

For the year ended 30 June

R million	Group	
	F2009	F2008
33 Sale of interest in TEAL		
Fixed assets	66	–
Long-term borrowings	(137)	–
Stock	132	–
Debtors	37	–
Cash and cash equivalents	17	–
Creditors	(89)	–
Taxation	(5)	–
Short-term borrowings and overdrafts	(441)	–
Net assets sold	(420)	–
Profit with disposal	610	–
Proceeds	190	–
Less: cash and cash equivalents	(17)	–
Transaction costs – Company	(53)	–
Net cash effect	120	–

34 Financial instruments and risk management

The Group is exposed to certain financial risks in the normal course of its operations. To manage these risks, a treasury risk management committee monitors transactions involving financial instruments.

The Group does not acquire, hold or issue derivative instruments for trading purposes.

The following risks are managed through the policies adopted below:

a. Currency risk

The commodity market is predominantly priced in US Dollars which exposes the Group's cash flows to foreign exchange currency risks.

In addition, there is currency risk on long lead-time capital items which may be denominated in US Dollars or Euros or other currencies.

Derivative instruments which may be considered to hedge the position of the Group against these risks include forward sale and purchase contracts as well as forward exchange contracts.

The use of these derivative instruments is considered on a month-by-month basis when appropriate.

		Foreign currency amount	Year end exchange
Financial assets			
Foreign currency denominated items included in receivables:			
	30 June 2009	US\$ 118 million	7.72
	30 June 2008	US\$ 442 million	7.83
	30 June 2008	EURO 7 million	12.34
Foreign currency denominated items included in cash and cash equivalents:			
	30 June 2009	US\$ 20 million	7.72
	30 June 2008	US\$ 2 million	7.83
Financial liabilities			
Foreign currency denominated items included in payables:			
	30 June 2009	US\$ 12 million	7.72
	30 June 2008	US\$ 20 million	7.83
Foreign currency denominated items included in overdrafts and short term borrowings:			
	30 June 2009	US\$ 43 million	7.72
	30 June 2008	US\$ 55 million	7.83

Foreign currency contract

A forward exchange contract was taken out in May 2009 to cover US\$42.5 million at a rate of R8.1720/US\$, payable on 31 August 2009. At year end there was an unrealised loss on this contract included in payables (note 17) of R16 million and recognised in the income statement.

34 Financial instruments and risk management (continued)

b. Liquidity risk management

The Group's executive meets regularly to review long and mid-term plans as well as short-term forecasts of cash flow.

Funding requirements are met by arranging banking facilities and/or structuring finance as applicable. All funding and related structures are approved by the Board of Directors.

The table below summarises the maturity profile of the Group's financial liabilities at 30 June based on undiscounted cash flows.

Group F2009				
	Within one year	2 – 5 years	Over 5 years	Total
Long-term borrowings (refer note 14)	1 511	229	1 135	2 875
Trade and other payables (refer note 17)	1 637	–	–	1 637
Overdrafts and short-term borrowings (refer note 19)	869	–	–	869
Total	4 017	229	1 135	5 381

Group F2008				
	Within one year	2 – 5 years	Over 5 years	Total
Long-term borrowings (refer note 14)	548	1 407	847	2 802
Trade and other payables (refer note 17)	1 515	–	–	1 515
Overdrafts and short-term borrowings (refer note 19)	1 176	–	–	1 176
Total	3 239	1 407	847	5 493

c. Credit risk

Credit risk arises from possible defaults on payments by business partners or bank counterparties. The Group minimises credit risk by evaluating counterparties before concluding transactions in order to ensure the creditworthiness of such counterparties. The maximum exposure is the carrying amounts disclosed in note 10.

Major trade receivables include Impala Platinum R363 million (2008: R1 billion) and Rustenburg Platinum Mines R264 million (2008: R630 million).

Cash is only deposited with institutions which have exceptional credit ratings with the amounts distributed appropriately among these institutions to minimise credit risk through diversification. The maximum exposure is the carrying values as per note 11. The available-for-sale assets (which is mostly the Harmony investment) exposure is the carrying value of the assets as per note 8.

d. Treasury risk management

The treasury function is outsourced to Andisa Capital (Pty) Limited (Andisa), specialists in the management of third party treasury operations.

Together with ARM executives, Andisa coordinates the short-term cash requirements in the South African domestic money market.

A treasury committee, consisting of senior managers in the Company and representatives from Andisa meet on a regular basis to analyse currency and interest rate exposures as well as future funding requirements within the Group. The committee reviews the treasury operation's dealings to ensure compliance with Group policies and counterparty exposure limits.

