Impact of the Eskom MYPD4 application

February 2019

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Introduction

- This presentation examines the impact of Eskom's MYPD4 application for **3 annual tariff increases of 15%, above the 4.4% granted for FY2019/20**. This equates to a compounded nominal increase of **58% over the next 3 years,** excluding the MYPD3 Year-5 RCA application**.**

- We believe Eskom's application **need to be considered in the context of the broader state of the economy and the mining industry**.

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

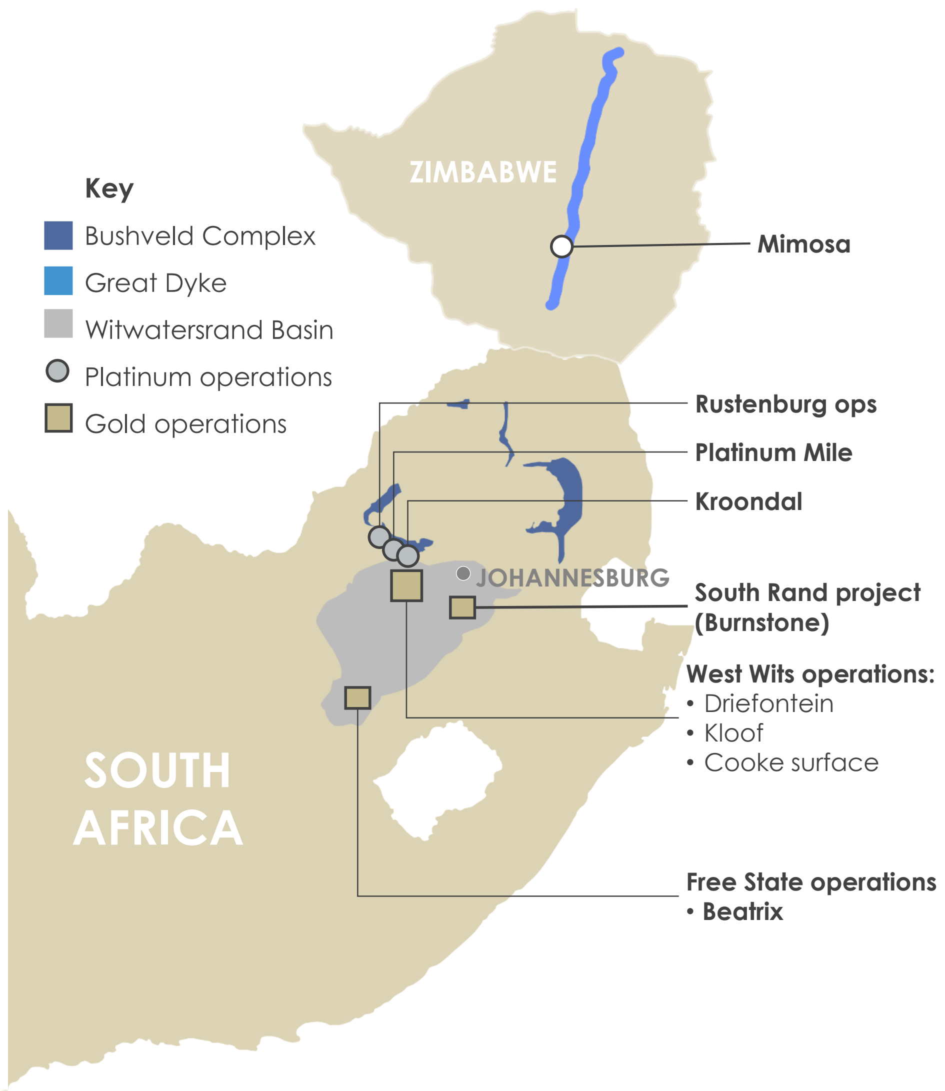
- This presentation **aims to highlight the impact of the MYPD4 application on the sustainability of our operations and on mining stakeholders**. This will show that the approval of the requested tariffs will likely result in mine closures with significant associated job losses and a reduction in capital 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 4 Sibanye-Stillwater shafts being placed on Care and Maintenance and **8,702 jobs being affected in the last 6 years**.

