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Sibanye Stillwater

Eskom 2018/19 Revenue Application

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Disclaimer

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Introduction

- This presentation is a response to the call for comments from NERSA on the Eskom 2018/19 Revenue Application.
- Eskom's application **must be reviewed in the context of the broader state of economy**, and not just based on Eskom's revenue needs.
- The gold and platinum mining industry, already severely constrained as price takers, simply **cannot afford an above inflation increase in electricity costs**.
- This presentation **aims to show the impact of the requested 19.9% tariff increase on the sustainability of our operations and the resulting impact on the mining value chain**. The facts show that an increase of 19.9% will result in shaft closures with associated job losses and a reduction of investment into growth and sustaining projects.
- Sibanye-Stillwater presented to NERSA in 2013, 2015 and 2016, citing the risk of job losses as a result of cost pressures including electricity. **Since 2013, 4 shafts have been put on Care and Maintenance and 8,702 direct employees have been voluntarily or involuntary retrenched. The intent is to preserve jobs.**

An above inflation increase will affect the sustainability of our operations

Sibanye-Stillwater Overview

- Sibanye-Stillwater is an **independent, global precious metal mining group**, producing a unique mix of metals that includes gold and the platinum group metals (PGMs).

- **Domiciled in South Africa**, Sibanye-Stillwater owns and operates a portfolio of operations and projects which places it in the top 5 global precious metal producers and a top 5 consumer of energy in South Africa.

- In South Africa, **Sibanye Stillwater employs over 67,000 people** at its operations, whilst **indirectly benefiting more than 10 times that number**.

- As a price-taker, the sustainability of our business rests on our ability to **sustain production and contain costs** as far as possible.

- Electricity consumption, at 665MW, accounts for up to 20% of operating costs and **any cost increases significantly impact on the profitability and sustainability of the operations**.

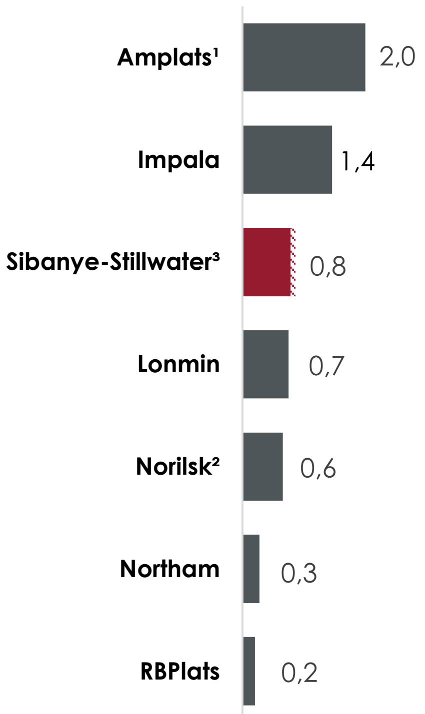
Our purpose

OUR MINING IMPROVES LIVES

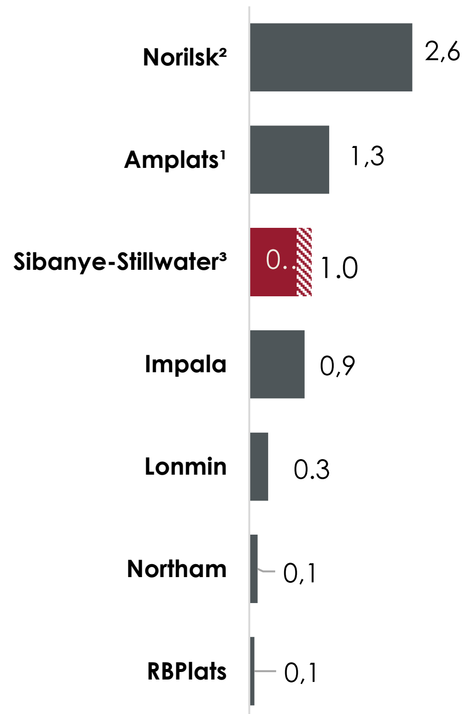
A premier global precious metals company

Sibanye-Stillwater Global PGM Ranking

2016A Platinum Production (moz)

