



Restoring the dream achieving the potential of SA mining

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Mining Indaba 2018

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MINERALS COUNCIL
SOUTH AFRICA



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Why mining matters

- In 2017, the mining industry:
 - contributed R312 billion to GDP
 - contributed R93 billion to fixed investment
 - paid R16 billion in taxes and R5.8 billion in royalties
 - employed 465,000 employees who supported some 4.5 million dependents
 - paid employee wages of R126 billion
 - created 1.4 million indirect jobs
 - spent R663.4 billion on goods and services

A sector in crisis

- Policy and regulatory uncertainty have **'frozen' new investments** in the sector
 - **Net investment has declined** by 57% since 2008
- Domestic input costs for electricity, labour, transport and steel continue to increase at rates higher than inflation
- On **15 June 2017, South African listed mining companies lost R51 billion in value** – the launch of the DMR's Mining Charter
- The DMR has provided **no assistance** to help the industry through the crisis

#NotOur**Charter**

Key governance and policy

challenges have eroded business and investor confidence

- Fraser Institute Investment Attractiveness Index ranks SA in top quartile for mineral potential
- Yet, SA is ranked lower than other mining jurisdictions for best practice policy, legislation, regulation and operating environment
- Mismatch between potential and current outcomes

Fraser Institute investment attractiveness rankings

	Score					Rank				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Botswana	77.62	68.32	75.10	76.21	81.92	19/104	39/109	27/122	22/112	4/96
Burkina Faso	68.18	71.88	63.80	65.16	60.08	48/104	29/109	53/122	47/112	49/96
Democratic Republic of Congo (DRC)	72.80	59.37	58.38	54.86	50.39	29/104	60/109	67/122	75/112	75/96
Eritrea*	71.86	68.10	55.51	66.50	**	33/104	41/109	80/122	40/112	**
Ethiopia*	57.32	64.11	50.76	55.05	**	68/104	51/109	89/122	74/112	**
Ghana	75.56	71.27	67.17	71.30	63.47	22/104	31/109	44/122	30/112	38/96
Ivory Coast*	78.93	67.99	62.35	59.09	**	17/104	42/109	56/122	61/112	**
Kenya	46.71	38.43	35.24	56.16	**	86/104	102/109	120/122	71/112	**
Mali	69.32	50.84	64.70	54.68	50.78	42/104	83/109	51/122	76/112	73/96
Mozambique*	41.87	50.69	55.91	44.72	**	95/104	84/109	75/122	96/112	**
Namibia	66.11	69.78	76.37	68.97	68.30	53/104	33/109	21/122	35/112	29/96
Sierra Leone*	46.26	**	43.11	52.46	**	87/104	**	103/122	82/112	**
South Africa	53.62	58.04	56.49	61.50	53.76	74/104	66/109	74/122	57/112	68/96
South Sudan*	49.60	**	37.13	**	**	80/104	**	116/122	**	**
Tanzania	60.45	57.46	63.82	58.40	62.53	64/104	69/109	52/122	65/112	41/96
Uganda*	56.34	**	50.48	**	**	70/104	**	90/122	**	**
Zambia	72.78	57.48	75.71	70.30	63.01	30/104	68/109	25/122	33/112	40/96
Zimbabwe	41.84	41.45	39.07	36.04	35.50	96/104	98/109	112/122	109/112	93/96

