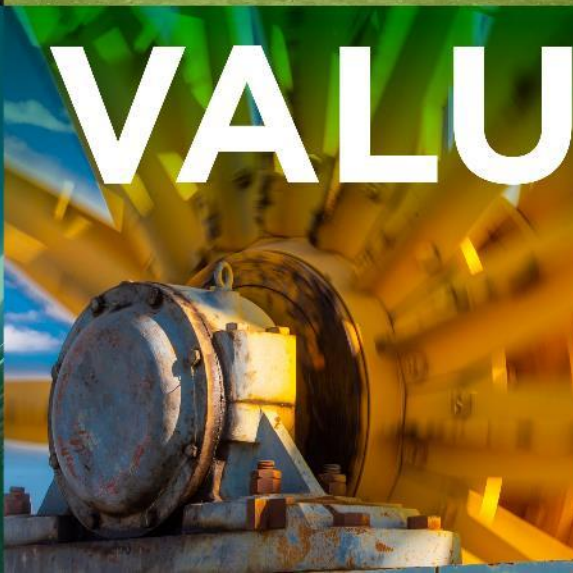


#MakingMiningMatter

# The current state of the PGMs industry in South Africa

Roger Baxter / CEO Minerals Council South Africa / Joburg Indaba







THE WONDER OF PGMs  
**VALUABLE**

# AT A GLANCE (IN 2019)

Direct employees:  
164,513 people  
(-1.5% from 2018)

PGM production:  
262.9t  
(-2.9% from 2018)

Employee earnings:  
R52.1bn  
(-1.3% from 2018)

Total sales:  
R124.6bn  
(+18.9% from 2018)

Royalties paid:  
R1.12bn  
(+32.5% from 2018)

Percentage exported:  
91.3%



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# COVID-19 INDUSTRY RESPONSE



# A BLACK SWAN EVENT

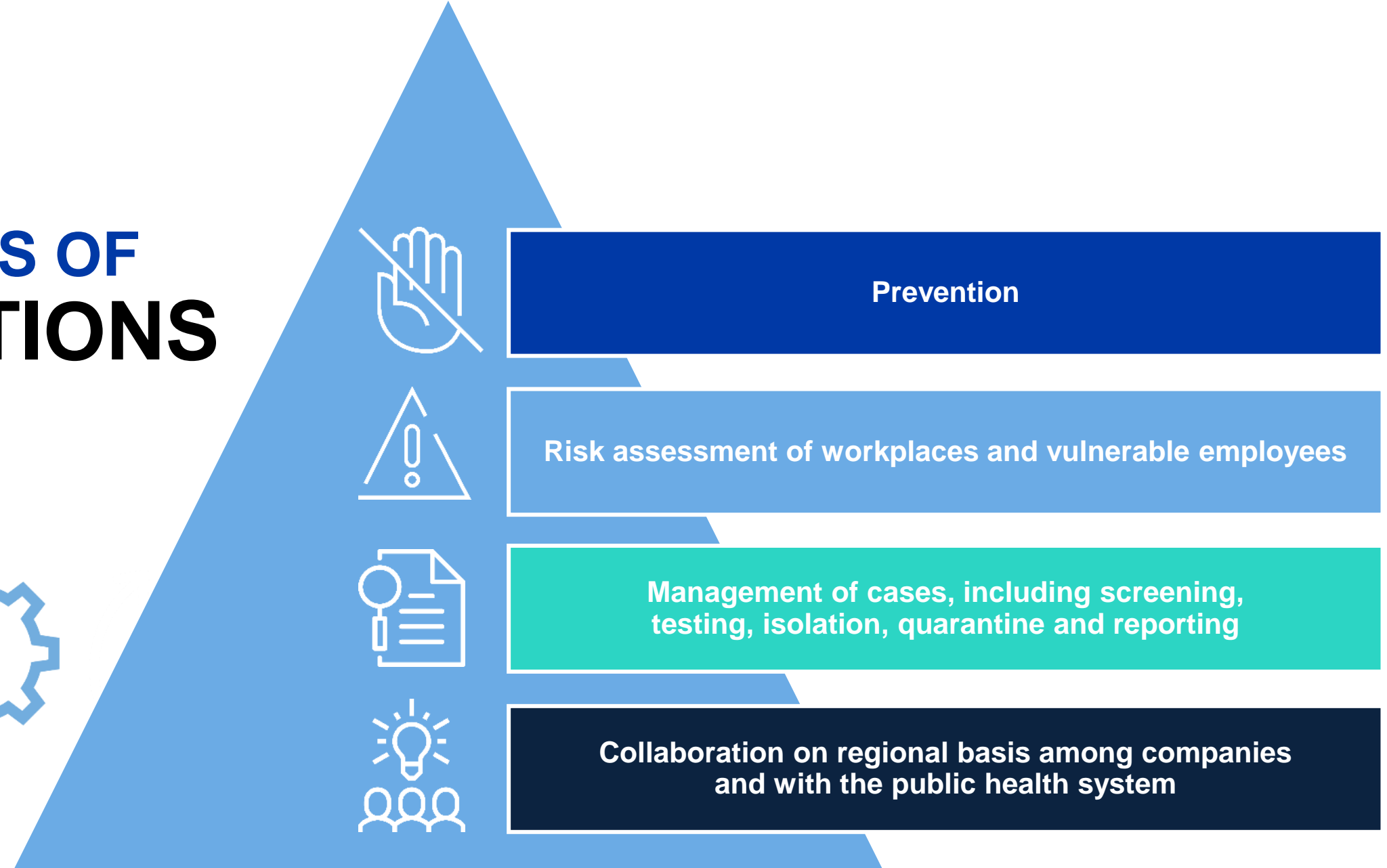
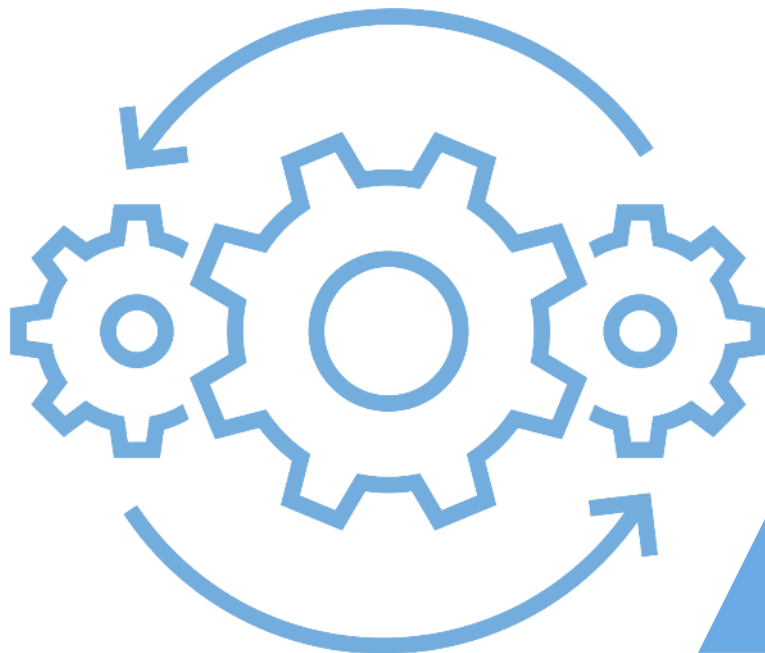


**Novel  
virus**

**Unprecedented  
socio-economic  
disruption**

**No-one has all the  
answers - we are all  
finding the best way  
to control and  
mitigate the impact  
of the disease**

# KEY ELEMENTS OF INTERVENTIONS





# TIMELINE OF INTERVENTIONS

## January

WHO declares COVID-19 a public health emergency of international concern



## February

Minerals Council initiates communication plan



## March

- WHO declares COVID -19 a Pandemic
- Minerals Council provides further guidance to members
- Minerals Council adopts a COVID 19 Preparedness Plan (10 Point Plan)
- Minerals Council adopts SOP on Management of COVID-19

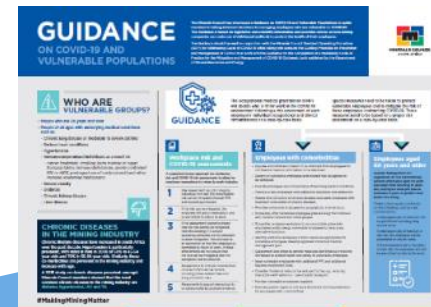


## April

- Minerals Council adopts SOP on COVID-19 Following the Lockdown
- Minerals Council issues Guidance on PPE for COVID-19

