Impact of the Eskom RCA applications

May 2018

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Introduction

- This presentation is a response to the call for comments from NERSA on Eskom's three RCA applications amounting to R66.6 billion.

- We believe Eskom's applications **need to be considered in the context of the broader state of the economy and Eskom's corporate history and governance record**, which have also been an important contributing factor to its financial woes.

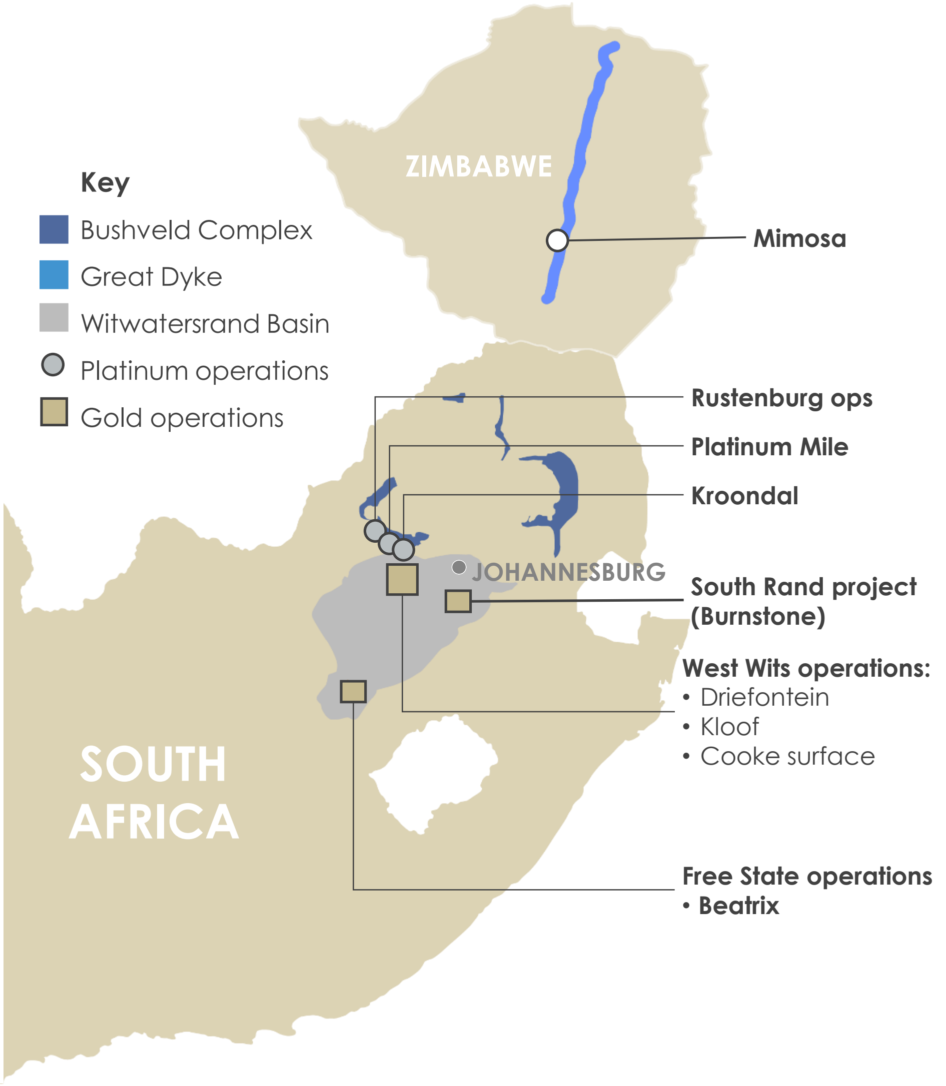
- The South African gold and platinum mining industries are marginal due to weak commodity prices, a strong rand and ongoing above inflation annual cost increases and **cannot afford further electricity tariff increases above inflation without having to restructure**.

- This presentation **aims to highlight the impact of the RCA applications on the sustainability of our operations and on mining stakeholders**. This will show that a pass-through of the requested RCA amounts is likely to result in mine closures with significant associated job losses and a reduction in capital investment into growth and sustaining projects.

