



GOLD FIELDS

H1 2016

RESULTS FOR THE SIX MONTHS
ENDED 30 JUNE 2016

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Results for the six months ended 30 June 2016

Conference call transcript



Operator

Ladies and gentlemen, good day and welcome to the Gold Fields first half 2016 results conference call. I would like to hand the conference over to Nick Holland.

Nick Holland – CEO

Good afternoon or good morning ladies and gentlemen wherever you might be in the world today. Thanks for joining us to discuss Gold Fields' results for the half year ended 30 June 2016. With me today are our CFO, Paul Schmidt, Nico Muller, who is the EVP for the South Africa region, Richard Weston, the EVP for the Australia region together with Stuart Matthews the VP Operations and of course Avishkar Nagaser, the Investor Relations Head.

Gold Fields had an operationally strong first half with attributable gold production for the group of 1.044 million ounces. That is 1% up on the same period last year at all-in sustaining costs of \$992/oz and all-in costs of \$1,024/oz. Normalised earnings for the period were \$103 million or US13 cents per share compared to \$8 million or US1 cent per share reported for the first half of 2015.

The increase in earnings was primarily driven by an increase in the US dollar gold price that was up 3% year on year as well as good cost control that resulted in lower operating cost in local currencies as well as the impact of converting these costs at a weaker exchange rate. I would say around about a third of that was the impact of real costs savings in local currencies with the balance due to the weaker exchange rates if you look at that total reduction in costs.

We have declared an interim dividend of 50 South African cents per share which is double the full year dividend for 2015. Now, that dividend is in line with our policy of between 25% and 35% of our normalised earnings and it actually translates to 25%.

The group generated net cash flow of \$60m for the first half compared to \$1m in the first half of 2015. And that is mainly due to the higher profit reported for the period. And I must just stress this is cash flow after interest cost on debt as well as exploration costs. So if you added those back you would probably add back around \$25 million on exploration, which is primarily at Salares Norte in Chile, and also around \$37 million of interest on our group debt. So if you wanted to compare that against other companies who don't show it this way you could add those back to the \$60 million to give you a more comparable number.

Net debt decreased to \$1.155bn during the first half of 2016. That was from \$1.38bn at the end of December following the bond buyback and subsequently equity raise undertaken in the period. And it is interesting that in the period from the end of 2013 to now we have reduced our debt by around \$600m which has put us in a situation where our net debt to EBITDA ratio is now 1.05x from 1.38x at the end of December 2015. And the target that Paul and I set for ourselves around 18 months ago is to get to a 1:1 ratio by the end of 2016. We look as though we are in good shape to achieve or even beat that.

Turning to the regions, production at South Deep increased by 87% to 140,000 ounces from 75,000 ounces in the corresponding half year in 2015. And that is driven by both increased volume and grade. All-in costs in local currency decreased by 19% year on year to R622,453/kg. If you look at it in US Dollars, it dropped from just over \$2,000/oz to \$1,257/oz. That is close to a 40% reduction if you look at it in US Dollar terms.

Good progress was made on a number of activities at the mine. The conversion from low-profile to high-



profile distress mining yielded positive results. In fact, low-profile distress mining is a thing of the past now because that was completed subsequent to the half year end.

Gold production in the Australia region for the first half of 2016 was 2% lower than the previous half year at 466,000 ounces. That is due to lower production at all operations except Darlot. However all mines exceeded guidance. In the first half of 2016 A\$52m of the exploration budget was spent with 340,000 metres drilled during the period.

There have been encouraging results at all the operations and we anticipate replacing ounces mined into reserves at year end. In fact if you look at the presentation deck there are a number of slides I went through this morning at the stock exchange which I think shows our increasing confidence in our ability to find additional reserves and resources at our four mines.

Attributable gold production from our West Africa region was 7% lower than the first half of 2016 at 311,000 ounces due to lower production at both Tarkwa and Damang. However all-in cost for the region decreased by 9% year on year to \$1,052/oz mainly as a result of lower operating costs and lower capital expenditure. We expect to evaluate a range of options for Damang in terms of its need for recapitalisation. We expect to make a decision and provide an update to the market before year end.

Attributable gold production at Cerro Corona decreased as expected by 15% year on year to 138,000 ounces mainly due to planned lower gold head grades as a result of planned sequencing of the mine and the lower copper price. In short, obviously we had to take the entire pit floor down and that means that we mined some higher grades and lower grades across the pit floor. It is not a uniform grade across the entire pit.

