

## Chief Executive Officer's review

**David Brown**

*Chief Executive Officer*



### Dear Stakeholder

Financial year 2011 was a positive year for the Group. The Group delivered a solid operational and financial performance. We improved our gross production supported by our Rustenburg and Zimplats operations achieving their targets. Costs were reasonably controlled given the cost inflation experienced by the industry. Enhancing the solid operational performance were improved metals demand and US Dollar pricing environments, which resulted in platinum averaging \$1 700 for the year under review. This favourable pricing environment was dampened by the appreciation of the Rand against the US Dollar.

I am encouraged by the Group's performance; the delivery on factors within our control is testament to the dedication and focus of our employees on enhancing value to shareholders over time. We, however, cannot claim true success until we have eliminated fatalities and other injuries in our working environment. It is with great sadness and regret that I report that eight employees lost their lives while at work during the year. On behalf of the Group I extend my sincere condolences to the families and friends of these team members.

While we have made progress in our safety as shown by the 57% improvement in our fatality injury frequency rate, regrettably our objective of zero lost-time injuries by 2012 will not be

achieved for the Group as a whole. Our lost-time injury frequency rate has shown a 7% deterioration from FY2010. However, we will be aiming to increase the number of individual operating units that will achieve this goal going forward. Safety is the number one priority for the Group and we remain committed to achieving zero harm in the workplace.

We have resolved to step up efforts in two areas. The first area involves closing the supervision gap by focusing on leadership training. A number of initiatives were put in place to ensure that all supervisory staff received adequate training and are empowered in this regard. As part of this empowerment we hold accountable all supervisory and management staff to ensure that compliance with our standards is taking place on a continuous basis. The second area is ensuring compliance to the Group's defined safety standards and procedures by changing the safety culture, focusing on behaviour observation, reward and communication.

Safety will remain a key challenge for the mining industry in South Africa. Whilst there have been significant improvements in safety over the years, the industry as a whole has to do more in order to attain world-class standards and performance. Better co-operation between industry, the unions and government will go a long way in achieving this end. I firmly believe

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that this tripartite alliance will play a pivotal role in improving safety performance across the industry.

### Operational and financial review

All our operations with the exception of Marula delivered on their key financial and operational metrics during the year under review when compared to the previous financial year.

Gross platinum production rose 5.5% to 1.836 million ounces. The Rustenburg operation increased production by 8.0% to 941 200 ounces compared to the lower levels achieved in FY2010, which brings the operation back in line with its planned production levels. We saw a 4.7% improvement in production at our Zimplats operation to 182 100 ounces as the Phase 1 project delivered its anticipated output. These increases, in conjunction with additional material treated for Lonmin, contributed to the overall improvement in production.

Impala Rustenburg produced a solid operating performance despite the ongoing challenges of a lack of mining flexibility. Mining flexibility remains a key issue due to a combination of the later than expected delivery of the new shafts in conjunction with lower than planned development in prior years. These constraints will remain until the three new shafts (20, 16 and 17 Shafts) ramp up to full production. The first of these new shafts to deliver will be 20 Shaft. There have been several delays at 20 Shaft due to a number of factors, including:

- Underperformance on the original planning parameters
- Worse than expected ground conditions which, in the interest of safety, necessitated

concurrent support and mining functions. This adversely affected the time required to complete the mining cycle

- Major delays in completion of the shaft infrastructure due to congestion.

First reef production commenced during the year but it became apparent that continued production would compete with the project development.

Consequently, it was decided to delay the project ramp-up by 12 months, resulting in 26 000 ounces of platinum planned for FY2012 being deferred to FY2013.

At 16 Shaft the main shaft infrastructure remains critical to the commencement of production. Unplanned rope changes and time to complete sinking to the shaft bottom resulted in a six-month delay. First production is now anticipated in 2014.

Progress on 17 Shaft remains on track and first production is expected in FY2017.