- On several occasions Sibanye-Stillwater has presented to NERSA citing that **above-inflation electricity increases are one of the most significant cost pressures we face**. Compounded, these cost pressures have lead to the Care and Maintenance of 4 Sibanye-Stillwater shafts and **8,702 job losses in the last 5 years**.

Who we are?

- Sibanye-Stillwater is a **global precious metal mining company**, producing a unique mix of metals that includes gold and the platinum group metals (PGMs).
- **Domiciled in South Africa**, Sibanye-Stillwater owns or operates a portfolio of operations and projects in the United States, Zimbabwe and South Africa and is the 3rd largest PGM and 10th largest gold producer globally.
- In South Africa, **Sibanye Stillwater employs over 63,000 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, with a 24hr average of **662MW**, accounts for 17% of operating costs for our SA gold operations and 9% for the SA PGM operations - **any cost increase granted will significantly impact on the profitability and sustainability of the operations**.



Sibanye-Stillwater is one of the top 5 private power consumers in South Africa

Our vision and purpose dictates our actions

PURPOSE:
Our mining improves lives

VISION:

SUPERIOR VALUE CREATION FOR ALL OUR STAKEHOLDERS

through the responsible mining and beneficiation of our mineral resources.

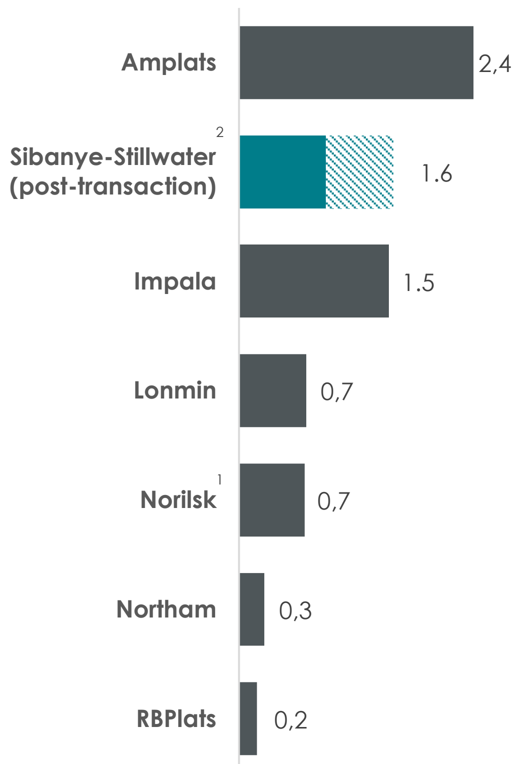
Underpinned by our values

Living our values demonstrates we care about safe production and our stakeholders, environment, company and future

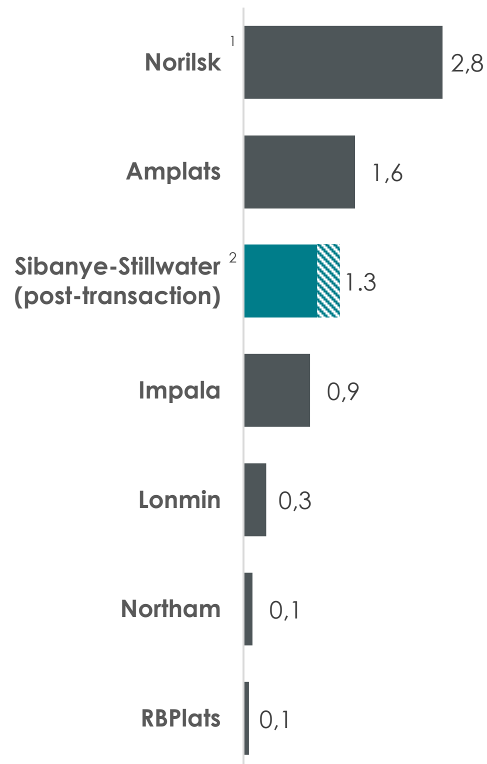
Becoming a leading precious metals company

Sibanye-Stillwater global PGM ranking

2017A platinum production (moz)

