IMPLATS
Distinctly Platinum

Strategic update

Impala Rustenburg review

2 August 2018

Summary

THE IMPALA RUSTENBURG STRATEGIC REVIEW HAS BEEN COMPLETED.

Optimisation measures in the prevailing low platinum price environment are not sufficient to secure the economic viability of the operation

Structural changes are required to restore the operation to long-term profitability

The Implats board has approved a turnaround strategy that will transition Impala Rustenburg to long-term economic viability in a low price environment, over the period FY2018 to FY2021:

- Mining footprint to contract from 11 to six operating shafts as operations are ceased at depleted, end-of-life and uneconomical shafts
- Platinum group elements (PGE) mill grade to increase from 4.09g/t to 4.25g/t and the Merensky:UG2 ratio to increase from 42% to 50%
- Production guidance revised from 750 000 to 520 000 ounces platinum per annum, removing non-profitable platinum production from an over supplied market
- Total labour complement (employees and contractors) to reduce from 40 000 to 27 000
- Real operating costs to decrease from R25 100 per platinum ounce in FY2017, to less than R22 000 per ounce in FY2021 (2018 terms)
- Real stay-in-business (SIB) capital expenditure to reduce from R2 800 per platinum ounce in FY2017, to less than R2 000 per platinum ounce (2018 terms), due to infrastructure efficiency improvements
- Replacement capital to reduce from R820 million per annum in FY2018, to R120 million in FY2021 and thereafter to zero in FY2023 in line with the completion of the 16 and 20 shafts replacement projects
- Once-off restructuring costs of approximately R2.7 billion expected during FY2019 and FY2020

The restructuring plan will be funded from internal cash, current facilities and the monetisation of some inventory stocks

A staged implementation over a two-year period mitigates implementation risks and socio-economic impacts

Implats will execute the transition in a socially responsible manner and engage with all key stakeholders to mitigate the potential social impact as far as practically possible. This will include consideration and development of potential commercial options to minimise job losses

Impala Rustenburg in its new form will remain a key asset within the Group with two modern shafts and strategic processing assets

Front cover: 20 Shaft, Impala Rustenburg (Credit: Jacques Mc Carthy)

INTRODUCTION

To sustainably improve its competitive position, profitability and financial returns, Implats has committed to a value-focused strategy. The Group intends to reduce its exposure to higher-cost and less flexible, labour-intensive operations to improve flexibility, capacity and sustainably generate attractive returns in a changing market and operating environment.

This change in strategic orientation has been impacted by a significant and sustained decline in the US dollar platinum price and continued high mining cost inflation. Cost pressure is particularly acute in older, deeper labour-intensive conventional Platinum Group Metals (PGM) mines located on the Western Limb of the Bushveld Complex. Implats has therefore placed a clear emphasis on developing a portfolio of long-life, low-cost, shallow, modern mechanised mining assets to sustainably deliver improved returns to all its stakeholders.

Implats has previously highlighted several key strategic focus areas, including:

- A commitment to responsible and ethical business conduct and to achieving its zero harm goals
- Enhancing the competitive position of the asset portfolio by:
  - Eliminating loss-making production
  - Enhancing shareholder returns from Zimbabwean operations
  - Growing exposure to low-cost mechanised and palladium-focused operations
- Prudent capital allocation
- Improving organisational effectiveness

Good progress has been made on many of these key focus areas, notably:

- Delivering a much improved safety performance during the second half of FY2018
- Effecting an operational and financial turnaround at Marula
- Converting the special mining lease at Zimplats into two new mining leases, and placing the assets in a stronger position to sustain and grow future financial returns
- Securing the profitable third-party PGMs toll treatment business and seeking new opportunities to grow the business by leveraging the Group's available processing capacity
- Acquiring a 15% interest, with an option to move to a control position, in the potential low-cost, mechanised, palladium-focused Waterberg project, which could provide additional geographic and commodity diversity for the Group
- Issuing new 2022 convertible bonds to maintain a strong liquidity position

The Group's portfolio is now well positioned and profitable at current metal prices, with the clear exception of Impala Rustenburg. A strategic review of this operation was undertaken with the aim of restoring the business to profitability as soon as practically possible.

The strategic review considered a range of measures to optimise and reposition the business. Taking account of the current operating environment and macro-economic realities, the strategic review concluded that a fundamental business restructuring was the only viable option to secure a long-term future for the operation. A radical and urgent transition into a leaner, more focused and profitable operation is critical to support the future success of the Group.

