Financial director's review

Consolidated statement of comprehensive income

REVENUE

Sales revenue for the financial year ended 30 June 2012 (F2012) was adversely affected by the smelter shut down which occurred in May 2012 This meant that concentrate production for part of May and all of June 2012 could not be processed through Northam's Zondereinde smelter complex by year end, and thus revenue was deferred into F2013. However, costs related to the deferred sales were incurred in F2012, adversely affecting the operating margin.

There was a marginal increase in sales volumes from 9 872kg in F2011 to 9 980kg in F2012. This increase combined with a 6.5% lower average US$ basket price of US$1 345/oz and a 10.7% weaker rand resulted in the average rand basket price received increasing by 3.5% to R335 325/kg in F2012 from R323 899/kg the previous year. Consequently, total sales revenue for core business activities increased by 2.9% to R3 648 million.

METAL SALES AND REVENUES

	F2012			F2011		
	Units sold kg	Average price received R/kg	Revenue R000	Units sold kg	Average price received R/kg	Revenue R000
Platinum	6 088	404 433	2 462 213	6 118	382 245	2 338 440
Palladium	2 861	169 151	484 028	2 821	150 703	425 198
Rhodium	843	381 165	321 227	732	508 055	372 145
Gold	188	421 395	79 050	201	308 070	61 756
Sub-total: 3PGE + Au	**9 980**	**335 325**	**3 346 518**	**9 872**	**323 899**	**3 197 539**
Iridium	218	269 173	58 604	241	190 400	45 896
Ruthenium	1 091	27 221	29 702	1 000	40 615	40 594
Other precious metals	213	n/a	1 775	241	n/a	1 550
Sub-total: precious metals	**11 503**		**3 436 599**	**11 354**		**3 285 579**
Nickel (tonnes)	1 180	144 851*	170 924	1 372	157 481*	216 046
Copper (tonnes)	659	59 951*	39 535	777	56 610*	43 971
Other by-product revenue			1 605			1 299
Sales revenue – core business activities			**3 648 663**			**3 546 895**
Other activities			35 337			24 153
Total sales revenue			**3 684 000**			**3 571 048**

* *Rand per tonne*

COST OF SALES

	F2012 R000	F2011 R000
Labour	1 197 619	992 421
Stores	690 620	596 239
Utilities	298 353	249 336
Sundries	416 415	399 600
Decommissioning and restoration	4 907	4 410
Total operating costs	**2 607 914**	**2 242 006**
Concentrates purchased	624 774	787 316
Refining and other costs	100 612	68 804
Depreciation and impairments	190 287	147 838
Change in metal inventories	(203 288)	(76 752)
Cost of sales – core business activities	**3 320 299**	**3 169 198**
Cost of sales – other activities	25 012	16 556
Total cost of sales	**3 345 311**	**3 185 754**

Operating costs
The 16.6% increase in operating costs year-on-year resulted from a 15.4% increase in production volumes as well as higher than inflation input costs primarily those of utilities and labour.

The 20.7% rise in labour costs must be seen in light of the lower comparative number for F2011 owing to the six week strike and above CPI salary and wage increments. Stores increased by 15.8% on the back of higher production volumes. Utilities increased mainly because of Eskom's higher than inflation 16.7% increase as well as the higher production volumes.

The mining royalty, which is reflected as a cost and not a tax amounted to R38.7 million (F2011: R52.0 million). A further analysis of costs related to Northam's group operations is shown in note 25 of the annual financial statements on pages 143 to 144.

Cost of sales
Cost of sales rose by 5.0% in F2012 reflecting the 16.6% increase in operating costs, a 20.6% fall in the value of concentrates purchased as well as higher refining and realization costs and a R203.3 million increase in metal inventories.

Analysis of concentrate purchases – F2012

	Purchase of concentrate	Own production	Sub -total	Other group entities	Total group
Kilograms sold (3PGE + Au)	2 072	7 908	9 980	–	9 980
Sales revenue (R000)	771 448	2 877 215	3 648 663	35 337	3 684 000
Cost of sales (R000)	769 613	2 550 686	3 320 299	25 012	3 345 311
– Total operating costs (R000)	19 945	2 778 256	2 798 201	10 325	2 823 213
– Change in metal stocks (R000)	112 246	(315 534)	(203 288)	–	(203 288)
– Freight and realisation costs (R000)	–	13 371	13 371	–	13 371
– Refining and other costs (R000)	12 648	74 593	87 241	–	87 241
– Purchase custom material (R000)	624 774	–	624 774	–	624 774
Operating profit (R000)	1 835	326 529	328 364	10 325	338 689
Treatment charges recovered (R000)	52 642*				
Contribution to operating profit (R000)	54 477				

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

PGM concentrate to the value of R624.8 million (F2011: R787.3 million) was purchased during the year. The purchased concentrate enables the company to optimise the blend of smelter feed and also to process UG2 concentrate more efficiently. Concentrate purchases were halted pending the smelter rebuild, hence the decrease in total volume and value purchased during the year.

Refining and other costs

Refining and related costs increased by 46.2% mainly as a result of an additional R32.1 million payable in respect of a refining arrangement with an alternative refiner to process concentrates during the smelter shut down.

Depreciation and impairments

The depreciation charge increased by R42.4 million to R190.3 million, following a review of the useful life and residual values of the property, plant and equipment at the Zondereinde mine and an impairment of the smelter as a result of the shut down.

