The New Reclamation Group (Pty) Ltd

QUARTERLY REPORT

For the three and nine months ended 31 March 2012

Date: 23 May 2012

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INTRODUCTION

On 23 January 2006, The New Reclamation Group Proprietary Limited (the "issuer", and together with its subsidiaries and joint ventures, the "company") issued €253,000,000 8⅛% First Priority Senior Secured Notes due 2013 (the "notes," and the "offering of the notes," respectively). The notes were issued and guaranteed under an indenture (the "indenture"), dated as of 23 January 2006, by and among the issuer, The Reclamation Group Proprietary Limited ("Reclam"), Reclamation Property Holdings Proprietary Limited ("Reclam Property"), Naledi Metals Proprietary Limited ("Naledi") and Red Pen 5 Investments Proprietary Limited ("Red Pen"), each of Reclam, Reclam Property, Naledi and Red Pen as a guarantor (each a "guarantor" and collectively the "guarantors"), MRX 61 Investment Holdings Proprietary Limited, a special purpose vehicle (the "Security SPV"), The Bank of New York, as trustee, registrar, transfer agent and principal paying agent (the "trustee", "registrar" and "principal paying agent"), and AIB/BNY Fund Management (Ireland) Limited, as Irish paying agent (the "Irish paying agent").

A copy of the indenture is available from the issuer upon request. This quarterly report is being provided to holders of the notes pursuant to Section 4.19 of the indenture.

The notes are the issuer's senior secured obligations and rank equal in right of payment with all of the issuer's existing and future unsubordinated indebtedness, senior in right of payment to all of the issuer's existing and future indebtedness that is subordinated in right of payment to the notes, are effectively senior to all of the issuer's existing and future unsecured indebtedness to the extent of the assets securing the notes and are secured by first priority security interests over all of the issuer's capital stock and certain of the assets of the issuer and the guarantors.

The guarantees of the notes by the guarantors rank equal in right of payment with all of the existing and future unsubordinated indebtedness of the guarantors, senior in right of payment to all of the existing and future indebtedness of the guarantors that is subordinated in right of payment to the guarantors' guarantees of the notes and are effectively senior to all existing and future unsecured indebtedness of the guarantors to the extent of the assets securing the guarantors' guarantees of the notes.

The notes are listed on the Irish Stock Exchange and traded on its Alternative Securities Market.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the notes were offered and sold only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and pursuant to offers and sales occurring outside the United States within the meaning of Regulation S under the Securities Act. The indenture is not required to be, nor will it be, qualified under the U.S. Trust Indenture Act of 1939, as amended.

CERTAIN DEFINITIONS

The Issuer, Grandwell and Mbada Diamonds

During the financial year ended 30 June 2010, the company through its subsidiary, Grandwell Holdings Limited ("Grandwell"), entered into a 50/50 joint venture with Marange Resources (Private) Limited ("Marange"). This joint venture is called Mbada Diamonds (Private) Limited ("Mbada"). The object of the joint venture is to explore, develop, mine and market diamonds from the northern part of Marange's concession area (the "Mbada Concession Area") located in the Mutare District of Manicaland Province in eastern Zimbabwe.

The company included in this quarterly report refers to certain information relating to Mbada's diamond mining operations. For purposes of this report, references to "Mbada" or "Mbada's –" or "the company's diamond mining business" are to Mbada and its diamond mining business and operations. References to the "issuer" are to The New Reclamation Group (Proprietary) Limited; references to "the company" are to the issuer and its subsidiaries; and references to "the issuer's–"or "the company's business" are to the company's core business, excluding Mbada's diamond mining business and operations, unless the context otherwise requires.

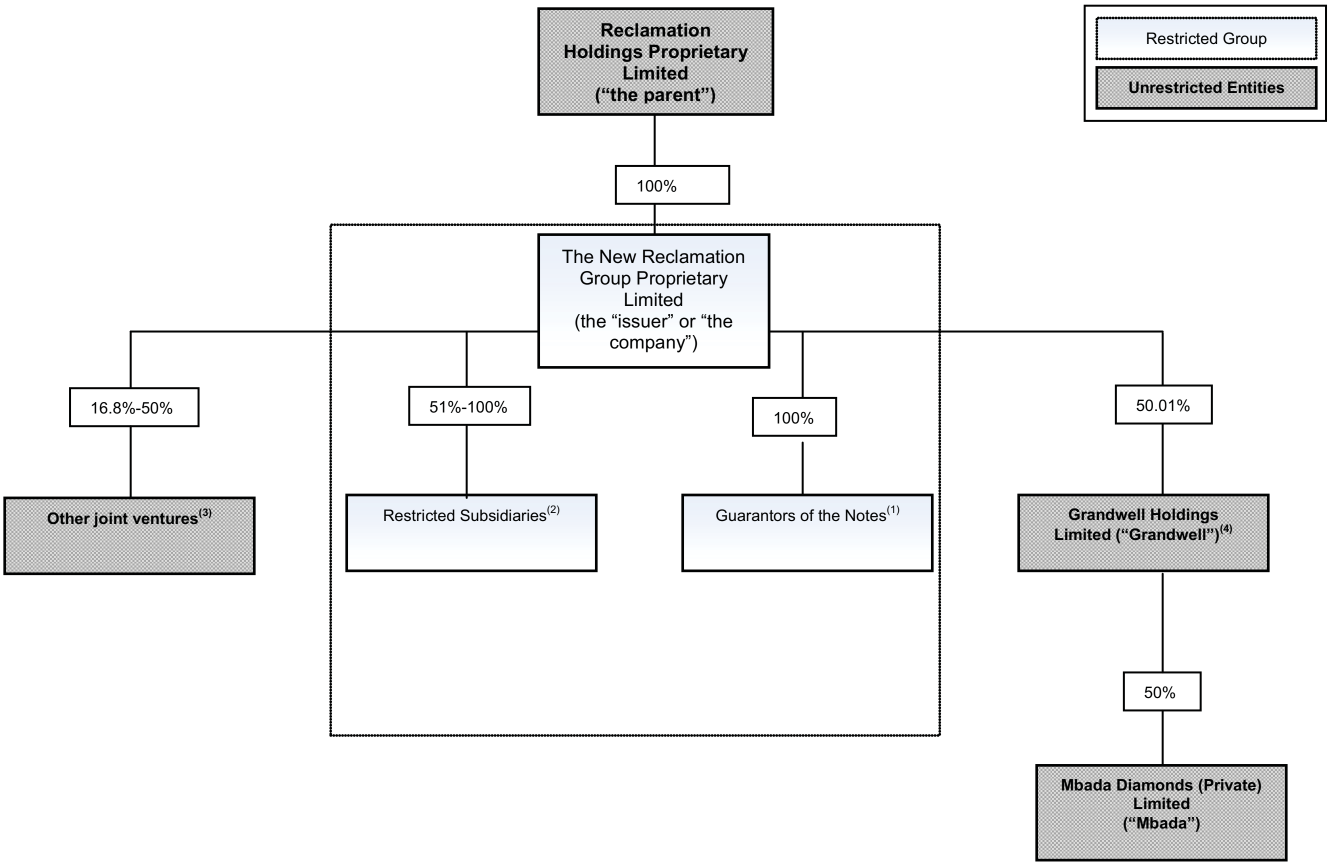
ORGANISATIONAL INFORMATION

The New Reclamation Group Proprietary Limited is a limited liability company incorporated under the laws of the Republic of South Africa on 22 November 2005 under the Registration No. 2005/041029/07. The Reclamation Group Proprietary Limited is a limited liability company incorporated under the laws of the Republic of South Africa on 30 October 1998 under the Registration No. 1998/021577/07. Reclamation Property Holdings Proprietary Limited is a limited liability company incorporated under the laws of the Republic of South Africa on 9 November 1998 under the Registration No. 1998/018164/07. Naledi Metals Proprietary Limited is a limited liability company incorporated under the laws of the Republic of South Africa on 2 May 1997 under the Registration No. 1997/001528/07. Red Pen 5 Investments Proprietary Limited is a limited liability company incorporated under the laws of the Republic of South Africa on 20 December 2005 under the Registration No. 2005/044379/07. Grandwell Holdings Limited is a limited liability company incorporated under the laws of Mauritius on 15 July 2009 under the Registration No. 089386 C2/GBL. Mbada Diamonds (Private) Limited is a limited liability company incorporated under the laws of Zimbabwe on 13 August 2009 under the Registration No. 417/2009.

The business address of the issuer, Reclam, Reclam Property and Red Pen is 263 Oxford Road, Illovo 2196 Johannesburg, South Africa, and their primary telephone number is +27 11 880 6410. The business address of Naledi is 122 Bezuidenhout Street, Wadeville, Germiston, Johannesburg, South Africa and its main telephone number is +27 11 880 6410. The business address of Grandwell is St. Louis Business Centre, Cnr Desroches & St. Louis Streets, Port Louis, Mauritius and its main telephone number is (230) 203 1100. The business address of Mbada is New Office Park, Block C, Sam Levy's Village, Barrowdale, Harare, Zimbabwe and its main telephone number is +263 4 853013.

The company maintains an internet website at www.reclam.co.za. Information on the company's internet website is not part of this report.

CORPORATE STRUCTURE



(1) The following subsidiaries are guarantors of the notes. They are also restricted subsidiaries for purposes of the notes indenture.

Subsidiary	Ownership
The New Reclamation Group Proprietary Limited.........	100%
Reclamation Property Holdings Proprietary Limited......	100%
Naledi Metals Proprietary Limited................................	100%
Red Pen 5 Investments Proprietary Limited	100%

(2) In addition to the guarantors listed above, the following subsidiaries are also restricted subsidiaries for purposes of the notes indenture. However, these subsidiaries are not guarantors of the notes.

Subsidiary	Ownership
Ferrofrag Proprietary Limited	100%
Reclam Chemicals Proprietary Limited........................	78%
The Reclamation Group (Botswana) (Proprietary) Limited	100%
Reclamation Group Malawi (Proprietary) Limited	100%
Reclamation Group Mozambique Limitada..................	100%
Reclamation Group (Swaziland) (Proprietary) Limited ..	100%
Z Scrap Proprietary Limited...	100%
Echo Canyon Trading 58 Proprietary Limited	100%
Matuba Reclamation & Recycling Proprietary Limited ..	100%
Forward Properties Proprietary Limited	100%
Flaming Silver Trading 163 Proprietary Limited...........	100%
Falcon Aluminium Alloys Proprietary Limited...............	100%

(3) The following is a list of the issuer's joint venture companies and the issuer's equity interest in those companies. These companies are not restricted subsidiaries for purposes of the notes indenture and, accordingly, do not form part of the restricted group. This means that these entities are not subject to the restrictive covenants of the notes indenture.

Joint Venture	Ownership
Mbada Diamonds (Private) Limited[(a)]............................	50.000%
National Scrap Metal (Cape Town) Proprietary Limited[(a)]	42.857%
Murec Crushing and Milling Proprietary Limited[(a)].........	42.857%
Cronimet II Joint Venture[(a)]...	16.810%
Heever Rubber and Tyre Proprietary Limited[(b)].............	20.840%

(a) Proportionately consolidated

(b) Accounted for based on the equity method of accounting

(4) Grandwell Holdings Limited was designated as an unrestricted subsidiary effective 1 October 2009 for purposes of and in compliance with the terms of the notes indenture. Accordingly, even though Grandwell is a subsidiary of the issuer and as such its results of operations and assets and liabilities are fully consolidated with those of the issuer and the issuer's other subsidiaries, Grandwell and all of its results of operations and assets and liabilities ceased to form part of the restricted group as of 1 October 2009. As a result, Grandwell and its operations are not subject to the restrictive covenants of the notes indenture. In addition, the shares of Grandwell owned by the issuer and all of the assets owned directly or indirectly by Grandwell do not form part of the notes security.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The following cautionary statements identify important factors that could cause the issuer's actual results to differ materially from those projected in any forward-looking statements made in this quarterly report. Any statements about the issuer's expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to," "will continue," "believe," "is anticipated," "estimated," "intends," "expects," "plans," "seek," "projection" and "outlook." These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them.

