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SWC - Q1 2014 Stillwater Mining Company Earnings Conference Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Stillwater Mining Company first-quarter 2014 results conference call. (Operator Instructions). As a reminder, today's conference is being recorded. I would now like to introduce your host, President and CEO, Mick McMullen. Please go ahead, sir.

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Thank you very much and thanks everyone for dialing in. I will be hosting this call today and assisting me will be Greg Wing, our Chief Financial Officer and Mike Beckstead, our IR Manager. We have a presentation, which is out and I will refer to that during the course of the call today. I'd like to, as a first step, just refer everyone to the forward-looking statements and please ensure that everyone has read that at their leisure.

Moving on to slide 3 on the deck, the first-quarter highlights, our all-in sustaining costs for the first quarter this year were down 7% from the previous year to \$788 an ounce. A large part of that reduction came about through our corporate overhead reduction, which was down 53% year on year to just over \$10.8 million. Our mine production, which we had previously released, was up about 2.8% from the previous year to 130,700 ounces of PGMs. That good result was driven by a very strong performance at our East Boulder operation.

Our recycling volumes, as we previously announced, were down to 101,500 ounces. We saw that decrease primarily as a result of the very severe winter weather we experienced here. We can say that our shipments have increased significantly during Q2. We finished the quarter with a very strong liquidity position. Our cash and investments totaled \$474 million, in addition to which our accounts receivable went up by circa \$20 million as well, which we received early in Q2.

Moving to slide 4, the table here, which runs through our first-quarter results, again, if you look at the production, up slightly, our total cash cost mined went up slightly as well. However, we now focus much more on our all-in sustaining cost per mined ounce, which was down 7%, again, driven by a large reduction in corporate overheads. Capital expenditures were also down slightly and overall, it was quite a good result I think for the first quarter. We are making some substantial changes and improvements in the business. Not many of those have seen impacts in the first quarter; we expect to see them in the following quarters.

Moving to slide 5, we are disclosing some additional cost info now that we have not previously done before. If you look at our all-in costs on a cost per ton basis, and these are short tons, not metric tons, for the Stillwater Mine, you can see on the bottom line that our cost per ton has gone up year on year from about \$229 to \$275 a ton. And that really has been driven by the mining costs going up and a lower recycling credit to a large extent. And similarly, at East Boulder, we've seen a similar cost increase; although the magnitude is somewhat less. But, again, most of the cost creep has been in our mining area.

Also, if you look at these tables, you will see that when we are looking at reducing our costs, our largest single cost area is our mining cost and so that is the area that we are really looking to make significant improvements on. Our milling costs have been fairly constant. Our downstream processing costs have been fairly good as well. Admin has gone up slightly on a cost per ton basis at the site and again, byproduct credits have been fairly flat.

Moving to the next slide, slide 6, on a quarterly EPS basis, our earnings per share this quarter just finished was \$0.15 a share. You can see that the last two quarters our earnings have been negatively impacted by impairments on our two foreign operations, but even compared to the same period in 2013, our earnings have gone up despite our realized prices being slightly lower. We are approximately 2% lower on realized price for this quarter versus last year, but despite that, our earnings have gone up, which really is reflecting our cost control. We see a lot of potential in this area. It is a work in progress, but we really are looking to drive our costs down.

Which brings me onto the next slide, which we've titled Securing the Future. There is a lot of information on this slide; I will spend some time on it. This is a program that we are rolling out internally here and it really is about securing the future of this business. The goal of this, and this is not a formal guidance, but it is a goal, is to reduce our all-in sustaining cost by around \$100 an ounce from last year's levels. And what does that mean? That means getting us back into the low \$700s in terms of an all-in cost basis.

As a company, we are very focused on efficient allocation of capital resources now. We have seen some significant cost increases since 2011 and if you look at the graph that is sitting down on the right-hand side of that page, you will see, from 2011 to Q1 of 2014 on our cash costs, you just saw a consistent increase quarter on quarter of our costs. You see the same sort of trend in our G&A and you've seen a similar, but maybe not as marked trend in our capital spending.

