Energy, Utilities & Mining

SA Mine

Review of trends in the South African mining industry

December 2009

PricewaterhouseCoopers

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01 Introduction

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This inaugural SA Mine publication focuses on the state of the mining sector in South Africa. We aggregated the financial results of mining companies with a primary listing on the Johannesburg Stock Exchange (JSE) and mining companies with a secondary listing on the JSE whose main operations are in Africa. The financial information shown for 2009 covers reporting periods from 1 October 2007 to 30 June 2009, with each company's results included for the 12-month financial reporting period that falls into this timeframe. Only companies with a market capitalisation in excess of R200 million were included, while companies with suspended listings were excluded.

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 based in Africa.

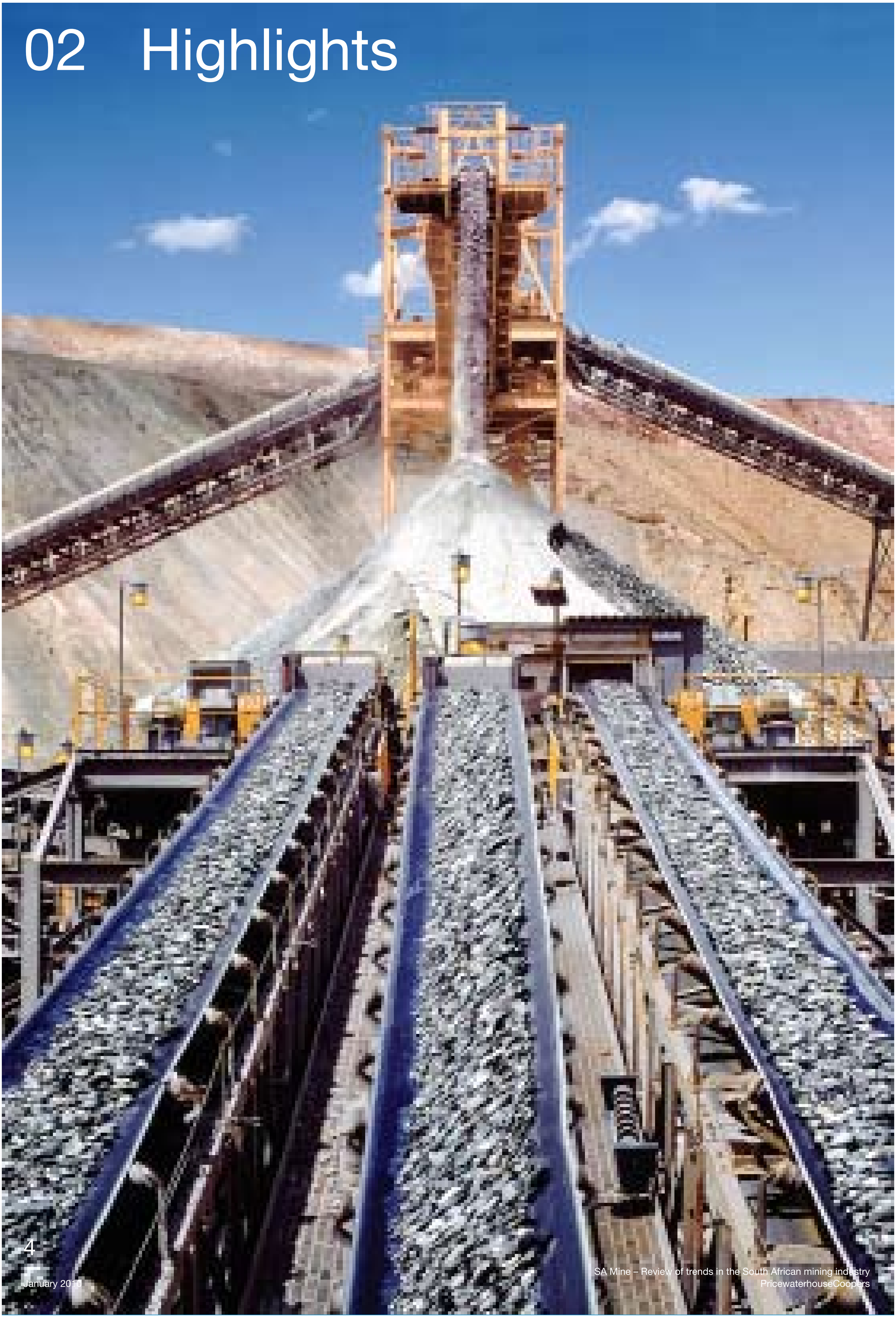
The results aggregated in this report have been sourced from publicly available information, primarily annual reports. Where annual reports were not available at the time of writing, preliminary reviewed results were used. Details of the companies included in the survey are disclosed in section 10.

This year represents the first year that reflected the impact of the significant decline in commodity prices after June 2008. We anticipate that 2009 will form a good base year for years of anticipated future growth.

We trust you will find this publication informative and look forward to sharing trends with you in the future.

Hugh Cameron
African Mining Leader

02 Highlights



	Current year	Previous year	Difference	% Change
	R'billion	R'billion	R'billion	R'billion
Revenue from ordinary activities	237	218	19	9%
Adjusted EBITDA *	85	84	1	1%
Impairment (charge)/reversal	(49)	2	(51)	(3 221%)
Net profit	14	54	(40)	(73%)
Net operating cash flows	59	73	(14)	(19%)
Total capital expenditures	62	57	5	9%
Total assets	509	470	39	8%

	Current year	Previous year
Key ratios	%	%
Adjusted EBITDA margin*	36%	39%
Net profit margin*	6%	25%
Gearing ratio*	11%	6%

*Refer to section 10 for a glossary of terms and non-GAAP measures used.

03 Executive summary

The South African mining industry, in line with global markets, lost in excess of 40% in market capitalisation, even after a reasonable recovery from January to June 2009. Gold companies were the top performing investments on the back of record rand and US$ gold prices. However, the decline in gold production meant that platinum and coal maintained their top position as revenue earners in the industry.

The impact of lower prices was compounded by lower production levels. Key to the growth in supply is the expansion of related infrastructure including the rail network. The suspension of new projects in the period due to cash preservation could impact on long-term supply of certain commodities.

Revenue growth on the back of higher gold prices and good prices in the final months of the boom could not prevent a decrease in profits. The significant increase in input costs and impairments resulted in a 73% decrease in net profits. Operating cash flows decreased by 19% and were fully utilised for capital expenditure.

Although the balance sheet remained strong, the gearing ratio nearly doubled to 11%. This gearing is still well below the global average and reflects the fairly conservative view taken by mining companies and financiers in South Africa. The market capitalisation for nine companies is less than the net asset carrying amount reflected in their financial statements indicating a disconnection between management's view and the investors' view of the value of these companies.

Paramount to the industry is the improvement of safety standards. Mining companies, the Government and unions need to join hands to ensure an improved safety culture. It is pleasing to note that there has been significant improvement in safety statistics and that the majority of companies see safety as a priority.

The credit crisis coinciding with the downside of the price cycle meant that finance was hard to obtain. We looked at various financing transactions before and after the crisis and the impact that it had on capital structuring and merger and acquisitions transactions.

From 1 March 2010, the Mineral and Petroleum Resources Royalty Act will be effective, aligning South Africa with most mining countries, which levy mining royalties in one way or another. This will add another expense and administrative burden to the industry.

The King Report on Governance for South Africa 2009, known as King III, was released on 1 September 2009. King III has broadened the scope of corporate governance in South Africa with its core philosophy revolving around leadership, sustainability and corporate citizenship. No industry is better placed to address sustainability in its reporting than the mining industry. While the development of the country has been inextricably linked to the mining industry, it is important for mining companies to act as good corporate citizens and communicate their efforts in this regard to manage perceptions.

No doubt 2010 is bound to be a difficult year for the industry. Margins will remain under pressure due to high labour costs and electricity price increases in a subdued selling environment for commodities. However, there are some encouraging signs: prices increased from their lows in January 2009 and safety performance is improving.

04 The South African mining industry

This year's publication reflects the end of the current commodity boom cycle and hopefully the start of a new one. It also reflects the resurgence of gold as a safe haven investment.

Market capitalisation

The total market capitalisation of the 34 companies included in our aggregation reduced from R1 179 billion in June 2008 to R667 billion in June 2009. Although there was a reduction across the board, the gold companies regained market capitalisation share with the rise of the US$ gold price to all time highs.