Looking ahead for the full year as a result of better than expected performance at South Deep we have increased the 2016 guidance for the mine to 289,000 ounces from 257,000 ounces. However we have also increased our all-in cost guidance to \$1,310/oz from \$1,265/oz. We have put in some additional capital both in terms of additional fleet that we've acquired as well as we've accelerated our housing project and decided to build instead of using third-party financing.

For Tarkwa we have increased the 2016 all-in cost guidance to \$980/oz from \$940/oz. And that's mainly due to a \$38m increase in capital expenditure. We have decided to bring forward some capital strip at Tarkwa which will provide greater flexibility and allow us to maintain current levels of production into 2017 and 2018.

Based on the outperformance of the Australian operations relative to plan in the first half of 2016 we have increased the guidance in Australia to 925,000 ounces for the full year 2016 from 905,000 ounces that we previously guided in February. So as a consequence 2016 production guidance for the group has been increased to a range of 2.1Moz to 2.15Moz from 2.05Moz to 2.1Moz. In other words we have upped both the upper and the lower levels by 50,000 ounces. And if we were able to achieve the upper level that would pretty much put us in line with what we achieved in 2015.

All-in cost guidance for the year remains unchanged at all-in sustaining cost of \$1,000/oz to \$1,010/oz and all-in cost of \$1,035/oz to \$1,045/oz. The big difference really between those two numbers is the drill-out project in Chile at Salares Norte where we put aside \$50m in this year's plan. I think with that, Ari, we're going to turn it over to questions which either myself or my colleagues with us today will endeavour to answer. Thank you.



David Haughton – CIBC

Hi Nick and team. Thank you for the North American update. I appreciate you have gone through this in South Africa, so thank you for taking the time. South Deep has got some pretty good grades going through at the moment and I've got to say that the underground mining rate is stepping up very nicely. I wonder if you could give us a little bit of guidance through the balance of the year as to where you might see that mining rate given the change that you've been talking about, and how that grade might pan out.

Nick Holland – CEO

I'm going to hand it over to Nico, David. He will answer the question.

Nico Muller – EVP South Africa

David, good morning I suppose on your side. The grade did go up to 5.77g/t. We expect the grade for the rest of the year to oscillate around 5.5g/t. Secondly, we have changed our production guidance to 9 tonnes of gold which at this stage is our indicative number for the year.

David Haughton – CIBC

Yes. A nice healthy trajectory. Maybe if we're just looking a little bit further into next year I'm wondering what the grade might be, whether we would see it go back towards the reserve grade. You are currently mining somewhat above that. And sequencing obviously is important in considering it. What is your goal of rate of mining underground?

Nico Muller – EVP South Africa

In the long term we expect our grade to track in accordance with our reserve grade. You are correct. And then as far as production for next year and thereafter is concerned, as Nick has indicated before, we are currently reassessing our position and we have committed to come back in February to give the market an update of our near-term production profile that will be typically the next five to seven years. It is not possible for us to comment any further on that at this stage. We will come back in February.

David Haughton – CIBC

All right. And with that higher capex guidance I presume that that's really only for this year as you're doing the housing build yourself. Or do you anticipate some of that to go into next year as well?

Nico Muller – EVP South Africa

All information pertaining to next year including operating cost and capital is something that we are in the process of reassessing. It will be in the February guidance.

David Haughton – CIBC

Okay fine. But the housing. Do you expect that to get done this year only?

Paul Schmidt – CFO



The housing is R70 million this year and R500 million over a five-year period, the housing. We will give you next year exactly how we can expect it over the balance of the five years.

David Haughton – CIBC

Okay good. I didn't understand whether it was a near-term project or longer term. It sounds a little bit longer term. Okay. AT Tarkwa it looks like you're going to have to have a bit of a catch-up in the second half, and I'm just wondering if that's going to be grade-driven or volume-driven.

Nick Holland – CEO

Look, I think it is going to be a function of both, David. It depends where we are in the different pits. We have got about four or five pits that contribute. And depending on the mining plan and sequence that will impact the volume and the grade. But again let me just reiterate we are very confident that we are going to achieve our guidance for the year on production. Quarter three has started very well. And I think Tarkwa is in good shape. I have got no concerns. I think we can make those numbers for the year.

