QUARTERLY UPDATE DECEMBER 2019

#MakingMiningMatter

A PUBLICATION PRODUCED BY THE MINERALS COUNCIL SOUTH AFRICA FOR MEMBERS

MINERALS COUNCIL SOUTH AFRICA

DRDGOLD – EBDA

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FROM THE CEO

Glencore - Tweefontein

Roger Baxter
Chief Executive Officer

Dear all,

As we have moved through the last quarter of 2019 there has been no real let up in the pressures on our industry and on South Africa's economic challenges as a whole.

For the Minerals Council, much of the focus in this period has been on health and safety. Our members have sustained the step change in safety performance that began late last year. As at 9 December, the number of employees lost in fatal accidents amounted to 47.

However, this 40% reduction in the number of deaths compared with the same period in 2018 is only one step forward. That was brought home by the Tau Lekoa tragedy on 6 December. The industry's leaders know that there are more steps that need to be taken before we can be satisfied that we have achieved the goal of eliminating fatalities. The same applies in the sphere of occupational health.

That is why, on 1 October, the Minerals Council launched the Khumbul'ekhaya initiative. This CEO-led strategy, led by the Minerals Council CEO Zero Harm Forum, is intended to take us to that goal.

Khumbul'ekhaya is to have a two-year focus on the elimination of fatalities as a result of safety and health incidents. It takes a holistic approach, recognising that fatalities are usually the result of a complex set of circumstances. The idea is to learn from each incident that occurs, that we should all learn from each other how to prevent those circumstances arising, and to learn, too, from other industries.

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FROM THE CEO
continued

As Themba Mkhwanazi, chair of the CEO Zero Harm Forum, said at the launch: “At the centre of it all is the recognition that the quality of safety and health in the industry starts with us and depends on us, the industry’s leadership.”

We are also pleased at the transformation of the multi-stakeholder Masoyise iTB programme to the Masoyise Health Programme. When Masoyise kicked off in 2016, one of the main targets was to bring tuberculosis incidence in the industry down to equal or fall below the national average. That has been achieved in many mining regions, and is a remarkable achievement. As are the improvements in HIV counselling and testing, the other goal of Masoyise iTB. As always, however, more can and will be done.

The new Masoyise, that featured at this year’s World AIDS Day event, is focussing on a broader range of health issues including non-communicable diseases including heart disease, high blood pressure, cancer, diabetes and chronic respiratory diseases including asthma.

We hope that these joint efforts by the industry, government and organised labour continue to have a positive impact on public health.

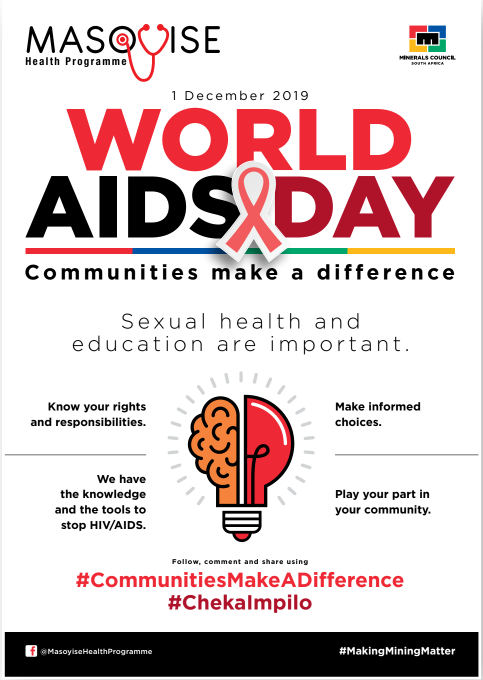
The other feature of this quarter has been the question of public finances.

When Finance Minister Tito Mboweni tabled his Medium-Term Budget Policy Statement (MTBPS) at the end of October, he had very little room to manoeuvre. The deficit is at an unsustainably high level, there are huge contingent liabilities related mainly to the state-owned enterprises that have been poorly or fraudulently run for a decade, all leading to the deteriorating debt to GDP ratio.

