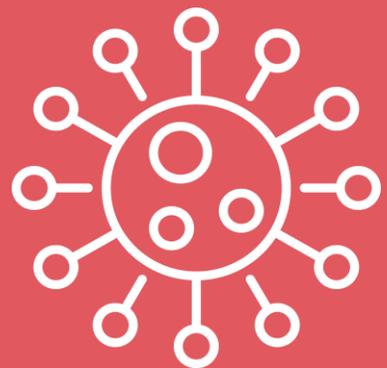




Minerals Council supports B4SA initiative to revitalise SA economy

August 2020



Today's briefing

- What if?
- Overview of new economic deal for South Africa:
 - Delivering an accelerated economic recovery strategy
- Revitalising the mining sector after COVID-19
- Next steps
- Questions

The possibility

#MakingMiningMatter
#MakingThingsBetter

What if?

The policy and regulatory environment was clear and workable?

The industry was modernised?

Energy supply was reliable and affordable?

Rail and port infrastructure was adequate and reliable and able to meet the demands of a growing economy?

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?

Post COVID-19

A New Economic Deal for South Africa

Delivering an Accelerated Economic Recovery Strategy



MINERALS COUNCIL
SOUTH AFRICA



BUSINESS FOR SA | COVID-19



A New Economic Deal for SA: 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

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

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



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

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

Key success factors that will inform SA's future:

- A shared vision with agreed targets
- Strong leadership
- A focus on inclusive growth and jobs
- Regulatory certainty and consistency
- Public / private sector collaboration

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

SA in 2020

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

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

SA in 2030

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

We need to work together to tackle constraints and challenges and deliver an inclusive and accelerated economic recovery strategy

Pre and Post COVID-19 opportunities

Old constraints and challenges that must be tackled

What is required to drive fundamental change

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



Contribute to
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

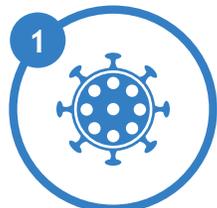
South Africa will have to compete for capital against all other emerging markets

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 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 **Q2 GDP has declined by 30%** and **over 1 million jobs have been lost**, which 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**

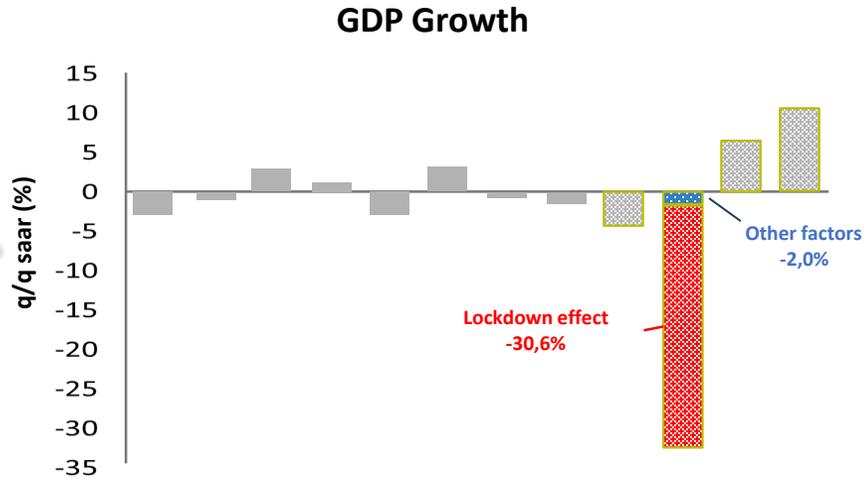


5 SA's economic strategy **urgently requires a new social and economic compact among all role players** to deliver **decisive leadership, inclusive growth and prosperity**

The 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

The economic impact of COVID-19 exacerbates the challenges with B4SA's own economic analysis being consistent with the SARB

