IMPLATS

Distinctly Platinum

Strategic review

Corporate information

Impala Platinum Holdings Limited

(Incorporated in the Republic of South Africa)
Registration No 1957/001979/06
JSE share code: IMP
ISIN: ZAE000083648
ADRs: IMPUY
("Implats" or "the Company" or "the Group")

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Transfer secretaries

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Sponsor

Deutsche Securities (SA) Proprietary Limited

Directors

KDK Mokhele (chairman), TP Goodlace (chief executive officer), B Berlin (chief financial officer), HC Cameron, PW Davey*, MSV Gantsho, A Kekana, AS Macfarlane*, AA Maule, TV Mokgatlha, BT Nagle, B Ngonyama, NDB Orleyn
**British*

Note: Mr TV Mokgatlha has resigned as a non-executive director with effect from 22 October 2014.

Strategic review

- Implats will continue to drive the Respect, Care and Zero Harm initiatives
- Platinum group metal (PGM) market fundamentals are sound over the longer term, but overall prices are likely to remain "lower for longer"
- Within this context, Implats will position the Group strategically to conserve cash while restoring and optimising operational performance and profitability
- In doing so, Implats has endeavoured to maintain strategic optionality to safeguard the long-term value potential of its assets in an environment where metal prices are expected to recover
- The Group will invest R30 billion across its operations over the next five years. However, the strategic target for 2016 is to reduce the planned capital spend by R2.2 billion to R4.5 billion
- Impala Rustenburg will be repositioned and modernised:
  - Deliver on the new 16 and 20 shaft complexes, which contribute to Impala reaching its sustainable production level of 13.5 million tonnes and 850 000 platinum ounces per annum by 2019
  - Operating less vertical shaft systems
  - Better efficiencies and an improved cost structure
  - Improved Merensky: UG2 mining mix leading to higher grades
  - Slowing 17 Shaft capital expenditure to critical path shaft-sinking activities (saving R2.5 billion over the 2015 and 2016 period)
  - All resulting in improved profitability
- Ultimately restore Zimplats to 6 million tonnes per annum and 260 000 platinum ounces per annum
  - Through open-pit mining while the Bimha mine is redeveloped
- Maintain steady-state production at Mimosa
- Defer Afplats for four years
  - Reduced capital spend
  - Maintain the Social and Labour Plan commitments
- Build on the cash-positive IRS business model to grow profits through additional sources of PGM supply
- Optimise performance at Marula and seek to realise value through a disposal of this asset
- Maintaining and positioning the balance sheet to meet strategic objectives
- Reposition stakeholder engagement programmes and associated activities to maintain the social licence to operate

Strategic review continued

Market

Market fundamentals remain sound and PGMs will continue to add substantial value to a growing global economy (specifically by reducing emissions, improving global air quality and providing alternative green energy solutions).

Demand

Emerging markets are at the centre of an increase in PGM demand, supported to a large degree by ongoing urbanisation in China and India, and rising consumer spend by a growing middle class in these countries, particularly with respect to automobiles and jewellery. In the rest of the world, growing automobile sales and stricter emission controls will continue to support future PGM demand in the medium to long-term, with the early signs of an emerging hydrogen economy providing longer-term support.

Some of the key demand drivers experienced include:

Automotive sales

• China	+10% growth in 2014 (LMC Automotive forecasts future growth of 9%)
• US	+6% growth in 2014 (highest annual sales since 2006)
• Europe	+5% growth in 2014 (18 months of consecutive growth)
• Japan	+3.5% growth in 2014 (third consecutive year of growth)
• Globally	LMC Automotive forecasts +40 million vehicles in the next 10 years

Platinum jewellery

• China	Unchanged from 2013, despite an economic slowdown
• India	Growing at 30% off a low base (key future market)
• Globally	Unchanged (lower global sales compensated by growth in India)

Investment

Platinum	+155 000 ounces in 2014
Palladium	+900 000 ounces in 2014
Future	Demand to be prioritised and supported by recently formed World Platinum Investment Council (WPIC)

Industrial

Globally	Supported by emerging market growth

Fuel cells

New market	Japan intends using fuel cells for the 2020 Olympics, while car manufacturers are starting to roll out the technology

Supply

PGM market fundamentals are further ***underpinned by primary supply constraints in southern Africa***, principally as a result of policy uncertainty, power constraints, under-investment in new/replacement projects and safety/labour work stoppages in South Africa. This is mitigated to some extent by an ***increasing secondary platinum supply***, growing by approximately 7% per annum. However, this growth is forecast to slow and stabilise from 2021 as a result of relatively lower metal loadings for autocatalysts that will be recycled. This is as a direct result of ongoing PGM thrifting since the early 2000s.