Our intent is to preserve jobs.

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 60,000 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 **603MW**, accounts for 18% 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 values dictate 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 C.A.R.E.S. VALUES

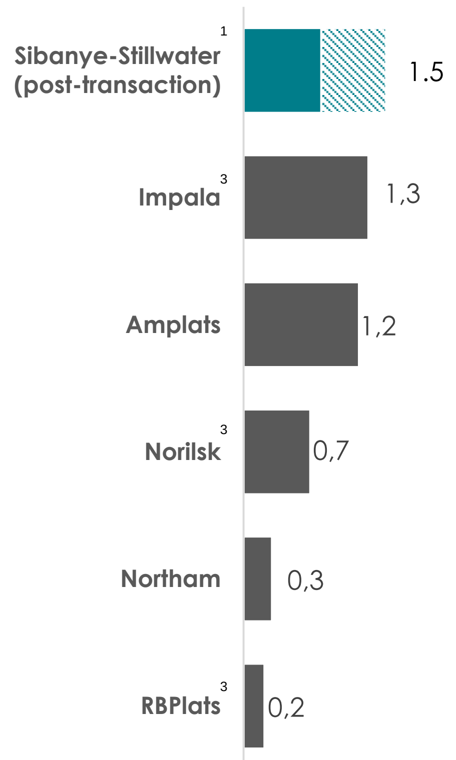
Commitment | Accountability | Respect | Enabling | Safety

Ensuring value creation for all stakeholders is a fundamental requirement for sustainability

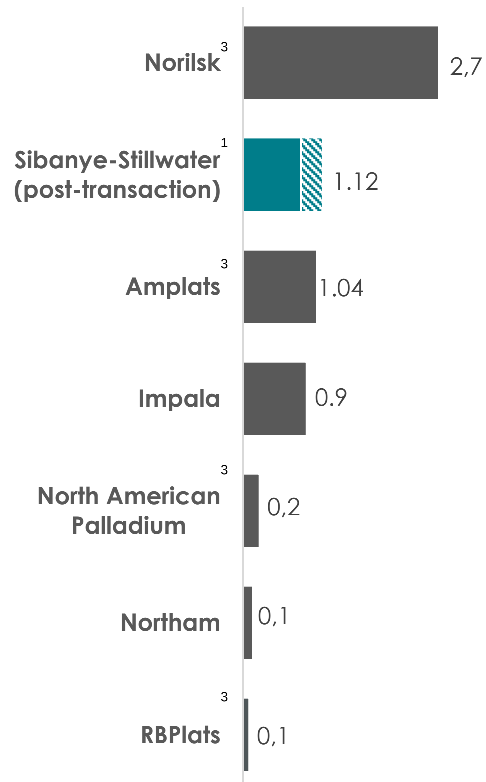
Becoming a leading precious metals company

Sibanye-Stillwater global PGM ranking – Primary production

2018A platinum production (Moz)