The performance at the Marula operation remained unsatisfactory. During the year we undertook a strategic review and concluded that the key reason for Marula's under-performance, in attempting to ramp up to its production target of 100 000 ounces of platinum per annum, was the operation's underperformance against its targeted operating parameters due to incomplete infrastructure. It was therefore decided to revise the targeted production profile of the operation to a more sustainable rate of 70 000 ounces of platinum per annum, until planned infrastructure is completed. Once the infrastructure is completed, we will be able to assess what

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profile is possible in the medium to longer term. The revised production plan has resulted in staff reductions at the operation and in this regard we engaged with the unions in terms of the section 189 process to downsize the workforce; this process has been successfully completed. In addition to allowing infrastructure completion, the revised plan will also reduce operating and capital costs.

Zimplats and Mimosa produced world-class safety records and strong operational performances. Zimplats, following the successful completion of the Phase 1 expansion in FY2010, delivered its first full year of production and is operating at optimal levels. The Phase 2 expansion is well underway and will increase production to 270 000 ounces of platinum per annum by 2014. A key area of focus for the year ahead at both our Zimbabwean operations is cost control with unit cost being impacted by US Dollar-denominated cost inflation which continues to rise, largely as a result of higher wages and power cost.

The Two Rivers operation, which is our joint venture with African Rainbow Minerals, recorded a 3.1% rise in production to 145 300 ounces. This operation remains very profitable and delivered a commendable set of results.

Impala Refining Services refined platinum production improved by 2.9% to 895 100 ounces. The higher production was buoyed by an increase in material received from the Group's mine-to-market operations and by additional toll refining on behalf of Lonmin. Third-party purchase contract deliveries were unchanged compared to the prior financial year.

Revenue for the year rose 30% to R33 132 million compared to the previous financial year, with higher average US\$ metal prices and the increase in gross production offsetting the impact of the stronger Rand.

Gross profit margins improved to 35% from 32% in FY2010.

Unit costs per platinum ounce benefited from the rise in production and reasonable cost control throughout the Group. Unit costs increased by 7.7% to R10 867 despite the significant ongoing inflationary pressure experienced during the year. If we 'normalised' FY2010 by adding back the impact of the stoppages at 14 Shaft, the subsequent mining layout changes and the two week industrial action then group unit cost would have risen by 13%.

Headline earnings per share improved by 41% to R11.05 compared to R7.86 in FY2010.

The dividend for the full year represents a 46% increase over FY2010.

The Group's balance sheet remains strong with a net cash balance of R2.7 billion representing a 56% increase on the previous financial period due to a reduction in cash from changes in working capital.

### Material sustainability issues

Mining as an industry is pivotal to meeting the rising demand for commodities. The extraction of minerals renders an impact on not just the environment, but also from a social and economic perspective. The challenge for companies who operate in this industry is to ensure that they are able to integrate into their conventional business strategy and practice, a framework for sustainable development. This requires the implementation of sound risk processes to identify material issues that could have an impact on the long-term sustainability of the business as well as implementing proactive strategies to manage these risks.

For the year under review, the material sustainable development issues that have been identified through our risk processes are the following:

**Safety:** Safety is a key material risk for the Group. We are committed to our vision of zero harm within the work environment. Safety at our Impala Rustenburg operation remains a particular concern as this mine accounted for

seven of the eight fatalities incurred by the Group. Several initiatives have therefore been undertaken during the year, that have resulted in a refocus of our safety strategy.

**Skills attraction and retention:** We continue to experience a shortage in certain critical skills, at both our Southern African and Zimbabwe operations. Key challenges we face include high employee turnover due to an ageing and ailing workforce, increased competition for skilled resources and inadequate education in our semi-skilled talent pool. In Zimbabwe the situation is exacerbated by the socio-political climate. Our focus will remain on critical skills development over the next few years as well as improving our retention and reward practices.