Price

Despite our strong long-term PGM market view, ***near-term metal prices continue to be impacted by available metal inventories***. In addition, a range of global ***economic factors also impact near-term price certainty***, specifically the economic recovery in Europe (European Central Bank stimulus and Greek debt refinancing), Chinese economic contraction and the risk that global economic growth could be further impacted by continued geopolitical conflict and/or currency uncertainty. This impact/uncertainty is also evident in the recent strengthening of the US dollar, the drop in resource prices including oil, and the linkage of the platinum price to movements in the gold price. In this environment, Implats expects long-term prices to improve as metal inventories are eroded and longer-term supportive market fundamentals start to dominate. It is expected that the rand/US$ exchange rate will continue to weaken, impacting rand PGM basket prices, but oversupply concerns may naturally cap the rand basket prices in the near term.

The PGM market requires constant market support and market development to secure long-term sustainable value creation. This is especially relevant when one considers the unique physical attributes of PGMs and the fact that PGMs are typically not consumed, but rather used and reused in key market segments – slowly eroding demand growth as recycling develops in each market segment.

Some key strategic focus areas to grow the market include:

- The International Platinum Association (IPA), which supports stricter emission standards and the broader use of PGMs, including the life cycle assessment to incentivise the use, and demonstrate the benefits, of the metals
- The Platinum Guild International (PGI), which focuses on bridal and non-bridal jewellery demand in China and broader jewellery demand in India
- The World Platinum Investment Council (WPIC), which is a new initiative to develop exchange traded funds (ETF) investments in more diverse geographical locations (China, Malaysia and other regions), as well as growing investor demand and appetite to hold bullion and/or coins. WPIC also advocates policy change for countries to hold bullion (South Africa, Russia and China)

- Fuel cells, which is a potential growth area for automotive demand. Toyota and Hyundai are leading the way and South Africa is implementing government incentives for hydrogen research. Implats is investigating using this technology in its refinery, while the Chamber of Mines already runs its corporate office through the use of fuel cells. The Olympics in Japan in 2020 will also use this technology.

Implats' strategic focus areas

Implats has to be prudent in its strategic assumptions and believes that metal prices could remain lower for longer, but must retain flexibility to take advantage of longer-term PGM prices.

Within this context, the Group is ***positioning itself strategically to conserve cash***, while at the same time ***restoring and optimising operational performances and profitability***.

The Group has ***implemented stringent capital allocation and cash preservation measures*** based on a lower-for-longer metal price risk mitigation strategy. In doing so, management have endeavoured to ***maintain strategic optionality*** to safeguard the long-term value potential of its assets in an environment where metal prices are expected to recover.

The overarching strategic outcome targets five key focus areas:

- Maintaining prudent **investment through the cycle**
- **Maintaining strategic optionality** and positioning the Group for the future
- Improving efficiencies/profitability through **operational excellence and safe production**
- **Conserving cash**, especially while metal prices remain depressed
- Maintaining **our social licence to operate.**

Investment through the cycle

Long-term sustainable stakeholder value can be achieved in the platinum industry only with prudent capital investment through the cycle, especially as we are mining an ever-decreasing mineral resource with long project time lines and high capital intensity. The right balance needs to be found between short-term returns and longer-term sustainability and growth.

Despite the need to conserve cash while prices remain depressed, significant capital resources will still be deployed over the next five years to sustain future value creation and maintain strategic optionality. A total of ***R20 billion will be spent at Impala Rustenburg*** over five years (2015 – 2019), including R6.6 billion at 17 Shaft. At a Group level, R30 billion will be invested over the same period. However, the strategic target for 2016 is to reduce the planned capital spend by R2.2 billion to R4.5 billion. This is in addition to a R1.3 billion capital reduction in 2015.

