FINANCIAL REVIEW

Revenue increased by 28% to R1,3 billion (2007: R1 billion), whilst operating profit decreased by 9% to R125 million (2007: R138 million) and operating margin to 9,8% from 13,8% in the prior financial year.

OPERATIONAL REVIEW

The global economic slowdown did not impact the burgeoning demand for commodities. The mining sector continued to be extremely buoyant both regionally and in South Africa where, in contrast to prior years, a number of mining licences were awarded.

Ongoing demand for base minerals such as zinc, chrome and copper, as well as platinum and uranium translated into outstanding growth for Protea Mining Chemicals. This demand level is expected to continue and investments in new mines will continue to be driven by the accelerating gold price.

High levels of activity were reflected in the division’s volume growth. Locally, we signed significant new contracts with customers in coal, platinum and uranium mining.

Our warehousing facility in Namibia, launched in 2007, has helped to enhance levels of service in the region where the division performed very well. We continued to operate profitably in Zimbabwe, despite the deepening political and economic crisis. In West Africa, we renewed existing contracts and entered into several new ones. We have developed a good understanding of the regulatory environment in West Africa which will stand us in good stead going forward.

A significant achievement in the year under review was the revision of our explosives pricing model. This involved moving away from the industry model in terms of which averages from the previous three months were used to determine prices. This model has become unsustainable given the steep increases in the prices of feedstocks such as ammonia, which doubled in price in the three months between December 2007 and March 2008. Our revised pricing formula was in place by the end of the financial year and going forward, we expect margins to reflect a fairer return on investment in line with the previous year.

The rapid and unprecedented increases in input costs increased working capital requirements significantly. This was exacerbated by longer lead times in supplying our African operations due to supply logistics. Accordingly, we had to manage cash flow and costs circumspectly. We initiated a successful road transport tender process with significant potential savings.

Safety is becoming increasingly important in the mining industry and there is a corresponding move away from cap and fuse initiating systems to more advanced technology such as shock tubes and electronic delay detonators (EDDs).

During the construction phase of our shocktube assembly plant, we signed preferential supplier agreements for imported shocktube components to meet market demand and maintain service levels to customers. We are finding that even our smaller customers are moving towards this type of initiating system in line with market trends. Trading conditions in the underground market were exceptionally competitive.
We had some major successes with EDDs, including a world record blast using in excess of 3,000 EDDs – significant in world terms (detailed on page 22). The benefits of using EDDs lie in their accuracy and their computerised blast design, which enables better control of vibrations, fly rock, air blast and noise, as well as promoting pit wall stability, significantly containing rock movement and enhancing fragment control, leading to less ore dilution. EDDs have significant safety advantages over conventional electric and pyrotechnic detonators.

We continued to develop electronic delay detonators, but have closed our research and development facility in France. We have moved this research and development capacity to South Africa to contain costs, and to utilize existing skills within the division.

In line with our differentiated value offering, we assisted with technical issues, mine to mill projects and held a very successful mining conference under the BME brand, which helped entrench customer relationships.

Protea Mining Chemicals continued to promote Protea Process™, which goes beyond chemical warehousing and bulk storage management, to providing handling and logistics, supplying and installing equipment, to dosing of chemicals at point of consumption, exactly to customer specification.

DIVISIONAL PROSPECTS

Once our shocktube plant is fully commissioned, we will be able to offer the underground market a full suite of products and to contain costs by manufacturing on demand. This expansion of our product base is particularly important as a complete range of products is an important consideration for many customers when awarding contracts.

We expect world demand for commodities and energy to continue to boom, with positive implications for coal, platinum and uranium in particular. Our established position in a range of mining sectors means that we are well placed to take advantage of these exciting growth opportunities. Going forward, we anticipate both volume and profit growth from this increased level of activity.

Ongoing strong growth in world metal and mineral demand has benefited the explosives and mining chemical markets and the Group anticipates good growth in its Mining division.

There is significant potential for the Mining division’s future growth into Africa. Against this backdrop, renewed focus will be directed at taking advantage of the opportunities arising from the Group’s presence in South Africa and beyond. We remain confident of healthy prospects for coal and uranium mining related business as a host of new projects are being commissioned in response to global energy demand.
In 2007, BME set a new world record at an open cast coal mine in the Middleburg area, Mpumalanga, using the electronic delay detonator (EDD) system, Deltadet. The previous world record for the largest number of electronic EDDs used in a single blast was 2 500 detonators, held by an Australian mining services company. BME used 3 055 detonators to set the new record.

Seven production rows, each containing 155 holes, were drilled, with stab holes drilled between the production holes. The area occupied by this bench amounted to 35 metres in width and 775 metres in length – a distance of 5.4 kilometres when measured from hole to hole. The blast layout was typical of a boxcut blast, with the blast timing applied in a sharp V-cut configuration. This helped to decrease pit wall damage as blast movement occurred away from the side pit walls of the bench area.

Once the correct quantity of explosives was determined and EDDs were deployed and tested, BME went into the blast design phase. Blast design and preparation involved the use of a blast plan using blastMap, an in-house computer-aided blast design system developed by BME. Using information gathered in the preparation phase, blastMap maps out the holes, the distance between holes and the timing of the blast. The timing information for each detonator was then exported to the field terminal used to initiate the blast.

The result was a successful blast, a satisfied client and a new world record.

The Deltadet system is applied regularly by BME on other industrial and mining projects including platinum open cast mines in the North West province. Using carefully planned timing designs, the cast is improved and pit wall stability is enhanced. The system has also been used at an open cast chrome mine in Mpumalanga. Here the blast was designed to control ground vibration, as well as air blast and fly rock, lessening the impact on surrounding areas.