Conference call transcript

13 August 2021

INTERIM RESULTS FOR THE PERIOD ENDING JUNE 2021

Ryan Africa (Head of Investor Relations)

Good morning everyone and welcome to Thungela's first interim results presentation. I am Ryan Africa, Head of Investor Relations for Thungela.

Cautionary Statement

I would like to take a couple of minutes to introduce today's agenda and to explain how the webinar will run. But before that, please allow me to draw your attention to a couple of important messages from our lawyers. While you take a moment to read through the cautionary statement, a reminder that the full interim report, including today's presentation, is available on the Thungela website at www.thungela.com. You can find it by navigating to the "Investors" tab in the ribbon and then clicking on results. Today's session will be recorded, and the recording will be available on the Thungela website from later this afternoon. A transcript of the session will also be made available on the website next week.

Agenda

Let's start with the agenda for today. I am joined of course by our CEO, July Ndlovu, and our CFO, Deon Smith. July will provide an overview of the results and will also present our operational performance. Deon will talk through the financial performance, and July will then come back to wrap up the presentation. We will then have a Q&A session of approximately 45 minutes to give those on the call and the webinar the opportunity to ask questions. Turning to Q&A, for those wishing to ask questions directly, we ask that you please join the session using the conference call facility provided as we can only take direct questions through this facility. In order to ask a question during the Q&A session please dial * 1 on your keypad and this will register your intention to ask a question. Once the Q&A session starts, the operator will then open your line and ask you to go ahead with your question.

For those joining via the webinar, you will have the opportunity to submit questions via text which will then be read out during the Q&A session. It is possible of course to follow today's session across both platforms simultaneously, although you will have to mute one of the sessions to avoid interference. And please bear in mind that there is a 30 second delay on the webcast. It is also possible to dial into the conference call facility only, shortly before the Q&A session, and directly from your computer. If you are planning to do this, I do encourage you to please register for the conference call in advance of the Q&A session as you will need the link sent to you upon registration. Now, with those logistical matters out of the way, allow me to hand over to our CEO, July Ndlovu, to take us through the interim results.

July Ndlovu (Chief Executive Officer)

Results Overview

Thank you very much Ryan. It is with great pride that Thungela shares its inaugural set of interim results as an independent, pure-play thermal coal export company. Our listing on the JSE and the LSE on 7 June 2021 was a significant milestone for our business, for the shareholders and partners who have embarked on this journey with us.

H1 2021 Key Features

We have however started our journey on a sombre note. The loss of our colleague, Moeketsi Mabatla, was a devastating blow for us as the Thungela family. Moeketsi lost his life during an evacuation underground at Goedehoop Colliery. Our condolences go out to his wife, Mmahlao, his three children, his colleagues and everyone whose life he touched. We have also lost 12 colleagues to Covid-19, and many of our colleagues have lost family and loved ones to the pandemic. We grieve their loss and offer them our deepest sympathy. These losses will continue to shape our safety behaviours as we champion a fatality-free business.

Turning to earnings, we report an operating profit of R990m and an adjusted EBITDA of close to R1.9 billion. These earnings were driven by the strong recovery in thermal coal prices, underpinned by the global economic recovery, together with improvements in our portfolio such as productivity improvements, disciplined cost management and taking out higher cost production assets. We are in a robust financial position with net cash of over R3 billion at the end of the first half, driven by the capital injection received, as well as strong cash generation in June, our first month as a standalone business.

We are pleased to confirm our 2021 production guidance as previously set out in the pre-listing statement and at our Capital Markets Day held on 6th May. Notwithstanding the current challenges regarding TFR – Deon will pick up on later – we expect to produce between 15 and 16 million tons of export saleable production. We also confirm our cost guidance of R830 per export ton. At the Capital Markets Day, we said that we would revisit our capital structure using a Thungela lens, and this work is well underway, and we are pleased to confirm that our capex spend is likely to come in on the low end of the range we guided previously of R2.6 billion to R3.0 billion.

With continued strong prices as well as improved performance by TFR through the remainder of the year, the Group is likely to achieve positive adjusted operating free cash flow for the remainder of 2021. Our strong balance sheet coupled with the above paves the way for the Thungela board to consider the declaration of a maiden dividend at the annual results for 2021, in line with Thungela's stated dividend policy of a minimum pay-out of 30% of adjusted operating free cash flow.

Safety

Now let me turn to safety, our first value. Running a fatality-free business is front and centre of everything we do, and we continue to work tirelessly with our stakeholders to ensure that our people return home safely every day. It is therefore with deep sadness that we report the loss of Moeketsi Mabatla. Learning from incidents such as this is an important part to continuously improve our safety response and controls across our operations. Let me pause and share with you what are doing to prevent injuries and fatalities at our mines. Our program for the elimination of fatalities has three pillars:

The first pillar is back to basics, focusing on the core fundamentals for safe production. It addresses aspects such as rigorous planning, safe work area design, systematic change management, effective supervision, correct tools and equipment, and trained and competent people. The second pillar is work management, which seeks to ensure that all work we do is not only planned but resourced and executed to the plan. It's now common knowledge that planned work is safe and productive work. The third pillar and last pillar addresses our culture, transforming our behaviours to align with the back to basic fundamentals and our work management principles. We are making encouraging progress, and for the period our total recordable cases per million man-hours worked was 1.66. This number was impacted by the events at Goedehoop on 23rd June.

Comprehensive response to COVID-19 pandemic

The COVID-19 pandemic continues to have a profound impact on our business, operations, people, and host communities. We have developed a resilient and effective response, such as COVID-19 critical controls, and mental health support programs on the mines. These interventions have gone a long way to keep our people safe. We are pleased to share that Thungela's Highveld Hospital has been accredited as a vaccination site and we are currently administering vaccinations to eligible employees and contracting partners. We plan to extend this programme to employees' families and our host communities as we support South Africa's vaccination programme.

Successful Listing

We are very pleased that we successfully transitioned our business without any material administrative or other challenges. We are now a fully-fledged standalone business with critical functions and services having been moved in-house. However, in order to ensure a smooth transition, some other services continue to be provided by Anglo American in terms of transitional services agreements. However, these will be wound down in time as we set up our own functions internally. The first two and a half months of independent operational and financial performance have been very pleasing, and we are proud of our people who made this outcome possible. As expected, we initially saw some volatility in our share price, as our register transitioned into longer term holders focused on benefitting from the exposure to coal and the markets we serve. The shareholder base has settled, and we are pleased that it currently represents good liquidity and a broad free-float.

