

RESOURCES SECTOR TRANSFORMATION – MINING CHARTER COMPLIANCE

Fact sheet



MINERALS COUNCIL
SOUTH AFRICA



Ivanplats – Mokopane

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ABOUT THE MINING CHARTER IN SOUTH AFRICA


The mining industry has played a critical role in South Africa's economic development for over 140 years being primarily responsible for transforming it into the most industrialised country on the African continent. Even after more than a century of intensive mining, the industry remains a major contributor to the economy making significant contributions to employment numbers, export earnings, as well as attracting foreign direct investment. The mining industry contributed 7% towards gross domestic product (GDP) directly, and another 11% when taking into account goods and services supplied to the industry.


While the industry has had a significantly positive impact on the economy, owing to the racially based foundations upon which the industry was laid and operated until the advent of democracy in the early 1990s, mining historically had an adverse effect on South Africa's socio-economic landscape.


To redress the imbalances which are the consequence of this legacy, a policy framework to direct the industry's transformation programme, known as the Broad-Based Socio-Economic Empowerment Charter for the Mining and Minerals Industry, commonly known as the Mining Charter, was pioneered and implemented in 2004. The main objective of the Mining Charter has been to facilitate meaningful participation of Historically Disadvantaged South Africans (HDSAs) in the mining and minerals industry, by deracialising the ownership of the industry, expanding business opportunities for HDSAs, and enhancing the social and economic welfare of employees and mine communities.

The Mining Charter is not a static policy. It has been extensively debated amongst industry stakeholders and has been substantially revised twice over the last 9 years. In September 2018, the third iteration of the Mining Charter, was published and adopted by the South African Government.


MINING SECTOR'S CONTRIBUTION TO SOUTH AFRICA


 **Contribution to GDP:** **R350.8 billion**

 **Contribution to fixed investment:** **R91.1 billion**

 **Total primary mineral sales:** **R498.7 billion**

 **Royalties paid:** **R7.6 billion**

 **Company taxes paid:** **R22.0 billion**

 **PAYE by mining personnel:** **R21.0 billion**

TRANSFORMATION PROGRESS SURVEY

It is in this context that the Minerals Council, together with the advisory firm Moshe Capital, has conducted a survey of the industry's transformation progress amongst its members. The objective of this survey was to understand where the industry stood and to see how far it, and its individual right holders, had complied with the Mining Charter of 2010 (MC2010). This data would place the Minerals Council in a better position to embark on the new regulatory journey as stipulated in the new Charter of 2018 (MC2018).

The sample consists of 32 member companies' Mining Charter CY2018 reports as submitted to the Department of Minerals Resources and Energy, and represents 97 mining right holders which account for an estimated 93% of the employee base of members of the Minerals Council. The survey analysed and measured five key transformation elements: Ownership, Employment Equity, Procurement, Human Resources Development and Mine Community Development, against MC2010. Data was assessed and under each element between 85 - 93 mining right holders' data was valid and complete, therefore used for the survey.

The results of this survey show that the member companies involved in the research have largely complied with the MC2010 targets across all the elements. However, there are a few mining right holders that have failed to meet these targets and may therefore struggle with the new Charter of 2018.

RESULTS OF THE SURVEY:

2010 Charter Target against survey results (% weighted average)

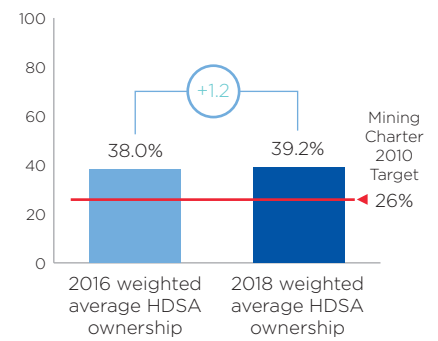
| Element | 2010 Compliance Target | % weighted average |
|--|--|--------------------|
| Ownership | 26% HDSA ownership | 39.2 |
| | 26% Effective ownership, meaningful economic participation | 23.7 |
| Employment equity | 40% of top management | 58.2 |
| | 40% of senior management | 52.8 |
| | 40% of middle management | 61.4 |
| | 40% of junior management | 70.5 |
| | 40% of core and critical skills management | 78.7 |
| Procurement and enterprise development | 40% of capital goods | 75.4 |
| | 70% of services spend | 75.1 |
| | 50% of customers goods | 79.0 |
| | 0.5% of procurement value (capital goods) - from multinational suppliers | 1.4 |
| Human resources development | 5% of annual payroll in skills development | 4.8 |
| Mine community development | 100% community consultation and collaboration | 89.0 |
| | 1% of NPAT | 2.7 |