34 Financial instruments and risk management (continued)

e. Commodity price risk

Commodity price risk arises from the possible adverse effect of fluctuations in commodity prices on current and future earnings. Most of these prices are US Dollar and EURO based and are internationally determined in the open market. From these base prices contracts are negotiated. ARM does not actively hedge future commodity revenues of the commodities that it produces against price fluctuations.

The Nkomati, Two Rivers and Modikwa operations recognise revenue at the month end during which delivery of concentrate has occurred, at the closing spot price for the contained metal. There is a risk that the spot price does not realise when the metal price fixes on out turn at the refinery. Management is of the opinion that this method of revenue recognition is the most appropriate as opposed to using forward prices as an estimate. The risk is that where there are significant changes in metal prices after a reporting period end that the next reporting period is impacted. The value of accounts receivable for these three entities included in trade and other receivables (refer note 10) is R764 million (2008: R1 790 million). Refer to the sensitivity calculations which follow note (j) below.

f. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations.

The Group manages its interest cost using a mix of fixed and variable rates.

Fluctuations in interest rates give rise to interest rate risks through the impact these fluctuations have on the value of short-term cash investments and financing activities.

Fixed interest rate loans carry a fair value interest rate risk.

Cash is managed to ensure that surplus funds are invested in a manner to achieve maximum returns while minimising risks.

g. Fair value risk

Except for interest free loans given by the Company to its subsidiaries, the carrying amounts of trade receivables, cash and cash equivalents and trade and other payables approximate fair value because of the short-term duration of these instruments.

h. Acquisition risk

Acquisition risk is the risk that acquisitions do not realise expected returns. This risk is mitigated by ensuring that all major investments are reviewed by the ARM Investment Committee after being proposed by management.

i. Capital risk management

The management and maintenance of capital in ARM is a central focus of the Board and senior management especially as ARM has a declared policy of growth. The ability to continue as a going concern and to safeguard assets while optimally funding expansion is continually monitored.

Capital is mainly monitored on the basis of the net gearing ratio while giving due consideration to life of mine plans and business plans.

Capital structure is maintained and improved by ensuring an appropriate level of borrowings, adjusting dividends and reviewing returns from operations. ARM does not have a fixed policy on gearing but targets a net gearing threshold of 30% for external funding.

Total capital is defined as total equity on the balance sheet plus debt.

j. Sensitivity

The sensitivity calculations are performed on the variances in prices, exchange rates and interest rate changes.

The assumptions are calculated individually while keeping all other variables constant.

The effect is calculated only on the financial instruments as at year end.

It is relevant to note that the accounts receivable balance in (e) above of R764 million (2008: R1 790 million) was valued using the following parameters: (i) Rand/US Dollar exchange rate of R7.72 (2008: R7.91), (ii) platinum price of \$1 186/oz (2008: \$2 039/oz), (iii) palladium price of \$249/oz (2008: \$449/oz), rhodium of \$1 350/oz (2008: \$9 535/oz) and a nickel price of \$16 010/tonne (2008: \$22 539/tonne).

After the 2008 year end the prices of these commodities had reduced by more than 50% while the Rand had weakened by more than 15%. As a result significant negative mark-to-market adjustments have been charged against income in the H1 in F2009 as the accounts receivable balance realised at amounts lower than the balance sheet date value.

The sensitivity was applied to profit or loss before taxation and minority interest.

For the year ended 30 June

R million	Group	
	F2009	F2008
34 Financial instruments and risk management (continued)		
The increase in profit before tax if:		
The Rand/US Dollar exchange rate weakens by R1	119	369
The Rand/EURO exchange rate weakens by R1	–	7
The price of nickel increases by 10%	18	13
The price of PGMs increases by 10%	56	166
The interest rate increases by 1%	9	12

The interest change impact is calculated on the net financial instruments at balance sheet date and does not take into account any repayments of long or short-term borrowings.

The prices of all other commodities are contractually fixed and are thus not impacted by price fluctuations after the balance sheet date.

Financial instruments by categories

Group F2009						
Category	Loans and receivables	At fair value through profit and loss	Available-for-sale assets	Other liabilities at amortised cost	Total book value	Total fair value
Investments – listed	–	–	5 101	–	5 101	5 101
Loans and long-term receivables	134	–	–	–	134	134
Financial assets – structured investment	–	78	–	–	78	78
Foreign exchange contract	–	(16)	–	–	(16)	(16)
Trade and other receivables	801	764	–	–	1 565	1 565
Trade and other payables	–	–	–	(1 621)	(1 621)	(1 621)
Cash and cash equivalents	3 513	–	–	–	3 513	3 513
Long-term borrowings	–	–	–	(1 364)	(1 364)	(1 364)
Short-term borrowings	–	–	–	(2 192)	(2 192)	(2 192)
Overdrafts	–	–	–	(188)	(188)	(188)