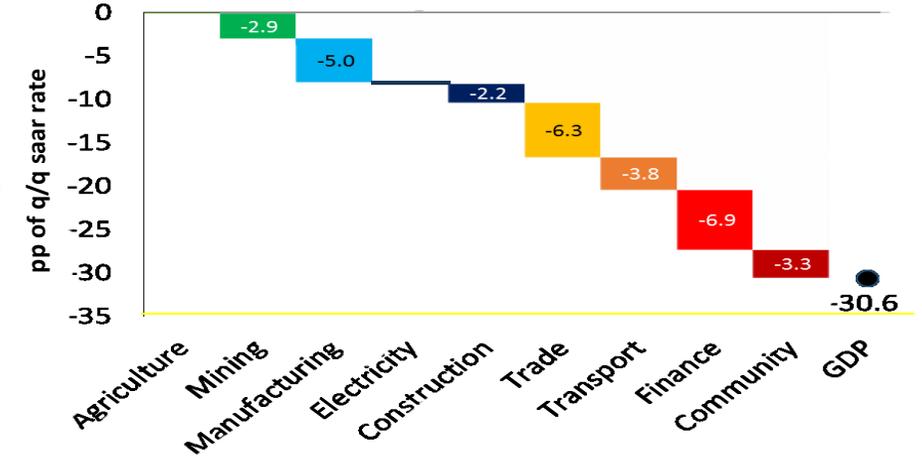
Q2 GDP growth expected to decline 30.6%



Sources: Stats SA and SARB

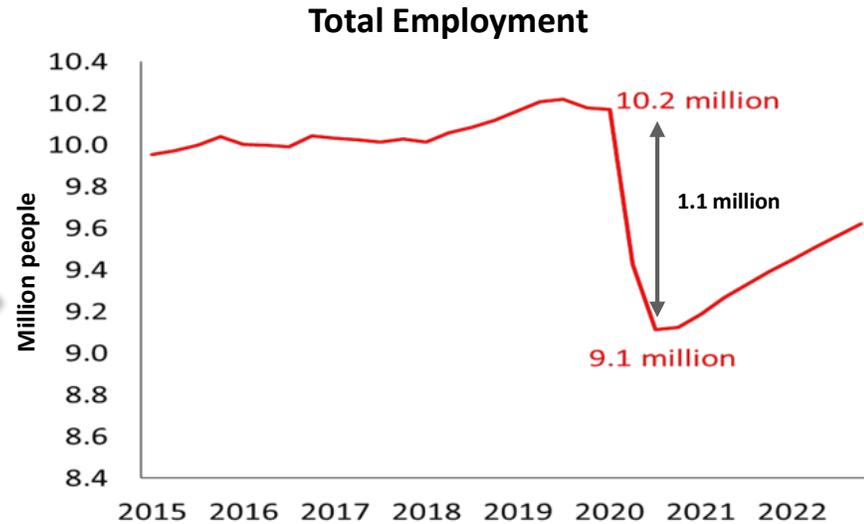
Declines expected across nearly all sectors

Direct impact of lockdown on Q2 GDP Growth



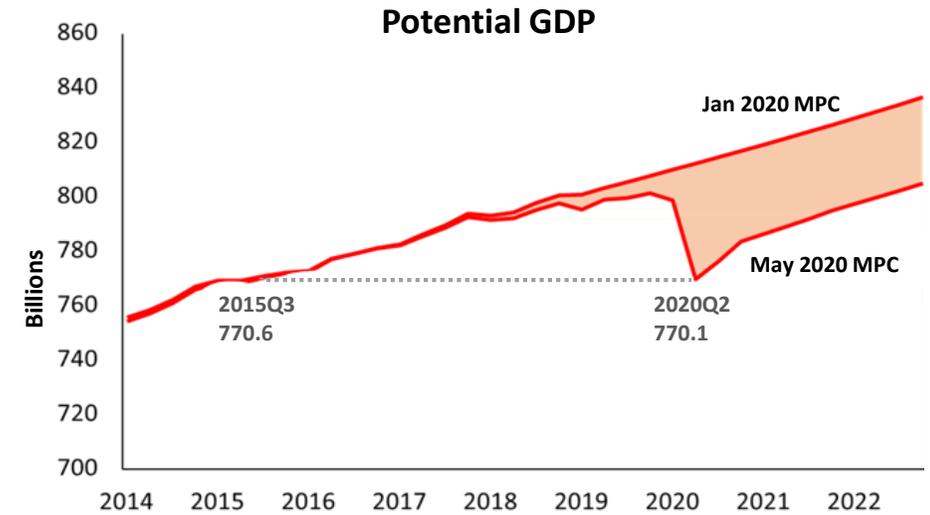
Source: SARB

Over 1.1 million job losses in the last month



Source: SARB

GDP not expected to return to original trajectory



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

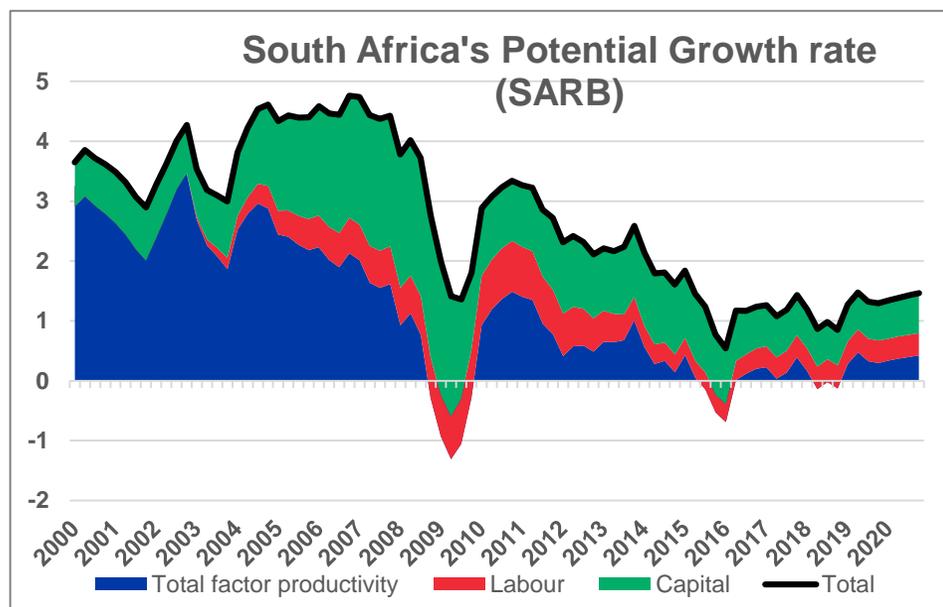
- GDP is expected to decline by more than 10%
- Debt:GDP expected to exceed 100% by 2023
- All key metrics have declined in the last 3 months

South Africa needs to embrace a more accelerated growth path

- Requires strategic choices and courageous leadership

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 growth¹



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

¹ 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 Key ◊ Previous edition ▲ Upper-middle-income group average □ Sub-Saharan Africa average 2019



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:

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
Total score	35	84	(49)

