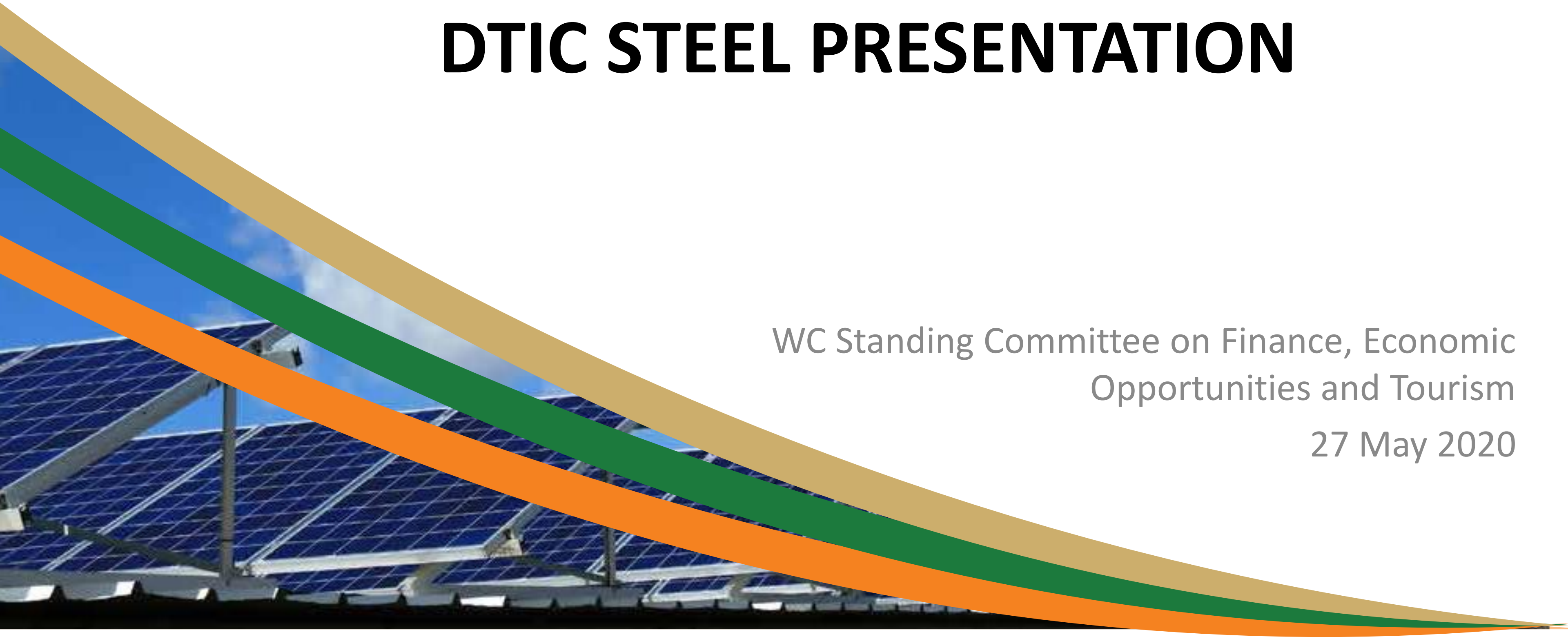
DTIC STEEL PRESENTATION



WC Standing Committee on Finance, Economic Opportunities and Tourism

27 May 2020

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CONTEXT

- The beneficiation of South Africa's raw materials is a major thrust of its industrial policy and linkages can be strengthened by developing manufacturing capabilities throughout the steel supply chain