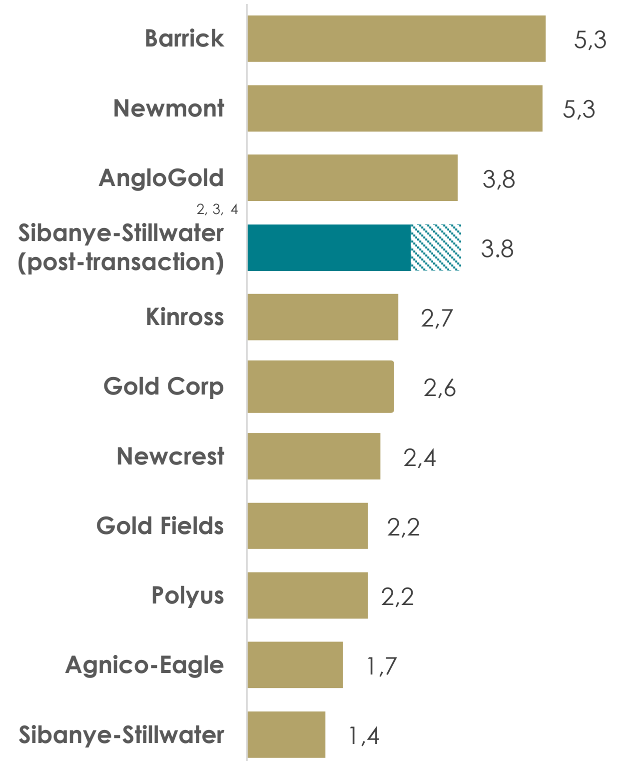


2017A palladium production (moz)



Sibanye-Stillwater global gold ranking

2017A gold and gold equivalents production (moz)



