IMPLATS POSTED RECORD HEADLINE EARNINGS AND SALES REVENUES IN FY2020, DESPITE A TURBULENT YEAR MARKED BY THE COVID-19 OUTBREAK. OPERATIONAL EXCELLENCE, UNDERPINNED BY ROBUST RAND PGM PRICING, SAW IMPLATS DELIVER ANOTHER IMPROVED FINANCIAL PERFORMANCE AND STRONG FREE CASH FLOWS. THE GROUP’S BALANCE SHEET WAS STRENGTHENED AND DIVIDEND PAYMENTS RESUMED.

- Gross profit of R23.3 billion (+240%) and EBITDA of R29.4 billion (+179%)
- Positive contributions from all operations reflected in the record headline earnings of R16.1 billion (+431%) or 2 075 cents per share
- Free cash flow generated of R14.4 billion (+87%)
- Successful incentivised early conversion of the 2022 US$ bond
- Acquisition of North American Palladium (now Impala Canada) completed on 13 December 2019 with subsequent refinancing of the bridge facility
- Net cash of R5.7 billion from R1.1 billion in 2019, after funding R9.4 billion North American Palladium acquisition
- Total dividend for FY2020 of R5.25 per share, in line with minimum guided policy of 30% of free cash flow, pre-growth capital
Overview
Implats produced record headline earnings of R16.1 billion despite the challenges created by the unprecedented external shock of the Covid-19 pandemic. Sustained operational performances from our operations, together with robust rand PGM pricing resulted in improved profitability, as well as strong free cash flow generation.

In line with our approved capital allocation framework, the R14.4 billion free cash flow was used to further strengthen the Group’s balance sheet, recommence dividend payments to shareholders and fund the acquisition of Impala Canada.

The Group ended the year in a net cash position of R5.7 billion, up R4.6 billion from the prior year-end.

Income statement
Revenue increased by 44% to R69.9 billion, largely due to improved dollar metal prices and the weaker R/US$ exchange rate, which fully offset the impact of lower sales volumes from lower refined production as a result of Covid-19. The Group lost approximately 290 000 6E ounces in concentrate during the year, most of this at our South African operations as a result of the mines being placed on care and maintenance for three weeks and the reduced staffing levels thereafter, before the mines were allowed to ramp up to full production. This resulted in lost revenue and cash flows of R8.5 billion and R5.9 billion, respectively.

Cost of sales rose 11% driven by inflation, the higher costs of metal purchased, abnormal production costs relating to the Covid-19 pandemic and the maiden inclusion of the costs of Impala Canada.

The significant improvement in revenue resulted in the Group generating a gross profit of R23.3 billion for the year, a 240% or R16.4 billion increase from the R6.8 billion achieved in FY2019. Gross margins increased to 33% in the current year.

The revaluation of foreign currency balances resulted in a gain of R786 million, compared to a loss of R362 million recorded in FY2019. These gains were largely a result of the weaker rand on dollar debtors and the intercompany loan between Implats and Impala Canada.

Other net expenses of R1.5 billion increased by R1.1 billion from R375 million in FY2019 primarily due to:
• The incentive premium of R509 million paid on the US$ bond conversion, together with losses on the mark to market of the conversion option on the US$ bond of R203 million (FY2019: loss of R1.6 billion) and a loss of R74 million on the cancellation of the cross-currency interest rate swap.
• An expense of R441 million relating to the fair value reversal of the R230 million gain on the foreign exchange collars recognised in the prior year and the payment of R211 million in settlement thereof (FY2019: gain of R230 million)
• Transaction costs of R147 million incurred on the acquisition of Impala Canada
• A non-cash loss of R113 million arising on the reclassification of the Group’s investment in Waterberg
• All of these costs were partially offset by the receipt of insurance proceeds of R353 million in final settlement of the furnace 5 insurance claim (FY2019: R236 million).

In addition, included in other net expenses in the prior year, were Zimplats’ receipts of R652 million arising from export incentives and a customs duty refund, which did not recur in the current year.

Improved profitability at Two Rivers Platinum and Mimosa resulted in a R684 million increase in income from associates to R1.1 billion.

