

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

SWC - Q3 2014 Stillwater Mining Co Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2014 / 5:00PM GMT



CORPORATE PARTICIPANTS

Mick McMullen *Stillwater Mining Company - President & CEO*

Greg Wing *Stillwater Mining Company - VP & CFO*

CONFERENCE CALL PARTICIPANTS

Operator

David Gagliano *Bank of Montreal - Analyst*

Sam Dubinsky *Wells Fargo - Analyst*

Garrett Nelson *BB&T Capital Markets - Analyst*

Daniel McConvey *Rosspart Investments - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Stillwater Mining Company's Third Quarter 2014 Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Mick McMullen, President and CEO of Stillwater Mining Company. Please go ahead, sir.

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

Thank you very much and thank you everyone for listening in wherever you are. Today, we will be presenting our third quarter 2014 results. There is an earnings deck, which is available for people live and I'll be using that deck to refer to as I go through the presentation and I will take Q&A at the end of the presentation.

So turning to that deck on slide two, we have our usual forward-looking statement. I would like people to read that at their leisure and take note of these specific requirements within that statement.

Going to slide three, on our third quarter highlights. Overall, it was quite a good quarter for us. We had \$18.1 million of net income, which on a fully-diluted basis comes out to be \$0.14 a share. Importantly for us, we generated \$37.2 million of cash over the course of the quarter. This was the second best quarter in the Company's 28-year history for cash generation. We ended the quarter \$509 million in cash and investments, which was up \$7.2 million quarter-on-quarter, but we did repay \$30 million of debt early in the quarter. That was debt that we could redeem at face value. It was costing us approximately \$2.5 million of interest per annum and we had the ability to redeem it early and we felt, given our very strong liquidity position that, that made sense for us to do.

Corporate overheads were reduced 9% year-on-year to \$10.7 million for the quarter. All-in sustaining costs, which I will refer to during the presentation as AISC, was \$137 an ounce. That puts us solidly in the middle for the year-to-date of our guidance range of \$805. I will discuss some of the aspects of the AISC on a future slide. Mine production was at 123,000 ounces of palladium and platinum combined. Whenever we talk about mine ounces throughout the presentation or any of our earnings decks, I would like people to remember that it's a combination of platinum and palladium broadly in a ratio of 3.4 palladium to one platinum.

Recycling material processed was just over 117,000 ounces of platinum, palladium and rhodium, relatively flat for the quarter versus the first two quarters. We had another strong safety performance. Again, safety is very important for us. Our overall incidence rate declined by 17% year-on-year for the previous nine months.



Moving to slide four to discuss the numbers in detail. In our third quarter results, you can see again our mine production year-on-year was down slightly about 1%. Total cash costs per mined ounce net of credits was up about 29.7%. However, I would like to point out that in Q3 of 2013, we re-bricked a furnace at our smelting facility. We recovered a substantial amount of ounces out of there, which approximately equated to \$140 an ounce in Q3 of 2013 of additional credit. We do this every 3.5 years to four years. It was an abnormal gain in Q3 of last year. So removing the effect of that, our cash costs actually went down slightly at the operational level.

All-in sustaining costs came down a little bit by about 1%. Corporate overheads continue to come down. If shareholders will recall, by Q3 of last year, the Board that we have to today had been in place for a while. We started to make some of the changes and set the new direction for the Company. And so, we had already started to see some reduction in corporate overhead by Q3 of last year. Capital expenditures broadly flat relative to the same period last year. Again, our recycling ounces fed came down quite a bit versus last year. We did see a very strong last year and we also, as I say, recovered a lot of ounces through the re-bricking of the furnace.

Moving on to slide five, if we look at the year-to-date results year-on-year, again, production broadly flat from last year. Again, total cash costs up slightly, but still with that effect in 2013 of that re-bricking event. All-in sustaining costs are down relative to the previous year. Corporate overhead is significantly down, you can see a \$20 million reduction for the nine months in corporate overhead, which again leads to a fairly significant cost reduction per ounce. Capital cost down slightly and PGM ounces down over the course of the nine months from the recycling business.

