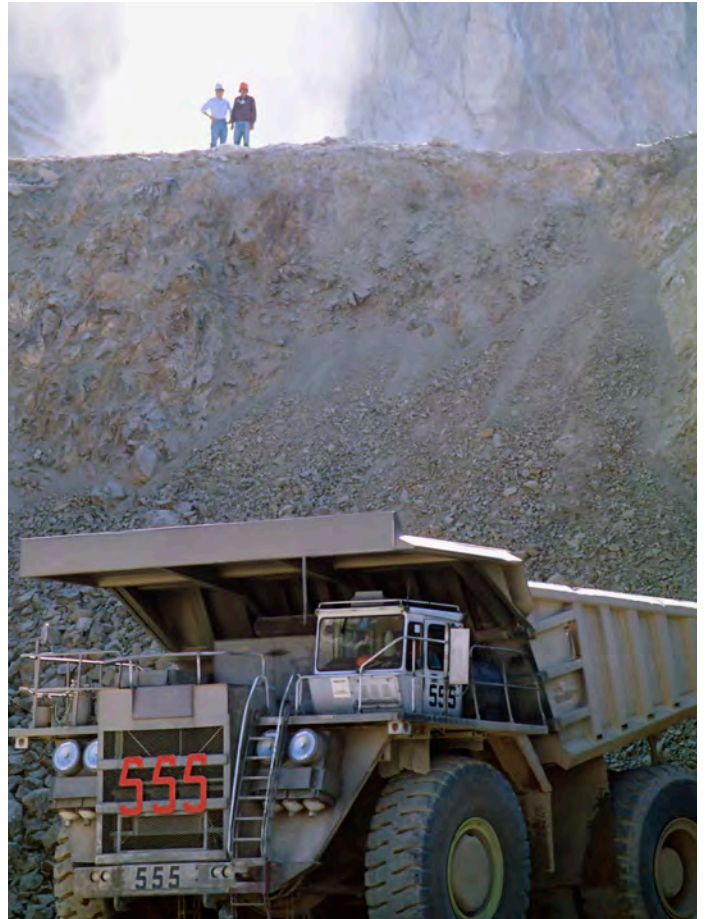


SA Mine

Highlighting trends in the South African mining industry



4th edition
November 2012





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1. Executive summary

Highlights

	Current year R'billions	Prior year R'billions	Difference R'billions	% change R'billions
Revenue from ordinary activities	339	293	46	16%
Adjusted EBITDA	123	102	21	20%
Net profit	65	52	13	25%
Distribution to shareholders	36	17	19	116%
Net operating cash flows	112	64	48	75%
Capital expenditure	70	56	14	25%
Total assets	650	573	77	13%

In 2012, the financial performance in the mining sector reflects the higher price environment experienced by most commodity producers, excluding platinum, and the positive prospects for growth experienced at the beginning of the period. Unfortunately, the dark clouds of industrial action, cost pressure and shrinking margins are reflected in the market capitalisation performance of the industry. A tough year lies ahead in 2013.

Welcome to the fourth in our series of publications that highlights trends in the South African mining industry.

While the 2009-2011 period was characterised by a recovery in overall commodity prices from the lows of the 2008 financial crisis, 2012 saw a slowdown in this recovery, with gold the only commodity gaining value.

A weakening rand over the period somewhat shielded the South African mining industry from the decline, with rand prices remaining relatively flat. Unfortunately, flat prices will not support the industry's significantly increased cost base.

Generally, balance sheets remained strong, with stable liquidity. However, the significant increase in assets held for sale indicates a sell-off of non-core assets as companies prepare for leaner times. Mining companies continue to focus on value-adding initiatives in the current environment. There is a need for sustainable per unit cost reduction, which can only be achieved with increased levels of productivity from all resources. There is a need to reconsider pivotal mining talent and labour issues in particular.

It is imperative that mining companies rethink risk and the risk landscape in which they operate, as gone are the days when risks for mining companies were limited to health and safety matters. Mining companies now need to integrate risk and performance management and they need to evolve risk management to be more predictive in order to anticipate and plan for negative potential events.

Safety statistics indicate there is a higher level of focus in place and our view is that there is marginal improvement in this area.

The changed environment requires vision and leadership from boards of directors and executive management alike. The ongoing bolstering of corporate governance practices and reform at the top is likely to continue.

Mining companies are now, more than ever, operating in a stakeholder integrated environment, as all stakeholders are claiming their share of the industry returns. Industry collaboration is needed to address wider stakeholder expectations.

The mining industry already adds significant value to our country and its people. The monetary benefit received by each stakeholder in the industry is often summarised by companies in their value added statements. It is a lot more difficult to quantify benefits resulting from costs that assist in uplifting communities or protecting the environment for future generations. A concerted effort is now being made to deal with acid mine drainage and its cost to the environment and affected communities.

Globally there is a drive to improve transparency with regard to tax payments made to governments and how those funds are utilised for the development and upliftment of those countries and their people.

We trust you will find this publication to be of value and look forward to sharing future trends with you. We would appreciate any feedback you may have to share with us.

Scope

Our findings are based on the financial results of mining companies with a primary listing on the Johannesburg Stock Exchange (JSE), as well as those with a secondary listing whose main operations are in Africa. We only included companies with a market capitalisation of more than R200 million at the end of June 2012, and we excluded companies with suspended listings.

In all, 39 companies met these criteria. Section 9 provides a list of all mining companies included in this report.

Our selection criteria excluded global mining companies Anglo American and BHP Billiton. Although both of these companies have South African roots, their global exposure and size mean that they do not necessarily reflect trends in the South African mining environment. While many of the entities that are included also have international exposure, the bulk of their operations are in Africa. A global view on mining is provided in our *Mine: The growing disconnect* publication.¹

BuildMax, Hwange Colliery Company and Forbes & Manhattan Coal have been included for the first time in the 2012 publication, while Tawana Resources and Metorex have been excluded, as their market capitalisation has declined below the threshold noted above. Optimum Coal Holdings has been excluded from the analysis due to the unavailability of its financial information since its delisting and takeover by Glencore International plc. Platmin has also been excluded due to its delisting in December 2011.

The findings of this report are based on publicly available information, predominantly annual reports, for financial years ending no later than 30 June 2012. Where annual reports were not available, we have used preliminary reviewed results.



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¹ Accessible at <http://www.pwc.com/gx/en/mining/publications/mining/mine-the-growing-disconnect.jhtml>

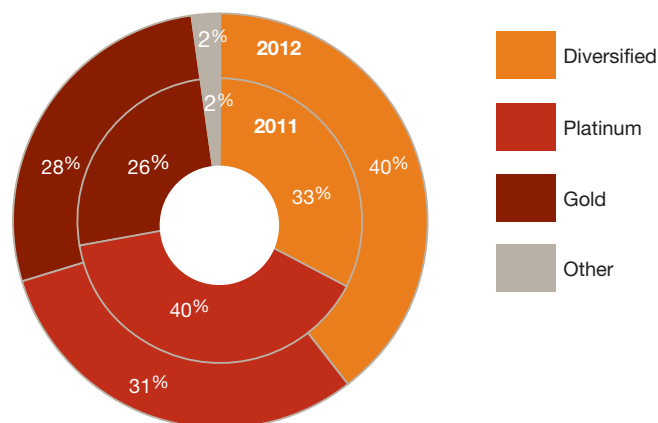
2. The South African mining industry

Market capitalisation

The 2012 financial year saw the top 39 mining companies shed all the gains made since 2010. Market capitalisation for these top 39 companies declined by 9% from R910 billion in 2011 to R833 billion in 2012, reflecting a 3% decrease in market capitalisation from R862 billion in 2010. On the back of strike action, the position weakened even further and reflected a market capitalisation of only R792 billion at the end of September 2012.

Biggest gainers in 2012 have been the diversified companies, with Kumba Iron Ore, Assore and Exxaro Resources increasing their market capitalisation by R39 million (13%) in aggregate. A depressed rand platinum basket price significantly impacted platinum miners, with Anglo Platinum, Impala, Lonmin, Northam Platinum, Royal Bafokeng Platinum and Aquarius Platinum losing R86 billion (25%) in market capitalisation.

Figure 1: Market capitalisation of the top 39 per commodity 2011 vs 2012



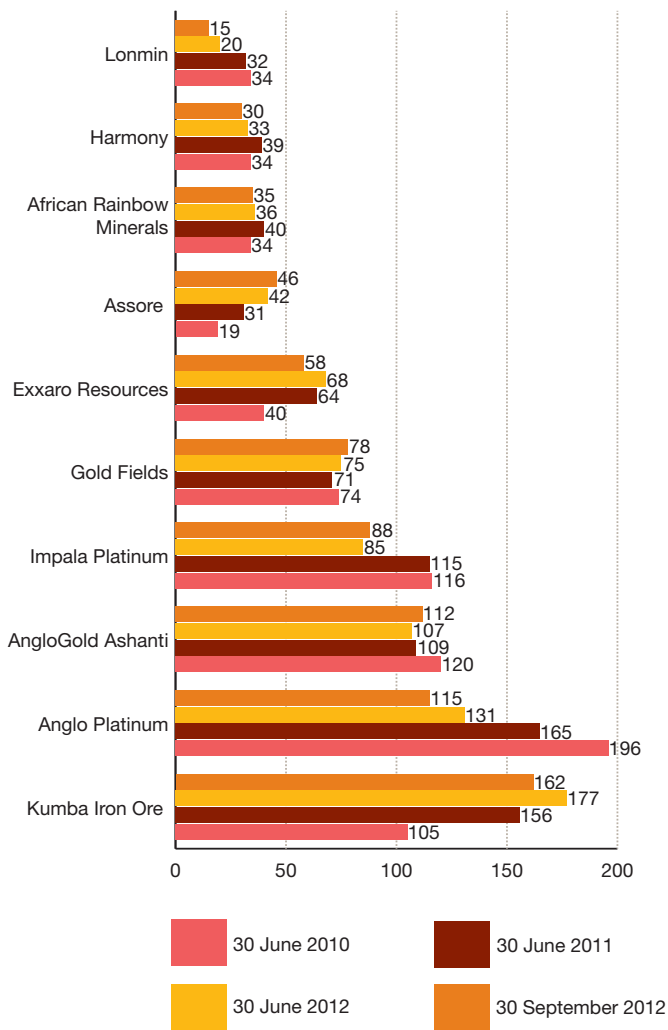
Source: Business Day

The diversified companies replaced the platinum producers as the dominant players within the top 39, increasing their share of market capitalisation to 40% (2011: 33%), while the platinum producers' share reduced to 31% (2011: 40%).

Strong local and international demand assisted coal producers.

Market capitalisation for the top 10 declined by 6% (R49 billion) to R773 billion. Only four of these companies recorded increases, three of which are the diversified companies listed above and the other is Gold Fields. While the composition of the top 10 companies remained consistent with 2011, Kumba Iron Ore replaced Anglo American Platinum as the largest company by market capitalisation.

Figure 2: Market capitalisation of the top 10 companies (R'billions)



Source: Business Day

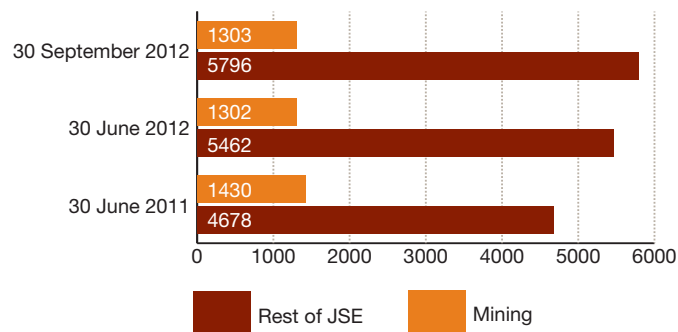
The tragic events at Marikana and widespread labour disputes have had a significant impact on the mining industry. Although these events were not the only factors that impacted market capitalisation, they played a key role in the decline of the top 39's market capitalisation by 5% from June 2012 to September 2012. Of the top 10 companies, six posted declines, with Anglo Platinum, Kumba Iron Ore and Exxaro Resources collectively losing R40 billion in market value.

Uncertainty in Europe and continued unrest in the Middle East resulted in higher gold prices and shielded gold mining companies, with both Gold Fields and AngloGold Ashanti posting gains in market capitalisation during this period. At the time of writing, Assore, a diversified company focusing on iron ore, manganese and other base metals, was the only other company to increase its market capitalisation since the events at Marikana.

The challenges facing the industry are reflected in the relative decline in market capitalisation of mining companies in comparison to the overall market capitalisation of the JSE.

