# SA Mine 2021 Harvest season, call to action



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# Executive summary

In a year of doom and gloom on so many fronts, the mining sector delivered a sterling performance with value delivered to all stakeholders. As global supply and demand jostled to find their way back to pre-pandemic levels, demand and therefore prices were the outright winner. With record rand prices for gold, the platinum group metals basket, iron ore and more recently, coal, it was no surprise that the industry's financial performance exceeded expectations on most fronts.

The global low-carbon energy and Fourth Industrial Revolution agendas will result in increased demand for a number of commodities. Global constraints in supply of these will result in increased prices and need for investment in supply.

Stakeholders often refer to the need for a just transition when faced with massive demand shifts away from fossil fuels. Globally though, the pace of the transition is likely to be limited by the availability of resources needed for the transition. Understanding the supply constraints will be key to mapping a realistic transition for the future.

In South Africa, we stand to benefit from the demand growth. Whether South Africa and other resource-rich countries will benefit to the full extent will depend on their ability to address bottlenecks in supply.

#### Andries Rossouw

Africa Energy, Utilities & Resources Leader

There is an obvious need to invest in the right skills, infrastructure, energy and water and, in general, creating an enabling environment for exploration, mine development and production. Realising the full potential benefit of our resources and creating long-term sustainable outcomes will depend on our ability to mine cost competitively and to integrate various value chains profitably.

The excellent financial performance resulted in mining companies being in a very strong financial position. Debt has largely been repaid and returns to shareholders reached record rand levels for many companies. The fiscus benefited from increased direct and indirect taxes and mining royalties to the extent that it could support ongoing socio-economic support during the pandemic.

The remaining free cash flow and available cash resources leave mining companies with interesting capital allocation decisions. Strategies will include expansions and new development, acquisitions, strengthening of local infrastructure and host communities, market development and investments up and down the value chain. Execution on these strategies will require disciplined long-term sustainable mind sets.

# Mining sector overview

## The growth in the mining industry confirms the resilient nature of the sector and the opportunities that exists in rebuilding the South African economy

The South African economy started rebounding in the third quarter of 2020 (July–September) coinciding with the easing of COVID-19 lockdown restrictions. All industries recorded an increase in economic activity compared to the second quarter of 2020. Mining was the strongest contributor to growth among all sectors, recording 271% growth in the third quarter compared to the second quarter. However, this growth must be seen against a 70% decline in output recorded in the second quarter. The growth was attributable to an increase in the production of platinum group metals (PGMs), iron ore, gold, manganese ore and diamonds as well as strong commodity prices.<sup>1</sup> However, the fourth quarter disappointed with a 5.7% decrease in the sector's growth compared to the third quarter.<sup>2</sup> This was due to a reduction in the production of PGMs, coal and diamonds.

The latest GDP numbers show that the mining sector has once again recovered, recording a growth rate of 18.1% in the first quarter of 2021, resulting from increased production and prices of PGMs, Iron Ore and Gold.<sup>3</sup> These levels were maintained in Q2 of 2021 with a marginal growth of 0.1%. Infrastructure development and energy transition strategies adopted by a number of countries to bolster economic growth, are supporting the demand for these commodities.

### Mining's potential economic contribution to the South African economy

Investment in the mining industry is crucial to ensure its continued contribution to the South African economy. To estimate the economic contribution, we conducted an economic impact assessment (EIA), quantifying mining's economic contribution using an internationally accepted approach, and informed by the Global Report Initiative (GRI) standards. The EIA allows us to capture the economic contribution of the mining industry by showing the interdependencies between different sectors of the economy.

The mining industry's economic contribution to South Africa is made in the form of revenue associated with the day-to-day operations of different mines operating in the country. The contributions are estimated through the impact on national GDP, job creation and public finance.





### The mining industry contributes meaningful economic and fiscal value through its operations

The country's largest mining sectors are PGMs, Coal and Gold, with South Africa being home to more than 50% of the world's platinum reserves and the country with the second largest reserve of palladium.4 The mining revenue for PGMs, Gold, Iron Ore, Coal and Other Mining<sup>5</sup> was about R557.9 bn in FY2020 (July 2019 to June 2020) and R792.9bn<sup>6</sup> in FY2021 (July 2020 to June 2021), with PGMs contributing the largest portion to the total, about 38% on average. The market experienced some volatility, which was driven by a collision between COVID-19 supply challenges and pandemic-related demand impacts.



Due to the changing nature of the mining business, it is important to understand the impact of different sectors in the economy. Through the production of mining products, expenses incurred through day-to-day operation and the people directly employed, we quantified the beneficial impact on the South African economy.

Mining contributed to economic growth, job creation and the national fiscus between July 2019 and June 2021:

- added R803.3bn to GDP in FY2020 (about 6.7%<sup>7</sup> of South Africa's GDP) and R985.3bn (about 7.6% of South Africa's GDP) in FY2021;
- created and/or sustained an estimated 1,594,000 and 2,300,000 direct and indirect jobs, on average, in FY2020 and FY2021, respectively; and
- added an estimated R229.1bn in FY2021 to total government revenue, through the collection of direct and indirect taxes.





| Total impact includes direct,<br>indirect and induced impact | Year   | PGMs    | Iron ore | Gold<br>mining | Coal  | Other<br>mining | Total<br>South Africa |
|--|--------|---------|----------|----------------|-------|-----------------|-----------------------|
| Mining sales, FY21 (Rbn)                                     | FY2020 | 150.9   | 72.7     | 80.7           | 133.5 | 120.1           | 557.9                 |
|  | FY2021 | 300.7   | 116.0    | 102.6          | 130.6 | 143.0           | 792.9                 |
| Total impact on GDP (Rbn)                                    | FY2020 | 227.4   | 99.6     | 112.7          | 199.3 | 164.4           | 803.3                 |
|  | FY2021 | 355.6   | 129.6    | 116.9          | 159.2 | 159.8           | 921.2                 |
| Total impact on jobs (number)                                | FY2020 | 622.0   | 181.0    | 216.0          | 288.0 | 287.0           | 1,594.0               |
|  | FY2021 | 1,239.0 | 250.0    | 253.0          | 281.0 | 308.0           | 2,331.0               |
| Tatal impost on tax movement (Dha)                           | FY2020 | 50.6    | 23.9     | 26.3           | 45.5  | 39.4            | 185.6                 |
| rotar impact on tax revenue (RDD)                            | FY2021 | 100.8   | 38.1     | 33.5           | 44.5  | 46.9            | 263.7                 |

Figure 2: Mining's contribution to Government income in South Africa

Source: PwC Strategy& analysis from Social Accounting Matrix for South Africa

Increasing mining production would bring added benefits, including increasing the industry's economic contribution. The long-term economic benefits that could be realised through increased future spend by mining companies is shown in Figure 3.

Figure 3: Mining industry's multiplier effect



Source: PwC Strategy& analysis from Social Accounting Matrix for South Africa

It is evident that investment in mining and resultant production contribute positively towards improving economic development in South Africa. In addition, it also has a positive impact on local communities and the South African Government in terms of job creation, poverty alleviation and contribution to public finances.



## The mining industry's role in transitioning to a cleaner economy

The concept of a just transition aims to mitigate the negative impacts of transitioning to a lower-carbon economy on workers and communities.

There is transition risk that arises from South Africa's strategy to mitigate climate change and reduce greenhouse gas (GHG) emissions in line with its international commitments. This is because some of the most polluting industries are also significant players in South Africa's economy. The environmental impact of the mining sector, for example, not only entails high  $CO_2$  emissions, but also includes waste dumps, water pollution, high electricity consumption and high water usage. Yet it is also a key contributor of economic and fiscal value to the South African economy as a whole and more particularly to local infrastructure and socio-economic development in the communities in which the industry operates.

The National Employment Vulnerability Assessment identified the coal value chain, metals value chain and petroleum-based transport value chain among the industries facing the greatest transition risk.<sup>8</sup>

One of the key commodities these industries depend on is coal, which is at risk in the medium term. Coal and its value chain are responsible for the livelihoods of many communities in South Africa: around 335,000 people are dependent on coal for their income. While a transition to a cleaner economy also comes with significant growth in employment opportunities in cleaner energy industries, such as renewables, it will not happen overnight. People will need to be reskilled and retrained. There will be different impacts for different skill levels in different industries and certain communities will be more heavily impacted than others. These are only some of the factors to consider as South Africa navigates through its energy transition.

The just transition concept has put a lot of focus on the plight of communities in the coal mining areas. In a country with record unemployment and where the socio economic challenges probably post the biggest risk, not only for the mining sector, but for the country as a whole this focus might be too narrow We believe the socio economic challenges need to be addressed on an integrated basis.

The limitations of supply of key commodities required for the total green energy value chain are likely to limit the pace of the energy transition to the extent that a realistic transition will result in most of the existing coal mines closing on their normal life of mine planned times. In fact, in the next decade, the country stands to lose more jobs in the gold sector for planned mine closures than in the coal sector.

In South Africa: around 335,000 people are dependent on coal for their income.



# Infrastructure

Underinvestment in infrastructure is a global trend and in South Africa (SA) this is specifically exacerbated by the asset-intensive nature of the mining industry. The mining of bulk commodities (coal, iron ore, chromium and manganese) forms a substantial part of the SA mining industry. Due to the volumes associated with these commodities, huge infrastructure and capital investment is required to support the operations to mine, beneficiate and transport them to market. The balance of SA mine output is largely precious metals that require a similar large infrastructure, albeit of a different nature.

Furthermore, the state of infrastructure to supply energy and water to these capital-intensive operations and transport the product to market, has a direct impact on the performance of mining companies. This shared infrastructure is largely owned, operated and maintained by the Government through state-owned enterprises (SOCs), which further complicates the situation. Although SA has historically had very well-developed infrastructure, there has been a trend for infrastructure investment to not keep up with industry requirements.

While the regulatory environment of the mining industry, specifically the Mining Charter, has been Government's key focus over the past decade, the impact of deteriorating infrastructure on operational and financial performance has increased significantly. This is especially evident through electricity loadshedding, decreased logistics performance and underinvestment in the maintenance and performance of secondary infrastructure.

As highlighted in a recent interview by Miningmx with CEO of the Minerals Council, Roger Baxter, progress is being made to improve the regulatory, administrative and licensing regimes, but this is happening at a frustratingly slow pace.<sup>9</sup> An enabling environment that incorporates an effective regulatory environment, as well as efficient and competitive infrastructure, is thus crucial for all mining stakeholders to benefit. South Africa's inability to address these two aspects effectively leads to loss of opportunity as global commodity prices once again soar without the country being able to fully benefit from it.