OWNERSHIP

The MC2010 target of 26% HDSA ownership encompassing full shareholder rights and meaningful economic participation:

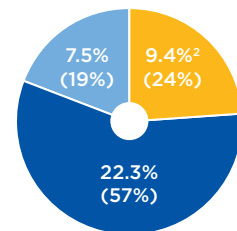
- The industry view shows that of the 93 mining right holders analysed, the weighted average of HDSA shareholding is 39.2%¹. This exceeds the 26% target that was set in MC2010.
- However, there were 13 mining right holders that did not meet the 26% target, although these were some of the smaller mining right holders, mainly the junior and emerging miners. Some of these may be recent rights holders that still have time to achieve their targets.

HDSA ownership; 2018; weighted average(%)



3.2% increase from 2016 ownership assessment

HDSA ownership by recognisable beneficiaries, 2018

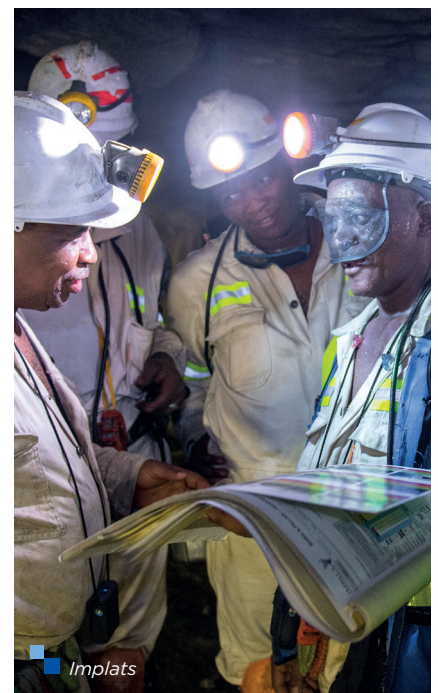


● BEE entrepreneurs ● Communities
() Overall % contributions ● Employees

BEE entrepreneurs account for the biggest share of HDSA ownership

Average HDSA ownership exceeds the minimum 26% target as per the Mining Charter 2010

¹ % HDSA ownership weighted on employee numbers



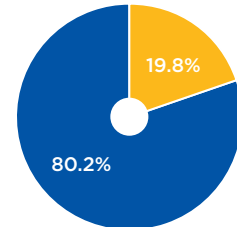
EMPLOYMENT EQUITY

The MC2010 targets were 40% HDSA representation across each of the managerial levels from Executive Management to Junior Management:

- From the 92 mining right holders analysed under employment equity, the industry view shows that all these targets were achieved.
- 70.5% was achieved at Junior Management, and 78.7% for Core and Critical Skills, This bodes well for transforming and creating a diverse workforce.
- The industry average was 52.8% for Senior Management, however 16 mining right holders struggled to achieve the 40% target. This will prove even more difficult as the MC2018 target moves to 60% HDSA and 25% for women at this level.
- MC2010 did not have specific targets for women but the industry has gradually improved representation of women across all managerial levels, in 2018 almost 20% of the sampled employees were women. This is still low and the industry needs to have strategic and tactical implementation plans as we move into MC2018 which introduced specific targets for women at each managerial level.

2018 sample shows overall representation of males exceeds that of females, with males accounting for 80.2% of the total workforce

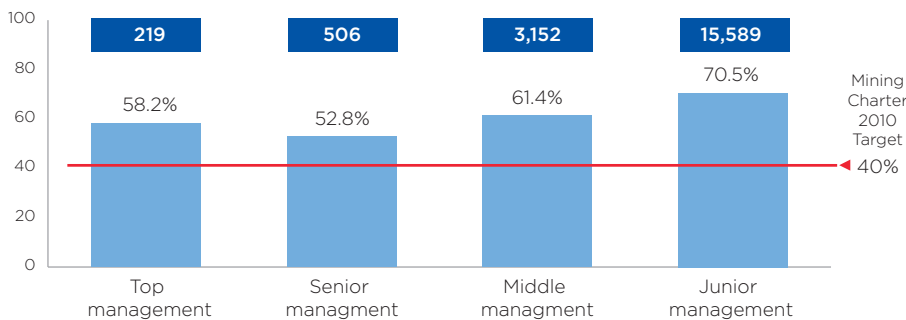
Overall gender representation



● Male ● Female

On the basis of the sampled data, females make up a fifth of the total employee base