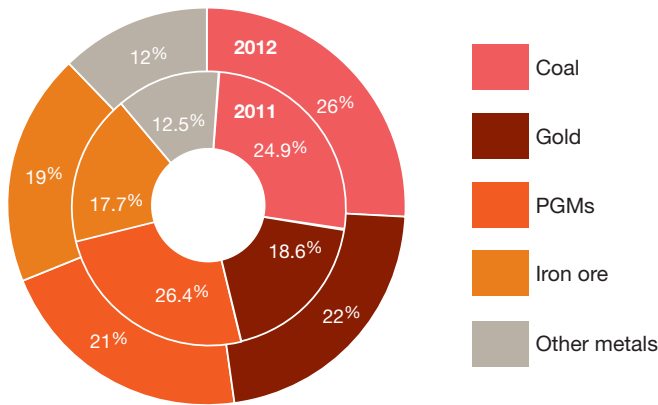
Despite the JSE All Share Index reaching record levels and the exchange posting steady increases in overall market capitalisation since 2010, the market capitalisation of the mining sector has declined.

Figure 3: Market capitalisation: Mining vs rest of JSE (R'billions)



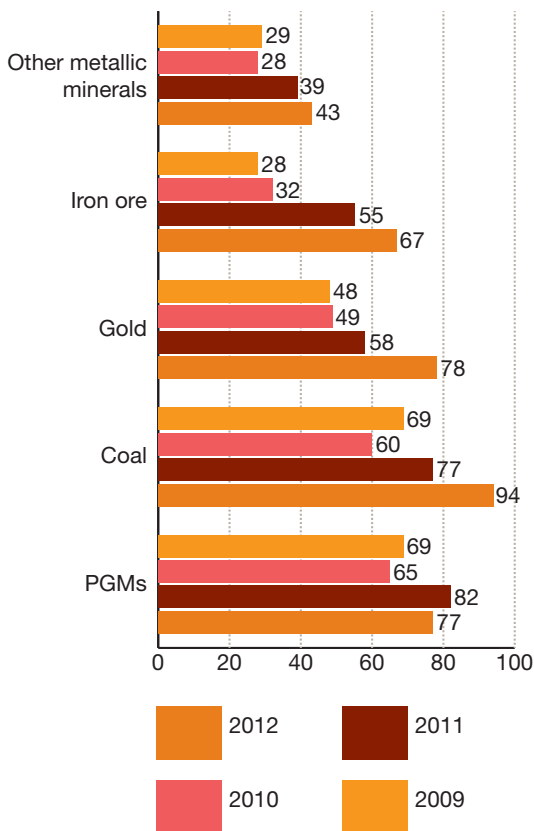
Source: Inet Bridge

Figure 4: Percentage mining revenue per commodity – 2011 vs 2012



Source: Stats SA

Figure 5: Annual revenue per commodity (R'billions)



Source: Stats SA

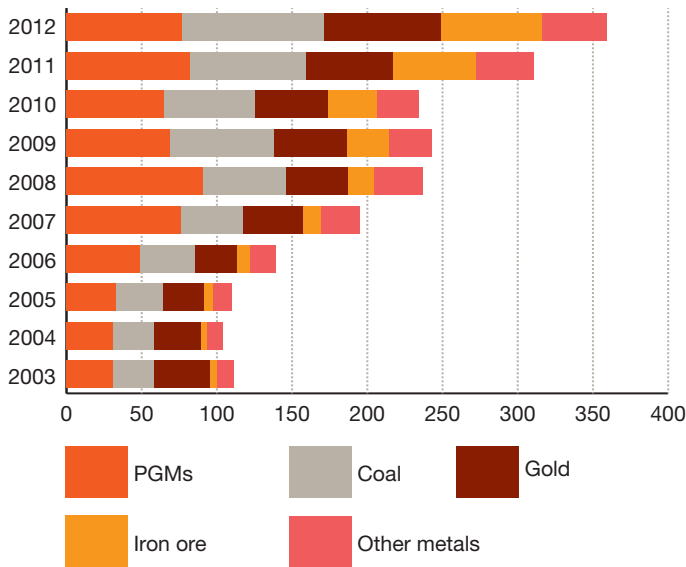
Contribution by commodity

Coal overtook platinum as the highest revenue-earning commodity in South Africa. While the rand price of platinum recovered slightly in 2012, a significant decline in the production of platinum has been the major contributing factor. It is unlikely that platinum will regain top spot in the short term due to the slower than expected recovery in global markets, uncertainty in respect of the Eurozone and lower production as a result of industrial action.

Annual gold revenue increased on the back of the rand's decline against the US dollar. Given the decrease in production, this increase is unlikely to be sustainable.

Figure 5 depicts the relative breakdown of revenues per commodity for the 12 months to June 2012. The increase is predominantly rand-price driven, with production making barely any positive impact, as is evident from the lower production in comparison to 2011 shown in Figure 10.

Figure 6: Annual mining revenue per commodity (R'billions)



Source: Stats SA

A slowdown in prices

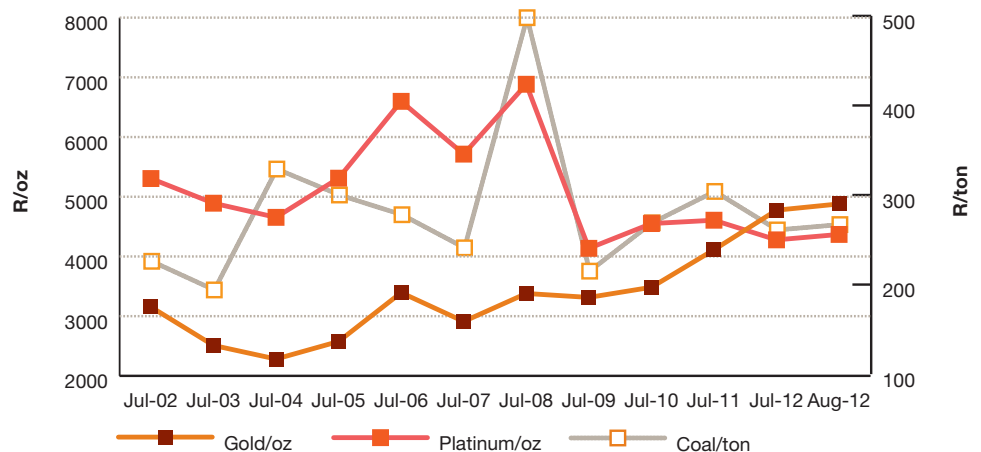
Of the three main revenue-generating commodities, gold is the only commodity to have gained in real rand terms. The price of coal has remained fairly flat, while the rand price of platinum declined in real terms.

Gold achieved a record 10-year high in February 2012, while at the same time platinum achieved its lowest real price in the last decade. Continued uncertainty in the Eurozone and concerns about slightly slower growth in China are expected to place downward pressure on the platinum price in the short term. However, supply constraints following labour disruptions and the low margins achieved by the platinum miners should result in an increase in prices in the medium term.

On the positive side, the economic pressures noted above and resultant low-interest-rate environment, combined with the continued unrest in the Middle East, are likely to support the gold price.

The weaker rand after June 2012 has had a positive impact on rand commodity prices and may provide respite in the current low-margin environment.

Figure 7: Real rand prices

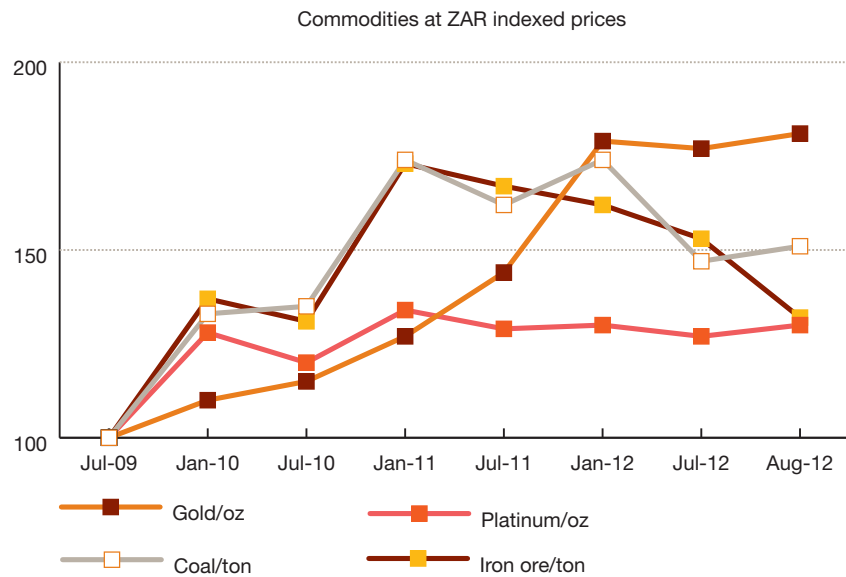


Source: World Gold Council, Johnson Matthey, AME Outlook and PwC calculation

While 2009-2011 was characterised by a recovery in overall commodity prices from the lows of the 2008 financial crisis, 2012 saw a slowdown in this recovery with gold the only commodity gaining value. A weakening rand over the period somewhat shielded the South African mining industry from the decline with rand prices remaining relatively flat. Unfortunately, flat prices will not support the industry's significantly increased cost base.

Declining industrial demand from China and lower new car sales in the US and Europe have seen iron ore and platinum being the biggest losers over this period.

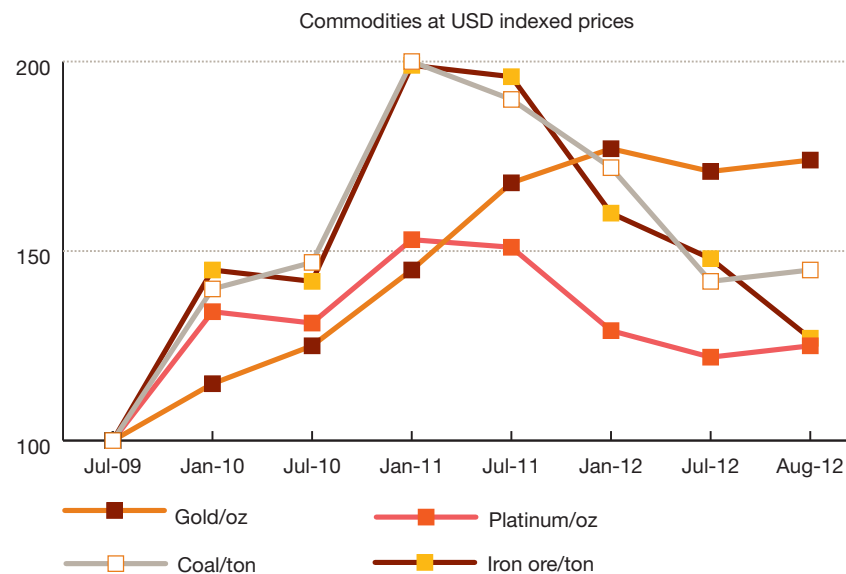
Figure 8: ZAR indexed prices



Base: July 2009 = 100

Source: World Gold Council, Johnson Matthey, AME Outlook and PwC calculation

Figure 9: USD indexed prices



Base: July 2009 = 100

Source: World Gold Council, Johnson Matthey, AME Outlook and PwC calculation

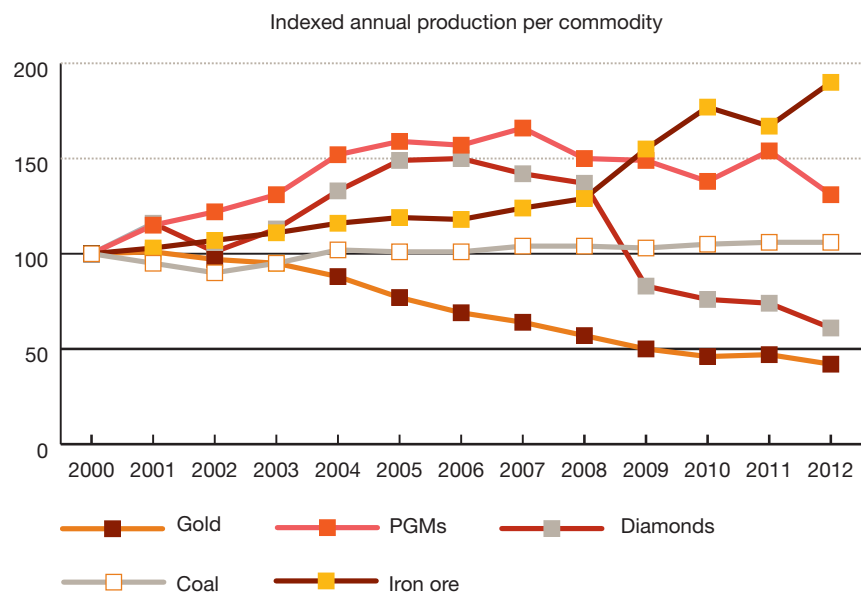
Production

Iron ore was the only commodity to record increased levels of production in 2012. This can be attributed to a 16% increase in output at Kumba's Sishen operations.

