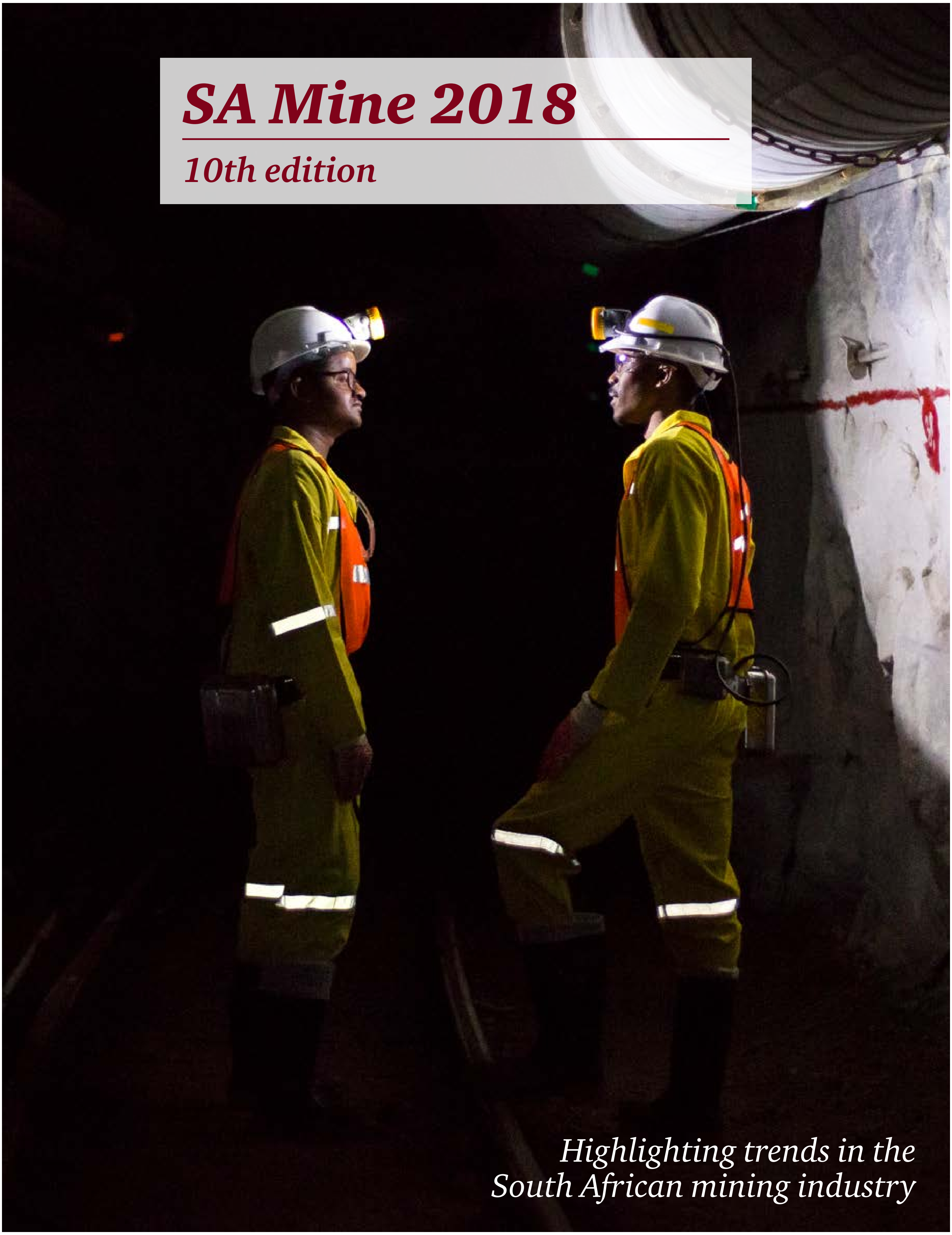
SA Mine 2018

10th edition



Highlighting trends in the South African mining industry

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1 Executive summary

	Current year R' billions	Prior year R' billions	Difference R' billions	% Change
Revenue	398	370	28	8% ↑
EBITDA	86	92	(6)	(7%) ↓
Impairment charge	46	22	24	109% ↑
Net (loss)/profit	(11)	16	(27)	(169%) ↓
Distribution to shareholders	16	6	10	167% ↑
Capital expenditure	62	51	11	22% ↑
Total assets	717	691	26	4% ↑

Source: PwC analysis

This is the 10th edition of our annual publication highlighting trends in the South African mining industry. There was a mixed bag of performance in 2018 as bulk commodity prices continued to rise from the lows at the beginning of 2016, while precious metals continued to struggle. While the new mining charter published in June 2017 accentuated the regulatory uncertainty, the appointment of a new minister of mineral resources in February 2018 brought hope of open dialogue and more certainty. Although the gazetted version of the charter is likely to still receive some criticism, there was a concerted effort by industry and government to move closer to each other. Environmental regulatory changes are also receiving deserved attention.

We've seen a move towards certainty with industry consultation in the local regulatory environment. Elsewhere in the world regulatory environments are also reflected as a significant risk for mining companies. In line with last year, we've included updated commentary on regulatory changes in 2 key mining territories in Africa.

Cost-saving initiatives could not offset the impact of input cost inflation. The increased costs and production challenges meant a weakening in operating results. Together with the gold and platinum impairments, it meant that the industry recorded a loss for 2018.

Capital expenditure grew for the first time since 2012 as the completion of long-term platinum and gold projects continues, while older and inefficient shafts are being closed.

The mining industry continues to add value to all its stakeholders. As reported in company value added statements, employees still take the lion share of value added at 47%, followed by government through direct taxes, as well as employee taxes and royalties with 24%. Shareholders got an improved share on the back of improved dividends from bulk commodity producers.

The financial position in aggregate remains strong on the back of cost-saving and restructuring efforts over the last couple of years. For bulk commodity producers it meant an ability to increase dividends and reconsider investments. For precious metal producers it meant the ability to survive in extremely tough circumstances. Although the aggregate position improved, the challenging environment meant ongoing shaft closures and retrenchments.

Scope

Our findings are based on the financial results of mining companies with a primary listing on the Johannesburg Stock Exchange (JSE) and those with a secondary listing whose main operations are in Africa.

We have only included companies with a market capitalisation of more than R200 million at the end of June 2018 and have excluded companies with suspended listings. In all, 30 companies met these criteria. Due to our early report date, one of these companies hadn't released their results at the time of writing and have been excluded from our financial analysis.

A list of all mining companies included in our analysis is included in section 7 of this report. The number of entities increased by one from the previous year. Two new secondary listings, Orion Minerals and Alphamin Resources, were added. One entitie was added as a result of an increase in their market capitalisation above the R200 million threshold and two entities dropped off as a result of weak financial performance and a subsequent decline in their market capitalisation.

While many of the entities included in our analysis have international exposure, the bulk of their operations are in Africa. Global mining companies Anglo American[1], BHP Billiton, Glencore and South32 were excluded. While these companies have significant South African operations, their global exposure and size mean that they do not necessarily reflect trends in the South African mining environment. A global view on mining is provided in our annual global mining industry publication, Mine[2].

The findings of this report are based on publicly-available information – predominantly annual reports for financial years ending no later than 30 June 2018. Where annual reports were not available, preliminary reviewed results were used.

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1 Kumba Iron Ore and Anglo American Platinum are included in our analysis.
2 https://www.pwc.co.za/en/publications/mine.html

2 The South African mining landscape

Overview

The 2018 financial year proved to be a challenging year for South African mining companies. Globally the financial performance of mining companies improved significantly from the previous year. That position was to a large extent mirrored by South African bulk commodity producers with iron ore, coal, manganese and chrome performing very well. Unfortunately, the aggregated South African mining industry that is more exposed to precious metals did not enjoy the same benefit from price increases.

Companies continued to position themselves for the future by realigning their portfolio of assets with their long-term strategies. This resulted in the ongoing disposals of non-core or long dated assets and significant increase in acquisitions. We've also seen the continuing closure of mines whose cost base does not justify production in the current price environment.

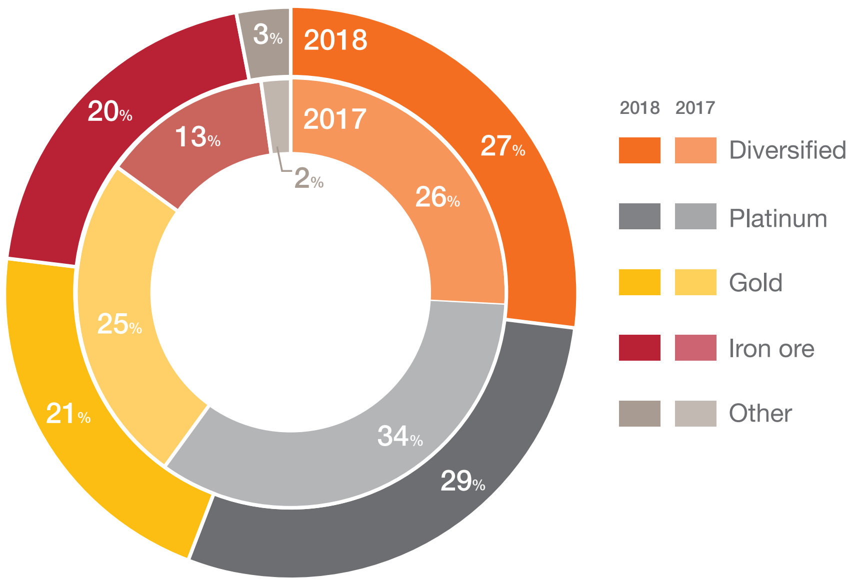
Although these restructuring decisions often come with hardship to stakeholders, they are not taken lightly by mining companies. Restructuring is intended to support the long-term sustainability of the companies for their stakeholders.

Market capitalisation

Total market capitalisation recovered to R482 billion. Although it is a R62 billion increase on the previous year, it is still well below the June 2016 level of R560 billion.

The exposure of the South African mining industry to precious metals is probably best explained by the split in market capitalisation of the entities included in this publication. For this year and the disclosed comparative, Kumba Iron ore was reflected as iron ore.

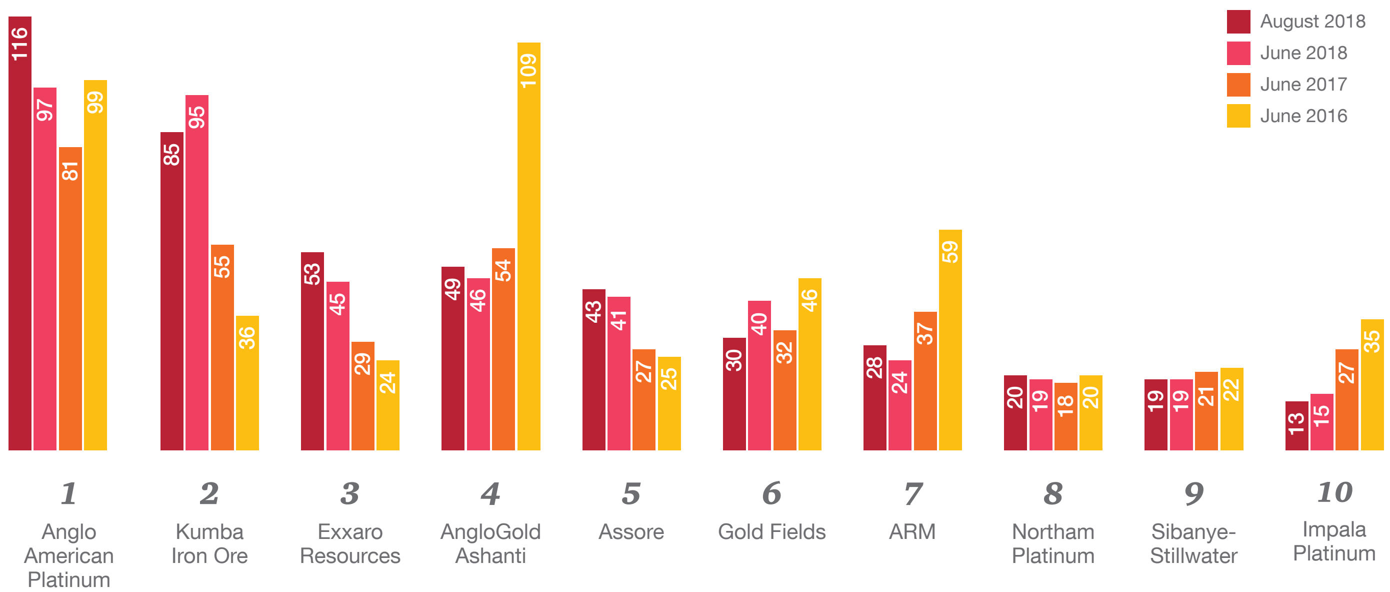
Figure 1: Market capitalisation per commodity



Source: IRESS, PwC analysis

Gold and platinum group metals (PGMs) continue to dominate the market capitalisation of the companies analysed, but experienced declines of 4% and 5% respectively. These commodities are still struggling with ZAR prices compared to costs. Iron Ore, represented by Kumba Iron Ore, has seen an increase of R40 billion from 2017 to 2018, increasing the commodity's percentage of capitalisation from 13% to 20%. The rest of the commodities remained fairly stable.