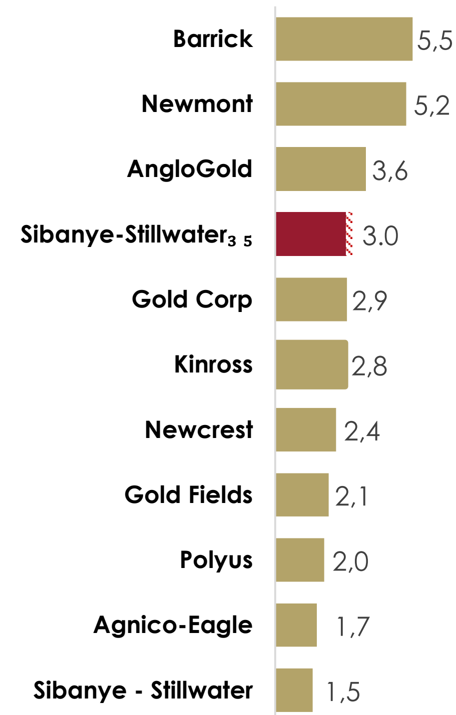


2016A Palladium Production (moz)



Sibanye-Stillwater Global Gold Ranking

2016A Gold Production (moz)

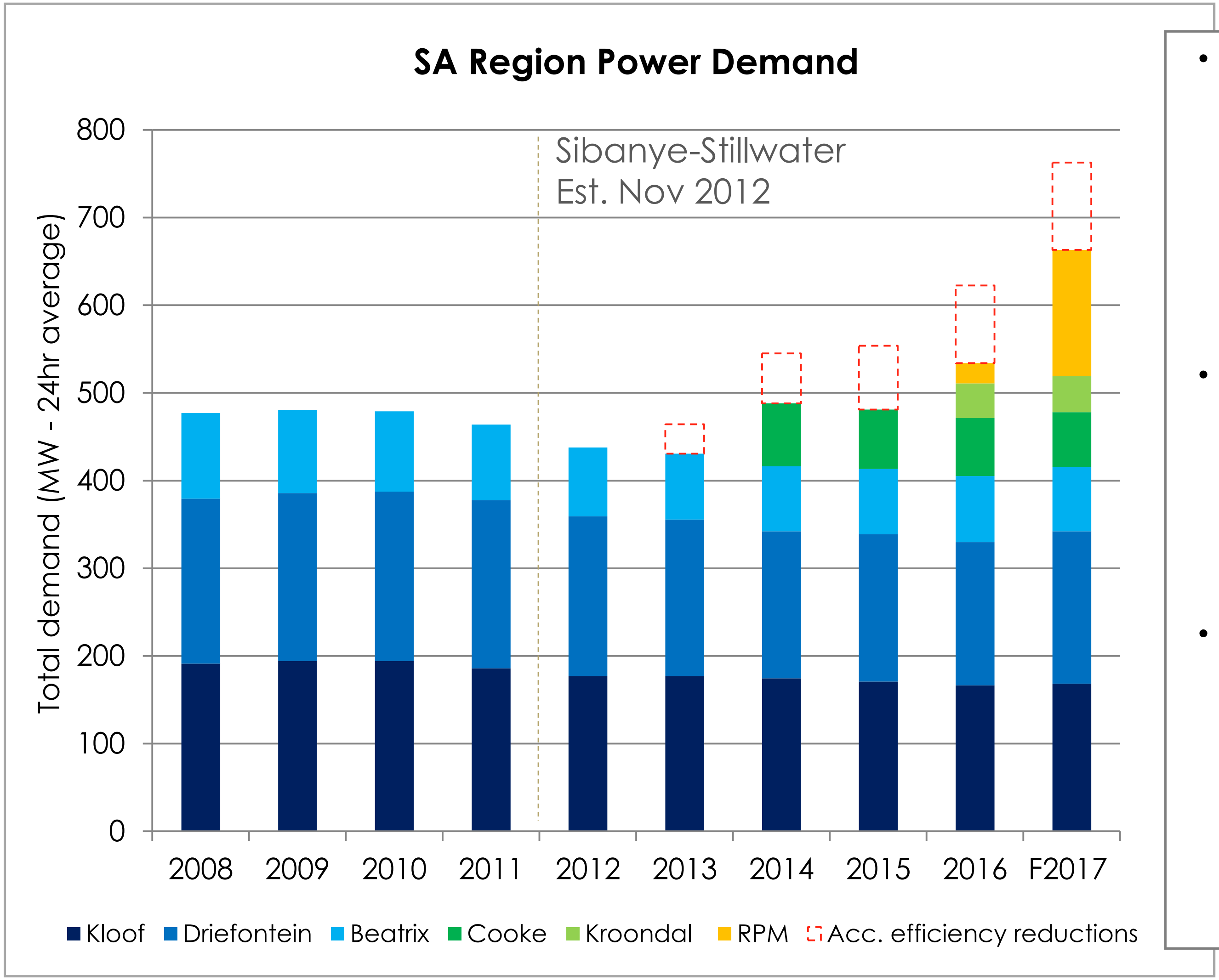


Source: Company filings
Notes:
1. Exclusive of Rustenburg Mine
2. Includes PGM by-products only
3. Rustenburg + Aquarius + Stillwater. Rustenburg, Kroondal, Platinum Mile and Mimosa as of FY16, per public disclosure
4. Pro forma for Rustenburg and Aquarius acquisitions
5. Sibanye-Stillwater gold equivalents included
6. Prill split assumed to be same as 9m'16 for Stillwater's current mining operations

Includes Blitz at full ramp-up by 2021/22 (270-330koz 2E)[6]