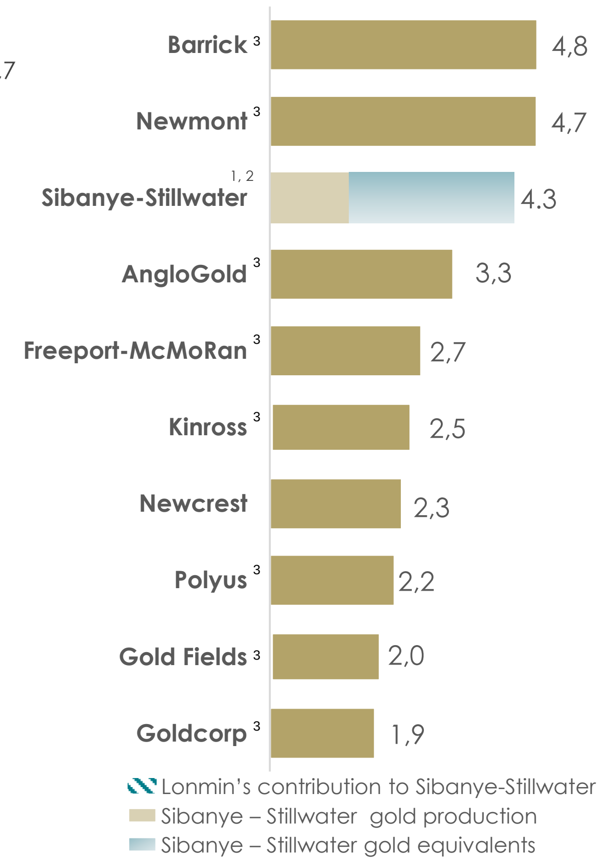


2018A palladium production (Moz)



Sibanye-Stillwater global gold ranking

2018A gold and gold equivalents production (Moz)



