# Conference call transcript

28 February 2019

**IMPLATS INTERIM FINANCIAL RESULTS**

**Johan Theron**

Good afternoon ladies and gentlemen and welcome to the Implats half year results presentation for the year ended December 2018. A special word of welcome to everybody who has joined us here in the venue today as well as those that are listening on the call. For the people inside the venue I'm sure you are familiar with the venue, but basically we've got two doors on either side of me. If there is an emergency of any sorts we will use that as an evacuation. And as you exit the door that you have just entered on the left there are some bathrooms there.

So a hearty welcome to all of you. I will now hand over to our CEO, Nico Muller, who will do a short presentation after which we will do Q&A. we will start with the venue here, but we will also give ample opportunity for people on the line to ask questions. So if you've got questions please ready yourself on the line. We will be taking question on the line as well.

So you would have seen that the results came out at 7:00 this morning. Included in the results is a very detailed presentation that we tried to cover most parts of the business. But I will hand over to Nico now to just take you through some of the key aspects of the results that were released earlier this morning.

**Nico Muller**

Thank you Johan. I am absolutely delighted to be here as you can imagine and I hope we can do justice to our great team we have assembled at Implats. I think you will see from the results the value that the team has contributed to the company. I am very delighted about the improvements in the market and very encouraging that not only Implats but most of the PGM producers are reporting very positive results. I think as a sector, as an industry, as a platinum producer or PGM producing region it is very encouraging for us to be part of that journey.

Before I start with the normal cautionary and forward-looking statements – you can make your own mind up on what we're saying there – While there is much to be pleased about from our performance over the past six months, for me personally, our substantially improved safety performance stands out, specifically at Rustenburg where we have managed to reduce our fatals from six to one. Even one is too many, but nevertheless a very good journey towards zero harm. And in the 2016 calendar year we were the worst performing PGM producer from a fatality injury frequency rate. In 2017 we were the second worst. In 2018 we were number one. So thanks to all the efforts. It is a fundamental part of the business because in the absence of a very strong safety performance it is impossible to produce positive operational results.

From an operating point of view tonnes milled 3% up to 10.24 million tonnes. Platinum in concentrate was 11% down, but we had two components to that. The one is third party receipts. In the previous period we had a significant tailings treatment contract that expired. This meant receipts in the current period were lower and ended up at 97,000 ounces. So that is contributing to the 11% reduction in platinum in concentrate. If you look at the fundamental operations under our control we remained steady at 678,000 ounces. In line with the restructuring of Rustenburg that we communicated, during this time period we have closed down 4 shaft. However, we still produced 10,000 ounces more than a year ago when we had an additional shaft. So well done on that, Mark.

Group platinum in concentrate reduced by 11% to 775koz. Mine-to-market was maintained at 678koz and what is encouraging for me is that the two problematic assets historically, Impala and Marula, those are two assets that have performed well in the last year and have improved their production. And the 12,000 additional ounces that we produced from those two assets more than offset the marginal reductions in our platinum in concentrate from the other assets.

Further downstream and looking at the gross refined PGM production - that went up by 11%. We did have the benefit of some stock in pipeline that came through. So platinum production went up to 800,000 ounces. Important to note – I think this is a message we are trying to pass through the industry – we are not a platinum producer, we are a PGM producer. So you can see the contribution of palladium and rhodium. And given the increases in those Dollar prices now the situation with the revenue from palladium and rhodium is equal to and very rapidly surpassing that of platinum. And you can see the contribution of palladium and rhodium in our production.

Then, importantly looking at our cost management. And in this period we managed to keep costs at 0% on a Rand per ton basis. If you look at the unit cost for platinum it gets even better. Unit cost refined improved 23% to R21 298/Pt oz. On a stock-adjusted basis they reduced 1% to R22 715/Pt oz.

Group capital expenditure reduced by R197 million or 10% to R1.7 billion in line with our business plans and market guidance. Capital expenditure at Impala reduced to R1.0 billion, down by R425 million, due to decreased off-reef development and slowing spend on 16 and 20 shafts. At Zimplats capital expenditure increased by R225 million to R657 million, as project progression at the new Mupani mined accelerated.