Gold production continued to decline despite record rand prices. The decline in gold production is indicative of the ever-increasing depths of existing mines, technical difficulties experienced by start-up operations and a continually growing cost base.

A depressed platinum price, combined with infrastructural challenges and lost ounces due to industrial action are the main drivers of lower levels of production. In the second quarter of 2012, Impala Platinum alone lost 150 000oz as a result of industrial action at its Rustenburg operations.

Figure 10: Indexed annual production



Base: July 2000 = 100

Source: Stats SA

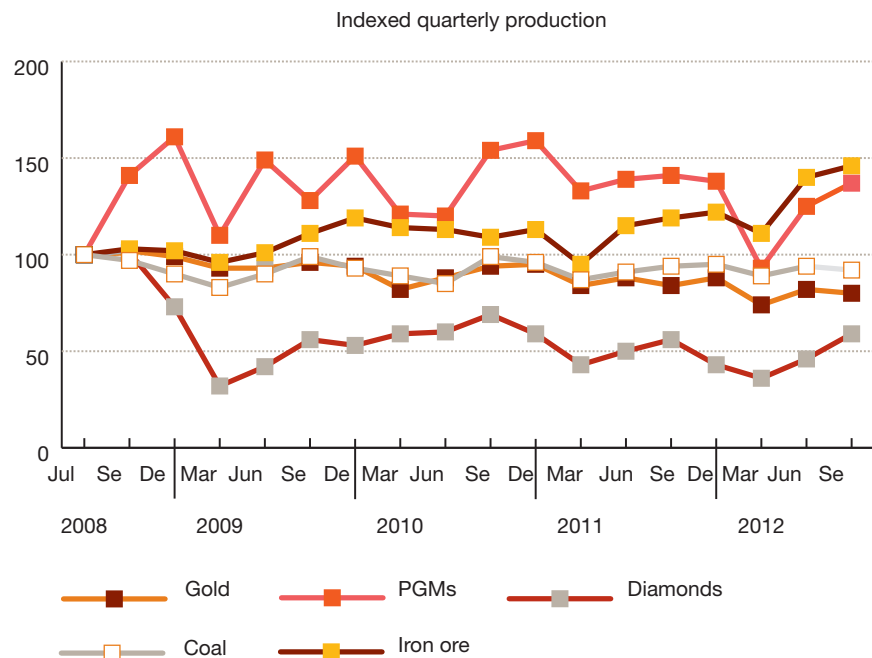
Future supply

Higher than average rainfalls, together with a number of lost days during Easter shutdowns resulted in reduced production during the March and June quarters of 2012. Production in the platinum sector was also significantly impacted by industrial action at Impala Platinum.

Production figures are expected to decline even further after September 2012 as a result of the industrial action that has impacted mining companies across the sector.

The ongoing strike action in the platinum industry does not reflect as severely as one might expect in the production for the September quarter. This is the result of the refining period of more than two months required for platinum. The December quarter and the start of the 2013 year are likely to reflect the brunt of the current unrest. Depending on stock levels held by producers, this decline in production could have a significant impact on the country's export revenues in the December 2012 and March 2013 quarters, which in turn could weaken the rand.

Figure 11: Indexed quarterly production



Base: July 2000 = 100

Source: Stats SA



3. A changing risk landscape

Risks facing the industry

The requirements of the *King Report on Governance for South Africa 2009* (King III) have resulted in improved disclosure of risks by all companies. Mining companies in particular have been very good at disclosing these risks. However, the challenge remains to adequately link performance and risk management and to put the necessary measures into practice.

The regulatory, political and legal environment, followed closely by employee skills and safety were amongst the most common risks disclosed by the companies included in the analysis. The following were the top five risk categories disclosed by companies, but are by no means meant to present a comprehensive list of risks identified by mining companies:

- **Regulatory, political and environmental risk**

The mining industry is highly regulated. Noncompliance with regulatory requirements could result in forfeiture of mineral rights. Furthermore, policy uncertainty, in particular resource nationalism, could have a significant impact on the operational performance of mining companies operating in South Africa.

- **Safety and health**

Mining is a hazardous activity. Apart from personal suffering, work-related injuries could lead to a shutdown of operations resulting in lost production and jeopardise the company's licence to operate. The recent focus on silicosis claims in the industry highlights the long way the industry has come in this regard.

- **Human capital**

The complex nature of operations requires adequate skilled and trained staff. The lack of appropriately qualified/experienced staff is a key challenge facing mining companies.

- **Operational performance**

Failure to meet production targets or delays in rolling out capital projects pose a significant risk. Mining operations are complex and can be adversely affected by a variety of factors including, but not limited to weather conditions, industrial disputes, and infrastructural and environmental constraints.

- **Foreign exchange**

While commodity prices are dollar denominated, the cost base of mining companies is paid in rands. Volatility in the rand:dollar exchange rate makes budgeting and monitoring extremely difficult.

In addition to the generic risks identified above, we want to highlight a few specific risks that we believe will be topical in the coming year.

- **Compliance with the Mining Charter**

Much has been made of the apparent inability of mining companies to meet the initial compliance targets set out in the Broad-based Socio-economic Empowerment Charter for the South African mining industry in 2009. The compliance targets for 2014 are substantially higher. While a number of companies have made good progress in achieving these targets, other companies will find them challenging to achieve. Apart from the 26% ownership target, the required procurement spend with BEE entities of 40% for capital goods, 70% for services and 50% for consumable goods is bound to be a challenge.

As indicated in Section 7, companies have generally done well to meet the 40% HDSA representation requirement at board and senior management level. However, we foresee that the middle management and core-skills categories, which require the same representation, could pose a significant challenge considering the significant skills shortage in the industry.

The lack of compliance with social and labour plans has received much attention of late and often justifiably so. Unfortunately, even where companies have the cash resources and are willing to incur the expense, agreeing on projects with local communities, municipalities, other regulators and other mines in the area, often proves difficult. However, in the aftermath of the events at Marikana, there is likely to be renewed focus in this area.

Notwithstanding the Mining Charter's current compliance requirements, rumours continue to suggest that these requirements could be changed. Such a development could even result in compliant companies having to ramp up their compliance efforts.

- **Infrastructure development**

Concerns about infrastructure development relating to water, electricity and transport and their limitations in South Africa are well documented. Many South African mining companies are looking to the rest of Africa for future growth and there is extensive exploration and development taking place in under-developed areas in other African countries. The challenge to exploiting these resources is in building the infrastructure necessary to access the areas and ship the ore. This relates specifically to road, rail and ports. Governments will expect mining companies to provide or at least partner in providing this investment.

- **Mothballing – physical risks**

Mothballing existing operations, which has already commenced in the platinum and gold industry and may be expanded as a result of recent industrial action, could cause physical damage to the mines – especially underground workings. Reopening closed mines and shafts in the future will be costly and could pose potential safety hazards that could delay a return to operations. Mothballing could also have a knock-on impact on rehabilitation because of increased closure costs and cash flow requirements.

- **The workforce dilemma**

The build up to Marikana and the ensuing industrial action across the industry have highlighted the need for mining companies to maintain direct communication channels with workers. Even though they are required by law to communicate through labour forums, union relations can no longer be relied upon to provide reasonable certainty of minimal labour disruptions. Multi-year wage deals may be revisited in an attempt by existing union representatives to regain support from their members and growing number of former members.

The higher labour cost base, coupled with the contraction of mining activities, has already led to significant retrenchments and more are likely to follow. The impact on communities and the process of retrenchment could aggravate the current spiral of negativity and sustained violence in mining areas and may lead to political interference.

- **Socio-economic impacts**

Mining developments have led to an influx of people into surrounding communities, attracted by the hope of securing direct employment, or indirect employment in providing goods and services to mine employees. Considering the scale of the influx of migrants, the lack of service delivery by local governments, the use of housing benefits for other purposes and the apparent inability of stakeholders to agree on social upliftment projects, the limited resources of individual mining companies fall well short of community expectations.

- **Inappropriate capital decisions**

The availability of funds for capital expenditure is currently limited, with investors adopting a wait-and-see approach to the South African mining industry. However, postponed, stalled and delayed capital expenditure may hinder mining companies' ability to ramp up production in time to benefit fully from future commodity price increases.

On the other hand, over-optimistic long-term investment assumptions could result in inadequate cash flows to redeem debt, maintain equipment and reinvest in the business. This will inevitably result in:

- Impairments;
- Poor shareholder returns, resulting in the share being downgraded;
- Shares shunned by investors, making it difficult to raise funds in the future, and ultimately
- Business failure.

A balance is required between cash preservation and strategic positioning for the future.

- **Climate change**

Amid the ongoing climate change debate, mining companies need to assess the potential impact of adverse weather patterns on their operations (excessive or below-average rain, heat, fog and dust impacting on operations) and the communities in which they operate.

Water: Managing a growing strategic risk

The world is facing a major water challenge. While there is a finite supply available for consumption from surface and shallow groundwater, demand has increased exponentially as the world population has climbed from just over 2.5 billion in 1950 to 7.0 billion in 2012. The latest projections suggest that global water demand may outstrip supply by 40% by 2030 and that one-third of the world's population will live in basins where the water deficit is above 50%.

Climate change is escalating the problem, whether it be water scarcity from drought or floods and extreme weather events creating too much. Industrial processes are further impairing the quality of the water we do have.

These issues are amplified in South Africa, a largely semi-arid country with a growing economy and population, which is also the economic hub of Africa. South Africa is fast approaching water scarcity while a crisis in water quality impact management increases the risk to this essential resource.

Pressure to alleviate poverty and improve living conditions amid rapid urbanisation has quickly turned water into a highly strategic and valuable resource. It is in this context that the mining industry in South Africa has become the main focus for water management and regulation.

There are three primary reasons for this:

- Mining operations require vast quantities of water, often in water stressed regions, which puts further pressure on a scarce resource and negatively impacts local communities' ability to use it for sanitation, consumption and food security. Access to water has become a human rights issue, creating stresses, strains and conflicts in communities affected.
- Extreme weather events are impacting operations and production days, depending on the type of mining scenario, thereby reducing output or increasing pressure to catch up on lost production. The latter may create further operational risk with regard to safety.
- The byproducts of mining and extraction processes contaminate water. As early as 1987 the US Environmental Protection Agency recognised that:
*...problems related to mining waste may be rated as second only to global warming and stratospheric ozone depletion in terms of ecological risk. The release to the environment of mining waste can result in profound, generally irreversible destruction of ecosystems.**

The effect of mining on the environment includes the release of chemical contaminants into water resources and environmental damage that can persist for many years after mine closure, both of which can severely compromise the health and safety of nearby communities.

Mining activities can also be responsible for the degradation of soil quality, aquatic habitats and for allowing heavy

metals to seep into the environment. High concentrations of uranium and arsenic in groundwater have been linked to high incidences of haematological abnormalities and leukaemia in affected communities. This highlights the importance of safeguarding the quality of non-regulated water supplies such as boreholes on private properties and rivers.

Poor quality water not only limits its utilisation value, but also places an added economic burden on society through both the primary treatment costs and the secondary impacts on the economy:

- The more polluted the water resource, the higher the treatment costs;
- Human health (and the resultant loss in economic activity) is affected by poor water quality as it gives rise to waterborne diseases such as cholera, bacterial infections, heavy metal accumulation and endocrine disrupting substances; and
- Poor quality irrigation water has a ripple effect – for example, health inspectors may have to reject export fruit because of bacterial contamination or bioaccumulation of heavy metals.

Water management

Water management covers an array of issues, including but not limited to complying with legislation and the conditions of the water use licence, measuring and monitoring use and quality, cleaning up or recycling discharge, building future water treatment costs into rehabilitation provisions and engagement with local communities about use, quality and equitable access.

Water management includes the entire sphere of governance, strategy, risk, performance measurement and improvement, and engagement with stakeholders. A mature water strategy should include the following elements:

- Water quantity and quality metrics for all sites;
- Public disclosure of water data;
- Water policies and commitments endorsed by the CEO;
- Systematic evaluation of water risk across the value chain; and
- Active stakeholder engagement.