I'd like to spend some time on slide six, which discusses our costs at the mine side. Cost is very important for us, we are in the process of driving our cost down. We believe that we have significant opportunity within the business to drive our costs down. The table on slide six shows the cost by area for each mine and on a consolidated basis for the three quarters of this year. You can clearly see that our mining costs are single largest component of our costs. You can see that our site administration, this is for sites only. So, our site administration is our second largest bucket of cost. And if you look at the trends, starting at Stillwater Mine, you can see that in the first quarter of this year, our costs were around about \$190 a ton. For mining, we're down to \$166 a ton. I will note that in Q3 of this year, we had the impact of a 4% pay rise that was part of the union award from four years ago. So, the mine has actually done quite well to continue to drive its cost down against that pay rise that was agreed to some years ago.

Milling costs are very low, trend is very good. Downstream processing is our smelting cost and again continues to just sort of drive down low to a lower level. By-product credits have come down from the previous quarter in Q3 at both mines. That's more to do with the timing of sales of some of that by-product nickel and copper, but broadly we see by-product credits somewhere in the order of low-\$20 an ounce of credit.

If you look at the East Boulder mine, we've been very successful in driving our mining costs down as a percentage reduction, from \$146 a ton to \$117 a ton in Q3, that's a significant reduction in costs. You can also see our milling costs over the course of the year have come down. Overall for the two mines, if you look at the total costs during the course of this year, we've managed to reduce the Stillwater Mine cost by about 9.5% per ton and the East Boulder Mine by about approximately 14% per ton. On a consolidated basis, that comes out to be approximately 12% reduction during the course of this year, which again I think is a sustainable reduction. We're continuing to work on further reductions, but it does show that we've got a very strong focus on cost reduction and it is starting to pay dividends for us.

Turning to slide seven, we will talk about what those dividends are for the Company. We are very focused on generating free cash flow. And this is after all of our spend on corporate costs, it's after all of our costs associated with capital at the mines both project capital, sustaining capital. At the end of the day, we look at how much money did the business really generate. Q3 was a very strong cash generation quarter. We generated just over \$37 million, which allowed us to then retire \$30 million of debt. For us, this is a very important metric.

We really see the health of the business as being measured by how much money do we really make. This is the third quarter of quite strong cash generation that we've had in the business as aside is the second strongest cash generation in the Company's history. And we've continued through October to continue to build on the cash balance. As of this morning, we had continued to add on that cash balance still further. And I think that all of the cost reductions that we've been very diligent of trying to implement, this is where it shows up in our balance sheet is that we are adding cash to the balance sheet on a continuous basis.

Going to slide eight, which looks at quarterly net income. You can see here over the course of the last year and three quarters, the Q3 and Q4 of last year very much were impacted by the two large impairments that we took on our foreign operations. Coming into Q1 of this year, again we've been consistently generating reasonable net income and our goal is to try and grow that net income as we see the improvement in the business.

Moving to slide nine. We've made a lot of changes in the operations. At the last earnings call, we told people that we were redeploying some of our resources within our Stillwater Mine to focus on more profitable ounces. We've decided that we will not mine ounces at a loss and so some ounces that were previously being produced were being produced at a loss. They were being produced at a loss because we were mining them ahead of when the infrastructure was ready to mine those ounces really. So, we elected to put those ounces to one side and to do the development work that's necessary to mine those ounces much more profitably. We're waiting for that infrastructure to catch up and we will come back to those ounces in around about Q3 of 2015. We think that's the right approach. I've been very clear that this Company is not focused on just producing ounces for the sake of producing ounces, we are focused on producing free cash flow. We are also changing the culture within the organization and this is equally as important as everything else we do. It's very important that we get the culture to be right for people to understand that we want to set this business up for the long-term future. That comes about as a result of management having a very detailed focus on the messaging we give to our employees. We're very consistent and we are setting this Company up for the future.