There was disappointingly little direct indication on how this situation is going to be remedied. That is why we have called for structural economic growth reforms that can create a virtuous circle of improving investor and business confidence, improving competitiveness and growing productivity, increasing investment, raising economic growth, reducing unemployment and poverty, growing transformation, and raising living standards. As mentioned in my message in the previous newsletter, the National Treasury’s economic strategy paper published in August offers some useful ideas in this regard.

Should South Africa’s economic managers fail to implement these kinds of measures, we do already know what awaits us. In early November, ratings agency Moody’s changed South Africa’s Baa3 investment rating outlook from “stable” to “negative”. A failure to act effectively will spell the end of the country’s last investment-grade bond rating.

For now, however, I would like to wish you all the best for the forthcoming holiday and festive season. Please do all be safe and refreshed for the challenging 2020 that lies ahead.



Useful links

Safety and health in mining

Minerals Council South Africa welcomes Moody’s decision to leave credit rating unchanged media release

Masoyise health programme

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Northam Platinum – Booysendal

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BROAD SUPPORT FOR NATIONAL TREASURY'S ECONOMIC POLICY PAPER

On 27 August, Minister of Finance Tito Mboweni called for comment on National Treasury's economic policy paper titled **Economic Transformation, Inclusive Growth and Competitiveness: Towards an Economic Strategy for South Africa.**

The Minerals Council's view is that the document reflects a serious effort to construct a practical long-term economic strategy based on the National Development Plan. It is a holistic strategy underpinned by economic modelling which reflects a coherent exposition of the far-reaching policy trade-offs which need to be made to get the South African economy back on a growth trajectory.

"It recognises that growth and competitiveness are interdependent, and will require substantial modernisation of network industries – electricity, telecommunications, transport and water – and preferably with private sector competition."

In its response, the Minerals Council signalled its broad support for the need for a set of growth reforms that can create a virtuous circle of improving investor and business confidence, improving competitiveness and productivity, increasing investment, raising economic growth, reducing unemployment and poverty, supporting transformation, and raising living standards. These are all achievable with the adoption of pragmatic and realistic policies that work and promote these outcomes.

Of great importance to mining, is the prominence given to 'network industries' ' (infrastructure) constraints to growth in the economy. The importance of these industries and the impact of regulated prices on the country's competitiveness and specifically that of mining cannot be over-emphasised.

BROAD SUPPORT FOR NATIONAL TREASURY'S ECONOMIC POLICY PAPER
continued

The mining sector is exposed to the success or failure of virtually all products and services provided by the state- and state-owned enterprises. More than 50% of the intermediary inputs procured by the mining industry (excluding labour costs) – electricity, transport and logistics, and water – are products and services supplied by the state. This renders mining incapable of controlling large components of its cost structure. It is encouraging that the document contains several proposals for change which will have a direct impact on mining and, if successfully implemented, will benefit the future growth of the sector.

While the mining sector did not feature widely in the document, the Minerals Council is of the view that these proposed reforms coupled with South Africa's significant geological potential, real investment in mining over the next five years could be 84% higher than the current base scenario if the country could move back into the top 25% of investment destinations in terms of the Fraser Institute Investment Attractiveness Index.

The policy paper specifically emphasises the need for the right balance between policy progress and certainty. The Minerals Council strongly supports this view and believes that policy certainty and security of tenure are critical to reignite long-term investment in the mining sector. Increasing real investment in mining would require the adoption of competitive, stable and predictable mining policies.

Global competitiveness in 2018

67th OUT OF 140 JURISDICTIONS

(61st out of 138 in 2017)

World Economic Forum Global Competitiveness Index

Ease of doing business in SA in 2019

82nd OUT OF 190 JURISDICTIONS

(82nd out of 91 in 2017)

World Bank Ease of Doing Business Index

Mining's investment attractiveness in 2018

43rd OUT OF 83 JURISDICTIONS

(48th out of 91 in 2017)

Fraser Institute Annual Survey of Mining Companies investment Attractiveness Index

Should a new greenfields exploration strategy be adopted, South Africa could attract a much greater share of global exploration expenditure, creating a new pipeline of projects for mining.