This article explores the impact of infrastructure on the mining industry from an energy, water and logistics perspective and examines the role that innovative new ways of infrastructure delivery can influence the economic recovery in the country and the performance of mining companies.



## Impact of energy infrastructure on the mining sector

SA's mining and manufacturing sector has traditionally enjoyed decades of stable and low-cost coal-based power supply from the national power utility, Eskom. However, SA's current power sector challenges, led by a lack of investment in sustainable power generation infrastructure, has had a major impact on energy-intensive sectors in the economy. Power cuts combined with annual electricity tariff increases have not only impacted output volumes, but also the price competitiveness of SA's mining sector. As electricity costs represent a significant cost driver in energy-intensive industries, Eskom's ~400% electricity tariff increase over the past decade has contributed to making SA's once competitive mining sector far less attractive.

In addition to tariff escalations, global markets are beginning to set more aggressive environmental targets on products manufactured using carbonintensive energy sources. A prime example of this is SA's automotive industry, which will soon begin feeling the impact of these targets as vehicle exports destined for European markets will be severely affected by the EU's plan to limit and eliminate sales of vehicles with internal combustion engines (ICE) by 2030. Automotive manufacturers are quickly realising that an urgent transition and investment into green energy and green mobility is required to remain in business.

As the efficiency and costs of renewable energy continue to improve, the decarbonisation of SA's power supply and subsequent energy transition will start to accelerate. Although the country has been lagging in its energy transition, we are poised to catch up quickly. The Department of Mineral Resources and Energy's (DMRE) recent amendment to Schedule 2 of SA's Generation Regulations allows energy projects up to 100MW to be developed without the need for ministerial permission or National Energy Regulator of SA (NERSA) licensing and will accelerate this further. This also provides attractive opportunities for mining players to:

- · decarbonise their energy supply
- · reduce their peak electricity purchase costs
- · reduce their reliance on the currently unreliable state-owned power utility
- · reduce the impact of power cuts on their production outputs
- · save current and future local and global carbon tax costs
- improve their products marketability in an increasingly green conscious world.

Most of South Africa's large mines are coincidently located in regions of the

country with higher than average solar irradiation levels, providing an ideal opportunity for investment into solar photovoltaics (PV) and battery storage. Additionally, opportunities for green mobility via the use of battery electric vehicles (BEVs) and fuel cell electric vehicles (FCEVs) in mining applications are also growing. Anglo American's hydrogen truck fleet at their Mogalakwena mine is a prime example of this, poised to reduce the organisation's diesel spend as well as promote their environmental, social and corporate governance (ESG) image. These types of renewable energy investments in the mining sector are projected to grow substantially in the next decade.

## **Development of new industries**

An uptick in renewable energy investments by the mining and manufacturing sectors would also encourage the development of local businesses supporting the renewable energy value chain, creating much-needed jobs in the country.

Also, as a result of the global energy transition, the need for raw materials in the development of solar PV panels and batteries will be significant and present new long-term market opportunities for the country's PGM sector and mining industry as a whole. This sustained need for raw materials to meet the increasing demand for renewable energy technology manufacturing is growing globally.

The World Bank reports that in order to meet the growing demand for clean energy technologies, mining of minerals such as graphite, lithium and cobalt could increase by nearly 500% by 2050.<sup>10</sup> It also estimates that over 300bn tons of minerals and metals will be needed for the construction of wind, solar and energy storage installations.

Future investments in infrastructure need to reflect our ambitions for the country's economy. Investments in infrastructure cannot be based on technologies that will not form a significant part of the country's economic strategy. More action and investment by SA's private sector in appropriate infrastructure will be required to make the transition work. The mining industry is well positioned to use the global energy transition opportunity to enable growth in SA Inc. This includes the opportunity for research and development (R&D) and industries to support the renewable energy industry in general and the green hydrogen economy specifically to further develop the Bushveld Igneous Complex into a larger industrial complex. This again is linked to regional job creation as South Africa transitions away from its coal-based energy footprint in Mpumalanga. Achieving this will, however, require enabling infrastructure for water, road, rail, skills development and service delivery that should be the Government's focus.

## Water

Despite its significant output, the mining sector uses only around 2.5% of South Africa's available water. Reliable water supply is crucial to mining operations, both underground and surface processing. Most of SA's mines are, however, situated in semi-arid regions and must pursue various ways of ensuring access to water. These include large water infrastructure projects to get water to these mines or the use of underground mine water in areas where there is sufficient supply. Mining companies are regulated by strict environmental and water laws as their operations can have a detrimental effect on the environment and water resources if left unchecked. However, it is important for the Government to maintain a balance between overregulating the mining sector and ensuring economic growth for the country, while maintaining their infrastructure investment obligations. The cost that future generations will bear for present day benefits need to be considered in making investment and regulatory decisions.

Mining companies are now looking at a circular economy that will see mines reusing treated mine water to supply to communities either for potable water supply or to stimulate agricultural activities on mine-owned land. Water treatment plants may even be able to use renewable energy sources to power their operations. By doing this, issues around potential water pollution can be addressed and communities can start producing produce for their own use or commercial purposes.



## Host community infrastructure

Mining companies submit social and labour plans to the DMRE that set out how the company intends to share some of the benefits that flow from mining with surrounding communities. This often includes initiatives for the upgrading or building of new infrastructure such as schools, hospitals and roads, skills development and employment of community members at operations. Unfortunately, these initiatives are often planned in isolation from local stakeholders and although they may address immediate needs, they might not provide the optimal long-term sustainable outcome intended. Infrastructure created is often not sustainable as communities suffer when mines close and integrated development has not taken place.

To overcome this, and as part of their commitment to ESG, some of the mining companies have revised their ESG strategies to include solutions to stimulate the secondary economy within communities.

It is clear that new collaborative ways to develop infrastructure are required. Mining companies have recognised this and that they need to support the Government in the building of new host community infrastructure to not only ensure their continued operations, but also to ensure their social licence to operate. This is especially apparent in the Eastern Limb and Northern Limbs of the Bushveld complex. Various communities in Limpopo Province do not have access to sustainable water supply. The situation has been exacerbated by the COVID-19 pandemic, as the availability of water is essential for good health and hygiene practices.

This, together with deteriorating socio-economic conditions, led to commercial mining producers in the area collaborating with the Government to complete the bulk water infrastructure for the Olifants River Water Resources Development Project to meet the requirements of new mining developments in Limpopo province as well as community needs. As part of this initiative, mining companies will work with the Government to ensure that the project contributes to the socio-economic development in local communities through the infrastructure build programme and the operations and maintenance of the infrastructure thereafter. This model intends to set a new example of collaborative infrastructure development that serves an inclusive set of stakeholders at a regional level.

## **Transport and logistics**

The mining sector in South Africa has been negatively impacted by underinvestment in rail infrastructure and decreased efficiencies related to the transportation of key bulk commodities (coal, iron ore and manganese). Transnet, as the SOC responsible for maintaining the rail and port network, has been operationally challenged by locomotive unavailability, coal line shutdown interruptions, power outages and derailments, combined with vandalism and sabotage of rail equipment and pervasive cable theft.

These chronic difficulties, particularly on Transnet's coal rail line from Limpopo and Mpumalanga operations to Richards Bay Coal Terminal (RBCT), have crippled exports of coal and other commodities at a time when global commodity prices are booming. Coal exports through the RBCT dropped to 70.2 million tons (Mt) during 2020 from 72.2Mt in 2019. Exxaro, for example, recently reported that it will see a reduction in export volumes by 2Mt, resulting in a revenue loss of several billion rand.

Coal production has been relatively unaffected by the COVID-19 lockdown in SA since suppliers to Eskom were exempted from lockdown restrictions, with additional exemptions available for open-pit mines. Nonetheless, coal production contracted by 2% in the calendar year 2020.<sup>11</sup>

Figure 4: South Africa: Coal production and growth, 2019-2024 calendar years

| Indicator                            | 2019   | 2020e  | 2021f  | 2022f  | 2023f  | 2024f  | 2025f  | 2026f  | 2027f  | 2028f  | 2029f  | 2030f  |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Coal mine production (mt)            | 256,64 | 250,53 | 253,76 | 260,76 | 266,18 | 271,47 | 275,54 | 278,33 | 281,15 | 284,00 | 286,87 | 288,39 |
| Coal mine production volumes (% YoY) | 0,82   | (2,00) | 1,29   | 2,76   | 2,08   | 1,99   | 1,50   | 1,01   | 1,01   | 1,01   | 1,01   | 0,53   |

f = Fitch Solutions forecast

Source: UN, Fitch Solutions

Transnet Freight Rail (TFR) had planned to invest in a R1bn programme to secure its infrastructure to improve rail performance, with initiatives linked to curbing cable theft and vandalism, as well as localising the manufacturing of rail. However, Transnet recently indicated that it would not proceed with the expansion of the Waterberg coal line, which creates uncertainty around Transnet's coal strategy.

In relation to iron ore, SA's production will see 5.0% growth in 2021 as mines recover from covid-related production constraints. However, iron ore exports cannot maximise the benefit from current high export prices because the transport infrastructure through Saldanha Bay is limited. Similarly, limitations on manganese exports through Koega has seen producers seeking alternative routes to market.



# Iron ore production and growth, 2015–2026

Initiatives on the Sishen-Saldanha railway line (OREX) to improve the current capacity of about 60-million tonnes a year is ongoing. Transnet is currently working to refurbish the iron-ore export line so that trains can travel at a higher average speed than the current 30km/h. Improvement to this line, with regular maintenance, can take the average speed to the permitted 60km/h and could provide a 10% improvement, or an additional 6Mt a year.

As a result of Transnet Freight Rail's underperformance, many mines have been forced to investigate road-based logistics solutions. As a result, more than 323Mt was transported by road between January and June 2021, compared to just 90Mt by rail.



Source: PwC analysis, Stats SA

Given these circumstances, deregulation of the rail industry may be the only solution available to address the battle between road and rail. Investment by the private sector into expansion, infrastructure upgrades, routine maintenance, modern rolling stock and more importantly, digital transformation, would significantly improve performance, optimise the rail network and increase the capacity of bulk services. In addition to allowing open access to the rail network, additional consideration should be granted for the diversification of rolling stock to specialist rolling stock suppliers or mining companies.

In addition to deregulation of the rail industry, a review of policies to include considerations such as congestion surcharges for places such as Richards Bay, Durban and Cape Town ports will also be required to regulate the trucking industry. Such a multipronged approach will be required to impact the modal shift in a meaningful way.