For the mining sector, water strategy and management has never been more important. The sector is currently under major scrutiny in terms of its socio-economic impact on its employees, local communities and South Africa as a whole. The additional risks of operational underperformance, environmental degradation and community conflict need to be proactively managed.

* US Environmental Protection Agency, *Unfinished Business: A Comparative Assessment of Environmental Problems – Appendix III*, Ecological Risk Work Group, February 1987 (Accessed at www.epa.gov)

4. Safety

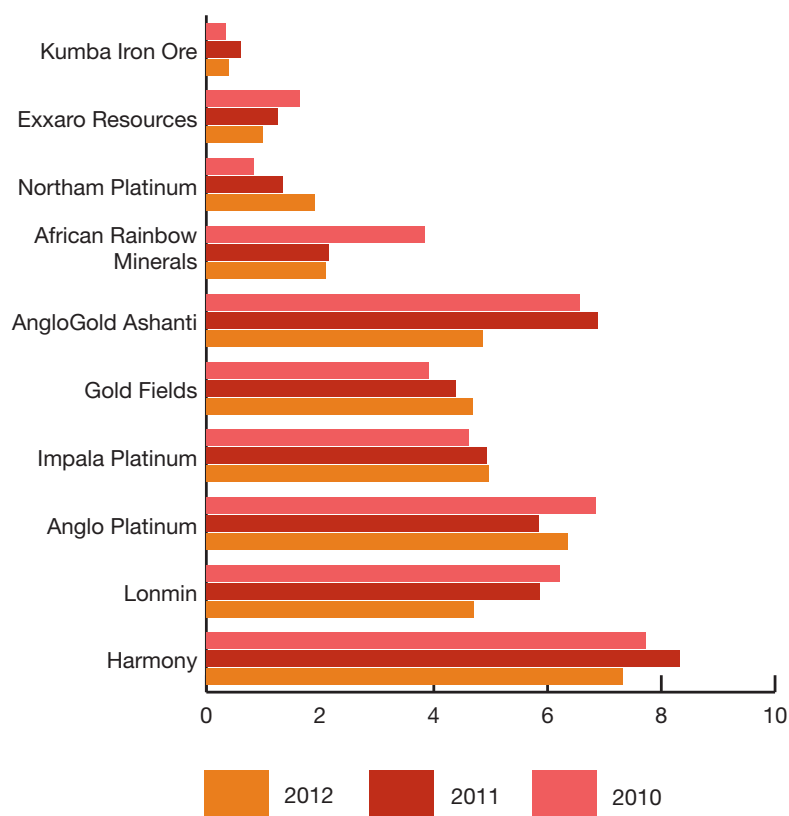
Mining companies, the Government and unions realise how important employee safety is if the industry is to remain sustainable in the long term. This is evident in the emphasis placed on safety in company annual reports, safety stoppages and union commentary.

While there have been insinuations that fatalities are linked to the high-price environment – that chasing profits in the higher-price environment causes accidents that result in injury and death – the reality is that improving safety has a profit incentive.

The cost of lost production due to self-imposed and Section 54 closures is real. Judging from annual reports, mining companies realise this link and are investing in safety.

Of the top 10 companies that disclosed lost-time injury frequency rates, Kumba Iron Ore reflected the best safety record with regard to lost-time injuries. AngloGold Ashanti showed the best improvement over the previous year, while a total of seven companies improved their statistics compared to the prior year.

Figure 12: Top-10 companies' lost-time injury frequency rates per million man hours



Source: Company sustainability reporting



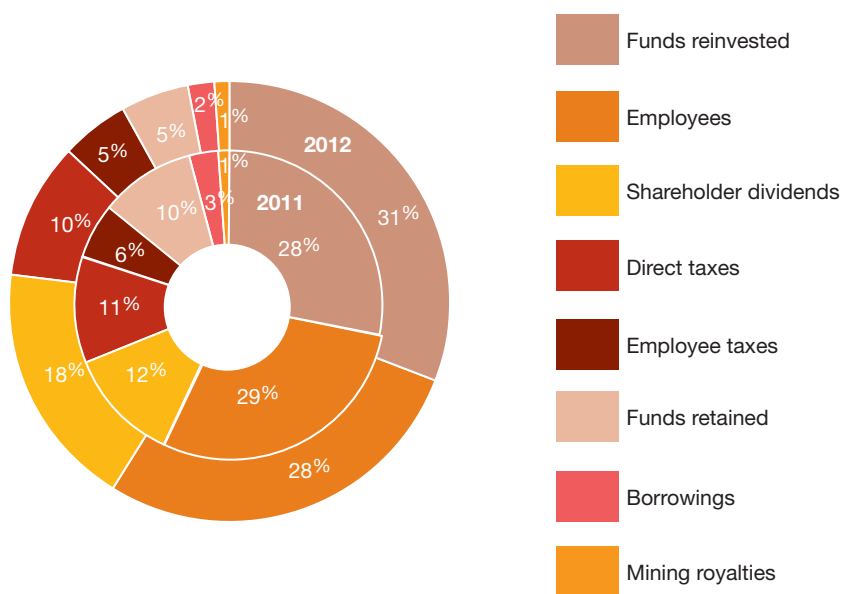
5. Improving value to stakeholders

The mining industry adds significant value to our country and its people. Stakeholders in the mining industry include employees and their families, unions representing them, the Government as regulators and custodians of tax income for the country, investors, suppliers and customers. The monetary benefit received by each of these stakeholders is often summarised by companies in their value added statements.

It is a lot more difficult to quantify benefits resulting from costs that assist in uplifting communities or protecting the environment for future generations.

A third of the companies included in this survey – representing approximately 75% of revenue for all companies considered – provided readily available value added statements. Figure 13 shows how the value created, being the difference between income and direct purchases, was being distributed to the various stakeholders.

Figure 13: Distribution of value – 2011 vs 2012



Source: Annual reports, PwC analysis

The value received by employees, net of employee tax, represented 28% (2011: 29%) of the value created. The value presented, as a percentage, remains fairly consistent with the prior year percentage, largely due to the fixed nature of employee costs and the relatively unchanged personal income tax brackets.

It should be noted that this amount excludes benefits from share schemes for employees, which are reflected as part of shareholder dividends and share-based payments. For example, the first phase of Kumba Iron Ore's broad-based employee scheme, Envision, was valued at R2.7 billion at its conclusion. This resulted in each employee who had worked for Kumba over the five-year period since its inception, each receiving a payout of R576 045 before tax.

The state received 16% (2011: 18%) consisting of direct tax, mining royalties and tax on employee income deducted from employees' salaries. Although the percentage of the value created collected by the state has declined by 2% from the prior year, the actual value of collections by the state for the represented entities has remained stable in comparison with the 2011 year. The actual contribution received by the state is significantly higher, with indirect taxes like VAT, import and export duties also being collected.

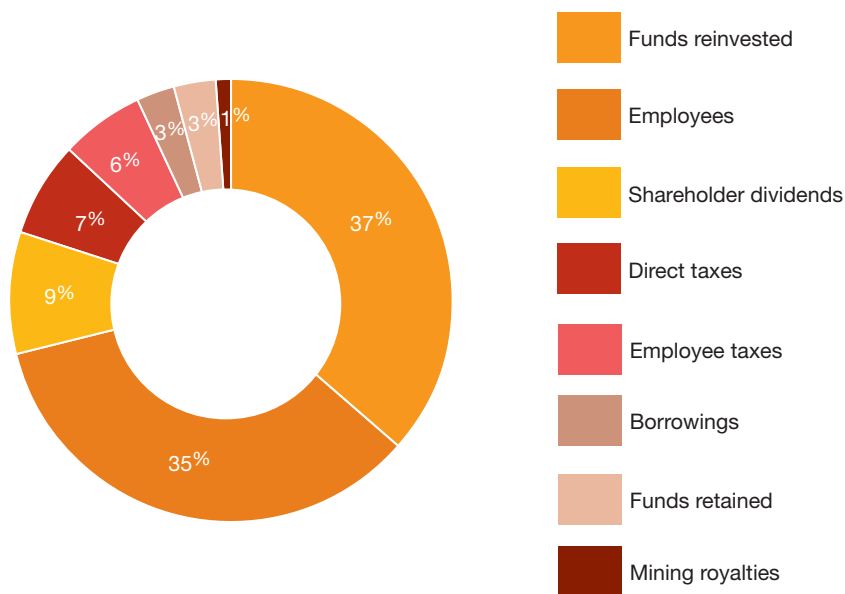
The percentage of value created that is collected by providers of debt capital has reduced marginally from 3% to 2%. This low percentage reflects the fairly conservative levels of gearing in the South African mining industry.

The 18% (2011: 12%) received by the providers of equity capital increased from the prior year and reflects the volatility of returns to shareholders. The substantial dividend paid by Anglo American Platinum in the year accounts for 2% of the 18%. The company did not pay any dividends in the prior year and has not paid an interim dividend in the next year. The distribution is also skewed by the phenomenal performance of and resulting dividend paid by Kumba Iron Ore. If Kumba Iron Ore is excluded from the analysis, then the return to shareholders declines to 9%.

Funds reinvested in the form of acquisitions and capital additions made up 31% of the total value created, with companies retaining 5% of value for future use. This high percentage of reinvestment required to maintain production levels in the mining industry means that stakeholders should understand that discretionary spend such as salary increases and dividends is limited, even for a profitable company.

Not shown in Figure 13 are the funds paid to suppliers of goods and services. Combined, the funds paid to suppliers of goods and services and used for reinvestments amounted to 57% (2011: 57%) of the total income received by these entities.

Figure 14: Distribution of value (excluding Kumba Iron Ore) – 2012



It goes without saying that to create more value for all the different stakeholders, it will be necessary to increase the size of the pie. An increase in the number of profitable mines will increase the total benefits received by employees, the Government and investors. It will also provide greater resources for mining companies to spend in and on the communities in the vicinity of their operations.

Creating an environment with adequate infrastructure, less policy and regulatory uncertainty and a skilled, yet flexible workforce should attract investment, which will be of benefit to all stakeholders.

Source: PwC analysis

When Kumba Iron Ore is excluded from the calculation, the value added statement still provides information on more than 60% of the value added by the companies in the aggregation. However, it also paints a vastly different picture, reflecting an industry in which margins are under pressure, resulting in lower tax income and returns to investors. The fairly fixed nature of employment costs in the short term results in a high percentage of value (not absolute value) allocated to employees. The long-term nature of capital investment means that its proportion also increases when total value decreases, although the absolute value will decrease in the medium term.

To create value sustainably, all stakeholders need to accept that suppliers of labour, capital and resources all need to be compensated fairly and equitably, particularly since these stakeholders cannot operate in isolation.

Value to investors: Focusing on value drivers

Driven by competition for capital globally, the risk of downturns in commodity prices and significant pressures on input costs, mining companies increasingly find themselves needing to find ways to squeeze more out of their assets.

Many mining companies have now established continuous improvement programmes and corresponding organisational structures that are focused on driving initiatives to maximise value within the current asset base.

As has been the case in many industries – and by its very nature – cost management is most often a reactive process, occurring when costs and income are no longer moving in the same direction.

An associated challenge is that cost management initiatives often take place in silos rather than across the entire business.

As a result of these and other challenges, many cost reduction initiatives fall short of their desired result of being sustainable.

Common cost reduction strategies

Approach		Common reason for failure
Top down	'Top-down' review of the business – typically organisation and process changes are required	<ul style="list-style-type: none"> • Little consideration for the management decisions driving costs; • Organisation focus and betting on a 'silver bullet' such as shared services or off-shoring; and • Complexities of reducing costs and existing behaviours are not changed.
Slash and burn	Business as usual but at lower cost due to reduction in operating plans by a set target (e.g. 10% cost reduction)	<ul style="list-style-type: none"> • Reactive and focused on survival; • Short-term cost cutting and focus on one-off savings such as travel; • Based on arbitrary targets; • Savings difficult to manage and track; and • Negative impact on morale and culture.
Boil the ocean	A 'bottom-up' detailed analysis across all departments to identify potential opportunities	<ul style="list-style-type: none"> • Timeframe constraint and lack of urgency; • Greater investment required; • Typically loses momentum and focus; • Negative impact on morale and culture; • Process often only produces lists; and • Departments become personally invested in their own budgets and rarely find waste.

In many instances, not only are cost reduction strategies reactionary, but they also fail to address the root cause of the problem, which is often the inflated cost structures of existing production assets.