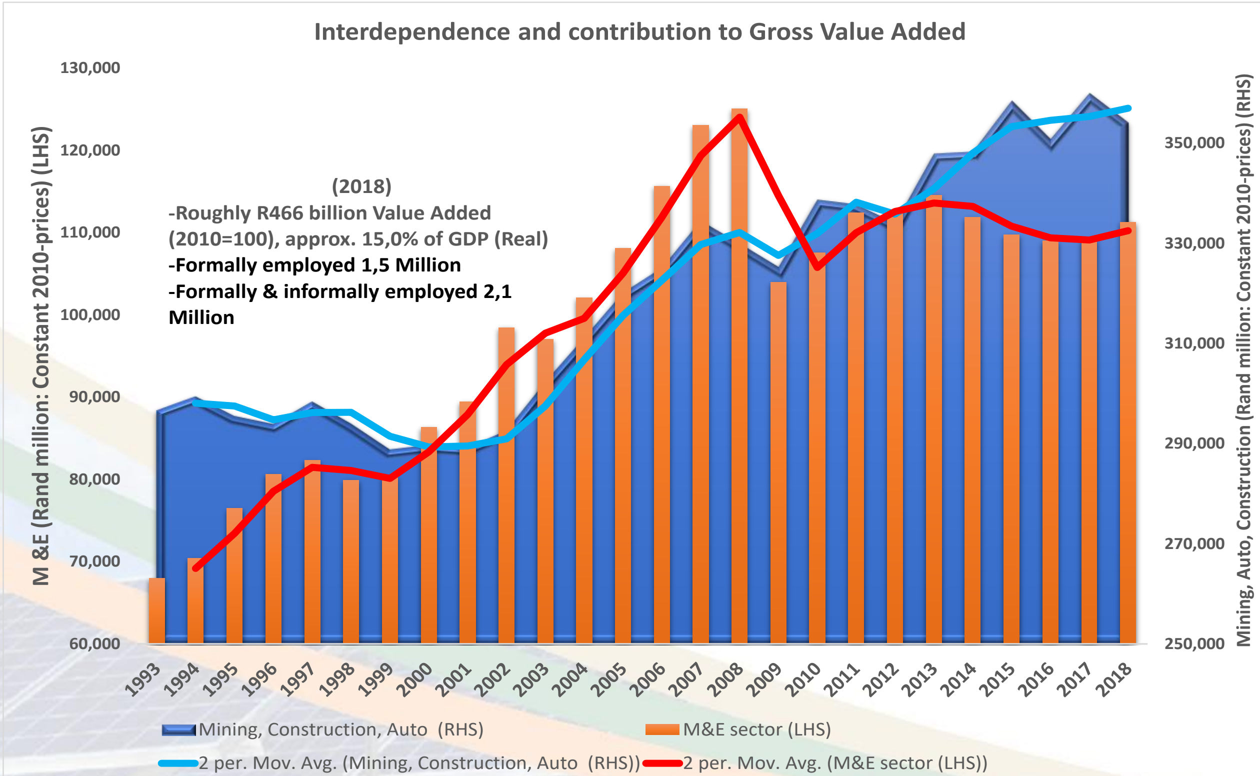
- Scope for development within the steel supply chain can be found between mining, construction, infrastructure, automotive, packaging and capital equipment

- Due to the enormous backward and forward linkages, the value chain is central to any industrialisation path and is a key driver of competitiveness

- The carbon- and stainless-steel fabrication sector is fundamental to manufacturing in SA, with products and applications used across the entire economy