Positioned globally as a top 5 PGM producer and top 10 gold producer

Gold and Platinum mining is energy intensive

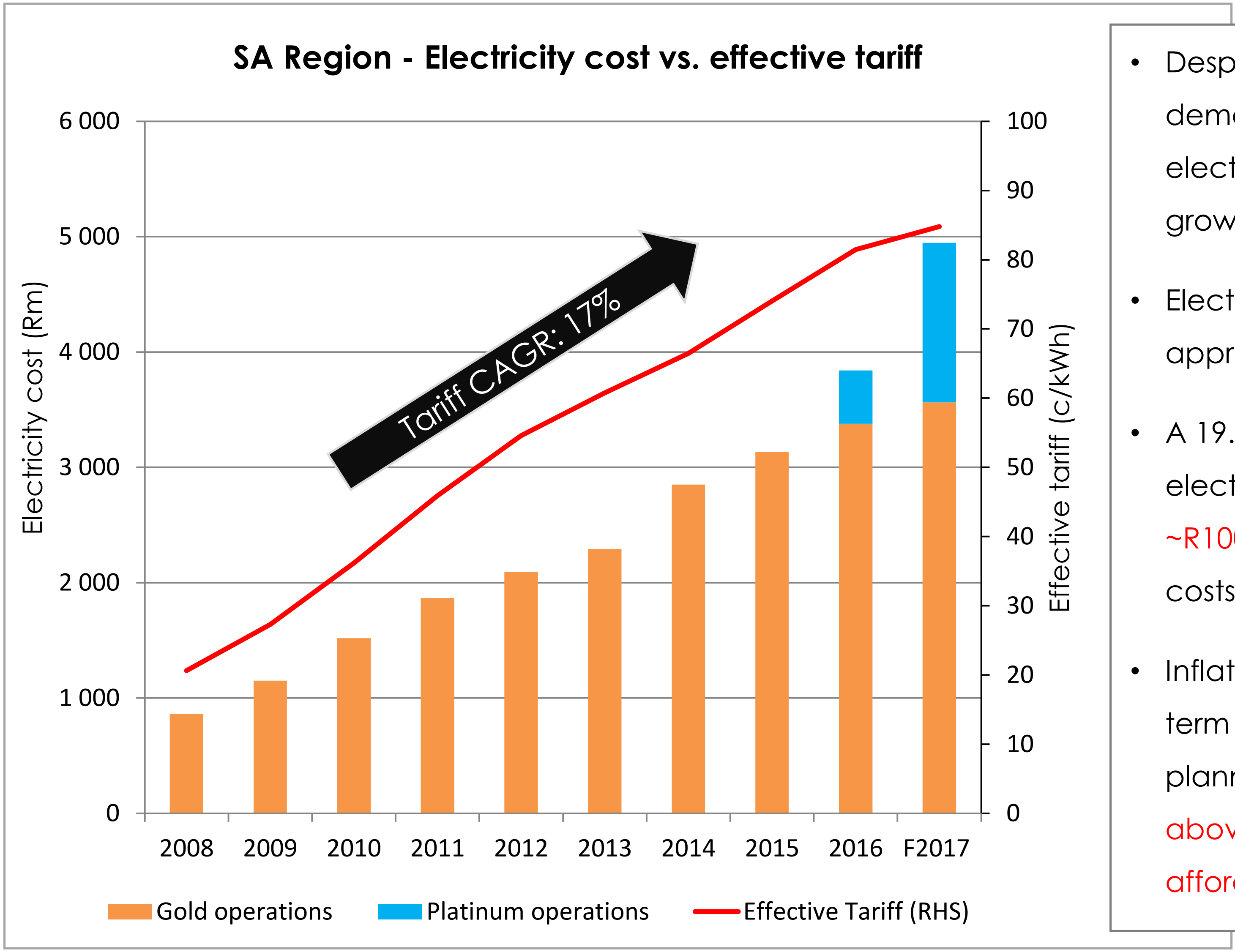


- The SA operations demand 665MW on average - 2.9%[1] of Eskom's national demand and one of the 5 biggest private customers.
- 2013 – 2017 demand growth is as a result of expansion projects and mine acquisitions.
- In total, 100MW has been removed from base demand through a drive to reduce consumption by 2- 3% annually over the same period.

1. *Base on Eskom's F2018/19 forecasted Standard Tariff and NPA sales of 202 604GWh*

SOURCE: Internal analysis and Integrated Annual Reports. Kroondal acquired in April 2016 and RPM acquired November 2016 – electricity consumption averaged over the 2016 period to represent eqv. demand

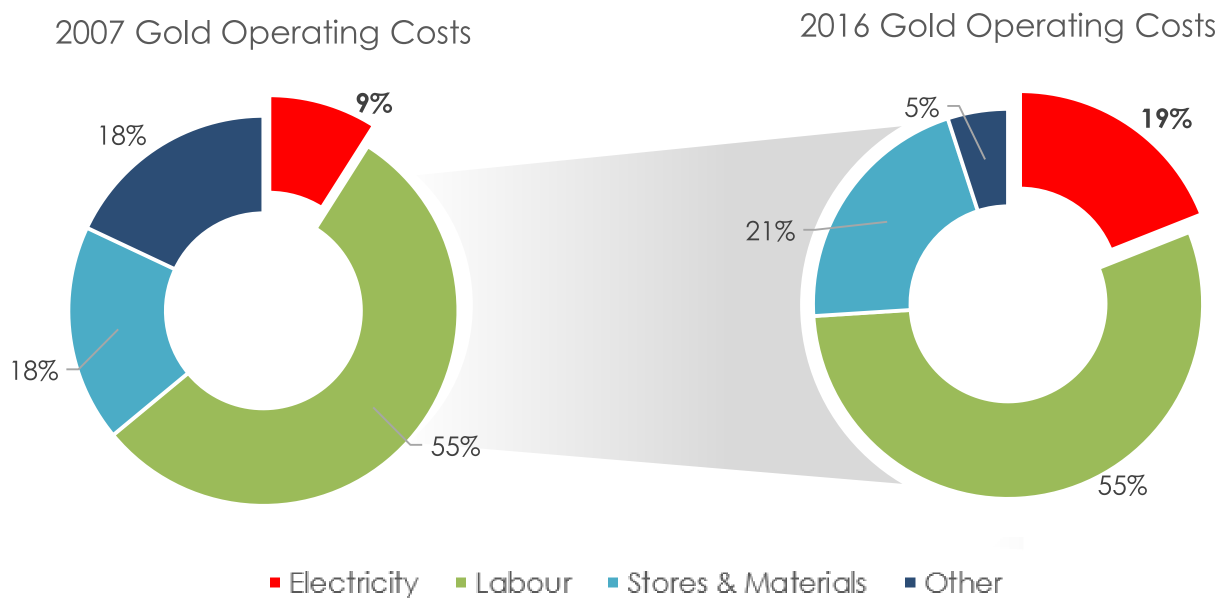
Electricity tariffs have grown by a CAGR of 17% p.a. over the last 10 years



- Despite significant annual demand reduction, electricity costs have grown exponentially .
- Electricity costs will approach R5000m in 2017.
- A 19.9% increase in electricity costs will add ~R1000m to our operating costs.
- Inflation is used for long term electricity cost planning. Cost increases above inflation are not affordable.

SOURCE: Internal analysis. Kroondal acquired in April 2016 and RPM acquired November 2016.

Electricity is a growing portion of our operating cost



- Electricity is a significant and growing portion of our operating cost and has contributed to the closing down of 4 shafts and 8, 702 direct job losses in the last 4 years.

- As a result of a relative inability to influence prices, profitability is generally achieved through increased productivity or cost containment. Productivity improvements are incremental and as a result containment of costs is often achieved by restructuring, which often includes reducing our labour complement.

