



CHAMBER OF MINES
of South Africa

FEBRUARY 2017

#MiningMatters

QUARTERLY UPDATE

A PUBLICATION PRODUCED BY THE CHAMBER OF MINES OF SOUTH AFRICA FOR MEMBERS



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FROM THE CEO

BACK IN FULL SWING

The start of the year has seen the Chamber and its members hard at work, right from the start, as mines got back into full productive swing and the entire industry prepared for Mining Indaba in February.

Mining Indaba this year occurred during a time when signs of recovery are within sight for the mining industry. The ability of Mining Indaba to bring thousands of mining stakeholders into

one place allows for key discussions between producers, investors and government on the issues affecting the mining industry.

Policy uncertainty was one these key issues, discussed by industry and government, at this year's Indaba, with Mineral Resources Minister Mosebenzi Zwane committing to finishing the Mineral and Petroleum Resources Development Act (MPRDA) Amendment Bill by June 2017, and gazetting the final version of the Mining Charter by March this year. The Chamber welcomes the sense of urgency, given the need for regulatory certainty. However, it is also critical to interrogate the ultimate provisions within these documents. The industry will continue to engage constructively to seek

pragmatic and realistic outcomes, but will seek clarity and secure their rights in the Courts where required.

ILLICIT FINANCIAL FLOWS

The Chamber also released the latest report on illicit financial flows in mining at Mining Indaba. Simply stated, the United Nations Conference on Trade and Development (UNCTAD) report, based on Comtrade data, accused the South African gold mining industry of smuggling US\$78 billion of gold out of the country between 2000 and 2014. Unfortunately, UNCTAD failed to dig deeper into the issue, which can easily be explained by classification errors. Between 2000 and 2011, US\$55 billion of South African gold exports were classified as "monetary gold" exports by the South African Reserve Bank (SARB) and were not included in the Comtrade data. The remaining US\$23 billion of so-called "smuggled gold" is actually gold imported from African countries, refined in South Africa and then exported. The problem is that UNCTAD has created the perception of a deviant mining industry based on incorrect information. The South African industry now faces internal pressure and accusations, which undermine the development of trust between the mining sector and society. Read more about the report on page 8.



Roger Baxter
CEO – Chamber of Mines
of South Africa

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A MINING VIEW OF SONA

The final day of Mining Indaba coincided with the State of the Nation Address (SONA) by President Jacob Zuma, where the President committed to ensuring that the mining industry remains a priority for South Africa, particularly recognising the value of the CEO initiative, which succeeded in staving off the feared rating agencies' downgrade of South Africa. The Chamber also noted and appreciated the imperative stated by President Zuma for more rapid transformation of the South African economy. The industry is committed to doing its utmost to support the laudable transformation goals, and we believe the industry has done more than most in that regard. The challenge is to pursue the goal of transformation in a manner that promotes transformation and competitiveness as mutually reinforcing concepts.

We also noted President Zuma's comment regarding economic concentration and his wish for black-owned and controlled mining companies. This is an area where we believe the industry has made significant progress. Gone are the 1980s when the bulk of our industry was controlled by six major companies. It is inaccurate to assume that the parts of the industry that are not black-owned are South African white-owned. This is because more than 50% of shares in industry companies are owned by millions of South Africans through pension funds and investments, across all racial groups.

"The Chamber welcomed the news of decreases in fatalities and injuries."

Finally, January saw the release of the 2016 health and safety statistics for the industry. The Chamber noted the news of the decrease in fatalities and injuries but, as we are committed to zero harm, we are disappointed that there were any fatalities. You can read more about the health and safety statistics on page 11.

In this Quarterly Update you can also read more about our activity at Mining Indaba as well as an update on this year's Coal Wage Negotiations.

