FINANCIAL DIRECTOR'S REVIEW

Consolidated statement of comprehensive income

Revenue

The six-week labour strike at the Zondereinde division in the first half of the financial year had a major negative impact on the annual results of the group, adversely affecting production and therefore sales revenues. This was compounded by safety-related stoppages into the second half of the year which exacerbated the already compromised production position.

Metals in concentrate produced declined by 22.2% to 7 779kg (250 110oz). Lower production also negated the effect of the slightly higher Rand basket price received over the year of R323 899/kg (F2010: R288 255/kg).

Purchases of metals in concentrate were 6.6% higher year-on-year at 2 244kg (72 146oz). Total metal sales were lower, however, declining by 19.8% to 9 872kg (317 392oz). Consequently, total sales revenue was 9.5% lower than the previous year at R3.57 billion.

Despite costs incurred in certain components of cost of sales, such as refining costs, depreciation and amortisation, being lower than the previous year, the increase in operating costs (explained below) and a 7.1% increase in the value of concentrates purchased resulted in a 0.8% increase in cost of sales.

Metal sales and revenues

	F2011			F2010		
	Units sold kg	Average price received R/kg	Revenue R000	Units sold kg	Average price received R/kg	Revenue R000
Platinum	6 118	382 245	2 338 440	7 546	353 507	2 667 420
Palladium	2 821	150 703	425 198	3 617	93 417	337 929
Rhodium	732	508 055	372 145	891	532 925	474 980
Gold	201	308 070	61 756	259	266 528	69 015
Sub-total: 3PGE + Au	**9 872**	**323 899**	**3 197 539**	**12 313**	**288 255**	**3 549 344**
Iridium	241	190 400	45 896	293	114 364	33 544
Ruthenium	1 000	40 615	40 594	1 352	34 875	47 132
Other precious metals	241	n/a	1 550	337	n/a	1 385
Sub-total: precious metals	**11 354**		**3 285 579**	**14 295**		**3 631 405**
Nickel (tonnes)	1 372	157 481*	216 046		148 373*	259 966
Copper (tonnes)	777	56 610*	43 971		47 594*	45 549
Other by-product revenue			1 299			8 163
Total sales revenue			**3 546 895**			**3 945 083**

** Rand per tonne*

Cost of sales

	F2011 R000	F2010 R000
Labour	992 421	974 701
Stores	596 239	649 992
Utilities	249 336	208 478
Sundries	399 600	386 088
Decommissioning and restoration	4 410	11 110
Total operating costs	**2 242 006**	**2 230 369**
Concentrates purchased	787 316	735 090
Refining and other costs	68 804	92 972
Depreciation and impairments	147 824	167 346
Change in metal inventories	(76 752)	(65 669)
Cost of sales – core business activities	**3 169 198**	**3 160 108**
Cost of sales – other activities	**16 556**	**–**
	3 185 754	**3 160 108**

Operating costs

Labour cost increases were due mainly to the average 12.4% increase in wages and a marginal increase in manpower numbers. Stores-related costs were lower because of the 22.1% loss in shifts described above. The increases in sundries are a result of implementation costs relating to various human resources initiatives within the group, insurance and inflation. The decommissioning and restoration charge is attributable to a change in the discount rate assumption.

In total, operating costs were 0.5% higher at R2.24 billion compared to the previous year. Unit costs at Zondereinde mine were distorted by the significantly lower output. Costs continue to be driven by higher mining input costs, primarily labour and power, which increased at a rate above inflation. The net effect was a significant increase in unit costs with operating costs and cash costs in R/kg higher by 28.1% and 29.3% respectively. The equivalent increases in US$/oz were 38.7% and 39.9% respectively as a result of the strengthening of the Rand against the Dollar during the course of the year.

The royalty, which is required to be reflected as a cost and not a tax, amounted to R52.0 million (F2010: R21.4 million). A further analysis of costs associated with the group's operations is presented in note 24 of the annual financial statements on page 107 of this report.

Cost of sales

Although certain components of the cost of sales mix such as refining, depreciation and amortisation, were lower year-on-year, the increase in operating costs and a 7.1% increase in the value of concentrates purchased resulted in a 0.8% increase in cost of sales.