- The current rate of electricity price increases requested by Eskom far exceeds the rate at which we can improve the operations, and as a result the sustainability of our operations is affected and operational closure and job losses are a likely outcome.

SOURCE: Internal analysis.

A 19.9% tariff increase will directly threaten the viability of 3 shafts

Of 23 shafts, a number are currently marginal or loss making despite higher precious metals prices in 2017…

- An electricity **tariff increase of 19.9% will drastically impact shaft margin**, potential making current loss-making shafts unrecoverable and forcing drastic measures, such as restructuring, Care and Maintenance or permanent closure.
- Subsidising loss making production threatens the sustainability of profitable shafts. **Continued losses without intervention could result in a domino effect, toppling the entire business**. Sibanye-Stillwater can not subsidise loss making operations.

At risk	Extent
Effect on Au & PGM kgs	27 785kg p.a.
Effect on revenue	R10 531m p.a.
Direct jobs (employees)	13 873
Indirect jobs (contractors)	1 945

… the 19.9% increase will directly result in 3 additional shafts becoming loss-making

- The **19.9% tariff increase will alone directly threaten the sustainability of three marginal shafts**. The impact would ripple throughout the mining value chain:

At risk – 3 shafts	Extent
Effect on Au & PGM kgs	6 212 kg p.a.
Effect on revenue	R3 334m p.a.
Eskom base-load demand	55 MW / R367m p.a.
Supply Chain spend	R 479m p.a.
Sustaining capital spend	R 574m p.a.
Direct jobs (employees)	8 683
Indirect jobs (contractors)	1 770

- Beyond the direct mining value chain, the broader economy will also suffer from a **reduction in foreign income earnings, and taxes and royalties paid**.

SOURCE: Internal analysis.

The 19.9% tariff increase will directly risk the livelihood of over 100 000 people

EIUG and Chamber of Mine recommendations

Sibanye-Stillwater supports the research and recommendations made in the position papers submitted by both the Energy Intensive Users Group (EIUG) and the Chamber of Mines, in particular:

- <u>Short-term recommendations:</u>
  - Eskom must immediately engage in internal aggressive cost-cutting.
  - Negotiated Price Agreements (NPAs) for 2 years supported to increase sales in the short-term.
  - Business and Industry must be involved in the electricity sales forecasting process to ensure more accurate predictions and avoid the need for RCA claw-backs.
  - For the next 1-2 years, there should be no increases for Large Power Users (LPUs). Beyond the 2 years, Eskom must provide a long-term forward tariff price path to enable business and project planning.
  - The three outstanding RCAs should be waived entirely.
- <u>Medium-Long term recommendations :</u>
  - Eskom must restructure and the industry must change its business model as it is no longer sustainable, given the new environment in which Eskom operates and the increasing competition of alternate electricity supply. Ways in which Eskom could restructure, some of which are already included in government policy, are:
    - Early decommissioning of older, less-efficient (emissions and operationally) stations, or mothballing/cold reserve;
    - Split up Eskom's operations into Generation and Transmission and Distribution with an independent system operator and buyer, to foster competition; and
    - Private sector participation – IPP's and selling power stations to the private sector.

Conclusion and recommendation

- Sibanye-Stillwater presented to NERSA in 2013, 2015 and 2016, citing the risk of job losses as a result of cost pressures including electricity. **Since 2013, 4 shafts have been put on Care and Maintenance and 8,702 direct employees have been voluntarily or involuntary retrenched**.

- A number of shafts, with associated employment of 15 819 people, are currently marginal or loss-making. The **requested tariff increase will directly result in 3 more shafts becoming loss making**, risking employment of a further 10 453 people and indirectly the livelihood of over 100 000 people.

- The requested tariff increase is projected to result in a **NPV reduction of taxes and royalties paid to the tune of R1.6bn** over the life of our mines.

- Sibanye-Stillwater's long-term Life of Mine plans assume CPI-linked escalations. Above CPI increases will result likely resulting in job losses and further reduced electricity sales. **Thus we call for a long-term price path with escalations linked to inflation.**

- **NERSA is to carefully consider the sustainability of the mining industry and potential impact to the mining value chain in their review**. The impacts extend beyond margin to employment, industry supply chain, power demand, growth capital, royalties and taxes.

The 19.9% tariff increase will directly risk the livelihood of over 100 000 people

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