

**Platinum Week 2017
LPPM Dinner speech delivered by Chris Griffith
Wednesday 17 May 2017**

Introduction:

Good evening ladies and gentlemen.

I would like to thank the committee of the **London Platinum and Palladium Markets** for the opportunity to speak at this year's main dinner in Platinum Week, which is a great honour.

Of course, I will talk to you as the CEO of Anglo American Platinum but also as a passionate supporter of the PGM industry, something that links most of us here this evening.

On hearing that I was going to speak, I know that many of you will have thought, "we have to listen to another platinum CEO talk his book!" Well in December, I approached our trader at the office asking where I could go to purchase a Rhodium bar. Quick as a flash, young Ollie remarked – "Chris, aren't you overly long Rhodium already?"

If I recall correctly, Ollie, the price was \$765/oz back then, and in April, it broke through \$1000/oz.....On the other hand, I don't seem to be able to win any of the casual pricing bets we frequently take when on the road.

So I won't talk about what I clearly don't know about the platinum and palladium price, **but rather** I will talk to you about what Anglo American Platinum is doing in this tough environment, and I will also frequently ask the question, "**are we doing enough to protect our industry?**"

Agenda

Everyone here will be aware that the platinum price is at historically weak levels in real terms in many currencies, including the Dollar and the Rand. We are faced with a weight of negative publicity on the diesel auto sector, much of it simplistic and perhaps even misleading in our view, but **nonetheless bearish for the price of platinum.**

We also see commentary that the market is oversupplied with platinum and that it has shown little supply discipline, an accusation that has at least the ring of truth about it. Given these widespread views, the weakness in the platinum price is not hard to understand.

But it does seem to me unfortunate that we as an industry have allowed other people to dictate the narrative, to accentuate the negative and to

underplay the positive stories that do exist around these versatile, useful and fascinating metals.

The negatives: oversupply:

So, let's start with the negative stories.

We repeatedly hear about the market being over supplied and about a lack of discipline from the primary producers. If we go back a few years, that was perhaps a reasonable accusation to throw, but you've heard this week about a three metal market – platinum, palladium and rhodium, that is in deficit and in which these metals are often, although not always, interchangeable with one another. Viewed in that context, rather than simply looking at platinum, it is certainly clear that the market is not oversupplied and the narrow focus on platinum seems inappropriate.

We also believe that we at Anglo American Platinum have shown good supply discipline by focusing on restoring profitability at our core operations, rather than just chasing ounces and have in fact shutdown loss making production in Rustenburg, Union, Bokoni and Twickenham of between 350-400koz of platinum and 215-250koz of palladium over the last 4 years.

We believe that our competitors have taken some of the same decisions and that mine supply – from South Africa and globally – does seem more likely to decline than to grow in the coming years. We would not argue that the platinum mining sector is perfect. Yet, we do not believe that the mining sector has been properly recognised for this greater rigour in capital allocation and for trimming unprofitable, unsustainable production, and also for the fact that less sustaining capital is being spent and as a consequence the base production output from South Africa is declining.

The question for us producers is, are we doing enough to address loss making production and ensure accurate messages are conveyed regarding supply?

Problems in diesel

Looking at demand, we have all seen the challenge to the commercial success of the diesel engine in Europe. Although current Euro 6 diesel cars are extremely clean, 2015's emissions scandal has affected popular perception of this technology. Diesel market share is falling and we accept that it will fall further in the coming years.

Nonetheless, we find some of the doomsday scenarios overblown. Diesel is currently losing ground in the smallest vehicles but is still performing well in larger vehicles. Many commentators, much more qualified than I am, see diesel

cars maintaining a good share of a growing automotive market in the coming years in order to meet carbon dioxide emissions targets and, frankly, to allow carmakers to sell their larger, most profitable cars.

I can also add that the outlook for diesel in commercial and heavy duty vehicles, and from a rapidly growing Indian market, remains positive. New emissions rules and growing global volumes lead to a positive story for platinum, one which we don't hear often to counter some of the negatives coming from the European light duty market.

