

# introduction

## Towards sustainable growth and development

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The ubiquitous Wikipedia defines sustainable development as 'a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for generations to come... The field of sustainable development can be conceptually broken into three constituent parts: environmental sustainability, economic sustainability and socio-political sustainability'.

The Chamber recognises a fourth pillar of sustainable development, in that it separates social equity and effective government.

If one were to relate the above quotation to the mining industry in general and to the Chamber in particular, one would find innumerable instances where the values and aims of sustainable development go hand in hand with the values and aims of the mining industry. The Chamber's decision to support government's white paper on mining rights ownership is a case in point as are the 16 priority issues that emanated from the Mbulwa meeting, which fundamentally changed the attitude and approach of the mining industry and the Chamber. Another example can be found in the Chamber's response to the economic crisis and the establishment, by the tripartite partners, of the Mining Industry Growth, Development and Employment Task Team (MIGDETT). The focus of which is to develop long-term strategies for the industry to again take up its historical role as the most valuable contributor to the country's growth and socio-economic development.

The Chamber and the mining industry are committed to promote the sustainable growth and development of mining and the entire economy of our country.

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# chamber members

## financial corporations

Anglo American Corporation plc

Barrick Africa

Mvelaphanda Resources

Bio Thio

## base metals/minerals & exploration companies

ASA Metals (Pty) Limited

Delta Mining (Pty) Limited

G & W Base and Industrials (Pty) Limited

Imerys South Africa (Pty) Limited

Randgold and Exploration Limited

Richards Bay Minerals

Vametco Mineral Corporation (Pty) Limited

## chrome mining

Samarcor Chrome

## coal mining

Anglo Operations Limited (unit coal division)

BHP Billiton Energy Coal

Edgars Resources Limited

Kangra Group (Pty) Limited

Kuyasa Mining (Pty) Limited

Optimum Coal

Sasol Mining (Pty) Limited

Siyanda Coal (Pty) Limited (t/a Koomfontein Mines)

Total Coal South Africa

Tweewaters Fuel (Pty) Limited

Umcebo Mining (Pty) Limited

Xstrate Coal South Africa

## diamond mining

De Beers Consolidated Mines Limited

Hamakwa Diamond Company

Imvuvu Group Limited

## gold mining

AngloGold Ashanti (Pty) Limited

AngloGold Ashanti Limited

Gold Fields Limited

Harmony Gold Mining Company Limited

Remonte Gold

## iron ore mining

Kumba Iron Ore Limited

## platinum mining

Anglo American Platinum Corporation Limited

Impala Platinum Limited

Lonmin Platinum Limited

Ridge Mining

## other members

Centrust (Pty) Limited

Cellulosewaste Harrier GmbH

Murray and Roberts (Cementation) (Pty) Limited

Shad Sinkers (Pty) Limited

## associations

Aggregate and Sand Producers Association of South Africa

Clay Brick Association Limited

SA Association of Mining Contracting Companies

South African Diamond Producers' Organization

## suspended operations

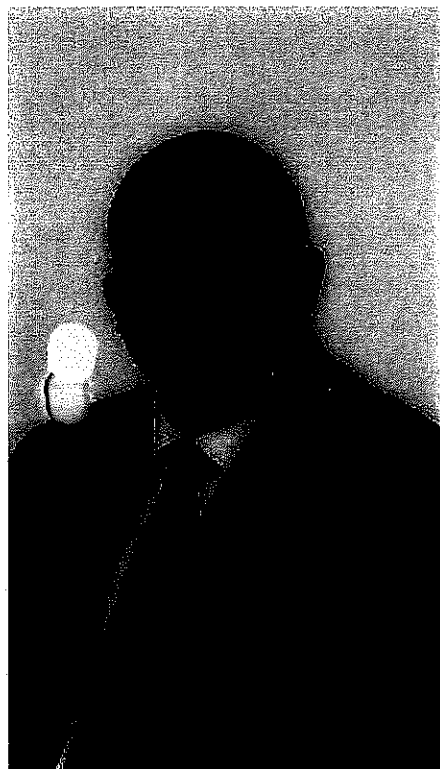
City Deep Limited

Consolidated Mine Pool Africa (Pty) Limited

Crown Mines Limited

# chief executive's review

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**Zoli Diliza**  
Chief Executive

**A**s I retire at the end of this year, this is my last review as Chief Executive of the Chamber of Mines. Given these circumstances, I thought it would be appropriate to highlight some of the events that have characterised my 12-year journey at the helm of this organisation.

My journey at the Chamber of Mines of South Africa started in 1998, when I joined the organisation as chief executive. It has been a

fascinating, yet challenging journey on which I have enjoyed many vigorous debates with stakeholders both locally and internationally on a wide variety of mining matters and other related topics, some of which have helped to shape the mining industry and elevated the profile of the Chamber to where it is today.

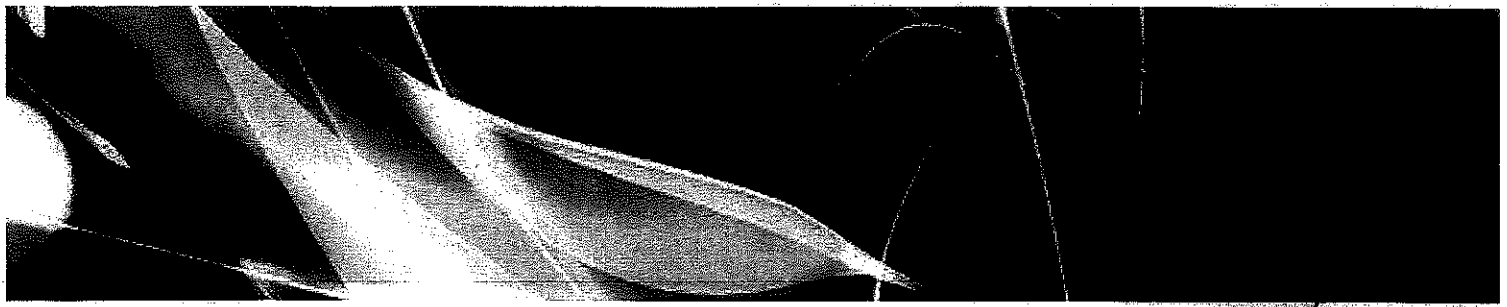
Our success and effectiveness as an organisation have largely been buoyed by the wisdom, support and encouragement of the Chamber's Executive Council, our stakeholders, government and labour. We have been able to overcome even the most vexing impasses faced by the industry over the last decade because of a common vision of prosperity for the industry and the country.

During my tenure as chief executive, the Chamber was confronted with a number of difficult issues, but we managed to navigate these successfully and contribute effectively to the strategic direction of the industry. Looking back at some of these challenges and at the Chamber's interventions, I am exceedingly proud to have been associated with this organisation during these sometimes difficult times.

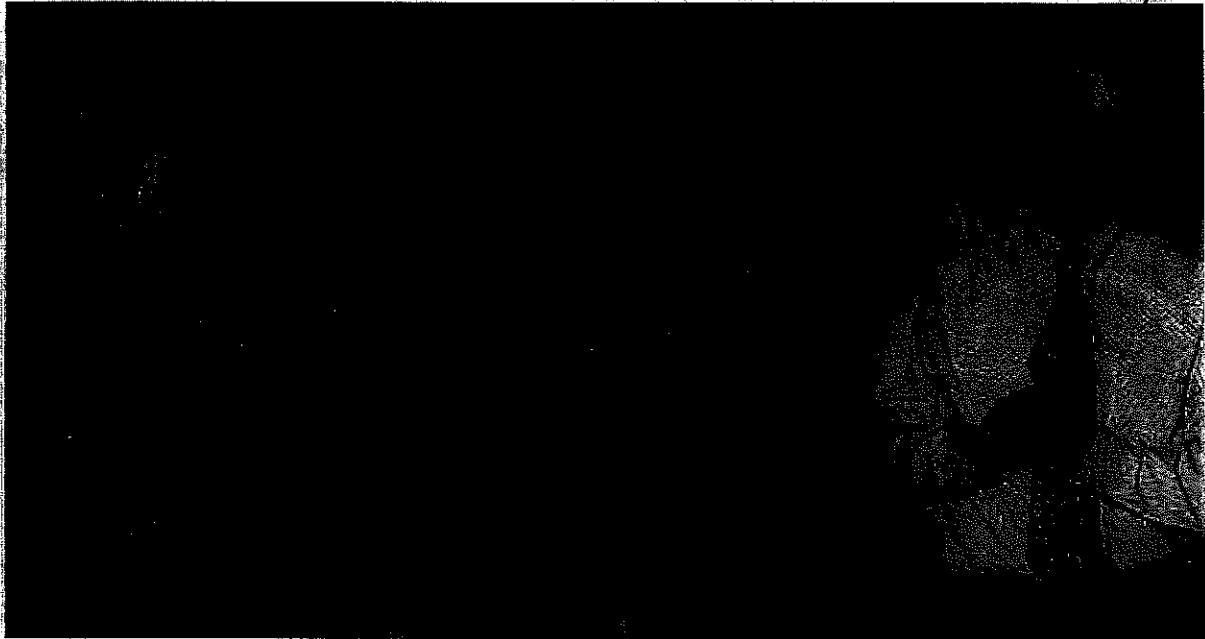
I joined the Chamber four years into South Africa's new democracy. The fledgling government was on the verge of changing certain legislation and introducing a number of policies in different sectors. It was, therefore, not a surprise when, in 1998, changes in mining and mineral policies were also proposed. The Chamber's decision to support government's white paper on mining rights ownership was a strategic one. The expectation was that the industry would resist change and object to the state being the custodian of the country's mineral resources. This expectation reflected the perceptions that the new government had of the mining industry. Supporting government on this ground-breaking issue indicated that the industry was committed and willing to change the profile of ownership in mining.

In the late 1990s, government, labour and business (represented by the Chamber) attended the Gold Crisis Summit at Mbulwa in Mpumalanga in an effort to resolve the adverse conditions in the gold sector. The gold price in 1998 had reached a 20-year low of US\$294.14, about 11% lower than the average of 1997. The threat of gold sales by central banks was a major contributor and cause of the persistent decline in the gold price. This,





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From left to right: Bobby Godsell, Zoli Diliza and Nick Segal

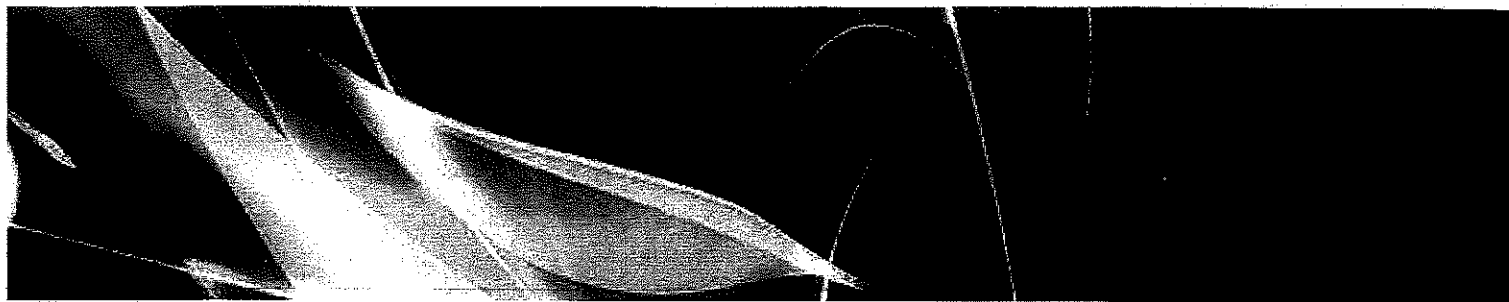
coupled with a number of upheavals in the financial markets put a strain on the gold mining industry and drastic steps had to be taken to keep the industry functioning. The conditions proposed at Mbulwa meant that the gold industry had to restructure and reorganise itself. While retrenchments, in relation to restructuring, meant that the industry had to deal with labour relations cases, the situation also presented an opportunity for companies to address work-place transformation.

The momentous Mbulwa meeting prompted the Chamber to propose 16 priority issues to stakeholders, most of which were accepted and later published as the *Mbulwa Minute*. Mbulwa was a defining moment for the Chamber, as it changed from being a service provider for the mining industry to an advocacy and lobbying agency dedicated to the promotion of the mining industry and management of its concerns.

This willingness of the Chamber to engage and

support government in its transformation agenda, led government to consult the Chamber on a number of important mining-related legislative issues. Some of the policies that the Chamber influenced included the Minerals Development Bill, on which the Chamber lobbied government on fundamental principles that were subsequently reflected in the Bill. From 1997 to 1998, the Chamber participated in Nedlac's Private Sector Export Advisory Committee in a successful attempt to influence export and trade policy. The Chamber also gave substantial input into the drafting of the Mineral and Petroleum Resources Development Act, the Precious Metals and Diamond General Amendment Bill and many other pieces of legislation; and was instrumental in shaping the broad-based economic charter.

The Chamber's influence was also felt internationally. For example, in 1999 during the gold price crisis that was a result of the



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announcements by the International Monetary Fund (IMF) and the British Treasury to dispose of some of their reserves, the Chamber successfully lobbied the Department of Finance not to support the IMF in this endeavour. The Chamber, together with the National Union of Mineworkers (NUM) marched to the British High Commission and the Swiss Embassy to persuade their governments to reverse their central bank decisions to dispose of their reserves. This was closely followed by an international road show by the tripartite partners to protest the proposed IMF sales and seek wider support for the suspension of future central bank sales.

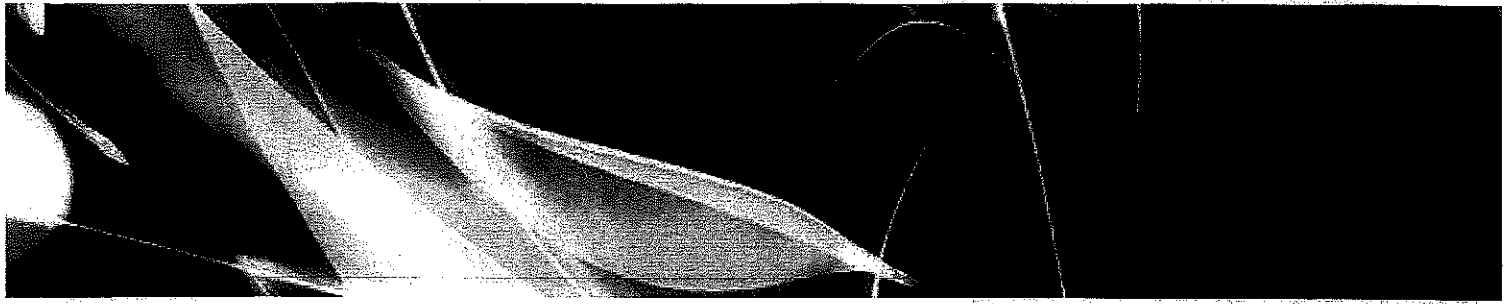
In 2004, the Chamber lobbied vigorously against the World Bank extractive industries review, which sought to curtail World Bank investment support for mining projects. In 2006, the Chamber embarked on an advocacy and lobbying campaign against the proposed European Parliament's legislation known as the Registration, Evaluation and Authorisation of Chemicals (REACH). While the Chamber endorsed the objectives of REACH (to protect human health and the environment), it expressed its concerns that the scope included ores and concentrates of inorganic minerals, which regulations would have been disastrous to the sub-Saharan region, that exports mainly to countries that are members of the European Union.

The well-being of mining industry employees has always been a priority for the Chamber. In 2003, in an effort to reduce fatalities on the mines, the Chamber committed to specific safety targets and 10-year milestones at the Mine Health and Safety Summit. The mining industry committed to a target

of zero fatalities and injuries, to occupational safety, and the elimination of occupational silicosis and noise induced hearing loss. There has been a significant improvement in the safety performance of the industry since the mid-1990s and today the number of fatalities has declined by more than 50%. However, the Chamber and its members are still not satisfied with the industry's safety record and have embarked on a proactive health and safety programme and launched several important initiatives. One of which, in 2008, was when chief executives of Chamber member companies came together to strategise, share best practices and learn from each other on the best ways to improve the working environments on mines. These executives committed their companies to a policy of zero harm in the mining industry and the view that safety must come before profit.

On the economic front, 2008 was a very difficult year for the world economy, global industry and, closer to home, the mining industry. It was during the period of the worst global recession since the 1930s that Eskom imposed a 'force majeure', effectively closing the mining industry for almost a week; mines were reduced to an immediate 50% electricity usage level. The Chamber was involved in the task teams established to find solutions to the electricity crisis and to promote electricity conservation and efficiency.

In 2008, in response to the economic crisis, the Chamber partnered with government and labour in establishing the Mining Industry Growth, Development and Employment Task Team (MIGDETT). The focus of the task team was initially on short-term survival strategies, while striving



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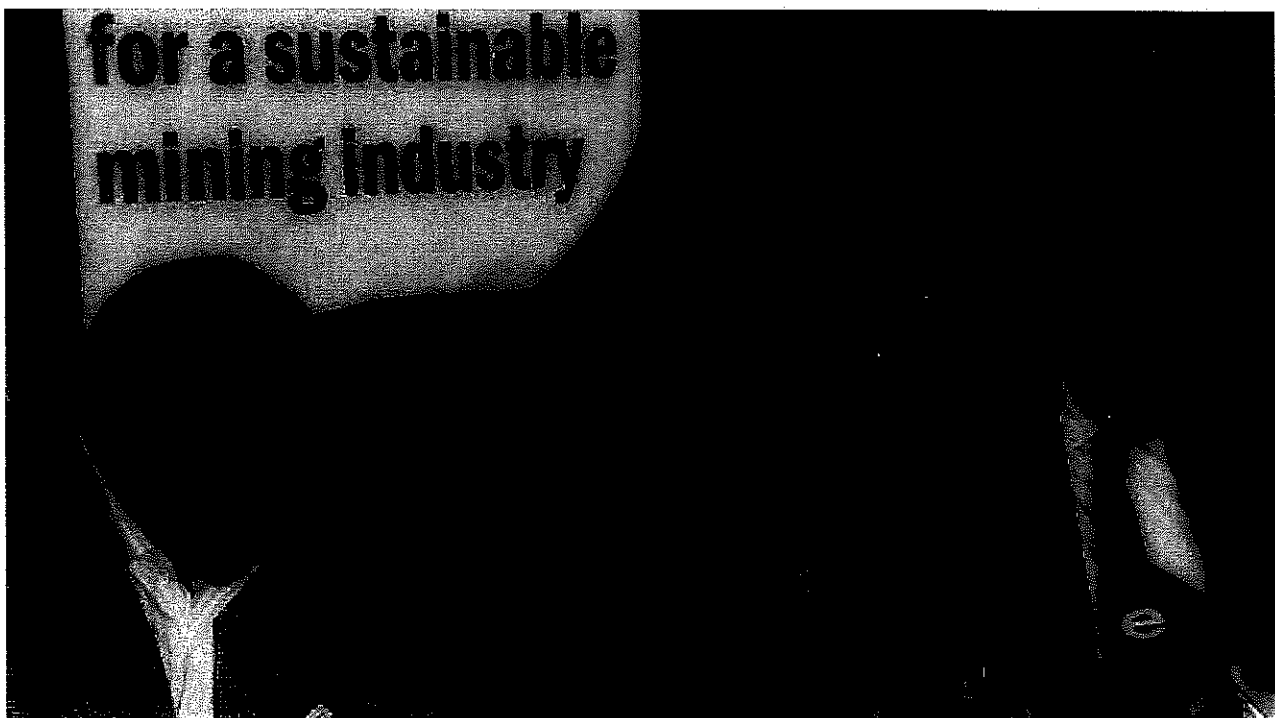
to develop a long-term strategy to reposition the mining industry as a valuable contributor to the country's growth and socio-economic development. MIGDETT also aimed to identify impediments to the growth of the sector since it was becoming clear to all stakeholders that the industry's reputation as a good investment sector was deteriorating. According to the *Strategy for Sustainable Growth and Meaningful Transformation of South Africa's Mining Industry* document compiled by MIGDETT for the summit, "a regression analysis over a period of 16 years to 2009 indicates that the aggregate performance of South Africa's mining industry has contracted by one per cent relative to a global average [growth] of five per cent".

MIGDETT participants agreed that higher levels of global competitiveness were needed in the sector

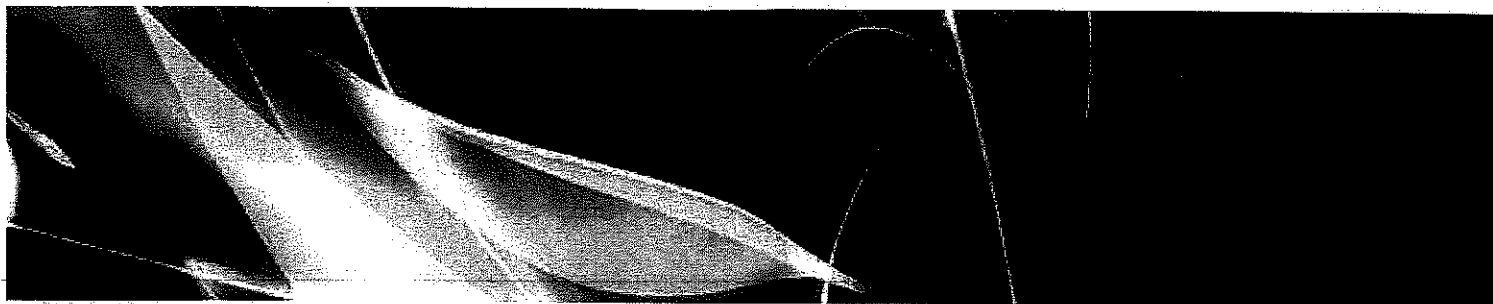
and the task team developed a mining industry strategy for sustainable growth and meaningful transformation. Existing hindrances were identified and the role players agreed that transformation and competitiveness issues were interdependent. The draft strategy was made public and further enhanced after the mining summit in March 2010.

The agreement reached at that summit culminated in the signing of a joint mining declaration by government, labour and business in June 2010. The joint declaration, over which the minister of mineral resources, Minister Susan Shabangu, presided, has the following 13 commitments:

- promote investment
- establish a long-term infrastructure planning mechanism
- innovate



From left to right: Senzeni Zokwana (NUM), Minister Susan Shabangu (DMR) and Sipho Nkosi (Chamber of Mines)



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- accelerate exploration
- add value through beneficiation
- promote the country's ranking as an investment destination
- develop skills
- advance employment equity
- boost near-mine communities
- convert hostels into family units by 2014
- develop enterprises through procurement
- realise 26% equity ownership by 2014
- monitor and evaluate the implementation of the joint declaration.

The significance of this declaration is that it is a joint government, labour and business initiative. All the stakeholders agree that growth and transformation are interdependent and the achievement of these two vital objectives will ensure that South Africa is well positioned for the next global commodities boom. This is the reason our theme for this year's annual report is: "Sustainable growth and development in mining".

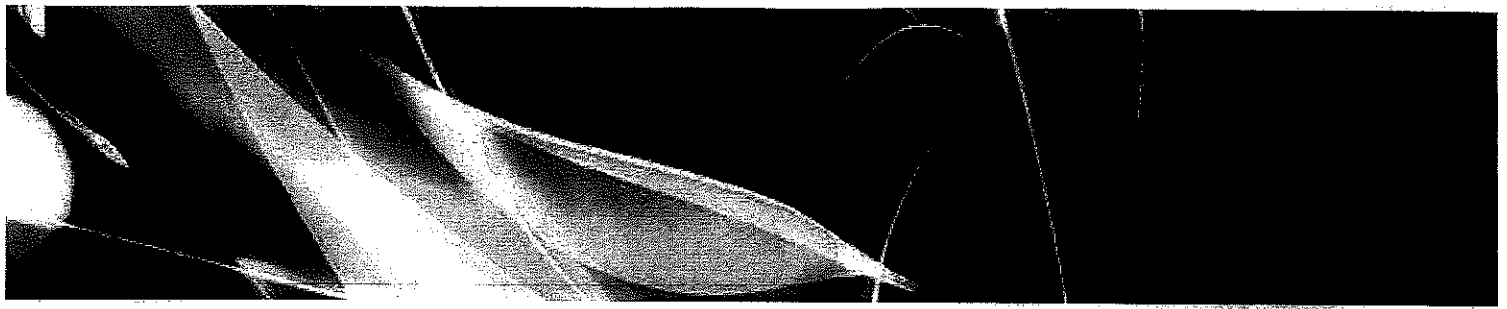
The commitments in the declaration were also contained and expanded upon in the revised Mining Charter, which was published on 20 September 2010. In the revised Charter, some of the targets were specified in more detail and new targets relating to the sustainability of the mining industry were added, and the scorecard was improved. Contrary to what some stakeholders have reportedly asserted, the Department of Mineral Resources (DMR) had in fact consulted with all stakeholders in the process of drafting the revised Charter. The Chamber is satisfied that the outcome is a reasonably balanced Charter. The views of no single stakeholder are fully accommodated, but

the Chamber and its members are fully committed to ensure that the revised Charter is implemented not only in the letter but also in the spirit.

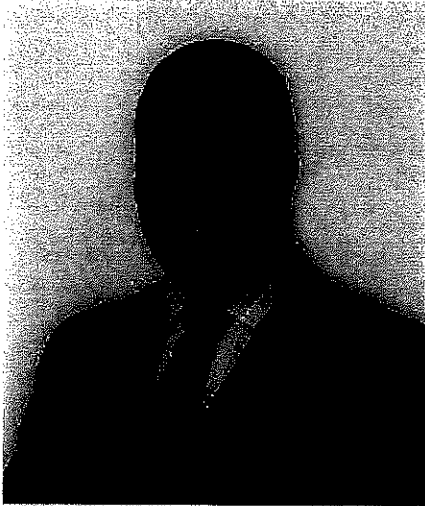
In 2009, the Chamber celebrated 120 years of service to the mining industry. At an event to mark this important milestone, the country's deputy president, the Honourable Kgalema Motlante, remarked that, "the success of the next 120 years of South Africa's mining industry can be greatly facilitated by creating an environment that enables the industry to perform optimally and perpetuate its established role as a creator of jobs and a generator of wealth".

The role of the Chamber in creating such an environment cannot be underestimated. In the publication, *120 years... and counting*, produced to commemorate the event, I indicated that the Chamber has succeeded because of its unequivocal commitment to 'promote, serve and protect' the mining industry in South Africa. It is this dedication, together with its ability to embrace change, that has made it possible for it to succeed where other such affiliations have failed.

There were many other issues of concern for the Chamber during the year under review. The call for the nationalisation of mines by the youth league of the African National Congress reverberated around the media and in debates for most of the year. Although the Chamber has a position on the issue, the organisation feels that it is premature to engage in this debate, since it was made quite clear by government, (Minister Susan Shabangu and President Jacob Zuma) that it is not an ANC or government policy.



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**Bheki Sibiya**  
Chief Executive Designate

Environmental matters, especially legacy issues continued to dominate media reports. The two most contentious issues during the year under review were derelict and ownerless mines and acid mine drainage. The Chamber joined the debate and made presentations to government portfolio committees on these issues. The Chamber emphasised the fact that most of the problems were legacy issues, and therefore government's responsibility. However, it must be stressed that mining companies and the industry in general are assisting in rehabilitating abandoned sites. The Chamber is also intimately involved in finding ways to manage acid mine drainage.

As I retire at the end of 2010, I am comfortable that, although there are still a number of unresolved challenges, the organisation I leave behind is equal to the task and has willing, capable and responsible officials and leadership to steer it forward. I now leave the Chamber in the most capable hands of Bhhekukhle "Bheki" Sibiya, who takes over as chief executive on 1 January 2011.

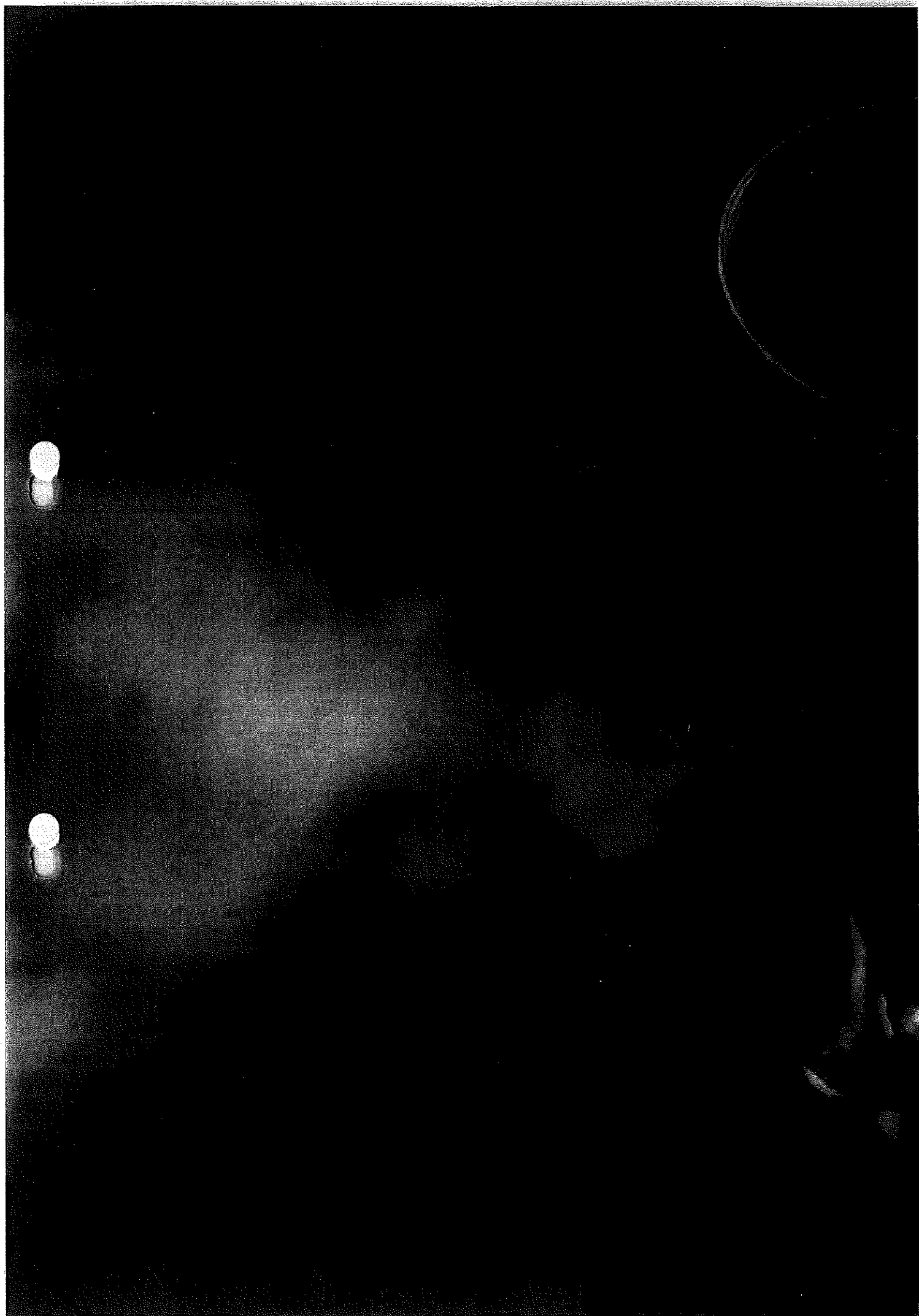
Mr Sibiya joined the Chamber in July 2010 as

chief executive designate and is working very closely with my team and me. I am confident that when he takes over in 2011, the transition will be seamless.

A highly respected member of the South African business community, he has considerable business experience and a well-developed management profile. The Chamber president, Sipho Nkosi, put it well in his media statement of 2 February 2010, which stated that: "he [Bheki Sibiya] will be of great value to the Chamber in all of its strategic and operational activities. I have no doubt that he will be most effective in adding value to the well-structured and successful foundations of Chamber business activity".

In conclusion, I am cognisant of the fact that my journey would not have been possible if it were not for the support and willingness of the Chamber and its stakeholders to work together for the benefit of the sector. I have grown in the industry and am humbled that I was given an opportunity to steer this organisation through the economic, political, legal, social and other trials that threatened its existence. I am deeply aware that I would not have managed this demanding challenge were it not for the Chamber's workforce, government and union leadership.

I can only advise the Chamber's new chief executive to listen to the voices of the Chamber staff, who serve the Chamber with dedication and distinction. The Chamber members will support you, as they did me. They are unequivocally dedicated to the success of the sector and the upliftment and increased prosperity of all the people of South Africa.



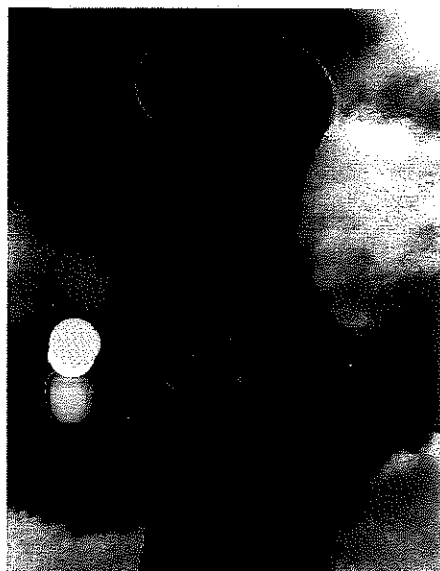
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# communications

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# communications

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In an effort to reposition the South African mining industry, the sector has developed strategies to address identified shortcomings, signed a joint mining declaration with 13 commitments, and reviewed and amended the Mining Charter. The recent policy changes have created

a great deal of expectation both nationally and internationally. In such circumstances, where strategic developments occur, communication is essential. Communications with stakeholders on such major developments and changes provides much needed information and helps to manage uncertainty and perceptions.

Understanding that clear, consistent and honest communication is vital to the successful implementation of strategies and policies, the Chamber's Communications Department has, in partnership with the Department of Mineral Resources (DMR), begun work on an industry-wide communication strategy. A communication strategy framework has already been developed and the task team is now working on an extensive communications, marketing and stakeholder engagement strategy.

Key to the success of this strategy is awareness that strategic and continuous communication will lend credibility to the industry's endeavours to strategically reposition itself. However, it should also

be noted that disparity or lack of communication and poorly communicated or packaged information could lead to distrust, dissatisfaction, skepticism, cynicism and even resistance.

## Media engagement

The Chamber procured the services of Media Tenor to conduct a media analysis on the Chamber's media coverage in an effort to establish whether or not there was an improvement in its engagement with the media during the year under review. The findings of the analysis and the comparison between the previous year and the current year indicate that the media's perception of the Chamber in the previous year fluctuated as the industry battled challenges such as power rationing, labour issues and political debates. However during the year under review, the media's perception of the Chamber was that it managed to navigate some of these as well as a host of other issues much more consistently.

The report further indicated that the Chamber's share of coverage improved by 35% during the reporting period, but showed there is a noticeable dearth of stakeholder support within the media. The analysis also revealed that the tone of journalistic input on the mining industry is greatly influenced by context, resulting in often 'sensational' coverage. However, one observable trend is that journalists displayed increased optimism when reporting on the measures mining's tripartite partners (government, labour and business) have taken during this period to lessen the impact of the economic recession and the strategic engagements undertaken by the sector.





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During the year under review the Chamber intensified its media engagement strategy in both print and electronic media. Media coverage was mainly on environmental issues; processes around MIGDETT; safety in mining; the 120 year anniversary of the Chamber; the imminent retirement of the chief executive, Zoli Diliza and the appointment of the chief executive designate, Bheki Sibiyi. Besides the mainstream media, publications with a longer shelf life were also targeted. Coverage was received in publications like *Deep SA* where the focus was on health and safety, transformation in mining, *African Analyst Quarterly* and *Upper Reach*.

## **Publications**

The Chamber continues to publish a range of books, reports and newsletters, which contain information related to its lobbying and advocacy role. Some of the publications are regular and some ad hoc and are used to inform and interact with the Chamber's different audiences:

### ***Mining: the Chamber's flagship publication***

After numerous requests from its stakeholders, the Chamber revived its flagship publication, *Mining*. This high quality, informative publication represents the best thinking on mining related issues and promotes greater global awareness of all facets of mining in South Africa. It covers a range of mining-related issues and impartially analyses on the state of the industry in South Africa.

The publication continues to be produced quarterly and targets a selected local and

international investment audience comprising analysts, financiers, and policy and decision-makers in government and elsewhere.

### ***Mining News***

The Chamber continues to recognise the information needs of the industry's workforce. This important Chamber stakeholder is kept informed of events taking place in the industry via *Mining News*, a widely distributed and interactive monthly newspaper.

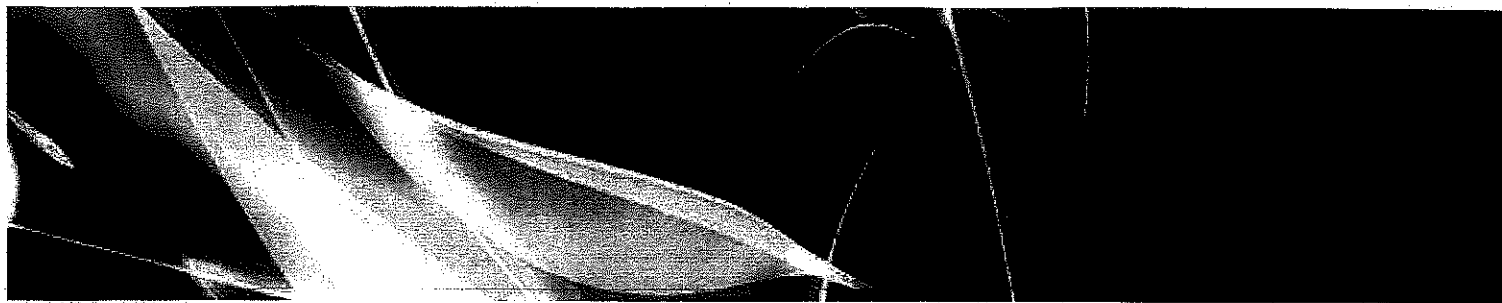
*Mining News* focuses on all levels of mine employees and their families. Miners are encouraged to contribute to the publication, since their perspective is vital to the success and future of the industry. The information contained in the newspaper empowers employees to become better informed and responsible partners in the economic prosperity of the mining sector in South Africa. The newspaper has also become a useful teaching tool in adult basic education and training (ABET) classes.

### ***Website***

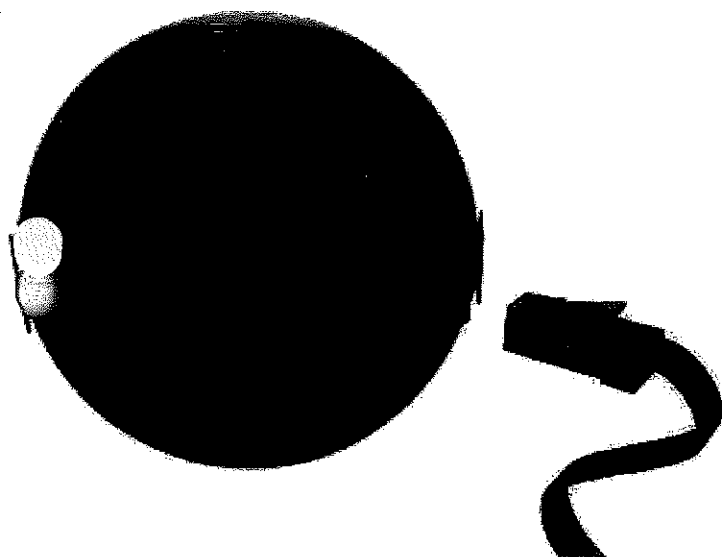
The Chamber website ([www.bullion.org.za](http://www.bullion.org.za) or [www.chamberofmines.org.za](http://www.chamberofmines.org.za)) is a highly informative, user-friendly communication tool. It also provides links to a host of important sources. The Chamber continues to extend the range of the website to provide up-to-date information for investors, market analysts, researchers and other interested parties. The information on the website is concise and well packaged; the pages are clearly differentiated and product focused.

### ***Facts & Figures***

*Facts & Figures* provides statistical mining sector



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data as well as supporting information, comments and analyses. This is an annual publication, which highlights data that can be used to support decision-making. It is an invaluable source of mining information and statistics on the mining industry in South Africa, bringing together general mining industry information and product-specific data from a host of sources, including Statistics South Africa, the Minerals Bureau, the South African Reserve Bank, the mining houses and government departments.

### ***Introduction to the Chamber***

This is an annual publication that gives an overview of the Chamber and how this organisation functions. It is a useful publication for new members in the Executive Council, Gold Producers and Colleries committees as it gives insight into the Chamber committees; benefits of chamber membership; current projects and programmes; challenges, etc.

### ***Ad hoc***

During the year under review, the Chamber produced a publication "*120 years... and counting*", to commemorate 120 years of service to the mining industry. The publication highlighted the history of the Chamber, the role this organisation played in the development of the country's economy, the challenges it faced during its 120 year history and it also looked at the future of the organisation.

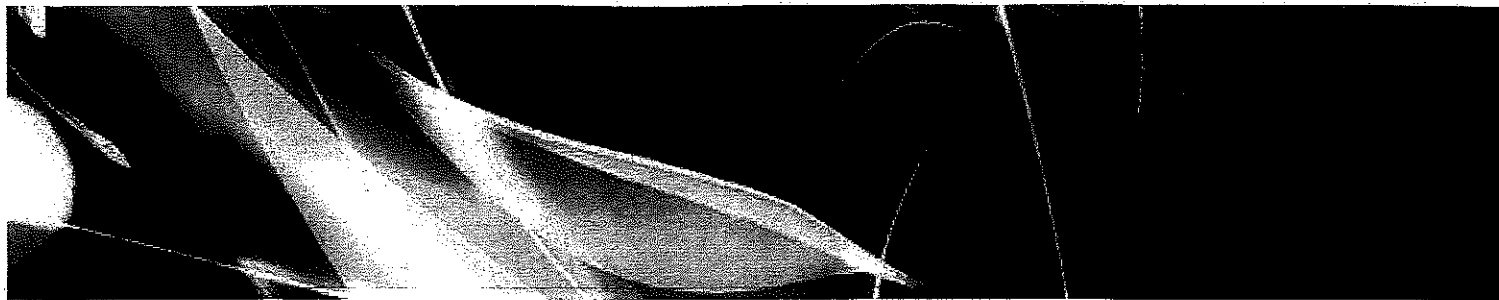
### ***Stakeholder engagement***

During the year under review, the Chamber celebrated its 120-year anniversary. Chamber stakeholders joined in the celebration and helped to ensure that the event that marked this milestone was a great success.

Some stakeholders, like the Johannesburg Museum, provided most of the material and props used for the exhibition. Government, labour and some Chamber members exhibited at the event while others provided sponsorships. Support was also received from the Presidency, as the deputy president, the Honourable Kgalema Motlanthe, graced the event as a guest speaker.

Some high-level meetings between the Chamber office bearers and the leadership of the DMR were organised by the Communications Department during the year. The discussions proved invaluable as they affirmed the critical role played by all stakeholders in the mining industry and the need for the alliance partners to continue working together.

Engagements with the Portfolio Committee of Mineral Resources and its chairperson, Fred Gono,



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continue. The Chamber was also invited by this committee to introduce presentations on various issues. Several meetings were arranged between the Chamber's chief executive and the chairperson of the Portfolio Committee.

### **International Relations**

In promoting the interests of the mining industry in South Africa, the Chamber participates in a number of forums that are active

in international debates and the development of policy positions on issues affecting the mining industry.

### **Mining Industry Association of Southern Africa**

MIASA, an association of the six Chambers of Mines (Botswana, Namibia, South Africa, Tanzania, Zambia and Zimbabwe) operating in the Southern Africa Development Community (SADC), to play a significant role in the mining sector. The Chamber continues to provide secretarial services to this organisation.

During the period under review representatives of the members of MIASA met twice, in Zanzibar on 7 August 2009 and in Cape Town on 6 February 2010. Major policy issues considered included the harmonisation of mining policies in the SADC, the nationalisation of mines, government involvement

in mining operations and the declaration of strategic minerals. It was agreed that a position paper should be prepared on strategic minerals.

Members also adopted a strategy for MIASA based on the following principles:

- MIASA is an independent organisation.
- MIASA represents the regional mining industry.
- MIASA will interact with any legitimate structure or organisation in Africa and elsewhere to advocate positions that will benefit the mining industry.
- MIASA will not compromise its independence by allowing itself to become subservient to any other regional or international structure.

An important aspect of the strategy was to maintain and strengthen the strategic alliance with the SADC.

### **Other**

While the Chamber's presence continued to be maintained in bodies such as the African Mining Partnership and the Nepad Business Foundation, the Chamber's international relations activities were more focused on associations such as the International Council on Mining and Metals (ICMM). The issues addressed in these forums were perceived to be more pertinent to the needs of the Chamber during the year under review.

Through its membership in the ICMM, the Chamber participated in and drew on international experience on issues of sustainable development, environmental management, health and safety, mine closure, and relationships between large-scale and small-scale mining.



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# economic overview

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The world economy experienced its first recession in over 60 years in early 2008 as global gross domestic product (GDP) contracted by 0.6% and global trade volumes plummeted by 10.9%. While the world economy began to recover in late 2009 and early 2010, the risk of further

financial market contagion spreading into the real economy continues to weigh on the impetus of the global recovery. Slow gains in advanced economies, which are weighed down by sluggish momentum and risks in the financial sector, the need to gradually withdraw fiscal stimulus, the modest improvement in consumer spending and high unemployment rates, means that growth in these regions is still performing below potential. However, developing countries, especially in East Asia, are providing a stimulus for growth and by 2014, based on a purchasing power parity basis, they will comprise over half of global GDP. The IMF expects developing countries to grow by 6.8% in 2010, with Asia growing by 9.2%. Overall, global economic improvement is expected to be higher than 4% in 2010, and represents a reasonable recovery from the global recession.

The mining industry was hard hit by the recession, especially in the first half of 2009 as concerns about stabilising the world economy and falling commodity prices impacted on the

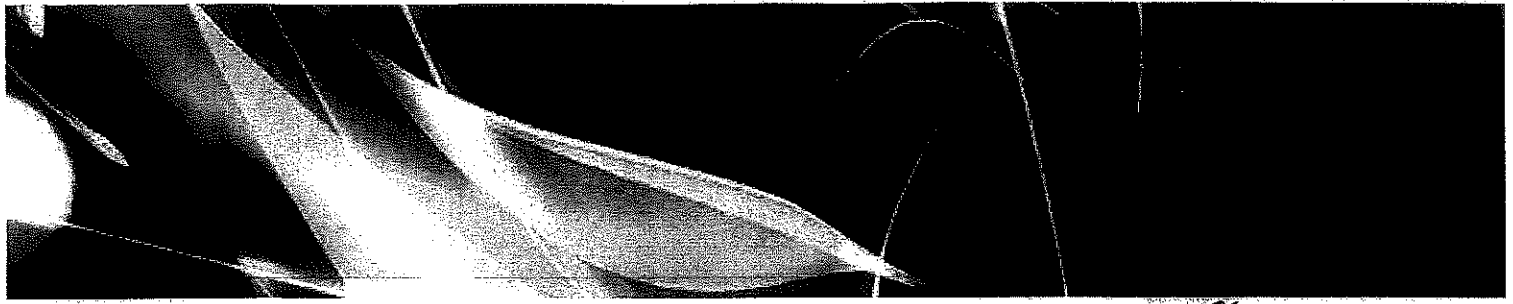
sector. However, the global mining industry responded quickly and mining companies cut back on uneconomic production and restructured their balance sheets. The gradual recovery of the global economy and strong growth in key countries like China, helped stabilise commodity markets. By mid-2009, mineral commodity prices had bottomed and begun to recover. By the end of 2009, the market capitalisation of the world's top 40 mining countries had improved to nearly pre-crisis levels.

The PricewaterhouseCoopers (PwC) publication *Mine* called its 2010 edition "*Back to the Boom*". It states that the global economy, driven by materials' growth in developing countries, would provide a collar or underlying support to commodity markets.

By 2025, the McKinsey Materials Institute projects that the Chinese economy will have a billion urbanised people, which in turn requires the construction of another 86 mega cities, each with a population greater than 10 million people.

Despite having the world's largest in situ mineral resource deposits by value (Citibank: US\$2.5-trillion), the South African mining sector has underperformed. In the 2001 to 2008 commodities boom, the world's top 20 mining countries achieved an average mining GDP growth rate of 5% a year, while South Africa's mining sector GDP shrank by 1% a year.

South Africa, with its large mineral resource base, established minerals clusters and world-class companies should be achieving much higher growth rates. The potential of the industry



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is recognised by government and industry, which led to the formation of the MIGDETT.

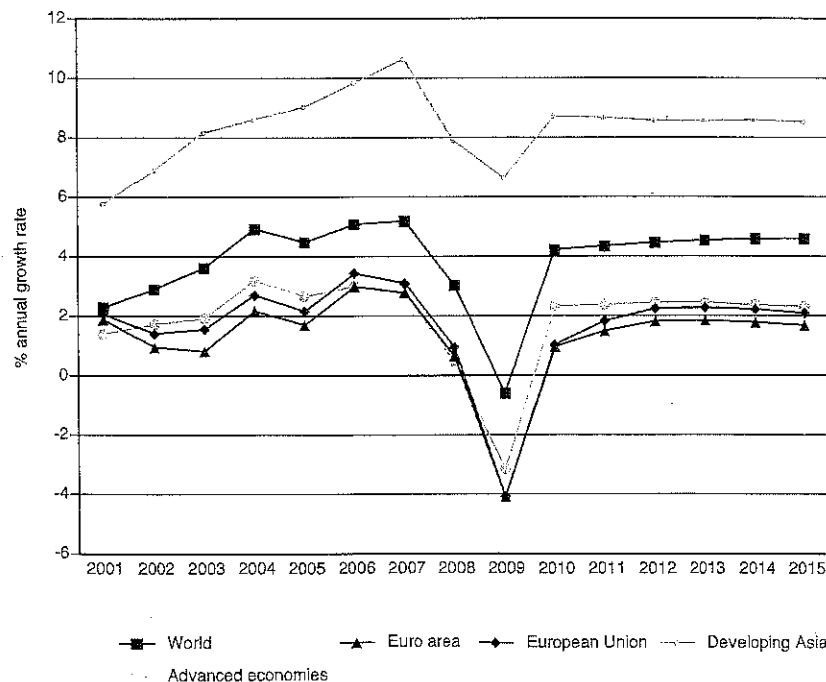
The MIGDETT task team recognised the importance of competitiveness and transformation and conducted detailed research into the factors inhibiting sustainable growth and meaningful transformation. This culminated in a stakeholder declaration signed at the end of June 2010, setting out a range of issues that must be undertaken to overcome growth and transformation constraints. The prognosis is promising, and MIGDETT has already achieved success by getting the mining sector back onto government's list of priorities.

## The global economy

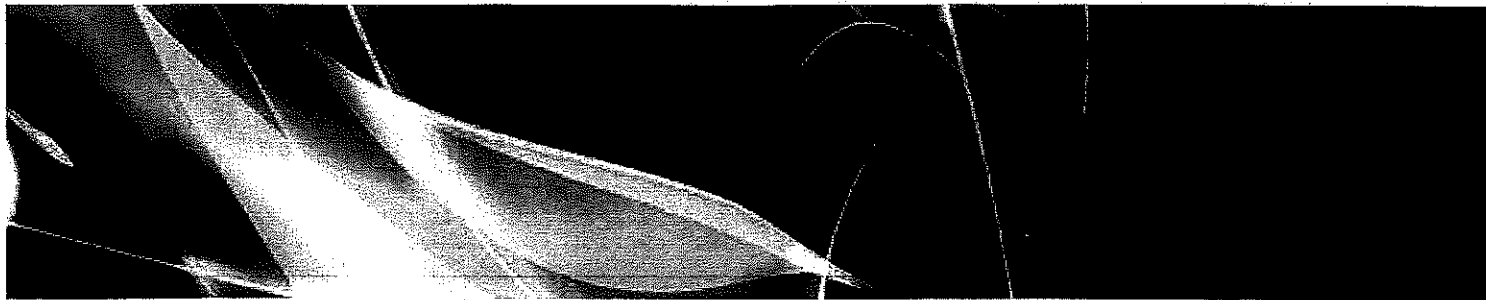
The world's economy weathered the global financial storm and in early 2010 moved out of recession and back to an above 4% growth rate.

Global trade and industrial production climbed to higher levels, consumer confidence continued to improve in early 2010 and economic developments confirmed the expected gradual recovery from the worst of the recession. However, confidence in the recovery fell in mid-2010 as the unfolding Greek sovereign debt crisis sent further shockwaves through the world's financial system, especially in the Euro region. The relatively weak initial policy response in Europe further fuelled concern over the strength of the recovery, resulting in a scaling back in the risk appetite of investors and sell offs in various equity markets. The implementation of the Euro Stabilisation Mechanism and the policies aimed at restoring confidence in the banking sector, should result in financial conditions improving in the Euro zone, which in turn will diminish the risks of further financial market contagion. Overall, the

**IMF outlook for world economic growth for key regions**  
(source: IMF WEO April 2010 and July 2010)



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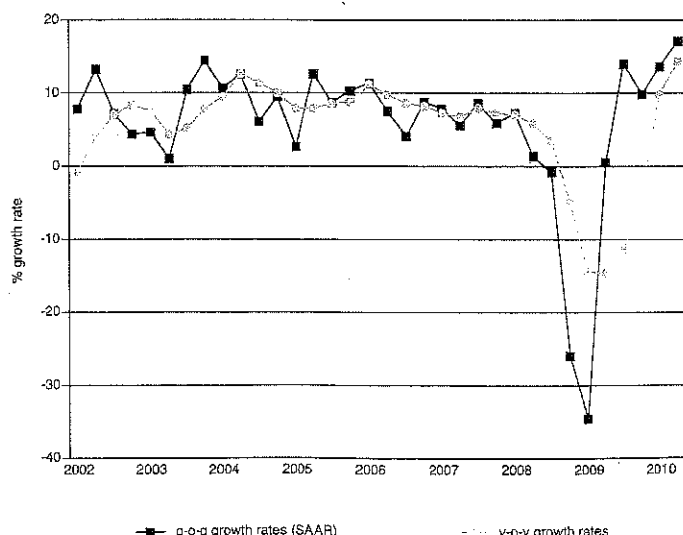
developing countries, driven by China and India, will achieve high growth rates over the next two years while advanced economies recover, but with growth rates less than half that of developing countries.

In the first quarter of 2010, global growth on an annualised basis reached 5% and this forced many economists to upgrade growth prospects for 2010. The IMF World Economic Outlook (WEO) upgraded its growth forecast for 2010 from 4% to 4.5% in the July 2010 WEO update. The global recovery is becoming more entrenched and the pace of the recovery into 2011 will depend on credible consolidation of fiscal support measures and the gradual restoration of consumer and business confidence.

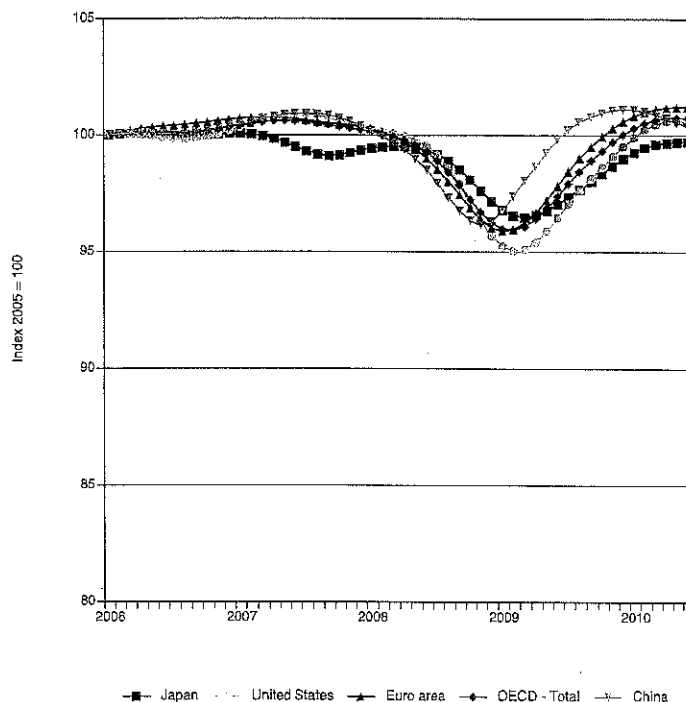
At the global level there are a number of indicators that show the pace of the recovery:

- The volume of global trade was 9.8% in the first quarter of 2010 and 14.3% in the second

#### Growth rate in world trade in goods and services (volume), both y-o-y and q-o-q (source: SAAR)



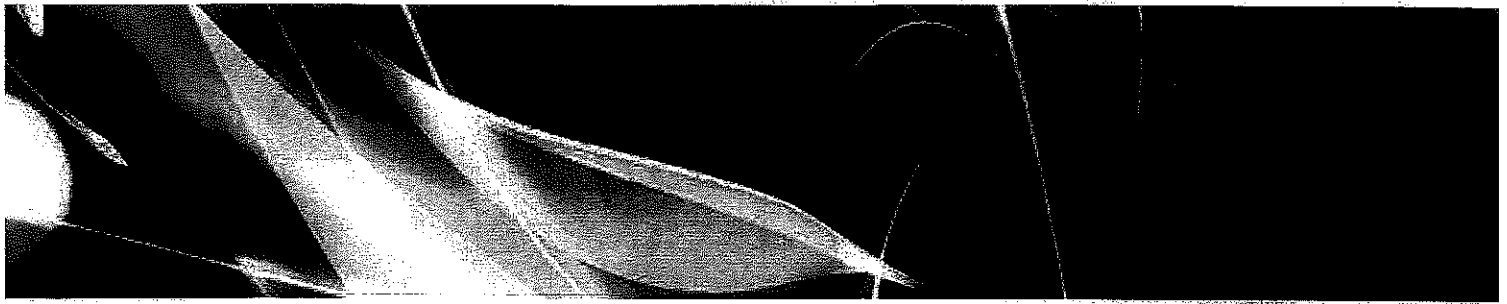
#### Composite leading indicator for key economies (source: OECD)



quarter. The World Trade Organisation suggests that global trade could grow by 13.5% in 2010, the fastest ever expansion in global trade since records were first kept in the 1950s.

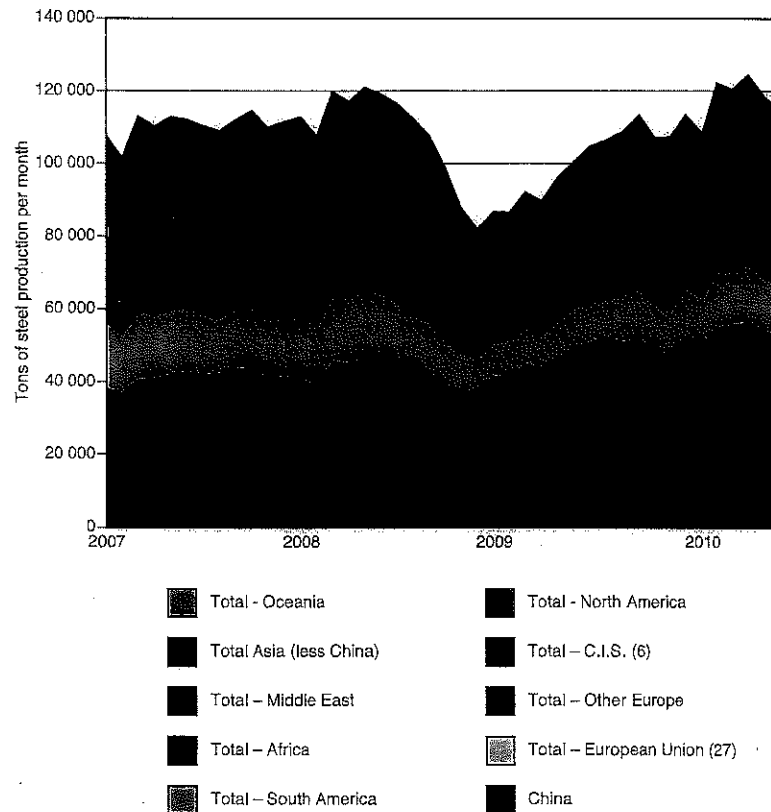
- The composite leading indicators of all advanced economies and China improved markedly. Composite leading indicators provide indicators of turning points in an economy in relation to that country's potential economic growth rate (and so touch on output gaps), which assist in providing an indication of prospects for future economic growth.
- The global manufacturing purchasing managers index (PMI) reached 50 in July





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### Global steel production has recovered to pre-crisis levels (source: IISI)



2009, the so-called neutral point for the first time since May 2008. The speed of the recovery in the PMI, combined with its sustainability above pre-crisis levels, is a sign that recovery in the global manufacturing sector is taking hold. While the global manufacturing PMI appears to have come off its recent early 2010 highs, it remains in strong positive territory.