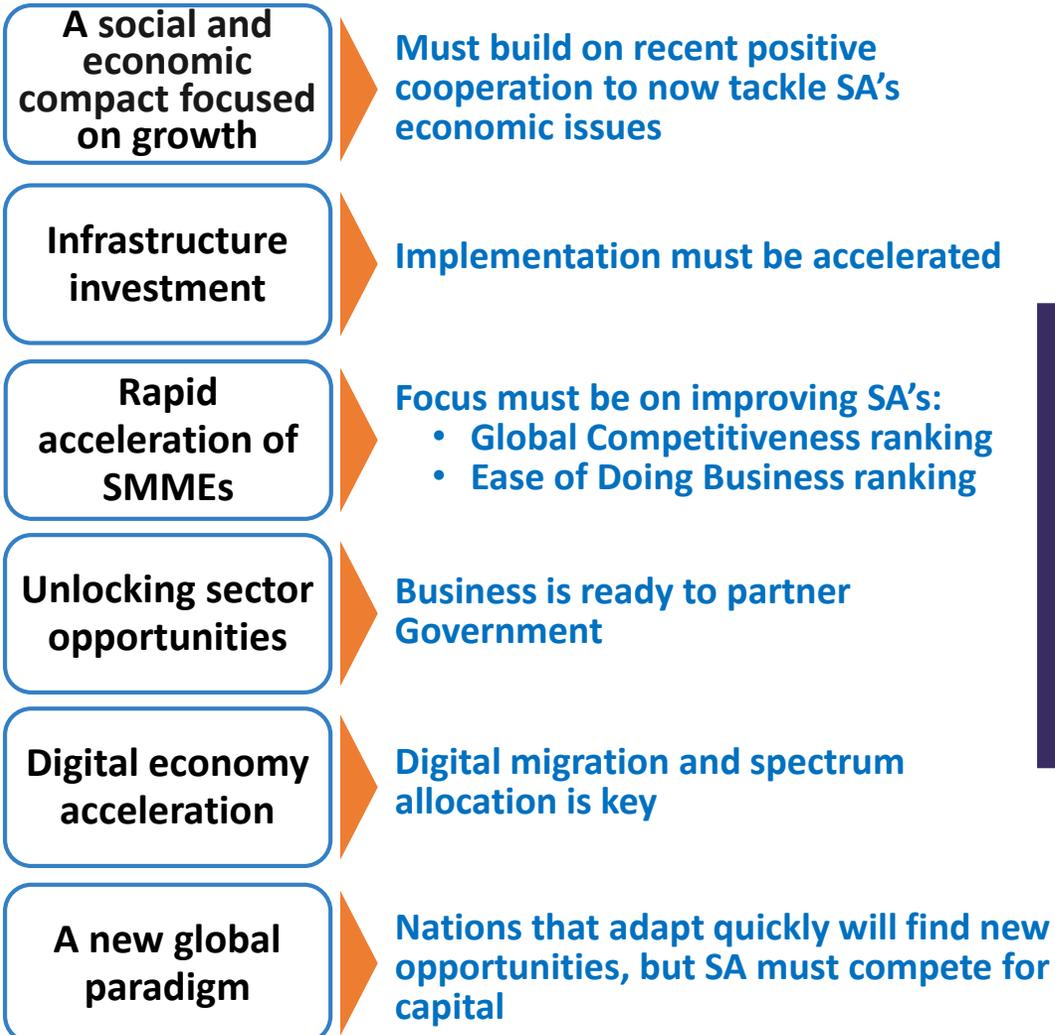
SA dropped from 35th in 2008 to 84th in 2019 (out of 190)

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

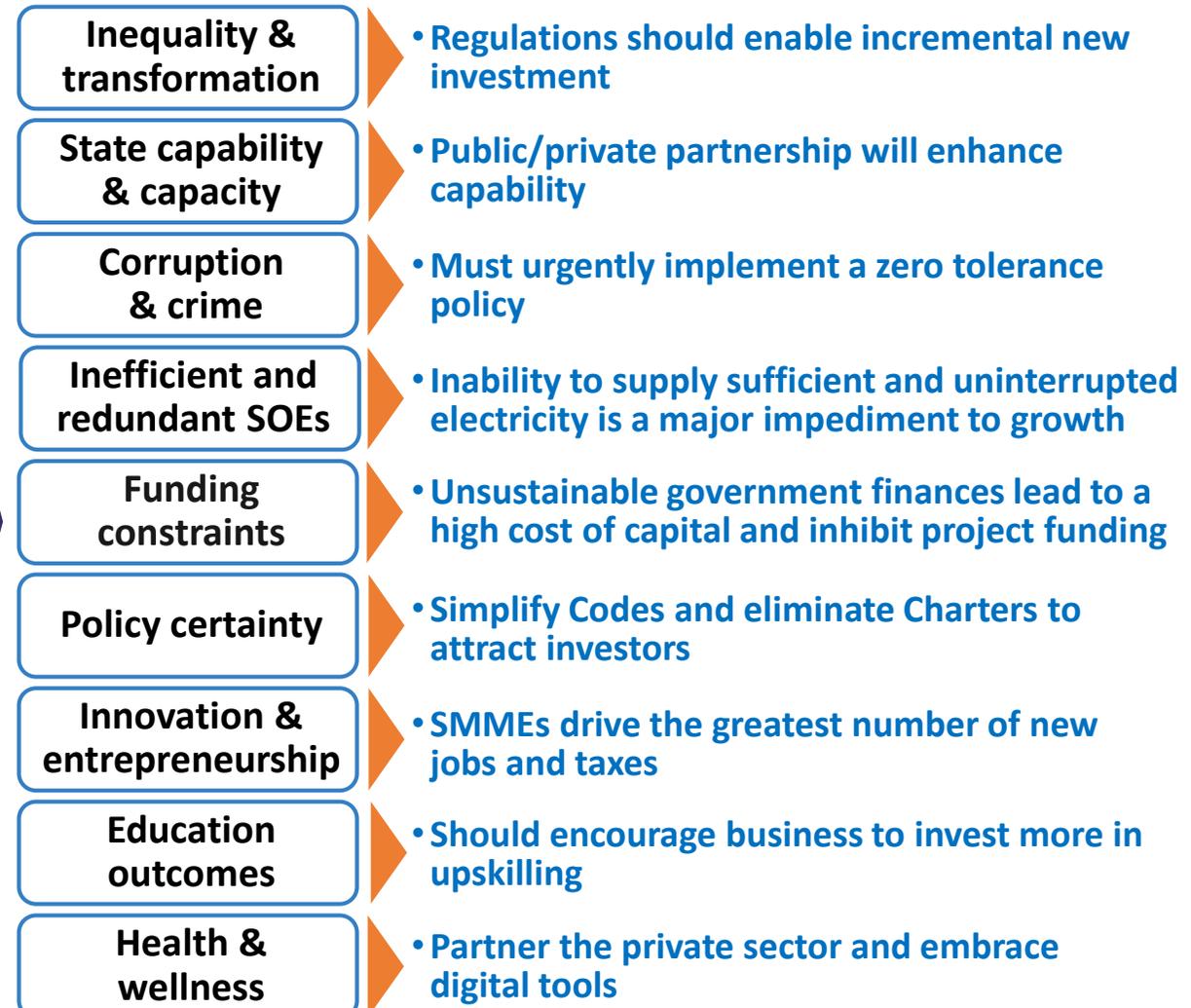
To build a better South Africa requires a shared national vision with a focus on inclusive growth and job creation and a culture of delivery