I understand the difficulty auto makers have telling the positive story of modern diesel vehicles in the aftermath of the 2015 diesel scandal, but lack of serious marketing to tell the story of modern diesel's CO₂ and fuel economy benefit – and that PGM solutions exist even to meet the strictest real world driving tests.

We are letting uninformed politicians and those with an anti-diesel agenda draw incorrect and misleading conclusions without a sustained response from the industry.

So, how should we respond to this challenge?

It is clear that we, the people in this room, have a role to play. We may have left it too late in Europe, but the fabricators and automakers have solutions to emissions demands from society. Why are we not offering these solutions and being more vocal about the PGM solutions out there.

The marketing response:

But we can go beyond that. At Anglo American Platinum, one immediate focus is on market development to stimulate demand. Some of this takes care of itself naturally, such as rising demand for palladium and rhodium in gasoline vehicles' catalytic converters thanks to a rapidly expanding Chinese automotive sector.

But some require active intervention. So how do we do this?

PGI, jewellery:

The first example would be the work we sponsor through the Platinum Guild International to increase demand for platinum jewellery. Perhaps many of the people in this room are unaware that before the work carried out to develop the Japanese platinum jewellery sector in the 1980's, and China in the 1990s, demand for platinum jewellery there was minimal, so we have proved that market development works and has delivered over one a half million more ounces of demand per year.

Again, we should accept reality in that Chinese jewellery demand has struggled in the last couple of years. But note, that I said jewellery demand, not only platinum jewellery demand.

It seems that both the yellow metal and our own more beautiful one have seen sales fall over recent years. Although we can point to platinum specific factors, gross demand for both metals fell by roughly 16 per cent last year and seven per cent a year earlier. Our metal is not losing share in the jewellery sector but sales of jewellery have fallen in line with a slowing economy and lower spending on luxury goods.

Although we continue to address the Chinese jewellery sector, which still offers the single biggest growth opportunity globally, we also accepted the need to work elsewhere, as we have done in India. Going back only a few years, the Indian platinum jewellery market was virtually non-existent, and this in a country with a long and rich cultural affinity with jewellery, in the form of gold.

So, we said why shouldn't this be a major market for platinum? We managed that in China.....Could we do this again in India?

So, we as Anglo American Platinum decided to support the Platinum Guild's move into the Indian market on our own and they have built, along with their

partners, a successful brand within India, which offers something valuable to the jewellers in the form of differentiation and higher margins but also offers what many younger, urban consumers want, which is a different product which speaks to them about their experiences.

Last year was difficult and there will doubtless be more challenges ahead. However, we are not looking for platinum to compete with gold in India but we believe it is well on the way to being a fifteen tonne or 500koz platinum market, and a completely differentiated and incremental jewellery category to gold.

This is a positive long term story that has not been talked about enough. Although Anglo American Platinum contributes over 60% to the funding of the PGI, we ask ourselves is this enough? Clearly this is an extremely challenging financial environment for all PGM producers and not easy to put our hands into our pockets for jewellery market development, but we simply cannot allow the jewellery market in China to lose 100-200koz platinum ounces per year – and we all have to do more.

WPIC/investment:

We have also taken a similar approach, alongside other South Africa producers, in setting up the World Platinum Investment Council. Again, the logic was simple: given that investment is an important potential source of

demand for all of our metals, could we trigger increased interest in and longer term holdings of platinum?

We have not always welcomed such innovation, with the launch of ETFs in 2007 when the platinum price was high, one example. However, in a low price environment, stimulation of near term demand has become increasingly important. But I should emphasise that **this is not just a short term story**: analysis of Johnson Matthey's figures reveals that net platinum investment demand has been positive for eighteen of the last twenty years: once this metal has been bought, investors actually hold onto it for a long time.

Japan provides an attractive case study. Patient work over a long period of time by companies such as Tanaka, have developed a strong and diverse platinum investment sector in that country, where consumers can choose from physical products like coins and bars to physically backed accumulation plans.

