ANDULELA

Investment Holdings

Integrated Annual Report

for the year ended 31 December 2011

2011

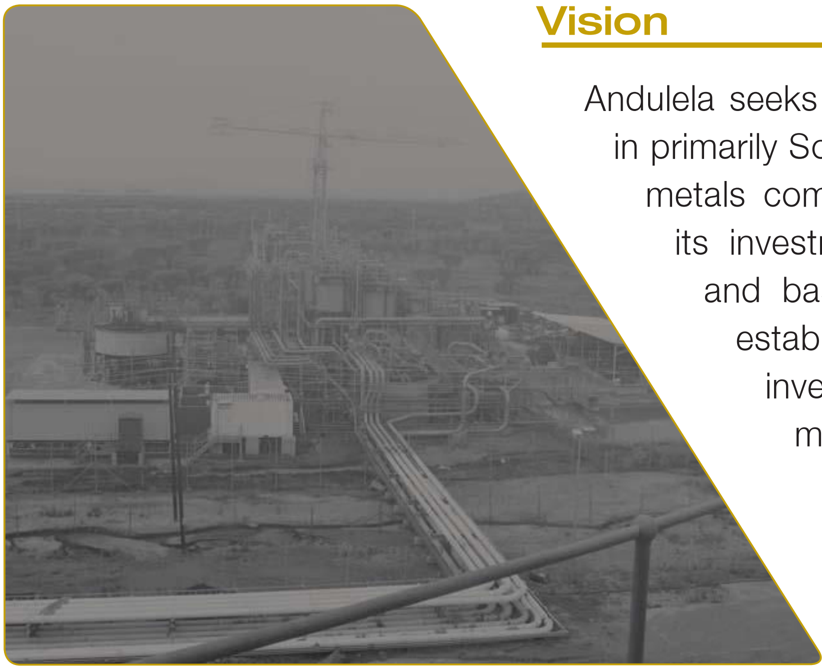
ANDULELA
Investment Holdings

Contents

About this report

Andulela is proud to present its first integrated report on its activities. Owing to the fact that the Group has only very recently emerged in its present structure, much of the data will be reflected to give a picture of its strategy, the risks that it faces and the many aspects of its governance.

Future annual integrated reports will be increasingly focused on the intertwined aspects of the Group's business which are central to its sustained activity and can be neatly described as social, economic and environment, together with a close examination of its business performance in relation to the risks that threaten it and the strategy it adopts to survive and grow.



Vision

Andulela seeks to hold strategic investments in primarily South African-based mining and metals companies. It intends to expand its investment base into the precious and base metal industries from the established platform of its strategic investment in the platinum group metals re-treatment industry and its investment in the steel processing and distribution sector.

Company profile

Andulela Investment Holdings Limited (Andulela) is an investment holding company listed in the "Equity Investment Instruments" sector of the Main Board of the JSE Limited (JSE).

It has two trading subsidiaries: one in platinum tailings re-treatment and the other in steel processing and distribution.

Andulela's principal strategic investment is an 83.6% interest in Kilken Platinum (Pty) Limited (Kilken), a profitable, low-cost producer and seller of platinum group metals (PGMs), mainly platinum, palladium, rhodium and gold, which are recovered by processing tailings concentrate from Rustenburg Platinum Mines (Pty) Limited (RustPlat) at its Amandelbult mine in the North West Province. The total interest is made up by the combined holdings of Andulela's subsidiaries Abalengani Mining Investments (Pty) Limited (AMI) and JB Platinum Holdings (Pty) Limited (JBPH) in Kilken.

Kilken Joint Venture (Kilken JV), which is 70% held by Kilken Platinum (Pty) Limited and 30% by Imbani Minerals (a BEE partner), conducts the metallurgical processing business in terms of a Sale of Tailings and Concentrate (STC) agreement with RustPlat. This agreement provides for Kilken to purchase tailings from RustPlat to process the tailings on leased premises owned by RustPlat, and to sell the recovered PGM concentrate back to RustPlat. The STC agreement will continue for as long as RustPlat produces tailings from the Amandelbult site.

In 2005 Kilken JV concluded an operational services agreement with Tailing Technologies (Pty) Limited in terms of which the latter organisation acts as an independent contractor that undertakes the operation, maintenance and management of the tailings treatment facility as detailed in the STC.

In the steel processing industry, Andulela owns 100% of Pro Roof Steel Merchants (Pty) Limited (PRSM) and its subsidiaries (acquired with effect from 1 September 2011), one of the largest and most prominent steel processors and merchants in South Africa with its main processing plant in Vereeniging and six branches around the country.