This will allow mining companies to own and manage the full value chain of their operations, apart from the ports. However, consideration of private sector participation to increase efficiency, lower costs and provide new investment in port infrastructure is also being considered at Durban and Ngqura ports. This is not unchartered territory for South Africa as the OREX line was initially developed in the 1970s by the mining division of Iscor, an SOC at the time. There is a need for effective and efficient mine to market infrastructure to support the competitiveness of the mining industry.



Furthermore, the transition to a low-carbon future, with consideration of non-renewable energy, resource efficiency and net-zero carbon emission commitments, will look to more sustainable modes such as rail.

However, continuing cable theft issues have increased reliance on diesel locomotives. Currently, South Africa ranks 13th globally in GHG emissions, with road transport, directly and indirectly, accounting for 91.2% of total transport GHG emissions.<sup>12</sup> For road-based logistics, this will mean consideration of battery powered or hydrogen fuel cell vehicles.

The shift to road-based logistics has also impacted roads negatively, exacerbating the damage and accelerating the ageing of road pavement, resulting in increased maintenance and frequent rehabilitation. SANRAL is the SOC responsible for the development, improvement, maintenance and management of the national road network. Road freight currently constitutes about three-quarters of South Africa's total load with National roads carrying more than 70% of all cargo. Heavy vehicle overloading is a significant problem, damaging roads and increasing road safety risks.

In these circumstances, an integrated approach will be required to overcome the logistics investment backlog on the dedicated commodity rail lines as well as achieve world-class operational standards.

#### Future focus of infrastructure development

The establishment of Infrastructure South Africa (ISA) to fast-track and facilitate the development of infrastructure in key sectors to boost South Africa's economic recovery, is an exciting and much-needed government initiative. ISA will both support the mining industry as a sustainable and attractive investment area and depend on its expertise in co-developing and managing mega infrastructure assets. The consequences of decades of underinvestment poses unique challenges as South Africa repositions itself for the future, while recovering from the economic and social impacts of COVID-19. This will require innovative infrastructure delivery models, which so far have not been fully exploited.

The Independent Power Producers Procurement Programme Office (IPP Office), established in 2010 to secure electricity from the private sector, has shown that South Africa can successfully implement alternative development, delivery and operating models. The mature public-private partnership (PPP) framework and track record of projects provide further proof of the success of alternative delivery models and will create a lot of activity in the next decade as the National Infrastructure Plan 2045 is developed and implemented.

# Transforming the workforce for smart mining

Over the past couple of years, digital and skills transformation in the mining industry have increasingly become a point of ongoing conversation in mining houses and industry bodies. Questions are being asked such as:

- When is the right time to digitally transform the business without interrupting productivity? Which future skills and competencies should a mining organisation invest in?
- How does a mining organisation continuously ensure it has a diverse workforce, including greater opportunities for women?
- How can mining organisations and the industry bodies contribute to the upskilling of communities in which mines operate.

The mining workforce – from a job role, digital skills and behaviour perspective – is changing and will continue to. In a recent PwC survey of digital transformation in the South African mining sector, most respondents believed that there will be a change in the nature of the workforce to more skilled employees over the next five years.<sup>13</sup> However, only one-third said their employees have the skills to realise and effectively execute a digital future. The COVID-19 pandemic should have accelerated some awareness and improvement of digital skills. As indicated in our 'Hopes and Fears 2021' survey of more than 30,000 workers across 19 countries (including South Africa), 40% said their digital skills improved during the lockdown.<sup>14</sup> The survey found many workers experienced unequal access to career and training opportunities. Among South African participants, only 37% said they had adequate digital skills to enable them to cope in their current working environment, that is to say since the pandemic began.<sup>15</sup>

In the South African mining sector, most respondents believed that there will be a change in the nature of the workforce to more skilled employees over the next five years.



## Future roles and skills in mining

As major mining organisations think about their strategy and transformation journey from a digital and mining operations automation perspective, it is critical to understand, identify and start developing skills to support and undertake this transformation. We have identified some of these roles, skills and competencies:

#### Future roles

- Data scientists
- Data analysts
- Integrated mine schedulers
- Workplace and worker experience reformers
- Redesigners of underground operations.
- Underground drone operators
- Application developers
- Autonomous truck and loader supervisors

#### **Skills and competencies**

- Cognitive skills such as problem solving and reasoning
- Socio-behavioural skills such as teamwork, leadership, adaptability and resilience
- Fusion skills such as creative/ innovative thinking and entrepreneurial skills
- Electronic mechanical skills to support maintenance and supply chain
- Stakeholder engagement skills.

Digital and analytical skills will unlock new value across mining operations and present opportunities to help address its most pressing challenges. Future smart mines should be able to:

- analyse environmental, social and governance (ESG) data and predict and report on the environmental and social impact that a mine has on a community
- · execute an optimised and integrated mine value chain and process
- react more quickly and predictively to safety threats through real-time data collection and analysis
- · reduce the cost to mine while increasing productivity
- · improve planning through the use of advanced business analytics
- ensure mining accuracy and efficiency.



Major mining organisations are thinking about their strategy and transformation journey from a digital and mining operations automation perspective.

## Rethinking learning and development delivery to enhance upskilling and digital transformation

In order to prepare the workforce for future roles and to upskill employees with the skills and competencies they need to stay relevant, upskilling and learning and development within mines needs to be carefully rethought with rapid technology adoption in mind. Mining companies have a unique opportunity to manage digital transformation proactively and to minimise the potential negative impact on the workforce and operations through upskilling and reskilling.

Traditionally, formal qualifications, certifications and on-the-job training have dominated the way training and upskilling initiatives are conducted. The rise of digitisation and automation have enabled mining companies to use technology to enhance and support training and upskilling initiatives. New tools such as animation, simulators, gaming and augmented/virtual reality, e-learns and 3D are playing a critical role in ensuring that training initiatives expose workers to real-world working conditions.

In an analysis of emerging learning technologies we conducted, we found a number of tangible benefits of extended reality applications in training. These include<sup>16</sup>:

- 4x faster training times compared to classrooms.
- 275% higher confidence to apply what trainees learned after the training
- 3.75x higher emotional connection to content
- 4x more focus shown by participants in immersive training compared to e-learn, improving knowledge retention
- Greater cost efficiencies immersive training is 52% more cost effective at scale (over 3,000 learners) compared to traditional classroom training.
- improved safety and cost saving as on-the-job training in simulated environments reduces risks.

Although digitised training has a number of benefits, in the South African context there are a few factors that we believe need to be taken into account:

- · language barriers and literacy levels
- workforce age groups, generational expectation differences, and cultural norms
- · physical infrastructure, and asset development and operating costs
- · scalability, adaptability and accessibility of training.

As mining organisations think about new ways of learning, they will need to put plans in place to future-proof their workforces in order to address these factors and, more importantly, the realities of diverse workforce generations, cultures and literacy levels.





# Future-proofing mines through predictable strategic workforce planning that meaningfully integrates diversity and inclusion

Changes in technology, demographic, social and regulatory environments have intensified the challenges of employing the right workforce, with the right skills, at a competitive cost. A comprehensive workforce strategy is becoming increasingly more important and paves the way to creating a more engaged, skilled and sustainable workforce.

However, many mining organisations continue to struggle to realise the full potential of their workforce due to their inability to develop and execute on a holistic workforce vision.

Nearly 95% of the new positions created in mining in the next five years are expected to be for skilled workers, a significant departure from the industry's historic skills profile.<sup>17</sup> This market shift is forcing the mining industry to think about the future of the workforce as it grapples with rapid advancements in technology, shifting economic power, resource scarcity and climate change.

With the shift in the mining workforce, investment in reskilling and upskilling the current workforce will be essential, not just for the different roles/ positions that will be created, but also to equip affected workers to find other jobs once their specialisation is no longer required on a transformed and digitalised mine. To achieve these goals, strategic workforce planning can provide actionable insights for the development, enablement, realisation and preparation of the changes to come.

Drawing on insights from business and human resources (HR) leaders in mining worldwide, we identified what organisations should be doing to prepare for the future of work<sup>18</sup>:

- developing digital-led training programmes in drilling accuracy, underground safety, use of smart machinery (as examples) and performance measurement procedures
- building HR's understanding of technological change and its implications
- improving mines' ability to tap readily into flexible current and future talent and ideas
- creating a compelling people experience through developing a distinct employee value proposition that clearly articulates how diversity and inclusion, learning and culture will continue to be addressed.
- using workforce analytics to make the most of your talent.

## Conclusion

In order to meet the workforce challenges of a rapidly changing and more digital world, optimising the workforce to increase productivity and gain efficiency while maximising workforce performance and digital upskilling, is critical for any mining organisation. This, together with safety risk, sustainability and reputation, will assist with managing costs across people, safety of operations and productivity.

# Transformation in the era of low-carbon economy dominates the agenda

The COVID-19 pandemic has highlighted the importance of the environmental, social and governance (ESG) agenda across all industries. The crisis has put the focus on resilience and sustainability, reminding us that without healthy people and a healthy planet, there will be no healthy economy. The pandemic has disrupted the way in which ESG is considered, placing sustainability at the centre of both global and local initiatives to 'build back better' by creating a sustainable and resilient economy post covid.

In a recent report, the World Business Council for Sustainable Development (WBCSD) expressed the view that a sustainable and resilient global economy requires urgent and significant transformations of our businesses, economies and societies.<sup>19</sup> The WBCSD calls on business leaders to make three fundamental mindset shifts:

- reinventing capitalism to reward true value creation, not value extraction;
- building long-term resilience; and
- taking a regenerative approach to business sustainability.

Similarly, in his 2021 Letter to CEOs, BlackRock CEO Larry Fink reiterated that influential investors are seeking businesses that can create sustainable, durable value for all stakeholders. In his view, we are standing on 'the cusp of another transformation'.<sup>20</sup>

This transformation is a real and present driver opening up business to risk and opportunity. South African mining companies will need to face the challenges it presents. Staying competitive and 'socially accepted' in a rapidly transforming economic environment requires a proactive response by mining companies. Against this backdrop, we explore what the mining sector is doing to reposition itself for a 2050 world, focusing on the following key questions:

- · How are mining companies reinventing capitalism and mainstreaming ESG?
- How are mining companies responding to the impact of changing social values and stakeholder expectations of long-term strategies for shared value creation?
- · How can coal mine closure be managed to ensure no one is left behind?

The crisis has put the focus on resilience and sustainability, reminding us that without healthy people and a healthy planet, there will be no healthy economy.