You will recall that we refined 800,000 but we only sold 773,000. And that was a deliberate choice because towards the end of the calendar year we saw a lot of metal being put out in the market and there was downward pressure on platinum price. So we decided to hold back on some of the sales. So in spite of that it was nevertheless 19% up on the previous period, given the fact that in the previous period we had lock-up of stock in the pipeline. So we had 19% more metal that was sold. In addition to that we had a 16% improvement in the Rand basket price. That was because of two reasons. One, there was a 10% improvement in the weighted average metal price as a consequence of palladium and rhodium as indicated on the slide. And in addition to that we had a 6% weakening of the exchange rate. So if you add the 16% to the 19% you get to revenue which went up by 36%, which ended the half year at R23.52 billion.

Our cost of sales went up by 21% because of the increased value of metals that were acquired and restocking of some of the pipeline. So the cost of sales ended up at R20.29 billion. So the difference between that and the revenue resulted in a gross profit of R3.2 billion, which was about six times the revenue that we achieved in the corresponding period in the previous year during which we did R556 million. The gross profit translated into a profit after tax of R2.4 billion, and ultimately into headline earnings of R2.2 billion or 310 cents per share, which compares to a loss of 21 cents per share in the corresponding period in the previous year.

So a very important slide. We have stated as an objective and a strategy that we will seek to make sure that we don’t support any loss-making ounces in our portfolio. On this slide you can see the basket price at each operation relative to the all-in costs, all forms of capital and operating cost, and the gaps there represent the margin. So you can see that at all of our assets we’ve had all-in costs which were less than the revenue basket. And then this translation to cash flow contribution which was R4.6 billion for the half year. You can see that each and every asset under our control was profitable during this period, and in particular Impala. You can see although they’ve got a very small margin given the fact that more than half of our ounces come from Impala Rustenburg the impact that it has on our ultimate cash generation as a company. Also to consider that part of the R4.6 billion was the forward sale of R1.06 billion. Of course that is not sustainable indefinitely. But nevertheless every single asset under our control produced a positive cash flow. I’m very proud of that.

I’m not going to touch on everything on this slide, but just a few strategic imperatives. The first one on the left deals with the ambitions we communicated with Rustenburg. And we are very pleased that everything that we set out to do by year-end has been concluded. We reduced our labour by 1,500 people and that was without incident, no industrial action, and I think is largely because of the fact that the majority of the labour was reduced by making use of natural attrition and initiatives that did not involve the forced retrenchment of employees. So well done to Lee-Ann and her team. I think you have done a wonderful job.

I have spoken about the safety performance at Rustenburg that has gone from strength to strength. We closed 4 shaft. Everything at Rustenburg is according to plan. Of course next year we have got 1 shaft and 9 shaft. Those are shafts that are depleting their reserves, so it is not subject to market conditions or profitability. They are coming to the end of their economic life. We will deal with that. And then we’ve got 14 shaft in the following year.

So I have been asked a question. What are you going to do with restructuring given the improved market price? I just want to restate a firm commitment from Implats that our ambition is to make sure that every asset under our control is cash generative. How does that relate to Rustenburg? We have done what we will do up till now. We will do 1 and 9 shafts because we have got no option. And we are committed to making sure that 12 and 14 shafts do not represent a liability on our books. The fact that the market has improved and the fact the market has been able to generate improved performances and efficiencies at those shafts provides us with more flexibility in terms of how to achieve the objective of making sure that every shaft under our control is cash positive. So we remain firmly committed to that journey.

Just on the balance sheet, given the fantastic financial results as far as the balance sheet is concerned that's been great news. We have been able to reduce our net debt from R3.8 billion in the previous corresponding period to R1 billion. Our liquidity has improved tremendously. Last year this time we started drawing down on the RCF. Now we have access to R10.4 billion in cash or cash equivalents and Meroonisha and her team have been able to negotiate much more favourable terms in terms of the RCF by bilateral agreements converging into a single club facility. And she will talk more about that.

So I will comment on the markets. We have seen an upswing. As far as Implats is concerned and I think now the majority of the market as well there is a very clear sense that it is a structural change and not a cyclical change. We have seen strong fundamental support for palladium and rhodium given the escalating emissions standards required in particularly China. And we are seeing heavy duty vehicles also coming into that frame. There has not been significant support for platinum in industrials given the significant separation in Dollar pricing between the metals and the amount of money that is currently being invested. We are sponsoring part of that work. There will be increased opportunity for substitution of palladium in particular and rhodium by the use of more platinum even in gasoline diesels going forward.