Key Opportunities presented by the crisis

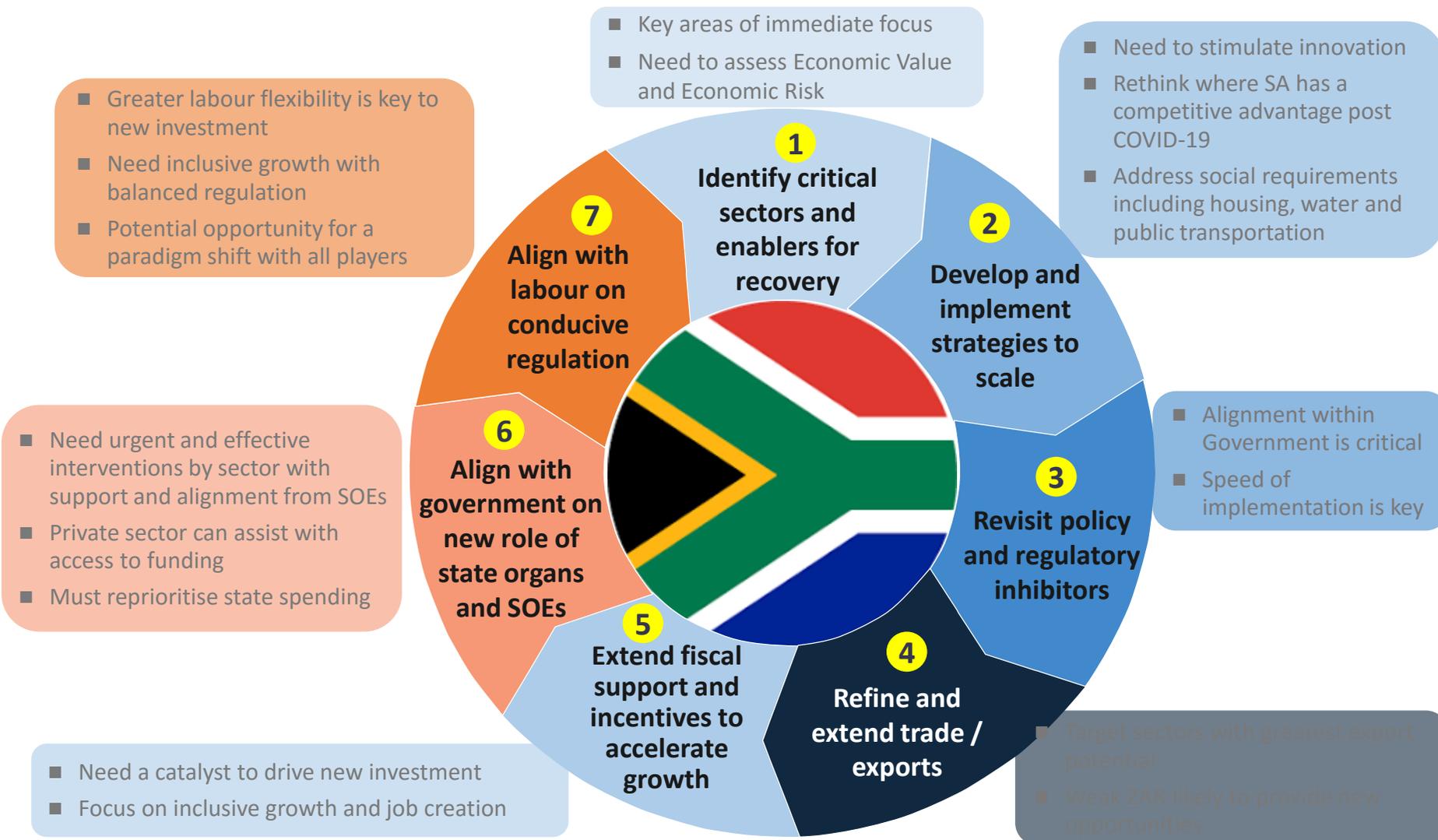


Together we must address

Key Constraints and Challenges to inclusive growth



Key iterative steps: All stakeholders need to partner across key areas and focus on ensuring delivery and accountability



Given the limits on State and SOE capacity and funding, a social and economic compact with business, labour and society is key to SA's success

State: guide strategic initiatives and provide an enabling environment with policy certainty and consistency

Business: focus on sourcing capital and investing in projects and initiatives to create inclusive economic growth and jobs

Labour: focus on ideas to create new jobs and ensure greater labour flexibility and fair working conditions rather than just protecting existing jobs

All social partners must focus on ensuring shared prosperity to address poverty, inequality and unemployment

Overview of the work done by B4SA



1 B4SA assembled a **team of industry experts** to analyse **challenges** and consider **potential opportunities**



2 Focus has been on **sectors and projects** with strong multipliers that can scale quickly to **create jobs and GDP growth**



3 We have identified **key challenges** that inhibit investment and **priority actions** to accelerate **inclusive growth and job creation**