In the context of the mining industry, this is exacerbated by commodity price cycles, which see mining companies quite often having to pendulum between produce at all costs and survive at all costs.

While cost management and improvement are crucial to running an effective and profitable business, the greatest gains can generally be obtained by increasing production volumes or throughput. Moreover, it has been found that

not only is production volume a more impactful lever, but there are often greater opportunities to realise gains in this area.

The volume of ore produced and sold by a mining operation is the result of a set of activities operating in sequence to extract the ore, transport it and beneficiate it. The rate at which this is achieved – and often the quality – is influenced by various interdependencies between the different activities in the value chain. To maximise throughput, mining companies have to manage across the whole value chain and understand the impact of these interdependencies clearly.

Attempting to manage activities in isolation of the upstream and downstream dynamics is not an effective way of maximising throughput. However, because organisations tend to assign responsibilities and manage in silos, their systems are likely to be sub-optimal and will reduce the potential to increase throughput on most operations. This concept is not new, with both the theory of constraints (TOC) and lean manufacturing seeking to address the issue of system throughput.

More recently it has been found that by building a model of the value chain and using visually intuitive value driver trees, management can introduce a series of metrics that make it possible to manage constraints and throughput through the course of normal operational reporting. In this way lean and TOC techniques can be packaged into a system for managing operations.

Many mining operators effectively fix their mine plans and budgets on an annual basis and there are often poor linkages between the mine plan, the budget and the real drivers of cost and value. Such operators struggle to determine the cost and margin impact of significant changes in production, particularly when this falls outside the annual planning process.

However, those mining companies that do understand cost and value drivers are able to respond quickly to both sudden price collapses and recoveries. Furthermore, active management of the drivers of cost across all areas of mine production and processing may enable mining companies to increase margins throughout boom-bust-boom cycles, but even more importantly, during periods of stable prices when investors are looking for those low-cost producers that will increase shareholder value.

Many mining companies focus primarily on achieving operational and cost efficiency improvements at the mine site level. Often the main metric used to quantify the success of any cost efficiency initiative is to measure the nominal cost saving using the standard costs determined in the previous annual budgeting process. Sometimes it can be months or even financial year end before the real financial impact of operational efficiency can be measured.

Companies would do well to have a solid understanding of the operational levers that drive financial performance to enable them to quickly and cost-effectively configure required production. Building an accurate operational model in which all components link to the predicted production cost is the most straightforward way to combine operations and finance.

For those companies that have managed to link operations and finance at the mine site level, the next challenge is to extend those linkages across the production value chain, many times referred to as 'pit-to-port operation'.

End-to-end supply chain optimisation is well established in many industries and mining companies should take the opportunity to implement robust optimisation planning tools across their full production supply chain. Often the linkages call attention to the real bottlenecks that are ignored if each area is optimised in isolation.

6. A global perspective on tax transparency

Change on the horizon

The lifeblood of a capitalist society remains its tax revenues. It is therefore not surprising that there is a widespread and legitimate interest in how much tax companies pay. The contributions made by business to the public finances of a country are essential to enable governments to provide services and fulfil their obligations to promote economic and social development.

A range of transparency initiatives are currently in force or being proposed and the spotlight is predominantly on the mining, oil and gas industries. These industries often operate in developing countries and demonstrating what they pay to governments in taxes and royalties in return for extracting natural resources and what they contribute to the local economy may be key in maintaining important stakeholder relationships and a licence to operate. Most of these initiatives promote a more accountable system for the management of revenues from natural resources, which in turn should help to combat corruption, improve governance and promote sustainable development in these countries.

We are seeing a lot of change in how some large companies report on tax, demonstrating that the business case for tax transparency outweighs the possible risks. Companies are becoming more sophisticated in their approach, allocating greater resources to the governance and management of tax. They're setting leading practice in their industries and are becoming more transparent about their corporate tax affairs, tax strategy, tax risk management, tax numbers and performance as well as their total tax contribution and the wider impact of tax on the organisation. Their stance on tax may vary, but what's clear for all of them is the board-level involvement in tax and a common approach to communicating their tax affairs.

Looking ahead, these trends are set to continue and intensify, as a diverse group of external stakeholders has become more interested in tax in the corporate sector and is asking companies to provide more and different information about their tax affairs.

Such developments reflect a lack of public trust in corporate behaviour, concerns that companies are not paying their fair share of tax and a belief that current disclosures are difficult for non-tax experts to understand.

Currently there are a number of frameworks in place or actively being considered for legislative implementation. In addition, two further frameworks are being proposed by a number of civil society organisations.

Extractive Industries Transparency Initiative (EITI)

The initiative is driven by a coalition of governments, companies and civil society groups, investors and international organisations. It provides a reporting framework to participating countries that aims to strengthen governance in resource-rich countries by improving transparency and accountability in upstream extractive industries. The EITI supports improved governance through the verification and full publication of company payments and government revenues from oil, gas and mining.

The EITI established a disclosure framework for companies to publish what they pay and for governments to disclose what they receive, which may include the following:

- Host government's production entitlement;
- National state-owned company production entitlement;
- Profits tax;
- Royalties;
- Dividends;
- Production, signatory, discovery and other bonuses;
- Licence fees and other consideration for licences and concessions; and
- Other significant benefits paid to the government.

It is interesting to note that while signing up to the EITI is voluntary, 14 countries (including Ghana, Mali, Nigeria, Peru and Norway) are currently fully compliant with the EITI and 22 countries (including the DRC, Mozambique, Tanzania, Zambia and Kazakhstan) are in the process of moving to full compliance. In addition, over 60 of the world's largest oil, gas and mining companies, such as Shell, Rio Tinto, Gold Fields, De Beers and BP, to name a few, are supporting and actively participating in the EITI process.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act)

On 21 July 2010, US President Obama signed the Dodd-Frank Act, which includes provisions requiring SEC-registered companies in the extractive industries to report all payments made by the company, its subsidiaries, or entities under its control, to the US Federal Government and foreign governments, for the purpose of commercial development of oil, natural gas or minerals.

On 22 August 2012, further rules were adopted expanding the definition of payment to include:

- Taxes on income, profit or production;
- Royalties and fees;
- Production entitlements;
- Bonuses;
- Dividends; and
- Payments for infrastructure improvements.

Disclosure of payments greater than USD100 000 is required regardless of size or whether the company is government-owned. Companies will be required to report such payments for fiscal years that end after 30 September 2013.

The rule is currently being challenged by business groups and the SEC is under fire amid claims that it failed to properly weigh up the rule's costs and benefits. These groups argue that the rule is far too costly to implement and would give rivals sensitive business information. However, the SEC believes its legal interpretation and economic analysis are sound.

Proposals for EU Directives on Transparency and Accounting

In May 2011, the G8 Summit committed to setting in place transparency laws and regulations or promoting voluntary standards that require or encourage oil, gas and mining companies to disclose the payments they make to governments. The proposals are to help deepen the G8's special commitment to Africa.

It is proposed that companies should disclose the payments they make to governments in each country where they operate and for each project, where the payment has been attributed to a certain project and when material to the recipient government.

The objective is to give local communities insight into what governments are being paid by EU multinationals for exploiting local oil/gas fields, mineral deposits and forests, which would allow communities to more effectively demand that their government account for how the money has been spent locally.

The following types of payments made to governments shall be reported:

- Production entitlements;
- Taxes on profits;
- Royalties;
- Dividends;
- Signature, discovery and production bonuses;
- Licence fees, rental fees, entry fees and other considerations for licences and/or concessions; and
- Other direct benefits to the government concerned.

It is proposed that these rules apply to the large listed and unlisted EU companies in the logging, oil, gas and mining industries. It is noted that the effective date of the adoption of these proposals is still to be determined.

Publish What You Pay (PWYP)

A coalition of civil society organisation is driving a campaign to require companies to 'publish what you pay' and governments to 'publish what you earn'. The coalition's mission is to help citizens in resource-rich developing countries make their governments more accountable for revenues earned from the upstream minerals, oil and gas industries.

There is a further call for public disclosure of extractive industry contracts and for licensing procedures to be carried out transparently in line with international best practice.

It is proposed that companies in the upstream extractive industries report the following information:

- Payments to government:
 - Royalties and taxes paid in cash or kind;
 - Dividends;
 - Bonuses; and
 - Licence and concession fees;
- Other information:
 - Reserves;
 - Production volumes;
 - Production revenues;
 - Production and development costs; and
 - Names and location of each key subsidiary and property.

Companies would be required to disclose this information, on a country-by-country basis, in their audited financial statements. There are no materiality limits in the proposals.

The lobby group has continued to lobby the International Accounting Standards Board (IASB) to bring in a new reporting standard for extractive industries. To date the IASB has still to make a decision in this regard.

Country-by-country reporting

Finally, it is worth mentioning that many civil society organisations around the world are campaigning for country-by-country reporting for all multinational corporations, not just those in the extractives industry. The campaign is being led by PWYP and the Tax Justice Network. Country-by-country reporting is particularly relevant for stakeholders located in developing countries, as it would show tax authorities, civil society and other regulatory agencies in those countries exactly what multinationals located there actually do, how their trade is undertaken and what profits and taxes they declare.

Waiting in the wings: Tax administrations with new compliance enforcement strategies

It is not only civil society stakeholders that have a keen interest in transparent tax disclosure. We see many countries implementing legislation or piloting new compliance enforcement strategies based on improving the relationship between the tax administration and the taxpayer. Under the OECD Forum on Tax Administration's guidance, the concept is known as the 'enhanced relationship doctrine'.

The essence of the concept is that tax administrations will adjust their audit approach towards a taxpayer if it transparently discloses relevant information and has an internal validation system in place to monitor the quality of the output (returns, data etc.). In fact, the 'enhanced relationship' is the result of the taxpayers' ability to be transparent and 'prove' compliance with rules and legislation.

The capability of the taxpayer to 'control and monitor tax', is also known as the tax control framework. An 'enhanced relationship' is more than simply compliance with laws and regulations, but is a form of 'cooperative compliance' that places more focus on responsibility and accountability for tax risk management and processes at company level. Above all, it shows the approach of the taxpayer towards tax (both technical and ethical) and the tax administration's attitude towards its taxpayers. This fits perfectly within the current transparency and integrated reporting agendas.

In line with these enforcement strategies, we are also seeing new initiatives to help developing countries bolster their domestic revenues by making their tax systems fairer and more effective. Building on this concept, the OECD's Task Force on Tax and Development is in the process of establishing an independent foundation, to be up and running by the end of 2013, which will provide international auditing expertise and advice to help developing countries better address tax base erosion, including tax evasion and avoidance.

The message is clear – multinational corporations need to be able to adapt to these robust transparency requirements to demonstrate that they are in control of their tax risk.

Board and audit committees need to keep an eye on all of these initiatives and it is important that more companies become actively involved in the debate about the aims of tax transparency and what makes good tax reporting.

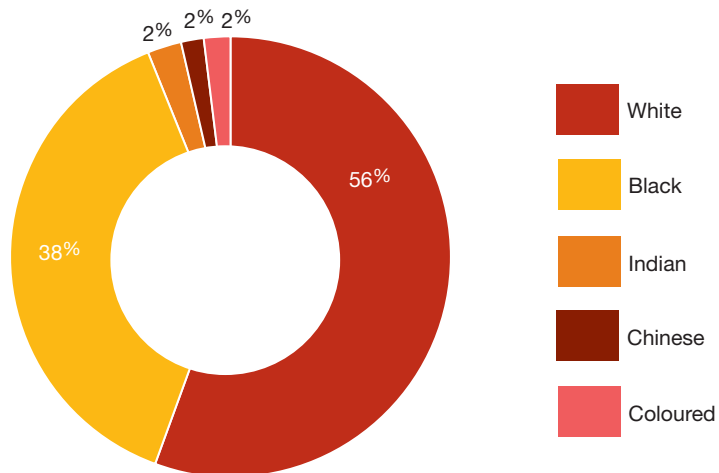
7. Boardroom dynamics

Board composition

Of the annual reports reviewed in this survey, 33 companies disclosed the composition of their boards. An analysis of these companies revealed that the mining industry currently exceeds the minimum empowerment levels of board representation required by the Mining Charter.

At present, 46% of board members are represented by historically disadvantaged individuals (HDIs). The Mining Charter requires a minimum of 40% representation by 2014.