I think today is the launch of the air initiatives in the UK which provide for a standardised emissions testing protocol across the entire Europe. I think that is very good news for platinum because we have suffered from confidence in diesel emissions after the Volkswagen scandal. I think this will provide a new level of confidence for a whole range of people in the emissions standards value chain to regain confidence and for diesel to occupy its rightful place in the automotive sector.

I will conclude by just touching on the outlook. We have not changed anything as far as the group is concerned. It remains as we stated at the beginning of the year. The only two changes that I do want to touch on is Two Rivers which we now are guiding will probably end closer to the bottom end of the range. It is going through a challenging time to deal with split reefs which are becoming a more prominent part of its production. That will mean we will end closer to 160,000 ounces for the year as opposed to the top end. And then at Marula, although we had a very good first half of the year we did revise its guidance down by 5,000 ounces. It used to be 85,000 to 95,000 and it is now 80,000 to 90,000. That is a consequence of some disruptions that we've had in the first quarter of this year.

But those changes are so insignificant when compared with the group numbers that we believe it was not necessary… In addition to that we are seeing above expectation performances at some of the other operations, so we think in the end it will all net out to between 1.5 million and 1.6 million ounces anyway. That sadly is the end. I will now use this opportunity to ask our team members to come and assist in the front, and I would like to open the floor for Q&A. Thank you.

**Johan Theron**
As the team make their way to the front here there are roaming microphones on both sides of the venue, so what we will do is we will start by taking questions from the venue. If I could just ask for the benefit of the people listening in to just state your name clearly and then ask the question. And then we will make sure there's opportunity for the people on the lines as well.

**Chris Nicholson**
Morning guys. It's Chris Nicholson from RMB Morgan Stanley. Congratulations firstly. I think you blew all of us away with these numbers, so well done. Reading through 20 shaft in particular I can see that geological conditions are tricky and remain so, and it looks like you have curtailed the capital schedule. Reading between the lines it looks like you have curtailed the ounces there. How are you going to make them up in terms of the long-term target of 520,000? And then specifically, do you have some optionality to maybe mine other ounces out of adjacent shafts, maybe get some of those out of 12 shaft for example? If you can just talk to that. Thank you.

**Nico Muller**
Thank you. Mark.

**Mark Munroe**
Thank you. 20 shaft in the longer term will reach its full potential. It has taken us a bit longer to get there. We have made some strategic adjustments to our plan. We have slowed down our plan on sending crews over to 20 shaft to allow us to develop more face length now so that when we do ramp up we have the necessary flexibility to get efficiencies and take it further. So in the short term it will be lower than original plan, but we believe we will get to that top end eventually. In the short term and in the long term we have now fortunately got some more flexibility. We've got more cards in the game now. We do have 12 shaft that is making money. We do have other operations that are performing well. So will that impact our net forecast? No, it won't. We have enough flexibility in our business to deal with that.

**Chris Nicholson**
Thanks.

**Rene Hochreiter**

Hello. It's Rene Hochreiter from NOAH Capital. Well done to your team, especially Mark and Alex, and to Jon of course. I'm just got a question about the sustainability of the margins. At Impala I see your margins are about 12%. How sustainable is that in the second half and going forward? And for Alex I see his margin was about 33%. How sustainable is that with what's happening in Zimbabwe? And my last question, do you think you can do another 300 cents in the second half?

**Nico Muller**

So let me start with the last question. I think Meroonisha has provided reasonable guidance and I think it's something that we want the market to take note that our year is not the second half replicating the first half. There are a number of factors that will result in the second half not being as robust from a cash flow point of view. So Rene, I can almost guarantee it won't be 300 cents in the second half. But we will do the best that we can to make sure that it's as good as possible. In terms of the sustainability of the margins of course we are very concerned as always as we've been for the last 18 years about the Zimbabwe position. I wish to assure you that we are collaborating very closely with the Zimbabwean government.

We had the Chairman of Zimplats, Alex, myself and the Chairman of Implats visit the President on Monday. We are in frequent dialogue. It is very constructive. They have just announced their new monetary policy with a number of areas of concern as far as we are concerned. But those are being dealt with. Alex is with the Reserve Bank Governor. The big issue for us is retention of forex and the exposure to RTDS and that that may lead to cost inflation. But at this point in time I think it has been well managed and Alex is doing a tremendous amount of work to facilitate access to foreign exchange for the government to reduce reliance on the industry and on Zimplats particularly. I think that will translate into protection for our operations under the current economic position of our Zimbabwe operations. As far as Mark's margins are concerned, Mark, is it sustainable?