We've also plotted on that graph our labor and if you look at the bullet points there, labor is the largest single component of all-in sustaining costs. At our two operations, it is between 54% and 58% of our total cost at each site depending on the site. We are addressing that through operations and employee restructuring. We have commenced a restructuring of our personnel. During 2014, so far to date, we have restructured 48 salaried positions; 35 of those have been in Montana, nine at Marathon in Canada and four at Altar in Latin America. We are also offering up to 50 voluntary separation opportunities for our hourly employees and this is a process that is underway. The take-up of that will be anywhere between zero and 50 and we are recognizing second-quarter restructuring costs in the order of \$4.3 million for the salaried positions plus the costs for potential voluntary separations and again, that is a process that is underway. We will be able to quantify that in the Q2 numbers during Q1 where we incurred approximately \$360,000 of restructuring costs.

Coming back to the graph that is on that page, you can see that our cash costs and similar trend for all-in sustaining were going up. The bulk of the restructuring has occurred after Q1 this year. So the impact of the lower headcount has not been felt in our cost numbers yet in terms of what we reported. We expect to see the benefit of that coming through in Q2 and onwards.

We are changing the culture here to be focused on returns for the business. We have a disciplined approach on costs in all areas of the business now and again, we are seeing that in our all-in sustaining costs coming down now. We are doing that, we are not doing that by compromising our safety and environmental standards. Our social license and the safety of our people is absolutely paramount for us as a business. We are very clear that we do not have a business in a long-term basis if we compromise our safety or social license. We have had a very good start for safety in 2014. It is one of the best starts that the Company has had and we are working very hard to continue on with that. The trend has been very positive in the safety area. We believe the productivity improvements and cost savings are essential to position this Company in the lower portion of the cost curve. Our goal is really to drive us back to the bottom quartile of the cost curve.

Moving on to slide 8, the key performance indicators, we started reporting all-in sustaining costs now for the first time last quarter. This is the measure that really has become the standard, particularly in the gold industry and really in precious metals industry. We have adopted this. We think it is a better measure than cash cost or total cash cost to measure the health of the business and how we are actually doing. So as we have mentioned earlier, our all-in sustaining costs quarter on quarter from last year to this year, we were down 7%, \$57 an ounce. We achieved that despite production only being up slightly and I think from the graph on the top of that page, you can see that our production wasn't as high as it was in the previous quarter in December, but we still managed a very good result on our all-in sustaining cost.

We are being very disciplined to our approach on capital deployment. We are looking at operational efficiencies and how do we do things smarter. This is not a question of working harder; it's a question of how do we change our business to do things much more efficiently than what we have done in the past. We have decreased our guidance for the all-in sustaining costs slightly to a range of \$800 to \$850 an ounce and as we've mentioned on securing the future discussion, our goal is to reduce that all-in sustaining costs by around about \$100 an ounce from last year's levels to the low \$700 range. If we look at the table, you can see here that despite our total cash costs actually going up from the previous year, we actually drove down our all-in sustaining costs by a fairly substantial reduction in corporate SG&A and admin costs and a little bit of benefit from the capital.

Moving to the next slide, slide 9, as I noted earlier, we saw our recycling volumes were negatively impacted during the quarter by weather. I believe that on the fourth-quarter earnings call, I did mention we had a little bit of an effect of that in the fourth quarter of last year. I also mentioned on that call that the weather was still quite cold and we had a lot of snow here and quite simply this issue is twofold. One is that when it is minus 30 outside, people tend to not want to go and get under a car and cut the catalyst off and similarly, we actually had significant weather impacts here from trucks physically not being able to get here.

If you look at the graph, you can see our recycling material, our tons per day fed. So January, we were low; you saw a bit of an increase in February; you saw March increase; and by April, we are back above where we want to be. So this was predominantly a seasonality issue. We are where we want to be now. We really do want to continue to grow this business and between April and January, we've seen about a 47% increase in our volume over that period. We are exploring quite a few avenues to expand this business. We see this as a core business for us. We really would like to expand it and we are exploring lots of different avenues.

Going on to slide 10, I just want to talk about our metal inventory. During the last year, we've seen a buildup of just over 21,000 ounces of metal built up within inventory and if you look at the graph, that inventory is broken up between our smelter, our base metal refinery, the BMR and slag stockpiles. We saw the slag stockpile grow by just under 8,000 ounces over a six-month period last year. We identified some processing capacity issues at the Stillwater mill where that slag is processed. We have rectified those and that has allowed us to move that slag through the circuit.