Andulela is in the process of rationalising, adjusting and consolidating PRSM's operations to maximise the return on investment for shareholders.

The Group's prime investment focus is on the metals and minerals resources sector, which has the potential for high growth and strong returns.

Financial performance highlights

A turnaround of R40 million in attributable headline earnings which rose to R25 million for the year from a loss of R15 million for the 18-month period ended 31 December 2010.

A turnaround of 8.09 cents in headline earnings per share which increased to 0.61 cents, compared to a headline loss per share of 7.48 cents in 2010.

Due to the acquisition of PRSM during the year gross revenue from operations grew to R542.8 million compared with R38.4 million in 2010 and profit from operations grew to R59.7 million compared with a loss of R3.0 million in 2010.

Group net asset value per share rose to 11.53 cents from 7.66 cents.

Operational performance highlights

The significant improvement in financial performance was solely attributable to Kilken, which made a profit after tax of R46.6 million for the year.

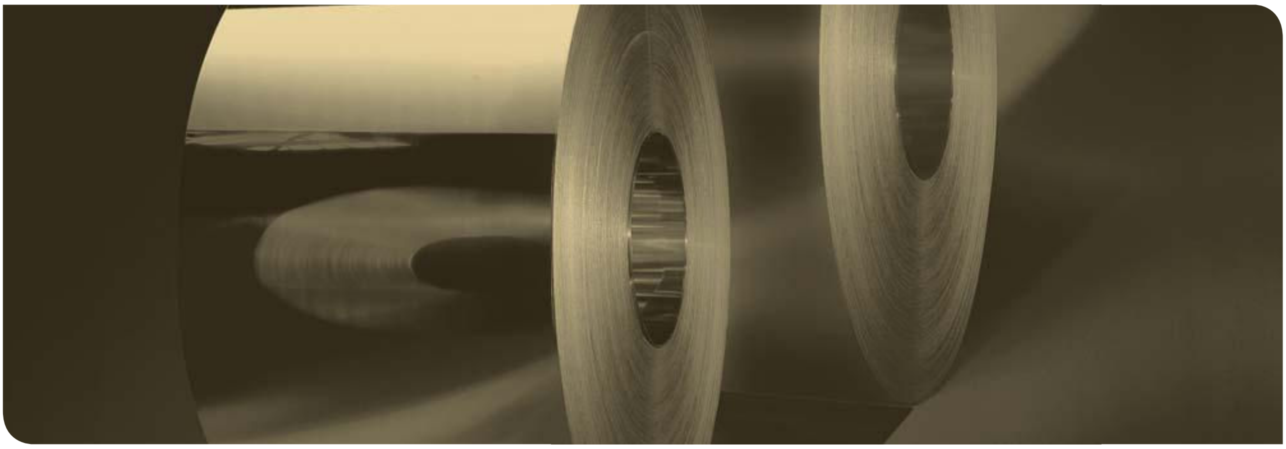
Following an intensive and proactive plant maintenance and refurbishment programme to improve efficiency and plant availability, Kilken's production of PGM concentrate improved by 123% in the 12 months to 31 December 2011 from the comparative 12 months to December 2010. Higher production flowing from improved constant production volumes and fewer unplanned plant stoppages, coupled with stronger average PGM basket prices, were responsible for Kilken's exceptional performance.

Directors and management

Andulela benefits from a highly experienced management team and a prestigious Board of Directors comprising industry and business leaders as well as finance and legal professionals. They have entrenched relationships and reputations across various industries that enable them to identify and attract potential investment opportunities.

The calibre, experience and independent status of the non-executive directors add considerable value to the conduct of the Group's business.

The activities of the Board are conducted within a well-defined framework of ethical and effective corporate governance erected



around the principles enunciated in the King III Report and Regulations as well as relevant legislative enactments, as is more fully described below.

Of the six directors, three (the Chairman, Mr Mohamed Husain, Mr Graham Rosenthal and Mr Pieter du Preez) are Independent Non-executive Directors, three are Executive Directors – Mr Ismail Kajee (General Manager of PRSM), the Chief Executive Officer, Mr Ashruf Kaka and the Chief Financial Officer, Mr Pieter de Jager. The Company Secretary, Mrs Joan Jones, is also Secretary to the Board. Messrs Husain and Kaka and Mrs Jones are all, or have for a considerable time been, legal practitioners, fitting them ideally for overseeing the compliance aspects of governance activity. The Board has appointed a new Independent Non-executive director who will be nominated to shareholders for approval at the annual general meeting.

Strategy

Management's basic long-term strategy is to expand and diversify the Group's investment base while continuing to concentrate on cash-generating companies with strong management and a high capacity for growth.