We have reorganized our staffing numbers and employee numbers during the course of this year. We have taken our head count down from 1,773 at the start of the year to 1,641 at the end of Q3, that's continued to reduce slightly as we go forward. We've achieved that headcount reduction through a combination of voluntary and involuntary programs as well as natural attrition. So, as some people leave, we replace some of them, but in some areas we don't replace them. That's had a minimal impact on mine production and I'll talk about that in a few slides, where we can actually see the mine production over the course of the last four months.

We are evaluating our optimal staffing levels and we expect to manage that through natural attrition going forward. You can see from the graph on this slide that as we've started to reduce our headcount, we've arrested the very steep increase that we saw in the previous two years in the cash cost, which is the blue line on this graph. We've a hold of that increase, we've started to drive those costs down and as we continue to see reducing headcount, we will see those costs come down.

Slide 10. I want to spend some time on our AISC, it is down on the previous year. It did increase over the first half of the year and the reason for that was really two-fold. We saw an approximate \$14 an ounce increase in our G&A costs from the half. We did take some of our annual costs as a one-off in Q3 and therefore had to realize those costs. We also had some non-cash accruals of approximately \$6 an ounce in Q3 that has pushed that SG&A cost up slightly.

The larger impacts has been our sustaining capital. That's up approximately \$37 an ounce from the first half. And you can see from the table there on the second bottom line, the sustaining capital in Q1 was \$137 an ounce, in Q2 it was \$159 and in Q3 it was \$184 an ounce. And the reason for that -- there are multiple reasons, but the main reason approximately \$30 of that increase has been because of the very strong development rights we've had at both mines, but particularly at the Stillwater Mine.

What we've seen has been that our development crews have significantly outperformed the development rights in the first half and budget. Our unit cost of doing that development, and when I say development I'm talking about putting in deck lines and drives for ore production. Our unit rights of doing that have actually gone down, but with just down a lot more footage of advance than the previous two quarters. That will allow us to reduce that in 2015, but I think it is a symbolic of the fact that we continue to invest in the future of this mine. We are not generating free cash, but cutting back on important things like development. In an underground mine, you must invest in development. We've done that, we've actually done significantly more than we budgeted for and what the run rate was for the first half. That puts us in a very flexible position. So all up, year-to-date all-in sustaining cost is in the middle of our current guidance range. We're comfortable with that and our goal really still is to reduce our AISC by approximately \$100 an ounce from that 2013 numbers.

Moving on to slide 11 and I think if people would like to have a look at the trend of the graph here, we do say that the trend is your friend. You can clearly see that July, our mine production was down. We made a lot of changes particularly at the Stillwater Mine relating to restructuring and headcount and we physically moved people around within that mine which reduces production. It is a very large mine so we had to move people from one area and equipment from one area physically into other areas that did lead to lower production in July.

At the end of August, we started up the third mill new crew at the East Boulder Mine, which then gave us an increase in production as we guided the market to. And then, as the changes we might come into effect through September and October, particularly at the Stillwater Mine, we saw production start to ramp back up. We've seen an approximate 20% increase in production between October over July and we expect to see a fairly strong Q4 based on the numbers that we see today.

Slide 12, just looking at sort of the EBITDA and average realized price over the last four years. Again a fairly strong EBITDA quarter, \$45 million approximately in the EBITDA. Year-to-date, we're sitting at about \$138 million. We've seen prices have been fairly strong during the quarter, tailed off just at the back end of the quarter. But in general, all of that EBITDA has been driven by a combination of price, but also operational savings and just true operational cash flow generation.

Moving to slide 13. Clearly we have two core business units, one is our mines, I'll spend a lot of time talking about the mines, because that's really where we've made a lot of changes, but our Metallurgical Complex and Recycling business is the other core business unit we have. It's a very low-risk business, it's proven technology, we've got a long track record in this business and we hedge out all of our recycling position. So, we don't market risk in this business. The North American auto cat palladium supply market is forecast to grow somewhere in the order of 7% to 10% per annum and blasting in that market gives us access to that growth. We have significant capacity in the smelter complex. We have started to receive trial shipments of other types of products that are non-auto cat to increase the utilization.