4 **Regulatory obstacles and policy interventions** have been identified that **require Government action to unlock**



5 **Funding key projects is critical** given limited capital availability and **reduced foreign investment support**

“We must do whatever it takes to limit the damage to our society and people and get our economy back onto a path of recovery”

President Ramaphosa

Immediate actions: that will improve consumer and business confidence and require no policy changes

Emergency Budget

1 A “Zero-based” reconstruction budget

SMMEs

2 Ensure Government and big business pay SMMEs on time

3 Support additional lending

4 Mobilise immediately business mentorship / support programmes modelled on TAMDEV

Energy & Water

5 Fast-track construction of additional capacity

Mining

6 An industry / Government workshop to align on next steps

Construction

7 Use SIDSSA platform to finalise project pipeline

Manufacturing

8 Promote and use the Proudly South Africa platform

Transport

9 Introduce lower port fees on exports

Agriculture

10 Backstop emergency farm financing by commercial banks and ensure sustainability of the Land Bank

Financial Services

11 Private/Public partnership iro network industry infrastructure

Telecommunications

12 Resource ICASA to enable the completion of the spectrum auction and re-energise digital migration to free up spectrum

Tourism & Leisure

13 Stimulate domestic and regional tourism

14 Gain market share on international restart via protocols and new source market approach

Education

15 Fast-track digital migration of degrees and school syllabuses

We need decisive leadership, together with appropriate capacity and expertise, to implement these immediate actions

Global liquidity and funding will be increasingly constrained, placing pressure on SA's fiscus



1 SA entered the crisis in a **recessionary environment**. COVID-19 will amplify the **lower GDP outlook** and, as a result, a **materially higher budget deficit and debt:GDP**



2 **Aggregate funding requirement** is estimated to be **R3.4tn over three years**, of which **R2.4tn is public sector** (including SOEs)



3 **Traditional SA based funding sources** will be insufficient, as a result a substantive portion **will need to be sourced internationally, constrained by SA's sub-investment grade**



4 **SA will be competing for capital against all other emerging markets** and public and private sector coordination will be a critical enabler



5 **Fiscal discipline, regulatory certainty, market stability** and well structured **viable infrastructure projects** are imperatives **to attract capital and funding at a reasonable cost**

COVID-19 will increase global demand for funding for which emerging markets will compete

Unsustainable government finances set a high cost of capital which could render projects unviable

Public and private sector cooperation is critical to making South Africa globally competitive

Macro economy: Given the medium term economic outlook, fiscal discipline and structural reforms are national imperatives

GDP growth outlook



Required reforms: assumptions



Virtuous circle pursuant to **fiscal discipline** of **reduced debt** and **increased investment** resulting in **lower cost of funding**, **increased growth** and **higher tax revenues**

- ✓ **Zero-based** budgeting by National Treasury.
- ✓ Most **expenditure items growing slower than inflation**, except for investment in infrastructure to stimulate economic growth.
- ✓ Consistent **reduction in the real wage bill** for Government over the entire period.
- ✓ **Reduction** in the funding requirements of **local government and SOEs**.
- ✓ Achieving long term real **sustainable economic growth of at least 4% per annum**.
- ✓ No increases in tax rates, **but improvement in tax collections** through higher growth and improved administration.

Estimated Budget Deficit and Debt:GDP Scenarios

	Scenario	2020/21	2021/22	2022/23	2023/24	2024/25
Budget deficit pre Covid (R'bn) ¹	Annual	454	432	423	444	473
	Cumulative	454	886	1,309	1,753	2,226
Additional Budget shortfall (R'bn)	Reform	289	412	437	314	41
	Baseline	289	662	1,072	1,528	2,027
Cumulative funding requirement (R'bn) ²	Reform	743	1,298	1,747	2,067	2,266
	Baseline	743	1,548	2,382	3,281	4,253
Budget Deficit as % of GDP	Reform	13.3%	10.8%	8.3%	5.9%	3.5%
	Baseline	13.3%	14.2%	13.6%	14.0%	14.2%
Total Debt as % of GDP	Reform	82.0%	88.2%	92.2%	94.6%	94.4%
	Baseline	82.0%	90.3%	97.9%	106.7%	115.1%

- The **baseline** projections assume **GDP to contract by 9.6% in 2020**, with a recovery off a lower base in 2021 and 2022 and muted growth thereafter.
- The baseline projects the economy to **recover to pre Covid-19 levels within 3 years**, with an upside scenario of 2 years and a downside scenario of 5 years, depending on the spread of the virus
- A combination of lower GDP growth and lower tax collection post COVID-19, will result in unsustainable fiscal strain. **In the absence of structural reforms:**
 - **Budget deficit will remain above 13% of GDP** (Deficit of 6.6% in 1994 and surplus of 1% in 2008)
 - **Debt will continue to increase**, exceeding 100% in 2023 (49% in 1994 and 28% in 2008). Total government debt (including SOEs) could exceed R8tn by 2025
- **Private and public sector cooperation** and **public sector structural reforms** will reduce the strain on the fiscus, and increase GDP growth, thus **stabilising public finances and reducing funding cost over time**. The budget deficit could normalise at 3.5% in 2025

¹ Medium term outlook per Feb'20 budget

² Excluding refinancing of debt that are due for redemption (R220tn and R385tn over 3 and 5 years respectively)

We must work together to ensure an accelerated economic recovery and a shared national vision



SA has wasted time and resources over the last decade, and given the impact of COVID-19 we must now work together and make compromises and sacrifices



Leaders in all areas must focus on securing an accelerated economic recovery in the national interest, not just their own specific interest groups



We urgently need a social and economic compact, a cohesive plan and bold leadership to implement rapid economic and inclusive growth and create a more equitable society



Properly capacitated task teams (sector and policy) combining public and private sector experts reporting to the Presidency



Short-term compromises will be required in order to achieve longer term strategic goals and objectives