Market capitalisation June 2009

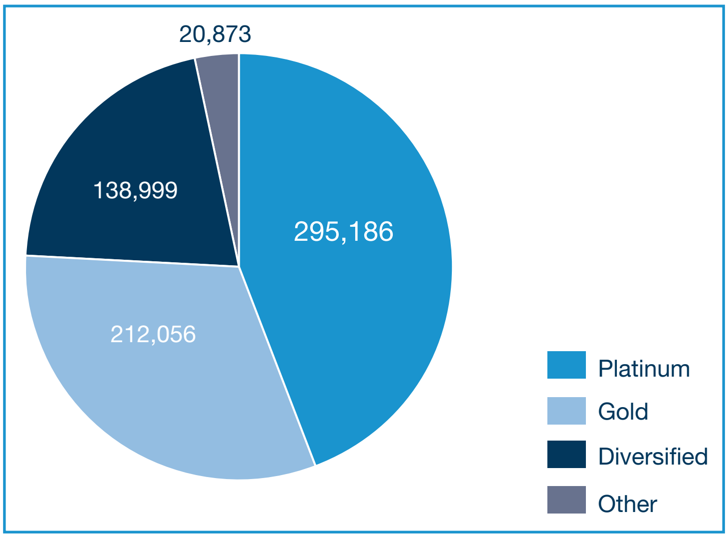


Figure 1: R'billion Market capitalisation for the 34 companies included in the aggregation (**Source**: Business Day and PwC calculation)

Market capitalisation June 2008

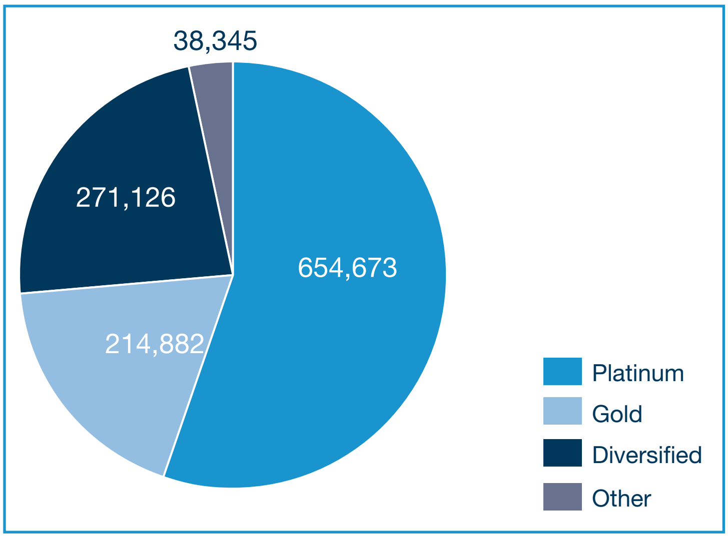


Figure 2: R' billion Market capitalisation for the 34 companies included in the aggregation (**Source**: Business Day and PwC calculation)

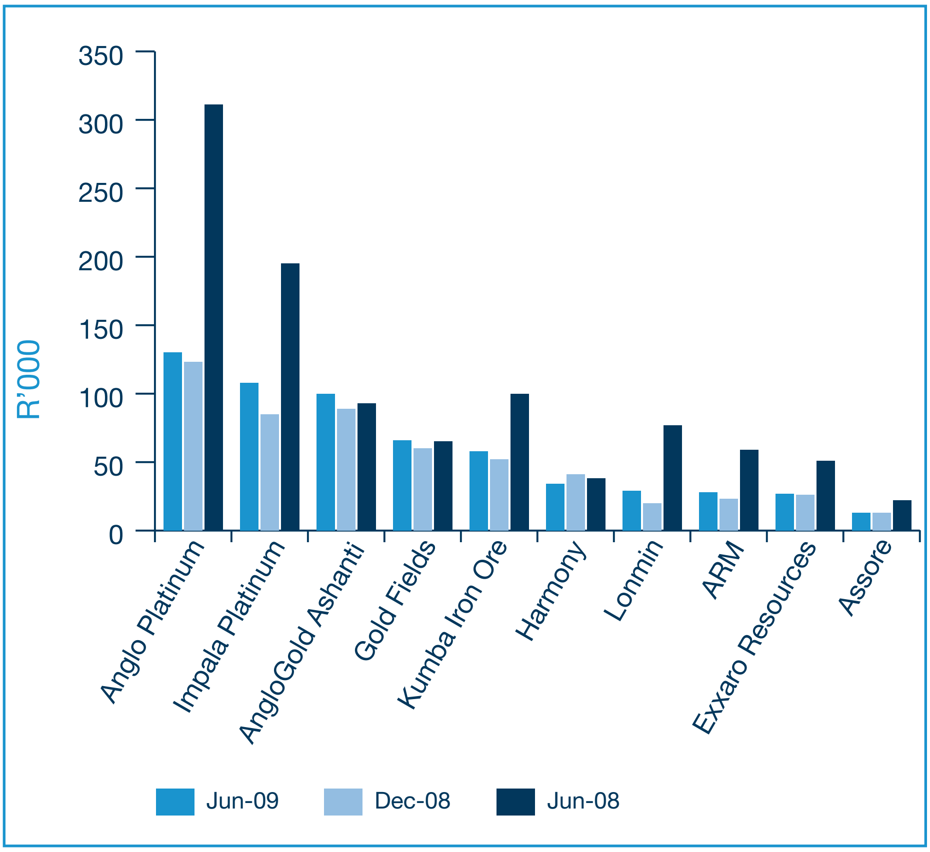


Figure 3: R'billion market capitalisation for the Top 10 (**Source**: Business Day and PwC calculation)

The top 10 companies by market capitalisation indicate the significant decline in short-term value experienced by investors in the mining sector. Anglo Platinum and Impala Platinum maintained their top two positions despite significant decreases in market capitalisation. The biggest winners despite a decrease in market capitalisation were gold companies. AngloGold Ashanti closed the gap on the top two as it moved from fifth to third. Gold Fields improved from sixth to fourth and Harmony from ninth to sixth.

2009: Mining revenue

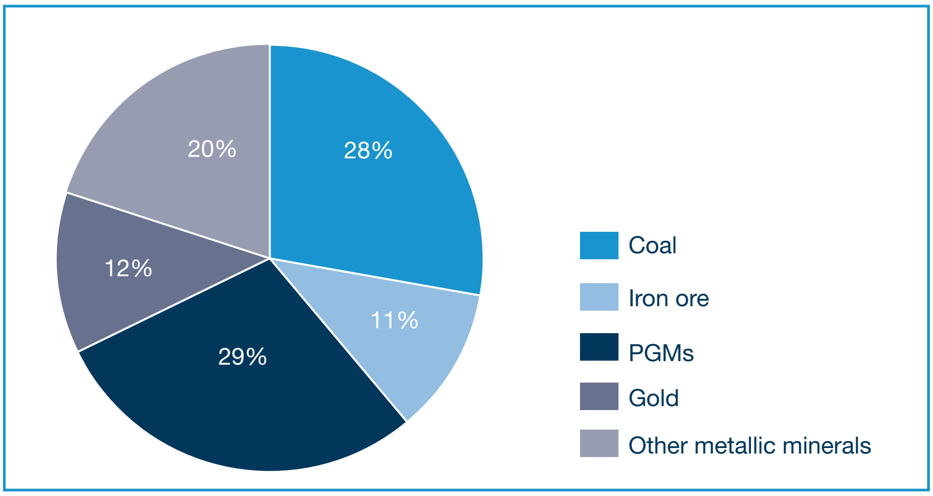


Figure 4: Percentage mining revenue (**Source**: Statistics SA)

Diversification

The South African mining industry reflects a much more diversified breakdown than 10 years ago when gold contributed 39% of total mining revenue. In 2005, coal and platinum group metals (PGMs) overtook gold as the biggest revenue generating commodities.

For the 12 months to June 2009, the relative breakdown of mining revenues excluding other non-metallic ores was: PGMs – R68.9 billion, coal – R68.6 billion, gold – R47.9 billion, iron ore – R27.6 billion and other metallic minerals (including amongst other manganese, copper and nickel) – R29.1 billion.