Fraser Institute policy perception index rankings

	Score					Rank				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Botswana	91.79	88.29	90.26	89.05	92.29	12/104	14/109	14/122	12/112	10/96
Burkina Faso	72.37	71.90	75.50	78.22	67.69	51/104	44/109	39/122	40/112	48/96
Democratic Republic of Congo (DRC)	60.58	42.74	40.95	33.43	20.98	70/104	87/109	105/122	107/112	93/96
Eritrea*	72.50	73.81	59.28	72.50	**	49/104	42/109	76/122	48/112	**
Ethiopia*	53.29	70.27	51.89	62.56	**	79/104	48/109	87/122	69/112	**
Ghana	81.76	69.09	74.93	77.60	71.67	31/104	52/109	42/122	43/112	42/96
Ivory Coast*	77.33	62.84	65.87	58.40	**	40/104	60/109	64/122	74/112	**
Kenya	55.40	46.08	53.61	59.54	**	76/104	84/109	85/122	72/112	**
Mali	65.48	60.86	65.76	57.21	54.94	61/104	65/109	65/122	77/112	64/96
Mozambique*	59.66	51.72	57.27	57.58	**	72/104	79/109	80/122	75/112	**
Namibia	77.77	80.70	84.44	81.52	77.76	38/104	29/109	19/122	27/112	30/96
Sierra Leone*	51.36	**	53.78	56.14	**	80/104	**	84/122	79/112	**
South Africa	47.50	51.91	54.24	56.85	48.90	84/104	78/109	83/122	78/112	70/96
South Sudan*	33.99	**	17.82	**	**	97/104	**	120/122	**	**
Tanzania	66.13	62.12	69.56	62.67	55.83	59/104	63/109	56/122	67/112	62/96
Uganda*	65.86	**	64.69	**	**	60/104	**	66/122	**	**
Zambia	73.61	62.69	75.28	72.33	67.51	43/104	61/109	40/122	49/112	50/96
Zimbabwe	18.06	24.67	13.68	17.71	10.75	102/104	106/109	121/122	111/112	95/96





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What if? Mining investment in an improved policy and regulatory environment

We asked:

- What could happen if the policy, regulatory and governance environment improved substantially?
- Is the industry's current lack of investment attractiveness and the contrast in rankings for different criteria by international institutions due to a lack of potential or due to the negative impacts of the toxic policy, governance and regulatory environment?

16 entities representing member companies making up the overwhelming bulk of mining production in South Africa across various sectors participated in the survey.



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Issues affecting investment production, transformation and contribution to economy

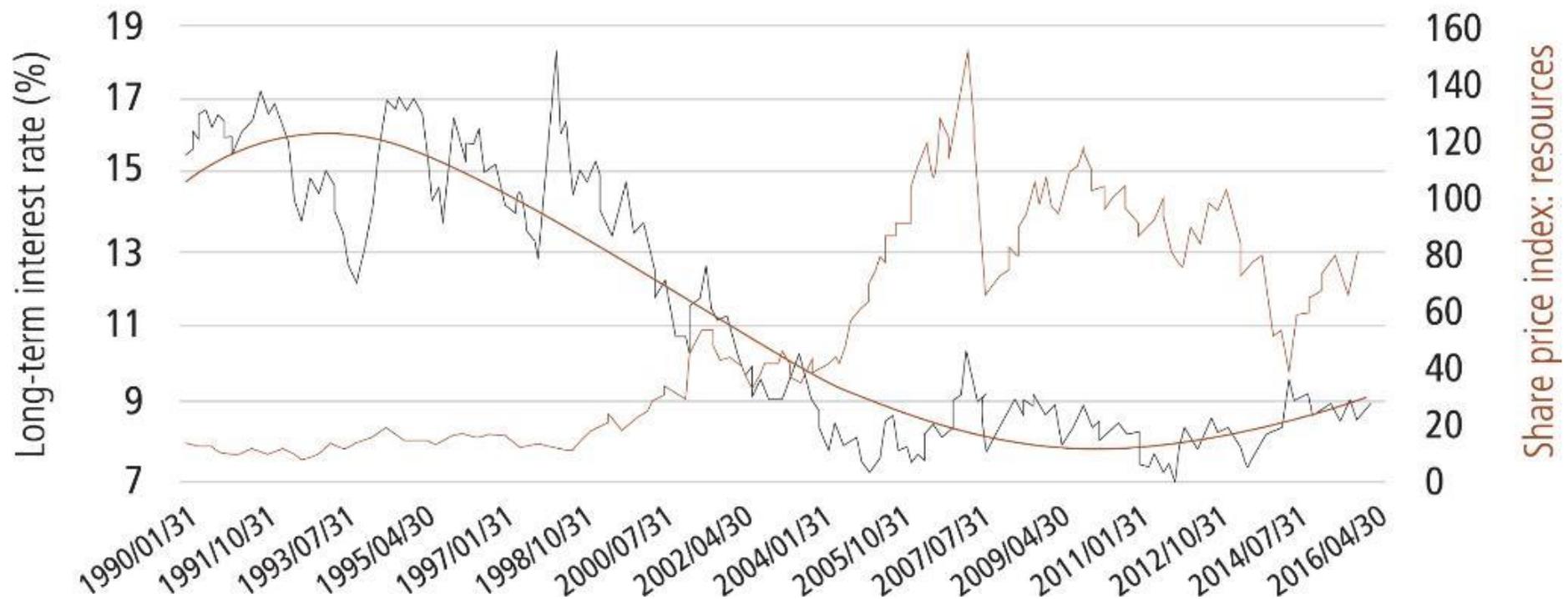
1. **Lack of nurturing environment** to stimulate long-term investment, exacerbated by a regulator which has **failed to build partnerships for growth**
2. Ongoing **policy and legislative uncertainty**, with the June 2017 Reviewed Mining Charter the biggest blow to the industry
3. **Poor governance in DMR** with political interference in the awarding of prospecting and mining rights, allegations of **state capture, unethical leadership, lack of capacity in DMR**
4. **Infrastructure constraints** have curtailed competitiveness and investment
5. Exacerbating impact of **failing local authorities**; lack of trust between business and society
6. **Uncertain political outlook**, coupled with unprecedented **low levels of business and investor confidence**, act as **disincentives for investment** in mining in South Africa (as well as other sectors)