Investing in diverse, though complementary, economic sectors is an important element in managing risk as well as in achieving consistent rates of return and growth over time.

Andulela screens potential investment opportunities thoroughly in order to select businesses that are primarily cash generative, with critical mass in terms of human capital and financial resources. These businesses generally have well-established track records in management or technical expertise and are identified by their need for expansion, consolidation or growth capital.

The Company intends holding a controlling interest in any targeted investment where it has the ability to exert control or significant influence over management and strategic direction.

The Strategic Committee of the two operating subsidiaries considers Andulela's business from a product perspective and is the Group's chief operating decision-maker. Management allocates resources to and assesses the performance of the operating segments based on the recommendations and findings of this committee.

Diversification

Andulela will be looking to expand its investment base to take advantage of the shift in global markets that has driven the appetite for metal commodities which is likely to result in strong performances across a number of metal classes, including steel. The Company aims to grow both organically and through strategic acquisitions to build a business that delivers a constant income stream from a basket of quality assets, in order to realise a consistent and above-average return on investment.

This strategy is also important to mitigate the inherent risks that are prevalent in the current portfolio made up of PGMs and steel, and greater diversification will also provide better shelter from the cyclical downturns in the economy.

Proposed acquisitions by Andulela will only be considered if they strengthen the Company's investment base and broaden its geographic footprint.

Historical overview

Originally listed on the JSE in 1960 as Vierfontein Colliery Limited, Andulela went through a number of changes in name and identity in the years leading up to 2008 when it was a listed cash shell, DNR Capital Limited (DNR). In January 2008 DNR raised R100 million through a share issue and changed its name to Andulela Investment Holdings Limited, at the same time acquiring an effective 42% stake in Kilken, which was reversed into Andulela by Jonah Mining (Pty) Limited. Jonah Mining became Andulela's controlling shareholder for a period.

Andulela issued an additional 285 million new Andulela ordinary shares for R285 million and 75 million new cumulative redeemable preference shares in favour of Jonah Mining in October 2008.

Between 2008 and May 2010, Andulela, in the hands of the present majority shareholder, Newshelf 1005 (Pty) Limited, increased its total effective shareholding in Kilken to 83.6%.

Corporate governance

Andulela conducts its business along strictly ethical lines and in such a way as to benefit the society in which it operates. In order to accomplish these aims it has shaped various policies and created relevant structures that govern the actions of the Board of Directors, management and employees.

Three committees reporting to the Board and responsible for vital aspects of the Company's governance in terms of their respective charters are in operation: the Social and Ethics Committee; the Audit, Risk and Compliance Committee; and the Nomination and Remuneration Committee.

Good corporate governance is an integral part of the Group's operation and essential in ensuring its long-term sustainability. Thus the Board is fully committed to implementing the principles and recommendations of the King Report and King Code on Governance for South Africa 2009 (King III), which was released on 1 September 2009 and became effective from 1 March 2010.

The Board is in the process of analysing the recommendations contained in King III and implementing them, with the aim of entrenching these principles of good corporate governance within the Group at large. To this end, it is refining or updating Board and committee charters with terms of reference framed to comply with King III.

Charter of the Board of Directors

The charter has been framed subject to the provisions of the Companies Act and the Company's Memorandum of Incorporation.

The Board comprises a balance of executive and non-executive directors, with a majority to be non-executive directors. The non-executive directors are independent, while the Chief Executive Officer and the Chief Financial Officer are *ex officio* members of the Board.

Directors are appointed through a formal process in which the Remuneration and Nomination Committee assists by identifying suitable candidates to be proposed to the Board. New directors will undergo a formal induction programme and if they are inexperienced, they will be developed through a mentorship programme. Thereafter, professional development programmes will be continually implemented to ensure that directors are regularly briefed on changes in risks, laws and the environment.

The role and responsibilities of the Board include the need for it to be the principal custodian of corporate governance and to manage its relationship with management, shareholders and other stakeholders of the Company along sound corporate governance principles.

Mindful of the fact that strategy, risk, performance and sustainability are inseparable, the Board contributes to and approves Group strategy, satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management.

In this area, the Board is responsible for identifying key performance and risk areas and ensuring that the strategy will result in sustainable outcomes. Underlying this approach is the realisation that sustainability is a business opportunity that should guide strategy formulation.

The task of the Board is to provide effective leadership on an ethical foundation. It is to ensure that the Company is, and is seen to be, a responsible corporate citizen by focusing not only on financial performance but also on the impact that business operations have on the physical environment and the society within which it operates.