Lonmin's contribution to Sibanye-Stillwater

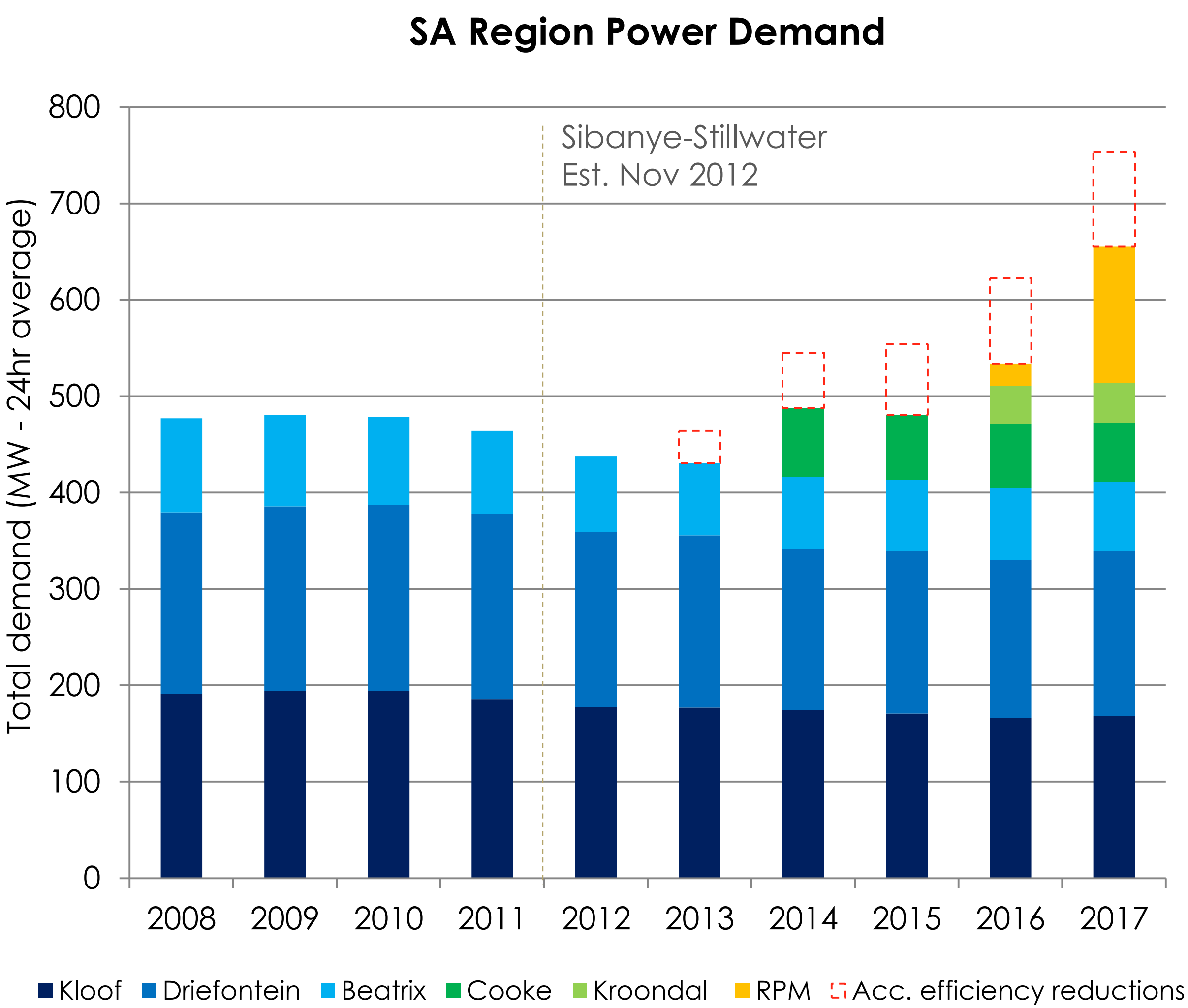
Source: Company filings

Note:

1. Includes PGM by-products only
2. Rustenburg + Aquarius + Stillwater + Lonmin. Blitz at full ramp up.
3. Sibanye –Stillwater gold equivalents included
4. Gold equivalent ounces calculated as PGM basket price in the period / average gold price in the period multiplied by PGM production

Positioned globally as a leading precious metals producer

Gold and Platinum mining is energy intensive

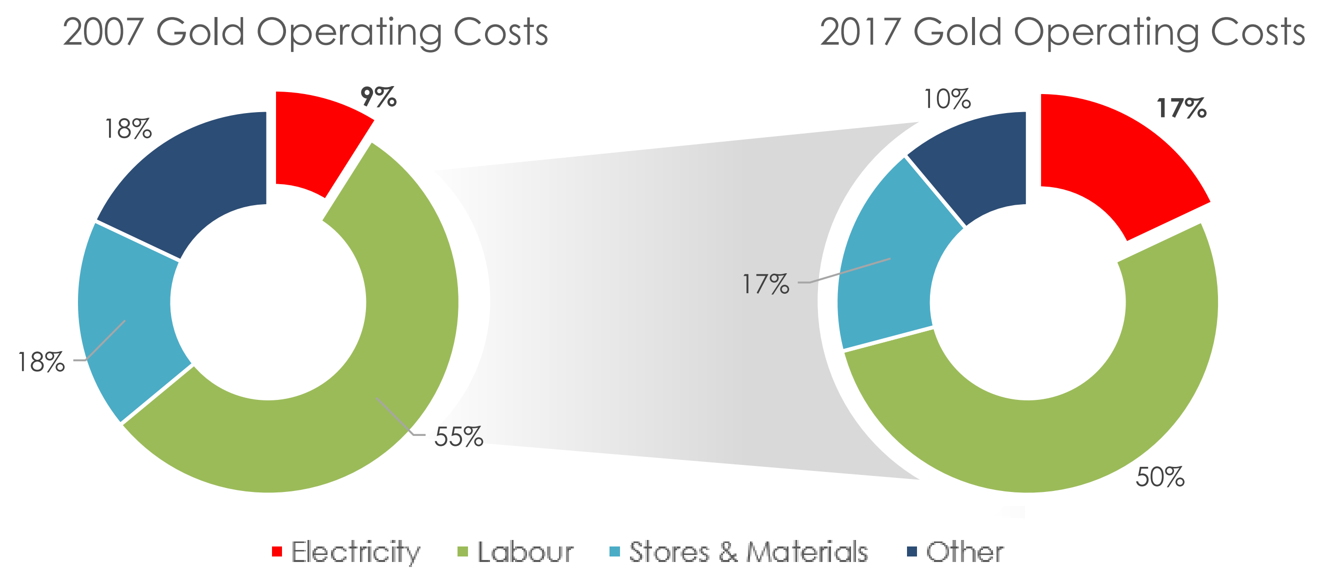


- The SA operations demand 662MW over a 24hr average - 2.9% of national demand[1]. Spend will exceed R5bn in 2018, making us one of Eskom's 5 biggest private customers.
- 2013 – 2017 demand growth is as a result of expansion projects and acquisitions which have significantly grown the business.
- Through a drive to improve energy efficiency by 3% per annum, accumulatively ~100MW has been removed from our base demand since 2013, equating to a net reduction of 13%.