USEFUL LINKS

Chamber notes SONA 2017 and welcomes commitment to mining industry

Chamber responds to DMR's comments at Mining Indaba

Chamber welcomes second Eunomix report: Unctad's 'misinvoicing report' further debunked



LAUNCH OF NEW MINE SA 2016 FACTS AND FIGURES POCKETBOOK

The Chamber of Mines 'Mine SA 2016 Facts and Figures Pocketbook' was launched at Mining Indaba. In it, you can find the latest statistics on our industry, commodities and people, as well as insight into the real value of our mined resources in our daily lives.

Download the online Pocketbook here

SA MINING OPEN FOR BUSINESS

A REVIEW OF MINING INDABA 2017

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Mining industry stakeholders from around the world descended on Cape Town for the annual Investing in African Mining Indaba from 6 to 9 February.

Over 6,000 individuals, from mineral producers to investors, government officials and service providers, could be found in the Cape Town International Convention Centre and surrounds. Behind closed doors and on public platforms, key discussions, debates and investor meetings were held that will influence the coming year in our industry across the continent. The successful event saw attendance numbers increase for the first time in years, indicating renewed interest in the industry.

Mining Indaba was an important opportunity for the Chamber of Mines and its members to discuss some of the key factors facing the local mining industry. A number of briefings were held with local and international media on:

- The State of the Mining Nation – Chamber President Mike Teke and CEO Roger Baxter
- The gold heist that never was
- A glimpse at the future



AngloGold Ashanti CEO, Srinivasan Venkatakrishnan, speaking at this year's Mining Indaba

Dialogue on many topics will continue throughout the year with the Chamber playing a key role in discussions. Overall, the Mining Indaba was a great success, and enabled many stakeholders to interact with others who would not easily cross their paths. The Chamber of Mines would like to congratulate the Mining Indaba team on hosting a great event.

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A GLIMPSE AT THE FUTURE

IS TECHNOLOGY A CATALYST FOR THE SUSTAINABILITY AND GROWTH OF THE SA MINING INDUSTRY?

Vice President of the Chamber of Mines, Neal Froneman, reminded journalists gathered at the Mining Indaba that the SA mining industry is no stranger to innovative technology and amazing technological feats: "Eight of the 10 deepest mines in the world are gold mines in South Africa. Shaft-sinking, hydropower drones, remote sensing and virtual reality training are all some of our home-grown innovations."

"On the flip side, our sector has, for more than 100 years, been considered a labour-intensive industry using physically demanding manual drilling methods with blasting and cleaning on a stop-start basis, predominantly in narrow reef, hard-rock mining for gold, platinum and chrome," notes Neal.

Working conditions are hampered by abrasive rock, confined workspaces, seismicity, noise, dust and heat. In reality, most deep level underground mines are aging with travel times to the face sometimes reaching an hour-and-a-half or more. With increasing depth and distance from the shaft, actual drill time at the workface has contracted, health and safety challenges have increased, and production has shrunk and has contributed to burgeoning costs. Volatile price environments, rising costs and decreased productivity have added to our woes."

Neal warned that, without a shift in mining methodology, the industry will fail to mine South Africa's deep-level complex orebodies

profitably, resulting in sterilisation of resources, accelerated and premature mine closures, and of course, accelerated job losses.

"Research suggests 200,000 job losses by 2025 could affect 2,000,000 people indirectly if we continue on the current trajectory.

"Contrary to popular perceptions that are sometimes expressed, I have no doubt that technology will create a substantial number of sustainable jobs and more than offset the inevitable continuing decline if we continue to rely only on conventional production methods – not to mention the jobs that will also be created in the manufacturing supply industries.

"We see that technology should act as a catalyst for transformation of the mining industry of yesteryear and today to that of tomorrow in all aspects. To do this, we must recognise that people are at the heart of our industry and we have to focus on improving skills, health, quality of life and fulfilment of employees."



Neal Froneman
Chamber of Mines Vice President

A GLIMPSE AT THE FUTURE CONTINUED

IS TECHNOLOGY A CATALYST FOR THE SUSTAINABILITY AND GROWTH OF THE SA MINING INDUSTRY?