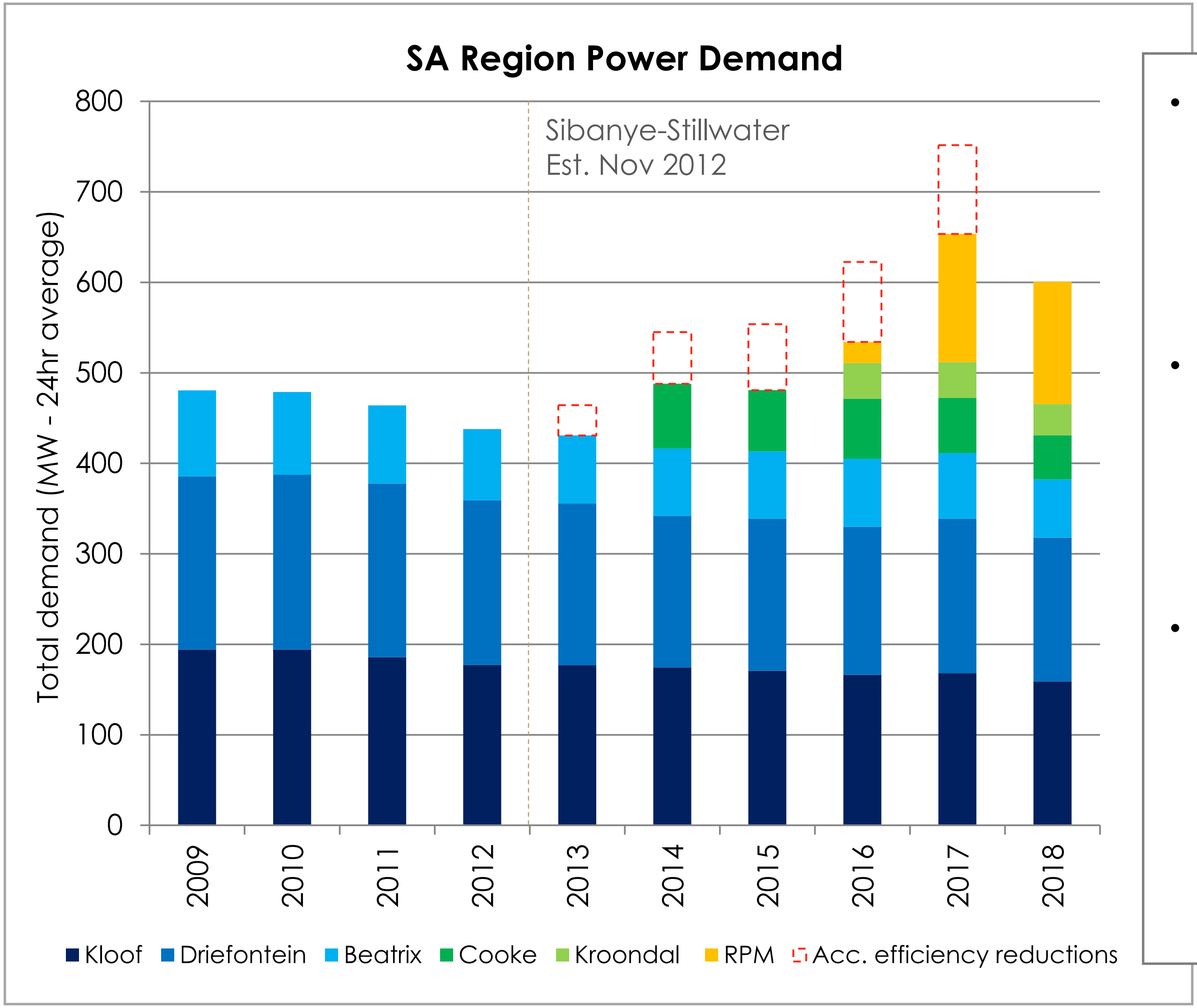
Source: Company filings, Wood Mackenzie

Notes:

1. Annualised (A) H1 2018 production from Sibanye – Stillwater proforma Lonmin excluding recycling volumes
2. Sibanye –Stillwater gold equivalents included completed on a 4E PGM basis. Gold equivalent ounces calculated as PGM basket price in the period (USD1,007/oz) / average gold price (USD1,286/oz) in the period multiplied by PGM production (4E) and using the Sibanye – Stillwater H1 2018 prill split
3. Peer group information using public company filings . Platinum and Palladium reflect primary production for H1 2018 annualised

Positioned globally as a leading precious metals producer

Cost pressures are forcing a decline in consumption

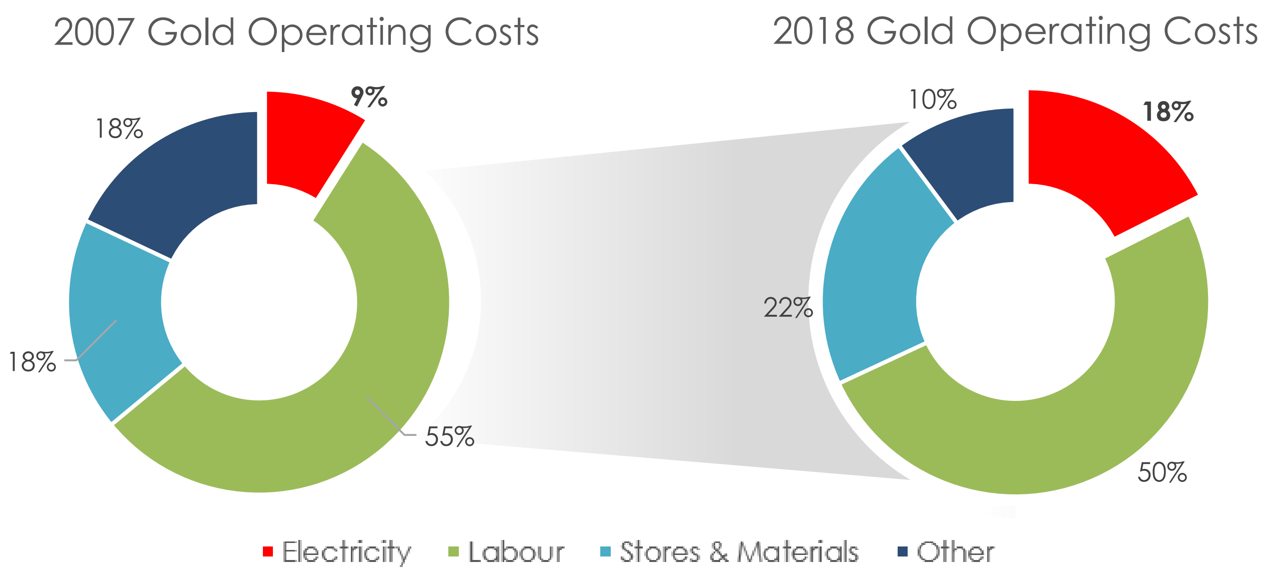


- The SA operations demand 603MW over a 24hr average (2017 - 667MW) or ~2.7% of national demand[1].
- One of Eskom's 5 biggest private customers with almost R5bn spend per annum.
- Total consumption has reduced by 54MW, largely driven by the closure of Cooke shafts , lower production and cost pressures.

