



IMPLATS RISK REPORT

The management of risk

Implats management has implemented an ongoing process, endorsed by the Board, to identify risk, measure its potential impact against certain assumptions, and implement the necessary proactive steps to manage these risks. This is in line with the recommendations of the King II report on corporate governance.

In 2003, a Group Risk Manager was appointed. A Group Risk Management Committee was constituted that comprises executive directors and members of senior management, who are accountable to the Board and best-placed to evaluate the risk within the group. The Board approved a Group Risk Management Committee Charter that defines the committee's terms of reference, responsibilities and the members of the Committee

The risk management process encompasses a team-based approach that is effective across the group.

The current members of the Risk Management Committee are:

Group Consulting Engineer (MA Rossouw) - Chairman

Three Executive Directors (DH Brown, C Markus and LJ Paton)

Operations Executive Rustenburg (S Bessit)

Operations Executive Refineries (D Theuninck)

Group Engineering Manager (R Dey)

Group Investor Relations Manager (B Gilmour)

Executive Officer Implats Refining Services (C McDowell)

Group Internal Auditor (Nonhlanhla Mgadza)

Risk management strategy

The committee has overseen the establishment of an integrated and enterprise-wide risk management system which is endorsed by the Board and addresses the following key issues:

- Development of a common Implats risk assessment methodology, which is defined by a framework, process and system that are based on contemporary best practice.

- Establishment of a Risk Management Policy and Code of Practice applicable to all Implats operations and activities which have been communicated to all managers.
- Appointment and training of risk champions in all areas and functions.
- Development of a group risk profile following a strategic review of all risks faced by Implats.

The risks identified are reviewed and monitored by the committee and the Board on an ongoing basis to ensure continuous improvement in the identification and management of these risks and that appropriate and timely action is taken in the face of the inevitable changes in the external and internal business environment.

An integral part of this risk management process is the ongoing communication with shareholders and other stakeholders on these identified risk factors.

Risk factors

Implats recognises that improving or sustaining optimal business performance requires a certain degree of risk-taking. However, Implats believes that by continuously evaluating such risks, defining the level of risk it is prepared to tolerate and balancing this against its risk-bearing capacity, Implats is able to mitigate uncertainty and unpredictability, while creating opportunities which ultimately create shareholder value.

In line with this, Implats has identified a range of risks, both those inherent in mining and those that apply specifically to Implats, that may have an impact on the business and the market in which it operates.

These include:

- Risks related to the platinum group metals (PGM) industry in general
- Risks related to the resources industry in southern Africa (South Africa and Zimbabwe)
- Risks related to Implats specifically

Risks related to the PGM industry in general

- The profitability of PGM operations, and the cash flows generated by those operations can be negatively or positively affected by **changes in the market price for platinum and the other metals** produced by Implats. These are in turn dependent on the market demand – primarily in the autocatalyst and jewellery sectors. Factors which may have an impact on demand include:
 - Industrial and jewellery demand for PGMs.
 - PGM substitution in the production of autocatalysts or the use of white metal in jewellery manufacturing.
 - Economic circumstances in the major PGM (and nickel)-consuming nations, particularly the Far East.
 - Speculative activities including actual or expected purchases and sales of metals by large consumers or dealers, and forward sales by producers.

- Availability of these metals from major producing nations, such as South Africa, Russia, North America and Zimbabwe.
- Mining companies face risks related to their operations that potentially affect cash flows and profitability. These include the following:
 - **Exploration activities** in which the group may be engaged independently or in conjunction with partners – which may or may not lead to the discovery of viable PGM prospects. Exploration activity is usually followed by more costly feasibility studies and bankable feasibility studies, and these in turn may indicate that a project is or is not viable. As the project moves from the exploration stage to the bankable feasibility stage, the costs involved become more significant.
 - **The development of PGM prospects may be subject to unexpected problems or delays during development, construction and mine ramp-up** as a result of geology, recovery rates, capital expenditure requirements and funding, environmental and other regulatory, infrastructural requirements and availability, and other issues outside of Implats' control.
 - **The risk of estimating mineral resources and reserves**, the methodology for which may be updated over time and which is reliant on certain assumptions being made. Declared mineral resources and reserves are best estimates that may change as new information becomes available. Consequently, Implats' resource and reserve estimates may be revised, up or down, and may have an impact on life-of-mine plans.

Implats reports mineral resources and reserves at its South African operations in line with the South African Code for Reporting of Mineral Resources and Mineral Reserves (SAMREC). Resource and reserve estimates at its Zimbabwean operations are based on the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC). Mineral reserve and resource estimates are subject to independent third party review on at least a three-year cycle.