Price-driven growth

For South Africa, this mining boom started in 2006 with price increases across the board. Unlike in 2002, when revenue increases were mostly driven by a weakened rand, the boom started in, and aided, a relatively strong rand environment.

Figure 5 shows the real rand revenue per oz of platinum and gold over the last 10 years. Real prices were derived by adjusting rand prices for the impact of inflation as measured through CPI movements. Analysis of the graph suggests that platinum and gold companies should have experienced profit growth from 2006. Unfortunately, what is not evident in the graph is the impact of above-inflation input costs experienced by the mining sector in the last three years.

In Figure 6, we replaced the last three years CPI with the average unit cost increases of the top 5 companies. The revised graph shows that gold, which is trading at all time record US$ prices, is currently selling merely at real rand levels experienced since 2006. Platinum is trading well below real rand price levels experienced since 2000. These lower real prices demonstrate how cost pressures have eroded profitability in the industry.

The lower real rand prices, especially for platinum is not sustainable. We therefore expect increased rand prices.

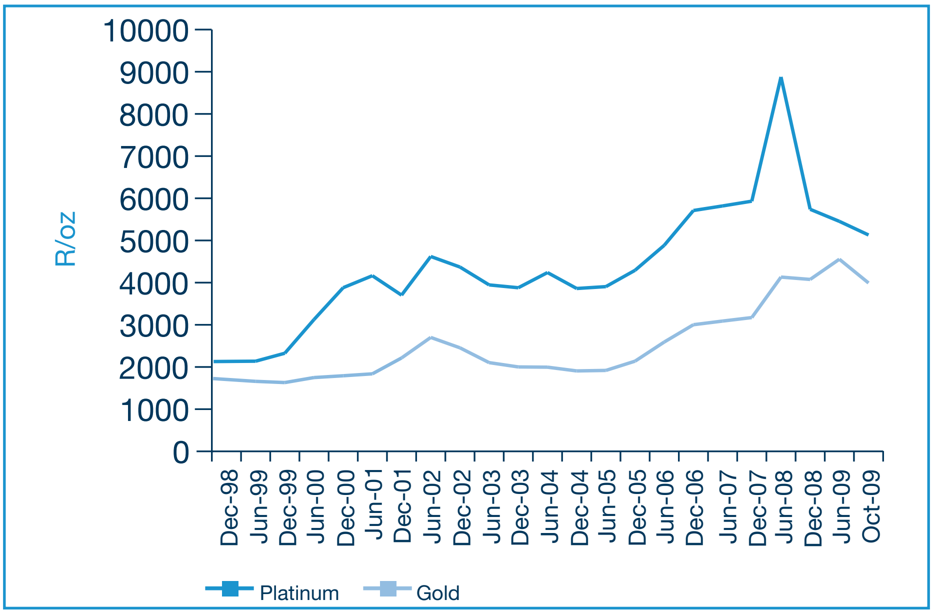


Figure 5: Real rand price per oz (**Source**: Johnson Matthey, World Gold Council, Statistics SA and PwC calculation)

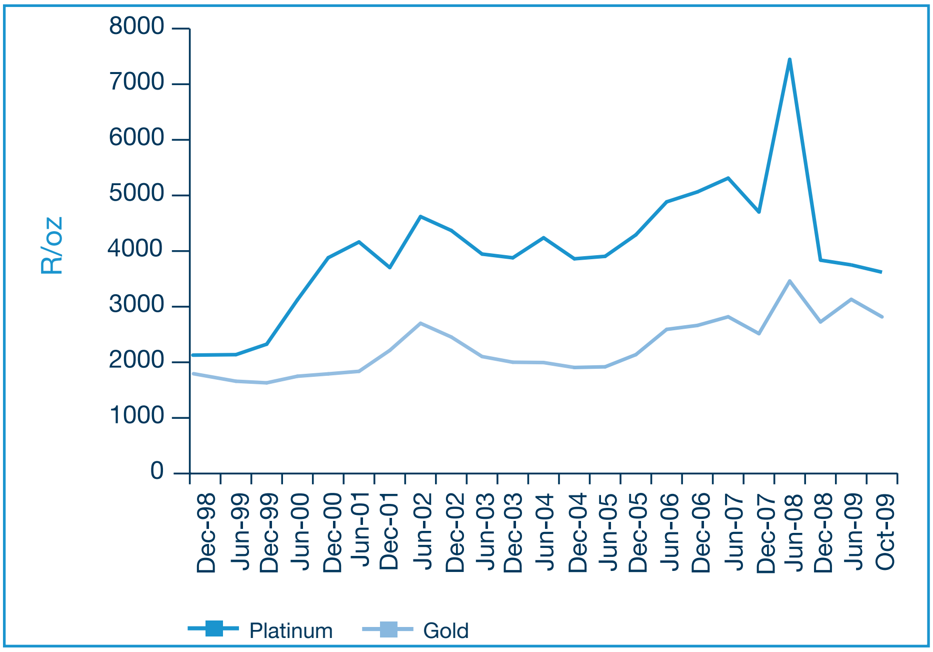


Figure 6: Real rand price per oz – mining inflation adjusted (**Source**: Johnson Matthey, World Gold Council, Statistics SA and PwC calculation)

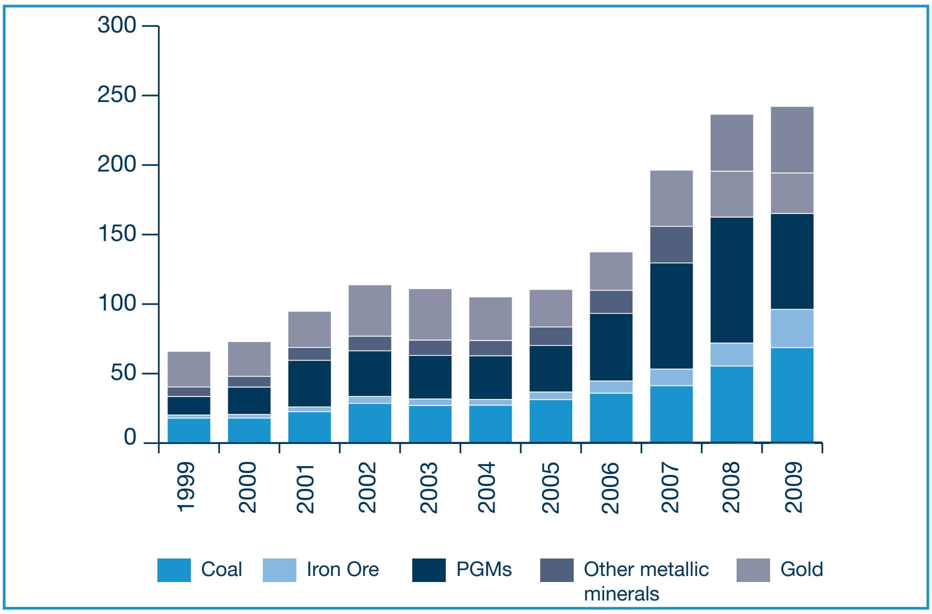


Figure 7: Annual mining revenue (R' billion) (**Source**: Statistics SA)

PGM revenues were to a large extent the backbone of the recent boom with PGM revenues reaching 39% of total mining revenue in 2007. The global reliance on SA supply of platinum (approximately 75%) was evident when PGM prices reached all-time highs from March to June 2008 due to Eskom's inability to guarantee electricity supplies to mines which threatened future global supply.

