

# Financial review

## Income statement

### Sales revenue

Against the background of continued robust demand for platinum group metals, F2008 was again characterised by buoyant metal prices which more than offset the decrease in production and sales volumes. The combination of a 33.7% increase in the average US Dollar basket price received to US\$1 722 per ounce, together with a marginal weakening of the Rand by some 2.9% resulted in the average Rand basket price received increasing by 37.6% to R409 159 per kg. This more than offset a 19.8% decrease in unit sales to 8 586 kg (276 059oz), and resulted in sales revenue increasing by 3.9% to R3 886 million.

### Cost of sales

Cost of sales, as set out below, fell by 6.9% to R1 609 million, primarily as a result of an increase in metal inventories. This increase is attributable to the increase in unit operating costs (R70 million) and an increase in reverts (R173 million) which will be treated once the smelter rebuild is complete.

## COST OF SALES

|                                 | F2008<br>R000 | F2007<br>R000 |
|---------------------------------|---------------|---------------|
| Labour                          | 716 717       | 593 080       |
| Stores                          | 502 569       | 448 700       |
| Utilities                       | 110 226       | 103 740       |
| Sundries                        | 297 862       | 218 698       |
| Decommissioning and restoration | (764)         | (3 400)       |
| Total operating costs           | 1 626 610     | 1 360 818     |
| Concentrates purchased          | -             | 106 447       |
| Refining and other costs        | 75 540        | 91 816        |
| Depreciation                    | 149 325       | 129 040       |
| Change in metal inventories     | (242 827)     | 39 824        |
| Cost of sales                   | 1 608 648     | 1 727 945     |

## SALES

|                             | F2008               |                                      |                  | F2007               |                                      |                  |
|-----------------------------|---------------------|--------------------------------------|------------------|---------------------|--------------------------------------|------------------|
|                             | Units<br>sold<br>Kg | Average<br>price<br>received<br>R/kg | Revenue<br>R000  | Units<br>sold<br>Kg | Average<br>price<br>received<br>R/kg | Revenue<br>R000  |
| Platinum                    | 5 275               | 396 780                              | 2 093 212        | 6 609               | 278 045                              | 1 837 603        |
| Palladium                   | 2 523               | 94 894                               | 239 379          | 3 014               | 78 258                               | 238 849          |
| Rhodium                     | 643                 | 1 792 075                            | 1 151 946        | 877                 | 1 225 945                            | 1 074 565        |
| Gold                        | 145                 | 196 990                              | 28 662           | 203                 | 151 337                              | 30 826           |
| Sub-total – 3PGE+Au         | 8 586               | 409 159                              | 3 513 199        | 10 703              | 297 292                              | 3 181 843        |
| Iridium                     | 208                 | 102 822                              | 21 427           | 270                 | 93 350                               | 25 221           |
| Ruthenium                   | 1 059               | 99 302                               | 105 122          | 1 046               | 83 475                               | 87 308           |
| Other precious metals       | 188                 | n/a                                  | 852              | 287                 | n/a                                  | 2 095            |
| Sub-total – precious metals | 10 041              |                                      | 3 640 600        | 12 306              |                                      | 3 296 467        |
| Nickel                      |                     |                                      | 211 089          |                     |                                      | 403 744          |
| Copper                      |                     |                                      | 30 769           |                     |                                      | 36 851           |
| Other by-product revenue    |                     |                                      | 3 679            |                     |                                      | 2 743            |
| <b>Total sales revenue</b>  |                     |                                      | <b>3 886 137</b> |                     |                                      | <b>3 739 805</b> |

*Metallurgical processing infrastructure at Northam mine includes a smelter and base metals removal plant.*



## Financial review *cont*

### Operating costs

Total operating costs increased by 19.5% from R1 361 million to R1 627 million, reflecting inflationary cost pressures, particularly in respect of chemicals, steel and timber. This, combined with the lower metal production resulted in unit cash operating costs increasing by 29.5% to R175 197 per kilogram.

Labour costs increased by some 20.8% which comprised the cost of the 2007 wage settlement of 9.6%, interim adjustments to salaries to retain employees with scarce skills (5.3%) as well as an amount of R30 million (5.1%) in respect of an initial contribution to be made to The Toro Employee Empowerment Trust.

The increase of 12% in the cost of consumables is primarily accounted for by significant increases in respect of the costs of chemicals, timber and steel.

Utility costs rose by 6.3%. The increase in power tariffs amounted to 14.7%, which was offset by the lower tonnage mined.

