Conference call transcript

22 March 2022

ANNUAL RESULTS FOR THE PERIOD ENDING DECEMBER 2021

Operator

Good day ladies and gentlemen and welcome to the Thungela annual results analyst presentation. All online attendees will be in listen only mode. There will be an opportunity to ask questions when prompted. Please note that this event is being recorded. I would now like to hand the conference over to Mr Ryan Africa. Please go ahead, sir.

Ryan Africa

Good morning everyone and welcome to Thungela's first annual results and strategy update presentation. I am Ryan Africa, Head of Investor Relations for Thungela, and I would like to take a couple of minutes to introduce today's agenda and to explain how the day 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 disclaimers, a reminder that the annual results documents are available on the Thungela website, www.thungela.com, under the results tab of the investor section. This presentation can also be found under the investor presentations tab or alternatively can be downloaded from the webinar pane. 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 in the coming days.

Let's start with the agenda for today. Our CEO, July Ndlovu, will talk through Thungela's 2021 highlights and will also provide an update on our ESG approach and the progress we've made on ESG on this year. Our CFO, Deon Smith, will then talk through the operational and financial performance for 2021, and after this July will provide an update on Thungela's strategy. We will then have a Q&A session of approximately one hour to give those on the call and webinar the opportunity to ask questions. We will then close the call at approximately 13:45.

Turning to Q&A, for those wishing to ask question 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 questions 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 questions. 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. 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 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 Thungela's first set of annual results.

July Ndlovu

Thank you Ryan. Good day to everyone on the call. It is with great pride that Thungela shares its inaugural set of annual results with the market today. Let me start by introducing you to our purpose, to responsibly create value together for a shared future, 12 very simple phrases with deep meaning for us. Our purpose is really the core of what we do as a business and is the North Star for all decisions, choices and actions we take. Now, let me briefly discuss each of the key elements of the purpose.

Starting with the phrase 'responsibly' we are acutely aware that we are a carbon company and that this comes with a unique set of responsibilities towards society at large in terms of our environment impact, the development of our host communities and the need to provide affordable and reliable energy to the markets we serve. We are only custodians of the mineral endowment on behalf of the people of South Africa, and our solemn duty is to maximise the value extraction in a responsible way. We have developed a value focussed strategy and fit for purpose ESG framework which I will come back to during the course of this presentation.

What of the phrase 'create value'? Value creation in a responsible way is crucial for the longevity of any company, and I'm pleased to report that nine months since listing Thungela has created substantial value for you, our stakeholders. This is evidenced by the strong share price since listing and our dividend declaration today of R18 per share or R2.5 billion in aggregate.

'Together'. This recognises the role each one of us in Thungela plays is an impact on local and global economies, the communities we operate in and the lives of our people. It is our responsibly to create long-term sustainable value for all our stakeholders. Two of the most important constituents of this group of course are employees and our host communities. Through our Employee Partnership Trust and Nkulo Community Partnership Trust these two groupings each hold a 5% fully funded interest in our South African coal operations. We have declared a distribution of R273 million to these trusts today.

And lastly, 'for a shared future'. We are building a future oriented business unwavering in its pursuit of serving the energy needs of society and creating value for decades to come. While the fundamentals of our business remain strong, we recognise the need to futureproof our business through maximising the full potential for our coal, the existing assets, with a focus on executing production replacement and life extension projects. We also need to look for future diversification opportunities and options. I will elaborate on this during the strategy update section of today's presentation.

When we listed on the 7th June last year the share price on the JSE on that date closed at R21.90. I'm immensely excited and proud to say that we are today returning a staggering 82% of that day one closing market cap to shareholders in the form of a dividend. Our shareholder register has evolved since listing and we have a diverse shareholder base. We made a number of promises at listing, and delivering on our promises in 2021 became the single most important priority for us. We single-mindedly focussed on delivering those promises. So let me share some of those highlights.

Our safety performance has improved, but of course this is scant consolidation in a year in which we lost a colleague, Moeketsi Mabatla. Our journey is not done until everyone goes home safely every day. The business has returned to profitability with profit for the period of R6.9 billion. Cash generation was particularly strong, generating adjusted operating free cash flow of R3.9 billion. This is what drives our dividend. And at the end of the year we had a cash balance of R8.7 billion.

I've already mentioned that we have declared an inaugural distribution of R273 million in aggregate to the employee and community share ownership schemes. Since listing we've applied the Thungela lens to both capital and corporate cost, and today we report significant progress. Finally, we've declared our maiden dividend of R18 per share or R2.5 billion. We intend to seek authorisation from shareholders at the forthcoming annual general meeting for any potential share buyback programme.

With those highlights out of the way I want to look at some of them in a little bit more detail starting with environment, social and governance, or ESG for short. We have developed a fit for purpose ESG framework. You will see that when we speak about ESG we mean E, S and G, not only the narrow perspective to focus on environment and even the narrower lens of only emissions. As a mining company we of course realise the importance of environment stewardship encompassing the efficient use of resources, land stewardship and biodiversity as well as climate risk management.

The UN Sustainable Development Goal enjoins all of us to place society's development needs at the centre of what we do. In that regard we recognise the importance of the social aspect. In other words, the impact we have on our people, communities, countries we operate in and the markets we serve. This is an area in which Thungela intends to spike, making sure that each decision and action we take can and will lead to a promising future for these key stakeholders.

Finally, it is important that our business is underpinned by robust governance, transparency, responsible decision making and inspired leadership. Looking at safety and health, the loss of our colleague, Moeketsi Mabatla, on 23 June was a devastating blow for us. We continue our relentless pursuit of being a fatality-free business ad we are working hard to achieve this through our safety strategy. This strategy is built around three pillars, back to basics, work management and culture change, which we developed through an extensive engagement with our employees. It is continually evaluated for suitability and effectiveness and adapted accordingly.

Through our efforts today we report a reduction in total recordable case frequency rate which has improved from 1.51 in 2020 to 1.35 in 2021. Whilst pleased with this improvement, we will not be satisfied with our safety performance until every employee returns home to their loved ones without harm every day. We must eliminate fatalities and accidents from the workplace. While COVID-19 continues to have a profound impact globally, the significant work done to address the pandemic's effects on our workforce enabled us to successfully manage its impact through the successive waves. As I mentioned previously, we are very proud to have declared a distribution of approximately R136.5 million to each of our employee share partnership trusts. This gives meaning to creating shared value and a lasting social impact.

I will talk to our ESG aspirations as part of the strategy, but let me pause for a moment to emphasise again that the E in ESG is about more than only emissions. We continue to make good progress in rehabilitation and the efficient use of resources. In terms of Scope 1 and Scope 2 emissions we have now exceeded our target of reducing emissions by 15% off the 2016 baseline.

We are disappointed to report an incident on 14 February 2022 when mine contaminated water from an old closed shaft accidentally discharged into the natural river system. The impact on the ecology for the 60km from the mine to the Loskop Dam mouth was significant. The immediate actions taken have made the river system water safe for use. We are now in the process of developing a longer term plan to restore the water ecosystem to its normal state.

Strong governance underpins the rest of our ESG approach, and indeed the way we do business, how we work, what we prioritise and how we take action. We have a strong and experienced board. The majority of our directors are independent, and in the coming months we hope to add another independent director to the board. We are committed to ensuring that the board appropriately reflects diversity, and accordingly we aim to appoint a black female director.

