

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)