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)
- Employee earnings: R52.1bn (-1.3% from 2018)
- Royalties paid: R1.12bn (+32.5% from 2018)
- PGM production: 262.9t (-2.9% from 2018)
- Total sales: R124.6bn (+18.9% from 2018)
- Percentage exported: 91.3%
COVID-19 INDUSTRY RESPONSE
COVID-19

A BLACK SWAN EVENT

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

Novel virus

Unprecedented socio-economic disruption
KEY ELEMENTS OF INTERVENTIONS

Prevention

Risk assessment of workplaces and vulnerable employees

Management of cases, including screening, testing, isolation, quarantine and reporting

Collaboration on regional basis among companies and with the public health system
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

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

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)

Source: StatsSA, Minerals Council South Africa

Source: SARS, Minerals Council South Africa
EXPORTS

Export tonnes significantly lower compared to previous periods

PGMs export tonnes (variation over different time periods)

<table>
<thead>
<tr>
<th>Percentage change (%)</th>
<th>June 2020 on May 2020</th>
<th>Q2 on Q1 2020</th>
<th>Year to date</th>
<th>12 months to June 2020</th>
<th>June 2020 on June 2019</th>
<th>June 2020 on 12-month average</th>
<th>June 2020 on pre-lockdown average</th>
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<tr>
<td>-23.91</td>
<td>35.32</td>
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Source: SARS, Minerals Council South Africa

Value of exports increased

PGMs export values (variations over different time periods)
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%.
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)

Source: World Bank, StatsSA, SARB, Minerals Council South Africa

Source: StatsSA, Minerals Council South Africa
PGM SECTOR COMPONENTS: 2019

R89 billion

- Domestic Supply: R70 billion
- Imports: R19 billion

R98.6 billion

- Value Added
  - Fixed Capital: R23.8 billion
  - Taxes: R7.04 billion
  - Labour: R34.7 billion
  - Net surplus: R33 billion

R187.6 billion

- Outputs
  - Domestic Product: R63.9 billion
  - Exports: R133.6 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

Source: World Bank, StatsSA, SARB, Minerals Council South Africa
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

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
• Increase impetus to sustainable B-BBEE and Gender Equality
• Regulatory certainty and consistency
• Public/private sector collaboration

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

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<td>Debt: GDP</td>
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<td>Unemployment</td>
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<td>Ease of doing business</td>
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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
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

Policy certainty

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

1

Infrastructure investment

State capability & capacity

Accelerate economic transformation by improving SA's Global Competitiveness ranking

2

Rapid acceleration of SMMEs

Inequality & transformation

Greater policy certainty to enable SA to compete for funding

3

Unlocking sector opportunities

Inefficient and redundant SOEs

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

4

Digital economy acceleration

Innovation, entrepreneurship & education outcomes

Effective and timely implementation via appropriately capacitated resources

5

A new global paradigm

Public vs Private finance & funding constraints

Contribute to

Poverty, inequality, unemployment and a lack of inclusive growth

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

Q2 GDP growth expected to decline 30.6%

Over 1.1 million job losses between June & July

Declines expected across nearly all sectors

GDP not expected to return to original trajectory

Source: Stats SA and 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

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

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

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

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

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Global Competitiveness Report (WEF)

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Ease of Doing Business (World Bank)

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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
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?

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

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 heating 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 used for Pt)

5. If new discoveries through RD&I in areas such as biotech, nanotechnology, 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 current state of the PGMs industry in South Africa

Roger Baxter / CEO Minerals Council South Africa / Joburg Indaba