The board has ultimate responsibility for strategy and governance including ESG matters. We welcome the increased levels of transparency and governance which is required by the JSE listing requirements and the UK listing rules. In terms of ESG we are required to report in line with a number of important global standards, again improving transparency and accountability. With that let me now hand over to our CFO, Deon Smith, to take us through the detailed operational and financial performance.

Deon Smith

Thank you very much, July. We are certainly very proud to present to you our first set of annual financial results. Profit for the period was R6.9 billion while headline earnings before one-off adjustments such as impairments came in at R7 billion. [Break in audio]. Adjusted operating free cash flow, which is essentially cash flow from operations less sustaining capital expenditure, came in at just under R4 billion. As July mentioned earlier, this performance enabled us to declare a maiden dividend of R18 per share which represents around 63% of adjusted operating free cash flow. And yes, July, that is around 82% of day one market cap.

Our export saleable production at 15 million tonnes came in at the midpoint of the updated production guidance we shared with the market in October. As mentioned, our earnings also benefitted from good cost management which I'll unpack a bit later. On a pro forma basis which is consistent and comparable year on year, our FOB cost per ton came in well below guidance of the R830 per ton with a reported number of R812 a ton. That was notwithstanding the pressure on the denominator. I will unpack each of these numbers as we step through the rest of the presentation.

Whilst we are clearly very pleased with the financial results of the business, it was delivered in the context of a fairly challenging operating environment for Thungela. Compared with past years and notwithstanding two maintenance shutdowns, rail performance was very poor and progressively deteriorated over the year into Q3 2021. We observed a slight improvement as you will see on the graph into Q4 and again in Q1 2022, but the annualised run rates are still well below what we require in order to produce at our full installed capacity and potential.

This slight performance step up in Q3 and Q1 can be attributed to the joint industry TFR interventions such as the security intervention. We are however still hopeful that the ongoing procurement initiatives will contribute to improved performance and stability by TFR in 2022. The single most important step by TFR since the rapid deterioration in 2021 was no doubt the introduction of 40 additional locomotives which should theoretically result in up to 25% more capacity on the coal line. These locomotives were introduced in March 2022 and we are expecting to see, all else being equal, some or hopefully all of this step up from Q2 this year.

Due to this poor rail performance we were only able to export around 13.9 million tonnes, which is 16% down on the prior year. We however focussed on maximising the rail utilisation and our earnings by implementing a number of actions which we've spoken about previously. Firstly, you will notice that we prioritised our export equity sales in the second half of 2021 and accordingly railed almost no third party tonnes in this period compared to the 926 in the first half of 2021. Our second half export equity sales were accordingly 7.3 million tonnes, up 11% on H1 2021.

Secondly, we also optimised our export product mix, focussing on railing the highest margin, highest energy content coal given the limited rail availability. You will therefore notice that our higher quality sales were 80% in H2. That is 5% up on H1. As a result of our rail optimisation strategy and given certain on-mine stockpiles reached full capacity in late Q3, we also throttled production at higher cost operations as well as mines where we could more easily avoid stranded costs.

So whilst we are pleased with the outcome of our actions and the positive impact that has had on our earnings and cash flow, we absolutely recognise that a more sustainable answer must be a much improved rail performance by TFR. We will therefore continue our focus and our efforts on that as an outcome and continue close cooperation with TFR on that journey.

Reflecting on this benchmark coal price graph on the screen, 2021 was a tale of two halves, not only due to our mid-year listing but also with prices showing strong momentum in the second half of the year. Our full year realised price was just shy of $104 per ton compared to $75 in the first half and $130 per ton in the second half. The coal price recovery into the second half benefitted from supply side constraints across Australia, Indonesia and South Africa on the one hand, but also a robust recovery in demand across various regions following the global pandemic.

Discounts also narrowed in the second half to 13% from 23% in the first half. Approximately 2% of this shift was as a result of a lower marketing fee which is clearly sustainable into the future. The changes to our product mix in order to optimise our rail utilisation also played a key role in the more narrow discounts. The largest driver was, however, strong market demand which resulted in a price premium rather than a discount on at least two of our branded products during the second half.

As prices pulled back post October's highs we entered into a number of coal swap transactions at firm prices in line with the realised price achieved in H2 2021, so much higher than our average price in 2021. The aim of these coal swaps, which were entered into in terms of a board mandate with a minimum cash margin and a maximum volume, is to underpin the sustainability of our lower margin mines where we felt it necessarily to lock in firm margins for operations that are throttled back due to poor rail performance.

We have improved and added to these positions recently given the very strong pricing environment post the tragic events in Europe. The net future effect of these coal swaps, recognising we continue to sell physical coal in the market during the exact same pricing periods as the paper trades mature, is that we achieve a firm price and a firm margin for approximately 10% of our 2022 coal sales.

Turning to our operational performance, I will refer to the pro forma comparison recognising that is most comparable on a year on year basis. The single largest reduction came from a conscious decision to remove higher cost production from our portfolio. We completed the restructuring in H1 and you will accordingly see the restructuring costs mainly related to Bokgoni open pit operation within Khwezela in our income statement. The Navigation pit which replaces Bokgoni production was not fully ramped up as originally planned due to the decision to curtail production as mine sites' stockpile capacity filled up on the back of the poor rail performance.

We continued to ramp up productivity initiatives at our lower cost operations which partially offset the headwinds we experienced at operations where production had to be curtailed due to full stockpiles. You may recall that one of these productivity initiatives is the so-called prime section deployment whereby two rather than one continuous miner would cut coal in a single underground section. This initiative has resulted in a step change in performance where ground conditions allow for it, and we have accordingly achieved five sections which each produced more than 1 million tonnes of run of mine coal. Without this prime section deployment, this would have been three sections.

Our good production performance contributed to the increase in revenue of R8.1 billion compared to 2020 notwithstanding lower sales in 2021. The main driver clearly of the increase in revenue was the improvement in benchmark coal prices and price realisation, partially offset by a stronger Rand. That's all on the left-hand side. On the right-hand side of this graph operating cost reduced by about R3 billion compared to 2020. The key drivers for the reduced cost footprint were firstly the reduced production at Bokgoni, which was the high cost production, secondly, reduced rail cost due to lower volumes being railed, and lastly, the reduced corporate costs.

The impact of the significant increase in revenue and clearly the reduction in cost is clearly visible in our results with a cost reduction particularly important as we seek to remain globally competitive on a unit cost basis. If we now turn to that unit cost, a lower production denominator in 2021 as compared to 2020 was by far the most pronounced headwind when looking at unit cost. This headwind titled TFR performance increased our unit cost by more than 10% in 2021 but was partially offset by a lower rail cost as inventory build was mainly at mine sites and not at the port.

The net unit cost result on the right-hand side of this graph of R812 a ton compares favourably with the guidance of R830 as a result of the tailwinds set out in the balance of the slide. These include the decision to remove the higher cost production titled Bokgoni care and maintenance, reducing our corporate cost by approximately R350 million a year compared to our target of about R250 million a year, and also a lower non-cash rehabilitation charge year on year. In short, good cost decisions and good cost management resulted in a reduction in the FOB cost per ton notwithstanding a lower export saleable denominator.