MARKET AND INDUSTRY OVERVIEW

The platinum market has been in a sustained industrial oversupply for some time. The price of the metal has been further impacted by a recent unrelated but concurrent erosion in diesel passenger car sales and contraction in Chinese jewellery demand. Discounting a concerted return to platinum in gasoline auto-catalyst systems, the market is not expected to shift into a fundamental industrial deficit until 2022, when demand is again expected to outpace supply.

In contrast to platinum, the fundamentals for both palladium and rhodium remain strong. This is largely premised on the sustained preference for gasoline-based passenger cars and ever tightening global emission regulations. However, platinum as the dominant revenue contributor in the South African PGM industry has inhibited rand basket price growth offsetting palladium and rhodium price increases. Operating costs, on the other hand, have increased markedly due to above-inflation increases in labour and electricity costs, and declining productivity largely as a result of more stringent mining designs, methods and procedures to achieve the critical improvements required in industry safety performance. Lower prices and rising costs have had a devastating impact on the PGM industry's profitability, triggering significant reductions in capital expenditure and shaft/mine closures. The PGM industry has removed some 1.5 million ounces of platinum capacity since 2008. Western Limb producers have been most severely impacted, driven by the costs associated with operating deep, labour-intensive, conventional mines with older infrastructure, whereas shallow, mechanised mining operations located in other areas have largely managed to sustain profitability.

The only option for conventional producers is to fundamentally restructure loss-making operations to address cash burn and create lower-cost profitable businesses that can sustain operations and secure employment as far as possible.

IMPALA RUSTENBURG STRATEGIC REVIEW

Business optimisation

Impala Rustenburg has implemented a range of business improvement and cost reduction programmes over the past few years to mitigate losses from a sustained low platinum price and escalating costs, including the Phakamisa Rustenburg project initiated in January 2017.

Key operational improvements realised during the 2018 financial year include:

- A much improved safety performance during the second half of the year
- Year-on-year operational performance improvements, including a 5% increase in tonnes milled per total employee costed, a 1% improvement in PGE mill grade and a 2% increase in platinum ounces produced in concentrate
- A cost saving of R330 million, a 4% improvement in the real cost per platinum ounce produced in concentrate (excluding once-off restructuring costs), a net reduction of 2 100 employees and the removal of R2.8 billion from the business plans for the next two financial years
- A six-year extension to the life of mine of 6 Shaft and improved shaft economics at 14 Shaft through ceasing UG2 production and growing mechanised Merensky mining

However, notwithstanding the ongoing operational improvements achieved, Impala Rustenburg has continued to incur significant cash losses. Substantial structural changes are therefore required to restore Impala Rustenburg to sustainable economic viability.

Transformational restructuring measures

To determine the most effective structural changes required to return Impala Rustenburg to profitability in the prevailing platinum price environment, a strategic review was initiated in FY2018 and concluded that Impala Rustenburg must transition into a smaller, more focused operation positioned around its best assets. Operations will therefore cease at depleted, end-of-life and uneconomic shafts and future mining activity will be focused on profitable, lower-cost, high-value, longer-life assets.

In order to achieve this, key operational actions will be implemented:

- 6, 10 and 11 shafts and E&F will continue to operate
- 16 and 20 shafts will be ramped up to design capacity and continue to operate at steady state thereafter
- 4 Shaft reserves have been depleted and mining operations ceased in FY2018
- 1 and 9 shafts are in decline with limited reserves remaining and will be harvested to reduce costs until they are closed or sold in FY2019
- 12 and 14 shafts will continue to operate while disposal alternatives are investigated
- In the absence of viable commercial options, mining operations at 12 and 14 shafts will terminate in FY2020
- Underutilised mine infrastructure, utilities and services such as fridge plants and ventilation fans will be suspended to match the reduced production profile
- The number of operating milling circuits at the concentrator complex will reduce in line with lower production volumes and one of the three furnaces at the smelting facility will be placed on care-and-maintenance from FY2021
- Minor modifications will be effected to the acid plant circuit to maintain smelting efficiencies and continued treatment of planned toll-refining material
- Shared services and overhead labour will be reduced by a further 1 500 positions to achieve a fit-for-purpose lower-cost operating model

Restructuring impact and benefits

The structural changes at Impala Rustenburg will fundamentally reposition the business:

- Smaller focused operating footprint around the best shafts
  - Operating shafts reduce from 11 during FY2018 to six in FY2021
  - Operating shafts include the new generation 16 and 20 shafts, which will result in increased infrastructure efficiency and overall productivity
  - Production will decline to 520 000 ounces platinum per annum from FY2021, down from the previous guidance of 750 000 ounces per annum
  - Full time employees and contractors will decline from 40 000 at the end of FY2018 to 27 000 from FY2021
- Robust life-of-mine plan
  - Targeting better areas of the ore body, PGE mill grade at selected shafts will increase from 4.09g/t in FY2018 to 4.25g/t in FY2021, and the Merensky:UG2 ratio from 42% to 50%
  - Significant future optionality to extend the life of mine
  - Commercial transactions will be explored that could provide further upside potential
- Lower-cost operation
  - Real operating costs are expected to reduce from R25 100 per platinum ounce in FY2017, to less than R22 000 per ounce in FY2021 (2018 terms) creating a more robust, lower-cost, cash-generating business by FY2021
  - Cost improvement principally achieved through realising structural improvements in mining efficiency as a result of discontinuing mining activity at high-cost operations and concentrating future activity at more efficient lower cost operations
  - Realising a 25% increase in tonnes milled per total employee costed, a 5% improvement in PGM(6E) mill grade and a 25% increase in Merensky ore content in FY2021 compared to FY2017
  - Further aided by the planned ramp-up at 16 and 20 shafts and additional cost-saving initiatives
- Reduced capital intensity
  - SIB capital expenditure expected to reduce from R2 800 per platinum ounce in FY2017 to less than R2 000 per ounce in FY2021 (2018 terms)
  - Principally achieved through a significantly reduced operational footprint and newer future mining infrastructure, which requires less ongoing SIB capital expenditure
  - Aided by the replacement capital expenditure programme at 16 and 20 shafts, which ends in FY2023

In its revised form, Impala Rustenburg will remain a key asset in the Group's portfolio. Continual improvement in safety, productivity and cost efficiency will be pursued in addition to the structural changes. Any material changes in operating and business performance, or the pricing environment will be considered to further optimise the transformation strategy.

Mitigating social impact

As a southern African producer, Implats is fully committed to a socially responsible ethos and is sensitive to the potential impact of the strategic restructuring process at Impala Rustenburg on employment, local economic development and host communities.

The restructuring process may potentially have an impact on 9 000 direct jobs and 4 000 contractor positions over the implementation period. While labour rationalisation is inevitable in a restructuring process of this nature, due care will be taken to ensure that forced job losses are minimised as far as possible through a range of job loss avoidance measures. These include the transfer of skills to vacant positions at the 16 and 20 growth shafts, reskilling, voluntary separation, business improvement and exploring commercial options to dispose of shafts that do not fit the long-term portfolio.

Where job losses are unavoidable, Impala Rustenburg remains committed to implementing the required changes in consultation with all its social partners. Discussions are already underway with key stakeholders, including government, relevant trade unions and community representatives with regard to this difficult transition to secure the future viability of the operation and preserve jobs as far as possible.

Successfully transforming the Impala Rustenburg operation will result in a cash-generating business by FY2021 in the current low metal price environment and the sustainable delivery of benefits to all its key stakeholders, including securing 27 000 jobs for the long term.

GROUP FINANCIAL IMPACT

A material consequence of the declining profitability of the Impala Rustenburg operation has been the negative impact on the Group's balance sheet, which has weakened over the last year. This was further impacted by the inventory lockup following the fire at Number 5 furnace. Negative cash flows recorded at the operation in recent years and the capital investment to develop 16 and 20 shafts, have been funded from cash flows from other Group operations as well as external sources, including an equity raise and convertible bond issue totalling more than R10 billion. The Group's cash position at the end of FY2018 has been further eroded by ongoing losses and once-off events, reducing the liquidity position of the Group and its ability to fund the operations in a sustained low platinum price environment. Returning Impala Rustenburg to profitability is critical for the Group to remain economically viable, to honour its obligations to providers of external capital and sustainably deliver benefits to all its stakeholders.

Funding plan

It is anticipated that the strategic review will take two years to implement, returning Impala Rustenburg to profitability by FY2021 and resulting in approximately R2.7 billion once-off restructuring costs. Impala Rustenburg is expected to deliver ongoing negative operating cash flows over this period totalling some R4.0 billion. In addition to this funding requirement, the Group also has an obligation to settle the Marula BEE debt of R875 million, which falls due in FY2020.