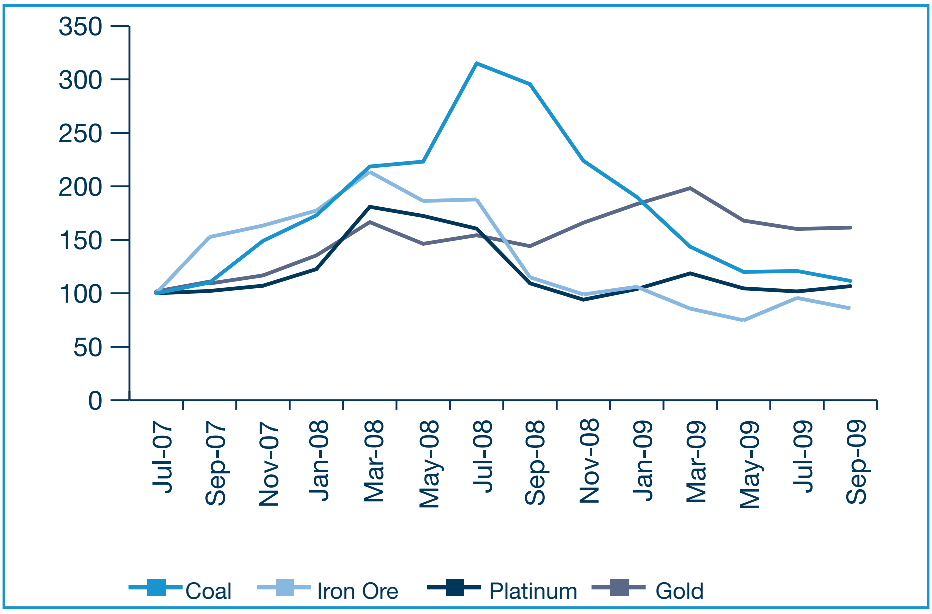


Figure 8: Indexed rand commodity prices (**Sources**: AME Coal Outlook, AME Iron Ore Outlook, Johnson Matthey, World Gold Council)

The most notable other revenue growth commodity was coal. Coal revenues increased on the back of global energy demand and, in 2008, Eskom's rebuilding of coal stock levels. These higher price levels enticed a large number of coal juniors to the market. It will be interesting to see whether these new coal companies can bring their projects to fruition. There appears to be an unwavering interest in coal resources locally and from abroad.

Supply side of the equation

Due to stagnant and lower levels of production, South Africa did not benefit to the full extent from the recent boom. This is particularly evident when one considers that gold production in 2009 was less than half of that produced in 1999.

Iron ore production was the exception. The impact of the R5-billion Sishen expansion project clearly shows in the production figures and the revenue derived from iron ore sales. It is important to note that long-term growth can only be supported by improving the related infrastructure. For the new R8-billion Sishen South mine, Transnet will invest R4 billion in rail infrastructure to facilitate export sales.

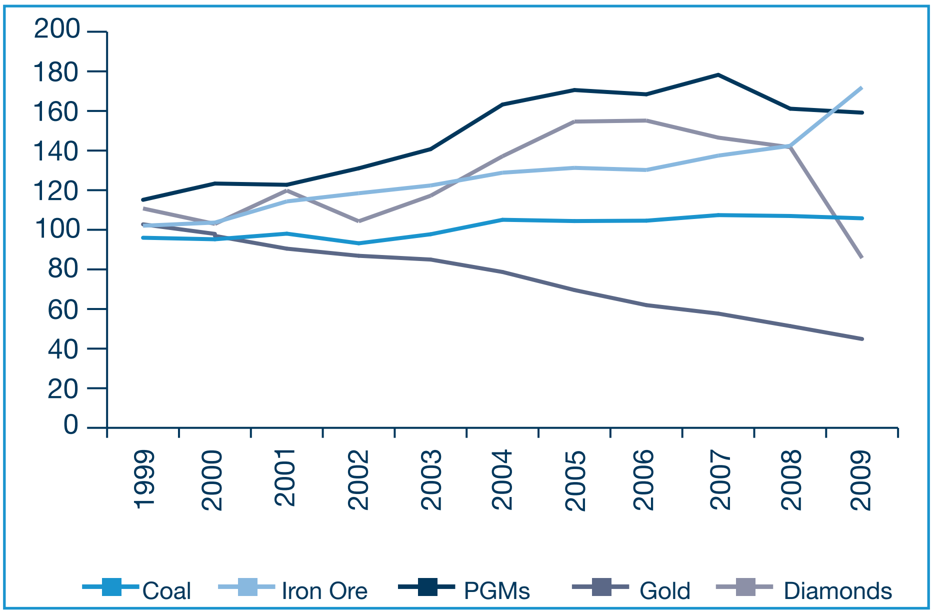


Figure 9: Annual production indexed to July 1998 (**Source**: Statistics SA)

Future supply

As can be seen in figure 10, with the exception of iron ore, all commodities showed a downward trend in production for the last two years. Although perhaps too early, it is pleasing to note that supply appears to bottom out in January 2009 when commodity prices were at their lowest.

Short-term coal supply growth is unlikely. Medium-term growth can be expected on the back of Eskom's new coal-fired power plants and investments by coal companies. Although there is significant interest in the industry, long-term growth can only be sustainable with extra export capacity.

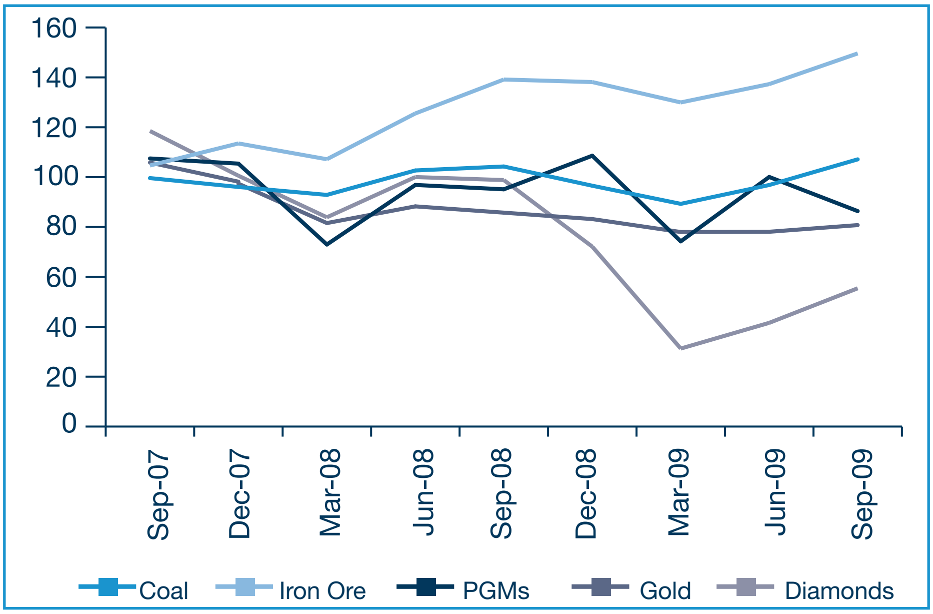


Figure 10: Quarterly supply indexed to July 2007 (**Source**: Statistics SA)

Improvement in the interaction between mines and Transnet's freight rail is essential to optimise exports and future coal supply growth.

Iron ore production growth for the next year could be as much as 10% depending on demand. The planned developments mentioned earlier could support short and medium-term growth in iron ore supply.

Future PGM supply will be effected by accessing deeper level ore, ineffective implementation of mechanised mining and the slower than anticipated ramp up of new projects. Of greater concern is the long-term impact of suspended/delayed developments due to the low-price environment and cash preservation strategies.

The gold majors indicated flat or marginal growth from their South African assets with medium-term growth expected from local and international assets.

Much will depend on the stabilisation of commodity prices if we are to expect future supply growth. In addition, growth can only occur with appropriate investments in infrastructure.

05 Financial performance

Aggregated income statement

	Current year	Previous year	Difference	% Change
	R'billion	R'billion	R'billion	R'billion
Revenue from ordinary activities	237	218	19	9%
Operating expenses	(152)	(134)	(18)	14%
Adjusted EBITDA	85	84	1	1%
Other income	9	11	(2)	(18%)
Impairment (charge)/reversal	(49)	2	(51)	(2 550%)
Amortisation	(19)	(15)	(4)	26%
PBIT	26	82	(56)	(68%)
Net interest	(1)	(1)	(0)	0%
Tax expense	(10)	(27)	17	(63%)
Net profit	14	54	(40)	(73%)

Top line

Apart from gold companies which showed a R17-billion increase in revenue, it was a year of two halves. The higher prices experienced by non-gold companies with year ends of December and earlier resulted in a R22-billion increase in revenue offset by a R20-billion decrease in revenue by non-gold companies with year ends after December.

From production at all costs to rightsizing for the new environment

Operating expenses increased by 14% despite a decrease in production volumes. Significant cost pressures resulted in unit cost increases in excess of 30% for most companies.

The higher cost environment can be ascribed to high priced commodity-related input costs, increased labour cost and the mining of marginal projects in the high-price environment. Unfortunately, many companies were hurt by their inability to readjust to the lower demand and price environment in the short term.