For adjusted EBITDA I will again focus on the pro forma numbers which resulted in a 2021 full year number of about R10.1 billion. Other than the positive uncontrollable benefit of price and FX you will see the most significant negative impact on our EBITDA was the lower export sales of approximately R2.6 billion. This impact was however more than offset by lower costs of R1.7 billion, inventory build of R1.4 billion year on year, and lower rehab charge of about R400 million. Our EBITDA margin of 38% also compares very favourably with the negative 5.6% margin we achieved in 2020. We do believe that the decision we've taken resulted in a much more resilient business with stronger earnings potential through the commodity cycle.

It's important to pause on our 2021 working capital build, seeing its significance. As you can see, our working capital increased by about R3.2 billion, of which R1.8 billion was during the first half of 2021 and a further R1.4 billion in the second half of 2021. The inventory build was pronounced given the poor rail performance, and as mentioned earlier resulted in us utilising fully our on-mine stockpile capacity. Our inventory balance at the end of 2021 was approximately 2.8 million tonnes, of which 400,000 tonnes was at the RBCT port with the balance on mine.

Receivables continued to increase throughout the period mainly as a result of higher prices. You may recall that around 85% of our revenue is from export sales and our debtor there is Anglo American Marketing. Contractually we receive export revenue two weeks after the end of the month of sale. We are therefore expecting our receivables balance to hit an all-time high in March 2022, the month we are in now, given the unprecedented high prices we have seen in the market today. Payables decreased mainly in the first half of 2021 due to the clean-up work completed post our new ERP implementation towards the end of 2020. Our working capital balance is therefore higher than normal and is likely to moderate as rail performance improves, other than clearly the continued healthy build-up in receivables.

Let's turn to capital expenditure. When we set out on this demerger journey we anticipated and duly guided capital expenditure of up to R3 billion in 2021. We also however flagged our intent to review every policy and every capital decision through a Thungela lens. This approach enabled us to reduce our guidance to the bottom end of the original capital range of around R2.6 billion. And today we are confirming our total actual spend for 2021 of R2.3 billion. We however deferred around R200 million capital expenditure from 2021 into 2022, and that was mainly as we throttled capex alongside the operations where we were forced to curtail production due to poor TFR performance.

We have now also been able to review our future plans and capital expenditure through this Thungela lens. The most material capital expenditure headwind we face is no doubt the global inflation outlook given the impacts from the conflict in Europe and its associated sanctions. We will monitor these impacts closely, but based on our current assessment we continue to feel comfortable to lower our sustaining capital outlook to between R1.6 billion and R1.8 billion per annum. The R200 million deferral into 2022 is also included in that guidance.

We plan to approach our board for approval of the Elders production replacement project at a real capital cost of approximately R1.9 billion to be spent across three and a half to four years starting in 2023. In early 2023 we will also consider the Zibulo north shaft life extension project at a real cost of around R2.2 billion to be spent across four years starting from 2023.

The approach, scope and capital intensity of these projects were reviewed and continue to be refined as we seek to optimise the investment case and capital phasing. We are pleased with the work to date, with Elders, for example, now envisaged to cost around R1 billion less than initially envisaged as set out in the 2015 study and subsequent CPR reports we issued as part of the pre-listing documentation.

Let’s stay on the balance sheet for a minute. Our total environmental rehabilitation provision at the end of 2021 was R6.75 billion. That’s up from R6.2 billion at the end of 2020. The increase was driven, other than the annual discount movement, by the inclusion of Mafube as well as the results of our annual review by an independent external environmental advisor. We spent about R500 million on physical rehabilitation activities, which also clearly also reduced the liability assessment at the end of 2021. The balance sheet liability is covered around 52% by cash collateral of R3.5 billion, and that is up from the 47% at the end of 2020.

Our provisions remain materially above, specifically by about R2.6 billion, the regulatory requirement of R4.1 billion as we seek to provide for these liabilities on a basis that is more consistent with the new Environmental Management Act, of which the regulations are likely to become effective in June 2022. We will continue to review the level of provision as well as cash collateral and adjust these to most accurately reflect our view of the future cost and appropriate levels of funding.

As July mentioned earlier, our strong earnings enabled us to fund R3.2 billion in working capital build-up as well as R2.2 billion in the sustaining capital world. Net of these items as well as the rehab spend and taxes, we reported R3.9 billion of adjusted operating free cash flow for 2021. With an effective tax rate of 7.6%, our taxes were, as anticipated, lower than what is expected into the future given the assessed loss carried over from prior periods. Our dividend policy is to return a minimum of 30% of adjusted operating free cash flow to shareholders, which would have resulted in a minimum dividend payment of R1.2 billion.

At the end of 2021 we however had R8.7 billion in cash, which compared to the upper end of our liquidity range of R6 billion enabled us to consider higher returns than that R1.2 billion to shareholders. The board accordingly declared a maiden dividend of R18 per share or R2.5 billion in total, which represents 63% of that R3.9 billion adjusted operating free cash flow. That is clearly materially above the 30% commitment. The 30% dividend policy portion is therefore approximately R8.50 per share and the additional amount of R9.50 per share brings us to an ordinary dividend of R18 per share.

In addition to this R2.5 billion dividend to the owners of Thungela, as July said earlier we have also declared a dividend of R273 million to the employee participation and Nkulu community participation trusts. Net of these dividends, which total R2.8 billion in total, our residual cash balance at the end of 2021 – assuming we paid all of that by the end of 2021 – remains at the upper end of the liquidity range of between R5 billion and R6 billion which we continue to believe is appropriate to maintain during and following periods of strong prices.

Let me now turn to our immediate production, cost and capital outlook before July casts his eye to the horizon for the final part of today's presentation. We forecast export saleable production at between 14 million and 15 million for 2022, taking into account a gradual rather than immediate recovery in TFR performance. This represents an annual TFR industry run rate of between 60 million and 65 million tonnes compared to the 58 million tonnes in 2021. So that is a 3% to 12% step up from 2021 performance levels. In 2022 we also expect export sales to more closely align with export saleable production given that we have now largely utilised available on-mine stockpile capacity. Subject to TFR's performance recovery we expect export saleable production to recover and exceed 16 million tonnes from 2023.

As mentioned when we spoke about the capex outlook, inflationary pressures are currently increasing across het various commodities and consumables. These factors coupled with a lower production denominator in 2022 are likely to weigh on the group's unit cost. We expect our 2022 FOB cost per export ton to range between R870 and R890 per export ton with the bottom end of the unit cost range assuming we get to the upper end of that production guidance.

Importantly, the unit cost includes a mining royalty of approximately R20 per ton, and that is payable to the South African government. The royalty could increase very materially if current benchmark coal prices were to prevail for the remainder of the year. Whilst the royalty calculation is not exactly linear, the minimum rate is around 0.5% of gross sales revenue and the maximum is around 7%. And that is based on a regulatory calculation of our EBIT margin, so clearly strong prices equals higher royalty. FOB cost per export ton guidance for 2023 and 2024 is expected to moderate as a result of higher production and productivity improvements, which offsets geological inflation into the future.

As mentioned earlier, our sustaining capital has been reset to this range, R1.6 billion to R1.8 billion, as a result of reviewing capital through this Thungela lens. We envisage the approval of two projects, Elders in 2022 and Zibulo in early 2023, and accordingly today we initiate guidance on expansionary capital expenditure. The expansionary capital expenditure range is around R100 million to R200 million in 2022, and that mainly represents feasibility studies and initial set-up costs for Elders. The capex run rate on expansionary increases to between R700 million and R900 million by 2024 when both Elders and Zibulo are in execution. We expect total execution capex to peak at around R1 billion per annum over that four year development period.

