Business environment

Globally, the mining and minerals sector has faced a challenging few years characterised by depressed commodity prices, sluggish GDP growth rates across developed and emerging markets, rising production costs and high levels of exchange rate volatility. The reduction in economic activity, rising geopolitical tensions and economic uncertainty in many regions, compounded by the recent Brexit vote in the UK, has heightened pressure on governments across the world. There has been increased pressure in particular on resource-dependent middle-income countries, many of which are seeking to extract greater value from resource companies in an effort to deliver on the social expectations of an increasingly frustrated electorate.

These pressures on the global mining sector have been accompanied by market challenges specific to the platinum industry, as well as by the difficult operating conditions in South Africa and Zimbabwe. In the context of subdued global PGM prices, platinum miners are facing heightened stakeholder expectations on a range of fronts: neighbouring communities are making increasingly vocal demands for economic opportunities and improved local service delivery; governments continue to push for rapid transformation, indigenisation and employment creation; labour unions exert pressure for higher wages and jostle for power; while a cautious investment community maintains its call for enhanced cost efficiencies, capital management and dividends. Regulatory uncertainty continues in South Africa and Zimbabwe and the region faces ongoing challenges in electricity supply, pressure on water availability following the El Niño drought, rising input costs, depreciating local currencies and liquidity at Zimplats.

Stakeholder expectations

Our stakeholder landscape is characterised by:

- A challenging labour relations environment as a result of workplace and social wage issues. Specific initiatives focus on:
  - Ensuring safe and effective people
  - Managing organised labour
  - Embedding effective employee relations
- Developing a shared vision and social compact with local communities in a shifting socio-political environment
- Prudent stewardship and continuous investment into the business to ensure value for shareholders.

Regulatory environment

The sector has significant potential to contribute to economic growth through ongoing engagement and involvement, particularly with regard to:

- Further clarity around the new Mining Charter
- Meeting the imperatives of the NDP, the Industrial Policy Framework and the President's Framework Agreement for a sustainable mining industry.

The industry supports the Zimbabwean government's attempts to grow its local economy and dialogue between producers and regulators continues.

Metal prices

In the near term prices will continue to be impacted by:

- Global economic factors including recovery in Europe, potential contraction in China and the risk of further geo-political conflict
- Currency uncertainty around US dollar strength and falling resource prices
- Surface stock drawdown which continues to cap rand basket prices
- Prices are expected to improve in the long-term as metal inventories erode and supportive market fundamentals start to dominate.

PGM market

Market fundamentals remain sound despite prevailing low dollar PGM prices

- Demand is supported by:
  - Ongoing urbanisation in emerging economies (China and India) with rising consumer spend in the automotive and jewellery sectors
  - Growing global automotive sales
  - Stricter emission regulations
  - An emerging hydrogen economy.
- Supply continues to be constrained by:
  - Labour and safety interruptions
  - Limited access to power/energy supply
  - Persistently low dollar metal prices and reduced capital investment by producers.

Access to resources

The success of the industry is dependent on:

- Access to quality Mineral Reserves and Mineral Resources
- Its ability to manage constrained power and water supplies and the development of optionality to mitigate impacts.

Business environment

Despite continued risk to global economic growth, growing fundamental supply/demand tightness will support dollar prices for both platinum and palladium.

The global macroeconomic picture remains uncertain

Uncertainty about how the global economy will grow this year and next remains. This is reflected in the continued growth downgrades by the International Monetary Fund (IMF). The IMF's release of its World Economic Outlook update in July 2016 highlighted a modest 3.1% baseline projection for global growth in 2016. However, this was a 0.3% downward revision relative to the January 2016 update and 0.5% down against the October 2015 report. Economic growth is projected to strengthen in 2017 to 3.4%, driven primarily by emerging markets and developing economies, as conditions in stressed economies start to gradually normalise. However, the uncertainty caused by the Brexit vote may lead to lower economic growth in general.

Despite the global macroeconomic uncertainty, overall demand for PGMs from major sectors remained healthy during 2015 and continued to hold its ground during the first half of 2016. Secondary PGM supply was affected by the low PGM and steel price environment, which led to some hoarding by collectors.