Implats will also continue to explore and ***remain alert and open to all value-accretive investment*** opportunities that hold the potential to unlock shareholder value.

Maintain strategic optionality

Implats' strategic response specifically aims to ***reposition and modernise Impala Rustenburg*** into a smaller, more concentrated mining operation with access to new, modern shaft complexes, with new Merensky ore reserves, producing 850 000 platinum ounces per annum at much higher mining efficiency and lower unit cost.

To do this, the completion and ramp-up of 16 and 20 shaft complexes and further ore reserve development will be prioritised. Full production from these shafts is expected from 2019, one year later than previously targeted and is due to the impact of the prolonged strike and cash conservation measures implemented during the strike and restart period. Over the next two cash-constrained years a total of R1.5 billion will be spent on both shafts.

The benefits of these two new shafts are that they provide access to significant new concentrated Merensky ore, which allows Impala to attain a mining mix of 49% Merensky to UG2 ore. Furthermore, there are investigations into mechanisation at 20 Shaft.

At the same time, the profitability of existing operations will be improved through targeted interventions to improve mining efficiencies and reduce embedded fixed costs. The ***old shafts (E/F, 4, 6, 7, 7A, 8 & 9 shafts)*** will be consolidated under one overhead structure to optimise costs and improve synergies. These shafts will be mined out and closed as quickly as possible as they are among the lowest-cost operations at the lease area due to their relatively shallower mining depth and low capital requirements. The ***mid-life shafts (1, 10, 11, 12 & 14 shafts)*** are becoming more reliant on UG2 reef and require increased mineable face length to improve mining flexibility and efficiencies to optimise half-level and shaft capacities. The planned transition at these shafts is underpinned by a targeted operational excellence programme.

The collective benefit of all of the Impala initiatives will be to increase mining flexibility and efficiency and increased volume throughput without any increase in labour. The commissioning and ramping up of the new shaft complexes and the closure of old shaft infrastructure will result in mining teams being increased from 550 to 620 teams. At the same time, there will be reduction in the support staff required for the mining operation.

The 17 Shaft capital expenditure programme has been reduced to R415 million in 2015 and R537 million for 2016. A capital saving of R1.1 billion will be realised in 2015, and of R1.4 billion in 2016. The ***shaft remains essential to sustaining future production from Impala as it is designed to deliver 180 000 ounces per annum***. To this end, the board of directors has prioritised the completion of the main shaft sinking programme with the optionality to review the project, the PGM market and the Group's financial position on an ongoing basis. If the 17 Shaft project is not further slowed then it is expected to come into production in 2021. ***This will enable the Impala lease area to maintain production at 850 000 platinum ounces per annum beyond 2020***.

The strategy also aims to ***restore mining flexibility at Zimplats*** and to ultimately grow output to 260 000 platinum ounces per annum at a milling throughput rate of 6 million tonnes per annum by 2016 through initiating opencast mining and redeploying Bimha's mining crews at the other operations, while redeveloping the mine. The sustainability of operations at these levels is contingent upon PGM market prices, power supply and regulatory certainty.

The Government of Zimbabwe has confirmed that Mimosa will be subject to the 15% export levy on platinum. This has a material impact on Mimosa's profitability. As a consequence, the strategy for this asset is to maintain operations and shelve all potential expansions, which would have enhanced production, profitability and job creation possibilities.

Afplats remains a quality resource with significant potential to develop a low-cost mechanised mine in the well-serviced western Bushveld Complex. Moreover, significant synergies can be realised through the use of Impala's above-ground infrastructure. However, the project requires significant capital investment, and the board has resolved to defer the project for four years to conserve cash and protect the balance sheet.

The strategic review also brought into sharp focus the significant value still being delivered by the Group's toll refining business (IRS), despite the impact of lower metal prices. The Group has ***spare capacity available that positions it well to benefit from new opportunities***, especially given the anticipated shift over time from the Western Bushveld Complex to the base-metal-rich northern limb. The strategy specifically aims to maintain and grow the Group's position as the leading player in this space to further grow and/or diversify its portfolio over time to unlock shareholder value.