**Mark Munroe**

No. Not at all. [Laughter]. [Inaudible segment] our year end forecast is 650 so you can see they are going to be different. So the same costs we have in the second half as we had in the first half. So no, it won't be repeatable from that point. The second half we've got significantly more challenges. We are coming off the January new year so January is not a very productive month. And you have also got April, Easter, and we've got elections and we've got wage negotiations. So we have a number of factors that will drop our production probably no matter what. And we've also got a number of high risk events that might or might not occur in the second half. But I do believe the fundamentals of the business are better. You can see that in the safety. So the fundamentals are looking much better than they were in the past, but no, H2 is not the same margin.

**Nico Muller**
That's a very conservative view of course. Let me just put a bit of colour on [unclear]. I think Mark is correct, but I do believe that we are following the right trajectory in Rustenburg and we have not landed at the end position. We have seen continual improvements. There is quite a lot of innovation happening. I think if you compare our productivity compared to our peers I still think that we are lagging. And if I look at the results we have achieved just in the year Mark has been with us I have no reason to think that there is not at least a potential to continue with that. So notwithstanding some of the challenges he has pointed out, whether it will be exactly the same margins I'm not so sure, but if I look at the long-term trajectory of Rustenburg I'm very hopeful. Someone asked about 20 shaft. There are many issues that Implats has to deal with. One is the 20 shaft project. And there the war has not been won. The other is the declining grade as a consequence of the split reef at Two Rivers. That has been traditionally our cash cow. It has been a fantastic asset. And lastly we have to keep a firm handle on our ability to generate cash and have cash flow to the shareholder in Zimplats. I think for me those are the broad challenges of the group.

**Johan Theron**
Okay. And while I pass on to the next question maybe just for the people on the line I know that there was a rush. A lot of people tried to get onto the call and some were delayed. Please don't stress. After the presentation today a full playback will be available on the website.

**Nkateko Mathonsi**
Good afternoon, Nkateko from Investec. A big congratulations from me as well. Very good results. I think your safety performance in particular is commendable. But how confident are you that this great performance that you have shown in the last half is sustainable on the safety side? And then in terms of your restructuring I think according to you plan shaft number one is going to be closed down by the second half, and that has [inaudible]. So how many of those employees can still be natural attrition? Do you see a situation where you will in this half actually have forced retrenchments?

**Nico Muller**
If I can ask for a favour, Jon, I think this is a fantastic opportunity to bring you in. You can just touch on the changes that you see in the leadership approach and give a flavour of what we are contributing to. And then I can touch on the labour issue.

**Jon Andrews**
Okay. Thank you. So there has been as Nico said a definite change in the hearts and minds of the people, and that is critical from a safety perspective. That doesn't mean that we are confident that every single person is behaving safely every single day. But I have to say that the improvement over the last 12 months has been dramatic. I think you see that in the numbers. And it's the correct trajectory. We're on the right track, no doubt about it.

**Nico Muller**
Thank you. Mark can talk on 1 shaft.

**Mark Munroe**
Just on the safety I do think we're not out of the woods and at any time anything could happen. We still operate a conventional deep level platinum mine. So there are risks out there. And you only need one person to come to work having a bad day and mess things up for a lot of people. So we're not out of the woods, but definitely our fundamentals have changed. You have seen it in our fatals, our injury frequency rate, our Section 54s, our internal stoppages. A range of elements have shown that it is getting better. And it is not only safety. It is safety and health. Jon has done a lot of work with TB and things like that that have also improved across the business. So I think the trajectory is in the right direction.

On 1 shaft, 1 shaft will be closed. We have already stopped the main development some time ago so we are not opening it up. I think we originally said April but it could be June/July depending on how prices hold, how our productivity holds over there. We will be able to I believe accommodate all the production personnel. So the production personnel as we ramp up 16 and 20 can be moved over there. And they are good crews over there so we definitely want to keep them. There will be retrenchments on the service and engineering side. 1 shaft has multiple declines and [unclear] and things like that so we plan to have retrenchments there. But we do have a high level of natural attrition, unfortunately more in the production side than in the services side. But that will assist us greatly. So we are envisaging in the current plans to have a Section 189 to close 1 shaft later on in the year. Remember 9 shaft as well. 9 shaft is contractor mined but it is Impala serviced. So the engineering there is Impala people and they also have a closure plan with regards to 9 shaft.