HDSA representation in management positions is >40% across all management levels



■ HDSA employees per category

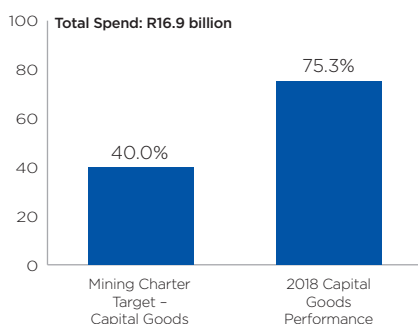


PROCUREMENT AND ENTERPRISE DEVELOPMENT

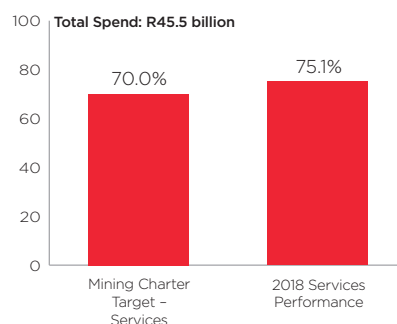
The MC2010 included a range of targets for the procurement of capital goods (40%), services (70%) and consumables (50%) from BEE entities.

- The 87 mining right holders analysed in this section far exceeded the stipulated targets with 75.4% achieved for capital goods, 75.1% for services and 79% for consumables
- However, 26 mining right holders (30%) did not meet the minimum 70% requirement for procurement of services

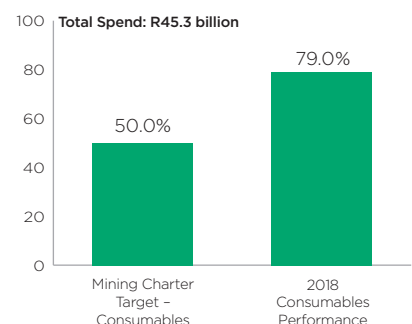
Capital goods procurement; 2018; (%)



Services procurement; 2018; (%)



Consumables procurement; 2018; (18%)



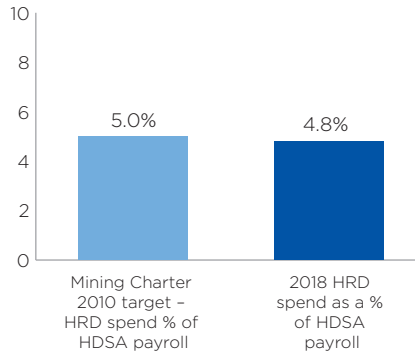
Capital good, services and consumables procurement scores were achieved, exceeding the MC2010 targets

HUMAN RESOURCES DEVELOPMENT

- In 2018, the sampled mining right holders spent 4.8% of their annual payroll on HRD, below the minimum Mining Charter 2010 HRD compliance target of 5.0%.
- A total of R3.3 billion was spent on HRD, plus a skills levy payment of R0.7 billion.
- The data indicates that 72% of the 86 mining rights holders analysed met the minimum HRD target.

HRD EXPENDITURE AS % OF ANNUAL HDSA PAYROLL

Total HRD spend: R3.2 billion

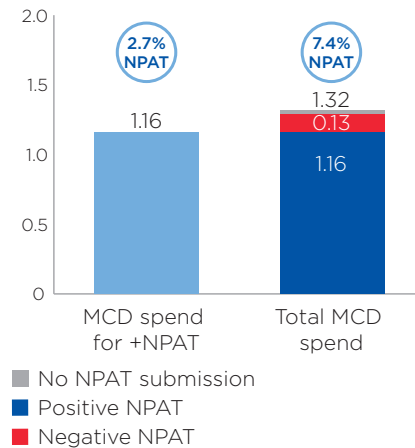


MINE COMMUNITY DEVELOPMENT

The MC2010 stipulates that mining right holders are required to engage and consult with mining communities.

- The data analysed indicates that 89% of the 85 mining right holders are compliant with this stipulation.
- There were 488 programmes and R1.32bn invested into various mining communities and labour sending areas. Even companies that were in development phase and therefore not making profits yet and those that made net losses contributed a total of R130m towards MCD.

MCD total spend (ZAR billion)



■ No NPAT submission
■ Positive NPAT
■ Negative NPAT

...including loss making companies, R1.32 billion spend representing 7.4% of NPAT



CONCLUSION

The combined data indicates that on average the industry has achieved the minimum compliance targets for all but one of the five categories (HRD), and in that case it is only marginally below target. The survey is indicative of the real and sustainable progress that has been made in addressing imbalances and transforming the sector over the last decade.

But this achievement takes on new challenges against the new targets of the 2018 Mining Charter, which are, in most cases, substantially more stringent. Subject to the few issues raised in the Minerals Council's application for review of MC2018, the industry is committed to making every effort to achieve the set targets.

CONTACT DETAILS

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