Creating Shared Value

At our Capital Markets Day on 6th May, we said that Thungela intends to spike on the “S” in ESG and we continue to make significant strides in the social sphere. Positively impacting the lives of the people closest to our operations in a meaningful and authentic way is at the core of our purpose. Our newly established employee and community partnership plans signify this commitment. Each of these now holds a 5% fully funded interest, in our coal operations in South Africa, setting them up to share in the financial value that we generate.

To be clear, these structures are unique in the industry as they are debt free, an empowerment milestone for the South African mining industry. The first distribution of 6 million to the Community Partnership Plan was made on 30 June 2021. We are also pleased to report that trustees have been appointed and a process is underway to appoint trust administrators to start implementing the mandate of the trust.

Internal Restructure

Before we delve into the detail, you would have seen from the announcement this morning that there are a couple of nuances around the presentation of the interim results which warrant an explanation. In preparing the interim financial results, which Deon and I will talk through today, we focus on two sets of information to assist the users to form a view from two distinct perspectives: Firstly, we present the consolidated interim financial results based on International Financial Reporting Standards which more clearly represents the various restructuring steps undertaken to create and prepare Thungela for demerger.

The dates from which various entities are included in the so called IFRS perimeter are set out on the left side of the slide. For example, Mafube was only acquired on 31st March 2021 and therefore, the IFRS asset perimeter for the period ended 30 June 2021 only includes three months of Mafube’s operating and financial results. The

IFRS perimeter comparative period ending 30 June 2020 therefore only includes Zibulo and excludes Mafube which was only included from 1 April 2021 and also excludes the other mines which were only included from 31 December 2020.

Secondly, we also present pro forma information to better depict the results of our business on a like for like basis, as if all the entities were included in the perimeter from the start of the comparative period ending 30 June 2020. Note that the pro forma financial information is prepared for illustrative purposes only. The pro forma financial information I'm referring to is set out in Annexure 3 to the interim financial statements.

Operational Performance

Now, with this context out of the way, let's look at our results in a bit more detail.

Export Production Volumes

Now we turn to our, let's turn our focus to operational matters starting with export production. As I have just said, this production information has been prepared on a pro forma basis in order to understand comparability. Remember that the IFRS figures would only have included Zibulo in the comparative period of H1 2020. Export saleable production for H1 2021 decreased by 9% compared to the same period last year, mainly as a result of us placing the high cost Bokgoni pit at Khwezela on care and maintenance. Deon will give a bit more colour on this later in the presentation. Another important message on this graph is the relative split between H1 and H2 for 2020. You can see that H2 production is significantly higher. This is because our business has an element of seasonality to it and H2 typically sees higher production volumes. The same can be expected this year.

Export Production Volumes

On this slide we break down the movements between the current and comparative periods into more detail. Firstly, on this graph we show both IFRS and pro forma information. Let's start with the IFRS. In H1 2020 the business produced export saleable production of 1.5 million tonnes, reflecting only AAIC which holds the Zibulo mine. On a pro forma basis the H1 2020 figure is 7.8 million tonnes. When we consider H1 2021, the IFRS figure is 6.7 million tonnes compared to a pro forma volume of 7.1million tonnes. The difference is due to the fact that Mafube is only included from 1 April 2021.

Turning to the pro forma figures, the 9% decrease that I referred to on the previous slide is broken down more clearly. The Bokgoni volumes come out, as do volumes from Umlalazi as the reserves at this pit are depleted. We also see the increases due to the ramp up at Navigation, and finally, volume increases from the productivity improvements at the underground operations, which is the result of the implementation of the prime section project we referred to during the Capital Markets Day. A story that doesn't necessarily come across clearly when looking at the figures in this graph is the impact of COVID-19. We were impacted by the pandemic and we lost volumes in both the current and comparative periods. Some of the H1 losses were made up later in the year by improved mines performance. Let me now hand over to our CFO, Deon Smith, to take us through the financial performance. Deon.

Deon Smith (Chief Financial Officer)

Financial Performance

Thank you very much, July. Let us now turn to the financial results for the first half of the year. As we do that, let's start with market overview.

Market Overview

Exports of South African coal to South Asia, in particular India, Pakistan, Sri Lanka and Vietnam accounted for approximately 75% of SA thermal coal exports in first half of 2021 and reflects the continued demand for thermal coal as part of the energy mix in these rapidly urbanising and developing economies. Supply constraints out of South Africa, Australia and Colombia continue to support prices, whilst the ongoing geopolitical tension between China and Australia is likely to result in opportunities for South African coal with approved quality and trace element requirements to be exported to China.

Reflecting back, the result of the improved demand, coupled with the supply constraints delivered firmer prices during the first half of 2021 with the average monthly benchmark price increasing by around 18% from January to June 2021. And if you look back at last year, the average realised price for the first half of 2021 was around 36% higher than H1 2020. So, whilst product adjustments – which were also referred to as non-linear product discounts – for coal qualities lower than 6,000 widened with the increased prices, the short supply and firm demand for high quality 6000 benchmark coal resulted in a premium to the benchmark price index for those coals. Given our portfolio of higher quality and the revised marketing fee payable to Anglo American from 1st June 2021, the discount to the FOB Richards Bay index reduced from 26% in 2020 to around 23% in the first half of 2021. So, all things being equal, the new arrangement with Anglo, which became effective in June 2021, therefore also supports a slightly narrower discount in the second half of this year and going forward.

Export Equity Sales

On export sales, I will talk to pro forma figures here. For clarity, we are referring to export equity sales, which is coal product tonnes that we mine and sell, excluding any third party traded sales. Export equity sales at 6.6 million tonnes decreased by 9% in H1 2021 versus the comparative period, in line with the lower export saleable production volumes July spoke of. Compared to export production of 7.1 million tonnes in H1 2021, we have built about 500,000 tonnes of finished inventory stockpiles which has contributed to the net working capital build. And this is in line with what we anticipated as we needed to replenish inventory after stocks were sold down in the last quarter of 2020 off the back of recovering prices.

You will again notice the seasonality effect which July spoke of earlier. And we are accordingly also expecting a higher sales outcome in the second half of this year compared to the first half. In making this statement, we need to however carefully consider Transnet Freight Rail's performance. Like the rest of the industry, we have now faced a sustained period of underperformance by TFR. The underperformance is driven as we understand it by two issues: theft of infrastructure and locomotive failures. TFR's performance has a direct impact on our business as lower railings mean that we are unable to move as much product as planned to the port in order to take advantage of the current strong market conditions. This results in sales being deferred and also in inventory build on mine, whereas ideally, we would want to build stocks at port. Whilst unlikely, a sustained poor performance by TFR could put us at risk of becoming stock-bound at our mines. Based on the current rail performance, the industry is set to achieve materially lower exports compared to its installed capacity. The current status therefore represents a very unfortunate missed opportunity for the industry and the country, recognising strong prices and favourable demand outlook for South African coal. We accordingly continue to engage TFR at all levels to pledge our assistance where required and remain confident that this is a transient challenge.