We will take three more questions from the room and then go to the lines, so people on the lines can start queuing on the lines.

**Leroy Nguni**
Good afternoon Nico. It's Leroy from Standard Bank. I guess after a half like you've had the question of dividends comes up. What are you thinking about that? How do you balance that with some of your projects? And then maybe also give us some guidance on cash outflows if you do decide to continue with the Waterberg project.

**Nico Muller**
Thank you very much. Where's Meroonisha?

**Meroonisha Kerber**
Thanks Leroy. If you look at where we were in September and where we are now there's a significant improvement. But a lot of that is besides operational and safety performance also been driven by the improved basket price, which we can't really take for granted going

forward. So we are a bit conservative with our planning. In terms of how we're thinking about the cash and how we expect to utilise it, our first priority is that we are able to fund the restructuring of Rustenburg whether it is in its current form or any amended form that we have. If you recall in our strategic review we gave the potential retrenchment costs for 12 and 14 shafts were about R2 billion. In addition to that we need to ramp up 16 and 20 shaft, so we need to be able to fund capital for that. And Zimplats has got a lot of capital in for Mopani which needs to be funded.

Our priorities would be funding Rustenburg, making sure that our balance sheet is intact so that we can deal with those lumpy costs if they do arrive. The next priority would be our SIB capital because that's our cash generation into the future. Thereafter we would be looking to strengthen the balance sheet. If you look at where our net debt was in September and where it is now, it has significantly improved. But we are in a very volatile environment. As we have alluded to the second half has got its challenges. And we do have a lot of money locked up in the pipeline. So the priority definitely will be to try and bolster our balance sheet to give us a bit more headroom so that when there are these erratic movements in the Rand basket, especially on the downside, that we are comfortable that our balance sheet is solid enough.

Thereafter we would then be looking at… After we get to a point where we're more comfortable with the balance sheet then it's really what we do with extra cash. And really the discussion would be what you return to shareholders and what you use for growth opportunities. And the way we're thinking about that now is the significant growth opportunity we have is Waterberg. And depending on the outcome of that we would need to fund that. And also Zimplats has got a lot of optionality, and there is optionality at Mimosa as well. So when we think of cash it is sort of in that priority. But the one thing we are clear about is that any cash that goes into growth projects we need to clearly understand what our hurdle rates etc. and it needs to be accretive to shareholders. If we can't generate that value for shareholders then we will be returning cash to shareholders. But our intention is going forward that we would balance it.

In respect of Waterberg in particular, when the announcement was put out our commitment were if I remember about $35 million that needs to be paid to increase our shareholding. And once we do that there is another $135 million that needs to fund part of the build. And that capital probably will be spent probably in 2020, some of it, and then obviously it is not all going to be spent in one go. At this stage we are still evaluating options because we are still busy with the DFS on Waterberg to understand exactly what that requirement is. But all of these we will be factoring into our capital allocation decisions. Ideally the options we will fund from internally generated cash flows, and we would then look at how we fund the project going forward. Does that answer?

**Johan Theron**
Let's take one more.

**Yatish Chowthee**
Good afternoon. It's Yatish Chowthee from Macquarie. Mark alluded to high risk events that could happen in the second half. What is Impala's starting position when it comes to wage negotiations? If you look at the outlook the Reserve Bank is looking at inflation in the upper 4s. Basket price is good. Margins look great. How difficult do you think it's going to be to get to a wage increase of 6.5% in this sort of environment?

**Lee-Ann Samuel**
I think that is for me too. I think it is going to be very tricky especially in light of the strong performance at Impala for H1 2018. But we have a number of wage strategies and what we'd like to be is proactive and to take the lead on the wage negotiation process. We have engaged organised labour quite extensively to try and anticipate what their demands could be. But it always starts off with a 20% to 40% increase when they hand in their mandate to us. And we then plot a number of moves. But we are confident based on the engagement that has been taking place over the last few months that we will be able to try and settle it in a positive way for all stakeholders. So that's where we are right now. I can't tell you in terms of range.