## May

- DMRE publishes Guidelines for a Mandatory Code of Practice on the Mitigation and Management of COVID-19
- Minerals Council publishes Guidance on COVID-19 and Vulnerable Populations



## June

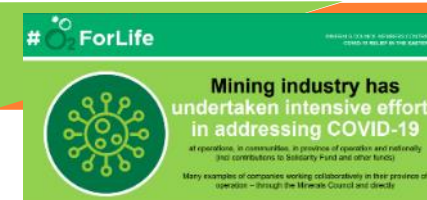
- Mining industry collaborates to increase COVID-19 testing capacity
- Minerals Council outlines response to COVID-19 in Host Communities
- Minerals Council briefs Parliamentary Portfolio Committee on Mineral Resources and Energy

### Testing initiative

SA mining - directly and under Minerals Council, seeking to increase COVID-19 testing capacity for companies and in support of country's overall testing imperative	
<b>Ideal response</b>	<b>Initiative</b>
<ul style="list-style-type: none"> <li>• Identify all cases through testing with aim of isolating infected individuals and curbing transmission</li> <li>• But, SA's COVID-19 testing capacity severely constrained by lack of availability of testing machines, testing kits and qualified staff</li> <li>• Significant gap in processing of tests</li> </ul>	<ul style="list-style-type: none"> <li>• Number of mining companies taken initiative to procure and establish own testing capacity or access to increased testing capacity</li> <li>• Minerals Council Board (29 April) - study on how industry could collaborate to increase greater testing capacity for industry and SA as a whole</li> <li>• Companies may participate voluntarily and already secure capacity</li> <li>• Collaboration regionally</li> <li>• Support for regional testing needs, step regional public health facilities</li> <li>• Also engaging with NHLS to understand and respond to specific needs in support of the country's testing imperative</li> </ul>
<b>Current situation</b>	
<ul style="list-style-type: none"> <li>• Companies required to test employees that fall screening</li> <li>• Risk based approach encompasses additional testing for higher risk scenarios (eg. frontlines workers, security, returning mine workers, and when clusters of infection are identified)</li> <li>• Testing guided by NHC - minimum standard with which industry complies</li> <li>• But capacities in mining, and the very high level of asymptomatic cases, means there are very real reasons why mining industry would really be able to do as much as it can</li> </ul>	

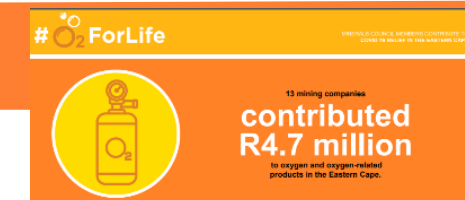
## July

- Minerals Council outlines research critical to supporting mining industry and others during COVID-19
- Behaviour Change Field Guide version 1:1 published
- Minerals Council briefs Civil Society Organisations on Approach to COVID-19



## August

Minerals Council members contribute R4.7 million to oxygen and oxygen products



# PGMS OVERVIEW



PGM sector largest employer  
in mining – around

**165,000**  
direct employees



Largest number  
of cases in mining  
industry in the  
North West province,  
Mpumalanga and  
Limpopo



# EXTENSIVE COLLABORATION

- 3 field hospitals with 236 beds
- Testing sites and labs
- Isolation and quarantine facilities
- Extensive community support and outreach



# COVID-19 LOCKDOWN IMPACT ON PGMs SECTOR PERFORMANCE



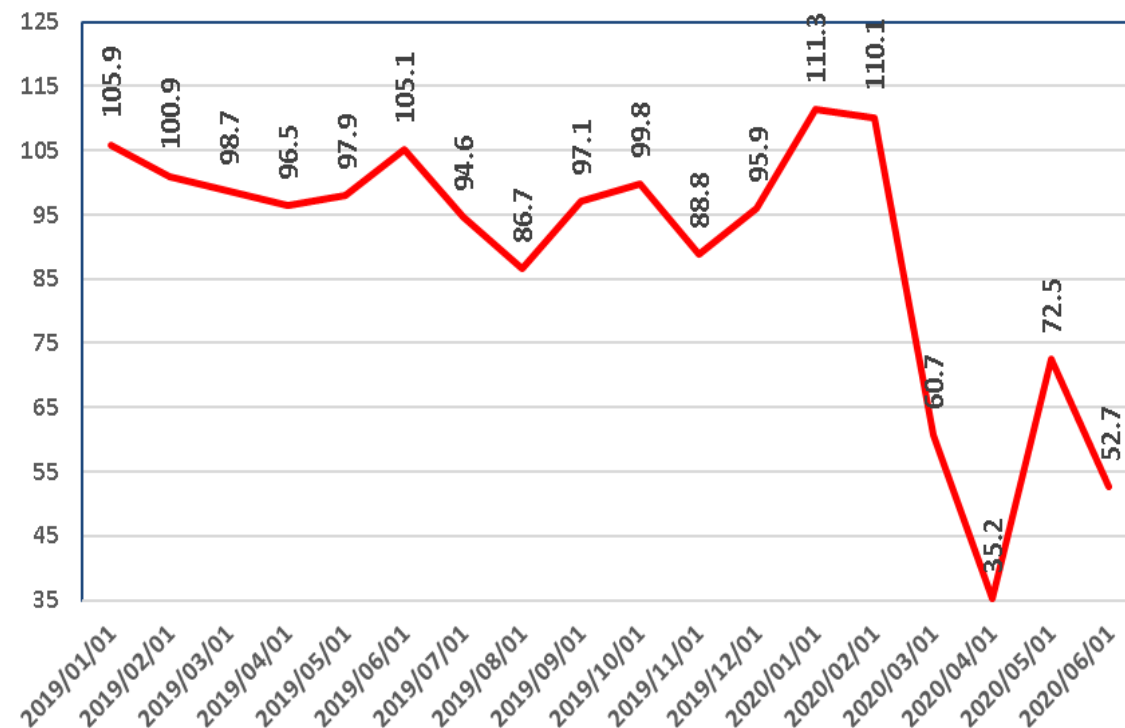


# IMPACT OF LOCKDOWN ON PRODUCTION

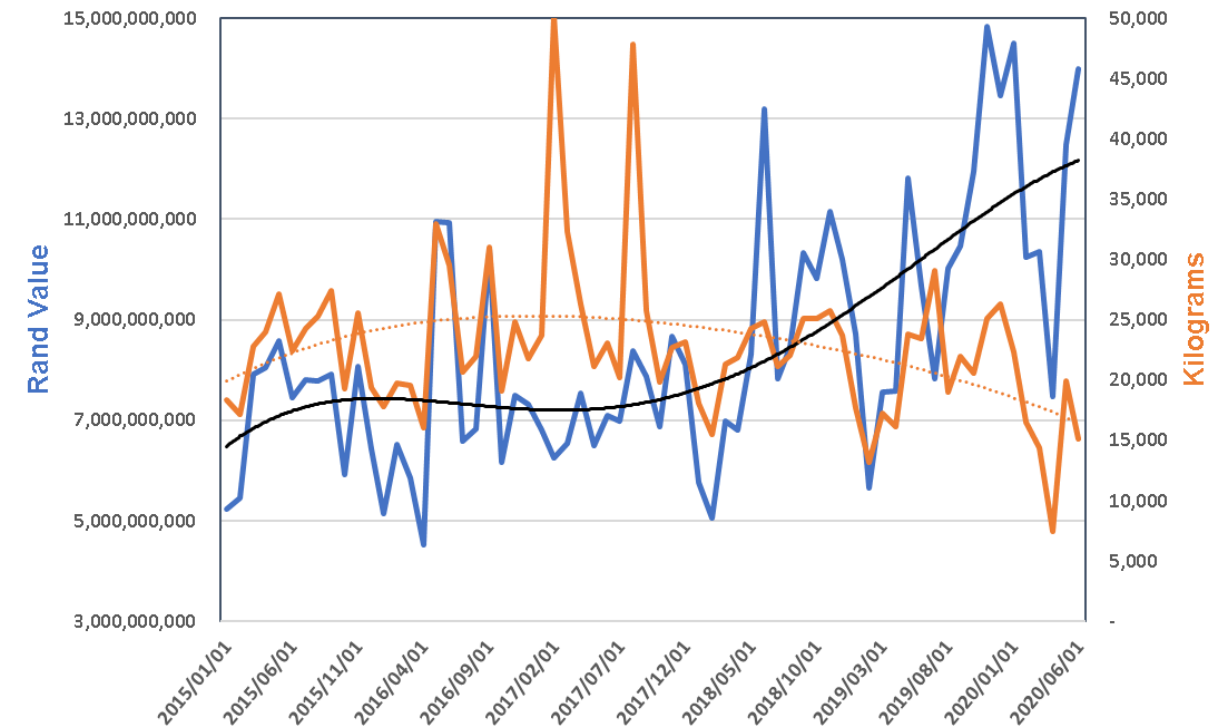
PGM production severely impacted by lockdown