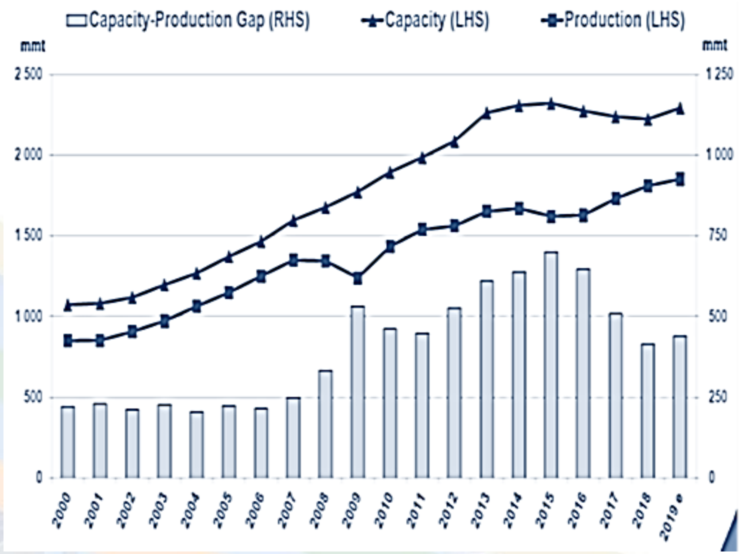
- Re-imagined industrial strategy – prioritises steel value chain

