

MEDIA STATEMENT

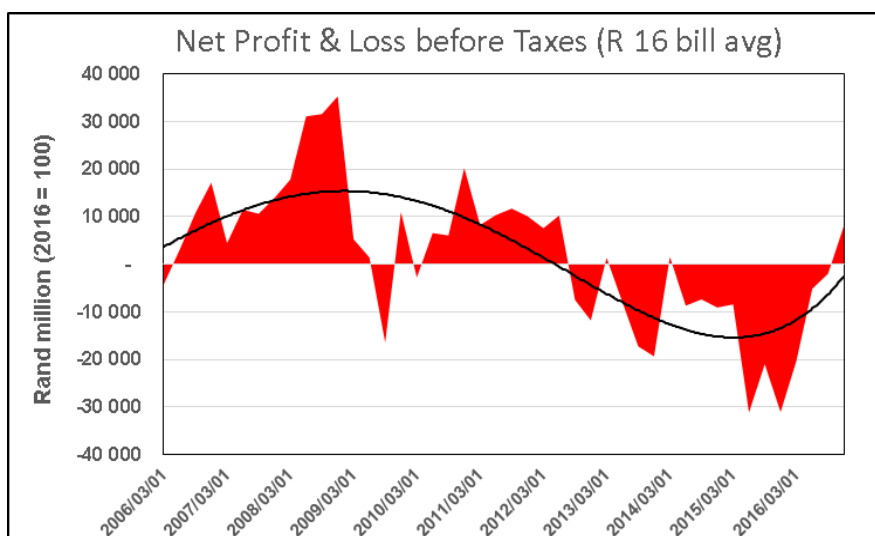
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MINING FINANCIAL POSITION IMPROVED DURING FOURTH QUARTER OF 2016

Johannesburg, 30 March 2017. The fourth quarter mining financial statistics data released by Statistics SA today confirmed the tentative improvement in the sector's financial conditions during 2016. This however, comes off a very low base during 2015 and huge swings in the performance of the sector.

In 2016 rand terms, the sector's profits before taxes improved by R19.6 billion (2013 to 2014), declined by R68.0 billion (2014 to 2015) and improved again, according to the latest data by R72.2 billion (2015 to 2016). This brings the sector virtually on par with its position in 2014.

The pattern of stagnant profitability seems to have established itself over the years since 2012, however. Mining sector profits before taxes were below the average for the last eight years during every quarter since the middle of 2012, barring the last quarter of 2016. The trend line seems to be improving though (see graph).



This trend is encouraging but will have to continue for the sector to regain its growth potential. It seems to have been the result of positive leading indicator trends (as discussed below) as well as massive adjustments within the mining sector to ensure survival.

Despite uncertainties regarding the direction of every one of the leading indicators, it is worthwhile restating their patterns:

- **World economic growth** seems to be recovering, albeit slow and varied in different markets for mining commodities.
- **Commodity prices** in general seem to have gone past the bottom of their cycles and clearly had an impact on company performances, due to the 'windfall' effect of better prices.
- The next indicator that should respond is **mining production** but which has not improved in any significant way. Mining production is still 15% below the peak in 2005 and seems to be moving in a band of 10% to 15% below the peak level. Over the last 12 months, production declined by 4.5% (as at January 2017). There is some hope though; January 2017 production was nearly 2% better than December 2016 and over 2% better than during January last year. These short term improvements will have to continue for the trend to turn positive.
- The next indicator to monitor would be **employment** numbers (company employment survey data to be released on Monday). Although the latest quarterly labour force survey (collected amongst households) data indicated continuous decline, comparisons between the two sources indicate wild fluctuations. It is hoped that the company data will be more positive.
- Both employment numbers and **gross fixed capital formation** spending indicate whether companies have more confidence in future prospects. According to Statistics SA and the SA Reserve Bank, mining fixed investment declined in 2016 by 3.7% on 2015, which is not good news. However, the release by Statistics SA shows that the fourth quarter capital expenditure was almost on par with a year ago, and may indicate that a lower turning point has been reached. Net investment (after depreciation has been taken into account) is still declining.

We reported earlier that “despite the uncertainties of the direction and sustainability of world commodity prices improving, as well as the domestic cost and policy pressures and uncertainties, it does seem that ‘green shoots’ of improvements during 2017 are there if one cares to look carefully.”

If one imagines 'waves' or leading indicator 'cycles' for the mining sector, then the clarification above shows where signs of improvement are visible, and which next ones to watch out for that will invoke more confidence in recovery in the mining sector in the months to come.

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