Primary PGM supply continues to be at risk due to the continued lack of capital investment and the challenging mining environment in southern Africa. The low price environment has meant some unprofitable shafts have been closed, while challenges in terms of section 54 safety stoppages, the increasing cost of production and tragic safety incidents remain.

Market performance

The platinum and palladium markets remained in a fundamental deficit during 2015, while the rhodium market showed a small surplus. For platinum and palladium, the fundamental deficits have remained since 2012, driven by healthy demand being unmet by both primary and secondary supply as accumulated above ground stocks continued to satisfy the market. The rhodium surplus in 2015 was mainly driven by major producers and traders selling their holdings to the automotive and industrial sectors during the year. For all three metals, these trends continued during the first half of 2016 and are expected to continue during the second half. Platinum and palladium markets are expected to remain in fundamental deficit during 2016 and the rhodium market is expected to remain in surplus. Accumulated above ground stocks will continue to provide some measure of support during this period

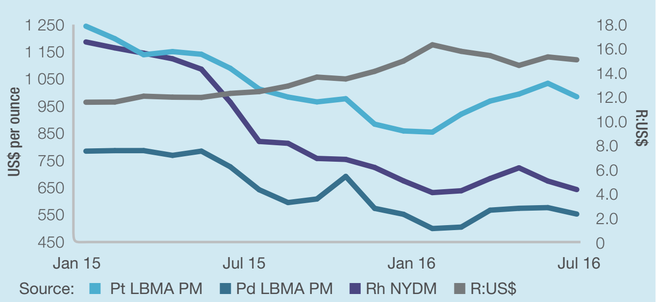
Platinum prices started Implats' financial year - July 2015 - at US$1 085 per ounce and continued their decline reaching a low of US$814 per ounce in January 2016. This was driven by the pervasive negative sentiment towards industrial metals, rather than their fundamentals. However, prices bounced back after January 2016, to reach US$1 084 per ounce during May 2016. The price increase was on the back of positive investor sentiment, healthy demand and tight supply conditions from South Africa during the first quarter of calendar year 2016. Platinum sponge shortages during this period mainly affected the premium paid for sponge over ingots and did not sustain any upward price movement and prices closed lower at US$999 per ounce at the end of June 2016. At the last practicable date of this Annual integrated report the Pt price was US$1 076 per oz.

Palladium prices opened the financial year at US$687 per ounce reaching a high of US$723 per ounce in September 2015 - a level not reached again during the period under review. Palladium closed the financial year at US$589 after reaching a low of US$465 per ounce in January 2016. As with platinum, the palladium price tracked macroeconomic factors, in particular the news of the cooling Chinese economy and negative investor sentiment, rather than demonstrating the metal's fundamentals. At the last practicable date of this Annual integrated report the Pd price was US$692 per oz.

In contrast to platinum and palladium, rhodium prices reflected market fundamentals of supply and demand throughout the period under review. The overall price of rhodium declined from US$813 per ounce in July 2015, to close at US$650 per ounce at the end of June 2016 on the back of a generally oversupplied market.

The 23% depreciation of the rand dollar exchange rate and some restricted appreciation of prices post January 2016 did support rand prices for PGMs, giving partial relief to cash-constrained South African platinum miners.

Metal price



Source:

Business environment

Automotive

Overall, 2015 was a relatively positive year for the global automotive industry, which achieved 1.8% growth for light-duty vehicle sales, reaching 88 million units. This was the slowest growth rate since 2009 due to declines in units sold in Japan, South America and Russia. However, these declines were offset by record sales in North America, Western Europe and China. Concerns over the sustainability of diesel demand in Western Europe have proven to be largely unfounded and sales remain robust. Diesel is a key part of automakers' strategy in meeting stringent carbon dioxide emissions targets. Issues around the "cheat devices" have served to tighten emissions test protocols, potentially boosting PGM demand in this application.

The first half year-to-date sales in North America, Western Europe and China were similarly encouraging at growth rates of 1.4%, 8.4% and 9.2% respectively. However, growing concerns about financial volatility in these markets may result in the second half being flatter, with estimated global light-duty vehicle sales reaching 90 million units in 2016.

