucapaca Project - Peru**

Our resource definition drilling continues at our 51% owned Chucapaca Project in Peru. We have now got 12 drill rigs operating on that particular site, doing a combination of infill drilling and also step-out drilling to test the continuity of this ore body. And in both cases we are seeing good extensions to the ore body, suggesting that we should be able to show a significantly improved resource later in this year. We are hoping to get that out by around September. The infill drilling we are doing is confirming and improving the grades that we had delineated as part of our inferred resource back in May of last year. This is proving to be one of the most exciting discoveries in South America over the last five years. We are continuing our work on the feasibility study on that project, and we hope to have that finished by the middle of next year.

#### **Far South East Project - Philippines**

I'm pleased to say that exploration at the Far South East project in the Philippines is ramping up. And at this stage we have eight underground diamond drill rigs operating. It has taken us some time to get the underground drilling platform in place, and we started drilling around about the end of January. By the quarter-end review we had done about 5000 meters, but as of today that has gone up to about 7000 meters. I believe now, with eight underground diamond drill rigs operating, we should see a further increase in momentum. The early indications of the drilling are that the envelope that contains the mineralized ore, is getting bigger. This is a copper gold porphyry. The original ore body was around a kilometer across and about a kilometer down, starting from a depth of about 700 meters. We are now seeing mineralized zones both before we intersect the original ore body and drilling is ending in mineralization, suggesting that this ore body is open laterally and at depth. So this could be sizably bigger than our initial estimates.

Clearly there is a lot of drilling to be done, and now that we have got our eight underground rigs operating, we expect to see further positive results over the remainder of the year, and we will be updating the market as we progress this project. Remember Gold Fields has an option to earn 60% of this project from Yanfolila mining.

#### **Arctic Platinum Project – Finland**

Turning to Arctic Platinum in Finland. Remember this is a palladium, platinum polymetallic project, about 3 to 1 palladium to platinum, with nickel, copper and, of course, gold. Gold makes up around about 10% of the total value of the metals in the head. This is very much a polymetallic deposit. We have completed the metallurgical drilling on the two 50 tonne samples for pilot plant flotation, which we started in this quarter. We will now do the full metallurgical tests on these 50 tonne samples, similar to the bench scale laboratory testing that we have done earlier. The purpose is to corroborate the results that we saw in the bench scale tests. Essentially we're looking for a pickup in recoveries from about 50% to 75%, to confirm what we saw in the bench scale testing. If that is confirmed we will move into a more detailed feasibility study to see what this project looks like with us producing the metals, with higher recoveries, on site, as opposed to producing a concentrate as was envisaged in the original work. It looks very, very interesting at this point.

#### **Yanfolila Project – Mali**

At the Yanfolila project in Southern Mali, as you saw in our reserve and resource supplement that we issued last month, we have an inferred mineral resource of 740,000 equivalent ounces. That is at about 2.5 grams per tonne. These are surface shallow oxides, and our drilling is continuing over the next six months through to the end of the drilling season, which will take us through to about July/August. We are optimistic that we can significantly add to that and get this project to scoping study level by September. And, depending on the size of what we find, we could well get into a situation where we start a feasibility study for a starter project, which we would like to get to something around about 200,000 to 250,000 ounces a year. That sort of level of production is what we are looking for. But we will update the market again later in the year as we get the results of the latest pass of drilling, as well as the elements of the scoping study.

#### **Minority Buy-outs**

Lastly, over the last few months, we have made two offers to buy the minority shareholders at our Peruvian and Ghanaian operations, and as a consequence of that, we have managed to increase our economic interest in Gold Fields La Cima, the Cerro Corona project vehicle, from 81% to 99%. So effectively we have achieved our goal of acquiring virtually all of the interest in the mine. That means that we now earn attributable production of about 400,000 equivalent ounces a year out of that operation, producing at under \$400 per ounce cash costs.

Our agreed offer to buy out Iamgold's 20% interest in our Ghanaian mines still requires a number of approvals, principally approval from shareholders. That circular has now been dispatched to shareholders, and the extraordinary general meeting to approve that transaction is slated for June 20.

These transactions are low risk acquisitions, in line with our strategy of increasing our offshore exposure, and at the same time acquiring 100% of the operating assets where possible. And it is low risk because we really understand the assets. We understand the risks, and we also understand the upside in these particular operations.