The drop in commodity prices should result in an easing of prices for steel and reagents. This will unfortunately be more than offset by the above-inflation wage increases recently negotiated and the impact of Eskom's electricity price increases. Although mining royalties will not impact the full 2010 financial year, they will add a significant cost to mining companies. We therefore anticipate an ongoing increase in operating costs with a likely increase in unit costs as companies are still struggling to find sustainable production levels.

Impairment

The lower-price environment coupled with higher input costs was a clear indication of impairment. Most companies specifically commented on the process taken to evaluate the recoverability of their assets. It is therefore pleasing to note that there were relatively few impairment provisions recorded, which implies a positive long-term outlook on the market.

The most significant impairment relates to R27.5 billion for Uranium One's assets with half relating to Dominium in South Africa and the remainder in the USA and Australia. Other significant impairments includes R16 billion for AngloGold Ashanti, mostly in Ghana and Tanzania, R2.3 billion for Metorex's CRC copper mine in the DRC, R1.3 billion for Lonmin's Baobab PGM mine and R1.2 billion for Gold Fields' Rusoro Mining Limited investment.

With increases in prices after year end the revenue indicator of impairment was largely removed. The low interest rate environment also assists with lower discount rates often applied. However, as companies restructure for the new environment and understand the new dynamics better, there may still be further impairments in 2010.

Amortisation

Despite a decrease in production, depreciation increased due to the higher capital base of new developments. The increased capital base is attributable to the increased depth of new developments and the high cost environment in which recent developments took place. We expect the trend of increased depreciation costs to continue.

Net finance costs

Net finance costs remained largely unchanged from the previous year. The low level of finance costs reflects the traditionally low levels of gearing used by most South African mining companies. We anticipate an increase in finance costs for 2010 as debt levels increased, and increased rates are generally attached to restructured finance transactions.

Taxation

The effective tax rate increased from 34% to 41%. The increase mainly relates to derivative expenditure at AngloGold Ashanti, which was regarded as non-tax deductible. Excluding this impact, the tax rate decreased from 32% to 29%. This decrease is partially due to the statutory rate decreasing from 29% to 28% for the December 2008 year end companies and the impact of lower Secondary Tax on Companies (STC) due to lower dividends.

Bottom line

Excluding the impact of impairment provisions, profits in the South African mining industry remained flat compared to the previous year. The true extent of the decrease in profitability is masked by the results of companies that include the dying stages of the boom and the resurgence of gold companies after the crash.

Aggregated cash flow statement

	Current year	Previous year	Difference	% Change
	R'billion	R'billion	R'billion	
Cash flows related to operating activities				
Cash generated from operations	86	88	(2)	(2%)
Other	(9)	3	(12)	(400%)
Income taxes paid	(18)	(18)	0	0%
Net operating cash flows	**59**	**73**	**(14)**	**(19%)**

Cash flows related to investing activities				
Purchases of property, plant and equipment	(62)	(57)	(5)	12%
Purchase of investments	(9)	(3)	(6)	200%
Sale of investments	8	9	(1)	(9%)
Other	2	1	1	85%
Net investing cash flows	**(61)**	**(50)**	**(11)**	**22%**

Cash flows related to financing activities				
Proceeds from ordinary share issues	18	9	9	100%
Proceeds from interest-bearing liabilities	40	26	14	56%
Repayment of interest-bearing liabilities and finance leases	(25)	(17)	(8)	47%
Distribution to shareholders	(31)	(25)	(6)	24%
Net financing cash flows	**2**	**(7)**	**9**	**124%**

Net increase/(decrease) in cash and cash equivalents	0	16	(16)	(100%)
Cash and cash equivalents at beginning of period	41	25	16	64%
Cash and cash equivalents at end of period	41	41	0	0%

A number of companies had to take drastic measures in the short term to preserve cash and to rightsize for the changed environment. These approaches, including retrenchments and sale of assets, are often costly in the short run, yet essential for the sustainability of these companies.

Cash from operating activities

Cash flow from operations remained, as was the case for adjusted EBITDA, reasonably in line with the previous year. The biggest reduction in cash from operations was experienced in the platinum sector where it reduced by R10 billion. This was largely offset by the R 8.7 billion increase in cash from operations at Kumba Iron Ore and R1.1 billion for the gold companies.

Included in the other items is a R8.5 billion settlement of a portion of AngloGold Ashanti's hedge book.

Tax payments remained in line with the previous year despite a significant decrease in the tax expense. Third provisional payments and STC payments relating to the previous year is reflected in the current year. The general lag in tax payments compared to tax expenses implies that tax payments for next year will decrease significantly resulting in further pressure on South African Revenue Service and other tax authorities on the continent.

We expect 2010 to reflect more pressure on operating cash flows due to higher input costs, costs associated with cash preservation, lower sales prices and eventual rebuilding of working capital in anticipation of growth.

Cash flows from investing activities

Property, plant and equipment

Of the capital expenditure, 63% was incurred by only four companies: Anglo Platinum (R14.4 billion), AngloGold Ashanti (R9.8 billion), Gold Fields (R7.6 billion) and Impala Platinum (R6.8 billion). These companies estimate that they will reduce capital expenditure for next year by R10.6 billion. This 27% reduction is likely to reflect the industry-wide reduction in capital expenditure expected for next year.

The suspension or delay of capital expenditure is the result of the low price environment and the need to preserve cash due to the lack of funding available after the credit crisis. The decrease in prices meant that even companies with strong balance sheets without cash could not necessarily make use of the opportunity to acquire bargains or to develop now in order to benefit from the next upswing. This lack of development at the bottom end of the cycle is likely to exacerbate the supply shortfall in the next upswing as the shortfall will be driven by both demand and supply factors.

Investments

Movement in investments relates to general disposals of non-core assets and BEE deals. The move from a R6 billion net disposal in 2008 to a net acquisition of R1 billion in 2009 is not significant. However, we expect more consolidation as those juniors not in a position to fund their projects, would likely realise their investments through sales to the majors.

Cash flows from financing activities

Equity

Not surprisingly, investors took the opportunity to invest more in gold companies. The most significant equity raisings include AngloGold Ashanti's R13.2 billion rights issue and Harmony's two share issues totalling R2 billion.

Borrowings

Net cash inflow from borrowings was R15 billion. Although most companies reflected an increase in borrowings, it was really the majors that had access to existing facilities that increased borrowing levels. A large number of entities also restructured their debt positions.

Distributions to shareholders

Final dividends relating to the previous year's exceptional earnings are reflected in the current year cash outflows. The biggest distributions related to the platinum producers: Anglo Platinum's R13.8 billion, Impala Platinum's R7.8 billion and Lonmin's R1.9 billion. Of these three, only Impala continued to pay dividends in calendar year 2009. Kumba Iron Ore also rewarded its investors with a R4.9 billion distribution based on its phenomenal results for both years under review.

The lower profitability and cash needs of all the companies are likely to result in lower dividends for 2010.

Aggregated balance sheet

Financial position	2009 R'billion	2008 R'billion	Difference R'billion	% Change
Current assets				
Cash and cash equivalents	41	41	0	0%
Inventories	38	28	10	36%
Receivables and other current assets	33	35	(2)	(6%)
Derivative financial assets	6	4	2	50%
Assets held for sale	15	6	9	150%
Total current assets	**133**	**114**	**19**	**17%**

Financial position	2009 R'billion	2008 R'billion	Difference R'billion	% Change
Non-current assets				
Property, plant and equipment	315	289	26	9%
Goodwill	11	13	(2)	(15%)
Investments	25	29	(4)	(14%)
Derivative financial assets	4	4	0	0%
Other non-current assets	21	22	(1)	5%
Total non-current assets	**376**	**357**	**19**	**5%**
Total assets	**509**	**471**	**38**	**8%**

Financial position	2009 R'billion	2008 R'billion	Difference R'billion	% Change
Share capital and reserves				
Share capital	183	160	23	14%
Reserves and non-controlling interest	110	111	(1)	(1%)
Total equity	**293**	**271**	**22**	**8%**

Financial position	2009 R'billion	2008 R'billion	Difference R'billion	% Change
Current liabilities				
Accounts payable and other liabilities	46	48	(2)	(4%)
Interest bearing liabilities	29	23	6	26%
Derivative financial liabilities	17	20	(3)	(15%)
Total current liabilities	**92**	**91**	**1**	**1%**

Financial position	2009 R'billion	2008 R'billion	Difference R'billion	% Change
Non-current liabilities				
Interest bearing liabilities	47	33	14	42%
Deferred taxation liabilities	54	54	0	0%
Derivative financial liabilities	3	5	(2)	(40%)
Other non-current liabilities	20	17	3	18%
Total non-current liabilities	**124**	**109**	**15**	**14%**
Total liabilities	**216**	**200**	**16**	**8%**
Total equity and liabilities	**509**	**471**	**38**	**8%**

Financial strength in tough times

The consistent solvency and liquidity ratios indicate that the financial position of the top 34 companies is as strong as the previous year despite the commodity price crash. However, this evaluation is based on historical cost carrying amounts and does not reflect the true year-on-year fair value decline.