To be successful, Neal said introducing technology would need to be addressed in a holistic manner, adopting a systems and people-centric approach. "All elements of mining – including reporting structures, skills development, change management, stakeholder engagement, community development and environmental management – will need to evolve to suit the requirements of mechanised operations."

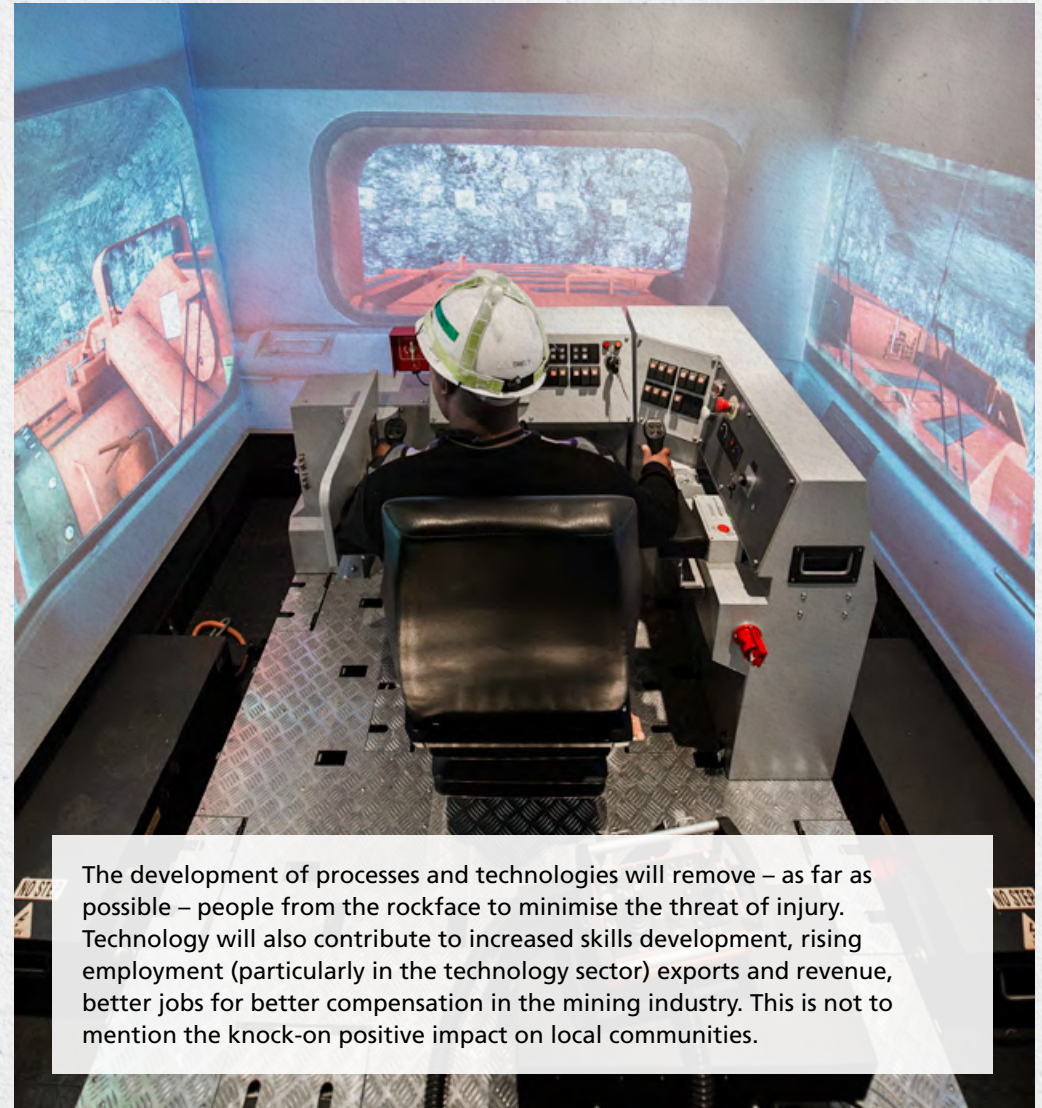
The application of mining technology in South African deep level gold and platinum mining has three main aims:

- 1 To assist the industry and its employees to work safely
- 2 To ensure that we work more efficiently and productively
- 3 To mine resources that would not be safe or technically feasible to mine using conventional methods

USEFUL LINKS

Mining companies digging into the benefits of mechanised mining, CGTN Africa

Media briefing by the Chamber of Mines: A glimpse at the future technology as a catalyst for sustainability and growth of the SA mining industry, comments by Neal Froneman, Vice President of the Chamber of Mines



The development of processes and technologies will remove – as far as possible – people from the rockface to minimise the threat of injury. Technology will also contribute to increased skills development, rising employment (particularly in the technology sector) exports and revenue, better jobs for better compensation in the mining industry. This is not to mention the knock-on positive impact on local communities.

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WINNING SOCIAL LEGITIMACY

MIKE TEKE'S MINING INDABA ADDRESS

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Chamber President Mike Teke's address on the main stage on the first day of the Mining Indaba tackled the subject of what is required in 'achieving the mining sector's great economic and transformational potential'.



Chamber of Mines President,
Mike Teke at Mining Indaba

In his typically hard-hitting and thought-provoking way, Mike noted that the mining industry needs a business model that aggressively pursues value creation for all if it is to win social legitimacy for the industry – 'the social licence to operate as some term it'.

He acknowledged that 'our shareholders are the foundation of our industry. They understand the cyclical nature of our business but ultimately they need, and are entitled to, a reasonable return on their investments.' Most importantly, he noted, industry leaders need to engage with stakeholders in an open and honest way.

"Engagement involves two-way communication. We need to listen to those who are speaking to us. Where we have had adverse impacts on the lives and livelihoods of stakeholders, let's work out how to avoid doing so in the future, and repair those things that can be repaired.

"Let us ask ourselves, and our stakeholders, why our best intentions don't seem to be sufficient. Why is the R2 billion being spent on CSI annually not having the impact that it should? Perhaps we need to find new ways of spending those funds."

Mike added: "Where we can honestly say that they have misjudged us, let us do so respectfully, and let us set out to find solutions where they are to be found. While there are some out there who will remain implacably opposed to mining whatever we do, we may find that most are simply asking to be heard, and that grievances are taken seriously."

In conclusion, he noted that, while the industry's past remained a huge obstacle, and that "there are some effects that cannot be wiped out, at least not by our generation", transformation remains possible and feasible. Indeed it is happening in many spheres, even if not as rapidly as many would hope.

"We have done a lot. But we can do much more. And we can do so in ways that do not damage or destroy the industry's future capacity to create value for all. That is why a sensible outcome to the current Mining Charter talks is so important."

USEFUL LINKS

Mike Teke: Achieving the mining sector's great economic and transformational potential – what is required? (Mining Indaba 2017)

Speech: Achieving the mining sector's great economic potential, Mike Teke, Mining Indaba

THE GOLD HEIST THAT NEVER WAS

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A Chamber of Mines commissioned report, released at Mining Indaba, has further debunked an UNCTAD report released in July 2016.

The subject of illicit financial flows (IFFs) was an important topic of debate at the Mining Indaba – during the pre-Indaba Ministerial Symposium and the conference itself. IFFs represent a significant loss to developing countries' economies and have wide-ranging implications. Because financial flows recycle through an economy in the form of investment, value added creation and consumption, the opportunity cost of IFFs is far larger than their direct cost.

Governments, regional organisations like the African Union, and multilateral economic and financial organisations like the United Nations (UN), the World Bank and the Organisation for Economic Co-operation and Development (OECD), have all developed efforts toward assessing the extent of the challenge and devising solutions. Although IFFs largely comprise criminal activities and corruption, a great deal of attention tends to be focused on business and, in particular, the extractives sector. Two cases in point were the 2015 United Nations Economic Commission for Africa (UNECA) report (sponsored by former President Mbeki), and UNCTAD's report, Trade Misinvoicing in Primary Commodities in



Developing Countries: The cases of Chile, Cote d'Ivoire, Nigeria, South Africa and Zambia.