# ESG enters the mining mainstream

Recognition of having reached intolerable levels of risk in several related areas (including climate, social vulnerability and biodiversity) has brought about a worldwide drive to decarbonise every sector of the global economy by 2050, commonly termed 'net zero'. Nearly all of South Africa's top export products (by value) are vulnerable to changes in global demand (for example, motor vehicles and coal); or to physical constraints (agriculture). South Africa's major coal export markets such as India are, for example, reconsidering their energy mix. To remain competitive in the global economy and align with trade partners requirements/ regulations, South Africa approved a goal for the country to reduce greenhouse gas emissions to net zero by 2050.21 This requires significant transformations of business models across all sectors of the economy, particularly the mining sector considering its high carbon intensity.

We are seeing many large mining companies protecting their investments by diverting investments away from coal towards investments that are likely to support the net zero agenda. Recognising the need to transform business models in response to net zero and position for 2050. Anglo American, for example, demerged its South African coal-mining assets to separate its main activities from what could turn out to be stranded assets in the future. This followed in the footsteps of Rio Tinto, which exited its remaining coal assets in 2018. Recognising the transition, Exxaro began to explore decarbonisation plans as early as 2010 and approved a Climate Change Response Strategy in 2020<sup>22</sup>. Following the release of its sustainability strategy, Sibanye-Stillwater published several ESG policies and supporting position statements including a new battery metals focussed platform. In its climate change position statement, Sibanye commits to be carbon-neutral by 2040.23 In its 2019 Sustainable Development Report, Impala Platinum indicated a commitment to progressively

integrating climate-change mitigation into core business activities. Moreover, Impala reported developing a low-carbon transition plan to support the long-term business strategy.<sup>24</sup>

We are seeing underwriters actively seek to de-risk their portfolios, improve ratings and cap premium incomes, which is making cover for heavier classes of business such as mining harder to obtain. In addition, insurance terms that were previously granted as part of the negotiations are now charged for in the insurance premiums. Underwriters have become more selective in the risks that they will consider and markets are reluctant to write any new business unless it is 'adequately priced', leading to substantially higher rates than seen in previous years.

Activist shareholders staging protests at annual general meetings (AGMs) and other company meetings have also become a real concern for mining businesses. It is impossible to ignore the fact that increased stakeholder scrutiny is turning up the heat on how mining companies operate. For example, in 2018, Sasol's shareholder organisations Just Share and the Raith Foundation co-filed a resolution seeking to bind Sasol to publish environmental performance in its annual reports.<sup>25</sup> Although the resolution was rejected in 2018, in 2019, six major South African institutional investors - Old Mutual, Sanlam, Abax Investments, Coronation, AEON Investment Management and Mergence Investment Managers - tabled a shareholder resolution seeking that Sasol publish its annual climate risk reports from 2020 onwards and its quantitative greenhouse gas targets aligned with the Paris Agreement.

There is widespread recognition in the industry that for South Africa to achieve its net zero ambitions, ESG has to be a core component of any mining company's strategy and policies. Mining companies have often been criticised for not doing 'enough' on ESG and as a consequence are increasingly challenged/asked to make changes to their boardrooms.



# Long-term strategies for shared value creation

While the transition might present challenges, it also presents substantial opportunities for mining companies to create shared value and economic benefits for the communities in which they operate. In current market conditions and socio-economic circumstances, new ways of working are needed if real, sustainable socio-economic transformation is to be achieved. Mining companies not only need innovative business models to deal with cost, capital, efficiency, talent, technology and digitalisation; but also new strategies to manage rising stakeholder demands, strategic risks related to their 'social licence to operate' and increased regulatory requirements linked to socio-economic priorities. While ESG matters have been on the mining sector's agenda for many years, our latest understanding of these systemic disruptors requires some robust thinking.

As an example, Lebalelo Water User Association through collaboration with the Government, has embarked on an ambitious journey to improve lives through water to several communities in the Limpopo province. This project has huge socio-economic benefits through the implementation of construction projects and the associated operations and maintenance of the infrastructure.

Lebalelo Water User Association (LWUA) was established in 2002 with members of the Department of Water and Sanitation (the Department) and mining companies in the Limpopo province. Lebalelo is mainly responsible for the provisioning of bulk raw water to the mining companies and local Government.

LWUA and Government are collaborating, through the Olifants Management Model Joint Venture (OMM), to complete the bulk water resources infrastructure of the Olifants Water Resources Development Project and supply approximately 380 000 people in the Northern and Eastern limb of the Bushveld Igneous Complex in Limpopo with access to potable water. An economic projection model by PwC forecasts that this project will add a minimum of 42 000 sustainable jobs to the economy. These will be long-term jobs, with the shortest employment period being 6 years during the construction period. More jobs will be created during the operational phase of the project.

The increased water capacity will also enable local mines to increase the scale of their operations. They will need more employees to fulfil the increased demands, meaning more jobs will be created. Furthermore, LWUA will equip and support the communities with education, skills and enterprise development. This will have a positive economic knock-on effect which will see more businesses being opened in the area.

# Mine closures: Ensuring no one is left behind

With the energy transition well underway, the mining landscape in South Africa will change over time with limited new coal operations expected. This changing landscape is not new to South Africa. Employment levels in gold mines declined over the last ten years from 150,000 to 95,000. Direct employment in the coal mining sector was 92,000 in 2019. It is probably fair to expect that the decrease in gold mining jobs will continue as mines reach the end of their expected mine life and that the same will hold for coal.

Mining companies will then be confronted with navigating the challenges associated with closing mines and the impact of this on their dependent communities. Managing the associated risks will be essential to gaining and maintaining social acceptance and reducing resistance towards these developments, and for making sure that poverty and inequality – already significant in mining areas – are not deepened by a transition that is not just. Mining companies will need to work closely with their communities and key stakeholders to ensure a just transition suited to South Africa's' mine workers and their communities.

It cannot be overstated: The transformation is a real and present driver of risk and opportunity. When considering the areas explored above, it is clear that the mining sector is undergoing a transformation, driven by multiple forces.

Firstly, as many governments commit to net zero by 2050, mining companies are responding by developing long-term decarbonisation strategies. However, to inspire confidence that they can navigate the global transformation, companies need to start developing clear plans to address the transition to net zero and distinguish themselves with their stakeholders, including customers, policymakers, employees and shareholders.

Secondly, mining companies are starting to recognise that to obtain and maintain a social licence to operate, they need to articulate their purpose and impact, and, in some cases, to reinvent themselves and how the business will continue to deliver value to its customers, employees, and communities.

# Mergers and acquisitions

If last year was a period of navigating uncertainty, this is a year in which companies and investors are looking to capitalise on the 'new normal'. Despite the adaptation of the mergers and acquisitions (M&A) transaction lifecycle to the current circumstances -with remote site visits and due diligence, and virtual negotiations and meetings - companies and shareholders alike remained cautious in their approach to valuations as well as to outlaying capital. As a result, deal flow in the sector was at its lowest level in five years, with the number of deals declining by about 35% and total deal value by about 75% (on a year-on-year basis).

In terms of market performance, with resources companies continuing to outperform the JSE ALSI, investors have continued to flock towards the benefits offered by the sector in tumultuous periods. The Resources Index has offered substantial value against the broader market over the past two years, notwithstanding the fact that the JSE ALSI has rebounded significantly over the past year.



Figure 6: Relative sector total shareholder return performance till June 2021



#### Source: CapitallQ

Shareholders remain comforted by capital discipline demonstrated by resource companies that have looked to return profits to shareholders, rather than pursuing potentially value-destructive acquisitions (as well as new greenfield opportunities). Sibyane, for example, announced that it would implement a share buy-back programme worth R10bn.<sup>26</sup>

We believe that investors will continue to be more selective in their M&A activities, to ensure that they are able to capitalise on long-term value-enhancing plays. A continued focus on ESG governance and compliance by companies and investors is expected to remain a fundamental determinant for investment and M&A activity in the long term. In addition, after significant repositioning in gold, PGM and coal portfolios in South Africa, further consolidation might be seen as limited. However, during times of transition, as is experienced at present, there are bound to be interesting portfolio reassessments with opportunities up and down the value chain.





## Update on significant M&A deals reported during the year

South32 completed its 100% divestment in South African Energy Coal (SAEC) to Seriti Resources in June 2021. The disposal allows South32 to further rationalise its operations, by focusing more on base metals, significantly reducing the capital intensity of its operations and improving operating margins.

As of September 2020, all conditions for the purchase of AngloGold's last South African assets by Harmony were met. One of the key regulatory requirements for the deal is the continued listing of AngloGold Ashanti on the JSE. Its share price declined approximately 40% between early October 2020 and the beginning of August 2021.

Figure 7: Notable M&A deals over the reporting period, 2017-2021



Source: Mergermarket and S&P Capital IQ



#### **Anglo American**

Anglo American led two of the largest M&A deals since the beginning of July last year:

The demerger of Thungela Resources Limited, a leading South African based thermal coal exporter, from Anglo American. With Anglo's commitment to improving its ESG profile, coupled with stakeholder pressure associated with the thermal coal industry, this transaction allows the mining giant to provide shareholders with the opportunity to diversify away from fossil fuels. As part of the demerger, Thungela Resources shares were listed on the JSE, with 100% of the issued share capital being held by Anglo American's shareholders on day one.

The disposal of its 33.33% stake in the Columbian-based Cerrejon Joint Venture, to Glencore, for USD294m. This transaction solidified Anglo's transition away from thermal coal, and is expected to be completed during the first half of 2022.

#### Sibanye-Stillwater

In February 2021, Sibanye announced the acquisition of a stake in Keliber Oy, a Finland-based company focussed on the exploration and production of lithium minerals, for €30m. Sibanye subsequently acquired an additional €10m stake, and is now the largest shareholder with c.27%. The acquisition allows the PGM focussed miner to diversify into the battery metals sector, primarily through Keliber Oy's wholly owned hard-rock lithium project, as it looks to capitalise on the continued growth in the demand for green technologies.

#### Northam

Northam wound up its empowerment deal with Zambezi Platinum early and announced that it would implement a new empowerment transaction worth R33bn, which is set to enhance employee and community ownership in the company for the next 15 years.



# Market performance

In stark contrast to last years' report, major gold miners' share prices experienced a significant average decline of almost 30%, compared to the staggering  $\pm 200\%$  average increase in 2020. However, it needs to be appreciated that commodities' share prices are cyclical in nature and therefore when markets are in turmoil, gold has long been considered a safe haven by investors.