The need for integrated growth/development strategies for sectors, and line departments' support for such, seems to be underlying the document. A new growth and competitiveness strategy for mining needs to be developed and adopted in cooperation with the DMRE and other government institutions.

Under these circumstances, mining's share of GDP could stabilise or grow, resulting in massive benefits for investment, economic growth, export earnings, transformation and the various linkages to the rest of the economy.

Useful links

Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa

Minerals Council notes tabling of MTBPS 2019

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MINERALS COUNCIL PUBLISHES TRANSFORMATION RESEARCH REPORT 2019

In the wake of the gazetting of the third iteration of the Mining Charter in March this year, the Minerals Council commissioned a survey of industry transformation and community development performance amongst a sample of 32 of its members. The objective of this survey, which was conducted by the advisory firm Moshe Capital, was to assess compliance with the 2010 Charter that applied to the industry until 2018. This was necessary to better understand the position of the industry, and particularly member companies, as it prepares to embark on the new regulatory journey as stipulated in the 2018 Charter.

All Minerals Council members were requested to supply for analysis their latest annual compliance reports measuring performance against their social and labour plans, which themselves were required to meet the 2010 Charter's final compliance targets. As the 32 members that responded to the request represent 79.5% of the industry, as measured by employee headcount, we believe this report is based on a representative sample of both members and of the industry.

The assessment focused on five of the Charter's pillars: ownership, employment equity, procurement, human resources development and mine community development.

The report, which was completed in November, reveals that the mining industry has achieved the minimum compliance targets for all but one of the five elements (human resources development).


RESOURCES SECTOR TRANSFORMATION - MINING CHARTER COMPLIANCE

Fact sheet

MINERALS COUNCIL 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.

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 CONTRIBUTES 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 personel:	R21.0 billion

MINERALS COUNCIL SOUTH AFRICA MINING CHARTER COMPLIANCE

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In terms of ownership, the weighted average of HDSA ownership is 39.2% versus the 26% requirement by Mining Charter 2010. While this has certainly been a positive achievement, the actual structure of ownership transaction does not, on balance, meet the 2010 Charter's requirements of "effective ownership" and "meaningful economic participation". This is largely because the 2010 requirements did not apply when most of the largest transactions took place in the 15 or so years prior to that.

The industry is also making good progress in terms of the employment equity targets. The 40% requirement that top, senior, middle and junior management positions be held by HDSAs has been significantly exceeded.

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MINERALS COUNCIL PUBLISHES TRANSFORMATION RESEARCH REPORT 2019 continued

The new 2018 Charter sets new targets, with greater emphasis on women, that will have to be met in the future.

With regard to procurement, the survey reveals that R82.7 billion from a total of R108 billion was spent on goods and services acquired from BEE entities. This is a weighted average above 75%, which exceeds the 2010 Charter targets. This suggests that the mining industry is doing much to stimulate black-owned goods and service providers in South Africa.

An encouraging revelation of the survey is that R1.32 billion - equating to 480 developmental programmes - was invested into various mining communities and labour sending areas for the annual period covered by the SLP reports. Even companies that are in development phase and therefore not making profits yet, and those that made net losses, contributed a total of R130 million towards mine community development. Having said that, it is apparent that in the sphere of mine community development, more needs to be done by some companies regarding community consultation.

The one category that still needs improvement is human resource development as the weighted average reveals that only 4.9% of annual payroll is spent on skills development – marginally short of the 5% target. Twenty-six of the rights holders fell short of the target level.

Overall, however, the research shows substantial compliance and significant progress in the industry's, and South Africa's, efforts to transform the mining sector and our economy. It also suggests that the mining industry is in a solid position to embark on the regulatory journey of the new Charter, notwithstanding the challenge to three particular aspects of its contents that still requires resolution.

