Chief executive’s review

OUR STRATEGIC TRANSITION INTO A HIGH-VALUE, PROFITABLE AND COMPETITIVE PRODUCER WAS MEANINGFULLY ADVANCED DURING THE YEAR AND IMPLATS IS NOW WELL POSITIONED TO CONTINUE DELIVERING SIGNIFICANT VALUE TO ALL OUR STAKEHOLDERS.

Implats delivered a stellar performance during FY2020, under extraordinary circumstances. The first half of the year was defined by our successful conversion of the US$ bond, the acquisition of Impala Canada, the reinstatement of dividends, a multi-year wage settlement at our South African operations and operational turnarounds at Impala Rustenburg’s 12 and 14 shafts and life extension at 1 Shaft, thus avoiding their disposal or closure. The second half of the year was characterised by operational and safety preparedness in the face of the looming threat of Covid-19, followed by Covid-19-related disruptions as the pandemic took hold in our countries of operation.

Despite the headwinds, all operations showed organisational resilience and posted a credible performance. The pricing for Group primary products was robust and, together with rand depreciation, offset Covid-19-related production losses and drove substantial improvements in the Groups’ financial performance on the back of record sales revenues.

Our strategic transition into a high-value, profitable and competitive producer was meaningfully advanced during the year and Implats is now well positioned to continue delivering significant value to all our stakeholders.

Safety

Implats’ goal is to eliminate harm to the health and safety of our employees and contractors. Safety remains a key priority in achieving the Group’s vision of zero harm. Covid-19 required extensive revisions to operating practices, while additional care was taken to ensure the safe start-up of operations placed on care and maintenance due to lockdown regulations or Covid-19-related operational disruptions.
Our strategic transition into a high-value, profitable and competitive producer was meaningfully advanced during the year.

The year saw further improvements in our safety performances. However, we tragically recorded five employee fatalities at managed operations and two at non-managed joint venture operations. The board of directors and management team extended their sincere sympathies to the families and friends of our seven colleagues. Rigorous independent investigations were conducted following each incident and the learnings shared Group-wide to improve controls and to prevent recurrences.

The Group achieved a 14% improvement in the lost-time injury frequency rate to 4.54 and an 11% improvement in the all injury frequency rate to 11.30 per million man-hours worked. Nine of the Group’s 17 operations achieved millionaire or multi-millionaire status in terms of fatality free shifts.

Our focus remains on further enhancements to our safety regimen to achieve our goal of zero harm.

Delivering to strategy
Implats’ strategic objectives were adapted during the year to reflect the enormous progress made in repositioning the Group as a competitive value producer. The refined focus is on an integrated operating model founded on:

- Responsible corporate stewardship
- Operational excellence in PGMs through value-driven, modern, safe and competitive production
- Organisational effectiveness
- Sustaining an optimal capital structure
- Leveraging our competitive portfolio of mineral and processing assets
- Supporting market development and value chain optimisation to unlock future potential.

The Group’s delivery against these objectives is commendable. We launched an integrated and effective Covid-19 response which secured lives and livelihoods and strengthened relationships with key stakeholders. Our commitment to responsible corporate stewardship resulted in an absence of serious environmental incidents and improvements in external ESG ratings.

Operational excellence at Impala Rustenburg saw production plans revised upwards at the mining complex, alleviating the need for the large-scale retrenchments envisaged in 2018. In addition, the complex task of rapidly placing our South African mining operations on care and maintenance during the country’s lockdown and their ramp-up thereafter was achieved safely and effectively.

Substantial progress was made on ensuring an optimal capital structure, which enabled significant debt reduction, the funding of the Impala Canada acquisition and the welcome reinstatement of dividend payments. The acquisition of Impala Canada strengthened our asset portfolio, which was further enhanced by life extensions at existing operations and the completion of an extended furnace maintenance programme.
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We continue to invest in market development and value chain optimisation and announced an exciting commercial switching solution for gasoline auto catalysis through a project with BASF.

Operational review
Implats delivered a strengthened operational performance across the Group during the year. However, operating momentum was significantly disrupted by Covid-19, which began to manifest at the end of the third quarter and resulted in substantial production losses in the fourth. South African operations were constrained by the three-week national lockdown announced on 23 March 2020 and restrictive conditions imposed under the country’s National Disaster Management Act regulations thereafter. During the period, Implats was, however, able to substantially reduce previously identified excess surface work-in-process inventory.

The Covid-19 operating losses suffered at Impala and Marula were offset by strong delivery at Zimplats and the maiden contribution from Impala Canada. Concentrate production from mine-to-market operations, including the joint ventures at Two Rivers and Mimosa declined by 5% to 2.5 million 6E ounces (FY2019: 2.6 million 6E ounces). Third-party 6E concentrate receipts declined by 9% to 327 000 ounces (FY2019: 361 000 ounces). In aggregate, total 6E concentrate production of 2.8 million ounces declined by 5% (FY2019: 3.0 million ounces).