Revenue

If I now turn to revenue, so we had revenue of approximately R10 billion for the first six months, and that represents a significant improvement over the prior reporting period. So, when compared to H1 2020 IFRS revenue of approximately R1.7 billion, the most significant difference is clearly the internal structure, which July mentioned and therefore the inclusion of seven operations in 2021 first half relative to the prior period revenue which only reflects the Zibulo Colliery within the Anglo American Inyosi Coal entity. The H1 2021 pro forma revenue is around R2 billion higher than the 8.2 billion in the comparative period. This increase is due to 36% higher realised prices in Rand but offset by lower volumes from the Khwezela operation following our decision to place Bokgoni on care and maintenance in the beginning of 2021. The reduced production volumes from Khwezela were also partially offset by higher output across our underground operations, as well as from, sorry the new Navigation pit as that operation continues its ramp-up.

FOB cost per export tonne

Whilst not on this page, the IFRS cost comparison is, similar to Revenue, mainly driven by the different asset perimeters between the comparative periods. If I now look at the like for like pro forma basis, comparing H1 2020 with the first half of 2021, FOB cost per export ton is flat at R782 a ton. The removal of Bokgoni production and cost, which was the highest cost per ton operation in our portfolio previously, helped reduce the average cost per tonne notwithstanding a lower volume denominator and clearly the associated lower services and central cost absorption. Whilst inflation was consistent with rates commensurate of the geography we operate in, which is typically mid-single-digit percentage in Rands, incremental costs pertaining to the management of COVID-19 also added to the cost pressures across our business. We however managed to keep our cost per ton flat due to productivity improvements which only attracted incremental variable costs across the underground operations.

Adjusted EBITDA

Turning to our earnings for the period, as July mentioned earlier, the business generated R1.88 billion adjusted EBITDA on the IFRS basis and approximately R2 billion on a pro forma basis for the six months ended 30 June 2021. The R2 billion compares very favourably with the pro forma 2020 adjusted EBITDA of R107 million. The key drivers, for the materially improved adjusted EBITDA is realised prices for coal offset to some extent by the strengthening of the Rand against the US Dollar over the six-month reporting period. The decision to place Bokgoni on care and maintenance also contributed to the uplift in earnings and was further supported by the incremental earnings from additional volumes due to productivity improvements in the underground mines coupled with the continued ramp-up of Navigation.

Net Profit after Tax

It is important to note that all figures on this slide are now based on the IFRS asset perimeter. Our profit for the six months ending June 2021 was impacted by several one-off costs as well as non-cash charges. These one-off and non-cash items are shown in grey on the bridge and amount to R970 million. The R248 million one off restructuring costs mainly relate to the demerger preparation and separately the Khwezela restructuring decision and include the cost we incurred at the operation but also in the central and services structures which had to be right-sized following the decision to place the Bokgoni pit on care and maintenance.

If I can then point you to the middle of the page, the most significant non-cash item is the fair value loss we booked to the P&L on the derivative which relates to the capital support agreement with Anglo American. The derivative was initially recognised through equity and valued at R916 million, recognizing more modest coal prices at the time and therefore reflective at the time of the probability of benefitting from further capital support from Anglo American during the period up to the end of 2022. You may recall that such capital support is available to Thungela should benchmark coal prices fall below R1,175 per ton. The value of the derivative reduced materially since its original measurement, mainly due to the continued strengthening of the Rand coal price and was valued at R332 million at the end of June 2021. The capital support arrangement, and therefore the derivative, ends December 2022 so the impact on earnings is a short-term consideration.

To wrap this matter up, it is important to note that whilst the recovery of coal prices in this instance was not favourable for our earnings to the tune of around R584 million, it is a pain we gladly take as the potential positive impact on cash flows of the stronger price outlook is clearly more desirable. Other than depreciation and amortisation of R512 million, we also incurred non-cash restructuring costs of R138 million and non-cash finance costs. That's mainly pertaining to the unwind of the environmental provisions of R117 million.

The resultant net profit after tax of R351 million includes non-controlling interest of Anglo American Inyosi Coal of R57 million where our BEE partner, Inyosi Coal, owns 27% of Zibulo and Rietvlei, R61 million, in which we own an effective 34% of the economics. The Rietvlei NCI is pronounced as that business sold down stocks during the first half of 2021. It is important to note that the AAIC NCI is mainly a profit and loss entry as the cash generation in that business continues to fund loan repayments to other Group companies. Based on an attributable net profit at the bottom of this page of R233 million, we are reporting earnings per share of 313 cents on an IFRS basis, using a weighted average number of shares of approximately 74 million, due to the timing of the issue of the shares.

Adjusted Operating Free Cash Flow

This graph, on a highly simplified basis, seeks to depict the operational cash generated during the first half of 2021, so it starts from adjusted EBITDA as a proxy, as well as the deployment of that cash. In addition to funding the one-off restructuring costs of R248 million, we deployed cash mainly into working capital of approximately R1.7 billion and also into sustaining capital expenditure of just over R1.2 billion. The working capital build was anticipated given the need to replenish stocks and all things being equal should not reoccur. These activities, as well as the extinguishing of the intercompany loan with our former parent company, were concluded prior to the demerger of Thungela. So, therefore, these investments and working capital build were mostly incurred prior to Thungela's economic and operational independence. Strong cash generation in our first month of economic independence, being June, helped us achieve a net cash position of R3 billion at the end of the reporting period.

Capital Expenditure

We previously guided that our 2021 capital expenditure, full year, based on our business plan is expected to be between R2.6 billion to R3 billion. During the first half we spent around R1.3 billion which, based on purely a percentage of the annual outlook is a higher first half percentage than in past years. We have however now completed a review of our second half 2021 priorities and opportunities to improve our capital intensity looking at it through a Thungela lens. This work delivered the targeted savings profile for the second half as well as deferrals of projects that are not yet time critical.

As a result, we are now comfortable to confirm full year capex outlook at the low end of the capital guidance range, so approximately R2.6 billion. We have started a similar review of the 2022 capex plans and expect this work to be completed in the last quarter of this year. We also continue to study a number of lifex project options to determine the most optimal development path and sequencing, assuming these projects would attract capital investment, based on the relevant investment evaluation criteria.