Light-duty vehicle sales

Millions	**2016 (Forecast growth) %**	**2016 (Forecast)**	2015	2014
North America*	**2.0**	**17.8**	17.4	16.5
Western Europe*	**5.0**	**13.9**	13.2	12.1
China#	**6.0**	**22.5**	21.2	19.7
Japan^	**(10.0)**	**4.6**	5.1	5.6
Rest of the world*	**1.0**	**31.5**	31.2	32.5
	2.4	**90.2**	88.1	86.5

*Source: * LMC Automotive*
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Despite the ongoing substitution of platinum with palladium in gasoline and some diesel autocatalysts, platinum demand continued to benefit from growing use in light- and heavy-duty diesel vehicles, which exceeded 3.2 million ounces in 2015. The growth in vehicle sales and the substitution of platinum by palladium resulted in palladium demand from the automotive sector reaching 7.7 million ounces in 2015. For rhodium, the use in autocatalysts amounted to 0.83 million ounces during 2015 - autocatalyst thrifting was offset by increased requirements for rhodium in diesel vehicles.

Business environment

Jewellery

The 2015 PGI retail barometer showed the economic slow-down in China affecting the jewellery industry, resulting in Chinese platinum jewellery demand declining by 4% during 2015. This was partially offset by growth in other regions. India recorded a 24% increase on the back of the "Platinum Day of Love" programme and better market penetration, while the "Evara" programme drove demand for bridal gifting for both men and women. The 10% growth in the US was largely driven by low platinum prices, which incentivised manufacturers and retailers to stock and sell platinum. The 2.7% growth seen in Japan was due to the trend of bridal couples buying matching platinum wedding rings, while non-bridal platinum demand benefited from an increase in purchases of heavier items, such as necklaces and pendants. Global platinum jewellery demand declined by just 5 000 ounces, reaching 3.025 million ounces during 2015.

The first half of 2016 has been challenging, especially in China where retailers experienced a slow start during the first quarter due largely to a short sales season caused by an overlap of the Chinese New Year and Valentine's Day. Despite robust sales in the US, Japanese earthquakes affected consumer spending, while an Indian manufacturer strike also impacted sales. However, sales are expected to recover in the second half of the year.

Industrial

Industrial demand remained healthy in 2015 and into the first half of 2016, driven largely by chemical, electrical and fuel cell applications. Industrial demand amounted to 2 million platinum ounces, 1.95 million palladium ounces and 0.16 million rhodium ounces.

The first half of 2016 saw moderate gains in demand for platinum from the industrial sector, driven by growth in new plants and plant expansions in the petroleum industry and by projects in the chemicals and glass sectors. Palladium demand during the first half of the year remained comparatively flat, while demand for rhodium was moderately higher.

Investment

Platinum and palladium ETF sales in the second half of 2015 continued during the first half of 2016. For platinum, the global net liquidations amounted to 40 000 ounces, primarily due to South African funds liquidating 160 000 ounces during the first half of 2016. This was on the back of rand weakness, which prompted profit-taking, with some investors swapping into producer equities, as seen in share price gains and the high level of trading volumes during the first half of 2016.

Platinum ETF investment
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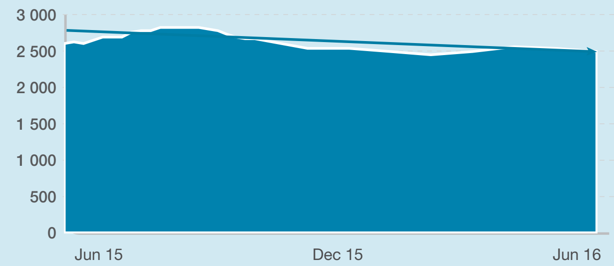

Source: HSBC

There were net ETF liquidations of 130 000 palladium ounces during the first half of 2016. These liquidations were more pronounced than platinum due to concerns about the Chinese economy and its effect on palladium demand.

Palladium ETF investment
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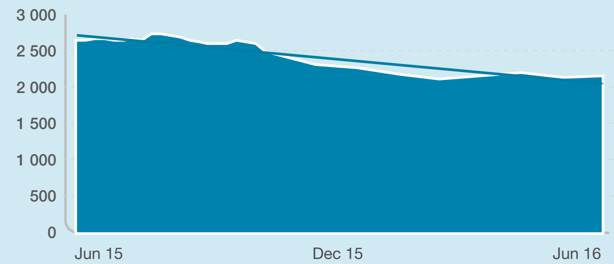

Source: HSBC