

Chief executive officer's review



David Brown
Chief executive officer

Emerging from a year of financial turmoil

Our operations have weathered the storm
despite lower production output

The platinum market moved from a position of large deficit in the early part of 2008 to one of balance by the end of that year. The driving factors were the well-documented issues around South African mine supply in the first six months including the power crisis in South Africa, industry-wide skills shortages, an increased focus on safety and escalating input costs. The situation was further impacted by the meltdown of the banking system in the wake of the sub-prime crisis. Economic recession ensued, resulting in with a decline in PGM demand.

The metal price hit a record high of \$2 276 per ounce at the peak of the supply cycle. As industrial demand for platinum continued to increase, jewellery demand declined, and the market was flooded by record volumes of platinum-jewellery scrap metal for recycling.

The cycle turned in July when the sub-prime crisis surfaced, resulting in massive commodity-fund liquidation of PGM positions, driven by a desperate need for cash. The world moved from commodity supercycle to deep recession within five months, and the platinum price tested levels below \$800 per ounce.

Poor consumer sentiment in a recessionary environment, coupled with the credit squeeze and eroding personal confidence levels, combined to decimate demand for motor vehicles: sales collapsed in the second half of 2008 and the first half of 2009. This saw demand for PGMs fall off the proverbial cliff.

However, the low metal prices had the effect of raising jewellery demand in China, with strong physical buying noted at the \$1 000 level. Demand was also boosted by exchange traded fund (ETF) investments through a combination of further inflows into ETFs and a return to the market by Japanese investors.

No significant improvement in safety

Implats experienced a poor safety year in terms of what we expect from ourselves and what we believe we can achieve. Regrettably, eleven employees lost their lives at work in FY2009. The Board and management team join me in extending our sincere condolences to all the families and friends of those who died.

Our lost-time injury frequency rate for the group in FY2009 was maintained at 2.92 per million man hours worked. Operationally, Impala's safety record remained unchanged year-on-year.

Safety – targeting zero harm

Despite the less-than-satisfactory overall safety picture, individual mines continue to excel in specific areas, demonstrating that Zero Harm is a realistic objective. The milestone of 1 million fatality-free shifts was reached during the course of the year at Marula and Impala Rustenburg (1 Shaft, 9 Shaft and Mineral Processing).

Mimosa achieved 1.5 million fatality-free shifts while Impala Springs did even better, notching up 7 million fatality-free shifts.

Chief executive officer's review (continued)

Improvements recorded at Zimplats and Mimosa were negated by a deterioration at Marula. We believe we can mine without incident. Measures that have contributed to safety improvements in previous years are continuing, and new initiatives are being implemented to further develop safety awareness and push us to the next level of performance.

Dividend shows strength, confidence

In the midst of the worst economic downturn the world has seen in recent memory, Implats bucked the industry trend by paying a dividend for the year of 320 cents. This is an illustration of the company's inherent strength as well as management's confidence about the future.

Pressure on costs

Implats' platinum production was down in FY2009 by approximately 11% to 1.7 million ounces. Headline earnings per share declined from 2 065 cents in FY2008 to 1 001 cents in the current financial year, but the portion attributed to reduced production was overshadowed by the credit crunch and resulting collapse of the metal prices from the second quarter of FY2009.

The financial year began with a positive net cash balance of R9 billion. However, cash net of all debt declined to R1.4 billion at the end of FY2009 due to a combination of a significant final dividend relating to FY2008 of R7.1 billion, reduced margins, increased capital expenditure, and cash obligations for tax and dividends relating to the previous year. This has spurred us on to further efforts to reduce costs, preserve cash and optimise operations throughout the organisation.

Nevertheless, despite these concerted efforts, unit costs (excluding share-based payments) increased by 32% to R9 129 per platinum ounce. This was not attributable to any one company in the group, but was experienced by all to various degrees. The most significant increase came from the largest volume contributor, Impala, at 31% due to a combination of lower volumes and inflationary pressures. The cost per platinum ounce for the group year-on-year, including share-based payments, was R8 526, an increase of 10%. This difference is attributable to a share-based credit for FY2009 arising from a decrease in the share price.

A shift in strategic focus

The year saw a shift in strategic focus from growth to cash preservation through ongoing commitment to our six key strategic elements: safety, growing production and our resource base, cost-

leadership, capital efficiency and delivery, improving the holistic contract with employees and managing the balance sheet.

Safety

To realise our vision of being the world's best platinum-producing company, we need to improve our safety record. While we have seen improvements in all areas, our safety performance over the last year has been disappointing.

The overall vision of Zero Harm remains our objective. There are times when this seems unobtainable, but it is our collective duty – as employees, unions and government – to work as a team to make this vision a reality. Apportioning blame does not help. We have a common goal, and must move forward together.

In the previous annual review, I wrote that non-compliance with safety standards was a key factor to be addressed. This continues to be the case, as was borne out by the past year's safety performance. We simply have to ensure that compliance with safety standards is enforced. This might prove unpopular, but it has to be done if we wish to achieve our common vision.

Growth

As in previous years, opportunities for growing our production and resource base will come from four key areas:

- **Exploration**

Our lack of success in this area is not for want of trying. There have been no new major discoveries worldwide since the Stillwater discovery in the United States of America in the early 1980s.

- **Organic growth**

This is growth derived from assets we already own or have some ownership stake in.