**Nico Muller**
I have never seen a [unclear] wage negotiation. It is not dependant on market conditions or market pressures. [Inaudible segment]. I do believe that it's important to have a trust relationship with employees and with their representatives. And I think you have to have a sensible approach. You have to consider all angles and understand that harm to employees is not in your best interest. If there is a strike and it's violent that's not a great thing. I think that you can often use wage negotiations to in fact forge more strength in the relationship. I'm confident in my experience at Implats thus far that we've got members on both sides of the equation that are very well positioned to use the trust that has been developed between the respective parties to conclude a successful wage negotiation during this year.

**Yatish Chowthee**
Will you start as a collective unit or are you planning on going as individual companies?

**Lee-Ann Samuels**
No. we go individually. The platinum sector negotiates separately.

**Yatish Chowthee**
And then just one more. In terms of strike contingencies, if there are any, could you maybe just allude to what Impala is doing in the background regarding if any industrial action were to hit the industry? Thank you.

**Lee-Ann Samuels**
I will answer part of it and then I will hand over to Mark. We have updated all of our strike plans and all of our our people who are responsible for instituting it have been briefed on it. So we tackle it from a number of different angles. But for us what is most important right now is staying close to our workers. And with all of the work we've done in terms of visible

felt leadership and engagement and communication it is really around winning the hearts and minds of our employees and getting close as a management team. So whilst we have to face the reality and have all of those plans in place, the safety and well-being of our employees is of critical importance to us and we will communicate quite extensively with them throughout any process. So be it secondary strike action or wage negotiation strikes or whatever our most immediate strategy is to communicate and to keep the lines of engagement open.

**Mark Munroe**
So the biggest plan we have is the work we're doing to avoid the strike of any sort and get a reasonable wage increase. I think we've gone a long way to explain to all our people in Impala that we're still in a conventional mine. Impala is still one of the highest cost producers in the world. That is not sustainable in a platinum price that could go up and it could also go down, and we're still operating on a thin margin. We need to build capacity. Also we need to complete capital projects. We would like to do more development. So yes, there is also reinvestment. If I'm an employee at Impala I would say if they can invest in the business I can have a job in 20 years. And that's the approach we would like to take. We are also emphasising that the conventional platinum space has been through some big strikes, and people haven't made the money back from the money they lost in that environment. And I think that is coming home to people. [Inaudible segment] work together to take this business forward.

So that is definitely where the focus is, to eliminate the risk of a strike or greatly reduce the impact of such a strike should it occur. We have obviously got our contingencies. We've got critical services. There are agreements in place. We have also got critical service hospital staff etc. We've got security plans in place, as one would expect. We are probably in a fortunate space that because of our pipeline and stockpiles we probably have de-linked what happens on the ground in the mining space to what happens on the saleable side. There is a gap there that you will get cash flow coming out the other side. And this could handle some of the interruptions, although you wouldn't want that. You would want the whole business to continue. [Inaudible segment].

**Nico Muller**
I think the net position is AMCU is the majority union. If there had to be a strike we probably would bear the brunt of it. It will be 2,500 ounces per day, R73 million per day at Impala. We don't believe that we will necessarily have the ability to continue with production. We don't have a split representation. And we would be very cautious not to have a situation escalate from zero to 100km an hour in three seconds. So our efforts will be to sustain, as Mark suggests, the processing side in order to have the pipeline destocked.

**Johan Theron**
Okay. I would like to move to the lines now. I know there are some questions. Apologies to everyone who joined us on the line. I know there was a rush to join and some people came in late. As soon as I receive the recording from our service provider we will put it on the website and you can have another go at listening to us. So maybe move to the lines. Please state your name before the question so that we also know who is speaking please.

**Operator**
Sir, we have Patrick Mann of Bank of America Merrill Lynch.

**Patrick Mann**
Hi. Good day guys. Well done on the results. Could you maybe just help me with what the Rand value of the excess inventory that you've got at spot prices is? And obviously also then taking into account what you have forward sold and have to deliver. I know we've got the platinum ounces, but the other metals have also done very well. So it would be nice to know what Rand value you are expecting to release once you're back at normal inventory levels. Thanks.

**Meroonisha Kerber**
Thanks for your question. If we look at the surplus metal in pipeline – this is all the metals – it is approximately R4.3 billion at current values. And in terms of the forward we did indicate that we sold forward about 50,000 ounces of platinum and about 35,000 ounces of palladium which are actually a very small percentage of the total value.