David Haughton – CIBC

Okay. Just moving over to Granny. You're getting some very nice grades coming through. I'm just wondering whether you can see that as sustainable or whether it is near term as a consequence of where you are in the sequencing of the underground.

Richard Weston – EVP Australia

David, it's Richard Weston. We consider that those grades would continue. But I will let Stuart Matthews, the VP of Operations – he used to be the general manager of Granny Smith – to talk about it.

Stuart Mathews – VP Operations Australia

The grade coming out of the mine is quite pleasing. We are actually mining a lot of good grades out of zone 100. And zone 90 has come off a little bit in grade. But we have had a bit of an upside with some positive gold reconciliations on our hanging wall stopes which are sort of on the peripheral of zone 100. That is really the contributor there.

David Haughton – CIBC

Okay. Nick had indicated in his opening remarks that you're feeling pretty confident about replacing reserves. I guess with Granny if you are getting some positive reconciliations I'm just thinking out loud here as to whether you would be factoring some of that into your reserve calcs going forward.

Stuart Mathews – VP Operations Australia

We never factor into our reserve calculations any mine core factors. They could easily go the other way. But look, Granny Smith has a history of reconciliation close to 100%. The grade control is very close to the reserve numbers. That has been for the whole history of the mine, so we are fairly confident that it will happen again. And on the reserve side at Granny Smith we expect it to repeat exactly what it did last year. We will get an uplift of around 450,000 to 500,000 ounces after depletion.



Richard Hatch – RBC

Thank you. Morning guys, or afternoon. Just a quick one. Can you just talk me through a bit more about Damang? Sorry to keep asking the question. I just want to get your thoughts on it. Maybe I was expecting to have an update at the end of this half. What is taking the time for you to make your decision? Is it how you balance the cost of the pre-strip with your net debt to EBITDA forecast? And then secondly can you just remind me, you're targeting one times net debt to EBITDA by the end of the year. What sort of range are you happy for that to oscillate between?

Nick Holland – CEO

Look, Damang, the reason it is taking a bit longer maybe than the market would have liked is that we're having the whole thing independently peer reviewed. We have brought in a team to look at the geological models and make sure that we're not missing anything in terms of understanding the different domains, lithologies in the ore body etc. So they have gone through that process. I want to be sure in particular that the stuff is there. It has been extensively drilled. Sometimes you can get interpretation differences when you put the geological model together. So we are having that externally reviewed. And then we are also have a consultancy review the mining plans that we've put together helping us to optimise the mine plans and help us to build the mine schedule.

Then we are having it internally signed off by our group technical services, which needs to happen. Then of course the executive will go through it and then the board. So these processes all take time. My view on this is let's get it right as opposed to let's have it quick. But I'm pretty confident that we are close now, and I suspect in the next couple of months we might be able to give you information on that.

But just to remind you, we are focussing really on the high-grade core underneath the original Damang pit that we mined very successfully for a number of years. We stopped mining there in 2013 when we got to the bottom of the pit. We know that underneath that there is a large high-grade core of about 4 million ounces or so at 2.5g/t. It is in the reserve and resource book so I'm giving you public domain figures here. And that is the area of opportunity that we want to get into. So it is going to be quite an intensive capital strip but once we are in there, there is certainly an opportunity for us to look for a long-life operation here. So we are nearly there, but we are tackling this carefully and diligently. And then on the debt side I will defer to my colleague Paul.

Paul Schmidt – CFO

Richard, I think Nick and I have said for a while that one times net debt to EBITDA would be a number we are comfortable with. Obviously if it is going to be lower it would be even better, but one times has always been our comfort level.

Richard Hatch – RBC

But I suppose if you are going to be investing in a couple of projects are you comfortable with it nudging above one times in the near term until when you start delivering cash flow?

Paul Schmidt – CFO

We are happy to go up. We have been as high as 1.5 and then pulled it back depending on where we are in the investment cycle. But we said long term 1.0x is the number, but short term blimps are no problem



either.

Richard Hatch – RBC

Fair enough. One last question. Just while I was thinking about it, South Deep, you guys are doing a good job with it. It is clearly a difficult asset but you have done a very good job and certainly turned the corner over the last three quarters. What do you think you need to show the market for the market to feel more confident with the asset? Because clearly it still receives a great deal of scepticism. So what is your view there and what do you feel that you need to do?