Capital expenditure increased by 19% to R4.5 billion (FY2019: R3.8 billion) as a result of the inclusion of spend at Impala Canada (C$94 million or R657 million) and increased expenditure of R188 million at Marula, where spending accelerated on the tailings storage facility project. These increases were partially offset by lower spend at Impala due to the completion of the 20 Shaft project and reduced capital development caused by fewer available shifts due to Covid-19 disruptions.

Impala Rustenburg complex sustains its turnaround
The operational turnaround at Impala Rustenburg was sustained with continued investments in development to improve mineable face length. The mining complex saw lower grades, impacted by higher development-to-stopping ratios, additional dilution from rolling UG2 reef and continued overpass rehabilitation at 16 Shaft, which was completed during the year. Combined with better recoveries and Covid-19-related production losses, 6E concentrate production declined by 14% to 1.1 million ounces (FY2019: 1.3 million ounces).

All operating shafts generated positive contributions and Impala delivered R8.5 billion in free cash flow, a four-fold increase from the comparable period, as significantly stronger pricing offset the decrease in 6E sales volumes. Covid-19-related operational disruptions negatively impacted the progress of capital projects and resulted in a 12% decline in total capital expenditure to R1.8 billion.

Impala’s growth shafts – 16 and 20 – are focused on low-cost, long-life extensions that deliver defensive cash generation to entrench the Group’s competitive position and sustain profitability well into the future. Operational readiness at 16 Shaft was advanced by an 18% increase in immediately mineable stope face, but the impact of Covid-19 resulted in certain project delays, with ramp-up to full production of 330 000 ounces 6E expected in October 2022. 20 Shaft’s capital project scope of R7.9 billion was completed on schedule and within budget in March 2019. 20 Shaft showed a pleasing improvement in operational performance and flexibility, which is expected to support the planned production ramp-up to 227 000 ounces 6E, now expected in October 2022.

Impala Refining Services (IRS) a valuable contributor
IRS continues to contribute positively to the Group and reported a gross profit of R6.0 billion (FY2019: R3.4 billion) and contributed R4.3 billion to headline earnings (FY2019: R2.1 billion). The impact of negative working capital movements, however, resulted in a free cash outflow of R1.6 billion during the year (FY2019: R3.4 billion free cash inflow), largely reflecting intra-group stock reallocations on the volume of 6E ounces refined and sold.

Marula stable and well positioned
Marula continued to deliver an improved operational performance, with production interruptions limited to those resulting from the Covid-19 pandemic. A peace agreement reached between community representatives enabled Marula and Makgomo Chrome to operate relatively unimpeded over the period and Marula delivered a step-change in safety with a 50% reduction in lost-time incidents and 44% reduction in reportable incidents.

The mining operation advanced development on its tailings storage facility, replaced the trackless mining fleet and progressed a bankable feasibility study on the extension of the Ciapham decline shaft. Marula generated R2.2 billion in free cash flow (FY2019: R380 million) and contributed R1.1 billion in headline earnings (FY2019: headline loss of R77 million). The operation is well-positioned to capitalise on sustained operational continuity and efficiency gains.

Two Rivers begins production optimisation
Two Rivers continued to face challenges associated with variable mineralogy and constrained processing capacity. The rising contribution of ore from split-reef areas has led to a reduction in run-of-mine ore grade and impacted metallurgical recoveries. Split-reef areas will be a structural characteristic of ore feed at Two Rivers for the foreseeable future and initiatives are well underway to optimise production in this paradigm by matching latent mining efficiencies with expanded concentrator plant and tailings storage facility capacity to restore ounce volumes from the mine. A 40 000 tonne per month plant expansion project was approved by the JV partners at an estimated cost of R427 million, with commissioning expected during the second half of FY2022.
The benefit of strong UG2 pricing bolstered Two Rivers’ financial performance with the operation generating R1.3 billion in free cash flow for the year (FY2019: R446 million). Implats recorded attributable profit from Two Rivers, after intercompany adjustments, of R687 million (FY2019: R251 million) and received R566 million in dividends during FY2020 (FY2019: R241 million).

Zimplats and Mimosa produce solid, consistent performances
Zimplats delivered yet another strong operational performance in FY2020, navigating the challenges created by increasing socio-economic pressures in Zimbabwe and successfully mitigating the substantial threat to its employees and operations posed by the Covid-19 pandemic. A furnace rebuild was completed in the first half of the year and the scheduled mill relines at the Selous concentrator were completed in the second half. Zimplats generated free cash flow of R2.5 billion.