Key ratios	2009	2008
Net borrowings	R35 billion	R17 billion
Gearing percentage	11%	6%
Solvency ratio	2.3	2.3
Current ratio	1.4	1.2
Acid ratio	1.0	0.9

A better indication in the weakening of the industry is a comparison between net assets and market capitalisation. The aggregate net asset carrying amount of the entities was as much as 44% of market capitalisation for 2009 compared to 23% in 2008. On an individual basis there were nine companies (2008: two) whose net carrying amount actually exceeded their market capitalisation.

Net book value as a percentage of market capitalisation		
	June 2009	June 2008
Eastplats	261%	44%
Sentula Mining	200%	62%
Mvelaphanda Resources	162%	44%
Braemore	129%	N/A
Metorex	128%	48%
Simmer & Jack	115%	57%
Petmin	105%	39%
Uranium One	105%	142%
Merafe Resources	101%	14%

The table indicates that a disconnection between the market perception of value for these companies and management's perception of the fair value of the underlying assets. The reason for the difference in views might be attributable to the incomplete information available to the market, different perceptions of development goal successes and different long-term price assumptions. The future will tell to what extent management or the market appraised these companies correctly.

Working capital

Although only 13 of the 34 companies showed an improvement, the aggregated liquidity and acid ratios improved during the year. This improvement has been essentially driven by funds raised by AngloGold Ashanti, Harmony and Lonmin and profitability at Kumba Iron Ore and Assore. There were only four companies (2008: three) with a liquidity ratio of less than one and seven companies (2008:14) with an acid ratio of less than one, indicating that companies took cash preservation seriously and positioned themselves to survive the low price environment.

Individual components of working capital also indicate the impact of the market decline:

- **Receivables (down 6%)**
  The marginal decrease in receivables despite the increase in revenue reflects the significant price decreases experienced towards year end. The decreases were lower than expected given the significant price decreases and might indicate slower payments by customers.

- **Inventory (up 36%)**
  Inventory levels increased reflecting the higher input costs and for December year end companies like Anglo Platinum (R3.9 billion increase), a potential building of stock levels to be realised at better prices.

- **Accounts payable (down 2%)**
  The 2% decrease in accounts payable indicates lower activity levels as part of cash preservation following the market crash.

- **Assets held for sale (up 150%)**
  The increase in assets held for sale reflects AngloGold Ashanti's R7.5 billion interest in Boddington to be sold to Newmont and Mvelaphanda Resources' R3.7 billion interest in Gold Fields to be sold as part of its unbundling.

  Included in both years was R2.5 billion relating to Anglo Platinum's Booysendal and Lebowa

Platinum BEE transactions. Both transactions were concluded after year end. The significant decrease in PGM prices meant that transaction prices were renegotiated resulting in delays.

Derivatives – to hedge or not to hedge

Of the 34 companies, only AngloGold Ashanti has a significant hedging portfolio addressing both gold price risk and foreign exchange risk. At year end its net derivative fair value position was a liability of R11 billion (R16 billion liability and R5 billion asset). It also paid R8 billion during the year to close out certain derivative positions.

The only other significant derivative exposures relates to project finance hedging requirements. Palabora Mining Company has a R1.7 billion forward copper sales contract exposure which reduced from R3.6 billion mainly due to deliveries and the decline in copper prices. As project finance again becomes available for mining projects, one can expect to see an increase in this type of hedging.

The significant decline in commodity prices during the year has highlighted the price risk exposure experienced by all mining companies. Enhanced risk management disclosures should in future indicate whether companies are going to reassess their positions with regard to hedging in the following year.

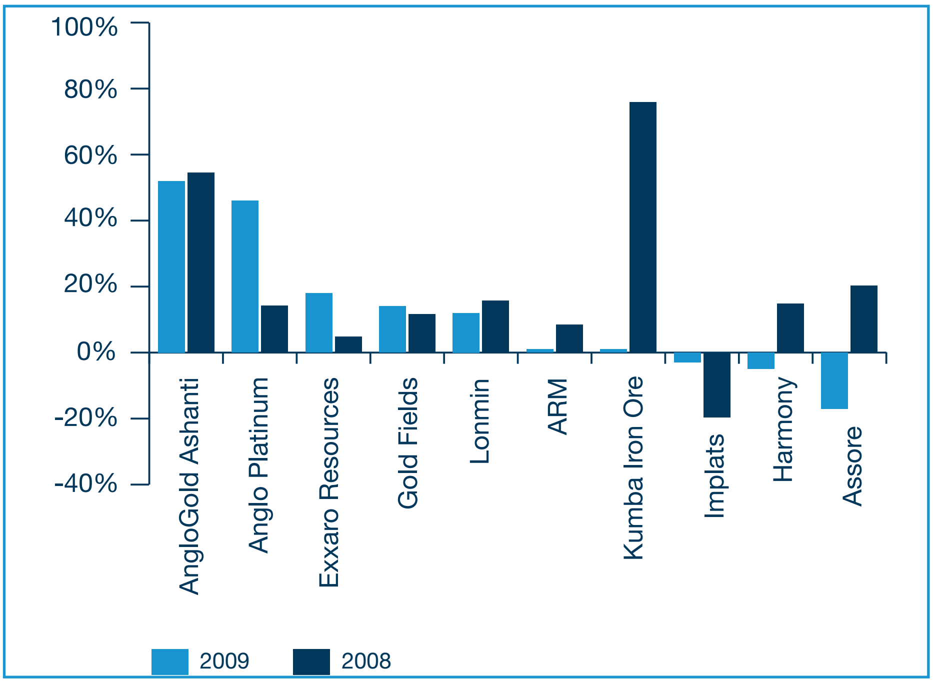


Figure 11: Gearing ratio for the top 10 companies (**Source**: PwC calculation)

Financing for sustainability

As one would expect the gearing ratio increased during the period under review. South African mining companies and banks have traditionally been conservative when it comes to funding mining projects. The 10% gearing ratio is still extremely conservative when compared to the 33% of the global top 40 companies as discussed in Mine, PwC's annual global mining publication. Net borrowing as a percentage of market capitalisation is still only 4.6% (2008:1.2%). Of the 34 companies reviewed, only 14 (2008: 14) were in a net borrowings position.

Gearing for the top 10 companies in essence explains the full movement in the gearing ratio.

Interestingly, the biggest movements were reductions in gearing and related to increased profits at Kumba Iron Ore and Assore on the back of high iron ore and manganese prices. Harmony also made use of the strong gold price environment to raise equity and to settle debt.

Of the Top 10 companies, 70% (2008: 90%) were in a net borrowing position as opposed to 29% (2008:21%) of the remainder of the top 34 companies. The disparity in ratio could indicate that financial institutions prefer to provide finance based on strong balance sheets rather than project-specific finance as required by the mid-tier and junior mining companies. Exceptions were Metorex and Great Basin Gold, which were able to raise project-specific finance. Please refer to section 7 for a summary of financing trends in the downturn.