While exports were hampered by lower production and restrictions, commodity prices increased the value of exports

**PGMs production index**



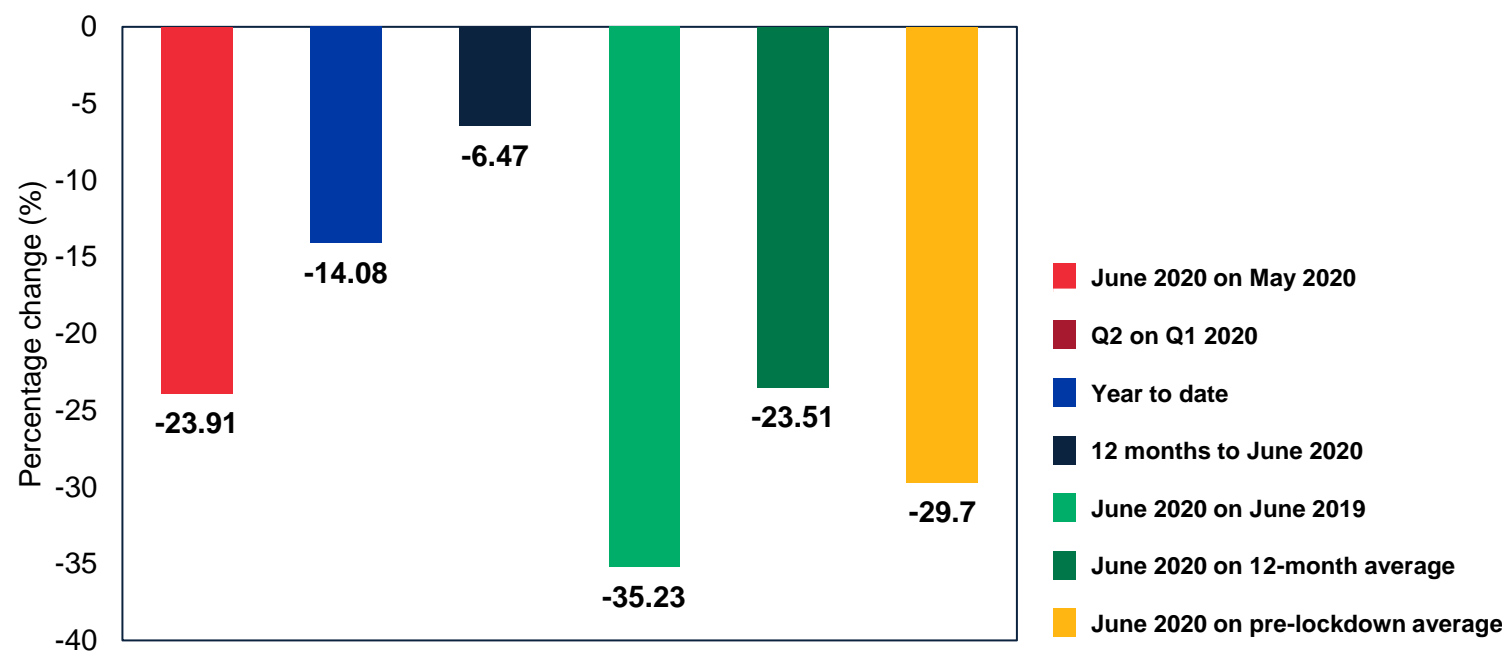
**PGMs Exports (value & tonnage, per month)**



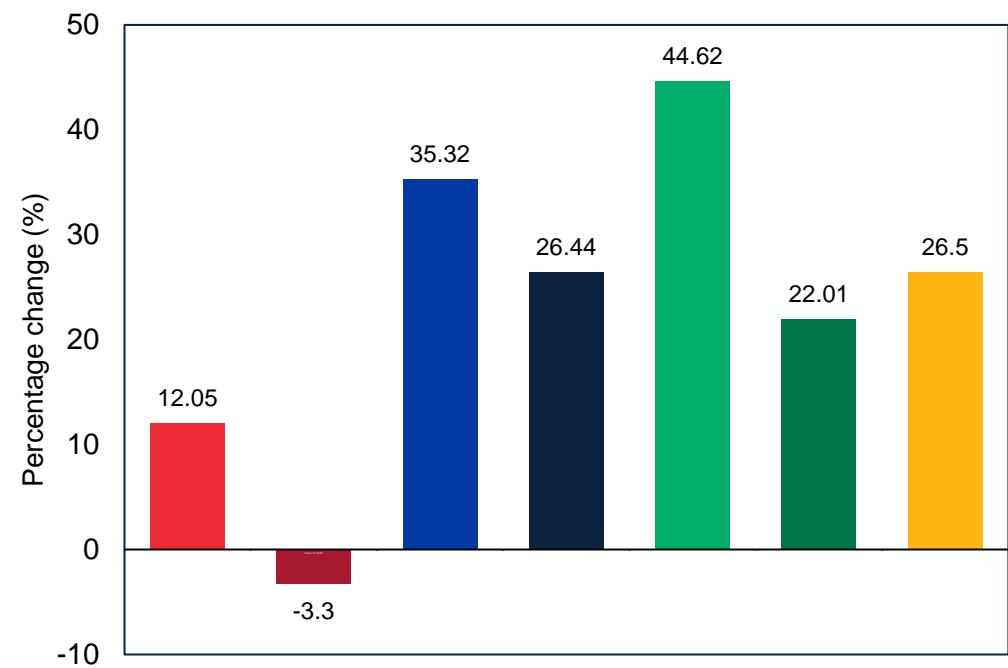
Export tonnes significantly lower compared to previous periods

Value of exports increased

**PGMs export tonnes  
(variation over different time periods)**



**PGMs export values  
(variations over different time periods)**



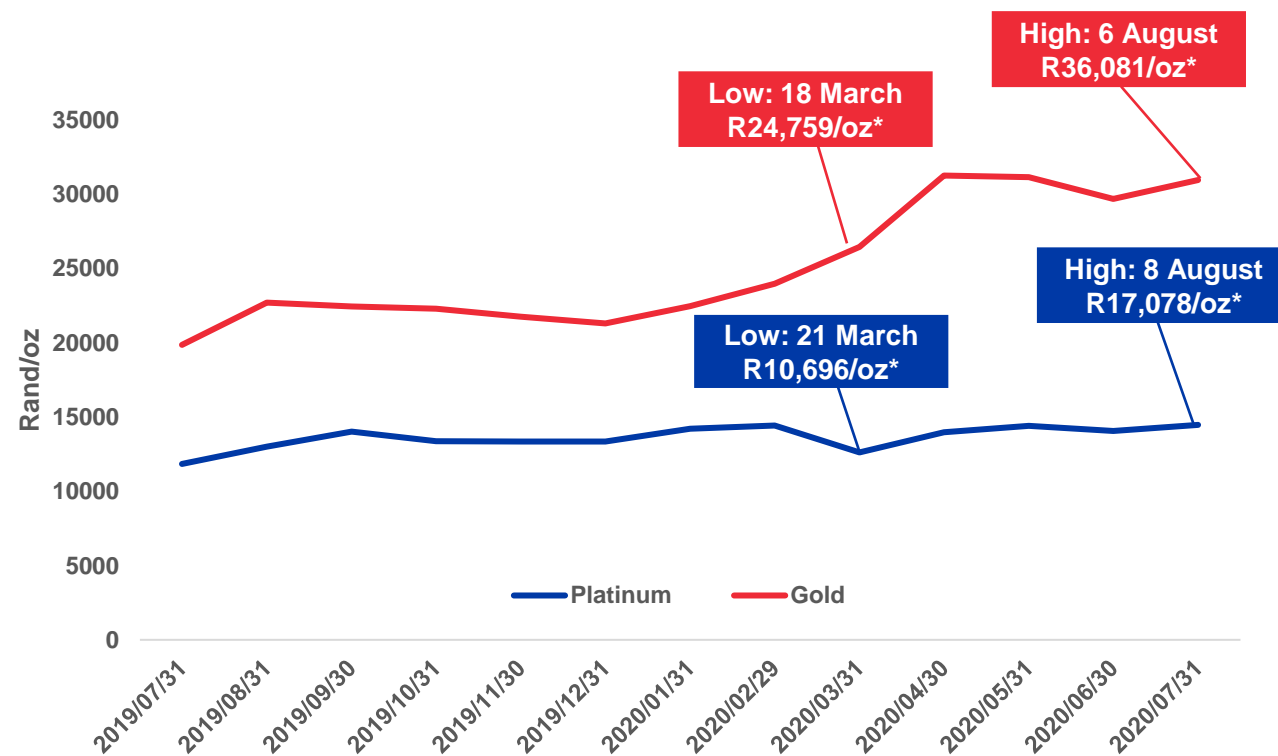


# MAINTENANCE OF OPERATIONS

Platinum vs gold price performance:  
Since March 2020 lows, platinum price  
rose by 59.7% vs 45.7% for gold