**Employee health:** The prevalence of HIV with associated tuberculosis (TB) within the Southern African environment is a serious issue for the Group. It is estimated that approximately 25% – 30% of the mining workforce in South Africa has contracted HIV/AIDS. The challenging nature of mining necessitates a workforce that is physically fit and mentally alert. In employees who are suffering from debilitating illnesses such as HIV/AIDS, this is often compromised, impacting negatively on safety and productivity. In this regard, there has been a steady increase in absenteeism and medical incapacitations with Aids-related deaths in service remaining relatively high at our operations, specifically at Impala Rustenburg. Our approach to managing this pandemic has focused on preventative education and treatment post-infection, including antiretroviral therapy (ART) and implementing holistic wellness programmes to promote a healthier lifestyle.

**Water availability and consumption:** Our operations are dependent on the availability of water, which is a scarce resource. A Group-wide water conservation strategy was developed during the year, which integrated the responsible management of water into our core business operations. We are currently investigating means to reduce our absolute water intake and increase recycled water

usage; thereby reducing our fresh water usage. As an industry we have experienced great difficulty with obtaining new water usage licences and we have appealed to the Department of Water Affairs to ensure that these new water licences are granted as soon as possible.

**Energy consumption:** Security of supply and pricing are material risks for the Group, given our substantial operational energy requirements. Our electricity consumption is expected to grow as our mines deepen and extend further away from the shafts. In the absence of new supply from Eskom in South Africa this risk is expected to persist. Our strategy on power is primarily focused on improving efficiencies rather than reducing absolute consumption due to greater depths of mining and rising production volumes. Opportunities to reduce energy usage at our refineries and smelters are limited. Our new shafts (20, 16 and 17) have even been designed to be energy efficient and we have ongoing energy-saving initiatives at our mining operations such as installing efficient heat pump technology, improved insulation systems to conserve heat and the use of solar energy systems. We anticipate the supply risk persisting through to 2013.

**Emissions to atmosphere:** Mining is classified as a high impact industry on the environment. Sulphur and carbon dioxide emission activities are the most significant environmental impacts brought on by our smelting and mining activities. Our overall strategy is to minimise the impact that our business has on the environment. During the year a comprehensive review of the Group's current and projected carbon footprint was undertaken. Our reliance on energy supplied by Eskom, from coal-fired power stations, has resulted in indirect emissions contributing to a significant 89% of our carbon footprint. There is limited scope for the Group to reduce its carbon footprint, as it will largely be determined by the change in government's energy mix over time. We have focused and will continue to focus on reducing and optimising our energy use and improving our energy efficiency in the medium term. Over

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the longer term we are investigating the use of carbon-neutral biomass to replace the use of coal.

**Political risk and society:** We are very aware that as a Group we need to ensure that we are able to maintain both our legal and social licence to operate. Understanding and complying with the legal requirements of the countries we operate in, forms an integral part of our business strategy.

In South Africa we have already made great strides in complying with the Mining Charter, which was promulgated in 2004. The review of the Mining Charter in 2010 has incorporated sustainability and environmental responsibility in addition to empowerment of historically disadvantaged South Africans (HDSAs) which remains at its core. We are fully committed to ensuring compliance with the reviewed Charter as well as supporting transformation in South Africa. Our progress on these initiatives can be reviewed in greater detail on page 32.

During the year, there was much rhetoric surrounding the ANC Youth League's call for the nationalisation of mines and banks as a means to enable economic transformation for historically disadvantaged citizens.

Nationalisation is not the policy of the government of South Africa. The reality is that in a country where there is large-scale abject poverty and unemployment, such debate is likely to continue. Economic transformation through initiatives such as the Mining Charter is imperative for the long-term success and stability of the country. We believe that it is the responsibility of all companies within the mining industry to meet the Mining Charter requirements. Private sector partnership that supports the government to achieve its goals of economic growth and job creation will achieve long-term success for the country.