Any forward-looking statements are qualified in their entirety by reference to the risk factors discussed in the offering memorandum dated 17 January 2006 prepared in connection with the offering of the notes (the "offering memorandum") and the annual report dated 17 October 2011 (the "annual report"). Among the key risk factors that have a direct bearing on the company's results of operations are:

- changes in the prices of recyclable ferrous and non-ferrous metal raw materials, as well as recyclable glass, paper, cardboard and plastic;
- fluctuations in demand for recyclable ferrous and non-ferrous metal raw materials, as well as recyclable glass, paper, cardboard and plastic;
- the introduction of export duties and other trade barriers on the export of recyclable ferrous and non-ferrous metal raw materials, as well as recyclable glass, paper, cardboard and plastic;
- changes in the procurement practices of the issuer's customers of recyclable ferrous and non-ferrous metal raw materials, as well as recyclable glass, paper, cardboard and plastic;
- changes in the availability and costs of supplies of recyclable raw materials (ferrous and non-ferrous metals, as well as recyclable glass, paper, cardboard and plastic);
- future levels of capacity utilisation at the issuer's plants;
- the interpretation and enforcement of, as well as changes to, laws and regulations governing the purchase, processing of and trading in recyclable ferrous and non-ferrous metal raw materials, glass, paper, cardboard and plastic;
- changes in the availability and costs of transportation, such as shipping, rail and road transportation;
- changes in fuel costs and energy prices;
- the company's ability to integrate the operations of future acquisitions;
- environmental regulations;
- foreign currency exchange rate fluctuations;
- competitor pricing and the general effects of competition;
- labour disputes, work stoppages and increased employee-related expenses,
- changes in general economic conditions and the effects of the global economic downturn on the company's business and its customers and other counterparties;
- the effect of market conditions on the level of demand for the company's products;
- the company's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to fund our ongoing operations and capital expenditures; and

- extraordinary events affecting the group's customers and other counterparties, such as bankruptcies, liquidations and other credit-related events.

Important factors that could cause the diamond industry's or the results or performance of Mbada's diamond mining operations to differ materially from those in the forward-looking statements include, amongst others:

- the ability of Mbada to continue to export diamonds;
- the ability of Grandwell and/or Mbada to obtain additional financing in the future;
- the ability of Grandwell and/or Mbada to adapt to Zimbabwe's changing regulatory environment and to implement and successfully execute their strategy;
- the ability of Grandwell and/or Mbada to complete existing and future projects on schedule and on budget;
- losses from operational hazards and uninsured risks within Mbada's diamond mining operations;
- the ability of Grandwell and/or Mbada to obtain, maintain and renew the permits, licenses and other governmental authorisations required to conduct Mbada's diamond mining operations; and
- legal, political and regulatory compliance risks relating to Mbada's diamond mining operations.

Because the risk factors referred to above and in the offering memorandum and the annual report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this quarterly report by the company or on its behalf, investors should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and the company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for the company to predict which factors they will be. In addition, the company cannot assess the effect of each factor on the company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial statements contained in this quarterly report have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In this quarterly report, unless otherwise indicated, all amounts are expressed in South African Rand.

The unaudited consolidated financial statements included in this quarterly report are those of the issuer, consisting of a consolidated statement of financial position as at 31 March 2011 and 2012, a consolidated statement of comprehensive income for the three and nine month periods ended 31 March 2011 and 2012, a consolidated statement of cash flow for the nine month period ended 31 March 2011 and 2012 and a consolidated statement of changes in equity as at 31 March 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The company is the leading producer of recycled ferrous and non-ferrous metal products in southern Africa based on revenue and sales volumes. The company also produces recycled paper, cardboard and plastic products, as well as copper sulphate products and recycled oil. The company's products are primarily used by its customers as input materials in the manufacturing of their products. These final products include steel, various non-ferrous metals, glass, paper and cardboard. The company is also engaged in diamond mining in Zimbabwe.

Financial statements discussed

The consolidated financial statements discussed herein are those of the issuer for the three and nine month periods ended 31 March 2011 and 2012.

Investment in Mbada

During the financial year ended 30 June 2010, the company through its then wholly owned subsidiary, Grandwell Holdings Limited ("Grandwell"), entered into a 50/50 joint venture with Marange Resources (Private) Limited ("Marange"). This joint venture is called Mbada Diamonds (Private) Limited ("Mbada"). The object of the joint venture is to explore, develop, mine and market diamonds from the northern part of Marange's concession area (the "Mbada Concession Area") located in the Mutare District of Manicaland Province in eastern Zimbabwe. As of the date of this report, the company owns 50.01% of Grandwell, and Grandwell owns 50% of Mbada.

Grandwell was designated as an unrestricted subsidiary effective 1 October 2009 for purposes of and in compliance with the terms of the notes indenture. Accordingly, even though Grandwell is a subsidiary of the issuer and as such its results of operations and assets and liabilities are fully consolidated with those of the issuer and the issuer's other subsidiaries, Grandwell and all of its results of operations and assets and liabilities ceased to form part of the restricted group as of 1 October 2009. As a result, Grandwell and its operations are not subject to the restrictive covenants of the notes indenture. In addition, the shares of Grandwell owned by the issuer and all of the assets owned directly or indirectly by Grandwell do not form part of the notes security.

Joint ventures

The following is a list of the company's joint ventures and the company's equity interest in those entities. The company has proportionately consolidated these entities The share of the revenue and EBITDA of the joint venture entities that the company proportionately consolidated was R391.8 million and R191.7 million during the three months, and R1 268.7 million and R609.2 million during the nine months ended 31 March 2012, respectively and as at 31 March 2012, the company's share of the assets of those entities was R744.6 million.

Joint ventures	Ownership
Mbada Diamonds (Private) Limited[(a)]	50.000%
National Scrap Metals (Cape Town) Proprietary Limited[(a)]	42.857%
Murec Crushing and Milling Proprietary Limited[(a)]	42.857%
Cronimet II Joint Venture[(a)]	16.810%
Heever Rubber and Tyre Proprietary Limited[(b)]	20.840%

(a) Proportionately consolidated

(b) Accounted for based on the equity method of accounting

Key income statement items

Revenue

The company generates revenue primarily from the sale of recycled ferrous and non-ferrous metals, glass, paper, cardboard and plastic products as well as copper sulphate products and recycled oil. For the three and nine months ended 31 March 2012, sales of recycled ferrous and non-ferrous metal products together accounted for approximately 78.3% and 76.1% of the company's total revenue, respectively, diamond sales accounted for approximately 19.2% and 21.3%, respectively, and the remainder was accounted for by glass, paper, cardboard, plastic, recycled oil and other sales and services. Of the company's total revenue, excluding revenue from the diamond mining operations, 34.3% and 39.7% was derived from sales to domestic customers, and 65.7% and 60.3% was derived from export sales to international customers for the three and nine months ended 31 March 2012, respectively.

The company recognises revenue from the sale of the company's products in the amounts invoiced to customers, excluding value added tax, upon delivery. Delivery to domestic customers may occur either at the company's sites or at those of its customers. In the case of export sales (both container and bulk), delivery occurs when the cargo or container is loaded onto an ocean-going vessel and the vessel leaves the port. Transportation costs with respect to domestic sales delivered to customers and export sales generally are included in the selling price and consequently in revenue. Export sales (both container and bulk) are typically made on the basis of carriage, insurance and freight included (CIF). Accordingly, the company's export selling price and, consequently, the company's revenue from export sales generally also includes insurance, and is higher than the company's domestic selling price since it involves higher transportation costs due to ocean shipping costs. The company expenses domestic and international transportation costs when incurred and includes these costs within direct expenses.

Revenue from the sale of diamonds is recognised when the significant risks and rewards of ownership have been transferred to the buyer and is measured at the fair value of the consideration received or receivable.

Revenues from the discovery of diamonds during the mine development phase are included in sales revenue in the statement of comprehensive income.

Cost of sales

Cost of sales, excluding diamond mining operations cost of sales, consists exclusively of raw materials costs. The company's primary raw materials are recyclable ferrous and non-ferrous scrap metal and other raw materials that the company purchases from a variety of suppliers. The company expenses these costs when incurred.

Transportation, shipping and insurance costs in respect of the company's products are generally paid by the company, included in amounts invoiced to customers and recognised in revenue. These costs are typically higher for exports than domestic sales. Cost of sales therefore typically represents a higher percentage of revenue for domestic sales than for export sales.

Cost of sales as a percentage of revenue of recycled non-ferrous metal products is higher than that of recycled ferrous metal products.

The estimated costs of production of diamonds sold, not exceeding related revenue, are credited against mine development costs and included in cost of sales.

Direct expenses

Direct expenses, excluding diamond mining operations direct expenses, consist primarily of the cost of transportation, including shipping, railway and road transportation, port handling costs, diesel and insurance costs, which typically represents approximately 80 - 85% of total direct expenses in any given year. The company's export sales generally involve higher direct expenses than domestic sales due to the cost of shipping. Direct expenses as a percentage of revenue is therefore generally higher for export sales than for domestic sales.

Direct expenses, excluding diamond mining operations direct expenses, also include the cost of oxygen and other industrial gases the company uses for its cutting processes, the cost of removing waste from the company's sites to landfills, sales commissions the company pays to agents (primarily in connection with export sales to Asian markets) and costs related to specific projects.

The company's diamond mining operations direct expenses consists primarily of consumables used and geological and environmental costs relating to the concession area.

Operating expenditure

The company's operating expenditure consists principally of:

- salaries and wages;
- maintenance costs of property, plant and equipment;
- depreciation charge in respect of property, plant and equipment;
- depreciation charge in respect of mining assets;
- resource depletion fee;
- royalty fee;
- marketing fee;
- management fee;
- maintenance cost of the company's fleet of road transportation vehicles;
- rental cost of equipment; and
- rental cost of property that the company does not own, and related utility costs, principally electricity.

Mine development costs are capitalised. Development costs consist primarily of expenditure to develop and expand the capacity of operating mines. Day-to-day mine development costs to maintain production are expensed as incurred. Initial development and pre-production costs relating to a new ore body, including interest on borrowed funds used to develop the ore body, are capitalised until the ore body is brought into commercial levels of production. At this time the costs are amortised as set out in the depreciation and amortisation policy.

Impairment of assets and goodwill

The company reviews the carrying amounts of its assets, including goodwill, at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, the company estimates its recoverable amount. The company recognises an impairment loss on its income statement if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The company reverses an impairment loss if it changes the estimates that the company uses to determine the recoverable amount of an asset.

Goodwill recorded on the company's balance sheet relates principally to past acquisitions. Goodwill is allocated to cash generating units and is not amortised. In respect of goodwill, the company estimates the recoverable amount at each balance sheet date to test for impairment. An impairment loss in respect of goodwill is not reversed.

Results of operations of Reclam

The following table presents selected consolidated financial information of the company for the periods indicated. It also shows each of these items as a percentage of the company's revenue. Unless otherwise indicated, the financial information has been derived from the unaudited consolidated financial statements included elsewhere in this report.

	Three months ended 31 March				*Nine months ended 31 March*			
	2011 (unaudited)		**2012** (unaudited)		**2011** (unaudited)		**2012** (unaudited)	
	(R in millions)							
Statement of comprehensive income data		%		%		%		%
Revenue	1 545.6	100.0	1 900.9	100.0	4 876.2	100.0	5 654.1	100.0
Cost of sales	(905.9)	(58.6)	(1 096.6)	(57.7)	(2 701.5)	(55.4)	(3 298.3)	(58.3)
Direct expenses	(157.1)	(10.2)	(182.4)	(9.6)	(508.2)	(10.4)	(527.9)	(9.3)
Gross profit	482.6	31.2	621.9	32.7	1 666.5	34.2	1 827.9	32.3
Operating expenditure	(257.4)	(16.7)	(353.6)	(18.6)	(808.9)	(16.6)	(1 066.9)	(18.9)
Other operating income	7.0	0.5	5.3	0.3	17.3	0.4	27.3	0.5
Operating profit	232.2	15.0	273.6	14.4	874.9	17.9	788.3	13.9
Share based payment	–	–	–	–	(40.8)	(0.8)	–	–
Settlement with the Competition Commission	–	–	–	–	(7.6)	(0.2)	–	–
Profit before net finance expense	232.2	15.0	273.6	14.4	826.5	16.9	788.3	13.9
Finance expense	(113.2)	(7.3)	(39.7)	(2.1)	(268.3)	(5.5)	(277.1)	(4.9)
Finance income	(76.9)	(5.0)	(11.6)	(0.6)	11.5	0.2	2.9	0.1
Share of loss of associates	–	–	(0.1)	–	(2.1)	–	(0.4)	–
Profit before income tax	42.1	2.7	222.2	11.7	567.6	11.6	513.7	9.1
Income tax (expense)/credit	(17.8)	(1.2)	51.5	2.7	(218.2)	(4.5)	(145.8)	(2.6)
Profit for the period	24.3	1.6	273.7	14.4	349.4	7.2	367.9	6.5
Other comprehensive income /(loss) for the period	(0.4)	–	(34.1)	(1.8)	(18.0)	(0.4)	35.5	0.6
Total comprehensive income for the period	23.9	1.5	239.6	12.6	331.4	6.8	403.4	7.1
EBITDA (1)	263.4	17.0	311.4	16.4	969.5	19.9	903.0	16.0
Depreciation	31.2	2.0	37.8	2.0	94.6	1.9	114.7	2.0