Capital Allocation

As mentioned, a bit earlier, we started our journey as a standalone listed business in a very enviable position, finishing June with R3 billion in net cash as well as healthy inventory levels. In addition, we spent around 50% of our full year capital expenditure forecast which is higher in percentage terms for the first half of a calendar year, compared to past periods. Furthermore, based on our history, we also expect stronger production and sales in the second half.

If we turn to the Green Fund, again during the first half of the year, we invested the full R188 million to further improve our environmental liability coverage which, coupled with the R3.1 billion already held in trust, improved our funding coverage to 52% at the end of June 2021.This is up from 47% at the end of December 2020 on a like for like basis and clearly also benefited from the recovery in asset prices in the first half of 2021. We are satisfied that our exposure to current environmental obligations is adequately provided for on our balance sheet. Based on the work we have done in the first half to prepare our business, and indeed our balance sheet, to operate on a standalone basis, we that believe that we are very well positioned to generate healthy cash flows for the remainder of the year assuming prices and rail throughput holds up of course. We therefore also expect the board to consider the declaration of a maiden dividend at the annual results for 2021. With that, let me hand back to July.

July Ndlovu

Outlook & Conclusion

Thank you very much, Deon, for that comprehensive overview.

Outlook

Let’s turn now to what we expect to see for the rest of the year. We provided guidance to the market just a couple of months ago, at the start of May. I am pleased to say that we remain on track to meet this guidance. We confirm the guidance for export saleable production of between 15 million and 16 million tonnes and flat FOB cost per export ton of R830 for the full year. As Deon has pointed out, we are well on our way to reviewing the appropriate level of capital expenditure with a Thungela lens. Capital expenditure is now expected to be on the low end of the range of R2.6 billion to R3 billion previously provided for the full year.

With continued strong prices as well as improved performance by TFR through the remainder of the year, the Group is likely to achieve positive adjusted operating free cash flow for the remainder of 2021. Our strong balance sheet coupled with the above paves the way for the directors to consider the declaration of a maiden dividend at the annual results for 2021. This is in line with Thungela’s stated dividend policy of a minimum pay-out of 30% of the cash flows from operating activities after funding sustaining capital expenditure.

Conclusion

In conclusion, let me leave you with the following key messages. Thungela remains committed to running a fatality-free business, and every effort is made to ensure that everyone returns home safely every day. We expect to see strong coal prices holding for at least the rest of 2021, and potentially into 2022. A key area of focus is operational delivery and settling our stand-alone business. In order to take advantage of the higher prices we need the tonnes, and we need the tonnes at the competitive cost targets we have set. We continue to work on applying the Thungela lens on both operating and capital costs. On capital we continue to improve our capital discipline, and the fact that we have spent half of our projected capital for the full year in the first half talks to this discipline. Of course, we realise that we do remain dependent on external factors: prices, discounts, FX and TFR performance. We will continue our engagements with Transnet to ensure that rail performance improves in H2.

Let me reiterate our commitment to the dividend. At Capital Markets Day we spoke to our dividend policy to pay a minimum of 30% of adjusted operating free cash flow. That is 30% of operating free cash flows after funding sustaining capital, on an ‘earn it first’ basis. In other words, we must earn the funds, and only then are we able to pay. Of course, we have only been economically and operationally independent for one month, and for this reason we flagged at Capital Markets Day that we would not be paying a dividend at this set of results. For the full year however, we remain committed to our stated dividend policy, and should prices remain strong, we are well on our way to generating positive adjusted operating free cash flow for the remainder of the year, which will pave the way for the Board to consider a maiden dividend declaration at the release of our full year results. I will now hand back to Ryan to take us through the Q&A.

Ryan Africa

Q&A

Thank you very much July and Deon. We will now move to Q&A. A reminder that it you wish to ask a question directly please join the conference call facility using the link you would have received upon registration. Dialling * 1 and indicate to the operator that you would like to ask a question. For those who have submitted questions via the webinar platform, I will be reading those out. Operator, please could I ask you to open the line for our first question?

Operator
Of course, sir. The first question we have is from Tim Clark from SBG Securities.

Tim Clarke
Thank you very much, can you hear me?

July Ndlovu
Yes, we can hear you.

Deon Smith
Yes, we can.

Tim Clark
Perfect. Thank you. Congratulations on the maiden results and certainly on the cash flow in June. That's obviously very good news. When you did the listing, you were obliged legally to comment on the CPR and the documentation was prepared sometime before the listing. And quite a lot has changed in the coal world in the last six months. My first question, I wonder if you could indicate to us how your thinking has changed particularly around investment and projects given the coal prices which, July, you have said you think are sustainably a little bit higher.

My second question is on capital allocation. If you look at the trajectory of your cash generation and your current cash balance, R3 billion, and the trajectory of cash generation, you are going to be a very strong cash generating company in the current market. I wonder on capital allocation if you could give us some indication of a buffer cash level, like the old Kumba keeps a R5 billion cash buffer and then returns more cash to shareholders than the policy beyond those levels. I wonder if you could share with us what your thinking is of what sort of level of buffer Thungela should retain?

And then my last question to you – and it's more of a statement – is that in order to model Thungela it would help us a lot to have your pro forma numbers at an underground, open cast and other level. And I certainly haven't seen them. So, if they are there, please point me to them. Otherwise, it's going to remain quite opaque with just group level numbers for quite some time. I wonder if you could just comment on how to help us understand those splits. Thank you.

Ryan Africa

Thank you very much for those questions. Just before I ask July to respond on those, it seems that there is a slight difficultly on the conference call. It seems those dialled in to the webinar are struggling to hear the conference call questions. I'm going to ask for your patience for just 30 second for that to be resolved.

July Ndlovu

For now, we can repeat the question. I'll repeat the question that I'm answering. So, your first question, Tim, was given the current price environment and what has changed since we prepared the CPRs, how are we thinking about investments in our portfolio? I guess, Tim, we have said several things to the market, and I want to reiterate those messages. We demerged in June. We are two and a half months down the road. The first thing we want to do is to get this business to operate sustainably as a standalone. There is a lot of work we still need to do to bed that part of the business.

Secondly, we said we also want to make sure that the current asset portfolio that we've got each asset is delivering to its full potential. And you can begin to see in some of the operating metrics that we're reporting to in terms of cost, in terms of productivity improvements, that in fact we are well underway. And I think the work we have done on capital does provide that testimony. We also said before we make any major investment decisions, we wanted to look at our capital intensity from a Thungela lens point of view. However, we were studying some opportunities that we've got for life extension. Deon always reminds me that Elders is not exactly a brownfields opportunity, but it could be greenfields depending on how you think about it. We continue to study those concurrently.