Implications of lower investment

Sovereign investment downgrades

The cost of capital and mining share prices

Long-term (10y) interest rates vs share prices

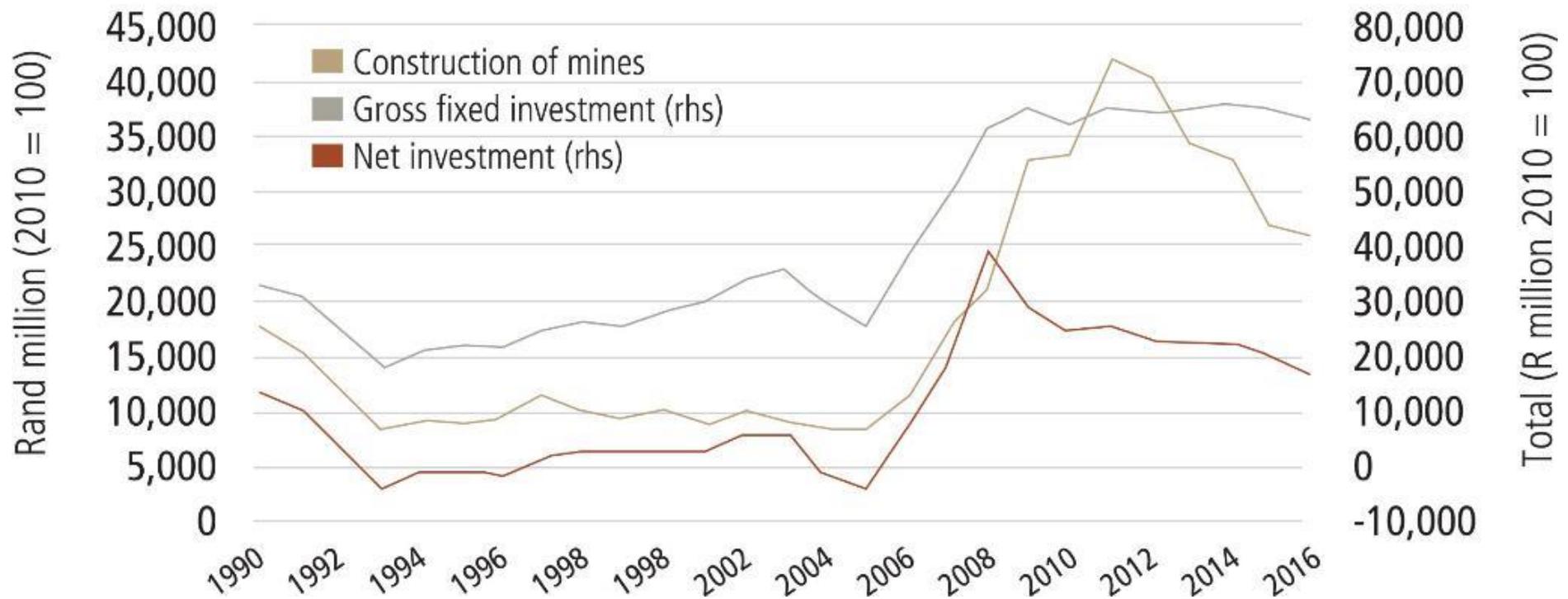


Implications of lower investment

Economic and transformational opportunity cost of the investment foregone

Historical Fixed Investment in the mining industry

Disaggregated fixed investment in mining

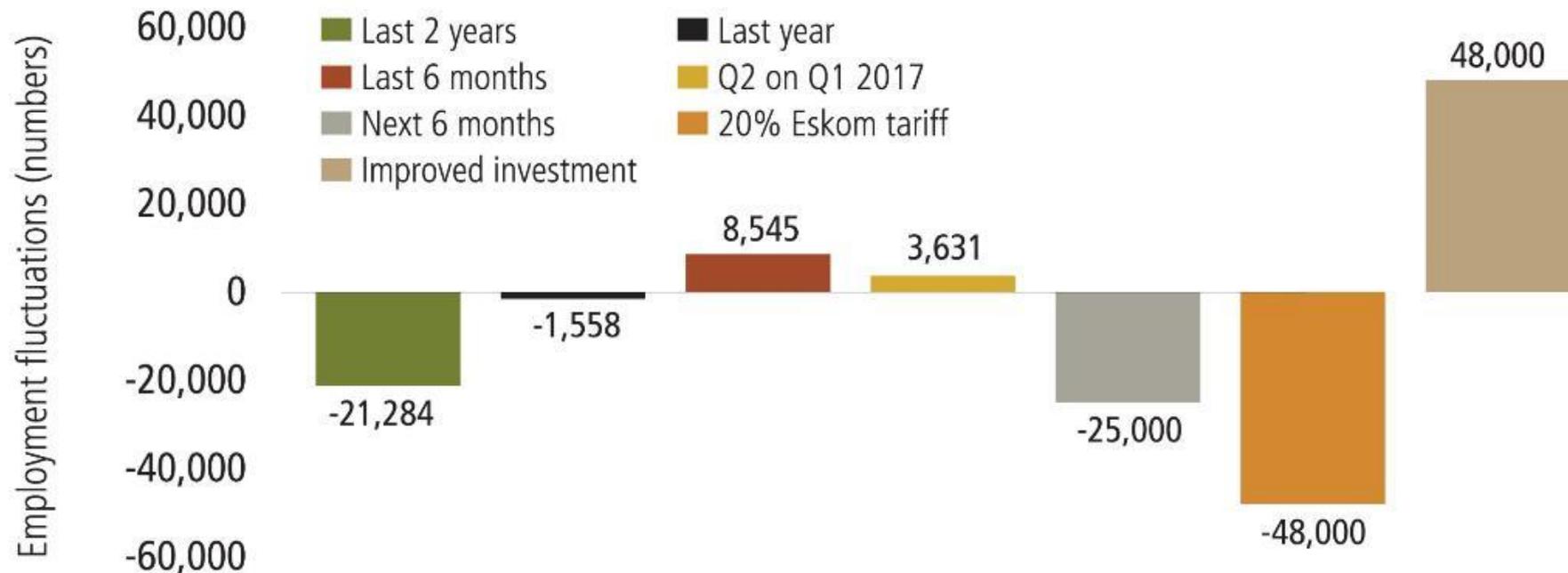


Implications of lower investment

Employment numbers in the sector have dropped by 70,000 over the last five years

Mining employment trends and scenarios

Employment mid 2017

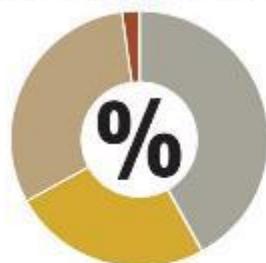


Key findings

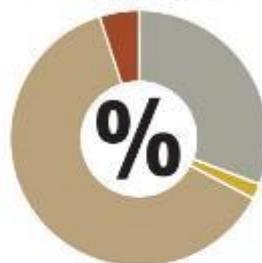
- Estimated currently planned capital spend over next 4 years of R145 billion (stay-in-business) capital **could increase by R122 billion (84%)**
- **Employment creation** - 48,000 direct jobs
 - 150,000 direct and indirect jobs created

