

# Joint review of the chairman and the CEO

The platinum mining business has been particularly challenging during the past year with poor economic fundamentals, safety stoppages and labour relations issues to deal with. Fundamentally more disturbing than the macro-economic fundamentals, however, have been the troubling events in our sector here at home, unbridled lawlessness, and the loss of life and livelihoods amongst some of the most vulnerable in our society.

As a society we should be deeply concerned about the raised expectations and demands on our sector. What has become obvious in the aftermath of these developments, are the glaring misconceptions amongst our stakeholders about the state of the PGM sector, its contributions to the economy over decades, its role as a major employer, provider of infrastructure and utilities, villages and communities in areas where there has traditionally been sparse economic activity. Now, more than ever, it is incumbent on all stakeholders to act responsibly and to discharge their responsibilities judiciously and diligently. The mining industry cannot be fingered as a singular contributor to poverty and its associated ills in rural communities.

## Market overview

We have not escaped the effects of and challenges associated with the protracted global economic downturn. Ongoing economic uncertainty and contractions in industrial manufacturing, most particularly in Europe, have broadly subdued demand for PGMs. To date, the ready supply of mined metal to the PGM market has continued largely undiminished, and combined with increased volumes of recycled metal, has resulted in a protracted period of market surplus. Metal prices have reacted accordingly and weakened

notably in recent months; platinum and rhodium in particular, continue to trade at rangebound and lacklustre levels.

In February the platinum price reached its highest level so far this year at \$1 729/oz. For palladium the high was \$722/oz, and rhodium was trading above \$1 500/oz. These highs were followed only four months later, in June 2012, when Platinum traded below \$1 400/oz and Palladium approached \$560/oz. Rhodium fell to \$1 200/oz, its lowest since April 2009.

In dollar terms the average PGM basket price dropped by 6.5% year on year to US\$1 345/oz (F2011: US\$1 439/oz), while the South African currency weakened by 10.7% over the year.

## Financial performance

A solid operating performance at Zondereinde did little to counter the effects of a largely flat rand basket price of R335 325/kg over the period. Sales volumes were largely unchanged too, accounting for an only marginal increase in sales revenues to R3.7 billion (F2011: R3.6 billion). Production of metal in concentrates was 15.4% higher at 8 979kg (288 675oz) compared to 7 779kg in F2011.

A further concern is of course the rate of cost increases; mining inflation continues to rise at a rate higher than the official CPI in South Africa, putting further pressure on our operating margin which has now fallen to a low of 9.2%

As anticipated, our previously healthy cash balances have been substantially reduced as the capital expenditure at Booyssendal has accelerated over the year. The net movement in cash flows was an outflow of R1.6 billion in F2012 compared to an

inflow of R511.1 million for F2011, resulting in a cash balance at year end of only R105.0 million compared to last year's R1.7 billion.

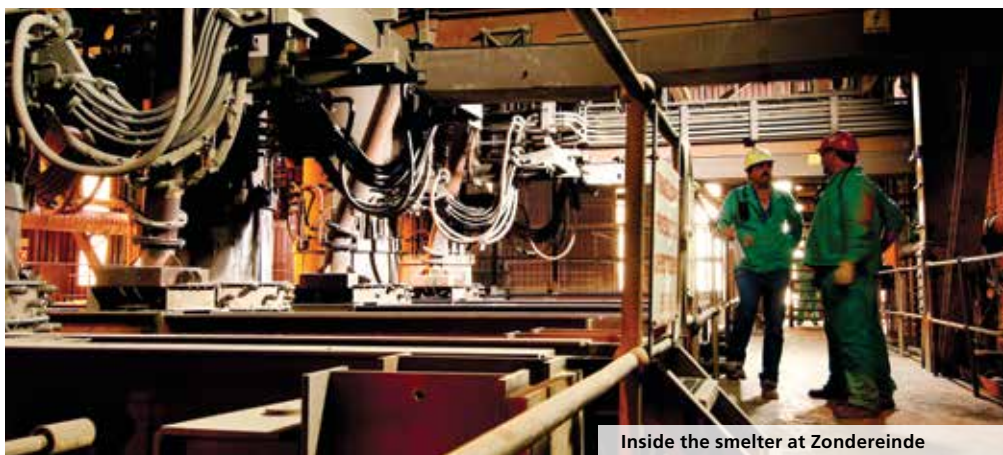
Profit before tax declined by 14.8% to R452.6 million owing to lower investment revenues and net sundry income compared to the previous period. Consequently profit after tax was 11.1% lower at R310.5 million (2011: R349.2 million) resulting in headline earnings per share declining by 9.6% to 80.9 cents per share.