Figure 2: Market capitalisation of the top 10 companies as at 30 June 2018 (R' billions)



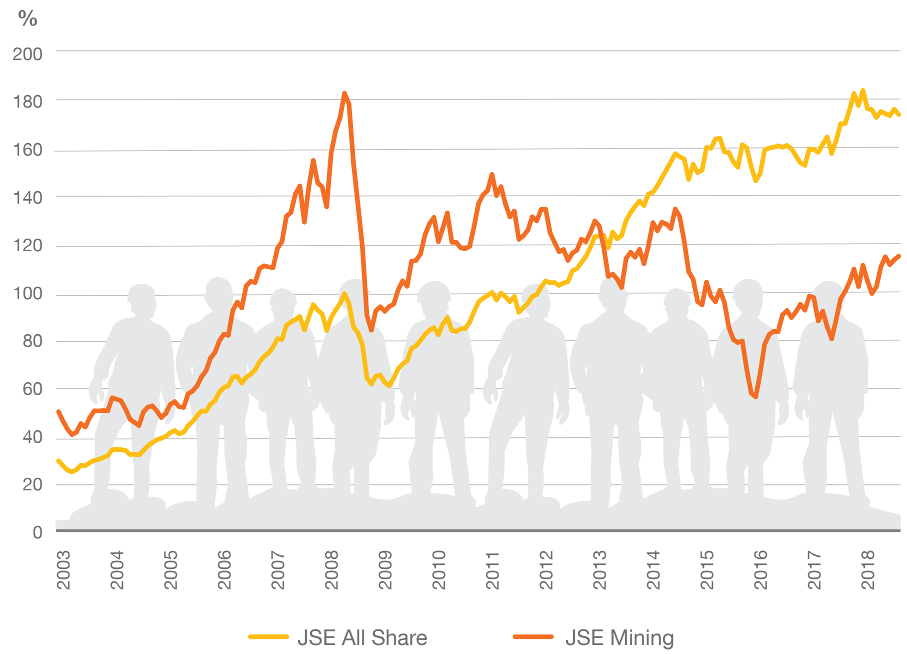
Source: IRESS, PwC analysis

There has been no change in the composition of the top ten companies, but there has been some movement in the rankings. Impala Platinum and Sibanye-Stillwater dropped by two and four positions respectively. Exxaro Resources, Assore and African Rainbow Minerals (ARM) moved up, with commodities in their stable experiencing positive price gains.

The most notable drop is that of Impala Platinum from R27 billion in June 2017 to R15 billion in June 2018. The weak platinum environment has forced Impala Platinum to commence a strategic restructuring of its Rustenburg operations, which will take place over two years.

Anglo American Platinum, which largely restructured its portfolio of platinum assets in the previous few years, has seen a R16 billion increase in its market capitalisation from June 2017 to June 2018 and a further R19 billion from July 2018 to August 2018.

Figure 3: JSE Mining Index vs JSE All Share Index

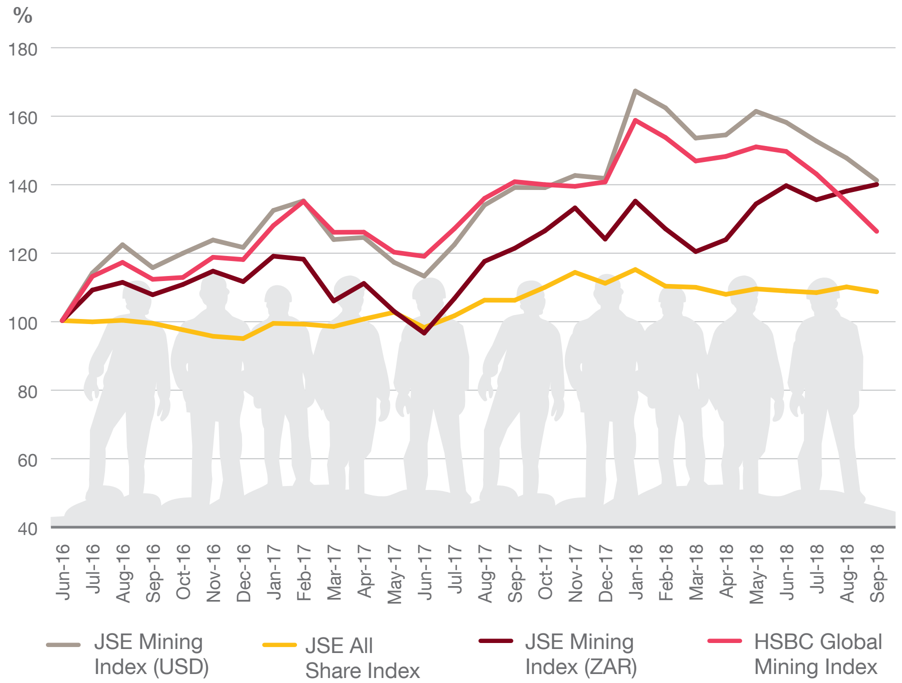


Source: IRESS, PwC analysis

Although the Mining Index has outperformed the JSE All Share Index over the last two years, as shown in figure 4, figure 3 illustrates that despite the recovery from January 2016, it is still lagging the All Share Index over the last 15 years.

Mining index performances are closely linked to spot prices and often reflect investors' short-term view on cash generating ability as a result of commodity spot prices, rather than the long-term value of the industry.

Figure 4: JSE Mining Index vs HSBC Global Mining Index



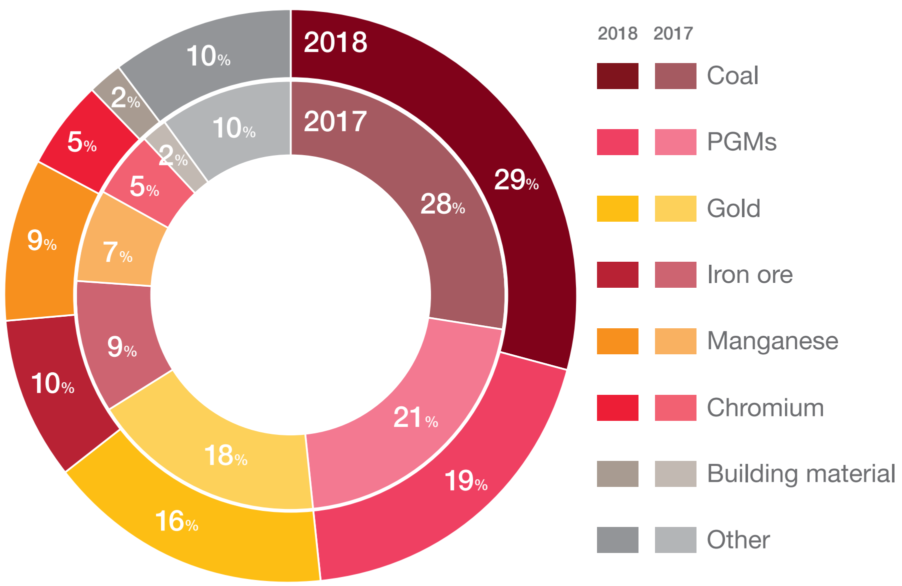
Source: IRESS, Bloomberg, PwC analysis

Figure 4 demonstrates the JSE Mining Index performance in rand and US dollars against the HSBC Global Mining Index. As expected, it is relatively similar.

Revenue

Total revenue generated by the South African mining industry for the year ended in June, as captured by Stats SA, is included in figures 5, 6 and 7.

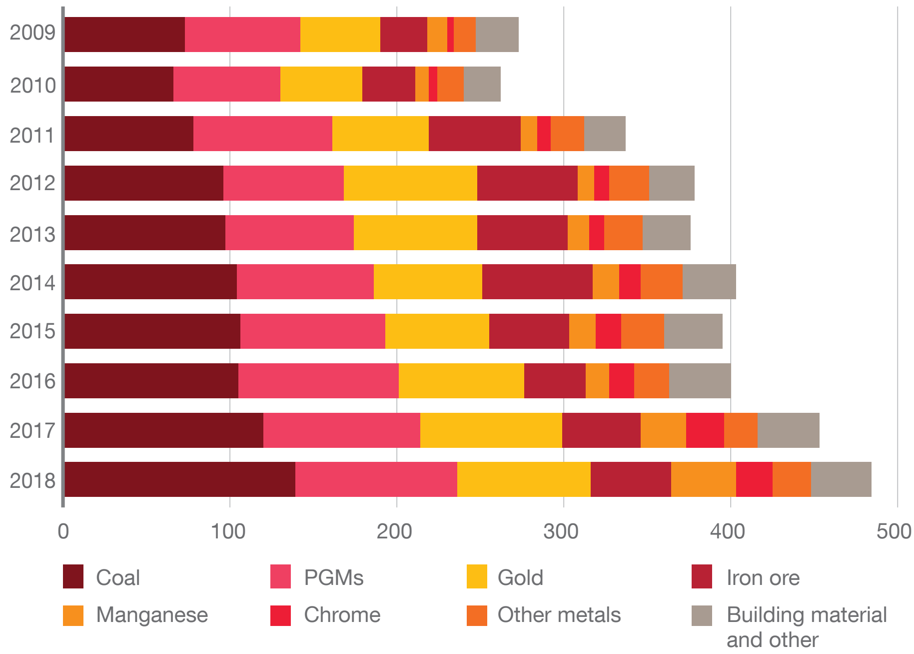
Figure 5: Percentage mining revenue per commodity, 2018 vs 2017



Source: Stats SA, PwC analysis

Coal grew its share and leads at 29% of mining revenue for the year. The increase was driven by good Rand price increases for the commodity, with production remaining mainly flat. Platinum and gold reflected a lower percentage on the back of relatively weak prices and low production for the year. Manganese has consistently grown its share of total revenue due to significantly increased Rand prices and growing production.

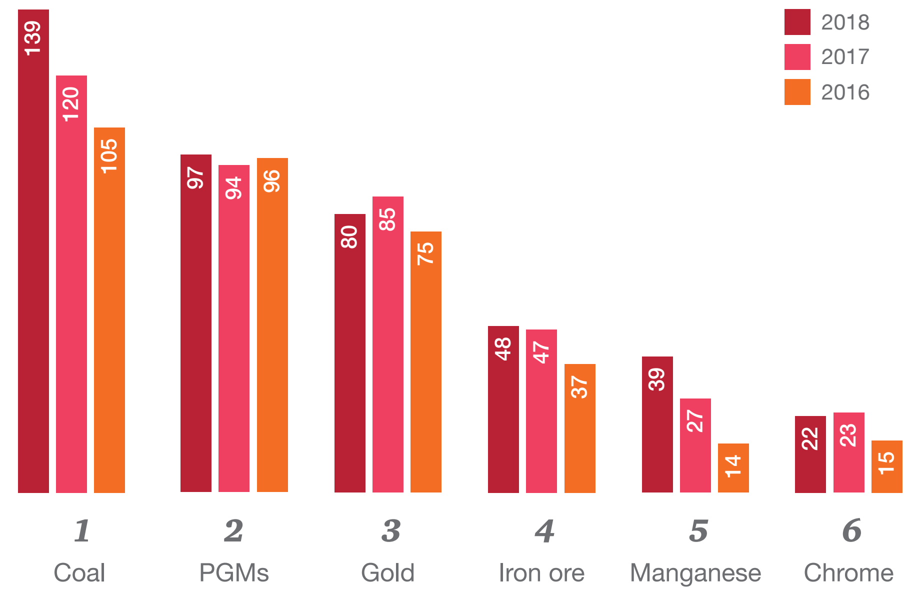
Figure 6: Annual revenue per commodity (R 'billions)



Source: Stats SA, PwC analysis

Total revenue grew for the year to June 2018. This was mainly driven by increased coal and manganese revenues. However, the second half of the year was impacted by weaker production recorded for a number of commodities, with the stronger Rand negatively impacting Rand prices.

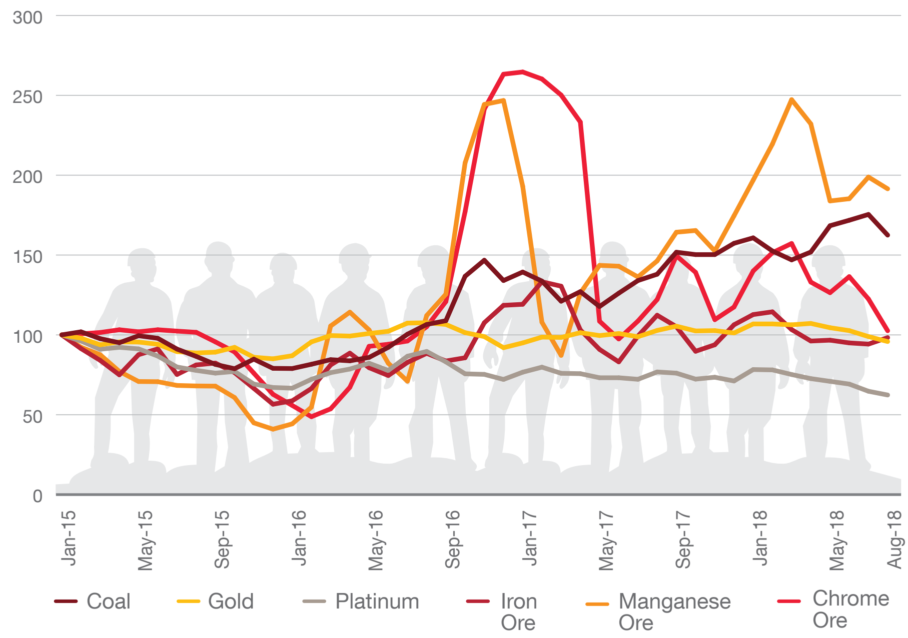
Figure 7: Annual revenue per commodity (R' billions)



Source: Stats SA, PwC analysis

Prices

Figure 8: Commodities at USD-indexed prices



Source: World Bank, PwC analysis

The prices of coal and manganese continued their growth since January 2016. Companies with coal exposure over this period have benefited from this remarkable growth period. Iron ore prices were more volatile over the last two years but have on average remained largely flat. The price of gold remained relatively stable over the period, with a marginal average increase that was lost again after June 2018.