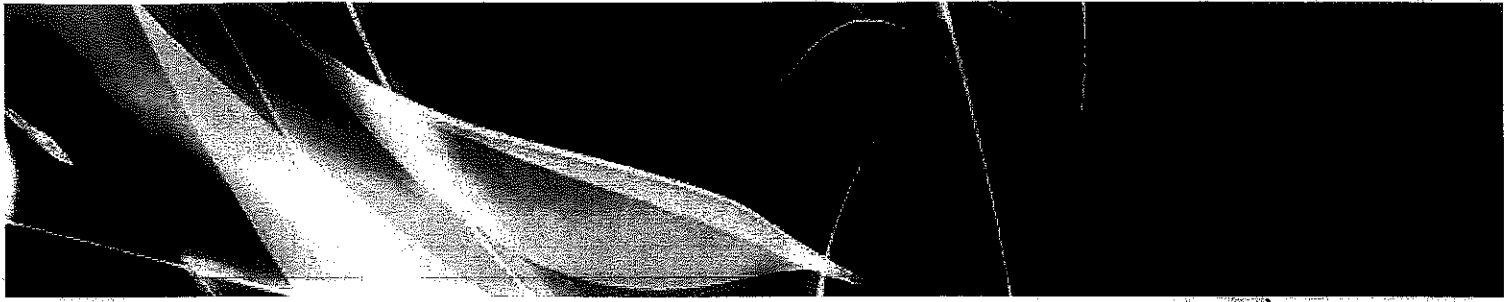
- Global steel production recovered to above pre-crisis levels, despite continuing weak recovery in key production areas like Europe. The pressure of the global economic crisis on steel production was mostly felt in the advanced economies in late 2008,

although China's production also slowed. However, annualised global production of steel in 2010 (based on the first six months) at 1.4 billion tons, is the same as the peak production recorded in 2008. China is currently producing 45% of global steel, driven by its own substantial industrialisation and urbanisation requirements.

- Most metal and commodity prices recovered to pre-crisis levels, despite some inventory overhang.

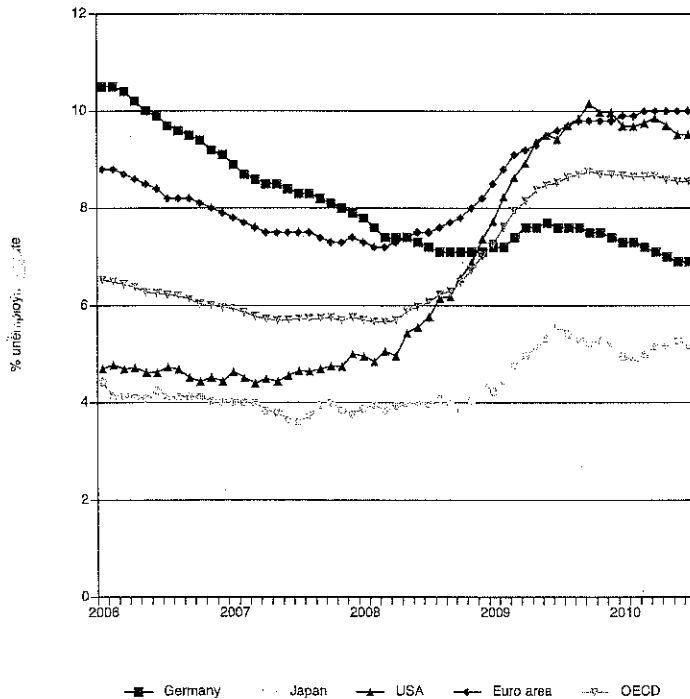
There are risks that could temper the global recovery, for example:

- Financial contagion of the sovereign debt crisis in certain European countries slowed



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## Unemployment rates in the industrialised countries (source: OECD)



Euro zone recovery and weakened Europe's growth prospects. However, the weakening of the Euro exchange rate coupled with the European Stabilisation Package, should cushion the impact, boost exports and help compensate for the impact of the sovereign debt.

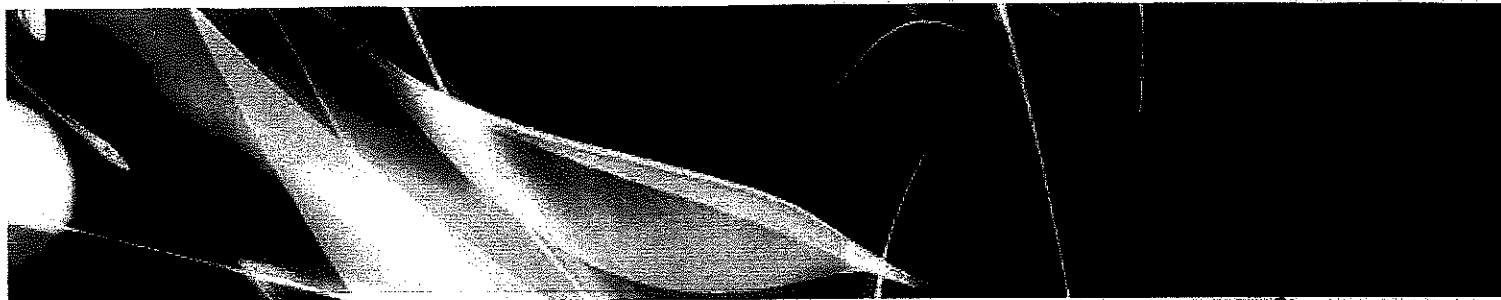
- Unemployment rates in advanced economies remain high, which could continue to dampen consumer confidence and affect the pace of recovery.
- There is also concern that the fiscal stimulus and support provided by the advanced economies to their financial sectors to avoid a prolonged recession, may negatively affect the advanced economies through

continued high fiscal deficits and rising debt levels. A key risk factor to the global recovery is the pace of withdrawal of fiscal support measures by advanced economies in the face of continued weak consumer confidence.

## Impact of the global recovery on commodity prices

Demand and prices for most minerals experienced sharp declines in late 2008 and early 2009. Traditionally, commodity prices remain weak at the end of a recession as the impact of over investment in mine supply and weak demand caps commodity price movements. However, at the end of this recession, commodity prices rebounded relatively quickly in the second quarter of 2009, despite high inventory levels for many commodities. The change in sentiment, once the global economic crisis was over and the demand drivers in emerging economies were again in play, pushed up prices. By 2010, the prices of most minerals had returned to pre-recession levels and most composite commodity indexes were on the road to recovery. In July 2010, the recovery in commodity prices appeared to stutter, but by the beginning of August 2010 had resumed their upward trajectory.

There is a growing body of evidence that suggests that the global financial crisis temporarily paused the structurally driven commodity boom that had been in play from 2001 to 2008. According to the United Nations, an additional three billion people are expected to move to urban areas between 2010 and 2050. This has important implications for the demand for industrial and steel



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**Economists All Metals Index, US\$ terms, base indexed to October 2001 to August 2010**



making minerals such as iron ore, manganese, chrome, zinc, copper, aluminium and platinum group metals.

China dominates the demand for a wide range of commodities and this is likely to continue over the course of the next decade.

By 2014, developing economies, including fast growing China and India, will comprise over half of global GDP and more than 82% of the world's population.

Fixed investment rates in developing countries will remain high to accommodate new cities and associated infrastructure. The IMF expects that gross fixed capital formation rates in developing countries will remain above the 30% of GDP for the foreseeable future.

### **Impact of the economic crisis on the mining industry**

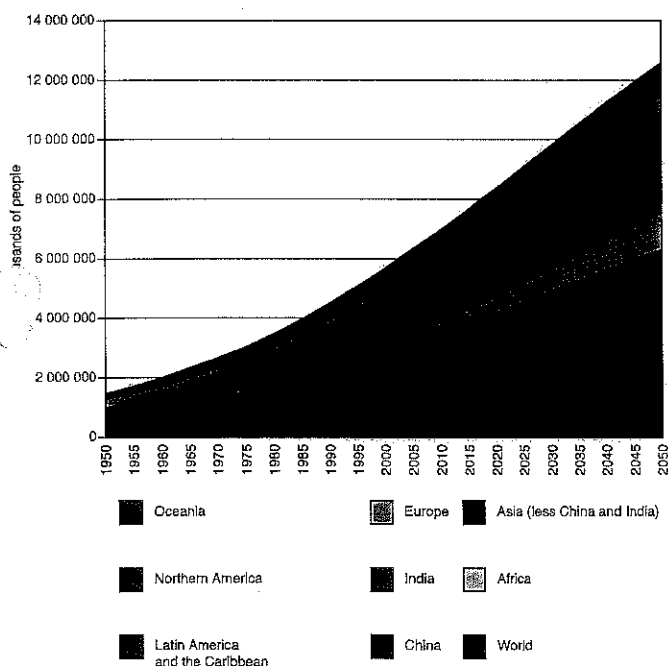
Investment and exploration in mining peaked at US\$116-billion in 2008. To sustain this investment, mining companies increased their exposure to debt gearing to an average of 32% in 2008 from a low of 12.5% in 2005. As a result of the recession and the retraction in demand and prices of minerals, mining companies began to cut costs. They reviewed their expenditure on capital investment and exploration, with the result that global mining investment and exploration declined to about half the 2008 peak in 2009.

According to the Metals Economics Group, global non-ferrous metals exploration budgets fell by 45% in 2009 to US\$7.3-billion, when



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**World's urbanised population, 1950 to 2050**  
(source: UN 2009 revision)



compared to US\$13.2-billion spent in 2008. Grassroots exploration was hit hard as established mining companies concentrated on core projects. Similarly, exploration by junior resource companies fell sharply. Cutbacks in exploration expenditure at the greenfields level may have implications for the number of new projects available to be developed in the next five to 10 years.

Not only did mining companies cut back on discretionary exploration expenditures, they also cut back on uneconomic production and set about restructuring their debt. By 2009, the gearing ratio for the top 40 mining companies had fallen to 17%, making the companies much more robust.

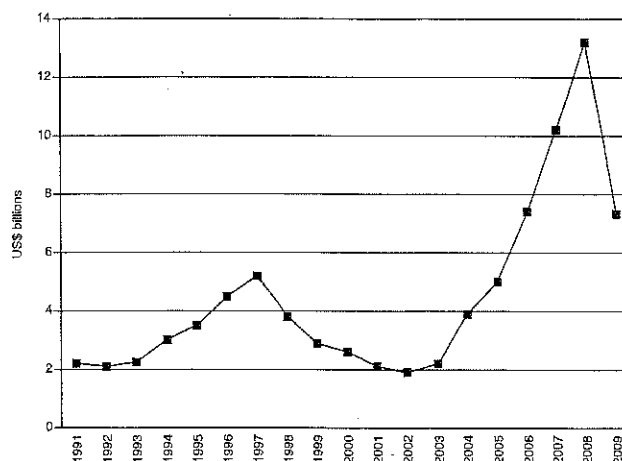
In its 2010 publication, PwC highlights the performance of the top 40 mining companies. 2009 was a tough year for them as revenues declined by 15%, profit was down 26% and cash

flow from operations declined by 27%. The market capitalisation of the mining companies has now returned to pre-crisis levels.

A key factor for the top 40 mining companies is that they managed to sustain capital investment on long-term, low-cost projects during the recession, which should assist their recovery. The level of capital investment for the top 10 minerals by the top 40 mining companies did not fall precipitously and US\$64-billion was spent on capital investment in 2009. The confidence of the large mining companies should feed through into growing production in 2010 and 2011. The minerals with good long-term prospects attracted the most investment, with iron ore getting US\$9.5-billion, gold US\$7.5-billion, copper US\$7-billion and coal US\$5.9-billion.

The introduction of an EBIT profit-based royalty in South Africa, which is a subset of the country's minerals policy reform process, illustrates the adoption of cutting-edge global practice, as opposed to a tax grab. This royalty provides a

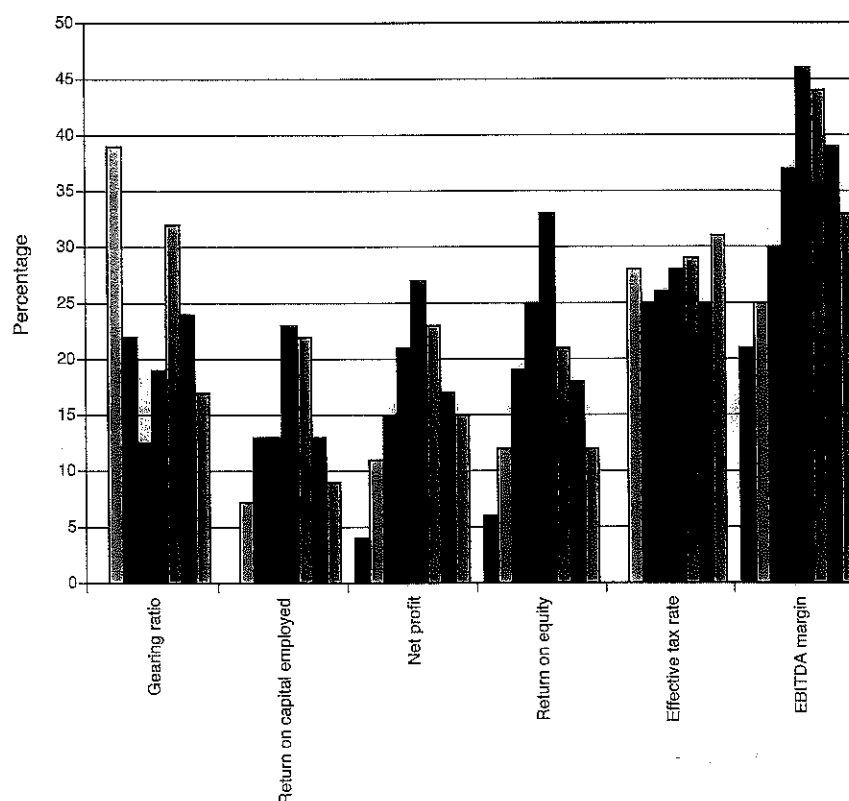
**Large-scale non-ferrous global exploration**  
(source: MEG)





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PwC survey of top 40 mining companies *Mine: back to the boom* key indicators, 2009



smooth mechanism for government to share in the upside and downside of mining. The royalty recognises and encourages capital investment and obviates or neutralises any proposal for a super profits tax.

### The recession and the South African mining industry

South Africa, with the world's fifth largest mining sector by GDP value, experienced a decline in commodity prices and demand in late 2008 and early 2009. This prompted companies to cut production to match lower global demand. The South African mining industry's total production index fell by 6.6% and mining GDP declined by 7.2%. Employment levels fell by over 20 000 people and the industry cut back on capital expenditure,

exploration and also restructured balance sheets.

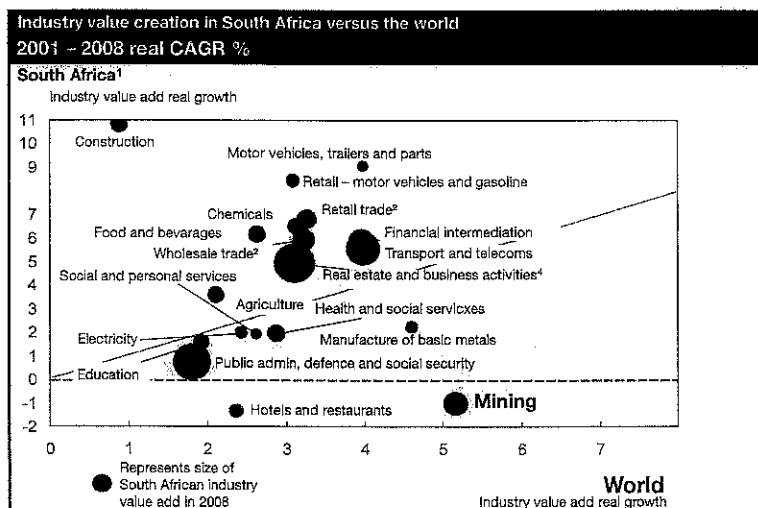
If one compares the performance of the country's mining sector to other sectors of the economy, the underperformance of the sector is noteworthy. For example, at the global level (on the x-axis in the chart on page 26) the average annual growth rate for construction value added was weak. However, the South African construction sector achieved growth rates of 11% (shown on the y-axis) in the 2002 to 2008 period, mostly because of an increase in domestic infrastructure in preparation for the 2010 Soccer World Cup. The top 20 global mining countries averaged 5% real growth rates, while South African mining shrank by nearly 1% a year during that period.

While it is correct to apportion some of the blame



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Relative to other South African industries and global trends, South African mining is lagging in terms of real growth (source: *Global Insight*, DMR and McKinsey & Company analysis)



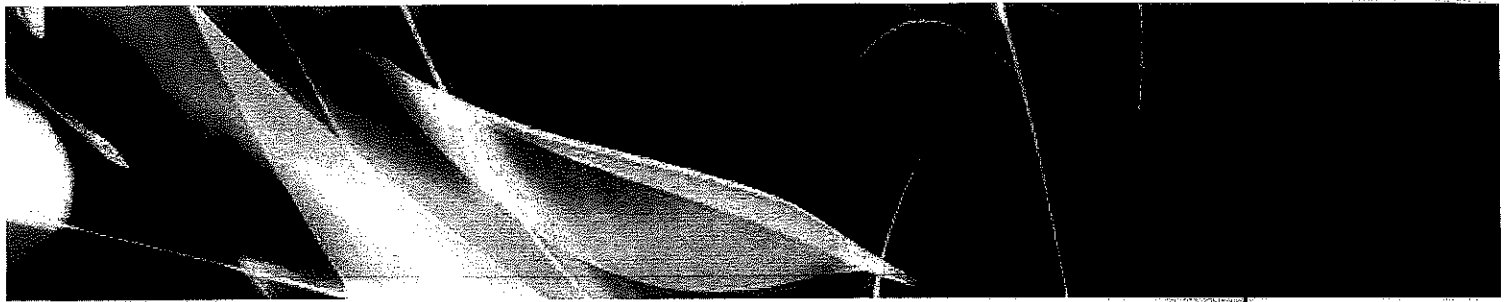
- Mining is one of South Africa's most important sectors
- Global mining grew by >5% p.a., but South African mining decreased by 1% (2001 – 2008)
- If South Africa's mining had grown at 5% from 2001 – 2008, direct value add would have increased by \$8-billion
- This growth could have created an additional >45 000 mining jobs<sup>3</sup>

for the country's poor mining sector performance on the decline in production of the mature gold mining sector, most of the rest of the minerals also performed poorly. In the two decades up to 2009, total South African mining production fell by 0.4% a year, mostly driven by the 5.3% annual decline in gold production and the 0.4% decline in diamond production. Platinum group metals

(pgms) production increased by 4.8%, iron ore by 3.3% and manganese by 2.3% in the same period. The rate of decline in gold production over the last decade increased to 7.7% a year and diamond production fell by 2% a year. Pgm production between 2000 and 2009 increased by 2.6% a year, coal production by only 1.2% a year and iron ore by 6.5% a year.

**Table: South African mineral production growth rates (source: StatsSA)**

	Total mining	Iron ore	Manganese	PGMs	Coal	Chrome	Diamonds	Gold
1990 – 1999	-0.4	0.1	-0.3	7.1	2.3	5.4	1.3	-2.9
2000 – 2009	-0.5	3.5	4.9	2.6	1.2	-0.1	-2.0	-7.7
1990 – 2009	0.5	3.2	2.3	4.8	1.8	2.6	-0.4	-5.3
2001 – 2009	-0.4	5.7	3.7	3.0	1.2	0.1	-3.1	-8.0



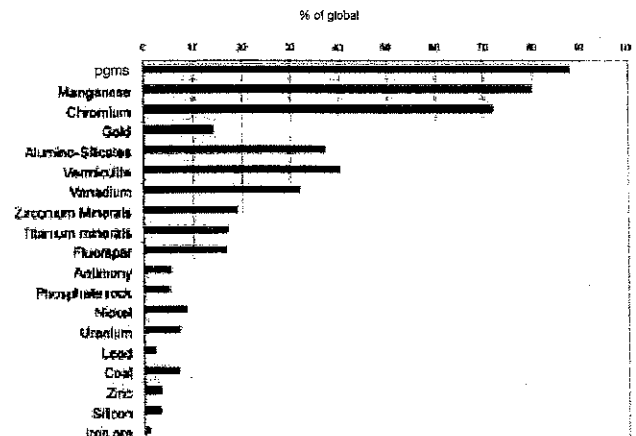
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The non-gold mining sector grew production by 1.8% a year between 1993 and 2009.

While certain detractors may have painted the South African mining sector as a mature declining industry with limited potential, the reality is somewhat different. In the 26 April 2010 report by CitiBank, *Metals and Mining Strategy*, the richest country in the world is defined as the country with the largest in situ value of mineral resources (excluding energy minerals), which, according to the report, is South Africa, with a current value of US\$2.5-trillion.

While this mineral wealth below the ground does not actually represent wealth unless it can be profitably mined in a safe and environmentally sustainable way, the report illustrates the huge potential of the minerals industry for the country. South Africa is the world's largest reserve holder of pgms, manganese, chrome, gold and alumina-silicates and is a major reserve holder of vermiculite, vanadium, zirconium minerals, titanium minerals, coal and iron ore. The country is not only

#### South African reserves for key minerals, 2008



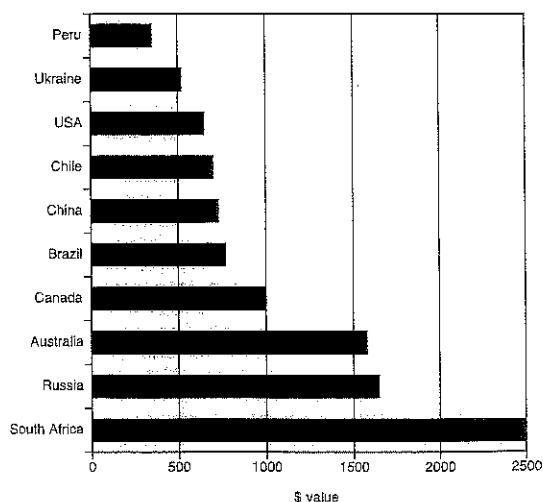
an important player in terms of global mineral reserves, but is also a major producer of minerals with the world's fifth largest mining industry by GDP value.

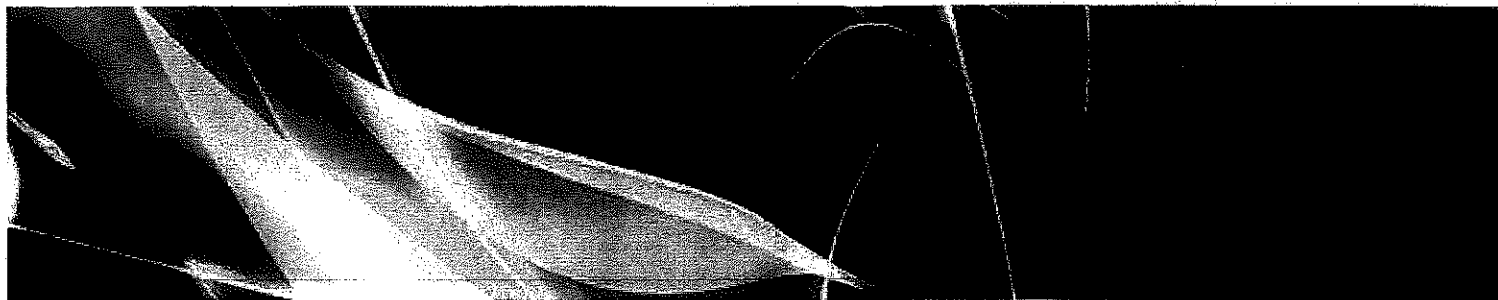
#### MIGDETT

The MIGDETT task team has two specific mandates: one is to manage the impact of the global economic crisis on the mining sector and to reduce the number of retrenchments, and the second is to help position the South African mining industry to take better advantage of the next commodity cycle.

In February 2010, the MIGDETT task team agreed that MIGDETT should develop a tripartite Strategy for the Sustainable Growth and Meaningful Transformation of the South African Mining Sector. Two work streams were established. The first would concentrate on the competitiveness and growth of the mining sector, while the second would focus on transformation in the sector and the Mining Charter review.

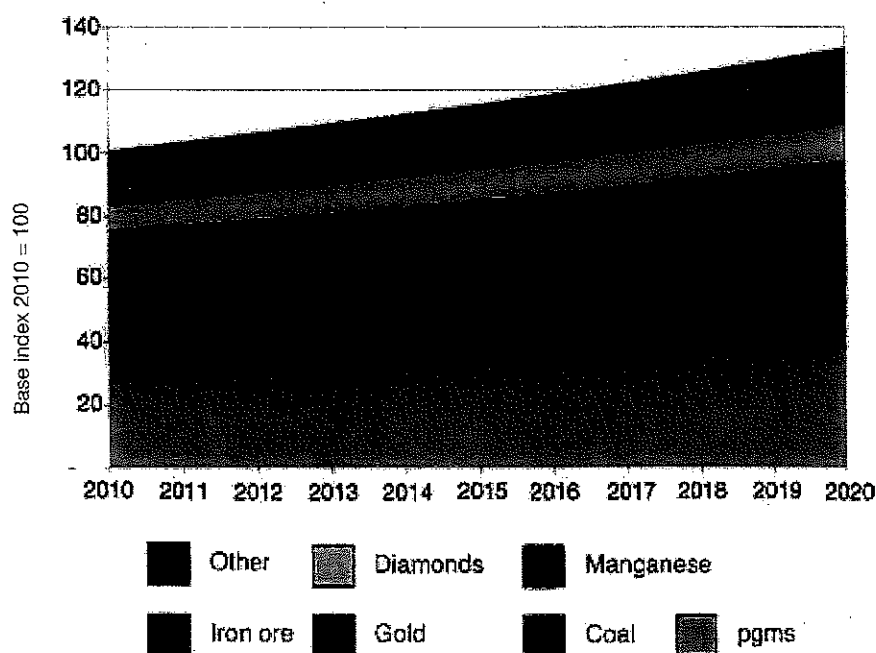
#### Citibank survey of the richest 'in situ' mineral resource holders in the world (excluding energy minerals) (source: COM/DMR/USGS)





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**Projected trends in the mineral weighted production profile of South Africa's mining sector, 2010 to 2020 (source: MIGDETT/Chamber of Mines)**



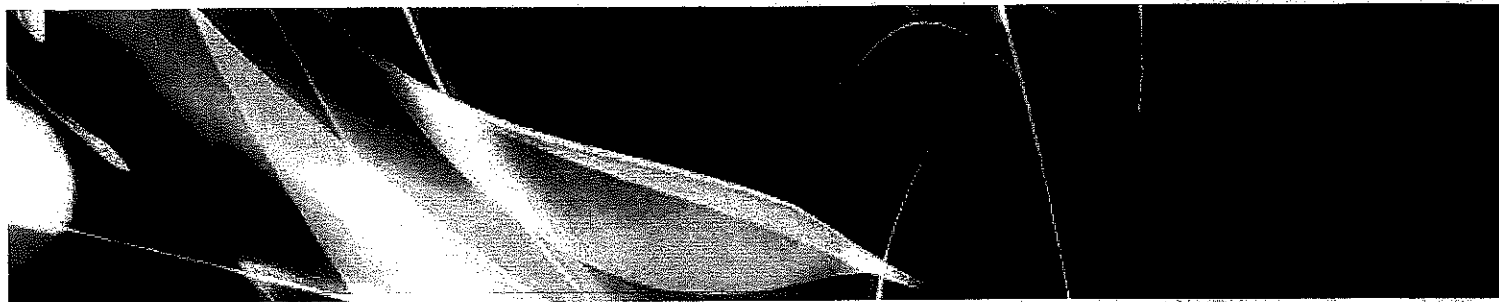
The tripartite stakeholders recognised that growth and transformation are mutually inclusive and reinforcing concepts and they have worked to shape a strategy for growth and transformation.

The MIGDETT Competitiveness Task Team developed a set of simulations on what would constitute a realistic growth potential of the South African mining industry in a scenario if the constraints hindering growth and competitiveness were lifted. For example, to satisfy domestic energy coal requirements for electricity generation, another 100 million tons of coal production would be required by 2020. This implies a growth rate in coal production of 3.5% a year for the next decade. The simulations and scenarios run for each mineral, when aggregated, provided a perspective for the

MIGDETT stakeholders on what sort of economic growth rate was achievable by the local mining sector between 2010 and 2020. The total mining sector can achieve an overall growth rate of about 3% a year from 2010 to 2020. If gold were excluded from the equation, the non-gold mining growth rate would average 3.9% a year over that period. About another 100 000 jobs could be created by 2020, based on the above estimate and using correlations of labour intensity in the production process with modest technology improvements. The graph above illustrates the likely weighted production growth of South Africa's minerals over the next decade, based on this conservative growth rate scenario.

The estimates for potential growth for the minerals

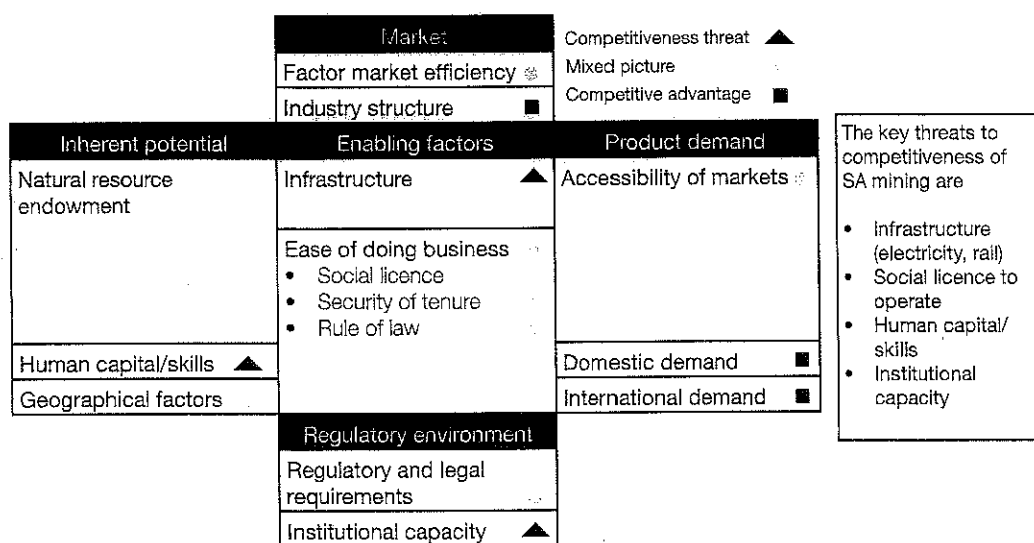




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**Lack of growth is as a result of a combination of drivers eroding the sector's competitiveness**

### Competitiveness drivers

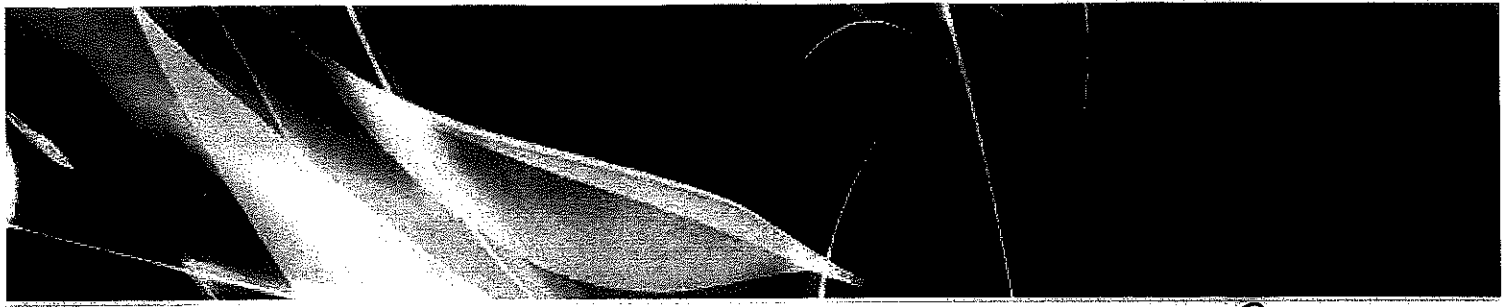


listed above are deliberately conservative, and a higher growth rate is possible. Running the same forward-looking scenario with gold production declining by 2% a year, platinum growing at 4%, coal by 4%, and diamonds at an average of 5.8%, then the overall mining sector's growth rate would be 3.5% a year. If gold is excluded the mining sector's growth rate could be 4.3% a year in the period from 2010 to 2020. This is a very respectable growth rate and would be a major fillip for exports, employment and local economic activity. According the McKinsey's Mining Competitiveness Benchmarking study done for the Chamber in November 2009, simulations and scenarios for the industry based on the most favourable outlook, another 200 000 jobs are possible by 2020.

The non-gold mining sector could more than offset the declines in gold production. The overall

sector could achieve a considerably higher annual growth rate in production. The critical issue is to create the enabling foundation for the industry to enhance its competitiveness and growth and to enable the mature components of the sector to extend their life cycles with all the associated economic benefits.

The task team also conducted an in-depth analysis of the factors affecting the competitiveness of the local mining sector. This included using a competitiveness framework traditionally used by Michael Porter, but adapted specifically for the mining sector. Twelve other mining countries were then used in a competitiveness benchmarking exercise. The results were mixed. The country showed significant mineral potential, well-developed capital markets, world-class financial services, a well-developed and capable mining



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sector, good support services, well-developed supplier markets and infrastructure, but struggled with problems in the regulatory framework, institutional capacity, infrastructure and human capital constraints, a volatile exchange rate and a perceived weak social licence to operate. Most of the factors holding back the sector are within the control of stakeholders.

In the post-problem identification exercise, the next critical issue was how to fix the constraints while building on the country's competitiveness strengths. The MIGDETT process then developed a declaration that was signed by the stakeholders on 30 June 2010 and contained the following 13 commitments:

1. Promoting growth and transformation (as mutually reinforcing and inclusive concepts).
2. Resolving infrastructure constraints
3. Promoting innovation, productivity and cost competitiveness (including promoting exploration)
4. Committing to sustainable development in mining (improving health and safety, environmental management, etc.)
5. Encouraging greater beneficiation
6. Improving the regulatory framework (including mining and environmental permitting)
7. Promoting human resource development
8. Promoting employment equity
9. Facilitating mine community development
10. Improving housing and living conditions for workers

11. Facilitating greater transformation through industry procurement

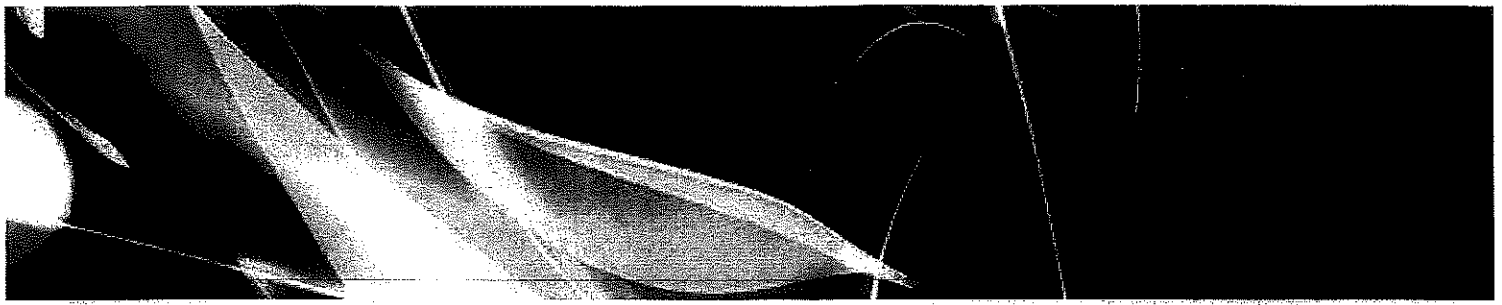
12. Achieving greater transformation in ownership in mining

13. Improving monitoring of both transformation and competitiveness.

There are industry representatives involved in many of the national debates on infrastructure. For example, industry representatives are involved in the National Stakeholder Advisory Council on Electricity, the National Electricity Response Team and in the expert group advising the Department of Energy on the Integrated Resource Plan 2. The challenge for mining is the lack of a comprehensive needs analysis and plan that could be used as a basis on which to engage the country's leadership.

The MIGDETT stakeholders agreed to establish a long-term Integrated Infrastructure Planning Mechanism to unpack the needs of the mining industry and serve as a conduit through which the industry's requirements could be properly communicated. The stakeholders are developing terms of reference for the establishment of the mechanism.

The stakeholders recognise that, despite the good intentions of the 2004 legislation, the outcomes of the mineral policy reform process and the implementation of the laws, improvements are necessary. Thus the DMR has begun a comprehensive review of the Mineral and Petroleum Resources Development Act, in an attempt to resolve any grey areas and reduce licensing times and create a more conducive framework for dealing with licensing issues, including environmental



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permits. Stakeholders are invited to provide input. A collaborative problem solving approach would help resolve the issues. Mining and prospecting companies have a role to play in improving applications and helping the process. The minister of the DMR, Ms Susan Shabangu, introduced a six-month moratorium on applications for new prospecting rights and the DMR is undertaking a comprehensive audit of prospecting rights to overcome recent problems in this area.

### **Contribution of mining to the South African economy**

The mining sector remains a pillar of the South African economy. In 2009, the sector contributed:

- About 19% of GDP (8.8% directly)
- Over 50% of merchandise exports (if secondary beneficiated mineral exports are added)
- About one million jobs (about 500 000 jobs indirectly)
- About 18% of gross investment (10% directly)
- Approximately 30% of capital inflows into the economy via the financial account of the balance of payments
- About a third of the market capitalisation of the JSE
- 93% of the country's electricity generating capacity
- About 30% of the country's liquid fuel supply
- The largest contributor by value to black economic empowerment (BEE) in the

economy (in terms of the value of BEE transactions completed)

- R10.5-billion of direct corporate tax receipts.

The mining sector provides the critical mass for the development of a number of industries that either supply the mining sector or use its products. This cluster of industries includes energy, financial services, water services, engineering services, and specialist seismic, geological and metallurgical services.

In 2009, the total income of the South African mining sector was R332-billion, down by 8.8% on 2008 (StatsSA). The industry's total expenditure, excluding dividends, taxes and capital expenditure, was R312-billion, implying a small gross surplus of R20-billion. However, if taxes, dividends and capital expenditure were included, the total expenditure of the mining industry was R399-billion in 2009, implying that a deficit of R67-billion was incurred.

Only a small portion of the expenditure in the form of capital equipment and dividends was acquired or paid for from offshore. A high percentage of the procurement of timber, steel, cement and explosives, for example, was sourced locally, while all the industry's electricity, rail, port and road transport and water were procured locally. In essence, a very high percentage of the industry's expenditure feeds through into the domestic economy.

### **Contribution to investment and GDP**

The rate of growth in real mining fixed investment



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dropped from 27.7% in 2007, 13.2% in 2008 to only 2.7% growth in 2009. In the first quarter of 2010, real fixed investment spending by mining was down 15.2% year-on-year, indicating that the industry has some way to go before real fixed investment spending recovers.

In 2009, mining GDP fell by 7.2% as the industry was hit by the recession and domestic constraints. In the past two years, mining GDP, in real terms, fell by 12.2% and the sector is effectively smaller in real GDP terms than it was in 1994. The MIGDETT process should help reverse this trend.

Mining production fell by 6.6% in 2009, following the 5.7% decline in 2008. Key reasons for the decline in 2009 include a production decrease of 52.6% in diamonds, 32.8% in manganese, 29.1% in chrome, 7.1% in gold and 1.6% in pgms. The only substantive production increased was iron ore, which grew by 12.9% to 55.3 million tons. Between 2006 and 2009, mining sector GDP shrank on average by 3.3% a year, against an overall South

African average economic growth rate of 3.2% in the same period.

In the first half of 2010, mining production staged a modest recovery of 3.8% year-on-year, as a recovery in diamond production and continued double digit growth in iron ore production were able to offset the decline in gold production and the decline in pgm production.

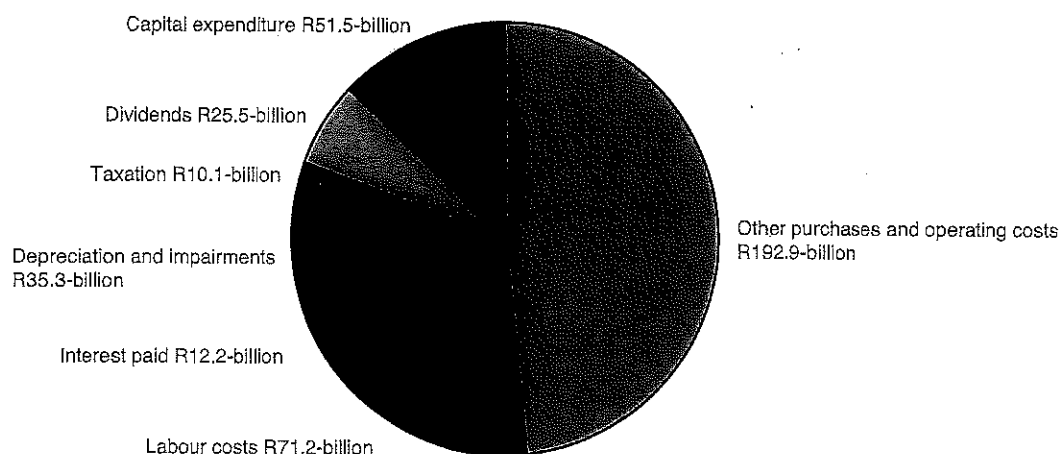
Mining accounted for 10% of total fixed investment in the economy and 16.9% of total private sector fixed investment. The sector continued to be a key component of the JSE.

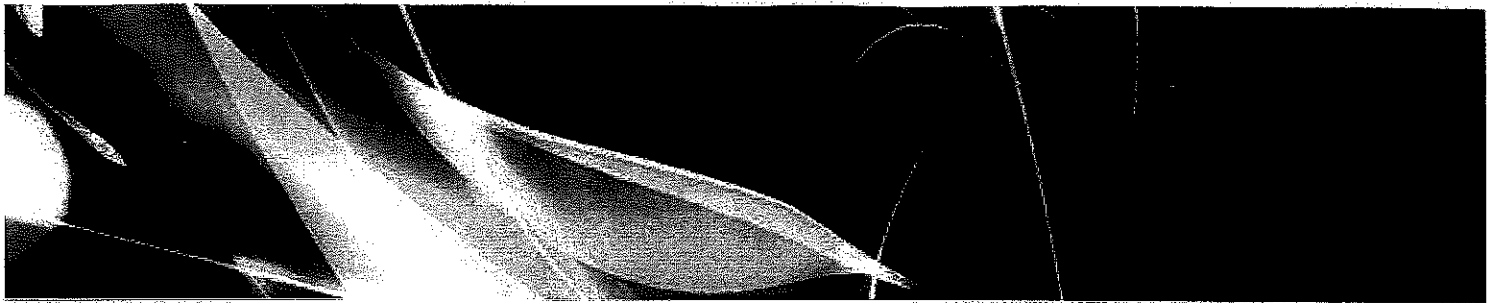
## South African mineral sales and exports

In 2009, the depreciation in the rand exchange rate to R8.44/dollar, was not enough to offset the decline in most commodity prices, which resulted in the value of local mineral sales falling by 19.6% to R241.3-billion.

The decline in mineral sales was driven by the

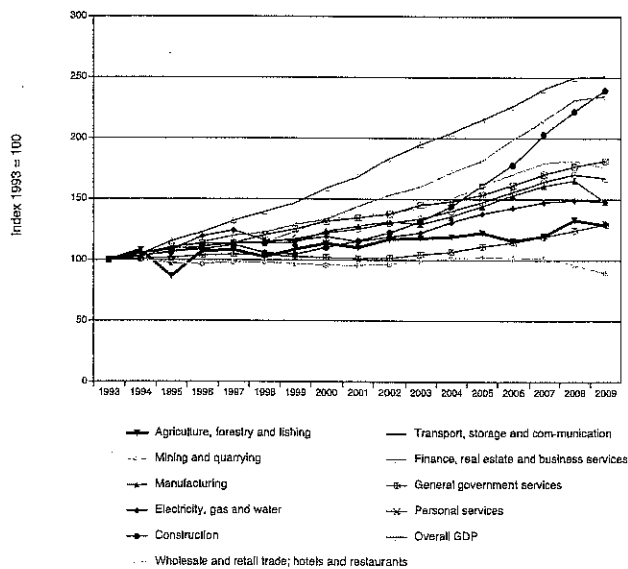
**Income and expenditure of the SA mining industry, 2009 (source: StatsSA)**  
**Total expenditures: R399-billion; total income: R332-billion**





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**South Africa: trends in real GDP (real 2005 rand terms) per sector, base indexed to 1993 (source: StatsSA)**



decline in sales of manganese (down 67.8%), pgms (down 36.7%) and coal (down 9.8%). Coal is the largest component of the South African mining industry by sales value, with total sales of R65.4-billion, followed by pgms at R58-billion and gold at R49-billion. These top three minerals accounted for 71.2% of South Africa's total mineral sales in 2009.

In the first half of 2010, total primary mineral sales were at an annualised R274-billion, an improvement of 13.7% on the 2009 figure of R241-billion. This was because of a modest recovery on overall mining production and the recovery in the prices of most minerals.

Total primary mineral exports sales fell by 19.7% to R176.4-billion in 2009. Primary mineral exports accounted for 31.7% of South Africa's total merchandise exports. The addition of secondary beneficiated minerals to primary exports, such as pgm catalytic converters, ferro-alloys, steel,

chemicals, plastics, raised the exports of the mineral complex to about R280-billion or about 50% of total merchandise exports.

## Employment and wages

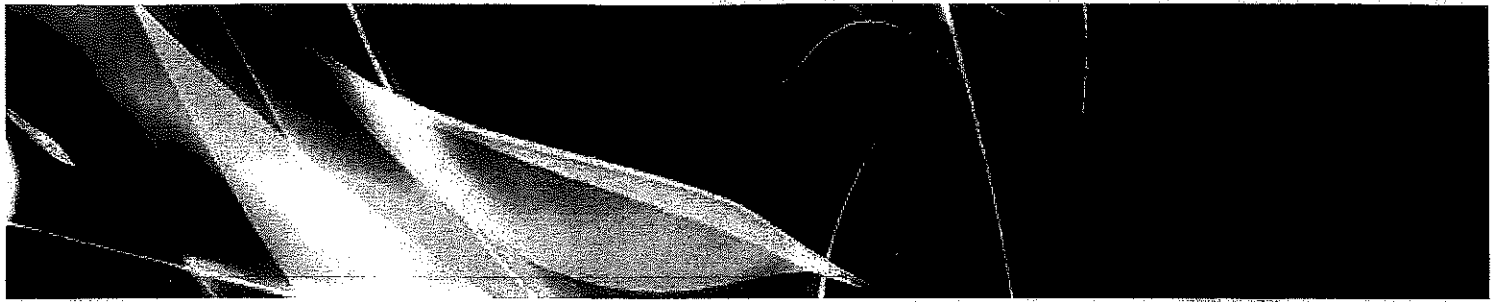
The local mining sector employed 491 922 people in 2009 compared to 518 519 in 2008, a decline of 5.1%. Mining accounted for 6% of total non-agricultural formal employment and 7.8% of total private sector non-agricultural employment. If the indirect and induced effects of mining are included, then another 500 000 jobs are believed to exist in addition to the direct mining jobs. In 2009, R71-billion was paid to workers in the form of salaries and wages. This contributed substantially to the economy and to the purchasing power of workers.

## Chrome

### Chromium production and reserves

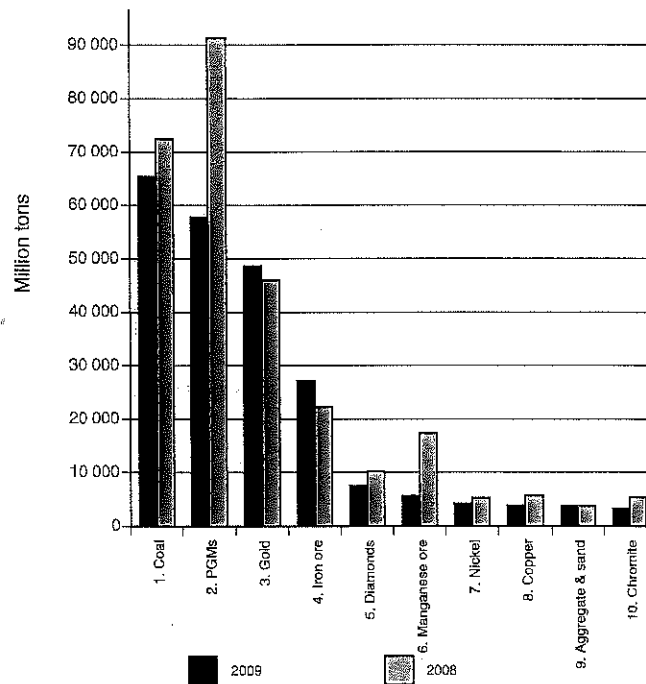
World chromite resources are estimated at more than 12 billion tons of export grade ore, which would be sufficient to meet demand for centuries. Almost 95% of the world's chromium resources are concentrated in southern Africa and Kazakhstan, with about 70% of world resources in South Africa. Kazakhstan has 51% of the world's total shipping grade reserves, followed by South Africa with 37%.

South African chrome ore is mined primarily in the UG2, LG and MG chromitite seams in the North West and Limpopo provinces. The UG2 seam also contains significant amounts of pgms, thus several platinum mines produce chrome ore as a



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### South African mineral sales for the top 10 minerals, 2008 and 2009 (source: DMR/StatsSA)



by-product. The primary chrome mines provide chrome ore feed-stock to the large ferrochrome industry. Most of South Africa's chrome mines are developed along the Eastern Bushveld Complex in the Steelpoort Valley in the Limpopo Province.

South Africa's production of chrome ore declined by 29.1% in 2009 to 6.9 million tons, from a 2008

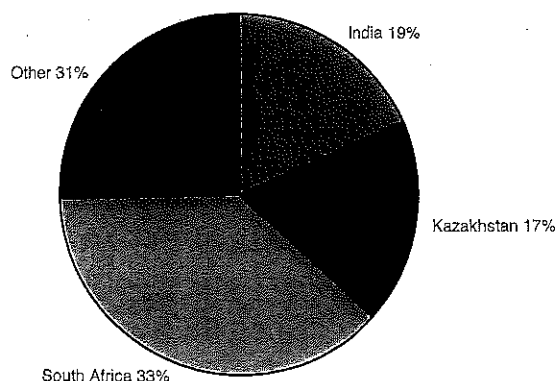
figure of 9.7 million tons. South Africa's total sales volume of chrome ore fell by 25.2% to 5.9 million tons valued at R3.3-billion. Local sales realised R2.1-billion, while export sales generated income of R1.2-billion.

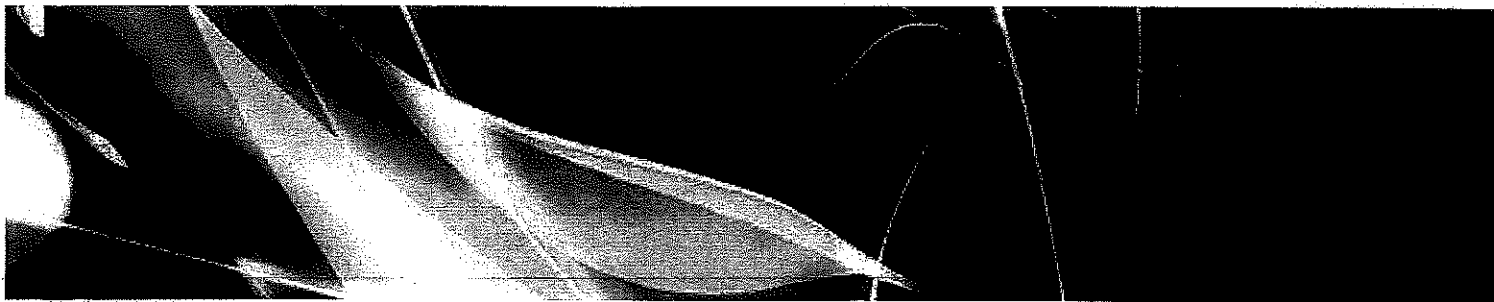
### Ferrochrome and stainless steel production

About 90% of chrome ore is used in the production of ferroalloys for stainless steel.

In 2009, global ferrochrome production declined by 17.5% to 6.2 million tons, with a large 32.7% decline in production by the world's largest producer, South Africa. The decline in production was attributable to the impact of the global economic crisis on prices and demand as producers cut back on production. South African producers placed furnaces on maintenance during the electricity crisis and economic recession, which

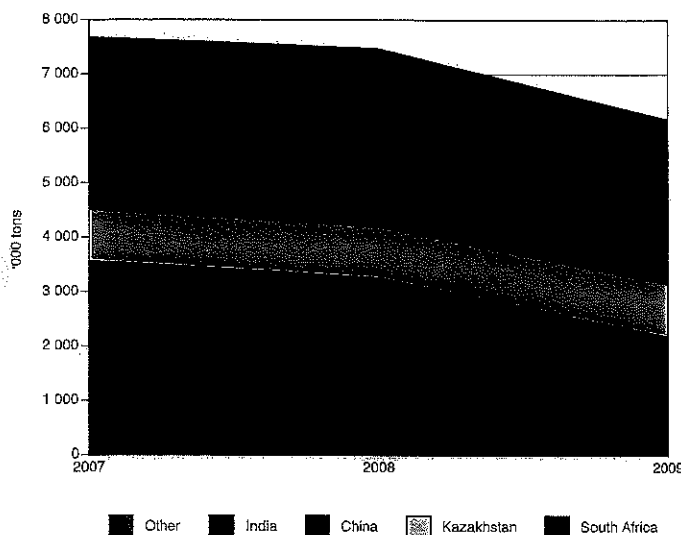
### World production of chrome ore, 2009 (source: USGS/DMR), total 20.7 million tons





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**Global ferrochrome production (kt), 2007 to 2009**  
(source: Pariser/Merafe Resources)



helped Eskom maintain the electricity grid.

Around 70% of world ferrochrome production capacity was suspended in the first quarter of 2009, with the Xstrata-Merafe joint venture operating at 20% of capacity and Samancor Chrome suspending all production. Despite the drop in production in other key producing centres, China's ferrochrome production increased by 17.6% to 1.5 million tons. This supplemented continued strong demand for ferrochrome in China for its growing stainless steel production.

The fall in global ferrochrome production is related to the decline in global stainless steel production, which fell by 1.7% to 26 million tons in 2009. However, the aggregate global statistic hides the major differences between China and the rest of the world. Based on China's continued high level of economic growth, stainless steel production in that country grew by 32.8% to 9.8 million tons in

2009, while stainless steel production in the rest of the world shrank by 15% to 16.2 million tons.

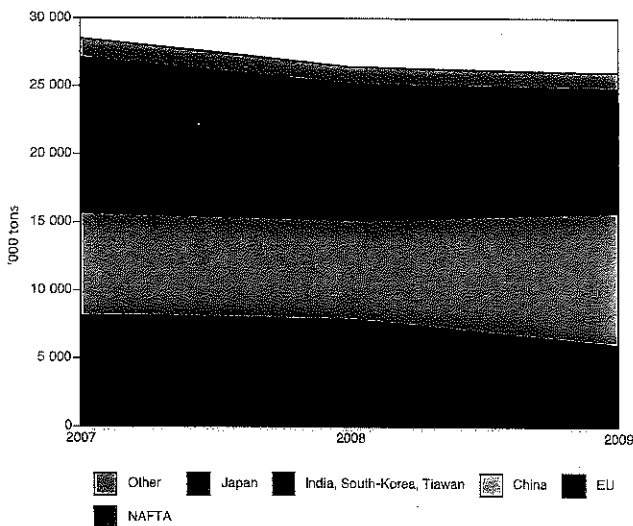
The global stainless steel industry consumed 7.3 million tons of ferrochrome in 2009, up by 7.7% on a year-on-year basis, although this can be attributed to continued stainless steel production growth in China, and higher Chinese ferrochrome production.

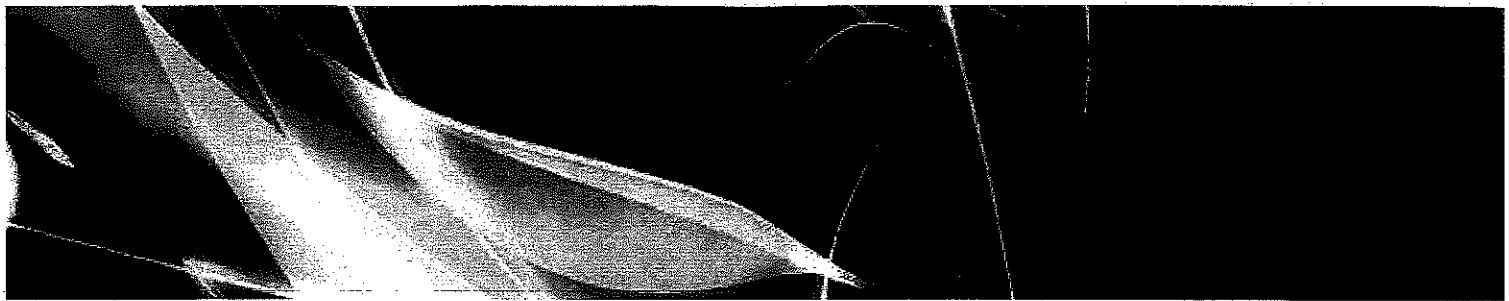
The roughly 19.9% increase in global stainless steel production in the first half of 2010, on an annualised basis, bodes well for the recovery in chrome ore and ferrochrome production in 2010.

## Markets

The outlook for chrome is relatively favourable because, unlike nickel, ferrochrome cannot be substituted in the stainless steel production. Ferrochrome is cheaper than nickel, which lends it an advantage in terms of consumption and the cost of inputs.

**Global stainless steel production (kt), 2007 to 2009**  
(source: Pariser/Merafe Resources)





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Demand for chromium chemicals declined in recent years, as environmental concerns brought tightening legislation that limited its use in two other main end-uses: leather tanning and metal finishing. Strong growth in the aerospace industry in recent years meant that the demand for chromium metal increased sharply, albeit off a low base. World consumption of chromium metal increased by around 13% in 2008 to 40 kilo tons, with demand for super alloys, the primary end-use market for chromium metal, driving the market. The gradual recovery in the global economy should support demand in the aerospace industry.

### Prices

The average price received for chrome ore per ton in 2009 was R554. Local chromium prices decreased by 26.6% in 2009, when compared to prices obtained in 2008. Export prices decreased by 30.6% in 2009, from a 2008 figure of R1 664 per ton. In March 2009, European importers paid around US\$86/lb for South African ferrochrome, about 60% lower than prices paid in September 2008. Demand for chromium during this period fell sharply, as it did for stainless steel, the primary end-use for chromium.

However, demand recovered and prices started to rise and ferrochrome smelters were reopened in the final months of 2009. In the first quarter of 2010, ferrochrome prices settled at about US\$101/lb and recovered to US\$136/lb by the second quarter of 2010, before a slight softening in the third quarter.

### Labour

The South African chrome mining industry employed 10 893 people in 2009, a downturn of

11.3% when compared to 2008 figures. Even with the lower employment numbers, the total salaries paid in 2009 were higher. Salaries increased by 13.3% to R1.5-billion in 2009, from a 2008 figure of R1.3-billion. The total labour force in the chrome sector represents about 2.2% of the total South African mining labour force.

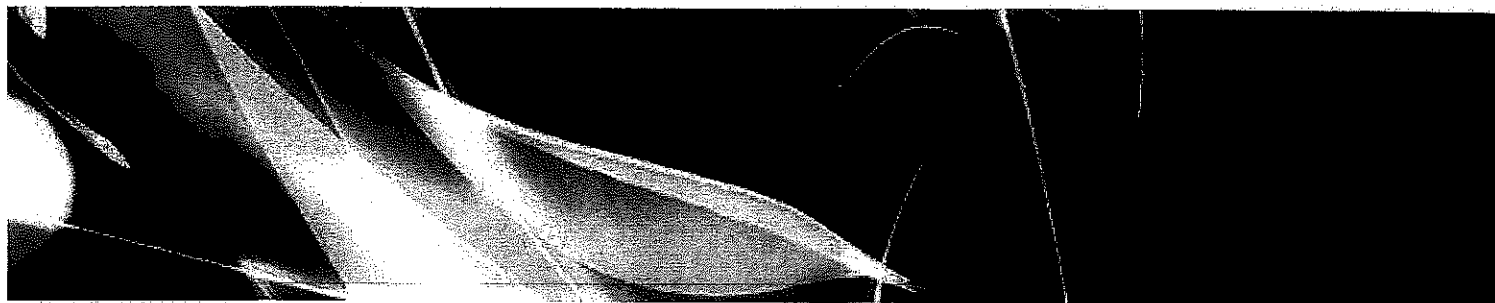
### Developing the South African economy through chrome

Chromium is an important metal in the development of industry in a country. Commercial sources of chrome are limited to a few countries and the current and projected demand for the metal is growing. As with other important minerals, the country has an opportunity, through the structurally driven commodities boom, to expand production of chrome with all the associated economic benefits for the country.