Before I hand over to July it would be amiss if I don't flag that the very tragic conflict in Europe is resulting in an unprecedented escalation in prices across the energy complex and commodity prices in general. On balance the impact of the sanctions against Russia is more likely to benefit than harm our business in the short term, as recently evidenced by the massive increase in energy and coal prices. We are however not blind to the risks and extreme uncertainty that this conflict holds to us and the markets that we serve, so we are carefully assessing these developments and risks to ensure we are appropriately positioned to manage through this period of uncertainty. With that let me hand back to July for an update on our strategy. Thanks, July.

July Ndlovu

Thanks very much, Deon, for that overview and excellent and very pleasing set of numbers. What I would like to do now is to turn to the future of our business. We are nine months old and we have started to look and define our strategy. Despite this being early days, we wanted to share several perspectives and guardrails with you to help shareholders form a view of our future and prospects and areas of focus. It is difficult for anyone to predict the future, particularly in the areas of energy policy and future of fossil fuels. We however believe that the mega trends and change that comes with these as set out on this slide is probably much more certain.

For example, last year we observed the geopolitical tension between China and Australia which remains the key feature in the coal market even today. Deon has just spoken to the most tragic conflict in Ukraine, again because of geopolitical tensions. Whilst no one can with any degree of accuracy predict the impact on energy prices as a result of the conflict and sanctions, it will likely become that energy security and affordability now trumps other considerations in the near term. I think the conversation as we speak today, whichever newspaper you read, is nothing other than securing energy supply at affordable prices in most geographies.

So the implication of geopolitics, which places national interest ahead of global interests, is supportive to the case for traditional energy sources such as coal. A number of these mega trends are likely to be supportive to Thungela in the near to medium term. There are, however, indications that certain of these trends could also undermine the longer term attractiveness of coal and therefore threaten our business beyond the existing life of our assets. In us reviewing the various impacts on our business, in recognising the level of uncertainty these trends bring we have identified four strategic pillars which are on the right-hands side of this slide which will enable us to deliver on our purpose to responsibly create value together for a shared future.

These four strategic pillars as we set them out I don't want you to read as priority from left to right. These are the pillars that will support us in delivering our purpose. Of course some of them are underpinned to this business and some of them help us to create the future, the first one being driving our ESG aspirations, maximising the full potential from our existing assets, which is our core today, creating future diversification options, and lastly, optimising our capital allocation.

I would like to unpack each of these four pillars in a little bit more detail. As a carbon company we recognise the importance of addressing climate change. Transitioning to a low-carbon sustainable energy mix requires looking at sustainability from a broad rather than narrow ESG perspective. We make a significant contribution to our employees, communities and South Africa more broadly, and need to carefully consider the socioeconomic implications as well as the timing and pace of transition to a low-carbon future. We are a very small part of the global puzzle, but recognise our importance in achieving this fine balancing act the globe is set out to realise.

So we accordingly committed to do two things: develop a pathway to net zero emissions by 2050 subject to the requirements of the countries we operate in and the markets we serve. I need to be clear here because the markets we serve and the countries which we operate in have committed to net zero targets that vary between 2050 and 2070. Therefore as we develop our pathway we need to take that into account. This approach recognises obviously that a transition to net zero is as much a technology transition as it is about choices of cleaner sources of energy.

And secondly, we commit to reduce the carbon intensity of our existing operations. As you will see in the rest of this presentation, ESG becomes a compass for decision making across the remaining three pillars. We have developed an investment criteria that I'm sharing with you today, and our investment evaluation criteria falls into three categories, the first one being responsible stewardship, the second asset portfolio, and the third one shareholder value creation. In our view the ESG criteria is set to drive responsible stewardship and will help avoid indiscriminate investment in coal assets. These criteria will also push us into a considered transition to a sustainable energy mix.

Therefore assets and projects where we do not enable incremental and additional carbon emissions should all things being considered be favourable. The second criterion is progressively upgrading our asset portfolio. Our view remains that only the most competitive coal assets should produce while the world transitions into a new energy future. This is the reason why metrics such as the position on the cost curve, payback and capital intensity are integral to our decision making. In taking a balanced approach to capital allocation and therefore placing focus on long-term shareholder value and returns remains a non-negotiable hurdle to our investment decision making. This set of metric speaks for themselves.

The second pillar talks to our core and is aimed at maximising the full potential of our existing assets. We monitor and track a very broad range of levers to maximise the full potential of the existing asset base. All of initiatives ultimately seek to improve the competitive position and cash generation of the assets we own and operate today. The initiatives we summarise on this slide, whilst a fulltime job for my executive, is a ticket to the game as we ensure that we remain the best possible operators for our mines, our plants and the infrastructure we use ultimately to create value. There is no future without this coal delivering attractive cash flows.

This pillar enables other long-term value accelerators and strategy pillars. For example, our operational productivity and cost improvement initiatives help us earn the right to invest in production replacement projects. These projects seek to convert resources into reserves at or around our existing operations in a manner that optimises what we own today.

Two examples of such projects are what Deon mentioned in his capital guidance starting with Elders. We own a portfolio of high quality resources and reserves that together with our strong balance sheet enables us to potentially pursue value-accretive projects such as this one. We plan to present this Elders project for board approval in mid-2022. This project benefits from contiguous, mature and efficient infrastructure and will replace declining coal production volumes from Goedehoop over the next couple of years.

Deon spoke quite a bit about the work we've done on capital intensity using the Thungela lens. This project was initially envisages to cost R2.6 billion in 2015 money terms or around R3 billion in today's money terms. Applying the Thungela lens reduces that planned capital spend to less than R2 billion in real terms. The development timeframe is around three and a half years with the capex spread equally over this timeframe. And if approved Elders will produce high quality export coal from an underground operation of a similar size to Greenside for more than ten years. We are also exploring co-extraction of domestic coal volumes to augment the business case. When you look at the investment criteria that I shared with you earlier, Elders rates very favourably against that evaluation criteria.

The second project is the Zibulo north shaft life extension. Zibulo is obviously our flagship operation in terms of scale and economic contribution. The north shaft project would deliver production replacement tonnages for the Zibulo open cast which ramps down in 2026. The project would extend Zibulo's life with around ten to 12 years and cost roughly R2.2 billion in real terms. We seek to place this project before the board in early 2023 for approval. The development timeframe is around four year from around 2023 to 2026.

Given the importance of our capital allocation principles we continue to review the appropriate sequencing of activities and endeavour to keep the annual expansion capital to roughly R1 billion in real terms whilst these two projects overlap. We continue to study a number of other replacement projects such as Clydesdale at Khwezela, [unclear] in a new basin in the Waterberg which also contains our coal bed methane gas project near Lephalale. But these are likely to be sequenced should the demand for thermal coal continue into the future beyond the current five to seven year horizon.

Let me look at diversification options. The longer term trend I spoke of earlier coupled with our most recent experience with rail constraints in South Africa makes for a compelling diversification case. Let me be clear here. We have got concentration single country, single commodity, single region and we are entirely depending on a single piece of infrastructure. And Deon spoke to the impact that it has had on our business.