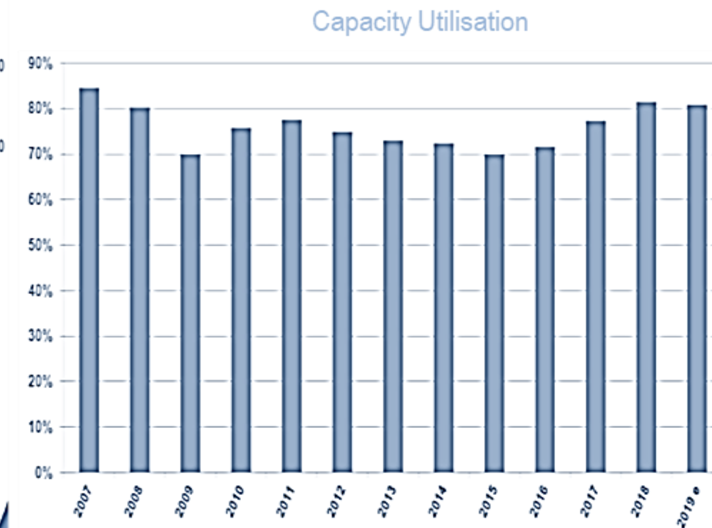
STEEL VALUE ADD TO GDP



Sources: SEIFSA, Jan 2020; Stats SA, Jan 2020

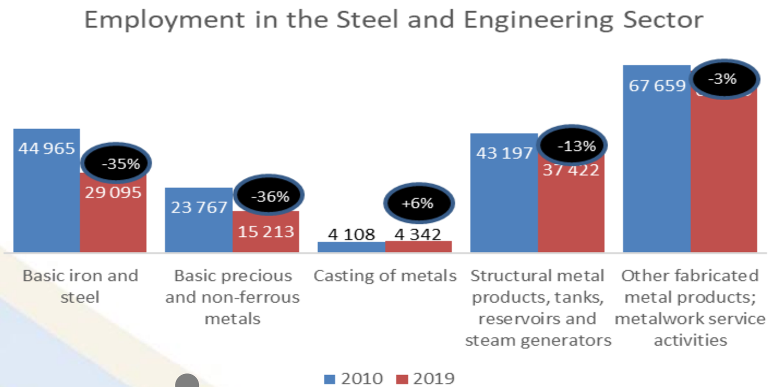
GLOBAL EXCESS CAPACITY CHALLENGE

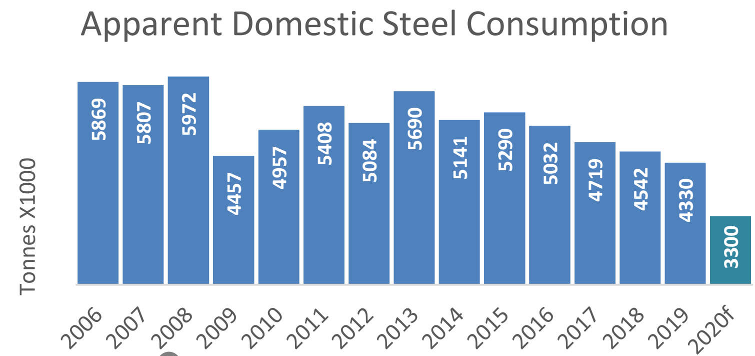




- Excess steelmaking capacity of about 440 million tonnes continues to be the biggest challenge in the global steel sector, particularly considering the slow global economic growth. Increasing price volatility, global trade, margin pressure and rising debt are creating difficult operating conditions for steel makers and steel manufacturers ➔ developing economies , including SA, are disproportionally affected
- Primary and Value-added products are equally challenged by the surplus supply
- **The COVID-19 pandemic has accelerated the effects of low demand, over capacity, weak balance sheets and liquidity challenges impacting the viability of an industry that was already in distress.**

SA Carbon Steel Value Chain Performance





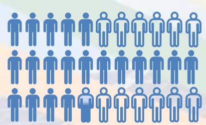
01

FTE Employment June 2019e

Construction -30 000 yoy (-4.7%) in 06/19

Manufacturing -15 000 yoy (-1.2%) in 06/19

Mining -1 000 employees yoy (-0,2%) in 06/19



Stats SA P0277

- Construction 498 000
- Manufacturing 1116 000
- Mining 458 000

02

Distribution of primary steel

52% of all steel goes to Construction

16% to Fabricated Metal Products

10% to Automotive

10% to Machinery & Equipment

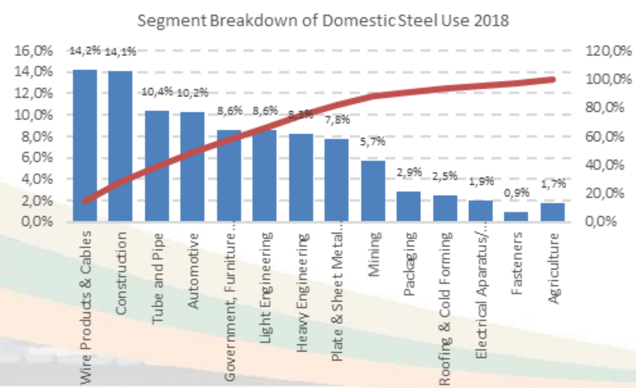
12% to Other

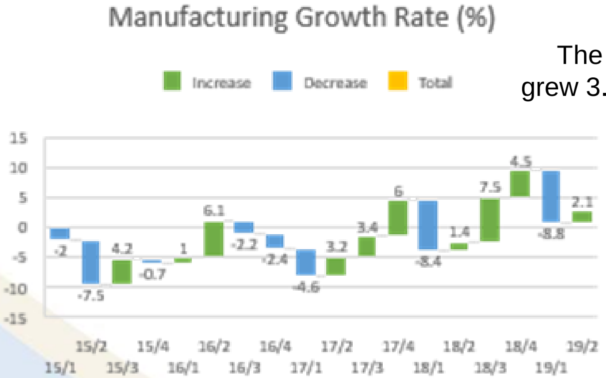
03

SA Steel Consumption @ less than 4.5 mt

Steel demand contracted for the second year in a row, while imports maintained at 1 million tonnes