Net finance costs declined by R151 million to R617 million as interest and associated costs on bridge funding in Impala Canada of R191 million, as well as interest on the term loan at Impala Canada, were offset by higher interest received due to higher Group cash balances and lower interest costs on the US$ bond, following the incentivised conversion during August 2019.

<table>
<thead>
<tr>
<th>Rm</th>
<th>FY2020</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>69 851</td>
<td>48 629</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(46 580)</td>
<td>(41 791)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>23 271</td>
<td>6 838</td>
</tr>
<tr>
<td>Impairment</td>
<td>–</td>
<td>(2 432)</td>
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<tr>
<td>Other income</td>
<td>471</td>
<td>1 424</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(1 963)</td>
<td>(1 799)</td>
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<tr>
<td>Finance income</td>
<td>538</td>
<td>368</td>
</tr>
<tr>
<td>Finance cost</td>
<td>(1 155)</td>
<td>(1 336)</td>
</tr>
<tr>
<td>Net foreign exchange transaction gains/(losses)</td>
<td>786</td>
<td>(362)</td>
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<tr>
<td>Share of profit of equity-accounted entities</td>
<td>1 082</td>
<td>398</td>
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<tr>
<td>Profit before tax</td>
<td>23 030</td>
<td>3 299</td>
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<tr>
<td>Income tax expense</td>
<td>(6 546)</td>
<td>(2 120)</td>
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<tr>
<td>Profit for the year</td>
<td>16 484</td>
<td>1 179</td>
</tr>
<tr>
<td>Headline earnings</td>
<td>16 126</td>
<td>3 038</td>
</tr>
<tr>
<td>GP margin %</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td>Group unit cost (stock adjusted)</td>
<td>R/6E oz</td>
<td>13 345</td>
</tr>
</tbody>
</table>
Chief financial officer’s review

Revenue
Revenue at R69.9 billion was 44% or R21.2 billion higher than the prior year:
• Higher dollar metal prices realised a 43% or R20.8 billion benefit. Rhodium revenue increased by R10.6 billion, while higher palladium and platinum prices saw revenue gains of R8.8 billion and R1.1 billion, respectively. This improvement in prices, together with changes in the sales mix, resulted in a 46% improvement in total dollar revenue per 6E ounce sold to US$1 624 (FY2019: US$1 112)
• The weaker rand contributed 11% or R5.1 billion. The average achieved exchange rate of R15.31/US$, was 8% weaker than the R14.20/US$ realised in FY2019. Together with higher dollar metal prices, the rand revenue per 6E ounce sold rose by 57% to R24 863 (FY2019: R15 790)
• A fair value adjustment of R151 million related to provisional pricing on the Impala Canada sales debtor
• These benefits were partially offset by the 10% or R4.9 billion decrease in revenue associated with lower 6E sales volumes, which declined by 8% to 2.79 million ounces from 3.05 million ounces in the prior year.

Cost of sales
Cost of sales increased by 11% or R4.8 billion for the year:
• Cash costs associated with mining, processing, marketing, and corporate activities increased by 7.2% or R1.8 billion. Calculated mining inflation of 6.9% for the Group includes R626 million arising on the translation of the Zimplats US$ cash costs at a weaker rand. Cash costs were further impacted by the maiden inclusion of the cash costs of Impala Canada of R1.3 billion and R263 million in additional spend associated with the Covid-19 pandemic. These increases in cash costs were partially offset by the reduction in variable costs due to lower volumes mined due to Covid-19 disruptions. Unit cost increases were adversely impacted by the lower production volumes and resulted in the Group’s stock-adjusted unit cost per 6E ounce, including corporate and marketing spend, rising by 12% to R13 345 from R11 886 per ounce in FY2019
• An increase of R6.7 billion in the cost of IRS metal purchased due to higher rand metal prices despite the lower volumes received
• Covid-19 abnormal production costs of R1.3 billion incurred during the care and maintenance period. These costs have been excluded from the calculation of the stock-adjusted unit cost per 6E ounce
• A R1.0 billion increase in depreciation due to the inclusion of the depreciation associated with Impala Canada, the additional depreciation due to the change in estimate of useful lives for certain assets at Zimplats, as well as the impact of translating the Zimplats depreciation at a weaker rand
• These increases were partially offset by the deferralment of R6.9 billion of costs to metal inventories due to the combination of higher production costs and rand metal prices and the stock write-on for FY2020 of