We have started to build on our team with some senior PGM industry expertise. This is very much a relationship-based business and by building on our team, we think that it will help us grow our volumes. Environmental excellence across the whole Company is very important for us and particularly at this facility where our SO2 emissions are 2% of permitted levels. We are a world-class leader in this type of facility and in addition to that just as on the mining side, the BLM have just recently awarded us their Hardrock Mineral Community Outreach and Economic Security Award for 2013, which again I think underscores our commitment to the environment.

Our recycle ounces are increasingly being seen as an attractive long-term supply by customers. This is due to geopolitical risks in many mines and the low-risk nature of recycling. So, the nature of this recycling business is starting to change from everybody being focused on very short-term style contracts to people starting to be focused on long-term type arrangements. I'd like to touch on the second last bullet point here and this is that we are aggressively pursuing monies that we are owed from historical activities of the Company. If shareholders can recall back in 2008 and through 2009 and 2010 and 2011, the Company wrote off some fairly material amounts of money by some of the business practices we had at those times.

We are starting to take actions to recover that money. We can't forecast how successful or otherwise those actions will be. I can say that in Q3, we did recover \$600,000 of those monies and we will aggressively pursue the remaining amounts. The Johnson Matthey relationship is working very well. Clearly Johnson Matthey is a very large player in the industry. We're very happy to be working with the group like these guys and their recycling volumes they are sending to us are exceeding their contractual commitments. We think that having a partner in the industry like Johnson Matthey is very good for our business and it provides additional information for us in market insight and potential has the ability for us to start moving into other parts of the business.

Moving on to slide 14. Metal inventory, we continue to reduce our inventory. I talked about the Johnson Matthey arrangement, one of these areas has been through working with Johnson Matthey much more efficiently. We had been able to reduce some of our inventory further and the realized basket price we've achieved over the course of the Q3 for our mined materials was about \$983 an ounce, a little bit high for recycled material, we have (inaudible) for metal mix and as of yesterday, our basket price was just under \$900 an ounce.

Coming onto slide 15. Talking about Montana projects. Graham Creek has come on ahead of schedule. We really came on about a quarter ahead of schedule. We are doing quite a bit of development drilling out here. The drilling that we've done at Graham Creek continues to show up some interesting material out there and really this allowed us to bring on the third shift at the East Boulder mill and we're really looking forward to being able to get more production at this area.

I will say that this whole Graham Creek project has been executed very well and it does appear to have significant potential. At Blitz, which is our mining and development project, we do some surface drilling during the summer really which is aimed at identifying where the reef is going so



that we can turn the tunnel boring machine well in advance. We've progressed approximately 7,200 feet with that TBM. We're slightly ahead of that in our parallel conventional drive. We do want to bring this on as quickly as we possibly can. So, that has led us to put a second tunnel boring machine crew on in October. We are looking at additional opportunities to see whether we can bring additional crews on there to expedite progress in 2015. Overall, things are going more or less according to plan and we're quite excited about this project and what it could mean for the Company in the medium-term.

Portfolio management. We have two external assets, one's called Marathon, which is PGM copper asset in Canada. The other one is Altar, which is a copper gold asset in Argentina. As we've stated before, Marathon does not currently give us a return that is necessary for us to justify development. We have scaled back our activities up there quite significantly. We are doing some success-based exploration work going forward there. Successful exploration has the potential to move that project into a different category for us. For this year, we'll spend somewhere in the order of \$4 million to \$6 million on it and going forward, it's sort of \$1 million to \$3 million spend level for us.

Altar is a non-core asset for us by virtue of really of its size and its commodity mix. We are PGM company. We are doing a minimum level of activity there at the moment. We are looking at some alternatives to realize value from that project. We have cut spending back there significantly. We did extend some of the tenure there through next year with one of the holders. We have done quite a bit of work on this project in the last quarter looking at how to produce more marketable concentrates and also some basic sort of early stage studies in terms of how that project might look. We have had some success in both of those areas. This year, our spend is going to be between \$2 million and \$4 million and on a go-forward basis, it's somewhere in the order of \$3 million to \$5 million, it's about the spend right that we expect on that.