SA Surplus steel making capacity now at 3.5 mt





The manufacturing industries grew 3.1% over the last 5 years

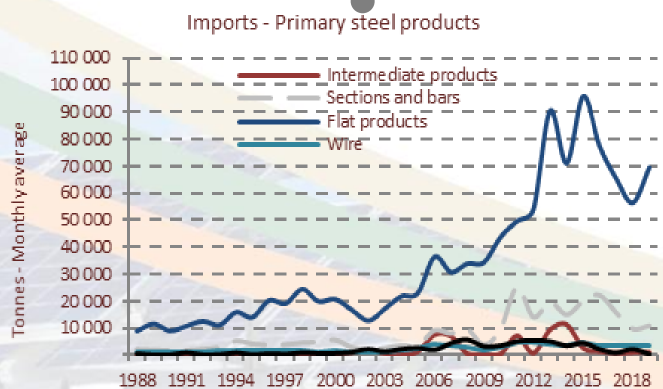
Growth in Manufacturing GDP

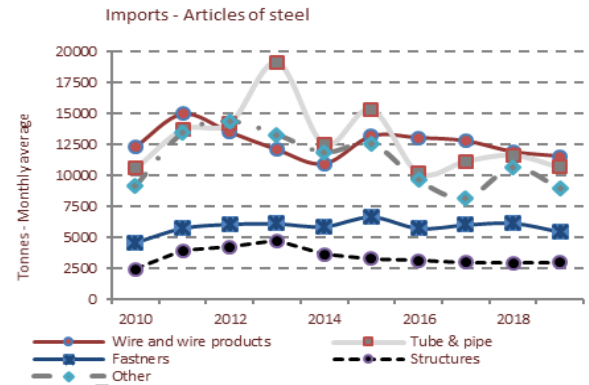
04

20% of domestic steel consumption

Imports of primary steel

05





Manufactured Imports

1.7 mt in steel equivalent value-added products are imported

06

CHALLENGES

- Reduced infrastructure spending has decreased demand for steel
- Chinese and global over-capacity and over-production is resulting in low prices of both primary steel value added products ➔ increased imports
- Reduced domestic and global competitiveness exacerbated by steep increase in production costs (raw materials, electricity, logistics)
- Limited investment in plant, technology, skills
- Increased deployment of trade remedy measures globally – declining export markets
- Capacity under utilisation – plant closures and job losses
- COVID-19 impact – further drop in demand and prices, excess capacity, industry focused on restoring liquidity, orders and supply chains

KEY INTERVENTIONS ALREADY PROVIDED TO THE SECTOR AND ARE CONTINIUING

1. **Trade support** provided:
   – Increase in the general rate of customs duty on primary steel products to 10% and safeguard measures on hot rolled coil and plate products
   – Tariff increases on a range of downstream products to the maximum bound rates allowed; trade remedies; deployment of rebates where products are not manufactured or additional value added before export
   – SARS reference price system developed for steel products to address low priced imports and inter-agency working group established to tackle illegal trade

2. The use of **local procurement** by government to boost aggregate demand:
   – Undeemed primary steel in the early rounds of designations to encourage the use of locally manufactured primary steel
   – All major steel intensive products are designated under the PPPFA

KEY INTERVENTIONS ALREADY PROVIDED TO THE SECTOR AND ARE CONTINIUING

3. In 2017, established a R1.5 bn **Steel Competitiveness Fund** to support upgrading, working capital requirements, investments and key downstream steel sectors in distress

4. Various **support measures to AMSA** – SA major steel producer and a monopoly in flat steel production (i.e. Saldanha Steel intervention that has not prevented a closure: further details on slides 11&12)

5. **Highveld Steel** intervention that saved a major industrial complex – slides 13 & 14 and intervention in **Scaw** to maintain strategic capability and capacity in primary steel, grinding media and cast products for rail and mining

KEY INTERVENTIONS ALREADY PROVIDED TO THE SECTOR AND ARE CONTINIUING

6. Implemented the **Price Preference System** to ensure availability of good quality scrap metals for further processing in the domestic market as measure to support steel mini mills and the foundry industry ➔ to be replaced with an export tax –announced by Minister Tito Mboweni during the 2020 Budget Speech, implementation modalities are underway, NT initiated the industry consultation processes.