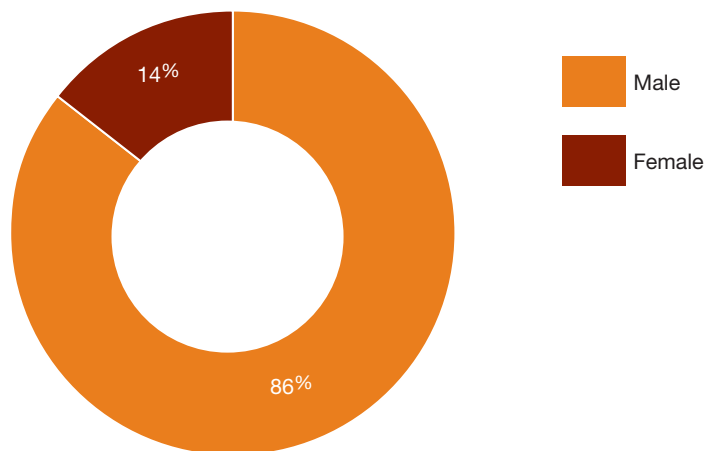
Figure 15: Board composition by race



Source: PwC analysis

Female representation at board level also exceeds the minimum requirements of 10% by 2014 set out by the Mining Charter. This percentage also compares favourably with the rate for mining globally of 9.8%.

Figure 16: Board composition by gender



Source: PwC analysis

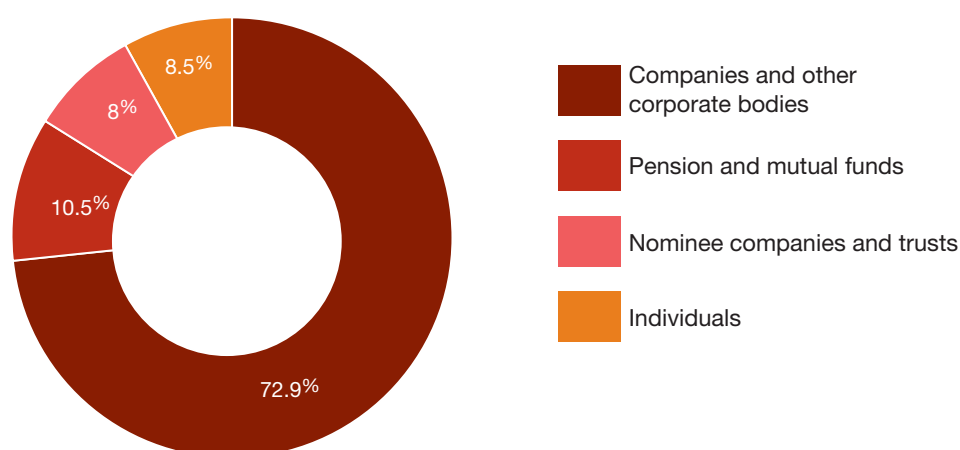
Shareholder analysis

Of the 39 companies analysed, 23 disclosed a readily available detailed breakdown of their majority shareholders. A review of these companies revealed that the majority of mining companies continue to be owned by other corporates rather than pension funds or individuals. Anglo American Corporation, with its controlling stakes in Kumba Iron Ore and Anglo American Platinum together with other interests, owned 31.3% of the market capitalisation of these 23 entities. Other top-tier international mining companies owned 2.1%.

Pension and mutual funds together own 10.5%, while individuals only account for 8.6% of proportionate shareholding of the mining companies that disclosed their shareholding.

Included in the market capitalisation of these 23 companies are disclosed shareholdings by the IDC of 3.2% and the PIC of 4.4%. Identifiable BEE shareholders and schemes held 12.4%. This reflects the shareholding at the listed-entity level and not the shareholding at operating company level where a large number of BEE transactions have taken place. For example, the Kumba Iron Ore employee and community trusts held at Sishen Iron Ore company level would represent an additional interest of approximately 2%.

Figure 17: Ownership profile



Source: PwC analysis (shareholding as at applicable year ends applied to 30 June 2012 market capitalisation)

8. Financial performance

The information included below differs from the rest of our analysis as it includes the aggregated results of those top companies reported on in each edition of *SA Mine*. The column for 2011 presented below relates to the results of the companies included in our previous edition, while in the financial review, we analyse the results of this year's top 39 companies for both 2012 and 2011.

Five-year summary

	2012	2011	2010	2009	2008
	R'billions	R'billions	R'billions	R'billions	R'billions
Revenue	339	303	227	237	218
Adjusted EBITDA	123	101	48	85	84
Net profit	65	55	20	15	54
Adjusted EBITDA margin	36%	33%	21%	36%	39%
Net profit margin	19%	18%	9%	6%	25%
Cash flow from operating activities	112	62	40	59	73
Total capital expenditure	70	55	58	62	57
Total assets	650	595	548	509	470

The five-year summary shows recovery in revenue and profitability since the financial crisis of 2008. However, it also indicates that profitability in real terms and on a margin basis still lags pre-crisis levels. The stagnant EBITDA percentage in the last two years and the lower growth in net profit indicate that the above-inflation cost pressures have started eroding margins despite the higher commodity prices experienced.

The increase in operating cash flows and total capital expenditure to above 2008 levels is pleasing. However, it also reflects the lag between actual performance and these indicators.

Financial performance

Income statement	Current year R'billions	Prior year R'billions	Difference R'billions	% change R'billions
Revenue from ordinary activities	339	293	46	16%
Operating expenses	(216)	(191)	(25)	13%
Adjusted EBITDA	123	102	21	20%
Other income	5	8	(3)	-36%
Impairment (charge)/reversal	(2)	(6)	4	-64%
Depreciation	(29)	(27)	(2)	8%
PBIT	97	77	20	26%
Net interest	(3)	(3)	0	0%
Tax expense	(29)	(22)	(7)	29%
Net profit	65	52	13	25%
Adjusted EBITDA margin	36%	35%		
Net profit margin	19%	18%		

Revenue

Revenue increased by 16% (2011: 36%) on the back of higher commodity prices and a weaker rand towards the end of the period. Gold companies reflected the best growth with a 25% increase, while platinum companies recorded merely 2% growth. The remainder of the companies recorded an average increase in revenue of 22%.

Stagnant platinum revenues reflect the slightly lower basket prices experienced in 2012 and lower production as a result of industrial action at Impala Platinum's Rustenburg operations. The escalation in industrial action and the tragic events at Marikana will have a significant impact on production levels of platinum and other commodities in the next financial year.

Operating expenses

Operating expenses increased by 13% as opposed to the 18% recorded in the prior year. The current rate is well above inflation and occurred despite a noticeable decrease in production at a number of companies.

Three companies recorded a reduction in operating costs: Trans Hex, BuildMax and Impala Platinum. Unfortunately, the Impala Platinum decrease was as a result of protracted labour disruptions that also resulted in a significant reduction in production. If the Impala Platinum operating expenses are excluded from the analysis, then the operating cost increase is in fact 16% and more comparable with the prior year. A number of saving initiatives announced the prior year apparently did not have the desired impact.

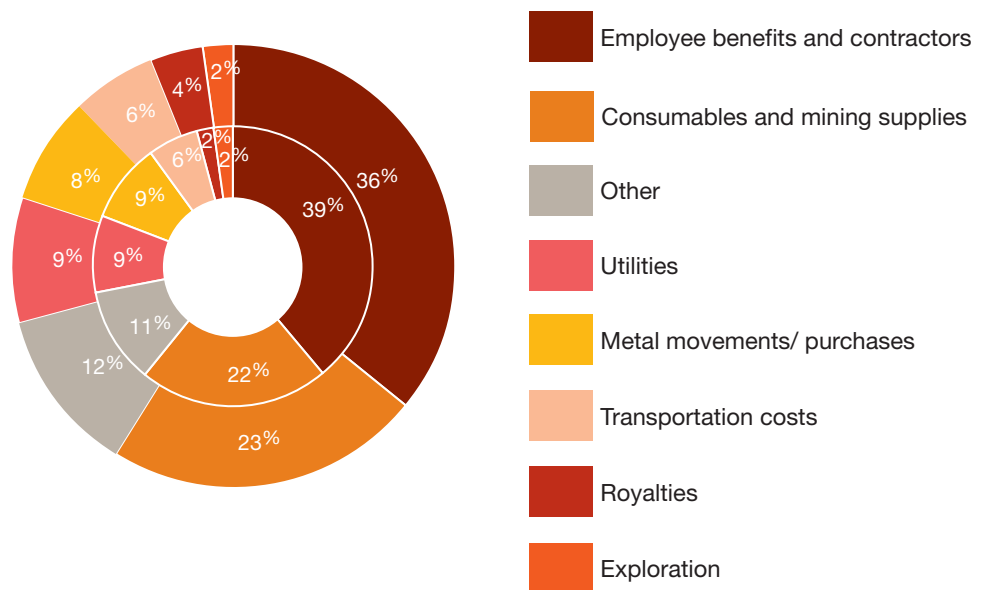
A breakdown of the operating expenses of 10 of the largest companies (representing more than 73% of total operating expenses of the aggregated operating expenses) is depicted in the table that follows, with the year-on-year increase for these companies included in the table.

Operating expenses

Cost component	Year-on-year increase	Year-on year increase
	Current year	Prior year
Employee benefits and contractors	9.8%	5.6%
Consumables and mining supplies	13.5%	4.2%
Utilities	21.1%	23.6%
Exploration	38.9%	21.5%
Royalties	32.8%	80.5%
Transportation costs	15.3%	6.3%
Metal movements/purchases	(2.4%)	84.5%
Other	3.4%	11.5%

Source: PwC analysis

Figure 18: Breakdown of operating expenses



Source: PwC analysis

Labour costs

Although the share of labour costs as a percentage of total operating expenses decreased from 39% to 36%, when one compares this year with the last, it is still by far the biggest cost component of the South African mining industry. Labour cost percentages vary from above 50% for the deep-level conventional mines to below 20% for those companies that mine predominantly opencast.

As discussed in the accompanying *Employees: An increased cost base* feature, given the above-inflation increases seen in recent years and lower productivity, this cost component is likely to remain the biggest for some time. However, the recent spate of wildcat strikes is likely to result in the closure of some shafts and retrenchment of a number of employees. It is quite possible that total labour costs could decrease in the next year despite the increases awarded, as a result of large downscaling.

Of the companies included in our aggregation, 37 disclosed employee costs and key management compensation. The increase in total employee costs was 9.8%, which is significantly higher than the percentages reflected for guaranteed packages. Although this percentage includes the impact of changes in staff numbers, the reality is that total production decreased, indicating a significant decline in productivity in the industry over the last couple of years.

Mining companies will continue to evaluate mechanisation and optimisation as a means to replace labour if labour costs continue to escalate at current rates.

Employees: An increasing cost base

Over the past five years, wage increases in the mining sector have not only been higher than CPI, but on average 1-2 percentage points higher than the national average increases for all industries. The only exception during the period was 2008, when average CPI was 0.83 percentage points higher than the annual overall increase. However, during that year the unionised average total guaranteed package increase was in fact only 0.23 percentage points lower than CPI.

Higher percentage increases may be attributed to the fact that the environment has historically been highly unionised as well as the critical technical skills shortages in South Africa. To demonstrate this trend, the table below provides an analysis of the total guaranteed package movements by employee category in the mining industry since 2007.

'Total guaranteed package' can be defined as cash salary, cash/non-cash allowances and core benefits such as medical aid and retirement funding. It does not include circumstantial allowances such as those for shift, standby and overtime.

Average total guaranteed package year-on-year increase in the mining industry

01/09/2007-01/03/2012

Employee category	2007	2008	2009	2010	2011	2012 ¹
Executives	9.9%	10.5%	8.00%	8.2%	8.8%	8.3%
Management	9.9%	10.9%	8.00%	8.2%	8.8%	8.1%
Key specialists	11.7%	10.9%	8.17%	8.2%	10.7%	8.9%
General staff	9.9%	10.8%	8.17%	8.3%	8.5%	8.4%
Unionised staff	10.8%	11.3%	8.78%	8.4%	8.9%	8.3%
Total average lift to payroll	10.0%	10.7%	8.28%	8.3%	8.8%	8.4%
Average consumer price index ²	6.89%	11.53%	7.7%	4.29%	4.98%	5.7%

Sources: PwC Remchannel bi-annual Salary and Wage Movement Survey, Stats SA

Notes: ¹ Projected as at March 2012

² Year-to-date average CPI as at August 2012

The table shows that increases for the unionised staff and key specialist categories exceeded the average lift to payroll in the mining sector over the five-year period. In addition, the 2010, 2011 and 2012 increases for all categories of staff were substantially higher than the average CPI during the corresponding period.