Risks related to Implats and the resources industry in South Africa

- **Resource companies operating in South Africa are subject to various mineral rights ownership legislation.**

In South Africa, the Mineral and Petroleum Resources Development Act of 2002 (MPRDA) came into effect on 1 May 2004. In terms of the MPRDA mineral rights vest with the State which may issue prospecting rights or mining rights to applicants. Former prospecting, mining and mineral

rights (known as old order rights) must now be converted into new order rights through application to the State within five years from 1 May 2004. The right, once granted, is allocated for a maximum period of 30 years on condition that the company remains in compliance with the conditions upon which the right was granted.

Impala has not, at this stage, converted any of its mineral rights. However, it fully supports the process and is engaged in discussions to ensure that it complies fully with the requirements in order to successfully convert its mineral rights.

Overseen by a Board committee on transformation, the group's transformation programme – Phambili – has set stretched targets and will drive delivery towards meeting these. Implats remains in close contact with the Department of Minerals and Energy (DME) in respect of its mineral rights conversions and has no reason to believe that the conversion applications made in respect of Impala and Marula Platinum will not succeed.

In addition to the MPRDA, the DME has published the Broad-Based Socio-Economic Charter (the Charter) which has as its aim the promotion of equitable access to the nation's mineral resources by all the people of South Africa, and the substantial and meaningful expansion of opportunities for historically disadvantaged South Africans (HDSAs) to enter into the mining and minerals industry to benefit from the exploitation of the nation's mineral resources.

The MPRDA, the Charter and the related scorecard together require companies to set and/or meet organisational transformation targets and to report progress on these on an annual basis. The targets are in respect of human resource development, employment equity, the employment of foreign labour, mine community and rural development, housing and living conditions, procurement, ownership and joint ventures, beneficiation and reporting. Implats fully supports the Charter and details of its progress in respect of its strategy to meet the requirements of the scorecard are set out in Implats' corporate responsibility report (this progress report is also available on the Implats' website).

Mining licence conversion applications have been made in respect of the Impala lease area and Marula Platinum and applications have been submitted for all areas covered by prospecting permits. Implats is working closely with the DME to ensure the applications are successful.

- **Mining companies are subject to safety, health, environmental and labour legislation** which, if amended, could have an impact on Implats' operations and profitability.

Increasingly stringent health and environmental legislation is being promulgated worldwide and

the corresponding legislation in South Africa has been adapted and updated in line with this. Although ensuring the new legal standards are met presents a significant challenge to all mining companies, Implats aims to ensure strict compliance with legislation while running efficient and safe operations.

Implats has a strict health, safety and environmental policy that applies to all its operations. The adoption of more stringent requirements, in respect of, for example, the management of hazardous waste, the disposal of waste water to limit the pollution of ground water, air pollution limits and the rehabilitation of closed/closing mines, can result in increased liability and additional costs regarding both compliance and possible fines.

- **Material changes in tax regimes and associated economic legislation could have a significant impact on Implats' profitability.**

The South African Treasury is currently reviewing the taxation applicable to the mining industry, although details are not available at this stage.

- **Material changes in royalty legislation** could have an impact on Implats' profitability.

A draft Mineral and Petroleum Royalty Bill was released in March 2003 for comment by interested and affected parties. A revenue-based royalty of 4% has been proposed for the PGM sector.

On 18 February 2004, in his budget speech for the 2005 fiscal year, the South African Minister of Finance proposed several refinements to that draft bill. These included a delay in the introduction of royalty legislation until five years after the implementation of the MPRDA on 1 May 2004.

The new royalty proposed in the legislation, if paid in addition to the existing royalty paid by Impala Platinum to the Royal Bafokeng Nation, would adversely affect Impala's and therefore Implats' profitability. Currently, a royalty is also paid in respect of State land. Clarity is being sought from the Treasury in respect of Implats-specific issues such as the potential payment of a double royalty, the applicability of the royalty to marginal operations and the implications of the processing of concentrate and matte on behalf of third parties.

- **Foreign exchange fluctuations** could have a material impact on Implats' operations and financial position.

Implats' primary products – platinum, palladium, rhodium and nickel – are priced in the international market, primarily in contracts that are dollar-based. In addition, Implats undertakes

smelting and refining on behalf of third parties. The purchases of metal from third parties, usually made prior to the refining of the metals, are paid for in dollars. Exploration projects and joint venture operations outside of South Africa, require capital expenditure in dollars.