Useful links

Resources sector Transformation – Mining Charter Compliance

Mining Industry Transformation Progress Report for 2019

Transformation – FAQs

Minerals Council publishes report assessing transformation progress of members

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 & critical skills	78.7
Procurement and enterprise development	40% of capital goods	75.4
	70% of services spend	75.1
	50% of consumable 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	4.9
Mine community development	100% community consultation and collaboration	89.0
	1% of NPAT	2.7

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Anglo American Platinum – Polokwane Smelter

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THE IMPACT OF CARBON TAX ON THE MINING INDUSTRY

Over the past decade, South Africa's economy grew by an average of only 1.5% a year. This has contributed to a continuous decline in GHG emissions per unit of GDP in a context where:

- The composition of South Africa's growth shifted away from carbon intensive industries, like mining and manufacturing, towards less carbon intensive sectors like financial services and retail.
- The 523% increase in the electricity price in the past decade, in materially damaging the competitiveness of the mining and smelting industries, further contributed to the decline in carbon-intensive sectors.

Given that South Africa's GHG emissions are currently below the Peak, Plateau and Decline (PPD) GHG trajectory, and taking the changing composition of the country's economy into account, it is highly likely that South Africa will achieve its Paris commitment without implementing measures such as carbon tax.

Prior to the publication of the Carbon Offsets Regulations in terms of the Carbon Tax Act, the Minerals Council did an assessment to determine the impact of the carbon tax on the industry. Minerals Council members across various commodities participated in the study and were included in the sample. The findings of the assessment were presented to National Treasury and there was in-principle alignment on the methodology applied.

The assessment calculated the mining sector's carbon tax liability for:

- **Direct impact**
  The mining industry's direct carbon tax liability is influenced by the fact that companies are required to pay tax to the South African Revenue Service on direct emissions in terms of the CO_2 tax formula stipulated in the Carbon Tax Act. Additionally, mining companies are liable for the carbon tax levy which is imposed on liquid fuels (diesel and petrol) and paid at the pump.
- **Indirect impact**
  The indirect impact of the carbon tax on mining companies consists of the possible passthrough of costs as a result of the consumption of emissions intensive inputs in mining processes such as lime, cement, steel (from 2019 onwards) and electricity (from 2023 onwards).
- **Tax intensity**
  The tax amount paid in rands per unit of commodity produced.

THE IMPACT OF CARBON TAX ON THE MINING INDUSTRY

continued

The study looked at the impact of carbon tax on the industry during both phases. The CO_2 tax formula of R120/tonne of CO_2e emitted, increasing at a rate of CPI +2% until December 2022 and CPI thereafter was applied, with CPI estimated to be 4.5%.

Given the uncertainty as to whether or not the allowances proposed for phase 1 would still be in place during phase 2, the following two scenarios were developed:

LOW COST SCENARIO

This scenario assumes that the relief mechanisms (allowances) remain in place until 2030. Whilst the Minerals Council acknowledges the potential benefit in tax relief for participating in the carbon budget, it is worth noting that most Minerals Council members are not participating in this voluntary phase, therefore, this allowance is not factored into the assessment. Should fundamental policy principles underpinning the carbon budget be favourable in the climate change bill, companies will definitely take advantage of this allowance.

HIGH COST SCENARIO

This scenario assumes that the relief mechanisms (allowances) are phased out linearly from 2023 until 2030.

In 2020 (phase1), the potential total tax liability for the mining industry on scope 1 emissions – taking into account both the direct tax liability of R645 million and the indirect tax liability of R135 million that will be passed through to the mining industry from suppliers (primarily from products such as steel, lime and cement) – is R780 million.

During phase 2, scope 2 emissions from indirect sources will apply in addition to scope 1 emissions. The industry's indirect/passthrough tax liability increases significantly and will be greater than its direct tax liability from 2023 onwards when passthrough effects from electricity come into play. This clearly demonstrates the significant potential passthrough impact of electricity prices, particularly for energy-intensive industries.

If the allowances for phase 1 fall away during phase 2 – and assuming that mining output, consumption of high emission inputs, and emission intensities remain constant – the potential total carbon tax liability increases to R4.585 billion by 2023 and R11.650 billion by 2030 increasing the cost of carbon tax to the mining sector by 1,394% in just a decade.

