

TRANSFORMATION CONTINUES: SNAPSHOT OF THE MINING INDUSTRY'S PERFORMANCE IN 2016

Fact sheet




**MINERALS COUNCIL
SOUTH AFRICA**

Formerly the Chamber of Mines of South Africa

“The Minerals Council considers it important to continue to assess progress towards the objectives and goals as measured against the 2010 Mining Charter.”



 Petra Diamonds

The first Broad-Based Black Socio Economic Empowerment Charter for the South African Mining and Minerals Industry (the Mining Charter), which came into effect in May 2004, spelled out a shared vision agreed by all participating stakeholders – including government, organised labour and the industry – of “a globally competitive mining industry that draws on the human and financial resources of all South Africa’s people and offers real benefits to all South Africans. The goal of the empowerment charter is to create an industry that will proudly reflect the promise of a non-racial South Africa”.

For the Minerals Council South Africa (Minerals Council), this vision and goal remains as valid and as pressing as ever. The Mining Charter remained in place until the second version was adopted by all parties.

The second version of the Mining Charter, approved by the same stakeholders in September 2010 after several months of intensive negotiations, also referred to the facilitation of “sustainable transformation, growth and development of the mining industry”.

The 2010 Mining Charter was supposed to remain in place until the end of 2014. However, in the absence of a third version, companies have continued to observe the Mining Charter’s targets. While the 2010 Mining Charter was formally repealed by the Minister of Mineral Resources when the Department of Mineral Resources (DMR) version was gazetted in June 2017, the Minister’s undertaking not to implement this version effectively meant the industry continued to comply with the 2010 Mining Charter.

CHALLENGING THE DMR’S CHARTER

The Minerals Council has challenged in court the June 2017 Reviewed Mining Charter (which was unilaterally published by the Minister of Mineral Resources), believing it would fail dismally to achieve the goals agreed in the 2004 and 2010 versions, and in fact would, if implemented, have the opposite effect.

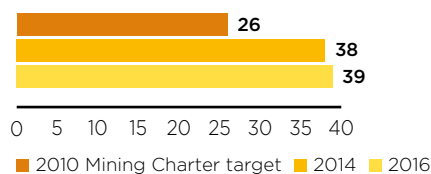
“One of the most prominent features of the Mining Charter relates to mining community development and its regulation through social and labour plans (SLPs).”

Continued transformation and compliance

At the end of 2014, the Minerals Council commissioned an independent audit of the industry’s performance with respect to black economic empowerment (BEE) ownership against the 2010 Mining Charter, and also published a survey of members with respect to the other pillars of the Mining Charter.

The Minerals Council considers it important to continue to assess progress towards the objectives and goals as measured against the 2010 Mining Charter. Following the survey published in March 2015, the Minerals Council has carried out a further survey of its members to assess progress, as at the end of 2016, in applying the 2010 Mining Charter’s pillars of transformation. The 28 companies that participated in the survey include a range of metals and minerals, and company sizes, including the top gold, platinum, diamonds, iron ore, coal and manganese groups. The companies surveyed represent an estimated 70% of the industry by production and 67% by employment. Industry average data are appropriately weighted and based on annual compliance reports to the DMR.

Ownership (%)

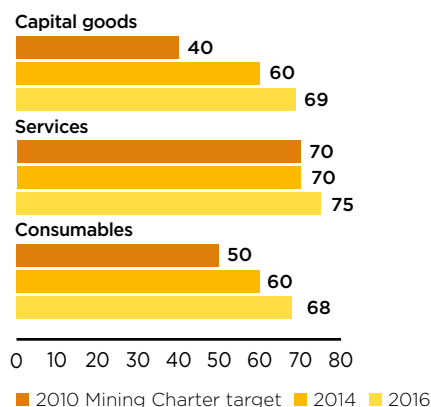


Ownership

In 2016, ownership of the industry by historically disadvantaged South Africans (HDSAs) stood at 39%, significantly above the Mining Charter target of 26%. This assessment is based on the principle of recognition of continuing consequences of previous transactions. The Minerals Council has calculated that empowerment transactions between 2000 and 2014 are valued at R205 billion, and has seen a transfer of value of some R159 billion to HDSA entities (including black-owned companies, entrepreneurs, employees and community trusts) in this period. This number continues to grow. For example, in 2016, some R2.2 billion flowed to HDSA entities in dividends from the surveyed companies.

It should be noted that this has been achieved notwithstanding the international financial crisis of 2008, which continues to afflict commodity markets and mining company shareholders, including participants in BEE transactions. The benefits of these transactions would have been significantly higher under better external circumstances.

Procurement (%)



Procurement

The proportion of procurement from HDSA entities continues to comfortably exceed targets in all three reporting categories:

- Capital goods: In 2016, companies reported 69% of expenditure on capital goods against the 2010 Mining Charter target of 40%. In monetary terms, this translates to expenditure on capital goods with HDSA companies of R11.1 billion in 2016.
- Services: In 2016, 75% of expenditure on services was with HDSA suppliers, compared with the 2010 Mining Charter target of 70%. In 2016, this amounted to expenditure of R61.0 billion.
- Consumables: In 2016, 68% of consumables were purchased from HDSA suppliers at a cost of R40.7 billion. The 2010 Mining Charter target was 50%.