Turning to slide 17, our guidance. We haven't changed it from the last call. So, we're looking at around about production guidance range of 510,000 ounces to 525,000 ounces. Total cash cost somewhere in the order of \$530 to \$570, all-in sustaining costs range is \$780 to \$830 and you can see the split of the corporate overheads and the capital there. I think that we're comfortable with that guidance based on where we sit today. We didn't see any need to change that guidance today. So, in summary on slide 18, we have quite favorable momentum in operational and financial performance through the quarter. We've continued strong cash generation and improving our liquidity position. Cost reductions and operational improvements are working. We still have a lot of work to do in this area, but that is really our core focus. We have a continued focus on capital spend and working capital and controllable costs. We have committed to do and we are doing some fairly extensive definitional drilling in progress at Graham Creek to define further reserves there. We started production there in Q2, but we have developed a significant strike length of the ore body there that subject to us having success in that drilling could support additional production and given that we have a mill even after going to be extra shift in the mill is still only running five days a week, I would like to see that filled up one day.

And further, we continue to see ongoing favorable PGM fundamentals. Car demand particularly gasoline engines, cars in North America and Asia is very strong. We are seeing a bit of a bounce in Europe for car demand there, although immediately from a pretty low base. And overall we think that the Company is positioned very well with an excellent liquidity position, no short-term debt and an improving operational metrics.

And that is end of the presentation, I am happy to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Gagliano, Bank of Montreal.

David Gagliano - Bank of Montreal - Analyst

I just have a quick one. The sales out of inventory, I believe in last couple of quarters, we've seen some volumes coming out of inventory in the sales line. I think it was 9,000 ounces this quarter. I'm just wondering, first of all, if you could comment on the trend in the future for those inventory sales and then number two, just what the underlying drivers behind the inventory sales? Thanks.



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

We do have slide, slide 14 in deck, which shows our total inventory and so. That's the combination of inventory sitting at the refinery, inventory within our smelter, inventory within our base metal refinery and inventory within slag. You can see if you look at that graph that over the course really from Q1 this year, we started to get rid of the slag, that's the black bar at the very top. That was material that was left over from the smelter. We're sitting up at the mine waiting to get through the (inaudible) processed. So, we moved that through and you can see, it takes a few months from material to move through our system and so that's sort of more or less dissipated in Q1. It was really in Q2 we started seeing the revenue from that. We then had quite a bit of inventory sitting within the smelter. Again we reduced that in Q2, but really only got paid for that in Q3.

So, where we realized inventory has been the slag was I guess Greg, you can help me here in slag, total inventory we reduced 13,000 ounces seems to -- that seems probably the number.

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

That's right.

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

That's right, then we had quite a bit inventory sitting between our smelter and sitting at the outside refinery. And where the Johnson Matthey agreement came in was that by working them, we managed to reduce that inventory between our smelter BMR and the refinery. And overall I guess, it's been 20,000 ounces, 25,000 ounces over course of this year that we been able to squeeze out of inventory between the mine and back at the refinery I guess. In terms of what's going to happen going forward, obviously the bunch of realized inventory it's a one-off, I think there's still some inventory that we do have the ability to realize and we're working on that. I'd prefer not to give full guidance on that until we've actually done it, because I think it's much better for me to actually deliver (inaudible) as opposed to try and give guidance on something that we're still working on.

David Gagliano - *Bank of Montreal - Analyst*

Okay and just a quick follow-up, how was that accounted for? Obviously as opposed to the revenue line, how does that flow through the cost line?

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

Well, again we incur the costs in a period that it then gets allocated to the material at the time it's sold. So, in the meantime, those cost that have accumulated sit in the inventory line. I'm not sure if that's your question, but that's how it works.