So, the WPIC has worked with its partners, to drive additional investment demand, taking some of the experience from Japan and from the gold investment sector too. It has worked on what might be seen as mundane activities such as increasing the availability of platinum investment products to allow consumers who already want to buy metal to do so more easily.

It has worked to generate new types of investment product which have not existed before to meet investors' needs and the industry's requirements, in order to widen the potential pool of investors. And it is looking at how to increase the desire of other classes of investors, from family offices to the official sector, to own this metal.

We do not necessarily expect near term results here: we appreciate the challenges of changing long-established mind-sets. But we do believe that this mix of shorter term and longer term activities will deliver additional demand over an extended period.

Notwithstanding these positive developments, and the real potential to improve sustained demand, many analysts find it difficult to model and forecast future demand and therefore exclude it from their demand numbers, thereby drawing incorrect conclusions about demand for platinum.

As a result, many of these commentaries are extremely confusing for potential investors in platinum, another area as an industry where we need to increase understanding of today's demand, as well as building tomorrow's.

PGMIP, fuel cells:

So, what about the long term? For that, diversification of demand seems to be the key, not just for platinum but for all the platinum group metals. The PGMs are materials with unique attributes and they should find a role in a whole host of areas tied to longer term societal trends, from medical treatments to clean energy.

However, just because they are great materials, we can't trust demand to miraculously appear. To give you a football analogy, Lionel Messi did not become a great player at 21 just because he was a good player at ten: he was trained and nurtured and this is what we are doing for our metals' new applications.

At Anglo American Platinum, we have invested in a number of companies using PGMs in new applications, often related to hydrogen and fuel cells. This is a story that has been oversold before but there is today clear credible progress on the ground, in hydrogen production and distribution areas, where we have invested in new companies and new PGM-based technologies.

The provision of hefty government subsidies in China for fuel cell vehicles now, at last, has the potential to coax this technology into commercial reality. Again,

this has largely happened under the radar, in sharp contrast to the high volume hype related to the battery electric vehicle.

The Chinese Government now has realistic targets for annual fuel cell vehicle sales of eight hundred thousand units by 2030, suggesting that this sector too is well on the way to contributing a further half million ounces of demand annually by that date, if we continue to support progress in this area.

Closing:

In closing, we believe we are doing the right things in the current environment. But, as I said earlier, we should not fool ourselves that this platinum group metal industry **does not** face challenges: **it does**.

We still believe that we have some great assets as Anglo American Platinum, but make no mistake, we are not going to open new mines in today's market conditions or anything like them.

We would need to see stronger demand for our metals, particularly platinum, and higher prices and an outlook that suggests that this will persist over the longer term.

Long term sustainability means not expanding because we can but expanding only because it is economically rational to do so. If we do this, we can provide

the metal our consumers need and also meet the requirements of our shareholders in financial terms, our employees in terms of job security and our other stakeholders, such as government.

However, we need your help in driving **market development** in all its forms, spending money and putting effort to increase demand. There are still opportunities in the industrial space – especially the green and hydrogen economies, there is great potential in jewellery and investment too.

The PGM sector as a whole **needs to fight much much harder**, contribute to the narrative positively to protect this wonderful group of metals by:

- **Auto producers and fabricators** – you have the solutions to produce both diesel and gasoline vehicles that comply to real world driving conditions, and you need to make this widely known
- **In jewellery**, the industry has an incredible asset in the form of brand platinum, and so we need to be more aggressive to turn the declining trend in China around and build upon growth opportunities elsewhere, by investing in wise marketing strategies that promote platinum jewellery; as past development has shown us that jewelry development contributed 35.5 million incremental ounces to global platinum demand since 2011
- The unique properties of PGMs offer many opportunities for **industrial applications**, the newest expanding opportunities as you all know is fuel

cells – but we need to champion this the way the battery vehicle fellows are

- **Investment** – We need to continue the drive and commitment to delivering incremental platinum investment demand

Let's take back the initiative, contribute to the production and development of demand for these fantastic metals. We definitely can do more!!

Thank you:

Thank you for listening and enjoy the rest of the dinner and Platinum Week here in London.