(1) The company defines EBITDA as operating profit, as determined in accordance with IFRS, plus amounts included therein in respect of depreciation and impairment of goodwill. The company believes that EBITDA serves as a useful supplementary financial indicator to investors since it is commonly reported and widely accepted by analysts and investors in measuring a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. Further, EBITDA is a widely accepted indicator in comparing a company's underlying operating profitability with that of other companies in the same industry. EBITDA is not an IFRS or an SA GAAP measure and investors should not consider EBITDA as an alternative to measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations or as an indicator of liquidity whether under IFRS or SA GAAP. Funds depicted by this measure may not be available for the company's discretionary use (due to covenant restrictions, debt service payments and other commitments). Investors should note that EBITDA is not a uniform or standardised measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself the company's presentation and calculation of EBITDA may not be comparable to that of other companies. A reconciliation of EBITDA to operating profit for the three and nine months ended 31 March 2011 and 31 March 2012 is presented below:

	Three months ended 31 March		Nine months ended 31 March	
	2011 *(unaudited)*	**2012** *(unaudited)*	**2011** *(unaudited)*	**2012** *(unaudited)*
	(R in millions)			
EBITDA – recycled products	117.7	81.7	218.7	190.0
EBITDA – diamond operations	145.7	229.7	750.8	713.0
Depreciation – recycled products	(20.6)	(23.6)	(61.5)	(68.7)
Depreciation – diamond operations	(10.6)	(14.2)	(33.1)	(46.0)
Operating profit	232.2	273.6	874.9	788.3

The three month period ended 31 March 2012 (unaudited) compared to the three month period ended 31 March 2011 (unaudited)

Overview

Revenue increased by 23.0% from R1 545.6 million for the three months ended 31 March 2011 to R1 900.9 million for the three months ended 31 March 2012 primarily as a result of an increase in revenue generated by the company's diamond mining operations and an increase in sales prices and sales volumes of recycled ferrous metal products. EBITDA increased by 18.2% from R263.4 million for the three months ended 31 March 2011 to R311.4 million for the three months ended 31 March 2012. The increase in EBITDA was due primarily to an increase in the EBITDA contribution from the company's diamond mining operations which was partially offset by a decrease in the EBITDA contribution from recycled ferrous and non-ferrous metal products.

Revenue

Revenue for the three months ended 31 March 2012 was R1 900.9 million, an increase of R355.3 million, or 23.0%, from R1 545.6 million for the three months ended 31 March 2011. Revenue related to the company's diamond mining operations for the three months ended 31 March 2012 was R364.8 million, an increase of R138.0 million, or 60.8%, from R226.8 million for the three months ended 31 March 2011. Revenue for the three months ended 31 March 2012 excluding diamond mining operations was R1 536.1 million, an increase of R217.3 million, or 16.5% from R1 318.8 million for the three months ended 31 March 2011. This increase was due primarily to an increase in sales prices of 3.7% and an increase in sales volumes of 12.3%.

The sales price increase was due primarily to an increase in the sales prices of recycled ferrous metal products which increased by 16.2% from the three months ended 31 March 2011 to the three months ended 31 March 2012. The increase in sales volumes was due primarily to an increase in the sales volumes of recycled ferrous metal products, which increased by 12.5% from the three months ended 31 March 2011 to the three months ended 31 March 2012.

Cost of sales

Cost of sales for the three months ended 31 March 2012 was R1 096.6 million, an increase of R190.7 million, or 21.1%, from R905.9 million for the three months ended 31 March 2011. Cost of sales related to the company's diamond mining operations for the three months ended 31 March 2012 was R24.6 million, a decrease of R3.0 million, or 10.9%, from R27.6 million for the three months ended 31 March 2011. Cost of sales for the three months ended 31 March 2012 excluding diamond mining operations was R1 072.0 million, an increase of R193.7 million, or 22.1% from R878.3 million for the three months ended 31 March 2011. This increase was due primarily to an increase in the purchase prices paid for recyclable ferrous raw materials.

Cost of sales as a percentage of revenue decreased to 57.7% during the three months ended 31 March 2012 from 58.6% during the three months ended 31 March 2011. This decrease in cost of sales as a percentage of revenue was due primarily to an increase in diamond revenue as a percentage of total revenue from the three months ended 31 March 2011 to the three months ended 31 March 2012. Cost of sales as a percentage of revenue excluding diamond mining operations increased to 69.8% during the three months ended 31 March 2012 from 66.6% during the three months ended 31 March 2011. This increase in cost of sales as a percentage of revenue was due primarily to an increase in the average purchase prices paid for recyclable ferrous raw materials in relation to the average selling prices of recycled ferrous metal products during the three months ended 31 March 2011 compared to the three months ended 31 March 2012.

Direct expenses

Direct expenses for the three months ended 31 March 2012 was R182.4 million, an increase of R25.3 million, or 16.1%, from R157.1 million for the three months ended 31 March 2011. Direct expenses related to the company's diamond mining operations for the three months ended 31 March 2012 was R0.6 million, an increase of R0.5 million, from R0.1 million for the three months ended 31 March 2011. Direct expenses for the three months ended 31 March 2012 excluding diamond mining operations was R181.8 million, an increase of R24.8 million, or 15.8% from R157.0 million for the three months ended 31 March 2011. This increase was due primarily to an increase in shipping costs from the three months ended 31 March 2011 to the three months ended 31 March 2012. The increase in shipping costs was due primarily to the increase in export sales of recycled ferrous metal products as a percentage of total revenue during the three months ended 31 March 2012 compared to the three months ended 31 March 2011.

Direct expenses as a percentage of revenue decreased to 9.6% during the three months ended 31 March 2012 from 10.2% in the three months ended 31 March 2011. This decrease in direct expenses as a percentage of revenue was due to higher revenue generated by the diamond mining operations for the three months ended 31 March 2012 compared to the three months ended 31 March 2011. Direct expenses as a percentage of revenue excluding diamond mining operations during the three months ended 31 March 2012 and the three months ended 31 March 2011 remained largely unchanged at 11.8% and 11.9%, respectively.

Gross profit

Gross profit for the three months ended 31 March 2012 was R621.9 million, an increase of R139.3 million, or 28.9%, from R482.6 million for the three months ended 31 March 2011. Gross profit related to the company's diamond mining operations for the three months ended 31 March 2012 was R339.6 million, an increase of R140.5 million, or 70.6%, from R199.1 million for the three months ended 31 March 2011. Gross profit for the three months ended 31 March 2012 excluding diamond mining operations remained largely unchanged at R282.3 million, a decrease of R1.2 million, or 0.4% from R283.5 million for the three months ended 31 March 2011.

Gross profit as a percentage of revenue was 32.7% and 31.2%, respectively, during the three months ended 31 March 2012 and the three months ended 31 March 2011. Gross profit as a percentage of revenue excluding diamond mining operations was 18.4% and 21.5%, respectively, during the three months ended 31 March 2012 and the three months ended 31 March 2011. Gross profit as a percentage of revenue was lower during three months ended 31 March 2012 due primarily to a decrease in the gross profit percentage achieved on recycled ferrous and non-ferrous metal products relative to the comparative period as a result of an increase in export revenue from 50% for the three months ended 31 March 2011 to 65.7% for the three months ended 31 March 2012.

Operating expenditure (including depreciation)

Operating expenditure for the three months ended 31 March 2012 was R353.6 million, an increase of R96.2 million, or 37.4%, from R257.4 million for the three months ended 31 March 2011. Operating expenditure related to the company's diamond mining operations for the three months ended 31 March 2012 was R124.1 million, an increase of R60.0 million, or 93.6%, from R64.1 million for the three months ended 31 March 2011. Operating expenditure for the three months ended 31 March 2012 excluding diamond mining operations was R229.5 million, an increase of R36.2 million, or 18.7% from R193.3 million for the three months ended 31 March 2011. This increase was due primarily to an increase in wages and hire of plant and equipment.

Operating expenditure as a percentage of revenue increased to 18.6% during the three months ended 31 March 2012 from 16.7% during the three months ended 31 March 2011. This increase in operating expenditure as a percentage of revenue was due primarily to the increase in operating expenditure relating to diamond mining operations for the three months ended 31 March 2012. Operating expenditure as a percentage of revenue excluding diamond mining operations during the three months ended 31 March 2012 and the three months ended 31 March 2011 remained largely unchanged at 14.9% and 14.7%, respectively.

Depreciation of property, plant and equipment excluding diamond mining operations for the three months ended 31 March 2012 was R23.6 million, an increase of R3.0 million, or 14.6%, from R20.6 million for the three months ended 31 March 2011. This increase was due to additions to fixed assets during the twelve months ended 31 March 2012. Such additions consisted primarily of new plant and equipment.

Depreciation of mining assets for the three months ended 31 March 2012 was R14.2 million, an increase of R3.6 million, or 34.0%, from R10.6 million for the three months ended 31 March 2011 due to additions to mining assets during the twelve months ended 31 March 2012.

Other operating income

Other operating income for the three months ended 31 March 2012 was R5.3 million, a decrease of R1.7 million, or 24.3%, from R7.0 million for the three months ended 31 March 2011. Other operating income related to the company's diamond mining operations for the three months ended 31 March 2011 was R0.1 million. No other operating income related to the company's diamond mining operations was earned during the three months ended 31 March 2012. Other operating income for the three months ended 31 March 2012 excluding diamond mining operations was R5.3 million, a decrease of R1.6 million, or 23.2%, from R6.9 million for the three months ended 31 March 2011.

Operating profit

Operating profit for the three months ended 31 March 2012 was R273.6 million, an increase of R41.4 million, or 17.8%, from R232.2 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Operating profit for the three months ended 31 March 2012 excluding the company's diamond mining operations was R58.1 million, a decrease of R39.0 million, or 40.2%, from R97.1 million for the three months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the heading "Operating expenditure (including depreciation)".

Operating profit related to the company's diamond mining operations for the three months ended 31 March 2012 was R215.5 million, an increase of R80.4 million, or 59.5%, from R135.1 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Share based payment

There was no share based payment for the three months ended 31 March 2012 and for the three months ended 31 March 2011.

Settlement with the Competition Commission

No settlement was recorded for the three months ended 31 March 2012 and for the three months ended 31 March 2011.

Profit before net finance expense

Profit before net finance expense for the three months ended 31 March 2012 was R273.6 million, an increase of R41.4 million, or 17.8%, from R232.2 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Profit before net finance expense for the three months ended 31 March 2012 excluding the company’s diamond mining operations was R58.1 million, a decrease of R39.0 million, or 40.2%, from R97.1 million for the three months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the heading “Operating expenditure (including depreciation)”.

Profit before net finance expense related to the company’s diamond mining operations for the three months ended 31 March 2012 was R215.5 million, an increase of R80.4 million, or 59.5%, from R135.1 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Finance expense

Finance expense for the three months ended 31 March 2012 was R39.7 million, a decrease of R73.5 million, or 64.9% from R113.2 million for the three months ended 31 March 2011. Finance expense related to the company’s diamond mining operations for the three months ended 31 March 2012 was R7.2 million, a decrease of R0.1 million, or 1.4%, from R7.3 million for the three months ended 31 March 2011. Finance expense for the three months ended 31 March 2012 excluding diamond mining operations was R32.5 million, a decrease of R73.4 million, or 69.3% from R105.9 million for the three months ended 31 March 2011. This decrease was due primarily to:

- an increase of R90.5 million relating to foreign exchange gains on the revaluation of the company’s foreign currency liability as a result of the appreciation of the South African Rand against the European Euro during the three months ended 31 March 2012. Foreign exchange losses on the revaluation of the company’s foreign currency liability during the three months ended 31 March 2011 was R133.1 million, of which R58.3 million was included under Finance Expense and the balance of R74.8 million was included under Finance Income.
- a combination of foreign exchange gains and losses incurred on the marked to market of the company’s forward exchange contracts and the revaluation of the company’s foreign currency assets and liabilities as a result of the depreciation of the South African Rand against the US Dollar and movements in interest rate differentials during the three months ended 31 March 2012.

Finance income

Finance income for the three months ended 31 March 2012 was negative R11.6 million, a decrease of R65.3 million, or 84.9%, from negative R76.9 million for the three months ended 31 March 2011. Finance income related to the company’s diamond mining operations for the three months ended 31 March 2012 was R0.4 million, an increase of R3.2 million, from negative R2.8 million for the three months ended 31 March 2011. Finance income for the three months ended 31 March 2012 excluding diamond mining operations was negative R12.0 million, a decrease of R62.1 million, or 83.8%, from negative R74.1 million for the three months ended 31 March 2011. This decrease was due primarily to a decrease of R74.8 million relating to foreign exchange losses on the revaluation of the company's foreign currency liability as a result of the depreciation of the South African Rand against the European Euro during the three months ended 31 March 2011. The foreign exchange gains on the revaluation of the company's foreign currency liability during the three months ended 31 March 2012 were included under Finance Expense.

Share of loss of associates

Share of loss of associates for the three months ended 31 March 2012 was R0.1 million. There was no share of loss of associates for the three months ended 31 March 2011. This loss is derived from the company's equity accounted losses of its associate company.