### Coal

Despite the impact of the global economic crisis, which reduced electricity and steel production in many advanced countries, overall global hard coal production rose by 2.5% to six billion metric tons in 2009. There were large regional variations in coal production, with Asia, led by China, growing phenomenally and most advanced economies experiencing demand and production downturns. China's hard coal production rose by 7.6% to three billion tons, which is half the total global production, whereas North American production fell by 8.7% to 919 million tons. The rapid increase in electricity production in China and India also resulted in these countries becoming large net importers, which contributed to a rise of 4.7% to 830 million tons. The





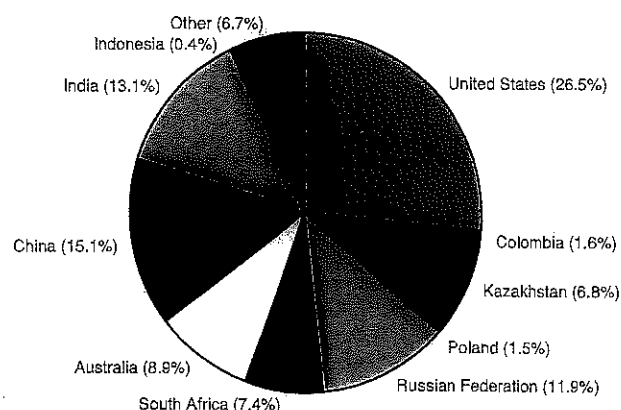
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improvement in global economic growth to about 4% in 2010, the stabilisation in electricity demand in advanced economies and the strong growth in electricity production in China and India, continue to support a structurally driven higher demand profile for hard coal. However, it is the pace of production and limited reserves in certain countries that pose sustainability questions and the ability of certain countries to maintain high production rates over an extended period of time. The introduction of carbon taxes over the next decade will challenge the coal mining and energy industries.

The key issue in the South African industry is the need for sustained growth in production to meet increasing domestic power generation and export growth requirements, which will necessitate an extra 100 million tons of production by 2020. This will require about R100-billion worth of investments in the existing large coal fields (Witbank), as well as in the northern coal fields (Limpopo and Waterberg) and investment in associated infrastructure. To achieve an extra 100 million ton capacity by 2020 will require the South African coal mining industry to grow by more than 3.5% a year.

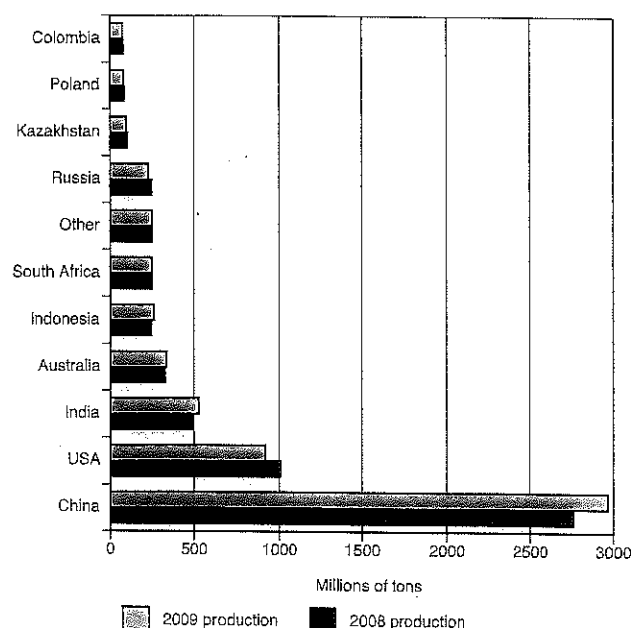
In 2009, South Africa's coal mining industry became the largest component of the local mining industry by sales value, with total sales of R65.3-billion, ahead of platinum at R58-billion and gold at R49-billion. During 2009, South Africa's coal production fell by 0.6% to 250.5 million tons, export volumes increased by 4.4% to 60.5 million tons and domestic sales volumes fell by 6.3% to 184.7 million tons. The coal mining sector employed 70 703 people and paid R12.8-billion in wages. The industry accounted for 5.6% of total merchandise

**Global hard coal reserves, 2009 (source: BP)**

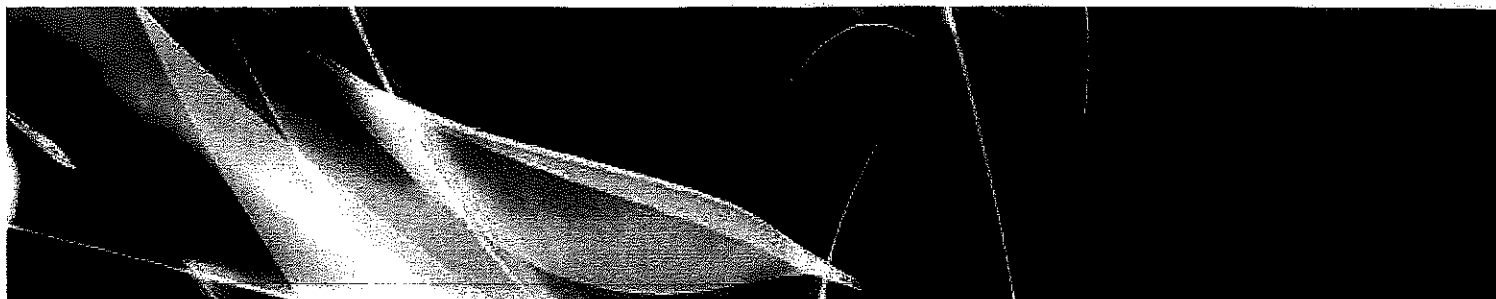


exports and continued to play a major role in the domestic economy as the key source of primary energy for electricity and the production of, for example, liquid fuels, fertilisers, plastics, polymers and lubricants.

**Global hard coal production, 2008 and 2009 (source: IEA)**

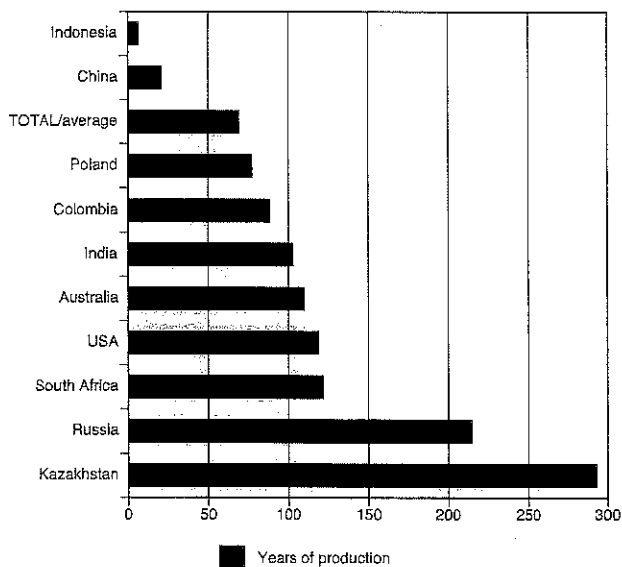


MAK



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### Hard coal: years of production left at current production rates and known reserves (source: IEA)



### World hard coal reserves and production

Total world hard coal reserves (i.e. anthracite and bituminous) was 411 billion tons in 2009, with the United States holding the largest reserves of 26.4%, followed by China (15.1%), India (13.1%), Russia (11.9%) Australia (8.9%) and South Africa (7.3%).

In response to continued high economic and electricity production growth rates in the developing Asian region, there were large increases in hard coal production by India (up 7.6%), Indonesia (up 6.9%) and Australia (up 3.1%).

An interesting aspect of the global minerals industry is the pace of mineral extraction versus the known local reserve base that can support future production. Based on known global reserves of coal and current production rates, the world has 69 years of production left. There are large

variations, with Kazakhstan, Russia, South Africa, the United States, Australia and India having over 100 years of production, while countries like China and Indonesia have reserve to production profiles that imply only 21 and seven years respectively. This is not an accurate assessment of reserves, as much of the resource base and extra reserves tend to be added to those countries on an annual basis (i.e. reserves tend to be added as brownfield exploration around existing mines shows more reserves). Nevertheless, it does appear to have implications for countries with high economic and electricity production growth.

World coal consumption was essentially flat in 2009, the weakest year since 1999. For the first time since 2002, coal was not the fastest growing fuel in the world. In North America and Europe/Eurasia, consumption fell by 11.5% and 11.4% respectively, while consumption in the Asia-Pacific region increased by 6.6%.

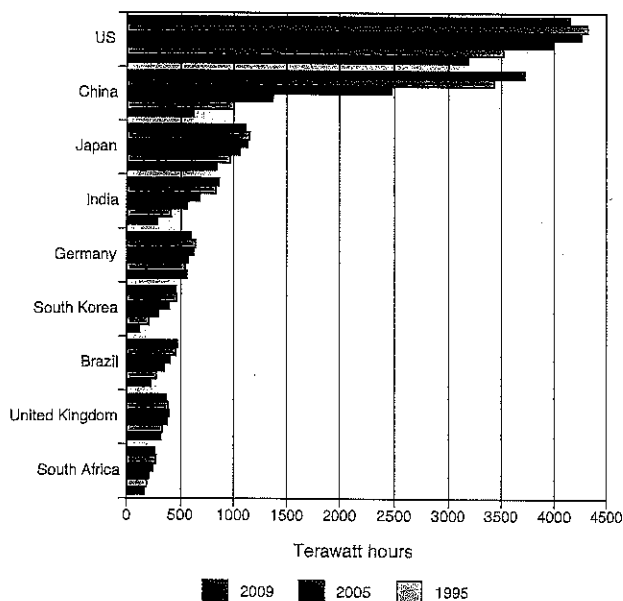
### Global primary energy

Global primary energy consumption fell in 2009 by 1.1%, driven by a 0.9% decrease in electricity demand. Again there were regional variations, with OECD electricity production falling by 4%, while the Asia-Pacific region (excluding Japan) grew by 4.7%. Although the United States comprises nearly 21% of total global electricity production, the country is rapidly being reeled in by the growth rate of China. By 2010, China is expected to overtake the United States as the largest generator of electricity in the world. The expanding urbanisation and industrialisation trends in China and other key developing countries, means that



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## Electricity generation per key country



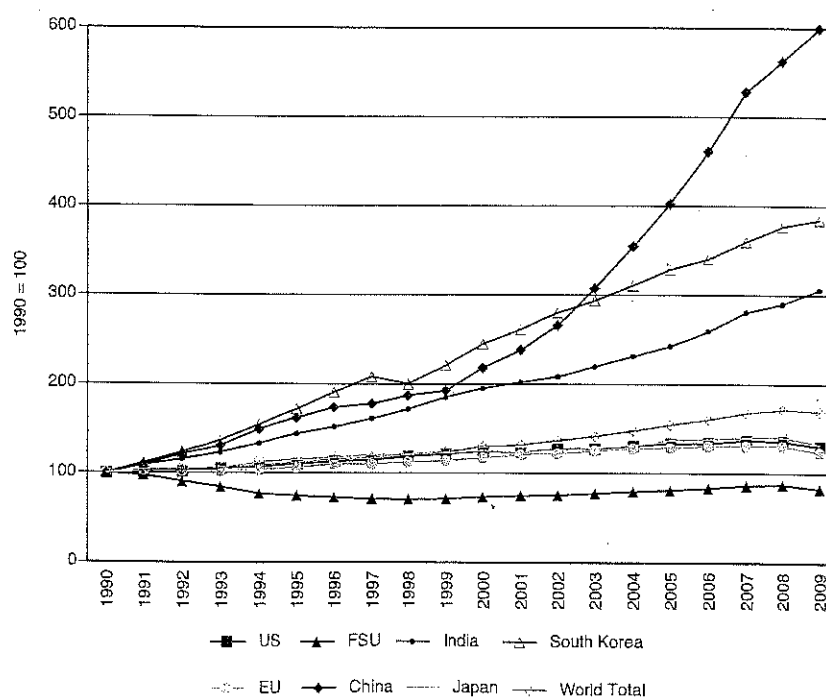
electricity production growth will continue to be high. China grew its 2009 electricity production by 6.9% to 3 721.5 terawatt hours and now has an 18.5% share of total global electricity production. India's electricity production increased by 5.8% to 869.8 terawatt hours, making it the world's fifth largest electricity producer.

China's electricity production has increased by 500% from 1990 to 2009. South Korea's electricity production grew by 284% and India's production by 206% during that period, while South Africa's electricity production grew by only 57%.

## World hard coal export market

According to IEA, hard coal exports, which include thermal coals and coking coals, increased by 4.7% to 830 million tons in 2009. Australia is the largest hard coal exporter, with a share of 31% followed

## Electricity produced in terawatt hours, base indexed to 1990 (source: BP energy statistics)

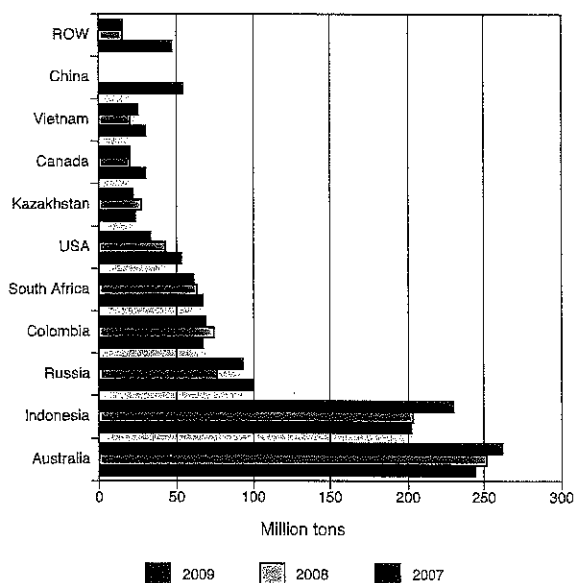




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## World hard coal exports, 2007 to 2009

(source: IEA)



by Indonesia (27.7%), Russia (11.2%), Colombia (8.3%) and South Africa (7.3%). Russia grew its hard coal exports by 22.4% to 93 million tons in 2009, followed by Indonesia, which increased hard coal exports by 13.3% to 230 million tons.

## World thermal coal market

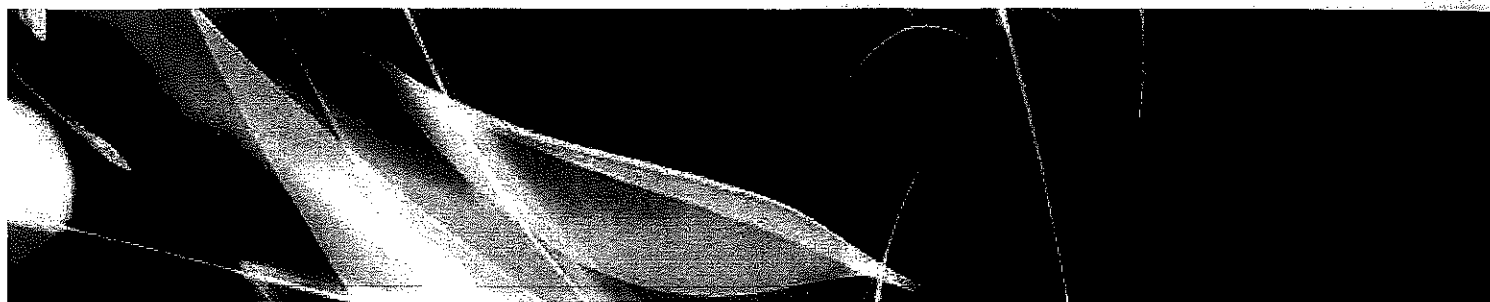
A substantial portion (89%) of the world hard coal export market is thermal coal, which is mostly used for electricity and heat generation. In 2009, the world thermal coal trade grew by 4.7% to 737.3 million tons, owing to strong import demand from developing economies like China and India and large export growth from the Russian Federation and Indonesia. Thermal coal imports in China grew 160% to 92.1 million tons in 2009, driven by high domestic production costs, low international shipping freight rates and geographic factors, which prompted Chinese power producers to acquire increasing levels of foreign supplied coal.

China's thermal coal imports reached record levels of 34 million tons in the first quarter of 2010, which, on an annualised basis, implies imports of over 100 million tons. India's rising electricity demand led to an increase in thermal coal demand by 59% to 54 million tons in 2009. According to the Australian Bureau of Agricultural and Resource Economics (ABARE), China's thermal coal imports will reach 98 million tons in 2010 and India is expected to increase its imports to 68 million tons in 2010. The impact of the global economic crisis on Europe meant that that region's production of electricity fell by 5.1% in 2009. As a result, demand for thermal coal decreased from 222.5 million tons in 2008 to 211.4 million tons in 2009. ABARE expects European Union demand for thermal coal to increase to 220 million tons in 2010.

Indonesia is the largest thermal coal exporter, with 233.5 million tons of exports in 2009, followed by 139.1 million tons from Australia, 91.7 million tons from Russia, 63.4 million tons from Colombia and 61 million tons from South Africa.

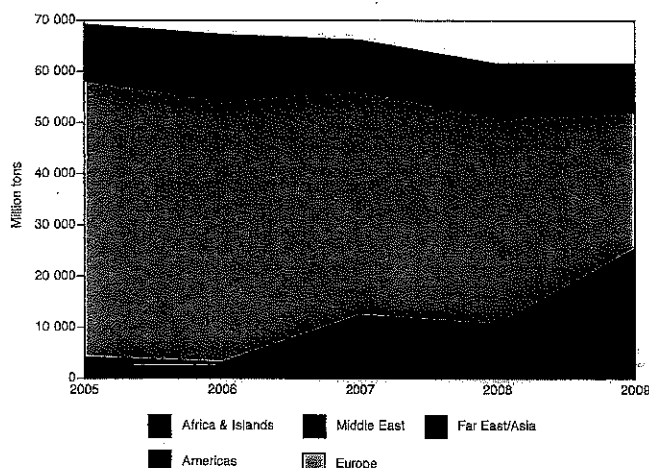
## Local production and sales

South African coal production fell by 0.6% to 250.5 million tons in 2009. Export volumes increased by 4.4% to 60.5 million tons, albeit off a low base, and domestic sales volumes fell by 6.3% to 184.7 million tons. Domestic sales volumes decreased because of the local economic recession and the high base effect created in 2008 by the replenishment of coal stockpiles by Eskom. The 22.1% increase in domestic coal prices meant that local sales rose 14.4% to R34.5-billion. The increase in local sales was sufficient to offset a 27% decline in export



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**SA thermal coal exports by destination**  
(source: SACR, 2009)



sales that fell by 27% to R30.9-billion. Total coal sales were R65.4-billion, down by 9.8% on the 2008 sales figures, but still making coal the largest component of the South African mining industry by sales value.

### South African coal exports

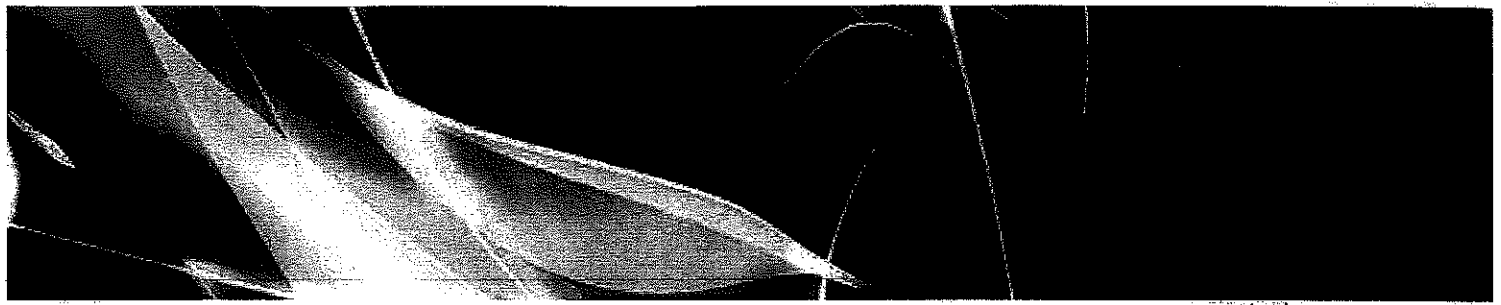
The country's coal export ralling was 12 million tons below export capacity, however, the industry is expected to boost future performance. Problems in the Richards Bay Coal Terminal (RBCT) computerised terminal management system, mine production challenges and inefficiencies on the Coalink heavy haul coal line, must be addressed. The export industry is faced with changing markets as declines in coal sales to the weak European market are offset by growth to the Indian and Chinese markets.

Coal exports to Europe slowed in the aftermath of the global recession, large stockpiles and the fall in the price of natural gas. In 2005, Europe accounted for 78% of South Africa's coal exports

and Far East/Asia less than 6%, but by 2009, Europe's share had declined to 43.5% and Far East/Asia's share had risen to 41%. This helped sustain South African exports over the past few years and mitigated the worst effects of the recession. Exports to India have risen since early February 2009 and amounted to 18.6 million tons, accounting for 30% of total coal exports in 2009. India imports coal because of the geographic location of its power plants, vis-à-vis the internal coal mine production plants, which make it easier for the coastal power plants to import coal. Lower freight rates and spot prices also boosted Indian imports. India's state owned mining companies have struggled with permitting issues and production delays. India is expected to continue growing thermal coal imports to match increasing electricity production. According to ABARE, India should import 77 million tons by 2011, up from 54 million tons in 2009. South Africa's coal exports to the America's and Middle East fell by 40.8% and 6.7% respectively. Exports to Africa and Islands increased by 10.5%, but off a low base.

### Local and export coal prices

Local coal price per ton on a free on rail (FOR) basis averaged R187 in 2009, up by 22.2% on 2008's figure. The average price received for exports on a free on board (FOB) basis averaged R512 a ton. Average export prices fell sharply from the middle of 2008 as the global economic crisis unfolded, from highs of R836 a ton FOB in June 2008, to a low of R465 a ton in June 2009. The average export price gradually recovered to around R570 a ton in the first quarter of 2010.



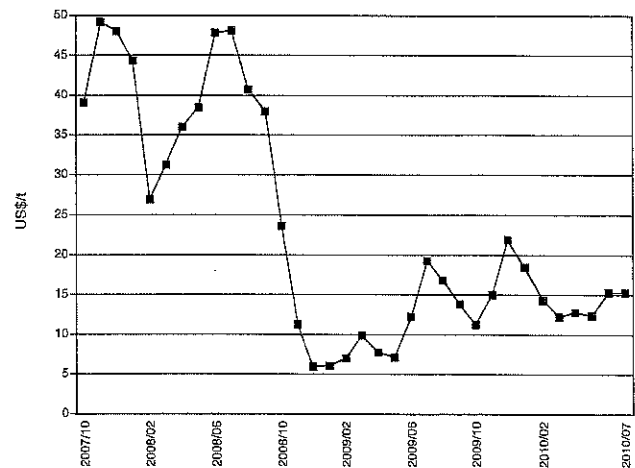
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International shipping freight rates followed a similar trend to coal export prices. Freight rates from the RBCT to the Amsterdam, Rotterdam, Antwerp market fell precipitously in late 2008 as the global economic crisis curtailed trade volumes and an oversupply of freight capacity hit the freight market. Freight rates reached a low in early 2009 and have since been gradually recovering, as world trade volumes recover.

### Export facilities

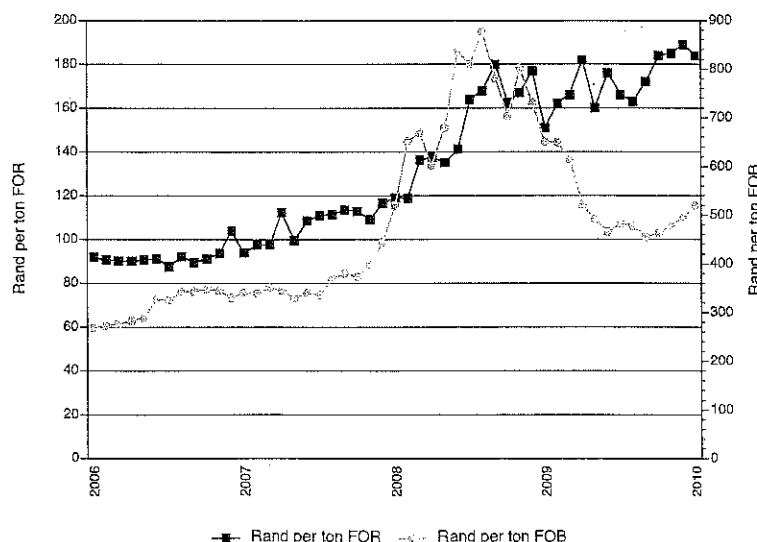
Export capacity at RBCT was increased to 91 million tons a year, with its phase V expansion completed in early 2010. BEE companies have a dedicated allocation of 29 million tons. However, total exports through RBCT at 60 million tons was far short of the expected export capacity of 72 million to 74 million tons a year, implying a deficit of more than 12 million tons. Limited rail capacity and integration problems in the new computerised terminal management system, led to the fall in export capacity.

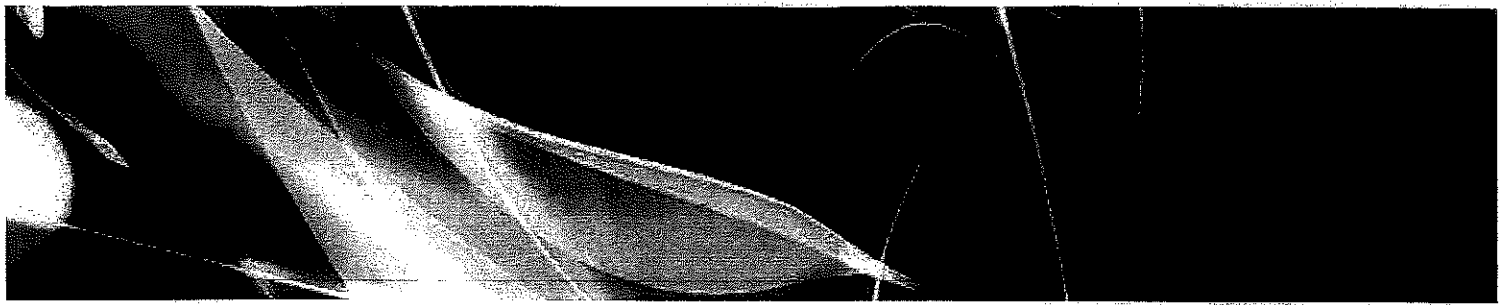
**RBCT to Rotterdam, Capesize freight rates (source: SACR)**



Transnet Freight Rail (TFR) has bottleneck problems in its rail transport system. Currently TFR's capacity to the port is 72 million tons of coal a year, but plans are in the pipeline to increase this to 81 million tons a year by 2014. Further upgrades are expected beyond 2014. The strike by Transnet employees during the first half of 2010, did not

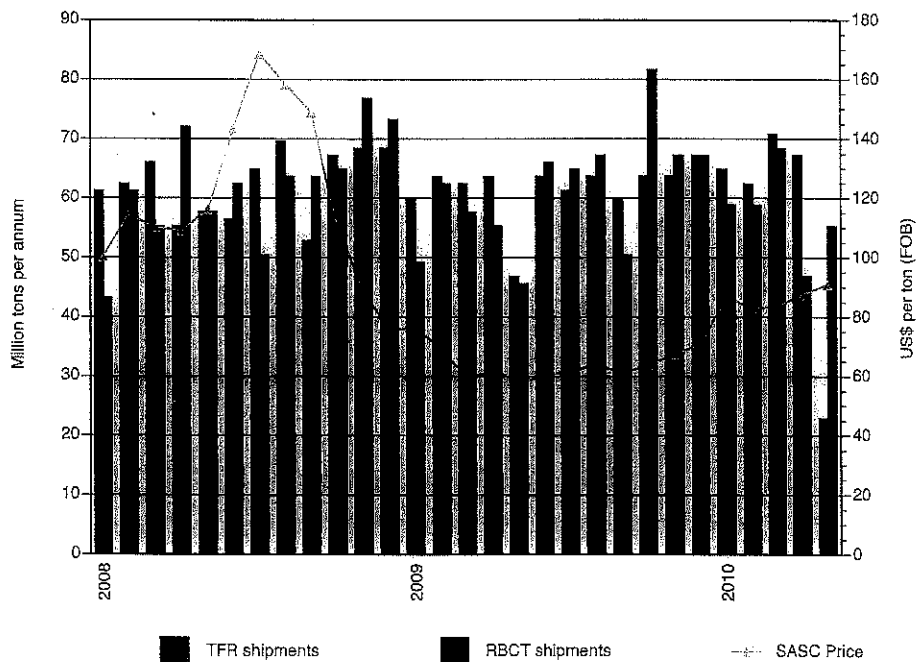
**SA coal prices average for export and domestic markets, actual revenues received (source: SACR)**





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### Comparison of shipments by TRF and RBCT (annualised) versus South African spot coal price



materially affect export volumes as coal stocks at the RBCT were used to buffer the drop in Transnet railings.

Durban's Bulk Connection Terminal exported 0.9 million tons of coal in 2009. Coal exports decreased by 6.4% from 0.93 million tons in 2008. The Matola Coal Terminal's exports increased in 2009 by 19.2% to 1.2 million tons, compared to one million tons in 2008. Work is underway to increase the terminal's capacity to six million tons a year by September 2010, of which 4.5 million tons will be committed to coal exports and 1.5 million tons to magnetite exports.

### South African coal mining growth

A key issue in the South African coal mining industry is the need for production growth to meet domestic power generation expansion and increased export requirements. This will necessitate an extra 100 million tons of production by 2020.

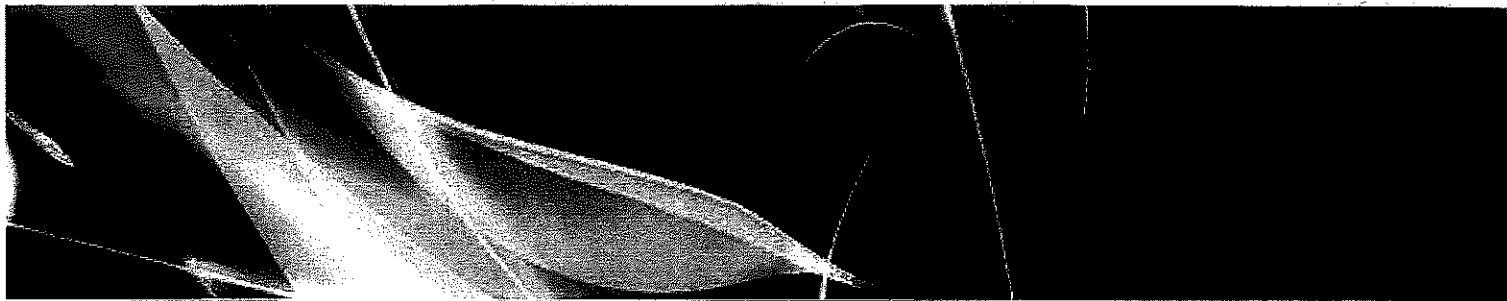
Eskom consumes about 125 million tons of coal a year and this is expected to increase by between 80 million to 100 million tons over the next decade.

The construction of the Madupi and Kusile power stations will increase Eskom's demand. The first generating unit of the Medupi power station is expected to come on stream in 2012 and the final generating unit should be commissioned by 2016. Eskom's Kusile power station will begin operating in 2014 and should be completed by the end of 2018.

To achieve an extra 100 million tons capacity by 2020, will require the local coal mining industry to grow by more than 3.5% annually to 350 million tons. This impacts on investment, the number of mining engineers trained and infrastructure development to support the industry.

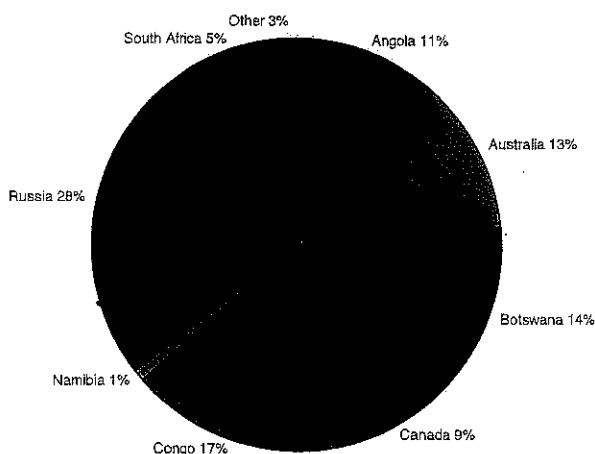
### Diamonds

In line with most other products in the luxury



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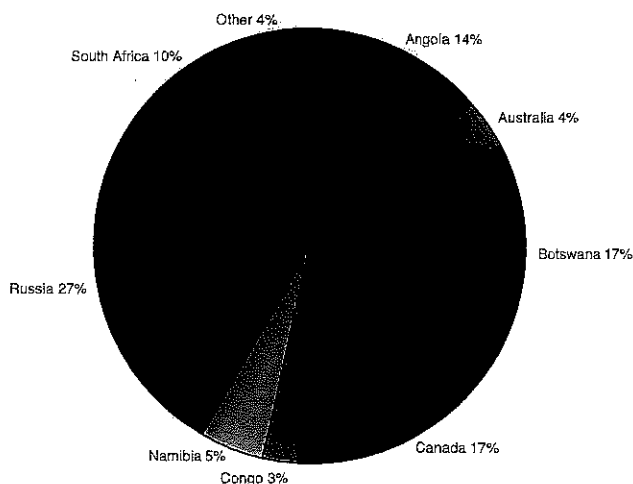
**Global diamond production per country by volume, 2009 (source: KPCS) (total carats 124.8 million)**



market, the diamond industry was severely affected by the global economic crisis in 2009. Significant retraction in demand in the key consumer centres of the United States, Europe and Japan, which traditionally account for 75% of total demand for polished diamonds, had a negative impact on the entire diamond pipeline. There were country and regional differences as the large growing markets of China and India sustained growth in diamond demand despite the weak global economy.

The curtailment in demand for cut diamonds, combined with the high levels of stockpiles of diamonds, resulted in diamond mining companies being faced with a fall in consumer demand and a virtual collapse in demand for rough diamonds as the downstream sectors tried to reduce inventories. Mining companies were forced to curtail production and the entire value chain entered the worst recession in the diamonds business in the past half century. The downstream diamond pipeline was then faced with a liquidity crisis as high diamond stock levels and the high cost (or non-availability) of debt impacted negatively on the pipeline.

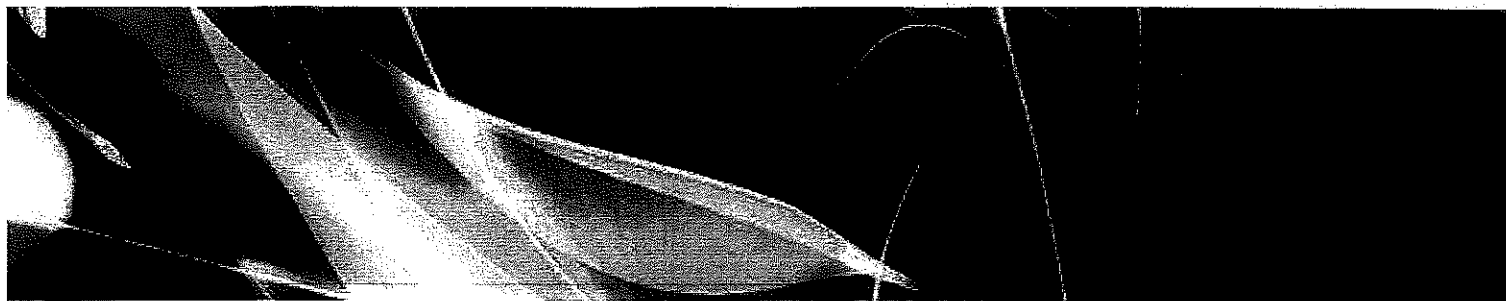
**Global diamond production per country by value, 2009 (source: KPCS) (total value \$8.6-billion)**



In 2009, global diamond mine production fell by 23.4% to 124 million carats and the value of rough diamond production dropped by 32% to US\$8.6-billion. The sales of rough to the diamond cutting centres fell by 51.1% to US\$7-billion, the value of polished diamonds decreased by 35.9% to US\$12.6-billion and the retail sales of diamond jewellery fell by 9.4% to US\$58.7-billion.

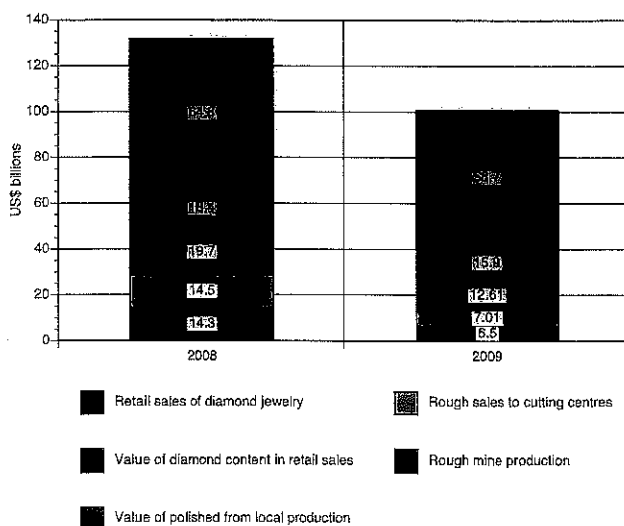
The South African diamond mining industry was not spared the impact of the recession. Domestic production shrank by 52% to 6.1 million carats, as the industry responded to the collapse in demand





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### Recession in the diamonds pipeline, 2009 vs 2008



and prices. The local industry faced further challenges because of the activities of the State Diamond Trader and the Precious Metals and Diamonds Regulator. Nevertheless, all indications point to a recovery in production in 2010. The global economy has rebounded, the prices of polished diamonds are recovering and South African diamond production was up by 82.9% in the first half of 2010 on a year-on-year basis, indicating that production of about 11 million carats is possible.

The pressure faced by the local diamond mining industry resulted in the number of employees in the sector falling to an average of 12 046. These workers earned R1.8-billion in wages and salaries.

### Global production

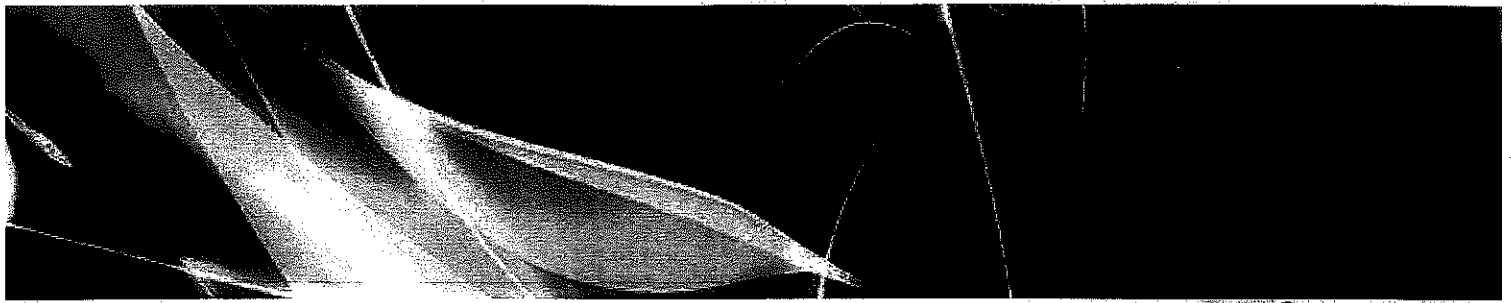
According to the Kimberley Process Certification Scheme (KPCS), the global production of rough diamonds decreased in 2009 by 23% to 124 million carats. Mining companies had to use innovative ways of curtailing supply, including

production holidays, the extension of maintenance shifts and the closure of some high-cost facilities. The countries that bore the biggest brunt of the production cuts were South Africa (down 52%), Namibia (down 51%) and Botswana (down 45%). The physical volume of mine production in Congo fell by 36% and Canadian production dropped by 26%. Production in Angola increased by 55% and production in Russia fell by only 5.8%, which implies that these countries did not necessarily play their role in helping restructure production to match the lower global demand. The lack of production cut-backs in Russia meant that the country remained the largest diamond producer by volume in 2009 at 28%, followed by Botswana at 14% of the total.

### Global demand

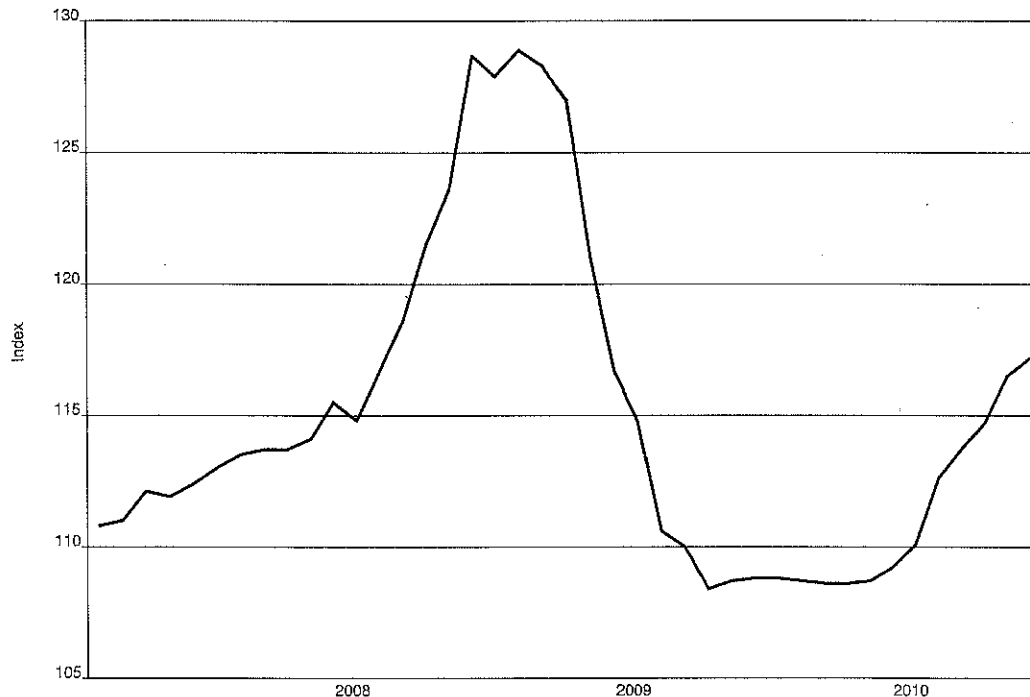
According to the International Diamond Exchange, 2009 reflects the most severe single year contraction of the diamond pipeline since World War II. The downstream diamond industry (cutting, jewellery fabrication and retail) all held high diamond stocks before the downturn. The economic recession also severely affected the availability and cost of debt funding, which is a crucial part of the diamond business. The entire downstream pipeline was forced to restructure and reduce stock levels. Despite these challenges, most bankruptcies in the downstream businesses were avoided.

In 2009, rough sales to the cutting centres was down by 51.1% to US\$7-billion, while the value of polished diamond content in retail sales fell by 13.5% to US\$15.9-billion. The retail sales of diamond jewellery contracted by 9.4% to



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**Index Global Polished Diamond Price Index (source: Idex)**



US\$58.7-billion. Retail consumer demand in the United States contracted by 16%, followed by Japan with a 10% drop. In the Asian and Middle Eastern markets the decline in demand was smaller at around 2%.

The prognosis for 2010 is more promising. Cutting centre demand improved, excess inventories were eliminated and consumer demand stabilised in the worst affected markets.

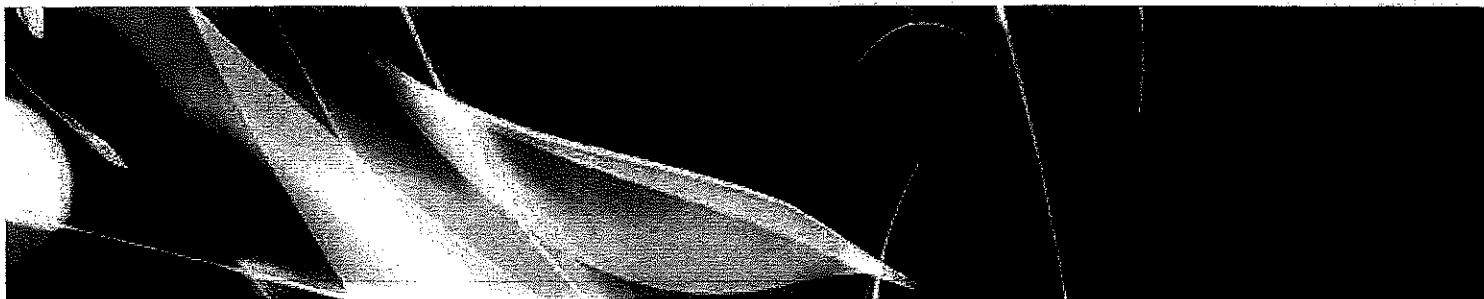
### **Polished diamond prices**

The collapse in demand in key diamond markets such as the United States and Europe, combined with high stocks of diamonds in the inventory pipeline of the diamond fabrication industries, also resulted in a material fall in the global polished diamond price index. Polished diamond price index averaged 109 in 2009 compared to 2008's 122.8. Accordingly, retail sales in diamond jewellery fell by

9.4% in 2009 to \$58.7-billion. By the beginning of 2010, the inventory overhang had been eliminated and a small deficit in supply helped push up prices. There are further signs of increasing momentum in the recovery of global polished diamond prices as demand is improving. The index of polished diamonds prices averaged 114.1 in the first half of 2010, which was 7.7% higher than June 2009 prices. As demand increases, the diamond pipeline will begin restocking in 2010.

### **South African production**

South Africa's diamond industry was hit hard by the recession. In the first half of 2009, diamond production fell by over 60% as producers tried to cut back on supply in the face of falling demand and lower rough diamond prices. South African diamond production fell by 52% to 6.1 million carats in 2009, and the value of that production fell



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by 28% to US\$885-million. Unfortunately, in late 2008, diamond mining companies were negatively affected by the implementation of the Diamonds Amendment Act, which resulted in these companies experiencing difficulties in accessing mined stocks for sale in the face of declining prices. Industry and government worked hard to reduce the legislative impacts, but the problems surfaced again in the first half of 2010. It is vital that the stakeholders work together to resolve these issues and grow the entire diamonds value chain – which includes diamond mining.

The total number of people employed in South African diamond mining operations fell by 33% from an average of 18 169 people in 2008 to 12 046 employees in 2009, with salaries and wages paid to these workers at R1.8-billion.

## Gold

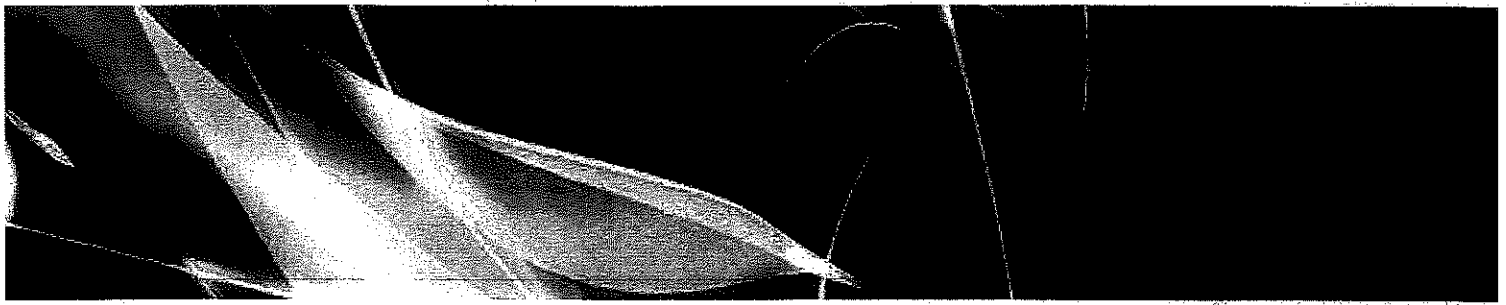
2009 will be defined as a year where the safe haven status of gold was reconfirmed as investment demand for the metal rose to record levels and even exceeded jewellery demand. Global investors at both the institutional and private levels, bought unprecedented levels of gold in the face of global concerns about the fragility of the economic recovery. In 2009, the quantum of net central bank selling of gold fell to negligible levels, continued bar hoarding and producer de-hedging and investment demand outweighed the slight increase in new mine supply and rising levels of sales of gold scrap. Not surprising, the price reached a new average annual record in 2009 of US\$972 an ounce, 11.5% higher than in 2008.

Unfortunately, the higher gold price and the

economic crisis led to jewellery demand falling by 19.8% to 1 759 tons, the lowest level of demand in over two decades. Other fabrication demand declined by 5.5% in 2009 to 658 tons. However, the surge in investment demand to 1 429 tons more than compensated for the poor performance in the other traditional categories.

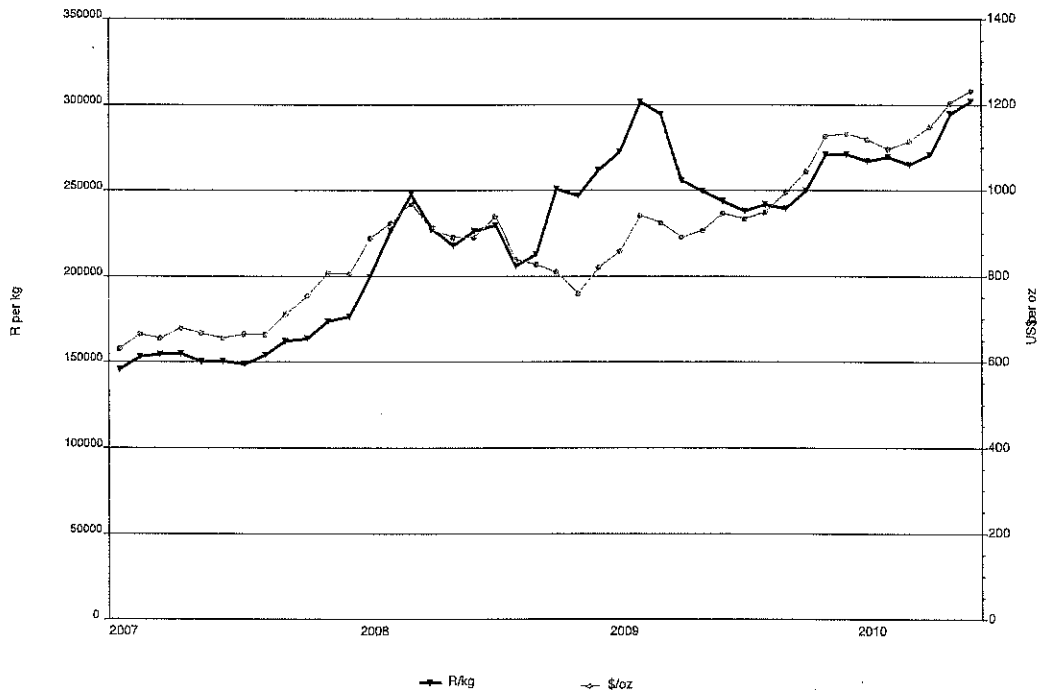
According to GFMS, global primary mine production increased in 2009 for the first time since 2005, and this was by 6.8% to 2 571 tons. However, production continued to fall in the more mature producer countries such as South Africa and the United States. Continued high prices and the benefits of strong exploration expenditure in the preceding five years, fed through into higher production in most areas. China reaffirmed its status as the world's largest producer, with an increase in production of 11% to 324 tons, while Australia was second at 222.8 and South Africa third with 219.8 tons (a decrease of 6%). The GFMS figure for South Africa at 219.8 tons, is slightly more than the 204.9 tons recorded by the Chamber, as GFMS' figure includes an estimate for the production of illicit gold from the country. In addition, scrap supply surged in 2009 by 27.2% to 1 674 tons, as various gold consumers took advantage of the high gold price and the difficult global economic environment.

Nevertheless, the gold mining sector remained a key contributor to the South African economy in 2009 and early 2010. In 2009, gold mining accounted for R49-billion in foreign currency earnings (SARB), 8.8% of total merchandise exports, and about 2.4% of GDP (if the multipliers and induced effect are included). The sector employed



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### Gold price in rand and US dollar terms



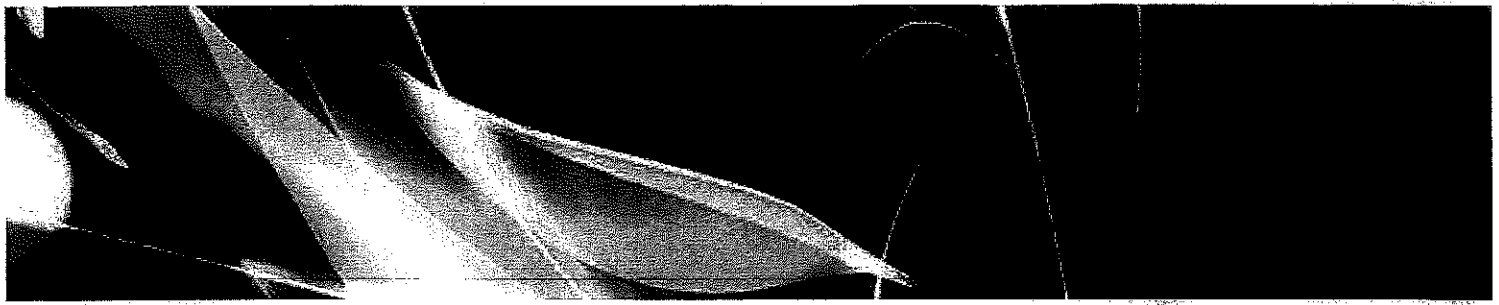
159 925 people and the wage bill was R17.4-billion. Gold is the second largest export earner after pgms. The local industry invested R10.3-billion in capital expenditure, paid an estimated R1.4-billion in direct taxation and R506-million in dividends. Gold still accounts for 19.3% of total fixed investment in the mining sector and for 32.5% of all the people employed in the sector.

### Prices

In 2009, the gold price rose to a record average of US\$972.35 an ounce, an 11.5% increase on 2008 and the eighth year of consecutive gain. During the fourth quarter of 2009, the price breached the US\$1 000 an ounce level, reaching a high of US\$1 218 an ounce in early December 2009. The average price was US\$1 100 an ounce in the

fourth quarter of 2009, driven by a combination of the purchase of 200 tons of gold by the Bank of India, unemployment reaching a 26 year high in the United States plus the suspension of the Dubai World debt repayment. According to GFMS, while the nominal price of gold continued to break records, in real terms the inflation adjusted record gold price belongs to 1980 when the price averaged over US\$1 600 an ounce in 2009 real dollar terms.

While there were variances in the factors driving the gold price during 2009, on average positive demand and supply-side features provided upward momentum to the price. Gains in the demand for gold for investment more than offset the declines in jewellery and other fabrication demand. Mining companies continued to remain a source of demand



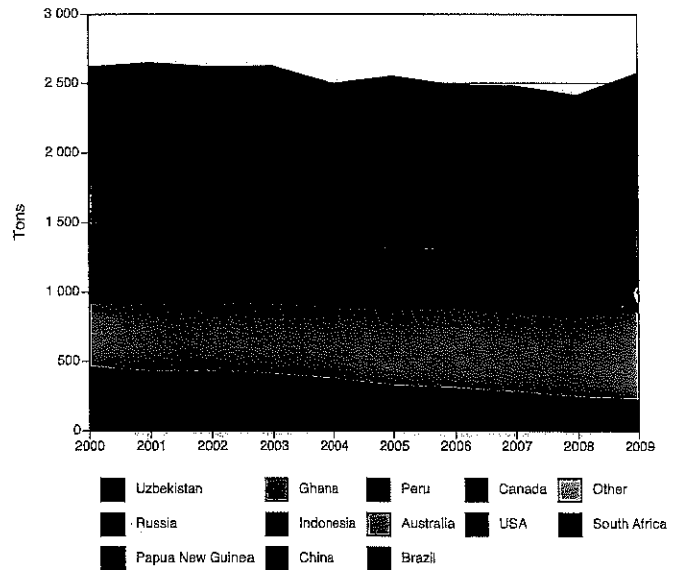
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for gold in terms of closing out hedge positions, and net central bank sales fell to the lowest level since 1988, where central banks were the last net buyers of gold. In particular, the increase in implied investment demand, which was up by 333% to 1 429 tons, was the key driver.

In the first half of 2010, the gold price continued to consolidate above US\$1 000 an ounce and averaged US\$1 152 an ounce during that period. The gold price improved on the back of continued positive supply and demand factors, the weakening dollar exchange rate and the official sector emerging as net buyers of gold supported the price rise. Virtual Metals predicts central bank sales of 161 tons (mostly driven by 144 tons of sales by the IMF) and 223 tons of purchases, which means positive net central bank purchases for the first time in 22 years.

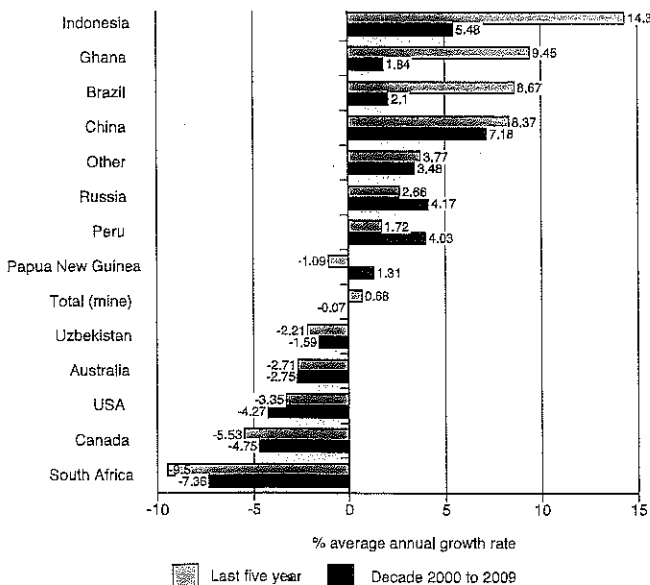
The rand exchange fell to over R10.20/ dollar at the start of 2009, which, combined with

### World gold mine production by source country (source: GFMS)



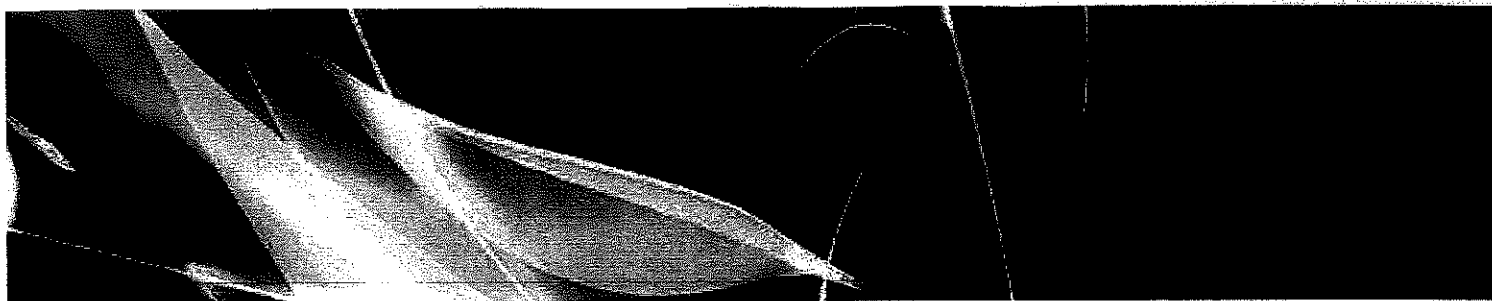
the stronger dollar price of gold, sent the rand price to an average of R301 581 a kilogram in February 2009. The rand exchange rate then appreciated by about 27% to R7.40/dollar by September that year, and despite the US\$996 an ounce gold price, the rand price fell to R239 496 a kilogram. During the last quarter of 2009 and first quarter of 2010, the rand exchange rate stayed at below R7.50/ dollar and the rising dollar gold price resulted in the rand price increasing to R270 000 a kilogram. In the second quarter of 2010, a slightly weaker rand exchange rate combined with higher dollar price, sent the rand price back to just below R300 000 a kilogram.

### Annual growth rate (decline) in gold production from key countries (source: GFMS)



### Global reserves and production

The world has an estimated known gold reserve of about 47 000 tons (USGS) of which South Africa is the largest holder with a 12.8% share, followed closely by Australia and Russia with shares of

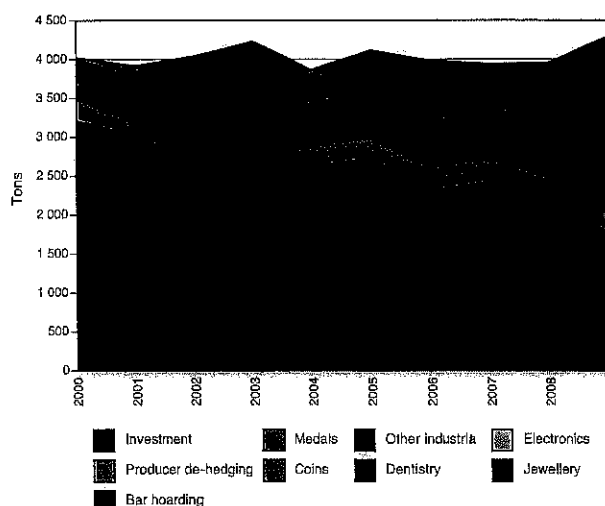


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12.3% and 10.6% respectively. Despite the global economic crisis and the fall in global exploration expenditures of 44.5% to US\$7.2-billion (MEG) in 2009, the rise in gold prices to record average levels in 2009 and then further in 2010, resulted in the portion of global exploration expenditures attributable to gold rising 48% in 2009. However, aggregate expenditures on gold fell from about US\$5.1-billion in 2008 to US\$3.5-billion in 2009 as grassroots projects were cut at the expense of more mature or brownfield exploration.