Unsurprisingly, the precious metals and mineral miners continued their strong performance with positive gains over the reporting period. Notable performers over the reporting year include:

- Jubilee Metals: over 300%
- Royal Bafokeng Platinum: ±200%
- Impala Platinum and Tharisa: over 100%

We believe that in a post-COVID and an adjusted 'risk-on' environment, investors will most likely shift focus to potentially diversify into more risky sectors/asset classes.





Source: S&P Capital IQ

# Mineral royalties tax in South Africa

A broad range of natural resource tax bases and rates are available to governments.<sup>27</sup> These include the more commonly known corporate income tax, value-added tax, withholding taxes, import and export duties. They also include royalties taxes and excess profits taxes. It is therefore up to governments to determine the optimal tax mix to meet their desired economic tax policy objectives in respect of the mining industry.

South Africa introduced an additional natural resource tax in March 2010 in the form of the South African Mineral Royalties Tax regime<sup>28</sup>, giving effect to section 3(2)(b) of the Mineral and Petroleum Resources Development Act, Act no 28 of 2002 (MPRDA) whereby the State, as custodian of the nation's mineral and petroleum resources, may determine and levy any fee or consideration payable in terms of any relevant Act of Parliament.

Before the introduction of the MPRDA, the exploration for and extraction of mineral resources was governed by various pieces of legislation. The introduction of the MPRDA brought South African mining legislation in line with current international standards. The combination of the MPRDA and the Mineral and Petroleum Resources Royalty Act, 28 of 2008 (MPRRA) ensures that South African citizens (with the State being the custodian) are compensated for the permanent loss of non-renewable resources. Before this legislative reform, a consideration in respect of the extraction of mineral resources was only payable to the State where mining was conducted on stateowned land.

## Mechanics of the South African mineral royalty calculation

Broadly speaking, two different methodologies can be applied in the determination of mineral royalties:

- specific royalties, based on volume or weight of production, and
- *ad valorem* royalties, based on the value of sales or production.

South Africa opted for an *ad valorem* royalty regime. As such, in determining the mineral royalty liability, the value of the minerals (the tax base) is multiplied by a royalty percentage rate.

The tax base is gross sales, which represents the arm's length price realised in respect of the mineral resources sold, excluding costs actually incurred in respect of transport, insurance and handling between the seller and buyer.<sup>29</sup> As the tax base represents the gross sales realised, mineral royalty tax is only payable once the mineral resource is sold (or deemed to be sold).<sup>30</sup>

The Mineral Royalties Tax regime in South Africa is quite complex, basing the mineral royalty liability on a variable rate that is driven not only by the class of mineral (i.e. unrefined vs refined minerals), but also by the profitability of the mining operations. The minimum rate payable for unrefined and refined minerals is 0.5%, whereas the maximum rate differs – being 7% for unrefined minerals and 5% for refined minerals. The differentiation between unrefined and refined minerals is intended to ensure that beneficiated minerals do not attract a higher mineral royalty based on the higher value attributable to refined mineral resources.

In addition to the aforementioned, the mineral royalty determination in South Africa is further complicated by the fact that it contains a valuation provision whereby the gross sales value has to be determined at an arm's length price as and when a mineral resource reaches the condition specified (quality) as per the MPRRA.<sup>31</sup> This also has an impact on the deductions allowed in determining the profitability of a mine. In essence, where a mineral resource is sold outside of the condition specified, the price realised should be adjusted accordingly to reflect an arm's length price at the condition specified. Similarly, adjustments to the expenditure deductible in bringing the mineral resource to the condition specified should also be made.

### What about the rest of Africa?

How does the South African Mineral Royalties Tax regime compare to those in the rest of Africa? Various shapes and forms of mineral royalty tax regimes are found across the continent. The salient features of some of these is shown in the table that follows.<sup>32</sup>

| Country                | Base  | Fixed / Variable   |  |  |
|------------------------|---|--|--|--|
| Democratic Republic of | Applies to mineral production valued on   | Fixed rate defined for different minerals.                                     |  |  |
| the Congo              | the basis of gross commercial value.  | Strategic substances <sup>33</sup> : 10%                                       |  |  |
|                        |   | Precious and coloured stones: 6%   |  |  |
|                        |   | Precious metals and non-ferrous metals: 3.5%                                   |  |  |
|                        |   | Iron or ferrous metals: 1%   |  |  |
|                        |   | Industrial minerals, solid hydrocarbon and other substances not listed: 1%     |  |  |
|                        |   | Commonly used building materials: 0%   |  |  |
| Republic of Congo      | The market value of minerals at an  | Fixed rate defined for different minerals.                                     |  |  |
|                        | ex-mine price.  | Precious metals and stones: 5%   |  |  |
|                        |   | Other minerals or fossil substances: 3%  |  |  |
|                        |   | Geomaterials for construction and materials for ceramics: 4%                   |  |  |
| Ghana                  | The total revenue earned from minerals obtained by the holder of the mining right (revenue is determined in accordance with IFRS <sup>34</sup> ). | Fixed rate of 5% for all minerals.   |  |  |
| Madagascar             | First sale of the extracted products.   | Fixed rate of 2%, distributed as follows:                                      |  |  |
|                        | 1 Buchter Star  | Mining Royalty: 0.6%   |  |  |
|                        |   | Ristourne: 1.4%  |  |  |
| Mozambique             | The value of the mineral product after  | Fixed rate defined for different minerals.                                     |  |  |
|                        | further determined as being essentially   | Diamonds: 8%   |  |  |
|                        | a price in line with the international<br>market reference price, excluding<br>the costs incurred with regards to                                 | Precious metals, precious and semi-precious stones and heavy sands: 6%         |  |  |
| - Alexandre            | transport, handling costs and related insurance cover. <sup>35</sup>  | Base metals, coal, ornamental stones and other minerals not included above: 3% |  |  |
|                        |   | Sand and stone: 1.5%   |  |  |

| Country        | Base  | Fixed / Variable  |
|----------------|---|---|
| Namibia        | The market value of the minerals  | Fixed rate defined for different minerals.  |
|                | extracted.  | Rough diamonds, emeralds, rubies and sapphires: 10%   |
|                | the way of the second   | Unprocessed dimension stone: 5%   |
|                | and the second second   | Gold, copper, zinc and other base metals: 3%  |
|                | The second share and the second se | Semi-precious stones: 2%  |
|                |   | Nuclear fuel minerals: 3%   |
|                |   | Industrial minerals (fluorspar, salt, etc.): 2%   |
|                |   | Non-nuclear fuel minerals: 2%   |
| Tanzania       | Gross value of the mineral resource.  | Fixed rate defined for different minerals.  |
|                | Gross value is the market value of the<br>minerals valued in accordance with                                    | Diamonds, gemstones and metallic minerals <sup>36</sup> : 6%  |
|                | legislated valuation procedures.  | Uranium: 5%   |
| 1484           | A THE RECENTION   | General rate: 3%  |
| A. P. I. I. I. |   | Gems: 1%  |
|                |   | In addition, a separate inspection fee of 1% of gross value.  |
| Zambia         | Depending on different types of minerals<br>it could either be Norm value <sup>37</sup> or Gross                | Fixed rate defined for different minerals except for copper.  |
|                | value <sup>38</sup> . Special regime in respect of copper production.   | Base metals (excluding copper, cobalt and vanadium): 5%   |
|                |   | Cobalt and vanadium: 8%   |
|                |   | Energy and industrial minerals/materials: 5%  |
|                |   | Gemstones and precious metals: 6%   |
|                |   | The mineral royalty tax in respect of copper is based on a sliding scale (5.5%–10%), i.e. the rate increases based on the Norm value per tonne. |

As the table demonstrates, many African countries have opted for *ad valorem* royalties. Under such regimes the tax base is some form of revenue. The rate to be applied to the base in most of these examples is a fixed percentage – this can be the same for all minerals or can differ per mineral – with only South Africa and Zambia not following this route. In Zambia, all minerals have a fixed rate assigned to it except for copper: as the copper price realised increases, the rate to be applied will increase (the minimum being 5.5% and the maximum 10%). South Africa's approach is quite unique on the African continent as the legislation caters for a variable rate that is driven by the profitability of the mining operations and different minerals are grouped as unrefined or refined minerals.

#### What this means for South Africa

The variable percentage ensures that in tough times mining companies' royalty rate is lower and when prices are high, with corresponding increase in profitability, their percentage is higher. The impressive increase in fiscal income from the mining sector in 2021 was driven in part by the higher revenue base and higher royalty percentage. This progressive system avoids the need for super profit tax, which often raises its head during a boom cycle in jurisdictions that don't have a progressive royalty regime.

However, it is quite clear that the South African Mineral Royalties Tax regime is quite complex and this results in some uncertainty. The following examples illustrate this:

- The valuation rules in the MPRRA require that the transaction price on the sale (transfer) of a mineral resource be adjusted if the mineral resource is sold outside of the condition specified. The MPRRA does not prescribe a methodology to be applied in determining the adjustment, which leads to uncertainty and judgement having to be applied in determining the tax base, ultimately resulting in inconsistency across the industry.
- Determining the profitability<sup>39</sup> of a mining operation is also quite complex, as only expenditure to bring the mineral resource up to the condition specified is deductible. Once again this could lead to judgement being applied and could lead to inconsistency in determining profitability across the industry.
- There are differences between the definition of what constitutes mining activities for income tax and mineral royalty tax purposes. Consequently, some activities such as quarrying will attract a mineral royalties tax liability, but won't be treated as mining operations for income tax purposes.
- The complexity of the legislation requires a specialist approach not only in determining the mineral royalty tax liability, but also in the administration by SARS of the Mineral Royalties tax regime.

Although the Davis Tax Committee<sup>40</sup> (DTC) concluded that the South African Mineral Royalties Tax regime was well designed, especially that it ensures that the royalty is responsive to various economic circumstances, the aforementioned concerns were also raised and the DTC specifically mentioned that the level of judgement required leads to inconsistency across the industry.