Profit before income tax

Profit before income tax for the three months ended 31 March 2012 was R222.2 million, an increase of R180.1 million from R42.1 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit", "Operating expenditure (including depreciation)", "Finance expense" and "Finance income".

Profit before income tax for the three months ended 31 March 2012 excluding the company's diamond mining operations was R13.5 million, an increase of R96.3 million from a loss before income tax of R82.8 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Operating expenditure (including depreciation)", "Finance expense" and "Finance income".

Profit before income tax related to the company's diamond mining operations for the three months ended 31 March 2012 was R208.7 million, an increase of R83.8 million, or 67.1%, from R124.9 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Income tax (expense)/credit

Income tax credit for the three months ended 31 March 2012 was R51.5 million, an increase of R69.3 million, from an income tax expense of R17.8 million for the three months ended 31 March 2011. This increase was due primarily to a reversal of income tax overprovided for the 2011 financial year relating to the company's diamond mining operations which occurred during the three months ended 31 March 2012 compared to the three months ended 31 March 2011.

Profit for the period

Profit for the three months ended 31 March 2012 was R273.7 million, an increase of R249.4 million, from R24.3 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit", "Operating expenditure (including depreciation)", "Finance expense", "Finance income" and "Income tax (expense)/credit".

Profit for the period for the three months ended 31 March 2012 excluding the company's diamond mining operations was R11.6 million, an increase of R97.2 million, from a loss of R85.6 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Operating expenditure (including depreciation)", "Finance expense" and "Finance income".

Profit for the period related to the company's diamond mining operations for the three months ended 31 March 2012 was R262.1 million, an increase of R152.2 million, from R109.9 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit", "Operating expenditure (including depreciation)" and "Income tax (expense)/credit".

Other comprehensive income/(loss) for the period

Other comprehensive loss for the three months ended 31 March 2012 was R34.1 million, an increase of R33.7 million from R0.4 million for the three months ended 31 March 2011. This comprehensive loss was due to the foreign currency translation reserve arising on the consolidation of the company's foreign operations.

Total comprehensive income for the period

Total comprehensive income for the three months ended 31 March 2012 was R239.6 million, an increase of R215.7 million, from R23.9 million for the three months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit", "Operating expenditure (including depreciation)" "Finance expense", "Finance income" and "Income tax (expense)/credit".

The nine month period ended 31 March 2012 (unaudited) compared to the nine month period ended 31 March 2011 (unaudited)

Overview

Revenue increased by 16.0% from R4 876.2 million for the nine months ended 31 March 2011 to R5 654.1 million for the nine months ended 31 March 2012 primarily as a result of an increase in revenue generated by the company's diamond mining operations and an increase in sales prices of recycled ferrous and non-ferrous metal products. EBITDA decreased by 6.9% from R969.5 million for the nine months ended 31 March 2011 to R903.0 million for the nine months ended 31 March 2012. The decrease in EBITDA was due primarily to the decrease in EBITDA contribution from the company's diamond mining operations.

Revenue

Revenue from operations for the nine months ended 31 March 2012 was R5 654.1 million, an increase of R777.9 million, or 16.0%, from R4 876.2 million for the nine months ended 31 March 2011. Revenue related to the company's diamond mining operations for the nine months ended 31 March 2012 was R1 202.0 million, an increase of R189.0 million, or 18.7%, from R1 013.0 million for the nine months ended 31 March 2011. Revenue for the nine months ended 31 March 2012 excluding diamond mining operations was R4 452.1 million, an increase of R588.9 million, or 15.2% from R3 863.2 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in sales prices of recycled ferrous and non-ferrous metal products of 24.3% and 5.7%, respectively.

Cost of sales

Cost of sales for the nine months ended 31 March 2012 was R3 298.3 million, an increase of R596.8 million, or 22.1%, from R2 701.5 million for the nine months ended 31 March 2011. Cost of sales related to the company's diamond mining operations for the nine months ended 31 March 2012 was R128.9 million, an increase of R80.3 million, or 165.2%, from R48.6 million for the nine months ended 31 March 2011. Cost of sales for the nine months ended 31 March 2012 excluding diamond mining operations was R3 169.4 million, an increase of R516.5 million, or 19.5% from R2 652.9 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in the purchase prices paid for recyclable ferrous and non-ferrous raw materials in line with the increases in sales prices of recycled ferrous and non-ferrous metal products.

Cost of sales as a percentage of revenue increased to 58.3% during the nine months ended 31 March 2012 from 55.4% during the nine months ended 31 March 2011. This increase in cost of sales as a percentage of revenue was due primarily to higher cost of sales incurred by the diamond mining operations for the nine months ended 31 March 2012. Cost of sales as a percentage of revenue excluding diamond mining operations increased to 71.2% during the nine months ended 31 March 2012 from 68.7% during the nine months ended 31 March 2011. This increase in cost of sales as a percentage of revenue was due primarily to an increase in the average purchase prices paid for recyclable ferrous and non-ferrous raw materials in relation to the average selling prices of recycled ferrous and non-ferrous metal products during the nine months ended 31 March 2011 compared to the nine months ended 31 March 2012.

Direct expenses

Direct expenses for the nine months ended 31 March 2012 was R527.9 million, an increase of R19.7 million, or 3.9%, from R508.2 million for the nine months ended 31 March 2011. Direct expenses related to the company's diamond mining operations for the nine months ended 31 March 2012 was R7.4 million, an increase of R7.1 million, from R0.3 million for the nine months ended 31 March 2011. Direct expenses for the nine months ended 31 March 2012 excluding diamond mining operations was R520.5 million, an increase of R12.6 million, or 2.5% from R507.9 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in oxygen and gas, dust and dirt and consumable costs which was partially offset by a decrease in transportation costs from the nine months ended 31 March 2011 to the nine months ended 31 March 2012. The decrease in transportation costs was due primarily to the sourcing from the inland region a larger volume of recyclable ferrous raw materials which were exported during the nine months ended 31 March 2011 compared to the nine months ended 31 March 2012.

Direct expenses as a percentage of revenue decreased to 9.3% during the nine months ended 31 March 2012 from 10.4% in the nine months ended 31 March 2011. This decrease in direct expenses as a percentage of revenue was due to higher revenue for the nine months ended 31 March 2012 compared to the nine months ended 31 March 2011. Direct expenses as a percentage of revenue excluding diamond mining operations decreased to 11.7% during the nine months ended 31 March 2012 from 13.1% during the nine months ended 31 March 2011. This decrease was due primarily to the increase in export revenue derived from operations excluding the diamond mining operations during the nine months ended 31 March 2012 compared to the nine months ended 31 March 2011.

Gross profit

Gross profit for the nine months ended 31 March 2012 was R1 827.9 million, an increase of R161.4 million, or 9.7%, from R1 666.5 million for the nine months ended 31 March 2011. Gross profit related to the company's diamond mining operations for the nine months ended 31 March 2012 was R1 065.7 million, an increase of R101.6 million, or 10.5%, from R964.1 million for the nine months ended 31 March 2011. Gross profit for the nine months ended 31 March 2012 excluding diamond mining operations was R762.2 million, an increase of R59.8 million, or 8.5% from R702.4 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in the gross profit achieved on recycled ferrous metal products during the nine months ended 31 March 2012 compared to the nine months ended 31 March 2011.

Gross profit as a percentage of revenue was 32.3% and 34.2%, respectively, during the nine months ended 31 March 2012 and the nine months ended 31 March 2011. Gross profit as a percentage of revenue excluding diamond mining operations was 17.1% and 18.2%, respectively, during the nine months ended 31 March 2012 and the nine months ended 31 March 2011. Gross profit as a percentage of revenue was lower for the nine months ended 31 March 2012 due to a decrease in the gross profit percentage achieved on recycled ferrous and non-ferrous metal products relative to the comparative period as a result of an increase in export revenue from 55.8% for the nine months ended 31 March 2011 to 60.3% for the nine months ended 31 March 2012.

Operating expenditure (including depreciation)

Operating expenditure for the nine months ended 31 March 2012 was R1 066.9 million, an increase of R258.0 million, or 31.9%, from R808.9 million for the nine months ended 31 March 2011. Operating expenditure related to the company's diamond mining operations for the nine months ended 31 March 2012 was R398.7 million, an increase of R152.0 million, or 61.6%, from R246.7 million for the nine months ended 31 March 2011. Operating expenditure for the nine months ended 31 March 2012 excluding diamond mining operations was R668.2 million, an increase of R106.0 million, or 18.9% from R562.2 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in electricity, wages and hire of plant and equipment, most of which related to the increase in the number of operating sites.

Operating expenditure as a percentage of revenue increased to 18.9% during the nine months ended 31 March 2012 from 16.6% during the nine months ended 31 March 2011. This increase in operating expenditure as a percentage of revenue was due primarily to the incurrence of operating expenditure relating to diamond mining operations for the nine months ended 31 March 2012. Operating expenditure as a percentage of revenue excluding diamond mining operations remained largely unchanged at 15.0% and 14.6%, respectively, during the nine months ended 31 March 2012 and the nine months ended 31 March 2011.

Depreciation of property, plant and equipment excluding diamond mining operations for the nine months ended 31 March 2012 was R68.7 million, an increase of R7.2 million, or 11.7%, from R61.5 million for the nine months ended 31 March 2011. This increase was due to additions to fixed assets during the twelve months ended 31 March 2012. Such additions consisted primarily of new plant and equipment.

Depreciation of mining assets for the nine months ended 31 March 2012 was R46.0 million, an increase of R12.9 million, or 39.0%, from R33.1 million for the nine months ended 31 March 2011.

Other operating income

Other operating income for the nine months ended 31 March 2012 was R27.3 million, an increase of R10.0 million, or 57.8%, from R17.3 million for the nine months ended 31 March 2011. There was no other operating income recorded by the company's diamond operations during the nine months ended 31 March 2012. Other operating income related to the company's diamond operations for the nine months ended 31 March 2011 was R0.3 million. Other operating income for the nine months ended 31 March 2012 excluding diamond mining operations was R27.3 million, an increase of R10.3 million, or 60.6%, from R17.0 million for the nine months ended 31 March 2011. This increase was due primarily to an increase in project income earned.

Operating profit

Operating profit for the nine months ended 31 March 2012 was R788.3 million, a decrease of R86.6 million, or 9.9%, from R874.9 million for the nine months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Operating profit for the nine months ended 31 March 2012 excluding the company's diamond mining operations was R121.3 million, a decrease of R35.9 million, or 22.8%, from R157.2 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Operating profit related to the company's diamond mining operations for the nine months ended 31 March 2012 was R667.0 million, a decrease of R50.7 million, or 7.1%, from R717.7 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Share based payment

Share based payments for the nine months ended 31 March 2011 were R40.8 million. There was no share based payment for the nine months ended 31 March 2012.

Settlement with the Competition Commission

Settlement with the Competition Commission for the nine months ended 31 March 2011 was R7.6 million. No settlement was recorded during the nine months ended 31 March 2012.

Profit before net finance expense

Profit before net finance expense for the nine months ended 31 March 2012 was R788.3 million, a decrease of R38.2 million, or 4.6%, from R826.5 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Profit before net finance expense for the nine months ended 31 March 2012 excluding the company's diamond mining operations was R121.3 million, a decrease of R28.3 million, or 18.9%, from R149.6 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Profit before net finance expense related to the company's diamond mining operations for the nine months ended 31 March 2012 was R667.0 million, a decrease of R9.9 million, or 1.5%, from R676.9 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Finance expense

Finance expense for the nine months ended 31 March 2012 was R277.1 million, an increase of R8.8 million, or 3.3% from R268.3 million for the nine months ended 31 March 2011. Finance expense related to the company's diamond mining operations for the nine months ended 31 March 2012 was R32.1 million, a decrease of R1.8 million, or 5.3%, from R33.9 million for the nine months ended 31 March 2011. Finance expense, excluding diamond mining operations, for the nine months ended 31 March 2012 was R245.0 million, an increase of R10.6 million, or 4.5% from R234.4 million for the nine months ended 31 March 2011 This increase was due primarily to the following:

- Foreign exchange losses arising from the revaluation of the company's foreign currency and liabilities during the nine months ended 31 March 2012 was R69.1 million, an increase of R7.7 million, or 12.5%, from R61.4 million during the nine months ended 31 March 2011.

- Interest paid on trading arrangements for working capital requirements for the nine months ended 31 March 2012 was R43.6 million, an increase of R15.7 million, or 56.3%, from R27.9 million for the nine months ended 31 March 2011.

- Interest accrued on the notes during the nine months ended 31 March 2012 was R96.8 million, an increase of R8.8 million, or 10.0%, from R88.0 million during the nine months ended 31 March 2011. The interest accrual has increased as a result of the depreciation of the South African Rand against the European Euro.

- Interest and other costs accrued on the marked-to-market liability for the nine months ended 31 March 2011 was R13.7 million. No interest and other costs were accrued on the marked-to-market liability for the nine months ended 31 March 2012 as the marked-to-market liability was settled in full in November 2010.