Paul Schmidt – CFO

Richard, we would love the market to tell us what they want to see. That is maybe the better way to answer it. You tell us.

Nick Holland – CEO

Let me from a corporate perspective or company perspective say right now we are trying to get the basics right. That's what Nico's mandate is. Get the basics right and let's look for continual improvement. That is what we have done over the first two years that he has been here and with the team that he has assembled. Get the basics right. Then I think we can build confidence to look ahead and basically communicate to you and the market what we think South Deep can do. We have still got some work to do to formulate our thinking on this. And again we are stress-testing a lot of the work that is going in. but in February we have undertaken to give an update on what we think South Deep can do and by when.

So in February once we have got more confidence that we really do understand the issues then we will give more. That is in fairness to our new management team that I brought in here literally two years ago. A lot of the team that they have brought in have only been here six to 12 months. It is a complex operation and we need to give them time to build confidence. So that is why we have said wait until February and then we will give you more of an update. But I think look at the trends. The trends are positive. That gives you an indication that we are heading in the right direction I hope.

Richard Hatch – RBC

It does. Thank you Nick. Then my last question is your revised guidance. I mean if you keep the mine running at the same mill rate. I don't know if you feel you were running it a bit hot in Q2. But on the same kind of run rate of 600,000 tonnes for the quarter and keeping it flat at about 4g I mean it looks like you will push through your production guidance and beat your revised guidance. Do you have a view on that? Do you feel that you are going to have a bit of downtime perhaps in Q4?

Nick Holland – CEO

Richard, we are just going to stick with the number we've given. We are putting a number down that we believe we can achieve. Let's leave it at that.

Tanya Jakusconek – Scotiabank

Thanks a lot again for having a call for the North American audience. We really appreciate it. I have a few questions. Since a lot of them were asked by David, I just wanted to come back on how the next part of



the year shapes up. I know Q3 we will only get the operating results and then Q4 the financials. But how does the rest of the year shape up? Is Q3 overall supposed to be better than Q2 and then a stronger Q4, or is it more evenly split? I'm just trying to get a sense of how South Deep or how Tarkwa performs.

Nick Holland – CEO

Tanya, I don't really want to get into quarterly estimates here because we are setting up our guidance to the market on an annual basis. So I don't want to move to quarterly updates. I prefer to stick to annual. But what I can tell you is for all of the operations we are confident with the guidance numbers even with the ones we've updated, Australia and South Deep. So if you don't mind I would prefer not to get into whether we think quarter three is going to be higher than quarter two or whether quarter four is blow-out. We are confident on the numbers we have given you for the year. If you don't mind I would like to leave it there.

Tanya Jakusconeck – Scotiabank

Okay. Perhaps then maybe we can talk about your all-in sustaining costs and how have they performed versus your budget for the year in terms of what have you gained from FX and oil versus your internal budget, just to give us a sense on that basis.

Paul Schmidt – CFO

Tanya, if you have a look at the update we gave to the market on the six month numbers about three or four weeks ago we said that the net operating costs, which to a large degree is the main contributor of the all-in cost, we said there that there is quite a big decrease in our net operating costs of around \$82 million. And a third of that as Nick said earlier relates to actual decreases in cost, and the balance, two-thirds, related to currency swings, obviously converting the Rand and Aussie Dollar stuff to US Dollars. But in terms of the guidance for the year I think we are well on track to getting our all-in and all-in sustaining costs. That is why despite the increase we saw at South Deep and at Tarkwa we still kept the guidance for the bigger group. And a lot of that is based in terms of guidance on converting at the weaker exchange rate that we saw in the first half. However where we are sitting now a lot of them are going to pull back fairly much to the exchange rate that we gave in the guidance that we gave in February. So by the end of the year we might have similar exchange rates but we are still on track for all-in cost and all-in sustaining cost that we gave in February.

Tanya Jakusconeck – Scotiabank

If I was to take that \$82 million, take two-thirds of it, divide by your production for the six months that would be the Dollar per ounce gain I would see from FX and oil?

Paul Schmidt – CFO

On the net operating cost which is the bulk of your AIC and AISC.