Mineral royalties tax is expected to contribute R14.34bn to the South African fiscus during 2020/2021<sup>41</sup>, representing just over 1% of the fiscus' revenue. The poignant question arising is whether or not the complex approach taken in South Africa is the correct approach and has resulted in adequate compensation for the depletion of non-renewable resources?

| Commodity | Revenue | EBIT | Royalty expense |
|-----------|---------|------|-----------------|
| PGM       | 74%     | 179% | 184%            |
| Gold      | 35%     | 238% | 100%            |
| Iron Ore  | 83%     | 139% | 95%             |
| Other     | 27%     | 242% | 37%             |

Figure 9: Percentage increase from 2020 to 2021

Source: PwC analysis

There is no doubt that the PGM industry is currently in a commodity boom cycle. This is evident not only in the increase in revenues, but also the increase in profitability. As illustrated in the analysis, where the profitability of the mining operation increased, the mineral royalty expense increased at a higher rate than the increase in revenue. The South African Mineral Royalties Tax regime therefore succeeds in allowing the fiscus to share in the upside in a commodity boom cycle. This may, however, be counteracted by the level of capital investment incurred by the mining operation and the fact that the royalty rate applicable has a ceiling at the maximum rate, i.e. once the tipping point in profitability has been reached, there is no longer any upside to the fiscus. The opposite should, however, not be disregarded as the mechanics of the regime also provide relief to the mining operation (lower royalty rates) in a period of low profits or a period of significant capital investment.

# Financial performance

## **Market capitalisation**



Source: Capital IQ, Iress, PwC analysis

Total market capitalisation, for companies included in the publication, increased in the current year to R1,470bn from R1,047bn. This total is a R423m (40%) year-on-year (YOY) increase from 2020, mainly attributable to the increase in market capitalisation of companies within the Diversified, Iron Ore and PGMs sectors.

Diversified, Iron Ore and PGMs accounted for 88% of the market capitalisation of the companies analysed this year. In order to accurately depict the percentage growth in the market, Sibanye-Stillwater's market capitalisation has been split between the PGM and Gold sector based on contribution to net profit.

Although Gold continues to be one of the dominating sectors, market capitalisation dropped by 19%. This was mainly driven by the declines in the gold prices. In addition, the COVID-19 vaccine roll-out in early December 2020 proved to be bearish for the 'safe haven' investment. The notable movements in the Diversified, Iron Ore and PGMs sectors are mainly driven by strong financial performance, which is attributable to the higher commodity prices in these sectors.





Figure 11: Market capitalisation of the top ten companies, 30 June 2021 (R'bn)

Source: EquityRT, Iress, PwC analysis

The composition of the top ten companies remained fairly consistent over the past three years. Changes were as a result of the delisting of Assore Ltd during the 2020 year and with the revised selection criteria the removal of AngloGold Ashanti after it sold off its South African operations. There have also been some notable movements in the rankings in 2021.

A new entrant in the top ten companies is Royal Bafokeng Platinum replacing AngloGold Ashanti. The Gold sector experienced the largest negative share price movements due to rand gold prices coming off their record highs of 2020.

The top three companies are Anglo American Platinum (2020: 1st), Kumba Iron Ore (2020: 3d) and Impala Platinum (2020: 6th). In the prior year AngloGold Ashanti were in second position. Strong iron ore price movements saw Kumba Iron Ore move up to second place, on the back of its record financial performance.

In terms of ranking, Impala Platinum was the biggest climber, moving from sixth place to replace AngloGold Ashanti in the top three after its market capitalisation more than doubled between June 2020 and June 2021 on the back of record PGM basket prices.

Figure 12: JSE Mining Index vs HSBC Mining Index 180 160 140 120 100 80 60 40 20 0 Jul Aug Sep Oct No De 2019 2020 2021 - JSE Mining Index (USD rebased) - HSBC Mining Index Source: Iress, PwC analysis There is a relatively good correlation in USD terms between the HSBC Global Mining Index and the JSE Mining index in USD terms. D TR228 FR228

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#### Revenue

Total revenue in rand terms grew by 42% to June 2021. This was mainly driven by higher prices for PGMs and iron ore, which saw increases in revenue for the 2-month period. The industry revenue growth is lower than that reflected in our income statement due to the under representation of coal entities.

In US-dollar terms, total revenue grew by 44% due to the strengthening of the ZAR/USD exchange rate.

The mining sector was one of the most resilient sectors, emerging strongly despite COVID-19 restrictions to deliver record financial results. In line with the prior year, the PGM basket generated the largest portion of revenue.

The PGM and iron ore sectors profited from higher PGM basket and iron ore prices, which resulted in average increases of 71% and 48%, respectively. In addition, the weaker rand resulted in a strong year for these sectors.

Due to the impact of COVID-19, supplies were adversely affected resulting in a drop in production. However, from March 2021 revenue increased rapidly by 36%, exceeding pre-pandemic revenue. This can be attributed to the diverse demand in the PGM sector, which emerged as the most preferred commodity group as at March 2021.



Figure 13: Percentage mining revenue per commodity, 2020 vs 2021

Source: Stats SA, PwC analysis







## Production



Figure 15: Indexed monthly production per commodity

The current period saw production increase by 13% YOY, which was mainly attributable to the increase in PGM, diamond, manganese ore and chromium outputs.

Manganese ore was the largest positive contributor with an average of 20% increase in output as operations recovered from an extended shutdown in response to COVID-19 restrictions and market conditions.

Diamond production grew the largest by 30% as at 30 June 2021. In its second quarter production report, De Beers indicated that South African production increased by 130% due to planned treatment of higher-grade ore from the final cut of the Venetia open pit, as well as the impact of the COVID-19 lockdown.<sup>42</sup>

Coal has seen the biggest drop in production from the prior year at an average of 6% by June 2021. The decrease was due to lower demand from Eskom during the lockdown periods and challenges to export volumes at the desired levels due to Transnet Freight rail limitations.

Despite the impact of COVID-19 on operations, recovering demand from the global automotive sector backed by the need to address global warming and decarbonisation, especially in China, continues to underpin growth in the PGMs.

Despite the impact of COVID-19 on operations, recovering demand from the global automotive sector backed by the need to address global warming and decarbonisation, especially in China, continues to underpin growth in the PGMs.



Source: Stats SA, PwC analysis

#### **Prices**

Iron ore prices increased by more than 200% from the prior year and this was largely driven by China's rapid economic recovery and subsequent reopening of other global steel markets.

Iron ore prices continue to strengthen in all categories due to strong Chinese crude steel production and derived demand for both long and flat steel products in the construction, infrastructure and automotive sectors.

The rand PGM basket price increased by 55%, indicating strong fundamentals for the metal, particularly rhodium, which rose by 157%.

During the months of March and April 2021, the PGM basket price reached an all time high.









Figure 17: Commodities at rand-indexed prices

Source: World Bank, PwC analysis



Despite recession type conditions in South Africa, the rand has more or less moved in line with the currencies of other resource rich countries since July 2019.

Strong recovery in commodity prices, coupled with a massive trade surplus, strengthened the rand from mid 2020.

In June 2021, the rand strengthened following news that US growth statistics would not result in a rapid reduction in stimulus measures or a hike in interest rates.

The trade surplus cushioned the rand following civil unrest that took place in July 2021.



Source: Iress, PwC analysis

## **Cash flows**

| Cash flows   | Current year<br>Rbn | Prior year<br>Rbn | Difference<br>Rbn | % change |
|--|---------------------|-------------------|-------------------|----------|
| Cash flows related to operating activities           |                     |                   |                   |          |
| Cash generated from operations                       | 318                 | 141               | 177               | 125%     |
| Other operating activities                           | (14)                | 3                 | (17)              | (567%)   |
| Income taxes paid                                    | (68)                | (19)              | (49)              | 258%     |
| Net operating cash flows                             | 236                 | 125               | 111               | 89%      |
| Purchases of property, plant and equipment           | (55)                | (50)              | (5)               | 10%      |
| Free cash flow                                       | 181                 | 75                | 106               | 141%     |
|  |                     |                   |                   |          |
| Cash flows related to other investing activities     |                     |                   |                   |          |
| Purchase of investments                              | (3)                 | (14)              | 11                | (78%)    |
| Sale of investments                                  | 9                   | 3                 | 6                 | 200%     |
| Other  | 1                   | 1                 | 0                 | 0%       |
| Net other investing cash flows                       | 7                   | (10)              | 17                | (170%)   |
|  |                     |                   |                   |          |
| Cash flows related to financing activities           |                     |                   |                   |          |
| Proceeds from ordinary shares issues                 | 7                   | 8                 | (1)               | (12%)    |
| Proceeds from interest-bearing liabilities           | 17                  | 43                | (26)              | (60%)    |
| Repayment of interest-bearing liabilities            | (45)                | (31)              | (14)              | 45%      |
| Distribution to shareholders                         | (76)                | (36)              | (40)              | 111%     |
| Other  | 1                   | (11)              | 12                | (109%)   |
| Net financing cash flows                             | (96)                | (27)              | (69)              | 255%     |
| Net increase/(decrease) in cash and cash equivalents | 92                  | 38                | 54                | 142%     |



#### Free cash flows

Free cash flow is defined as cash from operating activities less purchase of property, plant and equipment. It provides an indication of a company's ability to settle debt, pay dividends and fund acquisitions. Free cash flow more than doubled in the year as PPE additions increased only marginally despite the impressive operating cash flow growth.

#### **Operating activities**

Cash generated from operations after working capital changes increased by 125% from the previous year. In line with the increase in profitability, the PGM sector was by far the largest contributor at (R109bn) to the increase in cash generated from operating activities. Capital expenditure grew with a net increase of 10%. Significant capital expenditure acquisitions were incurred by Gold Fields (61%) and Harmony Gold (42%). Income taxes paid during the year increased 258% from the previous year representing a R49bn increase - this is due to the favourable results seen in the profits for the companies analysed.

#### **Financing activities**

The current year saw a decrease in financing through issuance of shares and financing transactions. Surplus cash generated was used to settle debts resulting in an outflow from financing activities of R96bn.

#### **Distribution to shareholders**

Dividends are generally paid after the financial year end. In the current year we saw distribution to shareholders increase to R76bn (2020: R36bn) on the back of improved free cash flows. The excellent PGM profits of the last 6 months, included in the results, will only be included in the next financial year as dividends declared after the reporting period under review. The cumulated dividends for Impala Platinum, Anglo Platinum and Sibanye Stilwater amounted to a staggering R62.8bn.

Impala Platinum paid a dividend of R11bn (2020: R0.9bn) for the 12-month period ending June 2021. This was driven by the strong prices noted in the PGM sector as well as an increase in production and sales volume.

Other notable dividends include R25bn (2020: R19bn) paid by Kumba Iron Ore.

The R40bn YOY increase in distributions to shareholders indicates that even during uncertain times, the companies were able to capitalise on the stronger commodity prices and were able to provide shareholders with even higher returns than the prior year.