We also said very clearly – and I want to repeat this because that's quite important – that our investment criteria are not just going to be driven by how attractive the prices are. It's going to be driven by a number of factors, some of which are capital intensity and how competitive these projects are. This is quite important because if we invest on the basis of short-term price improvements, we run the risk that we invest in the wrong projects. We only want to invest in those projects that are short payback, that enhance shareholder returns, that are in the right part of the competitive curve. None of these factors have changed as a result of the short-term price improvements that we have seen.

We are however saying that we will take our time and to be very intentional and deliberate, to study and understand the long-term fundamentals of the markets within which we serve. We believe that they are very attractive, but what those would do from a scenario point of view, given policy issues and all other issues in terms of being price supportive, is something that we need to bottom out. And that will obviously determine how we think about investments and the shape of our portfolio.

The last comment I will make on that subject, Tim, is that as other trends continue to emerge there are clearly opportunities that are beginning to emerge as people exit their own assets that obviously a company like ours, who are a pure play thermal coal asset, can't ignore. But we are not at a stage where we need to rush into making investments. We will look at the opportunities; we will consider them carefully and make considered decisions.

Then your next question was on capital allocation. Give us an indication of buffer. Deon can answer that one just now. Your last question actually, let me deal with that, which is the segmental reporting. Yes, we have given you a portfolio picture partly because we do run this as a portfolio rather than as a mine-by-mine consideration. But we hear the feedback and the comments from the market. We will look at that particular aspect and consider whether we can provide more detail on a go-forward basis. Deon, if you want to add to that one, because I know it's an important one to you and then deal with the capital question.

Deon Smith

Hi Tim, absolutely. So, as you might have picked up so far seeing in the booklet that we've published, we've gone to great lengths to unpack primarily IFRS given that is driven from a regulatory and compliance requirement given our listing venues. And as a secondary concession we were able to share some level of pro forma information based clearly on the exception to the rules. We are motivated to share more information to the extent that that is indicative and pro forma, and very happy to extend and grow what we show over time to ensure that it gives readers of the numbers the right type of information to make considered decisions.

If I move to the cash buffer, we have not set ourselves any cash buffer, recognising as we sit here today, we've been in dependent two and a half months. A month of these results are really as an independent as we've noted. We started our journey with R2.5 billion cash, and that was well-considered given that it represented around four to six weeks at the time of spend. So that's all opex, capex and the like on a rolling basis, and gave us working capital comfort. Clearly that type of number therefore is a good reference for us to keep in the back of our minds and will give the board a starting point, recognising that there are other potential cash investments and outflows that we would need to cater for.

One feature that clearly is more in our minds today as we sit here than what it was a couple of months ago is the TFR performance. And clearly, we are therefore comfortable that our balance sheet is really strong with that 3 billion in cash given the volatility of the performance of rail throughput and our dependence on export revenue and therefore cash flows. So, to answer your question in short, no buffer, no explicit number at this point in time, but absolutely top of mind for us to apply our minds when we sit down to look at our capital structure into the future and in particular as we start debating the appropriate level of the maiden dividend.

Tim Clark

Thank you very much. Just a brief follow-up on the segment reporting stuff, I've covered Anglo for a long time and we've had a reporting of production mine-by-mine for all that time. So, it would just be useful even if we just got production mine-by-mine, total sales per division, and then divisional splits that would help us because at the moment to model with the portfolio level just means we have to put uncertainty discounts into the model extensively because there's so much aggregation that's going on that we can't see the details of. So just a suggestion from my side, but thank you very much and congrats on the results.

Deon Smith

Thanks Tim. Noted.

Ryan Africa

Thank you very much for that, Tim. I've been assured that the technical difficulties have been resolved. Operator, I'm going to ask you to open the lines for our next question.

Operator

Of course. The next question we have is from Ben Davis from Liberum.

Ben Davis

Hi. Can you hear me, guys?

Deon Smith

Hi Ben. Yes.

July Ndlovu

Yes, we can hear you, Ben.

Ben Davis

A cracking result. You picked a very good time to list. A couple of questions from me. You've had this unintentional working capital build because of Transnet. I was just wondering, what is the approach? Do you have much scope to increase those more if there are further disappointments just to maintain productivity? Or is this a maximum level that you're happy with at the moment. The second question is just a clarification on the dividend policy. Is it pre or post working capital changes, and also is it reflective of the pro forma full year or from when you started trading? Thanks.

Deon Smith
Happy to pick those up, Ben. But if I forget to touch on a particular point, please do remind me. To start at your first part of your question, not all of the working capital build was unintentional. If you look at page 119 of the PLS you will see in the operational outlook section we've explicitly flagged that we envisage the replenishing of inventory mainly as a result of selling down stocks in the last quarter of 2020. As you might recall, prices started improving in 2020 from sort of mid-November. So, part of it was intentional and part of the plan in order to also get us ready so that from the date of demerger we are able to also implement the new arm's length agreement with the Anglo American marketing business whereby we would have sufficient stocks to deliver into that agreement.

Part of the working capital build was not planned and intended. That part was clearly the receivables component. But that's mainly, as you probably know, driven by the higher realised prices, and therefore our receivables, which typically on exports we get around 14 days after the end of the month, was fairly pronounced at the end of the year given when prices started improving more rapidly towards the latter part of H1. That's just answering that first intentional/unintentional working capital build question.

When we look at how much more headroom, we have in working capital, clearly that is very much a one-off that I've spoken to now, unless prices continue to climb as you can imagine. But we have continued to stockpile at mine, which is not ideal for us because ideally, we would like to enjoy stockpiles at port. That gives us more flexibility to take advantage of market prices. We still have some room at most of our operations to increase that stock build. And clearly in all the work we are doing with TFR if we can maintain at least the current pace, then we have some time to build before we will have to start unwinding or take alternative steps and measures to mitigate that type of productivity throttle back in order not to run out of stock space. But that's something we monitor carefully, and we haven't made any decisions at this point. We have a bit of time to make that call, if indeed the unfortunate outcome is that we would need to make a decision. So that's on the working capital bit.

In determining the operating or adjusted operating free cash flow you would see in the alternative performance measures we've defined adjusted operating free cash flow as a measure of operating free cash flow after funding what we term sustaining capital, which is essential stay in business as well as all of our spend in an around our existing installed infrastructure. So, actually the measure is net of SIB. Clearly what plays into operating free cash flow is also the working capital build. So, you would see that it plays in. But at these types of prices and if that working capital build is driven by a continued increase in price and therefore receivables, clearly the board has the level of discretion to set that it's a minimum of 30% rather than necessarily an absolute. And those factors will clearly be taken into consideration in making that type of decision.