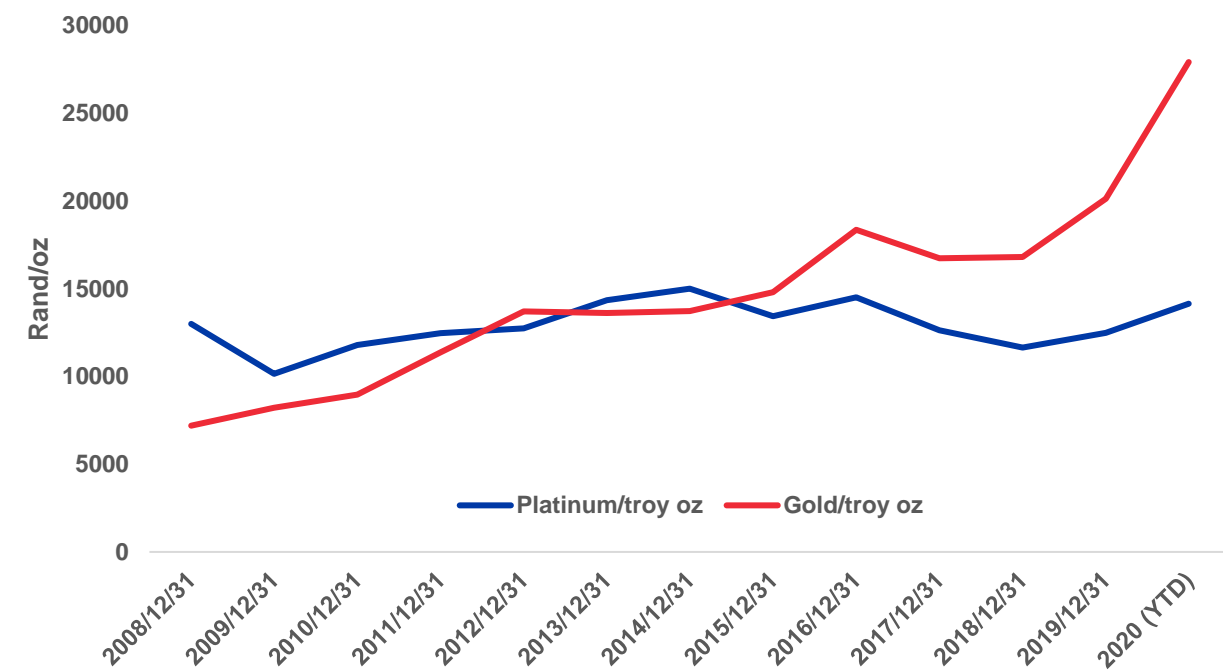
3 years after Global Financial Crisis  
in 2008, platinum outperformed gold  
by between 9% and 45%

**Platinum vs gold price**  
**Rand/oz (July 2019 – July 2020 monthly average)**



\* Daily spot price

**Platinum vs gold price**  
**Rand/oz (2008 – 2020 monthly average)**

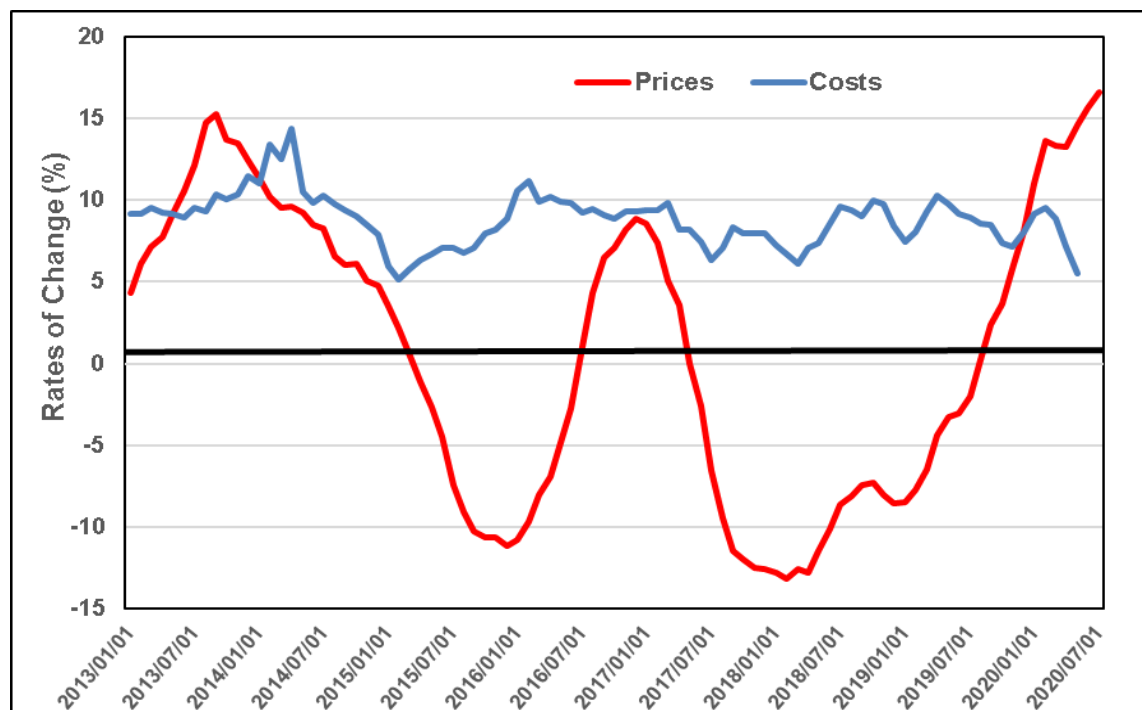


# MAINTENANCE OF OPERATIONS

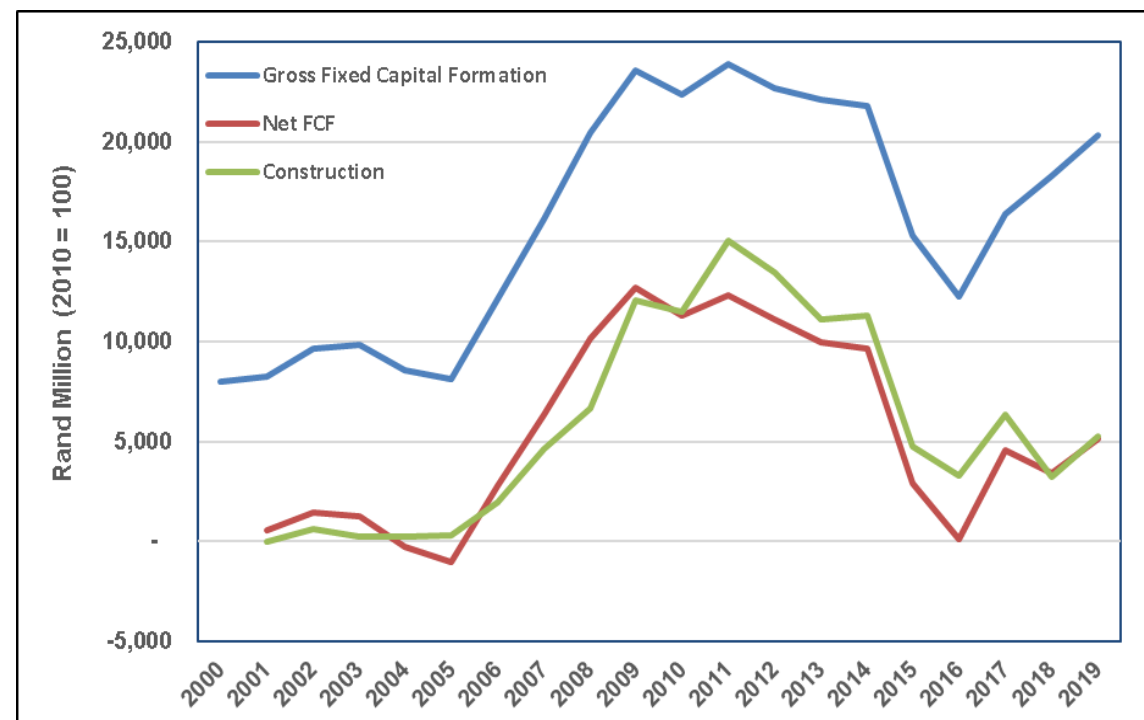
Costs remained relatively unchanged despite disrupted operations