**Patrick Mann**
Thanks. So you're anticipating going into a strongly net cash position after that unwind?

**Meroonisha Kerber**
So obviously we will unwind the pipeline. But there are other cash flows that are going to happen in the second half of the year. And I think the important point is that that unwind is going to happen over time. As we've indicated in the presentation we've got two furnaces going down for maintenance in the second half of this year. So that full amount won't be able to be unlocked in the current financial year. So the majority of that will roll over into the 2020 financial year.

**Patrick Mann**
Great. Thank you.

**Johan Theron**
Thanks Patrick.

**Operator**
The next question comes from Johan Steyn of Citigroup.

**Johan Steyn**
Thank you very much guys. Another question on inventories. How much inventory have you sold so far since the 1st January this year for each of platinum and palladium and rhodium?

**Meroonisha Kerber**
For the first half of the year the inventory that we sold down is basically the difference between the refined, the 800,000, and then the concentrate production. So I think that is approximately 44,000 ounces of platinum. For rhodium and palladium I don't know. Leon might have that. Sorry, can we get back to you on numbers? So it would be much less. But the platinum was about 44,000 ounces.

**Johan Steyn**
And just to be clear, that's from the 1st January up until now?

**Meroonisha Kerber**
Sorry, that is for the financials. If you recall at the end of June we indicated that we had about 160,000 ounces of platinum in excess of normal stock levels. And we've managed to reduce that down to about 130,000 at the end of December. We try to quantify the cash flow impact of extra inventory. So basically your platinum, your palladium, your rhodium and all the other associated metals for the first half of the year. Basically Rustenburg was the beneficiary of the additional release. That was circa R685 million for the half year.

**Johan Steyn**
Sorry, my question is not about the first half. My question is from the 1st January up until now how much inventory have you released into the market?

**Meroonisha Kerber**
It would be our normal… Whatever we have refined we would have sold into the market.

**Sifiso Sibiya**
Thanks for the question. So in terms of the inventory release you would have realised in our results there was 23,000 ounces of platinum with associated material that was held back. That has already been sold as of end of February. And in terms of the sales for first two months they are typical numbers as per our normal sales. If you look at the 800,000 ounces divided by six then you will get an indication of what that number is. But that has been through our long-term contracts and additional spot material that we sell.

**Johan Steyn**
Sorry, again just to be clear, the 23,000 ounces of platinum is then inventories sold over and above your normal production during the period 1st January until now roughly? And then can I assume a normal split ratio on that to work out what palladium you've sold or de-stocked? Sorry, to be clear, not sold but de-stocked over this period of time.

**Sifiso Sibiya**
Okay. If you look at our results you will see that our palladium was de-stocked by about 23,000 in H1 2019. So there were slightly lower sales of palladium during the first two months.

**Johan Steyn**
Okay. Thanks guys.

**Operator**
Thank you. The next question comes from Myuran Rajaratnam of MIBFA.

**Myuran Rajaratnam**
Hi guys. Thanks for taking the call. You mentioned that in shaft 20 that there was some geological complexity. Now, the call was quite bad because it was very fuzzy at the beginning and you got cut off halfway through. So you might have talked about it. Could you add some colour to what these geological complexities are in shaft 20? And what are the outcomes that are possible, the ranges of outcomes that are possible in your best estimate right now?

**Mark Munroe**
So the geological complexities at 20 shaft have always been there. So it is how we deal with them from a mining and planning perspective that is changing. So it has led to us taking a bit more time in establishing the face length. We have to be a bit more specific in how we plan the ranges and how we approach the ledging. So it takes a little bit more time to establish this face length. And also then from the geological knowledge, because obviously this shaft was properly drilled before it was sunk, and as it was sunk it was drilled out on the different levels to establish the footprint and where everything should be. But it is how that geological information gets moved from the bigger plans down to the mining plans, and then how the miners deal with that.

But I think we're coming to terms with it. I think we are reaching that area that we need to focus a bit more in how we approach this. So going forward there might be a bit of extra development associated with opening up the ore body as we look at the detailed planning. Actually our extraction rate at 20 shaft is spot on to the original concept plans that were in for 20 shaft. So we haven't decided to lose any ground yet. That might change if we want to leave out more difficult ground and go for more efficient mining. That might change in future. But for now we haven't written any big blocks of ground off, if that's what you're asking.