So as we develop a pathway for the future of our business, assessing buy versus build options is clearly important. But this is particularly important given the recent observed thermal coal asset transaction low valuation multiples. It goes without saying that geographic diversification of coal assets is obviously an option for us, provided we are able to secure quality thermal coal assets at reasonable valuations.

We also think that acquiring a producing coal asset provides a neutral contribution to the global carbon footprint, which supports the ESG investment criteria we covered earlier. We would also rank the benefit of transparent disclosure and accountability as well as the ability to apply our ESG standards to coal target assets. We recognise that commodity diversification is more desirable but is equally more complex and we seek to expand and de-risk sources of revenue into the future.

In that regard we may well pursue early stage assets in geographies where Thungela can compete, again only if we can secure these opportunities at compelling valuations. We would however only consider doing so where we believe we have a right to win and we can leverage Thungela's core skills. We would also consider divestment or wind-down of high cost tonnes. In addition to the restructuring steps we took around Bokgoni we will carefully evaluate other options such as the use of selective disposals to enable our diversification and portfolio upgrade into the future.

Looking at our capital allocation, we will notwithstanding the aspirations I've just spoken about remain focussed on a balanced and disciplined capital allocation approach. We need to maintain a liquidity buffer given the volatile price nature of our commodity especially experienced in the last few years. The buffer is key to deliver on our promise to pay a minimum of 30% dividend pay-out through the cycle. We intend to seek shareholder approval to potentially consider a share buyback into the future should this be considered appropriate. These options will be carefully evaluated against any project options we continue to study. Any investments must clearly compete with additional shareholder returns.

I probably have made a bigger issue of this buy versus build idea, so let me give you a little bit of colour what I mean. We recognise that society needs to transition to a sustainable energy mix, but believe that this should take place in a responsible and coordinated manner, a manner that ensures secure, affordable and reliable energy to society. We also recognise that developing the full suite of our thermal coal project has the potential to exceed our current production profile. Whilst developing our potential projects supports some of our social objectives and commitment to South Africa, it is not always compatible with the desired global shift away from coal. So we will accordingly evaluate acquisition opportunities that may be superior to organic increases in production, noting the environmental benefits of replacing a declining tonnage profile with producing assets versus adding new coal projects.

Let me give you a simplistic depiction of what potentially could happen. This slide is a simplistic illustration of the global implied carbon benefit should we find a path to buy rather than build replacement project. Given the lump nature of what you buy, you potentially could actually in the initial early years exceed your current profile. But that actually should come down as we execute our net zero pathway. If that were to happen, that top triangle on the right hand of that slide would be completely extinguished, therefore reducing carbon units on the globe. This perspective, however, does not detract from our stated objective which is to define a pathway to net zero by 2050 subject to the markets we serve and the countries we operate in.

Let me wrap up before I hand back to Ryan for questions and answers. We have shared a lot more than our 2021 results today, but let me leave you with the following key messages. Thungela is committed to running a fatality-free business and every effort will be made to ensure that everyone returns home safely every day. The market fundamentals underpinning coal demand remain robust and supportive. We are exceptionally pleased with the excellent operational and financial performance notwithstanding the rail constraints and COVID-19 headwinds.

Our robust performance has allowed us to pay around 82% of our day one market cap back in dividends to our owners. That is R2.5 billion. We are also very pleased to pay R273 million into our community and employee trusts, which completes the circle of our purpose to responsibly create value together for a shared future. Finally, we have set a net zero target for 2050 and are committed to charting a pathway towards this during the course of the next year. I look forward to providing you with an update on this in due course. Ryan, back to you to take questions.

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

Operator
Thank you. The first question comes from Brian Morgan of RMB Morgan Stanley.

Brian Morgan

Hi guys. Two questions from my side. Do you want me to ask them one at a time or together?

July Ndlovu

You can ask all of them together, Brian.

Brian Morgan

Perfect. On the guidance assumptions that you assume for TFR on the basis that TFR runs 60 to 65 million tonnes for 2022, up from 58 million in 2021, is that as a result of the new locomotives or the refurbished locomotives that they are bringing onto the line? That's number one. Then obviously part of that is what are they running at the moment, or the first two months of this year, have they been running at that 65 million tonnes annualised number?

The second question is on the strategy update particularly with reference to the diversification into other commodities. It's quite a big departure from what you spoke about last year in May when we had the capital markets day. If we can just chat about that a little bit. Is this in response to issues raised by shareholders? Have shareholders requested that you look at diversification into other commodities? Could you chat a little bit about timeline? Is this something we should expect imminently, the next three years, the next five years? And then how would you fund this? Would this be cash built up on the balance sheet? If you could answer those ones please.

Deon Smith

Brian, I'm happy to kick off with TFR. Can you hear me? Sorry, I just want to make sure.

Brian Morgan

Absolutely fine.

Deon Smith

Fantastic. I had a mic problem earlier. Apologies. So your numbers are correct, around 60 million to 65 million tonnes is the assumption that we're making. It is important to note that TFR declared capacity of 70 million tonnes for 2022. If you look at the 40 additional locos on the coal line and if you overlay those which came on line in March onto their full year capacity using their base of 58 million last year, that should bring TFR theoretically to more than 70 million tonnes.

So clearly TFR in their own calculations might have been slightly conservative in the 70 million, and clearly we are even more conservative in what we are signalling at 60 to 65 million tonnes. But we want to see a sustained, demonstrated performance at those types of levels before we would revisit our production plans, recognising that clearly we want to free up some stockpile capacity before ramping up all of our operations to its full potential.

The answer to your other part of the question around if we are seeing the capacity already, no, not yet. Clearly the reason was it was introduced during March and currently the integration into the system is no doubt still taking place. So we're probably only expecting to see that step up from April onwards.

July Ndlovu

Brian, your question on diversification. I think the way to think about our strategy is the following. First and foremost our job is to deliver the best value out of what we own today, which is our core. If we're going to grow, we're going to grow from that core. Secondly, given the concentration that we've got into single geography, single commodity, and the concentrated risk associated with the infrastructure which you have just spoken about, I think it stands to reason that we should look at other opportunities. And if we look at other opportunities, we should look at opportunities in thermal coal first and foremost because that's where our capability is. That's what we know, and quite frankly that's where opportunities seem to be at compelling valuations today.

And that's why we talk about our geographic diversification, but again looking at something that gives us a little bit longer life, which is why we make the point about the geographies where we operate and the markets we serve. So get maximum value from what we've got. If we're going to look at diversification, in the first instance it will be in coal in other geographies for the reasons I've explained. In the next decade you will probably see us looking at diversification into other commodities. And the reason for it is very simply that if you want to build a long-term sustainable business you've got to de-risk your revenues and diversify those revenues.

The best way to describe this is the customer gets what he wants. Society says we should diversify from use of coal. The timeline could be uncertain, but my view is that we will see a decline in the use of coal over the next two to three decades. Therefore if we want to build a long life business over the next decade we should be looking at other sources of revenue. So that is not really a today question. I don't want you to ask me next year, so where is the acquisition in other commodities that you spoke about? That is a lot longer term than the first two.

That's why you notice what we've done is we're actually announcing production replacement projects first and foremost. It's about our core. We get approached with lots of opportunities in thermal coal given that we are a carbon company. That's what we are. We think it stands to reason that we should look at those, again if it's compelling. And only then should we cast our eye to the other ones. I know it is probably one of those strategically appealing things to diversify into other commodities, but its' complex. Today we will probably pay very high valuations. So that's not a today priority for us, but we'll look at it.