And had that transaction been in effect from January 1 this year, our first-quarter production split would have been around about 48% South Africa and 52% from international. On a normalized basis going forward, if these transactions are concluded and taking into account the pickup in production out of South Africa outside of the March quarter, we would expect the split to be somewhere around 50-50. On that basis about 70% of our operating profit is coming from the international regions. And that is significantly changed from the production split of about 65% out of South Africa three



years ago.

So I think you can clearly see the group is certainly diversifying its production and earnings base, and that is a strategy that we will continue to pursue over the next three to five years.

With that brief synopsis of where we stand, I would now like to open up to questions, and myself and Paul, our CFO, will endeavor to answer your questions. Thank you, Dylan.

#### Questions & Answers

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#### John Bridges - JPMorgan - Analyst

I just wondered there has been some commentary coming out of Peru that there might actually be two populations of gold at the Chucapaca mine given the opportunity of a potential open pit and maybe a concurrent underground mine that might give you a different sort of profile to this operation. I just wondered if you could comment on that and perhaps give a bit of detail of how the feasibility is going.

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#### Nick Holland - Gold Fields Limited - CEO

Sure, John. Just to orient you again, the ore body dips about 14 degrees East to West. The current strike length is about 1.3 kilometers. As we are doing our stepout drilling to the West we continue to encounter mineralization at higher grades, albeit at greater depth. What we are seeing at the moment is the potential for a larger pit than what we foresaw in the earlier delineated resource. But, of course, at some point your pit does not optimize any further, and it may be that we need to access the continued extensions on an underground basis.

It is early days, John, but the possibility does exist for that, and I think only once we have completed this next drillout, which will take us through to end of August, and then we will obviously do all the assaying and the modeling. Once we have completed that work, we will have a better feel. We are not yet sure where it closes out. It is still open on strike. But I believe that there is significant potential here for not just an open pit operation, but, as the ore body steps deeper, that we could consider a decline system into the underground potential that exists deeper further to the West.

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#### John Bridges - JPMorgan - Analyst

Okay. Great. I don't think you mentioned this in your prepared remarks, but any news on the Palladium project, the Arctic Platinum Palladium project?

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#### Nick Holland - Gold Fields Limited - CEO

Yes, as I mentioned very briefly in the opening remarks, we have made two 50 tonne cuts into the Suhanko ore body, two brand-new 50 tonne samples, and that is now going to be floated in our pilot plant, and then we are going to replicate the entire metallurgical process on these two 50 tonne cuts, one from Konttijärvi, one from Ahmavaara. Those are the two principal ore sources in the Suhanko project. We should have the results by the end of September. We will then see whether they correlate with the bench scale laboratory testing that we did earlier, which indicated an increase in recoveries from 50% to about 75%. And if that correlates, we could actually get a lot more confident in the metallurgy - of implementing the PLATSOL process on site, which essentially produces the metals on-site as opposed to a concentrate, and then flow that through a detailed feasibility study during the course of 2012.

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#### John Bridges - JPMorgan - Analyst

Okay. I suppose given the difficulties in operating platinum mines in South Africa, this becomes more and more interesting as time goes by, right?

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#### Nick Holland - Gold Fields Limited - CEO

Well, exactly. I mean if you look at some of the platinum operations, they are getting much deeper. The higher grade Merensky Reef is now a much smaller proportion than it used to be, and you are into some of the lower grade, deeper UG2. So I think this does provide an interesting alternative, and plus, it is not what I would not say it is high grade. It is about 2 grams a tonne head grade. But it is 12 million ounces surface mining in Finland, which is ostensibly the lowest risk country in the world. Also, it could be a lot bigger. Back in 2003 we stopped drilling because we thought we had enough for a starter project. There is definitely scope to increase the size of that ore body both in terms of new drilling and in terms of applying different



cutoffs. Because remember, in this polymetallic deposit, all of the metals in the head have increased significantly in price over the last eight years, since we did that drilling. So it could look very different today if we did more drilling and we applied different cutoffs. That work still has to be done. And once we finish this metallurgical test work, we will get into all of that as well.