The last part of your question, Ben, related to the period that it would cover. Recognising that Thungela's economic independence really started on 1st June, any and all generation of cash or otherwise up till the end of May was really for Anglo American's benefit and indeed its shareholders' benefit or cost. And as a result, when you look at page 12 of the pre-listing statement you would see that the second last sentence talks to admissions and then it goes on and talks to our first maiden dividend to be declared. [Interruption]. Our first dividend to be declared at our full year results. And there we said it would relate to the second half of the year. Clearly practically we could consider the seven-month period starting 1 June to the end of the year as we debate the appropriate level of dividend at the annual results.

Ben Davis
Perfect. That's very clear. Thanks.

Deon Smith
Pleasure.

Ryan Africa
Excellent. Thank you very much for those questions, Ben. Operator, if we can take our next call on the line please.

Operator
The next question we have is from Brian Morgan of RMB Morgan Stanley.

Brian Morgan
Hi guys. Thanks very much for the call and congratulations. Just a couple of questions from my side. Do you have any quick wins that you can take advantage of in this very high coal price environment? For example – just as an example – you closed Bokoni two years ago. Could it be re-opened? Do you have any other mines like that that could be restarted to take advantage of the high price environment, notwithstanding infrastructure constraints that we do have right now which hopefully are transitory and will resolve themselves at some stage? Do you want me to do them one at a time, or should I give them to you all in one go?

July Ndlovu
As you wish.

Brian Moran
Can we take them one by one?

July Ndlovu

Okay. Let me answer that one. Opening or closing mines are big decisions and sometimes can be costly decisions. You would not want to take that decision lightly. In answering Tim, if you listened, I said in our portfolio we want assets that are competitive. We put Bokoni on care and maintenance because it didn't quite fit those criteria. And I think the results actually show that it was the right decision. I would not rush to reopen it purely because at current prices short term it generates cash, when actually strategically it doesn't fit our portfolio. I wouldn't do that necessarily. Would we go out and look for quick wins? You know it as well as I do. Opening mines it not a short-term thing. It's two to three years before you actually open it. Therefore, if you're going to do that, you want to have conviction about the medium to long term about where prices are going. Our opportunities are actually around our portfolio, making sure that this portfolio is delivering to its full potential. And we see value in that.

Brian Morgan

Okay, cool. Thank you.

Deon Smith

Brian, if I could add one or two things. July addressed the broader strategic point, which is spot on, but there is one further point to be made on that. if you look at Bokoni for example, whilst it was clearly in the bridge that we showed you on earnings the right decision to have closed it, I've also reflected once or twice over the past day or two whether given what we've seen on prices it was or wasn't the right decision, because that bridge is clearly based on the negative earnings of last year. If we overlay current prices that we've received year to date on a realised basis it's a marginal decision given the higher prices. However, given the continued capital spend it would have been the wrong decision, and in particular given the current TFR challenges what we consistently do is rank all of our coal from the highest to the lowest margin, and clearly what we want to prioritise down the rail is the highest margin coal. Bokoni would not feature in that anytime soon. In fact, there is possibility that other coal that isn't in production today might rank even before that. So just to close off the financial analysis of your question.

Brian Morgan

Okay. That actually segues into the next question very nicely. You obviously do rank your products and you are in an infrastructure-constrained environment right now, so presumably you would be going onto higher calorific content coal and you would be paring back on your secondary or middlings products. I see you're still buying in quite a lot of coal. Is there a contractual obligation to buy in coal, or is it more ad hoc?

Deon Smith

Brian, on the first part of your question on the relative ranking, absolutely. And on opportunities therefore – to go back to your very first question - are there are short-term opportunities- that is exactly it. How do we optimise the current constraint that our business faces? Therefore, the ranking is extremely important.

The third-party coal is really a feature of the past rather than the current as we sit here today because clearly if you look at the rail constraints that's not necessarily something that features clearly or is able to enjoy rail capacity. So, it's much more a past issue than a current issue.

Brian Morgan

Okay. So, you could say you're buying less coal now.

Deon Smith

Absolutely. As we sit here today. There are a couple of anomaly contracts as you can imagine that have a longer period, but it's very small in current terms compared to what it was in the first part of the year.

Brian Morgan

So, would you agree that in the current environment it actually pays you to be net long on rail capacity if you like?

Deon Smith

Absolutely. I think anybody in the country that is net long on rail will certainly benefit from that proposition given current prices.

Brian Morgan

Then on that derivative P&L on the capital support, did you book that just once or can we expect to see that every half for the next 18 months?

Deon Smith

Yes, I saw your note this morning around the noise in H1. You are absolutely spot on. There is lots of noise as we prepared our business for demerger, which clearly, you've seen through. This is one particular feature which is exactly the same. We booked it in around March as IFRS compels you to book it when you sign that derivative contract rather than necessarily its effective date of 1st June. We booked it at R916 million. We had to take the charge of R584 million which leaves around R332 million on the face of the balance sheet at the end of June 2021. With continued improved prices in terms of the forward curve I expect currently most of that will also have to be booked. So, you can probably therefore expect a further R332 million negative charge if we're lucky. What I mean by 'if we're lucky' is clearly then prices continue to remain really strong.

Brian Morgan

Good. And then just to reiterate what Tim was saying, I would also really like to see production data by mine. It just helps us a great deal to model life of mine etc.

Deon Smith

Thanks.

Brian Morgan

Just to give a bit of feedback there too. Thanks very much, guys.

Deon Smith

Thanks for your feedback, Brian.

Ryan Africa

Thank you very much for those questions and the feedback, Brian. Much appreciated. Operator, if I can ask to take one more question from the calls before I move to the webinar questions.

Operator

Of course, sir. The last question we have is from Jandre Pieterse from Rezco Asset Management.

Jandre Pieterse

Good morning. Can you hear me clearly?

Deon Smith

Good morning. We can, Jandre.

Jandre Pieterse

Thank you. Firstly, congrats on the results. Just one or two quick questions, the first one quite simple. In terms of page 16 of the results presentation the export equity sales, would that include Zibulo on a 100% basis or on an attributable basis?

Deon Smith

It would be on a 100% basis in that we consolidate 100% of Zibulo.

Jandre Pieterse

Okay. Thank you. Then I'm assuming Mafube would be on a 50% basis.

Deon Smith

That's correct. Recognise that we enjoy 50% of Mafube's economics whereas in Zibulo it's a bit more of a complex structure given some of the historic debt. In Zibulo therefore, given the debt structures and some repayment that takes preference, we also enjoy the lion's share of the economics at Zibulo.

