

07

# OPERATIONAL PERFORMANCE AND WORKING CAPITAL



## 7.1 OPERATIONAL PERFORMANCE

### 7.1.1 Accounting policies relating to operational performance

#### Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable and represents amounts receivable principally from the sale of commodities and services rendered, net of discounts and VAT.

Revenue associated with the sale of commodities is recognised when the price is determinable (measurable), the product has been delivered in accordance with the terms of the sales agreement, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales prices are reasonably assured. At this point the group retains neither continuing managerial involvement nor effective control over the commodities and the costs in respect of the sale can be reliably measured, and it is probable that future economic benefits will flow to the group.

Revenue arising from services is recognised on the accrual basis over the period the services are rendered in accordance with the substance of the relevant agreements and includes services rendered to subsidiaries (for company reporting purposes) and other entities.

### 7.1.2 Revenue

For the year ended 31 December	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
Sale of goods		18 282	16 349		
Services		48	52	1 322	1 527
<b>Total revenue</b>		<b>18 330</b>	<b>16 401</b>	<b>1 322</b>	<b>1 527</b>

### 7.1.3 Operating expenses

#### Cost by nature

Raw materials and consumables		2 569	2 936	11	49
Staff costs		4 628	3 988	1 172	884
– Salaries and wages		3 697	3 513	799	777
– Share-based payments		186	6	63	(59)
– Termination benefits		408	138	261	112
– Pension and medical costs		337	331	49	54
General charges <sup>1</sup>		218	2 556	(112)	439
Legal and professional fees		422	725	233	470
Insurance		311	351	12	28
Royalties		119	125		
Railage and transport		1 232	1 622	2	12
Repairs and maintenance		1 821	1 666	6	13
Write-off and impairment of trade and other receivables		77	40	1 394	2
Impairment charges of non-current financial assets			21		
Loss on dilution of investment in associate	10.3.1	10	58		
(Gain)/loss on the disposal of operation/subsidiary	9.3	(112)	28		1
Energy		502	446	9	31
Depreciation of property, plant and equipment	11.1.2	1 015	875	61	89
Amortisation of intangible assets	11.3.2	14	14	12	12
Movement in inventories		832	428		
Own work capitalised <sup>2</sup>		(220)	(648)	(7)	(6)
Sublease rental income		(30)	(34)	(2)	(10)
<b>Total operating expenses</b>		<b>13 408</b>	<b>15 197</b>	<b>2 791</b>	<b>2 014</b>

<sup>1</sup> The company's 2015 general charges relate mainly to gains on currency exchange differences.

<sup>2</sup> Relates to operating expenses incurred that are capitalised to projects where minimum qualification criteria are met.