7. Agreement on a set of principles for **flat steel pricing** in SA that is priced appropriately to ensure that steel-dependent industries are competitive while at the same time ensuring that the upstream steel mills remain sustainable

SUPPORT OFFERED TO AMSA SALDANHA

- In June 2019, AMSA announced the intention to retrench 2 000 employees
- Subsequently they advised they may close Saldanha steel works and possibly Newcastle
- Saldanha plant produces a unique product (thin gauge coil) consumed mainly in the export markets, with more than 70% supplied to the African continent. The mill is unable to compete with giants like Chinese steel in West and East Africa
- Government initiated meetings with AMSA, NUMSA and Solidarity to explore plans to save jobs including a short suspension of the retrenchment process
- AMSA wanted R4 billion savings on their annual cost base from suppliers and labour
- Government secured commitments in excess of R500m from Eskom, Transnet and Kumba; and labour productivity commitments from Numsa and Solidarity; but AMSA rejected this as insufficient to save the plant
- The plant is under care and maintenance as at end March 2020

SALDANHA INTERESTED PARTIES

- To date government has urged AMSA to engage with interested parties in acquiring or partnering with the company to save Saldanha and maintain jobs

- Engagements with 3 potential parties were initiated but the results to-date are not positive:
  - A BEE partner who could potentially bring in the cost-saving support
  - A downstream player that has synergies with the Saldanha plant
  - A mini-mill player with iron-ore mining resources

- **The DTIC** will continue to engage and support all efforts to save Saldanha, including participating in the Western Cape Government initiatives including to develop a proposal on re-purposing the plant and setting up an Industrial Park similar to Highveld

HIGHVELD INDUSTRIAL PARK

- Highveld was established in 1966 as an integrated steel manufacturer and a leader in vanadium production owned by Anglo American

- In 2007, Evraz acquired Highveld Steel but later experienced sustained financial losses due to both operational and market factor resulting in Highveld being put into business rescue in April 2015

- This resulted in 2 000 workers losing their jobs and Highveld closing down, EDD then held discussions with AMSA to restart the structural mill using blooms from Newcastle as input.

- The restart was supported by a R150 million loan from the IDC, resulting in the structural mill being reopened with 250 workers and given the quality of the blooms Highveld was also able to produce railway lines

- Given the available water, energy and gas supply, the balance of the Highveld property was converted into an Industrial Park, which currently houses 52 tenants of which 34 are Black industrialists employing a total of 1 597 people

HIGHVELD INDUSTRIAL PARK

- AMSA has now bought the structural steel mill and discussions have been initiated between ASMA, Transnet and the IDC to form a joint venture to localize the production of heavy rails and meet the rails technical specifications for mainline and heavy haul dedicated rail lines. The rails are currently imported by both Transnet and Prasa ➔ significant import replacement opportunity

- The railway siding at Highveld is the second largest in the country and now supports junior miners who don't have access to the Richards Bay coal terminal to export their coal using Highveld as a storage site, since the opening of the site in December 2016, 3.2 million tons of coal have been moved from Highveld for exports.

- The DTIC is working with Highveld to restart the four iron processing plants, to this end, Highveld has reached agreement with SAIL Mining to process chrome into ferro-chrome on behalf of SAIL which will get one of the iron plants working, DTIC is also participating in the Mapochs merger, requesting that the Competition Tribunal place a condition on the buyers of Mapochs to supply vanadium ore to Highveld, it seems that agreement will be reached shortly, which will result in Highveld re-opening the second iron plant

STEEL MASTERPLAN

- A lot of work and engagements have been held with AMSA in developing the interventions provided to the steel value chain

- As a key steel manufacturer, we continue to partner with the company in the development of the Masterplan:

  - Masterplan aims to support the medium to long-term growth, development and sustainability of this important value chain

  - Process involves development of a turnaround action-oriented plan based on identified competitiveness improvements in the firms, measures to increase demand, reduce levels of imports and reposition the industry to be resilient under the intense global pressures

  - Through the masterplan process, action plans and reciprocal commitments to be secured and implemented with business and labour in stages, in order to move with the requisite urgency to boost growth and support job retention in the value chain

  - Masterplan process is expected to be completed within this financial year

THANK YOU