Brian Morgan

Sorry, and then if you could just chat about the cash requirements for any acquisitions potentially. Would you be looking to build up a balance sheet buffer or would you assess it at the time?

July Ndlovu

I will leave that to my CFO because we think there are creative ways to fund them. But let me let Deon answer that question.

Deon Smith

So Brian, our primary focus is clearly as we generate cash to return what we believe is excess to shareholders. We would also evaluate the market opportunities at the point in time. As July said, rightfully so, most asset prices are elevated so we wouldn't necessarily want to play in the market at that period in time. If there is an opportunity we would look at the available funding at that point in time, recognising the limited funding available for thermal coal businesses. So to me it's a case by case depending on the nature of the asset and the timing of it. But we certainly wouldn't necessarily in the first instance seek to build up massive reserves in order to potentially fund something. We remain committed to therefore return the appropriate cash to shareholders as we earn it.

Brian Morgan

Thank you very much.

Ryan Africa

Thank you Brian.

Operator

Thank you. The next question comes from Ben Davis of Liberum.

Ben Davis

Hi guys. Can you hear me?

July Ndlovu

Hi Ben. Yes we can hear you.

Deon Smith

Loud and clear.

Ben Davis

Great. Thank you very much. I just had a couple of questions. Firstly on the projects, I'm just curious in terms of price assumptions or just simply what price assumption was used in the reserve calculations for these projects. Have you used higher long-term prices or is it still very much the same as what we were seeing a few years ago?

Deon Smith

I'm happy to field that one off the bat, Ben, then you can go through the rest of your questions. We typically refer to WoodMac, and I know that when we said that six or eight months ago it was really tough to think that we would see $85 or $90 a ton with the $460 in the current month being hit. We are still using the same assumption, the WoodMac type range of $85 to early $90 a tonne as we look at resource to reserve conversion and for our capital project investment evaluation, so the criteria that July spoke about earlier, payback and the like, we would use a consistent set of numbers for that also. We certainly do not want to try and time an approval of a project during the heat of the market as we're seeing at the moment.

Ben Davis

Got you. Obviously with the heat of the market just in terms of cash build today or what we've seen year to date, from my numbers obviously pries have been fairly substantial. Where is the cash position as at end of March?

Deon Smith

Maybe before I give you the cash number you've got to recognise that prices only really started rallying again in March, so we haven't seen that cash flow in our balance sheet yet. As I mentioned earlier when I spoke about accounts receivables, we're hitting an all-time high at the end of March, so in eight days' time roughly. Therefore we will see that cash really coming to our balance sheet from about April onwards. So end of May [correction: March] our cash balance should be about R12 billion.

Ben Davis

Very nice. A lot of work to be done on the capital returns. On capital returns, seeking buyback approval, what sort of levels would you be targeting in terms of the amount of buyback as a maximum?

Deon Smith

Ben, we wouldn't have necessarily considered that just yet. As you can imagine, our dividend and return to shareholder policy is on an 'earn it first', and whilst it is great to high five on the first three months, we still have a couple of months to go. So in our minds we would, like we've done now with the most recent dividend, present a range to the board and seek their wisdom and guidance on what that could be. Clearly we've historically said that at a minimum we would like to return 30% of our adjusted operating free cash flow as a dividend. And clearly to the extent that there is headroom to do anything beyond that, we would be quite keen to return that, clearly if shareholders are amenable at the AGM to potentially consider doing so by way of a buyback. It could be therefore whatever we return in excess of that 30%.

Ben Davis

Got you. But it would be announced at the next interim results.

Deon Smith
Correct. I think middle August is the timing currently for that announcement. Thanks Ben.

Ben Davis
Perfect. That's all from me. Thanks guys.

Operator
Thank you. The next question comes from Jacques Conradie of Peregrine Capital.

Jacques Conradie
Hi there, July and Deon. From my side just a quick comment on the ESG and capital allocation points you made. We are shareholders, and from talking to other shareholders I think all your current shareholders own your business because you are a coal producer. I think if anything the world has probably moved off coal too quickly and I think Europe's dependence as a result of this created from Russia is probably partly to blame for this conflict. It probably wouldn't have happened if they more responsibly transitioned energy and kept doing their own production. So it's not clear that ESG is pure good if it's partly the cause for this conflict.

So I guess my view as a shareholder and talking to other shareholders is certainly not that you should be looking at diversifying away from coal. I think shareholders own this business because you are a fantastic coal producer. There are lots you can do on the current asset base, and we would rather probably have share buybacks, dividends and reinvesting in existing operations rather than any diversification into other commodities.

July Ndlovu
I have to agree with you. The reason why I start off by saying we've developed these mega trends with flags to help us make decisions going into the future is exactly that. You will recall we said we believe in the long-term fundamentals of coal. People didn't actually believe that we were right. Maybe this is the only time that I can say 'we told you so', but we were right. And we continue to believe in the long-term fundamentals of coal. So for that reason that's why I start off by saying if we look at diversification in the first instance it's in coal in other geographies to improve the quality of our portfolio by getting something that is in the lower half of the cost curve or actually that is just longer life. It's simply because we believe in the long-term fundamentals of coal.

Having said that, however, it will also be grossly irresponsible for us as management not to recognise the inherent uncertainty in any of these trends and say as we continue to monitor these trends if we need to react and response to a faster pace of transition from coal, then we need to have done the work that allows us to be able to do that. And that's why to Brian's question I said diversification into other commodities is probably longer term, into the next decade, than something we are actively pursuing as we speak. I agree with you. The fundamentals are still very robust from where we sit.

Jacques Conradie

Thanks July. I think you've certainly got our support and probably the vast majority of your shareholders to stay focussed on that kind of strategy. From my side investment bankers love doing deals and they love fees. They are going to pitch you lots of other deals, especially when you're sitting on a healthy cash balance. From our side, send them packing and say come back next decade please. Thanks a lot. Cheers.

July Ndlovu

Thanks a lot.

Deon Smith

Thanks Jacques.

Operator

Thank you. The next question comes from Mark Zand of Wexford Thank you. Mark, your line is open. You can ask your question.

Mark Zand

How about now? Can you hear me?

Operator

We can hear you now.

July Ndlovu

We can hear you clearly.

Mark Zand

My apologies. Just a clarification. The R800 million at the end of May – sorry, I'm thinking in Dollars – the R12 billion at the end of May, is that post the dividend?

Deon Smith

Hi Mark. No, that would be prior to funding the dividend. The actual cash flow of the dividend would probably happen somewhere in early May, so therefore the end of March R12 billion is before having funded that cash dividend.

Mark Vand

Okay. I appreciate it. I misheard you, so that's why I was wondering. Can you say anything about the average realised prices in Q1?

Deon Smith

I wouldn't want to necessarily spoil the fun eight days before the end of the quarter, but needless to say the price levels in March have been absolutely staggering relative to what we've ever seen before. You might recall last year we earned an average of $104 a ton, and that was the balance between $75 a ton in H1 and $130 in H2. In Q1 this year clearly we've beaten on some of those levels already.

Mark Zand

Okay. You mentioned 10% is what you've sold subject to swaps and that that's not subject to any kind of margin requirements. So first of all I just want to confirm that. Then the second thing is have you increased that or is 10% the number that we should be looking at?