Excellent progress was made during the year on Zimplats’ Mupani Mine project, the replacement for Ngwarati and Rukodzi mines. Decline development and overall project progress remain well ahead of schedule with estimated steady-state production expected in July 2024. A decision was taken to further accelerate the Mupani project to deliver incremental volume growth at Zimplats. A bankable feasibility study on a modular concentrator expansion is expected in the first half of FY2021.

At Mimosa, good progress was made on projects to increase milling capacity and the purchase of adjacent mineral reserves to extend the life-of-mine. After intercompany adjustments, Mimosa’s attributable share of profit in the Implats Group increased to R421 million (FY2019: R127 million) and Implats received R44 million in dividends from the operation (FY2019: R153 million).

Impala Canada posts maiden contribution
The acquisition of Impala Canada was concluded on 13 December 2019. Operational delivery for the period was severely impeded by a Covid-19 outbreak in the Lac des Iles mine camp, which led to a six-week closure, followed by limitations on travel and staffing due to the pandemic. The operation was also impacted by planned orepass rehabilitation and a workplace fatality in the final quarter.

Transitioning the mine to a high-value sustainable operation was advanced by completing the orepass rehabilitation, commissioning a mobile crusher to alleviate strain on the existing crusher system and initiating a review of processing infrastructure to address known constraints. Impala Canada generated free cash flow of R1.1 billion and, after accounting for R191 million of bridge financing costs, contributed R168 million to Group headline earnings.

Financial highlights
The substantial increase in received rand PGM basket prices offset the operational impact of Covid-19 and drove a stellar improvement in our financial performance. The pandemic, however, introduced significant uncertainty to the operating environment.

Higher dollar metal prices and a weaker rand drove revenue generation, which was 44% higher at R60.9 billion. The Group generated a gross profit of R23.3 billion, a 240% increase on the R6.8 billion achieved in FY2019. This saw record headline earnings of R16.1 billion and 2 075 cents per share with positive contributions from all Group companies.

The Implats board approved the declaration of a final dividend of R4.00 per ordinary share bringing the total dividend declared for FY2020 to R5.25 per ordinary share.

Net cash from operating activities benefited from the higher rand metal prices and resulted in free cash flow increasing to R14.4 billion (FY2019: R7.7 billion). Borrowings (excluding lease liabilities) increased to R7.6 billion (FY2019: R7.2 billion) due primarily to the outstanding balance of US$219 million (R3.7 billion) on the Impala Canada term loan, which offset the benefit of the reduction in debt due to the incentivised early conversion of US$ bond. At the end of FY2020, the Group’s liquidity headroom had increased to R16.1 billion (FY2019: R12.2 billion).

The optimisation of the Implats balance sheet and Group capital allocation were meaningfully advanced. 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-accretive growth opportunities. This framework aims to balance the need to strengthen the Group’s financial flexibility, with its strategic imperative to create value for all stakeholders while providing attractive returns to shareholders.

Market fundamentals remain solid
All three major PGM markets – platinum, palladium and rhodium – recorded fundamental deficits during calendar 2019. While surging automotive use drove fundamental industrial deficits in palladium and rhodium, robust physical investment absorbed the industrial and jewellery surplus in the platinum market.

The confluence of demand and supply interruptions is likely to result in moderated deficits in the palladium and rhodium markets in calendar 2020. In platinum, another year of strong investment inflow will likely compensate for weakened automotive and jewellery demand and substantially tighten the market.
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Covid-19-related market shocks were considerable during the year. The disruption resulted in substantial adjustments to individual market components of forecast demand and supply in 2020 and 2021. Our view remains that the impact of the pandemic is likely to be cyclical rather than structural in the long term.

The global focus on decarbonisation has been intensified by Covid-19, with increasing momentum for the establishment of a hydrogen economy, which has accelerated the mainstreaming of hydrogen and the varied applications of fuel cells. This bodes well for increasing industrial demand for platinum and iridium in the hydrolyser and fuel cell segments and provides a structural hedge against the expected decline in diesel-derived automotive demand in the longer term.

Steadi ly improving sustainability metrics
Implats has made pleasing and steady progress on its aspiration to deliver superior value to all stakeholders through operational excellence in PGMs, while employing leading environmental, social and governance (ESG) practises. The Group’s core values — to respect, care and deliver — underpin health and safety goals, the management of operational impacts on the environment, responsible stewardship and progressive, sustainable development practices, while building value-accretive relations with host communities.