Given the low metal price environment, the extent of capex requirements at both Zondereinde and Booyssendal in the year ahead, shareholders will appreciate the board's decision to pass the final dividend. We do intend to resume dividend payments once we are in a position to substantially reduce our debt, and emerge from the fairly onerous capex burden we face in the short to medium term. An uptick in metal prices would obviously help to expedite this too.

## Integrated reporting and assurance

In the previous reporting period, for financial year 2011, we believe we made some fundamental strides in broadening our data-gathering base and getting to grips with our material issues. These are something we regularly interrogate and revise as necessary. In F2011 this culminated in the publication of our first annual integrated report. In F2012, we hope to have made some modest gains in terms of this reporting framework, even though the focus in this past year was the very sustainability of the business, in what is becoming an increasingly hostile operating environment.

Once again this year, at the Zondereinde sustainable development workshop, held in July, we took the time with a number of discipline heads, to assess the material issues we had identified in the past, and to re-evaluate them in the context of more recent business developments and the constantly evolving operating environment.



Inside the smelter at Zondereinde

# Joint review of the chairman and the CEO **continued**

## Material issues

**Operating safely and efficiently to protect the lives and livelihoods of employees, and – in so doing – to ensure the sustainable profitability of the company.**

Against the background of flat metal prices and revenues and relentless cost increases on almost all fronts, the safe and efficient operation of our mines has never been more critical.

On our mines we have to focus on avoiding safety stoppages – not only because working safely and caring for the safety of our people is the right thing to do, but also because the loss of production days has a profoundly negative impact on our profitability, and hence on the sustainability of the business. For this reason we have, in the past year, also relied on the courts to scrutinise orders by the authorities to close our operations. We believe that the summary closure of operations can be avoided by a more collaborative relationship between us as business and the authorities – in this case the Department of Mineral Resources (DMR) – certainly one of our most significant stakeholders. The meaningful discussions and collaborative approach which have ensued from this have signified real and significant strides in this relationship.

Tragically two employees lost their lives in mining related accidents during the financial year. Once again, in a document of record such as this, it is appropriate to mark the deaths of Messrs Sydney Thou Kampare and Alfred Hanisi, who died at Zondereinde during the year, the former in a loco accident in July 2011 and Mr Hanisi in a fall of ground some 10 months later in May this year.

While the total injury incident rates have continued to fall over an extended period, we have seen a worrying increase in the severity of injuries and accidents since 2010. The majority of the accidents this year have been associated with material and equipment handling and falls of ground, the latter being of greater concern and which point to a worrying drop-off in skills levels and competencies along with a disregard of compliance to standards amongst supervisory staff. These have occurred predominantly on the reef or stope horizon. We continue to apply punitive measures where we find contraventions. However, we would prefer to focus primarily on preventative measures, and to foster a safety culture amongst all players.

## **Establishing and maintaining constructive relations with employee and community stakeholders.**

The recent violent conflict in the platinum sector has highlighted for us the volatility in the sector. We are conscious that we are not immune to any such developments. Nevertheless, with vigilant management we are keeping a close watch on any irregular activity in order to avoid the unbridled violence and lawlessness, characteristic of these events.

At the Zondereinde mine the National Union of Mineworkers (NUM) has traditionally been the dominant employee union and we continue to focus our engagement efforts with this employee body. Our managers in human resources are in constant communication with union representatives to discuss matters of concern. We recognise too, that it is also appropriate to engage with any registered employee body which meets our thresholds.

During the year we believe that good progress was made with the NUM, given the absence of the annual negotiations around wages and basic conditions of employment. This has provided the space required for us to really focus on cementing structures such as the employment equity and training forum, the housing and living conditions forum and the CSI/LED forum. These structures have evolved into more effective platforms for dialogue between management and the employee community.

In general, the industrial relations climate in South Africa continues to be flavoured by political developments. Specifically at Zondereinde the previous financial year had been dominated by protracted and acrimonious industrial action. Wage negotiations to determine agreements for the F2012 year were resolved in October/November last year, and settlement was reached on a two-year deal.

On the eastern limb our progress at Booyssendal has been hampered by an illegal land invasion during the last few months of the financial year. We have since made some progress, and in partnership with Eskom we have persisted with an extensive community dialogue process in order to expedite the delivery of power to the Booyssendal mine site, while in tandem, helping the communities to protect their heritage sites. The goal remains for us to commission the plant at Booyssendal in H2 of F2013.

Achieving and maintaining legislative and regulatory compliance, including our social licence to operate, and ensuring the underlying systems and processes are in place to achieve this.