Mining investment only just started to stabilise before 2020

**Rand PGMs prices vs cost changes**



**Gross fixed capital formation (2010 = 100)**



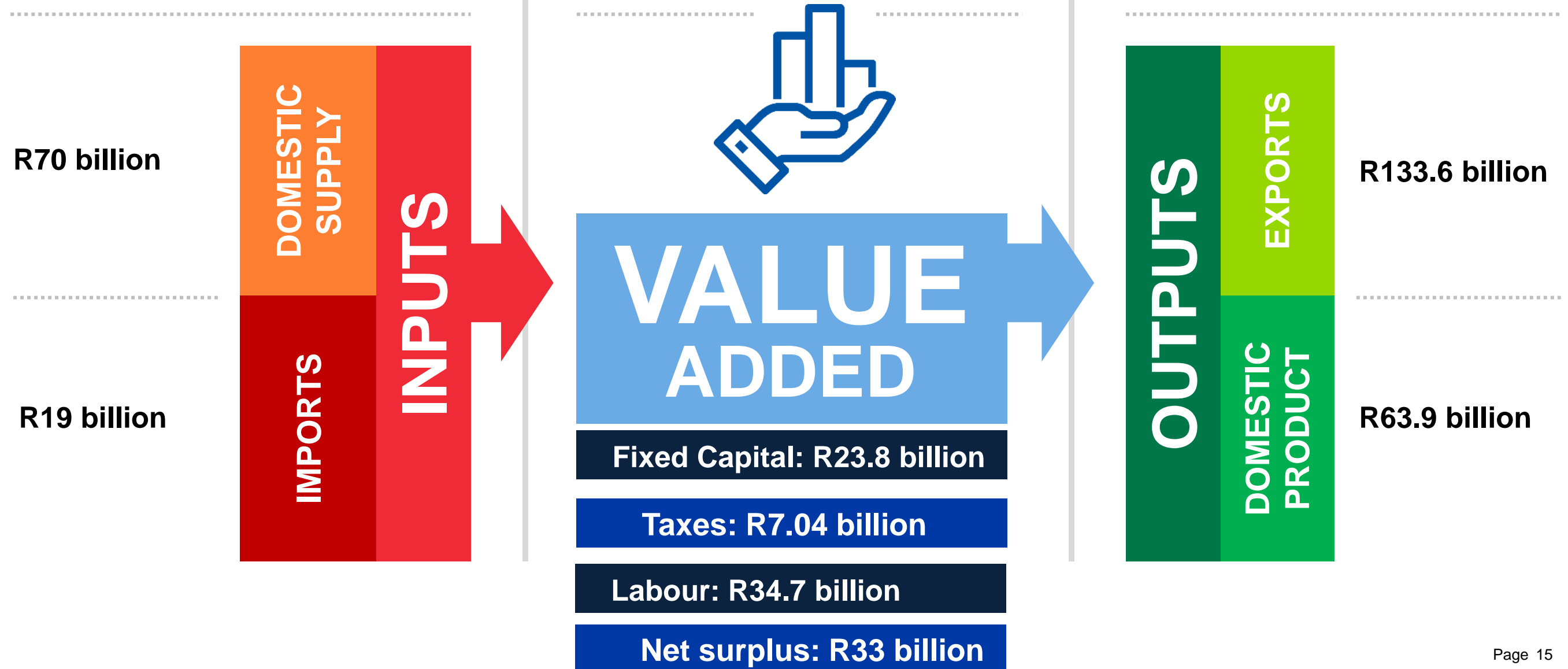


# PGM SECTOR COMPONENTS: 2019

**R89 billion**

**R98.6 billion**

**R187.6 billion**



# PGM CHARACTERISTICS



Exports - **70%** of PGMs mining production by value



Exposed to international prices and direction of energy transition and investment demand



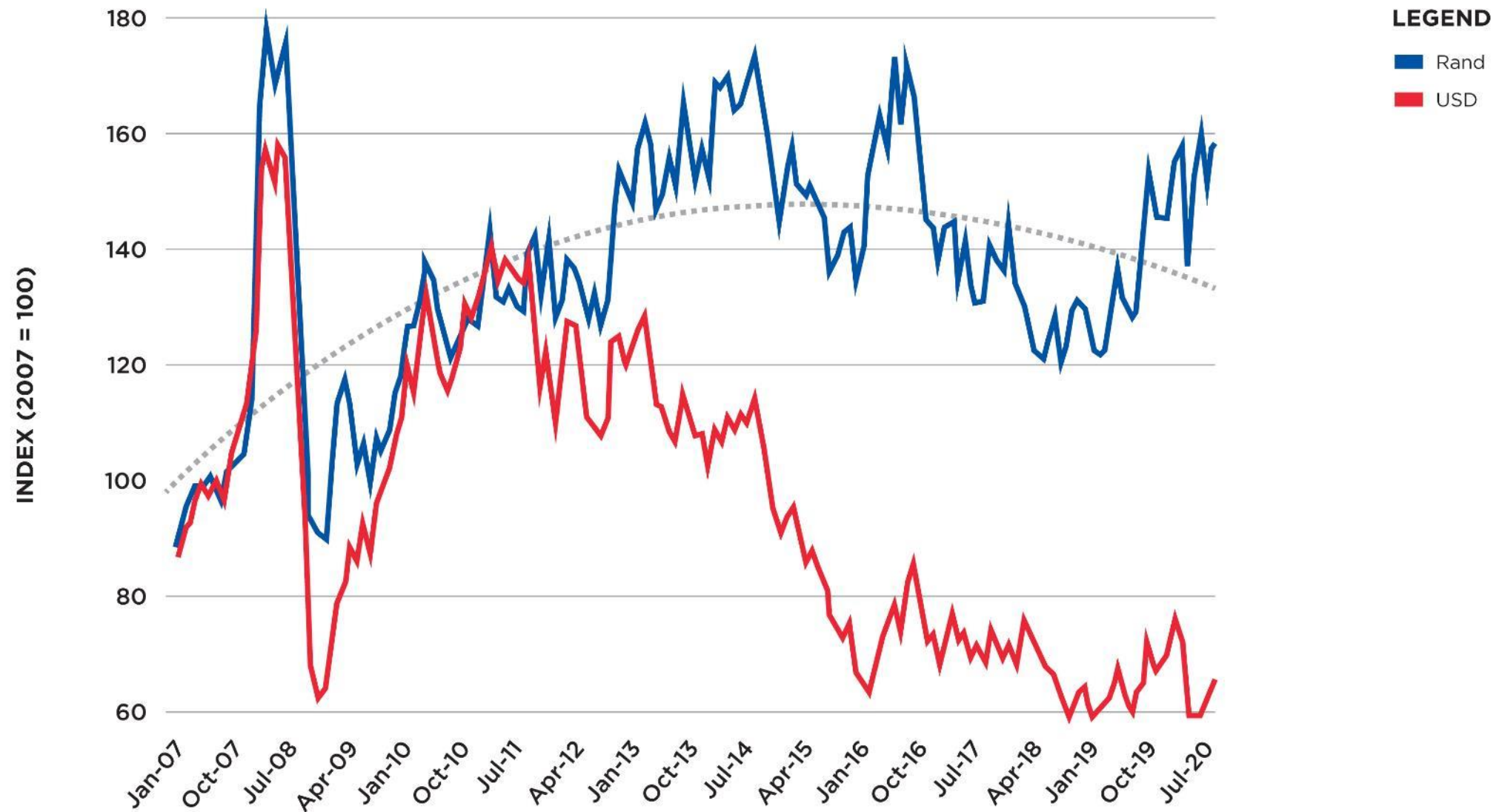
Exposed to Rand exchange rate fluctuations