Employment equity

Mining companies continue to focus on workplace transformation with appreciable improvements in two of the four categories (the 2010 Mining Charter specified a target of 40% HDSAs in all reporting categories by 2014):

- Top management (including boards of directors): In 2016, 49.3% of top management were HDSAs (50.4% in 2014).
- Senior management: In 2016, 48.3% of senior management were HDSAs (41.9% in 2014).
- Middle management: In 2016, HDSAs made up 49.8% of middle management (50.9% in 2014).
- Junior management: In 2016, HDSAs made up 58% of junior management (54% in 2014).
- Core and critical skills: In 2016, HDSAs filled 84.4% of core and critical skills positions (75.5% in 2014).

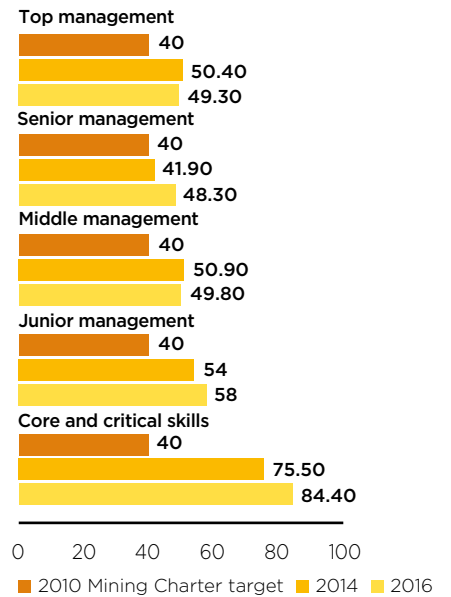
Although the current reporting regime does not provide the breakdown of employment equity figures according to gender, the mining industry is acutely aware of the challenges that it faces in its efforts to recruit and retain women within the sector. It is estimated that women currently make up 13% of the mining workforce.

Human resource development

The future success of the mining industry relies on continuous development of technical innovation, and nurturing and retention of human capabilities. In addition to the Skills Development Levy (1% of annual payroll), the Mining Charter requires the industry to spend 5% of its annual payroll on human resource development (HRD). In 2016, the mining industry spent 5.5% of its annual payroll on HRD. The industry will continue to collaborate with key stakeholders including the Mining Qualifications Authority to ensure that HRD expenditure is aligned with the needs of the industry and the nation. This translates into HRD expenditure in 2016 of R7.74 billion, plus the skills levy payment of R1.46 billion.



Employment equity (%)



“The future success of the mining industry relies on continuous development of technical innovation and nurturing and retention of human capabilities.”

Sustainable development and growth

Although the Mining Charter scorecard includes a section called sustainable development and growth, covering environmental management, health and safety, these matters are comprehensively reported to regulators, and in annual reports to shareholders and other stakeholders.

Housing and living conditions

The industry has made great strides in eradicating hostels as a form of accommodation for the mining workforce and continues to support initiatives aimed at promoting home ownership. Almost all hostels have been converted to single or family units and some employees have received other forms of housing assistance.

“The industry has made great strides in eradicating hostels as a form of accommodation for the mining workforce and continues to support initiatives aimed at promoting home ownership.”

Mining community development

One of the most prominent features of the Mining Charter relates to mining community development and its regulation through social and labour plans (SLPs), which provide for strategic interventions that require planning (mostly with local authorities) and implementation of programmes that focus on the promotion of socio-economic growth and sustainable development of host communities and significant labour-sending areas.

The 2010 Mining Charter does not set universal spending targets with respect to mining community development. Spending budgets are set following engagement with the DMR. Outcomes should, in any event, be measured against impact. However, locally and internationally, a target of 1% of net profit after tax (NPAT) is seen to be a reasonable target for corporate social investment.

Of the 28 companies surveyed, 25 spent more than 1% of NPAT. Total spending by these companies in 2016 amounted to R1.14 billion. The entire industry's NPAT for the period amounted to R34 billion of which 1% is R339 million. The 28 companies alone spent triple the total 1% of NPAT standard.

Notably, 16 of the 66 operations managed by the 28 companies reported financial losses in 2016 yet they collectively contributed more than R180 million to mining community development.

Conclusion

The Minerals Council believes that improvement is needed in a number of areas, the industry's transformation performance is satisfactory and that it demonstrates commitment to continuous improvement.



“The Minerals Council believes that improvement is needed in a number of areas, the industry's transformation performance is satisfactory and that it demonstrates commitment to continuous improvement.”

CONTACT DETAILS

MINERALS COUNCIL SOUTH AFRICA

T +27 11 498 7100
E info@mincosa.org.za

MEDIA

T +27 11 880 3924
E mincosa@rasc.co.za

[@Mine_RSA](https://twitter.com/Mine_RSA)

www.facebook.com/Mine

5 Hollard Street, Johannesburg 2001
PO Box 61809, Marshalltown 2107

www.mineralscouncil.org.za