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Lonmin

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LONMIN

Ben Magara, Chief Executive Officer

Simon Scott, Chief Financial Officer

Lerato Molebatsi, EVP Communications and Public Affairs

QUESTIONS FROM

Anna Mulholland, Deutsche Bank

Richard Hatch, RBC

Fiona Perrott-Humphrey, Rothschild

Danielle Chigumira, UBS

Leon Esterhuizen, CIBC

Alison Turner, Panmure Gordon

Introduction

Ben Magara, Chief Executive Officer
Good morning ladies and gentlemen and welcome to Lonmin's 2015 Interim Results Presentation.

A special welcome to our Chairman Brian Beamish who has joined us this morning and I'm joined in front by our Chief Financial Officer, Simon Scott, and with us also today is Lerato Molebatsi who is our Executive Vice President for Communication and Public Affairs and Tanya Chikanza our Head of Investor Relations who most of you are familiar with.

I will take you through an introduction of our operating environment and how we are protecting our business for the long term value of our shareholders in the light of the persistent lower pricing environment, which I know is a key issue for most of you.

I will also talk about our operating performance and Simon will touch on our financial review. I will then return to take you through the PGM markets and conclude with our outlook.

It's been a tough operating environment, ladies and gentlemen. And we are now working on the basis that the lower prices will persist. I am however encouraged by our own efforts to manage our controllables. We are maintaining our grip on cost discipline, reducing costs in all areas. Lonmin has not shied away from taking the touch decisions. We are pulling all the levers to protect liquidity and embed resilience.

We have engaged with our unions and other key stakeholders and agreed to open up voluntary separation and early retirement packages. This we hope will reduce headcount by 3,500 in order to bring our labour bill down by 10%. It is early days but I am pleased with our unions' willingness to engage with us on this issue. And this is something which would have been unthinkable a year ago.

Lonmin has been fatality free for 18 months and as a miner nothing makes me more proud. And I keep reminding my 38,000 colleagues that we should remain vigilant. Our operational performance is solid, despite the tough economies environment. That coupled with cost discipline and leveraging the flexibility in our portfolio has allowed us to make the necessary adjustments to reduce capex for 2015 to $160m; followed by $150m for 2016 and 2017 annually, whilst we are keeping our platinum production maintained at around 750,000 ounces.

Our debt is well within our available facilities and includes shouldering the 200,000 PGM ounces which are stock locked up caused by the smelter incidents. But I'm glad to announce that our smelter complex is fully operational and we expect the unwind of stocks to reduce debt levels in the second half of the year. We are pleased to have achieved 26% effective BEE equity through transactions with our employees and communities; this alignment of interest holds us well for the future of our company.

The key performance features really highlight that our safety is the number one priority in everything that we do and we remain vigilant. We have a safety improvement plan in place to address the increasing lost time injury frequency rate. We mined 5.7 million tonnes during the period, up 72% from the prior year period which was impacted by the strike.

This was 2.7% lower than H1 in 2013 due to the depletion of old shafts and our open cast mining area.

We delivered 382,000 ounces of platinum in concentrate, the highest first half production since 2007, up 78% on the prior year.

We have seen pleasing progress with the ramp up of Saffy and we have completed the review of Hossy. We achieved a unit cost of production of 10,516 rands per PGM ounce, which is 2.6% below our annual guidance of 10,800. This demonstrates the progress we are making with our review of the operating model and continued cost reduction.

I think it's important to remind ourselves of our competitive advantage. As one of the few vertically integrated PGM miners in the world our assets rank amongst the best and our processing facilities are world class. Lonmin has a strong ore reserve position, providing enviable flexibility in these challenging times. Our excess smelting capacity gives us the latitude to have responsive planning and also allows opportunities to tap into the new revenue streams suited to our operational strengths.

Our objective to further improve our relative position is encapsulated in our strategy to focus resources on our Generation 2 long life, large scale shafts to achieve consistent operational performance and cost reduction through half level optimisation, optimising our hoisting capacities and crew efficiencies.

This is coupled with deploying a contractor model on our smaller depleting Generation 1 shafts, based on the value accretive ore purchase agreements. This approach may be different to what some others have sought to do, but we believe that it will assist Lonmin in continuing down the relative cost position.

We are making good progress with our value optimisation management agenda, which is delivering greater than 2 billion rands of value benefits over three years. The review of our contractor model, redeployment of employees and contractors, freezing general recruitment and natural attrition as well as our total cost of ownership initiatives have resulted in cost savings of 376 million rands, which is ahead of schedule and is driving unit cost lower in 2015.