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**John Bridges - JPMorgan - Analyst**

Could you remind me what the other metals are?

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**Nick Holland - Gold Fields Limited - CEO**

Yes, it is 3 to 1 palladium platinum, and then we've got nickel, copper and gold. That is principally the split of the metal and the head.

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**John Bridges - JPMorgan - Analyst**

Okay. The normal suit. Okay. Excellent. Well done, guys. Thank you.

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**Leon Esterhuizen - RBC - Analyst**

Just a quick one. In terms of the string of holidays we have in the current quarter, I think it is probably also at least a two-week break, if not more. Has this been taken into account? Do you think that you can produce better numbers from this quarter compared to the December quarter given this break?

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**Nick Holland - Gold Fields Limited - CEO**

Yes, I think we can. And the one difference between this break and the December break is the holidays are interspersed over a period of time. We have continued to work in between those holidays, and we have called for volunteers on a lot of the holidays. So we have had some turnout.

For example, yesterday was voting day in South Africa, and we have had reasonable turnouts at most of the operations. And you know the same over some of the other holidays, so we are going to feel it again. You know, there is no doubt that this does play havoc on production, but I believe we are going to manage it a lot better than Christmas break, and I expect us to improve over this quarter.

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**Leon Esterhuizen - RBC - Analyst**

Okay. Great. So there is not a big sort of ramp-up into H2? You are going to have a gradual increase?

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**Nick Holland - Gold Fields Limited - CEO**

Yes, I think we will be better in H2, but I'm still sticking to the guidance that we gave for the year that we updated you on at the last quarter, taking into account what we know today.

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**Bruce Alway - Merrill Lynch - Analyst**

This headset should be retired as well as other parts. No, I'm getting client questions on Silicosis obviously in relation to Anglo Gold and what is going on there, but I wondered if you could add a perspective in terms of how you think this is going to play out? I mean we have heard that the provision at the very least will be required to increase. I mean how does that work? Does everyone put a pot of pool -- a pot of money? Can you just kind of go through those issues?

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**Nick Holland - Gold Fields Limited - CEO**

We are evaluating the impact of the constitutional court decision that was handed down, which basically says that potential liabilities of employees are not limited by legislation and that people can seek relief under common law. We have got to evaluate what we think that means. We are looking



back and trying to get our arms around what the potential might be.

I cannot tell you anything further than that today, as we are still working through it. But what you will see in our report, in the operational improvement section, that we are improving our current work on reducing the impact of Silicosis on employees significantly. In fact, we are already ahead of the industry milestones that were set some years ago, and we are going to be spending a lot more time looking at what else we can do to mitigate the risk.

So clearly we have to make sure that, from a business and a sustainability perspective, for our employees and our business, that we reduce the risk to current employees. But clearly the impact of what has happened over the history is a different situation, and we're trying to get our arms around that. I cannot tell you any more at this stage or how long that is going to take or what the potential solutions might be on this. That is where we stand at this stage.

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**Bruce Alway - Merrill Lynch - Analyst**

Okay. So I mean it is obviously a kind of industry-wide problem. Everyone is trying to get some sense of how many claimants and how then, I guess, there is a bit of a snowball effect, isn't there, effect in suits that are going to come through?

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**Nick Holland - Gold Fields Limited - CEO**

We don't know that for sure, Bruce. I think that is speculation. It is a gold industry issue, and the gold industry is engaging in reviewing this, and we as a company are also doing our own work behind the scenes. But I think it is speculative at this stage to assume that there is going to be a huge number of suits or whether, in fact, those suits will even be successful. I think that is speculative.

I think we have to get our arms around this, understand the issue and then determine the way forward. And more than that, I cannot say at this point.

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**Bruce Alway - Merrill Lynch - Analyst**

Yes, no, I mean to me it sounds like it is difficult to prove you have been in a single shaft for the duration that you have -- that you have picked up silicosis is going to be difficult to prove. But yes, I hear you. Thanks for the update.

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**Operator**

Ladies and gentlemen, we have no further questions. Would you like to make some closing comments?

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**Nick Holland - Gold Fields Limited - CEO**

No, I would just like to thank everyone for their attendance today, and we look forward to talking to you in one quarter's time. Thank you very much. Bye, bye.

**END OF TRANSCRIPT**