1. *Based on Eskom's 2018/19 forecasted Standard Tariff and NPA sales of 197,294GWh*

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

Electricity is a significant portion of our operating cost



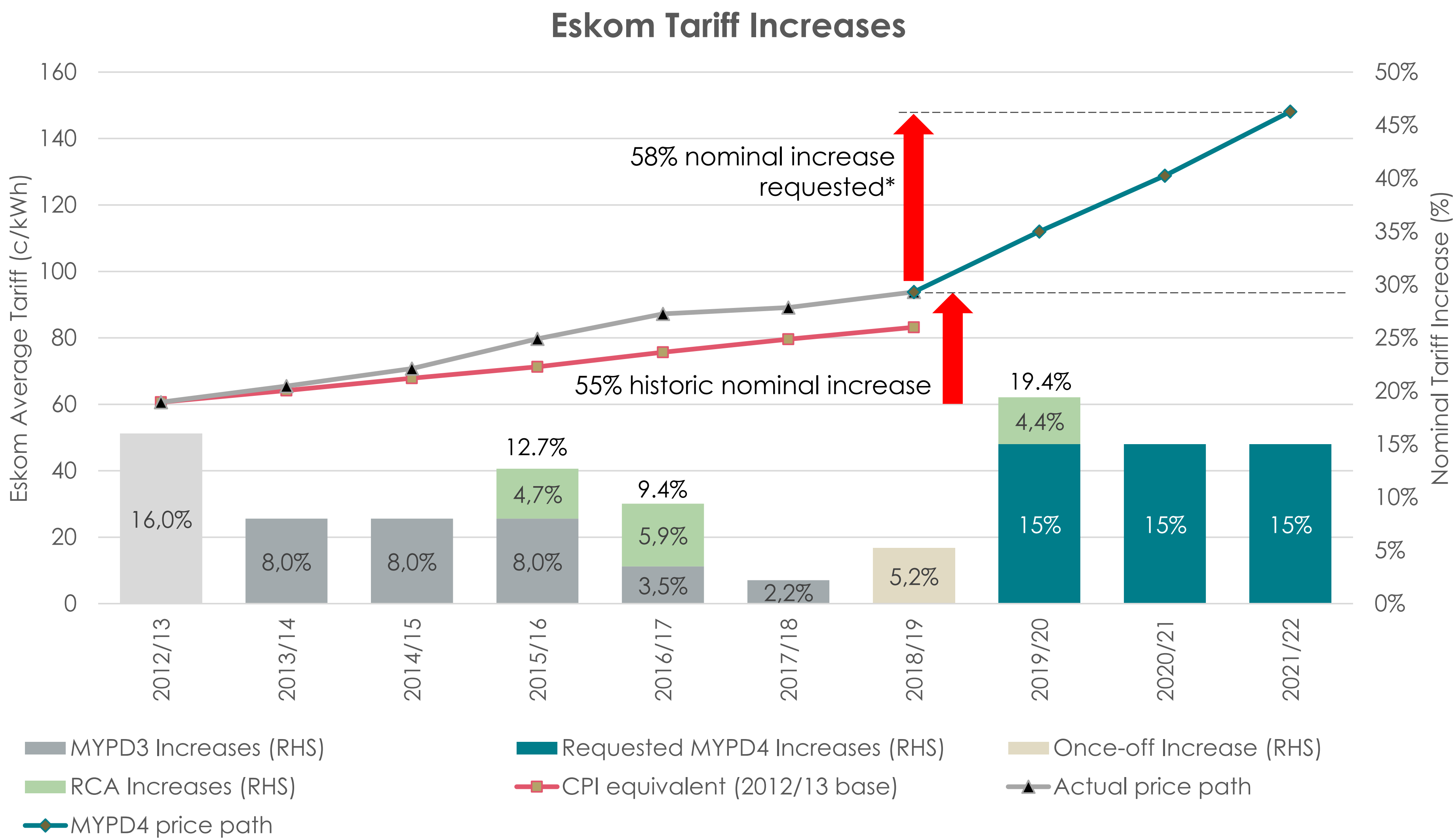
- Electricity is a significant and growing portion of our operating cost and has contributed to increased cost pressures over the past several years. These cost pressures have led to the care and maintenance of 4 mines and 8,702 direct job losses in the last 5 years.