Exposed to a cost structure - administered prices (electricity, water, rail, ports) are an important portion of input costs



# PLATINUM PRICE INDEX TRENDS



#MakingMiningMatter

# REVITALISING SA's ECONOMY





# THE CIRCUMSTANCES FACING SOUTH AFRICA HAVE CHANGED DRAMATICALLY EVEN THOUGH THE ISSUES ARE SIMILAR

- 

**1** COVID-19 has had a devastating impact on the South African economy adversely affecting **both lives and livelihoods**
- 

**2** Over **3 million jobs** have been lost, the **fiscal deficit** is expected to hit **15% of GDP**, **GDP** is expected to **decline by 8.8%**. SA is in a **major economic crisis**. This demands a **coordinated and bold response**
- 

**3** An **opportunity** exists to reset the course for South Africa **but this requires decisive leadership and urgent delivery**
- 

**4** To build a **better South Africa** requires a shared national vision with a focus on **inclusive growth and job creation**
- 

**5** SA's economic strategy **urgently requires a new social and economic compact among all role players** to deliver **decisive leadership, inclusive growth and prosperity**



**COVID-19 crisis presents an opportunity to rethink the future of South Africa and work together on an accelerated economic recovery focusing on inclusive growth and prosperity for all citizens**

# A NEW INCLUSIVE ECONOMIC FUTURE: THE COVID-19 CRISIS AND THE PARTNERSHIP CREATED TO RESPOND, PROVIDES AN OPPORTUNITY TO RETHINK SA'S FUTURE

**COVID-19 has had a devastating impact on SA's already weak economy**

## The outlook is extremely challenging

- Estimated funding shortfall of R3.4 trillion over the next 3 years
  - Budget deficit and SOE shortfall of R2.4 trillion
- Private sector funding requirement adding c.R1 trillion

### SA in 2020

GDP outlook	<b>\$330bn</b>
Debt: GDP	<b>82%</b>
S&P Rating	<b>BB-</b>
Gini co-efficient	<b>63</b>
Unemployment	<b>29%</b>
Business confidence	<b>5/100</b>
Global Competitiveness	<b>60/141</b>
Ease of doing business	<b>84/190</b>

**We need a compelling and stable environment to attract investment and drive growth & employment**

## Restoring business and consumer confidence is key to:

- Accelerate GDP growth
- Protect and add jobs

## The private sector can help to:

- Access local and foreign investment
- Implement national projects
- Create new businesses and jobs
- Grow tax base to strengthen the fiscus

**Requires a social and economic compact between all partners with the focus on shared prosperity**

## Key success factors that will inform SA's future:

- A shared vision with agreed targets
- Strong leadership
- A focus on inclusive growth and jobs
- Increase impetus to sustainable B-BBEE and Gender Equality
- Regulatory certainty and consistency
- Public / private sector collaboration



**Working together to build the economy and tackle poverty, inequality and unemployment**

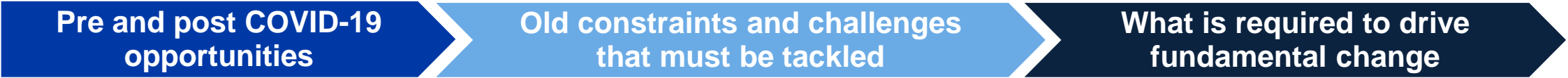
## Building a bridge to recovery beyond COVID-19

**We need an unambiguous and compelling new narrative focused on inclusive economic growth and investment to persuade capital providers to invest in South Africa**

### SA in 2030

GDP outlook	<b>\$550bn</b>
Debt: GDP	<b>60%</b>
S&P Rating	<b>BBB+</b>
Gini co-efficient	<b>43</b>
Unemployment	<b>15%</b>
Business confidence	<b>70/100</b>
Global competitiveness	<b>25/141</b>
Ease of doing business	<b>20/190</b>

# WE NEED TO WORK TOGETHER TO TACKLE CONSTRAINTS AND CHALLENGES AND DELIVER AN INCLUSIVE AND ACCELERATED ECONOMIC RECOVERY STRATEGY



A social and economic compact focused on growth

Infrastructure investment

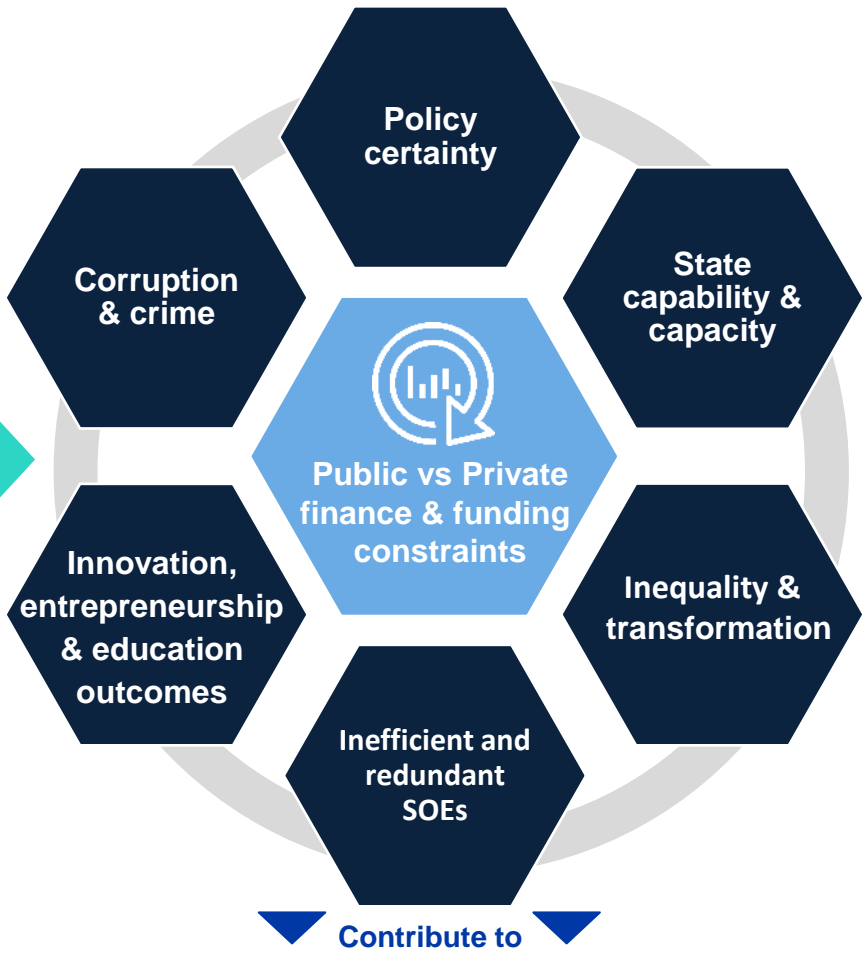
Rapid acceleration of SMMEs

Unlocking sector opportunities

Digital economy acceleration

A new global paradigm

Together we must address



Poverty, inequality, unemployment and a lack of inclusive growth

1

Unlock SMMEs by improving SA's Ease of Doing Business ranking

2

Accelerate economic transformation by improving SA's Global Competitiveness ranking

3

Greater policy certainty to enable SA to compete for funding

4

Agree on key national projects and policy interventions (see overleaf)

5

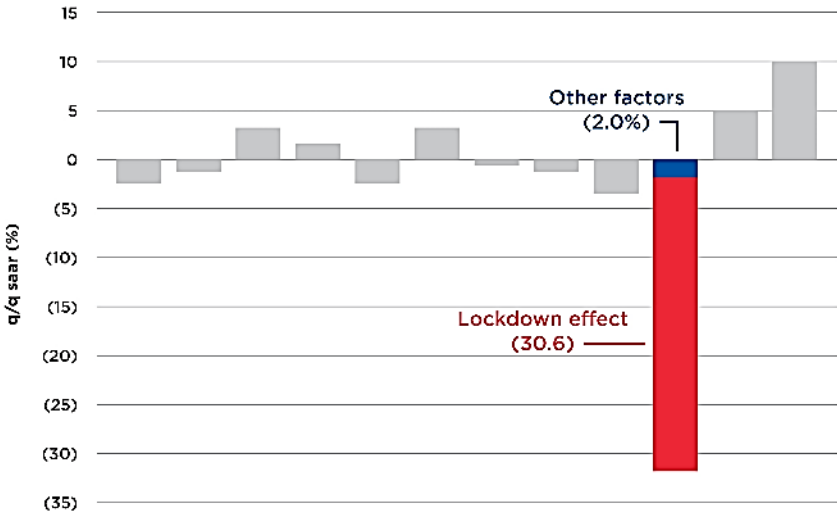
Effective and timely implementation via appropriately capacitated resources