Deon Smith

So we've maintained about 10% but we've pushed the period slightly longer. So the percentage is still around 10%. In fact, you will see that if you look at our accounts that at the end of the year the position was about just over 900,000 tonnes. So it is a much lower percentage. We've continued to build on that and obviously clearly improved that margin that we've been able to achieve. And no mark-to-market margin calls on that.

Mark Zand

Okay, good. And then just one final one for July. Any sense on geographic areas where people are trying to get out of thermal coal assets? Is it Australia? Is it Colombia? What is out there that you're considering?

July Ndlovu

All of the above. We're seeing interest to exit in all the major coal producing regions. But the reasons differ though. It's not just ESG pressures. We are now beginning to see other people saying maybe the market is right for us to monetise our investments and go and invest money elsewhere. We are seeing a variety of reasons, but it is all geographies that are coal producing, not just a couple of them.

Mark Vand

And I would assume that would also include the US, Canada.

July Ndlovu

Maybe not. To the best of my knowledge we haven't had anyone from Canada give us a call. But yes, we have received calls from the US, dare I say from Russia, from Indonesia, India, Australia. I can carry on. Africa. I can carry on. And part of it is because we are a carbon company. We have nothing else. So people know we are probably the natural owners of carbon assets.

Mark Van
It makes perfect sense. Good. Thank you very much. Good luck.

Ryan Africa
Thanks Mark.

Deon Smith
Thanks Mark.

Operator
The next question comes from Luvuyo Booi of Investec.

Luvuyo Booi
Good afternoon guys. Can you hear me?

July Ndlovu
Yes we can hear you clearly.

Luvuyo Booi
First of all, congratulations on your first set of annual results.

Deon Smith
Thank you.

Luvuyo Booi
Just a question on how we should be thinking about the discount of your realised price to the benchmark given the improvement that we expect to see on the rail side which would obviously impact your product mix going forward and your inventory levels. How should we be thinking about the discount on the benchmark price going forward?

Deon Smith
Thanks Luvuyo. We have previously said that we think discounts in the medium to longer term should hover around 20%. You might recall we said that when we achieved H1 23% discount to the benchmark price, which now narrowed in H2 to 13% in order to settle at around 16% on a full year basis. Clearly from the 13% to the

20% there is a lot of headroom. And you might recall that there are three elements to that. The first element, the 2% narrower discount, we absolutely believe is sustainable. That's in the lower contractual marketing fee. The balance of it is very much a factor of what the markets do and supply demand. We're currently continuing to see narrow or tight discounts. So it would be difficult for me to give you the exact number, but I'm quite confident that it's unlikely that it will go back rapidly to 20% again.

Luvuyo Booi

Okay. All right. Thanks for that. Secondly, can you just give us a brief update on the project that you're busy with with Nasonti. I think you indicated that you should start producing there in March. If you can give us any feedback on that and whether those volumes would go into the export market or the domestic market, and the quality of the product that will be produced from that project.

Deon Smith

Certainly. We indeed started ramp-up. That ramp-up continues. We delivered our first coal in March as we said we would and we are currently building up sufficient stocks so that we have motivation to redirect trains to that siding in order to pick up some of that stock. It's a 4,800 product but notwithstanding that it's lower in its energy content it is probably one of the highest margin coals that we will be transporting this year. If I say highest, probably top five in our product mix.

July Ndlovu

But I guess that's quite important because quite often when we talk about giving the highest margin ton of coal a seat on the train I don't want anyone to assume it's always the highest quality. We are driven by margin, not quality. And this Nasonti project were really proud of what the team has been able to do to deliver a 4,800 product at such margin.

Luvuyo Booi

Okay. And the cost, if you can give us operating cost from that operation?

Deon Smith

For Nasonti, Luvuyo, I will need to get back to you. From memory I think it's R350 per tonne excluding port and rail. So that would make it R550 a tonne roughly. Now you can do your margin calc and figure out why it's so high margin.

Luvuyo Booi

Okay. Got you. Got you. Thanks guys. That's all from me.

Operator

Thank you. At this stage I'll hand over for questions from the webcast.

Ryan Africa

Thank you very much. There are a couple of questions that have come out on the webcast. I will read through them quickly, Deon and July. The first question on the webcast is from David Fraser at Peregrine Capital. We heard about very high spot prices being paid currently by European buyers for quality coal parcels. Has this been your current experience?

Deon Smith

Happy to say, David, that that has indeed been the case. We've never seen these levels of prices in March. Clearly that doesn't feature into the cash balance that Mark asked about or doesn't feature in our historic results. But absolutely March has just been an unbelievable month from a pricing perspective. But I would also like to remind you that we don't sell parcels. We essentially achieve the average price of a particular month, and we're still in March and currently I think the forward curve suggests around $330 a ton for March roughly and some trade having happened at around $465 a tonne on screen, so very healthy prices. And clearly from April when we get revenue on that we would be a beneficiary from those prices.

Ryan Africa

Thank you very much, Deon. The next question comes from Sandile Magagula from Umthombo Wealth. If Thungela were to close all mines today, how much of rehabilitation would be covered by current provisioning? Secondly, how is Thungela planning to reduce Scope 3 emissions?

Deon Smith

I'll take the first part of that question given that it's the easy scientific answer, Sandile. If you look at current prevailing legislation that's in place today it would cost us around R4.1 billion to rehabilitate and restore our mining operations. But that's based on existing legislation today. You might recall we've got a balance sheet provision of around R6.75 billion, and as I said earlier, that's more casting into the future or our provision picks up what we anticipate might become requirements into the future. So that's why the difference. Thanks Sandile.

July Ndlovu

And your question on Scope 3, we are working very hard on Scope 1 and Scope 2. Scope 3 so typically people who consume our products in the markets that we serve. And our approach going into the future is going to be to work with our customers to ensure that they make the right technology choices to impact Scope 3 emissions. And that's the reason why I made the statement that the journey to a low carbon intensity future is as much a switch from fossil fuels to cleaner energy sources as it is about a technology transition because they can in fact reduce their emissions by choosing the right technologies. I think that's what we need to do to work together with the value chain. But clearly that is not in our full control as we speak.

Ryan Africa

Thank you very much, July. There are a number of questions on the webcast which I think have been answered in responses to the calls on the conference call as well, so I won't be reading those out necessarily. The next question is from Wayne Kluckow from Universal Leaf Africa. Given the current firm commodity prices as a result of the geopolitical crisis in Europe, is the South African government aware of the potential losses to the fiscus, and how long do you believe it will take Transnet to address the challenges at TFR?

July Ndlovu

I can with absolute confidence confirm that the South African government is aware of the issues at Transnet and the impact it is having in terms of the South African coal industry, because we as the coal industry are engaging with Transnet, with the Department of Public Enterprise, National Treasury, the Department of Mineral Resources. So we are working together. Your second part of the question, which is how long would it take Transnet to resolve their problems, I wouldn't want to speak on behalf of Transnet. That is probably a question better answered by Transnet. Our role is to collaborate with them to find solutions and work as hard as we can to accelerate the resolution of this. But how long it will take I think is best answered by Transnet.

Ryan Africa

Thank you, July. The next question is from Sel Tsatsi at Anchor Capital. Is it possible at all to hedge current thermal coal prices, and is there any appetite to do so?