**7.1 OPERATIONAL PERFORMANCE (CONTINUED)**
**7.1.3 Operating expenses (continued)**

For the year ended 31 December	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
<i>Cost by function</i>					
Costs of goods sold/services rendered		12 336	13 516	1 399	2 021
Loss on dilution of investment in associate		10	58		
(Gain)/loss on the disposal of operation/subsidiary		(112)	28		1
Selling and distribution costs		1 127	1 568		
Sub-lease rental income		(30)	(34)	(2)	(10)
Impairment charges of non-current financial assets			21		
Write-off and impairment of trade and other receivables		77	40	1 394	2
<b>Total operating expenses</b>		<b>13 408</b>	<b>15 197</b>	<b>2 791</b>	<b>2 014</b>
<i>The above operating expenses are stated after:</i>					
Auditors' remuneration		33	36	15	16
– Audit fees		24	25	11	13
– Other services		9	11	4	3
Consultancy fees		345	583	202	409
Contingent rental income			(80)		
Currency exchange differences		(1 823)	(104)	(432)	(10)
– Net realised (gains)/losses		(1 325)	(97)	67	
– Net unrealised gains		(498)	(7)	(499)	(10)
Depreciation and amortisation		1 029	889	73	101
– Buildings	11.1.2		9		1
– Mineral properties	11.1.2	79	70		
– Residential buildings	11.1.2	10	24		
– Buildings and infrastructure	11.1.2	122	112		
– Machinery, plant and equipment	11.1.2	778	635	61	88
– Site preparation, mining development and rehabilitation	11.1.2	26	25		
– Amortisation of intangible assets	11.3.2	14	14	12	12
Directors' and prescribed officers' emoluments	14.4	46	21	46	21
– Remuneration: executive directors of the company		29	10	29	10
– Bonuses and cash incentives		10	5	10	5
– Remuneration: non-executive directors of the company		7	6	7	6
Termination benefits		408	138	261	112
Exploration expenditure		5	16		
Fair value losses/(gains) on financial assets at fair value through profit or loss:		112	(36)	(1)	(1)
– Designated on initial recognition		(18)	(16)	(1)	(1)
– Held-for-trading		130	(20)		
Impairment charges of non-current financial assets			21		
Write-off and impairment of trade and other receivables		77	40	96	2
Impairment of ECC loans				1 298	
– Non-current				1 104	
– Current				194	
Inventories write-down to net realisable value		9	32		
Provisions (income)/expense	13.2; 14.3	(69)	437	(6)	11
Net (gain)/loss on disposal or scrapping of property, plant and equipment		(158)	27	(17)	6
Net loss on disposal or write-off of intangible assets			4		
Loss on dilution of investment in associate		10	58		
(Gain)/loss on the disposal of operation/subsidiary		(112)	28		1
Operating lease rental expenses		146	142	19	23
– Property		18	15	8	9
– Equipment		128	127	11	14
Operating sub-lease rental income					
– Property		(30)	(34)	(2)	(10)

## 7.1.4 Other income

For the year ended 31 December	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
Other income			1 466		
Other income relates to shortfall income received from Eskom as a result of delays in agreed upon production off-take plans.					

## 7.1.5 Notes to the statements of cash flows relating to operational performance

### 7.1.5.1 Cash generated by operations

Net operating profit/(loss)		3 173	(3 292)	(2 266)	(5 611)
Adjusted for non-cash movements					
– Depreciation and amortisation	7.1.3	1 029	889	73	101
– Impairment charges of non-current assets	9.2	1 749	5 962	797	5 124
– Impairment charges of non-current financial assets	7.1.3		21		
– Write-off and impairment of trade and other receivables	7.1.3	77	40	1 394	2
– Provisions	7.1.3	(69)	437	(6)	11
– Foreign exchange revaluations and fair value adjustments		(1 479)	(90)	(500)	(11)
– Reconditionable spares usage		19	1		
– Net (gain)/loss on disposal or scrapping of property, plant and equipment	7.1.3	(177)	27	(17)	6
– Loss on disposal and write-off of intangible assets	7.1.3		4		
– Net (gain)/loss on disposal of operation/subsidiaries	7.1.3	(112)	28		1
– Loss on dilution of investment in associate	7.1.3	10	58		
– Share-based payment expense		137	(59)	29	(108)
– Translation of net investment in foreign operations		(390)	(287)		
– Translation of foreign currency items		801	211		
– Amortisation of transaction costs (revolving facility)		5	5	5	5
– Non-cash recoveries <sup>1</sup>		(355)			
– Other non-cash movements		2	4		
Cash before working capital movements		4 420	3 959	(491)	(480)
Working capital movements					
– Decrease/(increase) in inventories		2	(66)		3
– Decrease/(increase) in trade and other receivables		96	(126)	3 499	1 459
– Increase/(decrease) in trade and other payables		148	333	(740)	(692)
– Utilisation of provisions		(140)	(17)		
<b>Cash generated by operations</b>		<b>4 526</b>	<b>4 083</b>	<b>2 268</b>	<b>290</b>

<sup>1</sup> Relate to non-cash rehabilitation recovery regarding the Arnot Mine closure.

## 7.2 WORKING CAPITAL

### 7.2.1 Accounting policies relating to working capital items

#### Inventories

Inventories are stated at the lower of cost (determined on the weighted average basis) and net realisable value.

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes interest charges. Fixed production overheads are allocated on the basis of normal capacity.

Net realisable value represents the estimated selling price in the ordinary course of business less applicable selling expenses. Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

#### Trade receivables

Trade receivables are amounts due from customers for the sale of commodities and services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets (also refer note 16.1.6).

#### Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities (also refer note 16.1.6).

**7.2 WORKING CAPITAL (CONTINUED)**
**7.2.2 Inventories**

At 31 December	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
Finished products		715	507		
Work-in-progress		55	73		
Raw materials		7	15		
Plant spares and stores		452	392		
Merchandise		11	11		
Per statement of financial position		1 240	998		
Included in non-current assets held-for-sale	9.4		8		
<b>Total inventories including inventories held-for sale</b>		<b>1 240</b>	<b>1 006</b>		

Included in merchandise are biological assets held-for-sale classified as inventories. No inventories were pledged as security for liabilities in 2015 and in 2014. Inventory (finished products) carried at net realisable value amounts to R82 million (2014: R36 million).

**7.2.3 Trade and other receivables**

Trade receivables		2 162	1 859		1
Other receivables <sup>1</sup>		339	275	148	143
Indebtedness by subsidiaries after impairment <sup>2</sup>	17.3			2 094	4 816
Indebtedness by subsidiaries				2 288	4 816
Specific allowances for impairment				(194)	
Derivative instruments	16.2	1	8		
Non-financial instruments <sup>3</sup>		310	513	14	49
Specific allowances for impairment		(146)	(29)	(96)	
Collective allowances for impairment			(15)		
Per statement of financial position		2 666	2 611	2 160	5 009
Included in non-current assets held-for-sale	9.4		8		
<b>Total trade and other receivables including trade and other receivables held-for-sale</b>		<b>2 666</b>	<b>2 619</b>	<b>2 160</b>	<b>5 009</b>

<sup>1</sup> Includes sundry receivables and reclassifications of creditors with debit balances. The 2015 balance for the group is stated after an impairment reversal on sundry receivables of R11 million in respect of the Mayoko iron ore project. R15 million relates to a reclassification from held-for-sale to trade and other receivables. The 2014 balance for the group is stated after the write-off of sundry receivables of R4 million in respect of the Mayoko iron ore project and R3 million relating to other.

<sup>2</sup> The 2015 balance for the company includes the ECC loan of R194 million which was fully impaired at 31 December 2015.

<sup>3</sup> Mainly includes VAT refundable and prepayments. The 2014 balance for the group is stated after the impairment of prepayments of R18 million in respect of the Mayoko iron ore project.

At 31 December	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
Trade and other receivables are stated after the following allowances for impairment:					
<b>Specific allowances for impairment</b>					
At beginning of year		(29)	(29)		
Impairment loss recognised		(127)		(96)	
Indebtedness by subsidiaries impairments				(194)	
Impairment loss reversals		13			
Write-offs		(3)			
At end of year		(146)	(29)	(290)	
<i>Of which relates to:</i>					
Trade receivables		(50)	(29)		
Other receivables		(96)		(96)	
Subsidiaries				(194)	
<b>Collective allowances for impairment</b>					
At beginning of year		(15)			
Impairment loss recognised			(15)		
Impairment loss reversals		15			
At end of year			(15)		
<i>Of which relates to:</i>					
Other receivables			(15)		
For a detailed analysis of the trade and other receivables refer note 16.2.6.4.2 on financial instruments.					
<b>7.2.4 Trade and other payables</b>					
Trade payables		936	972	101	109
Other payables <sup>1</sup>		1 749	1 530	345	180
Non-financial instruments <sup>2</sup>		660	532	184	115
Leave pay accrual		160	174	25	33
Indebtedness to subsidiaries	17.3			8 182	8 167
Derivative instruments	16.2	41			
Per statement of financial position		3 546	3 208	8 837	8 604
Included in non-current liabilities held-for-sale	9.4		21		
<b>Total trade and other payable including trade and other payables held-for-sale</b>		<b>3 546</b>	<b>3 229</b>	<b>8 837</b>	<b>8 604</b>

<sup>1</sup> Includes sundry payables and reclassification of debtors with credit balances.

<sup>2</sup> Includes VAT, bonus accruals, etc.

## 7.2.5 Notes to the statements of cash flows relating to working capital items

Refer note 7.1.5.1 Cash generated by operations