Change in inventories

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

OPERATING PROFIT

The net result of the above elements of the statement of comprehensive income was a 12.1% lower operating profit at R338.7 million (F2011: R385.3 million). The operating margin therefore fell to 9.2% from 10.8% in F2011.

Share of earnings from associate

The share of earnings from associates decreased from R7.2 million to R6.7 million in F2012. This includes the group's share of other comprehensive loss of R9.9 million from the 20.3% interest in Trans Hex Group Limited and a R6.7 million share in the profits of the Pandora joint venture.

Investment income and net sundry income

Investment revenue was 36.9% lower at R54.0 million (F2011: R85.5 million) owing to lower cash balances resulting from the capital expenditure on the development of the Booysendal mine. Net sundry revenue was also lower at R43.3 million (F2011: R53.1 million) due to the previous year's comparative number including the proceeds of R36.2 million from an insurance claim following repairs to the precipitator in October 2010.

Hedging

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

Tax expense

The tax charge for the current year is R142.1 million (F2011: R182.0 million), representing an effective rate of 31.4% (F2011: 34.3%). The main reason for the lower effective tax rate is the higher capital expenditure redeemed against taxable income, as well as a decrease in secondary tax on companies resulting from lower dividends paid and a decrease in disallowable expenditure. A detailed analysis of the tax charge, including the effect of permanent and other differences is set out in note 30 to the annual financial statements on page 146.

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit before tax declined by 14.8% to R452.6 million (F2011: R531.2 million) owing to lower investment revenues and net sundry income for the year. Tax payable is correspondingly lower at R142.1 million (F2011: R182.0 million), resulting in a profit after tax of R310.5 million (F2011: R349.2 million).

Earnings per share for the year ended June 2012 was 15.6% lower at 81.2 cents compared to last year's 96.2 cents. This takes into account a 0.02% increase in the number of issued shares to 382 496 990 shares (F2011: 382 416 190 shares).

Temporary conveyor in the on-reef decline at Booysendal

CONSOLIDATED STATEMENT OF CASH FLOWS

Operating cash flow

Cash flows from operations, which were 43.1% lower at R437.7 million, are largely a consequence of the lower profitability of the company in F2012, and an increase in the working capital requirements of the group resulting primarily from the smelter shutdown.

Investing activity cash flow

Cash flows utilized in investing activities were significantly higher at R2 billion mainly as a result of the continued capital expenditure at Booysendal mine which amounted to R1.7 billion.

Financing activity cash flow

Cash utilized for financing activities is lower due to lower dividends paid out in F2012 in an effort to conserve cash, but was partially offset by a loan of R35.3 million which was raised from a Dutch organization, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), to fund the group's affordable home ownership initiative.

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 outflow of R1.6 billion (F2011: inflow of R511.1 million).

Consolidated statement of financial position

NON-CURRENT ASSETS

Property, plant and equipment

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

Interest in associates

The group has an interest in the following:

- 7.5% interest in the Pandora joint venture;
- 50% interest in the Dwaalkop joint venture;
- A 51% 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 annexure 2 of these annual financial statements, on pages 162 to 165.

Township land and development

The decrease in this balance is due to the sale of properties in terms of the employee home ownership scheme at the Mojuteng township of Northam town. 140 houses were sold during F2012 (F2011: 100 houses).

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. The increase is due to 140 houses being sold during the year compared to 100 houses sold during the previous year.

Northam Platinum Restoration Trust Fund and Environmental Guarantee Investment

The increase in the combined total balance of these funds amounting to R10.3 million is mainly due to the continuing development of Booysendal leading to a higher obligation for decommissioning and restoration of the mining site in terms of South African mining legislation.

Buttonshope Conservancy Trust

The trust was established in 2011 as part of an initiative to retain a portion of the freehold adjacent to the Booysendal mine as an environmental conservancy. The group contributed an amount of R10.0 million during the year.

CURRENT ASSETS

Change in inventories

Metal inventories were higher at year end due to the higher unit cost of stock values and higher quantities compared to the year before as a result of the smelter shutdown in May 2012.

Trade and other receivables

The decrease in these balances is a result of the decrease in sales for the year.

Cash and cash equivalents

The total cash resource of the group at year end was R105.0 million (F2011: R1.7 billion). The significantly lower cash balance was due to a 43.1% decrease in the cash generated from operations at R437.7 million and significantly higher cash flows utilised in investing activities at R2.0 billion.

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.

Long-term loans

A loan of R35.3 million was raised from FMO, to fund the group's affordable home ownership initiative. The short-term portion of this loan amounts to R2.4 million.

CURRENT LIABILITIES

Trade and other payables

The increase in trade and other payables reflects the increased number of suppliers associated with the ramp-up of construction and development at Booysendal.

Short-term provisions

This liability relates to leave accrued to employees and is higher due to the increasing salary and wages bill. An additional R111.8 million liability was accrued during the year and R99.4 million was utilised.

CAPITAL EXPENDITURE

Zondereinde mine

Zondereinde mine spent a total of R328.3 million on capital expenditure (F2011: R268.9 million). Capital expenditure in F2013 is forecast at R646.4 million, and includes routine capital, the deepening project and feasibility studies associated with alternative smelting technologies and the reduction of SO_2 emissions. The total cost of the smelter rebuild is estimated at R41.5 million.

Booysendal mine

Capital expenditure at the Booysendal mine was R1.7 billion (F2011: R688.0 million). The mine remains on track to start production in H2 of F2013 and anticipated capital expenditure for F2013 is R1.3 billion.

Ayanda Khumalo, financial director

Johannesburg

28 September 2012