The average platinum price unfortunately decreased by a further 5% for the year and is trading 35% below the levels it was in January 2015. This decrease is offset by increases in other PGM prices of palladium and rhodium and increased by-product revenue from Nickel, chrome and other PGM’s.

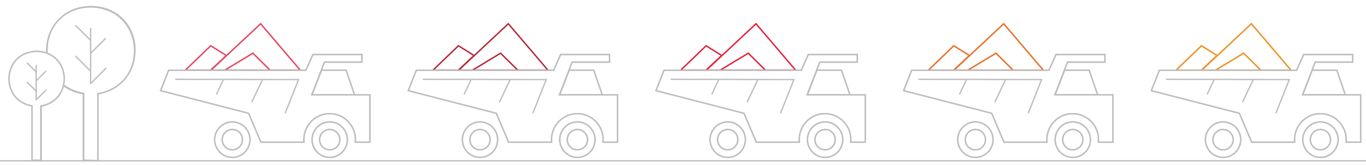
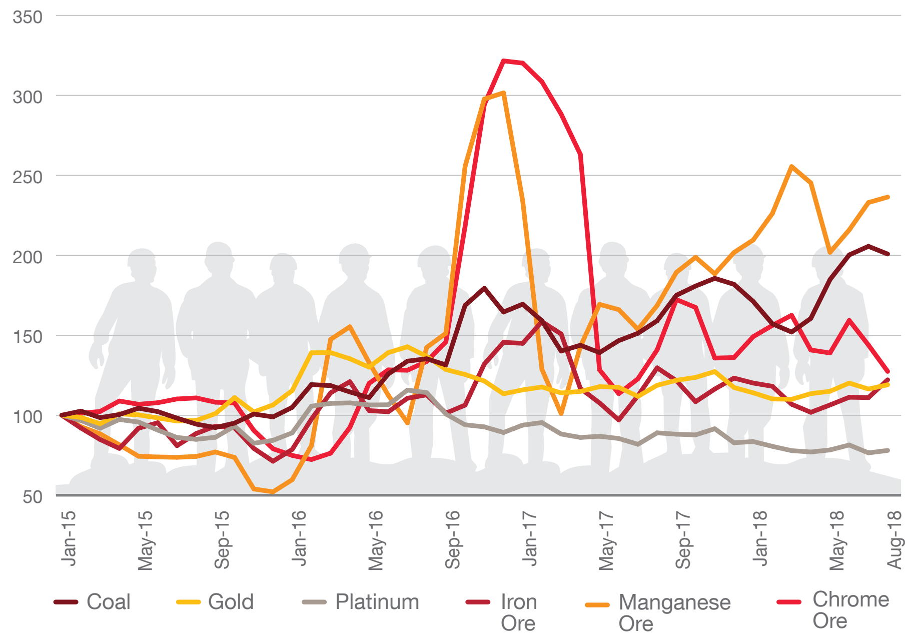


Figure 9: Commodities at ZAR-indexed prices

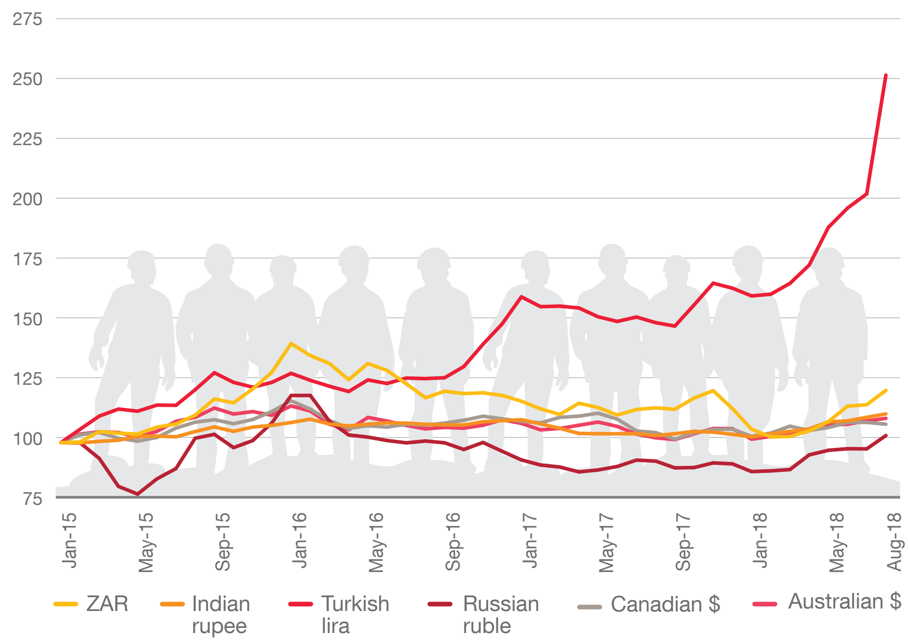


Source: World Bank, PwC analysis

The rand strengthened in the second half of the year to June 2018 and resulted in an average decrease in prices received for gold, platinum and iron ore. The decrease in rand gold and platinum prices, are putting deep-level South African gold and platinum producers under significant pressure as reflected in the market capitalisation of these entities.

Despite various cost-saving initiatives, which managed to keep overall operating costs within inflation increases, lower production of gold and platinum means higher unit costs. This translates into lower or negative profit margins in a flat or decreasing rand price environment, which threatens the sustainability of some mines.

Figure 10: Currencies indexed against the USD

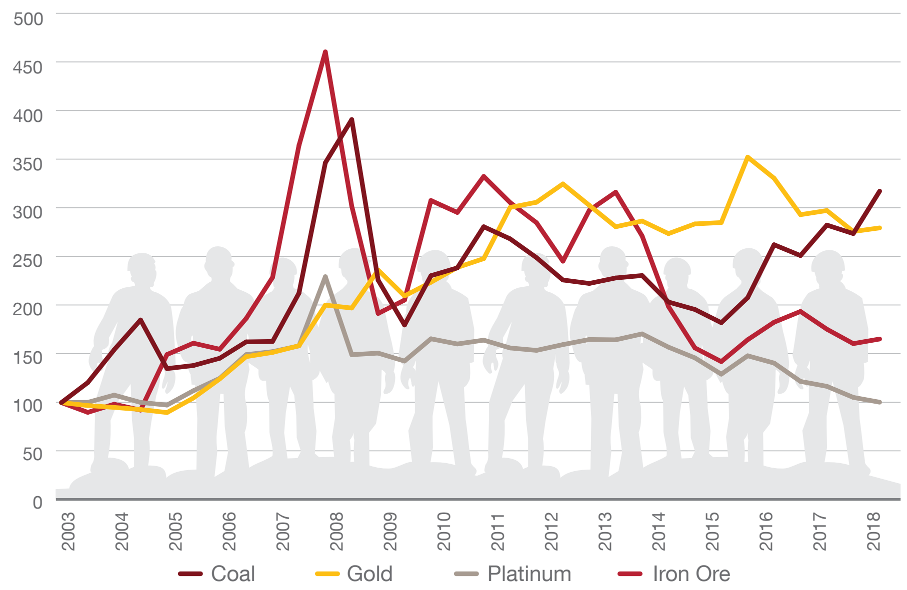


Source: IRESS, PwC analysis

The rand weakened significantly after June 2018, on the back of concerns from emerging markets, driven mainly by challenges experienced in Argentina and Turkey.

This significant weakening will result in substantial inflows of rand revenues, which will assist most producers in South Africa. It should also bode well for mining-derived GDP numbers for the September 2018 quarter. However, a weaker rand will eventually result in increased input cost inflation that will erode the temporary increase in margins as a result of the weaker rand.

Figure 11: Indexed CPI-adjusted real-rand prices per commodity



Source: World Bank, Stats SA, PwC Analysis

Figure 11 shows the real-rand price levels per commodity for South Africa's main revenue-generating commodities. Rand prices were adjusted by applying standard consumer price index (CPI) increases for the last 15 years.

The CPI-adjusted real price of gold has been on an upward trajectory since the bottom of the cycle between 2003 and 2013. After this, it remained relatively stable except for a peak in 2016 and a subsequent decline to 2013 levels.

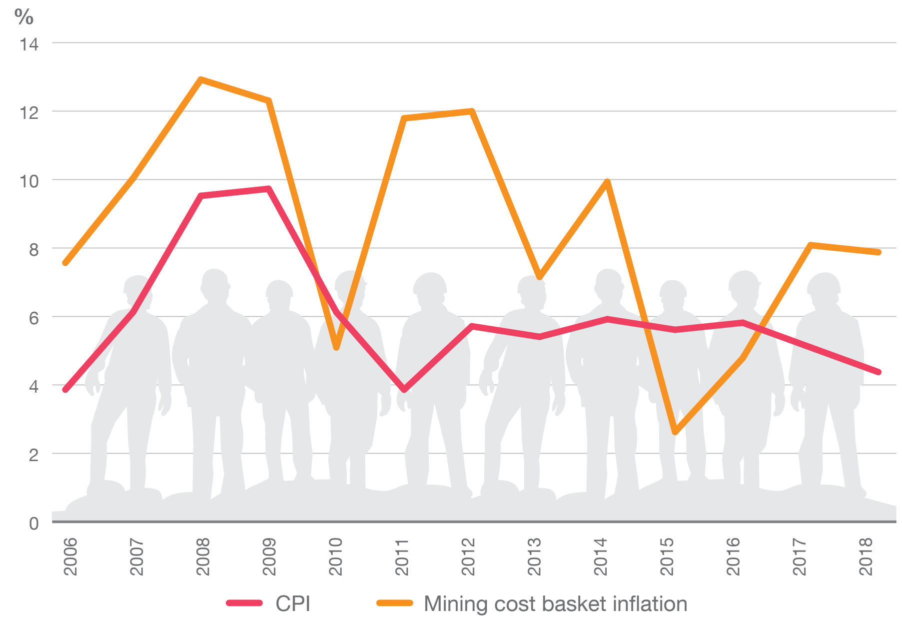
Coal has been the top performer over the last three years and even iron ore, which showed a steady decline since its peak in 2008, is well above the 2003 levels.

Platinum is the exception, and is now trading again at the real levels of 2003.

Judging by the CPI-adjusted real prices for the last 15 years, one would have expected the mining industry, with the exclusion of platinum perhaps, to have been performing relatively well, as all the prices are above earlier price levels. The reality is that mining input costs increased significantly more than the CPI.

We've calculated mining cost inflation for a basket of inputs and compared it to CPI in figure 12.

Figure 12: Indicative mining inflation vs CPI



Source: Stats SA, PwC analysis

Figure 12 uses weighted cost increases based on a breakdown of operating expenses. Although these increases and breakdown of the basket are not reflective of the specific dynamics relevant for a specific mine, they provide an indication of the cost environment in which these mines operate.

The following were used as a basis for the increases:

- Employee benefits and contractors: PwC Remchannel annual unionised staff increases (Note that this is based on base salary and does not take into account production bonuses and other benefits, which can be significant);
- Consumables and mining supplies: CPI, steel price PPI, diesel PPI and chemicals PPI;
- Utilities: Electricity and water PPI;
- Transportation costs: Diesel PPI and electricity PPI; and
- Royalties: PwC analysis.

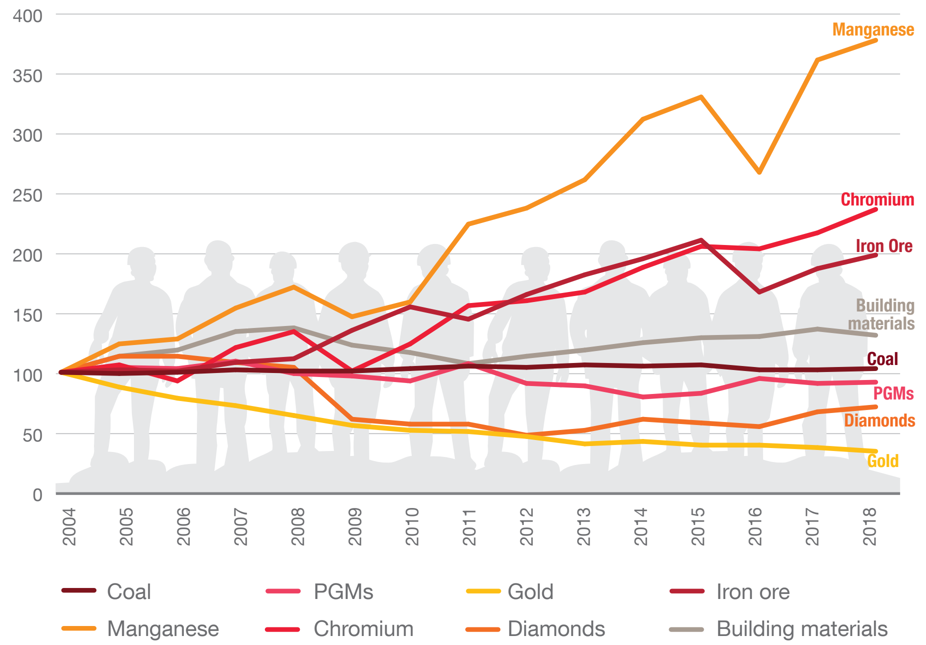
Exploration and other costs are excluded.