In 2009, total world gold production increased by 6.8% to 2 571 tons, the first such increase since 2005. Large production increases were recorded in Indonesia (up 66%), Ghana (up 12.3%), China (up 11%), Brazil (up 10.4%), Russia (up 8.7%) and Australia (up 3.6%), which more than offset the 6% plus production declines in South Africa and the United States. Over the past five years, production has declined mostly in the established producer regions (the United States, Australia, Canada

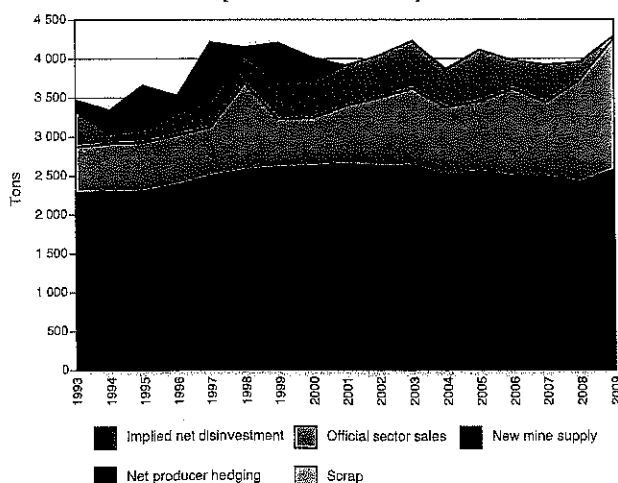
#### Gold demand by application (source: GFMS)



and South Africa) while production has increased in China, Russia, Peru, Indonesia, Papua New Guinea, Ghana and Brazil.

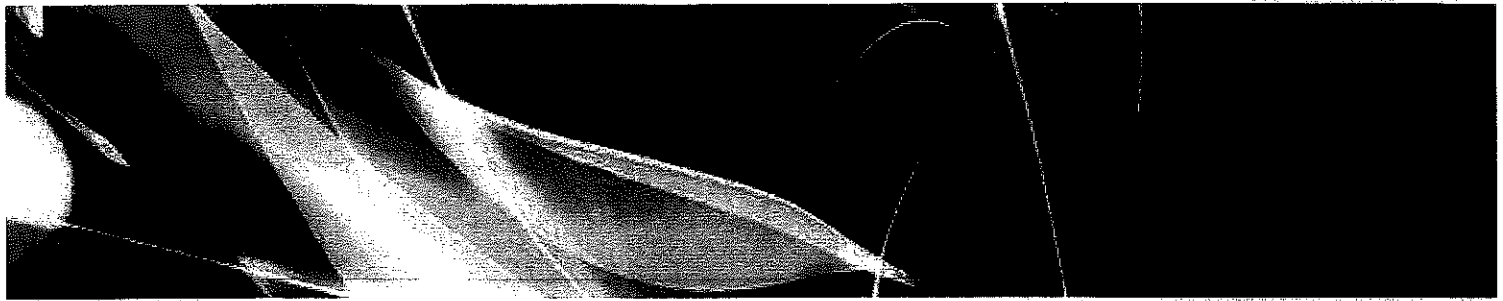
China consolidated its position as the world's largest producer, with a 12.6% share of global production followed by Australia at 8.7%, South Africa at 8.5% and the United States at 8.5% (GFMS).

#### World gold supply by main source (source: GFMS)



#### The global gold market

Over the past five years, total supply to the gold market increased by an average of 2.2% a year, driven by the rise in mine supply of 0.7% a year and the increase in gold scrap, which grew by 15.5% a year over the past five years. In 2009, mine supply rebounded by 6.8% to 2 572 tons making it responsible for 63.1% of total gold supply. By 2009, scrap recovery was 1 674 tons, which comprised 24.9% of total supply. Central bank sales, which in the four years up to 2008 contributed an average annual 436 tons of gold to



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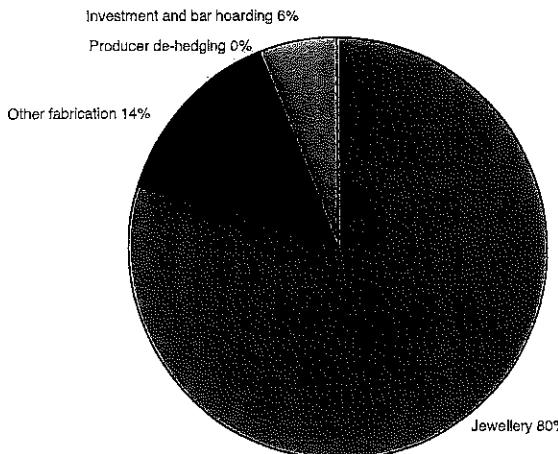
supply, was reduced to only 41 tons in 2009 as central bank purchases of gold nearly matched sales. Central bank net sales, as a source of gold, declined by an average of 21.7% over the period 2005 to 2009. Scrap recovery was influenced by price, with higher prices inducing some gold jewellery holders to liquidate holdings as scrap. Net producer hedging and implied disinvestment, were not features of the gold market during the past five years.

At the macro level, the total demand for gold rose by 8.3% to 4 287 tons in 2009, as the 333% rise in investment demand fully compensated for the declines across the other demand areas. The impact of high gold prices, the effect of the global economic crisis and the retraction in world-wide consumer expenditure, all impacted negatively on jewellery and other fabrication demand. The rush by many investors into the gold market during 2009 and 2010, gave rise to concerns about the

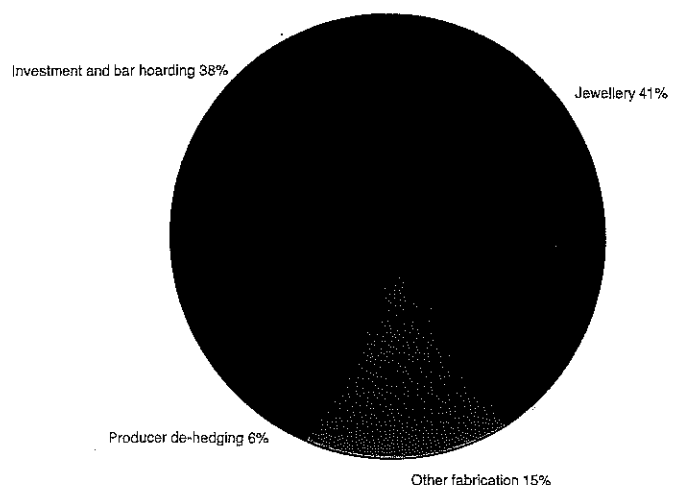
volatility in currency and equity markets. The uncertain world economic outlook encouraged traders to diversify investments and to use gold as a safe haven. While by the first half of 2010 the world economy appeared to be back on track for a sustained recovery, certain investors remain concerned about the possible large inflationary effects of the massive fiscal and monetary policy stimulus provided by most governments and the dampening impact of the withdrawal of this stimulus on the economic recovery.

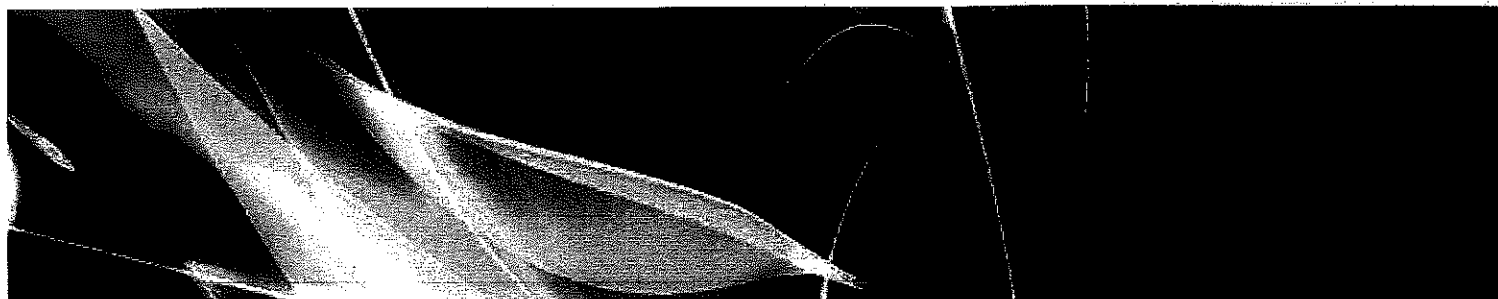
In 2000, jewellery accounted for 80% of demand, with other fabrication making up 14% of the total and implied investment and bar hoarding making up 6% of the total. In that year, there was no producer demand in the form of de-hedging. By 2009, jewellery demand had fallen to 41% of the total, while fabrication demand had risen to 15%, investment demand had risen to 38% and demand for gold by mining companies for de-hedging

**Structure of demand for gold, 2000**  
(source: GFMS)



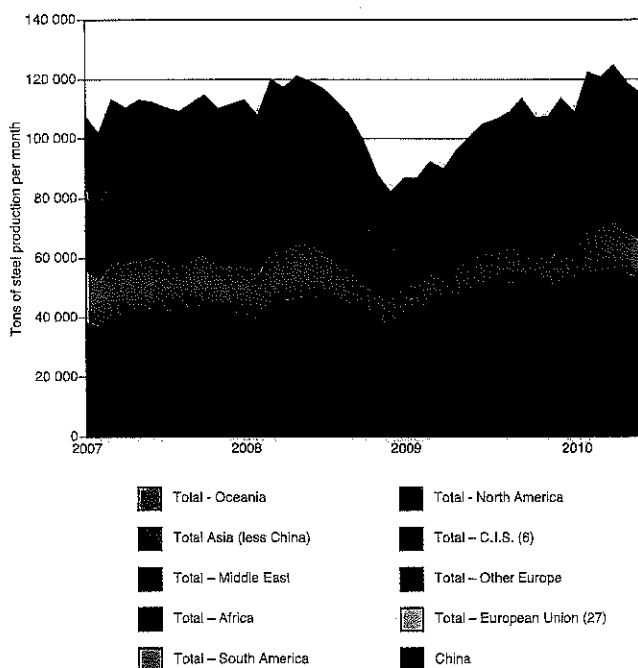
**Structure of demand for gold, 2009 (4287 tons)**  
(source: GFMS)





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### Structure of demand for gold, 2009 (4287 tons) (source: GFMS)



purposes increased to 6% of total demand.

Central banks are expected to emerge as net buyers of gold in 2010, which will further change the gold market. Expectations are that continued high levels of investment demand and a modest recovery in jewellery and other fabrication areas will provide a further collar to the gold market. This will offset the likely decline in gold demand from mining companies that have reduced their hedge positions over the past five years.

### Costs of production

Despite the global economic crisis and falling capacity utilisation rates in the manufacturing sectors of most countries, mining companies continue to face rising cost pressures, although these pressures in 2009 were not as exaggerated

as in 2008. Total production costs for Australia, South Africa, Canada and the United States in 2009 increased by 7% to an average US\$672 an ounce. This compares to the 19% increase in costs experienced by these countries in 2008. In 2009, South Africa's average production costs in dollar terms rose by 19%, which is much higher than the other mature gold mining countries.

### South African production

South African gold production, as recorded by the Chamber, fell by 5.8% in 2009. This is the lowest level of production since 1907. This slower rate of decline in total production was an improvement on the 14.5% decline recorded in 2008, which can be ascribed to closure of gold mines during the electricity crisis.

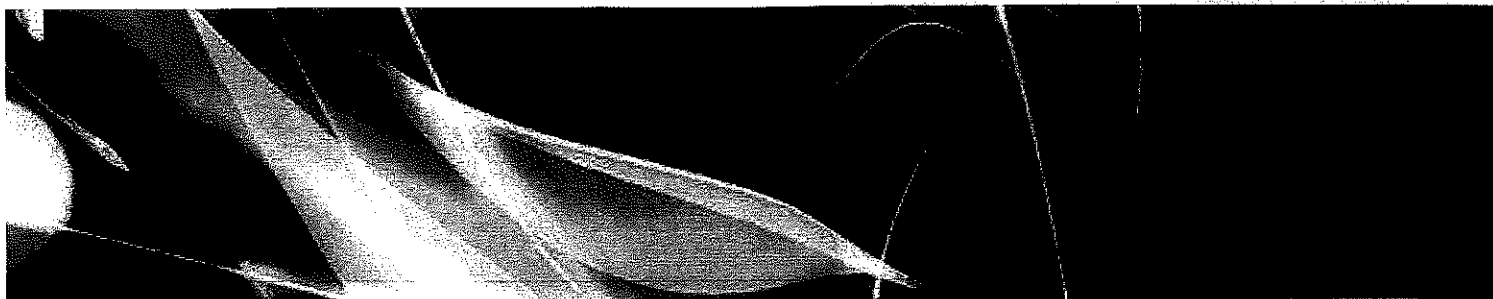
In 2009, Chamber member gold production declined by 6.7% to 170.3 tons. This was mostly because of an 8.1% decline in the average grade processed through the mills that fell to 3.29 g/ton. In the first half of 2010, total South African gold production fell by 7.2% to 93.4 tons when compared to the first half of 2008.

### Revenues and costs

In 2009, the 11% rise in the dollar gold price combined with the 2% depreciation in the rand exchange rate meant that the rand gold price increased by 13.6% to an average of R260 644 a kilogram. The 5.8% decline in overall gold production, combined with the 13.6% rise in the price, meant that total revenue for the gold mining sector rose by 5.9% to R49-billion.

Total revenue for Chamber members was





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R42.2-billion in 2009, an increase of 6.6% year-on-year. Most of the benefits of the marginally higher price were eroded by the combination of lower production and higher input costs, which resulted in total production costs before capital expenditure rising by 16.5% to R33.4-billion in 2009. The high rate of increase in electricity costs was a major concern for the industry. Chamber member gold companies then spent R10.3-billion on capital expenditure, which meant that total production costs, including capital expenditure, rose to R43.7-billion, before taxation and dividends.

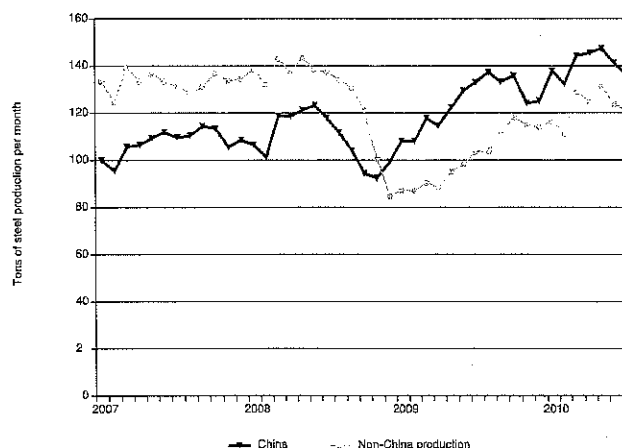
In the first half of 2010, revenue rose by 3.1% to an annualised R41.9-billion, as higher prices offset any further fall in production. The industry received an average of R278 029 a kilogram, which cost R229 227 a kilogram (excluding capex) to produce.

## Iron ore

Given the interconnectedness of the iron ore and steel fabrication to the health of global infrastructure investment, consumer markets, the transport industry and GDP growth, it is not surprising that iron ore mining and the steel fabrication industries were hard hit by the global economic crisis. In 2009, global steel production fell by 15.2% to 1.2 million tons, despite the 13.7% increase in production from China. Non-Chinese global steel production plunged by 31% as most other steel producers in the advanced economies cut back on production in response to the recession. Global pig iron production fell by 7.7% to 860 million tons, despite China's production rising by 14.6%.

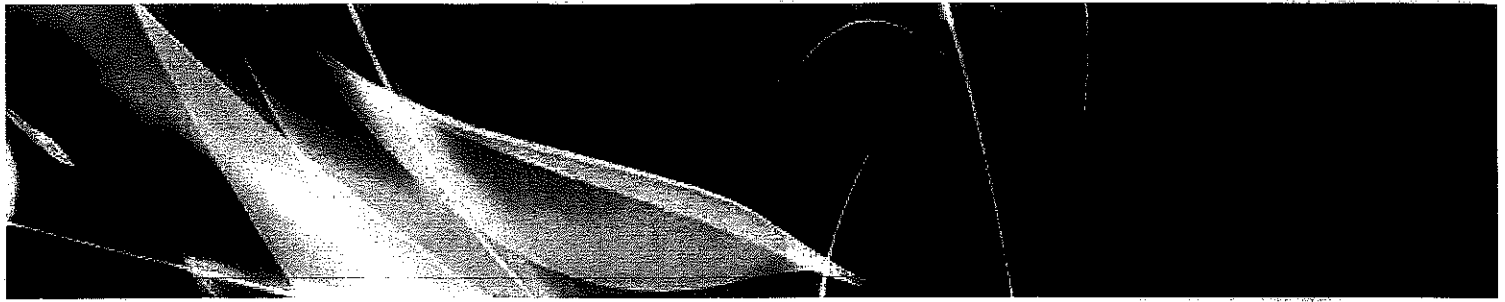
Iron ore, which is the key ingredient of pig iron and

**Global steel production trends, China versus non-China (source: IISI)**



directly reduced iron, both used in the production of crude steel along with coke, were also materially affected by the global slowdown in 2009. In response to the decreases in pig iron and steel production, global iron ore production decreased by 7.6% to 1.6 billion tons in 2009. However, the global trade in iron ore increased by 6.3% to 951 million tons, as import demand from China surged. As a result Australia, India and South Africa were still able to grow exports of iron ore.

South African iron-ore production increased by 12.5% to 55 million tons in 2009, with total sales amounting to R27.1-billion. Export sales grew by 36.4% to 44.6 million tons in 2009, because of the improved export facilities between Sishen and Saldanha being increased to a capacity of 47 million tons. In the first quarter of 2010, South Africa produced 15.1 million tons of iron ore, which implies an annualized rate of 60 million tons for 2010. Iron ore is the fourth largest component of the South African mining sector and continues



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to grow its contribution to the economy. Large capital projects such as the mine developments at Kolomela and Khumani, combined with further upgrades to the Sishen-Saldanha heavy haul railway line, will continue to support growth in this sector.

The local iron ore sector employed 13 722 people in 2009, which is an increase of 3.5% when compared to 13 256 people employed in 2008. R2.2-billion in salaries and wages were paid in 2009.

### **The global steel market**

Historically the steel industry has been cyclical and is influenced by general economic conditions. After a period of continuous growth between 2004 and 2008, the sharp fall in demand for steel resulting from the 2008/2009 recession led to a correction in global steel production, especially in the most hard hit advanced economy markets. Steel is a key input in the construction, mechanical engineering and transport industries, sectors that were among the worst affected by the worldwide recession.

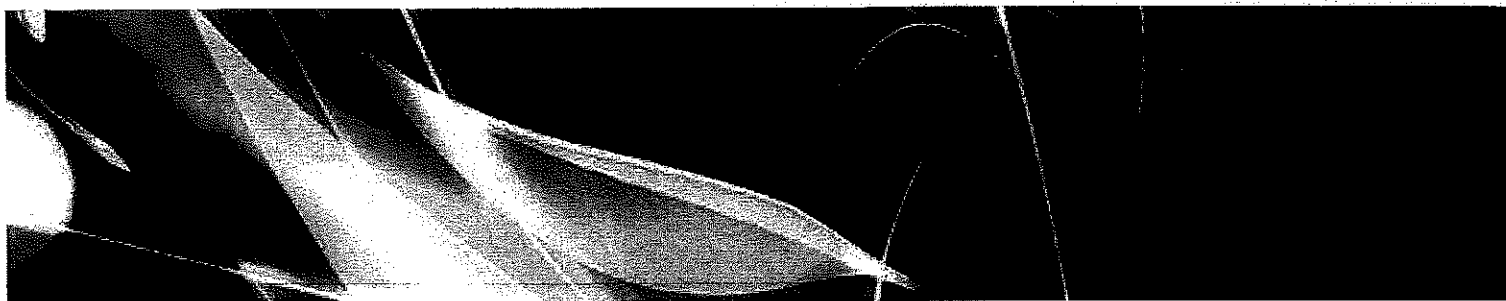
The impact of the economic downturn on the global steel industry in 2009 was significant. Total world steel output was down 15.2% to 1.2 billion tons, according to the World Steel Association, but this masked vast differences between developed and developing markets. Whereas production in the European Union, North America and Japan fell by over 25% on average, China's production was up 13.7% to 567 million tons. China accounted for 47% of total global steel output in 2009 and while most non-Chinese steel companies were cutting back on capacity, Chinese steel mills raised

production and added capacity to cater for the resilient domestic economy.

The overall steel market started to recover gradually in the second half of 2009, and by the first half of 2010 demand for steel had risen to pre-crisis levels. Based on the first six months of 2010, on an annualized basis, global steel production is set to rise by 17.9% to 1.4 billion tons, led by continued growth in China, which is expected to grow production by 14% to 646 million tons. Non-Chinese steel production is set to increase by about 21% to 764 million tons, based on the gradual economic recovery in advanced economies. This is still some way below the record 917 million tons produced by non-Chinese producers in 2008.

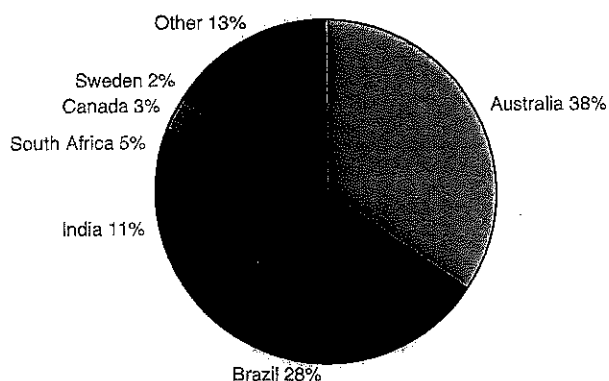
The growing influence of the so-called BRIC countries (Brazil, Russia, India and China) and other emerging economies, has been evident for some years. Nevertheless, their resilience in the face of the financial downturn and the speed at which they have resumed growing, has taken many by surprise – evidence of the important role they now occupy in the global economy. Whilst per capita GDP in these economies still lags behind that of the more developed economies, there is little doubt that they will play an even larger role in the world economy in the future. The IMF predicts that by 2014 developing countries will comprise over half of global GDP. The continued materials intensive growth in these countries will support a structurally higher level of demand for steel and iron ore into the future.

South Africa unfortunately has not shared in the fortunes of the BRIC countries. The economy shrank by 1.8% in 2009 and almost one million



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### World iron ore exports, 2009 (source: ABARE)



jobs were lost during the recession. The two industrial sectors that make up almost 80% of steel sales, namely manufacturing and building, and construction were all affected, despite government's capital investment programme in the build-up to the 2010 Soccer World Cup. The South African Iron and Steel Institute (SAISI) estimates that local steel consumption in 2009 declined by 13% overall to 4.6 million tons from 5.3 million tons in 2008. The decreases were more pronounced among long steel product sales in the construction sector, which plunged by 28% to 1.8 million tons. Flat product volumes slipped by 1% to 2.8 million tons.

### Global production and exports of iron ore

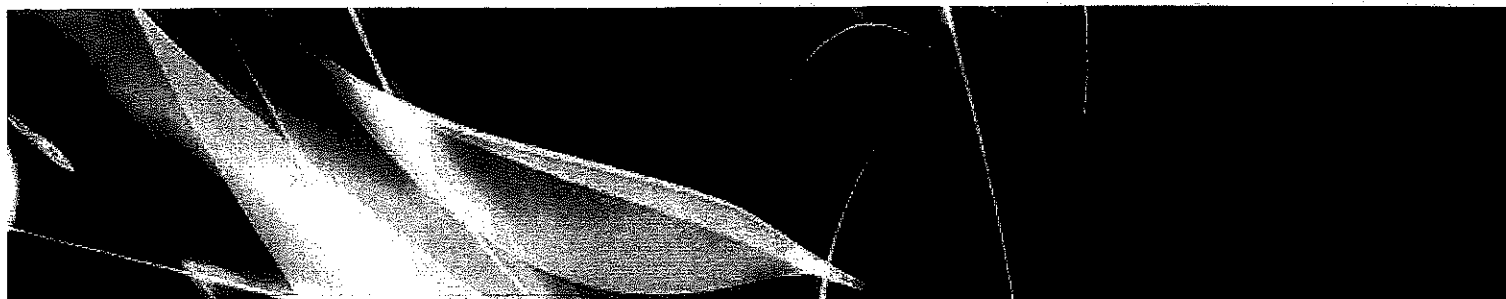
According to the United Nations Conference on Trade and Development (Unctad), world production of iron ore fell by 6.2% in 2009 to 1.6 billion tons, while demand, driven by China, increased. Output of iron ore decreased in most producing countries, except for South Africa and Australia. China, which had been the world's largest producer of

iron ore for years, dropped to fourth place behind Australia, Brazil and India. Chinese production for 2009 amounted to 234 million tons, while Australia produced 394-million tons during the year.

Notwithstanding the decline in global iron ore production in 2009, the iron ore trade climbed to a record level of 951 million tons in 2009, up 6.3% on the comparable 2008 figure. The global trade in iron ore traditionally represents about half of global production. The increase in the global trade in iron ore can mostly be attributed to the closure of high cost Chinese production, which in turn resulted in the need for increased iron ore imports to fuel continued growth in steel production in that country. China is by far the largest importer of iron-ore, accounting for two-thirds of world imports. Australia grew iron ore exports by 17.2% to 362 million tons, Brazilian exports fell by 5.7% to 266 million tons, India's exports grew by 4% to 105 million tons and South African exports increased by 36.4% to 45 million tons.

### Prices

Benchmark iron ore prices are normally set in annual negotiations between steel producers and major ore suppliers such as Rio Tinto, BHP Billiton and Vale SA of Brazil. However, in 2010 there was a departure in the traditional pricing process with agreement being reached between Chinese buyers and the large iron ore exporters on a new quarterly pricing mechanism. Between the beginning of 2008 and June 2009 spot prices for 63.5% Fe content iron ore fell from over US\$150 per ton FOB to just above US\$50 per ton. By June 2010, spot prices for this quality of ore had risen



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to pre-downturn levels. The 2008 contract prices of about US\$90 per ton FOB, fell to about US\$60 per ton in 2009. Contract prices in the June and September quarters of 2009, indicated a 90% and further 23% increase in contract prices (ABARE).

The average sale price of iron ore for South African produced iron ore was R225 per ton FOB in 2009 and the export price averaged R566 per ton FOB. In 2009, local iron ore prices increased by 28.5% and the export market sales price decreased by 8.6%.

### **South African iron ore production and exports**

South African iron ore production increased by 12.5% to 55 million tons in 2009. Total sales were valued at R27.1-billion, an increase of 23% year-on-year. Local iron ore sales decreased by 25% to 8.4 million tons and export sales increased by 36.4% to 44.6 million tons in 2009. Export Sales revenue increased by 24% year-on-year to R25.2-billion and local sales revenue decreased by 4.4% to R1.9-billion, reflecting poor domestic economic conditions. In the first quarter of 2010, 15.1 million tons of iron ore were produced, giving an annualized production rate of 60 million tons.

### **Infrastructure**

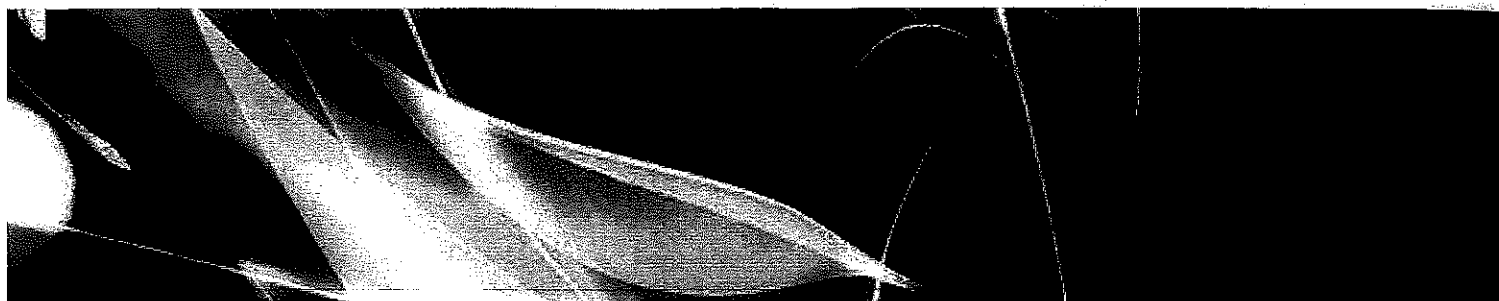
In December 2009, the heavy haul Sishen to Saldanha iron ore railway line achieved a new throughput record of one million tons railed in a week, which would translate to an annualized 52 million tons if the same efficiencies were maintained and demand matched production. Transnet rail has 152 locomotives, 4 505 wagons and a network

of 861 km on this line. Ageing locomotives and wagons, some iron ore mine delivery cancellations, cable theft and internal operational issues affected the efficiency of this heavy haul line. Nevertheless, Transnet and the mining companies are trying to address the various problems that continue to inhibit further growth and performance.

The Transnet expansion plan for the Sishen-Saldanha line has a target of 50 million tons by 2011 and 61 million tons by 2014. Additional locomotives and wagons will be added to the system. A combination of diesel and electric motors will be used to optimise operations and to achieve 61 million tons. The Postmansberg iron ore corridor is being used to transport iron ore to the domestic market and possible capacity upgrades are being investigated.

### **Manganese**

The manganese mining industry was severely affected by the recession, as poor demand conditions and destocking of inventories by customers forced mining companies to cut back on production to match both lower demand and lower prices. Both the manganese ore and manganese alloy markets reflected the decline in world crude steel production. In 2009, global steel production fell by 15.2% to 1.2 million tons. Mine production of manganese fell by 22% to 35 million tons, while the actual production of manganese units amounted to 11 million tons, a decrease of 23% (IMI). The price of manganese ore declined in the first half of 2009 and then gradually recovered in the second half of the year as market conditions improved.



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South Africa, traditionally the world's largest producer of manganese, cut back production by 32.8% to 4.6 million tons in response to the collapse in demand and prices in the first half of 2009. The country's ore production was down by over 41% in the first half of 2009, but the rate of year-on-year production decline slowly eased during the remainder of the year as market conditions gradually improved. South African manganese ore sales dropped by 67% to R5.6-billion in 2009, with export sales falling by 67% to R5-billion. Local manganese production was up by about 67% in the first half of 2010, on a year-on-year basis.

In 2009, the manganese mining sector employed 4 988 people, up 21% on the previous year's figure. These workers were paid R666-million in salaries and wages.

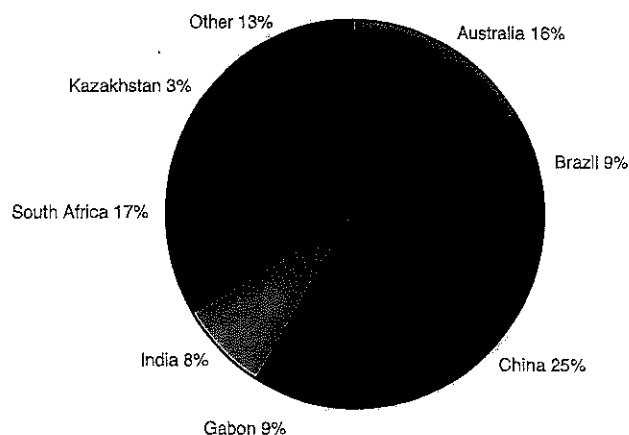
### Global reserves and production

South Africa accounts for about 80% of the world's identified manganese resources, while the Ukraine accounts for 10% of the ore deposits. In terms of identified mineral reserves according to metal content, the world has about 540 million tons of which South Africa has a 25% share, while the Ukraine has the largest reserve at 26%.

The first half of 2009 was particularly challenging as ferroalloy production and steel production, mostly in the advanced economies, experienced reductions in production. During the remainder of 2009, market conditions continued to recover in line with a recovering global economy and improvements in worldwide steel production.

China, with its burgeoning steel industry, increased manganese metal production to 2.7

### Manganese metal production by region/country, 2009 (source: IMI)



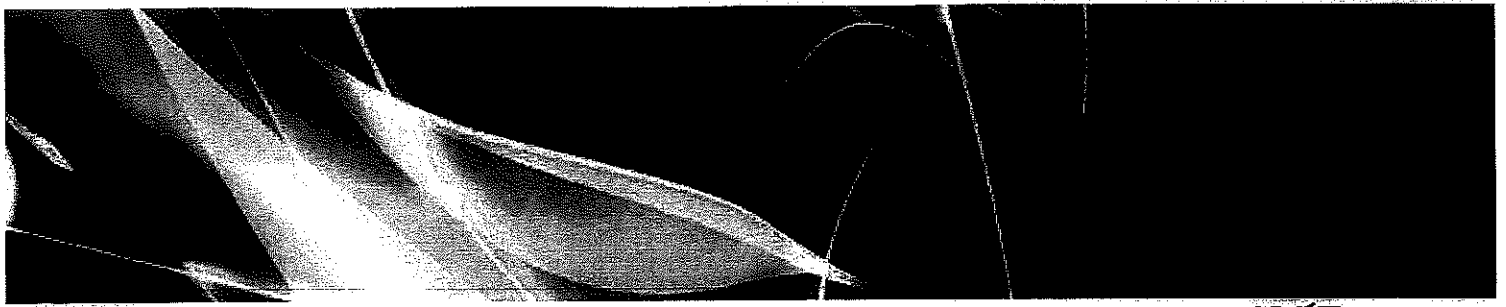
million tons and became the largest global producer ahead of South Africa at 1.9 million tons.

### Global ferromanganese production

Alloy smelters cut capacity utilisation to match the drop in consumer demand and total ferromanganese production declined by almost 18% in 2009 to 11.7 million tons. This is roughly equivalent to production levels last seen in 2006. Towards the end of 2009, as steel production began rising incrementally month-on-month, alloy smelters were slowly brought back on stream. Each of the three main manganese alloys experienced negative growth in 2009, as the global recession greatly reduced the demand for ferroalloys.

Global unit consumption of manganese ferroalloys continued to vary from region to region, owing to different steel production processes, the quality of the raw materials used (such as iron ore grades) and types of steel products produced. The overall average continued to be around 10 kilograms of manganese alloy per ton of steel produced

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in 2009. China remained the largest producer of ferromanganese in 2009, producing 6.6 million tons and accounted for 57% of global production.

### **The world market for ores**

In 2009, about 15 million tons of the 35 million tons of mine production of manganese ore was declared as imports. China accounted for 60% of imports, with Australia, South Africa and Brazil were the largest exporters.

### **Prices**

The manganese ore contract price followed the decrease in the average international price for metallurgical-grade ore that was set between Japanese consumers and major suppliers in 2009. The average weekly spot market price for 48% manganese ore, CNF China, also decreased by 28% to US\$5.84 per metric ton unit through the first 10 months in 2009, owing to high levels of manganese ore stocks in China and pricing competition between major manganese ore producers. However, the United States' average weekly spot prices for high-carbon ferromanganese and silicomanganese through October 2009 were 4% higher and 44% higher, respectively, than those at the start of the year, owing to lower inventory levels caused by production cutbacks, by one major domestic producer, and reduced imports.

### **South African production**

Local sales of manganese produced revenue of R583-million with exports amounting to R5-billion and total sales amounting to R5.6-billion. This meant that 89.6% of manganese revenue was generated from export and 10.4% of the revenue

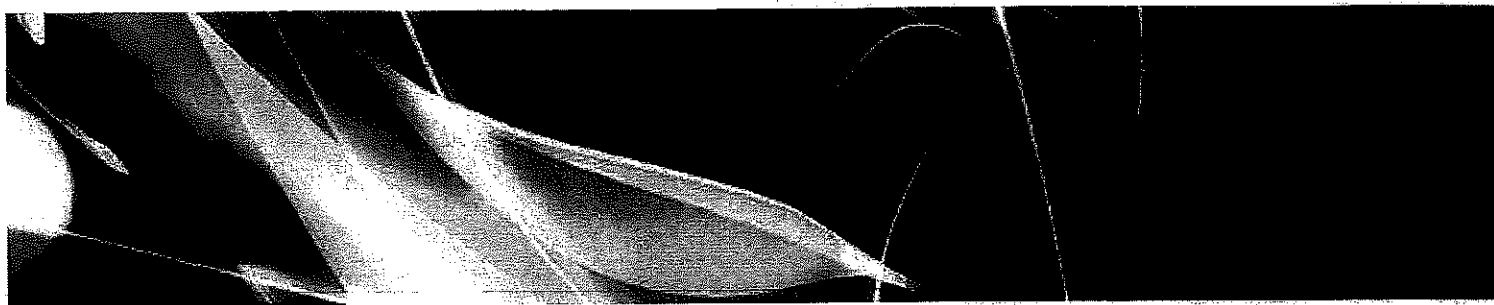
was generated from local sales. In the first half of 2009, the production of manganese in South Africa declined by 41% and ultimately the country achieved primary production of 4.6 million tons for 2009. This represents a drop of 32.8% in production when compared to 2008's production of 6.8 million tons. The actual manganese metal produced for 2009 was estimated at 1.9 million tons, which is a drop of more than 34% from the figure of 2.9 million tons achieved in 2008. four million tons of manganese ore was exported and 0.6 million tons was consumed locally.

### **Infrastructure**

Rail capacity to Port Elizabeth is not sufficient to transport manganese, thus an alternative means of transport in the form of road trucks is now being used. But road trucking has cost and distance problems. The preferred mode is rail, but delivery is not guaranteed owing to limited availability of slots as a result of a shortage of wagons and capacity constraints on the Transnet general freight line from Hotazel to Port Elizabeth. Even though export capacity on the Port Elizabeth line could rise to six million tons a year by 2012/13, this general freight line remains relatively expensive versus the heavy haul long-distance lines such as the Sishen-Saldanha Orex line. While the Department of Transport and Transnet envisage that the Ngqura Port will be the port of choice for manganese ore in the future, it may be preferable to raise export capacity on the Orex line to provide cost competitive transport for the manganese industry.

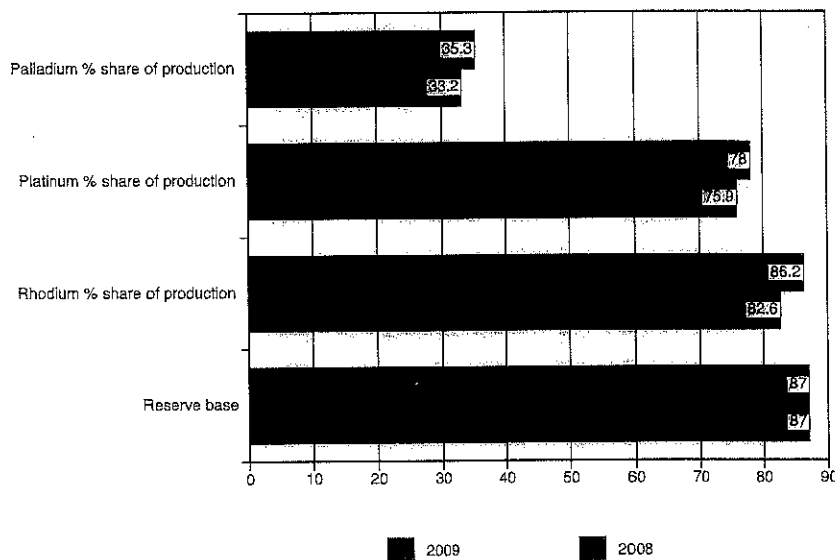
### **Platinum group metals**

Pgms have a wide range of industrial and high



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### SA share of pgm reserves and production, 2008 and 2009



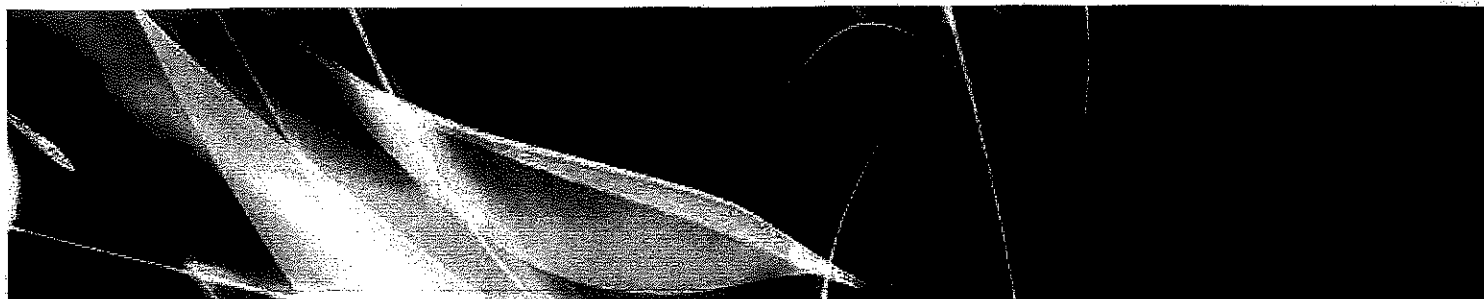
technology applications and are also used extensively in the jewellery and investment markets. With 63% of the demand for the three main pgms – platinum, palladium and rhodium – used in catalytic converter and industrial applications, it is not surprising that the global economic crisis had a negative impact on the pgm markets and pgm mining sector as global car production and industrial production plummeted. Global demand for the three main pgms fell by 9.6% to 482.9 tons as the 25.6% increase in pgm jewellery demand and 31.8% rise in investment demand were not sufficient to offset large falls in demand for pgms for catalytic converters (down 22%) and industrial applications (down 20.4%). In late 2008 and early 2009, the automotive and industrial centres cut back on pgm demand from primary sources as they tried to reduce inventories. Total supply of the three main pgms, including scrap recovery, fell by 4.6% to 522.9 tons, meaning that about seven

tons of pgms were added to stocks in 2009.

Overall, the platinum price was 24% lower, at US\$1 199 an ounce in 2009 versus the previous year. Given the sharp declines in palladium and rhodium prices, the overall production weighted basket price for South African production for the main three pgms fell by 42.5% to US\$948 per 3E ounce. In the first half of 2010, the platinum price rose 44.9% to an average of US\$1 600 an ounce and the production weighted pgm price rose by 58.5% to US\$1 377 per 3E ounce, when compared to the first half of 2009.

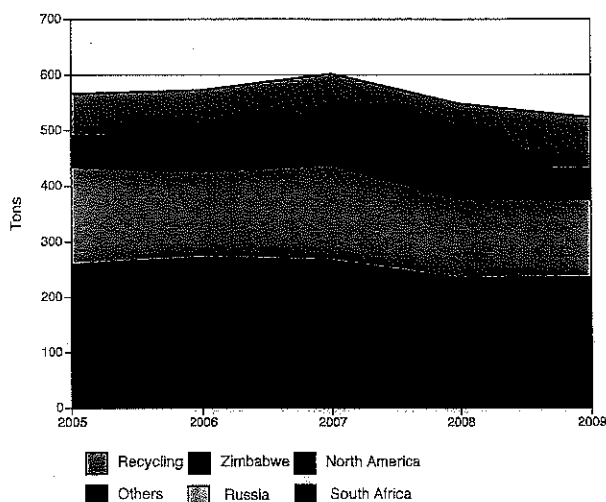
In 2009, South Africa accounted for 86.1% of primary rhodium production, 75.5% of primary platinum production and 33.4% of primary palladium production.

Most of the correction to pgm production by South Africa in response to the recession occurred in 2008, when the country's total pgm production was down by 9.3% to 275.8 tons. In



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### Global pgm supply (platinum, palladium and rhodium)



2009, total South Africa pgm production fell by 1.6% to 271.4 tons as production from higher cost mines was constrained. Total South African sales of pgms with slightly lower production volumes and much lower prices, fell by 36.7% to R57.8-billion, a significant decline in the overall revenue of the sector, which resulted in the pgm mining sector falling to position two after coal in terms of total sales value. Nevertheless, the pgm mining industry employed the largest number of workers at 184 613 people and paid R24.9-billion in salaries and wages. The industry accounted for 9.6% of the country's merchandise exports. In the first six months of 2010, total South Africa pgm production was down 2.1% on a year-on-year basis.

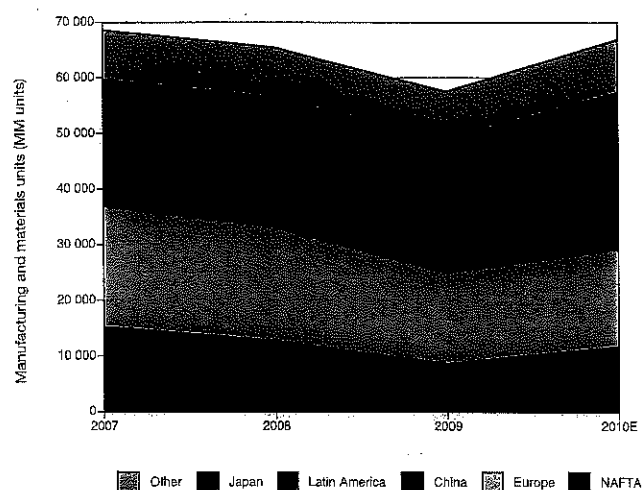
### Global reserves and production

South Africa is estimated to have around 87% of the world's known pgm reserves, with Russia second at 8.3% and the United States third at

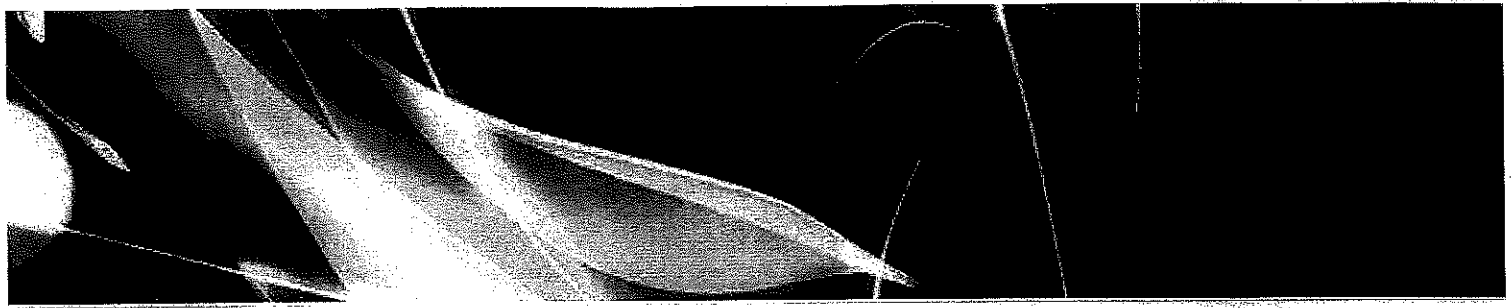
2.5%. The global new mine supply of the three main pgms decreased by 1.1% to 428.9 tons in 2009, as lower production rates from non-South African producers affected supply. Russian production was down 1.3% to 139.7 tons and North American mine production fell by 17.8% to 32 tons. Pgm production in Zimbabwe increased by 28.1% to 13.3 tons. The amount of the three main pgms that was recycled as scrap in 2009 fell by 17.7% to 94 tons, meaning that total supply of the three main pgms fell by 4.6% to 522.9 tons. This was the first time in nearly 20 years that scrap recovery levels actually fell.

South Africa accounted for 54.8% of global new mine supply of the three largest pgms in 2009, up from 53.9% in 2008. Russia was second with 32.6% of the total, North America third at 7.5% and Zimbabwe fourth at 3.1%. South Africa is the dominant global producer of platinum (76.5%) and rhodium (86.1%), while Russia is the dominant supplier of palladium (51.2%). Recycling of scrap

### Global automotive production by key region/ country (source: CSM and JDPowers)

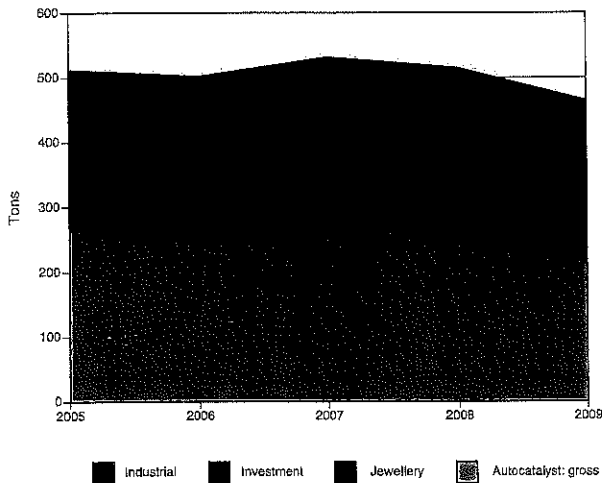






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### Pgm demand by application (platinum, palladium and rhodium)



pgms is the fourth largest source of supply to the market and accounted for 94 tons in 2009.

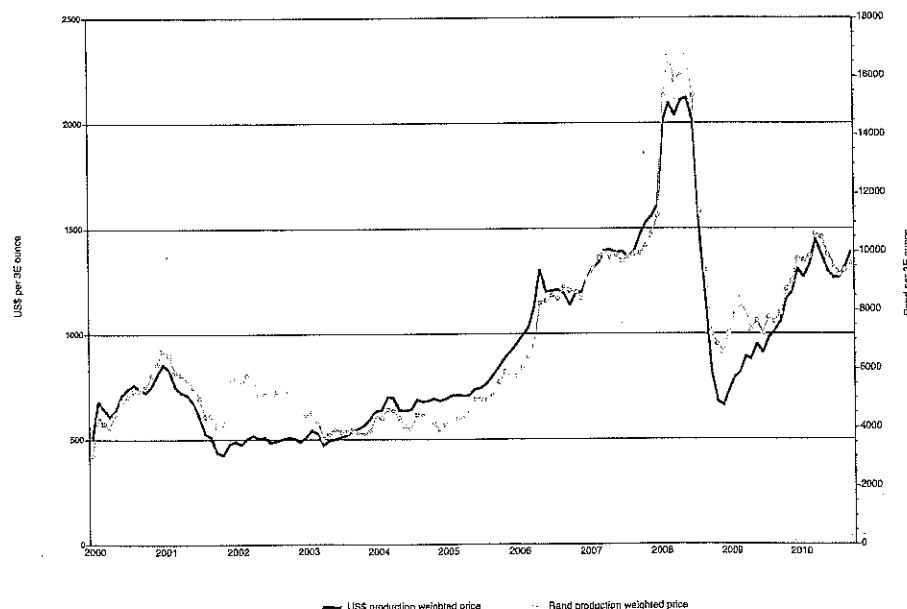
### Global demand

In 2009, according to CSM/JDPowers, global automobile production fell by a large 12.2% to 57.5 million units. The advanced markets of Europe, North America and Japan were exceptionally hard

hit and experienced declines in car production of 20.6%, 32% and 30.6% respectively, or a decline of 11.7 million units in total. China continued with its substantial growth, with car production rising by 50% to 12.8 million units, but this was not enough to offset declining production elsewhere. Given that nearly 90% of vehicles produced worldwide have auto catalysts fitted, it is not surprising that the demand for the three most important pgms fell by 22.4% to 214.6 tons. The continual rise in emission standards, combined with the global recovery and the recovery in automotive production, will drive growth in pgm demand going forward.

The demand for pgm jewellery replaced industrial demand as the second largest user of pgms in 2009. Pgms used in jewellery increased by 25.6% to 119 tons, as consumers in key markets like China bought platinum and palladium jewellery at low pgm prices. Industrial demand, driven by declines in demand for pgms for dental, glass, electrical and petroleum applications, fell

### 3E production weighted pgm price for South Africa (January 2000 to September 2010)

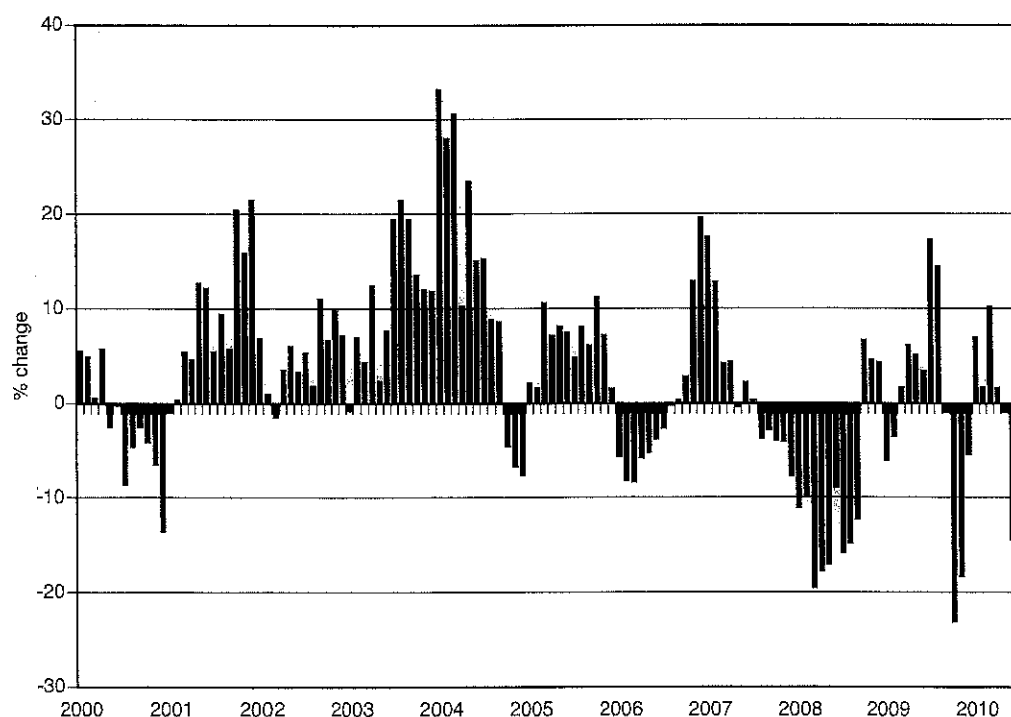


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**South African pgm production, y-o-y % change in production**



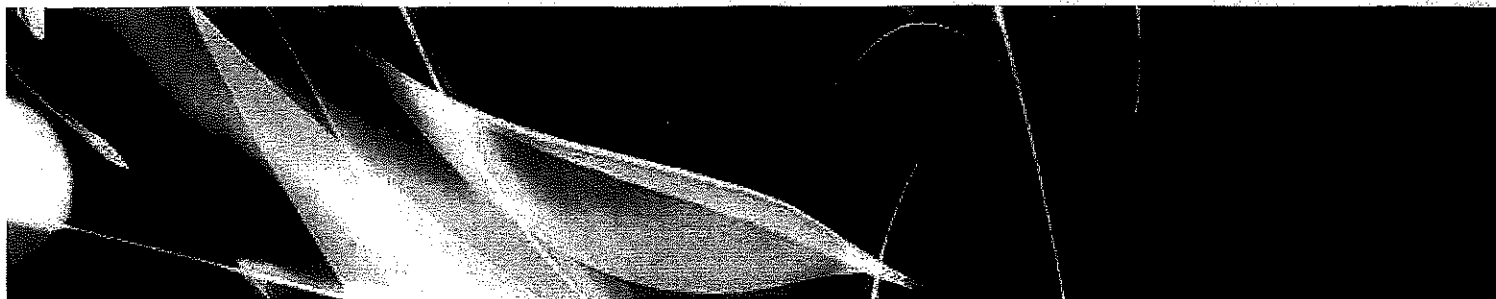
by 20.4% to 90.3 tons. Investment demand for pgms surged by 31.8% to 40 tons, also facilitated by electronically traded funds that helped steer investment into pgms. The US ETF was launched in early 2010.

## Prices

The platinum price fell precipitously to below US\$850 an ounce in November 2008, having traded above US\$2 000 an ounce just five months earlier. The volatility of the latter part of 2008 was replaced by a period of consolidation in 2009 as the world economy improved. Lower platinum prices and risk aversion by investors led to a large increases in demand for platinum jewellery and investment. This helped restore balance to the market and the platinum price recovered to

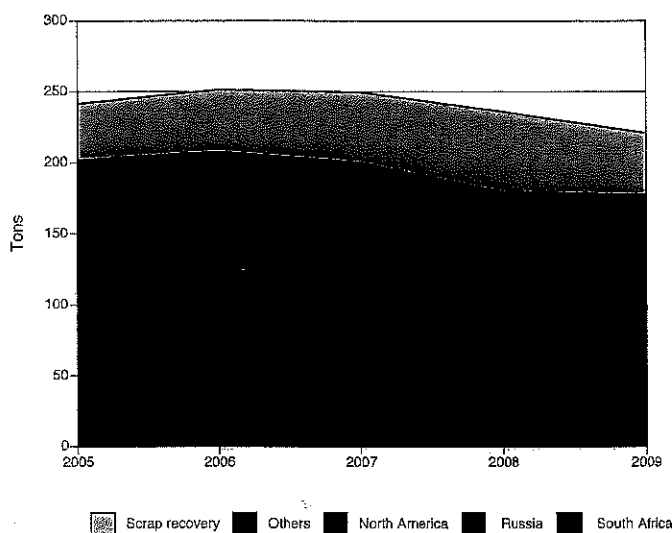
US\$1 500 an ounce by the end of 2009. Overall, the platinum price was 24% lower at US\$1 199 an ounce in 2009 than in 2008. In the first half of 2010, the platinum price rose 44.9% to an average of US\$1 600 an ounce and the production weighted pgm price for South African production increased by 58.5% to US\$1 377 per 3E ounce, when compared to the first half of 2009.

The marginal depreciation in the rand exchange rate of 2.2% to R8.44/US\$, made little difference to the fall in dollar prices. As a result the production weighted rand basket price for pgms fell by 34.6% to R246 337 per 3E kilogram of pgms produced. In the first half of 2010, the South African production weighted basket price improved by 30.2% to R323 379 per 3E kilogram on the back of a recovery in dollar prices.



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### Platinum supply by source



### South African pgm production, sales and exports

Most of the correction to pgm production by South African producers in response to the global crisis occurred in 2008, where the country's total pgm production declined by 9.3% to 275.8 tons. In 2009, total South Africa pgm production fell by 1.6% to 271.4 tons, as certain production from higher cost mines was constrained. In the first half of 2010, South African pgm production fell by 2.1% on a year-on-year basis, attributable to slightly lower average grades and the impact of a furnace shutdown, which impacted on total refined metal production.

Total South African sales of pgms, with slightly lower production volumes and much lower prices, fell by 36.7% to R57.8-billion, a substantial decline in the overall revenue of the sector when

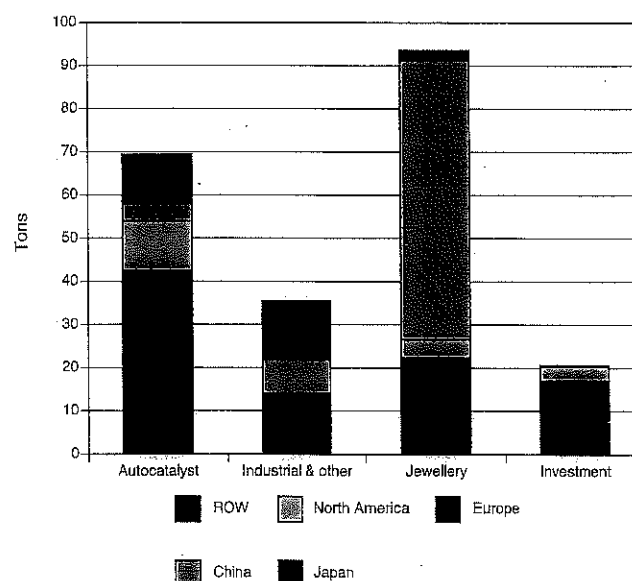
compared to the R91.4-billion achieved in 2008.

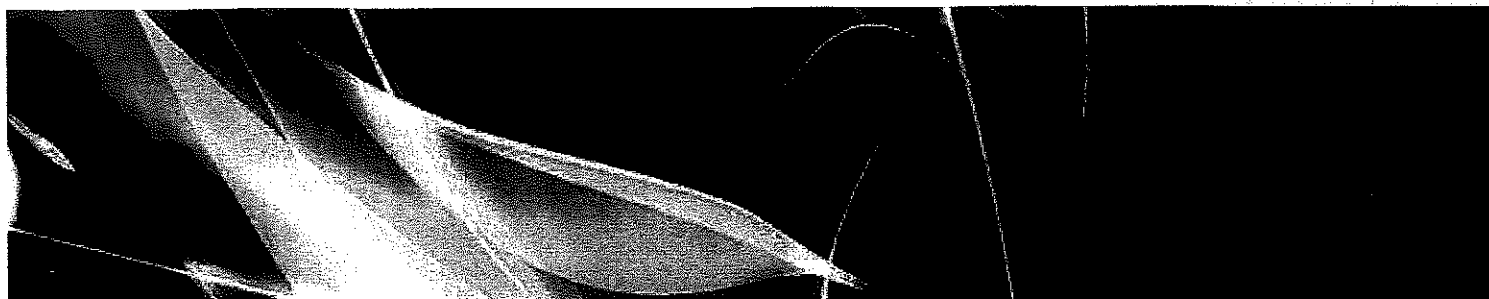
Local sales of pgms to the domestic catalytic converter fabrication industry fell by 67.9% to R4.3-billion. The total volume of pgms exported from South Africa in 2009 increased by 12.5% to 251 tons as the slack in local sales was compensated for by foreign exports. However, lower prices meant that the export sales value actually fell by 31.4% to R53.5-billion. Both the domestic catalytic converter fabrication and the global automotive industries have recovered from their lows of 2008/2009.

### Platinum

The platinum market swung from a modest 6.8 ton deficit in 2008 to an 8.5 ton surplus in 2009 as a result of the 8.5% decline in demand overshadowed the 0.3% drop in total supply. New mine supply of platinum fell by 0.3% to 184.1 tons

### Platinum demand by application and country/region





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as the stabilisation in South African supply, which grew 0.3% to 140.9 tons and the 27.8% rise in Zimbabwe's production to 7.2 tons offset the 2.5% decline in Russia's production (24.4 tons) and North American production which fell 20% to 8.1 tons. The recycling of platinum scrap declined by 23.2% to 43.7 tons, but this still remained the second largest source of supply after South Africa.