Mining sector tax liability

	2020 estimate	2023 estimate	2030 estimate
Direct tax liability			
Low cost scenario	R645 million	R760 million	R1.040 billion
High cost scenario	–	R955 million	R3.130 billion
Indirect tax liability (passthrough)			
Low cost scenario	R135 million	R3.035 billion	R3.300 billion
High cost scenario	–	R3.630 billion	R8.520 billion
Total mining carbon tax liability			
Low cost scenario	**R780 million**	**R3.789 billion**	**R4.340 billion**
High cost scenario	**–**	**R4.585 billion**	**R11.650 billion**

Useful link

The impact of the carbon tax on the mining sector fact sheet

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Dr Bruno Oberle, Chair of the Global Tailings Review providing an overview of the draft global tailings standard

CONSULTATION PROCESS UNDERWAY FOR DRAFT GLOBAL TAILINGS REVIEW

Following the Brumadinho tailings disaster in Brazil on 25 January 2019, the International Council on Mining and Metals (ICMM), the United Nations Environment Programme (UNEP) and the Principles for Responsible Investment (PRI) co-convened the Global Tailings Review to establish an international standard for the safe management of tailings storage facilities that can be applied to all tailings dams worldwide to prevent catastrophic failures in future.

The review and development of the international standard, which is scheduled to be completed by early 2020, is overseen by an independent chair and informed by a multi-stakeholder advisory group comprising representatives from civil society, multilateral organisations, financial institutions and academia. Once accepted by all three co-convenors, the standard will become an ICMM company member commitment, alongside other sustainable development performance expectations.

The Minerals Council and its members that are also members of the ICMM – which comprises 27 of the world's largest mining companies and 30 commodity and regional associations, including the Minerals Council South Africa – have actively been participating in the initiative.

The Global Tailings Review has developed a draft standard taking into account current global best practice in the mining sector and beyond as well as lessons learned from other catastrophic incidents. The draft standard outlines six topic areas which are underpinned by 17 principles and 77 specific requirements that companies will be required to meet.

An online and in-country consultation process is currently underway until 31 December to obtain the views, input and feedback from interested and affected stakeholders in Australia, Chile, China, Ghana, Kazakhstan and South Africa.

South African stakeholders including industry representatives from various mining companies across commodities, the Minerals Council, environmental and technical experts, NGOs and community representatives took part in consultation sessions on Thursday, 5 December and Friday, 6 December. Invitations to participate in the sessions were also extended to the South African mining and environmental regulators.

"Our view is that a standard is only valuable if it is trusted by all stakeholders. Creating trust means engaging with all stakeholder groups. We are visiting different countries and communities to ensure that local voices are heard and taken into consideration in the finalisation of the standard. We are carefully gathering and collating the feedback which will be submitted to a team of experts for consideration and integration," said Dr Bruno Oberle, Chair of the Global Tailings Review.

It is envisaged that the standard will be accompanied by a certification process, which would include detailed assessments and public reporting findings. This would allow companies to demonstrate their commitment to managing tailings facilities with integrity to states, investors, insurers and local communities.

Useful link

Global Tailings Review – consultation

Global Tailings Review website

Global Tailings Standard – Draft for Public Consultation

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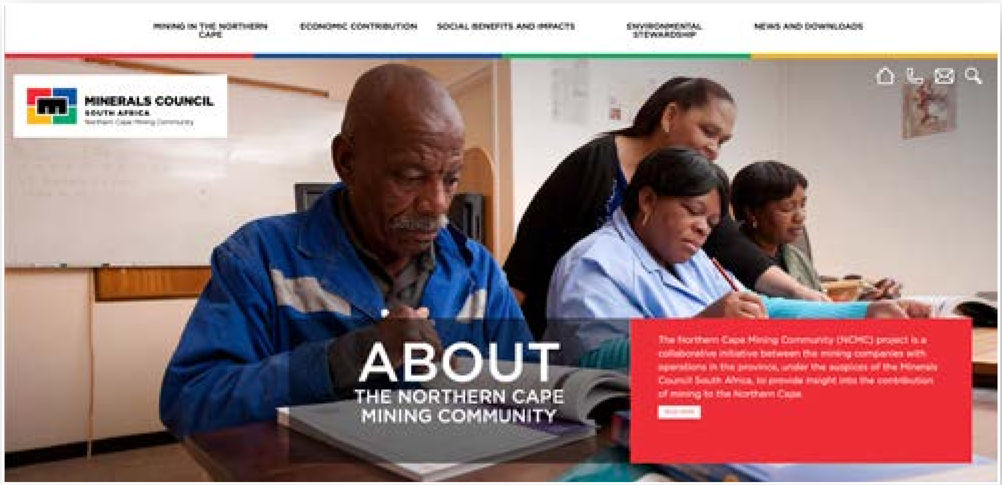
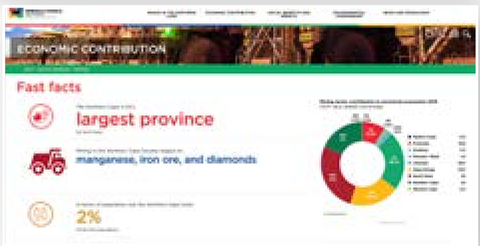
Vedanta Zinc International – Gamsberg