All permitting and other records of regulatory compliance are in place at both our operations, following the granting of a Water Use Licence at Zondereinde in May 2012. We have since started discussions with the DWA with regard to what we consider to be excessively onerous quality requirements. Engagement with the DMR in terms of the SLP at Zondereinde, has led to a review of the Life Community Centre and the model on which it is based. A revised and more sustainable model for the project was submitted to the DMR at the beginning of F2013 and we are committed to engaging more proactively with the DMR to develop a model that will be more appropriate and sustainable.

On an equity level, we remain subject to the commitment of our remaining BEE shareholder to maintain their equity in the group. We have previously advised shareholders of the disposal by Afripalm Resources (Pty) Ltd of their shareholding in the company, and have also advised shareholders of the potential risk that any further slide in these empowerment equity levels holds for the group. We continue to engage with the DMR in this regard. In forging a way forward, and to mitigate any potential risk of having our mining licences revoked, we intend to establish a more robust and resilient equity structure which has the lowest possible dilutionary effect on the balance of our shareholders, and at the lowest possible cost.

**Successfully delivering the Booyssendal project on time and within budget.**

Booyssendal remains the company's primary vehicle for growth. Progress on site has been more than

# Joint review of the chairman and the CEO **continued**

satisfactory, and we remain on track to commission this mine in H2 of F2013. Critical to the delivery of this mine, as well as any prospects for expanding on phase 1 of the Booysendal UG2 North mine, is our ability to fund it adequately – something which has become more and more uncertain given the state of the world economy and the PGM sector. This has, for a while, been something management has monitored closely, particularly during this time of diminishing cash margins at Zondereinde, and the potential risk attached to the conclusion of the sale of Booysendal South within our own capex timeline requirements.

Nevertheless, I am pleased to report that, with the prudent application of capital at Booysendal, we have only recently started drawing down against the R1 billion debt facility we raised in November last year. This facility, along with the additional third party debt facility of R1.25 billion raised post the year end will be adequate to cover the capital requirements of Booysendal phase 1, and the deepening project at the Zondereinde mine.

Elsewhere in this report we report on the extensive stakeholder engagement exercise that is ongoing at Booysendal. From the company's point of view it has therefore been disappointing to have had to approach the courts to provide us access and space for Eskom and its contractors to complete the line which feeds electrical power to the Booysendal

mine. We have always said that the development of the second phase of the Booysendal north mine will depend on the success of phase 1, and the issue of infrastructure availability.

**Ensuring access to and optimising the use of resources, particularly energy and water, and to mitigate emissions, particularly CO<sub>2</sub> and SO<sub>2</sub>.**

This aspect of our business remains inextricable from engineering design and management, and oversight of environmental performance continues to be monitored by this department. We are pleased to have made progress on a number of environmental fronts, with the allocation of an integrated water use licence (IWUL) at Zondereinde, continued implementation of the ISO14001 standard for environmental management at the metallurgical facilities, a reduction in electricity purchases from Eskom, and, in terms of air quality control, we have made provision for a feasibility study into effecting material reductions in SO<sub>2</sub> emissions.

**To maximise cash flows and optimise capex, so as to maintain and grow the value of the company, and to be able to raise capital cost-effectively to fund further growth.**

In our business review we have dealt comprehensively with the performance of our operations, our growth prospects and value-

enhancement initiatives. The market's response to our fund-raising activities (as mentioned above) has been encouraging and positive. Booyensdal will start contributing to output in the next financial year and should reach steady state production in F2015.

**To attract, retain and develop human capital in the face of general and localised skills shortages and to meet Mining Charter commitments.**

Our approach to transformation has been driven by the achievement and maintenance of legal compliance on the one hand, and on the other by what we consider to be the constant improvement of relationships between organised labour and management. This has been a challenge on both counts.

The essence of legal compliance remains greater participation of black South Africans and more specifically of women in the economy, and in the traditionally male-dominated fields such as mining. As management we have embraced this intent, and we are proactively supporting candidates at secondary and tertiary educational institutions in an effort to assist in building a pool of skilled, competent and qualified black professionals in relevant core fields in this sector. This is not an easy journey, given the sector's vulnerability to fluctuations in the global economy and the resultant uncertainty in the workplace.

## A word to conclude

We would like to extend our thanks to our board members, for their continued support and insights. Particular mention must be made of Bernard van Rooyen, who retired from the board in March 2012. Bernard's contribution to the group has been immeasurable over the years; we are fortunate that he continues to provide consultancy services to the group.

At the end of what has been a challenging year we must thank the management at both Zondereinde and Booyensdal for their focus and commitment. In the current climate in the PGM sector the adage of sticking to one's knitting, and focussing on those aspects of the business environment which we can control, will stand us in good stead into the future. We aim to be in good shape as a company to be able to deliver PGMs into a rising price environment when the global economy starts recovering.

**Lazarus Zim**, chairman

**Glyn Lewis**, chief executive

Johannesburg

28 September 2012