The Chamber commissioned two sets of research from reputable and independent institutions to take a closer look at IFFs. In 2015, Deloitte conducted research into South Africa's transfer pricing regime and how it measures up to international standards. In 2016 Eunomix analysed the UNCTAD report, which found hundreds of millions of dollars of misinvoicing allegedly perpetrated by the South African mining industry.

The Deloitte report concluded that South Africa has adopted the best international standards of

the time since the mid-1990s, and now has in place robust and comprehensive transfer pricing rules in accordance with global best practice.

Eunomix's findings were released in December 2016. While the UNCTAD report claimed that "between 2000 and 2014, under-invoicing of gold exports from South Africa amounted to \$78.2bn, or 67% of total gold exports", Eunomix found a series of serious and basic methodological shortcomings and errors in the UNCTAD report.

Most fundamentally, UNCTAD chose to use as its trade data source the UN Comtrade database, which is built using different countries' inputs.

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According to Eunomix, “the problem with this methodology is that the countries use different criteria for the numbers they submit, especially regarding gold data due to its monetary uses. The UNCTAD reporters simply assumed that inconsistencies were due to deliberate and fraudulent misinvoicing activities. Interestingly, it also assumed that the discrepancies arose because of issues at the African source rather than in the developed world.”

In contrast, Eunomix demonstrates that publicly available data from Statistics SA, the South African Revenue Service (SARS) and the Chamber of Mines show very similar trends, reciprocally supporting each other and refuting the UNCTAD findings. Between 2000 and 2011, US\$55 billion of South African gold exports were classified as “monetary gold” exports by the South African Reserve Bank (SARB) and were not included in the Comtrade data.

The remaining US\$23 billion of so-called “smuggled gold” is actually gold imported from African countries, refined in South Africa and then exported. South Africa does not report the export of this gold whereas importing countries

do record it as an import from South Africa in their Comtrade data. Based on the data produced by the SARS, South Africa exported an additional US\$7,8 billion of gold that was not captured in the Comtrade data.

In conclusion, Chamber CEO Roger Baxter noted that, “Where IFFs are indeed impoverishing our continent, we offer our assistance to authorities and our peers in other countries to work towards putting in place systems that will eliminate or at least mitigate these challenges. And we would be surprised were our financial authorities, who have put in place such high quality controls, would not be willing to do the same. We believe it is time that all of us should focus our energies on fighting against the real culprits, rather than creating phantom problems that distract us from those real issues. The problem is that UNCTAD has created the perception of a deviant mining industry based on incorrect information. The South African industry now faces internal pressure and accusations, which are not true and undermine the development of trust between the mining sector and society.”

“The South African industry now faces internal pressure and accusations, which are not true and undermine the development of trust between the mining sector and society.”



USEFUL LINKS

A review of the UNCTAD report on trade misinvoicing, with focus on South Africa's gold export, Eunomix

Second report on trade gaps in South African gold, Eunomix

South Africa Chamber of Mines disputes figures given by UNCTAD, CGTN

Trade misinvoicing: UNCTAD is still confused, Hiya Maya

Media briefing: The gold heist that never was

COAL WAGE NEGOTIATIONS UPDATE

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Following the successful conclusion of wage negotiations in the platinum sector in 2016, and in the gold sector in 2015, attention has now turned to the upcoming negotiations in the coal sector where the current agreement comes to an end on 30 June 2017.

Motsamai Motlhamme, Head: Employment Relations at the Chamber of Mines, confirmed that the upcoming wage negotiations between representative unions – the National Union of Mineworkers (NUM), Solidarity and UASA, and the coal companies, namely Anglo American Coal, Msobo Coal, Delmas Coal, Exxaro Coal Mpumalanga, Kangra Coal, Koorfontein Mines and Glencore Operations South Africa, would be undertaken on a decentralised basis.

While the unions have currently declared a dispute, the Chamber remains open to further engagements.



