Financial review

Income statement

Sales

F2007 was characterised by robust metal prices which more than offset the lower sales volumes. The combination of a 40.3% increase in the average US dollar basket price received to US$1 288 per ounce, and a weakening of the rand by some 12.0% resulted in the average rand basket price received increasing by 57.1% to R297 292 per kg. This more than offset a 5.2% decrease in unit sales to 10 703 kg (344 101 oz) including custom material, and resulted in sales revenue increasing by 56.7% to R3 740 million.

Sales	F2007			F2006		
	Units sold kg	Average price received R/kg	Revenue R000	Units sold kg	Average price received R/kg	Revenue R000
Platinum	6 609	278 045	1 837 603	6 892	210 131	1 448 160
Palladium	3 014	78 258	238 849	3 413	54 653	186 514
Rhodium	877	1 225 945	1 074 565	749	635 590	476 140
Gold	203	151 337	30 826	231	109 156	25 242
Sub-total – 3PGE + Au	10 703	297 292	3 181 843	11 285	189 286	2 136 056
Iridium	270	93 350	25 221	246	45 780	11 251
Ruthenium	1 046	83 475	87 308	1 053	53 376	22 774
Other precious metals	287	n/a	2 095	295	n/a	730
Sub-total – Precious metals	12 306		3 296 467	12 879		2 170 811
Nickel			403 744			185 480
Copper			36 851			27 818
Other by-product revenue			2 743			2 217
Total sales revenue			3 739 805			2 386 326

Cost of sales

Cost of sales increased by 25.9% as set out below:

	F2007 R000	F2006* R000
Labour	593 080	557 054
Stores	448 700	421 051
Utilities	103 740	99 426
Sundries	218 698	160 405
Decommissioning and restoration	(3 400)	2 384
Total operating costs	1 360 818	1 240 320
Concentrates purchased	106 447	–
Refining and other costs	91 816	59 520
Depreciation	129 040	114 713
Change in metal inventories	39 824	(41 826)
Cost of sales	1 727 945	1 372 727

** Restated*

Operating costs

Although total operating costs increased by 9.7%, the lower production resulted in the unit cash operating costs increasing by 23.6% to R135 248 per kg.

The lower sales volumes combined with higher unit costs and refining costs resulted in the cost of sales for the period increasing by 25.9%.

Labour costs increased by 6.5% compared to the previous year. This increase comprises the cost of the F2006 wage settlement of 9.7%, which was offset by a small reduction in the average number of employees. The labour costs for F2006 included a once-off charge of R13 million (2.6%), in respect of a transfer to the Platinum Health Medical Scheme, following the admission of the Category 2 – 8 employees to the scheme.

Financial review *(continued)*

The increase of 6.5% in the cost of consumable stores comprises inflationary increases on contracts of 8.3%, particularly in respect of the costs of chemicals, material used for support, and steel, which were partially offset by a decrease in the square metres mined of 4.7%.

Utility costs rose by 4.3%. The increase in power tariffs amounted to 5.9%, which was offset by the lower tonnage mined.

Sundries increased by 36%. The major factors contributing to this increase were increased IT costs, higher mineral royalties owing to the higher tonnages mined in the area subject to royalties, and higher insurance costs. In addition, more diamond drilling was necessitated by the complex geology encountered, and the mine started a project to process the waste dump.

Decommissioning and restoration charges reflect a reduction in costs following a change in the discount rate, as more fully set out in notes 11 and 14 of the notes to the annual financial statements on pages 77 and 79.

Concentrate purchases

Purchases of concentrates amounted to R106 million with 404 kg (3PGE + Au) of precious metals being produced.

Refining and other costs

Refining and other costs rose by 54.3% to R92 million as a result of a 225.3% increase in nickel refining costs, which costs are linked to fluctuations in the nickel price.

Depreciation

The depreciation charge increased by 12.5% as a result of the higher capital expenditure.

Change in inventories

The change in inventories is primarily as a result of a decrease in refined metal inventory.

Investment income and net sundry income

The increased cash flows, attributable to higher metal prices, resulted in investment income rising by 110.7% to R84 million. Net sundry income reduced by some 73.2% to R5 million primarily as a result of currency translation losses of R5 million compared to gains of R7 million in F2006.

Hedging

No currency or metal was hedged during the period, and there were no outstanding contracts at the end of the period.

Tax charge

The tax charge of R775 million equates to an effective rate of 36.9%, some 7.9% higher than the statutory rate of 29.0%. This additional 7.9% is accounted for by State's Share of Profits of 2.7%, secondary tax on companies (STC) of 5.8% and permanent and other minor differences of 0.9%, as more fully set out in note 18 to the annual financial statements on page 81.

The group was not previously liable for State's Share of Profits owing to its unredeemed capital expenditure.

Profit attributable to shareholders

The profit attributable to shareholders increased by 88.0% to R1 326 million compared to that of the previous year.

Cash flow

Operating cash flow

The cash flow from operations increased by R702 million to R1 555 million, reflecting the significant increase in operating profits. Investment income increased to R81 million from R38 million primarily as a consequence of the higher average cash balance and higher interest rates. Working capital increased by R99 million (F2006: R70 million) as a result of decreases in inventories (R26 million), increases in accounts receivable (R150 million) and increases in accounts payable (R27 million). The increase in tax payments from R275 million in F2006 to R584 million in F2007 reflects the higher profits.

Investing cash flow

The net investing cash flow was R212 million compared with R212 million in F2006, comprising capital expenditure of R188 million less sundry disposals of R5 million and township development expenditure of R29 million.

The major items contributing to the capital expenditure of R188 million were: development expenditure (R32 million); access infrastructure to 1 and 14 levels (R50 million); upgrading of the backfill reticulation system (R11 million); extensions to the ventilation and hydropower infrastructure

(R4 million and R5 million respectively); upgrading of IT systems (R10 million); additional housing for employees (R8 million). The balance comprised routine capital expenditure.

Planned capital expenditure for F2008 amounts to a total of R219 million and includes the following major items: access infrastructure to 1 level and 14.5 level and development through the 20 line fault (R81 million); additional backfill facilities (R10 million), an emergency power transformer (R13 million), improvements to the concentrator plants (R28 million) and additional underground equipment (R23 million).

A further R29 million was spent on the employee housing project. The sale of the houses to employees was delayed by the lack of power reticulation by the local authority, but it is anticipated that the necessary power will be available within the coming months.

Financing cash flows

An amount of R12 million (F2006: R64 million) was received following the exercise of share options by employees.

The dividends paid of R970 million are in line with the company's policy of maximising distributions to shareholders. This amount comprised the interim dividend of 245 cps and the final dividend of 165 cps in respect of F2006. A final dividend of 280 cps was declared, bringing the total dividend for the year to 525 cps.

The increase in the Restoration Trust Fund comprised a contribution made by the company of R1 002 000 (F2006: R800 000) and net income received by the Fund of R1 525 000 (F2006: R1 150 000).

The increase in the Environmental Contingency Fund comprised a contribution made by the company of R3 000 000 (F2006: R3 000 000) and net income received by the Fund of R1 032 000 (F2006: R275 000).

Balance sheet

The group's balance sheet remains strong, with cash and cash equivalents at the year end of R1 210 million (F2006: R831 million) and net current assets of R1 179 million (F2006: R875 million) A total of R35 million has been spent on the housing development discussed above. The net unfunded environmental decommissioning and restoration liability is R3 million (F2006: R9 million). Apart from this liability and the deferred tax provision of R376 million (F2006: R358 million) the group has no debt.