Lonmin has achieved a headcount reduction of 1,128 since March 2014; contractor headcount has reduced by 618, since September 2014, whilst employee numbers have marginally increased by 186 in the same period, a net reduction in headcount of 432.

We have comprehensive plans in place to further improve productivity, primarily at our Generation 2 shafts. However these efforts are hampered by issues like Section 54 stoppages.

Lonmin is well positioned relative to its peers and it's something we have worked hard on since 2011. And our aspirations to become the best conventional labour intensive miner sitting well within quartile 2, using our best in class employee assets and employee relationships will position us squarely into quartile 2.

So we have continued to improve our relative cost position by driving improved margins, decreased costs and improving efficiencies. Looking at production reserves and safety Lonmin comes third in South Africa production, second in terms of 4E PGEs and we have maintained our safety leadership. This business is well positioned to navigate the current headwinds to protect future value for our shareholders, something I think we don't always drive home.

These are beautiful reactor vessels in our precious metal refinery, which is the Generation One technology and delivering very good residence time for our metals.

We unveiled our strategy at the end of last year detailing what our focus areas are going to be. I would now like to take you through our operational strategy that my team and I are executing on the ground.

Operational Review

Ben Magara, Chief Executive Officer

The new operating model differentiates between the operations based on the way in which they will be managed and serviced by the various service departments. The majority, 90% of our production is generated from five main shafts, categorised as Generation Two. That's K3, 4B/1B, Rowland, Saffy and the merged Hossy and Newman shaft.

These shafts will operate as self-sufficient units, while maintaining an interdependent relationship with the rest of the business. As part of our effort we are delayering management levels to empower operations through clear roles and responsibilities, improving efficiencies and making sure that we can extract synergies from our operations.

Our Theory of Constraints efforts continue to yield benefits in optimising half levels and improving efficiencies and safety stoppages unfortunately remain a challenge.

The shafts on the eastern side of our operations, categorised as Generation One shafts, E1, E2 and W1 are predominantly mined as contractor operations and the open cast as well.

Lonmin has however continued to supply engineering expertise, thereby maintaining the infrastructure and the service staff to provide the relevant services required by the contractors.

We are now on a programme to totally outsource the Generation One shafts to contractors and secure value through commercial ore purchase agreements. This approach is extending shaft life. We will however maintain management oversight to ensure compliance to safety and other relevant standards.

Touching on a case study, we have been talking about Saffy and Hossy for quite a while and the interventions at Saffy are yielding significant improvement. These include our Theory of Constraints approach, where we have now installed additional grout plant capacity to increase pumping capacity to reduce the amount of lost blasts.

We have purchased and are installing winches and have established buffer stocks and stores, both underground and on surface to improve material logistics to the faces. The operational team at Saffy has been strengthened and the shaft is on track to reach full production by the end of the financial year.

I am really pleased that Saffy's production of 830,000 tonnes in the period is up 114% on H1 2014. This was impacted by the strike so therefore comparing with the steady state of H1 in 2013 production at Saffy in this half was 58% higher than H1 2013. We are pleased that Saffy is ramping up as expected and that costs are coming down. Our ore reserves at Saffy are at a healthy level to support our plans for the shaft.

We announced the review of Hossy in November 2014 and the review has now been completed. Hossy shaft produced 533,000 tonnes in the period, up 81% on H1 2014 and up 9% on H1 2013 as a direct result of improved employee relationships and reduced mechanisation fleets moving to hybrid mining.

The shaft head cost has improved and given the steady state improvements we will continue to operate Hossy and integrate the management infrastructure of this shaft and that of Newman in order to maximise on economies of scale and reduce overall costs.

I will now hand over to Simon who will take you through the financial review.

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Financial Review

Simon Scott, Chief Financial Officer
Thank you Ben, good morning everybody.

The financial impact of the solid operational performance achieved from a mining perspective was somewhat diluted by the downtime in our smelter complex. As well as the continued downward pressure on the platinum price experienced during the period.

Platinum sales volumes at 266,000 ounces were 1% higher than the prior year period. While production in the prior year period was effected by the strike, sales in the prior year period were impacted to a lesser extent. PGM sales of 515,000 ounces were 6% down on the comparative period, due to an estimated lock up of 200,000 PGM ounces from the smelter shut downs.

The low metal price environment persisted during the period under review, with the platinum price decreasing by 15%. The US dollar PGM price basket was 6.5% down compared to the prior year period. This resulted in revenue of $508m being 12% lower than the comparative period.