<table>
<thead>
<tr>
<th></th>
<th>FY2020</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value adjustment</td>
<td>151</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>521</td>
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<tr>
<td>Abnormal production costs</td>
<td>–</td>
<td>981</td>
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<tr>
<td>Depreciation</td>
<td>4 521</td>
<td>3 488</td>
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<tr>
<td>Metal purchased</td>
<td>18 465</td>
<td>11 746</td>
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<tr>
<td>Corporate costs</td>
<td>1 139</td>
<td>919</td>
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<tr>
<td>Royalty expenses</td>
<td>1 367</td>
<td>646</td>
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<tr>
<td>Change in metal inventories</td>
<td>(182)</td>
<td>–</td>
</tr>
<tr>
<td>Covid-19 abnormal production costs</td>
<td>1 278</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>521</td>
<td>395</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>46 580</td>
<td>41 791</td>
</tr>
</tbody>
</table>
**Movement of pipeline inventory**

At the end of the prior year, the Group had accumulated 215 000 6E ounces of excess inventory. During the first half of the current year, the excess inventory increased by a further 135 000 6E ounces. This build up in inventory was due to a combination of increased concentrate tonnages delivered to the smelters, as well as the reduction in smelting rates at the Rustenburg smelters as a result of processing of the Zimplats concentrates.

The decision by the South African national government to classify smelting and refining as “essential services” during the lockdown provided the Group with the opportunity to smelt and refine this excess stock of approximately 350 000 6E ounces by year-end.

To optimise processing capacity in line with the expected ramp-up of mining operations after the lockdown, scheduled acid plant maintenance which normally occurs in July each year, was expedited. This resulted in a further accumulation of work-in-process metal inventory of approximately 100 000 6E ounces by year-end.

This excess inventory excludes the material stockpiled at Mimosa during the period when IRS declared force majeure and stopped receiving any material from Group companies and third-party suppliers. The delivery of the backlog of concentrate subsequent to the lifting of the force majeure was delayed due to certain logistical constraints and sporadic closures of the Zimbabwean/South African border as a result of Covid-19. The excess Mimosa material is expected to be delivered to the Rustenburg smelters by the end of calendar year 2020.

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**Earnings before interest, tax, depreciation and amortisation (EBITDA)**

The improvement in revenue and deferment of costs due to higher inventory levels, were partially offset by the increase in costs of metal purchased and cash costs.

As a result, EBITDA, which includes the Group’s portion of the EBITDA adjustments of associates, improved to R29.4 billion.

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**Headline earnings**

Headline earnings benefited from the R16.4 billion improvement in gross profit, partially offset by higher taxes and the increase in other net expenses.

In general, higher dollar metal prices improved headline earnings for all Group operations, while the weaker exchange rate provided additional tailwinds to the South African operations.

The difference between basic and headline earnings reflect the after-tax impact of the sale of property, plant and equipment of R31 million, the bargain purchase gain on the acquisition of Impala Canada of R11 million and the loss on the reclassification of the Waterberg investment of R113 million.

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**Capital expenditure**

Capital expenditure increased to R4.5 billion, from R3.8 billion in the prior year. This was due primarily to the inclusion of R653 million of capital spent by Impala Canada in H2 FY2020, the impact of the weaker rand on spend at Zimplats, higher expenditure at Marula as the TSF project advanced, as well as R210 million relating to right-of-use assets which were capitalised following the adoption of IFRS16. These increases were partially offset by lower spend at Impala due to the completion of the 20 Shaft project and reduced capital development.
Chief financial officer’s review