It is these well above inflation cost increases that put pressure on the mining industry if efficiencies and production productivity gains cannot be achieved for the same inputs.

Production

Cost increases have put the mining industry under significant pressure. Although price plays a key role in profitability, there are large fixed-cost elements associated with mining. Production levels therefore play a significant role in determining profitability.

Figure 13: Indexed annual production per commodity



Source: Stats SA

Manganese, iron ore and chrome are the only commodities that showed real production growth over the last 15 years. Timely mine and transport infrastructure development allowed production growth to happen in order to benefit from the higher iron ore, manganese and chrome prices during the recent commodity price boom.

PGM producers have in the last few years also contributed to the supply of chrome as it is processed as a by-product from the Upper Group 2 (UG2) Reef. More UG2 is currently being mined as the more lucrative Merensky Reef is mined out in some mines.

The decrease in building materials from prior year reflects the pressure on local economic growth and resultant demand for building materials.

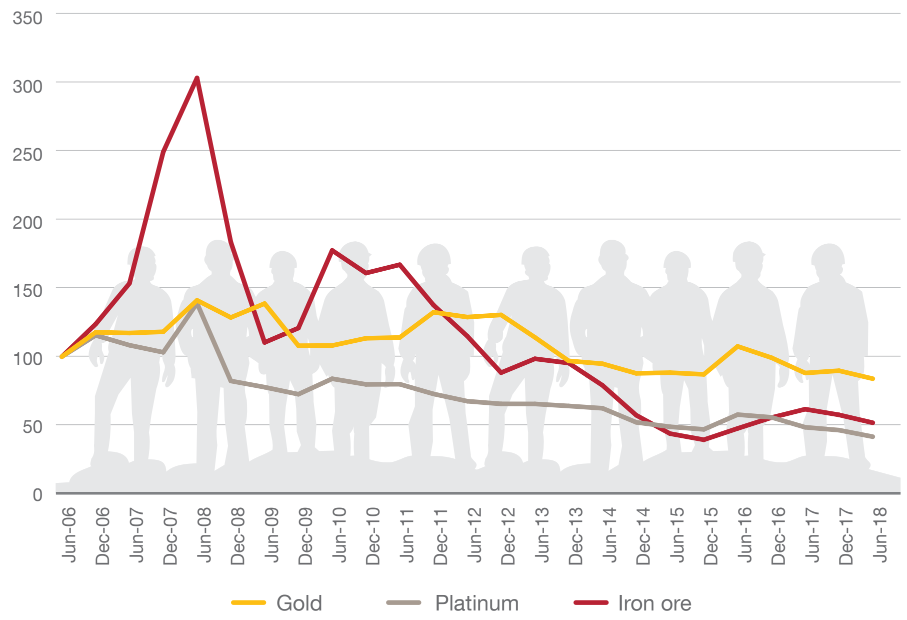
Coal production showed a marginal increase for the first time in three years. However, it has remained largely flat over the last 15 years.

Gold continues its long-term decline. The lower rand-gold price is likely to accelerate the decline unless technological solutions can improve the productivity of extreme deep-level mining.

The ongoing low-price environment for platinum is likely to result in further curtailment of supply in the absence of a reasonable price increase.

Lower production without a changing cost structure results in higher unit cost increases. When one assesses real prices using unit cost increases for the various commodities (figure 14), the unsustainability of low prices becomes evident, with all commodities trading well below the average of the last ten years.

Figure 14: Indexed unit-cost-adjusted real prices



Source: World Bank, Stats SA, PwC Analysis

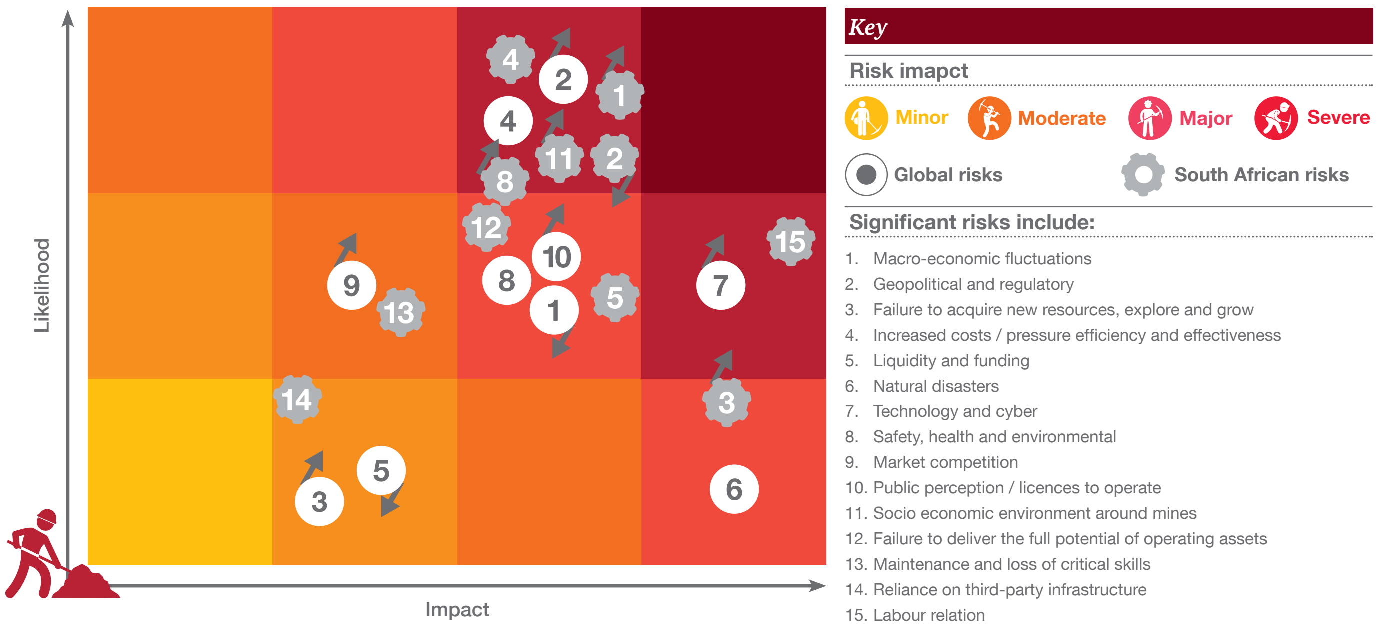
Risk environment

Figure 15 indicates the risks disclosed by global mining companies and risks disclosed by South African mining companies. It is evident that the risk environment in South Africa is not too dissimilar from the global environment. However, the following points stand out from the comparison:

- With regards to cost pressures South African companies highlight specific sub-categories driving risk:
  - Labour relations and wage negotiations, not surprising in a year where 3 year wage negotiations needs to be concluded.
  - Maintenance and loss of critical skills. As the global mining environment improves South Africa is again a good exporter of skills.
  - Reliance on third party infrastructure with the cost and availability of electricity and water still a concern.
  - Failure to deliver the full potential of operating assets especially relating to new acquisitions and in development assets.
- As a subsection of public perception/license to operate South African mining companies highlight the socio economic environment around their mines as a major concern.
- The 3 global risks that are not prominently disclosed by most South African mining companies are:
  - Natural disasters – we're in a privileged geographical position with regards to natural disasters. However, mines have been closed as a result of flooding and drought in the past and our deep level gold miners know they operate with underground seismic risk.
  - Technology and cyber risk have still not been brought to the fore. There is a real opportunity cost risk here if miners are not investing in technology for the future.
  - Market competition. There is value for our industry to consider the competition it is facing with regards to access to resources, cost competitiveness and sales prices.

The business of mining carries many risks. Although these differ between each mine site and company, the risk heat map reflects (figure 15) the aggregation of how the companies analyzed reported risks.

Figure 15: Risk heat map



Source: Mine: Tempting times, company annual reports, corporate websites and PwC analysis

3 Improving value to stakeholders

The mining industry adds significant value to the country and its people. Stakeholders in the industry include employees and their families, unions, government, shareholders, suppliers and customers.

The monetary benefit received by each of these stakeholders is often summarised by companies in their value-added statements.

Almost half of the companies included in our 2018 analysis (representing 90% of revenue for all companies analysed) had readily-available value-added statements.

Although we could not ensure consistency in disclosures in all cases, we made certain adjustments based on information shared in annual reports (e.g. employee taxes) to ensure a level of consistency.

The accompanying table shows how the value created, being the difference between income and direct purchases, was distributed to the various stakeholders.

Value distributed

	2018	2017	2016*	2015*	2014*	2013*	2012*	2011*	2010*
Funds reinvested	29%	25%	20%	36%	33%	41%	27%	32%	43%
Employees	47%	44%	39%	37%	37%	38%	27%	30%	36%
Shareholder dividends	6%	2%	4%	9%	11%	19%	20%	11%	12%
Direct taxes	12%	11%	7%	9%	9%	10%	10%	11%	9%
Employee taxes	9%	9%	9%	8%	7%	7%	6%	6%	6%
Borrowings	6%	5%	5%	5%	4%	4%	3%	1%	1%
Mining royalties	3%	3%	1%	2%	4%	3%	2%	3%	5%
Community investments	2%	1%	1%	1%	1%	1%	1%	0%	0%
Funds (utilised) / retained	(14%)	0%	14%	(7%)	(6%)	(23%)	4%	6%	(12%)
Total value created	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

*Comparative figures were taken from our previous *SA Mine* publication to illustrate the cyclical impact
Source: PwC analysis

Total value created by the entities that disclosed value-added statements increased by 2%, from R171 billion to R174 billion. The increase is largely attributed to improving commodity prices and acquisitions adding value to the analysed companies.

Labour costs continue to be a major benefiter of the mining industry, with value absorption of 47% showing an increase on the 44% of the previous year. The increase is as a result of the increased wage bill despite profitability being under pressure, especially at the labour-intensive deep-level platinum and gold mines. In the absence of improved profitability, this position isn't sustainable and sadly, after June 2018, more mining companies announced potential retrenchments (figure 16).

Dividends for shareholders represent 6% of total value created (2017: 2%). This has increased significantly from last year. The biggest contributors were Kumba Iron Ore and Anglo American Platinum as they resumed dividend payments. Exxaro Resources also increased its dividend on the back of better coal prices.

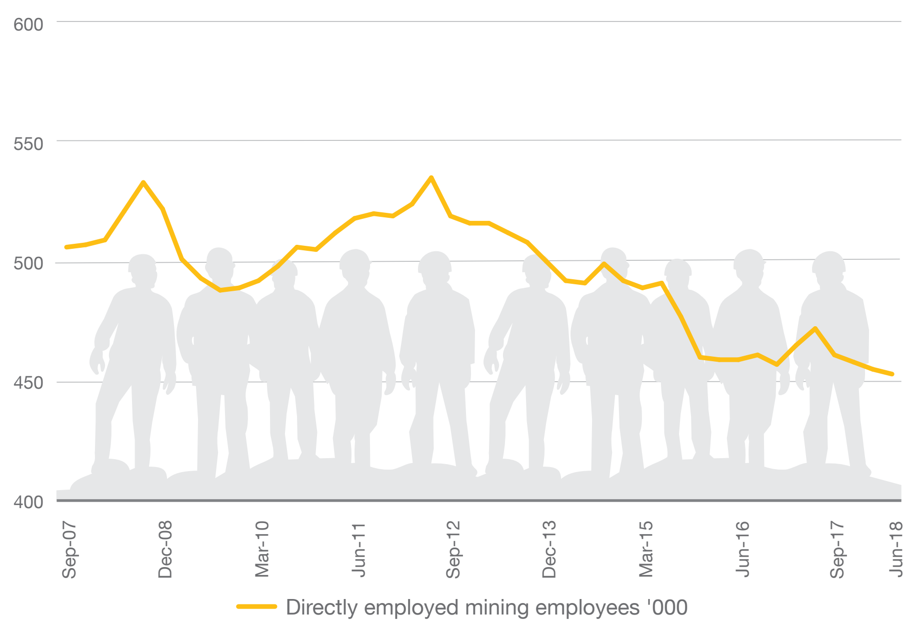
The state received 24% (2017: 23%) of total value created, which consists of direct taxes, employee taxes and mining royalties. The marginal increase is as a result of increased profitability at bulk commodity miners.