Underlying EBITDA of $8m was $95m lower than the strike impacted prior year period. In the prior year period idle cost of production relating to the strike of $165m were treated as special and excluded from underlying EBITDA.

Special costs in the current period of $14m related to the transaction costs on the BEE deal. Including the impact of all costs the reported loss before interest and tax of $84m was an improvement of $47m on the prior year period. Underlying loss per share and the basic loss per share for the current period were 10.5 cents and 13.6 cents respectively.

The loss before interest and tax reduced from $131m in H1 2014 to $84m in H1 2015. The impact of the smelter shut downs in the current period resulted in a stock build-up of $124m. This combined with a stock release in the prior year period increased comparative underlying EBIT in H1 2015 by $230m.

Lower PGM sales volumes sold had a negative impact of $33m, whilst the lower PGM prices had a negative impact of $45m. Production in H1 2015 was higher than the strike impacted prior year period and like for like costs, excluding the impact of foreign exchange movements were therefore higher by $195m. This increase was partially offset by the $82m positive impact of the weaker rand/US dollar exchange rate.

Total underlying operating costs for the period in rand increased by 88%, mainly due to the impact of the increased production levels. Against H1 2013 this represents a compound annual increase of 7.4% per annum, despite two years of labour increases of 12.9% and 8.8% respectively.

Costs reported in US dollars were positively impacted by foreign exchange movements resulting from the weaker rand, which saw the average rand/US dollar exchange rate weaken, from an average of 10.12 rand to the dollar in H1 2014 to 11.44 rand in H1 2015 for costs.

The good operating performance combined with the early results from our value benefits projects and focus on cost containment resulted in a unit cost of production of 10,516 rand per PGM ounce. This was 2.6% below the annual guidance of 10,800 rand and 19.5% below the strike impacted prior year period. Against H1 2013 this was a compound annual growth rate of 8.3%.

The closing net debt of $282m, whilst a significant increase in the opening net debt position of $29m reported at the start of the year was partly due to the impact of the stock lock up and well within our debt facilities. The effect of the loss before interest, tax, depreciation and amortisation was a negative $6m. In total working capital increased by $154m, largely as a result of the stock lock up.

Capex of $65m was invested and financing costs and dividends paid to minorities were $8m and $19m respectively.

We estimate that net debt at 31 March 2015 would have been around $170m lower had the stock lock up not occurred during the half year period.

We have proactively scaled back capital expenditure to manage liquidity in the face of persisting low PGM prices. We limited capital expenditure in the first six months of the year to $65m. This was spent mainly on stay in business capital across the various shafts and processing facilities. The comparative H1 2014 expenditure was impacted by cash conservation measures during the strike period.

We are planning on the basis that the low PGM prices will persist and accordingly we are reducing our full year guidance for capital spend from $250m to $160m. This is in line with our strategy to fund capital expenditure from cash flows generated by the business.

At our mining operations non-critical path items have been deferred at some shafts, and at the concentrators the bulk tailings treatment project has been deferred.

We continue to focus on the value creation initiatives around cost savings and are encouraged with the containment of unit costs in the first half of the year. We have scaled back capital expenditure for 2015 and we will continue to spend capital at reduced levels until prices improve.

Net debt at 31 March of $282m was well within our debt facilities of $563m. The impact of the stock lock up arising from the smelter shut downs is estimated at $170m. We only expect these ounces to contribute to earnings in a small way as these stocks are held at close to current net realisable value. As this unwinds in the second half of the year we expect our net debt position to reduce.

We are confident of managing our working capital requirements through cost conservation measures and capital discipline to keep borrowings and debt covenants well within the limits of our committed debt facilities.

That's all from me, I'll now hand over to Ben to cover the rest of the presentation.

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Market Overview

Ben Magara, Chief Executive Officer
Thank you Simon and now turning to our markets.

PGMs enjoy strength in diversity of its markets both by end use and by region. And auto-catalysts remain the leading market for PGMs, supported by the imperative for an ever cleaner air in both developed and emerging markets. While alternative power trains are developing the internal combustion engine looks set to dominate for the foreseeable future.

Platinum jewellery demand has grown to almost equal that of auto-catalysts and our market initiatives continue to grow demand in new regions.

Despite the persisting low price environment we anticipate platinum demand to grow over the next few years as the level of above ground stocks fall, metal prices improve and the driver - particularly being Europe in terms of auto-catalysts and India and China being drivers for jewellery demand.

Fuel cell vehicles represent a significant long term growth market, stationary and vehicle fuel cells will see an increasing adoption over the decade. It is important also to point out that the adoption of these fuels cells as base load and back-up power is expected to grow significantly in Asia and in Africa.