Sundries increased by 36.2%. The major factors contributing to this increase were increases in insurance costs and increased mineral royalties as a result of more ore being mined from the area subject to royalties. In addition, more diamond drilling was performed in negotiating the complex geology of the Northam mine, while increases in underground track and haulage maintenance and costs associated with processing the waste dump accounted for the balance of the sundry expenditure.

Decommissioning and restoration charges reflect a reduction in costs following a change in the discount rate, as more fully set out in note 14 of the notes to the annual financial statements on page 71.

### Concentrate purchases

There were no purchases of concentrates during the year.

### Refining and other costs

Refining and other costs decreased by 17.7% to R76 million compared to the previous year, as a result of a 62.3% decline in nickel refining costs, which costs

are linked to fluctuations in the nickel price.

### Depreciation

The depreciation charge increased by 15.7% as a result of the higher capital expenditure.

### Change in metal inventories

The change in metal inventories is primarily as a result of an increase in metal inventories which is attributable to the increase in unit operating costs (R70 million) and an increase in reverbs (R173 million) which will be treated once the smelter rebuild, discussed in the business review, is complete.

### Investment income and net sundry income

Improved cash flows and higher interest rates had a positive impact on investment income which was 16.6% higher at R98 million. Net sundry income reduced by some R3.5 million to R1.8 million compared to the previous year, primarily as a result of an increase in currency translation losses of R4.8 million, offset by an increase in royalties from the chrome recovery plant of R1.2 million and dividends received of R2.3 million.

### Expenditure on the Booyesendal Platinum Project

Costs associated with the Booyesendal Platinum Project, which included transaction costs of R8.3 million, amounted to R18 million.

### 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 R866 million equates to an effective rate of 36.7%, some 8.7% higher than the statutory rate of 28.0%. This additional 8.7% is accounted for by state's share of profits of 5.3%, secondary tax on companies (STC) of 5.0% and reduced by permanent and other minor differences of 1.6%, as more fully set out in note 23 to the annual financial statements on page 75.

### Profit attributable to shareholders

Profit attributable to shareholders increased by 12.6% to R1 493 million, with headline earnings per share increasing from 560.1 cents per share to 627.2 cents per share.

## Cash flow

### Operating cash flow

The cash flow from operations declined slightly by R8 million to R1 547 million with the increase in cash generated from the operations increasing from R2 157 million to R2 429 million, reflecting the improvement in operating profits. Interest income increased to R95 million from R81 million primarily as a consequence of the higher average cash balance and higher interest rates. Working capital increased by R265 million (F2007 : R106 million) as a result of an increase in inventories (R250 million), increases in accounts receivable (R90 million) and increases in accounts payable (R76 million). The increase in tax payments from R584 million to R748 million reflects the increase in profits and higher dividends for the year.

### Investing cash flow

The net investing cash flow was R264 million (F2007: R212 million), comprising capital expenditure of R265 million less proceeds from sundry disposals of R3 million and township development expenditure of R2 million.

The major items contributing to the capital expenditure of R265 million were: development expenditure (R89 million); access infrastructure to 1 and 14 levels (R24 million); upgrading of the backfill reticulation system (R12 million); extensions to the hydropower infrastructure (R6 million); critical spares and an additional crusher in the concentrator plant (R21 million); upgrading of IT systems (R7 million); additional accommodation for employees (R19 million). The balance comprised routine capital expenditure.

Planned capital expenditure for F2009 amounts to a total of R340 million and includes the following major items: access



infrastructure to 1 level and below 14.5 level and development through the 20 line fissure (R130 million), additional backfill facilities and extensions to the ventilation system (R25 million), upgrading of the power management system (R11 million), rebuilding of the smelter (R45 million) improvements to the metallurgical plants (R20 million), additional underground equipment (R14 million) and employee amenities (R36 million).

A further R2 million was spent on an 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 R22 million (F2007 – R12 million) was received following the exercise of share options by employees.

The dividends of R1 billion paid reflect the strong performance of the group, and comprise the final dividend for F2007 of 280 cps and the interim dividend for F2008 of 145 cps. A final dividend of 185 cps for F2008 has been declared bringing the total to 330 cps.

#### Balance sheet

The group's balance sheet remains strong, with cash and cash equivalents at the year end of R1 500 million (F2007: R1 210 million) and net current assets of R1 592 million (F2007: R1 179 million). The environmental decommissioning and restoration liability is R56 million (F2007: R22 million). Apart from this liability and the deferred tax provision of R388 million (F2007: R376 million) the group has no debt.