NORTHERN CAPE MINING COMMUNITY WEBSITE LAUNCHED





On 20 November 2019, the Minerals Council launched the Northern Cape Mining Community website as part of a collaborative initiative between the mining companies with operations in the province, under the auspices of the Minerals Council.

The initiative aims to provide meaningful, transparent insight into the contributions and impacts of mining to the Northern Cape, and to communicate and showcase those areas where companies are collaborating and contributing – economically, socially and environmentally.

Useful link

Northern Cape Mining Community website

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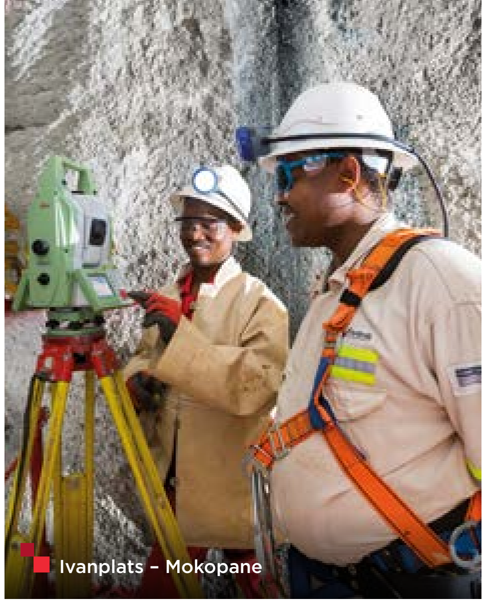
Royal Bafokeng Platinum



Ivanplats – Mokopane

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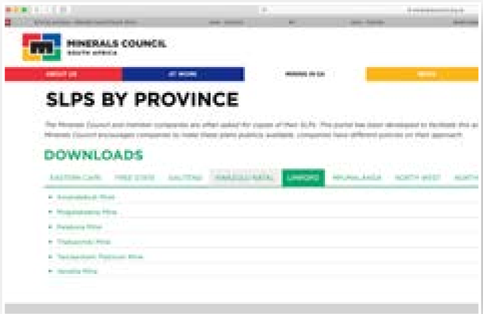
MINERALS COUNCIL LAUNCHES SLP PORTAL

In November, the Minerals Council launched a portal on its website to host the latest or current Social and Labour Plans (SLPs) of its members' mining rights.

The portal was developed to facilitate easy access by various stakeholders on a voluntary basis. The SLPs displayed on the portal are those that have been approved by the regulator and are arranged according to province and sector.

While many members have been publishing their SLPs on their own websites for a number of years already, the portal provides other Minerals Council members, researchers and other stakeholders with an overview of the work that is being done by the industry at mining operations across the country at a central online location.



Useful link

Mining SLPs website

Mining Indaba 2019 – panel discussion on platinum investment
From left to right: Chris Griffith (CEO, Anglo Platinum), Nico Muller (CEO, Implats), Steve Phiri (CEO, Royal Bafokeng Platinum), Hanre Rossouw (Head of Resources, Investec), Neal Froneman (CEO, Sibanye-Stillwater).

MINING INDABA 2020

The Minerals Council will again join mining stakeholders from around the world – including producers, investors, government officials and service providers – at the upcoming annual Investing in African Mining Indaba which will take place between 3 and 6 February 2020 in Cape Town.