There has been recent negative press about diesel vehicles in Europe and this is unfortunately unwarranted. The anti-diesel sentiment is targeting older Euro 3, 4 and 5 vehicles and the reality is that none of this negative press is aimed at Euro 6 compliant vehicles. We anticipate little threat to ongoing sales and in fact expect some upside for platinum to come in with the Euro 6 purchases as Europe's platinum auto demand remains stable to 2020.

Long term the PGM fundamentals remain attractive. There is significant upside ahead for PGMs use in auto-catalysts, especially in emerging markets such as China and India to address urban air quality issues with a swifter move to Euro 6 emissions legislation.

This does rely on the availability of sufficient clean fuel, coupled with auto-catalysts and vehicle manufacturing capacity. The current pricing environment may also provoke substitution within the PGM triangle, favouring rhodium and platinum. And the relative price of platinum to gold may affect jewellery demand positively for platinum.

So in the long term PGM fundamentals remain robust.

We dig to improve lives gentlemen and we dig to benefit our shareholders and our employees. And Lonmin has embarked on a journey to radically change our workplace environment to one where employees and communities are empowered to create the shared value that is so vital to our collective future. This is especially critical in the current operating environment and in an industry which is already experiencing enormous structural challenges. The challenge is to be able to perform effectively in the prevailing market and workplace conditions, but also to be nimble enough to take advantage of opportunities when the cycle turns.

In driving this concept of shared value Lonmin is collaborating with all stakeholders including national and local government, host communities, civil society and employees to ensure that is socioeconomic contributions are a sustainable solution to development. So that Lonmin is seen by all as a net positive contributor to society.

Mining around Marikana will continue for more than 50 years and our vision for Marikana must go beyond mining. We have continued our focus on housing and living conditions and Phase 1 of our construction on the 50 hectares that Lonmin donated to government is due to complete in the second half of the year, in addition to our infill programme for apartments.

Education and financial literacy remain key to Lonmin's social investment programmes. And we are making even more progress in community infrastructure, upgrading roads around our mines, and into our settlements to improve mobility and access.

Enterprise development and community health are initiatives that we continue to work on. But the company will be unable to look after the well-being of its employees and other social partners unless it is financially sound.

So in conclusion we have to really look into the challenges that we have covered and the decisive action that we have taken to protect the liquidity and embed resilience into Lonmin through a shared interest.

We have maintained and strengthened our relationships as we drive our aspirations to achieve zero harm. But in reality as we look at the guidance that we have given, our full year guidance remains at 750,000 platinum ounces and the smelter complex is operating normally at normal levels and therefore the surplus furnace capacity will help us maintain our sales guidance of 730,000 ounces. I am pleased with our cost savings programmes and we maintain our unit cost guidance at 10,800 per PGM ounce for the full year.

We are planning on the basis that the current depressed pricing environment will persist for around two years; as a result we have reduced our capex numbers from $185m to $160m.

The capex of $150m is now planned for 2016 and '17 and we will maintain our production level at 750 for those years as well, highlighting the leverage and the flexibility that our portfolio offers. We are managing our working capital requirements through various cash conservation measures and capital discipline to keep borrowings and debt covenants within our committed facilities. We have made good operational performance and solid progress in a tough operating environment. And we are taking the tough decisions in managing our controllables, to make sure that the business navigates the prevailing environment and remains poised to capture long term value when prices finally improve for our shareholders.

I would like to take this opportunity on behalf of the entire Lonmin community to welcome our new shareholders from the distribution in specie. And also thank the non-executive directors Gary Nagle and Paul Smith from Glencore who stepped down from our Board last week. Their contribution over the period has been greatly appreciated.

Thank you ladies and gentlemen, we'll take some questions.

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Questions and Answers

Anna Mulholland, Deutsche Bank

Good morning. The first question is on your capex cut specifically for 2016 and '17, down to the $150m. I think in the past you've spoken about maintaining your 750,000 ounce output for a cost of $250 to $300m sustaining capex; where are the cuts coming from, can you just explain how you're able to maintain that output with a lower level of spend?

The second question is on your voluntary retrenchment programme. What's the timeframe for getting that completed? What happens if you don't get the 3,500 people putting their hands up? And just specifically to check, the move to the ore purchase agreements and contractor mining, is that part of the reduction that you see in the employees? Thanks.

Ben Magara, Chief Executive Officer
Great, Simon will touch on the capex and then I'll talk about the voluntary severance packages. So let me possibly start on that.