If you look at that graph, again, you can see that the slag has been reduced, the green line part of the chart, but now we have to get it through the smelter, which we are doing and then we have to get it through the BMR in order to turn it into finished product to sell it. We also had the slag cleaning furnace online in the last quarter, which contributed to about 5,000 ounces in smelter inventory. The good news is that, in the current quarter, Q2, we expect to see somewhere between 15,000 and 20,000 ounces of additional sales from inventory over and above production. So this material is sitting in inventory; it is working its way through the system. We will see that hit our sales over the next few months. We believe that our inventory level should return to normal by the end of this year, maybe third quarter, I guess.

We are often asked about what pricing we achieve for our product. We are starting to give some guidance on this. So during the first quarter, the metal sponge that we sold -- we saw a premium in palladium that ranged anywhere between \$2 and \$8 an ounce during the quarter. Again, there is public information out there that people can track this down. We have seen reports of higher premiums. I think those premiums were for very small lots. Typically, we are seeing in that range. We've seen a modest premium on the platinum price. It has varied and for Q1, our average realized price on our ounces from our mines was \$907 an ounce and on our recycled material was \$980 an ounce. The reason for the difference is there is a slightly different mix between platinum and palladium in those two materials. As we sit here today, the basket price for our mined material is sitting at around about \$945 an ounce. So we have seen over the quarter a strengthening metal price, obviously which we are getting the benefit for now.

Moving on to slide 11, I just want to give some updates on some of the themes and the projects we are working on to see how we can make this operation more efficient. At the Stillwater Mine, we'd had a historical, very minor electrical component failure, which led to a reduced throughput through the mill and that also led to a buildup of slag because we weren't able to get that through the mill. We identified that issue; it was repaired; the bottleneck was eliminated. And as you can see on that graph during the quarter, we consistently increased throughput and that allowed us to get that slag inventory through the plant so that we can now move it into the smelter and actually turn it into money. We were about 20% above budget for Q1 in terms of mill feed at that mine and we are working to identify other opportunities. This is but one of the opportunities that we can see in the operation to improve things.



Going on to corporate governance, we have obviously separated the roles of Chairman and CEO. We have redesigned our compensation structure to align management and shareholder interests. If anyone cares to read the proxy, it is out in the public domain, but in summary the long-term incentive plan is consisting of shares. A small component of it is time-vested. The majority of it is vested based on a three-year lookback. The metrics are 40% of that return is based on total shareholder return, which is split into three components, basically how our share price performs against ourselves, how we perform against our peers and how we perform against the basket price of our metals.

There is 40% of that metric is based on the increase in our net book value per share and 20% is based on increase in free cash flow. Very simple metrics. We think that they are tied to things that shareholders care about and the management incentive is therefore very closely aligned with shareholder outcomes. The proxy results that we have -- we've had the general meeting yesterday. All seven Board members were reelected with an average vote in favor of 98.3%, which was a very pleasing result and also pleasingly the advisory vote on the executive officers' compensation, we had over 93% votes cast in favor of that. And you compare that to last year where only 33% of the votes were in favor. So we like to think that the compensation structure we've designed now works for shareholders. It works for management and we think it incentivizes management to do the best they can for the business and to provide the right outcomes for shareholders.

Coming on to slide 13 to our Montana projects, we have two large projects that have been underway. The first one is Blitz. This is a longer-term project. It is a 23,000 foot development to the east of the Stillwater Mine, effectively opens up a large area for further development and exploration. It is currently slated for completion in 2018 and we are looking at ways that we could expedite that project. This is our main development project that is underway.

Graham Creek is the other project, which is at the East Boulder Mine. It basically opens up three miles of strike length of that orebody. It is pretty well at completion. We are just in the process of putting the final support equipment in there. We expect to see production out of this area in the third quarter of this year and what it does is, one, it gets us into an area where we are mining on rail haulage or with access to rail haulage, so cheaper mining costs, but also it allows us to get more tonnage out. And so the East Boulder mill currently only runs four days a week. Once production out of Graham Creek comes on, it allows us to run an extra shift in that mill, which will drive a stepchange in production from that operation.