Motsamai Motlhamme
Chamber of Mines Head: Employment Relations

2016 HEALTH AND SAFETY STATISTICS UPDATE

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On 19 January 2017, the Minister of Mineral Resources, Mosebenzi Zwane, released the industry's 2016 health and safety statistics.

Statistics indicate that the industry is continuing its improvement in making our mines a safer working environment for our employees. The Chamber notes the improvements but remains disappointed by the fatalities and injuries experienced by our employees as the mining industry remains committed to the goal of zero harm.

Mining fatalities in 2016 decreased by 5% to 73 in comparison with 77 in 2015. Similarly, mining injuries experienced a 15% decrease from 3,138 to 2,662. Of concern to the Chamber is the increase in fall-of-ground related fatalities, which is an area where the industry has made significant strides in recent years.

Speaking on the 2016 health and safety statistics, Chamber president Mike Teke stated: "The progress made on the occupational health and safety front is testimony to the various tripartite health and safety initiatives adopted by the mining industry and the efforts of management, employees, government and trade unions."

Continued improvement in the safety of our industry is fully dependent on the commitment of all stakeholders towards zero harm. Commenting on this, Mike said: "It is fitting that all parties attended today – mining companies, unions and government – as it is the strength and determination that comes from this unity that will enable our industry to become a beacon of zero harm. Only by working together, especially through entities such as the Mine Health and Safety Council, can we ensure that every single employee returns home, safe and unharmed, at the end of every day."

KEY SAFETY STATISTICS: 2016

73	2,662	4,211
Fatalities	Injuries	TB diagnoses
(2015: 77)	(2015: 3,138)	(2015: 4,461)

USEFUL LINKS

Speech: Release of 2016 mine health and safety statistics, Minister of Mineral Resources, Mosebenzi Zwane

Chamber of Mines notes the release of 2016 safety statistics, 19 January 2017

Injuries per commodity

Commodity	2016	2015	Reduction	% variance
Gold	1,069	1,249	180	-14%
Platinum	1,110	1,329	219	-16%
Coal	183	206	23	-11%
Others	300	354	54	-15%
Total	2,662	3,138	476	-15%

Fatalities by commodity

Commodity	2016	2015	Reduction	% variance
Gold	30	33	-3	-9%
Platinum	27	21	+6	+29%
Coal	4	5	-1	-20%
Others	12	18	-6	-33%
Total	73	77	-4	-5%

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On 22 February 2017, Pravin Gordhan will deliver his national budget speech to the nation.

As SARS seeks to collect R28 billion in additional revenue, all eyes will be on Pravin as he identifies how this will be achieved. An increase in some taxes is imminent.

MEDIA RELEASES

Find out more about the Chamber's activities over the past quarter by reading our media releases listed below.

15 November 2016:
Chamber welcomes judgement by Labour Court to set aside Section 54 order at AngloGold Ashanti's Kopanang mine

16 November 2016:
Chamber of Mines responds to queries following DDG's comments in Parliament

17 November 2016:
Chamber deeply concerned following reports to Parliament on draft reviewed Mining Charter

24 November 2016:
Constitutional Court hears AMCU's appeal against judgment in favour of gold companies – judgment reserved

07 December 2016:
Chamber of Mines briefs Portfolio Committee on investment case for the industry

08 December 2016:
Mining production still contracting despite hopes of commodities rebound

14 December 2016:
Independent report on trade misinvoicing available

17 January 2017:
Mining production disappoints again in November, amidst signs of sector stabilising at very low levels

19 January 2017:
Chamber of Mines notes the release of 2016 safety statistics

27 January 2017:
Chamber responds to Minister of Mineral Resources' safety statement

01 February 2017:
Coal wage negotiations

06 February 2017:
Chamber welcomes second Eumomix report: Unctad's mis-invoicing report' further debunked

09 February 2017:
Mining production declines by 5% in 2016 compared to 2015

10 February 2017:
Chamber notes SONA 2017 and welcomes commitment to mining industry