Funds reinvested grew in line with the increase in capital expenditure.

The challenge currently faced is determining how to increase the size of the pie to create more value for all stakeholders in an environment of ever-increasing costs, reducing margins and increased volatility.

Creating an environment with adequate infrastructure, less policy and regulatory uncertainty, and a skilled, yet flexible workforce should go a long way towards attracting investment and benefiting all stakeholders.

Figure 16: Directly employed mining employees (thousands)



Source: PwC Analysis

4 The regulatory landscape in Africa

Mining Charter

The appointment of Gwede Mantashe as the new minister of mineral resources in February 2018 was positively received in many quarters and has restored some optimism about the future of the South African mining industry. The revised Mining Charter was released in June 2018 and approved in September 2018.

We note some of the key changes introduced by the Charter:

- ***'Once empowered, always empowered'***
  The 'once empowered, always empowered' principle will apply to companies that met the 26% black ownership requirement previously. Where this requirement was not met, companies must reach 30% black ownership within five years from the date the final 2018 Mining Charter is published. We expect interesting changes in the dynamics of black participation in mining companies in the next five years.
- ***Carried interest***
  For new mining rights, a minimum of 30% black ownership is required. However, this includes a 5% carried interest (CI) and each for qualifying employees and host communities. The remaining 20% should be for black shareholders of which 5% must be for women.

The 2017 Charter required a further 1% of revenue to be paid to BEE shareholders subject to the Companies Act's solvency and liquidity requirements. In the draft 2018 Charter, this was refined to 1% of earnings before interest, taxes, depreciation and amortisation (EBITDA). This requirement has been scrapped from the final 2018 Charter. It is also interesting to note that the Mineral and Petroleum Resources Development Amendment Bill, which was subject to legislative processes since 2013, has been withdrawn.

The 2018 Charter's requirement that at least 50% of board representation be held by black persons, 20% of which must be black women, is fairly consistent with the 2017 Charter. The same requirement applies for top/executive management. However, it is notable that the 20% black female representation requirement has changed from last year's 25% black female representation requirement.

Of the 30 companies analysed this year, 13 meet the requirement for 50% black representation and six meet the requirement for 20% black female representation on the board (not necessarily the same companies). This is an improvement from last year, as we reported in our *SA Mine* 2017 publication that only six companies had the required black representation on their boards. However, meeting black female representation targets is still a long way off, as the companies we analysed average 12% representation, which is lower than the 13% reported last year.

Of the 14 companies that disclosed their executive management team, five meet the target for 50% black persons and six meet the 20% black female target.

Carried interest

The introduction of carried interest (CI) has made waves in the mining industry. Through mining reform, government seeks ways to spread mineral wealth more equally, and views free carry as an investment to ensure employees and communities share the benefits of mining projects. The industry, however, believes that this will only increase the investment burden and undermine investment in new mining projects.

The concept of CI is not new to the South African mining industry. Many African countries have provisions in their mining regulations that give government a 5%–15% free stake in mining companies. This has not always proven to have the desired effect, however, as host states are often of the view that mining companies do not make dividend payments promptly.

Ghana recently stated that the 10% CI payable by companies operating in the country's mining industry is 'virtually useless' and has yielded no dividends for the country for years. This might be no different for South African companies as dividend yields have been on a downward trend.

The question arises then whether CI is the best way to achieve the objective of revenue generation or whether there are other methods to be explored on how employees and communities can share in the benefits of mining projects in a sustainable way. With the Charter now being published and final, it remains to be seen whether business and government can more effectively work towards a more stable South African mining environment.

Diesel Refund Scheme - The outsourcing of primary production activities.

Introduction

In this tough price market environment mining companies are faced with the challenge of maintaining production at reduced costs. Government has also introduced mechanisms to assist miners to achieve this objective, one of them being the Diesel Refund Scheme.

The scheme provides relief from the Fuel Levy and Road Accident Fund (RAF) Levy to primary producers in mining, farming, forestry and other defined sectors in terms of the Customs and Excise Act. The incentive programme enables qualifying diesel users to claim for refunds on RAF and fuel excise levies paid when purchasing diesel.

The Diesel Refund Scheme was introduced for mainly two reasons:

- To improve the competitiveness of the local primary production sector, and
- To provide relief on road-related taxes to diesel users that do not use public roads.

Competitiveness is achieved through reducing the costs of primary production, more specifically the cost of fuel. The targeted sectors are often heavy users of diesel, and any reduction in this expense contributes to the sector's overall competitiveness. Countries such as New Zealand, Australia and the UK have introduced similar schemes for the same reasons.

The RAF Levy on diesel is a compulsory social insurance that covers road users in the event of motor vehicle accidents. While this insurance is for the benefit of South African road users, it does not benefit diesel users that do not use public roads.

Legal regime

Diesel refunds are regulated by Section 75 of the Customs and Excise Act 91 of 1964. The Act provides for the refund of certain fuel levies, but the administration of the scheme is regulated by Part 3 of Schedule 6 to the Act (Schedule 6).

Item 670.04 of Schedule 6 provides for a number of eligibility requirements for qualification and implementation of the Diesel Refund Scheme. These requirements are both substantive and documentary.

Substantive requirements include that the person intending to benefit from the diesel refund scheme must be a user as defined in Schedule 6. They must be registered as a VAT Vendor in terms of the Value-Added Tax Act and for diesel refund purposes as contemplated in section 75(1A) and (4A) of the Act.

The second criteria is that the diesel claimed must form part of an eligible purchase. An eligible purchase complies with three requirements; equirements:

- the diesel must be purchased by a user,
- it must be used in the user's own primary production, and
- where the primary production activities are performed by a contractor, the contract must be on a 'dry' basis.

Purchase by user / used in their own primary production

Schedule 6 defines eligible purchases as fuel purchased by the user for their own primary production activities. The primary production activities listed for mining includes activities such as prospecting for minerals, removal of overburden, recovery of minerals and transportation of minerals.

The requirement for 'own primary production' is for the user to have some form of ownership over the goods produced. They cannot claim for the refund if they are producing products on behalf of another person. However, the exception to the rule is that a contractor may be used to perform the activities under limited circumstances.

Contract on a dry basis

Primary production activities must, under normal circumstances, be carried out by the user themselves. Schedule 6 does, however, provide that in the case of mining, forestry and fisheries, a contractor may be employed to perform the listed primary production activities.

While the use of a contractor is specifically provided for, the contract must be concluded on a 'dry' basis. 'Contracted on a dry basis' is defined in Schedule 6 as follows:

"'dry' or 'contracted or hired on a dry basis' means that any vehicle, vessel, machine or any other equipment whatsoever using distillate fuel is hired or a person using such vehicle, vessel, machine or other equipment is contracted by a user for the purpose of performing any qualifying activity and the user supplies the distillate fuel from eligible purchases"

The above definition requires that a user hiring equipment or a contractor to conduct activities must supply the diesel consumed by such equipment or contractor. Should the contractor supply the diesel used in the activities, the contract will be defined as a 'wet' contract. In such cases the user will not be able to claim the levies on the diesel purchased and used by the contractor. The contractor will also not be able to benefit from the refunds under the scheme.

It is clear that there is a substantial focus on the user as defined by Schedule 6. This focus has resulted in some anomalies and practical issues in the administration/ implementation of the Diesel Refund Scheme, with arguably unfair consequences to those that were meant to benefit.

Issues with current outsourcing requirements

The mining, forestry and farming sectors often make use of contractors to conduct some of the required production activities. The exclusion of contractors from the Diesel Refund Scheme causes their fuel costs not to be reduced, resulting in them not receiving the competitive benefit. The higher costs inevitably get passed on to them.

The system also does not properly compensate all non-road users for road-related levies, as a result of the contractors being excluded from the refund scheme, even though they are still liable to pay the RAF levy.

Thuthugani Contractors v The Commissioner of the South African Revenue Service

To practically illustrate the difficulties associated with the current system, it is helpful to consider court cases dealing with the subject. Thuthugani Contractors v The Commissioner of the South African Revenue Service (SARS) ([2016] ZAKZPHC 33) centres around the requirements relating to contractors as described in Schedule 6. In this matter, Thuthugani was contracted by Mondi Limited, a company engaged in the forestry industry. Thuthugani provided silviculture services to Mondi that included land preparation as well as the planting and maintenance of trees, in forests owned by Mondi.

Thuthugani was registered with SARS as a user in terms of the Diesel Refund Scheme. It was also common-cause that Thuthugani was engaged in ‘primary production activities’ as defined in Schedule 6.

The company submitted a refund claim in terms of the Diesel Refund Scheme to SARS, which was disallowed on the basis that it did not comply with the requirements. As a result, the company instituted legal action against SARS.

Thuthugani contended that it was registered as a user of the Diesel Refund Scheme and had been engaged in its own primary production activities as required by Schedule 6. Whilst SARS agreed that Thuthugani was registered as a user and that it indeed conducted qualifying activities, it argued that the company did not conduct these activities for its own primary production.

The court found that registration as a user does not automatically render the diesel purchased eligible. It further found that, while Thuthugani did conduct primary production activities, they were not for its own primary production. As a result the company lost the case.

In this case a lot of focus was placed on the meaning of the word ‘own’. The court found that there must be some form of ownership of the product in order to comply with the ‘own primary production’ requirement.

It can be argued that this application of the law defeats the intended purpose of the Diesel Refund Scheme as it does not improve the competitiveness of local primary production.

Diesel refunds discussion paper

In February 2017 National Treasury and SARS released a document entitled Discussion Paper for Public Comment: Review of the Diesel Fuel Tax System. This document is intended to serve as the basis for changes to the Diesel Refund Scheme.

The document identified a number of issues relating to the scheme, including the lack of an independent administration system, the lack of compliance with the documentary requirements and the problem relating to outsourcing. It is clear from the document that SARS and National Treasury are aware of the difficulties relating to contracting and diesel refunds. Specific reference is made to the fact that the current system fails to fully promote the competitiveness of local primary producers.

A number of recommendations are proposed to solve the problems experienced with the Scheme. With regards to the outsourcing of work, it has been proposed that the focus should shift away from the term ‘user’ and rather focus on the activities performed.

Under this proposal, a person conducting primary production activities will be eligible for the refund (assuming that they comply with all other requirements). This system would allow “producers, operators, contractors and joint ventures” that conduct primary production activities to qualify for the scheme.

The proposed amendments would relieve the current difficulties faced by users and contractors engaged in primary production activities. These recommended changes have not been effected as yet and at this stage the timeline is uncertain.

Conclusion

While it is true that a primary producer may employ a contractor on a ‘dry’ basis and claim the refund, such an arrangement may not be practical in all cases. The requirements in this regard create unnecessary administrative and cash flow burdens on the primary producer and also create difficulties in the contracting process. The current system further hampers the use of contractors in the primary production sector.

The solution proposed in this discussion paper should solve the difficulties experienced in this regard. Effecting these proposals will go a long way to ensuring that the Diesel Refund Scheme equitably delivers on its stated objectives.

Tanzania

The impact of regulatory changes

Tanzania's mineral endowment is well-documented, not just in gold (for which it is the fourth-largest producer in Africa) and precious stones such as Tanzanite (unique to the country) and diamonds, but also for prospects in a number of other minerals, including graphite, helium, nickel, rare earths and uranium.

Currently there is a lot of excitement in relation to graphite and helium. The global graphite market is forecast to see significant growth in the decades ahead, driven in part by demand for lithium-ion batteries, which are used in a range of products, including electric cars. If the several prospects in Tanzania move to development, the country could become one of the top three graphite producers in the world. Similarly, the helium resource could make the county one of a handful of major producers.

However, recent significant regulatory changes for the mining sector in Tanzania appear to have dampened investor sentiment in the country's mining sector. These changes have not come about in isolation as a number of jurisdictions in Africa have introduced more severe regulatory regimes – but it does appear that Tanzania may have gone further than most.

A number of the changes in 2016 and 2017 were highlighted in the 9th edition of *SA Mine*, in particular the new income tax regime introduced in 2016 and regulatory changes in 2017, including government free carry (16% minimum), increased royalty rates and a new 'clearance fee' (charged on the export of minerals on the same base on which royalty is calculated), restriction on VAT input credit in relation to the export of unprocessed ore and new local content requirements.

VAT refunds have also been dwindling since July 2016, with a significant impact on cash flows of existing operators.

More recent developments (in July 2018) include publication of the following:

- Government Notice ('GN') No. 305: The Mining Commission (Guideline for Submission of Local Content Plan) 2018, which prescribes the format for local content plans and sub-plans; and
- The Mining (Integrity Pledge) Regulations 2018, which enumerate the objectives of this pledge requirement, and prescribe certain obligations on holders of mineral rights as well as their contractors and sub-contractors.

One illustration of the impact on investor sentiment is a 2017 edition of the report by the Fraser Institute Annual Survey of Mining Companies that ranked Tanzania 79th out of 91 jurisdictions on geologic attractiveness for minerals and metals and the extent to which government policies encourage or deter exploration and investment. The report also ranked the country 12th out of the 15 African jurisdictions covered. By contrast, the 2016 report ranked the country 64 out of 104 jurisdictions.