Carry on to slide 14 on the portfolio management update, we have two projects outside of Montana, Marathon in Canada and Altar in Argentina. At Marathon, we have an economic study, which is ongoing. At current metal prices, this project does not provide adequate shareholder returns. We have a very good joint venture partner there in the form of Mitsubishi. So between us and Mitsubishi, we are assessing ways to try and get this project to where it provides an adequate return that we can take it forward. We do not expect a decision point on that project now until really mid-2015. We've reduced our staffing there by 50% and overall spending has been scaled back. And if you look at the graph there, between the two projects, we have cut our year-on-year spending on these two projects by about 60%.

Altar, again, in Argentina, is a non-core asset by virtue of the fact of its size and its commodity. Our core business going forward is profitable PGM business in low political risk jurisdictions. We have a minimum level of project activity down there. Our spend on that is likely to be in the order of \$3 million this year. We are looking at the best alternatives to realize value from it. We have reached an agreement with IPEEM to hold some of the licenses down there to extend some of those mineral leases through to August of next year. We have reduced our staffing there by four positions and we are spending money on essential services activities that are required to maintain tenure. And importantly, the economic scoping studies that we need to do to assign a value to this project and then determine the best way to optimize that value for the Company and shareholders.

Coming on to slide 15, we have updated our guidance. I guess you could say we have tweaked the guidance. We have left our production the same. Based on our first-quarter actuals, we think we are comfortable with that guidance. As I've said in the past, we are reviewing all of our mining stopes to ensure that all of the ounces we produce are profitable. There is some opportunities potentially to reduce production in some areas, but conversely we believe there is potential to significantly enhance productivity, which would drive production up. So we are leaving the guidance where it is for now.

We have reduced our guidance down slightly for a total cash cost. We have also reduced slightly our all-in sustaining costs per mined ounce down. Our corporate overhead we have left where it is for now. We are working hard on that to see if we can reduce it. The main change has been in our capital expenditure, both sustaining and project. We have reduced those down. Again, there is a combination of both timing in this, but also looking

at how we do things and are there smarter or more efficient ways to use our equipment and there has been some equipment dollars taken out of those capital budgets there.

It is a work in progress; there is a lot of work underway here looking at how we do things, how do we do things more efficiently where we will use every opportunity to drive our cost as low as we can and we reserve the right to come back and update this guidance at various times during the year.

So in summary, I think the first quarter of this year was a good start for Stillwater. I think our employees are embracing change. I think that we've got people that are coming up with some very good ideas that we are exploring as to how we make this place more efficient. We've seen some very good evidence of that in things like getting the Stillwater mill throughput up and getting the slag stockpile through, reducing our overhead significantly, looking at our capital budget. We are taking steps to secure the future of the Company. That is really what we are about here is we want to drive our costs down so that we are in a very cost competitive position.

We are achieving progress on all of our strategic focus areas, our financial optimization, operational improvement, project management and corporate governance. I think we have delivered on what I rolled out in January in terms of the vision for the Company. We have delivered and will continue to deliver. We are achieving very positive results on capital allocation and cost control. We think there is an improved outlook for both our total cash costs and all-in sustaining costs. And finally, the PGM fundamentals remain very strong driven by both the North American and Chinese auto markets and signs of recovery in Europe. And obviously, on the supply side, we are seeing continued supply disruption now that South Africa strikes and the issues with Russia. So we think we are in a very good position. We will continue to strive to do better quarter on quarter and we think this Company has a very exciting future ahead of it. That is all I had today and if anybody has got any questions, I am happy to take them.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). David Gagliano, Barclays.

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### David Gagliano - Barclays Capital - Analyst

Hi, thanks for taking my questions. I wanted to focus in a bit on the cost reduction -- longer-term cost-reduction goal of \$100 per ounce over time. First question, what timeframe are you thinking about in terms of achieving that target?

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### Mick McMullen - Stillwater Mining Company - President & CEO

Well, I wouldn't like to be pinned down exactly on it, Dave, just in case someone took that as guidance. I think over the next 18 months, two years is sort of a broad goal that we have. And again, if you look at where we are now, we are already part the way down that path, but obviously the first \$50 is much easier than the second \$50 reduction. So in that sort of 18-month, two-year period broadly.

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### David Gagliano - Barclays Capital - Analyst

Okay, great. And then if you could just split the \$100 target into the buckets in terms of how much do you expect in the form of lower sustaining CapEx per ounce versus lower mine cost versus lower SG&A?