It is anticipated that this trend will continue well into the future as a result of the impact current labour unrest, union negotiations and increasing wage demands will have on actual wage increases in the mining sector. Both COSATU-affiliated unions and emerging unions will be looking to win the support of mine workers by promising better deals and delivering at the negotiation table.

Production bonuses and share-based payments excluded from the guaranteed package often make up a significant component of salaries and wages.

Consumables and mining supplies

As expected in the prior year, consumables and supplies increased at rates well above inflation. The weaker rand and increased commodity prices have resulted in this increase. Both factors are expected to stay relevant for the next financial year.

Utilities

The 21% increase in utility expenses, including electricity and water, reflects Eskom's electricity tariff increases, which are set to continue for the next few of years. As utilities already represent 9% of total operating costs, it is essential not only from a power-security point of view, but also from a cost-saving perspective, that companies focus on opportunities to decrease their power consumption.

Exploration costs

It is pleasing to note that the increase in exploration expenditure continued this year as mines have resumed exploration spending after the cash preservation strategies followed in the previous few years. For the long-term sustainability of the industry, it is essential that companies maintain their exploration programmes.

Royalties

Royalty expenses reflect existing contractual royalty payments as well as the new national royalty expense from 1 March 2010. The comparative period for December year end companies was still impacted by this implementation date. In future, the rate increase should be reasonably in line with the increase in revenue. The 4% of total operating expenses indicates the cost impact that the new national royalty is having.

Transportation costs

This cost component impacts the bulk commodity producers. Kumba Iron Ore, which represents the biggest portion of these costs, negotiated a simplified pricing mechanism with Transnet in the prior year, which is based on a basket of indices including PPI, labour and electricity.

Metal movements and purchases

This cost component relates predominantly to the PGM refiners that buy concentrate from junior producers for refining. The decrease reflects the lower average prices experienced during the year.

Impairment charges

Impairments stabilised during the year. A large number of smaller provisions were processed.

The only impairment provision in excess of R1bn was First Uranium's impairment of its Ezulwini mine of R1.3bn. After its year end, First Uranium disposed of the mine to Gold One to settle its external debt commitment as it could not fund the remainder of the capital required for the project.

The significant pressure on platinum mines with the lower PGM basket price and increased cost pressures has shown with a number of mines put on care and maintenance. Labour unrest has also forced temporary closures. It is unlikely that marginal shafts will be reopened. It is therefore quite possible that a number of impairment provisions might be required for next year.

Depreciation

Despite production, which is normally used as the basis for depreciation, remaining fairly stable, depreciation increased. The increase is as a result of the higher cost base for new additions and acquisitions.

Net finance costs

The low level of finance costs reflects the traditionally low levels of gearing maintained by most South African mining companies. Not included in this cost is borrowing costs capitalised against the development cost of qualifying assets.

Taxation

The effective tax rate of 31% compares well to the prior year's rate of 30% and the statutory rate of 28%. The higher rate reflects secondary tax on companies (STC) paid on dividends. In future, the change from STC to a dividend withholding tax will result in a further decrease in the effective tax rate. This will only be evident from 2013.

Net profit

The 25% increase in net profit is an impressive performance on the back of good adjusted EBITDA growth. However, only six companies achieved an EBITDA of more than the average. The following entities achieved EBITDA margins in excess of 35%.

Highest EBITDA margins

	Current year	Prior year
Petmin	74.0%	63.0%
Kumba Iron Ore	70.0%	67.0%
Pan African Resources	45.0%	36.0%
Gold Fields	43.0%	35.0%
AngloGold Ashanti	43.0%	38.0%
African Rainbow Minerals	36.0%	44.0%

Source: PwC analysis

Foreign exchange impact

The impact of the rand exchange rate on performance is quite substantial when compared to global mining performance. The reporting period reflects a fairly stable rand exchange rate environment with the rand weakening towards the end of the year. Even so, when converting the income statements of the aggregated companies at the average rates applicable to their specific years, there is a difference in performance. In dollar terms, revenue was higher by 11% compared to 16% in rand terms. Adjusted EBITDA was higher by 14% (rand 20%) and net profit higher by 17% (rand 20%).

The sudden weakening of the rand against the dollar since the end of 2011 will have a much more pronounced impact on the difference in performance based on presentation currency. With lower dollar commodity prices masked by a weaker rand, the performance in dollar terms will be weaker than in rand terms.

Financial performance in USD

	Current year USD'billions	Prior year USD'billions	Difference USD'billions	% Change USD'billions
Revenue from ordinary activities	45.3	40.8	4.4	11%
Operating expenses	(28.1)	(25.8)	(2.3)	9%
Adjusted EBITDA	17.2	15.0	2.2	14%
Other income	0.7	1.0	-0.4	(34%)
Impairment (charge)/ reversal	(0.3)	(0.8)	0.5	(64%)
Amortisation	(4.0)	(3.8)	(0.2)	4%
PBIT	13.6	11.4	2.1	18%
Net interest	(0.4)	(0.5)	0.0	(9%)
Tax expense	(3.8)	(3.1)	(0.7)	22%
Net profit	9.4	7.8	1.4	17%

	Current year	Prior year	Global mine ratios
Adjusted EBITDA margin	38%	37%	33%
Net profit margin	21%	19%	19%

Source: PwC analysis

Cash flows	Current Year R'billions	Prior Year R'billions	Difference	% Change
Cash flows related to operating activities				
Cash generated from operations	127	97	30	31%
Other	3	(18)	21	(118%)
Income taxes paid	(18)	(15)	(3)	17%
Net operating cash flows	112	64	48	75%
Cash flows related to investing activities				
Purchases of PPE	(70)	(56)	(14)	25%
Purchase of investments	(10)	(4)	(6)	158%
Sale of investments	3	3	0	0%
Other	(1)	(1)	(0)	0%
Net investing cash flows	(78)	(58)	(20)	34%
Cash flows related to financing activities				
Proceeds from ordinary shares issue	5	23	(18)	(78%)
Proceeds from interest bearing liabilities	19	47	(28)	(60%)
Repayment of interest bearing liabilities	(15)	(55)	39	(71%)
Distribution to shareholders	(36)	(17)	(19)	116%
Net financing activities	(29)	(2)	(27)	1497%
Net increase/(decrease) in cash and cash equivalents at beginning of period	5	4	1	20%
Total cash at the end of the year	41	37	4	12%
	46	41	5	13%

Source: PwC analysis

Cash flows from operating activities

Net increase of R48 billion (75%)

The ability to convert profits into cash is crucial for any company. In the prior year the build up in working capital meant a lag between cash flow from operations and EBITDA. Pleasingly, this year saw the situation reverse, with cash being generated in excess of EBITDA.

Other cash flows from operating activities in the prior year include the R18 billion AngloGold Ashanti hedge book settlement. The current year's cash flows of R3 billion reflects the net amount of finance costs and finance income.

In line with prior years, the 'tax paid' amount lags the tax expense amount as a result of the capital allowances received by the mining industry. The difference is recognised as a deferred tax liability, which should be realised in the future.

Cash flows from investing activities

Net outflow increase of R20 billion (34%)

Capital expenditure on property, plant and equipment

The trend of lower capital expenditure experienced in the prior two years was reversed this year with a R14 billion (25%) increase. The value of capital expenditure is now back to nominal 2009 rand levels.

No less than 67% of aggregated capital expenditure was incurred by only five companies: AngloGold Ashanti (R10.2 billion, up from R7.1 billion), Gold Fields (R10.2 billion, up from R8.7 billion), Anglo American Platinum (R7.5 billion, down from R8.0 billion), Impala Platinum (R7.3 billion, up from R5.3 billion) and Kumba Iron Ore (R5.8 billion, up from R4.7 billion).

Not surprisingly given the current high gold price environment, R3.6 billion of the increase related to gold companies. This increase was despite a R1 billion decrease in capital expenditure at Great Basin Gold and First Uranium as their respective projects neared completion. Cash flow constraints subsequently led to the demise of both companies.

Platinum companies increased their capital expenditure by R4 billion. This increased investment is an indication of the capital requirements for platinum companies to maintain production levels. The current lower-price environment means that these companies will have to reassess their investments. However, today's investments are made for the long term, when it is expected that a higher price environment will sustain production levels.

Investments

Net investments of R7 billion is a significant improvement on the net amount of R1 billion recorded in the prior year. Unfortunately, this net investment predominantly relates to the R7 billion incurred by Gold Fields to acquire non-controlling interests in La Chima and in its operations in Ghana. The R17 billion in non-current assets held for sale indicates that there will be a significant reversal of the net investment trend.

Cash flows from financing activities

Net outflow increase of R27 billion

Funding of operations

The restructuring of balance sheets in the prior year resulted in a significant increase in equity during that period. In the current year, there were very few share issues of significance, with Wesizwe raising R1.6 billion and Gold One R1.2 billion.

Borrowings remained at fairly consistent levels with a net increase of R3 billion.

Distribution to shareholders

The distribution to shareholders more than doubled from the prior year. This increase is largely due to an increase by Kumba Iron Ore to R17.9 billion from R8.2 billion and Anglo American Platinum's increase from nil to R3.1 billion. Other significant distributions included Impala Platinum (R3.4 billion), Exxaro Resources (R2.1 billion), Gold Fields (R1.5 billion) and AngloGold Ashanti (R1.3 billion).

Of the 39 companies included in this analysis, 25 did not pay any dividends. On balance, most companies have sufficient investment opportunities to reinvest cash generated. Furthermore, the decline in performance in 2012 is likely to negatively impact the level of dividends to be paid next year.

Financial position	Current year R'billions	Prior year R'billions	Difference R'billions	% change R'billions
Current assets				
Cash and cash equivalents	46	41	5	12%
Inventories	50	44	6	14%
Receivables and other current assets	39	38	1	3%
Derivative financial assets	1	-	1	100%
Assets held for sale	17	2	15	750%
Total current assets	153	125	28	22%
Non-current assets				
Mining and production assets	411	365	46	13%
Goodwill	13	13	0	0%
Investments	44	43	1	2%
Derivative financial assets	2	2	0	0%
Other non-current assets	27	25	2	8%
Total non-current assets	497	448	49	11%
Total assets	650	573	77	13%
Share capital & reserves				
Share capital	234	224	10	4%
Reserves and non-controlling interest	179	143	36	25%
Total equity	413	367	46	13%
Current liabilities				
Accounts payable and other liabilities	58	52	6	13%
Interest bearing liabilities	21	8	13	163%
Total current liabilities	79	60	19	32%
Non-current liabilities				
Interest bearing liabilities	55	57	(2)	(4%)
Deferred taxation liabilities	73	62	11	18%
Derivative financial liabilities	2	5	(3)	(60%)
Other non-current liabilities	28	22	6	27%
Total non-current liabilities	158	146	12	8%
Total liabilities	237	206	31	15%
Total equity and liabilities	650	573	77	13%

Source: PwC analysis

Key ratios

	Current year	Prior year	Global mine ratios
Net borrowings (R'billions)	30	24	
Gearing	7%	6%	12%
Solvency ratio (times)	2.7	2.8	2.4
Current ratio (times)	1.9	2.1	1.7
Acid ratio (times)	1.3	1.3	1.3

Source: PwC analysis

Sound financial position

Solvency and liquidity ratios remained strong despite a marginal weakening. This financial strength provides the industry with flexibility to operate and, where necessary, invest for the future.

The South African ratios are now similar or better than their global equivalents.

These ratios are all derived from historical cost-carrying amounts and therefore do not necessarily reflect the true fair-value trends. Market capitalisation as a multiple of carrying amounts weakened from 2.6 to 2.1. This multiple is, however, still below the very weak market experienced in 2009 and in line with the global comparative of 2.0, which also decreased from 2.9. This indicates investors' scepticism about the sustainability of the recovery.

At an individual company level as at 30 June 2012, there were 19 (2011: 11) companies with net book values exceeding the market capitalisation of the company. This is a significant weakening from prior years. Only two entities that appeared on the list last year have been removed: First Uranium processed an impairment provision after it received an offer from Gold One for its Ezulwini mine. Platmin delisted and therefore does not form part of our analysis.