06 Safety performance

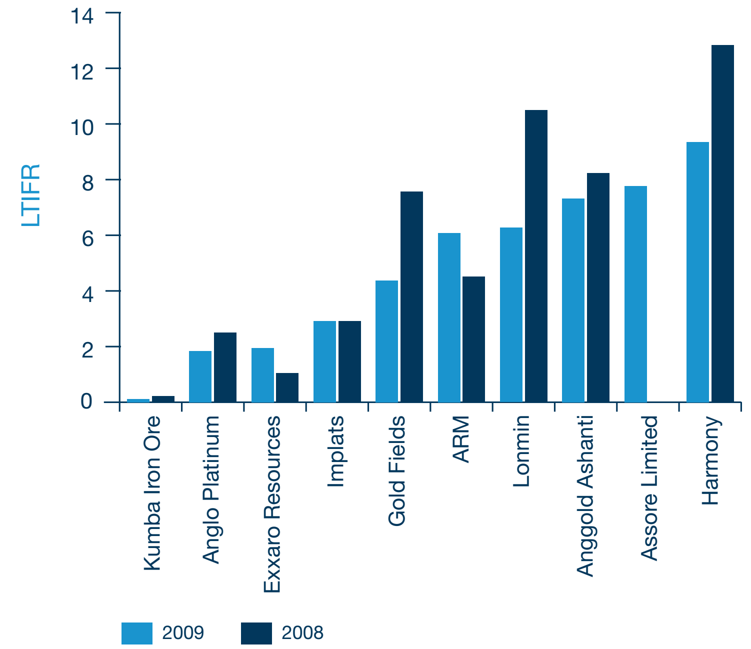


Figure 12: Lost Time Injury Frequency Rate (LTIFR) per million hours (**Source**: Company annual reports and websites)

Mining companies, the Government and the unions alike realise the importance of safety of employees to ensure the long-term sustainability of the industry. This is evident in the importance given to safety in company annual reports, the presidential mine safety audit and union commentary.

Of our top 10 companies, Kumba Iron Ore reflected the best safety record with regards to lost time injuries. Gold Fields and Lonmin showed the best improvement on the previous year.

Although we've seen an excellent improvement with regards to safety, all involved agrees that zero harm is not only the objective, but should also be achieved.

Unions, the Government and companies are all committed to seeing a drop in mining fatalities as a prerequisite to being internationally competitive.

07 Mergers and acquisitions in the downturn

Introduction

During the recent growth years for commodities, South Africa saw a significant increase in corporate transactions in the mining sector. Following the economic events of 2008, the sector now focuses on survival.

Nature of transactions

The unprecedented surge in the demand for commodities in the years up to 2008 resulted in a rapid rise in global commodity prices. Consumers struggled to secure both the supply required to meet demand as well as the logistical capacity to deliver the material. This spurred a wave of interest by companies, particularly from the Far East, considering acquisitions and investments that would principally secure a supply of raw material, reducing their reliance on and exposure to open market prices. Mining companies also invested to increase resources or to diversify. There was also renewed interest from private equity firms looking to acquire suitable mining investments. In most cases these transactions were cash based.

Following the global economic decline in 2008 and subsequent illiquidity, the mining industry has been severely affected. Mining companies, and in particular junior mining companies, have struggled to continue with exploration or project development due not only to poor commodity prices affecting project economics, but limited access to funding. However, it is evident that there is still interest by investors where value is identified.

The accompanying table provides an indication of some of the recent transactions and in particular shows a move away from cash towards equity-based transactions:

Company	Target	Investment interest	Consideration	Industry	Date
Aquarius Platinum	Ridge Mining	100%	Shares	Platinum	July 2009
Pallinghurst	Platmin	70%	Cash	Platinum	December 2008
Jubilee Platinum	Braemore Resources	100%	Shares	Platinum	July 2009
OM Holdings (Singapore)	Tshipi Project	49.9%	Shares	Manganese	September 2009
Shanduka Group	Springlake Colliery (Petmin)	100%	Cash	Anthracite Coal	February 2009
OM Holdings & Pallinghurst,	AMCI		Shares	Manganese	September 2009

Funding in South Africa

The stressed market conditions also impacted the South African mining industry:

- Many asset managers and investors offloaded their investments to limit losses and would not consider new investments until stability in the markets returned;
- The equity values underpinning asset-backed bank-funded projects, including black economic empowerment (BEE) investments, were well below their loan values, resulting in covenants being breached;
- Some investments were realised at lower values to generate cash to support working and operational capital in other businesses; and
- Commercial, development and investment banks reduced lending due to high market volatility, defaulting loans and depressed commodity prices.

As a result, shareholders, investors and funders needed to critically assess their positions and realign their exposure to their investments.

Due to the long-term nature of mining development projects, a number of mining companies had open commitments to develop mines and fulfil equipment orders and other contractual obligations. Faced with a large debt overhang, mining companies in this position have looked to funders to renegotiate or restructure the existing terms of finance. This however, where successful, has been costly and companies have had to look at several alternatives to raising capital. Such alternatives include inter-alia:

- Issues of new equity;
- Rights issues;
- Convertible notes; and
- Debt.

Mining companies that have successfully raised capital recently, have by and large done so through an issue of fresh equity or via a rights issue. However, several companies have also been successful in raising capital through debt by way of convertible debentures, bonds, traditional project finance or, depending on the level of finance required, a combination of these. In all cases, capital raising has been costly to existing shareholders, either because of deeply discounted equity issues or because of onerous and stringent debt terms.

The accompanying table provides a high-level indication of the changes to some of the terms of project finance provided by banks to projects that were able to secure financing during the downturn.

Changing terms of project finance during the downturn

Criteria	Pre 2008 crash	Post 2008 crash
Project	Loans made to a multitude of start-up projects	Loans only made to companies with proven track records in the particular project field
Debt: equity	(75% - 95%) : (25% - 5%)	(40% - 60%) : (60% - 40%)
Cash-flow security	Commodity specific	Unsubordinated with off-take agreements required
Funding rate	Jibar + (2% - 5%)	Jibar + (4% - 8%)
Debt service reserve account	Project specific	Generally required
Debt service cover ratio	1.1x - 1.2x	1.5x - 2x
Drawdown penalties	Project specific	1% - 4% of outstanding amount
Asset cover ratios	Project specific	Up to 2x
Loan life cover ratio	1x - 1.4x	1.2x - 1.5x
Commodity pricing used to determine loan life cover ratios	Generally consensus forecast	Up to 50% of consensus forecast

(**Source**: PwC SA public research)

Furthermore, banks offering project finance have tightened their lending criteria by placing more restrictive terms on borrowers. Projects requiring debt finance are typically required to have in place an issued mining licence as well as transport contracts, service and off-take agreements or export credit and insurance agreements before any funding is advanced to the borrower.

Collateral for loans has been broadened to include debtor books, property, plant and equipment as well as equity. Depending on the nature of the collateral security, debt is either provided by way of direct loans or as preference shares. There have also been widespread restrictions on any post-funding waterfall cash distribution to shareholders and cash sweeps of up to 70%, as well as debt service reserve accounts of up to three months funding, are back in vogue.

The ultimate terms of project finance are, however, largely driven by management's track record and the project's position on the cost curve.

The reason for some of these increased restrictions is the lack of deep secondary markets into which the banks could on-sell loans, thereby making syndication less likely. This then restricts the level of funding and underwriting undertaken by isolated and risk-averse lenders.

Looking ahead

While major mining companies focus on cash-preservation strategies, junior mining companies will continue to look for opportunities to remain going concerns. Such strategies may include mergers or disposals for cash but may include a diversification into bulk consumable commodities, such as coal, that are generally more easily mineable and have the potential to produce an earlier operating cash flow.

However, mining companies with cash resources making acquisitions today are also less likely to acquire an entire resource or project upfront and would be more likely to consider a farm-in, earn-in or joint venture option, to ensure the maximum benefit of shareholders' cash utilisation going forward.

08 The dawn of a new mining regime – the Royalty Act

March 1, 2010 will be a significant date for the South African mining industry as this is when the much-debated Mineral and Petroleum Resources Royalty Act, 28 of 2008 (the Royalty Act) is to come into effect. The implementation of the Royalty Act brings South Africa's mining legislation in line with prevailing international norms and is likely to change mining's administrative landscape.

The Royalty Act serves to compensate the State for the permanent loss of South Africa's non renewable resources. The royalty becomes payable on the transfer of a mineral that has either been won or recovered from within South Africa's by the extractor for his own benefit.

Unlike the Canadian tax system that imposes a royalty only upon unrefined mineral resources, South Africa will impose its royalty on both refined and unrefined minerals. The distinction between refined and unrefined minerals will govern which formula the extractor will apply to compute the royalty payable to the State.