The impact of changes in the tax regime on cash flows is illustrated by the 2018 edition of PwC Australia's publication on mining taxation in Africa titled *Battle of the Taxes – who comes out on top? Australia and Africa compared*. Tanzania showed a 73% share of generated revenues for government and 23% for the investor for a hypothetical gold mine, but with the project not going ahead as it would fail to meet a required internal rate of return threshold (unlike some of the other countries surveyed).

Again, the importance of all stakeholders working together to generate ideas/laws that will be beneficial to all parties is stressed. This goes for all African countries, and not just Tanzania, where many are changing their tax regimes.

New mining code upsetting miners

Sixteen years after the enactment of the initial version of the mining code, an economic crisis has hit the Democratic Republic of the Congo (DRC). During this time, cobalt has become the most expensive material in the portable lithium-ion battery used in smartphones and electric vehicles (EVs), now representing about half of the market for the metal. The DRC has 69% of the global cobalt production share, however government revenues and local benefits have been disappointing.

As a result, a new mining code has been drafted for stronger rules, more transparency, opportunities for local development and an equitable fiscal regime. But the final version signed into law in March 2018 is unsupported by most of the mining companies.

Firstly the unhappiness stems from the fact that the code scraps the ten-year stability clause that spared holders of mining rights by granting them a moratorium in case of adoption of new legislation.

Secondly, almost all taxes and royalties have been revised upwards, with the mining royalty almost doubling for non-ferrous metals (3.5% vs. 2%), and possibly reaching 10%. The new mining code allows government to designate cobalt, lithium, coltan and germanium as 'strategic substance' depending on the prevailing economic situation that could necessitate changes to rates.

Thirdly, the code increases State participation in new mining companies by 10% of the share capital, in addition to the mandatory participation of at least 10% of natural persons of Congolese nationality.

Beneficiaries of mining conventions signed with the DRC are also not spared since the code spells the end of the conventional mining regime.

The following is an overview of the key measures of the new mining code:

Mining licences

The duration of an Exploitation Licence is reduced to 25 years, renewable by period of 15 years.

Financing of projects by debt is now limited since the applicant's equity of a license cannot be less than 40% of the financial resources needed to carry out the project. In addition, the applicant is required to transfer to the State 10% (5% previously) of the shares constituting its share capital (free of charge and non-dilutable shares), and an additional 5% for each Exploitation Permit renewal.

To this must be added the participation of natural persons of Congolese nationality who are required for at least 10% of the share capital of the mining companies at the time of their incorporation.

Finally, processing of mineral substances shall be performed in the DRC.

Tax regime

The minimum corporate income tax amounting to 1% of the turnover is now applicable to miners, which, for many, were in a tax loss position.

The rates of the mining royalty are raised as follows:

- 0% for everyday building materials;
- 1% for industrial minerals, solid hydrocarbons and other substances not mentioned;
- 1% for iron and ferrous metals (vs. 0.5%);
- 3.5% for non-ferrous and / or basic metals (vs. 2%);
- 3.5% for precious metals (vs. 2%);
- 6% for precious stones and coloured (vs. 4%); and
- 10% for strategic substances.

The rate of the exceptional tax on the remuneration paid to expatriate staff is raised to 25% (vs. 10%), halved for the first ten years of the mining project.

A special tax on excess profits of 50% is applied on the profits made when the prices of materials or commodities are experiencing an exceptional increase (greater than 25% compared to those included in the feasibility study).

Direct and indirect transfer of shares of a DRC mining company are now subject to capital gain tax (withholding tax).

Foreign exchange regulation

The obligation to repatriate export earnings in the DRC increases from 40% to 60% during the investment phase and 100% thereafter, without the possibility of using these revenues to pay the foreign debt.

Negotiation with miners have failed

The raising of taxes and making of provision immediately applicable to existing mining projects has affected credibility with mining investors. Miners have failed to negotiate with government for more favourable applications measures.

5 Financial performance

Ten-year summary

The information included below differs from that in the rest of our analysis as it includes the aggregated results of those top companies reported on in each edition of *SA Mine*. The column for 2017 presented below relates to the results of the companies included in our previous edition, while in the financial review we analyse the results of this year's top companies for both 2018 and 2017.

The reason for the differences in 2017 in this summary and the income statement may be ascribed to the exclusion of some entities from the publication, offset by the inclusion of others as well as retrospective changes in errors or accounting policy.

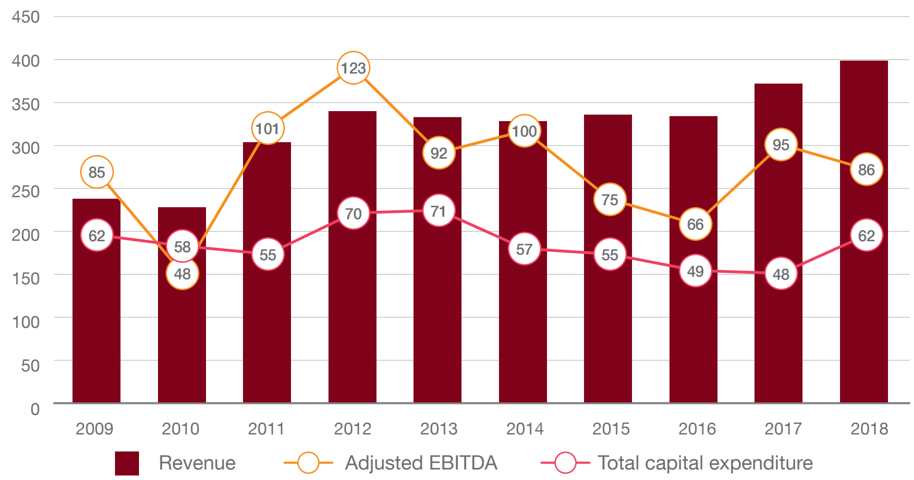
Ten-year summary of financial performance (R' billions)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue	398	371	333	335	327	332	339	303	227	237
EBITDA	86	95	66	75	100	92	123	101	48	85
Net (loss) / profit	(11)	17	(46)	2	5	25	65	55	20	15
EBITDA margin	22%	26%	20%	22%	31%	28%	36%	33%	21%	36%
Cash flow from operating activity	79	83	69	62	69	69	112	62	40	59
Total capital expenditure	62	48	49	55	57	71	70	55	58	62
Total assets	717	692	709	724	694	714	650	595	548	509

Source: PwC analysis

After five years of relatively stable revenue, revenue started growing in 2017 and 2018. Unfortunately the impact of higher input costs negated this growth. Similar to 2016, the impairment provisions resulted in a net loss for the year.

Figure 17: Ten-year historic financial information (R' billions)



Source: PwC analysis

Aggregated cash flows

	Current year R' billions	Prior year R' billions	Difference R' billions	% Change
Cash flows related to operating activities				
Cash generated from operations before working capital changes	105	98	7	7%
Working capital changes	(7)	(2)	(5)	250%
Cash generated from operations after working capital changes	98	96	2	2%
Other	(1)	-	(1)	-
Income taxes paid	(18)	(14)	(4)	29%
Net operating cash flows	**79**	**82**	**(3)**	**(4%)**
Purchases of PPE	(62)	(51)	(11)	22%
Free cash flow	**17**	**31**	**(14)**	**(45%)**
Cash flows related to investing activities				
Purchase of investments	(34)	(8)	(26)	325%
Sale of investments	14	2	12	600%
Other	-	(1)	1	(100%)
Net investing cash flows	**(20)**	**(7)**	**(13)**	**186%**
Cash flows related to financing activities				
Proceeds from ordinary shares issue	15	8	7	67%
Proceeds from interest bearing liabilities	109	65	44	68%
Repayment of interest bearing liabilities	(97)	(78)	(19)	24%
Distribution to shareholders	(16)	(6)	(10)	167%
Net financing Activities	**11**	**(10)**	**21**	**(208%)**
Net increase in cash and cash equivalents	8	14	(6)	(42%)
Cash and cash equivalents at the beginning of period	59	45	14	31%
Cash and cash equivalents at the end of the year	**67**	**59**	**8**	**14%**

Source: PwC analysis

Free cash flows

Free cash flow is defined as cash from operating activities less purchase of property, plant and equipment. It provides an indication of a company's ability to settle debt, pay dividends and fund acquisitions. Although one would expect an improvement in free cash flows in an increased commodity price environment, the better cash flows from operations were offset by increased taxes and an investment in working capital and property plant and equipment.

Operating cash flows

Despite the subdued precious metal prices, platinum companies managed to improve their operating cash flows due to closing or disposing of low-margin operations and cost management efforts. These efforts were largely offset by an increase in inventories with almost R8 billion locked up in inventories.

Gold mining companies focused their efforts on maintaining a certain level of all-in sustaining costs to better manage their margins. However, the decrease in rand gold prices meant that they recorded the biggest decrease in cash flow from operating activities.

Bulk commodity producers enjoyed better operational performance as a result of improved commodity prices, and a continued focus on cost containment, not only at an operational level, but corporate level as well.

Purchase of property, plant and equipment

Capital expenditure recovered from the lowest real levels in ten years to reflect a 22% increase. Below is a comparison of the capex movement for companies with capex in excess of R2 billion:

- Gold Fields – R11.1 billion (down from 12.4 billion)
- AngloGold Ashanti – R10.9 billion (up from R9.9 billion)
- Sibanye-Stillwater – R6.1 billion (up from R4.1 billion)
- Anglo American Platinum – R5 billion (prior year R5 billion)
- Harmony Gold – R4.6 billion billion (up from R3.9 billion)
- Impala Platinum – R4.6 billion (up from R3.4 billion)
- Exxaro Resources – R3.8billion (up from R2.8 billion)
- Northam Platinum - R3.4 billion (up from R1.6 billion)
- Kumba Iron Ore – R3.1 billion (up from R2.4 billion)
- Royal Bafokeng Platinum - R2.7 billion (up from R1.2 billion)

Investing activities

In the 2017 edition of *SA Mine*, we noted that the selling off of non-core assets in a bid to strengthen the balance sheet has paid off as companies were well positioned to take advantage of lucrative investment offers that came through during the year.

In 2018, the overall investments that were made grew fourfold, with the most notable transactions including Harmony Gold's acquisition of AngloGold Ashanti's Moab Khutsong operations for a total consideration of $300mil (R3.4 billion). Sibanye Gold acquired the Stillwater PGM operations for a total consideration of US$2.2 billion in April 2017 and subsequently changed the company's name to Sibanye-Stillwater.

We saw some activity on the sale of investments during the year as well. Exxaro sold the first tranche of its shareholding in Tronox, realising R6.5 billion for shareholders. Sibanye-Stillwater realised R3.6 billion with the sale of Stillwater's marketable investments. Other sales of non-core assets were made by Anglo American Platinum and African Rainbow Minerals.

Financing activities

Equity

In this year's edition of *SA Mine*, share issues increased by 67% as companies considered how best to fund their acquisitions. We saw companies opt for a mixture of debt and equity to fund these transactions.

Although the funds raised by equity issues are dominated by Sibanye-Stillwater's capital raising of R13 billion and Harmony's R1 billion, it is pleasing to note that five other more junior companies also managed to raise equity to fund developments.

Sibanye-Stillwater refinanced part of its Stillwater acquisition through a US$2.65 billion bridge loan and completed a rights issue for US$1 billion that was significantly oversubscribed.

Harmony Gold raised R1 billion with existing and new institutional investors through an accelerated book build in June 2018 to partly fund its Moab Khutsong acquisition.

Borrowings

We continued to see companies rolling and restructure their debt. Those companies with significant foreign denominated borrowings are exposed to foreign exchange gains or losses amidst the volatile rand exchange rate against other currencies. All of Lonmin's debt became current during the current year.

Net debt of R11 billion was raised mainly to fund acquisitions by Sibanye-Stillwater and Harmony.

Distribution to shareholders

Dividends are generally paid after the financial year end. The unbundling and disposal of non-core assets meant that shareholders would be rewarded for their patience during the current year for gains and profits made in the previous year.

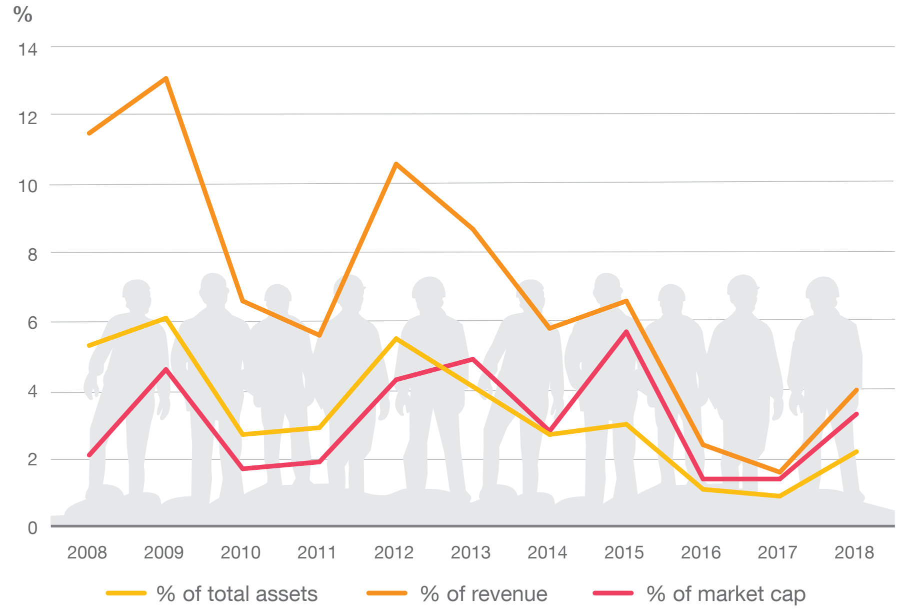
In the current year, we saw distributions to shareholders increase (figure 18) to R16 billion (2017: R6 billion) on the back of improved commodity prices for mining companies operating outside the platinum and gold sectors.