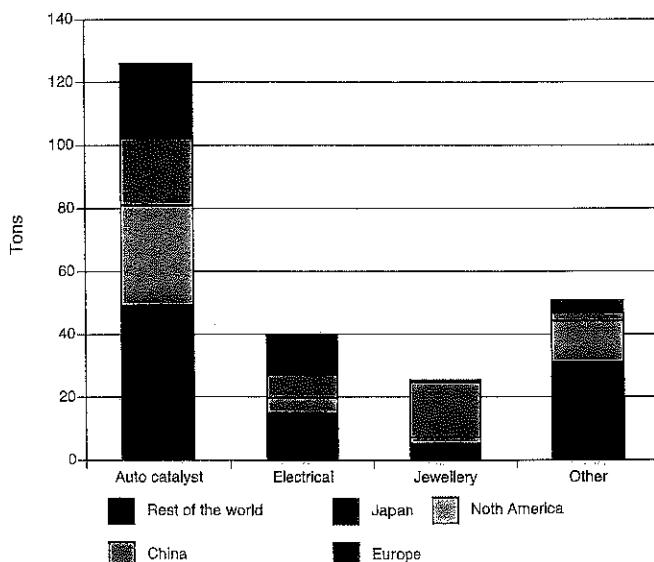
Total demand fell by 8.5% to 175.3 tons, mostly as a result of the slump in global automobile production. A small degree of substitution of palladium into diesel catalytic converters also impacted on platinum demand. In the first half of 2009, automotive manufacturers cut back on demand and concentrated on reducing inventories. By the second half of 2009, the rebuilding of inventories and government incentive

schemes helped support the recovery. Demand for platinum for industrial purposes fell by 33.7% to 35.5 tons as lower activity in the electrical, chemical, glass and petroleum sectors affected offtake.

Demand for platinum in jewellery rose by 46.1% to 93.6 tons on the back of lower prices and strong consumer demand in China, while investment demand rose by 18.9% to 20.5 tons as investors sought the safe havens of precious metals.

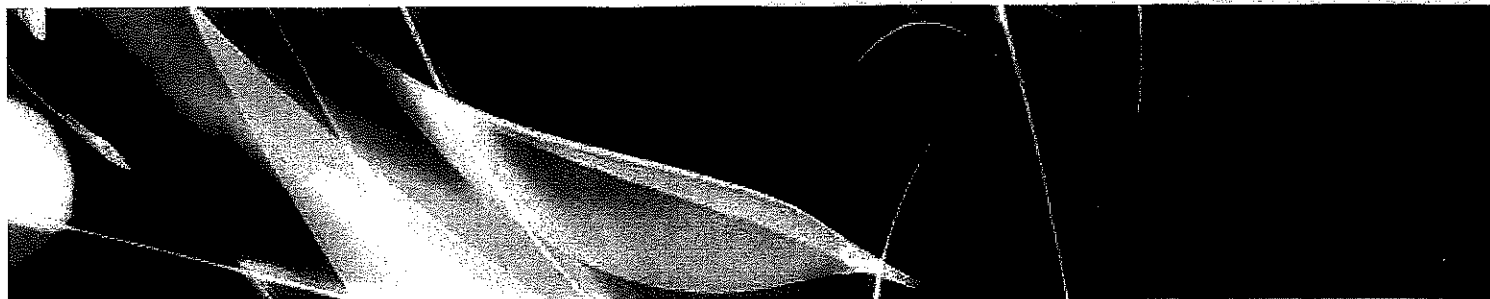
Unlike the volatility in 2008, 2009 was characterised by a steady recovery in the platinum market as the global economy improved. Platinum started 2009 at US\$956 an ounce on average in January and ended the year at US\$1 450 an ounce on average in December. The price averaged US\$1 199 an ounce in 2009, a 24% decline on 2008. The average rand price fell by 22.3% to R324 924 per kilogram in 2009. In the first half of 2010, the higher dollar platinum price, which rose by 44.9% on a year-on-year basis to US\$1 601 an ounce, resulted in the rand price of platinum rising by 30.2% to R387 237 per kilogram.

**Palladium demand by application and country/region, 2009**



## Palladium

In 2009, the palladium market remained oversupplied with 23.6 tons added to stocks. This was because of the supply of palladium falling at a slower pace (down 2.9% to 220.8 tons) than the decline in demand, which fell by 5% to 197.2 tons. Primary mine supply shrank by 2.9% to 220.8 tons as the 28.6% rise in Zimbabwe's production to 5.6 tons was overshadowed by the 2.5% drop in South African production to 73.7 tons, the fall



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in Russia's production by 0.7% to 113.1 tons and the 17% decline in North America's production to 23.5 tons. Russia's stock sales were 29.8 tons in 2009 and the likelihood is that the drawdown of Russian stockpiles is ending.

Demand side categories of palladium declined, with the exception of investment demand, which increased by 48.8% to 19.4 tons. Total demand, excluding scrap, fell by 5% to 197.2 tons. Hardest hit was palladium for jewellery, which fell by 17.3% to 25.3 tons, followed by the 9.3% drop in demand for catalytic converters to 126 tons. Fortunately, the strong growth in China's production of automobiles resulted in a 75.6% increase to 21.3 tons, which helped compensate for the large declines in Japan and North America.

In many respects the palladium price mirrored the movements in the platinum price during the course of 2009. Palladium performed relatively strongly during the year, riding the wave of the improved fundamentals related to the global recovery, the positive performance of precious metals and the weakening United States dollar. Strong flows into exchange traded funds helped boost investment and cover other areas of weakening demand. The palladium price started the year at an average of US\$189.64 an ounce in January and ended the year over double this level at an average of US\$375.36 an ounce in December. The palladium price averaged US\$264 an ounce for 2009, a year-on-year decline of 25%.

The price had recovered to about US\$535 an ounce by April 2010, with an average of US\$470 an ounce. In rand terms the palladium price

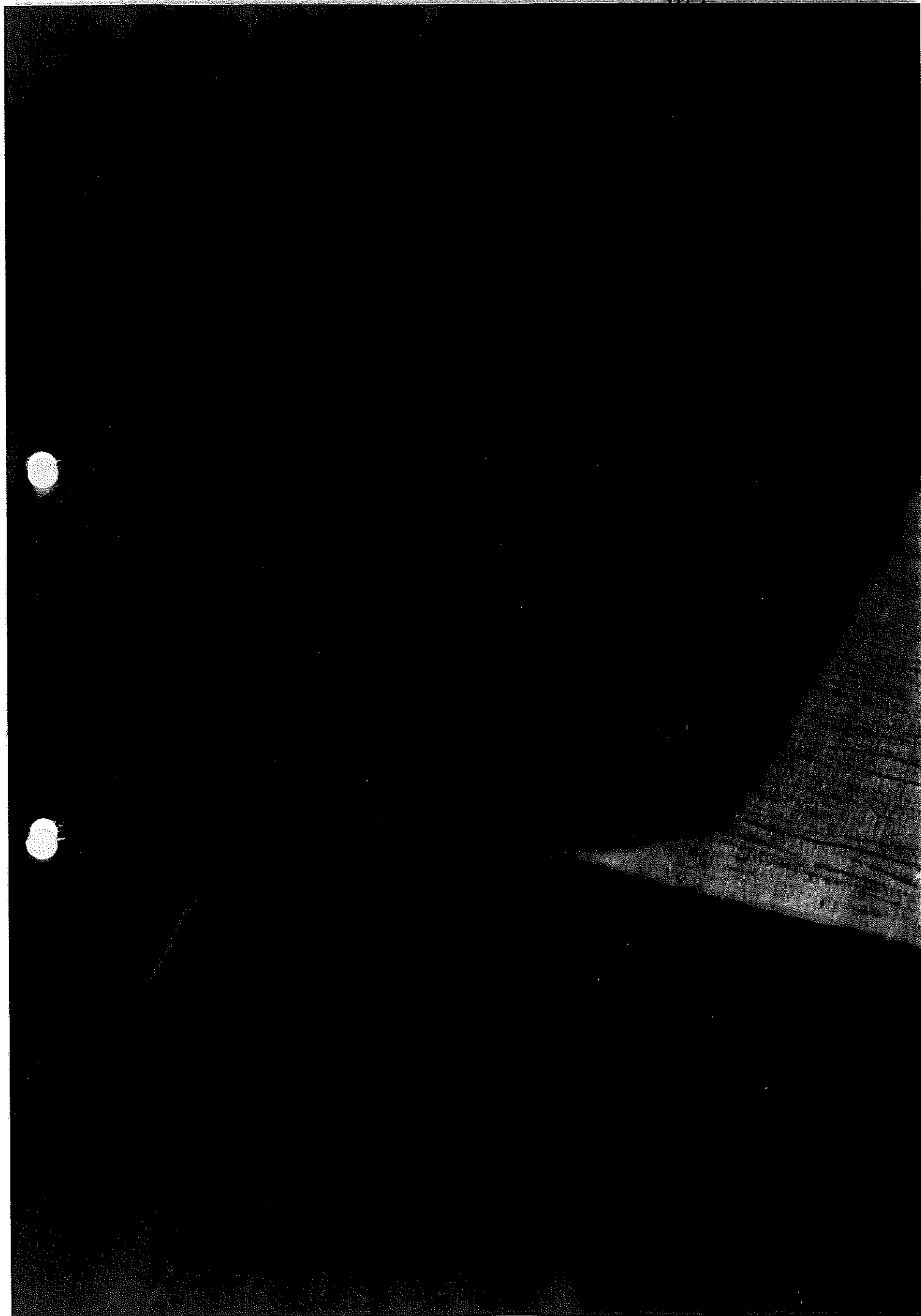
averaged R70 491 per kilogram in 2009, but this rose to an average of R113 673 per kilogram in the first half of 2010.

## Rhodium

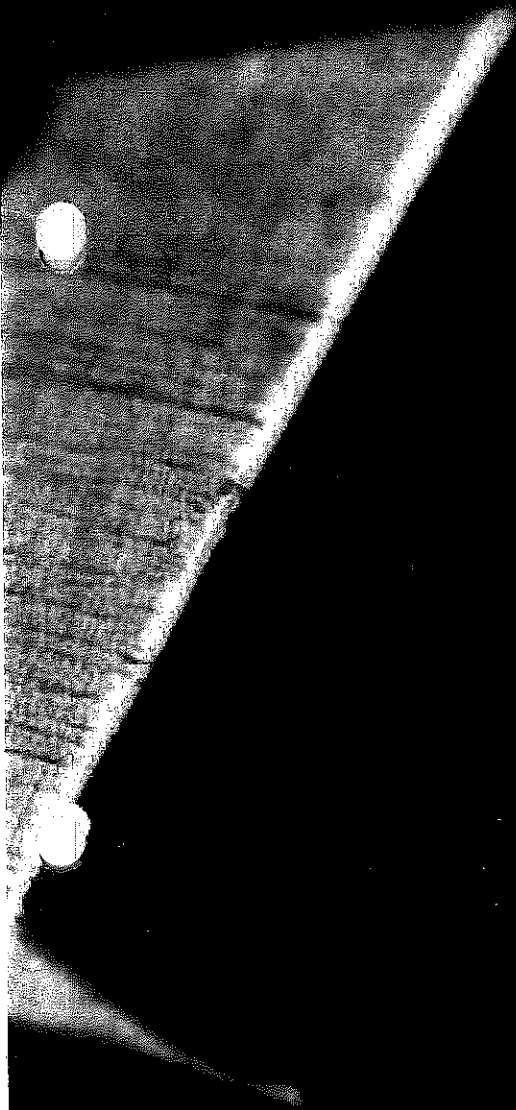
The rhodium market was also oversupplied in 2009, as a 10.8% increase in supply to 23.9 tons generated a surplus. Demand fell by 21% to 16.5 tons. Almost 7.5 tons was added to stockpiles in 2009. Given the dominance of automotive uses of rhodium, which account for about 86% of demand, the rhodium market was especially hard hit by the impact of the global economic crisis on new car production. Gross demand for rhodium for the automotive sector fell by 19.4% to 19.3 tons, while demand for industrial purposes fell by 24.8% to 3 tons.

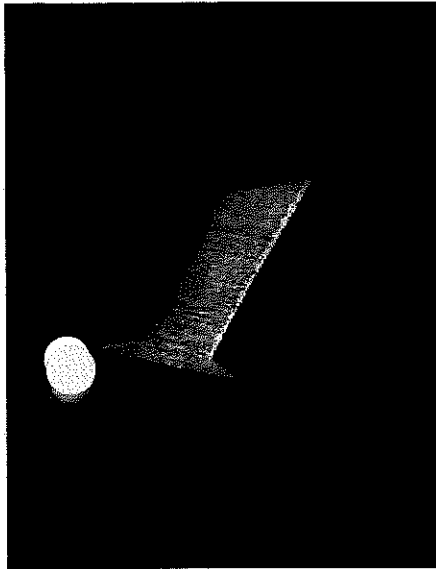
Primary supply of rhodium grew by 10.8% to 23.9 tons. South Africa's production, increased by 15.5% to 20.6 tons and, together with an increase in Zimbabwe's production, offset declines in North America and Russia. Scrap recovery fell by 17.6% to 5.8 tons, the first such decline in over 20 years.

The rhodium price averaged US\$1 592 an ounce in 2009, a 75.7% decline on the previous year's price of US\$6 564 an ounce. Rhodium started the year at an average of US\$1 152 an ounce in January and ended the year at an average of US\$2 422 an ounce in December. In the first half of 2010, the rhodium price rose to an average of US\$2 633 an ounce. In rand terms the price averaged R386 880 per kilogram in 2009 and increased to R636 833 per kilogram in the first half of 2010.



# economic policy





## The world economy, emerging from recession

**A**s described in the economic overview, the world economy is recovering from its worst recession in 61 years and there are risks to its fragile recovery. Economic growth remains relatively

weak in many of the large advanced economies, as high levels of unemployment and low consumer confidence are holding back faster growth, while the developing countries move ahead at relatively high economic growth rates. While regulators are scrambling to pick up the pieces there is a real risk that the pendulum of regulation will swing towards over-regulation, which in turn could depress potential growth in many countries. The need to improve early warning systems about potential financial bubbles will require better surveillance and smarter regulations.

While the corporate sectors in most advanced economies have strengthened balance sheets and improved productivity, investment growth has remained constrained as investors wait for a sustained pick-up in consumer confidence and spending. The need for fiscal consolidation and the gradual withdrawal of fiscal support measures will also depend on the pace of recovery.

Developing countries, led by China and India,

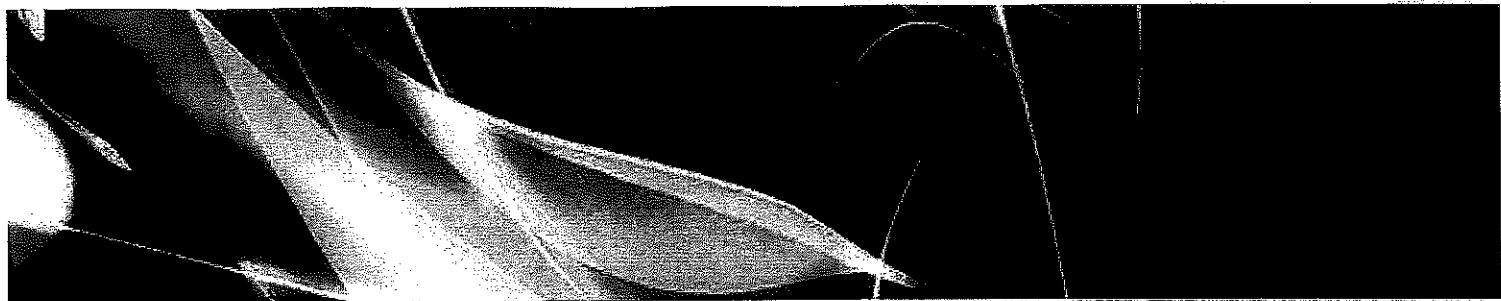
have rebounded from the financial crisis and are achieving high growth rates driven by their own domestic priorities and some recovery in advanced economies. In particular, urbanisation and industrialisation continue to drive high investment and growth rates.

## The likely pace of the economic recovery

Research by professors Rogoff and Reinhart highlighted that each of the banking crises since the last world war were generally protracted affairs that shared three characteristics. First, the aftermath of banking crises was usually followed by large declines in output and employment. On average, output in the country concerned fell by about 9% over a period of two years (from peak to trough), while the average unemployment rate rose by over 7% over the down phase of the cycle with the higher unemployment rate lasting for on average of four years. Secondly, the collapse in asset prices was large and prolonged. Real housing prices fell by an average of 35% and took about six years to recover. Prices of equities fell on average over 55% and took three to four years to recover. Thirdly, there was generally a rise of 86% in public sector debt following such crises, as aggressive countercyclical fiscal policies combined with lower income tax receipts balloon deficits and debt levels.

The 2008 global crisis appears to be no different as large share price, housing price, output and employment declines in the United States and Europe, combined with large deficits and ballooning debt levels were experienced.





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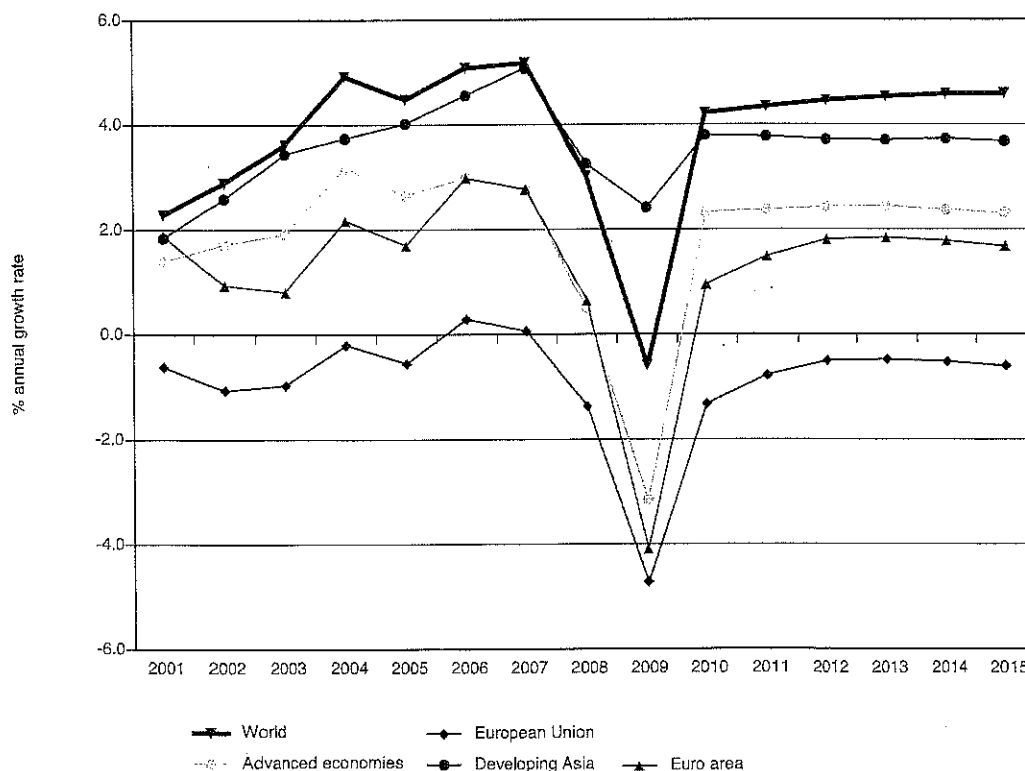
While it is correct to state that more flexible monetary and fiscal policies have helped countries avoid another great depression, the fallout of the global financial crisis on asset prices and employment levels will be felt for some years to come. The advanced economy consumer is likely to constrain growth over the next few years. According to the IMF, economic growth in the advanced economies is expected to be around 2% a year in the period 2010 to 2014, while emerging Asian economies are expected to grow at over 8% a year during that period.

### Impact of the recession on South Africa

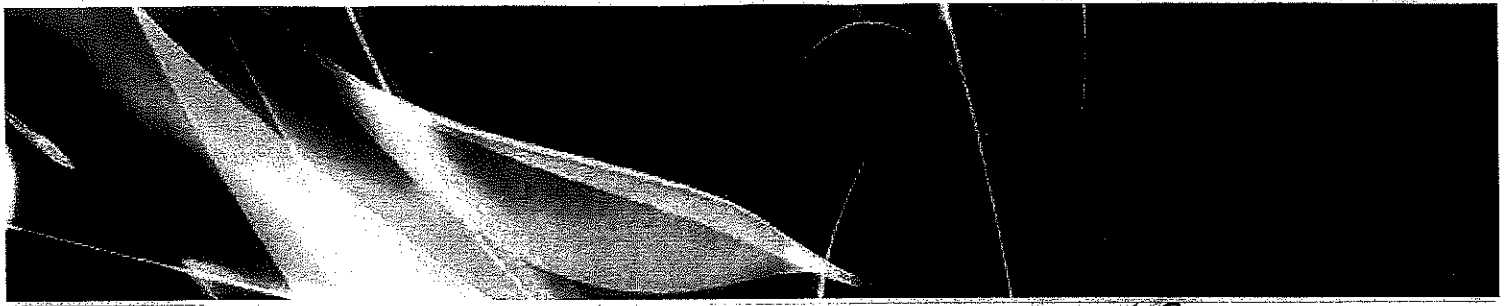
South Africa's economy shrank by 1.8% in 2009

as exports fell by 19.5% and consumers continued to trim expenditure, which fell by 3.1% in real terms. Hardest hit were the mining (down 7.2%), manufacturing (down 10.7%), agriculture (down 3.2%) and trade sectors (down 2.9%). Fortunately the use of countercyclical fiscal policy, which boosted government consumption and capital expenditure, was able to provide at least some cushion to declines in consumer expenditure at the household level and the sharp cutback in capital investment by the private sector. South Africa experienced a fairly quick recovery, with economic growth rising to 3.9% on a year-on-year basis. Unfortunately, the country's tradable export sectors (mining and manufacturing) continue to shrink because of weak conditions in key advanced

IMF outlook for world economic growth in key regions

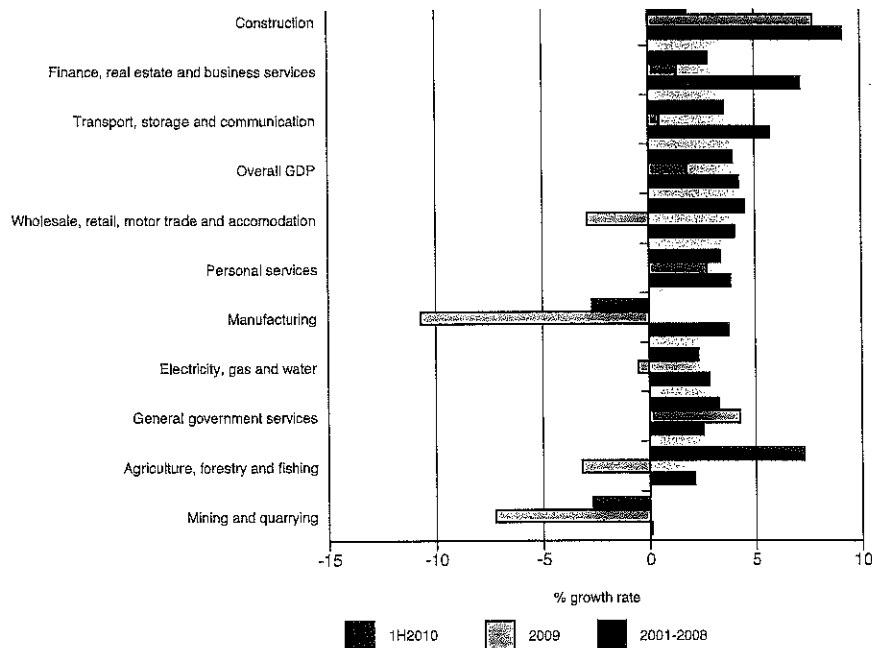


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### South Africa: sector GDP growth rates in real terms, average 2001 to 2008, 2009 and the first half of 2010 (1H2010)



economy export markets and domestic factors.

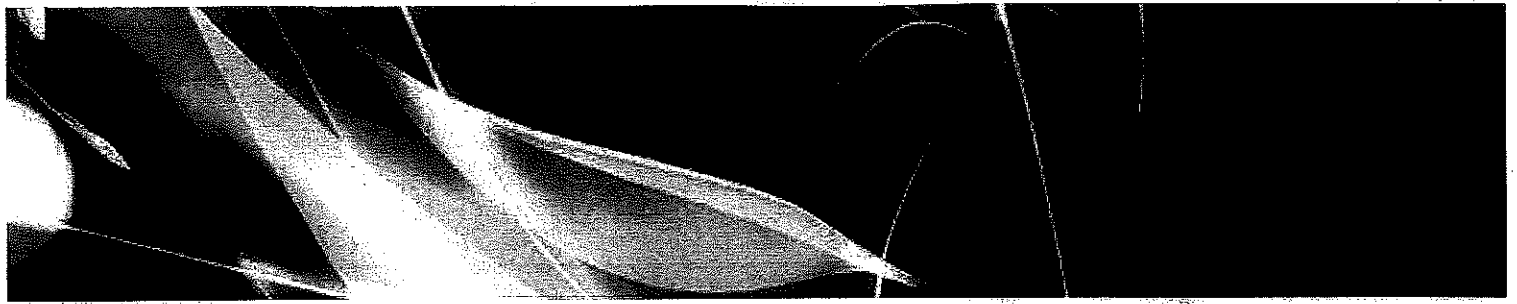
### South Africa's economic growth rate remains unbalanced

South Africa's economy is increasingly taking on the profile of an advanced economy and is being driven more by services and consumer demand than it is by the productive export sectors. Consumer expenditure makes up 60% of South Africa's GDP, which is comparable to the 70% share in the United States. The problem with this profile is that the United States is an advanced economy with a very high GDP per capita, whereas South Africa is a developing country with a low per capita GDP. The defining features of the economic growth model of the United States is a credit fuelled, consumer driven, import intensive model that creates large external imbalances. In South Africa, the

non-tradable service sectors of the economy grew by an average of 3.8% a year between 1994 and the first half of 2010, versus a much more modest 1.6% growth rate for the country's tradable export sectors in the same period.

The difficulty is that the high levels of growth in the non-tradable service sectors of the economy are import intensive; resulting in a growing level of imports and increasing external and internal imbalances.

The two biggest problems of a growth model, mostly based on consumer demand and services, is that it normally provides employment for skilled and semi-skilled workers, often on a casual or temporary basis, and secondly it leads to the build-up of imbalances. The tradable sectors provide work opportunities mostly for the unskilled



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and semi-skilled workers, which is the category where most of South Africa's unemployed people find themselves. The tradable sectors, if they are able to grow at a similar pace to the non-tradable sectors, can materially reduce external imbalances and provide incomes that support the demand side of the economy.

Government and business recognise that a more balanced economic growth profile, where the non-tradable and tradable sectors grow at a similar rate, is preferable to an imbalanced growth profile. In effect, it is important that the tradable sectors should be provided with an enabling environment to achieve growth rates similar to those of the non-tradable sectors.

### **Balanced economic growth is key**

South Africa's GDP is currently US\$280-billion, and with a population of 49.9 million people this equates to a nominal GDP per capita of US\$5 600 per person. Based on the country's current growth trajectory of 3.3% per annum, the economy will only double in size every 21 years. Based on an assumed growth rate in the country's population of 1% per annum, the country would then only achieve a GDP per capita above US\$10 000 by 2035.

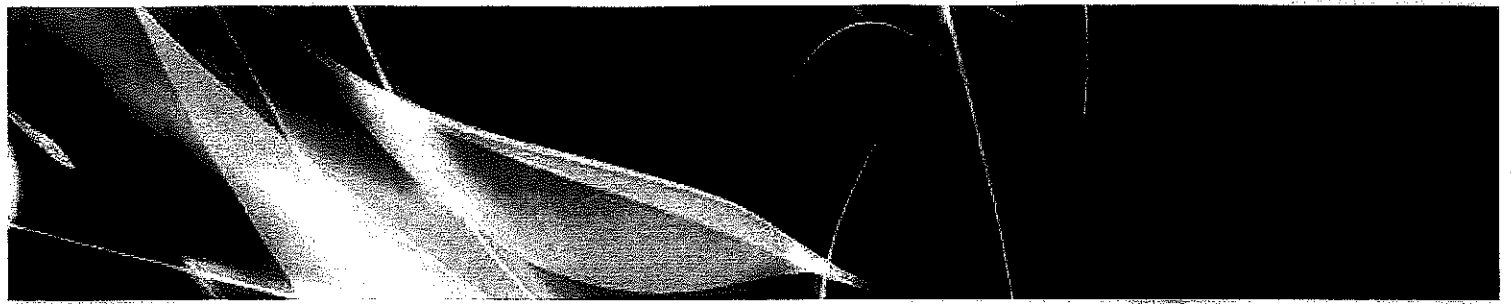
At a 6% annual growth rate the economy would double in size every 12 years (reaching US\$560-billion by 2022) and the per capita GDP would rise to US\$10 204 per person by 2022. Beyond a certain GDP growth level an economy starts creating employment. More economic value (GDP), plus greater numbers of people employed equals rising

living standards and lower levels of unemployment and poverty.

Between 2002 and 2008, the economy grew at an average of 4.5% per annum and 286 142 jobs a year were created in that period. A 6% growth rate could imply an extra 400 000 to 500 000 jobs a year, although further work on the labour absorption rate of a high growth is required. Thus, South Africa needs a much higher level of economic growth to deal with the country's high unemployment and poverty rates.

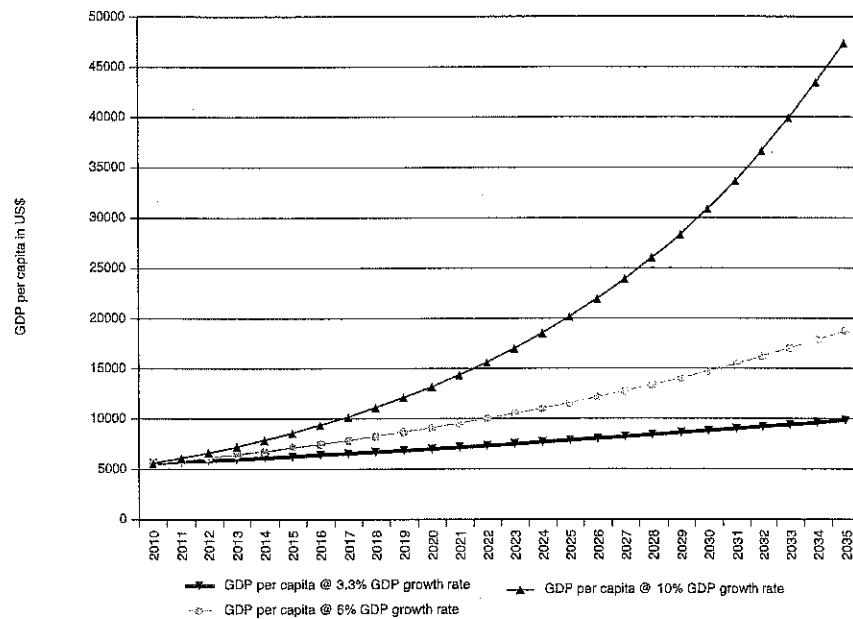
Higher levels of sustainable and balanced growth will require higher levels of fixed investment, which in turn require a facilitative and competitive investment environment. The government's prudent macro-economic policies are conducive to supporting long-term investment and should not be changed. Rather, it is at the micro-economic level where the restrictions to investment are to be found, including infrastructure constraints, regulatory red tape, institutional capacity challenges and human capital limitations. The principle of promoting collaborative partnerships must be applied to the micro-economic constraints.

For an economy to grow sustainably at over 5% per annum, an investment rate of 25% of GDP is required. South Africa's investment rate is currently about 20.9% of GDP. Given the country's infrastructural capacity constraints, it could be argued that a fixed investment rate of closer to 30% of GDP would be required to support and sustain a higher growth rate. This would require collaborative partnerships to drive investment in under-capacitated infrastructure and in the private sector.



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### Scenarios for South African GDP per capita based on 3.3%, 6% and 10% per annum GDP growth rates



The country had a low savings rate of only 15.4% of GDP in 2009, and had to borrow the balance from wealthy countries. This resulted in a 5.5% current account deficit. To achieve higher rates of fixed investment, the country will need sustained higher investment rates by the public and private sectors, a higher rate of domestic savings and the attraction of foreign capital to fund the savings investment gap.

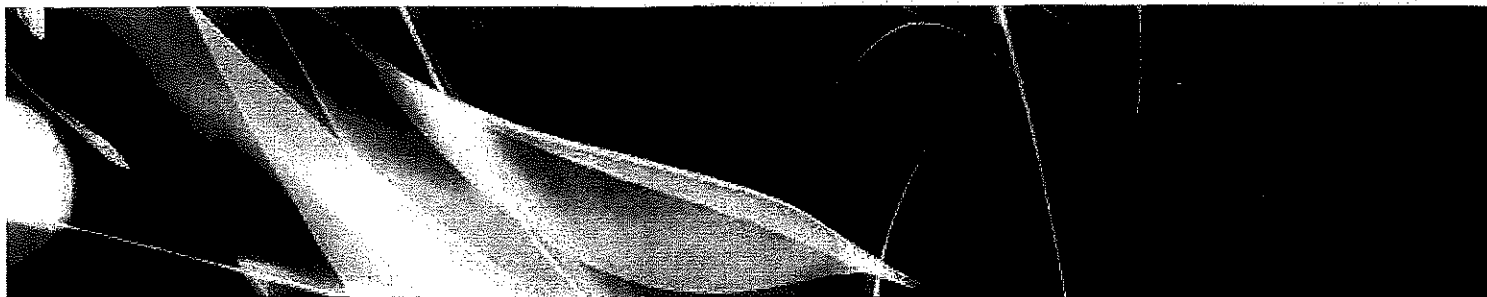
South Africa underperformed compared to the global economy in 2009, when the economy shrank by 1.8% versus the decline of 0.6% recorded at the global level.

### Domestic investment growth has stalled

South Africa's private sector responded to the recession by cutting investment and capital programmes and real private sector investment

spending fell by 7% in 2009 to R233-billion. Large growth in real fixed investment spending by state owned enterprises, whose investment rose by 40.7% to R93.5-billion, helped negate the fall in private sector investment spending. General government spending on fixed investment fell by 1.2% to R59-billion. Overall total real fixed investment expenditure increased by 2.4% in 2009.

During the high growth period of 2002 to 2007, South Africa's economy grew at a rate above the country's actual economic growth potential (5% versus 3.5% to 4%), with the result that spare capacity in a number of infrastructure industries, such as the electricity and rail sectors, was eroded. The infrastructure programme for the 2010 Soccer World Cup, the Eskom and Transnet capital programmes and the Gautrain project, contributed



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to the rise in public corporation fixed investment. However, the slowdown in the rate of growth in fixed investment spending by public corporations in the first half of 2010, combined with a further 5.7% decline in private sector fixed investment spending, resulted in overall fixed investment spending declining by 2% in that period.

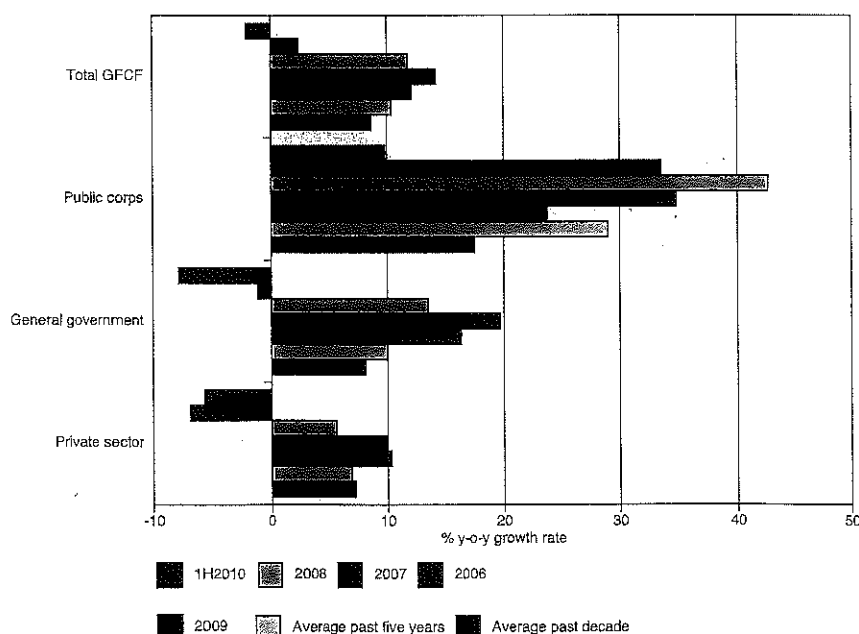
The recent decline in the growth rate of real fixed investment spending must be seen in the context of the impact of the economic downturn and domestic constraints affecting local investment. For example, with a tight and declining electricity supply reserve margin, it is difficult for private sector companies to grow investment in electricity intensive industries. There are a number of factors that will need to be dealt with if investment is to grow at a much faster pace. In particular, regulatory red tape such as the delays in the issuance of water use licences or in the processes surrounding environmental impact

assessments, have affected the building of power stations and delayed mining projects. Despite several commitments by government to reduce red tape and lower the costs of doing business in South Africa, actual progress has been slow.

### Micro-economic reform is key to higher growth

According to the World Bank publication, *Doing Business 2010*, South Africa ranked 34 out of 181 countries in terms of the ease of doing business in 2009. However, hidden in the numbers are some areas where improvements are required. For example, while the country is highly rated in terms of protecting investors (world rank of 10) because of the extent of corporate disclosure and corporate governance, it scores poorly in a number of areas that are also critical to investment, including trading across borders (world rank 148), the ease of

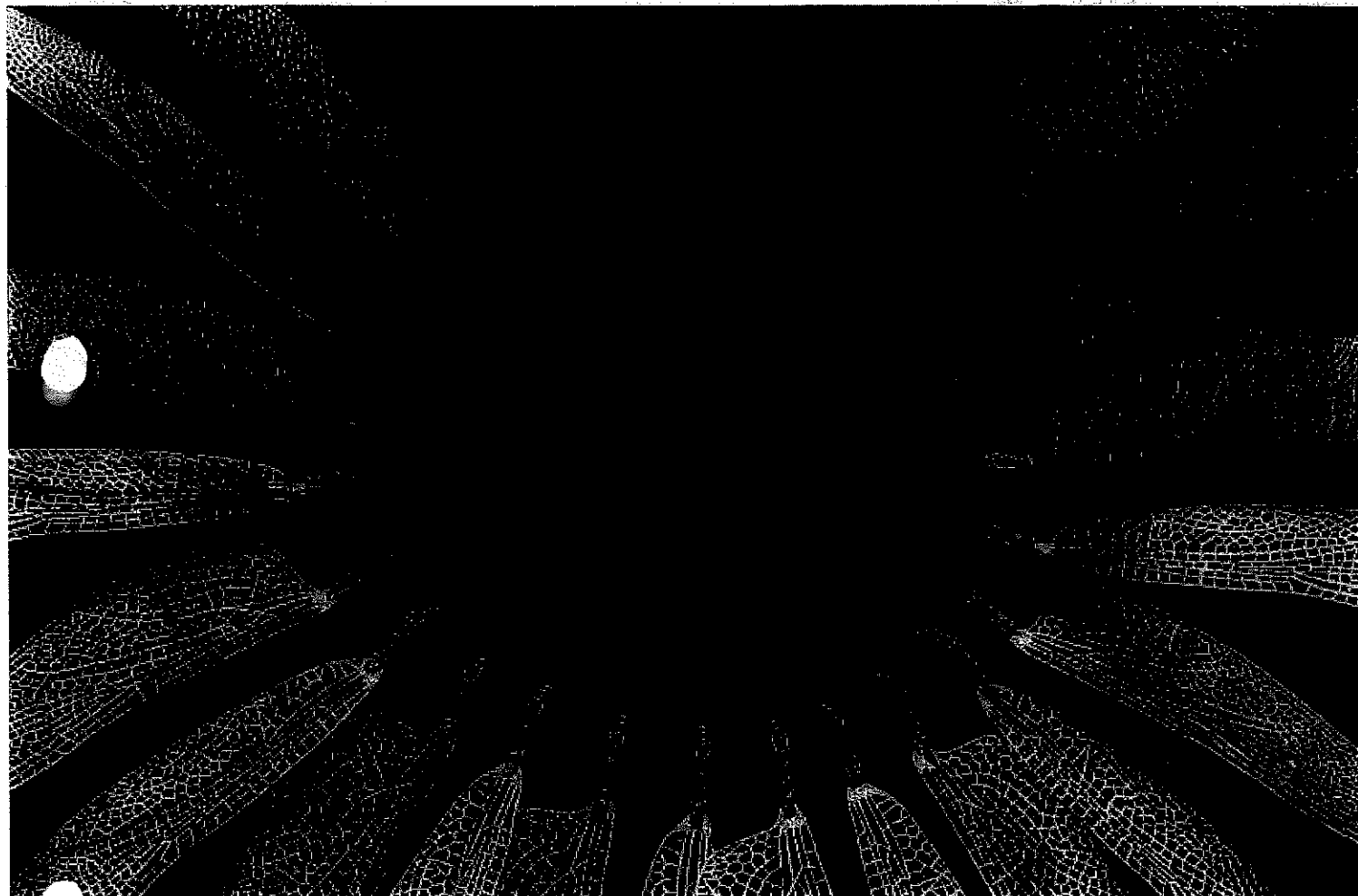
**Growth rates in real fixed investment (GFCF), averages for past decade, past five years, past two years and past year**



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employing workers (102), registering a property (90 and costing 8.8% of the property value), closing a business (76), starting a business (67), dealing with construction permits (52) and enforcing contracts (85).

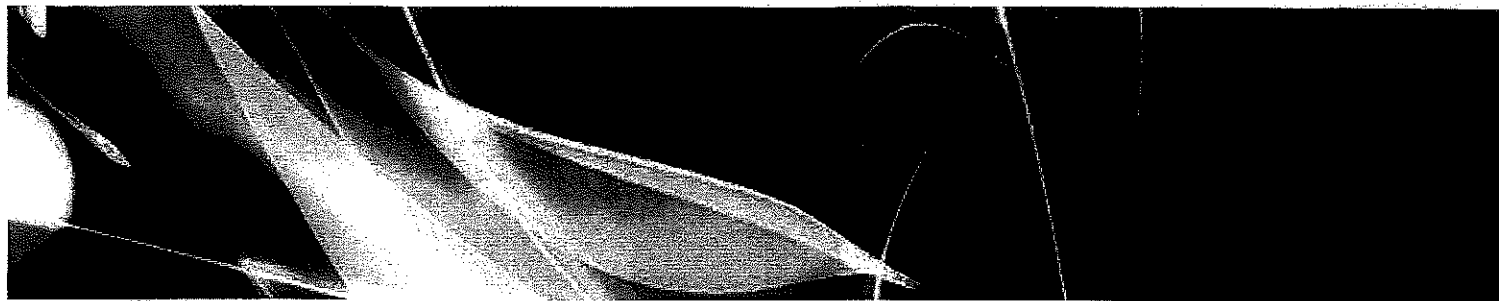
South African policy makers and regulators need to build on the country's strengths and must aim to get all key "Costs of doing business criteria" into the top quartile of the global rankings. Issues such as the high cost of registering a property or high cost of starting a business must be resolved. Where legislation and regulations are not working, such as in the case of environmental legislation,

comprehensive reviews must be undertaken and remedial measures initiated.

### **Inputs on economic policy**

During the course of the review period, the Chamber continued to be involved in providing input on economic issues to various national processes. The Chamber participates in the Standing Committee on Economic Policy in Busa and, via Busa, provides input into Nedlac.

The Chamber participated in presentations to parliament on the national budget (economic assessment of the budget), an economic response



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to the budget to the minister of finance in the Nedlac Council meetings, etc. The Chamber provided input to the development of a New Economic Policy for South Africa, which should be released by the Department of Economic Development in late 2010.

### **The Mineral Royalty Act**

As part of the minerals policy reform process, the government began work on a royalty tax in 2003, whereby the state would be able charge mining companies a severance tax for the extraction of non-renewable mineral resources. Many discussions were held between the Chamber and Treasury over the following six years and the final Royalty Act was passed by parliament in 2009. Treasury postponed the implementation of the Royalty Act to 1 March 2010. The various parties to the discussions believe that what has emerged is a cutting-edge royalty system based on the revenue and viability of a company, but which automatically covers the requirements of providing relief to start-up companies or marginal mines. The royalty system has minimum and maximum rates for refined and unrefined minerals, which effectively means that during bull markets the state would receive a high royalty and during bear markets a lower rate would be calculated. During the period under review the Chamber engaged with Treasury and SARS on technical amendments to the Act and implementation issues.

### **Beneficiation**

During the period under review, the multi-governmental task team, led by the DMR, produced the final version of the *Beneficiation Strategy for*

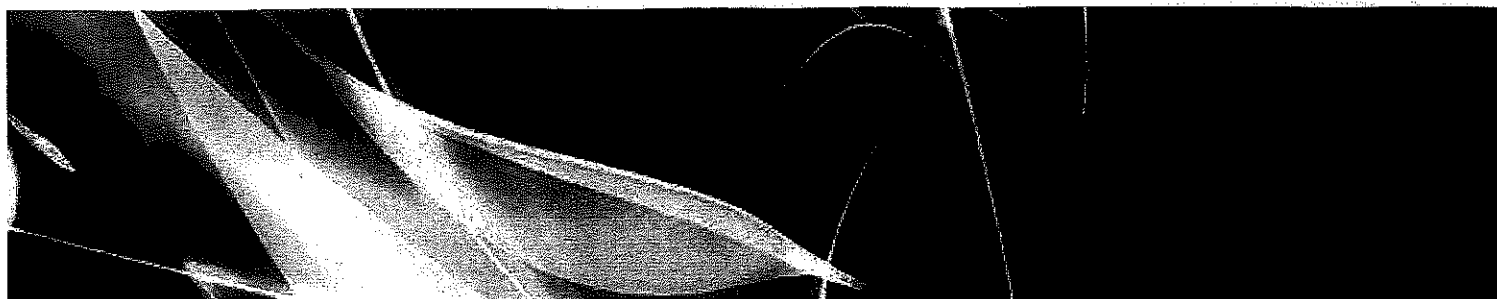
*South Africa*. This high-level strategy proposes that task teams are established for each of the top 10 minerals and that they each undertake detailed investigation into the beneficiation potential of the mineral concerned. The DMR expects that all the commodity task teams should have completed their work by 2011.

The Chamber provided input into the industrial policy formulation process, the various drafts of the beneficiation strategy, the iron ore task team and serves on the board of the Precious Metals and Diamonds Regulator.

### **The national electricity emergency**

South Africa's electricity supply situation remains constrained with a small total reserve margin of less than 10%. Given that very little extra base load generating capacity will come on stream until 2012, the next two years will be challenging as the reserve margin narrows in response to the growing economy. Of particular concern is the lack of electricity availability for new projects, which will harm the development of new electricity intensive projects. Key issues such as developing a comprehensive electricity plan for the country, facilitating the entry of private power producers, the more aggressive implementation of energy efficiency measures, and managing the escalation of electricity prices have been key focus areas for the Chamber.

The Chamber participated in most of the structures established to deal with the crisis, including participating in the National Stakeholder Advisory Council on Electricity, the National



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Electricity Response team, the Eskom Technical task teams and by participating in the Busa task team on electricity.

### Energy planning

Section 34 of the Electricity Regulation Act, No. 4 of 2006, provides that the minister of energy may, in consultation with the National Energy Regulator of South Africa (NERSA), determine that new generation capacity is needed to ensure the continued uninterrupted supply of electricity, the types of energy sources from which electricity must be generated, and the percentages of electricity that must be generated from such sources. The regulator, in issuing a generation licence, is bound by any such determination.

During December 2009, the minister published an Integrated Resource Plan (IRP) drafted in terms of the Act. There was no consultation with the mining industry or organised business prior to the release of this plan. According to the Department of Energy, the purpose of the plan was to allow the regulator to continue issuing licences. The department, however, also stated that it would initiate a process during 2010 to review this IRP in consultation with stakeholders.

The stakeholder engagement process commenced during May 2010, with the release for comment of input parameters for an integrated electricity plan. These input parameters had been identified as critical to the modelling process for the IRP. The Chamber submitted appropriate comment and a draft integrated electricity plan will be released for further comment by October 2010.

### Electricity supply

There were no major disruptions in the supply of electricity by Eskom during the period under review. This was partially because of the decreased demand for electricity in the aftermath of the global recession and the fact that Eskom had increased its net maximum generation capacity from 38 747 MW in 2008 to 40 870 MW in 2010. However, the average reserve margin remained below 10%, indicating a precarious demand/supply situation.

Eskom expects to commission an additional 1 000 MW of generation capacity during the 12 months to 31 March 2011, followed by the next tranche of new generation capacity during 2012 if the construction of the first new power station, Medupi, remains on schedule. Medupi is to be followed by another new power station, Kusile, which is also under construction. Eskom is experiencing problems in obtaining sufficient financing to complete Kusile, although these funding issues should be resolved with government in due course. The supply of electricity will remain constrained until 2016.

Several proposals for the supply of electricity to the national system from enterprises with the capacity to co-generate electricity, as well as from prospective independent power producers have been made during the past few years. Few of these have materialised, mainly because Eskom, in its conflicting roles as the system operator and as a supplier of electricity, appears reluctant to create the conditions that will allow the prospective suppliers access to the system. In an effort to resolve this situation, the minister of energy recently announced that an independent system operator





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would be established.

The introduction of some form of compulsory power conservation scheme during the next five years appears likely. The Chamber and its members are engaged in various forums such as the Energy Intensive Users Group, Busa and others, to prepare for such an eventuality.

### Electricity pricing

On 30 September 2009, Eskom's first application for the multi-year price determination period from 2010 to 2012 (MYPD 2) was released for public comment. The application proposed price hikes of 45% a year for the MYPD 2 period. Following various consultations, a revised Eskom application was released on 30 November 2009, which proposed increases of 35% a year over a three-year period. NERSA requested interested parties to submit comment on the Eskom application. Written submissions were to be followed by a series of public hearings during January 2010.

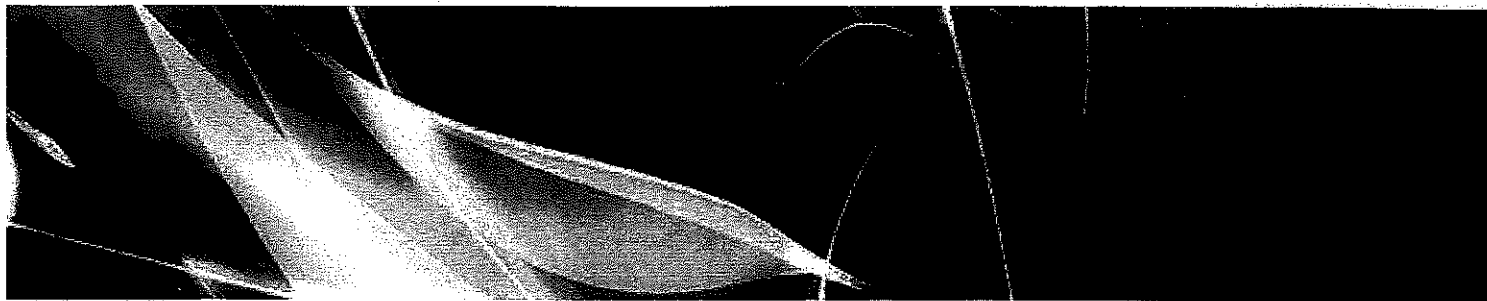
The Chamber submitted written comment on the application by Eskom and presented its views at the public hearings. It also participated in discussions on the envisaged electricity price increases with NERSA, the Department of Energy, National Treasury, the National Electricity Response Team and the National Stakeholder Council on Electricity. The Chamber also engaged in the debate with other business institutions such as Busa, Business Leadership SA and the Electricity Intensive Users Group.

In its submission to NERSA, the Chamber made the following fundamental points:

- The MYPD2 application, in the absence of a finalised national IRP for the economy, effectively meant that important funding decisions that would affect the electricity supply industry for the next few decades were being made without an overall energy plan. At best the existing MYPD2 application could only be an interim arrangement until the IRP was finalised
- Price increases of the magnitude envisaged by Eskom would have a deleterious impact on the economy and the mining sector in particular. Much of the negative impact would be contrary to the growth, investment, industrialisation, beneficiation and employment objectives and aspirations of government.

The Chamber's submission covered a wide range of issues, but focused on two major issues in the MYPD 2 application that materially affect the proposed future electricity price trajectory. Two issues in particular raise serious concerns about the application:

- First, Eskom revalued existing assets in the middle of their operating lives thus realising a huge revaluation windfall. The methodology used by Eskom to revalue its assets is normally only used in fully privatised and deregulated electricity markets and is not applied worldwide to vertically integrated public monopolies. This revaluation more than doubled Eskom's regulated asset base and resulted in a rise in the claim by Eskom for depreciation to R31-billion in 2010, versus only R7-billion if the traditional



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inflation adjusted historic cost valuation methodology was applied

- Secondly, Eskom proposed a real pre-tax weighted cost of capital of 10.3%, which, when applied against the regulatory asset base, would result in a significant return on capital values by the third year of the MYPD 2 period. This compares to the 7.3% weighted average cost of capital adopted by Nersa in MYPD 1. The 10.3% real pre-tax weighted average cost of capital is out of synchronisation with the generally lower weighted average cost of capital applied to regulated monopoly businesses where the production technologies are well known and where the risks are low.

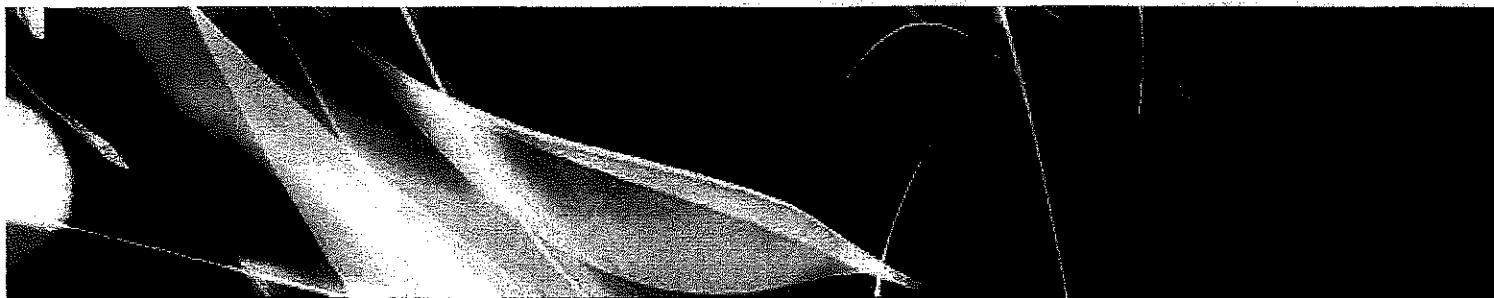
The Chamber therefore recommended that:

- NERSA pay special attention to the windfall

gain made by Eskom, by revaluing its assets in terms of the Modern Equivalent Asset value methodology. Eskom is a 100% state owned and controlled vertically integrated public utility and comparable utilities in countries such as Japan and France employ the inflation adjusted historic cost methodology

- NERSA also fully unpack the weighted average cost of capital calculation made by Eskom. The Chamber believes that the 10.3% level applied by Eskom would be relevant for a higher risk privately owned company. The real pre-tax weighted average cost of capital should be equivalent to the risk-free rate plus a small premium, as Eskom is considered to be a low-risk long-term business owned and supported by the state. This means that the weighted average cost of capital calculation should be as much as 3% lower than that proposed by Eskom. This issue is important because, for every 1% rise in weighted average cost of capital, the electricity price has to rise by 5%.

Through a combination of revaluation of assets and a reconfigured cost of capital, the Chamber believes that the price increase can be limited to 25% a year over the MYPD 2 period. A 25% annual increase over three years would be much more manageable and would cause much less damage when compared to an increase of 35% annually for three years. The 25% x 3 rate of increase would also be congruent with the Nedlac Energy Summit agreement and the NERSA indicated price



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increases given in its interim 2009 pronouncement.

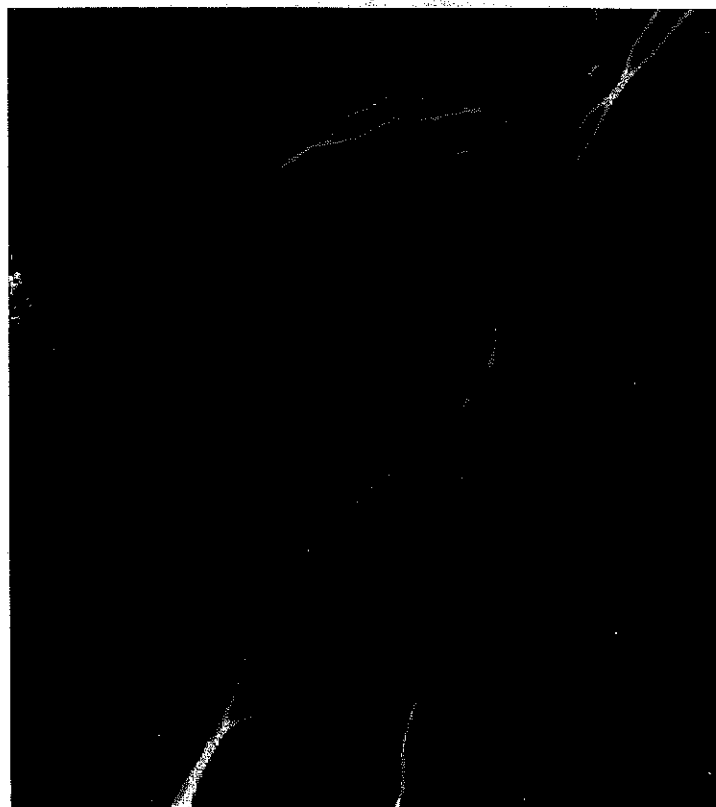
The Chamber recommended that the amount of resources applied to demand-side management should be doubled in the MYPD2 period, as successful roll-out of demand-side management is vital to the short-term and medium-term stabilisation of the situation. The Chamber also recommended that the funding for demand-side management should be removed from the pricing application. Rather, the special 2 cents/kW environmental levy collected by Treasury, should be used to fund the demand-side management costs as demand-side management promotes energy efficiency.

On 24 February 2010, NERSA announced that it had approved an allowed revenue for Eskom of R85-billion for 2010/11, R109-billion for 2011/12 and R141-billion for 2012/13. This would result in a percentage price increase of 24.8% on the average standard tariff from 1 April 2010, followed by another average increase of 25.8 % from 1 April 2011 and a further price increase of 25.9 % from 1 April 2012.

## Road transport

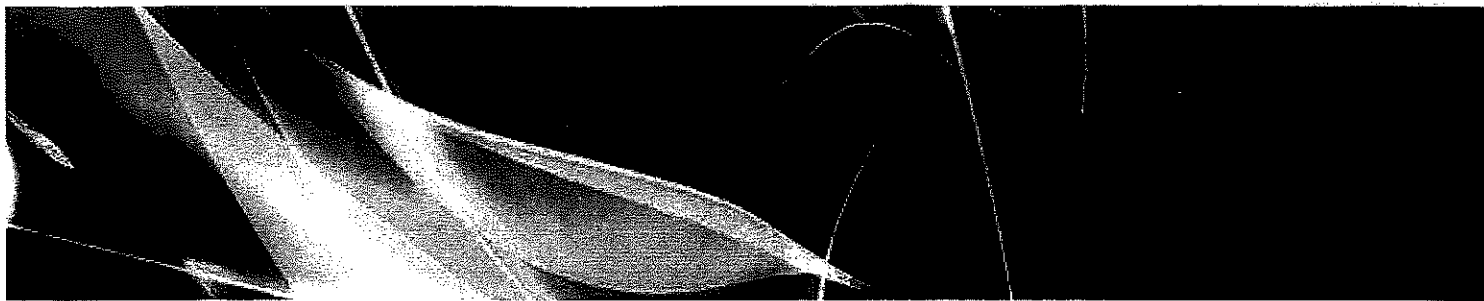
The Department of Transport has commenced the development of a road freight strategy for South Africa. To this end a steering committee was established and a consultant engaged. Given the important role that road transport plays in the mining industry, the Chamber, as the principal representative body for the mining industry, was invited to participate in the steering committee.

The consultants engaged by the department prepared a baseline report to facilitate the process.



The baseline report comprises an overview of the road freight industry, including road infrastructure, freight corridors, commodity movements and the regulatory environment. In addition, a review of axle mass limits was provided together with sections on overload control, law enforcement and road freight inter-modalism. The report also reflects international experience and trends in the road freight industry. The purpose of the report is to capture key information that would serve as an input to the development of a comprehensive road freight strategy for South Africa. The objectives of the road freight strategy include:

- enabling sustainable road infrastructure and investment
- monitoring and enforcing road freight movement, including inter-modal facilities



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- providing relevant short, medium and long-term solutions
- analysing and reviewing current axle mass limits
- assessing the proposed weighbridge network
- designing the weighbridge network, i.e. number, location and type of weighbridge throughout South Africa.

It is envisaged that the strategy would be developed in line with:

- the promotion of sustainable road infrastructure
- the acceptance by the major role players and stakeholders
- relevant, well grounded and implementable
- international best practice
- the promotion of effective law enforcement.

The process should be completed in 2011.

Late in 2009, the Department of Transport announced that it was considering amendments to the legislation pertaining to road transport to alleviate the burden on the secondary road networks, most of which have deteriorated to a point where they need to be reconstructed.