Source: Stats SA, PwC analysis



## Income statement

| Income statement                      | Current year<br>Rbn | Prior year<br>Rbn | Difference<br>Rbn | % change |
|---------------------------------------|---------------------|-------------------|-------------------|----------|
| Revenue from ordinary activities      | 809                 | 498               | 311               | 63%      |
| Operating expenses                    | (437)               | (364)             | (73)              | 20%      |
| EBITDA                                | 372                 | 134               | 238               | 177%     |
| Impairment charge                     | 5                   | (8)               | 13                | (162%)   |
| Depreciation charge                   | (30)                | (30)              | 0                 | 1%       |
| Profit/(loss) before interest and tax | 347                 | 97                | 250               | 257%     |
| Net interest                          | (5)                 | (9)               | 4                 | (44%)    |
| Tax expense                           | (91)                | (26)              | (65)              | 250%     |
| Equity accounted income               | 22                  | 10                | 12                | 120%     |
| Discontinued operations               | 1                   | (1)               | 2                 | (200%)   |
| Net profit                            | 274                 | 71                | 203               | 285%     |
| EBITDA margin                         | 46.0%               | 27.0%             |                   |          |
| Net profit margin                     | 34.06%              | 14.18%            |                   |          |

Source: PwC analysis

| Revenue      | Current year<br>Rbn | Prior year<br>Rbn | Difference<br>Rbn | % change    |
|--------------|---------------------|-------------------|-------------------|-------------|
| Gold         | 85                  | 63                | 22                | 35%         |
| PGMs         | 508                 | 292               | 216               | 74%         |
| Other mining | 216                 | 143               | 73                | 51%         |
| Total        | 809                 | 498               | 311               | <b>62</b> % |

Source: PwC analysis

The gold mining companies saw an increase in revenue for the current period with Harmony increasing revenue by 42%. This was mainly due to a 26% increase in improved production and a higher average Rand/kg gold price.

Pan African Resources grew their revenue by R1.4bn, which represents a 34% increase from the prior year, which is due to the increase in gold production of 12% and a 16% increase in the gold price realised.

PGM producers showed the largest increase in revenue at 71%. Anglo American Platinum grew revenue by R29bn with a 71% increase. This was primarily due to the strong operational performance from all owner managed mines as well as a significant increase in price at 47% year on year.

Impala Platinum grew revenue by 85% to R 59.7bn. This was primarily due to strong production performance which increased with 18% and a 59% increase in prices. Revenue for the 'other mining' segment increased by 51%. This is due to the aggregation of various mining resources, for instance coal, iron ore and manganese. Kumba Iron Ore remained the largest contributor in the sector with revenue of R50bn (an 82% increase from 2020), followed by Exxaro Resources contributing R29bn (a 12% increase from 2020).

## **Operating expenses**

Operating expenses increased by 20% in the current year. This was driven by increases in metal movements and purchases for production. When excluding metal purchases, mainly done by the PGM refiners, operating costs increased by 8%. This is mainly attributable to increases of 12% in Employment benefits and contractors and 147% in royalties.

Figure 20: Operating expense breakdown

Source: PwC analysis

## Employee benefits and contractors

This category has seen a 9% increase from the prior year and remains the largest contributor to expenses for these companies.

#### **Royalties**

The increase in revenue resulted in royalty taxes of R12.7bn being paid in the current year. This represents a 147% increase from the prior year with the increase in revenue being 63% for all sectors.

#### Impairments

Not surprisingly, a net impairment reversal is reflected in the financial statements. Impala Platinum had a R14.7bn impairment reversal relating to its Rustenburg lease area due to improved expectations of long-term PGM prices.

#### **EBITDA**

The average EBITDA margin of the mining companies included in this analysis was 46%, an increase from the previous period.

|              | Current year | Prior year | Difference |
|--------------|--------------|------------|------------|
| Gold         | 26%          | 10%        | 15%        |
| PGM          | 48%          | 30%        | 18%        |
| Other mining | 47%          | 27%        | 20%        |
| Total        | 46%          | 27%        | 19%        |

Source: PwC analysis

#### Tax expense

The aggregate tax expense for the mining companies was R91bn with an effective tax rate of 26%. This represents a staggering 250% increase from the previous period and was driven by the increased profitability of the mining sector.

#### Net profit/(loss)

Net profit grew by 285%, which represents a R203bn increase, as a result of the increased commodity prices and improved production after mines largely returned to pre-COVID-19 production levels.

# Financial position

| Financial position                     | Current year<br>Rbn | Prior year<br>Rbn | Difference<br>Rbn | % change    |
|--|---------------------|-------------------|-------------------|-------------|
| Current assets                         |                     |                   |                   |             |
| Cash and cash equivalents              | 191                 | 109               | 82                | 75%         |
| Inventories                            | 126                 | 88                | 38                | 43%         |
| Receivables and other current assets   | 89                  | 57                | 32                | 55%         |
| Total current assets                   | 406                 | 254               | 152               | 60%         |
| Non-current assets                     |                     |                   |                   |             |
| Mining and production assets           | 467                 | 457               | 10                | 2%          |
| Goodwill                               | 93                  | 76                | 16                | 21%         |
| Other non-current assets               | 41                  | 39                | 2                 | 5%          |
| Total non-current assets               | 601                 | 572               | 28                | 5%          |
| Total assets                           | 1,006               | 826               | 180               | 21%         |
|  |                     |                   |                   |             |
| Share capital and reserves             |                     |                   |                   |             |
| Share capital & reserves               | 565                 | 387               | 178               | 46%         |
| Reserves and non-controlling interest  | 54                  | 48                | 6                 | 12%         |
| Total equity                           | 619                 | 435               | 184               | <b>42</b> % |
| Current liabilities                    |                     |                   |                   |             |
| Accounts payable and other liabilities | 152                 | 114               | 37                | 33%         |
| Interest-bearing liabilities           | 18                  | 31                | (13)              | (41%)       |
| Total current liabilities              | 170                 | 145               | 25                | 17%         |
| Non europt liebilities                 |                     |                   |                   |             |
|  | 69                  | 107               | (20)              | (260/)      |
|  | 70                  | 68                | (39)              | 16%         |
|  |                     | 00                |                   | F0%         |
|  | 64                  | 4                 | 2                 | 50%         |
|  | 64                  | 07                | 4                 | 0%          |
| Iotal non-current liabilities          | 217                 | 246               | (28)              | (11%)       |
| Total liabilities                      | 388                 | 391               | (3)               | (7%)        |
| Total equity and liabilities           | 1,006               | 826               | 180               | 21%         |

#### **Key ratios**

When comparing the market capitalisation to the net asset value of the mining companies analysed, there has been a significant improvement since the prior year. The excellent financial performance and expectations of a new commodity boom cycle on the back of various economic recovery initiatives, as well as the energy transition, have improved investor sentiment and with it the market capitalisation of the industry.

| Key ratios                                       | Current year | Prior year |
|--|--------------|------------|
| Market capitalisation to net asset value (times) | 2.4          | 2.4        |
| Net borrowing (R'bn)                             | (105)        | 29         |
| Gearing percentage                               | (20%)        | 7%         |
| Solvency ratio (times)                           | 2.6          | 2.1        |
| Current ratio (times)                            | 2.4          | 1.7        |
| Acid ratio (times)                               | 1.6          | 1.1        |
| Net borrowings to EBITDA (times)                 | (0.3)        | 0.2        |

Source: PwC analysis

The liquidity position of the South African mining industry continues to move from strength to strength. The increase in the current ratio is driven by higher cash balances at period end and the repayment of interest-bearing liabilities to improve the financial position.

#### Gold

The gold sector has shown an improvement in its liquidity position, largely due to the increase in commodity prices and recovery in production levels after initial COVID-19 lockdown production losses.

There has been a significant improvement in the gearing ratio due to borrowings paid off during the current year.

#### **PGMs**

There has been improvement in the liquidity position in the PGM sector. This has been driven by good financial performance as a result of improved commodity prices and production. This, coupled with the 109% increase in the cash position for the sector, shows the strong balance sheet position in these uncertain times.

| Key ratios for PGM producers                     | Go           | old  | PGM          |        |  |  |
|--|--------------|------|--------------|--------|--|--|
|  | Current year |      | Current year |        |  |  |
| Market capitalisation to net asset value (times) | 1.9          | 2.4  | 3.1          | 3.2    |  |  |
| Net borrowing (R'bn)                             | 1.7          | 32.2 | (70.8)       | (1.7)  |  |  |
| Gearing percentage                               | 1%           | 35%  | (22%)        | (1%)   |  |  |
| Solvency ratio (times)                           | 2.3          | 1.8  | 2.5          | 2.1    |  |  |
| Current ratio (times)                            | 2.3          | 1.3  | 2.2          | 2.0    |  |  |
| Acid ratio (times)                               | 1.5          | 1.0  | 1.4          | 1.1    |  |  |
| Net borrowings to EBITDA                         | 0.1          | 6.4  | (0.3)        | (0.02) |  |  |

# Sharing real value

The 2020–2021 year has been rewarding for mining industry stakeholders in South Africa, where there have been record distributions to shareholders and significant increases in taxes paid.

The first key indicator of value distributed is the distributions to shareholders in the form of dividends paid. This topic has garnered a lot of attention over the last 12 to 18 months as commodity prices have strengthened and allowed mining companies to take advantage of the increased margin and keeping costs stable in relation to operational activities.

In *SA Mine 2020*, we alluded to mining companies rewarding shareholders for their patience. This trend has continued into 2021. Firstly, this is a positive development not only because it delivers a return on investment for shareholders, but also because it improves the remuneration of employees as employee share schemes result in mining employees sharing in the increased value. Although percentages decreased these percentages are of a much higher value created and therefore all stakeholders allocations grew in rand terms.

Secondly, the most notable increases took place in the taxes paid to the government. This includes income taxes (increasing from 10% in 2020 to 14% in 2021) as well as royalty taxes (increasing from 3% in 2020 to 5% in 2021). This is indicative of the profitability of the mining companies as well as the fact that the assessed losses of the past have now been largely fully utilised and effective tax rates are on the rise.

Given that commodity prices are still performing strongly, it is likely that the effective tax contribution will remain high in the near future. This will result in this indicator remaining a major contributor to the value distribution of mining companies in South Africa.

| Share of value added                | 2021 | 2020 |
|-------------------------------------|------|------|
| Employees                           | 20%  | 38%  |
| Employee taxes                      | 3%   | 6%   |
| Direct taxes                        | 14%  | 10%  |
| Mining royalties                    | 5%   | 3%   |
| Capital expenditure                 | 8%   | 24%  |
| Return to providers of debt funding | 0%   | 2%   |
| Distribution to shareholders        | 13%  | 18%  |
| Community investment                | 1%   | 3%   |
| Funds retained                      | 36%  | (3%) |



# Ten-year summary

The information included below differs from that in the rest of our analysis as it includes the aggregated results of those top companies as reported on in each respective edition of SA Mine.