1. *Based on 2017 consumption and NERSA's F2018/19 forecasted Standard Tariff and NPA sales of 199 067GWh*

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

Electricity is a growing portion of our operating cost



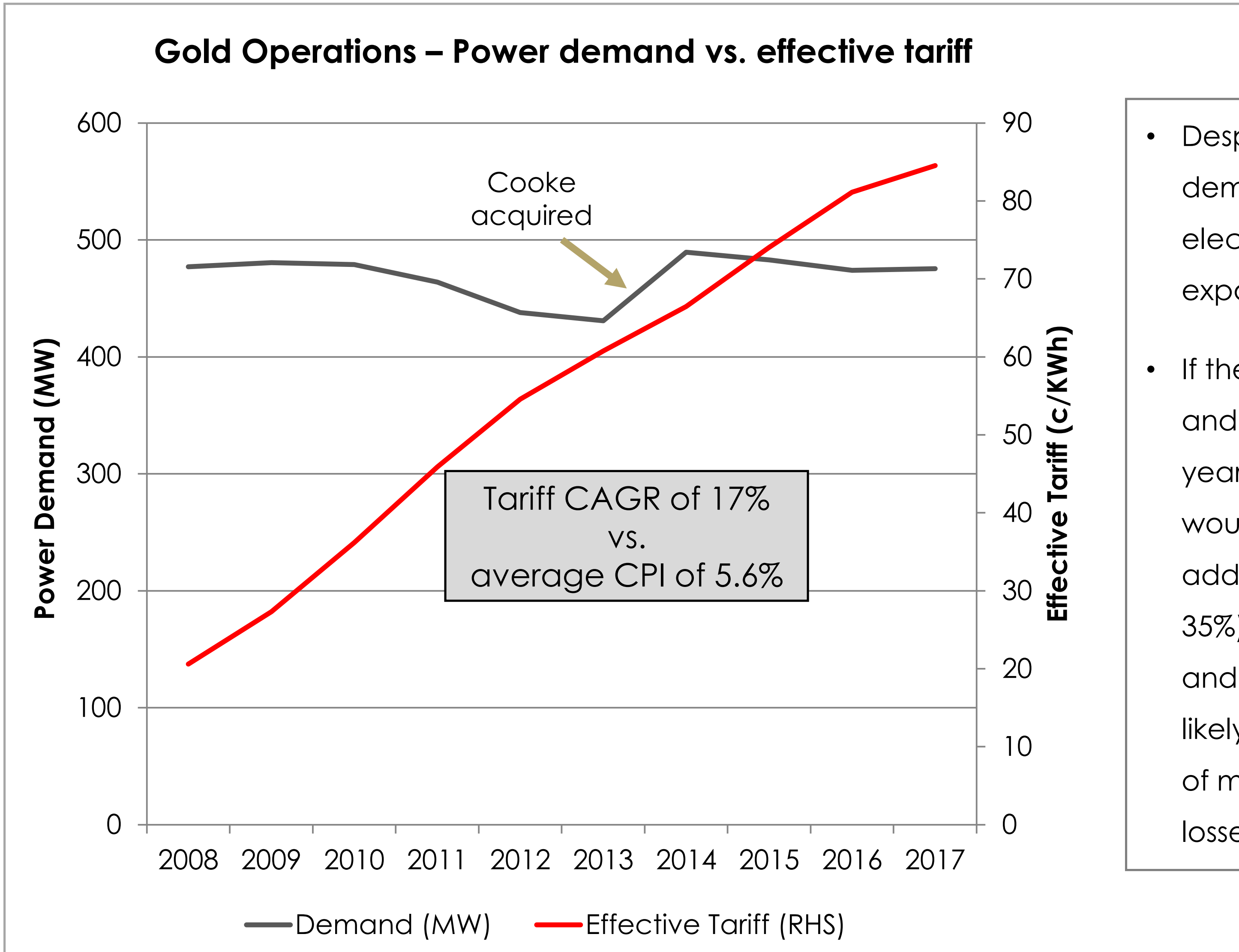
- Electricity is a significant and growing portion of our operating cost and has contributed to increased cost pressures over the past several years. These cost pressures have lead to the closure of 4 mines and 8, 702 direct job losses in the last 5 years.