Well I think it's amazing how you can tighten your belt in challenging times. And I am very encouraged by how the team has looked into that and particularly that we are able to maintain 750,000 ounces for the two years that we have now re-guided to $150m. But Simon will talk about that a little bit.

Let me talk about the voluntary severance packages and early retirements and the timeframe and what happens if we don't achieve the 3,500.

We have been very encouraged by the engagements with the unions, it's early days, it's tough, but like I said I don't think anyone expected that we could have a civilised conversation today a year after the challenges that we went through last year. So it really is encouraging.

I do not expect it to be easy and it's still going to be tough and they have to defend their members to the best of best possible. So at least they have appreciated the circumstances of the low prices and the persisting low prices and that we should actually engage on this process. They have committed that they will work hard with us to finalise our proposed package offer so that they can take it to their members.

So we are expecting in the next few weeks to actually have finalised this process and make sure we can then open up the voluntary packages. It is crucial for ourselves and for the motivation of our total workforce that this thing is done as quickly as possible. If it was a normal Labour Relations Act formal process the minimum time would have been 60 days. And we hope that these voluntary packages will have been opened a lot earlier than that. So that's one thing.

But if it happens that we do not achieve in the period these voluntary and early retirement opportunities that we are offering to our employees indeed it still remains that a formal process is there and available to us in order to make sure. But I think it really just tells us some of the opportunities we have and the leverage we can pull going forward.

So I think that answer a bit of the timeframe and what happens if we don't achieve the 3,500. Thank you Anna.

Simon Scott, Chief Financial Officer
On the capital side in fact we said we are planning lower prices for a two year period and we've revised the capital guidance in the current year to $160m, although we're spending marginally more on K4 in the current year we've deferred the bulk tailings project outside of that window and we've reduced other mining projects across the board.

In terms of the guidance going forward we've deferred K4 out of the window, the planning window of two years, we've also deferred the bulk tailings project although we'll look at other ways of perhaps financing that and again we've reduced development projects in mining proportionately across the board. We've guided to 750,000 ounces per annum through that period. Clearly we have indicated that our maintenance capital is more than what we're spending and when it becomes clear how prices unwind through the period we'll give greater visibility in terms of our profile of production going forward once we know and once we understand when that increase in capital is going to come through.

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Ben Magara, Chief Executive Officer
And I think I didn't answer you on the ore purchase agreements with the contractors. It is indeed an element of our - of the expected headcount reductions. But definitely there is a much higher component in that area where we hope our employees will take up re-skilling and redeployment to areas like Saffy, areas like K4 where we're doing some operational readiness. But yes they are all included in volunteering to go home.

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Anna Mulholland, Deutsche Bank
Thank you.

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Richard Hatch, RBC
Firstly just a question on the 840 million rand of value benefits, is that coming entirely from cost savings, or is that something else, perhaps you could just give a bit more colour on that?

Secondly could you give some colour on an expected margin impact from moving to the contractor model from your existing model?

And then lastly just on your two year view of prices staying as they are, is that your most cautious bear case, or would you expect it to improve a touch from that? Thanks.

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Simon Scott, Chief Financial Officer
In terms of the 850 million rand per annum savings, that's absolutely related to the reduction in the headcount. So what we've outlined is that there's a once off 400 million rand cost, which will be incurred in the current year and then the ongoing savings would be 840 million rand. It's part and parcel of the two billion rand that we outlined going

forward, so part of realising the productivity improvements is reduction in the headcount numbers.

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Ben Magara, Chief Executive Officer

On the margin impact for contractors I think what we are really looking at here is that in general if you look at the three shafts we are talking about W1, E1 and E2, W1 should have been long closed if it was operating in line with just the way we do things as big companies. So we put that at first into full contract area and now we're putting E1 and E2. We did that with the open cast.

So we've actually extended the life of those shafts, given the contractor model that we have got. And it will always remain on a commercial basis. So really it's about as long as they can meet our commercial requirements they can continue to mine and they can continue to scrap all the old workings. So the margins we are making out of that are also incremental given that our downstream processing capacities will also benefit from that.

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Richard Hatch, RBC

Can you give any steer on your commercial margin targets?

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Ben Magara, Chief Executive Officer

I think these are very possibly quite traditional benchmarks in terms of the industry so I can't pick on a number right now. But we definitely expect that if they are not marginal enough for our benefits they would not proceed and the shafts would close. Thank you.

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Simon Scott, Chief Financial Officer

So I mean the benefits would have been, you know in terms of the 2 billion rand worth of benefits that we've talked about, it's part and parcel of realising those benefits.

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Richard Hatch, RBC

And just on the prices do you think that that two year view is bearish?