The Board ensures that the Company has an effective and independent Audit, Risk and Compliance Committee although in the final analysis it bears responsibility for managing risk. It is also ultimately responsible for the management and governance of information technology within the Group.

Insofar as the Board itself is concerned, it is to act at all times in the best interests of the Company and its shareholders by ensuring that all employees adhere to legal and ethical standards of conduct. Directors are, for example, required to disclose all directorships as well as real or perceived conflicts to the Board and to deal with them accordingly. They are also required to deal in the Company's securities only in accordance with the policy adopted by the Board.

Individual directors may take independent advice in connection with their duties following an agreed procedure. They elect a Chairman of the Board who is an Independent Non-executive Director.

The Board as a whole appoints a Chief Executive Officer and annually evaluates his performance.

The Board Charter, which was updated and approved by the Board on 24 November 2011, also covers the exercise of the rights of the Board to delegate certain of its responsibilities to formally established committees and deals with procedural details relating to meetings.

The Board is in the process of implementing a detailed internal evaluation programme of the effectiveness of its overall performance, the individual members of the Board, each sub-committee which will be an annual review.

The Board follows a strict regime of disclosure of interests of all its members, including independent Non-executive Directors which is updated and circulated to all members at each Board meeting for transparency. This procedure gives suitable assurance of the independence of independent Non-executive Directors.

Audit, Risk and Compliance Committee

This Board sub-committee assists in discharging its fiduciary duties relating to the safeguarding of assets; reviews the principles, policies and practices adopted in the preparation of the financial statements of the Company and its subsidiaries; and ensures that the interim and annual financial statements and other formal announcements relating to the Company's financial performance comply with statutory and JSE Listings Requirements.

It reviews the work of the external auditors in regard to the adequacy and effectiveness of the Group's financial, operating, compliance and risk management controls and will review the work of the internal auditors once commenced.

The Audit Committee and its Chairman are appointed by the shareholders at the annual general meeting from among the independent Non-executive Directors. It currently has three members who have recent and relevant financial experience.

It makes recommendations to the Board, and ultimately the shareholders, on the appointment, re-appointment or removal of the external auditors by the shareholders at the annual general meeting of the Company, ensuring that their recommendation complies with the Companies Act, the Auditing Professions Act of 2005 and the JSE Listings Requirements. It is required to review and monitor the independence and objectivity of the external auditors, together with the effectiveness of the audit process in relation to relevant professional and regulatory requirements.

Similarly, the committee will monitor and review the effectiveness of the Company's newly appointed outsourced internal auditors and the annual internal audit plan, ensuring that material risk areas are included and that the coverage of business processes is acceptable.

It deals with the appointment, resignation or dismissal of the outsourced internal audit and may consider and appoint an outsourced service provider for the internal audit functions.

An important function of the committee is to ensure co-ordination and co-operation between internal audit and the risk management and compliance functions.

The duties and responsibilities of the committee in relation to the exercise of its functions in the risk management arena have been detailed in the section of this report relating to risk.

Risk Management

Risk Management is fundamental to the continued success of the business and plays a crucial role in enabling management to operate more effectively in a constantly changing environment. It has become one of the Group's core capabilities and is integral to evaluating strategic alternatives and setting objectives, all within an RM framework that ensures alignment with the Group's risk appetite and overall strategy. The approach followed by the Group is to ensure that all significant risks are identified and managed.

The Audit, Risk and Compliance Committee of the Board is charged with responsibility to review and debate Group risk management and compliance initiatives planned for the year, and to keep a close eye on the manner in which management identifies and monitors the risk and control infrastructure of the Group, with particular reference to its adequacy, intent and effectiveness.

The committee's terms of reference charge it with the necessity to regularly review the Company's internal financial controls and RM systems. It requires and receives regular assurance reports from management, the external auditors and others concerning the operational effectiveness of matters related to risk and control. Internal auditors have been appointed and will commence their internal audit reviews in the near future.

It reviews and reports to the Board on the effectiveness of any corrective action that may have been taken by management and generally ensures that the principles of the King III Report in respect of risk management are being embedded within the Group in principle and in action.

The committee also requires periodical reports on the prevention, detection and investigation of fraudulent activity or misconduct within the Group. This area would include appropriate future measures to facilitate whistle-blowing by staff, or other appropriate alternatives, and checks on follow-up action.

The nature of Andulela's business means that the risks to which it is most commonly exposed are financial risks such as liquidity risk, credit risk and market risk. Thus the Group's overall risk management programme seeks in particular to minimise potential adverse effects on its financial performance.