Cash flow and liquidity

Free cash flow

<table>
<thead>
<tr>
<th></th>
<th>FY2020</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from operating activities</td>
<td>17 122</td>
<td>10 658</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(4 248)</td>
<td>(3 877)</td>
</tr>
<tr>
<td>Interest received</td>
<td>532</td>
<td>358</td>
</tr>
<tr>
<td>Dividends received</td>
<td>628</td>
<td>473</td>
</tr>
<tr>
<td>Other</td>
<td>361</td>
<td>73</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>14 395</td>
<td>7 685</td>
</tr>
</tbody>
</table>

Net cash from operating activities of R17.1 billion was 61% higher than the prior year despite the R7.4 billion increase in inventories due to the positive impact of the stronger metal prices and weaker exchange rate on profitability. After funding the higher capital expenditure of R4.2 billion (FY2019: R3.9 billion), free cash flow improved from R7.7 billion in the prior year, to R14.4 billion.

During the year, the acquisition of Impala Canada resulted in a net cash outflow of R9.4 billion, comprising the acquisition price paid of R10.9 billion less the cash acquired of R1.4 billion. The bridge loan used to partially fund the acquisition price of US$350 million was partially repaid from US$100 million of the Group’s cash. The remaining US$250 million was refinanced by a four year term loan at Impala Canada.

The payment of the R509 million premium to incentivise the early conversion of the US$ bond in Q1 FY2020, resulted in a R3.0 billion reduction in gross debt, as 64.3 million shares were issued to settle the bond obligation and the fair value of the US$ bond at the date of conversion was reclassified from gross debt to equity.

The final scheduled Zimplats Standard Bank debt repayment of US$42.5 million was made in December 2019. The scheduled repayment of the Marula BEE loan was deferred from June to September 2020 as an initial cash preservation measure at the onset of the national lockdown in South Africa.

Following the declaration of an interim dividend for FY2020, the Group paid an interim dividend of R973 million (FY2019: nil) to Company shareholders during March 2020.

The Group ended the year with a cash balance of R13.3 billion, which included the R0.9 billion pledged in respect of the settlement of the Marula BEE loan at 30 June 2020.

Closing net cash, after debt, but excluding leases, rose from R1.1 billion to R5.7 billion.

At 30 June 2020, the Group had liquidity headroom of R16.1 billion, comprising of gross cash, net of restricted cash, of R12.1 billion and the undrawn committed revolving credit facility of R4 billion.
The optimisation of the Implats balance sheet and Group capital allocation were meaningfully advanced during the year. The board approved a capital allocation framework, with specific policies regarding the approach to balance sheet and liquidity positioning, dividends, and the guiding principles for developing the business through investment in value-accrue growth opportunities. This framework aims to balance the need to strengthen the financial flexibility of the Group, with its strategic imperative to create value for all stakeholders while providing attractive returns to shareholders.

As a Group, Implats remains exposed to a single grouping of commodities and hence is vulnerable to significant potential market volatility. Management remains steadfast in its view that a proactive approach to reducing debt is both prudent and key to building financial resilience.

Collectively, the repayment of debt by Zimplats, the induced conversion of the US$ bond, and the funds retained by the Group, delivered improved net cash and liquidity. These steps harness the results of better-than-expected profitability for the enduring benefit of the Group, creating increased flexibility and resilience to withstand potential operational and market volatility.

Finally, by concluding the acquisition of Impala Canada with an optimal funding structure comprising of cash and debt, the Group was able to enhance potential returns from the acquisition while delivering on Implats’ stated strategic intent to grow exposure to shallow, mechanised, palladium-rich ore bodies. An added benefit is the establishment of an operational footprint in a leading global mining jurisdiction and a region which represents one of the largest global PGM markets. The impact of this acquisition, net cash acquired, external funding raised and repaid to 30 June 2020, was a net cash outflow of R6.5 billion.

Pleasingly, the strong free cash flow generated by the Group enabled the implementation of the approved dividend policy guided by a declaration of 30% of free cash flow, pre-growth capital, for the year. Implats remains well positioned to leverage its strong balance sheet through prudent and balanced capital allocation priorities to generate value for all stakeholders.