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Simon Scott, Chief Financial Officer

We've talked about a planning window of two years. You know I think it's a realistic view. If prices do improve and on a sustainable basis within that window clearly we would change our view on capital expenditure.

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Ben Magara, Chief Executive Officer

But I think what's important, to add on what Simon has just said, is the fact that this business is scalable and is flexible, and we have no doubt that we can carry ourselves through even if these spot prices continue for longer. We have the right levers to make sure this business survives and is resilient when the market finally turns.

Fiona Perrott-Humphrey, Rothschild
Just having come back from three weeks down there, two questions. How have you been impacted by the Eskom rolling outages? And how do you see that problem developing?

And secondly, I may be wrong but I thought we should have had the Marikana report out by now. Has that been released?

Ben Magara, Chief Executive Officer
Thank you and good to see you again. I will start off with the Eskom challenge. We have been very able to minimise that challenge on our operations at Lonmin mainly because of our proactive approach of communications with Eskom. We are part of the energy intensive user group that continuously monitores the demand side and supply side of energy, and therefore were able to respond with our operations.

Because our operations are slightly shallower it's been beneficial for us to focus our efforts when Eskom does require us to slow down and reduce our load, to concentrate that on our concentrators. We have eight concentrators so we have the flexibility to do that and therefore we continue to operate underground so that we are able to run our underground operations, we are able to run our smelters and we actually use the concentrators as really the concertina process to manage the power requirements. And that has been reasonable to us.

So we've only lost to date about 33,000 tonnes of volume because of Eskom, and we think that is manageable because in low times our concentrators are actually able to over use the power and continue to do that.

As for the Marikana report I think we have fully supported the Marikana commission and we have engaged and we have honestly put our issues on the table and everything that happened. The prerogative for publishing the report is the President's prerogative. He has published as of this morning that he will make the report public, he is going through it and we look forward to that.

Meanwhile we have had lots of lessons ourselves and we have worked very hard since the week that changed our lives on improving lives for our widows and for the orphans. And today either all those widows are in employment or their relatives are employed by Lonmin and the kids have all gone to school and we're paying for that. We actually have the first graduate who is graduating in a BSc in agriculture who is going for his masters from that orphanage. Sad as it is we are doing all we can to improve their lives.

Danielle Chigumira, UBS
A couple of questions. Just going back to the relationship with AMCU so that's obviously improved materially over the past couple of years, however they did make some comments around the wage negotiations that they wanted a firm refusal from Lonmin to do any compulsory redundancies. Has that position changed over the past few months is the first question?

And secondly this low price environment has meant that all PGM producers are targeting cost cutting. So you highlighted that Lonmin will be able to move from the fourth to the second quartile on the cost curve, what do you think differentiates you to be able to make incremental cost savings versus your peers?

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Ben Magara, Chief Executive Officer
Thank you. Simon will touch on the cost curve and the relative position we have travelled over the couple of years in terms of what some independent analysts are saying about it. I will touch on the AMCU Danielle and the material improvement of relationships.

It has improved. It takes two to tango so it's early days. We are very encouraged by the relationship developments and the maturity that we are seeing, but we're not saying it will be smooth sailing to get rid of 3,500 people because it is indeed people. So it's concerning for me as a Chief Executive that we have to do this, but it's a tough decision that we need to take to protect the liquidity and resilience of the business.

In terms of forced retrenchments, AMCU did indeed insist on wanting to see this as a condition of the agreement that we entered into last year. We definitely did not see each other on that, and therefore that clause was left out of the agreement. Therefore it's not a subject for industrial unrest or for them to go on strike on. However I think it's important that we highlight that the current arrangement is for voluntary and early retirement, and really to encourage. So we are hopeful that our unions be it AMCU, Solidarity and Uasa go and encourage their members to do so, so that we can avoid the need for forced retrenchments.

Should that need come through I think at that point we will have created more maturity about the efforts we have put in place, the circumstance of the business, where the spot prices are in order to actually make it a reality because the bottom line is we need to serve the majority of the employees. And I am confident at this juncture that AMCU seems to realise that as well.

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Simon Scott, Chief Financial Officer
Yeah Danielle you make - I mean the point around the cost curve is absolutely right. The cost curve that we presented to you this morning is SFA; it's an independent analyst's view of the cost curve. Our focus obviously is on what we can do internally and we're focusing on productivity. We're focusing also in taking costs out in terms of total cost of ownership and other value enhancement. Ben's also talked today what we've done around Saffy and Hossy.

You know it's very difficult for me to comment on what others are doing, but what we are doing is making our business more resilient in an environment where margins are very low. And we think that's the right action to take in order to protect the business and make it sustainable.