Business is ready to help address the economic challenges in South Africa working in partnership with Government, labour and communities

Mining

Revitalising the mining sector after COVID-19



MINERALS COUNCIL
SOUTH AFRICA



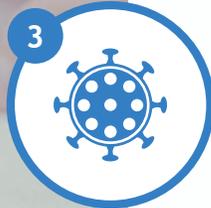
Summary of findings



SA mining in aggregate is in structural decline, with **50 000 direct jobs lost in mining since 2010**



SA mining faces challenges, with **~65% of output in high cost half of the cost curve** and very little exploration



COVID-19 is likely to reduce 2020 output by 15-25% and slash CAPEX, exacerbating existing challenges



Urgent action is required on **8 prioritised initiatives**, all requiring Government, industry and labour cooperation



If the right actions are taken **~70 000 jobs can be saved by 2024**, noting that a net decline is still highly likely

South African mining has been in structural decline



Real Production Output (\$)

-10%¹
2018 vs. 2010



Total Direct Employment

-50 000
2018 vs. 2010



Annual Mining CAPEX

-45%
2017² vs. 2010

1. Driven primarily by decline of Gold output
2. 2018 data not yet available
Source: DMRE & Minerals Council South Africa

Six structural constraints to South African mining



Electricity supply

Reliability and cost of electricity holds back production



Logistical bottlenecks

Capacity of bulk mineral production capped



Regulatory uncertainty

Constantly evolving regulations inhibit investment



Cost competitiveness

Relative lack of modernisation drives up costs



Geological factors

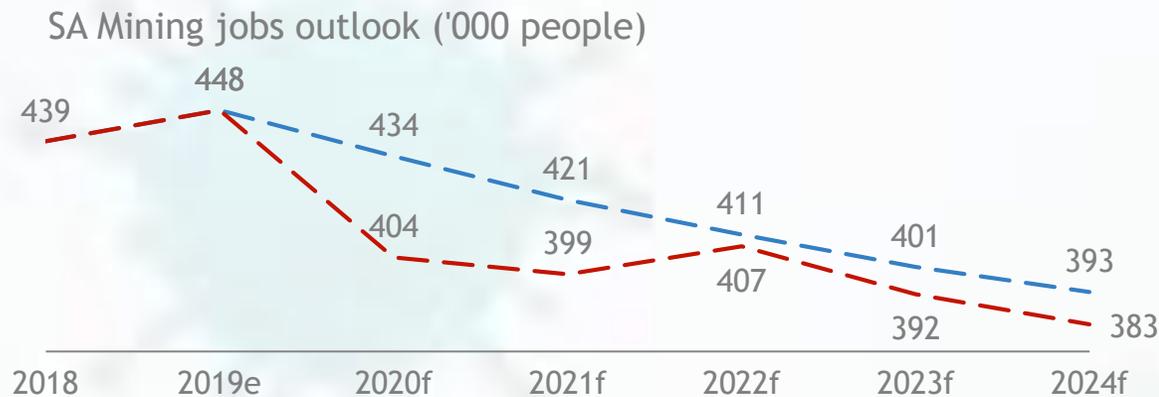
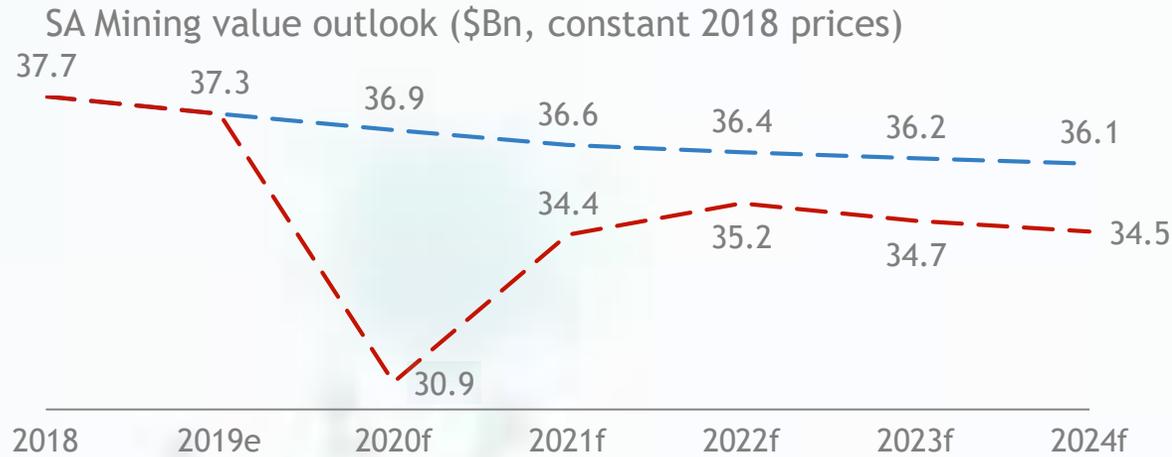
Complexity of geology drives up mining costs



License to operate

Tension with communities and organised labour

SA mining unlikely to fully recover without intervention



Assumptions with COVID-19

2020 core assumptions

- 15-25% of 2020 output lost due to lockdown and phased ramp-up
- Significant reductions in 2020 CAPEX

2021 core assumptions

- Depressed global demand conditions for various bulk minerals
 - Increased demand for gold
- Portions of SA production cut due to positioning on cost curve
- CAPEX recovers, but not fully

2022-2024 core assumptions

- Portions of SA manganese production cut due to positioning on cost curve
- SA production follows in line with global demand and production forecasts for key commodities

Note: Model assumptions are based on stakeholder inputs from senior South African mining stakeholders. These analyses represent only potential scenarios based on discrete data from one point in time (May 2020)

Source: BSA Analysis

— Pre-COVID Expectations — Adjusted Post-COVID Expectations ('no action scenario')