Potential R122 billion investment and employment split

Potential investment % split



Potential job % split



Source: Chamber of Mines

POTENTIAL INVESTMENT AND EMPLOYMENT PER COMMODITY

Sector	Potential investment split	
	Potential investment	Potential jobs
Coal	R51,400,000,000	14,540
Diamond	R40,000,000	25
Energy	R30,000,000,000	1,100
Gold	R37,476,000,000	29,450
Uranium	R3,100,000,000	2,500
Total	R122,016,000,000	47,615

* 25 additional jobs per annum Source: CoM survey

Ethical leadership and good governance

- **Cautiously optimistic** about initial signals from new leadership of ruling party
- Next few months will have a defining impact on mining industry, and country
- Newly elected leadership has a considerable task at hand
- Hopeful of renewed focus on **responsible and ethical leadership** in national interest
- **Ethical leadership, good governance and adoption of competitive, stable and predictable policies** would:
 - mean considerable new investment in mining
 - create huge economic and transformation benefits for the country
 - sizable increase in jobs, export earnings, GDP and transformation
- Chamber looking forward to a situation where it will be possible again to work **co-operatively with government to get the economy and mining sector back on track**

Getting the mining industry back on track

- To get mining back on track requires **policy and regulatory certainty**
- To achieve this requires **recognition of mining's unique characteristics**, including:
 - **high risk investment** with long lead time from exploration – to mine development – to closure
 - **capital intensive** – large portion of capital is spent on mine development
 - exposed to **cyclical commodity markets**
 - price-taker – cannot pass on cost increases to final consumer



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Safety a priority

- Zero Harm remains our goal
- Extremely disappointing
- Industry made significant strides in reducing fatalities and safety incidents in past 2 decades:
 - fatalities declined by 88%; fatalities from falls of ground incidents declined by 92%
- Chamber of Mines CEO Zero Harm Forum
- Significant attention on accidents related to seismic activity and subsequent falls of ground
 - MOSH Fall of Ground team identifying and developing leading practices on rockbursts
 - Intensified research efforts by Mine Health and Safety Council

Safety a priority

- Ensuring safety and health of mining employees requires active collaboration between management, employees and regulators
- Key driver of modernisation
 - Removal of miners from working-face dangers and in-stope health hazards
 - Where that is not possible, technology directed at protecting employees
 - Among R&D underway are mechanised forms of ore extraction that replace historical drill and blast methods

Transformation

- Industry fully committed to **meaningful, sustainable transformation** of South African mining industry
- Results of a **survey to assess progress on 2010 Mining Charter's targets** at end of 2016:
 - Based on recognition of continuing consequences of previous transactions, HDSA ownership reported of 39%, significantly above 26% target
 - In 2016, R2.2 billion flowed to HDSAs in dividends from surveyed companies
 - Procurement from HDSA entities exceeded targets
 - 69% of expenditure (R11.1 billion) on capital goods (Target: 40%)
 - 75% (R61.0 billion) on services (Target: 70%)
 - 68% (R40.7 billion) on consumables (Target: 50%)

Transformation

- On employment equity, against a target of 40%, HDSAs made up
 - 49.3% of top management
 - 48.3% of senior management
 - 84.4% of core and critical skills positions

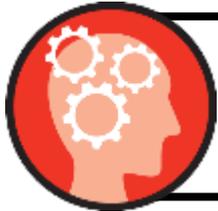
Women make up 13% of mining workforce (original Charter target of 10%)

- Industry spent 5.5% of annual payroll (R7.74 billion) on human resource development, *plus* skills levy payment of R1.46 billion
- The 28 companies contributed R1.14 billion towards community development. This despite 16 of the 66 operations managed by these companies being loss-making



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Creating a successful mining sector



Ethical leadership and good governance and a stakeholder leadership partnership to drive a proper growth and transformation strategy for the country



Regulatory and legislative environment that is stable, predictable and competitive



Stable and constructive labour relations environment and an earned social license to operate



Access to available, efficient and cost effective infrastructure (electricity, rail)



Solutions to improve productivity (next generation mining) and reduce cost pressures



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