Kumba paid a dividend of R6.7 billion in line with its policy of returning excess cash to shareholders.

In the same light, Exxaro paid a dividend of R2.2 billion as a result of improved coal prices.

Other notable dividends include R1.9 billion paid by African Rainbow Minerals as well as R1.9 billion paid by Assore and smaller dividends by most of the gold producers.

Figure 18: Dividend yield history



Source: PwC analysis

Aggregate income statement

	Current year R' billions	Prior year R' billions	Difference R' billions	% Change
Revenue from ordinary activities	398	370	28	8%
Operating expenses	(312)	(278)	(34)	12%
EBITDA	86	92	(6)	(7%)
Impairment charge	(46)	(22)	(24)	109%
Depreciation	(46)	(45)	(1)	2%
(Loss)/Profit before interest and tax	(6)	25	(31)	(124%)
Net interest	(11)	(9)	(2)	22%
Tax expense	(9)	(10)	1	(10%)
Equity accounted income	12	10	2	20%
Discontinued operations	3	-	3	-
Net (loss) / profit	(11)	16	(27)	(169%)
EBITDA margin	22%	25%	(3%)	
Net profit margin	(3%)	4%	(7%)	

Source: PwC analysis

Revenue

Aggregated revenue

	Current year R' billions	Prior year R' billions	Difference R' billions	% Change
Gold	147	154	(7)	(5%) ↓
PGM	151	128	23	18% ↑
Other	100	88	12	14% ↑
Total	**398**	**370**	**28**	**8%** ↑

Source: PwC analysis

Gold producers continue to struggle with revenue decrease of R7 billion driven primarily by a R2 billion decrease at AngloGold Ashanti, R2 billion at Gold Fields and R4 billion at Sibanye-Stillwater. The decrease is driven by lower rand gold prices and a continued reduction in production.

The increase in PGM revenues was supported by R9.1 billion relating to Sibanye-Stillwater's acquisition of the Stillwater operations in the US and a R3.7 billion increase at Anglo American Platinum.

Included in the increase is R13.7 billion relating to the Rustenburg operations acquired by Sibanye-Stillwater. As PGM's in concentrate produced by Sibanye-Stillwater is still refined and sold by Anglo American Platinum, there is an element of duplication in the revenue. The total increase was marginally offset by decreases in revenue at Impala Platinum and Lonmin.

The other segment's revenue went up due to increased base metal prices such as coal and iron ore. The most notable increases were experienced by Kumba at R6 billion , Exxaro at R2 billion , Wescoal at R1.4 billion and Tharisa at R1.4 billion.

Operating expenses

Operating expenses increased by 12%.

More than R7 billion of the increase relates to an increase in metals purchased at Anglo American Platinum due to the sale of its Rustenburg operations to Sibanye-Stillwater. The costs associated with the newly acquired Stillwater operations also amounted to R7 billion. Exxaro Resources' costs also include R4.2 billion relating to its BEE replacement cost. Excluding these three cost items, operating costs increased by 6.5%, which is slightly lower than the suggested mining basket inflation discussed in figure 12.

The lower cost increase reflects slightly lower production levels at a number of companies and the implementation of cost saving initiatives.

A breakdown of the operating expenses for companies that disclosed expenses by nature (representing 76% of aggregated revenue) is depicted in figure 19, with the year-on-year increase per type of operating expense for these companies included in the table.

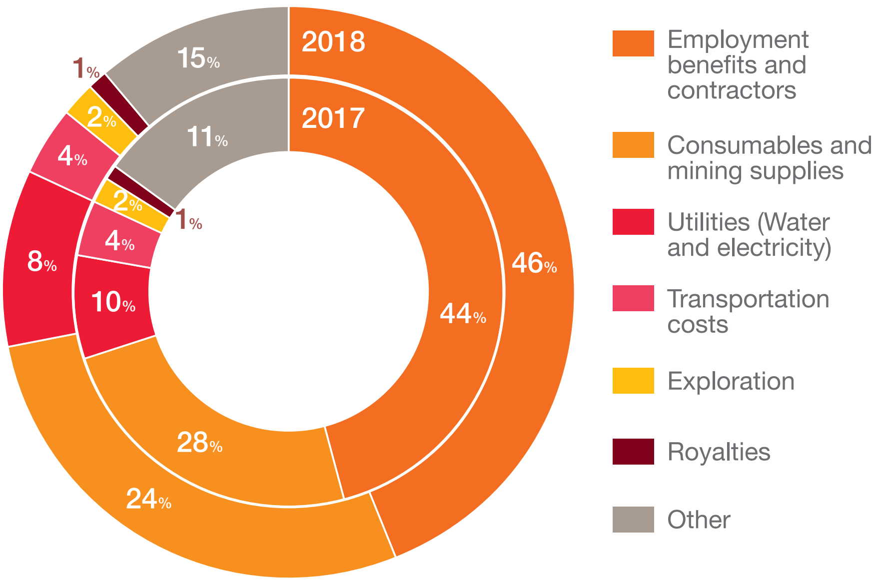
Although this breakdown varies significantly between labour-intensive deep level conventional mines and mechanised open cast mines, it does provide an indicator of the drivers of cost in the South African mining industry.

Year-on-year increases / (decreases) in operating expenses

Cost component	Current year	Prior year
Employment benefits and contractors	5.6%	4.5%
Consumables and mining supplies	6.4%	0.9%
Utilities	3.2%	10.7%
Transportation costs	11.2%	10.1%
Royalties	(0.9%)	89.9%
Exploration	4.6%	33.1%

Source: PwC analysis

Figure 19: Breakdown of operating expenses



Source: PwC analysis

Employment benefits and contractors

Labour costs continue to be the biggest cost driver in the mining industry. The 5.6% increase is relatively in line with inflation for the period. However, it is below the agreed wage increase for the last year, indicating a reduction in employees over the time.

The gold sector is in the middle of its wage negotiation settlements with a number of companies agreeing to three-year wage increases that vary between 5.5% and 6.5%. These increases, which are closer to CPI, reflect the challenging environment experienced by the gold sector and, fortunately, the willingness of employees to ensure the sustainability of the industry.

Consumables

Consumables in the mining industry are often also commodity price linked. The increase in steel prices and chemicals therefore also resulted in above-inflation increases. This led to consumables increasing by 6.4%, despite relatively flat production.

Utilities

Utilities made up 8% of costs with an increase of 3.2% from the previous year. The low increase is unfortunately an indication of lower production in the energy-intensive mining sectors such as gold and platinum.

Transportation costs

Transportation costs mainly relate to the suppliers of bulk commodities, e.g. iron ore and coal. The increase is a result mainly of the increase in fuel prices over the term.

Royalties

After the good increase in royalties in the prior year, this year saw a marginal decrease, mainly as a result of lower royalties paid by the platinum and gold companies on the back of lower profitability.

Impairments

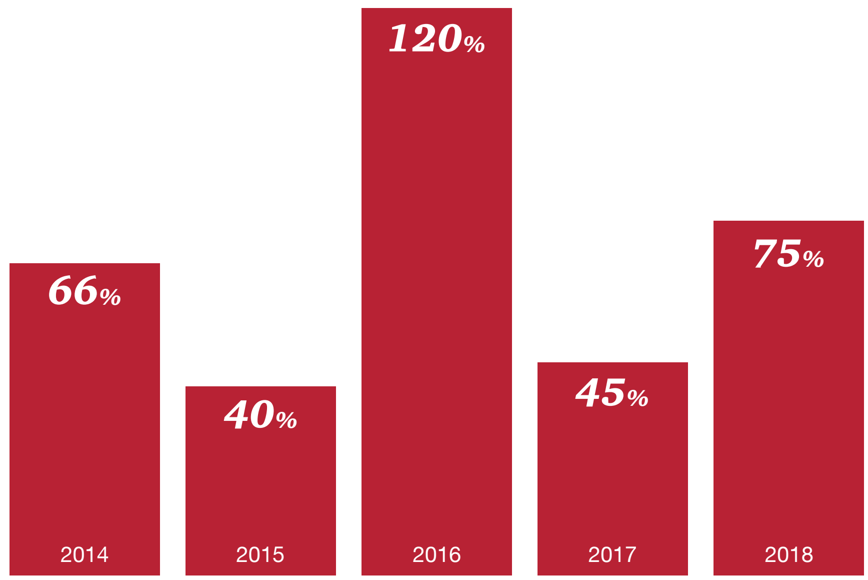
The current year impairments doubled from the previous year mainly as a result of gold and platinum impairments, somewhat offset by an impairment reversal by Kumba Iron Ore of R4.8 billion.

Impairments for the year include:

- Lonmin – R14.0 billion
- Impala Platinum – R 13.6 billion
- Harmony Gold– R5.3 billion
- Anglo American Platinum – R4.6 billion
- Sibanye-Stillwater – R4.4 billion
- AngloGold Ashanti – R4.0 billion
- Gold Fields – R2.7 billion

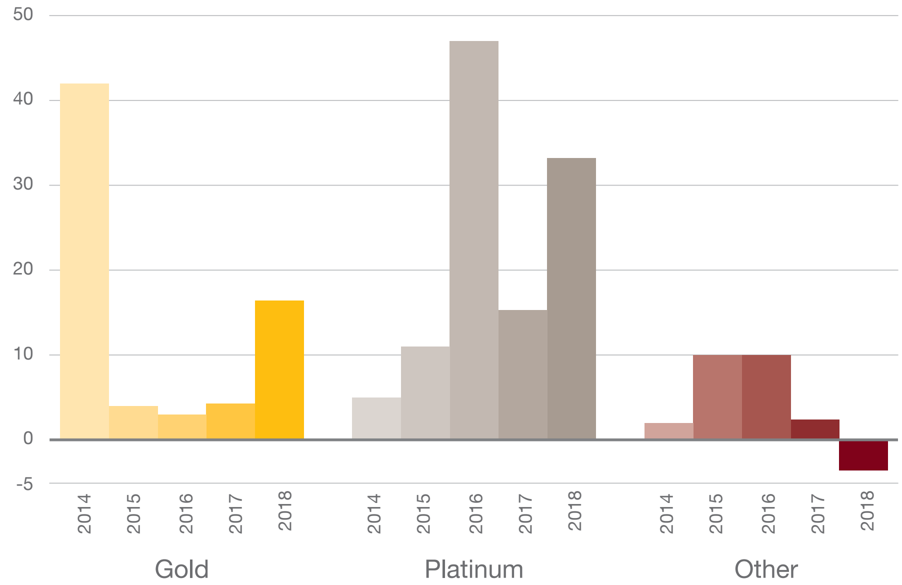
The impairments seen in these two industries are a testament of their struggles. These are the two industries currently in the process of retrenching.

Figure 20: Impairment as a percentage of capital expenditure



Source: PwC analysis

Figure 21: Impairment per commodity (R' billions)



Source: PwC analysis

Depreciation

Depreciation increased marginally from the prior year, with the higher asset base as a result of various business acquisitions.

Net interest

Net interest expense increased by R2 billion from the prior year, mainly as a result of borrowings utilised for business acquisitions.

Tax Expense

The mining companies had an aggregated tax expense of R9 billion, down from R10 billion in the previous year, with an effective tax rate of 150%. This higher than expected effective tax rate results from a number of subsidiaries with tax losses for which no deferred tax assets were created.

Net (loss) / profit

After last year's net profit, this year's companies are back in a loss-making position due to the higher impairments and lower EBITDA.

The EBITDA margin of 22% is lower than the previous year's 25%. Eight companies had EBITDA higher than the average EBITDA margin.

Companies with EBITDA margin greater than 22%

Cost component	Current year	Prior year
African Rainbow Minerals	30%	11%
AngloGold Ashanti	26%	29%
Assore	32%	37%
Bauba Platinum	47%	67%
Gold Fields	42%	44%
Kumba Iron Ore	42%	46%
Merafe Resources	28%	20%
Tharisa	32%	20%

Source: PwC analysis

Analysis by commodity

Net (loss) / profit	Current year R' billions	Prior year R' billions	Difference R' billions	% Change	
Gold	(13)	6	(19)	(317%)	↓
Platinum	(24)	(11)	(13)	(118%)	↑
Other	26	21	5	24%	↑
Totals	**(11)**	**16**	**(27)**	**(169%)**	↓

EBITDA	Current year R' billions	Prior year R' billions	Difference R' billions	% Change	
Gold	38	47	(9)	(19%)	↓
Platinum	23	17	6	35%	↑
Other	25	28	(3)	11%	↓
Totals	**86**	**92**	**(6)**	**(7%)**	↓

EBITDA margin	Current year %	Prior year %	Difference %
Gold	26%	31%	(5%)
Platinum	15%	13%	2%
Other	25%	32%	(7%)

Source: PwC analysis

Gold's EBITDA was negatively impacted by the average stronger rand which resulted in a lower rand gold price and a negative impact on conversion of foreign operations.