**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, I don't think we can go into the detail, but I think that it is a combination of all of those. We've already made the savings in the SG&A substantially, so I am not so sure there is significantly more that we will be able to cut out of that. There will be a bit. I think that the big buckets of cost that we clearly are looking at are our mining costs. If you look at the table that is in there, you can see where our operating costs are really driven by mining costs, so it is very much in the mining cost and a bit of sustaining CapEx.

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**David Gagliano** - *Barclays Capital - Analyst*

Okay, all right. And then I'm sorry I am going to keep going here. I have just got two more. The mining cost side of this, how much of that would be labor versus other things in terms of the target, just percentage or something?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, as I said, labor is about 54% to 58% of our total costs. So clearly labor is a large proportion of that. Hence why we've been restructuring some positions here.

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**David Gagliano** - *Barclays Capital - Analyst*

Okay. And then that ties into my last questions. Obviously the long history here, labor is key obviously to running these assets well. It's a unique mining process a bit and obviously there is a history of labor-related issues. I think there is a contract coming up I think in 2015. So my question is how do you think this cost-reduction initiative will be received as you enter those negotiations?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, yes, labor is very important here and I can tell you that the steps that we have taken have been after a significant amount of discussion with all of those parties that you mentioned and the salaried positions that we've restructured, I think it is really restructuring looking at how do we change our business practices so that effectively we can do more with less.

On the hourly separations that we are rolling out literally now, they are all voluntary. So these are not forced layoffs and so again, this really applies to people that are -- it is a voluntary thing. If they decide that perhaps they might want to go off and do something else, this is an opportunity for them to take that. I think we are not offering it to certain areas of the business as well. So certain areas where historically the Company has been a bit tight on labor, minors, for instance, this is not applicable to that. This is more really around support staff is where we can see that we can do things a bit differently and not hinder or impact our production.

Yes, we do have a -- at the Stillwater Mine, we've got a contract which is up for renewal at the end of June next year and at East Boulder at the end of December next year. And I think it is important that we deal fairly with people. We have made changes from the top. I think it is very important that everyone understands that starting with my contract working down through the whole organization, we have restructured all of the compensation and so I think that is setting the right tone for those discussions.

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**David Gagliano** - *Barclays Capital - Analyst*

Okay, great. That is very hopeful. Thank you very much and good luck.

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Thanks, Dave.

**Operator**

Sam Crittenden, RBC Capital Markets.

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**Sam Crittenden** - RBC Capital Markets - Analyst

Thanks, hi, Mick. Thanks for the update today. A question on sustaining capital, you have obviously made some pretty big cuts here. Is there a risk that that limits your flexibility in the mine in terms of access to certain areas and having enough working faces open? Just curious on how you have been able to make such a drastic reduction in your development CapEx.

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**Mick McMullen** - Stillwater Mining Company - President & CEO

No, I don't think so. I think we have ample faces available and in fact, we possibly have too many faces available. One of the things that we are working on is that we currently are spread all over this mine almost like a shotgun approach and we are looking at is there a way to concentrate our mining fronts, which would substantially improve our productivity per miner. And these are some of the things that we are looking at and so I have to say that, at East Boulder, we see quite a bit higher productivity and part of the reason for that is that is exactly what they do. So no, I think the answer is no. We don't think that we have compromised anything. We have a lot of flexibility in this operation. It really is just looking at -- there is a combination of two things. One is timing. Just naturally if you look at it historically, this Company plans to spend a lot of capital at the start of the year and by the end of the year doesn't actually manage to spend it and that is a pattern that has gone on for many years, Greg, I think it would be fair to say.

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**Greg Wing** - Stillwater Mining Company - VP & CFO

That's true.

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**Mick McMullen** - Stillwater Mining Company - President & CEO

And the other is that we have cut some -- just cut some capital out. So it is a combination of those two factors.

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**Greg Wing** - Stillwater Mining Company - VP & CFO

One other point I might mention is although capital is down, if we look at the development spending within the mines, it is right on budget at this point, so we haven't really cut back the advancing of the mine.

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**Mick McMullen** - Stillwater Mining Company - President & CEO

Yes, that's right.