- As a result of the inability to influence commodity prices and exchange rates, profitability is generally achieved through increased productivity and/or cost management. Productivity improvements are incremental and as a result management of costs is often achieved by restructuring, which includes reducing our labour complement due to the fact that wages account for over 50% of costs in SA mines.

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

SOURCE: Internal analysis.

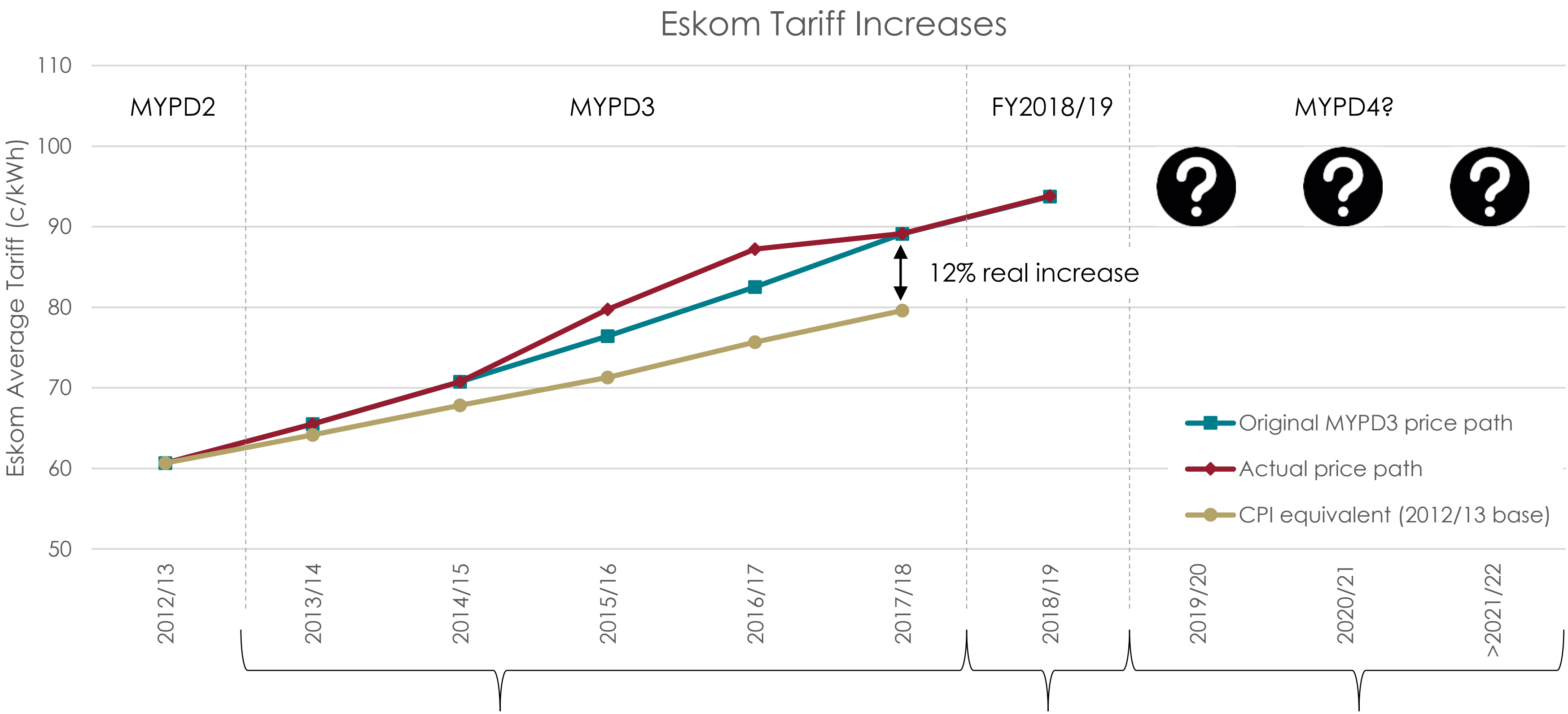
Electricity tariffs have grown by a compounded annual growth rate of 17% p.a. over the last 10 years



- Despite significant annual demand reduction, electricity costs have grown exponentially.
- If the R67bn is both granted and liquidated in a single year, our electricity costs would increase by an additional ~R1,770m (30-35%) between the Gold and PGM operations. This is likely to result in the closure of marginal mines and job losses.