Financial instruments by categories

Group F2008						
Category	Loans and receivables	At fair value through profit and loss	Available-for-sale assets	Other liabilities at amortised cost	Total book value	Total fair value
Investments – listed	–	–	6 055	–	6 055	6 055
Trade and other receivables	2 360	1 790	–	–	4 150	4 150
Trade and other payables	–	–	–	(1 515)	(1 515)	(1 515)
Cash and cash equivalents	2 660	–	–	–	2 660	2 660
Long-term borrowings	–	(18)	–	(2 236)	(2 254)	(2 254)
Short-term borrowings	–	–	–	(1 658)	(1 658)	(1 658)
Overdrafts	–	–	–	(66)	(66)	(66)

For the year ended 30 June

Financial assets	Book value at year end R million	Repricing date	Maturity date	Effective interest rate
34 Financial instruments and risk management (continued)				
The table quantifies the interest rate risk				
Year ended 30 June 2009				
Cash – financial institutions	157		overnight	0 – 1%
– financial institutions	2 447		call deposit	7 – 11%
– fixed	909	July 2009		7 – 8%
	3 513			
Year ended 30 June 2008				
Cash – financial institutions	15		overnight	2.75 – 4.5%
– financial institutions	2 460		call deposit	9 – 12%
– fixed	185	July 2008		9 – 12%
	2 660			
Financial liabilities				
Year ended 30 June 2009				
Long-term borrowings				
Leases	103		2012	1.28 to 2.65% below prime
Loan facility (Two Rivers – mine housing project)	143		2016	12.08%
Loan facility (Vale/ARM joint venture)	60		2014	5.25%
Loan facility (Vale/ARM joint venture)	328		2010	LIBOR plus 1.25%
Loan facility (Vale/ARM joint venture)	7		2010	4.6%
Loan facility (ARM Corporate)	967		2010	9.692%
Loan facility (ARM Coal – partner loan)	9			No terms or interest applicable
Loan facility (Modikwa) Rustenburg Platinum Mines Limited (partner loan)	132			No terms or interest applicable
Loan facility (ARM Coal – partner loan)	1 126		2025	Prime
	2 875			
Less: transferred to short-term	(1 511)			
Total	1 364			
Summary variable and fixed rates				
		Transfer to short-term		
Variable rates	2 734	1 379	1 355	
Fixed rates	141	132	9	
Total	2 875	1 511	1 364	

For the year ended 30 June

Financial assets	Book value at year end R million	Repricing date	Maturity date	Effective interest rate
34 Financial instruments and risk management (continued)				
Year ended 30 June 2008				
Long-term borrowings				
Loan facility 1 (ARM Mining Consortium Limited)	163		2010	15.99%
Loan facility 2 (ARM Mining Consortium Limited)	50		2010	16.99%
Loan facility 3 (ARM Mining Consortium Limited)	31			Variable rate
Leases	89		2010	1.5% to 2.65% below prime
Loan facility (Two Rivers – mine housing project)	155		2016	11.10%
Loan facility TEAL	28		2010	4.60%
Loan facility Assmang	251		2013	Variable rate
Loan facility (ARM Corporate)	1 217		2009	9.78%
Loan facility (ARM Coal – partner loan)	20			No terms of interest applicable
	5			No terms of interest applicable
Loan facility (ARM Coal – partner loan)	822		2025	Prime
	2 831			
Less: transferred to short-term	(577)			
Total	2 254			
Summary variable and fixed rates				
		Transfer to short-term		
Variable rates	2 593	364	2 229	
Fixed rates	238	213	25	
Total	2 831	577	2 254	
		Repricing date	Maturity date	
Year ended 30 June 2009				
Short-term financial liabilities				
– Financial institutions	1 381	30/06/2009	30/06/2009	Variable rate between 9% and 15%
– Financial institutions	US\$ 328	30/06/2009	30/06/2009	LIBOR plus .06% on first 20 million US\$ LIBOR plus 1% on next 30 million US\$
– Anglo Platinum (partner loan)	132	30/06/2009	30/06/2009	No interest
– Implats (partner loan)	539			Variable rate at year end 11%
Total	2 380			
Year ended 30 June 2008				
Short-term financial liabilities				
– Financial institutions	440	30/06/2008	30/06/2008	Variable rate between 11% and 16%
– Financial institutions	US\$ 436	30/06/2008	30/06/2008	LIBOR plus .06% on first 20 million US\$ LIBOR plus 1% on next 30 million US\$
– Financial institutions	213	30/06/2008	30/06/2008	Fixed rates between 15.99% and 16.99%
– Implats (partner loan)	635			Variable rate at year end 12%
Total	1 724			