In Zimbabwe, the legislation on the amended indigenisation and economic empowerment regulations requiring all foreign-owned businesses to meet a minimum indigenisation

quota of 51% was gazetted on 25 March 2011. We have no objection to the principle of equity ownership, as we have already demonstrated in our compliance to the South African Mining Charter. Our preferred route regarding equity ownership is the involvement of our staff and the communities we operate in. We remain confident that the plans put forth, which incorporate agreements concluded with the government of Zimbabwe for indigenisation credits in exchange for mining rights returned to government, and social spend will ensure an acceptable outcome.

We believe that a sustainable solution to the issue of wealth redistribution needs to take cognisance of the balance between risk and returns. An optimal solution will not be achieved by focusing solely on short-term gains. Mining requires taking a long-term view as building a successful industry involves the investment of significant capital over time. Zimbabwe therefore needs to attract foreign direct investment through the implementation of sound economic policies. A stable investment climate would encourage us to invest and significantly expand our operations in Zimbabwe. This will reap multiple benefits not just for the Group but also for the government and its citizens for years to come.

### Strategic focus areas for the year ahead

**Safety at work:** We are committed to our vision of zero harm within the working environment. Safety is the top priority for the Group. Our aim is to focus on compliance and fostering a culture where safety is a priority for all employees and where there is an intolerance towards unsafe work practices and behaviour.

**Delivery on capital projects:** Ensuring that our capital projects are delivered on time and on budget. In South Africa the ramp up in production for 20, 16 and 17 Shafts is critical to restoring the shortfall in production at Impala Rustenburg. In Zimbabwe the Phase 2 expansion at Zimplats from 180 000 ounces to 270 000 ounces of platinum per annum will

support our growth aspirations to over 2.0 million ounces of platinum per annum by 2014.

**Maintaining cost leadership:** Maintaining our competitive position on the cost curve through rigorous cost management. We have two areas of focus. The first is absolute cost management by ensuring that we optimise usage of consumables and the implementation of cost-effective purchasing decisions for procurement of goods and services. The second area of focus is improving efficiencies through higher productivity, capital delivery on projects and infrastructure optimisation.

**Strong balance sheet:** The global markets, post the 2009 financial crisis remain volatile and developed markets are yet to show signs of a sustained recovery. In light of this we will continue to manage our balance sheet prudently by simultaneously ensuring that we maintain a balance between investment and returns to shareholders.

## Prospects

Looking forward, we note that a consumer-led recovery should continue off the lows reached during 2009. While growth was tempered during the last quarter of the financial year by the negative impacts of the Japanese disaster, slower than expected growth in the US and China, and high oil prices, we expect that pent-up demand will resurface towards the latter part of 2011 and continue into 2012.

Macro-economic forces remain the prime driver of global growth, with the upcoming period expected to be challenging in light of systemic changes to the global financial system. The European debt problems are worsening and will probably reach its nadir in 2012. Fiscal retrenchment, austerity measures and financial rehabilitation are the “buzzwords” that we believe will increasingly come to the fore once the USA is weaned off the Quantitative Easing emergency lifeline. We expect however, that China should be emerging from its monetary tightening phase at about the same time,

thereby allowing for some counterbalance at the macroeconomic level.

While broad economic recovery will continue, we do not expect to see a continuation of the supercharged GDP growth, as was the case over the previous decade. We expect that emerging markets will increasingly fill the void resulting in a continuation of growth in PGM demand from all sectors.

Over the longer term, our internal research indicates that emerging market growth will translate into accelerating demand deficits into the 20-year horizon leading to increasingly complex business environments and rapid development of technological innovation. In positioning Implats to continue delivering shareholder value within the forecast environment, we are strengthening our intelligence-gathering network better to inform our long-term strategy.

Finally, I want to take this opportunity to thank our employees, Board and other stakeholders for their dedicated effort throughout the year. Our operational performance for the year is in line with our vision to be the world’s best platinum-producing company.

The year ahead will not be without its challenges. I look forward to improving our safety performance at work, maintaining our position as a low cost, quality, platinum producer and delivering on our growth strategy. With dedication, discipline and value-based leadership we can achieve this end and build long-term sustainable value for all our stakeholders.

**David Brown**  
*Chief Executive Officer*