Deon Smith

Good afternoon to you. So it is not necessarily possible to hedge all coal prices for a variety of reasons. Firstly, we don't have a board mandate to do so. Our mandate continues to hedge up to a maximum quantity of coal production in order to achieve the position whereby we continue to sell all of our coal in the physical market and clearly just lock in a firm margin on a portion. The second reason is liquidity in the market. There isn't necessarily always that level of liquidity to do so. So a combination of reasons. No, we wouldn't seek to do so.

Ryan Africa

Thanks Deon. I'm just going to a related question from Thishan Govender which I think you've partially answered, Deon. Thishan Govender from Truffle Asset Management. Could you talk to your strategy of why only 10% on your swaps? How much could you realistically sell forward and at what maximum maturity? Talk to some of the net realisations on these swaps versus the one year forward API forward curve.

Deon Smith

I'll steer clear from a detailed answer on the last bit of your question which clearly isn't necessarily market information at this point in time. But on the first two, we would look to put in place at a very firm margin, a firm price that we're comfortable with around 10% of our forward production. We could push that to 15% or 20% based on the board mandate, but we would only do so if we really feel that there's an opportunity without reducing that forward curve or without impacting our price realisation into that forward curve. Clearly there's a spread in that forward curve, which is what you're hinting at. Safe to say what we've been able to lock in on a realised price basis, as I said earlier, has been materially above the prices we've achieved last year, which would give you a very good indication that it's very strong net realised pricing.

Ryan Africa

Thank you very much, Deon. The next question is from David Baker at Baker Steel. The 20% withholding tax is a big sticking point given you are moving to 28% and potential 7% royalty. A buyback makes more sense. Any comments?

Deon Smith

Hi David. Absolutely, a very good comment. You've got to recognise – and we've put out a SENS subsequent to the initial SENS of our results this morning, so there is a second SENS also I take it, David, if you look at the double taxation agreements or treaties between South Africa and a number of countries across the globe, for example the UK has relief of about 10% or up to 15%. So that withholding tax could be 10% or even 5% for UK based shareholders. But notwithstanding that, it is a sticking point, absolutely right. Therefore, as I said earlier, we would look to return not only dividend but we're also actively looking at potential buybacks. That's why we're looking to secure that type of undertaking or approval from shareholders at the upcoming AGM.

Ryan Africa

Thank you very much, Deon. The next question is from Zachary Lee Oster. What are your long-term marketing plans once Anglo Marketing rolls off? And what is the expected cost benefit?

July Ndlovu

The answer to your question is working through those options. We have to look at options such as extending with Anglo, for instance, or going with somebody else or bringing this internally. When we are ready to share with the market what decision we have taken, taking into account obviously not just the cost issue but the benefits of having direct access to the market and intelligence that comes from it, and our ability to blend and do other stuff with our own product, we will share that decision with the market. We are not there yet.

Ryan Africa

Thank you very much, July. We will move to the last couple of questions now on the webinar. The next question is from Bruce Williamson from Integral Asset Management. What is the estimated total rehabilitation cost for Kromdraai and do you expect authorities to impose a fine on Thungela?

July Ndlovu

I will ask Deon to talk to the cost of rehabilitation. The question on whether the authorities will impose a fine, we have been in constant engagement with the authorities and they did issue a press statement to say that given the leadership we had shown and the transparency we had shown they were not looking to issue a fine on us. So that's as far as we know today, but I can't tell you what will happen in the future if they do change their minds. But as far as we know it's unlikely.

Deon Smith

In terms of your first question on the quantum of liability, on our balance sheet at the end of last year we had around R1.6 billion chalked up to Kromdraai which is split. That is part of the R6.75 billion. So that R1.6 billion is chalked up half of it to restoration and rehabilitation, the other half to water treatment, so around R800 million each.

Ryan Africa

Thank you very much, Deon. The next question is from Gerald van Rooi from MUMI. Gerald has got a three part question but I think we've addressed two of the parts already, so I will only read out the first section. Please elaborate on the geographical span of Thungela's market, specifically to which markets the majority of volume is exported.

Deon Smith

Gerald, that position moves as you can imagine from time to time as we've seen the shifts in the market over the last number of months. But historically India has always been a very key market for all South African exports and roughly around 40% historically of South African quality coals have reached India. But other markets that feature heavily include the likes of China, Bangladesh, Vietnam, Sri Lanka etc. And more recently obviously Europe has started playing a bigger role. So actually it's fairly broad and fairly wide, but leaning towards the East as you can imagine given that we have a freight differential advantage in that our shipping originates from Richards Bay and therefore our coals are very competitive into the east, especially when blended with some of the lower quality Indonesian type coals.

Ryan Africa

Thank you very much, Deon. The last two questions, if there are no further questions on the line before we close. The next one is from Anthony Nathan at Arq. Again a question we've touched on before, but I will read it out here. What will be the basis for deciding on dividends versus buybacks?

Deon Smith

Happy to make a start on that. Clearly as you look at the method of return the needs and requirements of your shareholders is quite important. And you would refer to the question that David Baker asked earlier. So therefore it is factors such as the efficiency of the return, also the relative valuation of our business in the market, and also the quantum thereof. It would not be meaningful to launch a programme if it's not of the appropriate size.

So there are clearly a couple of factors ranging from efficiency, scale or size, and alternative application for that capital. Currently we believe we have a very attractive business, and that is why we are approaching the AGM to potentially get that mandate to invest in our own business by way of a buyback. And that should give you a hint that from what we've looked at historically in the market we believe that our business is quite attractive and therefore we'd like to own more of it if possible.

Ryan Africa

Thank you very much, Deon. The last question that we will take from the webinar is from Jonathan Blum from Bullion Invest. Would you consider paying dividends on a quarterly basis?

Deon Smith

We haven't necessarily reflected on that question yet, and I don't think it is high up on our agenda at the moment to do so. Clearly I assume that companies that do so get the question 'would you consider monthly?' after that. But to be honest with you, we have not yet considered that. But thanks for your question. We will certainly write it on the board and reflect on it at the appropriate time. Thanks.

Ryan Africa

Thank you very much, Deon. Thank you, July. I see one last question has come in before the buzzer. The last question we will take on the webinar is a follow-up from Zachary Lee Oster. Do you see any banking appetite coming back to provide you with term debt?

Deon Smith

Zachary, we haven't had any detailed discussions with banks on that yet. But as our bank balance has grown we have certainly been approached by more and more banks to potentially do business with Thungela, which is pleasing because I think it underpins that recognition that energy security is starting to become a more important feature in the globe. And therefore I suspect some banks are also wanting to play a more responsible role in that transition.

Ryan Africa

Thank you, Deon. Thank you to everyone both on the line and through the webinar who have submitted questions. I will wrap up the Q&A session here. I see that there are no further questions on the line. If of course you have any follow-up questions, please do get in touch with me via email. My email address is ryan.africa@thungela.com, and I will get back to you. Ladies and gentlemen, thank you for your participation on the call today. And with that please allow me to hand back to July to close out the day.

July Ndlovu

Thanks very much, Ryan, and thanks very much to everyone on the call for joining us. We obviously are very excited and proud to be reporting the kind of results reported today, to be able to deliver on our promises, but more important really just to be able to reward the shareholders who trusted us and supported us through the journey of de-merging what in some instance could have been considered an unloved commodity. But clearly we are committed to our business. We are committed to our assets. We are committed to the markets that we serve. And we intend to do what is right and deliver returns to our shareholders. Thank you very much.

END OF TRANSCRIPT