**Performance against strategic objectives in attaining the optimal capital structure**

**Capital allocation**
Finalised capital allocation framework, including approving balance sheet and liquidity and dividend policies aligned to this framework.

**Capital structure**
Significantly reduced debt levels by:
- Induced conversion of the US$ convertible bonds
- Partial repayment (US$100 million) and refinancing of the remaining amount (US$250 million) of the bridge loan used to fund acquisition of Impala Canada
- Repayment of Zimplats facility and partial repayment of Impala Canada term loan
- Pledging of cash to repay Marula BEE debt and extension of the repayment period to 30 September 2020

Negotiated increased flexibility to existing revolving credit facility.

**Liquidity**
- Gross cash increased from R8.2 billion to R13.3 billion
- Net cash, after deducting debt, increasing from R1.1 billion to R5.7 billion
- Liquidity, comprising unused committed facilities and gross cash, excluding restricted cash, increasing from R12.2 billion to R16.1 billion
- Resumed dividend payments with declaration and payment of R1.0 billion interim dividend
- Final dividend of R3.2 billion declared and in line with the guided dividend policy
- Cancellation of 16.2 million treasury shares held by the Group
Chief financial officer’s review

Significant post-balance sheet events

Dividends
In terms of the approved dividend policy previously communicated to shareholders, the board has declared a final cash dividend of R4.00 per share. This, together with the interim cash dividend of R1.25 declared in February 2020, results in a total dividend declared of R5.25 per share for the 2020 financial year.

BEE loan refinancing
The debt due to Standard Bank in respect of the original Marula BEE transaction was expected to be repaid in June 2020. However, in April this year, the Group requested an extension to the maturity date to 30 September 2020 to provide the Group with additional liquidity in light of the uncertainty around the impact of Covid-19 on the Group’s operations, but also to allow management time to finalise the refinancing of the original BEE deal. Prior to year-end, the Group had pledged the required funds in settlement of this debt to Standard Bank and consequently, approximately R0.9 billion was reflected as restricted cash at year-end.

In addition, the Group is in the process of concluding a refinancing of the loan with the empowerment partners, which will also include the establishment of an employee share ownership trust. This will be completed prior to the amended repayment date. The transaction, which is a non-adjusting event at 30 June 2020, will be accounted for as a share-based payment transaction in the consolidated annual financial statements and the BEE cost will be determined and expensed on the effective date of the transaction. The non-controlling interest will only be recognised when the loan is substantially repaid, at which point the BEE partners’ rights to the shares in Marula become unconditional.

Cancellation of treasury shares
Implats has 16 233 994 treasury shares which are held by its subsidiary, Gazelle Platinum Limited. On 26 August 2020, the board adopted a resolution to repurchase these shares from Gazelle and following the repurchase, delist and cancel these shares. The transaction is subject to shareholder approval at a shareholders meeting to be held on 26 October 2020. This will be a non-cash transaction and will not have any impact on the Group consolidated financial statements as these shares are reflected as treasury shares at a Group level. The issued capital of the Company will reduce to 782 800 153 following the implementation of the share repurchase agreement.

Outlook for 2021 financial year
Production volumes will be supported through the planned release of accumulated inventory and the Group’s refined production is estimated to be between 2.8 and 3.4 million 6E ounces for FY2021. Group operating costs are expected to be between R14 500 and R15 500 per 6E refined ounce on a stock-adjusted basis, with Group capital expenditure forecast to be between R6.00 and R6.75 billion.

This guidance is dependent on our internal view of the rand exchange rate for translation of the US dollar costs of Zimplats and the Canadian dollar costs of Impala Canada and does not account for further potential Covid-19 related public health disruptions.

Acknowledgment
I wish to express my sincere appreciation to the finance team for their invaluable contribution over the last year. With the additional complexity in our operating environment due to the Covid-19 pandemic and the change in external auditors, this has been a challenging year. The continued focus on supporting the business during this period while ensuring strong risk management, maintaining a strong internal control environment and achieving our financial reporting deadlines, is testimony to the dedication and commitment of the entire finance team.

Meroonisha Kerber
Chief financial officer