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**Sam Crittenden** - RBC Capital Markets - Analyst

Okay. And then so similarly on the growth CapEx, which is presumably mostly related to Blitz, is it slowing the timeline or are you just making optimizations to lower that?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Blitz is running a bit under budget actually at the moment in terms of dollar per foot advance. There was a little bit of underspend on Graham Creek from what we budgeted and a couple of other -- some other equipment items that we actually decided we didn't need. So just to give people an idea of how much equipment we have at this operation, at the Stillwater Mine, we have over 600 separate pieces of wheeled equipment. Now that includes railcars and everything, but we have quite a bit of equipment here and so we are looking at how we rationalize whether we actually do need all of that equipment and need to replace that every year.

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**Sam Crittenden** - *RBC Capital Markets - Analyst*

Okay. And then you talked about improvements of the throughput at the Stillwater mill. Is there going to be a corresponding increase in mining throughput to be able to fill that excess capacity?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, that is what we are looking at from productivity gains now and I guess my approach is that when I look at these operations as I look at the bottlenecks and then you debottleneck it and move it onto the next bottleneck. And so going back last year, the bottleneck in that operation was the mill. We have now debottlenecked that. Now we are looking to push the mines to deliver extra tons. So it is a work in progress, but we think there is some potential for that. Whether we can fill it up, that is a different story.

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**Sam Crittenden** - *RBC Capital Markets - Analyst*

Okay, great. Thanks, guys. I will let others ask questions.

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**Operator**

Sam Dubinsky, Wells Fargo.

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**Sam Dubinsky** - *Wells Fargo Securities - Analyst*

Great. Congrats on the quarter and thanks for taking my question. Is the PGM content from slag processing, is that mostly pure margin and also are there any byproduct income credits associated with that slag? And then I have a follow-up.

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, let's just say that the revenue from the slag is certainly higher margin than the mined ounces because the mined ounces have got \$180 worth of mining costs a ton on them and the slag had already been processed and had for the most part the bulk of its costs already spent. So it was sitting in inventory. It would've had a cost assigned to it in inventory, but from a cash flow point of view, those ounces when they hit our sales in Q2 predominantly are expected -- they will have a low cost for those.

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**Sam Dubinsky** - *Wells Fargo Securities - Analyst*

Okay. Are there any byproduct income credits associated with that or is that just pure PGM content?



**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Very small.

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**Sam Dubinsky** - *Wells Fargo Securities - Analyst*

Okay. And then besides extra tons from the mine, is there another process to gain share in recycling? Is it a function of pricing or is there any other way to gain new customers to scale that business? And also as a corollary to that question, once it scales, do you think a potential spinout is in the cards for the smelting and recycling operations?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, let me address the first bit first because that is the easy question. There are multiple ways you can increase marketshare. One, which we will not be doing, is to obviously reduce your margin and effectively buy marketshare. We don't think that is a very good business model. I think that where we've been successful is we have some very market-leading sampling and assaying technology here where we can deliver very fast returns on assays for people and therefore get rid of them faster. I think that we have -- we are a market leader there and that is one area where we can grow.

We are also looking at markets where traditionally we have not had a big footprint in as a means of getting into and I am not going to go into the details on the call as to where those are, but we have been sourcing additional material from some of those markets and we are looking a little bit broader than where we have historically looked. So they are the main ways of growing the business and once we get that business up to capacity and let's be clear, we are a long way from capacity in terms of physical capacity. What we do with that business -- well, look, all options are on the table. I think I've said before that we will look at all options that create value for shareholders and that could be anything from doing what we do today to some sort of a value creation or realization point for that business. But, at this stage, my goal is to just maximize the business first and then I will look at how we determine the value for shareholders later.

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**Sam Dubinsky** - *Wells Fargo Securities - Analyst*

And my last question is given the South African issues and Russian political issues, are any of your customers concerned about availability of supply? I believe typically your contracts can be pretty short-term in nature. Do think that changes over the next couple years?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

I would think that it is a very -- how can I put this -- it is a very uncertain time in the PGM world. I think for the most part our customers are very concerned about locking up long-term metal supply and I think that what we do on the saddle side will be determined by what commercial terms are available in the marketplace on any given day and whether we decide that is the better deal than doing what we are currently doing.

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**Sam Dubinsky** - *Wells Fargo Securities - Analyst*

Okay, great. Thanks.

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

I can't really go into too much detail on that.

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**Sam Dubinsky** - Wells Fargo Securities - Analyst

Okay, thank you very much.