In this area there are certain matters of fixed principle:

- the Group does not use financial instruments for speculative purposes;
- excess cash generated from operations is deposited only with major and reputable financial institutions with an acceptable credit quality standing;
- counterparties in transactions are well-recognised financial institutions;
- the Group only trades with customers of suitable creditworthiness; and
- the management, on a monthly basis, monitor their collections from customers and movements in prime lending rates.

Remuneration and Nomination Committee

The terms of reference provide that the independent non-executive Chairman of the Board will be an *ex officio* member of the Remuneration and Nomination Committee. It will comprise at least two additional Independent Non-executive Directors.

Its role is to assist the Board to ensure that the Group remunerates directors, executives and prescribed officers fairly and responsibly and that the Board has the appropriate composition for it to execute its duties effectively. It ensures that directors are appointed through a formal process and that their induction, ongoing training and development take place in a structured manner.

In carrying out its mandate, the committee oversees the establishment of a remuneration policy that will promote the achievement of Group strategic objectives and encourage individual performance while ensuring that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued.

In exercising its nomination mandate, the committee oversees a formal process for the appointment of directors, including the identification of potential suitable members of the Board and the performance of reference and background checks on candidates before they are nominated.

Where necessary, it oversees the development of a formal induction programme for new directors, sees that inexperienced directors are developed through a mentorship programme and oversees the implementation of continuing professional development programmes for directors, ensuring that they receive regular briefings on changes in risks, laws and the environment in which the Group operates.

Remuneration and benefits paid and short-term incentives approved in respect of the year ended 31 December 2011 for the top three earning group prescribed officers and directors of subsidiary companies are as follows:

Rand		Total 2011	Total 2010
ZA Moti	– Basic salary	**1 980 000**	1 980 000
	– Bonus	**650 000**	–
R Mohamed	– Basic salary	**660 000**	–
	– Bonus	**3 000**	–
N Ganey	– Basic salary	**497 674**	–
	– Bonus	**3 000**	–
		3 793 674	1 980 000

Non-executive Directors' fees are based on annual remuneration as opposed to a fee per meeting. This recognises the ongoing responsibility of directors for the efficient control of the Company. This remuneration is augmented by compensation for services on subcommittees of the Board and boards of subsidiaries. A premium is payable to the chair of the Board, as well as to the chairs of the subcommittees.

Remuneration is reviewed annually, and benchmarked against companies of similar size and complexity with reference to readily available published surveys from reputable sources. Independent advice is acquired to review directors' remuneration from time-to-time. This remuneration is not linked to the Company's share price or performance. Non-executive Directors do not qualify for shares in terms of the Group's incentive schemes. The Board annually recommends remuneration of non-executive directors for approval by shareholders in advance.

In remunerating executives, the Group aims to attract, motivate and retain competent and committed leaders in its drive to create sustainable shareholder value. We aim to recognise top performance and attract best creative self-driven senior management to grow the value of the Group. The remuneration policies strive to meet this objective. Accordingly, the focus is not primarily on guaranteed annual remuneration, but on individual incentive plans linked to creating shareholder value.

Andulela usually structures packages on a total cost-to-company basis. In addition, most executives qualify for individual and/or team short term performance incentives. At senior level, we avoid standardised packages and aim to tailor compensation structure to the needs of the specific business.

Remuneration packages are reviewed annually and are monitored and compared with reported figures for similar positions in published surveys from reputable sources to ensure they are fair and market related. In some cases independent consultants provide benchmarks.

The Group currently does not have a long term share based incentive bonus scheme in place, but will consider such a scheme in the future.

In relation to contracts and service agreements with executive directors, the committee, subject to circumstances, will maintain the following policy:

- Fixed-term contracts should not exceed three years but may provide for extension.
- Agreements with certain identified executives who are considered to be specialists in any one specific industry or market sector should contain a restraint of trade clause with a term of not less than a year.
- Contracts should not commit the Group to pay on termination arising from the director's failure or neglect.
- Balloon payments or 'golden parachutes' on termination are not seen as fair remuneration policy and no exceptional benefits associated with the termination of their services.
- If a director is dismissed because of a disciplinary procedure, a shorter notice period should apply without entitlement for compensation for the shorter notice period.
- Contracts should not compensate directors for severance because of change of control.

Social and Ethics Committee

The actions of the Social and Ethics Committee have a vital bearing on the face that the Andulela Group presents to its stakeholders and to the South African public in general. The committee was convened and had its inaugural meeting on 24 April 2012, after the reporting period. Management is engaged, at the time of this report, in completing a Social and Ethics Framework.