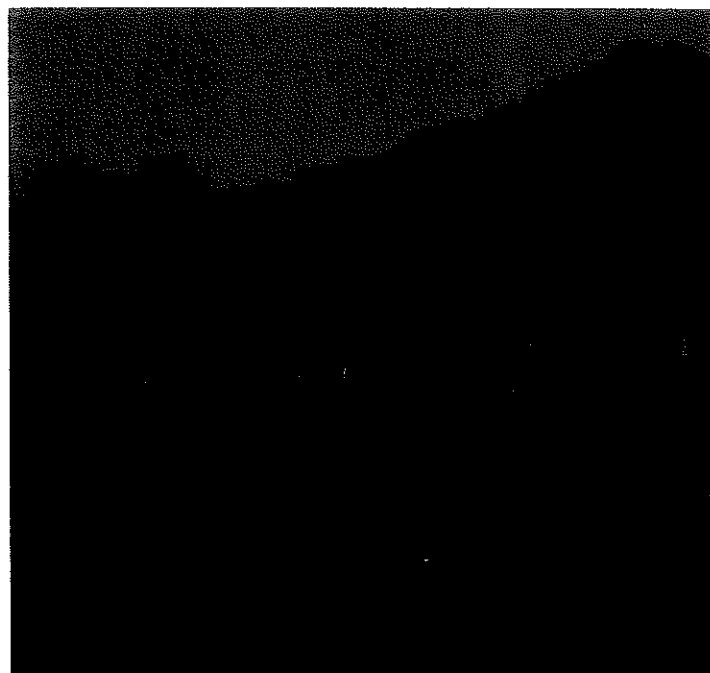
The department envisaged three pieces of legislation:

- The current axle mass load of an axle fitted with four wheels is 9 000 kilograms, which the department intended reducing to 8 000 kilograms in a bid to try to reduce the burden on the secondary road networks
- Prohibit the operation of certain axle loads on secondary road networks to force such

loads to migrate to primary road networks

- Prohibit the transportation of certain commodities on both the primary and secondary road networks to compel the migration of these to the branch rail lines. The branch railway lines were to be revitalised for this purpose.

The objective of the envisaged legislation is to reduce the transport of coal by road. While one



cannot object in principle to the intention of the department, consideration must be given to the circumstances that caused the prevailing situation and the potential consequences, should the envisaged legislation be introduced and enforced.

The current situation developed as a result of the increased demand for coal, especially by Eskom. This demand will continue to increase considerably over the next decade. Many coal mines are served by secondary roads and, as they do not have rail



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links, there is no alternative to road transport. In some cases the expected life-of-mine does not warrant the construction of rail links. The quality of service provided by Transnet Freight Rail exacerbated the problem by forcing coal producers to resort to road transport.

The reduction of the maximum allowable axle load would reduce the load per truck, but the number of trucks on the road will increase. This

in Mpumalanga. The security of coal supply to power stations is too important to risk forcing transfer coal transportation from road to rail, only to discover that the requisite rail capacity was not adequately planned for.

The Chamber advised the Department of Transport of the above concerns and is awaiting a response.

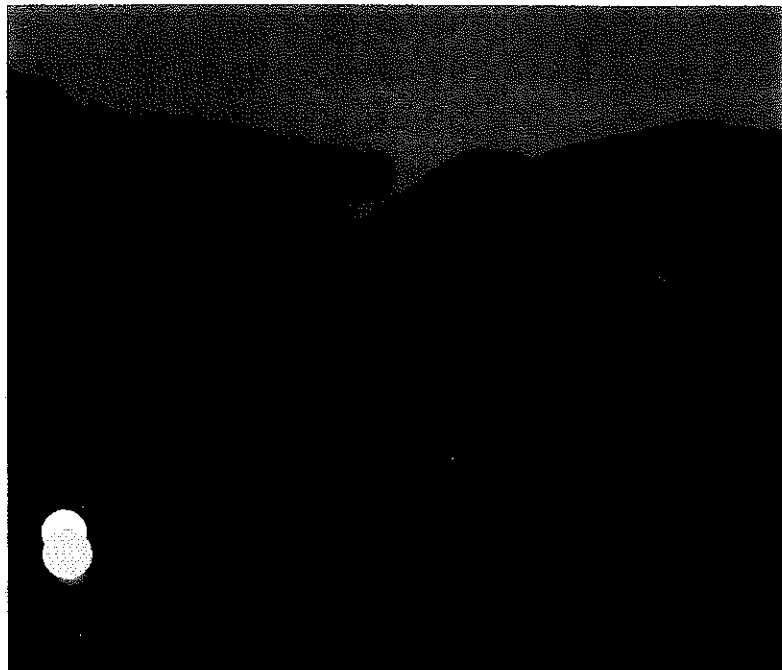
## Rail transport

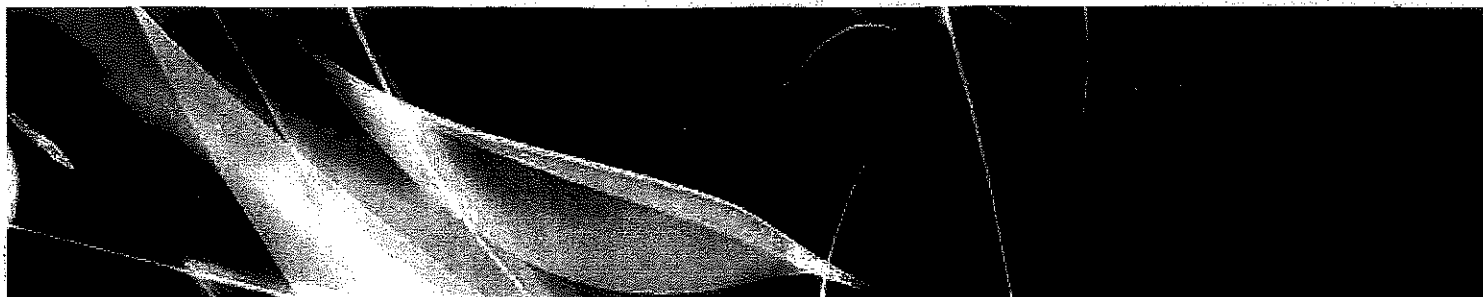
During 2009, only 61.1 million tons of coal was exported through RBCT. This is despite the fact that the current rail infrastructure has a design capacity of 74 million tons. During this period, RBCT increased its capacity from 76 million tons a year to 81 million tons and by mid 2010 was at a capacity above 90 million tons. Coal producers ascribed this mismatch to the inability of TFR to provide an adequate service to the coal industry. Transnet in turn partially blamed the coal mining companies for cancelled pre-booked trains.

A survey of export coal railings during December 2009, revealed that 22% of the trains planned had been cancelled by TFR. The reasons for these cancellations were Eskom power failures, locomotive failures, minor derailments, crew availability, cable theft, service adjustment, unavailable locomotives and trucks, and signalling problems. This variety of problems is indicative of an organisation with serious internal inefficiencies. The inability of TFR to provide an adequate service for export and inland transport resulted in the under-utilisation of coal terminal capacity, lost export opportunities and excessive road transport of coal.

will exacerbate the existing congestion and may cause further congestion in other places. The prohibition of certain commodities, for example coal, from being transported by road, may result in some producers, as well as some consumers, being stranded.

The existing railway system and service are not adequate to reduce the transport of coal by road significantly. Transnet's national infrastructure plan does not address the coal feeder network





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Consequently, a meeting was arranged between the chief executive of TFR and the chief executive of the Chamber to consider solutions to this issue. An official of TFR presented the following operational developments to the meeting:

- Ownership of branch lines for mining was being transferred to the Department of Transport and private operators would be appointed later in 2010
- Theft was impacting on TFR business. About R400-million was allocated to theft management and crime prevention
- TFR agreed with Eskom to increase coal haulage of power station coal to 32 million tons per annum and a rate of nine million tons per annum has been achieved
- Only one power station, namely Majuba, was connected to the rail system, thus containerisation and the use of diesel locomotives was seen as part of the solution on the Highveld. A rail connection to Camden power station was due to be completed by the end of July 2010
- Eskom had not yet acquired the coal contracts for the 32 million tons of coal and the feed of export coal from the mines was less than expected and some trains had to be rescheduled
- The TFR balance sheet was not able to handle expansions, thus public/private partnerships were seen as a way forward
- Export for smaller mines needed to be facilitated to aid entrepreneurs and to avoid the development of new routes that would merely move the problem elsewhere

- The low level of transparency between coal producers and TFR was affecting information sharing and optimisation was inhibited. Collaboration had started with the mining sector and TFR was improving customer service
- A study of the Waterberg was being done by TFR, but information was difficult to gather as companies were not disclosing their intentions
- TFR needed to develop the infrastructure to increase to 91 million tons of export coal.

The parties agreed to meet again later in 2010 to discuss progress.

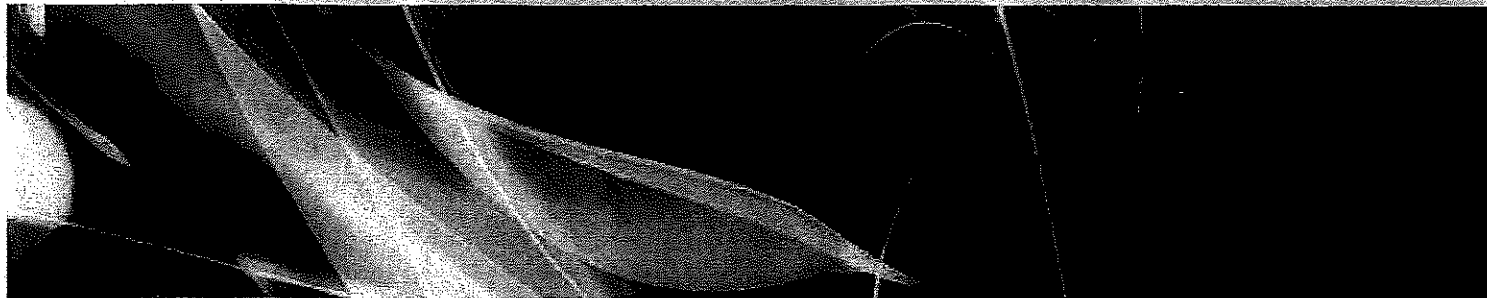
During June 2009, Transnet presented its National Infrastructure Plan to stakeholders for comment.

The objectives of the plan were to:

- provide Transnet and the stakeholder community with a framework within which long-term planning for port, rail and pipelines could be executed
- form a basis for engagements with key government and other stakeholders
- inform Transnet's capital investment programme and future funding requirements
- act as a governance document for infrastructure planning and investment in Transnet.

Key components of the plan were:

- a status quo assessment of the port and freight rail network
- a 30-year integrated freight demand forecast
- the application of key planning principles,



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assumptions and operating strategies to inform future development of the network

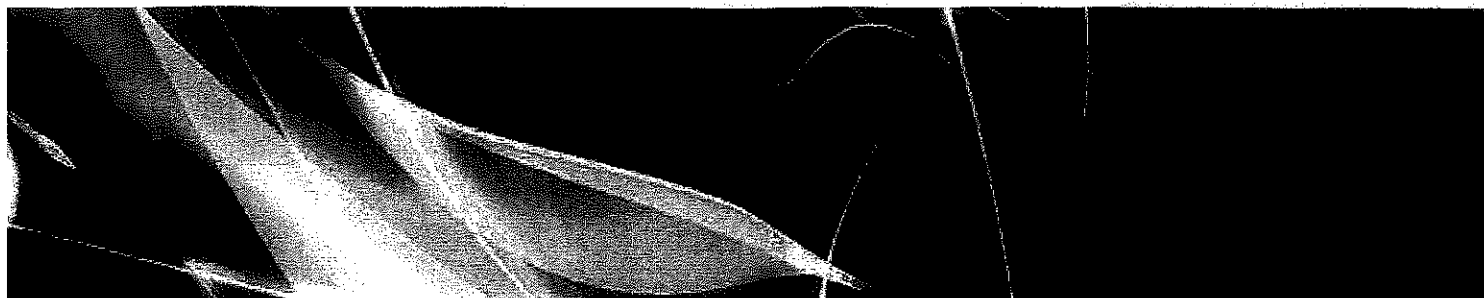
- an assessment of future capacity requirements
- development of options and scenarios
- Transnet's five-year capital programme.

The Chamber's comment focused on the aspects of the plan concerning the Richards Bay coal export line, the Waterberg coal line, the Hotazel – Port Elizabeth manganese export corridor and the Mpumalanga coal feeder network. In all these cases the Chamber pointed out that the plan did not address the needs of the mining industry adequately and offered its assistance in rectifying the deficiencies. Transnet responded that it recognised the need to adjust the plan to deal with the issues raised by the Chamber.

### **Coaltech Research Association**

The year under review witnessed the gradual recovery of the global economy and an increase in business confidence. This was reflected in the coal mining industry by an increase in the price of export coal, but which was unfortunately also accompanied by increases in the cost of most mining inputs.

Against this background, the Coaltech Research Association (Coaltech) continued to pursue the broad research directions agreed to by its shareholders who are the primary users and beneficiaries of the resultant knowledge and technologies. The broad research directions are waterless beneficiation of coal, improved utilisation of coal resources, environment, infrastructure development, the Waterberg coalfield, energy efficiency and clean coal technology.



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Some notable accomplishments during the past 12 months include:

- the investigation of ion exchange technology for water treatment
- testing a low profile load-haul-dumper in an underground environment
- completion of the infill regional gravity survey of the Waterberg
- completion of guidelines for the socio-economic aspect of mine closure
- an investigation of various coal transport options.

From the outset the development of high-level skills for mining related research and development was a subsidiary objective of Coaltech. The current approach is to involve postgraduate students in research projects wherever possible. To date 72 people have obtained postgraduate qualifications through Coaltech. Currently 29 registered postgraduate students are working on Coaltech projects.

Following a decision that Coaltech should enhance its profile and publicise its work, presentations on Coaltech and various Coaltech projects were made to meetings of the South African Colliery Managers Association, the South African Colliery Engineers Association, the Fossil Fuel Foundation and the Mine Health and Safety Council. The Coaltech board also arranged for some of its meetings to take place at universities that are engaged in Coaltech projects. The manager of Coaltech also participated in a conference on mining research in Africa arranged by the Department of Science and Technology. This signifies recognition of Coaltech

as an important contributor to mining research.

Coaltech also exhibited its work at the International Water Conference and at the Department of Trade and Industry's Technology Exhibition, where it received a Certificate of Achievement as a finalist in the Technology for Human Resources in Industry Programme's Research Collaboration Category.

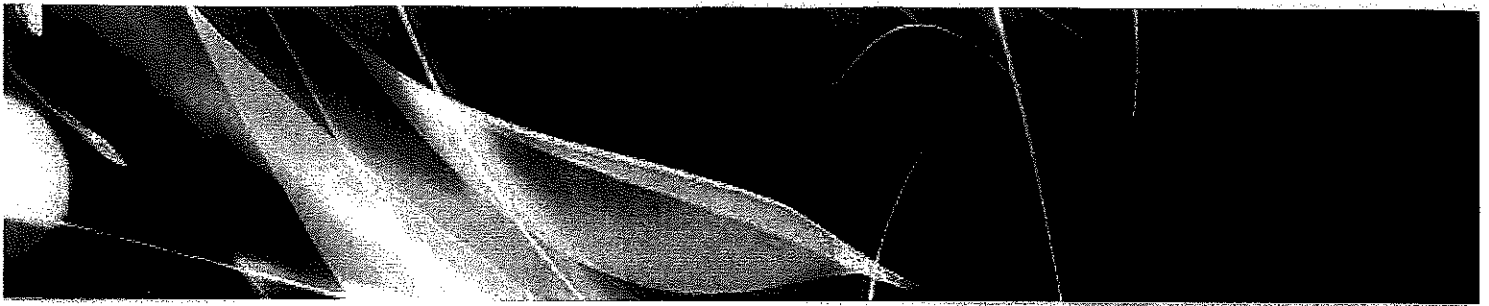
### **Olifants River water monitoring project**

During 2009, the Chamber's Collieries Committee agreed to support an investigation, to be undertaken by the CSIR under the auspices of the Olifants River Forum, namely the Assessment of eutrophication and chemical pollution in surface waters of the upper Olifants River system: Implications for aquatic ecosystem health and the health of human users of water. It was also agreed that the investigation should be managed and funded through Coaltech.

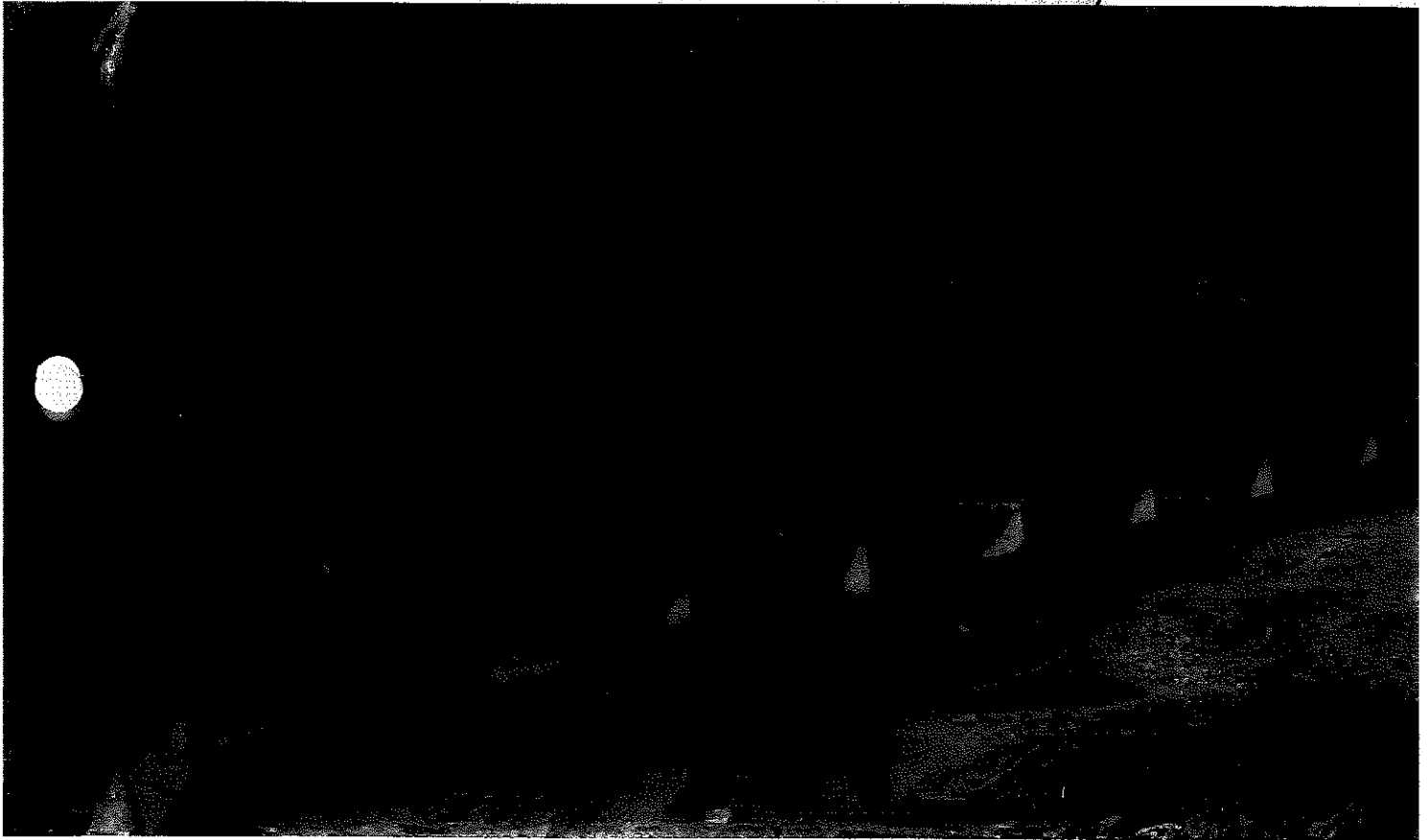
Based on the interim results from the first year of this study and historical data of the catchment, the main stressors in the catchment are heavy metals and sulphates, originating from mining and industry and nutrients and microbiological contaminants originating from poor sewage treatment and feedlots.

Heavy metals like aluminium, iron and manganese were the most frequently detected and in the highest concentrations in both water quality and bioaccumulation samples. It appears that heavy metal accumulation occurs across all sites in the catchment, even in areas with low mining and industrial activity. Researchers are investigating if acid rain could be responsible for mobilising heavy





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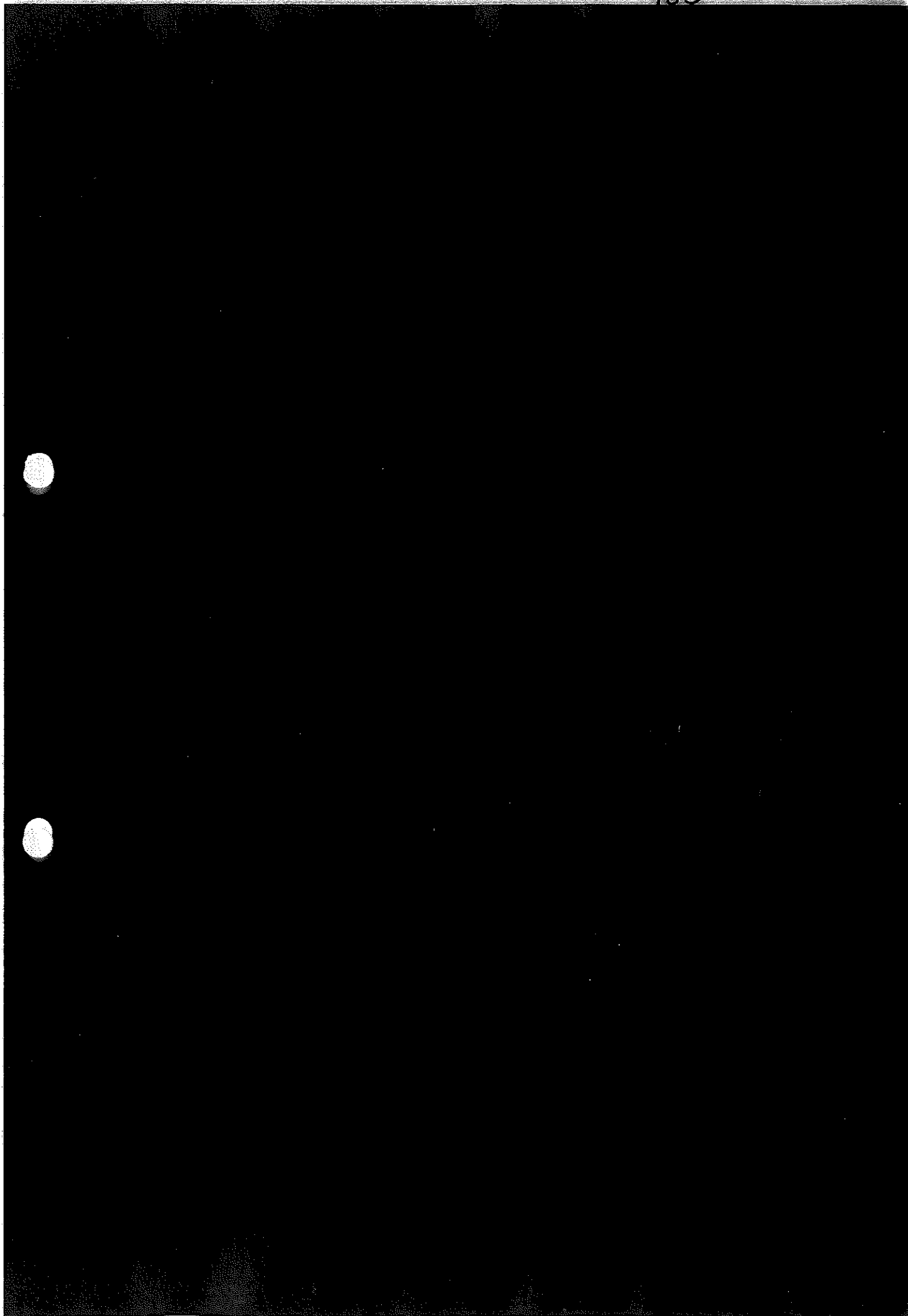
metals owing to its unusual acidity.

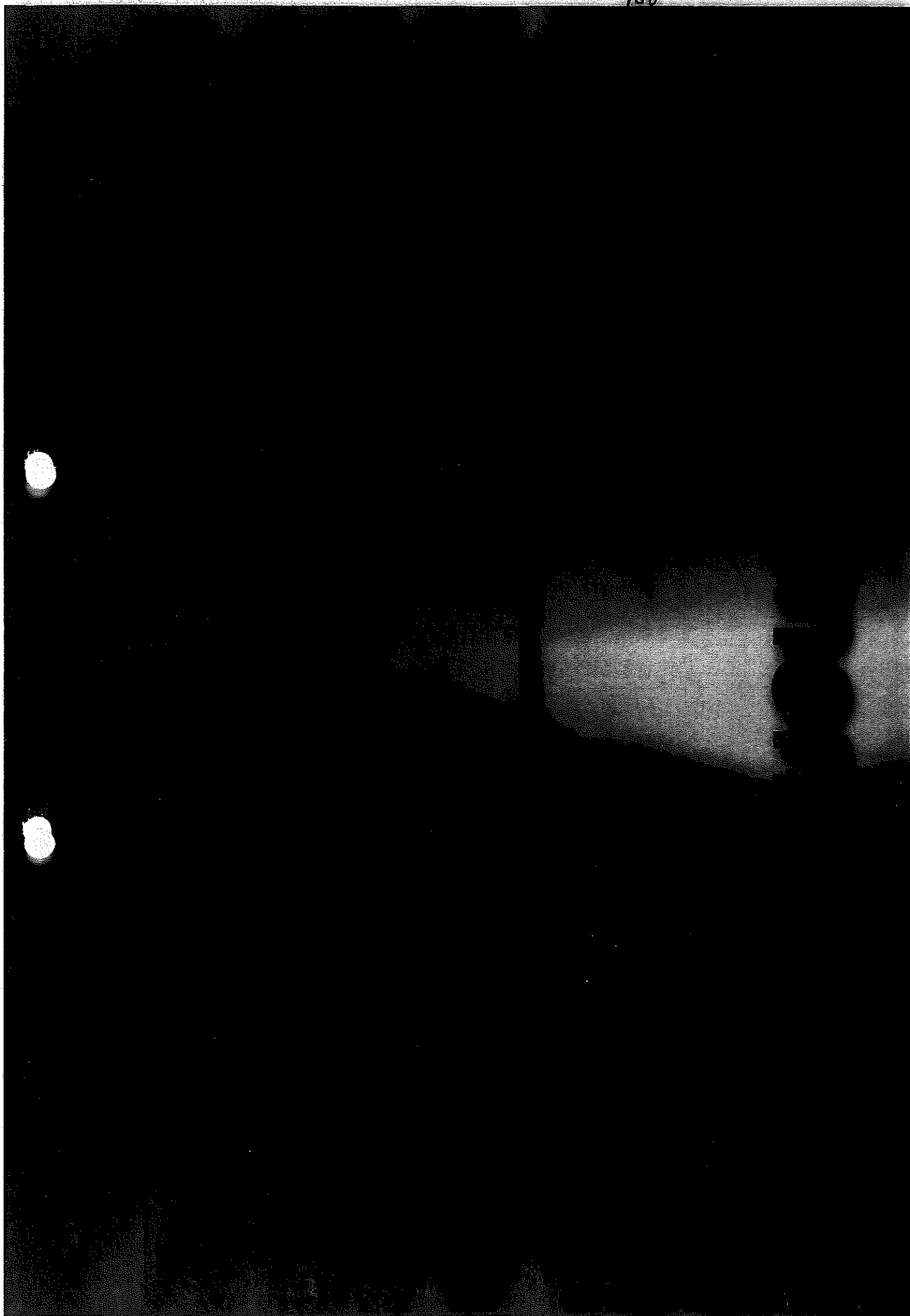
All the sites showed mild to heavy microbial contamination, most likely because of untreated or poorly-treated sewage flowing into rivers and streams. The samples were contaminated by micro-organisms in the form of bacteria, viruses and protozoan parasites such as Salmonella, Shigella spp. (causes bloody diarrhoea, high fever, abdominal pain but not vomiting), Giardia (diarrhoea), Cryptosporidium (long-lasting diarrhoea in immunocompromised individuals), Vibrio cholera (severe diarrhoea and vomiting and possible death if not treated), as well as Norovirus and Enterovirus (diarrhoea). E. coli bacteria (an indicator of faecal matter in water) exceeded the South African water guideline values, indicating a high risk for diarrhoea.

Local communities, who use untreated water from these sites face a high risk of contracting disease.

Thus far sampling has taken place during periods of high rainfall with subsequent high river flows. Future sampling will continue to focus on measuring water quality variables and ecological health indicators to determine any seasonal trends. All indications are that the project will identify the true sources of pollution in the Upper Olifants River system. That would allow the real problems to be addressed effectively without apportioning undue blame to any party.

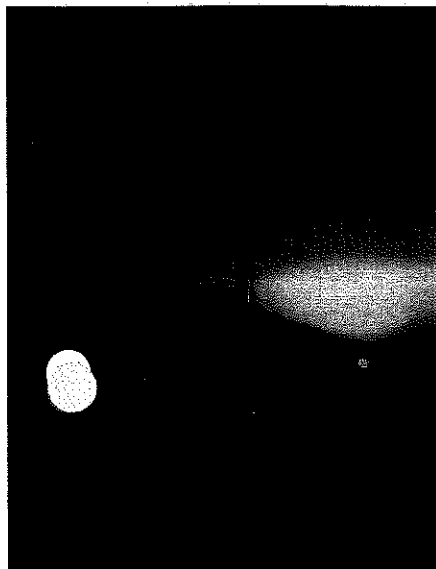
In view of the interim results the Olifants River Forum has agreed to continue with financial support for this project.





# environment policy

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**T**he key highlight of the period under review is the legislative duplication and uncertainty of the regulatory regime for environmental management in the mining sector. Intra-government negotiations culminated in an agreement between the Department of Environmental Affairs

(DEA) and the DMR, that environmental issues in the mining sector would be managed in terms of the National Environmental Management Act (NEMA) and its regulations. This would streamline the environmental management system in the country.

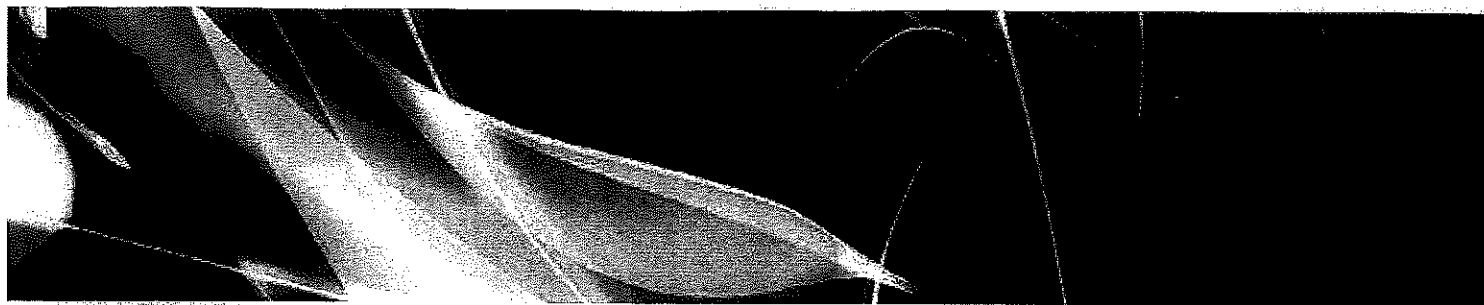
Mining recently experienced heightened media and non-governmental organisation attention on the environmental legacies of the past century. The environmental, safety and health hazards associated with ownerless and derelict mines, as manifested by acid mine drainage (AMD), were extensively covered in the media. The media focus led to parliamentary hearings on AMD and subsequent visits to the areas of concern in Gauteng were undertaken by members of parliament and a special ministerial-level task team was established to deal with AMD.

The formation of a tripartite task team to interrogate the performance of the mining industry was a significant milestone during the period under review. The task team will focus on the

competitiveness and transformation of the mining industry. MIGDETT was formed and various working groups were mandated to investigate different aspects of competitiveness and transformation – including issues relating to social licence to operate. The MIGDETT process culminated in the signing of a Declaration on Strategy for the Sustainable Growth and Meaningful Transformation of South Africa's Mining Industry. This strategy endeavours to address transformation and position the mining industry on a sustainable growth path within the restraints poised by the legislative environment, the competing interests of economic growth and environmental conservation. It also addresses environmental legacies such as AMD and the effective management of derelict and ownerless mines.

Sustainable development provides a framework for the Chamber's input on environmental policy and the legislative process. The Chamber recognises and promotes the pursuit of a balance between the four pillars of sustainable development, namely social equity, environmental management, economic development and an effective governance framework.

The Chamber's environmental department participated in most initiatives that dealt with environmental issues of concern to the mining industry and provided expert and specialist input to many legislative and policy initiatives undertaken during 2009/10. The main vehicles for such interaction are the Chamber's Environmental Policy Committee (EPC) and the Industry Forum on Radiation (IFR). The EPC consists of a group of environmental managers and senior consultants



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from the mining companies. It represents the single most senior environmental management grouping in the mining industry in South Africa. The IFR consists of various radiation specialists from Chamber member companies, and includes other interest groups such as consultants, recyclers and scrap metal dealers.

In addition to engaging government on environmental management policy and water issues, the Chamber continues to liaise with a wide range of stakeholders in the mining industry, from community organisations concerned about the environmental impacts of mining, to specialist groups undertaking studies into various aspects of environmental management.

### **Policy, legislation and engagement**

The Chamber provides specialist input on environmental matters through its participation on task teams, government and other project steering committees, the National Nuclear Regulator (NNR), Busa, Nedlac, the National Business Initiative (NBI), in public hearings of portfolio committees on environmental programmes and to legislative proposals in the National Assembly and the National Council of Provinces.

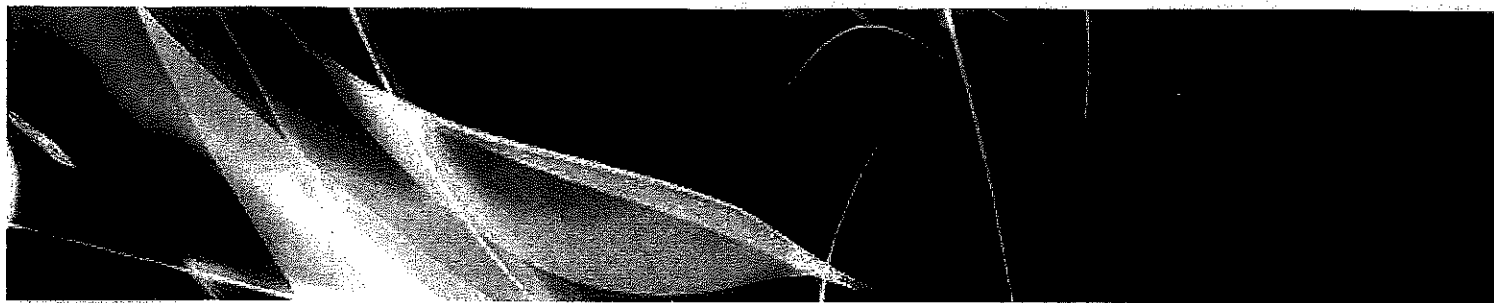
The Chamber also provided expert opinion around some of the contentious issues in the public domain associated with the interface between mining and environmental conservation. During the period under review, the Chamber met with the ministers of environmental affairs and mineral resources to discuss issues of mutual concern.

### **Alignment of the regulatory framework**

The amendments to the MPRDA and NEMA were meant to streamline environmental management in the mining sector. However, the uncertainty of the legislative requirements and processes within the two departments tend to make applications for the necessary authorisations and compliance monitoring and enforcement a nightmare for mining companies.

The agreement between the DMR and the DEA meant that the minister of mineral resources would be the competent authority responsible for implementing environmental matters as they relate to prospecting, mining, exploration, production and related activities and the minister of environmental affairs would be responsible for drafting and promulgating all environmental policies and legislation in terms of NEMA. The two departments concurred that this agreement would be implemented 18 months after the last Bill has been enacted. The agreement is thus not yet effective as the MPRD Amendment Act has not yet been enacted. However, this has not stopped provincial environmental authorities demanding that mining companies comply with the provisions of the amended NEMA.

Subsequently, the minister of the DMR communicated to the Chamber her intention of reviewing the agreement as the regulations in terms of NEMA have some unintended consequences for the mining industry. Although environmental affairs is a function of both provincial and national governments, it has become apparent that NEMA



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is mainly implemented through the provincial authorities. Mining is a national mandate and thus, in terms of the Constitution, no provincial authority can make a decision on environment-related mining matters. The Chamber has made representation aimed at highlighting some of these issues.

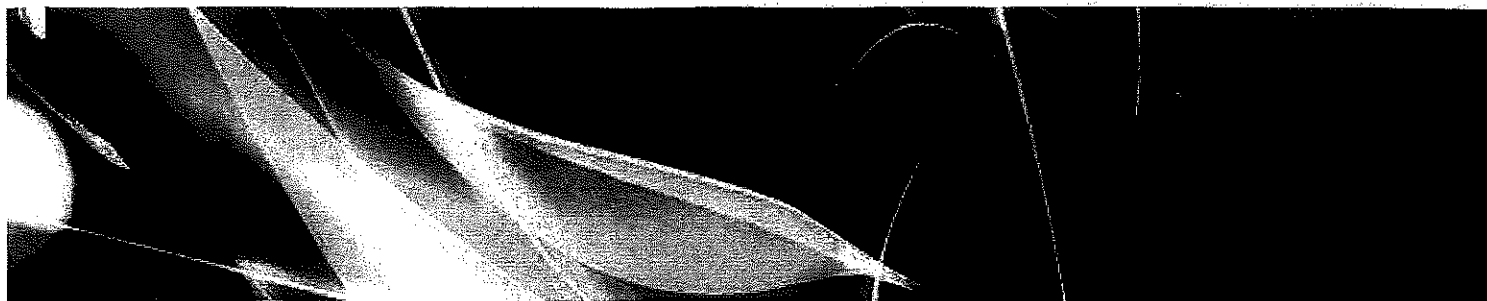
The uncertainty around the environmental authorisation landscape continues to frustrate the mining industry and the EPC continues to participate in environmental policy developments

### **Implementation of the National Environmental Management: Air Quality Act**

The National Environmental Management: Air

Quality Act, No. 39 of 2004, came into law on 1 April 2010. This legislation mandates municipalities to carry out the licensing provisions in NEMA, irrespective of the readiness or not of the authorities to do so. The Act makes provision that if a municipality is unable to carry out this function, the province can exercise Section 139 of the Constitution and become the licensing authority. Nevertheless, the problem for the mining industry is the timeframe and the modalities around the implementation of this proviso.

In March 2010, the DEA published a list of activities that result in atmospheric emissions detrimental to the environment, health, society, the economy, the ecology and cultural heritage. It



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also prescribed minimum emission standards and provided for the application for an atmospheric emission licence.

The DEA also published model air quality by-laws for municipalities to either adopt or adapt, and ultimately enforce.

### **Implementation of the National Environmental Management: Waste Act**

The National Environmental Management: Waste Act, No. 59 of 2008 was published in the Government Gazette on 10 March 2008 and came into force on 1 July 2009, with the exception of Section 28(7) (a), Sections 35 to 41 and Section 46. The DEA has since embarked on several policy developmental processes to support the implementation of the Act.

The development of a National Waste Management Strategy (NWMS) is provided for under Section 6 of the Act. The first draft of the NWMS and the Generic Guideline Document for Preparing Industry Waste Management Plans were published for public comment in March 2010.

The NWMS aims to achieve the objectives of the Act, including:

- objectives, plans, guidelines, systems and procedures relating to the protection of the environment and the generation (including the avoidance and minimisation of such generation), re-use, recycling, recovery, treatment, disposal, use, control and management of waste in order to achieve the objects of this Act
- mechanisms, systems and procedures for

giving effect to the country's obligations in terms of relevant international agreements

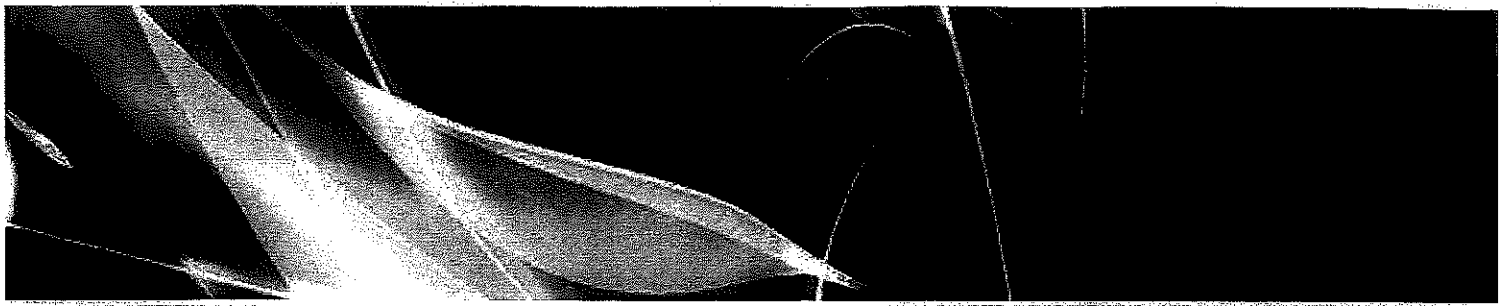
- practical measures for achieving co-operative governance in waste management matters
- guidance on raising awareness on the impact of waste on health and the environment
- approaches for securing compliance with the requirements of the Act, including the monitoring of compliance
- any other matter that the minister considers necessary for achieving the objects of the Act.

The mining industry, through the Chamber, noted that the strategy reiterates the ongoing legislative dilemma between the MPRDA and NEMA and has not been revised to take into account the DMR's withdrawal of the environmental authorisation amendments the strategy proposes and the development of a mining industry waste management plan within three years under the MPRDA.

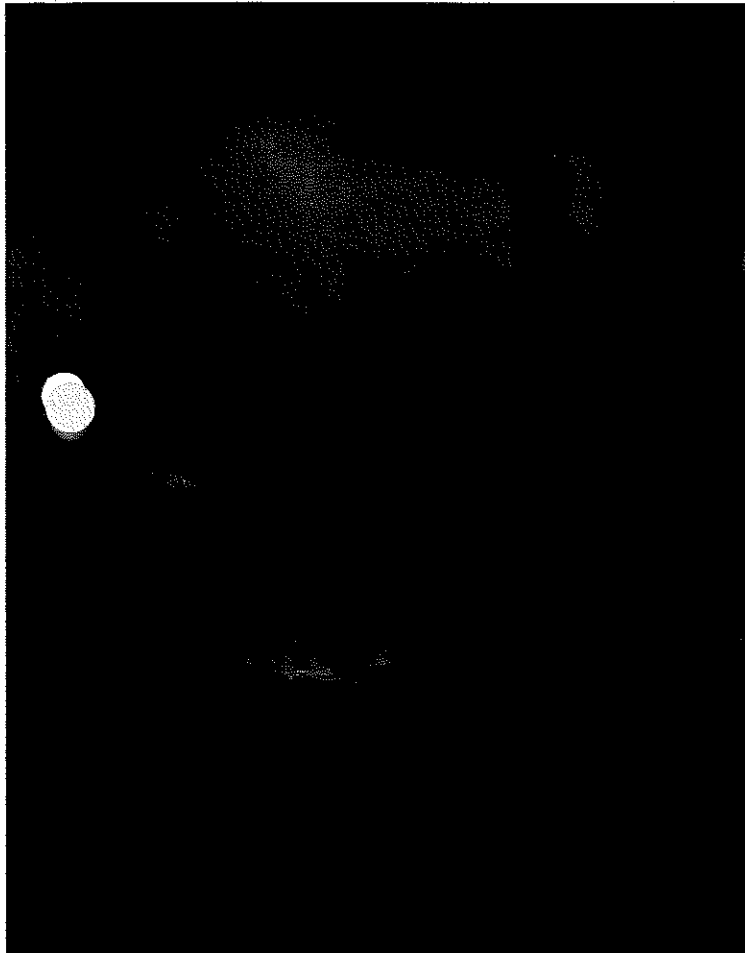
In July 2010, the DEA published, for comment, the National Waste Information Regulations for comments.

### **Revision of the National Water Resource Strategy**

The Chamber is involved in reviewing the National Water Resources Strategy (NWRS) initiated by the Department of Water Affairs (DWA). In terms of Section 59(4) (b) of the National Water Act, No. 36 of 1998 (NWA), the NWRS must be reviewed every five years. The NWRS provides a framework for the protection, use, development, conservation,



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management and control of water resources for the entire country, including regional and catchment level within defined water management areas.

The approach to be followed by the department in revising the strategy will focus on the following:

***The contents of the NWRS as defined in Sections 6 (1) and 6 (2) of the NWA***

Existing strategies, frameworks and studies will be incorporated into the second edition of the NWRS. This includes a climate change strategy, a water for growth and development framework, an AMD strategy and a national ground water strategy.

The revision will be underpinned by the

development of thematic issues that focus on water resource management aspects, such as water conservation and demand management, water allocation reform, augmentation and infrastructure and protection of water resources. It is envisaged that these thematic issues would be supported through enabling strategies that consider disaster management, institutional arrangements, investing in people, information and monitoring, research and innovation, and finance

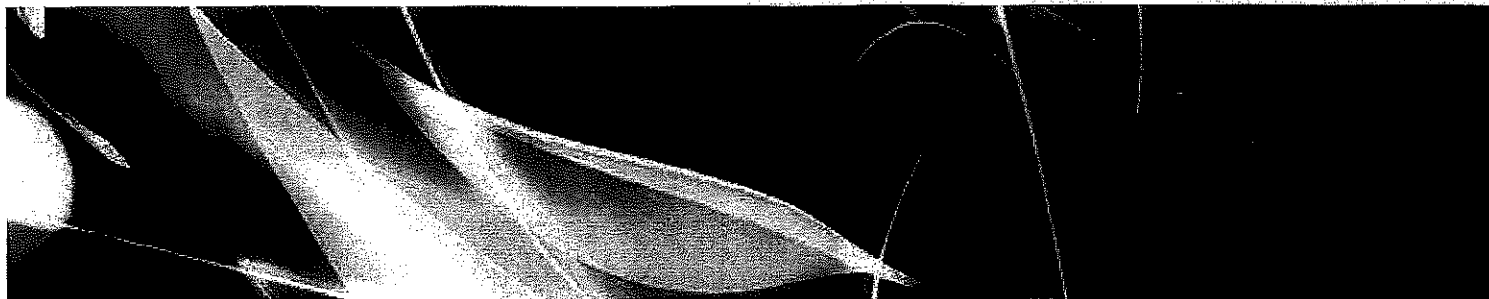
The Chamber and its members participated in workshops on water resource thematic issues, with internal and external experts, to identify the issues and enhance the content of the working papers.

To date only the inception report and the overarching framework have been approved. A number of working papers that focus on water resource management and enabling thematic issues are being developed.

***DWA: Olifants River Reconciliation Strategy***

In an effort to review the National Water Resource Strategy, the DWA is developing reconciliation studies in water catchment areas. The development of a reconciliation strategy for the Olifants River water supply system is one of the initiatives that would feed into the revision of an overall review of the National Water Resources Management Strategy. In July 2010, the DWA hosted a stakeholder workshop, the objective of which was to consider all possible options to reconcile water requirements and water availability in the study area and to decide which of the options should be investigated further. The mining sector was





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identified as one of the key economic stakeholders within the Olifants Water Management Area.

The Chamber also participates in the development reconciliations studies on other catchment management areas within South Africa to ensure that the interests of the mining industry are taken into consideration during the processes of water planning.

### ***Water Conservation and Demand Management Framework Guidelines***

The Directorate: Water Use Efficiency of the DWA commissioned a project in 2005/06 to develop a *Generic Water Conservation and Demand Management (WC/DM) Framework Guideline for the Mining Sector*. Since then the DWA has collaborated with the Chamber to update the document. The guideline will assist the DWA and the mining industry to assess, plan and manage the WC/DM and improve water efficiency in the sector.

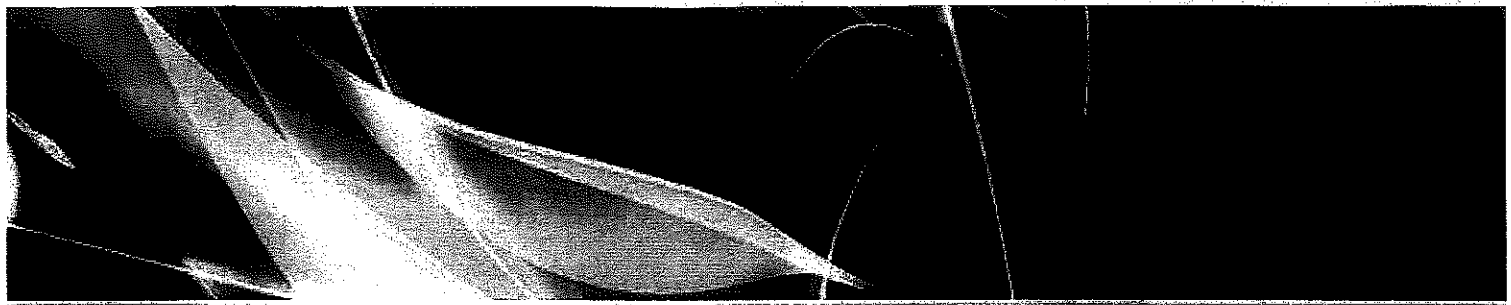
The updated document also addresses the implementation and relevance of the proposed framework in other mining activities such as quarrying. The final guideline document should be adopted during 2011.

The DWA recently established a WC/DM reference group to facilitate and co-ordinate the development and monitoring of an effective sector-wide water conservation and water demand management programme. The reference group (in which the Chamber is represented) should report on its activities to the Water Sector Leadership Group (WSLG) by March 2011.



### **Development of a national climate change policy**

South Africa, as a party to the United Nations Framework Convention on Climate Change (UNFCCC), is required to participate and undertake some of the responsibilities of the convention. The UNFCCC meeting in Copenhagen in December 2009 was expected to produce a binding agreement for emissions reduction post-2012. However, given the nature of climate change negotiations, which cannot be divorced from the impact of mitigation measures on individual countries' economic development, a proposed agreement could only be entertained when high emissions per capita countries, such as South Africa, committed to some emissions reduction. Consequently, South Africa committed to a greenhouse gas (GHG) emissions reduction of 34% by 2020 and 42% by 2025.



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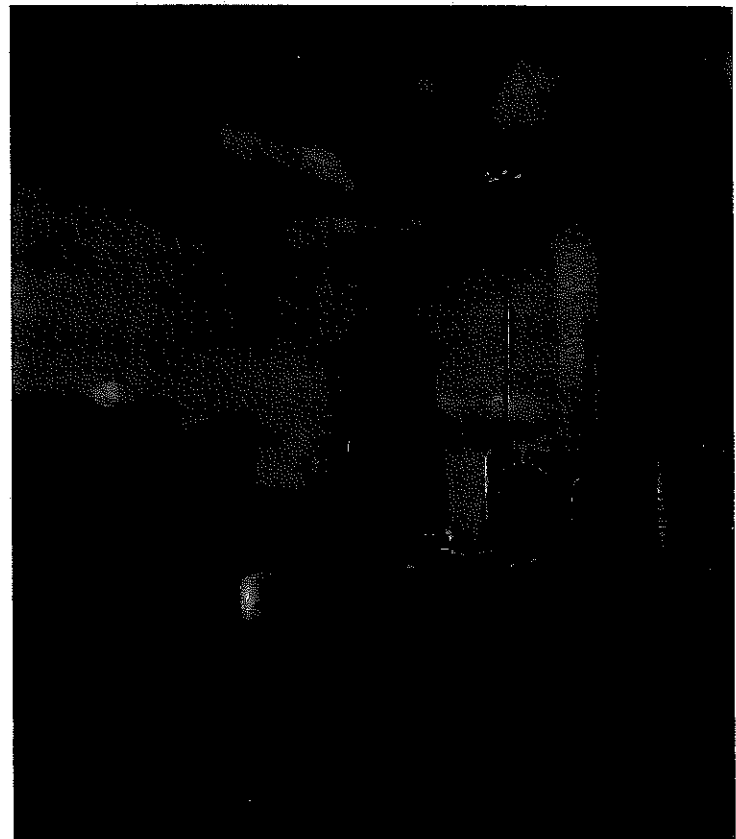
Government developed a national climate change policy to facilitate the realisation of the country's GHG targets. The basis of this policy is the *Long Term Mitigation Scenarios* (LTMS) study undertaken by the DEA and subsequently approved by Cabinet in 2007. To this end, the Chamber engaged the DEA on the GHG data for the mining industry. The GHG data would feed into the national inventory to determine a baseline for the country's emissions.

During the Busa/ERC-DEA meeting, the department expressed its intention to hold discussions on the draft green paper on climate change by September 2010. Public engagement on the draft green paper on climate change will take place after government discussions.

### **Sustainable development debate**

Economic, social development and environmental protection are all essential elements of sustainable development. The nexus between economic development and the conservation of natural resources has been a subject of recurrent debate. One of the more visible and controversial debates centres on the impacts of the mining industry on the environment, however, mining produces goods essential to society's developmental needs and makes a substantial contribution to the economy. Reconciling economic and social development opportunities with the need for biodiversity conservation and environmental protection, requires the development of more strategic and integrated approaches to land use planning and management to assist societies in making informed decisions. The mining and metals

industry's biodiversity conservation performance is under increasing scrutiny from regulators, NGOs, commentators and financial analysts. Demonstrating a commitment to biodiversity conservation is now an essential element of sustainable development for the mining and metals industries.



### **Water Sector Leadership Group**

The Chamber is a member of the WSLG, which was established by the Department of Water Affairs and Forestry (now the Department of Water Affairs). The WSLG is the highest non-statutory strategic sector partnership forum for the South African water sector. The WSLG provides a platform for dialogue, planning, reflection and monitoring of water sector



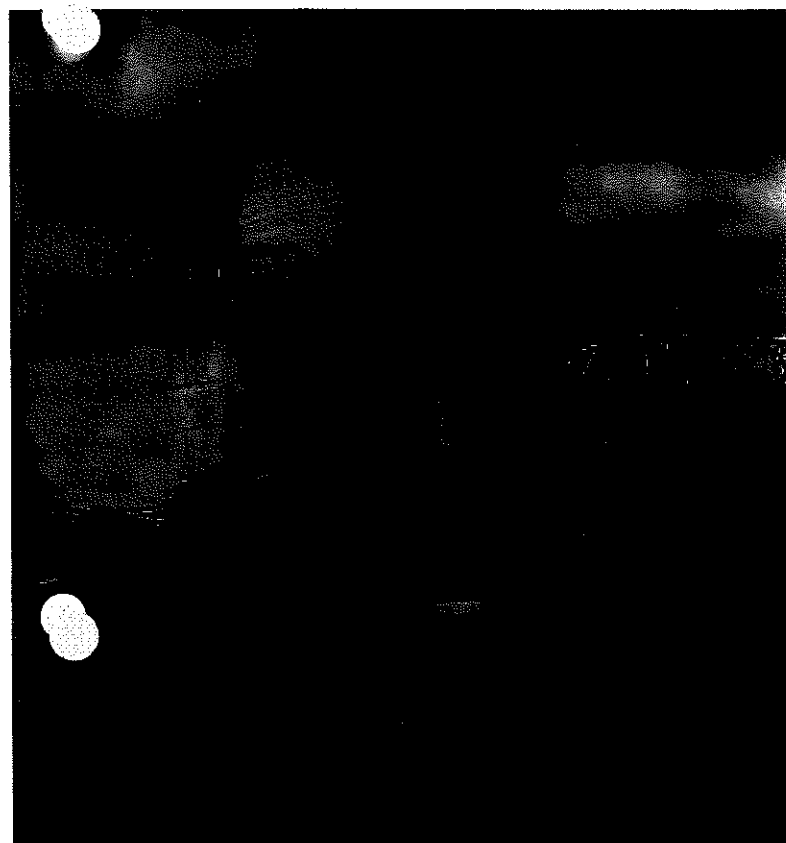
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policy, legislation, strategies and programmes towards improving sector performance and directly contributing towards improved co-ordination of planning. The WSLG performs the following functions:

- It serves as a think tank for the water sector and prepares a national action agenda for

the implementation of water sector policies, strategies and programmes

- It provides recommendations on policies, legislation, programmes and strategies and serves as a forum for stakeholder consultation and involvement. The Chamber is a standing member of the executive committee of the WSLG and its working groups.



### **Nedlac: FRIDGE project**

The FRIDGE project on the viability of using economic instruments to achieve emissions, aims to achieve a better understanding of the policy mechanisms available to achieve emission reductions, and the potential impacts on industry. The project focuses on direct emissions and indirect emissions from electricity. Non-electricity indirect emissions are excluded from the analysis.

In terms of the UNFCCC, South Africa is a non-annex 1 party, and as such there are currently no firm obligatory targets for GHG emission reductions. However, the country, as one of the high-intensity GHG emissions countries, committed itself to non-binding emissions reduction targets during the climate change meeting in Copenhagen.

water and ensures that sound policies, laws, strategies, programmes and institutions are developed to achieve the goals of the Water for Growth and Development framework document

- It facilitates dialogue between government departments, civil society and the private sector on input, support and contributions to improve

### **Radiation issues**

The Chamber engages with the National Nuclear Regulator (NNR) on all radioactive issues affecting the mining industry.

There is continuous interaction between the Chamber and the NNR on current initiatives around the management and prevention of radioactive



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contamination in the Wonderfontein spruit catchment area. The mining companies in the area have come together to form a mining interest group and the Chamber assists in the interaction of the group with the NNR and other stakeholders.

### **National Business Initiative**

The National Business Initiative (NBI) was established when the Urban Foundation and Consultative Business Movement merged. It is a business coalition focusing on the role of business in sustainable development. The Chamber co-operates with the NBI on the implementation of the Energy Efficiency (EE) Accord. The Energy Efficiency Technical Committee oversees the EE process and has developed a monitoring and reporting guideline. Other issues under discussion with NBI are climate change, sustainable development and the UN Global Compact.

### **Water Institute of Southern Africa (WISA)**

WISA provides a forum for exchange of information and views to improve water resources management in southern Africa. The Chamber participates in most WISA divisions and is a standing member of the management committee of the Mine Water Division, which was established to execute activities aimed at improving the practice, status and professionalism of water management in the mining industry.

During 2009, WISA's mine water division and the International Mine Water Association hosted an international mine water conference. The Chamber's environmental department formed part

of the co-ordinating committee and the Chamber's chief executive delivered the opening address. Not only was there an outstanding technical programme covering unique local and international developments in the field of mine water management, but there were also pre-conference technical workshops and post-conference technical tours to visit mine water management facilities at major mines.

The Chamber is assisting WISA's mine water division in planning a symposium for November 2010, which will mainly focus on mine water management.

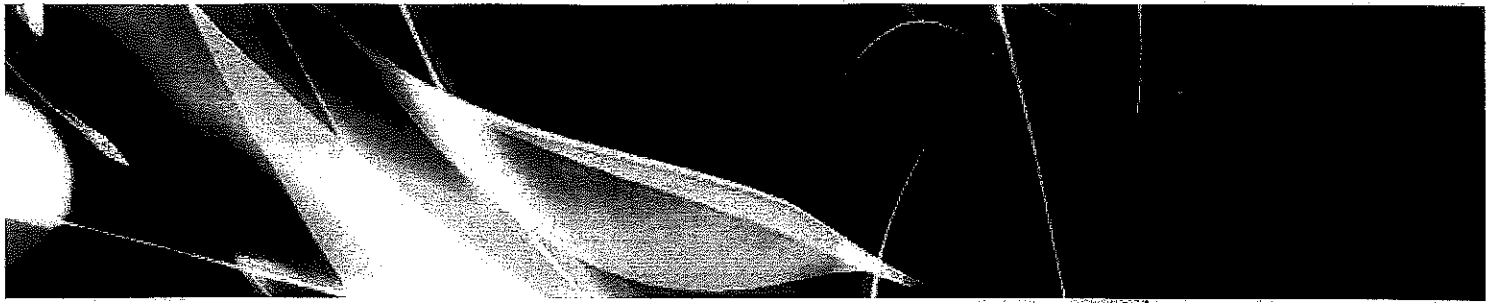
The Chamber participated at the bi-annual WISA conference in Durban from 18 to 21 April 2010.

### **ICMM participation**

The Chamber is one of 27 national and commodity association members of the ICMM. The environmental adviser's office participates in the Association's Co-ordination Group, Environmental Stewardship and Biodiversity Task Force and is a correspondence member of the Integrated Materials Management Task Force and the Community Development Task Force.

### **United Nations Commission on Sustainable Development**

The Commission on Sustainable Development (CSD) meets annually in New York, in two-year cycles with each cycle comprising of a review year and a policy year and focusing on selected thematic issues. The session to facilitate the review was held at the beginning of May 2010 and the environmental adviser's office was part of the South African delegation.