We are pleased our efforts have been recognised though a number of external ESG ratings received during the year, including our inclusion in the Bloomberg 2020 Gender-Equality Index (one of only eight South African companies), achieving an “A” rating by the Carbon Disclosure Project (CDP) on water security risk and a “B” rating for climate change action, and our inclusion in the Top 100 Best Performing companies in emerging markets by independent global ratings agency, Vigeo Eiris. We also remain a constituent of the FTSE4Good Index Series and a constituent of the FTSE/JSE Responsible Investment Top 30 Index.

We achieved our seventh consecutive year with no major or significant (level 4 and 5) environmental incidents and posted a 35% reduction in limited-impact (level 3) environmental incidents. All South African and Zimbabwean operations had their environmental management systems certified against ISO 14001:2015, with Impala Canada initiating its ISO 14001 process. The Group improved its water recycling rate is developing a low-carbon transition strategy to position Implats in the new energy value chain. The integrity of our tailings storage facilities was independently confirmed.

Among our employees, and despite Covid-19 disruptions, adherence to HIV and TB treatment remains exemplary at 95% and 100% respectively. The incidence of TB reduced during the year to a rate of 293 per 100 000, well below the estimated national average of 570 per 100 000, and HIV-related deaths reduced by 50% from the previous year.

Our Covid-19 risk prevention measures successfully flattened the curve in Covid-19 infections among employees at South African operations during the country’s infection peak and we threw our full weight into supporting our communities in the face of the global pandemic, donating R20 million to disaster relief in South Africa and committing millions more to various initiatives surrounding our operations in South Africa, Zimbabwe and Canada.

Covid-19 compounds socio-economic distress
We remain deeply committed to delivering value to our host communities and advancing our social licence to operate. Covid-19 has compounded levels of inequality and unemployment in South Africa, while the ongoing economic crisis in Zimbabwe is taking its toll on the country’s citizens.

Sustainable community development and value-accretive relationships with mine host communities continue to be prioritised, with the Group doing what it can to ameliorate the impacts of socioeconomic distress.

Our most significant contributions to socio-economic development are through the core activities of employment, procurement from host communities and paying taxes. During the year, R113 million and R175 million was spent on community development initiatives and housing and living conditions, respectively, R5.4 million was invested in developing local enterprises and R2.7 billion (or 32% of discretionary spend) was spent with local-tiered suppliers with >25% black ownership.

Formal community engagement structures were established which have enabled significantly improved relations with host communities at our South African operations. There were no operational disruptions due to mine-related community unrest at any Group operation and our stakeholder relationships have strengthened through our comprehensive Covid-19 community response. Despite the difficult economic environment, Zimplats continues to enjoy cordial relations with its communities, while Impala Canada is working towards participation agreements with each of its host indigenous communities.

Our focus remains on growing and improving our relationships with our communities and the South African, Zimbabwean and Canadian governments.
Outlook
I am deeply gratified by the remarkable progress made in the strategic repositioning of Implats over the past several years, which enabled the Group to successfully navigate the unforeseen challenges created by the Covid-19 pandemic. Covid-19 will continue to be a feature of our operating context in the near term and we will continue to maintain vigilance in protecting the safety and health of our employees and supporting our communities where we can.

Our immediate operational focus is on the integration and optimisation of Impala Canada, ramping up production at our growth shafts at Impala Rustenburg, advancing processing projects to capitalise on mining efficiencies and improve flexibility at Zimplats, Mimosa and Two Rivers and completing the definitive feasibility studies to extend life-of-mine through existing infrastructure at Marula and Mimosa.

PGM miners are under increased pressure to meet challenging and sometimes conflicting stakeholder expectations, a task now complicated by the economic devastation and uncertainty associated with Covid-19. We will continue to maintain open and constructive engagements with the governments in South Africa, Zimbabwe and Canada, and are committed to advancing positive and mutually beneficial relationships with our mine-host communities in all three countries.

Conclusion and appreciation
Our team has faced an extraordinary set of circumstances during the year, and they have done so with relentless grit, determination, creativity and industry leading excellence. Our production, processing, financial, corporate, market development and ESG achievements over the past year are a testament to this excellence in action. I extend my sincere gratitude to every member of the Implats Group. Together we have made great progress and I have no doubt that Implats has a long and sustainable future to look forward to, for the benefit of all our stakeholders.

I thank the Implats board for its solid guidance during the year and, particularly, outgoing Chairman, Dr Mandla Gantsho, for his critical and engaging leadership throughout many turbulent years for Implats and the PGM industry.

Implats is in a much stronger position than it was a year ago. It has a more diverse and competitive asset portfolio, a strong balance sheet and a motivated management team. The long-term fundamentals for PGM demand are sound and Implats remains at the forefront of PGM supply. I look forward to the developments of the new year.

Nico Muller
CEO