- 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.

Tariffs increased 55% over the last 6 years



*Excludes MYPD3 year 5 RCA application

SOURCE: NERSA documents, StatsSA

A further nominal increase of 58% over 3 years is not sustainable for any business

The application risks the livelihood of 85 000* people

- **The compounded tariff increases 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.
- If granted, the **compounded 58% electricity increase will directly threaten the sustainability of 4 marginal shafts**.
- **Potential impact to the mining value chain:**

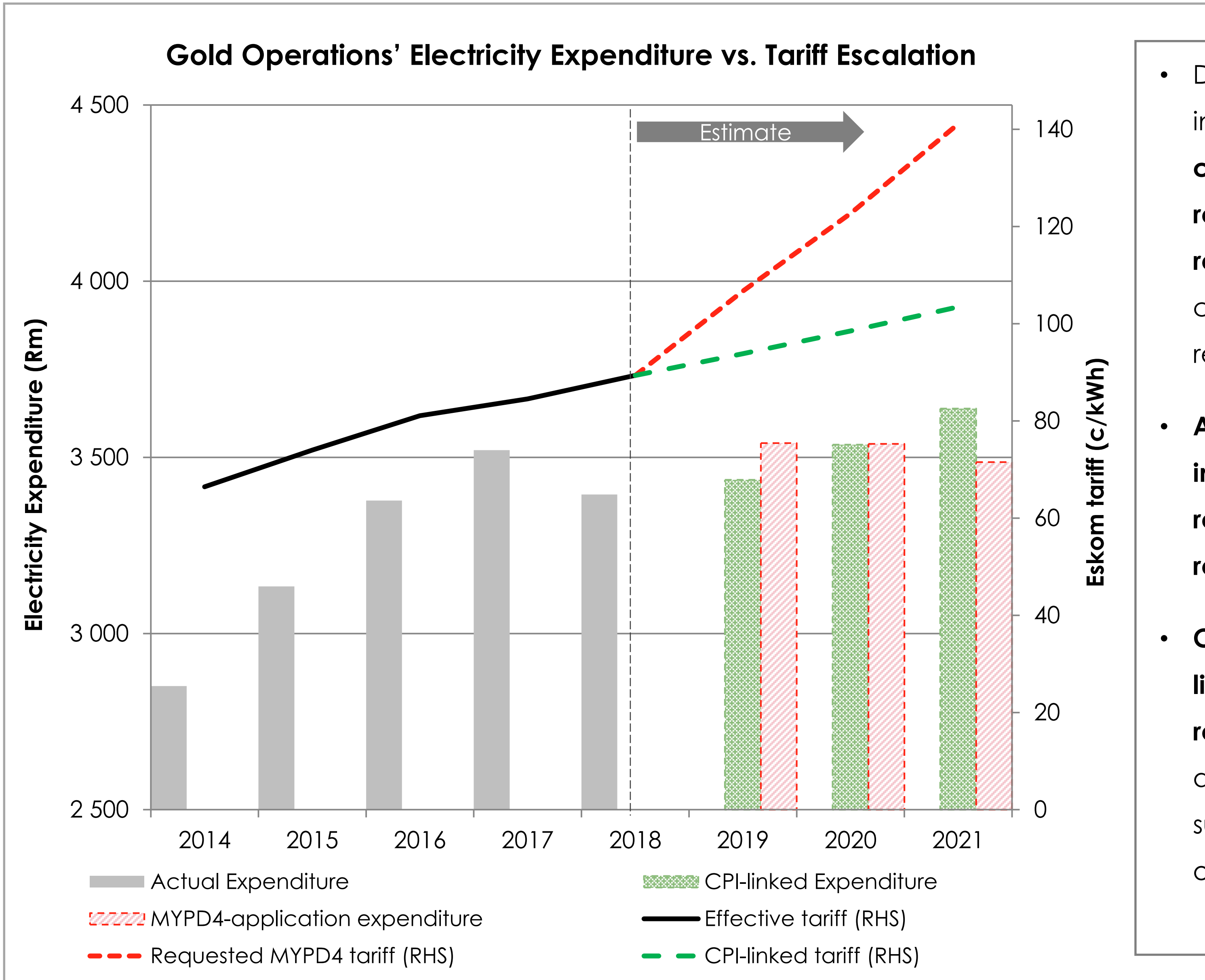
At risk – 4 shafts	Impact extent
Effect on Au & PGM production	372 901oz
Effect on revenue	R 5 667m p.a.
Eskom base-load demand	92 MW / R 718m p.a.
Supply Chain spend	R 739m p.a.
Capital spend	R 902m p.a.
Employment (employees & contractors)	~8 527 jobs