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

I suspect the question actually we rephrase it is, has that inventory realization driven out all-in sustaining cost down artificially low and I think the answer is no, because we -- as it comes out of inventory, its gets an average cost allocated toward any line. Is that what you are after Dave?

David Gagliano - *Bank of Montreal - Analyst*

Yes, that's exactly right. Okay thanks very much, I appreciate it.

Operator

(Operator Instructions) Sam Dubinsky, Wells Fargo.

Sam Dubinsky - Wells Fargo - Analyst

I have a couple. Just in terms of the pricing mechanisms or PGMS, it seems like they're changing with the LME taking the lead. Can you just talk about how the LME's methodology differs from the prior system and what impact do you think they'll have on the market?

Mick McMullen - Stillwater Mining Company - President & CEO

I want to answer the second one first if it's okay with you Sam. I don't think it will have any impact on the market apart from potentially removing uncertainty. Markets don't like uncertainty and I think any time when you've got a perception that perhaps one of your pricing method is not working correctly or has issues, I think going to a more open type method, which -- probably the LME method will be more open and transparent provides more certainly to people. And so I think that's a good thing. Personally I don't think it will make any difference as to the actual price of the metal. So, on November 30, the palladium price is \$800 an ounce, on the first of December 1, when the LME starts pricing it, it probably still be the same price. I think that the mechanisms that will be used, again the LME is probably a slightly more transparent method. And again, it just comes back to a confidence level that perhaps -- and we've not seen any evidence of this, but if people had the perception that the current methodology is more open not leading to a true price, going to something that's probably perceived to be more open is probably a good thing.

Sam Dubinsky - Wells Fargo - Analyst

Do you think the LME will have to take inventory to start handling the benchmarking or is it an inventory-free process, like will they have to have warehouse on this raw material? I am just thinking may be there could be some unexpected benefit to this? I'm just not sure.

Mick McMullen - Stillwater Mining Company - President & CEO

I don't I think that given that detail I haven't seen it, but perhaps that will start taking inventory, but you know, if you look at where inventory sits in the PGM world at the moment, there are a couple of very large players in it. One of which, we have in an alliance with. So, that details isn't out in the marketplace yet, but again, I wouldn't be surprised if they go down that route. But again, that isn't really going to have an impact on our pricing.

Sam Dubinsky - Wells Fargo - Analyst

I know you guys classify costs a lot differently than some of your peers. It always leads to some confusion, but is the term sustaining cost a fairway to classify this expense, because isn't there a component over that's growth or am I wrong? At some point, will these investments lead to future growth or its production really kind of it's more -- it really is true sustaining?

Mick McMullen - Stillwater Mining Company - President & CEO

We'd like to think it's true starting because we do strip out for instance our Blitz project is not in our all-in sustaining cost, because that truly is a growth project. There is no sort of standard definition of AISC and so you get down to a point where, for example I will give you an example from Q3, the approximately \$30 an ounce extra that we spend on our capital development will lead to additional production, but that's not the way the accounts work. And unfortunately, it's very difficult for us to strip that out on a quarter-by-quarter basis. We think what we've done is fair and reasonable approach to it. Probably the area where we don't do our accounts -- reporting the same as some other peer groups is that -- and it's important for people to understand when we talk about ounces, it's an ounce of combined platinum and palladium. Some of our peers would report palladium and then have the platinum as a by-product credits. We do not do that.

Sam Dubinsky - Wells Fargo - Analyst

And then in terms of Marathon, what PGM and copper pricing does the asset look attractive and sort of the (inaudible) that you said that its just doesn't give you an attractive return based on your numbers. What type of return do you define as attractive?

Mick McMullen - Stillwater Mining Company - President & CEO

Again going from your second question first. We have a series of metrics that we use which is not just one metric. So, it's a combination of NPV to CapEx ratio, it's an IRR component, it's a strategic fit component and we rank them and score them and it needs to come out with a certain score, but then secondly the project has to then stack up against other things we could do with that cash, which could be investing in additional mine development here in Montana and it's really got to pass both of those metrics. So, it's not just a single metric that we need to -- we don't need to see an IRR of X% and that's going to be sufficient.