Finance income

Finance income for the nine months ended 31 March 2012 was R2.9 million, a decrease of R8.6 million, or 74.8%, from R11.5 million for the nine months ended 31 March 2011. Finance income related to the company's diamond mining operations for the nine months ended 31 March 2012 was R1.3 million, a decrease of R0.4 million, or 23.5%, from R1.7 million for the nine months ended 31 March 2011. Finance income for the nine months ended 31 March 2012 excluding diamond mining operations was R1.6 million, a decrease of R8.2, or 83.7%, from R9.8 million for the nine months ended 31 March 2011. This decrease was due primarily to a combination of foreign exchange gains and losses incurred on the marked to market of the company's forward exchange contracts and the revaluation of the company's foreign currency assets and liabilities as a result of the depreciation of the South African Rand against the European Euro during the nine months ended 31 March 2012.

Share of loss of associates

Share of loss of associates for the nine months ended 31 March 2012 was R0.4 million, a decrease of R1.7 million, or 81.0%, from a loss of R2.1 million for the nine months ended 31 March 2011. This loss is derived from the issuer's equity accounted earnings of its associate company.

Profit before income tax

Profit before income tax for the nine months ended 31 March 2012 was R513.7 million, a decrease of R53.9 million, or 9.5%, from R567.6 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings "Gross profit" and "Operating expenditure (including depreciation)".

Loss before income tax for the nine months ended 31 March 2012 excluding the company's diamond mining operations was R122.5 million, an increase of R45.4 million, or 58.9%, from R77.1 million for the nine months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Profit before income tax related to the company’s diamond mining operations for the nine months ended 31 March 2012 was R636.2 million, a decrease of R8.5 million, or 1.3%, from R644.7 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Income tax expense

Income tax expense for the nine months ended 31 March 2012 was R145.8 million, a decrease of R72.4 million, or 33.2%, from R218.2 million for the nine months ended 31 March 2011. This decrease was due primarily to a reversal of income tax overprovided for the 2011 financial year relating to the diamond mining operations which occurred during the nine months ended 31 March 2012 compared to the nine months ended 31 March 2011.

Profit for the period

Profit for the nine months ended 31 March 2012 was R367.9 million, an increase of R18.5 million, or 5.3%, from R349.4 million for the nine months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit”, “Operating expenditure (including depreciation)” and “Income tax expense”.

Loss for the nine months ended 31 March 2012 excluding the company’s diamond mining operations was R127.4 million, a decrease of R39.2 million, or 44.4%, from R88.2 million for the nine months ended 31 March 2011. This decrease was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Profit for the period related to the company’s diamond mining operations for the nine months ended 31 March 2012 was R495.3 million, an increase of R57.7 million, or 13.2%, from R437.6 million for the nine months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit” and “Operating expenditure (including depreciation)”.

Other comprehensive income/(loss) for the period

Other comprehensive income for the nine months ended 31 March 2012 was R35.5 million, an increase of R53.5 million from a loss of R18.0 million for the nine months ended 31 March 2011. This comprehensive income was due to the foreign currency translation reserve arising on the consolidation of the company’s foreign operations.

Total comprehensive income for the period

Total comprehensive income for the nine months ended 31 March 2012 was R403.4 million, an increase of R72.0 million, from R331.4 million for the nine months ended 31 March 2011. This increase was due primarily to the reasons discussed above under the headings “Gross profit”, “Operating expenditure (including depreciation)” and “Income tax expense”.

Liquidity and capital resources

General

Prior to the Reclam Purchase and the offering of the notes, the issuer's liquidity requirements had primarily been to fund working capital requirements, dividend payments and capital expenditure program, and its principal sources of liquidity had been cash flows from operating activities. Following the completion of the Reclam Purchase and the offering of the notes, the issuer's liquidity requirements arise primarily to meet its debt service obligations in respect of the notes and to fund its capital expenditures and working capital requirements. The issuer also makes payments of interest and principal on amounts that it draws under its working capital and asset-based finance facilities. The company's principal sources of liquidity are cash flow from operations and amounts under the Nedbank Credit Facilities.

Cash flows

The following table presents our consolidated cash flows for the period indicated.

	nine months ended 31 March	
	2012 (unaudited)	2011
	(R in millions)	
Profit before net finance expense	788.3	826.5
Adjustments for:		
Amortisation of intangible assets	1.7	1.4
Depreciation of property, plant and equipment	67.0	60.1
Depreciation of mining rights	46.0	33.1
Share based payment	–	40.8
Settlement with the Competition Commission	–	7.6
Loss on disposal of investment	–	2.4
Profit on disposal of property, plant and equipment	(0.1)	–
Increase in provisions	4.2	1.3
Operating profit before investment in working capital	907.1	973.2
Decrease/(increase) in inventories	50.4	(81.5)
Decrease/(increase) in trade and other receivables	62.3	(44.5)
Increase in trade and other payables	358.4	78.1
Cash generated by operations	1 378.2	925.3
Finance expense	(211.8)	(208.8)
Finance income	2.9	5.4
Dividends paid	(220.6)	(163.2)
Income tax paid	(84.4)	(235.5)
Cash flow from operating activities	864.3	323.2
Cash flow from investing activities	(577.5)	(103.5)
Cash flow from financing activities	(114.1)	(162.8)

Cash flow from operating activities

Net cash inflow from operating activities for the nine months ended 31 March 2012 was R864.3 million, an increase of R541.1 million compared to R323.2 million for the nine months ended 31 March 2011. This increase was due primarily to the following factors:

- Cash generated by operations for the nine months ended 31 March 2012 was R1 378.2 million, an increase of R452.9 million, from R925.3 million for the nine months ended 31 March 2011. This increase was due primarily to a decrease of R519.0 million in the investment in net working capital for the nine months ended 31 March 2012 relative to the nine months ended 31 March 2011. This increase was partially offset by a decrease in operating profit before investment in working capital of R66.1 million from R973.2 million for the nine months ended 31 March 2011 to R907.1 million for the nine months ended 31 March 2012.
- Dividends paid by the issuer's unrestricted subsidiary to the non-controlling shareholder during the nine months ended 31 March 2012 was R220.6 million, an increase of R57.4 million, from R163.2 million during the nine months ended 31 March 2011.
- Tax payments the nine months ended 31 March 2012 was R84.4 million, a decrease of R151.1 million, 64.2%, from R235.5 million for the nine months ended 31 March 2011. This decrease in tax payments was due primarily to a decrease of R154.1 million in provisional and corporate tax payments paid relating to the company's diamond mining operations which decreased from R172.7 million for the nine months ended 31 March 2011 to R18.6 million for the nine months ended 31 March 2012.

Cash flow from investing activities

Net cash outflow from investing activities for the nine months ended 31 March 2012 was R577.5 million, an increase of R474.0 million, compared to R103.5 million net cash outflow for the nine months ended 31 March 2011.

This increase in net cash outflow was due primarily to capital expenditure on mining assets, which increased by R446.7 million, from R40.7 million for the nine months ended 31 March 2011 to R487.4 million for the nine months ended 31 March 2012. The increase in capital expenditure on mining assets is due primarily to Mbada upgrading its diamond processing plant as well as all of the ancillary equipment required to further increase production.

For the 2012 financial year, the issuer's board of directors has authorised budgeted capital expenditures for the company's recyclable materials operations totalling R80.0 million, of which it expects R15.9 million to be Replacement Capital Expenditure and R64.1 million Expansion Capital Expenditure. As at the date of this report, the issuer's board of directors has not revised the authorised budgeted capital expenditures for the 2012 financial year.

The issuer does not expect to fund Mbada's future capital expenditure plans or its working capital requirements.

Cash flow from financing activities

Net cash outflow from financing activities for the nine months ended 31 March 2012 was R114.1 million, a decrease of R48.7 million compared to a net cash outflow of R162.8 for the nine months ended 31 March 2011. This decrease was due primarily to the following factors:

- Grandwell, the issuer's unrestricted subsidiary, repaid R93.0 million of the loan from Reclamation Holdings Proprietary Limited, the issuer's parent company during the nine months ended 31 March 2012, an increase of R47.7 million from R45.3 million net repayments during the nine months ended 31 March 2011. Reclamation Holdings Proprietary Limited has no right of recourse to the issuer or any of the issuer's subsidiaries, other than Grandwell for the repayment of this loan.

- The company paid R156.1 million on its marked-to-market liability in respect of the hedgeing arrangements with JPMorgan during the nine months ended 31 March 2011. No payments were made during the nine months ended 31 March 2012.
- The proceeds from the issuance of B Class shares by Grandwell amounted to R54.8 million during the nine months ended 31 March 2011. No issuance of B Class shares by Grandwell occurred during the nine months ended 31 March 2012.

Working Capital

The company's most significant working capital requirements are for the purchase of raw materials, specifically recyclable metal raw materials, to fund accounts receivable and the cost of production of its diamond mining operations. During periods when export sales increase, the company experiences higher demands on its working capital due to increased average days in accounts receivable relating to export sales compared to average days in accounts receivable with respect to domestic sales. The company's business is not particularly seasonal, although its normal cash management cycle typically results in higher working capital requirements in March and, to a lesser extent, in June. This is due to cash needed in December and June to settle tax liabilities and, to a lesser extent, lower levels of business activity generally at the end of the calendar year.

Available capital resources

The company's principal sources of funds are provided by cash flow from operations, loans from its parent company and amounts available under the Nedbank Credit Facilities and various asset-based finance facilities.

As at the date of the report, the company's Nedbank Credit Facilities consist of the following committed facilities:

- A multi option facility in an aggregate amount of R172.0 million;
- A facility for forward exchange contracts in an aggregate amount of R25.0 million;
- A facility for letters of guarantee in an aggregate amount of R15.0 million; and
- An asset based finance facility of R150.0 million

As of 31 March 2012, R143.0 million of the multi option facility and R95.8 million of the asset based finance facility was utilised. The company's Nedbank Credit Facilities have been renewed during the quarter under review and are committed for a period of twelve months until 1 February 2013.

Trade Finance Arrangements with Reclamation Holdings

During the 2011 financial year, the issuer entered into a trade finance arrangement with Reclamation Holdings. The issuer has entered into this arrangement with Reclamation Holdings in order to reduce the payment cycle on the export of its recycled non-ferrous metal products, and thus release working capital. The trade finance arrangement has allowed the issuer to reduce the payment cycle from 30-60 days to 10-14 days from the date of invoice on approximately 80% of its revenue from the export of recycled non-ferrous metal products.

Under the terms of the trade finance arrangement, the issuer sells export recycled non-ferrous metal products destined for export to Reclamation Holdings on arms' length terms, which means that the sales price is the same as that at which Reclamation Holdings sells the products to the ultimate third party export customers. The parent company pays the issuer 80% of the sales price within 10-14 days of invoicing from funds raised from a third party financial institution (Reichmans Capital). Reclamation Holdings pays the issuer the remaining 20% when the export customers settle their invoices with Reclamation Holdings and Reclamation Holdings settles the trade financing with Reichmans Capital. Reclamation Holdings charges the issuer for the cost of the Reichmans Capital facility at cost by way of an early settlement discount. The trade finance facility between Reclamation Holdings and Reichmans Capital is for up to R125.0 million, of which R123.5 million was utilised as of 31 March 2012.

Given that certain parts of the trade finance arrangement constitute related party transactions between the issuer and its parent holding company, the issuer has obtained a third party fairness opinion confirming that the terms of the arrangement as between the issuer and its parent company are fair to the issuer from a financial point of view.

Trade Finance Arrangements with Certain Customers

The company entered into trade finance arrangements with certain of its domestic and export ferrous customers in order to reduce the payment cycle on sales to these customers. Under the terms of these arrangements, the local customers have agreed to remit payments within 7 days after month end in exchange for an early settlement discount. The trade finance arrangement with export customers has allowed the issuer to reduce the payment cycle from 60 days to 30 days.

Note obligations

The company is in the process of evaluating various refinancing options. The various options being considered are as follows:

- Internally generated cash through the company and its subsidiaries including unrestricted subsidiaries.
- Refinancing through local financial institutions.
- Refinancing through offshore financial institutions.
- Any combination of the above.

As at the date of this report, no transaction in respect of a potential refinancing has been concluded.

General Liquidity Disclosure

The company may from time to time seek to repurchase the notes through cash purchases and/or exchanges for equity, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, its liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. The company intends to fund these requirements with operating cash flow and, subject to the satisfaction of certain conditions to borrowing, drawings under its revolving credit facility or additional debt.

The company believes that the working capital available to it is sufficient for the company's present requirements for at least the next twelve months. However, although the company believes that its expected cash flows from operations, together with available borrowings, will be adequate to meet its anticipated working capital, general liquidity and debt service needs, the company cannot assure investors that its business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to the company in an amount sufficient to enable it to fund its working capital or other liquidity needs, including making payments under the notes or its other debt when due.