**Myuran Rajaratnam**
Okay. Thanks very much.

**Nico Muller**
I will just add to that. In my mind 20 shaft [unclear]. First of all high fold [?] frequency rate. That is has got two implications. One, we will have potentially a higher development to stoping ratio. That will affect your long-term cost. Secondly, we have an increased panel loss ratio that could potentially translate into lower [unclear] and again therefore higher cost. So one of the challenges that have to be overcome in addition to that is shaft infrastructure has got limited access points to the ore body and so logistical resolution of the employees and material out of the mine I think is a third big obstacle that lies ahead of us to overcome.

**Mark Munroe**
[Inaudible segment].

**Johan Theron**
Okay. I know that there are no more questions on the line. We can probably take two questions in the room and then I'd like to wrap up please. Are there any questions from the room?

**Chad**
Chad [unclear].  On your rationalisation plan [inaudible segment] and on the horizon you obviously would like to get more confidence in establishing Zimplats further. That of course is very difficult now. With the Waterberg time is a bit short as you need to replenish reserves on the lease [inaudible segment] and then get going with Waterberg. Or that's how I see it. What how is that strategic plan moving in the rationalisation of 6 shaft? Are you having second thoughts as you look at metal prices? [Inaudible segment]. And what is the critical path of actions in the lease area to take you from here to establishing blue sky development in the Waterberg and Zimplats?

**Nico Muller**
That's a comment and a question. [Inaudible segment]. Let me deal with the strategic direction of Rustenburg again. We are totally committed to the restructuring process that we have indicated last August. Notwithstanding we are not blind to changes in operational performance and market conditions. So to the extent that markets have improved and performance has improved we will take that into account going forward. I think it would be senseless to shut down shafts that are making huge cash profits. There are many ways to get to the position. [Inaudible segment] because we want to have none of our assets that are not cash positive.

We do believe at this stage… The other thing is it is not [unclear] for us to make strategic investment decisions based on short-term market volatility. When we make investment decisions they are realising value 15 years down the time. So as far as the Rustenburg position is concerned what we communicated as it was on the day that we communicated. To the extent that optionality exists because of changed environment we will communicate to the market when there is a shift in timing or the methodology of the execution. But we don't believe we have swayed from our cause.

Just in terms of the Waterberg, it would have been lovely to have the Waterberg in production today actually if you think of your low cost producer. So we are excited about that. But I think more than that certainly it is a new multi-billion capital project. We are notoriously poor at executing these projects to spec, on time and on budget. So the emphasis right now is not to push and advance the project in order to have a production profile. It is really to make sure that we apply the necessary diligence to ensure that if the answer proves to be successful that it is an answer that we believe in and that we can financially execute. I may not have answered exactly the critical path question but that's my best response.

**Gerhard Potgieter**
Maybe I can just add one bit in terms of getting timing right. The [unclear] that we have to mine mechanised, shallow resources is being followed already in Zimplats, Mimosa, Two Rivers, to an extent Marula. The Waterberg puts itself into that same box. So timing-wise it has to compete for capital with all these others. And I think it will be able to do so because of the vast size of its ore body and the shallowness of it. Therefore the first time that we will be challenged with a choice of investing there will be when the DFS is completed.

Now, that DFS is going to be completed before the end of this calendar year, which gives us another six months of sorting out whether we actually like it or not and how we're going to fund it and so forth, which means that mid 2020 we will be able to pull the trigger on Waterberg. If it ticks all the other boxes and if it says that it's the best investment that you're going to make I think it's going to be very simple when we compare it with a deep level shaft in Rustenburg. It will definitely be competitive as far as that is concerned. Our other operations, Zim and Mimosa, have also been sitting with plans of expansion. Let's assume that Waterberg is the first choice. It will probably then be another three years before we can treat the first concentrates from there. That is the sort of timeline we're looking at.

**Johan Theron**
All right. I think that's a perfect time to wrap up. Again thank you for joining us in the room and on the call. And I definitely look forward to seeing some of you on the road in the next two weeks or so. And if there are any questions or things that are not clear you are welcome to also send us an email or a call and we will try to respond to those as quickly as possible. Thank you very much.

END OF TRANSCRIPT