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Leon Esterhuizen, CIBC
Morning Ben, Simon. Looking at the strategy it's clear that you are sort of back pedalling on the cost, cutting back your capital, making sure that you operate at sort of breakeven levels on a consistent basis. But you're dropping 10% of labour if you can get that, and that's on a 60% of your cost base, so if you count that in that's about 6% of a cost break that you're going to get but it's not coming for free. So let's say you save 4% on cost, your compound and your growth rate in cost as you said yourself is about 8% so you're saving half of one year's cost by getting 10% out of the equation, and you are dropping your capital all the time to just be sure that you maintain a breakeven level, you're not making any cash.

So my question sorry about all of that is I don't get a good feeling for where Lonmin's strategy is taking it. If we have another two years of bad metal prices that's going to leave Lonmin in a terrible position. If we have good metal prices coming out in the next 12 months that's just going to suck up all the capital. So is there nothing else like more aggressive you can do? Is there no avenue of getting capital now and getting into K4 earlier, making sure that the market is not looking towards this crash potentially coming? I know that's a loaded question but …

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Ben Magara, Chief Executive Officer
It is. I'm sure I'll touch on a bit and Simon is also equally making a few notes. I think 3,500 jobs is a big step so I do not take it lightly around the efforts to reduce and the lever that we are pulling in that sense is a big lever that we are pulling. The cost benefits that we have put in terms of the 2 billion, in terms of where they are positioning us as a company relatively, I think they are all very helpful in the topic that you spoke about.

I guess one has to say would this industry survive and for how long and where is the industry's balance sheet, and how many of them would survive this environment for how long? And we believe relatively we are well advantaged with the assets we have got and the efforts and the clear programme we have put in place and the debt facilities that we have got. So we are pulling every lever to make sure we survive for this whole journey, to make sure we can, and also make sure we have the flexibility when the market turns.

But let me throw it to Simon, any comments that you might have wanted to make.

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Simon Scott, Chief Financial Officer
Yeah I mean our long term view is that the long term fundamentals remain very positive in this industry. So you know long term pricing we believe is going to be positive, and we

still believe that in the longer term that bodes very well for the industry. The current liquidity problems and pricing issues that the industry faces, we believe the most appropriate way of dealing with those is to manage our balance sheet on a prudent perspective. We need to address costs and you know I think we've outlined today how we're doing on that and what we're doing around that.

We also believe that dropping the capital during this period is the right thing to do. We don't believe that taking more risk into our balance sheet, particularly in the uncertainty of the next two years, is the right thing to do. But we certainly believe that when prices do go up we've got a sustainable business that can benefit from that increase in prices.

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Leon Esterhuizen, CIBC
Thanks for that, just one more question if I can. The DTI came out - well let me put it this way, there seems to be a disagreement between the DTI and the Minister of Mines on what the BEE requirements are or what they aren't. And in particular on ESOPs, that those are not going to be counted for BEE and that might spill over into mining. So I don't know if you want to just address the whole uncertainty around BEE for us please?

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Ben Magara, Chief Executive Officer
Thank you very much. We have Lerato Molebatsi here who is our Executive Vice President for Communications and Public Affairs. And thanks Lerato if you can help.

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Lerato Molebatsi, EVP Communications and Public Affairs
The DTI came out last week with that particular announcement, but they themselves haven't thought it through. The note to make is the fact that we are still governed very much by the DMRs Mining Charter. So that does not apply to us and discussions are still ongoing between DMR and the DTI. We don't think that it's going to affect us adversely as we speak.

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Ben Magara, Chief Executive Officer
And they have not found each other yet.

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Alison Turner, Panmure Gordon
I wanted to ask in a way perhaps the opposite question to Leon's which is around K4. Clearly this is something that was put on care and maintenance and then brought back from care and maintenance and doing some early mining and so forth there. And it looks as though that's still the case. And I guess my question is given that you're deferring any ramp up of K4 and the bulk of that capex out beyond 2017, does it make sense still to be doing that early mining there and those other kind of little bits and pieces?

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Ben Magara, Chief Executive Officer
I guess all our levers remain on the table and those are all levers that we have got to play around with. We think this is the best plan we have given our view of the current environment and how we see it going forward. And those levers remain on the table for us to act on and I think that really just gives you a sense of that flexibility that we have got in the business. I think it is key that the basic work we're doing at K4 is not that we have taken it out of care and maintenance, but simply to see whether we could produce a level of output that would just at least help in saving some of the costs that we have got in there. As we go through the whole voluntary severance packages and early retirement, those K4 employees are equally subject of the same process. Thank you.