Implats has reviewed its existing financial resources to ensure the Group remains fully funded throughout the implementation of the strategic review. Additional liquidity and headroom have been addressed through three components:

- ***Forward sale***
  Liquidity has been reduced by a build-up of approximately R3.8 billion in excess pipeline stocks following the Number 5 furnace fire. To address this, excess pipeline stock from FY2020 will be monetised early by means of a forward sale to release approximately R2.0 billion in cash in FY2019, without impacting contractual deliveries to customers.
- ***Revolving credit facilities***
  Implats has revolving credit facilities (RCF) with its lender group totalling R4.0 billion, which are available until FY2021. Implats has engaged with its lender group and they are supportive of the strategic review implementation plan. (Discussions are under way to convert the existing bilateral facilities into a single R4.0 billion RCF to further enhance headroom and flexibility).
- ***Group cash***
  The Group is expected to have a positive cash balance in FY2018 and FY2019, supported by cash flow from other Group operations. The cash position considers the payment of all debt obligations during this period, including the repayment of the Marula BEE debt. Remaining Group debt is either serviced by operational cash flow at subsidiary level (Zimplats) or is long-dated beyond the strategic review implementation period.

The combination of the forward sale, R4.0 billion in RCFs and Implats' existing cash on hand of approximately R2.2 billion will be sufficient to fund the implementation of the strategic review. As the market and operating environment evolves, Implats will continue to review its funding strategy to ensure an efficient and effective capital structure is maintained.

Following the implementation of the strategic review, all Group operations are anticipated to be profitable within the prevailing low platinum price environment. The Group is therefore expected to be in a fundamentally better position to deliver sustainable returns to all stakeholders over the long term.

CONCLUSION

The implementation of the strategic review outcomes will create a more focused Impala Rustenburg business centred around its best assets with higher quality long-life ore bodies and lower operating costs and capital intensity. This will return the operation to profitability in a lower platinum price environment.

In addition, the strategic review provides the following outcomes:

- Removes unprofitable platinum production from a well-supplied market
- Secures future optionality in a more positive pricing environment
- Provides value accretive commercial opportunities for Impala Rustenburg
- Secures 27 000 jobs at the operation in a low platinum price environment
- Ensures that local communities continue to participate in procurement, employment and other socio-economic opportunities over the long term
- Produces a more robust cash-generating business by 2021

The implementation of the strategic review will not only strengthen Impala Rustenburg's position in the prevailing low platinum price environment, but will also significantly improve the strategic position of the Implats Group to sustainably deliver improved returns to all stakeholders in the medium to long term.

SUMMARY OF OPERATIONAL OUTCOMES FOR IMPALA RUSTENBURG

Description	Unit	FY2017 actual	FY2018 estimate	FY2019 estimate	FY2020 estimate	FY2021 estimate	Long-term estimate
Number of shafts	No	12	11	10	8	6	6
Tonnes milled	kt	10.1	10.9	11.3	10.7	8.1	8.0
Ore split (Merensky)	%	40	42	43	45	50	>50
Headgrade 6E	g/t	4.06	4.09	4.10	4.15	4.25	4.30
Stock adjusted Pt refined	000oz	646	658	680	660	520	520
Unit cost[1]	R/Pt oz	25 100	24 015	<23 800	<23 000	<22 000	<22 000
SIB capital[2]	R/Pt oz	2 800	2 960	<2 400	<2 400	<2 000	<2 000
Replacement capital[2]	Rm	707	818	550	260	260	120
Restructuring cost[2]	Rm	–	525	500	1 600	–	–
All-in unit cost	R/Pt oz	29 000	29 017	<28 000	<28 300	<24 500	<24 500
Employees	No	32 235	29 529[2]	≈28 200[3]	≈27 000[4]	≈20 500	≈20 500
Contractors	No	10 018	10 550[2]	≈11 600[3]	≈7 700[4]	≈6 500	≈6 500

[1] *Cost in FY2018 real terms excluding restructuring cost.*
[2] *Cost in FY2018 real terms.*
[3] *As at 30 December 2018.*
[4] *As at 30 December 2019.*

To access the presentation and webcast supporting this release, please refer to http://www.implats.co.za/results-and-presentations.php.

Any forward looking information contained in this update has not been reviewed or audited by the Company's external auditors.

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