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

* Based on the 1:10 support ratio as published by the Minerals Council

SOURCE: Internal analysis.

Above inflation increases will not result in more revenue



- Despite a 5.5% tariff increase in 2018, **consumption and revenue to Eskom has reduced** as a result of closures, highlighting a real risk.
- **Above-inflation tariff increases will further reduce consumption and revenue** to Eskom.
- **CPI-increases would likely produce a similar revenue stream** to Eskom and allow the sustainable operation of our shafts.

Conclusion

- Sibanye-Stillwater presented to NERSA in 2013, 2015, 2016, 2017 and 2018, 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 metal prices a number of shafts are currently marginal or loss-making. Above-inflation **tariff increases would add further cost pressure and could directly result in 4 more shafts becoming loss making**, risking employment of a further 8 500 people and indirectly the livelihood of over 85 000 people, based on the 1-to-10 support ratio.

- The current MYPD methodology, taking into account previously granted RCAs, has historically **not resulted in electricity price path certainty**, **making business planning difficult and deterring investment into long-term projects**.

- 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 tariff increase could risk the livelihood of over 85 000 people

Recommendations

- **Carefully consideration must be given to the sustainability of the mining industry and potential impact to its value chain** - **8,500 direct jobs at risk**.
- **The tariff increases should be limited to CPI, maximum.** Sibanye-Stillwater supports the EIUG's call for 5 years of CPI-linked increases whilst the Eskom turnaround strategy is executed.
- Eskom must **improve their plant performance** in order to mitigate load-shedding, the use of expensive generation technologies (OCGTs) and the need to apply for future RCAs.
- **Recommend Eskom to restructure their business,** particularly their headcount, to be in line with the sales volumes and revenue generated to avoid extreme tariff increases.
- **Eskom 's corporate governance to be strengthened**
- Other **pricing mechanisms should be explored to protect base-load customers in order to stem the Eskom death-spiral,** including:
  - a review of the current framework for short-term negotiated price agreements (NPA),
  - a new framework for long-term NPAs, and,
  - a review of current tariff subsidy arrangements.

The outcome of the MYPD4 application will impact business sustainability

we are one
Sibanye Stillwater

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