Tanya Jakusconeck – Scotiabank

Okay. All right. Thank you. That is very helpful. Maybe coming to Damang. I am just wondering if anything has changed in your thought process at all, Nick, with the higher gold price. I understand we have this big pre-strip. Maybe you can remind me of the size of the pre-strip that we need to do, either Dollar-wise or tonnage. And has anything changed within the modelling of Damang that has made you rethink how you



are going to approach this?

Nick Holland – CEO

Tanya, would I would say to you is we're running the base case of \$1,200/oz gold. That is the base case. We do an upside case on \$1,300/oz. We are stress testing all those numbers to make sure we understand what the peak cash outflow is. We haven't given any numbers previously on what this might be. So I wouldn't want to come out with provisional numbers at this stage until we've finished the work. But nothing has changed in our thinking with the higher gold price. I think the higher gold price certainly helps. But I think the one thing that I must remind the audience of is that the development agreement in Ghana that we concluded earlier in the year has definitely been a tailwind here on the basis that the taxes have come down from 35% to 32.5%. The royalties will come down from the beginning of next year from 5% to 3%. We have also got the removal of certain levies on fuel and various imported equipment. So all of those are helping the investment case even at \$1,200/oz. So we are stress-testing the final numbers and I think we will be in a position to make a formal announcement on this really hopefully eight to 12 weeks from now.

Tanya Jakusconeck – Scotiabank

Okay. So nothing technically that you have come back and needed more time from a technical standpoint to look at in terms of challenging conditions or other?

Nick Holland – CEO

No, we haven't seen anything in the main pit that would worry us too much. If anything the peer reviews that we are doing are helping to crystallise our thinking. And taking more time has been good to make sure we haven't missed anything here.

Tanya Jakusconeck – Scotiabank

Okay perfect. And just my last question coming back to exploration. Nick, is there one project that you want to highlight for us that you're quite excited about and we should be focussed on?

Nick Holland – CEO

Look, I think the only active project we have in the group outside of the brownfields exploration in Australia is of course Salares Norte in Chile in the Atacama area which is host to a number of really good ore bodies. It is an epithermal high sulphide system. We are in drilling mode still. We are doing some studies. We put out an initial resource which you may have seen which we updated last year. And we will update it again this year. So it looks like an interesting project but there is still quite a lot of work to do. And we think it is worth spending the time and effort. We have put \$50 million aside in our budget. So in our all-in costs there is \$50 million there for Salares Norte. And we will give you an update I'm sure by the end of the year. But so far it is looking encouraging.

Tanya Jakusconeck – Scotiabank

The \$50 million, Nick, is that all for exploration drilling?

Nick Holland – CEO



Most of that is going into exploration drilling. There is obviously a camp, there are various option payments and various other things. Studies as well. We are doing some studies around what we found so far. But around about 60% of that is going into the ground.

Paul Schmidt – CFO

Tanya, sorry, it's Paul here. Just the numbers I gave you. They were the six months 2015 to six months 2016. If you wanted relative to guidance I can get back to you.

Charlotte Matthews – Business Day

Hello again Nick. I know you have said previously that you're interested in acquisitions. Are you still looking? If so where are you looking and how much money have you got to spend? Would that be the \$1.3 billion of refinanced credit facilities or should I net off your existing debt from that?

Nick Holland – CEO

We are looking around in a range of different places, Charlotte. Strategically I don't want to say too much more about what we're looking for, where we're looking and how much we have to spend. I think depending on the opportunity we will figure out how best to finance it. But until we've got something tangible on the table I don't want to say too much more except that this is opportunistic. It will happen when it happens. It is not a strategy that we are relying on. The rest of the group is in good shape as you've seen. And if we can add something that lowers our cost, that provides upside for us, great. If not we continue with where we are. So if you don't mind I don't really want to say too much more than that.

Operator

Thank you. Mr Holland, there are no further questions. Would you like to make some closing comments?

Nick Holland – CEO

Just to say that obviously we have the second half coming up and clearly there is still work to be done to make sure that we hit the numbers. This team is very focussed on hitting the numbers because if we do that it will be the fourth consecutive year that we've achieved our production guidance and surpassed our cost guidance. And the team is very motivated to achieve that. That is our commitment to the shareholders. And we hope to be able to give good news at the end of the year. With that I want to thank you for dialling in and we look forward to seeing you all hopefully later in the year. Thank you so much.

END OF TRANSCRIPT