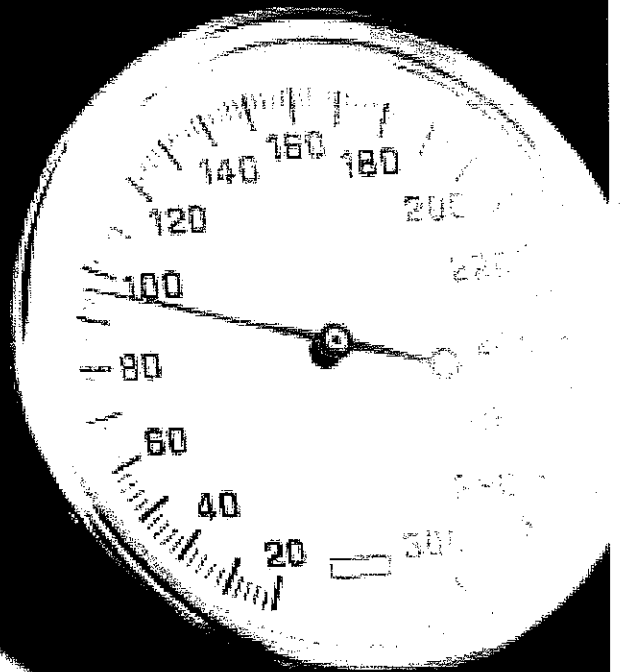
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The 2010/2011 cycle focuses on transport, chemicals, waste management, mining and sustainable consumption and production patterns. South Africa submitted a report outlining progress towards achieving sustainable development goals. The Chamber contributed towards the drafting of the report. South Africa's paper focused on the implementation of the Johannesburg Plan of Implementation targets and the Millennium Declaration Goals and Agenda 21; lessons learnt and best practices; and trends, constraints, challenges and emerging issues.

South Africa's report noted that there had been significant change in the mining, minerals and metals sector since the WSSD in 2002. Substantial changes to mining legislation have occurred and policies and guidelines have been developed in response to the changes in the legislation. Mining companies are taking initiative in their sustainability policies and reporting. The mining, minerals and metals industry still faces numerous challenges to meet targets for transformation, health and safety and environmental issues.



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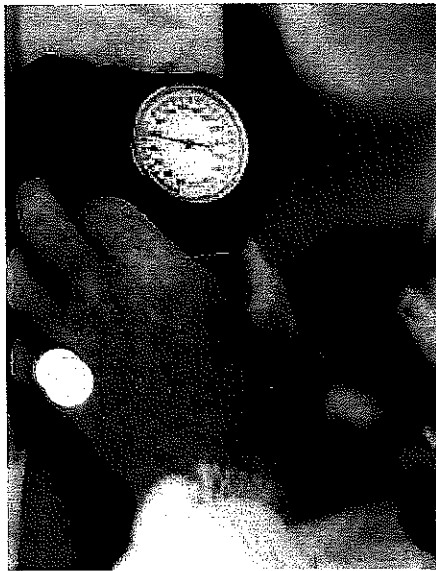


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**D**uring the year under review, the Chamber's Health Unit continued its initiatives aimed at improving the health of mine employees. These endeavours were mainly in the areas of control of noise and dust; control of tuberculosis (TB) and HIV/AIDS; the Mine Occupational Health and

Safety (MOSH) Learning Hub; the implementation of the Ex-Mineworker Project; participation in Mine Health and Safety Council (MHSC) committees; and advice to the Compensation Fund under the Occupational Diseases in Mines and Health Act (ODMWA). Work was also undertaken in the medico-legal examination of mine deaths.

## State of health in mining

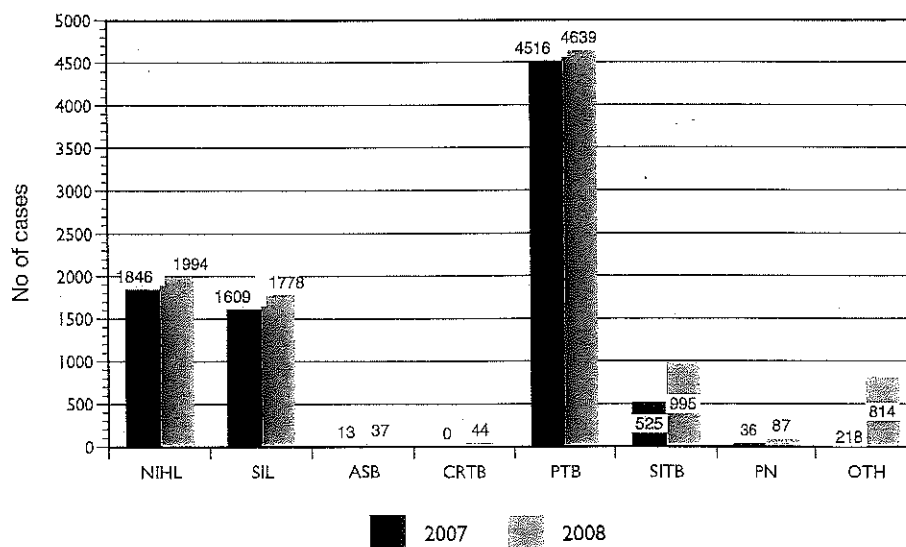
The challenge of poor health statistics for the mining industry continues, with no formal report available from the DMR for 2009.

## Tuberculosis

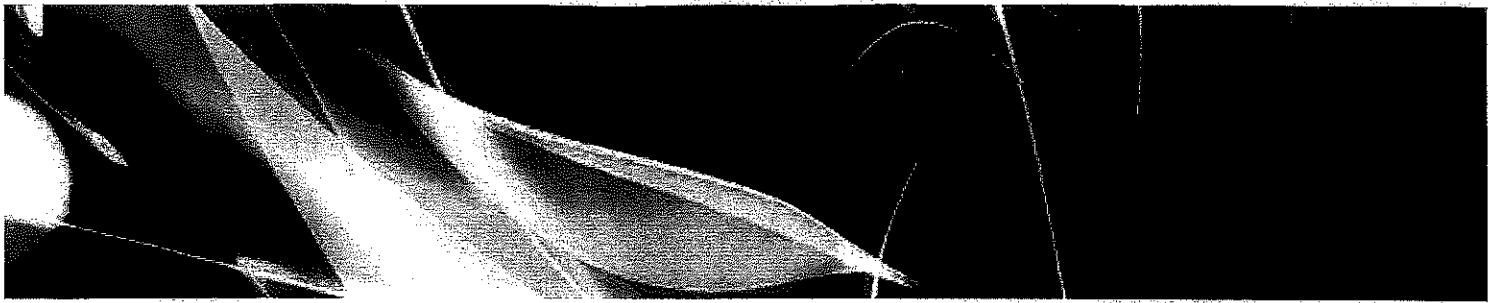
According to data from the DMR, 4 639 cases of occupational TB were reported by the industry in 2008. This figure is in line with figures collated for the Chamber's Sustainability Report, which has around 4 000 cases reported annually from 2005 to 2007.

Chamber data from 2005 to 2008 (figure 2) suggests that TB incidence rates in all mines, including gold mines, declined. The industry's incidence rate fell from 1 259/100 000 in 2005 to 884/100 000 in 2008, while in the gold industry it dropped from 2 581/100 000 in 2005 to 2 267/100 000 in 2008. The incidence of all forms of TB in South Africa was 948/100 000 in 2007.

**Figure 1: Total diseases reported in mines (source: DMR, 2009)**

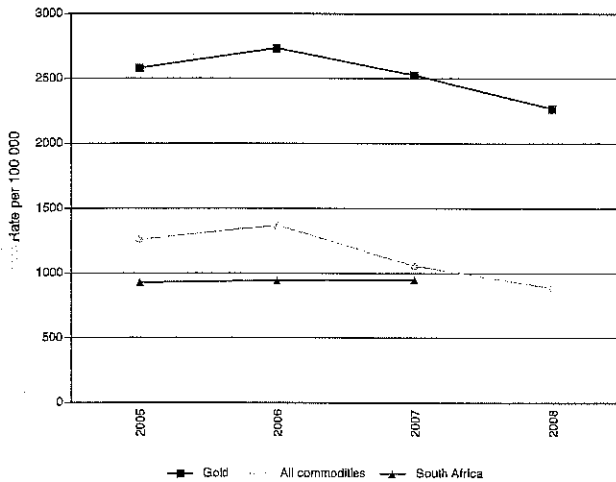






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**Figure 2: Estimated incidence of TB in SA mines and SA general population (source: Chamber, WHO)**



The key driver of the TB epidemic in the mines is HIV/AIDS, with silicosis also being a factor.

### Silicosis

Preliminary statistics for 2009 reveal an increase of silicosis cases year-on-year (figure 3).

Owing to the long latency period for the

development of silicosis, which can be up to 20 years, the more critical indicator of progress on exposure to dust is dust measurements. The percentage of silica dust samples below the legislated occupational exposure limit (OEL) has increased over time, which shows an improvement in dust control.

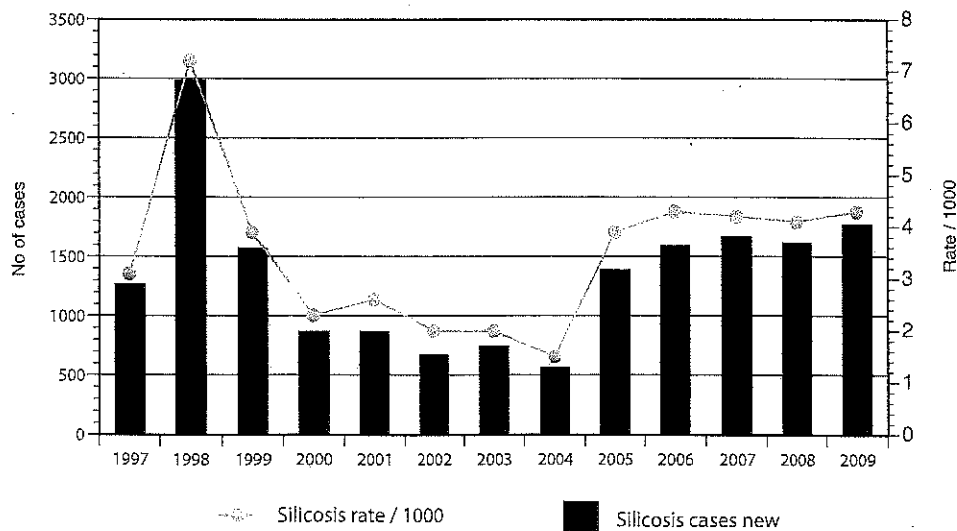
### Noise Induced Hearing Loss (NIHL)

The preliminary statistics for NIHL cases show no improvement compared to 2008. The overall trend of NIHL cases is, however, much lower than from 1998 to 2005.

### The policy environment

The Mine Health and Safety Amendment Act was promulgated in 2009 and its implementation is now being refined. The introduction of Section 11 of the Act brought a fundamental shift in investigations into health threatening events. The Chamber is

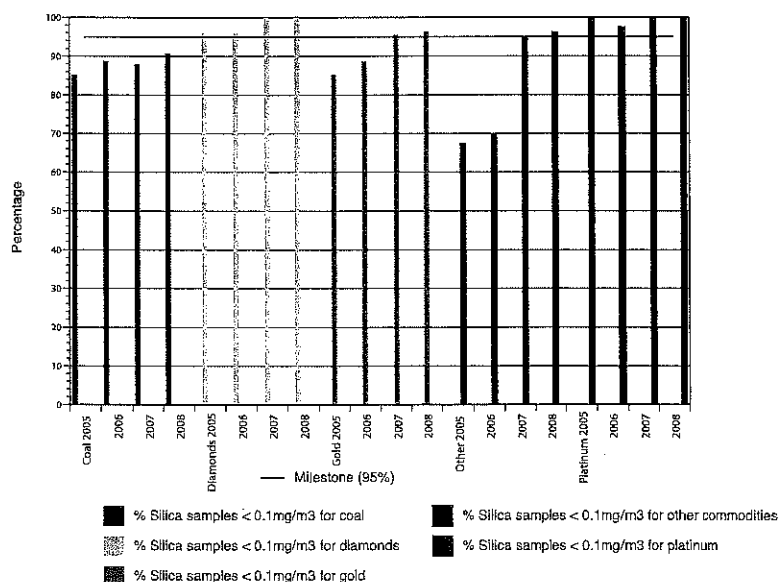
**Figure 3: Number of new silicosis cases recorded in the mining industry (source: Chamber, DMR)**





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**Figure 4: Percentage of silica dust samples below OEL (source: S & T Report)**



engaging the DMR in an effort to reach consensus on the interpretation of this section and the expected actions required for various outcomes such as NIHL.

The introduction of a National Health Insurance (NHI) and its anticipated effect on the industry should be clearer once an official policy document

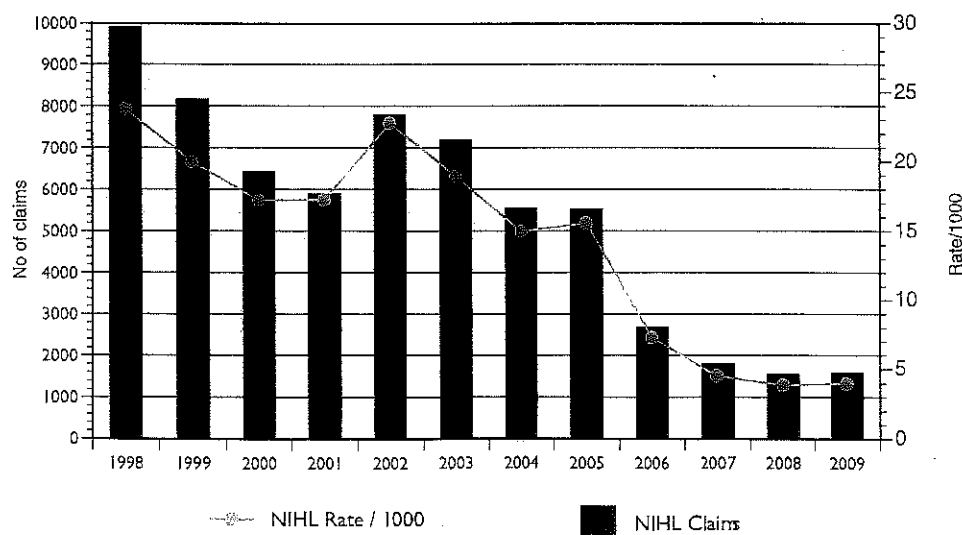
is made available by government for public comment.

### Review of strategic focus areas for 2009/10

#### Control of TB, silicosis and HIV/AIDS

Because these three diseases are interlinked,

**Figure 5: Cases of NIHL (source: Chamber, DMR)**





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**Table 1 : Initiatives at tripartite and Chamber level**

Issue	Tripartite initiative	Chamber initiative
<b>Silicosis</b>	<ul style="list-style-type: none"> <li>Tripartite Action Plan</li> <li>MHSC research, policy and legislation</li> <li>Silicosis roadshow</li> <li>Housing</li> <li>DMR Guidance Note on TB Control Programmes</li> <li>DoH-chaired multi-stakeholder TB Task Team</li> </ul>	<ul style="list-style-type: none"> <li>MOSH</li> <li>Dust Team</li> <li>Ex-Mineworker Project</li> <li>TB Task Team</li> <li>Improvements to referral systems, continuum of care</li> </ul>
<b>HIV/AIDS</b>	<ul style="list-style-type: none"> <li>Mining Tripartite HIV/AIDS Committee</li> </ul>	<ul style="list-style-type: none"> <li>Company initiatives</li> </ul>

the mining industry tends to approach them as a single entity wherever possible. Interventions on TB, silicosis and HIV/AIDS are at three levels: the tripartite level (DMR or Department of Health (DoH), employers and the unions); at Chamber level; and at individual mining company level. Most interventions are at individual company level with advocacy and some projects at the tripartite and Chamber levels.

Initiatives at tripartite and Chamber levels are summarised in table 1 above.

### **Tripartite initiatives**

Tripartite initiatives continue through the MHSC. In 2003, the tripartite industry partners set targets for the elimination of silicosis and NIHL by 2013 and committed to a Tripartite Action Plan. The Tripartite Action Plan has elements such as improving the culture of health and safety, building capacity, promoting an industry that is constantly striving to gain more knowledge around these diseases and improving the health and safety of work

environments. The MHSC is responsible for the implementation of the plan. The MHSC, as part of its broader mandate to improve health and safety on the mining industry, has extensive programmes on research, policy and legislative information. Employers took part in the silicosis roadshows organised by the MHSC in 2009.

The industry's response to HIV/AIDS is led by the Mining Industry Tripartite HIV and AIDS Committee, chaired by the minister of the DMR. The committee's response is encapsulated in a number of approaches: the 2003 Declaration of Intent, the 2006 HIV and AIDS Summit resolutions and the implementation plan adopted after the summit. The plan encompasses various facets such as prevention, care and support, research and human rights. A mining HIV/AIDS summit is scheduled for October 2010.

### **Chamber initiatives**

The Chamber's approach to the TB epidemic



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emphasises the elimination of silicosis and reduction of HIV/AIDS, which are the key drivers of the TB epidemic. Refinements to TB programmes are also part of the strategy to control TB. The Chamber's Group Environmental Engineer (GEE) committee and the Health Policy Committee (HPC) lead these initiatives.

Members of the GEE committee identified control of dust as critical and established a working group to advise members on ways to improve dust control.

The working group identified two major areas of concern, namely the sampling strategy and silica analysis techniques. A position paper was prepared to clarify the misconceptions around silica analysis. The group also made a huge contribution towards the revised DMR Airborne Pollutant guideline that addresses the sampling strategy concern. The MHSC is currently reviewing the guideline. The MOSH dust team is a member of the working group and provides valuable input. The MOSH team is in the process of demonstrating the fogger leading practice in the coal sector and has commenced with the next leading practice – footwall and sidewall treatment.

Through its representation on the HPC, the Chamber held extensive consultations with the DoH on TB control during the year under review. This was part of the process of developing strategic engagements on the subject and to foster a better understanding of the ways in which TB is controlled in the industry and improve co-operation in areas where improvement is needed.

A TB task team was established by the Chamber

in 2009. Employers committed to and are implementing the following strategies agreed upon at the HPC.

- Collating data on TB to ensure that statistics for the industry are available centrally
- Conducting annual audits of company TB programmes, using the TB review tool
- Providing a continuum of care when miners are isolated during TB treatment, by providing:
  - \* a referral letter to the nearest public facility or country
  - \* providing, where required, treatment for the remainder of the period
  - \* reviewing the patient's condition, on completion of the treatment, and again a year later
- Providing Isoniazid (INH) prophylaxis for HIV positive people and for those with silicosis
- Using Teba to support completion of TB treatment.

The HPC also decided to integrate care for TB and HIV/AIDS as far as possible, since there is a 73% HIV co-infection rate in TB patients in South Africa, making separation of these diseases virtually impossible. It is foreseen that over time experience in the integration of these two diseases will improve.

The industry agreed to support government's HIV counselling and testing (HCT) campaign in collaboration with the South African Business Coalition for HIV and AIDS (SABCOHA).

The Chamber hosted a successful parallel session on TB and the mining industry at the South



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African TB conference held in Durban from 1 to 4 June 2010. The aim of the session was to:

- provide an overview of the context, prevalence and response to TB in the mining industry
- present leading practices and successes in control of TB
- explore challenges that still persist and possible approaches for improving TB control
- build partnerships on control of TB in the mining industry.

Case studies from Goldfields, Anglo Platinum and MOSH were shared with the audience. These were followed by a panel discussion with various stakeholders such as the NUM, AIDS Rights Advocacy Southern Africa (ARASA), the National Institute for Occupational Health (NIOH) and Aurum Institute. Although the work done by mining companies was appreciated, it was recognised that various challenges still persist in the management of TB in the industry.



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appears to be slow owing to the huge concomitant financial implications, the leading practice on the hearing protection device selection tool and training and awareness is attracting much interest. The demonstration of the practice is on track and the tool will be available for adoption soon.

### ***Compensation for occupational diseases***

The Occupational Diseases in Mines and Works Act, No.78 of 1973 (ODMWA), as amended, governs the compensation for occupational diseases contracted while in the employ of controlled mines and controlled works. Compensation for occupational diseases in non-controlled mines is regulated under the Compensation for Occupational Injuries and Diseases Act, No. 130 of 1993 (COIDA).

The proposed integration of compensation legislation was delayed, as the Department of Labour is no longer tabling this discussion. A formal word from government is awaited regarding the future of compensation systems.

The Chamber continues to provide advice to the Compensation Commissioner for ODMWA. A key area of concern is the 2006 valuation of the fund, and a report is awaited.

### ***Control of noise***

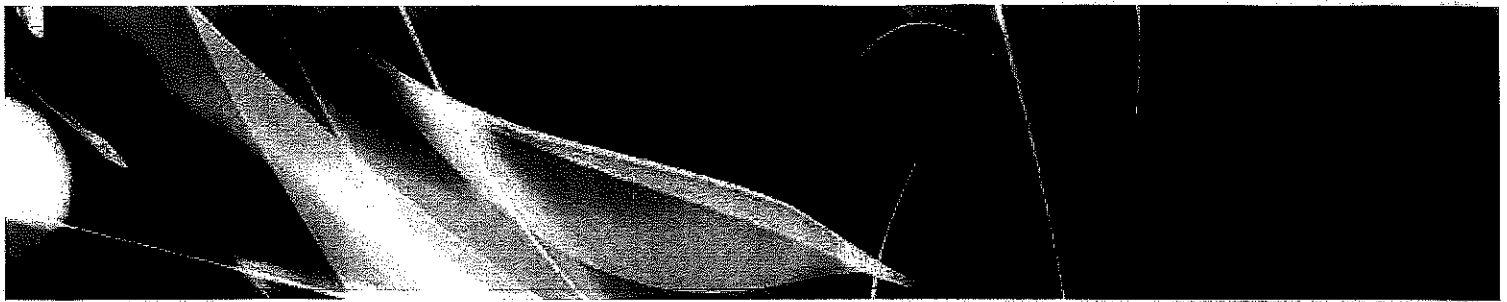
The GEE established a working group on noise control and is awaiting a decision from the MHSC to revise the guideline on noise management.

Although the adoption of the electric rock drill, which is the pilot project of the MOSH noise team,

### ***Ex-Mineworker Project***

The objectives of the project, conceived in 2004 and started in 2008, are:

- to establish occupational health centres at identified government hospitals to provide medical examinations to former mineworkers



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- to strengthen the certification and compensation claims process
- to promote sustainable economic projects.

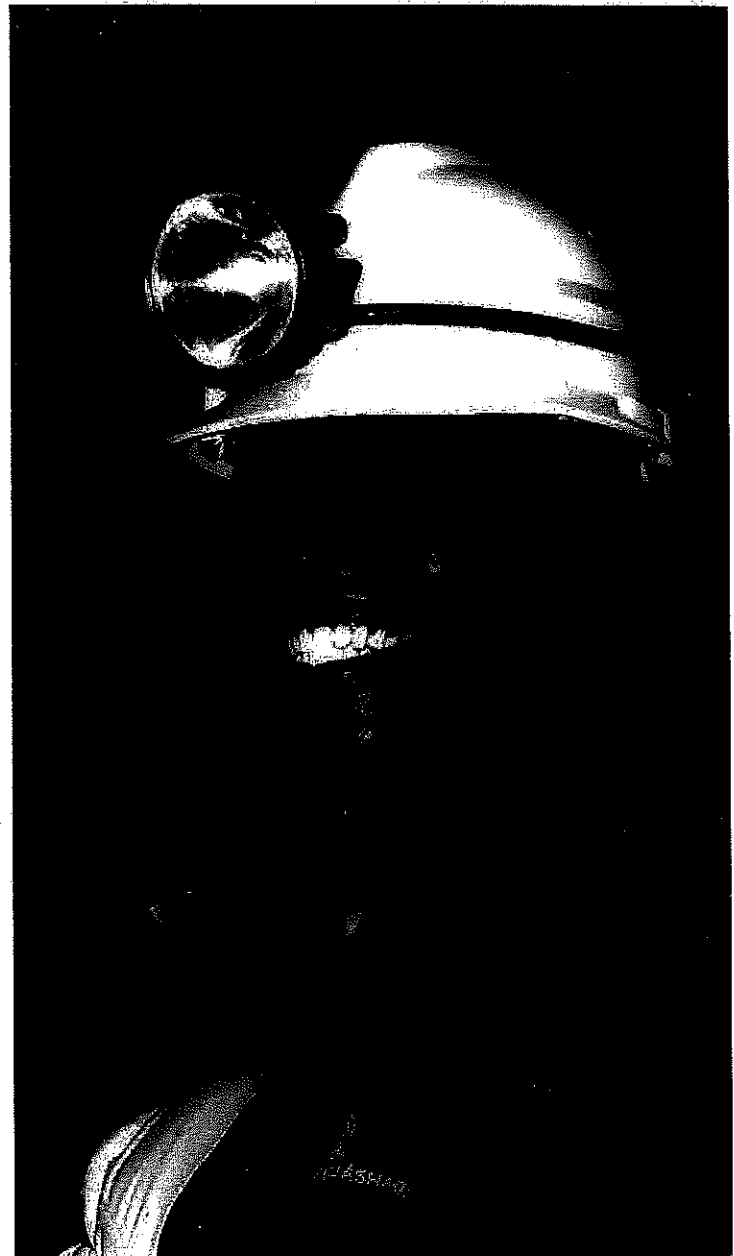
The project is running and sites in Nongoma and Mthatha are being established.

Funding for the second year of the pilot site in St Benedict's Hospital, Nongoma, KwaZulu-Natal ended in June 2010. Following several setbacks, the site is now fully operational and being run by the provincial government. Valuable lessons were learnt and the experience gained will be used on the other sites.

Two sites were identified in the Eastern Cape, but only the one in Mthatha was successfully activated. The Mthatha site involved the renovation of the old Sir Henry Elliot hospital. It is expected to be running in September 2010.

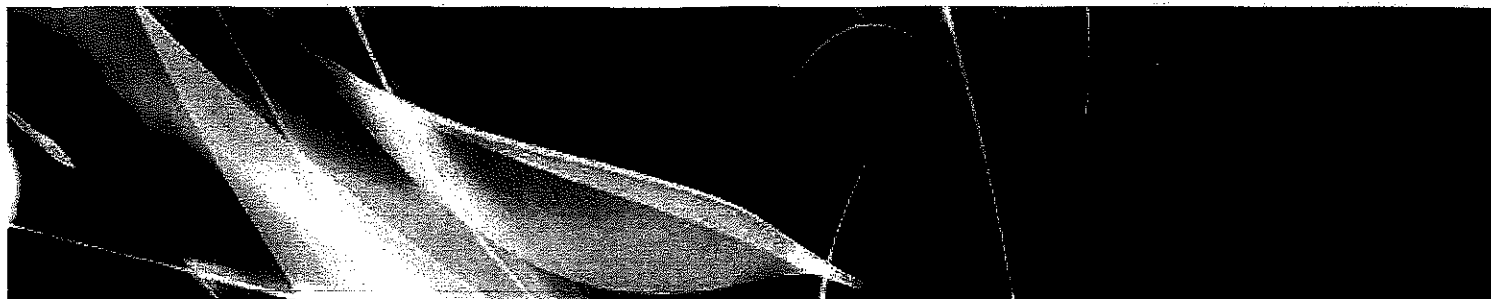
The promotion of socio-economic projects was a great success, with almost 1 500 farmers reached through the project in Nongoma. The support provided ranges from increasing agricultural production, the creation of market linkages, capacity building and technical training, the extension of credit facilities and the introduction of a land rental programme. A similar project is being set up in Mthatha.

The board of the Ex-Mineworker Project identified the sites well ahead of time to enable better planning by the provincial departments. With a full roll-out plan in place, there should be minimal time lost in the establishment of sites.



### **MHSC committees**

The Health Unit participates in a number of MHSC committees, including the Mine Occupational Health Advisory Committee and its technical advisory task teams, the Occupational Medicine and Hygiene Technical Task Teams and the Safety in Mines Research Advisory Council (SIMRAC).



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## Occupational hygiene activities

Members of the GEE committee attended a strategic workshop in 2009, to identify areas of concern in ventilation/hygiene and to formulate a strategic plan to address these concerns. Besides silicosis and noise control, the following areas were identified and working groups established:

### Qualifications

The Chamber is in the process of phasing out the current Chamber qualifications. The working group is liaising with tertiary institutions to design a formal tertiary qualification. The technical reference group within the Mining Qualifications Authority (MQA) is making good progress on the lower level qualifications.

### Legislation

Two guidelines were revised during the year:

- *Guideline for a Mandatory Code of Practice for Flammable Gas in Mines other than Coal*
- *Guideline for a Mandatory Code of Practice for Flammable Gas in Coal Mines.*

Both documents were forwarded to the Mining Regulatory Advisory Committee and Legal Drafting Committee for finalisation and it is expected that they will be promulgated before the end of 2010.

The *Guideline on Airborne Pollutants* should be completed within the next couple of months and the revision of the *Noise Guideline* will commence soon.

A proposal was forwarded to SIMRAC to undertake research on diesel particulate matter and vibration to set occupational exposure limits for the South African mining Industry.

## Other occupational health activities

### Medico-legal investigation of mine deaths

In July 2009, the HPC noted several incidents where there was uncertainty around the roles of the DMR and mining companies on medico-legal examinations of mine deaths. Several meetings were held with the chief inspector of mines and it was agreed that work should be done to:

- clarify the roles of all stakeholders in medico-legal examinations for deaths on mines
- agree on procedures to be followed
- review the DMR guideline on medico-legal examinations.

A workshop of all stakeholders was held in November 2009, that provided valuable material for the development of a guidance note on medico-legal examinations of mine deaths. A task team undertook to draft the guidance note. The document is almost complete and a workshop will be held in the latter part of 2010 to review it. Once approved, this guidance note will clarify the roles of all stakeholders, offer a procedural system in the event of such deaths and improve communication between all role-players.

## Conclusion

The year under review was one of great activity in consolidating work initiated by the TB task team. The control of silica dust and noise continue to be a priority for Health and we will continue contributing to, and monitoring progress in reaching the 2013 industry milestones.

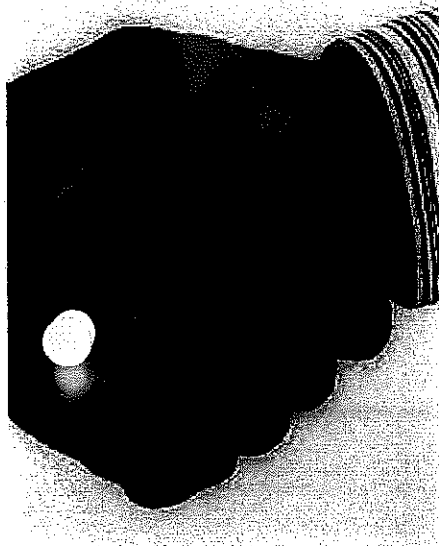


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# labour policy and community development

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## Implementation of wage agreements

**T**he Chamber and the unions signed two-year agreements on wages and conditions of service for gold and coal in 2009, thus no centralised negotiations took place in the period under review.

Instead, attention was directed at the implementation of the provisions of the wage agreements. While a number of the issues were addressed at company level, several must be dealt with collectively under the auspices of the Chamber. These include the following:

### *Winding engine drivers*

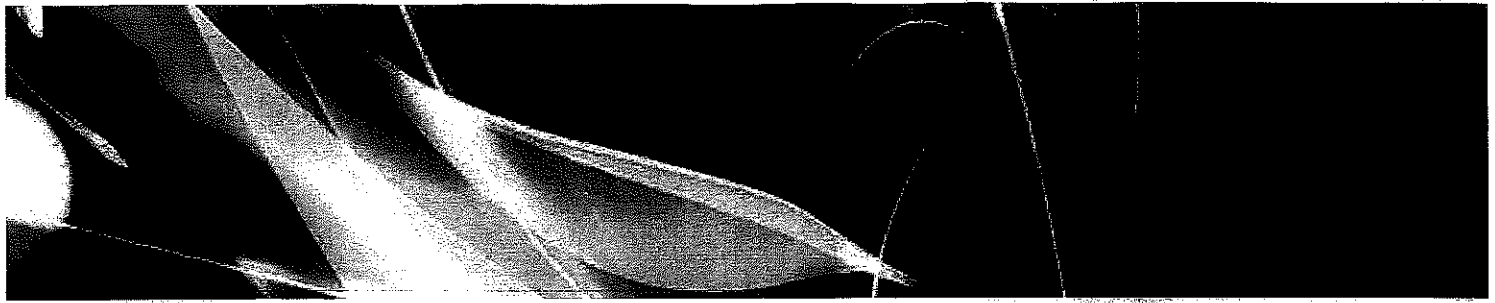
In the gold negotiations in 2009, there were demands specifically relating to winding engine drivers. These were considered under the guidance of independent facilitation in a process that ran parallel to the main negotiations. After intensive discussion, it was agreed that two main issues needed to be addressed, namely, the training of leaner winding engine drivers and adequate rest breaks because of rapid shift changeovers. A workshop to deal with the former issue took place in February 2010. The latter issue was also initially addressed in February, at which time it was agreed that this matter would be investigated further

at shaft level and thereafter a feedback session would take place. The feedback session took place on 1 June 2010. The unions indicated that they approved of the steps taken by the companies, but requested that the union structures at operational level be involved in the exercise. It was agreed that all the necessary steps to comply with the provisions of the agreement had been taken.

### *Promotion of home ownership in the coal industry*

In the 2009 round of negotiations on wages and conditions of service, it was agreed that a multi-party task team should be appointed for the coal industry to consider ways of effectively promoting home ownership. It was also agreed that government, for example, the National Treasury and the Department of Human Settlements, should be involved in the task team where appropriate. The unions reported that there is a dire shortage of housing in proximity to collieries and that consequently any available housing is priced beyond the reach of most employees. The building of new houses is impeded by the inability of local authorities to provide infrastructure, in particular electricity.

The task team is exploring ways of promoting home ownership. It also investigated subsidies provided by the Department of Human Settlements and the Housing Guarantee Fund to which President Zuma made reference in his February State of the Nation address. President Zuma undertook to create a R1-billion housing guarantee fund to accommodate those who earn too much to qualify for a government housing



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subsidy, but too little to access a mortgage from a financial institution. Some of the employees in the coal sector fall into this category. Possible tax incentives are also being investigated.

### ***Personal protective equipment***

In 2009, NUM submitted a demand on protective clothing for female employees working underground to both the gold and coal employers. Agreement was eventually reached that a joint gold and coal task team should be established to investigate protective clothing for female employees working underground or in opencast collieries. The parties agree that the provision of suitable personal protective equipment (PPE) for female employees, that does not compromise health and safety, presents numerous challenges. Such challenges include the design of two-piece overalls, sourcing safety shoes, gumboots and gloves in small sizes and helmet design. NUM is particularly concerned about underwear for female employees that can withstand the harsh underground working conditions. The task team was not able to agree on the issue of whether or not underwear for female employees could be classified as PPE and thus should be provided by the employer. The task team was also not able to find a legal solution to this question. It was agreed that research on the issue is required. To this end a joint proposal, in line with agreed terms of reference, was submitted to the MHSC. The MHSC agreed to undertake an investigation into underwear and the broader issue of PPE for women.

### ***Monuments and museums***

Engagement with the unions around a mining museum in Johannesburg and the erection of mining monuments in a number of locations with significant mining links are on going. The task team dealing with this matter is visiting various museums to view their facilities and artefacts. It has already been to the Workers Museum and Museum Africa and will be visiting the Apartheid Museum, the Cullinan Diamond Museum and the Talana Coal Museum in KwaZulu-Natal.

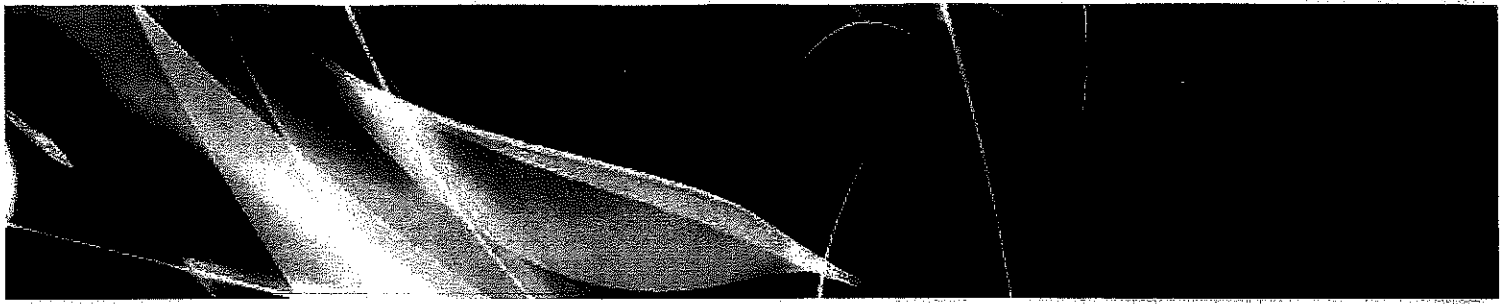
### ***Merger of the Mineworkers***

#### ***Development Agency (MDA) and Teba Development***

Discussions about the proposed merger of the MDA and Teba Development are continuing. In his 2009 budget speech, the minister of finance indicated that government will consider establishing an agency, to be jointly managed by business, labour and government, to invest in economic development in mining towns or labour-sending areas affected by retrenchments. Teba Development's managing director and the chief executive of the MDA, together with the project's facilitator, have begun to engage the DMR on the feasibility of the merged entity becoming such an agency.

### ***Core Condition Codes for Miners and Artisans***

Updating of the Core Condition Codes for Miners and Artisans, both gold and coal, was finalised early in 2010. This had not been done for several years and turned out to be a rather large



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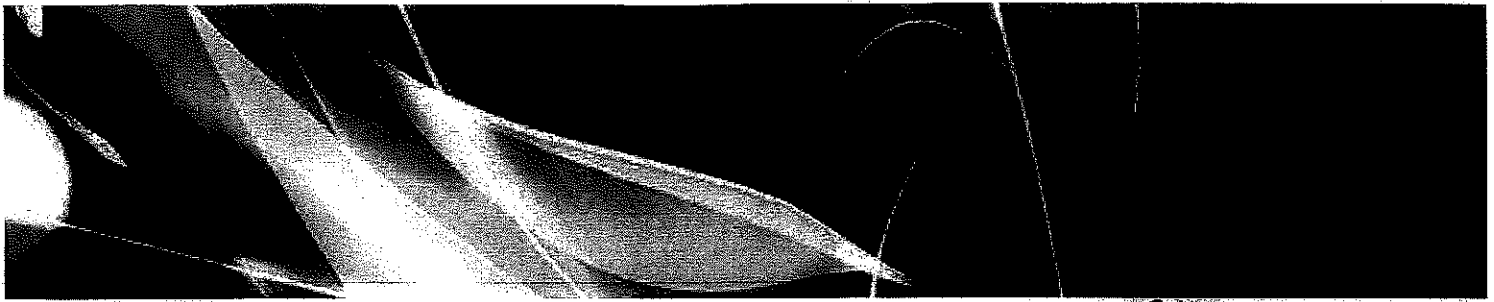
undertaking, since many practices and conditions had either changed or simply fallen away. The codes must reflect relevant provisions in the wage agreements concluded over the last decade, as well as new legislation enacted after they had last been revised.

### ***Bargaining council***

A major focus of debate between the Chamber and NUM, Solidarity and UASA during the latter part of 2009 and in 2010 was the issue of a bargaining council in the mining industry. There is a long history of collective bargaining in the gold and coal sectors. For this reason, the discussions are more advanced in these sectors than in some of the other commodities. In order not to delay the discussions while other sectors are brought on board, it was agreed that gold and coal would forge ahead while

the other commodities would lag somewhat in separate processes.

Also relatively advanced are the debates amongst the mining contracting companies that will be housed in a separate sub-council of the bargaining council. However, while the largest contractors are members of the Chamber, there is a large number, particularly small contractors, that are not. Therefore, under the auspices of the Chamber, the Association of Mining Contracting Companies, together with the unions, commissioned a survey of the contracting companies. This produced much needed information about the contracting landscape, about which very little was known. The Chamber's Industrial Relations Service has since pursued engagement on the bargaining council with some of the contracting companies that are



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not members of the Chamber since, if the members of a bargaining council are sufficiently represented, agreements that are reached in a council can be extended to all the contracting companies regardless of whether or not they were party to the negotiations that led to their finalisation.

Traditionally, negotiations in the platinum sector are conducted at company level and wages and conditions are not standard across the commodity. A survey of the platinum sector was undertaken as information was needed on the number of employees in the sector as a whole for purposes of determining representivity as required by the Department of Labour (DoL). The Department will not agree to extend agreements to non-parties if those companies that are party to the bargaining council are not sufficiently representative of the sector as a whole.

A first draft of a constitution for a bargaining council for gold, coal and contractors was prepared and is being studied by the employers and the unions. This draft constitution is based on the so-called "principles document" that records the agreements reached during a lengthy period of negotiations between the Chamber and the unions. While good progress is being made, there are still some very important matters that have to be finalised. Foremost amongst these are the exemptions procedures, issues relating to smaller companies, the dispute resolution function and thresholds for membership of the council for both unions and employer organisations. A bargaining council would have important ramifications for the industry, particularly for smaller companies, and

it is critical that the final exemption criteria are balanced and fair so that overly onerous wages and conditions negotiated at the centre are not imposed on smaller companies.

### ***Quarterly round tables with the unions***

Agreement was reached that the Chamber and the unions would hold quarterly meetings to discuss matters that impact on the future of mining in South Africa generally, and issues relevant to the industrial relations sphere in particular.

Several themes emerged during the course of the discussions. Foremost amongst these is the need for the parties to build a sustainable and on going relationship. The point was made that systematic engagement only takes place every two years during the wage negotiations. This environment is confrontational and not conducive to building real relationships. There should, therefore, be more frequent and open engagement on issues that affect the mining industry as a collective. Further, the parties need a different content to their engagements and also a different mindset. The mining industry, particularly in gold, faces many challenges and overcoming such challenges would stand a greater chance of success if the parties work together on collective solutions.

Other issues that have been raised, include:

- the need to develop innovative solutions to common challenges
- the timing of the wage negotiations and the large number of demands presented by the unions
- the benefits of engaging on the state of the



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mining industry prior to negotiations

- the feasibility of a course on mining industry negotiations
- the possibility of a different formula being used to arrive at reasonable wage increases.

A standing item on the agenda is the implementation of the wage agreements. Issues such as transformation, particularly regarding women in mining, Fanakalo and a protocol to govern bargaining were also addressed.

## MIGDETT

MIGDETT comprises representatives from the DMR, the unions, the Chamber and the South African Mining Development Association (SAMDA). After

a period of relative inactivity, in 2010 MIGDETT re-started its work with renewed vigour, focusing on the formulation of a growth and transformation strategy for the South African mining industry.

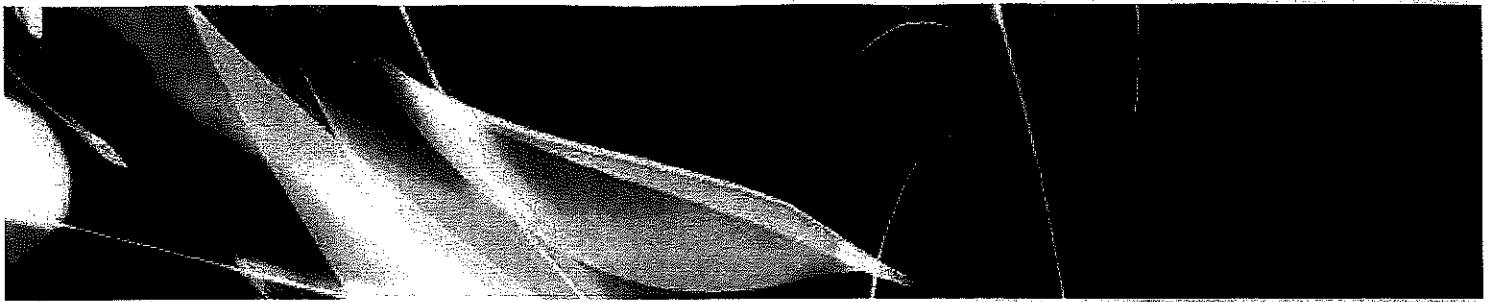
MIGDETT targets were set in respect of employment equity. The objective is to achieve, by 2014, a minimum of 40% historically disadvantaged South Africans in a number of occupational categories at the management level, including top management.

Housing and living conditions were the subject of considerable debate during the negotiations on the declaration. Ultimately, it was agreed that the industry would strive to achieve a target of one person per room by 2014. It also undertook to convert hostels into family accommodation by 2014 and to promote home ownership amongst employees.

## Amendments to labour legislation

Amendments to the Employment Equity Act (EEA), the Labour Relations Act (LRA) and the Basic Conditions of Employment Act (BCEA), including provisions relating to labour brokering, were the subject of considerable debate in Nedlac, which established a number of task teams to deal with the matter.

The task teams completed their deliberations on a discussion document prepared by the DoL and their reports were submitted to the minister of labour. The DoL drafted the amendment bills and these will be sent to cabinet after a regulatory impact assessment has been completed. The department set a deadline of August 2010 for



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submission of the regulatory assessment report by the external business environment specialists contracted to undertake the assessment.

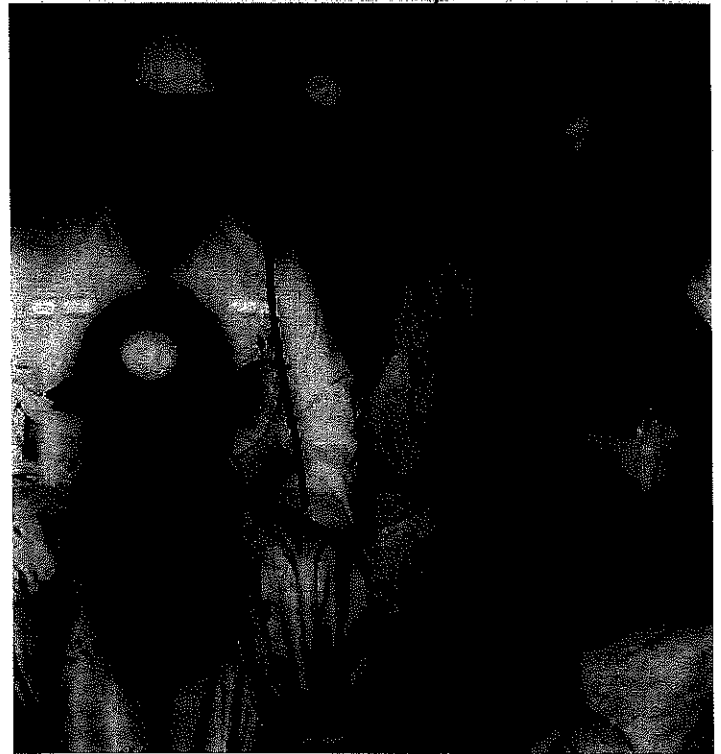
The Industrial Relations Adviser served as the chief negotiator for employers in all the Nedlac processes, other than the one dealing with labour brokers. She will again take on this role when the bills are referred back to Nedlac for negotiation by the stakeholders.

### **Future of the labour courts**

On 3 May 2010, the Department of Justice and Constitutional Development (DOJ) explained the content of its latest version of the Superior Courts Bill to Nedlac and sought written comments on the Bill. Busa submitted comments as requested.

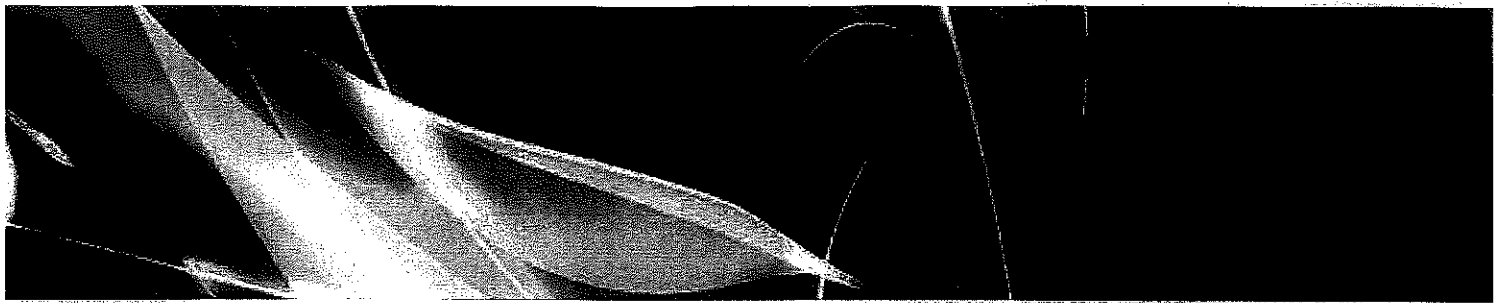
On 21 May 2010, the DOJ again met with Nedlac and informed Nedlac that it was going to publish, for public comment, the Superior Courts Bill and a Constitution Amendment Bill in the Government Gazette later that day. The DOJ also informed Nedlac that it had taken some of the concerns raised by Nedlac at the previous meeting on board and had addressed them in the published version of the Superior Courts Bill. One of the key issues that was addressed, was the right of representation in the Labour Matters Special Division by the same parties who are currently able to represent disputing parties in the labour courts.

Nedlac met again on 18 June 2010. The DOJ mentioned that the minister had met with the newly appointed judge president (JP) of the labour courts to obtain his and his judges' views on the future of the labour courts. Nedlac indicated that it would



like to meet with the new JP of the labour courts to hear the judges' views on the future of the labour courts. This meeting took place on 25 June 2010.

In essence, the judges support the proposal to retain the current labour specialist court in the form of the Labour Matters Special Division of the High Court with national jurisdiction. They also welcomed the recognition in the Bill that labour court judges should be afforded the same tenure and conditions of employment afforded to judges of the High Court. However, the judges believe that a labour court ought not to comprise listed judges of the General Divisions of the High Court (as provided in the Superior Courts Bill), but that the court ought to be established as a separate, functional division of the High Court, comprising judges permanently appointed to that court. They are thus in favour of the current system in terms



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of which judges are appointed to the labour court alone. The judges are also of the view that the current Labour Appeal Court ought to be retained as a separate specialist court with the status of the Supreme Court of Appeal, i.e., with appeals from that court being directed only to the Constitutional Court.

Currently, the DOJ is processing the responses it received from the public in respect of the two bills. It is also taking cognisance of the written responses it received from both Busa and organised labour. In addition, it is engaging with the JP of the labour courts and with the rest of the judiciary. Thereafter, further engagement with Nedlac will take place.

The industrial relations adviser represented employers in the one-a-side Nedlac task team that dealt with this matter.

### **Mineworkers' Provident Fund (MPF)**

Considerable engagement took place around the proposals by the MPF to investigate the feasibility of self-administration.

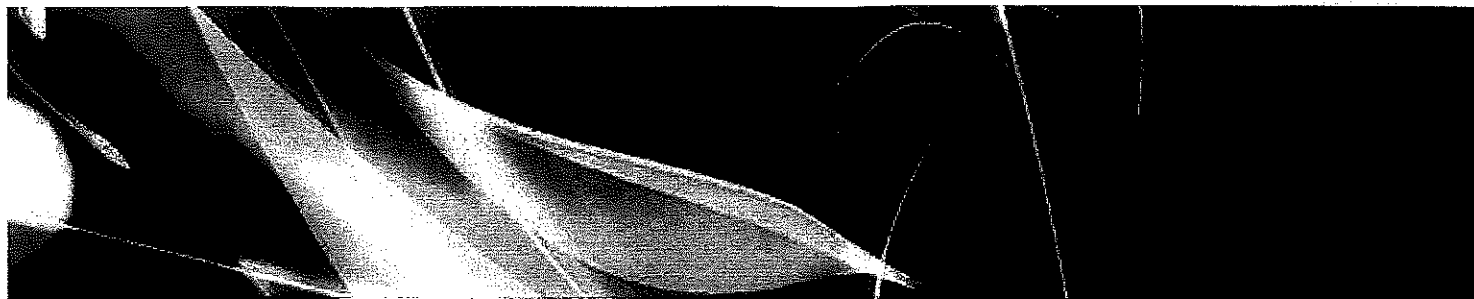
PricewaterhouseCoopers (PwC), was instructed by the Chamber and NUM to prepare a report on the issue of administration, including that of self-administration by the MPF. Of particular importance is PwC's recommendation that the MPF should seriously consider co-sourcing as an administration model as opposed to either a complete outsourcing model (which is the current model with Momentum as the administrator) or a complete self-administration model. As regards the major issue of unclaimed benefits, PwC recommends that the MPF should consider

the separation of the unclaimed benefits into a separate fund and thereafter outsource this fund to a specialist service provider. This would provide specific focus and drive in clearing the backlog of claims in an agreed timeframe based on agreed performance criteria. The Chamber and NUM



provided the MPF's principal officer with the PwC report for circulation to all the members of the MPF's board of trustees. In addition, the Chamber and NUM met with the board of trustees to discuss the report. While the MPF's trustees must remain



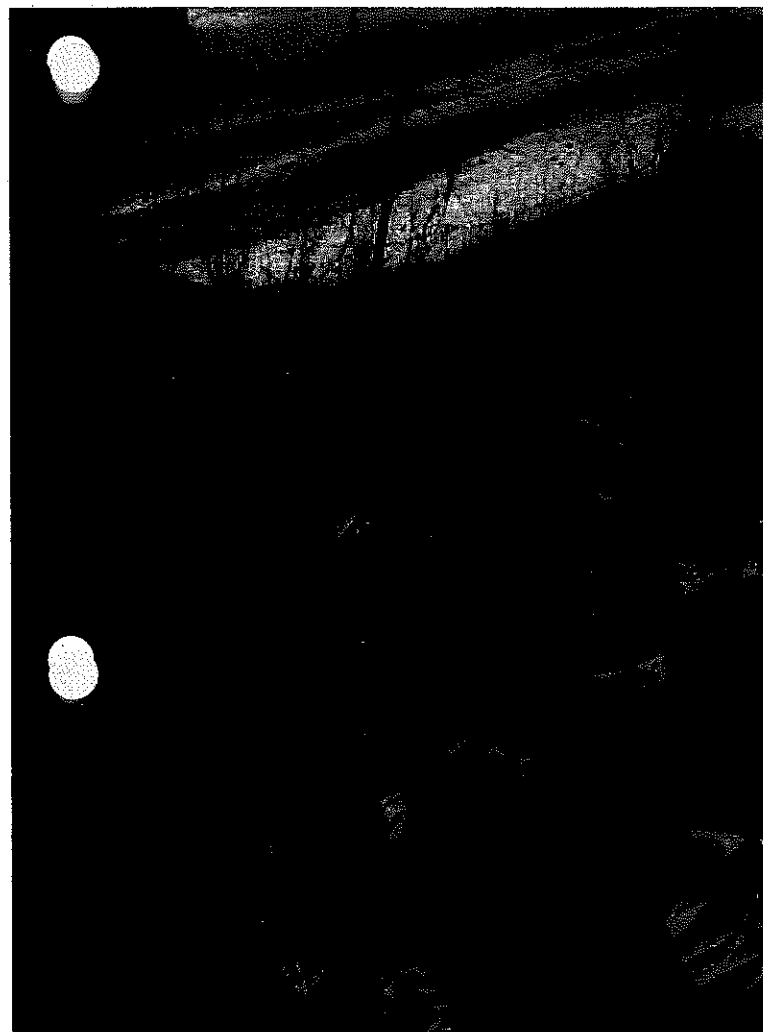


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completely independent, it was asked that they take into account the recommendations made by PwC in their deliberations on self-administration.

### **Community Development Forum**

In 2008, the Chamber established a Community



Development Forum and responsibility for this structure was assigned to IRS. The forum comprises senior representatives of the companies charged with community development initiatives and the

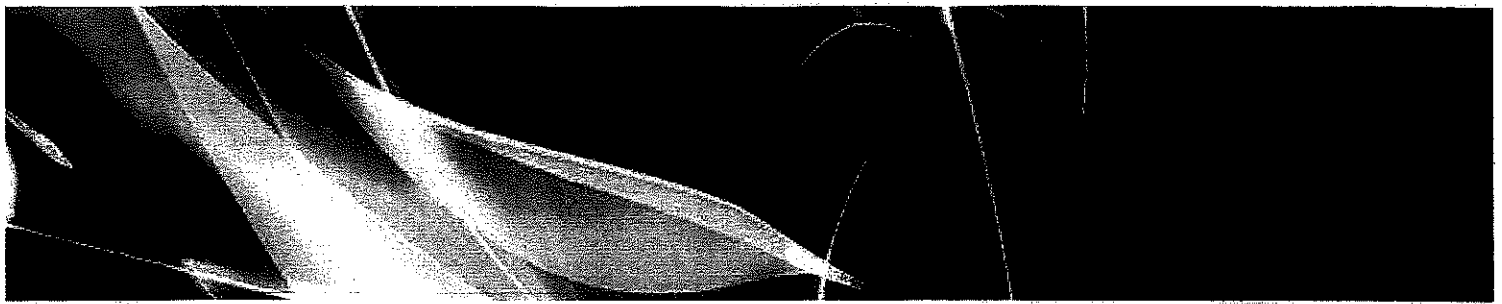
implementation of social and labour plans.

Previous liaison with the Department of Land Reform and Rural Development focused on sharing information on the department's community development initiatives and serious attention was given, during discussion in 2010, to exploring possible collaboration between the department and the mining companies, particularly in labour-sending areas. Attention would be on the labour-sending areas in the Eastern Cape and KwaZulu-Natal initially, but the scope of this initiative would be broadened in the future.

Interaction took place with the Platinum Producers' Forum that operates very successfully on collaborative projects in the Rustenburg area. The platinum mines realise that they can achieve better results with their community development projects if they work together. The coal and gold companies are considering if such forums for their commodities might deliver similar results.

### **ILO Study on the use of sanctions by labour inspectorates**

Professor Paul Benjamin was commissioned by the International Labour Organisation (ILO) to prepare a paper on the use of sanctions by labour inspectorates in South Africa. The study will cover enforcement and the use of sanctions under the Occupational Health and Safety Act, the BCEA (including sectoral determinations), the EEA as well as labour-related laws administered by other departments such as the Mine Health and Safety Act. Part of the research project includes ascertaining the views of organisations



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representing employers and workers on the use of sanctions and the manner in which labour inspectors administer them.

## **Other interaction**

### ***Busa and Nedlac***

The industrial relations adviser chairs the Busa Standing Committee on Social Policy and the senior policy analyst is a member thereof. The latter is also one of the employer representatives on the Labour Market Chamber of Nedlac.

### ***Judicial Services Commission***

The Nedlac parties are accorded the right to participate in meetings of the Judicial Services Commission when this body meets to interview and appoint judges for the labour court. Each stakeholder is permitted to nominate one representative to serve in this capacity; the Chamber's industrial relations adviser represents employers.

### ***Tripartite Technical Committee on HIV/AIDS***

The main representative on this Technical Committee is the Chamber's health adviser, but IRS participates in meetings as some of the issues discussed have industrial relations implications.

### ***Interaction with Chamber members***

IRS administers the Chamber's Labour Policy Committee (LPC). This structure comprises senior industrial relations and human resources

managers nominated by the companies across all the commodities and includes representatives of the mining contracting companies that are members of the Chamber. It meets monthly to discuss labour-related policies and issues and also industrial relations issues that have an impact on the mining industry. Where required, the collective positions developed by IRS and mandated by the LPC are fed into national debates, either by the Chamber itself or through Busa.

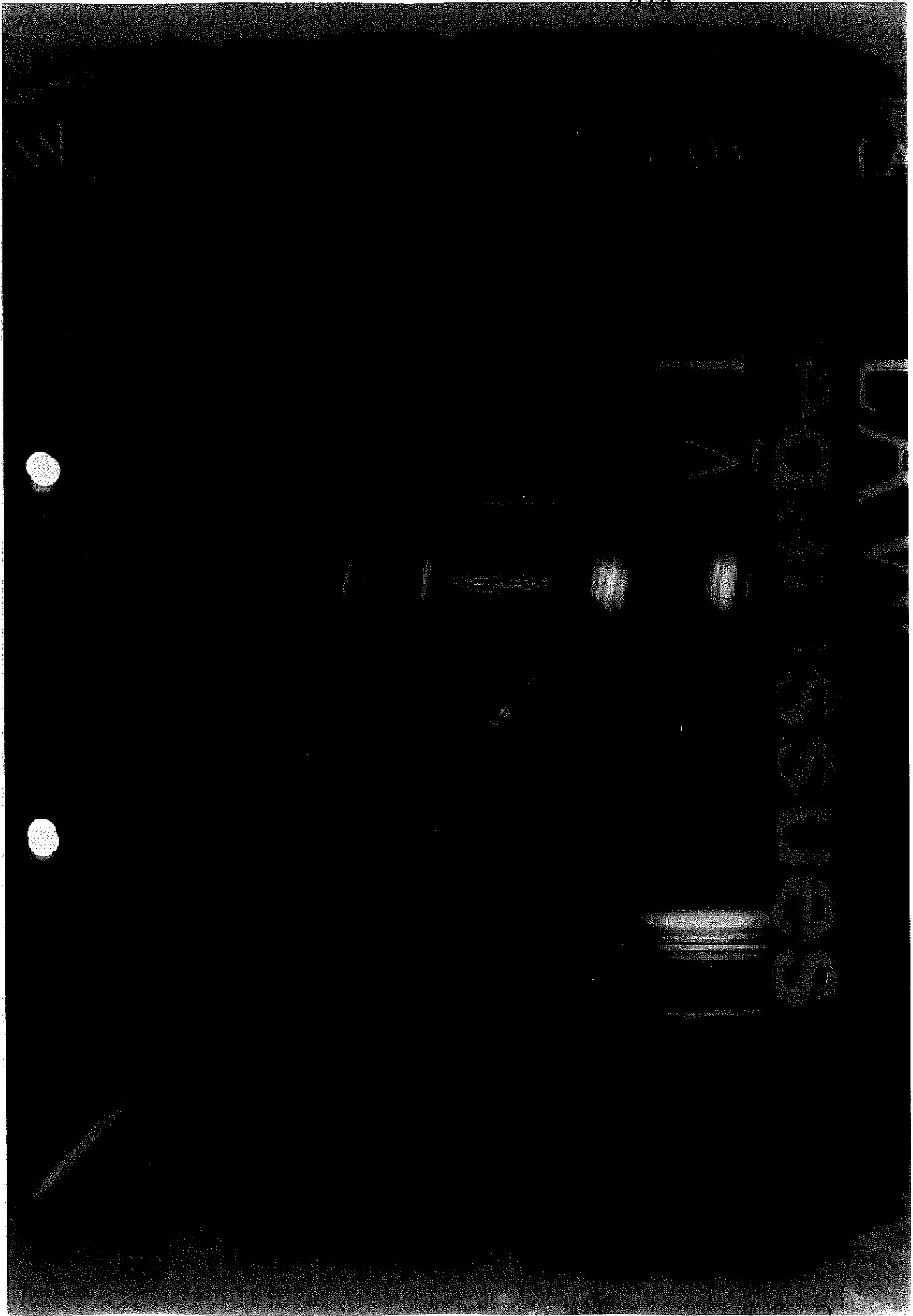
In addition to providing a collective bargaining and advocacy service, the Chamber's IRS also assists members with queries and provides information on labour-related matters. It also produces a quarterly *Labour Policy Digest*, which contains articles on topical labour policy issues.

