Mining is a cyclical industry and, since 2008, we have been dealing with a combination of factors that have produced the proverbial perfect storm. While a resurgent dollar has pushed most commodity prices to decade lows, commodity markets remained oversupplied after significant investment in new capacity at the height of the commodity boom in the early 2000s. At the same time, a strengthening American economy is dwarfed by slowing demand in China, which still consumes around half of the world's minerals and metals such as iron ore, aluminium and zinc.

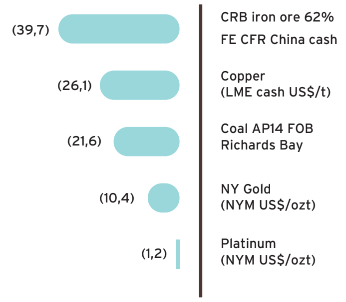
The continuing global oversupply has caused average US$ coal and iron ore prices to decline further, by around 22% and 40%, respectively, since 1 January 2015.

In South Africa, this negative global impact is heightened by a contracting economy, weakening rand and higher input costs. There has also recently been much activism against coal as a source of energy due to the associated environmental impact from carbon dioxide (CO_2) and methane (CH_4) emissions. However, given the state of South Africa's energy requirements, coal remains a relevant source of affordable energy for the economy and Exxaro is partially hedged against falling coal export prices as domestic US$ prices remained relatively stable. The weak rand also supported stable export volumes.

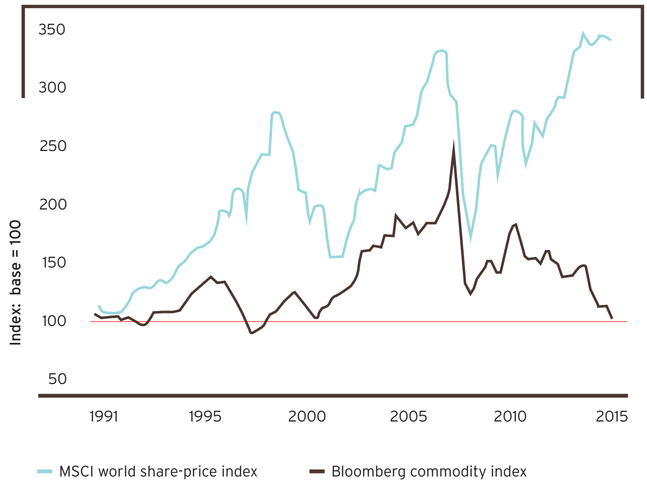
Against this background, Exxaro and other mining groups have had to review their approach to almost every facet of the business.

Summary of key economic changes

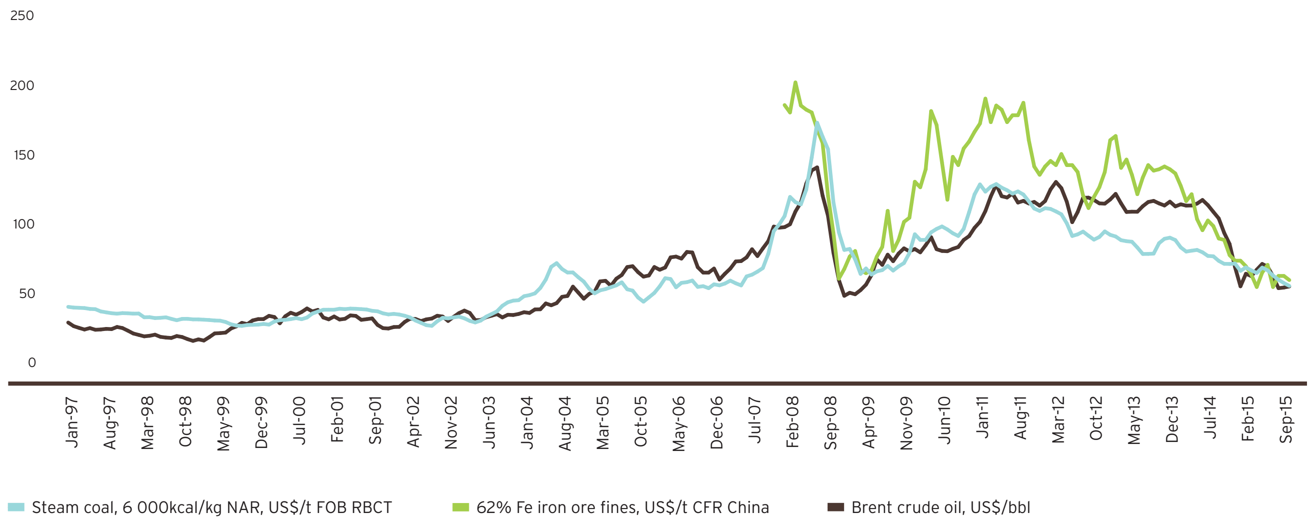
- 25,3% depreciation in the R/US$ exchange rate
- 1,3% GDP growth in South Africa, with 0,9% growth forecast in 2016
- 21,6% decrease in coal API4 prices, averaging US$57 over FY15 and US$50 at year end
- 39,7% decrease in iron ore prices, averaging US$57 over FY15 and US$42 by end 2015



2015 depressed commodity prices



Share prices and commodity index (April 1991 = 100)



Average monthly commodity prices

Commodity price volatility has been one of our top five risks over the past two years, although the extent of the downturn was probably underestimated by all. Our mitigating steps have supported our resilience in these trying times, while emphasising the importance of an effective enterprise risk management process.