Marula is a relatively new, shallow, long-life ore body with good infrastructure and we have made progress in recent times in unlocking some of this asset's potential. This progress was severely impacted in the first half of the 2015 financial year as a result of industrial action and safety stoppages at the operation. We remain confident that the lost momentum can be recovered and that output can be grown to 90 000 platinum ounces per annum by 2020. However, having critically assessed the fit of this asset into Implats' South African portfolio, as well as the need for management's focus on the large integrated Impala operations, the board believes that more shareholder value could be unlocked through disposal of the mine.

An additional advantage of selling the asset is the realisation of cash to strengthen the Implats balance sheet. The concentrate offtake agreement will remain with IRS and Implats will ensure that our existing business partners are consulted throughout.

Operational excellence

Unlocking value at an operational level is a key part of this strategic response. These interventions are specific to each operation and have specifically targeted measures to improve mining efficiencies and reduce operating costs.

Key initiatives include:

- The ***safety strategy*** has been revisited and introduces a range of new health and safety initiatives, aimed at achieving the Zero Harm target. These initiatives specifically target critical safety behaviours and are closely aligned with agreed industry safety responses.
- Implats' strategy specifically aims to introduce ***new technology*** to modernise our mining operations over time to improve safety performance, mining efficiencies and profitability, and is closely supported by the implementation of state-of-the-art-mine planning technology (MineRP).
- An in-house ***team mobilisation*** programme has been introduced to underpin operational delivery. The initiative aims to equip each production team and its supervisory/management contingent with the required knowledge, skill and motivational support to achieve safe production targets at an individual team level. The initiative also aims to inculcate respect among team members and a duty of care to rebuild relationships and ultimately deliver safe production.
- A set of targeted short-cycle management controls have been revised and prioritised under a new ***Fixco initiative*** to measure, report on and ultimately manage all critical mining parameters at individual team level.

The Fixco initiative specifically targets the following key focus areas:

– Increasing ore reserve flexibility
– Increasing team efficiencies
– Improving the quality of mining
– Driving down overhead costs.

Cash conservation and balance sheet

The lower-for-longer risk mitigation price assumptions necessitate a range of strategic responses, aiming to conserve cash in the nearer term, without impacting long-term value generation. However, the strategic target for 2016 is to reduce the Group's planned capital spend by R2.2 billion to R4.5 billion.

Notwithstanding the reduction in capital, the Group's ability to fund the business and generate free cash flow is principally determined by operational performance and metal prices. To navigate through a difficult period where US dollar PGM prices could remain depressed in the near term, cognisance has been taken of the strategic imperative to balance shareholder returns, long-term growth and balance sheet flexibility.

Strategic review continued

To this end, the Group:

– Raised the convertible bond (February 2013) and has R1.6 billion of this cash remaining at 31 December 2014
– Has R3 billion in unutilised committed debt facilities
– Will continue to optimise costs and efficiencies
– Will realise value through the disposal of non-core assets (Marula)
– Will ensure the Zimbabwean operations remain self-funded.

Shareholder value is best secured through an efficient but conservative balance sheet, especially in a single-commodity mining environment where financial returns remain vulnerable to commodity and financial market changes. It is clear that the financial viability of the entire industry will be precarious should rand metal prices remain where they are today. Despite the above measures, the business may require additional funding in order to ensure the long-term strategic intent remains intact.

The Group is currently examining a number of financing options. The impact of the strategic decisions taken (the timing of which are not all under the Group's control), as well as the fact that the balance sheet is under-geared relative to industry peers (and the mining sector in general), will be taken into account if and when additional funding may be required.

Social licence to operate

The strategy also takes cognisance of the shifting socio-political environment facing mining companies today and prioritises targeted ***employee*** initiatives to recapture their hearts and minds and ***community*** initiatives to build a shared vision and social compact.

Key initiatives include:

- Employee equity ownership plan (profit share) at Impala Rustenburg
- Housing and accommodation strategy
- Team mobilisation
- Direct employee, community and stakeholder engagement
- Relationship building and shared values
- Local employment
- Skills development
- Local procurement
- Social investment

Any forward-looking information contained in this announcement has not been reviewed or reported on by the Company's external auditors.

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