- South Africa will have to compete for capital against all other emerging markets
- Fiscal discipline essential to reduce cost of capital
- We need an unambiguous and compelling new narrative focused on inclusive growth and investment to persuade capital providers to invest in South Africa
- Improving SA's global competitive position is key



# THE ECONOMIC IMPACT OF COVID-19 EXACERBATES THE CHALLENGES WITH B4SA'S OWN ECONOMIC ANALYSIS BEING CONSISTENT WITH THE SARB

GDP growth

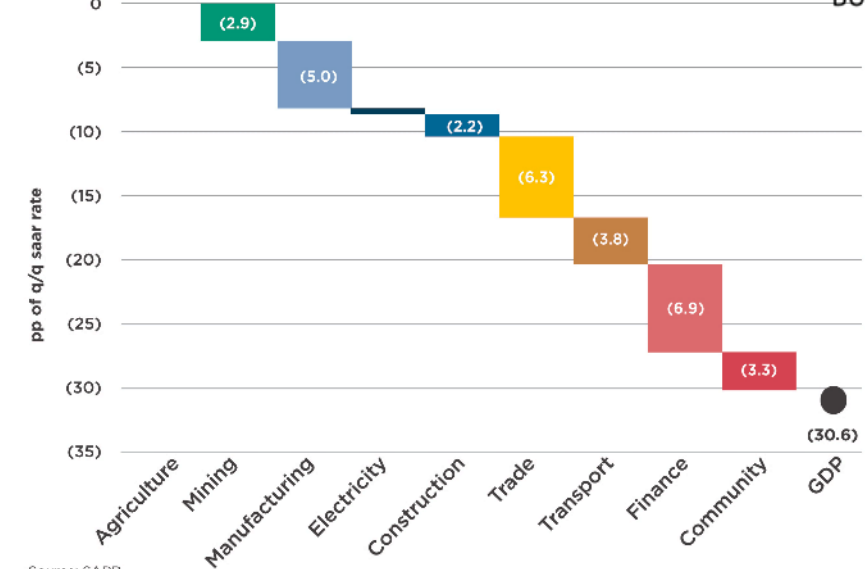


Source: Stats SA and SARB

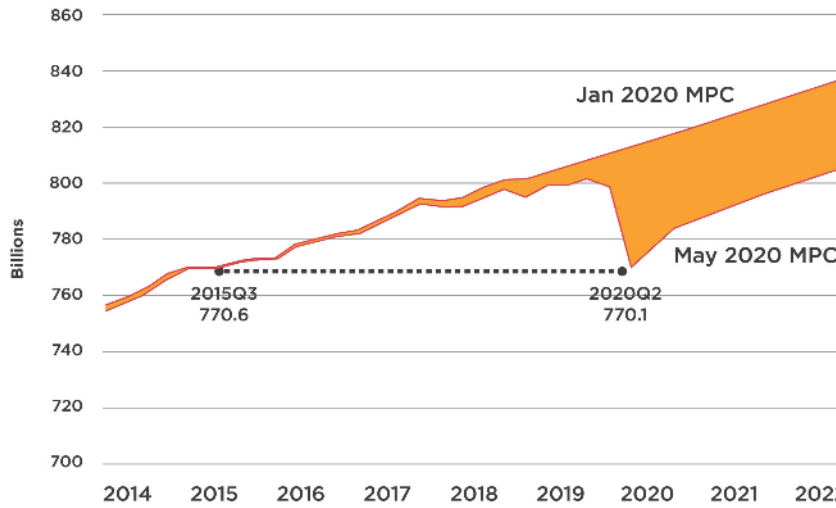
Q2 GDP growth expected to decline 30.6%

Declines expected across nearly all sectors

Direct impact of lockdown on Q2 GDP growth



Potential GDP

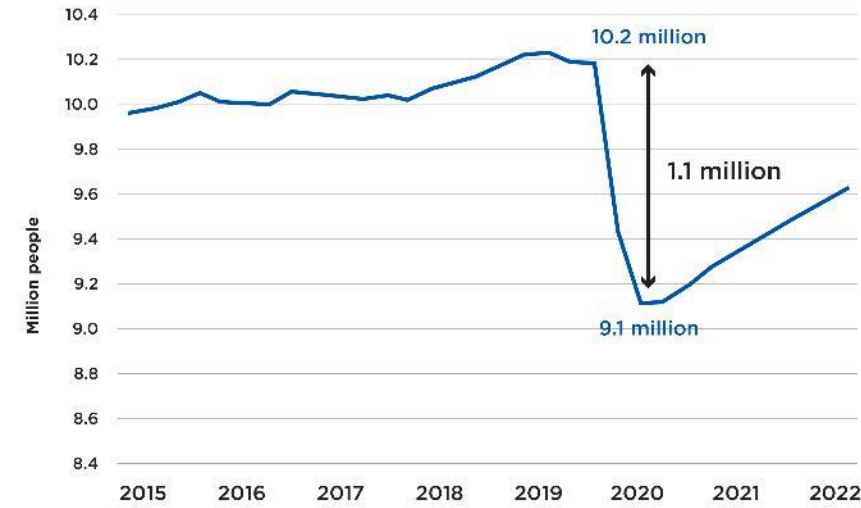


Source: SARB

Over 1.1 million job losses between June & July

GDP not expected to return to original trajectory

Total employment



Source: SARB

# IN JUST A FEW MONTHS, COVID-19 HAS UNRAVELLED MUCH OF THE PROGRESS MADE OVER THE LAST 25 YEARS AND EXACERBATED THE WEAKNESS OF THE LAST 10 YEARS



%	Unit	1994		2008		Dec 2019		2020	
GDP	US\$bn	140	x2.1	287	x1.3	368	-10	330	↓
Debt: GDP	%	49.2	-21.4	27.8	+34.4	62.2	+23.4	82.0	↑
S&P Rating		BB+	3 notches	BBB+	4 notches	BB	1 notch	BB-	↓
JSE total market capitalisation	US\$bn	260	x3.2	828	x1.5	1,231	-25	924	↓
Banking assets	US\$bn	97	x3.9	383	x1.1	421	-20	335	↓
Foreign Direct Investment	US\$bn	0.4	x30	12	x0.6	7.1	↓	n/a	↓
Tax revenue	Rbn	114	x5.5	625	x2.2	1,356	-16	1,140	↓
ZAR : USD		3.55	+133	8.26	+69	14.00	+24	17.30	↑
Unemployment	%	20	+3	23	+6	29	+6	35	↑
Gini coefficient	%	59	+4	63	-	63	↑	n/a	↑

## From 1994 to 2008 South Africa thrived

- GDP doubled in US\$ terms to \$287bn
- Debt: GDP almost halved to 27.8%
- SA secured an Investment grade rating in 1999
- Foreign Direct Investment grew 30 fold to \$12bn
- Tax revenues grew by 550%
- However growth was not inclusive as unemployment remained a problem and the Gini coefficient grew

## Over the last 10 years South Africa has stumbled

- Debt: GDP has more than doubled record levels
- SA's Rating is now lower than in 1994
- Foreign Direct Investment has declined
- Unemployment and inequality continue to rise
- South Africa entered a recession prior to COVID-19

## COVID-19 unravels much of progress since 1994

- GDP is expected to decline by more than 10%
- Debt: GDP expected to exceed 100% by 2023
- All key metrics have declined in the last 3 months