It's still a fairway away I would say from meeting those hurdles for us. We don't give guidance on what they are and we certainly don't say to people what metal prices would need to be, but the metal prices would need to be appreciably higher than where they are today for that to work. I think for Marathon to work, it will be a combination of a few things, one is obviously metal price, the other one is currency being in Canada and we have had some assistance there.

Capital cost, I think if we see the capital cost come down a little bit, would certainly help a lot and again, I think industry pressures are probably coming off a bit in CapEx and really the other one is the off-take side of it. Some of the work that we have done on that project is looking at how do we get that material into our smelter, because if you are sending it to a third-party smelter, you really are giving away a lot of value of that material. So, we're working on all of those fronts. I don't think it's going to be just a certain metal price trigger that will get us across the line.

Greg Wing - Stillwater Mining Company - VP & CFO

The other point perhaps is the capital cost of it. If you look at the life of the project, there is a challenge in recovering the capital over the life of the resource, which is why we're continuing to do some limited exploration in that area as well. If we were to encounter some additional resource that paid well and added enough life to it, that would significantly help to recoup the initial investment, which is higher than we had originally anticipated.

David Gagliano - Bank of Montreal - Analyst

Just my last question. Graham Creek, I know it's still early, but is there any kind of benchmarking give us in terms of relative cost structure, just so we can kind of get an idea of how that output and theory could benefit the cost structure longer-term?

Mick McMullen - Stillwater Mining Company - President & CEO

It is early days and I don't think we can break it out, but I can refer you to that slide, the number which alludes me at the moment, which shows the cost per ton of mining between the two operations. Slide six, I don't think it's coincidental that we've seen a fairly substantial cost reduction at East Boulder in the mining costs as Graham Creek has come on and ramped up. I will say at the moment, we only have one ramp system, one mining front I guess you could call it operational at Graham Creek. And that's out of a strike length of three miles that we have opened up. The purpose of the drilling we're doing now is to delineate the next ramp system so that we can get in there and add that and broadly, again, this is not formal guidance, but each ramp system adds about 20,000 to 25,000 ounces of production a year broadly.

Operator

Garrett Nelson, BB&T Capital Markets.



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

We were a little surprised to see that the palladium and platinum price realizations from the mining segment were below the average spot prices for the quarter, with this being the first quarter of the Johnson Matthey supply agreement. We had assumed Stillwater would see some sort of benefit from the sponge premium, but it didn't look like that happen. Why was that?

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

Timing of sales. If you look at the average price of the quarter and you look at the price towards the end of the quarter, you'll see that the price towards the end of the quarter fell off significantly and we ended up having quite a bit of our production sold towards the back end, because again if you refer to the graph that shows our production by month, you'll see that July was a lower production month. So, I don't know if you've done on a weighted average, but if you do a weighted average by production by month, you might get a slightly different answer.

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

Okay. That's helpful.

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

Sorry, I can't comment to say that again sponge premiums and this is out in the marketplace. Sponge premiums declined during the course of the quarter and we have seen them actually pick up a little bit post the end of the quarter. So, again it can come back to when we sold. I can tell you that when we did sell material, we did achieve a better price than just the strike's spot price if you went to Kitco or Bloomberg.

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

I have a follow-up on earlier question on the IRRs and different use of cash. Could you remind us of Stillwater of the share repurchase authorization in place and if so, how much capacity is left on it and at what point do the returns of a buyback outweigh the returns of other uses of cash such as additional debt pay down, development CapEx or potential acquisitions?

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

We do not have a repurchase plan in place at the moment and the Company considers such uses of cash on a regular basis. What we need to say in terms of an IRR from a project versus buying back capital, if you recall, I said to Sam that we have a matrix of things that we look at. So, one of those things is obviously just outright return, but the other one is the risk and clearly something that's going to zero risk to us, such as buying back debt for instance at face value doesn't need to have a very high return to come out in front on a risk-adjusted basis. So, that's why we bought the debt back in Q3.