Mining Indaba is a key event in the mining events calendar which provides an important opportunity for the Minerals Council and its members to engage in important debates related to the industry's investment case. Encouragingly, the organisers of Mining Indaba have continued their efforts to expand the junior miner's platform.

The Minerals Council's presence at next year's event will include its exhibition stand; participation in the Ministerial Symposium, the Intergovernmental Forum, and the Young Leaders' programme; attending the Alternative Mining Indaba; presentations by various senior executives; and participation in panel discussions on key topics. All of these activities will be supported by active engagements with stakeholders including investors, Minerals Council members and the media.

Useful links

Mining Indaba website

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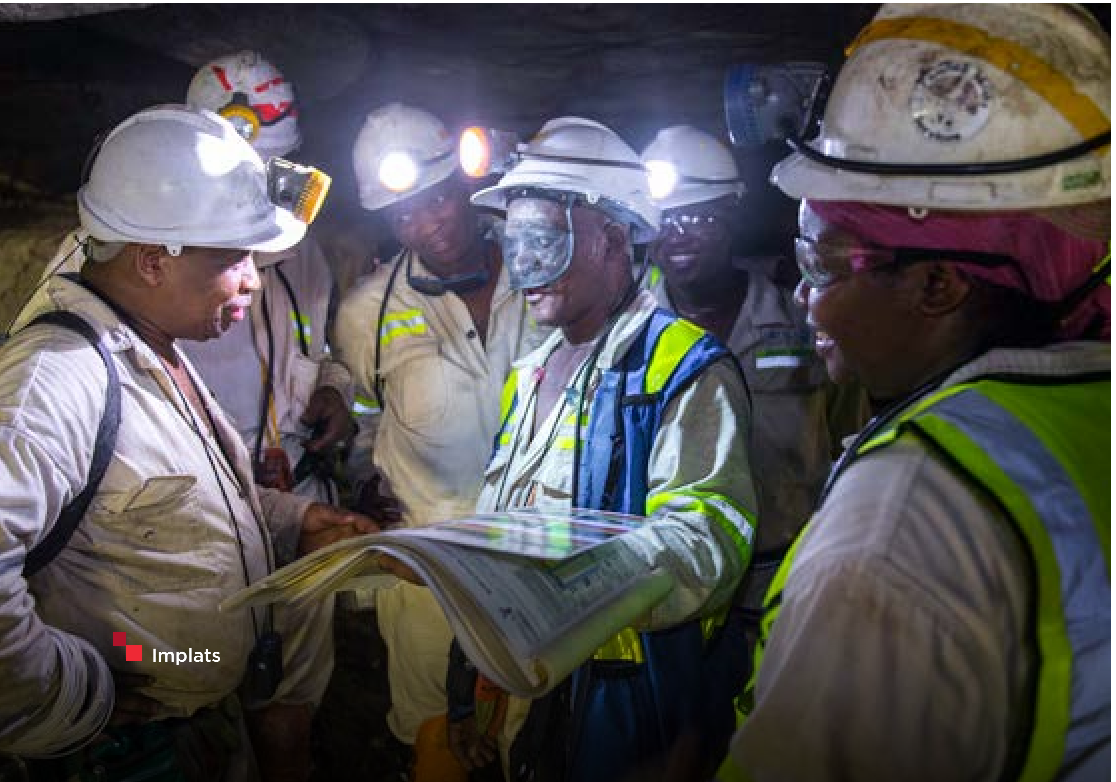
ADDITIONAL INFORMATION

latest media releases

To find out more about the Minerals Council's recent activities, take a look at the media releases listed below:

1 October 2019	Minerals Council launches CEO-led strategy on health and safety
2 October 2019	Minerals Council South Africa President addresses Joburg Indaba on mining industry's journey to zero harm
30 October 2019	Minerals Council notes tabling of MTBPS 2019
4 November 2019	Minerals Council South Africa welcomes Moody's decision to leave credit rating unchanged
4 December 2019	Minerals Council publishes report assessing transformation progress of members
8 December 2019	Minerals Council saddened at North West mining accident



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