Metal concentrate to the value of R787.3 million (F2010: R735.1 million) was purchased during the year. The concentrate is purchased for its high sulphur and low chrome content which is important for the optimisation of the smelting process. The group makes a margin on the purchased material. The high value of purchases reflects the higher quantities of metal purchased and marginally higher metal prices compared to the year before.

Refining and other costs

The 26.0% decline in refining and other costs reflects a combination of the lower production on the one hand, and the effect of the stronger rand against the euro compared to the previous period, given that refining costs are incurred in euros.

Depreciation and impairments

The depreciation charge decreased by R19.5 million to R147.8 million, following a review of the useful life and residual values of the property, plant and equipment at the Zondereinde mine.

Change in inventories

Metal inventories were higher at year end due to the higher unit cost of stock values and higher quantities, particularly of purchased material, compared to the year before.

Operating profit

The net result of the above elements of the statement of comprehensive income was a 50.9% lower operating profit at R385.3 million (F2010: R785.0 million).

Analysis of concentrate purchases

	Purchase of concentrate	Own production	Sub-total	Other activities	Total group
Kilograms sold (3PGE + Au/kg)	1 972	7 900	9 872	–	9 872
Sales revenue (R000)	720 880	2 826 015	3 546 895	24 153	3 571 048
Cost of sales (R000)	742 613	2 426 585	3 169 198	16 556	3 185 754
Working costs (R000)	19 511	2 370 319	2 389 830	16 556	2 406 386
Change in metal stocks (R000)	(81 572)	4 820	(76 752)	–	(76 752)
Freight and realisation costs (R000)	–	13 817	13 817	–	13 817
Refining costs and other costs (R000)	17 358	37 629	54 987	–	54 987
Purchase custom material (R000)	787 316	–	787 316	–	787 316
Operating profit (R000)	(21 733)	399 430	377 697	7 597	385 294
Treatment charges recovered (R000)	56 396*				
Contribution to operating profit (R000)	**34 663**				

** This amount is included in sundry revenue in the statement of comprehensive income*

FINANCIAL DIRECTOR'S REVIEW cont.

Share of profits and distribution from associate

Northam's share of profits from its associate, Pandora, was 41.7% lower than the previous year at R7.2 million owing to lower production volumes.

Investment income and net sundry income

Investment revenue was 49.0% lower at R85.5 million owing to lower cash balances resulting from the capital expenditure on the development of the Booysendal mine as well as payment to Amplats of the investment in escrow for certain new order mining rights for the Booysendal extension area. Net sundry revenue however, was higher at R53.1 million reflecting mainly the proceeds of R36.2 million from an insurance claim following repairs to the precipitator in October 2010, treatment charges from purchased material and foreign currency translation losses.

Hedging

The group's current policy is not to hedge, thus exposing investors fully to the PGM prices and exchange rates consequently there were no outstanding contracts at the end of the period.

Tax expense

The tax charge for the current year amounted to R182.0 million (F2010: R333.6 million). This represents an effective rate of 34.3% (2010: 34.2%). An analysis of the tax paid, including the effect of permanent and other differences is set out in note 29 to the annual financial statements on page 109.

Net profit attributable to shareholders

Profit before tax declined by 45.5% to R531.2 million. Tax payable is correspondingly lower at R182.0 million, resulting in a profit after tax of R349.2 million.

Earnings per share for the June 2011 financial year were 45.9% lower at 96.2 cents compared to last year's 177.9 cents. This takes into account a 6.0% increase in the number of issued shares to 382 416 190 shares.

Consolidated statement of cash flows

Operating cash flow

Operating cash flows were 9.0% lower than the previous year mainly as a result of a decline in profit before tax and lower investment revenues.

Investing activity cash flow

Cash flows utilised in investing activities absorbed a net of R212.9 million (F2010: R396.0 million). The principal outflows were capital expenditure of R268.9 million at Zondereinde mine, R688.0 million on the Booysendal mine with the build-up to mining operations, increases of R13.0 million in respect of the funding of environmental obligations and R16.1 million in respect of the Toro Employee Empowerment Fund, whilst primary inflows comprised the cash and cash equivalents of the Mvela Resources group at the date of acquisition amounting to R757.8 million.