If the company's working capital requirements exceed its projections, or if its operating cash flow is lower than expected, the company may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. The company's ability to arrange financing generally and its cost of capital depends on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions and in the capital markets, restrictions in instruments governing its indebtedness, and its general financial performance. The company's inability to obtain the funding necessary for its working capital requirements could adversely affect its ability to service its debt obligations and adequately fund its operations. Holders of notes are referred to the annual report to holders of notes dated 25 October 2010 for a discussion of risks under the caption "Risk Factors—Risks relating to the notes—The company's business may be adversely affected as a result of its substantial indebtedness, which requires the use of a significant portion of its cash flow to service its debt obligations and may limit access to additional capital. The company's ability to generate sufficient cash in the future depends on many factors, some of which are beyond the issuer's control."

Scheduled repayments of our current obligations

Set out below is a summary of amounts due and committed under the issuer's contractual cash obligations at 31 March 2012:

	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years	Total
			(R in millions)		
The notes(1)	1 573.7	—	—	—	1 573.7
Parent company loans(2)	50.5	—	—	—	50.5
Hire purchase agreements	25.3	51.3	15.6	—	92.2
Lease commitments	56.1	33.3	—	—	89.4
Mortgage bond	1.6	3.7	4.2	8.4	17.9
Shareholder loans(3)	0.6	—	—	—	0.6
Total	1 707.8	88.3	19.8	8.4	1 824.3

(1) The amount reflected is Euro 152.9 million (outstanding as at 31 March 2012) disclosed at the month end spot rate of €1 = R10.2890 and is payable on 1 February 2013.

(2) Reclamation Holdings has no recourse to the issuer or any of its subsidiaries, other than Grandwell for the repayment of this loan.

(3) Shareholder loans to Reclam Chemicals (Proprietary) Limited from unaffiliated minority shareholders.

Compliance with the notes indenture

Transactions with Unrestricted Subsidiary

The issuer made no advances of funds on loan account to Grandwell during the nine months ended 31 March 2012.

During the nine months ended 31 March 2012, Grandwell declared and paid a dividend of R220.7 million to the issuer out of the management fees and distributions Grandwell received from Mbada.

No dividends have been declared and paid by Grandwell during the period 1 April 2012 to the date of this quarterly report.

The issuer does not expect to fund Mbada's future capital expenditure plans or its working capital requirements.

On 1 November 2011 agreement was reached at the Kimberley Process Plenary Meeting which facilitated the immediate resumption of exports of rough diamonds by Mbada.

Transactions with Reclamation Holdings, the Issuer's Parent Company

During the nine months ended 31 March 2012, the issuer entered into a trade finance arrangement with Reclamation Holdings. Total sales in terms of this arrangement amounted to R873.9 million during the nine months ended 31 March 2012. In connection with the settlement of these sales, Reclamation Holdings charged the issuer an early settlement discount, which amounted to R17.2 million during the nine months ended 31 March 2012. Included in trade and other receivables is R51.7 million which relates to receivables owed by Reclamation Holdings in terms of these arrangements. The issuer obtained a third party fairness opinion confirming that the terms of the arrangements are fair to the issuer from a financial point of view.

As of 31 March 2012, the total amount outstanding under the parent company loan amounted to R50.5 million which includes accrued interest of R2.2 million. As at the date of this report the total amount outstanding under the intercompany loan amounted to R24.7 million, which includes accrued interest of R1.2 million. The parent company loans are payable no later than the second anniversary of the various advance dates at a reduced interest rate of 16% per annum. The issuer and its restricted subsidiaries are not directly or indirectly liable for Grandwell's obligations under the parent company loan agreement. The terms of the parent company loan are in compliance with the Indenture.

The issuer has not made any advances of funds on loan account to its parent company during the nine months ended 31 March 2012. As of the date of this quarterly report, the total amount owing by the parent company to the issuer remains unchanged at R267.2 million.

Off-balance sheet arrangements

The issuer has no off-balance sheet arrangements.

Contingent liabilities

The company has been cited as co-defendant in a matter where a claim of R16.1 million has been instituted against the company. The directors of the company have considered the matter and procured legal opinion and are satisfied that no provision be made.

Other than liabilities that may arise in connection with any environmental liabilities, the company believes that it does not have any other significant contingent liabilities.

Market risk

Commodity price risks

The company is exposed to risks associated with fluctuations in the market price of recycled metal products that it produces. The company seeks to hedge export related risks to ensure that it is able to purchase recyclable ferrous metal raw materials against forward sales contracts to its customers. The company reconciles non-ferrous metal product inventory on a daily basis to ensure that it sells all recycled non-ferrous metal products on a daily basis, to minimise exposure to price changes.

Foreign currency risk

The company is exposed to the exchange rate movement of the South African Rand, the company's operating currency, and other currencies, predominantly the U.S. dollar and Hong Kong dollar, in which the proceeds from its export sales are denominated and the Euro, in which the notes are denominated. The company covers its foreign currency exposure on a transaction-by-transaction basis by taking forward cover on its exports as soon as the company can accurately quantify its foreign currency exposure.

Following the expiry of the original hedging arrangements between the company and JPMorgan in respect of interest payments and the full principal amount of the notes on 1 February 2010, the company's Euro payment obligations in respect of the notes are currently un-hedged.

Interest rate risk

The company generally adopts a policy of ensuring that exposure to changes in interest rates is on a floating basis to address its interest rate risk.

Critical accounting policies and use of estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Residual values, methods of depreciation and useful lives of all assets are reassessed annually. Depreciation of an item of property, plant and equipment begins when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised.

Subsequent costs
The company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

Depreciation
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Where appropriate, and if significant, expected residual values are taken into account in determining the depreciable values of assets.

Derecognising
The carrying amount of an item of property, plant and equipment is derecognised at the earlier of:

- Disposal;
- When no future economic benefits are expected from its use or disposal.

Gains and losses
Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in profit or loss.

The company considers this to be a critical accounting policy because of the requirement to assess, on an ongoing basis, the expected useful lives and residual values of property, plant and equipment which involves a significant degree of judgment. Changes in the useful lives and/or residual values of property, plant and equipment could have a significant effect on the depreciation charge and consequently the issuer's results of operations.

Impairment

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in equity.

Calculation of recoverable amount

The recoverable amount of the company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The company believes that the accounting estimate relating to asset impairment is a critical accounting estimate because it is highly susceptible to change from period to period. It requires management to make assumptions about future sales volumes and related costs over the life of the asset and due to the potential significance of goodwill and other intangible assets related to future acquisitions it could have a material effect on the company's balance sheet and results of operations.

Intangible assets

Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. It represents the difference between cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

All of these variables are subject to change and even minor changes in any one assumption could have a significant effect on the allocation of goodwill or the impairment calculation thereon, and its consequent effect on the company's results of operations.

All of these variables are subject to change and even minor changes in any one assumption could have a significant effect on the allocation of goodwill or the impairment calculation thereon, and its consequent effect on the company's results of operations.

Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring
A provision for restructuring is recognised when the company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The company considers this to be a critical accounting policy because changes in circumstances or events related to previously recorded provisions could affect the estimates made and have a significant effect on its financial position and results of operations.

Derivative financial instruments

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

All derivative instruments are initially recognised at fair value and are subsequently stated at fair value at reporting date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are charged to profit or loss.

The company is exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. The company uses derivative instruments to hedge its exposure to fluctuations in interest rates, foreign exchange rates and certain commodity prices. To the extent that a derivative instrument has a maturity period of longer than 1 year, the fair value of these instruments will be reflected as a non-current asset or liability.

The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The company's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecasted transaction that is the subject of the hedge must be highly probable.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss arising on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is charged to profit or loss. If the forecasted transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from equity to the underlying asset or liability on the transaction date. If the forecasted transaction results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised). Other cash flow hedge gains or losses are charged to profit or loss at the same time as the hedged transaction occurs.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity is recognised immediately in profit or loss. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

When forward exchange contracts are entered into as fair value hedges, no hedge accounting is applied. All gains and losses on such contracts are charged to profit or loss.

Mining assets

Mine development

Mine development costs are capitalised. Development costs consist primarily of expenditure to develop and expand the capacity of operating mines. Day-to-day mine development costs to maintain production are expensed as incurred. Initial development and pre-production costs relating to a new ore body, including interest on borrowed funds used to develop the ore body, are capitalised until the ore body is brought into commercial levels of production. At this time the costs are amortised as set out in the depreciation and amortisation policy.

Property, plant and equipment

All property, plant and equipment are initially recorded at historical cost. Subsequent to initial recognition these assets are carried at cost less accumulated depreciation and accumulated impairment. Historical costs include expenditure that is directly attributable to the acquisition of the items and the estimated close down and restoration costs associated with the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced cost is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Mining rights
The rights to mine in specified concessions are initially recorded at cost. Subsequent to initial recognition these assets are recorded at cost less accumulated amortisation and accumulated impairment losses.

Depreciation and amortisation
Depreciation and amortisation of rights to mine specified concessions, mine development costs and mine plant facilities are computed over the life of the mine principally by the units-of-production method or the period of the concessions. The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. Earthmoving equipment is depreciated based on hours worked to allocate their costs to their residual values over their estimated useful hours.

Other property, plant and equipment are depreciated principally on a straight-line basis to allocate their costs to their residual values over their estimated useful lives of three to seven years. The asset's residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

The company considers this to be a critical accounting policy because of the requirement to assess, on an ongoing basis, the expected useful lives and residual values of mining assets which involves a significant degree of judgment. Changes in the useful lives and/or residual values of mining assets could have a significant effect on the depreciation charge and consequently the company's results of operations.

Recent accounting pronouncements

As at 31 March 2012 the following standards and interpretations which are applicable to the company, were in issue but not yet effective:

Standard/Interpretation		Effective date
IAS 1 amendment	*Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	Annual periods beginning on or after 1 July 2012
IAS 24 (revised)	*Related Party Disclosures*	Annual periods beginning on or after 1 January 2011
IAS 27	*Separate Financial Statements (2011)*	Annual periods beginning on or after 1 January 2013
11 individual amendments to 6 standards	*Improvements to International Financial Reporting Standards 2010*	Amendments are effective for annual periods beginning on or after 1 January 2011
IFRS 7 amendment	*Disclosures – Transfers of Financial Assets*	Annual periods beginning on or after 1 July 2011
IFRS 9	*Financial Instruments*	Annual periods beginning on or after 1 January 2013
IFRS 12	*Disclosure of Interests in Other Entities*	Annual periods beginning on or after 1 January 2013
IFRS 13	*Fair Value Measurement*	Annual periods beginning on or after 1 January 2013

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

IAS 27, IFRS 7 and 11 individual amendments to 6 standards are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IAS 1 amendment

The amendment to IAS 1 will be adopted by the group for the first time for its financial reporting period ending 30 June 2013.

The company will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately.

This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements.

This amendment will be applied retrospectively and the comparative information will be restated.

IAS 24 (revised)

IAS 24 (revised) will be adopted by the company for the first time for its financial reporting period ending 30 June 2012. The standard will be applied retrospectively.

IAS 24 (revised) addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party and disclosure requirements by government-related entities.
Under IAS 24 (revised) the definition of a related party has been amended with the result that a number of new related party relationships have been identified.

IFRS 9

IFRS 9 will be adopted by the company for the first time for its financial reporting period ending 30 June 2014. The standard will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.

Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host..

The impact on the financial statements for the company has not yet been estimated.

IFRS 12

IFRS 12 will be adopted by the company for the first time for its financial reporting period ending 30 June 2014.

IFRS 12 combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

The required disclosures aim to provide information to enable the user to evaluate:

- The nature of, and risks associated with, an entity’s interests in other entities, and
- The effects of those interests on the entity’s financial position, financial performance and cash flows.

The adoption of the new standard will increase the level of disclosure provided for the entity’s interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13

IFRS 13 will be adopted by the company for the first time for its financial reporting period ending 30 June 2014. The standard will be applied prospectively and comparatives will not be restated.

IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosures requirements for fair value measurements. The key principles in IFRS 13 are as follows:

- Fair value is an exit price.

- Measurement considers characteristics of the asset or liability and not entity-specific characteristics.
- Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants.
- Price is not adjusted for transaction costs.
- Measurement maximises the use of relevant observable inputs and minimises the use of unobservable inputs.
- The three-level fair value hierarchy is extended to all fair value measurements.

The impact on the financial statements has not yet been estimated.