Platinum improved on the back of Anglo American Platinum's better performance now that their restructuring of their portfolio is largely completed. Despite weaker rand platinum prices, there was a marginal increase in the basket price as a result of improved palladium, rhodium and nickel prices which also supported the EBITDA margin. The 15% EBITDA margin is unfortunately still too low to sustain the industry and explains the unfortunate need for further retrenchments and shaft closures.

Other producers were negatively impacted by the R4.2 billion BEE restructuring expense recognized by Exxaro.

Foreign exchange impact

The impact of the rand exchange rate on performance is substantial, but not as big as in the previous year . The rand-dollar exchange rate was stronger in the current period. Costs were controlled with most entities having marginal increases.

Aggregate financial position

	Current year R' billions	Prior year R' billions	Difference R' billions	% Change
Current assets				
Cash and cash equivalents	65	58	7	12%
Inventories	64	55	9	16%
Receivables and other current assets	39	42	(3)	(7%)
Derivative financial assets	1	2	(1)	(50%)
Assets held for sale	11	3	8	267%
Total current assets	**180**	**160**	**20**	**13%**
Non-current assets				
Mining and production assets	406	405	1	-
Goodwill	7	6	1	17%
Investments	96	99	(3)	(3%)
Other non-current assets	28	21	7	33%
Total non-current assets	**537**	**531**	**6**	**1%**
Total assets	**717**	**691**	**26**	**4%**
Share capital and reserves				
Share capital	364	363	1	-
Reserves and non-controlling interest	28	35	(7)	(20%)
Total equity	**392**	**398**	**(6)**	**(2%)**
Current liabilities				
Accounts payable and other liabilities	78	75	3	4%
Interest bearing liabilities	15	13	2	15%
Total current liabilities	**93**	**88**	**5**	**6%**
Non-current liabilities				
Interest bearing liabilities	119	105	14	13%
Deferred taxation liabilities	56	52	4	8%
Derivative financial liabilities	3	2	1	50%
Other non-current liabilities	49	44	5	11%
Liabilities held for sale	5	2	3	150%
Total non-current liabilities	**232**	**205**	**27**	**13%**
Total liabilities	**325**	**293**	**32**	**11%**
Total equity and liabilities	**717**	**691**	**26**	**4%**

Source: PwC analysis

Key ratios

Cost component	Current year	Prior year	Global mine ratios
Market capitalisation to net book value (times)	1.2	1.0	1.7
Net borrowings (R' billions)	69	60	
Gearing percentage (%)	15%	13%	24%
Solvency ratio (times)	2.2	2.4	2.0
Current ratio (times)	1.9	1.8	1.5
Acid ratio (times)	1.2	1.2	1.1
Net borrowings to EBITDA	0.8	0.6	1.5

Source: PwC analysis

The weak commodity markets up to 2016 left a number of global mining companies with weak balance sheets and in desperate need of restructuring. Over the last two years this position has been rectified by the sale of non-core assets and restructuring of funding, including the issue of equity and, for bulk commodity producers, by increased profitability on the back of higher prices. The South African mining industry, although generally more conservative when it comes to gearing, had to implement similar strategies.

Solvency ratios decreased slightly compared to the previous year as a result of the net loss realised. This was due in the main to impairment provisions recognised. However, the solvency position of miners in South Africa is still healthy and better than that of their global counterparts.

The aggregated liquidity position is also healthy and better than that of global miners. However, this hides the challenges still experienced at individual company level. Although more than half of companies analysed improved their liquidity position, six (2017: 3) companies still had current ratios of less than 1 and 13 (2017: 9) had acid ratios of less than 1. Not having the necessary liquidity could, at worst, result in the demise of a company and, at best, put strain on optimal investment for long-term sustainability for these entities.

Market capitalisation compared to net asset value showed an improvement when compared to our analysis in the prior year. This was largely due to companies outside the gold and platinum sector, which enjoyed better returns from improved commodity prices. The market responded well to their return to profitability and improved financial position, which is reflected in their share prices.

At an individual company level, 15 out of the 29 companies (2017:14 out of 25) analysed reflected market capitalisation figures that were in excess of their net asset value.

Platinum

Key ratios

Cost component	Current year	Prior year
Net borrowings (R' billions)	18	15
Gearing percentage (%)	14%	10%
Solvency ratio (times)	2.1	2.5
Current ratio (times)	1.6	1.9
Acid ratio (times)	0.8	1.0
Net borrowings to EBITDA	1.0	0.9

Source: PwC analysis

We continue to see a weaker financial position affecting the platinum sector as platinum prices remain under pressure in an increased cost environment.

Net borrowings have increased compared to our prior year's analysis. Liquidity positions have weakened considerably on the back of high inventory build up amid low platinum prices.

Marred by impairments, the sector's solvency ratio weakened. Net borrowings-to-EBITDA remained weak as result of the weak income statement performance.

Gold

Key ratios

Cost component	Current year	Prior year
Net borrowings (R' billions)	68	50
Gearing percentage (%)	35%	28%
Solvency ratio (times)	1.8	1.9
Current ratio (times)	1.5	1.3
Acid ratio (times)	1.0	0.9
Net borrowings to EBITDA	2.0	1.0

Source: PwC analysis

Despite a focus on efficiencies and cost management at an operational and corporate level, gold companies had to deal with a gold price under pressure and an increased cost base. The result was additional impairments for gold companies that led to a weakening in their solvency ratios. Liquidity has improved marginally and is testimony to the focus put on operational performance by gold companies.

Gearing levels increased in the current year as gold companies pursued attractive investment opportunities aimed at enhancing their portfolio of gold assets. These were largely debt funded.

Working capital

Despite the weaker ratios, the acid test ratio of 1.3 is still at an acceptable level. Liquidity risk remains a major concern for some gold and platinum players. The same cannot be said for those outside these sectors, which demonstrated exceptional working capital management positions.

Most notable is the R9 billion increase in inventory mainly as a result of a build up in PGM inventories due to temporary processing constraints.

Financing

Borrowings

The net borrowings position increased from R60 billion to R69 billion as a result of additional debt being raised to fund acquisitions.

Sibanye-Stillwater concluded a US$1.06 billion eurobond to refinance its bridge loan.

Harmony repaid its US$250mil RCF loan and entered into a new three-year syndicated facility for US$350 million. A further US$200 million bridge facility was obtained to facilitate the Moab Khutsong acquisition.

6 Glossary

Terms	Definition
acid ratio	(current assets less inventory)/current liabilities)
BEE	black economic empowerment
CI	Carried Interest - shares issued to qualifying employees and host communities at no cost to them and free of any encumbrance. The cost for the carried interest shall be recovered by a right holder from development of the asset
CPI	consumer price index, published by Statistics South Africa
current ratio	current assets/current liabilities
DRC	Democratic Republic of Congo
EBITDA	earnings before interest, tax, depreciation, amortisation and impairments
EBITDA margin	EBITDA/revenue
EU&R	energy, utilities and resources
gearing percentage	net borrowings/(net borrowings plus equity)
JSE	Johannesburg Stock Exchange
market capitalisation	The market value of the company calculated as the number of shares outstanding, multiplied by the share price
net borrowings	interest-bearing debt, less cash
net profit margin	net profit / revenue
PGMs	platinum group metals
PPE	property, plant and equipment
PPI	producer price index
RAF	road accident fund
SARS	South African Revenue Service
solvency ratio	total assets / total debt
UG2	upper group 2 reef
working capital	inventories plus accounts receivable less accounts payable

7 Companies included in the analysis

Company	Year end
African Rainbow Mineral Limited	30-Jun
Alphamin Resources Corporation	31-Dec
Anglo American Platinum Limited	31-Dec
Anglogold Ashanti Limited	31-Dec
Assore Limited	30-Jun
Bauba Platinum Limited	30-Jun
Buffalo Coal Corp	31-Dec
Chrometco Limited	28-Feb
DRDGOLD Limited	30-Jun
Eastern Platinum Limited	31-Dec
Exxaro Resources Limited	31-Dec
Gold Fields Limited	31-Dec
Harmony Gold Mining Company Limited	30-Jun
Impala Platinum Holdings Limited	30-Jun
Jubilee Metals Group Plc*	30-Jun
Kibo Energy Plc	31-Dec
Kumba Iron Ore Limited	31-Dec
Lonmin Plc	30-Sep
MC Mining Limited	30-Jun
Merafe Resources Limited	31-Dec
Northam Platinum Limited	30-Jun
Orion Minerals Limited	30-Jun
Pan African Resources Plc	30-Jun
Resource Generation Limited	30-Jun
Royal Bafokeng Platinum Limited	31-Dec
Sibanye-Stillwater Limited	31-Dec
Tawana Resources NL	31-Dec
Tharisa Plc	30-Sep
Wescoal Holdings Limited	31-Mar
Wesizwe Platinum Limited	31-Dec

*Publicly available financial results not available at time of writing

8 Basis for compiling this report

We aggregated the financial results of mining companies with a primary listing on the Johannesburg Stock Exchange (JSE) and mining companies whose main operations are in Africa and that have a secondary listing on the JSE, for the financial year ends to June 2018. We used a cut-off market capitalisation of R200 million and excluded all companies with suspended listings.

Our selection criteria excluded global mining companies Anglo American plc, BHP Billiton, South32 and Glencore Xstrata. Although these companies have a significant South African footprint, their global exposure and size mean that they do not necessarily reflect trends in the South African mining environment. While a large number of the entities included also have international exposure, the bulk of their operations are in Africa.

The results aggregated in this report have been sourced from information that is publicly available and consists primarily of annual reports or reviewed results made available to shareholders. Companies have different year ends and report under different accounting regimes.

Information has been aggregated for the financial years of individual companies and no adjustments have been made to take into account different reporting requirements and year ends. As such, the financial information shown for 2018 covers reporting periods from 1 October 2016 to 30 June 2018, with each company's results included for the 12-month financial reporting period that falls into this time frame.

Information for the previous year comprises information for the 29 companies selected in the current year, except where indicated otherwise.

All currency figures in this publication are reported in South African rand, except where specifically stated otherwise. The results of companies that report in currencies other than the rand have been translated at the average rand exchange rate for the financial year, with balance sheet items translated at the closing rand exchange rate.

Some diversified companies undertake part of their activities outside the mining industry. No attempt has been made to exclude such non-mining activities from the aggregated financial information.

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9 About PwC

Our global footprint as a firm means we have the right people to support you everywhere

*Over **1 500** mining professionals across the globe located in all significant mining territories*

*More than **250 000** people who are committed to delivering quality in assurance, tax and advisory services*

*Professionals in **158** countries, working collaboratively*

***Our promise** to you: 'Our relationship with you **creates the value** that you are looking for'.*

Navigating the territory….

Our ability to quickly combine the right competencies, market knowledge and mining industry insights – uniquely for each client issue and territory – sets us apart from the rest.

We help organisations explore opportunities, navigate risk, achieve business goals and change business networks across Africa. Our professionals have financial and operational experience, knowledge of business processes, and industry insight which enables us to listen and understand your goals and the environment (competitive, economic and regulatory) in which you operate and provide you with a solution that's right for your organisation.

Our African mining practice actively recruits seasoned, multi-disciplined leaders with proven industry experience, a demonstrated ability to solve the most difficult business problems and a history of leading successful and sustainable continuous improvement initiatives from start to finish. We believe it's critical that our professionals can quickly understand your business, challenges and culture and then design and implement an effective solution for your organisation.

Apart from our extensive global reach and our deep level of industry experience and skills, building relationships with our clients is key to us. This is the core of what makes partnering with us effective and the return on your investment with us invaluable.

An extensive African Footprint

Our offices...

Africa is a vital part of our agenda.....

Our African footprint is unsurpassed – we operate in 34 countries and employ over 9 000 staff members. In the countries in which we operate, we have offices in all the major cities. We have the largest African footprint of the major professional services firms. This allows us to quickly combine the right competencies, market knowledge and mining industry insights–tailored to each client issue and territory.

Our Africa Energy Utilities and Resources practice is a family of multi-disciplined leaders with proven industry experience and ability to understand and assist our clients. Our clients range from the largest multinationals to smaller entrepreneurs and the range of services that we offer is even wider. We tailor our services to meet the specific needs of each client from planning, strategy, operations to reporting.

We have experience across all sub industries of oil & gas, mining, power & utilities and energy. We are able to achieve this through our Africa EU&R Centre of Excellence (COE). The COE is a way of enabling our clients to access our subject experts.

Contacts

With mining experts working in each key mining area across South Africa, our teams are helping clients deliver on specific projects and organisational growth aspirations. We offer advisory, tax and audit services to global corporations and locally-listed companies.

We complement this with:

A suite of niche mining consulting capabilities focused on optimising value across mining operations and effectively managing risk; and

A comprehensive client feedback programme to ensure we are consistently delivering on individual client needs.

For any mining related queries, services or assistance required, please contact our EU&R Centre of Excellence at michelle.botas@pwc.com.

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