Our eight top priority actions

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



Regulatory Reform

Overhaul regulations & legislate



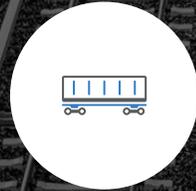
Industry Modernisation

Improved productivity & inclusivity



Reliable Energy Supply

Permit self / 3rd party generation & fix Eskom supply



Infrastructure Development

Invest in rail & port capacity expansions



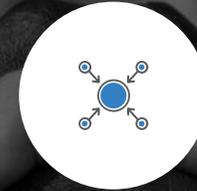
Community Investments

Jointly develop community plans & track progress



Exploration Strategy

Improve mapping & exploration strategy



Gov-Industry Task Force

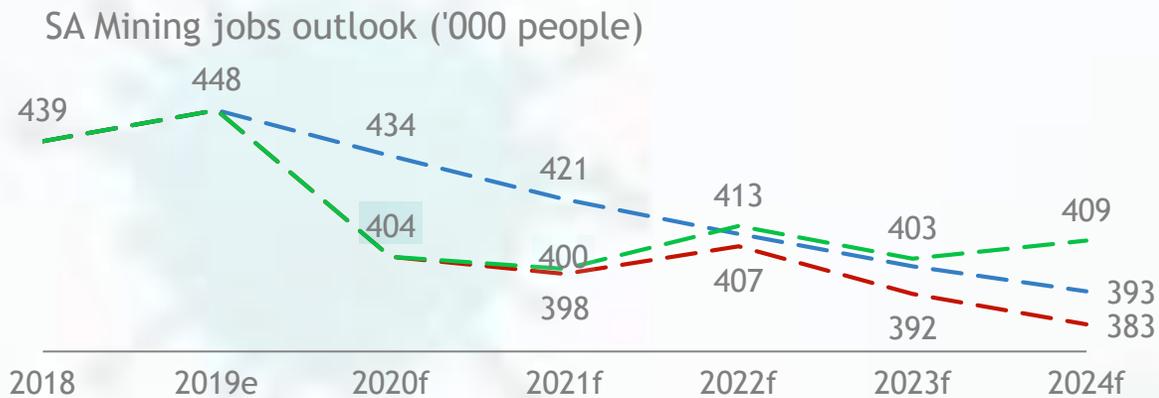
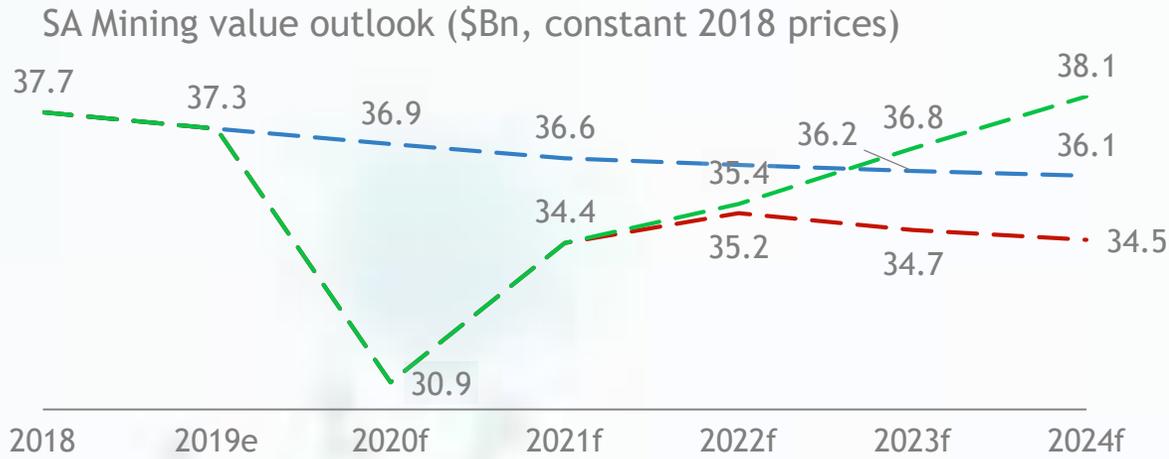
Expedite highest-impact projects