## Ten-year summary of financial information (Rbn)

| Rbn                                 | 2021  | 2020  | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------------|-------|-------|------|------|------|------|------|------|------|------|
| Market capitalisation               | 1,471 | 1,280 | 884  | 482  | 420  | 560  | 414  | 675  | 597  | 833  |
| Aggregated income statement         |       |       |      |      |      |      |      |      |      |      |
| Revenue                             | 809   | 594   | 443  | 398  | 371  | 333  | 335  | 327  | 332  | 339  |
| EBITDA                              | 372   | 182   | 111  | 86   | 95   | 66   | 75   | 100  | 92   | 123  |
| Impairment charges                  | 5     | (6)   | (22) | (46) | (22) | (60) | (24) | (49) | (25) | (2)  |
| Net finance costs                   | (5)   | (11)  | (11) | (11) | (10) | (10) | (7)  | (6)  | -    | (3)  |
| Income tax expense                  | (91)  | (37)  | (15) | (9)  | (11) | (2)  | (8)  | (8)  | (16) | (29) |
| Net profit/ (loss)                  | 274   | 88    | 32   | (11) | 17   | (46) | 2    | 5    | 25   | 65   |
| EBITDA Margin                       | 46%   | 31%   | 25%  | 22%  | 26%  | 20%  | 22%  | 31%  | 28%  | 36%  |
| Aggregated cash flow statement      |       |       |      |      |      |      |      |      |      |      |
| Cash flow from operating activities | 318   | 153   | 100  | 79   | 83   | 69   | 62   | 69   | 69   | 112  |
| Total capital expenditure           | 55    | 66    | 68   | 62   | 48   | 49   | 55   | 57   | 71   | 70   |
| Free cash flow                      | 182   | 87    | 32   | 17   | 35   | 20   | 7    | 13   | 1    | 42   |
| Other investing cash flows          | 1     | (4)   | 4    | (20) | (8)  | 4    | 3    | (5)  | (10) | (8)  |
| Dividends paid                      | (76)  | (49)  | (27) | (16) | (6)  | (8)  | (19) | (19) | (30) | (36) |
| Other financing cash flows          | 1     | (14)  | (6)  | 27   | (8)  | -7   | 11   | 3    | 34   | 9    |
| Aggregated balance sheet            |       |       |      |      |      |      |      |      |      |      |
| Cash                                | 191   | 133   | 70   | 65   | 58   | 46   | 38   | 33   | 45   | 46   |
| Property, plant and equipment       | 467   | 494   | 430  | 406  | 403  | 414  | 425  | 422  | 449  | 411  |
| Total assets                        | 1,006 | 956   | 780  | 717  | 692  | 709  | 724  | 694  | 714  | 650  |
| Total liabilities                   | 388   | 465   | 360  | 325  | 296  | 311  | 293  | 270  | 296  | 237  |
| Total equity                        | 619   | 491   | 420  | 392  | 395  | 398  | 431  | 424  | 396  | 413  |

The trend of increasing revenue, which began in 2017, has continued throughout 2021 with the majority of companies analysed showing an increase in revenue for the current financial year. This was attributable to increases in both production and commodity prices. There has also been a significant increase in cash and distributions to shareholders.



#### Figure 21: Ten-year historical financial information (Rbn)



# About this publication

## Basis for compiling this report

The results aggregated in this report have been sourced from the latest publicly-available information, primarily annual reports, and financial reports available to shareholders. We aggregated the financial results of mining companies with a primary listing on the JSE and mining companies whose main operations are in SA and that have secondary listings on the JSE, for the financial year ends to June 2021. We used a cut-off market capitalisation of R200m and excluded all companies with suspended listings. With AngloGold Ashanti selling off their last SA operations, we excluded them from the publication. For Goldfields we only included their South Deep mine as both these Gold groups' global operations will distort local trends.

Companies depicted in the publication have different year ends and report under different accounting regimes. Information has been aggregated for the individual companies and no adjustments have been made to consider the different reporting requirements. As far as possible, we have aligned the financial results of reporters to be as at, and for, the year ended 30 June 2021. For companies that do not have June year ends, we added and deducted reviewed results to reflect the comparable 12-month period. We have also taken into account any restatements and /or adjustments to the prior period as currently reflected in the latest published results.

All currency figures in this publication are reported in South African rand, except where specifically stated otherwise. The results of companies that report in currencies other than the rand have been translated at the average rand exchange rate for the financial year, with balance sheet items translated at the closing rand exchange rate.

Our selection criteria excluded global mining companies Anglo American plc, BHP, South32 and Glencore plc. Although these companies have a significant South African footprint, their global exposure and size mean that they do not necessarily reflect trends in the South African mining environment. While a large number of the entities included also have international exposure, the bulk of their operations are in Africa.

Some diversified companies undertake part of their activities outside the mining industry. No attempt has been made to exclude such non-mining activities from the aggregated financial information.

#### **Companies analysed**

|    | Company name                           | Year end          |
|----|--|-------------------|
| 1  | African Rainbow Minerals Limited       | 30 June 2021      |
| 2  | Afrimat Limited                        | 28 February 2021  |
| 3  | Alphamin Resources Corporation         | 31 December 2020  |
| 4  | Anglo American Platinum Limited        | 31 December 2020  |
| 5  | Buffalo Coal Corporation               | 31 December 2020  |
| 6  | Chrometco Limited                      | 28 February 2021  |
| 7  | Eastern Platinum Limited               | 31 December 2020  |
| 8  | Exxaro Resources Limited               | 31 December 2020  |
| 9  | Gold Fields Limited                    | 31 December 2020  |
| 10 | Goldplat PLC                           | 30 June 2021      |
| 11 | Harmony Gold Mining<br>Company Limited | 30 June 2021      |
| 12 | Impala Platinum Holdings Limited       | 30 June 2021      |
| 13 | Kropz PLC                              | 31 December 2020  |
| 14 | Kumba Iron Ore Limited                 | 31 December 2020  |
| 15 | Merafe Resources Limited               | 31 December 2020  |
| 16 | Northam Platinum<br>Holdings Limited   | 30 June 2021      |
| 17 | Orion Minerals Limited                 | 30 June 2021      |
| 18 | Pan African Resources PLC              | 30 June 2021      |
| 19 | Petra Diamonds Limited                 | 30 June 2021      |
| 20 | Platinum Group Metals Limited          | 31 August 2020    |
| 21 | Royal Bafokeng Platinum Limited        | 31 December 2020  |
| 22 | Sibanye-Stillwater Limited             | 31 December 2020  |
| 23 | Sylvania Platinum Limited              | 30 June 2021      |
| 24 | Tharisa PLC                            | 30 September 2020 |
| 25 | Thungela Resources Limited             | 31 December 2020  |
| 26 | Wescoal Holdings Limited               | 31 March 2021     |
| 27 | Wesizwe Platinum Limited               | 31 December 2020  |

# Glossary

| Terms                 | Definition  |
|-----------------------|---|
| acid ratio            | (current assets less inventory)/current liabilities   |
| ALSI                  | All Share Index   |
| Сарех                 | Capital expenditure   |
| CDP                   | Carbon Disclosure Project   |
| COVID-19              | Coronavirus disease 2019  |
| current ratio         | Current assets/current liabilities  |
| EBITDA                | Earnings before interest, tax, depreciation, amortisation and impairments                                     |
| EBITDA margin         | EBITDA/revenue  |
| ESG                   | Environmental, Social and Governance  |
| EIA                   | Economic Impact Assessment  |
| FCEV                  | Fuel Cell Electric Vehicles   |
| gearing percentage    | Net borrowings/(net borrowings plus equity)   |
| GDP                   | Gross domestic product  |
| GHG                   | Greenhouse gas  |
| GVA                   | Gross value added   |
| JSE Limited           | Johannesburg Stock Exchange   |
| market capitalisation | The market value of the company calculated as the number of shares outstanding, multiplied by the share price |
| M&A                   | Mergers and Acquisitions  |
| net asset value       | Total assets less total liabilities   |
| net borrowings        | Interest-bearing debt, less cash  |
| net profit margin     | Net profit/revenue  |
| PGMs                  | Platinum group metals   |
| SARS                  | South African Revenue Service   |
| StatsSA               | Statistics South Africa   |
| solvency ratio        | Total assets/total liabilities  |
| TCFD                  | Task force on Climate related Financial Disclosures   |
| working capital       | Inventories plus accounts receivable less accounts payable  |

# Contacts

With mining experts working in each key mining area across South Africa, our teams are helping clients deliver on specific projects and organisational growth aspirations. We offer advisory, tax and audit services to global corporations and locally-listed companies.

We complement this with:

- A suite of niche mining consulting capabilities focused on optimising value across mining operations and effectively managing risk; and
- A comprehensive client feedback programme to ensure we are consistently delivering on individual client needs.

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# Endnotes

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- 28 As introduced and governed by the Mineral and Petroleum Resources Royalty Act, 28 of 2008.
- 29 The court case, SARS v United Manganese of Kalahari (Pty) Ltd, led to legislative amendments in 2018 clarifying the treatment of transport, insurance and handling costs
- 30 The MPRRA determines that the royalty liability is triggered when the mineral resource is transferred, 'transfer' is defined in section 1 of the MPRRA.
- 31 Schedule 1 and Schedule 2 to the MPRRA.
- 32 Even though other forms of natural resource taxes do exist in some of the countries listed in the table, the table only considers mineral royalty taxes.
- 33 Mining regulations specify the nature of the strategic substance e.g. cobalt.
- 34 International Financial Reporting Standards
- 35 A 50% reduction in the royalty tax in respect of minerals used in Mozambique to create a higher value-added local industry.
- 36 Metallic minerals include copper, gold, silver and platinum group metals
- 37 The cash price multiplied by quantity of the metal sold or recoverable metal sold. In determining the cash price, reference should be made to the monthly average London Metal Exchange (LME cash price or in the case that the metal/material is not quoted on the LME, then refer to the monthly average cash price as quoted on the Fastmarkets MB. Where the metal/material is not quoted on the aforementioned markets, the price to be used will be with reference to the monthly average price at any other exchange market approved by the Commissioner General at the Zambia Revenue Authority.
- 38 The realised price for the sale of a mineral (free on board) at the point of export from Zambia or point of delivery within Zambia.
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