SOURCE: Internal analysis and StatsSA

Future electricity price path uncertainty makes business planning difficult and deters investment



Price certainty to be provided by the original MYPD3 was eroded by the MYPD2 RCA, 2013/14 RCA and the delayed year 2-4 RCA applications.

The MYPD3 increases were above inflation over the 5 year period.

A single year application does not provide long-term price certainty.

The short-term, let alone long-term, electricity price path is highly uncertain due to the outstanding:

- Integrated Resource Plan (IRP)
- MYPD4 application
- Current RCAs outcomes
- Pending FY2017/18 RCA application

SOURCE: NERSA documents, StatsSA

Key outstanding information makes electricity price forecasting extremely difficult

A significant RCA tariff increase could directly risk the livelihood of over 120 000 people

An RCA tariff increase will put additional pressure on already constrained operating shafts…

- The stronger rand has reduced rand-denominated metal prices, putting **severe pressure on our operations**.
- **A RCA tariff increase will detrimentally impact shaft margins**, potentially 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.

… potentially leading to shaft closures and knock-on losses through the mining value chain

- If the R67bn is both granted and liquidated in a single year, the **~30-35% electricity increase will directly threaten the sustainability of 7 marginal shafts**.
- Potential impact to the mining value chain:

At risk – 7 shafts	Impact extent
Effect on Au & PGM production	653 106 oz
Effect on revenue	R 9 349m p.a.
Eskom base-load demand	158 MW / R 1 242m p.a.
Supply Chain spend	R 1 185m p.a.
Sustaining capital spend	R 1 035m p.a.
Direct jobs (employees)	11 334
Indirect jobs (contractors)	1 426

- Beyond the direct mining value chain, the broader economy will also suffer from a **reduction in foreign income earnings and taxes and royalties paid**.
- The impact of a spread-out RCA recovery cannot be modeled without clarity on the IRP, MYPD 4 and the 2017/18 RCA.

SOURCE: Internal analysis.

Conclusion

- Sibanye-Stillwater presented to NERSA in 2013, 2015, 2016 and 2017, citing the risk of job losses as a result of cost pressures including above-inflation electricity increases. **Since 2013, 4 shafts have been put on Care and Maintenance and 8,702 direct employees have been voluntarily or involuntary retrenched**.

- At current spot prices a number of shafts are currently marginal or loss-making. A significant **RCA tariff increase would add further cost pressure and could directly result in 7 more shafts becoming loss making**, risking employment of a further 12 760 people and indirectly the livelihood of over 120 000 people, based on the 1-to-10 support ratio.

- The current MYPD methodology, taking into account previously granted RCAs, has resulted in **electricity price path uncertainty**, **making business planning difficult and deterring investment into long-term projects**.

- Without clarity on the Integrated Resource Plan (IRP), the MYPD4 and the pending 2017/18 RCA application, the impact of the current RCAs liquidated over a longer period cannot be assessed. **The long-term electricity price path remains uncertain.**

- Sibanye-Stillwater's long-term Life of Mine plans assume CPI-linked escalations. **Above CPI increases will likely result in job losses and further reduced electricity sales,** further exacerbating Eskom's financial difficulties.

A significant RCA tariff increase could risk the livelihood of over 120 000 people

Recommendation

- **The recovery of the RCA amounts should not be allowed.** Sibanye-Stillwater cannot absorb further price increases whilst sustaining our business.
- **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.
- Recommend Eskom to restructure their organisation to be in line with the sales volumes and revenue generated to avoid extreme tariff increases.
- Clarity is to be provided on the MYPD4 and 2017/18 RCA application as soon as possible. **The long-term price path should be linked to inflation or below**.

The outcome of the applications will impact business sustainability

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