ANNEXURE A

The New Reclamation Group Proprietary Limited and its subsidiaries

Financial Statements

for the 3 and 9 months ended 31 March 2011 and 2012

The New Reclamation Group Proprietary Limited and its subsidiaries (Reg No 2005/041029/07)

Financial Statements

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The New Reclamation Group Proprietary Limited and its subsidiaries

Statements of comprehensive income

for the three months and nine months ended 31 March 2012 and 2011

	Note	**Three months ended 31 March 2012 R'000**	Three months ended 31 March 2011 R'000	**Nine months ended 31 March 2012 R'000**	Nine months ended 31 March 2011 R'000
Revenue		**1 900 921**	1 545 632	**5 654 113**	4 876 194
Cost of sales		**(1 096 577)**	(905 916)	**(3 298 274)**	(2 701 518)
Direct expenses		**(182 514)**	(157 136)	**(527 976)**	(508 199)
Gross profit		**621 830**	482 580	**1 827 863**	1 666 477
Other operating income		**5 291**	6 931	**27 332**	17 286
Other operating expenses		**(353 549)**	(257 383)	**(1 066 894)**	(808 870)
Operating profit	*2*	**273 572**	232 128	**788 301**	874 893
Share based payment		**–**	–	**–**	(40 828)
Competition commission		**–**	–	**–**	(7 599)
Profit before net finance expense		**273 572**	232 128	**788 301**	826 466
Finance expense		**(39 639)**	(113 168)	**(277 090)**	(268 255)
Finance income		**(11 568)**	(76 911)	**2 938**	11 558
Share of loss of associates		**(147)**	–	**(421)**	(2 152)
Profit before income tax		**222 218**	42 049	**513 728**	567 617
Income tax expense		**51 493**	(17 766)	**(145 832)**	(218 207)
Profit for the period		**273 711**	24 283	**367 896**	349 410
Other comprehensive income					
Effect of foreign exchange on conversion of foreign operations		**(34 156)**	(372)	**35 471**	(18 015)
Change in fair value of forward exchange contracts		**–**	–	**–**	–
Total comprehensive income for the period		**239 555**	23 911	**403 367**	331 395
Profit for the period attributable to:					
Equity holders of the parent		**142 637**	(29 550)	**120 282**	185 118
Non-controlling shareholders		**131 074**	53 833	**247 614**	164 292
		273 711	24 283	**367 896**	349 410
Total comprehensive income for the period attributable to:					
Equity holders of the parent		**125 556**	(29 736)	**138 021**	176 143
Non-controlling shareholders		**113 999**	53 647	**265 346**	155 252
		239 555	23 911	**403 367**	331 395

The New Reclamation Group Proprietary Limited and its subsidiaries

Statements of financial position

at 31 March 2012and 31 March 2011

	Note	**31 March 2012 R'000**	31 March 2011 R'000
Assets			
Non-current assets		**2 931 744**	2 412 112
Mining assets		**722 396**	223 823
Property, plant and equipment		**791 808**	757 221
Intangible assets		**6 315**	7 553
Goodwill	*3*	**1 402 538**	1 402 251
Investment in associates		**3 749**	–
Deferred taxation		**4 938**	21 264
Current assets		**1 709 923**	1 662 858
Inventories	*4*	**515 941**	514 101
Trade and other receivables		**637 665**	698 284
Other advances	*5*	**272 043**	271 772
Derivative financial asset		**260**	–
Income tax receivable		**4 338**	56 018
Cash and cash equivalents		**279 676**	122 683
Total assets		**4 641 667**	4 074 970
Equity and liabilities			
Share capital and reserves			
Share capital	*6*	**1**	1
Share premium		**214 250**	214 250
Retained earnings		**1 297 130**	1 189 909
Foreign currency translation reserve		**9 360**	(9 806)
Total equity attributable to equity holders of the parent		**1 520 741**	1 394 354
Non-controlling shareholders		**154 750**	87 674
Total equity		**1 675 491**	1 482 028
Non-current liabilities		**164 974**	1 695 355
Interest-bearing borrowings	*8*	**83 143**	1 646 925
Deferred taxation		**81 831**	48 430

The New Reclamation Group Proprietary Limited and its subsidiaries

Statements of financial position

at 31 March 2012 and 31 March 2011 (continued)

	Note	**31 March 2012 R'000**	31 March 2011 R'000
Current liabilities		**2 801 202**	897 587
Trade and other payables		**924 380**	550 682
Derivative financial liability		–	–
Provisions		**25 433**	20 920
Income tax payable		**44 592**	31 116
Short term portion of non interest-bearing liability	*7*	–	7 599
Short term portion of interest-bearing borrowings	*8*	**1 663 749**	152 737
Bank overdraft		**143 048**	134 533
Total equity and liabilities		**4 641 667**	4 074 970

The New Reclamation Group Proprietary Limited and its subsidiaries

Statement of changes in equity
for the nine months ended 31 March 2012

	Share capital R'000	Share premium R'000	Retained earnings R'000	Foreign currency translation reserve R'000	Total attributable to equity holders of the parent R'000	Non-controlling shareholders R'000	Total equity R'000
Balance at 1 July 2011	1	214 250	1 176 848	(8 379)	1 382 720	110 037	1 492 757
Total comprehensive income for the period			120 282	17 739	138 021	265 346	403 367
Profit for the period	–	–	120 282	–	120 282	247 614	367 896
Effect of foreign exchange on conversion of foreign operations				17 739	17 739	17 732	35 471
Dividend paid to non-controlling shareholders	–	–	–	–	–	(220 633)	(220 633)
Balance at 31 March 2012	1	214 250	1 297 130	9 360	1 520 741	154 750	1 675 491

The New Reclamation Group Proprietary Limited and its subsidiaries

Statements of cash flow

for the nine months ended 31 March 2012 and 31 March 2011

	Note	**Nine months ended 31 March 2012 R'000**	Nine months ended 31 March 2011 R'000
Cash generated by operations	*9.1*	**1 378 241**	925 349
Finance expense		**(211 829)**	(208 837)
Finance income		**2 938**	5 439
Income tax paid	*9.2*	**(84 389)**	(235 476)
Dividends paid	*9.3*	**(220 633)**	(163 246)
Net cash retained from operating activities		**864 328**	323 229
Net cash outflow from investing activities		**(577 493)**	(103 460)
Additions to property, plant and equipment		**(86 121)**	(62 373)
Additions to intangible assets		**(744)**	(2 126)
Additions to mining assets		**(487 436)**	(40 670)
Proceeds from disposal of property, plant and equipment		**650**	4 513
Increase in investment in subsidiary		**(575)**	
Acquisition of subsidiaries		–	(7 577)
Disposal of investment in associate		–	5 555
Increase in loan to associate		**(3 267)**	–
Increase in other advances		–	(782)
Net cash outflow from financing activities		**(114 104)**	(162 838)
Net decrease in borrowings		**(114 104)**	(217 677)
Proceeds from issue of Class B shares		–	54 839
Net increase in cash and cash equivalents		**172 731**	56 931
Cash and cash equivalents			
At beginning of period		**(36 103)**	(68 781)
At end of period		**136 628**	(11 850)

1. Accounting policies

1.1 Reporting entity

The New Reclamation Group Proprietary Limited (the "company") is a company domiciled in the Republic of South Africa. The consolidated financial statements of the company for the period ended 31 March 2012 comprise the company, its subsidiaries, joint ventures and associates.

1.2 Basis of preparation

Statement of compliance
The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement
The financial statements are prepared on the historical cost basis except for certain financial instruments recognised at fair value as stated below.

1.3 Functional and presentation currency

The consolidated financial statements are presented in South African Rands ("Rand"), which is the functional currency of the group, rounded to the nearest thousand unless otherwise indicated.

1.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1.5 Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

1.6 Adoption of new and revised accounting policies

The group adopted the following new and revised accounting standards, amendments to standards and new interpretations, during the year:

IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 8 (Operating Segments), IAS 1 (Presentation of Financial Statements (revised), IAS 7 (Statement of Cash Flows), IAS 17 (Leases) and IAS 36 (Impairment of Assets).

The adoption of the new and modified standards and interpretations, have had no effect on the results of the group.

1.7 Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries, associates and joint ventures.

Subsidiaries
Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Operating results of businesses acquired or disposed of during the year are included from or to the effective date of acquisitions or disposal, being the date that control commences until the date control ceases. The assets and liabilities of companies acquired are assessed and included in the statement of financial position at their estimated fair values to the group at acquisition date.

The company carries its investments in subsidiaries at cost less accumulated impairment losses.

Associates
An associate is a company over which the group has the ability to exercise significant influence, but not control, over its financial and operating policies.

The equity method of accounting for associates is adopted in the group financial statements. In applying the equity method, account is taken of the group's share of accumulated retained earnings and movements in reserves from the date that significant influence commences until the date that significant influence ceases.

When the group's share of losses exceeds its interest in an associate, the group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

The company carries its investment in associates at cost less accumulated impairment losses.

Goodwill inherent in the cost of an associate is accounted for in accordance with the group's accounting policy for goodwill. This goodwill has been included in the carrying value of associates.

Joint ventures
Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The group's interests in joint ventures are accounted for using the proportionate consolidation method and its shares of the underlying assets, liabilities, income, expenditures and cash flows are included in the financial statements on a line-by-line basis from the date that joint control commences until the date joint control ceases.

The company carries its investments in joint ventures at cost less accumulated impairment losses.

Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1. Accounting policies *(continued)*

1.8 Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to rand at the foreign exchange rates ruling at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to rand at foreign exchange rates ruling at the dates that the fair value was determined.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into South African Rand at rates of exchange ruling at the reporting date. Income, expenditure and cash flow items are translated into South African Rand at rates approximating the foreign exchange rates ruling at the dates of the transactions. The group's foreign exchange differences arising on translation are recognised directly in equity as a foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Acquisitions and disposals of foreign operations are accounted for at the rate ruling on the date of the transaction.

1.9 Derivative financial instruments

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

All derivative instruments are initially recognised at fair value and are subsequently stated at fair value at reporting date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are charged to profit or loss.

The group is exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. The group uses derivative instruments to hedge its exposure to fluctuations in interest rates, foreign exchange rates and certain commodity prices. To the extent that a derivative instrument has a maturity period of longer than 1 year, the fair value of these instruments will be reflected as a non-current asset or liability.

The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The company's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecasted transaction that is the subject of the hedge must be highly probable.

1. Accounting policies *(continued)*

1.9 Derivative financial instruments *(continued)*

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss arising on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is charged to profit or loss. If the forecasted transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from equity to the underlying asset or liability on the transaction date. If the forecasted transaction results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e., when interest income or expense is recognised). Other cash flow hedge gains or losses are charged to profit or loss at the same time as the hedged transaction occurs.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity is recognised immediately in profit or loss. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

When forward exchange contracts are entered into as fair value hedges, no hedge accounting is applied. All gains and losses on such contracts are charged to profit or loss.

1.10 Mining assets

Mine development
Mine development costs are capitalised. Development costs consist primarily of expenditure to develop and expand the capacity of operating mines. Day-to-day mine development costs to maintain production are expensed as incurred. Initial development and pre-production costs relating to a new ore body, including interest on borrowed funds used to develop the ore body, are capitalised until the ore body is brought into commercial levels of production. At this time the costs are amortised as set out in the depreciation and amortisation policy.

Revenues from discovery of diamonds during the mine development phase are included in sales revenue in the statement of comprehensive income. The estimated costs of production of diamonds sold, not exceeding related revenue, are credited against mine development costs and included in cost of sales.

Mining rights
The rights to mine in specified concessions are initially recorded at cost. Subsequent to initial recognition these assets are recorded at cost less accumulated amortisation and accumulated impairment losses.

1. Accounting policies *(continued)*

1.10 Mining assets *(continued)*

Property, plant and equipment
All property, plant and equipment are initially recorded at historical cost. Subsequent to initial recognition these assets are carried at cost less accumulated depreciation and accumulated impairment. Historical costs include expenditure that is directly attributable to the acquisition of the items and the estimated close down and restoration costs associated with the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced cost is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation and amortisation
Depreciation and amortisation of rights to mine specified concessions, mine development costs and mine plant facilities are computed over the life of the mine principally by the units-of-production method or the period of the concessions. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. Earthmoving equipment is depreciated based on hours worked to allocate their costs to their residual values over their estimated useful hours.

Other property, plant and equipment are depreciated principally on a straight-line basis to allocate their costs to their residual values over their estimated useful lives of three to 7 years. The asset's residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.11 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Residual values, methods of depreciation and useful lives of all assets are reassessed annually. Depreciation of an item of property, plant and equipment begins when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised.

1. Accounting policies *(continued)*

1.11 Property, plant and equipment *(continued)*

Subsequent costs
The company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

Depreciation
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Computer equipment	5 years
Motor vehicles	6 years
Office furniture and fittings	10 years
Plant and equipment	2 – 25 years

Where appropriate, and if significant, expected residual values are taken into account in determining the depreciable values of assets.

Derecognising
The carrying amount of an item of property, plant and equipment is derecognised at the earlier of:

- Disposal;
- When no future economic benefits are expected from its use or disposal.

Gains and losses
Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in profit or loss.

1.12 Leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Operating leases, which have a fixed determinable escalation, are charged against profit or loss on a straight-line basis. Leases with contingent escalations are expensed as and when incurred.