Jandre Pieterse

Okay, thank you. That's helpful. My next question is just around capex and lifex opportunities. Can you maybe provide some colour in terms of how you think about order of preference currently of lifex opportunities? In my mind I would think Zibulo first, Khwezela second and Goedehoop last or least likely. Can you just add some colour there of how you think about them?

July Ndlovu

I wouldn't rank them just yet for a number of reasons. As we improve the performance of these mines, their ranking could change. That's one. Secondly, we also want to look very carefully at the capital intensity of these new projects to make sure we're only investing in the right project. We also want to understand their payback, where they are on the cost curve. I think where you're potentially right is, we did share the three projects on the Capital Markets Day, in fact, four. We said Zibulo, Elders, Khwezela and Mafube. Your hypothesis is not entirely wrong, but I wouldn't put a pin on ranking them just yet.

Jandre Pieterse

Okay. Thank you for that. That's helpful. That's all from my side. Thanks.

Deon Smith

Thanks Jandre.

Ryan Africa

Perfect. Thank you very much for those questions, Jandre. I'm now going to move to a couple of questions that have come in through the webinar. The first one is from David Baker at Baker Steel: *Will the board consider a share buyback as a means of capital return as opposed to a dividend?*

Deon Smith

Hi David, good morning. Clearly all methods of returning cash to shareholders will be on the table, and clearly there are certain advantages in the methodology that you're scratching at, in particular in certain jurisdictions.

And we do have shareholders from those jurisdictions on our register also. So, as we consider returns to shareholders all of those options will be on the table in order to come out with a balanced decision as to what that form and shape looks like. We're not at that position today as you can imagine it's very nice to hear everybody predicting the cash generation based on prices. But we still need to see that in our bank account before we're able necessarily to have all those debates in a fulsome manner.

Ryan Africa

Thank you very much, Deon. I think the next one is a related question, so I'm going to put it to you as well. The next one is from Nic Krige at Signal: *The Richard's Bay prices are currently over R2,000 per ton. At these prices Thungela is earning abnormal profits which could exceed the enterprise value of the business. Can you talk about the sustainability of these prices and the current discount to the benchmark price? What impact will the windfall profits have on the dividend policy? Will you consider a special dividend?*

Deon Smith

Hi Nic. Good morning. I think your observations are correct, but also recognise that a realised price is an average of a longer time series rather than necessarily only the price as we observe it today. We also don't necessarily sell our coal on the spot on a particular day's price but rather on an average of a period such as a month based on contractual commitments. Just to put that in perspective. Notwithstanding what I've just said, the full cash generation could easily trump the measures that you've cited. And therefore, it begs the question, is it sustainable or not? We don't necessarily comment on the short-term price volatility and movements as we don't believe anybody can get that perfectly right.

We are however quite comfortable and confident, as we've said before, that the supply demand dynamics and the structure of the thermal coal market into the east – not necessarily into the west – continues to look very attractive. And therefore, the discussion that we continue to have is clearly the deployment of the future or potential cash generation of this business, recognising we've got two and a half months of independence behind us. So, it is very much a forward looking rather than a historic discussion. And in that if you read our stated dividend policy carefully you will see that the board is committed to 30% of a particular measure rather than necessarily a cap. So, the board really has headroom to do the right thing for shareholders that opted to embark on this journey with us.

Ryan Africa

Thank you very much, Deon. The next question is from Nkateko Mathonsi at Investec: *Can you please comment on the quality of your product and the extent that you can potentially narrow the discount to the benchmark price in the second half of 2021 onwards?*

Deon Smith

Happy to take that. Our quality period on period has been broadly consistent in terms of calorific value. As I mentioned earlier, in optimising the single biggest constraint, which is rail, clearly we're looking at options to ensure we rail the highest quality product that we can possibly rail. That helps with the total discount. If you look at the first half, the discount was around 23% to the benchmark price compared to last year's 26%. So, it's already narrowed a bit. And that is driven primarily by market forces. But in the last month of the last six months the new agreement with Anglo American took effect. And under that new agreement the marketing fee moderated to very low single-digit percentage versus what we've paid up to the end of May. That agreement therefore continues into the future. And all other things remaining equal, you should therefore see – and if I say all other things I include market forces, so if the market non-linear discounts remain consistent – as a mechanic of the new agreement you should see our discount therefore also narrow. And we think it could narrow to around 20% ceteris paribus.

Ryan Africa

Thank you very much, Deon. The next two questions are both related to railing. The first one is from Siphelele Mdudu at Excelsia Capital: *The wagon coal train derailment impacting the ability to build stock at the Richards Bay coal terminal aided the TFR planned maintenance shut which was completed in July. How much stock do you currently have at RBCT? How do you plan to increase the stock build-up?*

Deon Smith

So, before we go into any detail, recognise that we speak of TFR as if we have not railed at all, which is not the case. So, a stock position at a point in time or on a particular day isn't the most relative measure. What's much more important for us is a consistent throughput of trains. Every train that comes in we know is 8,300 tonnes that goes out the door. Therefore, if you mathematically calculate it, we need around 50 trains a week for us to feel comfortable and happy about the world. So, to us rather than a particular stock position – and we were in a good stock position prior the shut, so our sales were decent during the shut – it is the momentum of throughput rather than necessarily where we were at a particular point in time, because that could change rapidly if the train performance is materially below what we require or expect.

Ryan Africa

Thank you very much, Deon. July, I'm going to give the next one to you. It's from Benjamin Stoter from Inverson Group: *Unreliable rail services to the Richards Bay Coal Terminal continue to constrain South Africa's coal exports in general. What assurances have been provided to you that this will improve in the short to medium term?*

July Ndlovu

I guess the word assurances here could have legal connotations in that if we don't get it, there is recourse. I think what we've done as an industry is to engage very meaningfully with Transnet at all levels, in particular the senior leadership. As I said right at the outset, they have been very open and transparent about the problems that they are having. Issues of crime, in particular copper cable theft, are something that is bedevilling even the mining industry. We've agreed to work with them. We as the coal industry most affected by the coal corridor disruptions agreed to another shutdown to improve the availability of locos. They've just come out of that shutdown and they've asked us to give them some time to get back to stability.

But having said that, I think the most important thing is not a blissful promise that we will get things right, but actually it's a commitment by Transnet's leadership to say let's engage, let's work together, let's understand what is going on, let's share with you the action plans that we've got to improve the situation, and let's see where we can work together with yourselves. And that I think is something that we appreciate. My own conviction is that these problems are transient. We will resolve them over time. How long it would take I think would depend on how quickly we can execute on the plans that Transnet has shared with us as an industry.