Thus, significant movement and volatility in exchange rates (primarily the rand versus the US dollar, the Zimbabwe dollar versus the US dollar and the rand versus the euro) will have a significant impact on Implats, either positively or negatively. It is estimated that a 10% change in the rand/dollar exchange rate will result in a 30% change in earnings over a financial year.

Implats is essentially unhedged and does not participate in any ongoing speculative activity in respect of currencies.

- **Inflation and other factors** may have a negative impact on the results of operations.

Local currency inflation could have a significant impact on costs and therefore, the profitability of operations.

The Impala Platinum workforce is unionised and labour costs account for about 60% of operating costs. It is therefore important that any wage settlements reached are matched by associated productivity gains and/or increases in revenue.

- **Mining and refining, by its very nature, poses a risk.** Such risk in turn poses a threat to production and the profitability of operations:

Implats applies and continuously develops the best-known operating and safe work standards and practices at its mining and processing operations. However, mining and processing continue to present new challenges which may be hazardous.

In particular, hazards associated with underground mining include:

- Rock bursts, seismic events
- Underground fires
- Cave-ins or falls of ground
- Discharges of gases and toxic chemicals
- Release of radioactive hazards
- Flooding
- Accidents and injuries, and
- Other conditions resulting from drilling, blasting, removal and processing of material associated with hard-rock underground mining.

Hazards associated with opencast mining include:

- Flooding of the pit
- Collapse of the pit walls
- Accidents associated with the operation of large mining and rock transportation equipment, and
- Accidents associated with the preparation and ignition of large-scale blasting operations.

Hazards associated with mining waste/tailings dumps include:

- Accidents associated with operating a waste dump and transportation, and
- Production disruptions due to weather.

Hazards associated with processing and refining include:

- Chemical reactions that occur at high temperatures and in high-pressure environments which have the potential to cause fires or explosions
- Chemical spillage, and
- Managing waste disposal.

Implats is at risk of experiencing any of the above hazards. While the probabilities are considered very low, the occurrence of such a hazard could halt or delay production, increase production costs and result in financial or legal liability.

- Several other **factors outside of the control** of Implats could have an impact on its operations:
 - **Labour disruptions** could have an adverse impact on operations: Implats' South African workforce is highly unionised: 65% of the workforce is represented by recognised unions with the National Union of Mineworkers (NUM) being the dominant union. Implats' wages and conditions of service with these unions are negotiated every year and where possible multi-year agreements are negotiated. Impala Platinum, which employs by far the largest number of Implats' employees, has a strong relationship with these unions and their members (its employees) and is committed to discussing labour and wage issues with the unions as soon as such issues arise. Implats is committed to resolving any disputes with the unions in such a way as to avoid industrial action.
 - **The impact of HIV/AIDS** could have a negative effect on the group's operations, as will the cost of **increasing occupational health care costs**.

The HIV/AIDS pandemic remains a significant challenge to companies operating in

southern Africa. The current estimated HIV/AIDS prevalence level of employees at the group's South African operations is 16%, a level which is lower than the national and relevant provincial level for the same demographic break-down.

This can be attributed to the long-standing education and prevention programmes in which the group has been engaged over the past 15 years. Implats has also made available to AIDS-afflicted employees anti-retroviral therapy (ART) through Impala Medical Services.

Allied to the HIV/AIDS epidemic is the increasing occurrence of TB amongst the workforce.

Health care costs in South Africa have spiralled in recent years. Health care, and particularly occupational health care, has been provided for by company-owned facilities for the majority of employees. There is a risk that the cost of providing such services could increase significantly in the future, depending on changes in the nature of underlying legislation and the profile of employees. This increased cost, should it transpire, is currently difficult to estimate. Implats has embarked on a number of interventions focussed on improving the quality of life of its employees, such as improved housing, transport, clinics and a comprehensive wellness programme.

- **Scarcity of the requisite skills:** As a result of the legacy of apartheid and the political conditions prevailing in the country prior to the 1994 democratic elections, many aspects of the South African economy and society need to be transformed. One of the most critical aspects needing to be addressed is the relative shortage of skills. Implats' challenge is to compete with other employers to attract, retain, educate and incentivise its workforce.

Risks related to running operations in Zimbabwe.

- **Political uncertainty in Zimbabwe**
Zimbabwe's current political environment could have a direct impact on Implats' operations, Zimplats and Mimosa.
- **Mineral rights legislation**
The Zimbabwean situation in respect of legislation of mineral rights ownership is presently unchanged and while it is known that changes are being considered, it is not clear what these changes may be.