Financing activity cash flow

Cash flows utilised in financing activities fell to R61.1 million compared to last year's R200.1 million reflecting the lower dividends paid as management conserved cash for the Booysendal mine development.

Net increase in cash and cash equivalents

The result of all operating, investing and financing cash flow activities for the year was a net cash inflow into the group of R511.1 million (F2010: R265.8 million).

Consolidated statement of financial position

Non-current assets

Property, plant and equipment

The increase in this number is mainly because of the development of Booysendal mine during the year and routine capital expenditure at the Zondereinde mine.

Interest in associate and joint ventures

The increase in interest in associates and joint ventures is largely the result of the acquisition of assets in the Mvelaphanda Resources group, viz:

- a 50% interest in the Dwaalkop joint venture;
- a 51% initial participation interest in the Kokerboom exploration project; and
- 20.3% of Trans Hex Group Limited, a listed diamond producer and marketer listed on the JSE Limited.

An analysis of these assets is available in note 4 of these annual financial statements, on page 99, and in Annexure 2 on page 122.

Township land and development

The decrease in this balance is due to the sale of properties under the employee home ownership scheme at the Mojuteng township of Northam town.

Long term receivables

The long-term receivables are debts payable over a period longer than one year arising from Norplats

Properties (Proprietary) Limited selling houses to the employees of Northam.

Restoration Trust Fund and environmental guarantee

The R13.0 million increase in these combined balances is additional funds set aside to cover the obligations for decommissioning and restoration in terms of South African mining legislation.

Toro Employee Empowerment Trust

The decrease in this balance is due to an actuarial valuation which is based on the recognition of the group's liability to workers at 30 June 2011. Based on an actuarial valuation, a liability of R55.1 million has been raised.

Current assets

Change in inventories

Metal inventories were higher at year end due to the higher unit cost of stock values and higher quantities, particularly of purchased material, compared to the year before.

Trade and other receivables

The increase in these balances is due to the higher value of metal stock and higher quantities sold to debtors towards this year end compared to the previous year end, VAT claimable from SARS due to higher capital expenditure at Booysendal and the payments in advance to Eskom for the increase in power supply of 8MVA and 11MVA for the Zondereinde plant and shaft substation respectively.

Investment in escrow

The balance of cash held in escrow as part of the Booysendal agreements with Amplats was repaid during the current year when all conditions precedent were fulfilled.

Cash and cash equivalents

The total cash resource of the group at year end was R1 697.9 million (F2010: R1 186.7 million) with other current assets of R1 028.1 million (F2010: R930.9 million). This increase is due mainly to the acquisition of Mvela Resources and its cash resources in June 2011.

Non-current liabilities

Deferred tax

The deferred tax liability arises from normal timing differences.

Long-term provisions

The increase in long-term provisions is primarily due to the capitalisation of the decommissioning and restoration costs of the Booysendal mine estimated at R37.3 million.

Current liabilities

Receiver of Revenue

The increase in the liabilities due to the Receiver of Revenue arises from for the recently acquired Mvela Resources subsidiaries.

Trade and other payables

Increases in trades and payables reflects the increased number of suppliers associated with the ramp-up of construction and development at Booysendal, along with concentrate purchases, which were still unpaid towards year end.

Short-term provisions

This liability relates to employee leave and is higher due to the increasing salary and wages bill.

Capital expenditure – F2012

Zondereinde mine

Total capital expenditure of R268.9 million (F2010: 231.5 million) was spent at Zondereinde mine during the year. Capital expenditure for the F2012 year is anticipated to be R384.3 million, including the deepening project and accelerated development.

Booysendal mine

A total of R688.0 million (F2010: R132.4 million) was spent on capital expenditure for the Booysendal mine during the 2011 financial year. In line with planning, project expenditure is anticipated to peak at R2.2 billion during F2012. Following planning reviews, certain scope changes to the project have resulted in the total projected project cost increasing to R3.9 billion in June 2011 money terms.