1. Accounting policies *(continued)*

1.13 Inventories

Inventories of rough diamonds, are stated at the lower of cost-of-production on the weighted average basis or estimated net realisable value. Cost price includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs.

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

1.14 Financial instruments

Financial instruments recognised on the statement of financial position include cash and cash equivalents, trade and other receivables, other advances, trade and other payables, other non interest bearing liabilities and interest-bearing borrowings. Fair value adjustments to financial instruments are recognised in profit or loss in the period in which they occurred.

Financial instruments are initially measured at fair value, which includes directly attributable transaction costs. The subsequent measurement of these instruments is dealt with as follows:

Financial assets
Financial assets are recognised when the entity becomes a party to the contractual provisions of the financial asset. Such assets consist of cash and cash equivalents, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. They are recognised at fair value.

Trade and other receivables are stated at amortised cost less impairment losses.

Cash and cash equivalents are measured at fair value.

Other advances are stated at amortised cost less impairment losses.

Financial liabilities
Financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial liabilities consist of obligations to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms.

Trade and other payables are stated at their original debt value less principal repayments and amortisations.

Other financial liabilities
Financial liabilities other than derivatives are recognised at their original debt value less principal payments and amortisations.

1. Accounting policies *(continued)*

1.14 Financial instruments *(continued)*

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest rate basis.

Derecognition

Financial assets
A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the difference in the respective carrying amounts is recognised in profit or loss.

Gains and losses
Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in profit or loss in the period in which the change arises.

Offset
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trading in financial instruments
It is the policy of the group not to trade in derivative financial instruments for speculative purposes.

1. Accounting policies *(continued)*

1.15 Revenue recognition

Revenue comprises amounts invoiced to customers for the sale of goods and excludes value added tax.

Goods sold
The sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Finance income
Finance income comprises interest receivable on funds and foreign exchange gains on the revaluation of foreign currency denominated assets and liabilities.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the company and group.

Dividends
Dividend income is recognised in profit or loss on the date the entity's right to receive payment is established.

1.16 Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. It represents the difference between cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

1.17 Intangible assets

The costs of acquired software and software development costs are capitalised and are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of capitalised software from the date that it is available for use.

Computer software	5 years

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

1. Accounting policies *(continued)*

1.18 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporitng date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

1.19 Employee benefits

Short-term employee benefits
The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

Accruals for employee entitlements to wages, salaries, performance bonuses and annual leave represent the amounts which the company and group has a present obligation to pay as a result of employees' services provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and the obligation can be estimated reliably.

Retirement benefits
The group provides a defined contribution fund for the benefit of employees, the assets of which are held in separate funds. These funds are funded by payments from employees and the group, taking account of recommendations of independent actuaries. The group's contributions to defined contribution funds are accounted for in profit or loss when they are due.

1. Accounting policies *(continued)*

1.19 Employee benefits *(continued)*

Share-based payment transactions
The grant date fair value of equity instruments granted to employees is recognised as an asset, with a corresponding increase in equity. The asset is amortised over the period that the employee renders their service and become unconditionally entitled to the equity instruments. The amount recognised as an expense is adjusted to reflect the actual number of equity instruments for which the related vesting conditions are met.

Share-based payment arrangements in which the group receives goods or services as consideration for equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

1.20 Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring
A provision for restructuring is recognised when the company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the company and group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Rehabilitation costs
Rehabilitation costs and related accrued liabilities, based on the group's assessment of current environmental and regulatory requirements, are accrued to reflect the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The costs so provided are capitalised as part of mining assets and depreciated accordingly. Annual increases in the provision is split between finance costs relating to the change in the net present value of the provision, inflationary increases in the provision estimate and restoration costs relating to additional environmental disturbances that have occurred. Remediation liabilities, other than rehabilitation costs, which relate to liabilities arising from specific events, are expensed when they are identified, probable and may be reasonably estimated.

1. Accounting policies *(continued)*

1.21 Impairment

The carrying amounts of assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in equity.

Calculation of recoverable amount
The recoverable amount of the company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment
An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Accounting policies *(continued)*

1.22 Finance expense

Finance expense comprise interest payable on borrowings and foreign exchange losses on the revaluation of foreign currency denominated assets and liabilities.

Interest payable is calculated on the principal outstanding using the effective interest rate method.

1.23 Related parties

Related parties include the holding company and its subsidiaries, joint ventures and associates. Directors, their close family members and any employee who is able to exert a significant influence on the operating policies of the company and group are also considered to be related parties.

1.24 Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash on hand. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

1.25 Share-based payment

Where the group receives benefits from other parties and equity instruments are issued as consideration the transaction is recognised as a share-based payment transaction even when the entity issuing the shares cannot specifically identify the services received.

The difference between the fair value of the consideration received and the market related value of the instrument issued is reflected as a share-based payment expense with an identical credit to equity. Where the fair value of the consideration received cannot be determined the market value of the instruments issued in exchange is reflected as a share-based payment expense.

1.25 EBITDA

Earnings before interest tax depreciation and amortisation

EBITDA is defined as operating profit, as determined in accordance with IFRS, plus amounts included therein in respect of depreciation and impairment. The company believes that EBITDA serves as a useful supplementary financial indicator to investors since it is commonly reported and widely accepted by analysts and investors in measuring a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. Further, EBITDA is a widely accepted indicator in comparing a company's underlying operating profitability with that of other companies in the same industry. EBITDA is not an IFRS measure and investors should not consider EBITDA as an alternative to measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations or as an indicator of liquidity under IFRS. Funds depicted by this measure may not be available for the company's discretionary use (due to covenant restrictions, debt service payments and other commitments). Investors should note that EBITDA is not a uniform or standardised measure and the calculation of EBITDA may not be comparable to that of other companies.

Notes to the financial statements

for the three and nine months ended 31 March 2012 and 2011 (continued)

	Three months ended 31 March 2012 R'000	Three months ended 31 March 2011 R'000	**Nine months ended 31 March 2012 R'000**	Nine months ended 31 March 2011 R'000
2. Operating profit				
Operating profit is arrived at after taking into account:				
Amortisation of intangible assets	**580**	477	**1 712**	1 415
Depreciation of property, plant and equipment	**23 014**	20 075	**66 974**	60 069
Depreciation of mining assets	**14 197**	10 602	**46 021**	33 084
(Profit)/loss on disposal of property, plant and equipment	**–**	(2 869)	**(100)**	63

	31 March 2012 R'000	31 March 2011 R'000
3. Goodwill		
Cost	**1 402 538**	1 402 251
Accumulated impairment losses	**–**	–
	1 402 538	1 402 251
The movement in goodwill can be analysed as follows –		
Balance at beginning of period	**1 402 228**	1 401 955
Increase in shareholding – Flaming Silver Trading 163 Proprietary Limited	**–**	296
Increase in investment in subsidiary	**310**	–
Balance at end of period	**1 402 538**	1 402 251
4. Inventories		
Diamonds	**11 101**	14 556
Ferrous inventory	**317 366**	284 480
Non-ferrous inventory	**153 075**	181 961
Paper and cardboard	**2 605**	1 102
Glass	**126**	33
Plastics	**3 243**	1 138
Other	**28 425**	30 831
	515 941	514 101

The New Reclamation Group Proprietary Limited and its subsidiaries

Notes to the financial statements

for the three and nine months ended 31 March 2012 and 2011 (continued)

		31 March 2012 R'000	31 March 2011 R'000
5.	**Other advances**		
	Non-interest bearing advance to Reclamation Holdings Proprietary Limited, repayable by 1 February 2014. Early settlement is possible	**267 153**	267 153
	Non-interest bearing advance to Southern Palace Holdings Proprietary Limited with no fixed terms of repayment	**2 500**	2 500
	Non-interest bearing advance to National Recycling Organisation, with no fixed terms of repayment	**2 390**	2 119
		272 043	271 772
6.	**Share capital**		
	Authorised 200 000 000 ordinary shares of R0,001 each	**200**	200
	Issued 100 ordinary shares of R0,001 each	**1**	1
7.	**Non interest-bearing liability**		
	Amount owing to the Competition Commission. The amount owing is unsecured, interest free and is payable on 01 June 2011	**–**	7 599
	Current portion included in current liabilities	**–**	(7 599)
		–	–
8.	**Interest bearing borrowings**		
	Secured		
	8⅛% First priority senior secured notes due 2013	**1 594 987**	1 500 676
	Discount to face value	**(4 319)**	(9 491)
	Deferred debt issuance costs	**(4 968)**	(10 944)
		1 585 700	1 480 241

	31 March 2012 R'000	31 March 2011 R'000
8. Interest bearing borrowings *(continued)*		
Mortgage bond – a mortgage bond has been taken out for Erf 263 Oxford Road, Illovo. The loan bears interest at prime less 0.25%, repayable in monthly instalments of R274 911 and secured by Erf 263 Oxford Road, Illovo with a net book value of R31.3 million.	**17 930**	19 477
Capitalised instalment sale lease obligations bearing interest at up to 2,8% below prime repayable in monthly instalments of R4.7 million (2010 – R3.7 million) and secured by instalment sale agreements over assets.	**92 190**	131 698
Unsecured		
Amounts owing to Reclamation Holdings Proprietary Limited. The amounts owing are unsecured, bear interest at an effective annual interest rate of 16% and are payable no later than the first anniversary of the various advance dates.	**50 512**	167 487
Shareholders loans from non-controlling shareholders	**560**	759
	1 746 892	1 799 662
Current portion included in current liabilities	**(1 663 749)**	(152 737)
– borrowings	**(1 636 772)**	(96 646)
– instalment sale and finance leases	**(26 977)**	(56 091)
	83 143	1 646 925

	Nine months ended 31 March 2012 R'000	Nine months ended 31 March 2011 R'000
9. Notes to the cash flow statements		
9.1 Cash generated by operations		
Operating profit	**788 301**	826 466
Adjustments for:		
– depreciation of property, plant and equipment	**66 974**	60 069
– amortisation of intangible assets	**1 712**	1 415
– depreciation of mining assets	**46 021**	33 084
– share based payment	**–**	40 828
– loss on disposal of investments	**–**	2 366
– profit on disposal of property, plant and equipment	**(100)**	63
– competition commission	**–**	7 599
– increase in provisions	**4 222**	1 257
	907 130	973 147
Working capital changes		
Decrease/(increase) in inventories	**50 374**	(81 465)
Decrease/(increase) in trade and other receivables	**62 313**	(44 450)
Increase in trade and other payables	**358 424**	78 117
	1 378 241	925 349
9.2 Income tax paid		
Amount (payable)/receivable at beginning of period	**(5 907)**	7 563
Charge to profit or loss	**(118 762)**	(218 207)
Foreign exchange on conversion of foreign operations	**26**	–
Acquisition of subsidiary	**–**	70
Amount payable/(receivable) at end of period	**40 254**	(24 902)
	(84 389)	(235 476)
9.3 Dividends paid		
Amount outstanding at beginning of period	**–**	–
Dividends declared	**(220 633)**	(163 246)
Amount outstanding at end of period	**–**	–
	(220 633)	(163 246)

10. Financial risk management

10.1 Overview

The company has exposure to the following risks from its use of financial instruments:

– credit risk
– liquidity risk
– market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

10.2 Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

Trade and other receivables
The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. However, geographically there is no concentration of credit risk.

A credit policy has been established under which each new customer is analysed individually for creditworthiness before the company's standard payment and delivery terms and conditions are offered. The company's review includes making enquiries regarding the applicant's credit history with certain credit bureaus and in some cases obtaining bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the relevant directors. Customers that fail to meet the company's benchmark creditworthiness may transact with the company only on a prepayment basis.

10. Financial risk management (continued)

10.2 Credit risk (continued)

Many of the company's customers have been transacting with the company a number of years, and losses have occurred infrequently. Customers that are graded as "high risk" are constantly monitored and future sales are made on a prepayment basis until such time that their credit risk is reduced to an acceptable level.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade receivables is used to record impairment losses unless the company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

10.3 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Typically the company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the company maintains adequate lines of credit with its primary bankers.

10.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The company buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

10.5 Currency risk

The company is exposed to foreign currency risk on sales, purchases, borrowings and bank balances that are denominated in a currency other than the rand. The currencies giving rise to this risk are primarily the European Euro, the US Dollar and the Hong Kong Dollar.

10. Financial risk management (continued)

10.5 Currency risk (continued)

At any point in time the company hedges 100% of its estimated foreign currency exposure in respect of sales, purchases and forecasted transactions. The company uses forward exchange contracts to hedge its foreign currency risk. Where necessary, the forward exchange contracts are rolled over at maturity.

In respect of other monetary assets and liabilities denominated in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

10.6 Interest rate risk

The company has addressed its interest rate risk by obtaining a long term bond at a fixed rate of 8⅛%.

The company generally adopts a policy of ensuring that any other borrowings are at market related rates to address its interest rate risk.