In Zimbabwe a revision of the Mines and Minerals Act has been under discussion for some time and any changes may present new challenges or risks to the group. However, no formal drafts have been forthcoming from government. Therefore, the Zimbabwean mining operations remain bound by the existing Mines and Minerals Act and special mining leases (where applicable).

- **Zimbabwean royalty legislation**

In Zimbabwe, a royalty of 3% on precious metals and 2% on base metals is payable to the State. This royalty, which was introduced in 2002, was off-set by the lowering of the corporate tax rate by 10% to 15%.

- **Safety, health, environmental and labour legislation in Zimbabwe**

Both Zimplats and Mimososa operate under similar health and safety legislation to that in South Africa. However, it is Implats' policy to adopt standards that are in line with international mining best practice which exceed the legal requirements, and to apply these standards across the group.

- **Hyper-inflation in Zimbabwe**

Zimbabwe has been experiencing hyper-inflation. Although inflation levels have stabilized recently, they remain extremely high. This situation is exacerbated by the essentially fixed exchange rate. Implats has engaged with the Reserve Bank of Zimbabwe on this issue as it represents a major threat to future investment in Zimbabwe.

- **Labour relations in Zimbabwe**

At Zimplats in Zimbabwe, the opencast operations have to date been outsourced to a mining contractor. However, the labour profile will begin to change with the transition to underground mining, which will be owner-managed.

- **Inability to turn to account the Zimplats operations.**

The operations and tenements associated with Zimplats represent significant "blue sky" opportunity for Implats. However, current economic circumstances in Zimbabwe have precluded Implats from embarking on its long-term plan for new investments or significant expansions.

The Implats Board has indicated that certain conditions must be met prior to the investment of expansion capacity. These are:

- The running of approved foreign currency accounts. While in practice, a resolution of this issue has been reached with Reserve Bank of Zimbabwe, discussions with the Zimbabwean government to formalize this are ongoing.

- Security of tenure. One special mining licence has been granted and approval is awaited for an extension to the second area.
- Signing of the bilateral agreement between Zimbabwe and South Africa. Arrangements are in place, with both parties willing to sign. This is awaiting execution by the two countries.
- Confirmation of indigenization legislation. Implats anticipates an indication of this in the near future. The legislation is expected to be similar to that in South Africa, with which Implats is comfortable.

Implats and Zimplats are in ongoing discussions with the Zimbabwean government and remain confident of an outcome that will pave the way for expansion investments.

Risks related to Implats specifically

- **Inability to bring Marula operation into profitable production.**

The ramp-up to full and profitable production at Marula Platinum is behind schedule. The reasons for this include unexpected geological conditions, scarcity of local skills, the inappropriate mining methods adopted initially, under-performance by the mining contractor and additional pressure on margins as a result of the rand/dollar exchange rate.

As a result at the beginning of 2005, Implats introduced a revised plan to bring the operation to profitability that involved a transition to conventional mining. On-mine operations have now been taken over by Implats management and additional capital expenditure of R830 million has been approved by the Board. It is planned that this operation will achieve break-even in the 2006 financial year, with full production of 144,000 ounces of platinum per annum being achieved by FY2009.

- The **occurrence of events for which Implats is not insured or for which insurance is inadequate** may affect its cash flow or profitability.

Implats has third party liability cover for most potential liabilities, including environmental liabilities. However, such insurance excludes political risk.

While Implats believes that the current insurance coverage is adequate, meets regulatory requirements and is consistent with industry best practice, while highly unlikely, it may in an extreme case, become liable for unforeseen pollution or other hazards against which it has not

been adequately insured. The expected cost of closure and rehabilitation of mining operations is covered on an ongoing basis, using bank guarantees and through an Environmental Rehabilitation Trust Fund. The coverage thus provided is considered to be adequate to meet regulatory and actual expected closure and rehabilitation costs.

- **Factors which may lead to the suspension of Implats trading on the JSE or the LSE** would have an impact on the trading of the company's shares.

Implats is committed to compliance with King II and reports on this fully in the Corporate Governance section of the annual report. It operates in compliance with the Companies Act and the Listing Requirements of the JSE Limited. Implats has adopted a 'best practice' approach to corporate governance.

Implats has adopted the requirements of King II and has also investigated the requirements relating to the Combined Code (full name?, what is its jurisdiction and relevance? no mention has been made to this in the annual report) and the Sarbanes-Oxley Act of 2002 in the United States, in the light of Implats level 1 ADR program, although it is not bound by the provisions of the last two. No material issues were identified relating to compliance with which Implats does not feel it would be able to comply.