The Social and Ethics Committee comprises at least three directors or prescribed officers of the Group, of whom at least one is an Independent Non-executive Director, appointed by the Board.

Its basic task is to monitor the Group's operations, activities and interaction with all stakeholders in respect of matters relating to social and economic development, including the Group's standing in terms of the goals and purposes of the 10 principles set out in the United Global Compact; the OECD recommendations regarding corruption; the Employment Equity Act; and the Broad-Based Black Economic Empowerment Act.

The committee ensures that the Group maintains good corporate citizenship by, among others, promoting equality, preventing unfair discrimination and minimising fraud and corruption. It encourages the Group's businesses to contribute to developing the communities in which they are conducted or within which its products or services are predominantly marketed.

It monitors disbursement of sponsorships, donations and charitable gifts and for ethical interaction with suppliers. It overseas the implementation of the ethics management programme in the Group, focusing on the values of the Group, ethical risks and opportunities and codes of conduct with all stakeholders.

The committee will closely monitor the impact of the Group's activities and of its products or services on the environment, health and public safety. In this connection, it monitors good consumer relationships, especially with regard to the Group's advertising and public relations and its compliance with consumer protection laws.

In the areas of labour and employment, it shapes and monitors the Group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and in its employment relationships, including its contribution towards the educational development of its employees.

Sustainability

Creating a sustainable mindset into the way the group does business is more about understanding the links between our operations, employees, customers and the greater socio economic impact of the Group's operations.

To this end we aim to formalise and implement a process to improve sustainable development performance by measuring various social indicators of our staff to get an idea of the man hours worked, any disabling injuries in terms of Section 24 of the Occupational Health and Safety Act occurring at work or outside of it and Safety, Health, Environment and Quality training of staff during in the near future.

Our long term sustainability is dependent on meeting the aspirations and expectations of our employees around leadership, remuneration, stimulating work and career development, fair employment practices and lifestyle support.

Meeting these expectations we believe is necessary to retain the skills necessary to grow the group organically. The Group's transformation goals are to achieve equitable representation of all races and gender and to reflect the demographic profile of South Africa, in line with the economically active population at all levels. To realise our transformation and growth strategy, we will focus on the attraction, development and retention of skills within the Group and in the broader South African context.

The Board believes that the group has adhered to its ethical standards during the year under review.

The overall well-being of the group's employees is regarded as very important and the group encourages its employees to raise any issue with management.

The group's office environment systems, which are aimed at reducing resource consumption over time, are in place and the directors are continuously exploring ways in which to reduce paper, energy and water usage. The Group promotes office environments where the use of natural light and heating is optimised to further reduce electricity consumption.

The Social and Ethics Committee, consisting of one Non-executive Director and staff members of the group, will hold social drives to raise money for charitable events and programmes

Chairman's statement

Mr MJ Husain
Chairman

Highlights

Operational growth:

- Improved margins in Kilken
- Operating profit growth
- Successful acquisition of Pro Roof Steel Merchants

It is a great pleasure to be able to report a year of significant achievement for Andulela – a year in which the foundations were laid, both for a well-balanced, high-yielding investment portfolio and for an effective corporate governance structure that meets the requirements for sustainable performance over the long term.

The financial results for the year ended 31 December 2011 underline the effectiveness of our operational and financial management, with headline earnings per share rising to 0.61 cents compared with the headline loss per share of 7.48 cents for the 18 months ended 1 December 2010 and a R40 million turnaround in Group attributable headline earnings of R25 million from a loss of R15 million.

At the same time, the statement of financial position was considerably strengthened during the financial year, with net asset value per share growing to 11.53 cents from 7.66 cents. We managed to replace short-term existing current debt with a medium- to long-term loan facility, while injecting an additional R100 million into the working capital of Pro Roof Steel Merchants Group (PRSM).

Our strategy to create a diversified, balanced portfolio of high-yielding investments in well-managed operations was taken further through our successful acquisition of a 100% interest in PRSM during the financial year despite the challenging economic circumstances. Although a great deal remains for us to do in the way of rationalisation, restructuring and adjustment before PRSM reaches its full earnings potential, we are satisfied that the Andulela Group will in the medium term reap handsome benefits from this investment.

Kilken and PRSM together constitute a solid platform from which to launch investments in other, though perhaps related, sectors which will have the effect of lessening the risk inherent in over-concentration on a particular economic sector while at the same time improving the steady flow of the income stream.