A mineral is considered to be "refined" if it is beneficiated or purified to its purest form, (e.g. gold), whilst a mineral is considered "unrefined" if it is in a bulk (e.g. sand) or there has been limited beneficiation (e.g. coal).

The Royalty Act is prescriptive in nature and extractor's are obliged to categorise and classify the minerals mined and transferred in accordance with the schedules listed in the Royalty Act.

The Royalty Act also makes reference to composite minerals which are classified as the main mineral along with the byproducts. For example, platinum is the main mineral extracted with nickel being the byproduct. As a general rule, the extractor must allocate between the refined and unrefined mineral according to a reasonable method of apportionment. However, a de minimus rule applies and the byproducts can be aggregated into the main schedule as long as the byproducts do not exceed 10% of the total.

How will it be calculated

Royalty payments are calculated as a percentage (Y(r)) of gross sales, earning before interest and tax (EBIT) and whether the mineral is refined or unrefined. The prescribed formulae are –

Refined mineral:

Y(r) = 0.5 + [EBIT/(gross sales in respect of refined mineral resources x 12.5)] x 100

Unrefined mineral:

Y(r) = 0.5 + [EBIT/(gross sales in respect of unrefined mineral resources x 9)] x 100

The minimum royalty payable is 0.5% of gross sales for both refined and unrefined minerals while the maximum royalty payable would be 5% for refined minerals and 7% for unrefined minerals of gross sales.

Where a company produces both refined and unrefined minerals, it will have to calculate the royalty on the refined and the unrefined mineral taking into account the split of the capital expenditure, allowable deductions, etc. which are relevant to the particular mineral being extracted. This may prove a cumbersome task for company's whose accounting systems have not been set up to provide the type of information required for the calculation of the Royalty for the different minerals being mined.

Transfer pricing

The arm's-length principles are extended to cover all transactions including transactions between connected and unconnected persons. This implies that local sales will be subjected to the transfer pricing provisions requiring the extractor to prove that the sale to both connected and unconnected parties is at the arm's-length price. Should SARS feel that this is not the case; it is empowered to adjust the extractor's EBIT and gross sales to reflect an arm's-length price. This is intended to prevent the erosion of the royalty base via the manipulation of prices.

When is it payable and at what intervals

The payment of the royalty follows the same principles as the payment of provisional tax, with the first payment being made within six months after the first day of the company's year of assessment, which would be equal to half of the royalty estimate amount. The second royalty is payable on the last day of the year of assessment, which is equal to the amount of the royalty estimated less the first payment made.

The royalty return must be submitted within six months after the last day of the company's financial year.

Conclusion

The royalty regime will undoubtedly have far-reaching consequences for both mining companies and other affected industries.

The dawn of any new dispensation brings along with it a related paradigm shift, with often far-reaching ripple effects. Strategic planning is now crucial and organisations would be well advised to familiarise their key stakeholders with the application and implications of the Act.

09 King III – sustainable development

The release of the King Report on Governance for South Africa 2009, King III, on 1 September 2009 marked a tipping point for sustainability management and reporting for corporate entities that has significant implications for South African mining companies. Traditionally at the forefront of efforts to demonstrate moves towards sustainable development through comprehensive public reporting, the mining companies will be looked to by other industry players when it comes to implementing King III.

Sustainability forms part of the core philosophy of King III. In fact, sustainability is listed second after "effective leadership" as a key principle of the Code. An important principle for all companies to note is the mainstreaming of sustainability issues throughout the business by integrating business strategy, sustainability and governance. These elements are seen as inseparable; hence the use of the phrase "integrated reporting", which is used throughout King III.

Of the nine chapters making up the Report, all have application to sustainability but three in particular have a profound impact on sustainability management as we know it:

- Chapter 1 deals with "*Ethical Leadership and Corporate Citizenship*", implying an ethical relationship between the company and the society in which it operates.
- Chapter 8 deals with "*Governing Stakeholder Relationships*". Stakeholder relationships form an integral part of the concept of good corporate citizenship and companies should therefore develop and implement stakeholder engagement policies and supporting procedures.
- Chapter 9 deals with "*Integrated Reporting and Disclosure*". King III requires the statutory financial and sustainability information to be integrated into a public report. It underlines all integrated internal processes from strategy to implementation, placing new emphasis on stakeholder inclusivity and independent assurance of reports, over and above the usual financial requirements.

Applicability

King III applies to all entities in South Africa, regardless of the manner and form of their incorporation or establishment. The principles, if adhered to, will result in improved governance practices. King III has broken new ground in corporate governance and is expected to influence other countries in the revision of their codes – especially in the field of sustainability.

King III follows an "apply or explain" approach, which means that those companies that have not engaged as yet with the full sustainability agenda, may find that they have more explaining to do than they would otherwise have anticipated.

Whereas the mining industry in South Africa has led the way to a large extent in "triple bottom line" performance management, reporting and assurance, other industries are now taking the concept on board with vigour – meaning that directors of mining companies will have to raise their games in order to keep this number one position.

10 Other information

Glossary

SA	South Africa
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	EBITDA adjusted for impairment charges
PBIT	Profit before interest and tax
EBITDA margin	EBITDA/revenue
Adjusted EBITDA margin	Adjusted EBITDA/revenue
Current ratio	Current assets/current liabilities
Acid ratio	(Current assets less inventory)/current liabilities
Gearing ratio	Net borrowings/(net borrowings plus equity)
Net borrowings	Interest bearing debt less cash
Market capitalisation	The market value of the company calculated as the number of shares outstanding multiplied by the share price.
Top 34, 10, 5	The top companies by market capitalisation used in this aggregation.
CPI	Consumer price index as published by Statistics South Africa
PGM	Platinum group metals

Companies reviewed

Company	Year end
Aflease Gold Limited (subsequently changed to Gold One International Limited)	31/12/2008
African Rainbow Minerals Limited (ARM)	30/06/2009
Anglo Platinum Limited	31/12/2008
AngloGold Ashanti Limited	31/12/2008
Anooraq Resources Corporation	31/12/2008
Aquarius Platinum Limited	30/06/2009
Assore Limited	30/06/2009
Braemore Resources PLC	30/06/2009
Central Rand Gold Limited	31/12/2008
DRD Gold Limited	30/06/2009
Eastern Platinum Limited	31/12/2008
Exxaro Resources Limited	31/12/2008
First Uranium Corporation	31/03/2009
Gold Fields Limited	30/06/2009

Company	Year end
Great Basin Gold Limited	31/12/2008
Harmony Gold Mining Company Limited	30/06/2009
Impala Platinum Holdings Limited (Implats)	30/06/2009
Keaton Energy Holdings Limited	31/03/2009
Kiwara PLC	31/03//2009
Kumba Iron Ore Limited	31/12/2008
Lonmin PLC	30/09/2008
Merafe Resources Limited	31/12/2008
Metmar Limited	28/02/2009
Metorex Limited	30/06/2009
Mvelaphanda Resources Limited	30/06/2009
Northam Platinum Limited	30/06/2009
Palabora Mining Company Limited	31/12/2008
Petmin Limited	30/06/2009
Sentula Mining Limited	31/03/2009
Simmer & Jack Mines Limited	31/03/2009
Transhex Group Limited	31/03/2009
Uranium One Inc	31/12/2008
Wesizwe Platinum Limited	31/12/2008
Witwatersrand Consolidated Gold Resources Limited (Witsgold)	28/02/2009

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 2009. We used a cut off market capitalisation of R200 million and excluded all companies with suspended listings.

Our selected 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 based 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 2009 covers reporting periods from 1 October 2007 to 30 June 2009, with each company's results included for the 12-month financial reporting period that falls into this timeframe.

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.

About PricewaterhouseCoopers

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 161 000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

PricewaterhouseCoopers Mining Centre of Excellence

PricewaterhouseCoopers Mining Centre of Excellence is a major player in the South African mining sector and offers the industry expertise in audit, tax, risk management, environmental services and transaction support.

Our diverse client base covers the full spectrum of economic activities in the mining sector. We bring appropriate local knowledge and experience to bear and use the depth of our resources to bring clients a professional service specifically tailored to meet their requirements.

Having successfully stood up to the challenge to retain skills in South Africa, our teams have the capability and availability to service all our mining clients.

We would like to thank the following people for their valuable contribution to this report:

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