Ryan Africa

The next question is from Thibault Levacher at S14 Capital: *It looks like Thungela is on greater than 110% spot free cash flow yield and greater than 20% yield using the Richards Bay 2023 forward curve. How do you plan on making sure the full value of the company is realised for current shareholders?*

Deon Smith

Yes. Good morning. I think I've addressed the gist of the question. So, your math is a bit higher than mine, but I addressed the substance of the question in that the dividend policy clearly allows the company to do more than what the percentage thresholds are that we were talking about. Clearly if the cash generation on a forward-looking basis – which is what you're flagging – materialises, it puts us in a very healthy position to answer your question more than just verbally.

Ryan Africa

Thank you very much, Deon. The next question – there are actually a couple of questions here – is from Luvuyo Booi at Investec: *Can you please give more colour on how we should be thinking about the lifex extension projects, timelines and related costs to address the short life of mine concerns?*

July Ndlovu

The answer to that question, we said we are unlikely to make any material lifex decision unless there is something compelling to accelerate something before the end of 2022, maybe beginning of 2023. And the reason for that really is a practical issue. It's not because we don't recognise the short life issue of our mines, but actually it's to allow us to reset our capital intensity and the competitiveness of these projects so that actually we can inform you much clearer what capital you can put into your models in terms of those projects. What we have however done is to give you a sense of where those projects are and what kind of resource quality we're talking about and how competitive they are likely to be.

Ryan Africa

Thank you very much, July. The second part of Luvuyo's question I suspect will be for you: *Is there any portion of the unused tax credit ring-fenced to certain structures/entities within the group, or can that be utilised against consolidated income?*

Deon Smith

Hi Luvuyo. The tax credit sits mainly in the entity called TOPL, previously AOPL. I think you might recall that we flagged at the end of last year that the gross number was R5.7 billion. And that number is clearly therefore only available to profits that we generate in that AOPL or TOPL entity, which owns a number of our mines excluding Mafube and Zibulo. However, for expedience and given a number of other corporate reasons we have had to structure that TOPL remains our key single marketing entity opposite Anglo American and other buyers of coal. Therefore, Zibulo and Mafube coal is sold to that AOPL or TOPL structure, and there is therefore broadly an ability up to a certain level to ensure that our affairs are optimally structured. And you will also obviously see that if you look at our income statement and you will see that the cash tax number was around R20 million in the first six months of this year.

Ryan Africa

Thank you very much, Deon. Deon, another question for you, a second question from Siphelele Mdudu at Excelsia Capital: *In your cash flow statement you show R1.7 billion working capital outflow. Is this likely to turn in the second half of the year? Why the large increase in trade and other receivables?*

Deon Smith

So, let me answer the first part of Mdudu's question first, which is you are correct, and it is just over R1.7 billion. That's the cash component of the actual working capital build. As you might see in the balance sheet, slightly higher than that, but that's the cash component. You are correct. The second half of the year let's take each of the elements more explicitly. Inventory is very much a factor of our sales and what we expect to see in TFR. So absent absolute clarity on what we see in TFR, it's very difficult to comment on that. If I'm a betting man I would argue that inventory is likely going to remain fairly stable in the second half of the year given that we wanted to replenish up to a certain level and we clearly want to sell everything that we produce in the second half.

If I talk about accounts receivable, that's really not entirely in our control because the lion's share of that increase in the AR balance was driven by higher realised prices. And at the measurement period at the end of every month the actual receivable that we're likely to get is higher as a result of the higher realised prices. Clearly if prices continue to increase, that number should also increase and there will be a further working capital build on that item. However, we do have the opportunity clearly to convert that to cash within 14 days after the end of such a reporting period. There was also a bit of other noise in that, in that prior to the demerger in order to set up the business sustainably Anglo American made a number of pre-payments, insurance and otherwise, which also reports through to that particular category of working capital. I hope that that answers your question, but it's more complex than just an overarching answer of yes or not. Apologies.

Ryan Africa

Thank you very much, Deon. Then we have another question from Nkateko Mathonsi at Investec: *Does the support that you will still receive from Anglo include the decarbonisation programme to reduce the carbon footprint of your operations?*

July Ndlovu

We are an independent business from Anglo American since demerger and there isn't a technical support agreement. The particular aspect you are referring to is an IP owned by Anglo American. The best people to answer whether they would share that IP would be Anglo American. However, what they have said really is given our history we should be able to share a lot of the learnings. But I can't answer whether they will share their IP with us or not because that would be presumptuous on behalf of Anglo.

Ryan Africa

Thank you very much, July. Then we have another question from Nic Krige at Signal: *100% of Thungela's assets are funded with equity. Do you use EVA when deciding to allocate capital? What cost of equity do you use? Does the board apply their mind to the cost of equity and what strategies have been considered to drive down this cost?*

Deon Smith

Let me take that question. Thanks Nic, for that. There are two parts to my answer. The first part, you must have some level of empathy in that having operated for just over two- and a-bit months this is not necessarily a discussion that is front and centre just yet. Our focus as a board and management has been much more focussed on operating the business through challenging times. I'm not only talking about COVID and TFR, but clearly settling a business post the process we've been through. Apologies, that's just the first part of the answer. To the second part, we've previously said that as we look at our WACC we recognise that we are a single commodity, single country coal operator. And as a result, we necessarily expect to see a higher WACC than some diversified miners might experience.

And therefore, we were not blind to the fact that our cost of equity and our cost of capital is elevated. Therefore, the hurdle to approve any capital project is necessarily higher. And that is natural. But when we look at those projects that July mentioned earlier and evaluating them, project evaluation is much broader than just even one measure of EVA. I think it goes into the nature of the project and the life of the project, and how many cycles of coal price that project might see if it's a longer life versus a shorter life, the payback under different pricing scenarios, obviously the IRR and the IRR over the WACC. I think it's a holistic assessment of a project rather than necessarily one measure. But the one that you're talking to is very important given we know exactly who we are. Thanks Nic.

Ryan Africa

Thank you, Deon. Thank you, July. Thank you to everyone on the call and the webinar for your questions. Unfortunately, I will have to wrap up the Q&A session here. If we were not able to get to your question today, please get in touch with me via email. My email address is ryan.africa@thungela.com. And I will get back to you. With that, please allow me to hand back to July to close out the day.

July Ndlovu

Thank you very much everyone for joining us for our interim results, quite an exciting time for us. And I'm pleased to say that we remain on track to deliver on our ambition, to deliver on our purpose, to deliver on our short-term targets. I'm hoping that we've shared with you that we are making good progress in setting this company to be quite an attractive pure play thermal coal asset that will deliver value to the shareholders. Thank you very much.

END OF TRANSCRIPT