## South Africa needs to embrace a more accelerated growth path

- Requires strategic choices and courageous leadership

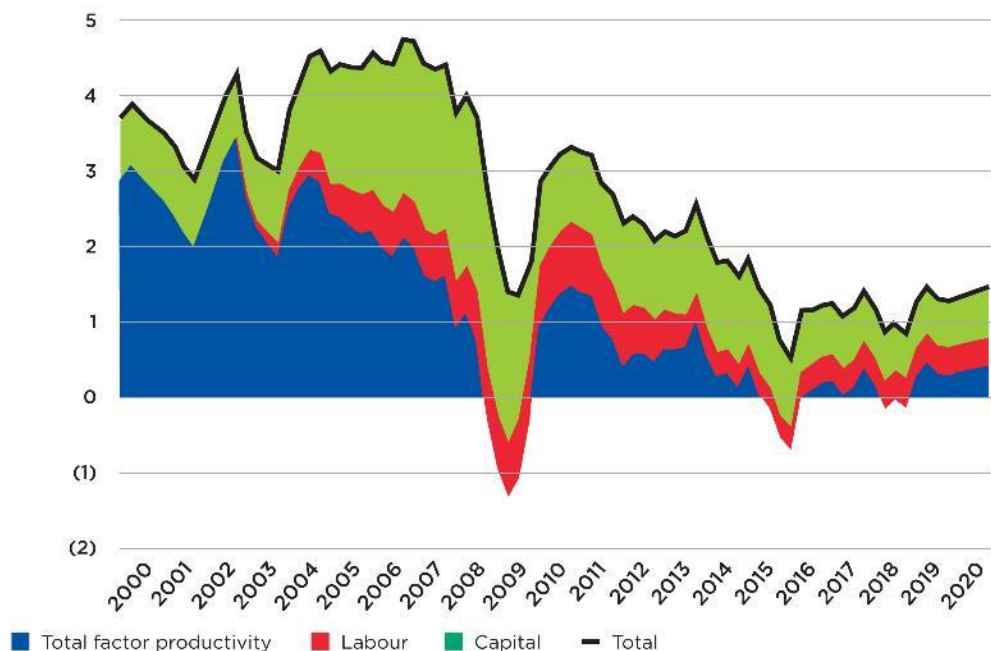
Sources: National Treasury, BER, StatsSA, JSE, SARB, SARS, HIS Markit, Fitch Solutions, CapIQ, IMF

Note: Figures in square brackets, based on expected impact applied to previous level or guidance previously given

# WE MUST ADDRESS KEY ISSUES WHICH UNDERMINE OUR RELATIVE COMPETITIVENESS AND IMPEDE OUR GROWTH POTENTIAL

- 1 South Africa's growth potential has been on a downward trend ... driven primarily by a drop in total factor productivity growth<sup>1</sup>

South Africa's potential growth rate (SARB)



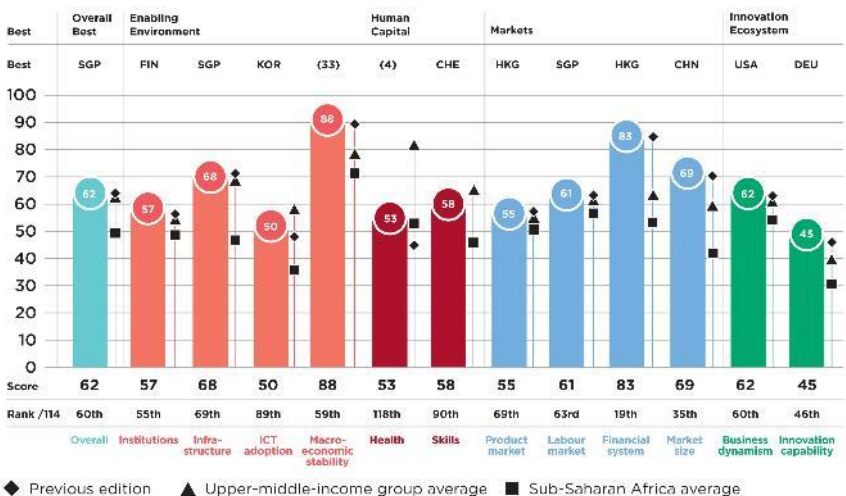
A country's potential growth is a combination of productivity growth and the accumulation of both productive investment and human capital

<sup>1</sup> TFP refers to how efficiently and intensely inputs are used in the production process

- 2 Factors relating to competitiveness and ease of doing business that undermine our growth potential

## Global Competitiveness Report (WEF)

### Performance overview 2019



## Ease of Doing Business (World Bank)

	2008	2020	Change in ranking
	Total: 177	Total: 190	
Starting a business	53	139	(86)
Dealing with construction permits	45	98	(53)
Getting electricity	n/a	114	n/a
Registering property	76	108	(32)
Getting credit	26	80	(54)
Protecting minority investors	9	13	(4)
Paying taxes	61	54	7
Trading across borders	134	145	(11)
Enforcing contracts	85	102	(17)
Resolving Insolvency	68	68	-
Employing Workers	91	n/a	n/a
<b>Total score</b>	<b>35</b>	<b>84</b>	<b>(49)</b>

SA is not sufficiently competitive to attract foreign investment (ranks 60 out of 141)

### Key concerns include:

- Security (135th)
- Labour market flexibility (111th)
- Hiring foreign labour (123rd)
- Poor Transparency (62nd)
- Government adaptability to change (100th)
- Low business dynamism (60th) is inhibited by:
  - Insolvency regulation
  - Administrative burdens to start a business
  - Ease of doing business

SA dropped from 35th in 2008 to 84th in 2019 (out of 190)

### Key areas of concern include:

- Electricity supply
- Difficulty starting a new business
- Dealing with construction permits
- Registering property
- Credit availability
- Cross border trade red tape
- Enforcing contracts



# EIGHT STRUCTURAL CONSTRAINTS TO SOUTH AFRICAN MINING

1



## Shared vision

Need for a social and economic leadership compact

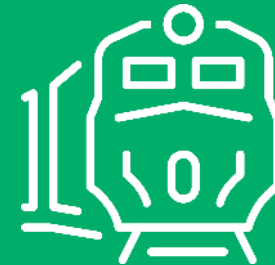
2



## Electricity supply

Reliability and cost of electricity holds back production

3



## Logistical bottlenecks

Capacity of bulk mineral production capped

4



## Regulatory uncertainty

Constantly evolving regulations inhibit investment

5



## Cost competitiveness

Relative lack of modernisation drives up costs

6



## Geological factors

Complexity of geology drives up mining costs

7



## License to operate

Tension with communities and organised labour

8



## Crime/illegal mining

Impact of crime/illegal mining on mining industry significant

# OUR EIGHT TOP PRIORITY ACTIONS

All eight actions are interlinked and need to be implemented together to realise full impact

1



## Shared vision

through leadership social and economic compact

2



## Regulatory reform

Overhaul regulations and legislate

3



## Industry modernisation

Improved productivity and inclusivity

4



## Infrastructure

Available, reliable and cost competitive infrastructure (electricity, rail and port.)

5



## Community investments

Jointly develop community plans and track progress

6



## Exploration strategy

Improve mapping and exploration strategy

7



## Implement measures

to combat crime and illegal mining

8



## Investment promotion

Promote SA as investment destination

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# WHAT IF?





# IMAGINE THE POSSIBILITIES?

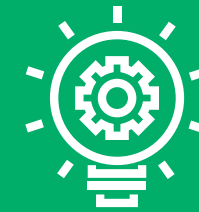
## What if?

We had a shared vision (government, business, labour, and communities) of what it takes to be competitive and inclusively grow the mining sector?



The industry was modernised?

## #MakingMiningMatter



We had an available, reliable, cost competitive infrastructure for mining (electricity, rail and port)?

## #MakingThingsBetter



There was greater collaboration between government and industry to support communities?



Exploration was encouraged and increased?



Government and industry collaborated more to fast track key projects?



SA mining was attractive to investors?



We could halve crime levels in mining? Imagine how much more viable and attractive mines would be.

# IMAGINE THE POSSIBILITIES FOR PGMs (THE SA NATIONAL PLATINUM STRATEGY)

1

If 30-50% of the world's electricity and transport by 2050 was provided by clean hydrogen powered platinum fuel cells (the hydrogen economy)

2

If SA became the dominant source of IP for Clean Hydrogen Platinum Fuel cell heaving mining vehicles (cleaner, safer vehicles)

3

Platinum's investible market grows 20x in the next decade, given its scarcity and uniqueness (promoted by the WPIC)

4

If the South African stakeholders collaborated on market development for platinum (co-funding in jewellery, investment creation and RD&I on new uses for Pt)

5

If new discoveries through RD&I in areas such as biotech, nano-technology, aerospace, energy find further uses for PGMs

6

If SA stakeholders collaborated on the new BIG 5 Platinum coin (including a zero rating for VAT by Treasury)





THE WONDER OF PGMs  
**VALUABLE**



#MakingMiningMatter

# The current state of the PGMs industry in South Africa

Roger Baxter / CEO Minerals Council South Africa / Joburg Indaba