Investment Promotion

Promote SA as investment destination

Potential of \$3.6B & 70K jobs by 2024 with right actions



2024 impact of the taking the right actions



\$3.6B increase in 2024 primary mineral sales



\$0.3B additional 2024 tax contribution from SA mining



26K increase in direct SA mining employment by 2024

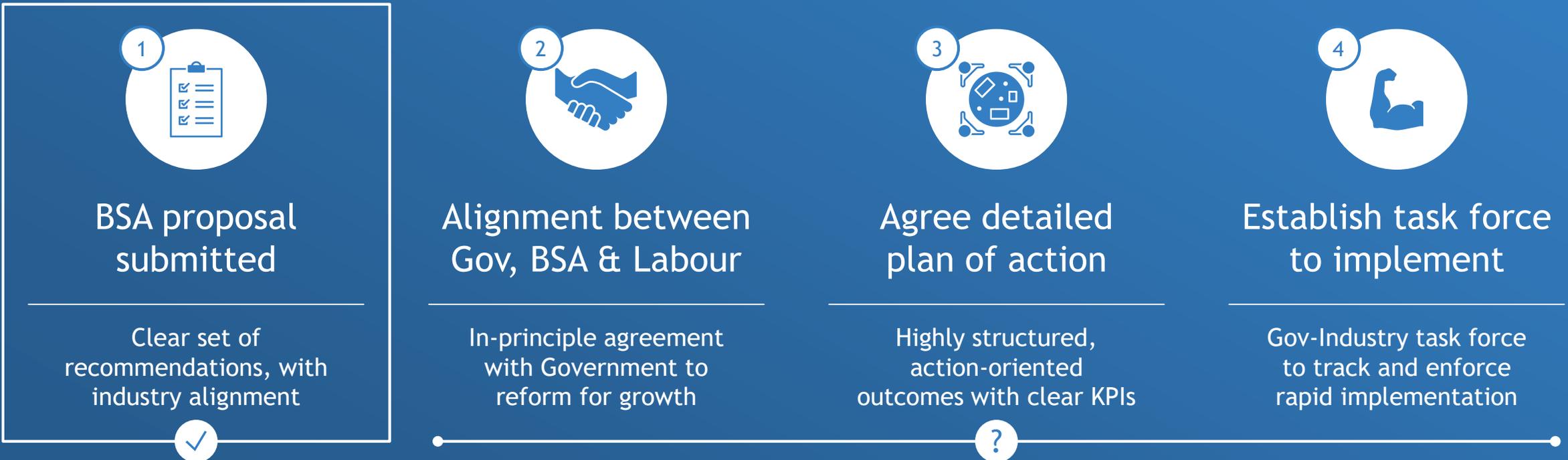
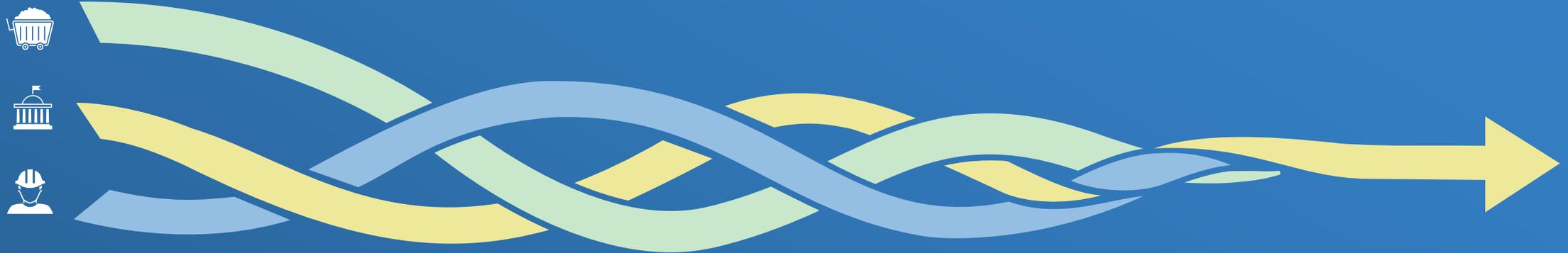


47K additional indirect employment by 2024

Note: Model assumptions are based on stakeholder inputs from senior South African mining stakeholders. These analyses represent only potential scenarios based on discrete data from one point in time (May 2020)

Source: BSA analysis

Effective collaboration with Government is essential



To be completed shortly

Significant industry project management and execution capacity required

What if?

<p>Regulatory environment is reformed?</p> <ul style="list-style-type: none"> • Immediate increase in brownfield and sustaining capex, impact by 2023/2024 • Increased investment in exploration, creating jobs and new long-term growth potential <p>Benefits by 2024 Jobs: ~ 20,000 Output increased by: \$640m</p>	<p>Industry is modernised?</p> <ul style="list-style-type: none"> • Improved cost efficiency and productivity, increasing economically viable resources • Increased production and jobs from positioning on cost curve <p>Benefits by 2024 Jobs: ~ 3,500 Output increased by: \$590m</p>	<p>Energy supply is reliable?</p> <ul style="list-style-type: none"> • Overall increase in production from reduced load shedding losses • Improved long term cost competitiveness of South African mining <p>Benefits by 2024 Jobs: ~ 14,000 Output increased by: \$410m</p>	<p>Infrastructure is adequate and reliable?</p> <ul style="list-style-type: none"> • Immediate increase in brownfield and sustaining capex, impact by 2023/2024 • Increased investment in exploration, creating jobs and new long-term growth potential <p>Benefits by 2024 Jobs: ~ 26,000 Output increased by: \$1.9b</p>
<p>Government and industry collaborate more to support communities?</p> <ul style="list-style-type: none"> • Building strong license to operate by empowering local communities • Further repositioning the mining industry as socially responsible corporate citizens <p>Benefits by 2024 Jobs: critical enabler Output increased by: critical enabler</p>	<p>Exploration increases?</p> <ul style="list-style-type: none"> • Increased investment in exploration, creating immediate jobs in exploration • Creating long term growth potential by finding and evaluating new deposits <p>Benefits by 2024 Jobs: ~ 7,000 Output increased: exploration is critical to ensure future projects</p>	<p>Government-industry task force is established to tackle critical issues?</p> <ul style="list-style-type: none"> • Fast tracking projects to enable job creation and flow of investment • Attracting additional investment by further positioning SA as 'open and keen for business' <p>Benefits by 2024 Jobs: critical enabler Output increased: critical enabler for all other elements</p>	<p>SA mining was attractive to investors?</p> <ul style="list-style-type: none"> • Attracting additional investment by further positioning SA as 'open and keen for business' <p>Benefits by 2024 Jobs: critical enabler Output increased: potential for significant inflows of capital for new and current projects and operations</p>

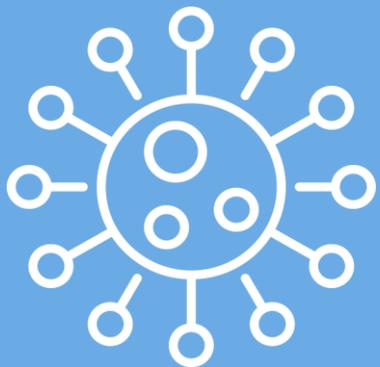
Next steps

- Engagement with government and other stakeholders
- Collaboration to secure early wins and medium and long-term game-changers



Thank you

T +27 11 498 7100 E info@mineralscouncil.org.za W www.mineralscouncil.org.za
5 Hollard Street, Johannesburg, 2001, PO Box 61809, Marshalltown 2107



MINERALS COUNCIL
SOUTH AFRICA