In the operational area, our vigorous, proactive approach to ensuring trouble-free performance at the Kilken treatment plant proved to be highly successful in materially improving production volumes of PGM concentrate in a market environment in which the basket of average prices was substantially higher than last year's. Perhaps most important of all from the sustainability point of view, the Board and management concentrated on devising, adopting and implementing appropriate structures and procedures to ensure a comprehensive and effective corporate governance framework. Although there is still a lot of hard work ahead before we reach the desired fully matured state of governance and risk management as prescribed by King III, we believe that we have laid the groundwork for workable and efficient systems in this regard.

We believe that our continuing rationalisation and cost management programmes in our subsidiaries, together with Andulela's appetite for further value-adding acquisitions – especially in mining and metals – will steadily improve stakeholders' value over the years to come.

While the severe economic crisis in Europe and the resulting impact on world equity and financial markets remain sources for concern, we remain vigilant and will continue to apply all possible measures to mitigate financial and operational risks so as to sustain and improve stakeholders value both in the short and long term.

I thank my colleagues on the Board as well as executive and senior managers for their hard work in contributing to the solid achievements described in this report.

MJ Husain
Chairman

Review of the Chief Executive Officer

Mr A Kaka
Chief Executive Officer

I am pleased to report exceptional financial performance by the Group based on significant operating improvements at Kilken, together with important advances in strategic investments during the 2011 financial year.

Consolidated Group results for the financial year ended 31 December 2011 were nothing short of spectacular. Exceptional performance by Kilken resulted in the Group attributable headline earnings rising to R25 million from a loss of R15 million in the 18 months ended 31 December 2010, headline earnings per share rising to 0.61 cents compared with the headline loss per share of 7.48 cents for the 2010 period.

Consolidated gross revenue rose to R543 million from R38 million for the 2010 period, with profit from operations climbing to R59.7 million in 2011 compared with a loss of R3 million in the previous period.

This performance was solely the outcome of the intensive proactive maintenance and refurbishment programme at Kilken that was previously announced in the interim results for the six months ended 30 June 2011. This resulted in improved efficiency and plant availability, which saw Kilken's PGM production improve by 123% in the 12 months ended 31 December 2011, against the comparable 12-month period in 2010. Even when compared with the 18 months ended 31 December 2010, the results for the reporting year under review also show a significant production improvement of 16%.

The continued improvements in PGM production recoveries and reduced plant stoppages, coupled with stronger average PGM basket prices, resulted in a profit after tax for Kilken of R46.6 million compared with R5.8 million in the 2010 period.

New investments

In pursuit of our policy to diversify our investment portfolio, while remaining focused on high-yielding, well-managed metallurgical undertakings with good growth prospects, we acquired 100% of Pro Roof Steel Merchants (PRSM), a steel processing and distribution business with six branches throughout South Africa.

Management has embarked on an aggressive business restructuring and capital management drive at PRSM. We expect these initiatives to result in lower costs per ton, thus positioning the steel processing division more competitively in its market segment. The acquisition will offer significant added value and a diversified risk profile for shareholders.

Kilken Platinum (Pty) Limited

Andulela owns an effective 83.6% stake in Kilken Platinum which in turn owns a 70% stake in Kilken/Imbani JV PGM tailings retreatment facility that delivers PGM concentrate to Rustenburg Platinum Mines (Pty) Limited, (RPM), a subsidiary of Anglo Platinum Limited.

The introduction of Atomaer high shear reactors into the froth flotation process during 2010 helped improve production recoveries by an average of 30%, as verified by an independent competent expert.

Kilken continues to be a profitable and low-cost PGM producer which is a valuable cash-generating asset for the Group. Management remains optimistic about the continued positive growth outlook for the PGM market in the medium to long term.

Pro Roof Steel Merchants (PRSM)

As previously announced, Andulela successfully concluded the transaction to acquire the entire issued share capital of PRSM and its subsidiaries with effect from 1 September 2011. PRSM has been consolidated into the Group results from the effective date.

PRSM started as a roofing company in 1988, it has since expanded its product range to include the most commonly used steel products including welded universal columns or beams and T-beams, a range of roofing solutions (corrugated, inverted box rib, and wide-span); fencing and wire products; tubing and cold formed flat and long products; and value-added services (slitting, cut-to-length, blanking, de- and recoiling, guillotine and tube saw).

In line with management's strategy to diversify the investment base of the Group into growth markets, the investment in PRSM was identified as a suitable investment for the Group.

Cost-cutting and other rectification and adjustment programmes have been put in place, such as expanding the product base and potential future retail side expansion of the business to a wider range of customers.

Much has yet to be done in rationalising our steel business. Consolidation remains important and certain marginal branches may

Review of the Chief Executive Officer (continued)

have to be downsized or closed as part of the planned restructure to be completed in the short to medium term. Management has to be augmented to revitalise the business and take it forward. We continue to cement our good relationship with ArcelorMittal, as a key national supplier, which has been built over the past 26 years, as well as with other suppliers and customers.