I think we would need to see -- again there is no single metric we look at. The metrics that we give the most weighting to is NPV to CapEx ratio on an after-tax basis at 8%. We really need to see that metric at least better than 0.25 to 1 and ideally better than 0.5 to 1. So, you can calculate from there what that needs to be. Projects have got to give us -- given that there is always risk in projects developing them, a project has to give us a pretty decent of return for us to justify spending the money on it.

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

And then final question. Could you remind us of the long-term price assumptions for palladium and platinum used in Stillwater's current proven and probable reserve number?



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

We actually use a trailing 12-quarter price. I'm not sure, I've seen that in the last month or so, but it's probably a little bit lower than the price right now. In our budgeting internally, we tend to use the current price that eliminates a lot of discussion about where prices are going and then look at sensitivities around that and have a discussion using that approach.

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

And I suspect Garrett, your question is aimed at trying to discover as to whether we may have to impair some of our reserves based on current metal prices. And I think where we are today, we are pretty comfortable. We do an annual review that will come out in February, but we are feeling pretty comfortable at the moment, particularly given our cost reductions.

Operator

(Operator Instructions) Daniel McConvey, Rosspart Investments.

Daniel McConvey - *Rosspart Investments - Analyst*

Couple of questions. Mick, what can you tell us about 2015? You've got the trend in employees, you mentioned some of the zones in 2015 to be back and too much of your development done. So, can we look forward to this pattern continuing into 2015?

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

Broadly, yes. We will be putting our 2015 guidance out later this year and I think at that time, that's the appropriate time for me to really comment on what 2015 specifically looks like, but I think where we can see we will be is that we've obviously invested a lot in sustaining CapEx in 2014, which will allow us to own that back a bit in 2015. We have said that those stops that we took offline at the Stillwater operation, we will be back into in Q3 of next year. So again we would expect those to have a bit of an increase from that time in terms of production from that time onwards. Again through natural attrition of our employee base, we think we can manage the headcount going forward, but probably some other areas where we feel that we've got some other potential -- obviously the entire mining industry is going through cost reduction exercises. We are starting to see benefits from the lower oil price, some of our input costs I think have some potential to move as well in the right direction for us. So, there's still a lot of work for us to do here in the business.

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

What are the kinds of things that are allowing you to reduce your headcount? You mentioned a couple of them, but I'm guessing you have less turnover now. What other things are helping you out?

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

It's really reallocating people into more productive stoping areas, where we get much higher productivity in terms of tons per man per hour. We find that by moving people in there and no one has asked me about grade yet, but you may notice that actually our grade is falling slightly, but we're actually moving people into much more productive stoping areas with slightly lower grade, but our cost per ounce is lower. So, really its productivity improvements and technology uptake is really the area that we've been able to do things more efficiently and therefore to reduce our headcount as people leave.



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

Second question, with the 7% maybe (inaudible) Johnson Matthey's report, the 7% increase in recycled cat palladium, is that coming from Johnson Matthey? Where is that number coming from?

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

That's coming from me today. Johnson Matthey don't publish their research anymore.

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

What is the base of that? What were it's rough numbers were, say 2013?

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

The basis of that is the information that we've gathered through our industry sources and the confidential sources that we're unable to tell you where that comes from, but we feel fairly confident in that sort of circa 7% to 10% increase in the palladium end of the market. The platinum end of the market is seeing quite a bit more subdued growth, 2% to 3% compound average growth rates is probably what we're seeing.

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

What is the 7% of what number? It's 7% growth in 2014 and 7% of what, a million ounces or --

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

That one just off the top of the my head and don't hold me to this, but it's off the top of my head, it's circa 1.5 million to 1.8 million ounces, something like that.

Operator

Thank you. We reached end of our question-and-answer session. I like to turn the call back over to Mr. McMullen for any further closing comments.

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

I'll just like to thank everyone for taking the time to call in today. We look forward to our next conference call and we will continue to drive as many operational improvements as we can at the business, thank you.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have wonderful day. We thank you for your participation today.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.