The company has mineral resources of some 230 million ounces of platinum in the ground, 72% of which is located at Zimplats and Impala. Nevertheless, a basic driver of the industry is continuous growth of our resource base to allow exploitation flexibility in the future.

Zimbabwe operations shine

Zimplats and Mimoso, the two group mines in Zimbabwe, had an excellent year. Virtually all production and expansion targets were met, costs are under control despite the dollarisation of the economy and a new group safety record was set at Zimplats. This overall performance is doubly satisfying given not only the current state of world markets, but also the trying conditions in which both people and companies have to operate in that country.

Chief executive officer's review (continued)



- **Acquisitions**

We continue to look at potential targets in the PGM space in order to increase our resource base and our organic-growth pipeline. We will be selective in any such acquisitions.

- **Recycling**

We will remain a relevant player in the recycling sector.

The group is no longer on track to achieve production of 2.3 million ounces of platinum (4.6 million ounces of PGMs) by FY2012; we believe we will only achieve 2.1 million ounces by FY2014. We are currently establishing the building blocks to grow to 2.8 million ounces of platinum annually (5.6 million ounces of PGMs). Capital expenditure to increase refining capacity to 2.8 million ounces of platinum has already been approved.

Our market share of global supply is approximately 25%. Our aim is to increase this number, or at the very least maintain it at current levels.

Impala Refining Services, by virtue of its ability to process our organic and recycling material, remains a key source of support for the overall business – particularly from a growth perspective. We are able to leverage potential acquisitions through off-take agreements or gain exposure to any value proposition through a standalone IRS contract. Potential for competition in the smelting and refining arena still remains a threat, though not in the short to medium term where prospects have been impacted by South Africa's current power crisis. However, it remains important to continue subtly shifting our strategy to ensure we have greater influence and ownership in the various resource bases where we see value.

Cost-leadership

We continue to be the leader in the industry. Impala's performance, in particular, remains key, and it is of paramount importance that we continue to drive hard in this area. All members of the team should, and must, contribute to the "cost conscience" of the organisation.

We continue to focus on the following elements:

- **Labour complement:** additional staff requires additional output
- **Materials efficiency:** using less material inputs where possible
- **Competitive input pricing:** keeping these at the right levels

Chief executive officer's review (continued)

It should be noted that the cost of production has escalated significantly in the past two years, and the outlook for the future sees the cost trend being subdued by increased output and a lower inflationary environment. Despite future cost increases being more repressed, the cost of production will become a greater factor in the future when setting the prices of our products. We are in fact price-takers, with little or no influence over demand fundamentals. Therefore we have to ensure that our supply is produced at reasonable cost, and that our capital input remains efficient.

Capital delivery

This is the component that will allow us cost-effective production in the future. In order to achieve this, we must ensure that all projects deliver on target and on time.

The lack of delivery from the decline projects at Rustenburg has clearly affected the position we find ourselves in today. We have little mining flexibility there, and as a result of delays and underperformance, we have placed ourselves under constant pressure. In addition, capital costs are rising drastically, and any time delays have a profound impact on cost — and ultimately profitability. The timely delivery of 20, 16 and 17 shafts, currently under construction, is crucial to ensuring mining flexibility in future.

People contract

We are determined to see the employer/employee relationship grow in a more holistic way so that individuals feel that their personal contribution is encouraged, recognised and rewarded. Skills remain a key issue, and programmes are in place to ensure that we attract, nurture and retain the right people. In the coming year, we will be focusing not only on adult education and training, but also on various learning initiatives in high schools in the vicinity of our mines. The most important element will be delivery on the ground, particularly in the housing arena.

Managing the balance sheet

Our cash-generation potential remains positive at an operating level, and the outlook remains strong. An acceptable level of debt remains an ideal and there should be an element of debt over the next year. In addition, we maintained a dividend payment for the year which places Implats in a good position within our sector.

We believe that the continued prudent mix between further investment, capital expenditure and returns to shareholders is encapsulated in our future plans.

Power and skills remain key risks

The group ensures that all key strategic risks are understood, and that cost-effective steps to mitigate them are in place. The two key risks from the previous financial year were related to the power crisis and the lack of skills. These are still key risks in southern Africa and its mining industry, and although their immediate impact has receded, they remain ever-present.

In the event of an economic upturn – and hence increased demand for commodities – these issues will once again come to the fore. In the meantime, management must mitigate the group's exposure to these risks. Likewise, government should recognise this intervening period as an ideal opportunity to help improve the country's response in these areas.

Prospects: all about delivery

Your company continues to focus on ensuring a stable production base in the short term so that it remains squarely positioned for future growth when market fundamentals improve. We anticipate production increases in FY2010 as our various ramp-up projects (particularly Zimplats) deliver additional ounces.

The platinum market remains close to a position of balance, with lower supply being welcome given the demand destruction in the automobile industry. The next financial year will be a tough one, due to the slow recovery of the world economy. We are likely to see improved sentiment towards the end of the next financial year, and ultimately increased end-user demand. The medium to long term fundamentals remain positive for our industry, as our metals remain an essential resource in many applications.

I would like to thank the Implats team for making good progress in a very difficult year. I also thank my fellow board members and management teams for their support. I wish to make special mention of Lex Van Vught, who resigned from the board at the end of June – thank you for all your valuable support and input.

The next financial year is all about our ability to deliver on our production and safety targets, even as we continue to focus on cash-preservation. It's going to be tough, but I know that we have a team that can deliver.

David Brown

Chief executive officer

27 August 2009