Companies with net book values exceeding market capitalisation

	Current year	Prior year
Eastern Platinum	437%	134%
Hwange Coal Resources	268%	102%
Wesizwe Platinum	256%	83%
Jubilee Platinum	242%	152%
Sentula Mining	225%	187%
Sephaku Holdings	206%	120%
Forbes & Manhattan Coal	203%	N/A
Firestone Energy	203%	139%
Aquarius Platinum	194%	36%
Zambia Copper Investments	162%	163%
Trans Hex Group	141%	89%
Keaton Energy Holdings	137%	113%
Royal Bafokeng Platinum	127%	99%
Great Basin Gold	123%	49%
Northam Platinum	117%	62%
Lonmin	117%	59%
BuildMax	115%	N/A
Village Main Reef	107%	159%
Harmony Gold Mining Company	103%	78%

Source: Business Day and PwC analysis

The preceding table shows a disconnect between the market perception of value for these companies and managements' perception of the fair value of the underlying assets. The reason for this difference may be attributable to incomplete information available to the market, differing perceptions over development successes and different long-term price assumptions. These companies face a tough task convincing the market of their value.

Working capital

There were eight companies (2011: 7) with liquidity ratios of less than one and 13 (2011: 15) companies with acid ratios of less than one. In the prior year we saw growth in working capital as mining companies geared for potential growth. This year the levels of working capital remained fairly flat. Of the companies included, 16 improved their current ratios and 16 their acid ratios.

Non-currents assets and liabilities classified as held for sale

A number of assets were classified as held for sale. The largest ones were Exxaro Resources' R12.4bn sale of its mineral sands business and Rosh Pinah zinc project. Other amounts include First Uranium's sale of its two operating assets, Harmony's sale of its Evander gold mine and Northam Platinum's sale of its Booyendal South mineral resource.

Financing for sustainability

South African mining companies and banks have traditionally been conservative when it comes to funding mining projects. The 7% gearing ratio is in line with the prior year and much lower than the global average of 12%. The net debt balance increased marginally. However, this was offset by equity issues and profitability for the period.

Net borrowings as a percentage of market capitalisation stood at 3.6%, compared to the preceding year's 3%. The increase is as a result of the decrease in market capitalisation.

Of the 39 companies aggregated, 23 (2011: 17) were in a net borrowing position.

Although the overall gearing movement remained much the same, a number of individual companies had some significant gearing movements.

Of the top 10 companies, 70% (2011: 70%) were in a net borrowing position, as opposed to 55% (2011: 38%) of the remainder of the 39 companies reviewed. The disparity in this ratio may indicate that financial institutions prefer to provide finance based on strong balance sheets rather than the project-specific finance required by mid-tier and junior miners.



Rehabilitation provisions

The increased global focus on the environment has put mining companies in the spotlight, particularly with regard to rehabilitation of mine waste at the end of a concession or life of a mine. A study by the World Wide Fund for Nature (WWF) published in August 2012 suggests that South Africa's environmental rehabilitation obligations are underfunded by about R30 billion (according to a study done by the Auditor-General), mainly as a result of the underfunding of the remediation of acid mine drainage and the rehabilitation of derelict and ownerless mines.

The total estimated discounted provision for rehabilitation of the top 39 mining companies analysed here amounted to R15.3 billion. The Department of Mineral Resources (DMR) requires the provision for rehabilitation to be funded in one of four ways:

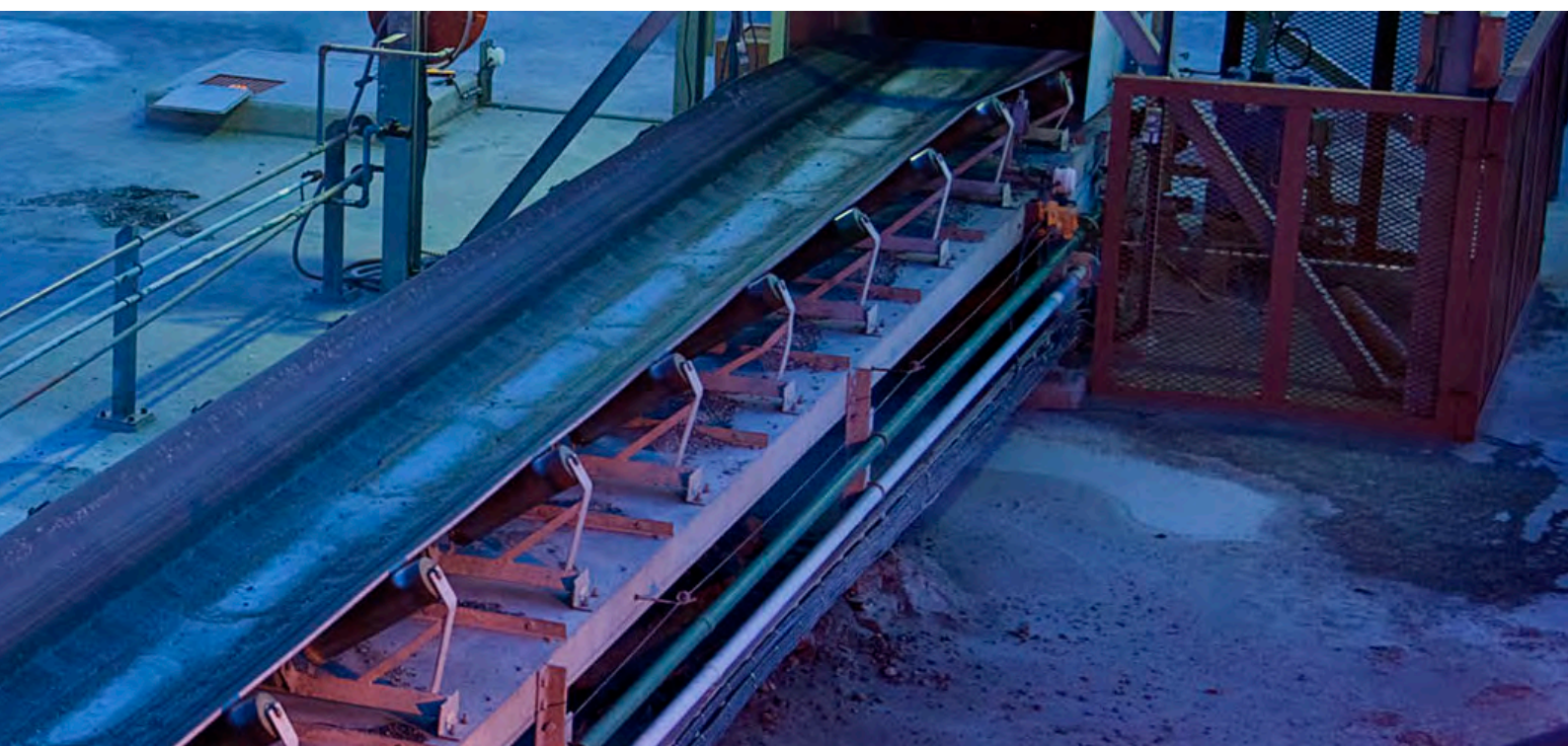
- Cash deposit;
- Guarantee;
- Insurance; or
- Approved trust fund.

Nine of the top 39 companies use cash funding (R0.6 billion), 14 use and fully consolidate a trust fund (R4.8 billion), three use both cash and a trust fund (R2.1 billion) and one company uses only guarantees (R0.1 billion).

Of the 26 companies that fund their rehabilitation obligations through cash and/or trust funds, 13 have taken out additional guarantees of R2.3 billion.

In total, only 65% (R9.99 billion) of the total estimated discounted obligation is funded. Current cost estimates are not disclosed by all companies and would indicate an even bigger shortfall. This worrying shortfall seems to echo the findings of the WWF study, which raises the concern of putting an unnecessary burden on taxpayers for the rehabilitation of current and future mining activities.

However, no junior mining company would be in a position to fully fund the total expected rehabilitation cost at the start of a mine's development. The re-acceptance of insurance products to cater for the shortfall opens the door for innovative products that would allow mining companies to operate without leaving the risk with the taxpayer. Furthermore, mining companies need to work closely with the DMR to address any potential shortfalls they might have.



9. Other information

Glossary

Acid ratio	(Current assets less inventory)/Current liabilities
Adjusted EBITDA	EBITDA adjusted for impairment charges
Adjusted EBITDA margin	Adjusted EBITDA/Revenue
BEE	Black economic empowerment
CPI	Consumer price index, published by Statistics South Africa
Current ratio	Current assets/Current liabilities
DMR	Department of Mineral Resources
DRC	Democratic Republic of the Congo
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA margin	EBITDA/Revenue
EITI	Extractive Industries Transparency Initiative
EU	European Union
G8	The Group of Eight, a forum governments representing eight of the world's largest economies
Gearing percentage	Net Borrowings/(Net Borrowings plus equity)
HDI	Historically disadvantaged individual
HDSA	Historically disadvantaged South Africans
IASB	International Accounting Standards Board
IDC	Industrial Development Corporation
JSE	Johannesburg Stock Exchange
LTIFR	Lost-time injury frequency rate (calculated per 1 million man hours)
Market capitalisation	The market value of the company calculated as the number of shares outstanding multiplied by the share price
Net borrowings	Interest-bearing debt, less cash
OECD	Organisation for Economic Co-operation and Development
PBIT	Profit before interest and tax
PGM	Platinum group minerals
PIC	Public Investment Corporation
PPI	Producer price index, published by Statistics South Africa
PWYP	Publish What You Pay
SEC	Securities and Exchange Commission
STC	Secondary tax on companies
Top 5, 10, 39	The top companies by market capitalisation used in this aggregation
TTC	Total tax contribution
VAT	Value-added tax
WWF	World Wide Fund for Nature

Companies aggregated

Company	Year end
African Rainbow Minerals Limited	June 2012
Anglo American Platinum Limited	December 2011
AngloGold Ashanti Limited	December 2011
Aquarius Platinum Limited	June 2012
Assore Limited	June 2012
Atlatsa Resources	December 2011
BuildMax Limited	February 2012
Coal of Africa Limited	June 2012
DRDGOLD Limited	June 2012
Eastern Platinum Limited	December 2011
Exxaro Resources Limited	December 2011
Firestone Energy Limited	June 2012
First Uranium Corporation	March 2012
Forbes & Manhattan Coal Corporation	February 2012
Gold Fields Limited*	December 2011
Gold One Limited	December 2011
Goliath Gold Mining Limited	December 2011
Great Basin Gold Limited	December 2011
Harmony Gold Mining Company Limited	June 2012
Hwange Colliery Company Limited	December 2011
Impala Platinum Holdings Limited	June 2012
Jubilee Platinum Plc	June 2012
Keaton Energy Holdings Limited	March 2012
Kumba Iron Ore Limited	December 2011
Lonmin Plc	September 2011
Merafe Resources Limited	December 2011
Metmar Limited	February 2012
Northam Platinum Limited	June 2012
Palabora Mining Company Limited	December 2011
Pan African Resources Limited	June 2012
Petmin Limited	June 2012
Royal Bafokeng Platinum Limited	December 2011
Sentula Mining Limited	March 2012
Sephaku Holdings Limited	June 2012

*The results included were based on the audited financial statements to 31 December 2011 and proforma numbers included in the Gold Fields annual report. No other adjustments were made for year-end changes.

Company	Year end
Trans Hex Group Limited	March 2012
Village Main Reef Limited	June 2012
Wesizwe Platinum Limited	December 2011
Witwatersrand Consolidated Gold Resources Limited	December 2011
Zambia Copper Investments Limited	March 2012



Basis for compiling this report

We aggregated the financial results of mining companies with a primary listing on the Johannesburg Stock Exchange (JSE) and mining companies whose main operations are in Africa and that have a secondary listing on the JSE, for the financial year ends to June 2012. We used a cut-off market capitalisation of R200 million and excluded all companies with suspended listings.

Our selection criteria excluded global mining companies Anglo American and BHP Billiton. Although both these companies have South African roots, their global exposure and size means that they do not necessarily reflect trends in the South African mining environment. A large number of the entities included also have international exposure. However, the bulk of their operations are in Africa.

The results aggregated in this report have been sourced from information that is publicly available, primarily annual reports or reviewed results made available to shareholders. Companies have different year ends and report under different accounting regimes.

Information has been aggregated for the financial years of individual companies and no adjustments have been made to take into account different reporting requirements and year ends. As such, the financial information shown for 2012 covers reporting periods from 1 October 2010 to 30 June 2012, with each company's results included for the 12-month financial reporting period that falls into this time frame.

Information for the previous year comprises information for the 39 companies selected in the current year, except where indicated otherwise.

All currency figures in this publication are reported in South African rands, except where specifically stated otherwise. The results of companies that report in currencies other than the rand have been translated at the average rand exchange rate for the financial year, with balance sheet items translated at the closing rand exchange rate.

Some diversified companies undertake part of their activities outside the mining industry. No attempt has been made to exclude such non-mining activities from the aggregated financial information.

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- Webcasts available at pwc.com, and
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