Outlook

Kilken's production of PGMs is expected to continue its outstanding performance of last year, and in the first months of the current year has already done phenomenally well.

Despite the current instability in the steel market, which has prevailed for longer than expected, and despite the extended world economic slowdown, management believes that strategic consolidation and restructuring will maximise returns on the steel investment especially when the current economic cycle recovers. Notwithstanding the languishing construction industry, which absorbs most of the steel that is produced, we are confident that the planned restructuring of our steel interests will enable PRSM to contribute positively to the future profitability of the Group in the short to medium term. Remedial measures we have taken will certainly turn the business around in the short term.

Appreciation

At the conclusion of a most successful year for the Group, I take pleasure in thanking the Chairman for his wise counsel and my other colleagues on the Board for their welcome advice and steady devotion and support for the interests of the Andulela Group.

I also wish to thank management and staff of our platinum and steel operations for their hard work and loyalty.

A Kaka
Chief Executive Officer

Review of the Chief Financial Officer

Mr PC de Jager
Chief Financial Officer

Andulela improved its headline earnings per share to 0.61 cents compared with the headline loss per share of 7.48 cents for the 18 months ended 31 December 2010. The main driver of this significant performance was higher production of PGM concentrate coupled with stronger average PGM basket prices at Kilken.

The balance sheet was also considerably strengthened during the year and net asset value per share improved to 11.53 cents compared with 7.66 cents for the period ended 31 December 2010.

The value of Kilken is recorded at fair value in terms of IFRS 3 for the purpose of recording the business combination of AMI, JBPH and Kilken. As a result of the business combination, the Group continues to carry goodwill of R419 million in the financial statements of Andulela. In accordance with IFRS, management will continue to assess the fair value of the investment. Having regard to the improved production and PGM prices over the last year, management is confident of the improved fundamentals for the real value of the underlying investment in Kilken.

In the reporting year, preference share dividends on the cumulative redeemable preference shares amounting to R4.4 million due the holder thereof, Newshelf 1005 (Pty) Limited, were accrued and expensed as finance costs, in accordance with the rights attaching to the preference shares. R14.1 million was paid towards the arrear preference dividends owing. At year-end the cumulative arrears preference dividends amounted to R0.4 million which is included in current liabilities and has been settled in full as at the date of this report.

Subsequent to the year-end, as released on SENS on 14 February 2012, the holder of the preference shares and the Company have agreed that the preference shares shall be redeemable on an orderly basis over an extended five-year period, for a minimum redemption amount of R1.25 million per month. Such redemption payments may also be accelerated, subject to the Company's cash flow requirements as well as its ability to satisfy the solvency and liquidity requirements as required by the new Companies Act, 71 of 2008. Andulela will continue to accrue and pay preference share dividends on the reducing unredeemed capital portion of the preference shares in line with the rights attaching to them.

The Group acquired a 100% controlling interest in PRSM and its subsidiaries with effect from 1 September 2011. It did so through the initial issue of 420 million Andulela ordinary shares as purchase consideration, at an issue price of 40 cents per share, based on the final consolidated take-on tangible net asset value of PRSM and its subsidiaries as at 31 August 2011 of R172 million. The remaining 11.581 million ordinary shares, still to be issued, are included as vendor shares in the share capital of the Company. The transaction costs incurred in the acquisition of PRSM amounted to R1.48 million.

PRSM contributed substantially to consolidated revenues and, had its results been consolidated for the entire year under review, it would have contributed R1,021 billion to gross revenue and a net loss of R14.1 million to the consolidated net profit for the year ended 31 December 2011. Capital commitments related to capital expenditure contracted by PRSM amounted to an estimated R4.9 million.

Increased balance sheet figures for plant and equipment, inventory, trade and other receivables, trade and other payables, other financial liabilities as well as the deferred tax liabilities are as a result of the PRSM acquisition. Through the R200 million term loan facility provided by Reichmans Capital (Pty) Limited, a subsidiary of Investec Bank Limited, which replaced an overdraft facility, we substituted short-term existing current debt with a medium- to long-term loan facility and injected an additional R100 million working capital liquidity. We have also secured an additional R50 million capital expenditure facility through Reichmans Capital which is earmarked for capital expansion at PRSM in due course.

I believe that the Andulela Group is financially on the right track and is definitely adding value for shareholders, as demonstrated in the various financial indicators.

Pieter de Jager
Chief Financial Officer