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**Operator**

(Operator Instructions). Garrett Nelson, BB&T Capital Markets.

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**Garrett Nelson** - BB&T Capital Markets - Analyst

Thanks for taking my question. Looking at the production guidance and the new cash cost guidance, do you have a breakdown you'd be willing to share of what is embedded in there for the individual mines? I mean is it fair to assume higher year-over-year production at East Boulder with the Graham Creek ounces in the second half and flattish to maybe slightly lower volumes at Stillwater? Can you just help us with how we should be thinking about your production and cash cost expectations at the individual mines?

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**Mick McMullen** - Stillwater Mining Company - President & CEO

Yes, look, we don't give guidance by mine, but that is probably a fair comment. I think in terms of production obviously at East Boulder is going very well. We don't see that dropping off and as you say, once Graham Creek comes on and we add that third shift, we do see a bit of a bump in production towards the back end of this year and we are looking at ways to see whether or not it is possible to sort of try and advance that just given how well East Boulder is performing.

And at Stillwater, Stillwater Mine fairly flat production I think year on year is probably about where we are looking, maybe up slightly. But, again, there is a big review process underway, as I indicated on the call, about looking at do we actually make money on all the ounces we mine, are there better ways to concentrate our mining fronts, which might give us a significantly higher productivity. So one of the issues we have sort of giving guidance on a mine-by-mine basis today is there is a large amount of work underway, which may sort of change our thinking in the next few months.

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**Garrett Nelson** - BB&T Capital Markets - Analyst

Okay, that is great. And then on Altar, I don't think you provided a timeline for a decision on that asset like you did for Marathon. Do you have any update there or are you still considering all your options?

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**Mick McMullen** - Stillwater Mining Company - President & CEO

We are still considering all of our options and the timeline there to a large extent will be driven by multiple things, but two of which will be the capital markets view of Argentina as an investment destination and the ongoing scoping work that we have underway now. The latter probably is a six-month exercise. It is a bit easier to tie down. The former in terms of capital markets view of Argentina, that very much is a waiting game. We are under no pressure or rush to realize our investment in Argentina. It has minimal holding costs. It is in the top 20 largest undeveloped copper assets globally. We do think it has substantial value and so we are under no rush there. We think that we can realize some decent value out of that thing under the right circumstances. I would say that based on many discussions I've had, the capital markets view of Argentina appears to be improving. It still has some way to go potentially, but certainly has come through the worst of the world's view. So we think that Argentina will turn around at some point. It is a very good project; it is just not a non-core -- it is a non-core asset for us.

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**Garrett Nelson** - BB&T Capital Markets - Analyst

Okay, very helpful. Thanks a lot.

**Operator**

Daniel McConvey, Rosspoint Investments.

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**Daniel McConvey** - *Rosspoint Investments - Analyst*

Hello, Mick. I had a question of sustaining CapEx, but I think you have dealt with that one. For Marathon, what -- is there a rough price where the returns would be adequate? Say Palladium was at \$1,000 would that work?

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

Well, I am not really going into the details, but let's just say that the price would need to be a reasonable amount higher than where we see it today. And we would need to be confident that that price would be around for sort of a 10 to 15-year period to justify -- it wouldn't work for us if we just saw Palladium spike to \$1,000 an ounce, sat there for a month and then we would push the button. It's not -- we would need to have some confidence that that price would be around for some time and we'd also need to see copper prices strengthen as well because, as you probably know, it's a PGM copper project and so it is sensitive to the copper price also.

But there is a multitude of things we are working on on that project which may potentially get it to where it needs to be and they are related to capital costs, mine life, some processing options, which would be interesting in terms of our core business strengths down here. We obviously do have a PGM smelter, which does have some small copper capacity here. We don't currently have the ability to treat that Marathon material down here, but there are some interesting things that we are working on, which if it works may get that project to where it needs to be. So I don't really see it as just waiting for metal prices to get to a certain number and then we push the button. I think there's a multitude of things we are working on, probably not one single one of which will be what drives this project forward. It will be a combination of all of the above.

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**Daniel McConvey** - *Rosspoint Investments - Analyst*

Okay, great. Thank you very much.

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**Operator**

We have no further questions.

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**Mick McMullen** - *Stillwater Mining Company - President & CEO*

All right. Thank you very much, everyone.

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**Operator**

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