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Leon Esterhuizen, CIBC
Just a question about the contractors. What percentage of production comes out of those shafts?

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Ben Magara, Chief Executive Officer
10%.

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Leon Esterhuizen, CIBC
About 10%. Okay.

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Ben Magara, Chief Executive Officer
Any other questions?

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Leon Esterhuizen, CIBC
The shafts there were supposed to have closed down, or some of them were supposed to have closed down before and the contractors keep on finding stuff. So how much of a handle have you got on how much ore can come out of that 10% over the next 24 months? Can it suddenly run out or do you have 24 months' worth of known reserve that you can mine?

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Ben Magara, Chief Executive Officer
First let me highlight how cash generative these shafts actually are because they are not spending any more capital. Any development they are doing, because the deposit of that UG2 in that area is slightly thicker, they are able to actually do productive development. So almost everything that comes out of those shafts is value accretive.

And we look at their long term plans and the life of mine plans continuously like we look at our plans as well. That's why we continue to talk about the management oversight, not just on safety but on making sure we understand the life of mines. So there is reasonable life, and they keep finding it. There are pillars to extract. We continue to monitor their stability in those areas as well. We are confident that they can continue for a while.

And if prices were to turn as you would remember that currently there would possibly be mining areas which have much better geology because platinum in general has the same kind of grades everywhere. So better geological areas can be mined in low price environments, and tougher geology areas would be mined in higher price regimes so that you can continue to actually make money out of it. So there is good life there.

It is important also to highlight that E2, E3 area, there is that extension around our Pandora JV which is the Pandora deeps. And it's possibly the one remaining and shallowest deposit of UG2 with good grades that is in place. So keeping these operations going and making sure we pump water and ventilation is good, is actually yet another flexibility for Lonmin when the market turns. And we think we have enough life to get to that.

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Anna Mulholland, Deutsche Bank
Thanks just a couple of follow ups. Simon your revolving credit facility I think matures in a year's time. When do you have to start negotiating on that again? Is there anything that you would think would be maybe out of normal in terms of when you have to start and what you have to do to get that done?

And now that Uncle Ivan has left the building what changes in terms of your Board discussions, strategy, thinking processes, actions that you can take? Thanks.

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Simon Scott, Chief Financial Officer
I'll deal with the RCF. You know as you note it's in place until May, June next year. Clearly we would leading up to that period look to a replacement or extension of that, it has some time to go but we'll update you in due course as those discussions and as that situation develops.

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Ben Magara, Chief Executive Officer
Looking at Glencore I think they're - as I said we welcome the new shareholders and some of them are old shareholders who are coming through for the second time with the distribution in specie. The relationship has been very constructive, open, transparent and progressive and very useful for our Lonmin board and ourselves, particularly as management.

So the departure of Gary and Paul, we appreciate the efforts that they put in the business. Is there any change of course because of that? No. This strategy is very clear and is well supported by the whole Board. And as management we are well supported by the whole Board and we continue on this path which I really think is the right plan given the tough environment that we have got. We have increased production, we have dropped costs, we have reduced capex, we have all the right levers and we believe our hands are on the right levers to proceed with the business to make sure that it's resilient. Thank you very much.

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Richard Hatch, RBC
Do you have any comment on the 50% of Pandora that Anglo Plat is looking to dispose of or any update on that?

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Simon Scott, Chief Financial Officer
No, as far as I'm aware they haven't changed their strategy of being a seller of that asset, so you would need to check with them if that's still the case. But no change from our perspective, Pandora has performed well during the period and you know we continue to get good value out of our investment in Pandora which is now at 50%.

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Richard Hatch, RBC
And do you look to double it?

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Simon Scott, Chief Financial Officer
You know I think we have said in the past that Pandora is a logical asset for us to run and manage. We run it at the moment. I suspect if there's - you know there is a price at which a transaction can be done which would be accretive to us, and you know if that came across our tables we would certainly consider it.

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Ben Magara, Chief Executive Officer
Think we are we done. So yeah, thank you very much ladies and gentlemen. Thanks for coming through. We do have a tough operating environment and that seems to be persisting. We are managing our controllables and as I highlighted the production, the costs, the capex, and we are making all the tough decisions with the realism of their consequences on our employees and social partners. And we hopefully are going to do it with all the responsibility that it requires.

But really I'm very comfortable with the debt facilities that we have got and we have ample room for it, and our smelters are running so we should be able to unwind the stock by the end of this financial year. And thank you very much for joining us this morning.

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