## **Most Influential Women in Business and Government**

At a function at Gallagher Estate held on Friday, 30 July 2010, Dr Elize Strydom, the Chamber's industrial relations adviser, was presented with the *CEO Magazine's* 2010 Most Influential Women in Business and Government (mining category) award.

## **IRS team**

In August 2010, IRS was pleased to welcome Phillemon Motlhamme as a member of the team. He is a lawyer by training and comes from the platinum industry. He will serve as the Chamber's assistant industrial relations adviser.



## **Companies Act, 2008 and regulations**

**T**he new Companies Act of 2008 was passed into law in April 2009, but is not yet in force. An Amendment Bill was published for public comment in July 2010. The proposed changes to the Act were prepared by the Department of Trade

and Industry on the initiatives of Busa (of which the Chamber is a member) and other industry bodies. Regulations are also being drafted to facilitate the administrative processes provided for in the Act. At this stage, there is no indication as to when it is anticipated the Act and its Regulations will come into force, but it is unlikely to be in 2010.

## **Industry retirement funds and unclaimed benefits' distribution**

### ***Mines 1970s Pension and Provident Funds***

The Chamber administers the Mines 1970s Pension and Provident Funds. With effect from 1 January 2004, the Mines 1970s Pension Fund declared a surplus distribution to members in terms of the Pension Funds Act. Although the cut-off date for applications for a share of surplus closed in September 2005, the trustees of the Pension Fund, in consultation with the fund's statutory actuaries and appointed auditors,

resolved to continue to accept new applications for a share of surplus, which is ongoing.

Both the pension and the provident funds have been converted to unclaimed benefits funds, as neither fund has active members. The funds' assets are invested for growth and protection against market volatility. Tracing initiatives continue unabated to find and pay members and beneficiaries the unclaimed benefits and surpluses due to them, both in South Africa and its neighbouring countries of Mozambique, Swaziland, Lesotho and Malawi.

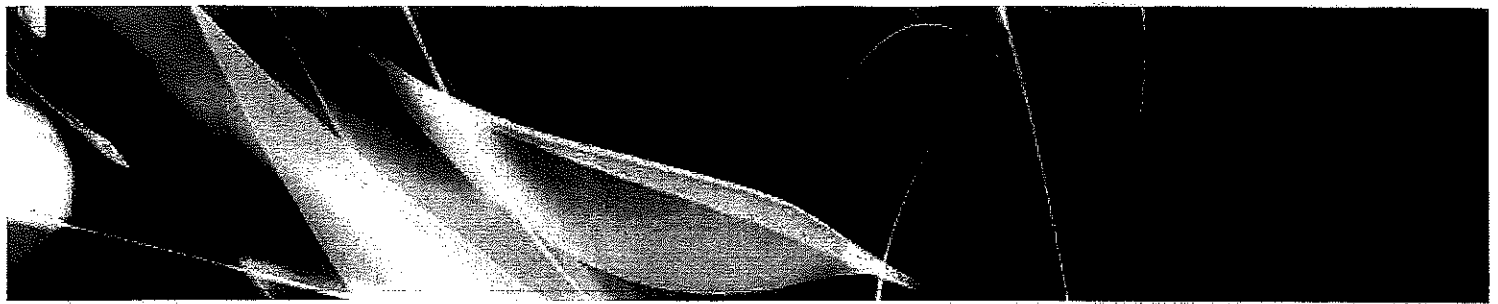
### ***Trustees appointed to industry retirement funds***

The Chamber nominates trustees to the boards of various mining industry retirement funds, including the Sentinel Mining Industry Retirement Fund, Mine Employees Pension Fund, the Mineworkers Provident Fund, the Mines 1970s Pension and Provident Funds and the Chamber of Mines Retirement Fund. As at 30 June 2010, the combined assets under management of these retirement funds approximated R69-billion.

The Chamber, with the boards of trustees and administrators of the funds, continues to engage with government, trade unions, industry forums and local communities on various matters of concern to them, and in particular, to identify beneficiaries and distribute unclaimed benefits to those who qualify.

### ***Mineworkers Provident Fund***

The Chamber and the NUM, as joint sponsors of the Mineworkers Provident Fund, commissioned



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a report from audit firm PwC in March 2010, into the process and objectives of the Mineworkers Provident Fund's stated intention of moving to a self-administration platform.

With the support and co-operation of the fund, its current administrators, Momentum, and its board of trustees, the final report was delivered to the Chamber, NUM and the fund at the end of June 2010. The report offered constructive advice to the board and the officers of the fund on best practice in fund administration using various models, as well as useful guidance to stakeholders in their mutual initiatives to enhance service delivery to the fund's members, beneficiaries and participating employers.

The fund's transition to a self-administered and co-sourced administration platform is currently underway and should be operational by 1 January 2011.

### **Teba Bank and Teba Bank controlling companies**

The Chamber and NUM are trustees of the Teba Fund, which in turn is the sole shareholder of both the Teba Bank and the Teba Bank Controlling Company. In this capacity, the Chamber nominates non-executive directors to the board of the bank to participate in the oversight of the bank's services and its regulatory relationship with the South African Reserve Bank.

The bank provides pension-backed home loans to some of the mining industry retirement funds to which the Chamber appoints trustees and fulfils a vital role as paymaster and "Workers Bank of Choice" to the mining industry. The bank's service and product offering to its target market continues

to be enhanced and expanded in consultation with its stakeholders.

### **Moratorium on short term insurance guarantees for mining rehabilitation**

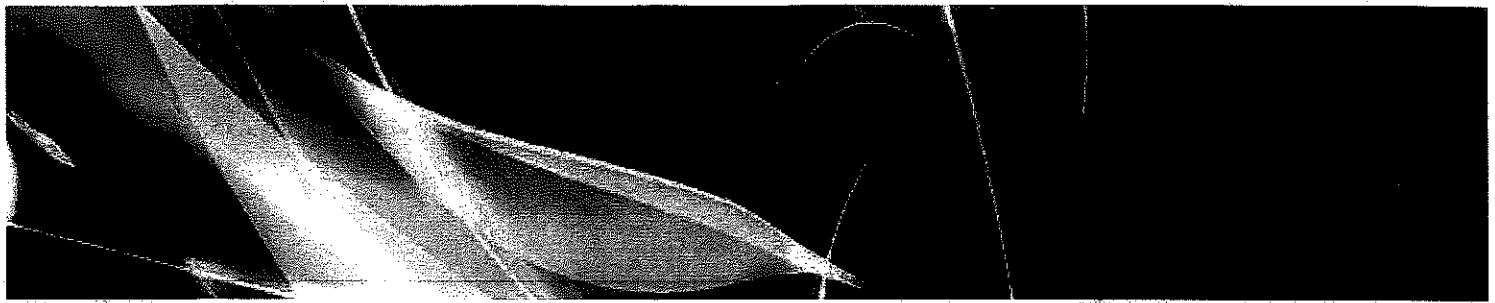
The MPRDA requires that mines make financial provision for the rehabilitation of their mines as a license condition. In the first half of 2009, the DMR announced a moratorium on the acceptance of short-term insurance guarantees for financial provision from mining houses, whilst continuing to accept bank guarantees as a form of financial provision.

While progress has been made in the year under review by some insurers to agree upon forms of guarantee acceptable to the DMR, the market remains small and restricted. To assure members of a full and competitive range of options for financial provision as contemplated by the MPRDA, interactions continue between the Chamber and the DMR to find agreement on suitable forms of financial guarantee to be made available to both large and small mining companies in South Africa.

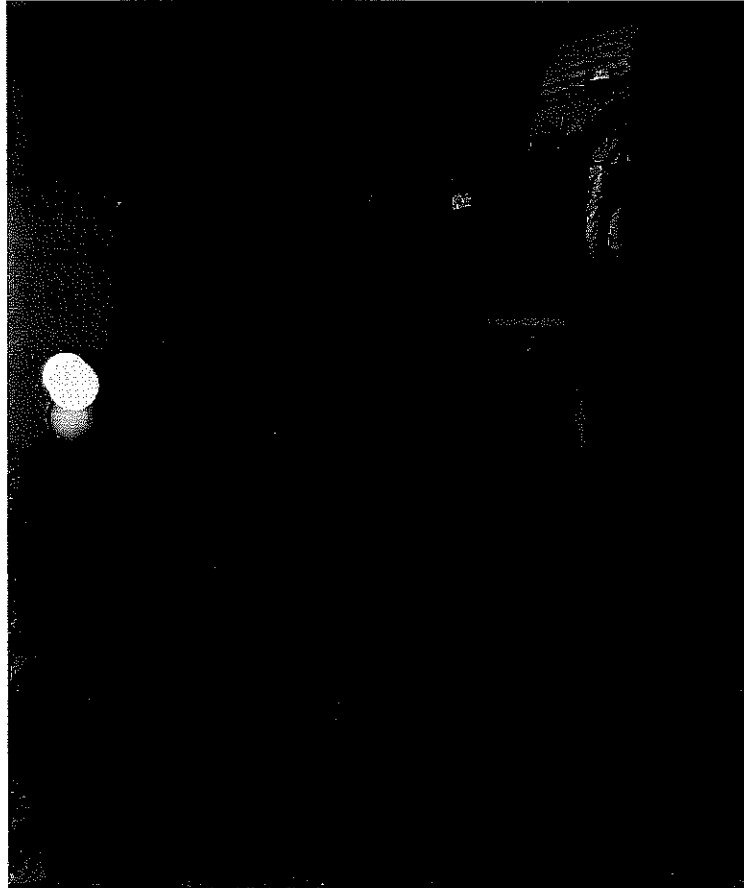
### **MHSA and regulations**

#### ***Mine Health and Safety Amendment Act of 2008***

The Mine Health and Safety Amendment Act (MHSA) came into force on 30 May 2009, except for Sections 16 and 26. (These two sections contain certain controversial provisions, which the Chamber contends are unconstitutional.) By not including these sections, effect was given to an agreement reached between the DMR, the Chamber and organised labour in the mining industry in terms



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of which the DMR minister would have introduced a new amendment Bill into parliament later in 2009, to amend the two sections and address the constitutional concerns raised by the Chamber.

The amendment Bill was not prepared and at a meeting with the DMR minister on 1 July 2010, she indicated that she was against a piecemeal amendment of legislation. She said that one should look at the MHSA holistically and that the parties should go back to their areas of concern and link those to the DMR's areas of concern.

At the time of writing this report, it was unclear what process or time frame would be followed to identify and address the areas of concern of the different parties and to prepare a new draft bill.

### ***Enforcement guidelines***

While the Chamber and its members fully support effective enforcement on the MHSA, serious concerns about unfair and inconsistent enforcement actions arose during the year under review. These concerns particularly related to work stoppages by inspectors under Section 54 of the MHSA, which the industry believes could negatively impact on the competitiveness and sustainability of the industry, as well as on the morale of workers. Furthermore, mines could challenge Section 54 stoppages through legal processes, which would have a negative impact on the relationship between the industry and the DMR. The Chamber became aware that the Mine Health and Safety Inspectorate (MHSI) was preparing a national enforcement policy guideline aimed at ensuring fair and consistent enforcement actions. The Chamber prepared a draft enforcement policy guideline that it provided to the MHSI as input into its document.

At a meeting with the DMR minister on 1 July 2010, the Chamber urged that the guideline be finalised as a matter of urgency and then submitted to the MHSC for consideration. The industry was told that the DMR was in the final stages of finalising the document and the minister requested her officials to ask the regions to consult with DMR head office before issuing Section 54 stoppages.

### ***Conveyor belt regulations***

The conveyor belt regulations came into force on 1 February 2008. The industry identified various issues relating to the practical implementation of the regulations. The Chamber held several



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meetings with officials from the DMR, at which the industry's concerns were discussed and where it was acknowledged that amendments to the regulations would be required to address some of the industry's concerns. At a meeting with the chief inspector of mines on 17 August he agreed that amendments to the regulations would be drafted for consideration within the MHSC structures.

### ***Shafts and winder regulations***

Most of the old Minerals Act regulations were replaced by regulations under the MHSA. One exception is the regulation relating to shafts and winders. Following a process that has taken a few years, proposed new shafts and winder regulations were circulated during July 2010 to the MHSC stakeholders for comment. Chamber members provided comment. The draft regulations will now be revised in the light of these comments, before being finalised later in 2010.

### ***Protection of employees against risks of illegal mining***

Because of the numerous risks to employees and other persons created by the activities of illegal miners and those persons who assist them, the Chamber proposed at the MHSC that Section 84 of the MHSA be amended to include prohibitions on various specific activities undertaken by illegal miners and persons who assist them. The MHSC agreed that the matter be considered by MRAC. MRAC appointed a special task team to formulate recommendations. At the time of writing this report, the task team was finalising its recommendations to MRAC.



## **MPRDA**

### ***MPRDA Amendment Act, 2008***

The MPRDA Amendment Act was published in the Government Gazette in April 2009. It is to come into effect on a date to be fixed by the president by proclamation in the *Government Gazette*. No such date has been decided upon.

Some of the provisions of the Amendment Act are of concern to the Chamber. The Amendment Act will also implement an agreement between the DMR and the DEA in terms of which environmental matters in the mining industry would ultimately be dealt with under NEMA, after a transitional period.

On 17 August, the minister announced that, as part of a number of initiatives aimed at improving the legislative and administrative challenges being experienced by the South African mining industry, amendments would be drafted to the MPRDA to address various shortcomings that had been identified. The DMR was hoping to take an



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Amendment Bill to cabinet in about October for approval.

### ***MIGDETT working group on the regulatory framework***

As part of the MIGDETT process, stakeholders were requested to identify concerns relating to the regulatory framework that negatively affect international competitiveness, investor confidence and economic growth. In January 2010, the Chamber submitted a list of its concerns to the other stakeholders. It was then agreed to appoint a regulatory framework working group to consider the concerns raised and to make recommendations aimed at addressing these concerns. The working group held two meetings in June 2010 and a report was submitted to the principals. The report of the working group will form the basis for the draft amendments to be submitted to the MPRDA as announced by the DMR minister on 17 August 2010.

### ***Sub-divisions on new prospecting or mining rights***

The need to sub-divide and register sub-divisions on new prospecting or mining rights arises from, amongst others, empowerment deals that were concluded during the transitional period. Often such empowerment deals contemplated sub-division of the new, converted rights and cessions of parts of the new rights. Despite advice by senior counsel that the DMR minister and the Mineral and Petroleum Titles Registration Office have the right to grant and register such sub-divisions, they declined to do so.

Representatives of the Chamber and the DMR met on 9 December 2009, at which meeting the DMR indicated that it believed that the legal opinion it had been given was incorrect. The DMR indicated, however, that despite its view of the legal position, it was prepared to consider requests for sub-division on a case-by-case basis. The DMR officials requested that the Chamber write a letter to the DMR, setting out its problems and concerns and ways in which these concerns could be addressed, whereafter it would respond in detail to the Chamber's concerns.

The letter was sent to the DMR on 15 January 2010. In the letter the Chamber set out comprehensive arguments as to why such sub-divisions could and should be granted and registered and asked for another meeting to be held to discuss the contents of the letter. Despite numerous attempts during the first half of 2010 to arrange a meeting, the Chamber was unable to do so. The Chamber intends raising this matter as one of the issues it would like to have addressed in the new MPRDA Amendment Bill, which will be drafted later in 2010.

### ***Anti-corruption activities***

To facilitate business' participation in the National Anti-Corruption Forum (NACF) and to deal with other aspects of corruption as far as it relates to or affects business, Busa established an anti-corruption working group. Originally the business sector's anti-corruption efforts were co-ordinated through Business Against Crime, but Busa took over this function a few years ago. An official from the Chamber's Legal Department serves on Busa's anti-corruption working group.





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Many anti-corruption activities and initiatives were undertaken by Busa's anti-corruption working group, however, whenever input or participation was required from the mining industry the correct person to deal with the matter could never be identified. In May 2010, the Chamber therefore requested its executive council members to nominate people in their own companies as the contact person with whom the Chamber could liaise on anti-corruption matters. This request was aimed at increasing the number of mining companies that could be engaged on anti-corruption matters. In addition, there are anti-corruption initiative undertaken by Busa's anti-corruption working group that could well be of interest to Chamber members.

Various nominations were received in response to the Chamber's request and it is hoped that in future Chamber members will benefit from and provide input into Busa's anti-corruption activities.

### **Draft taxation laws amendment bills, 2010**

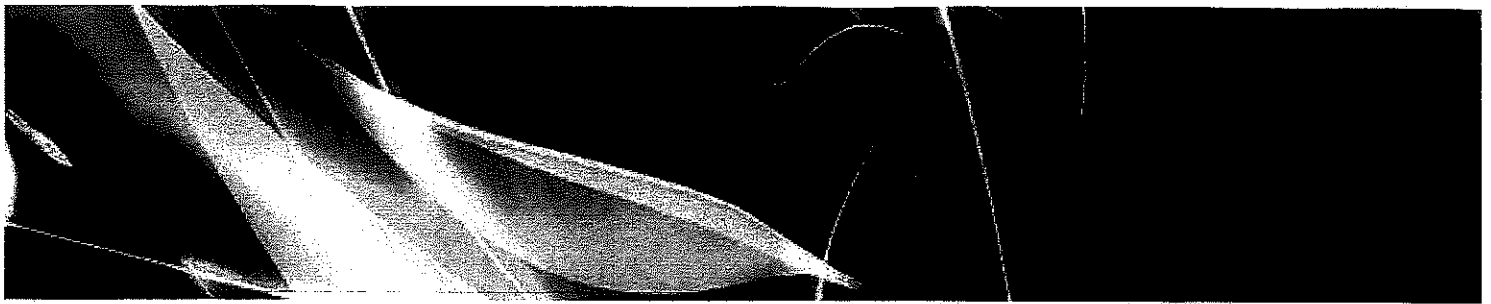
Two draft taxation laws amendment bills were released for comment in May 2010. These bills recommended amendments to, amongst others, the Mineral and Petroleum Resources Royalty Act and the Mineral and Petroleum Royalty (Administration) Act. Although these amendments are aimed at clarifying ambiguities relating to the calculation and payment of royalties, some of the amendments would have serious unintended negative consequences. The Chamber compiled comprehensive comments on the draft bills and

submitted these to SARS and National Treasury. Parliament's Standing Committee on Finance also held public hearings on the bills on 1 June 2010 and the Chamber submitted a copy of its comments to the standing committee. Following extensive interaction with National Treasury, various amendments to the bills, which addressed most of the Chamber's concerns, were agreed. (For more detail see the report under Economic Policy.) The revised Taxation Laws Amendment Bills were introduced into parliament on 24 August 2010.

### **Illegal mining and theft of precious metals**

There have been various reports in the press recently on the activities of illegal miners. These activities and the theft of precious metals pose a serious risk to the sustainability of the affected gold and platinum mines. Not only is there a direct financial loss to the mining company concerned, there are also knock-on financial losses to employees and the state (such as reduced employment and taxes). Another problem is the threat created by illegal mining activities to the health and safety of legitimate employees and other persons.

Illegal miners continue to threaten security personnel and employees at mines – as well as the SAPS. They are also demanding that mines make payments to them to avoid being targeted, including targeting people and assets. More and more homemade bombs are found and security personnel and the SAPS have come under fire. Criminal mining has become a serious problem and the safety of mining employees is now a major concern.

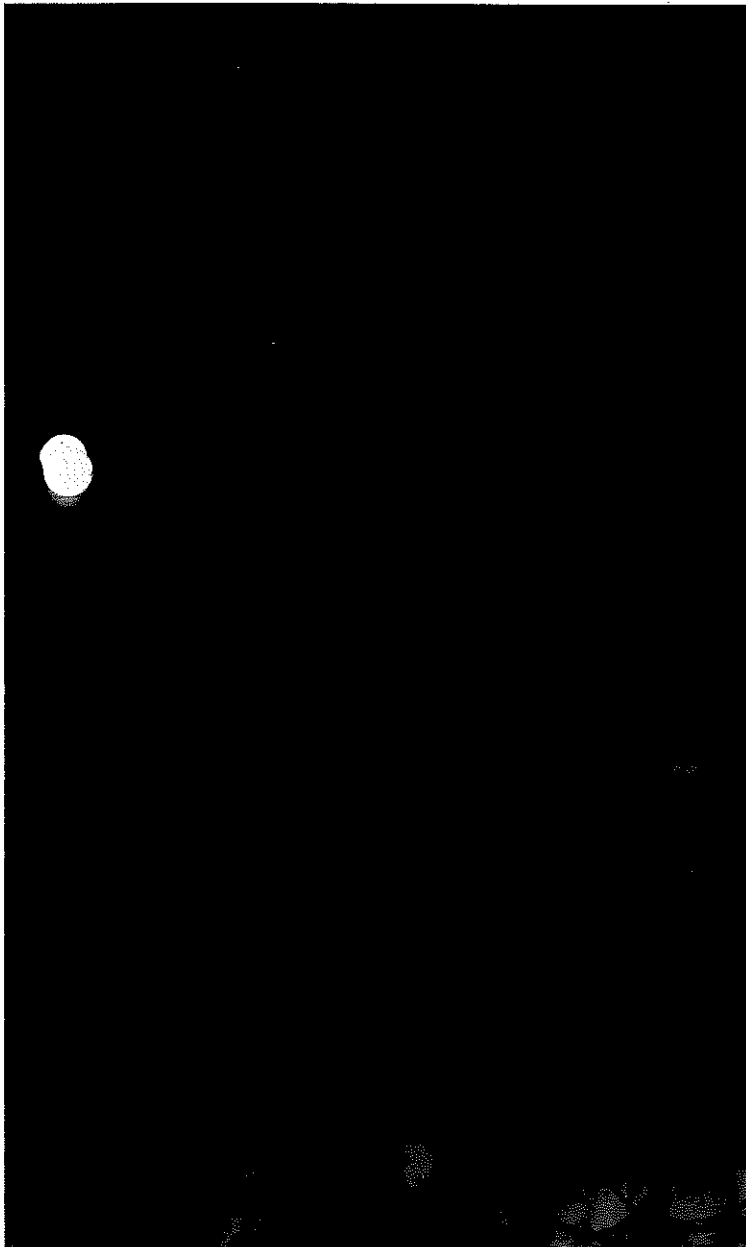


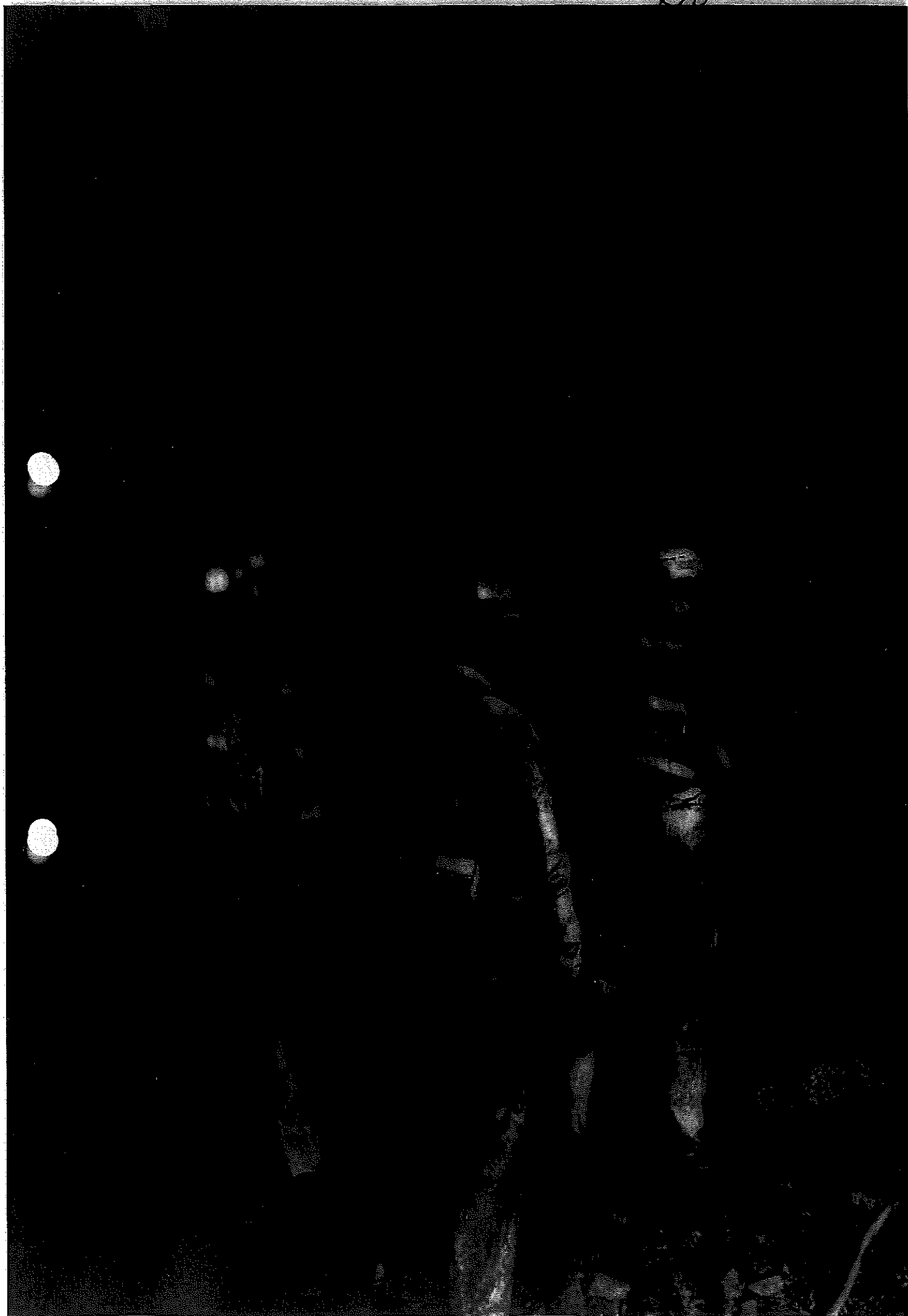
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Two initiatives were agreed between the mining industry, law enforcement agencies and the DMR. The first was the establishment of two regional forums in the Welkom and Barberton areas, to deal with the problems of illegal miners in those specific areas. To address the concern about regional syndicates, it was agreed to establish a team on the West Rand and a specific project was proposed. The second initiative was to create a special task team to address the problem at

national level. It was agreed that this task team would form part of the special task force of the National Precious Metals Forum (NPMF), which forum was especially established to initiate a co-ordinated approach to combat precious metals' theft. One initiative of the NPMF was to create a special task force, consisting of investigators from the SAPS and the mining industry, to investigate senior syndicate members active in precious metals theft syndicates at national and international level. This ongoing initiative has achieved some excellent success over the last few years.

The SAPS component on the NPMF made presentations to senior SAPS and government personnel around the problems and measures being undertaken to address illegal mining. In March 2010, a meeting was held with all the relevant law enforcement and intelligence structures to co-ordinate government efforts against illegal mining. This led to the establishment of a multi-agency in July 2010, under the leadership of the Directorate for Priority Crime Investigations (HAWKS). Besides the national approach, international activities are also underway to assist in addressing the problem. These include discussions between the governments of South Africa, Zimbabwe and Mozambique, and discussions with the European Police Office and the European Union. Discussions have also been initiated with the United Nations to ultimately regulate the possession and trade of precious metals internationally.





# safety & sustainable development

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The Chamber extends its deepest sympathy to the loved ones of the 167 mine workers who died in 2009. We know that their loss causes great pain and suffering in homes throughout southern Africa.

The Chamber remains committed to the ideal of zero harm in the mining

industry. All its efforts are aimed at avoiding death and injury in mining. The Chamber's objective is a world-class safety record and it works closely with its tripartite partners in government and labour to achieve this objective. The Chamber participates, as a member of the MHSC, in the implementation of the Tripartite Action Plan on Health and Safety, to which mining industry leaders agreed in 2008.

## Safety performance

The mining industry has made notable safety improvements since the tripartite agreement on safety in 2003. Figure 1 shows that the industry's fatality frequency rate (a global benchmark indicator indicating the fatalities per million hours worked) improved by 45% from 0.29 to 0.16. During the same period, the number of fatalities fell by 38% from 270 to 167. Unfortunately, no improvement was made in 2009.

Figures 2 and 3 reflect the trends for the gold and non-gold sectors. The levelling of mining's performance in 2009, strengthened the industry's

## INDUSTRY TARGET: ZERO RATE OF FATALITIES AND INJURIES

### Milestones

In the gold sector: By 2013 achieve safety performance levels equivalent to current international benchmarks for underground metalliferous mines, at the least.

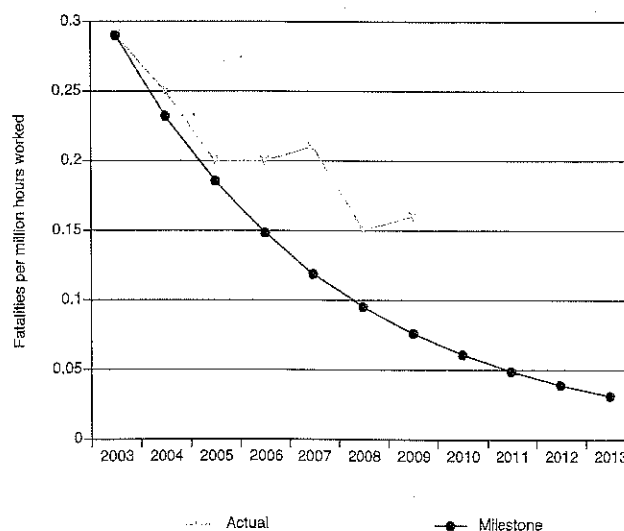
In the platinum, coal and other sectors: By 2013 achieve constant and continuous improvement equivalent to current international benchmarks, at the least.

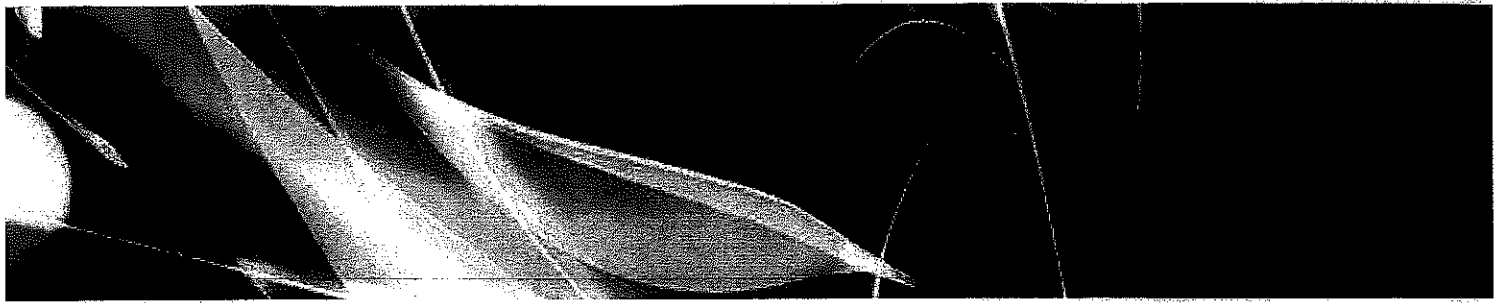
resolve to accelerate implementation of the 2008 Tripartite Action Plan on Health and Safety.

## The health and safety culture

The mining industry fosters a culture of care, dignity and respect. To assist industry in this process, the MHSC is developing a culture transformation framework under the theme "changing minds, changing mines". A group of national and international experts were appointed to undertake the research that would form the foundation of this framework.

Figure 1: Industry fatality frequency rates





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**Table 1: Key actions from the 2008 Tripartite Action Plan on Health and Safety**

Strategic goal	Action
Strengthen the culture of health and safety	Implement a culture transformation framework
Promote learning from best practice	<ul style="list-style-type: none"> <li>Establish a MOSH learning hub to promote the adoption of leading practices</li> </ul>
Build capacity in health and safety	<ul style="list-style-type: none"> <li>Train 10 000 health and safety representatives and union shop stewards</li> <li>Develop a strategy to train and retain OHS professionals</li> </ul>
Improve R&D	<ul style="list-style-type: none"> <li>Establish a centre of excellence on mine health and safety</li> </ul>

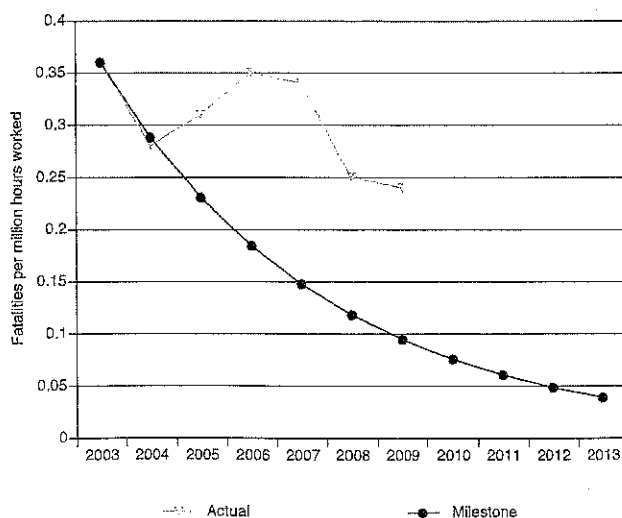
### Promoting reciprocal learning

Learning from the pockets of excellence in the industry provides a huge opportunity to accelerate improvements in health and safety performance. The Chamber launched the MOSH (Mining industry Occupational Safety and Health) Learning Hub in

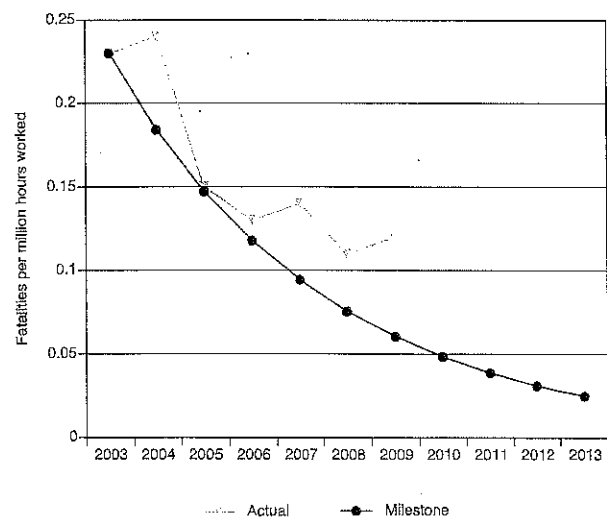
2009 to facilitate reciprocal learning.

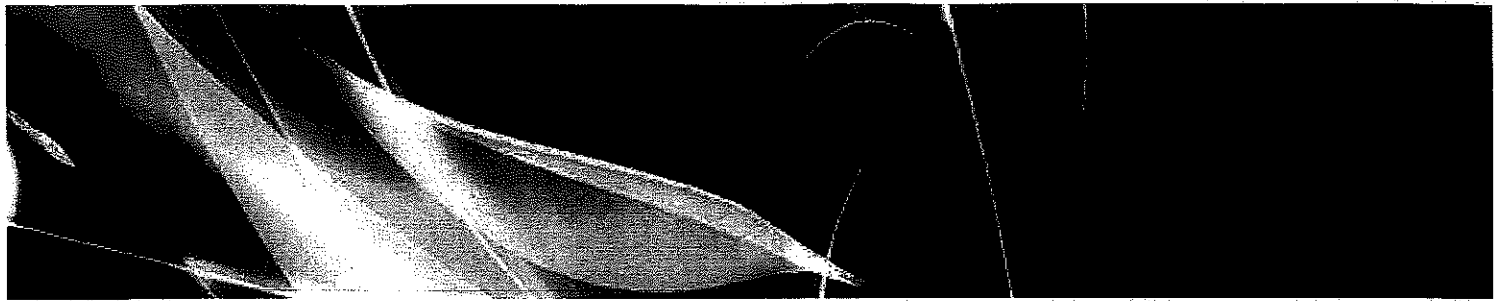
Teams were established to deal with documenting, testing and promoting leading practices in the industry. These teams focus on the critical risks to the industry, namely, falls of ground, noise and dust. A secretariat of specialists supports the

**Figure 2: Gold fatality frequency rates**



**Figure 3: Non-gold fatality frequency rates**





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## Building capacity in health and safety

The industry is committed to the development of safety skills and aims to train 40 000 health and safety representatives and union shop stewards. The MHSC and the MQA have identified gaps in the existing skills programmes and innovative training methods are being explored as traditional classroom-based methods have serious limitations.

Critical and up-to-date technical skills are required to ensure a healthy and safe mining environment. The MQA has appointed a team of experts to review and update rock engineering learning material.

## Improving research and development

The challenges the industry faces require world-class research and more effective implementation of the research findings. The Chamber is working with other stakeholders to establish a Centre of Excellence on mine health and safety.

The MHSC continues to oversee an annual health and safety research programme valued at approximately R50-million. The Chamber is a participant in the structures that oversee the programme. The overall research programme is funded by the industry through a levy on companies that is related to their safety and health risk.

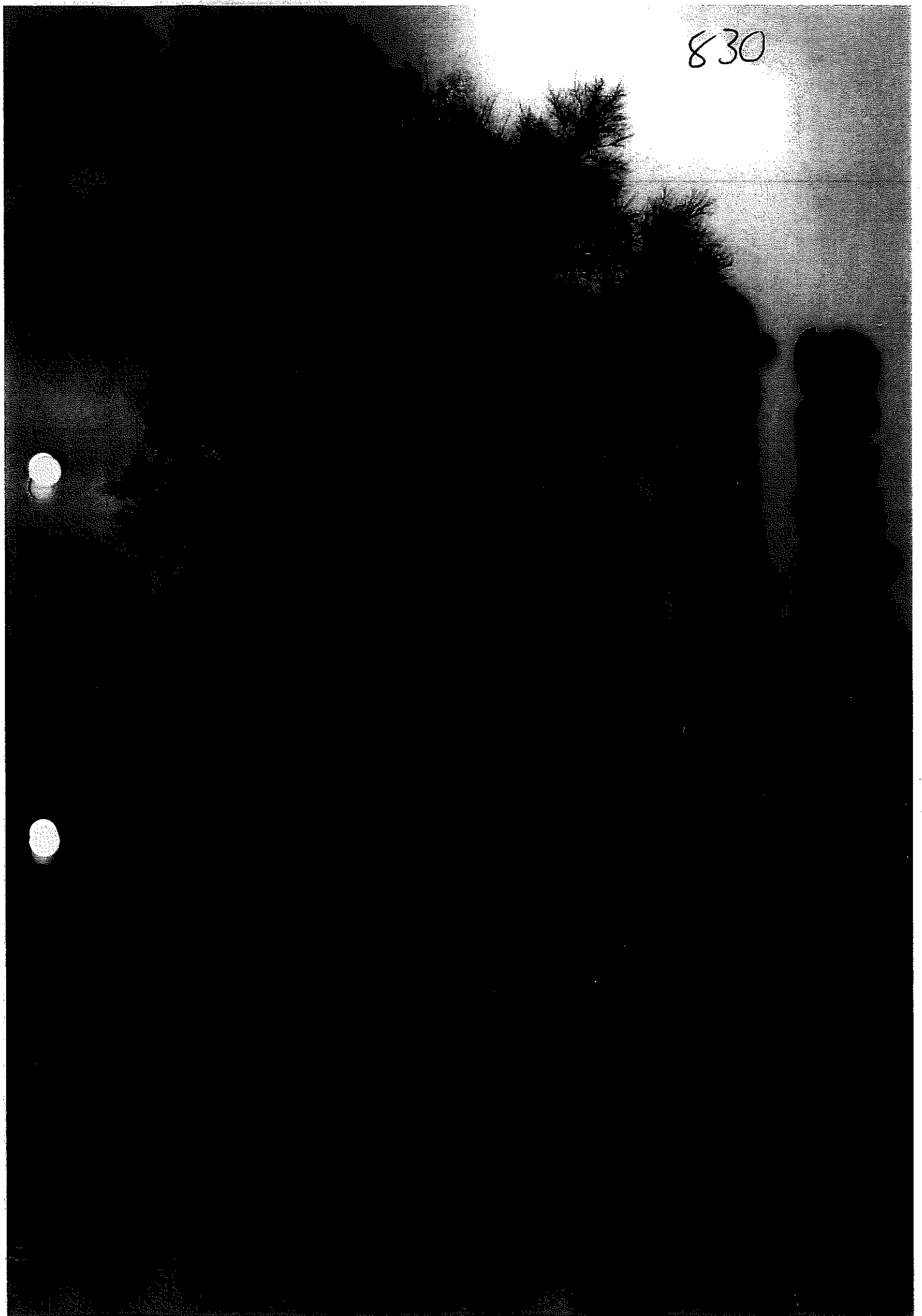
The research process is based on a comprehensive needs analysis that is informed by the safety performance of the industry. New safety research into seismicity in the platinum sector is being considered.

teams in their work. During the year under review, a transport and machinery team was established.

The leading practice adoption system focuses strongly on people, because people are key to the effective and sustained adoption of leading practices. Tools were developed to ensure workers participate in the process.

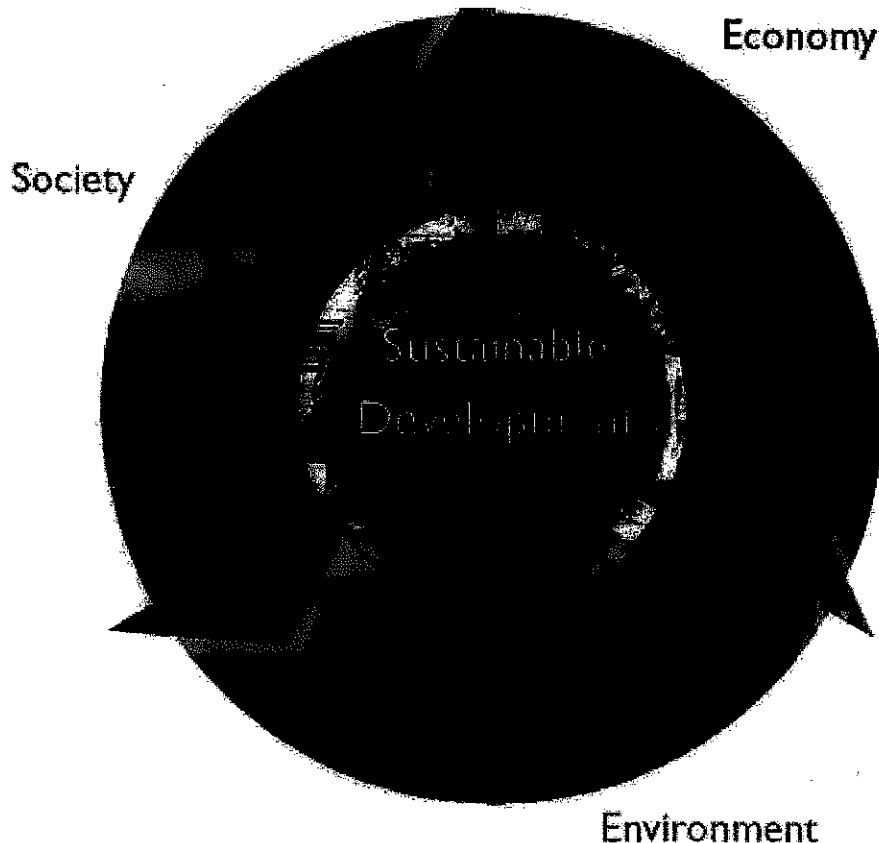
Leading practices, which are being promoted, relate to entry examinations and ensuring safer, quieter rockdrills and dust suppression systems. The improvements that these practices bring to health and safety are significant.

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# sustainable development

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**T**he Chamber believes that the mining industry can make a sustainable contribution to the development of the South African economy.

The Chamber participates in policy issues on mining and sustainable development. Sustainability was a key theme in the development of a Strategy for the Sustainable Growth and Meaningful Transformation of the SA Mining Industry led by the DMR.

The Chamber also participated in the sustainable development working committee of the Mining Industry Growth and Development Task Team, at which it proposed that a multi-stakeholder forum to deal with derelict and ownerless mines be established. Such a partnership approach to community

development would have a greater and more sustainable impact based on sustainable development principles. Inputs were based on the Sustainability Fact Base that the industry commissioned during 2009.

The Chamber was a key contributor to the mining report to the United Nations Commission on Sustainable Development. The Chamber was also involved in the development of the National Strategy on Sustainable Development.

The Chamber contributes to worldwide mining and sustainable development issues through its association member of the ICMM. The ICMM is a leadership group aimed at improving the sustainable development performance of mining companies.





# skills development

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## Advocacy and lobbying

**S**kills Development maintained its leadership role on matters relating to education and skills development on behalf of the business community and the mining industry in particular. The year under review brought major structural

changes in education and skills development in government, especially with the creation of new ministries. The announcement of new ministries by the State President and the allocation of the Skills Development Portfolio to the new Department of Higher Education and Training (DHET), resulted in minimal legislative and policy changes as the new minister and his personnel needed to reorganise their legislative functions. It became important for Skills Development to utilise this transitional period to create a strong relationship with the new minister and senior staff of the DHET.

Skills Development therefore engaged with the ministry of education and senior government officials to reposition the role of the National Skills Authority (NSA) and accelerate the establishment of the Quality Council for Trades and Occupations (QCTO). This engagement led to a raised profile for the NSA and the minister prioritised the functions of the NSA. Skills Development has since become the first point of call when the minister and the director-

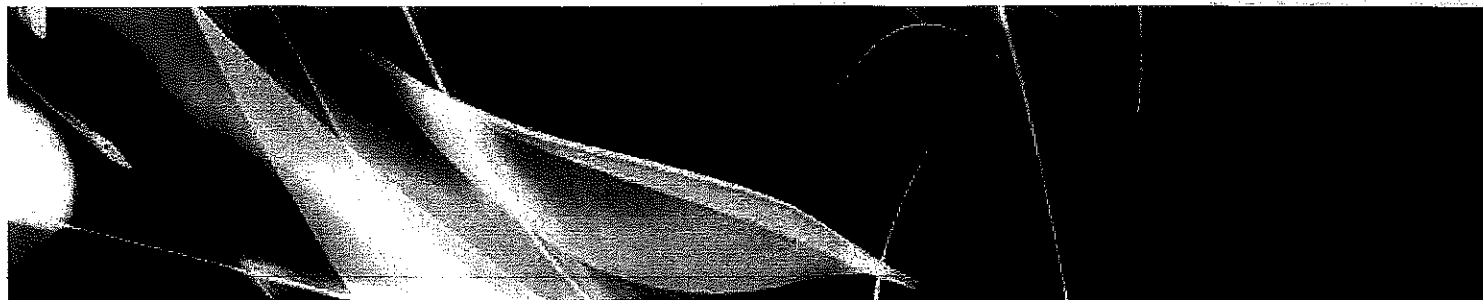
general need the views of business on matters relating to education and skills development.

The economic downturn prompted the social partners at Nedlac to explore measures to reduce its impact on employment. The Chamber made significant contributions on behalf of the business constituency at Nedlac, when the training lay-off scheme was designed and implemented as a measure of reducing large-scale retrenchments. The Chamber remained as part of the Nedlac task team that monitored the implementation of the training lay-off scheme.

The Chamber continues to chair Busa's sub-committee on education and training and has initiated debates and collaborative efforts at Busa, produced mandates and policy positions that were used when engaging at Nedlac and various other platforms with senior government and labour officials.

## Human Resources Development Council of South Africa (HRDC-SA)

The HRDC-SA was launched under the auspices of the Presidency and will be chaired by the deputy president. Senior business leaders are members of this council and the Chamber represents business on its technical working group (TWG). The TWG has followed up on various initiatives that were started and implemented by the Joint Initiative on Priority Skills Acquisition (JIPSA) through the formation of task teams. The Chamber represents business on the task team responsible for skills development. This task team aim to assist the HRDC-SA in designing and advising on skills development strategies.



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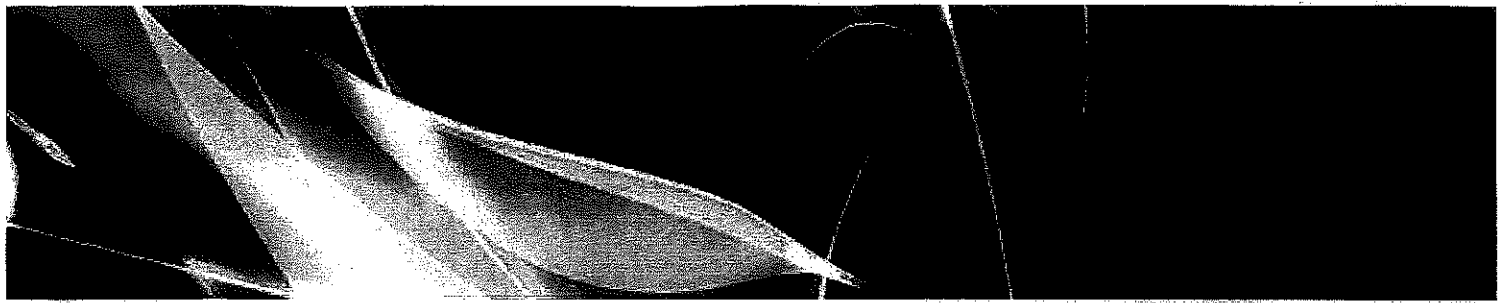
To date, the task teams have commented on the economic analysis of various sectors that provided input to the DHET by the various Sector Education and Training Authorities (SETAs), in preparation for developing their sector skills plans.

### **National Skills Authority (NSA)**

The Chamber plays a key role as a convenor of the business constituency at the NSA. The business members of the NSA, led by the Chamber, forwarded proposals to the minister on repositioning the NSA as the ultimate authority in skills development in South Africa. The minister accepted these proposals and put mechanisms in place to reposition the NSA. The NSA is now separate from the DHET as an adviser to the minister.

### ***The SETA landscape***

Early in 2010, the Chamber led the NSA's special committee on the SETA landscape. This committee conducted public hearings on behalf of the NSA on the proposed SETA landscape. The proposal by the special committee was adopted by the NSA and finally submitted to the minister for his consideration. The new SETA landscape for 2011 to 2015, will be announced by the minister at the Skills Summit in September 2011. The NSA recently reviewed the constraints for disbursing grants in the National Skills Fund (NSF) and proposed regulations for creating capacity within the NSF for fund disbursements. The NSF will soon have a dedicated executive officer and will use various mechanisms for disbursing grants beyond the



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single route of the SETAs. The changes to the NSF operations were strongly influenced by the role of the business constituency at the NSA-led by the Chamber.

### ***Framework for the National Skills Development Strategy (NSDS III)***

The DHET released a proposed framework for the NSDS III (2011 to 2016) for public comment, after consultation with the NSA. The NSA agreed to the release of the proposed framework, on condition that it would consider all submissions and then advise the minister accordingly.

Busa, led by a Chamber representative as the chairperson of the sub-committee on education and training, took the opportunity to comment on the proposed framework for NSDS III. The Chamber is proud to be involved in writing most of the comments on the NSDS III Framework that were eventually approved as Busa's submission. The NSA is yet to review the public comments and advise the minister. The business constituency will play a critical role in drafting the advice to the minister.

### **South African Qualifications Authority (SAQA)**

The role of the Chamber as business representative on the SAQA Board has contributed to repositioning SAQA as the apex of the quality councils. The business representatives played a key role in organisational redesign at SAQA, after the promulgation of the new National Qualifications Framework (NQF) Act.

SAQA continued its role of registering unit

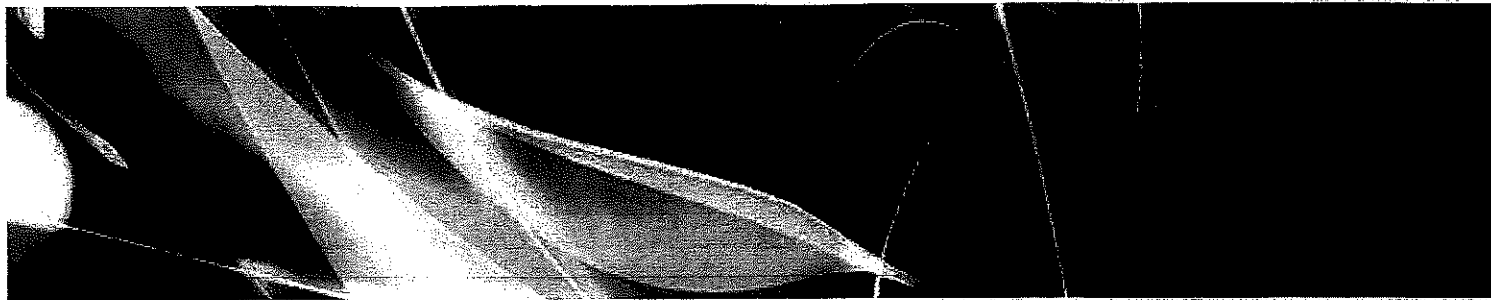
standards and qualifications on the NQF, however, business was instrumental in broadening the scope of SAQA to include an on-line career guidance service as well as a campaign and advocacy on the NQF with the approval of the minister. The career guidance service of SAQA was officially launched by the minister.

SAQA embarked on a special research programme on the social uses of artisan qualification and the Chamber encouraged its members to participate in this research through focus group discussions with managers and learners. The research highlighted the quality practices applied during training of the various categories of artisans and also showed the importance of the link between theoretical and workplace learning in the apprenticeship programme.

The Chamber continues to participate in the Quality and Standards-setting committee of SAQA to ensure continuity of registration of occupational qualifications on the NQF, whilst processes are underway to establish the Quality Council for Trades and Occupations (QCTO) and assist it to function optimally. The Chamber is also fully involved in the establishment of the QCTO.

### **QCTO**

The QCTO responsible for quality assurance of qualifications at NQF levels 1 to 10 for trades and occupations, was officially launched in February 2010. A Chamber representative was nominated to serve on the board of QCTO. Since its establishment, QCTO has finalised its constitution, drafted a policy on the occupational sub-framework and adopted an operational plan. The QCTO board



has also endorsed the implementation of the Foundational Learning Competence, which is a requirement for occupational qualifications at NQF levels 2 to 4.

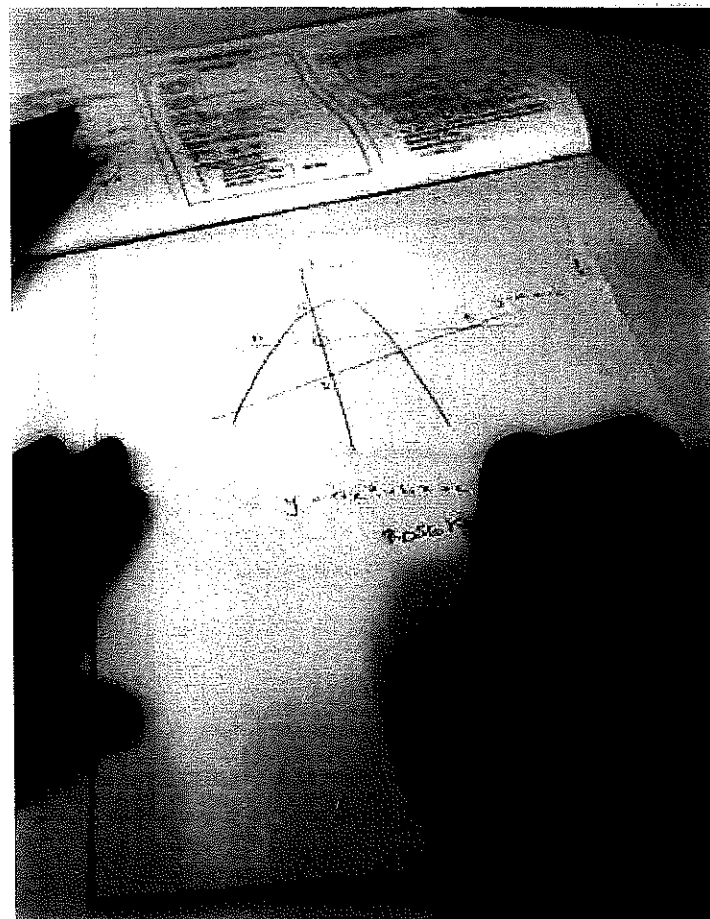
Employers have considered the requirements for designing qualifications and quality assurance as proposed by QCTO. Their inputs will inform the QCTO board input when participating at MQA during the process of developing policy and guidelines for occupational qualifications.

### **Foundational Learning Competence (FLC)**

The FLC is the literacy and numeracy competence that workers will be required to have to operate optimally in any workplace requiring NQF level 2 to 4 qualifications. The Chamber successfully encouraged its members to participate in two pilots programmes to test the curriculum and assessment of the FLC. These successful pilots influence the policy direction of the FLC.

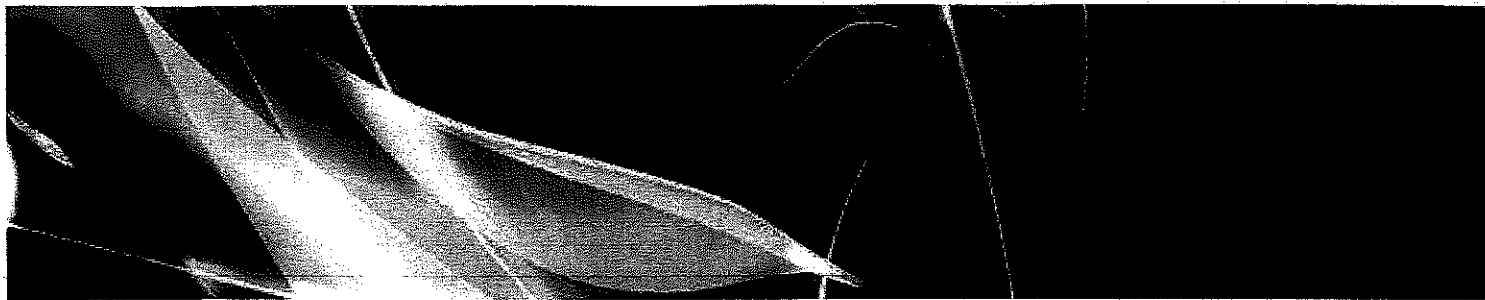
### **Skills development challenges**

Functional literacy and numeracy remain key challenges in the mining industry, although there is a decline in the number of employees who are functionally illiterate and without basic numeracy skills. Low levels of literacy and numeracy are a major stumbling block for many employees who cannot be trained for promotional opportunities. A recent survey on the educational levels of the total workforce shows that 48.9% of employees have a school qualification below grade 8 and 15.4% of these have no schooling. This is a significant improvement when compared to 2006 figures,



when 58.8% of employees held a grade 8 and below qualification. The Chamber continues to encourage its members to urge its employees to enlist for literacy and numeracy programmes.

The global shortage of artisans has a negative impact on the mining industry. The premium for employing artisans is increasing and the duration for declaring a person a fully competent artisan is not less than five years, although it takes at least three years for a person to get an artisan qualification after entering with an appropriate theoretical qualification. The phasing out of Nated or N-courses, reduced the number of candidates in artisan training programmes. This has resulted in a serious shortage of artisans. Employers



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continue to make proposals to its social partners at MQA to ensure collaboration and increase in the number of candidates entering the artisan training programmes.

### ***Further Education and Training (FET)***

The N-courses were substituted by the National Certificate (Vocational) (NCV) provided by FET colleges at level 2 in 2009 and level 4 in 2010. These programmes were not a direct replacement of the N-courses, hence successful learners could not easily enter into an apprenticeship programme. The poor results in the NCV were exacerbated by poor quality provision and poor management at the FET colleges. The DHET initiated an FET roundtable to engage stakeholders in exploring ways of solving FET problems. This process will culminate into an FET summit of all stakeholders and the DHET to make proposals on ways of improving the FET

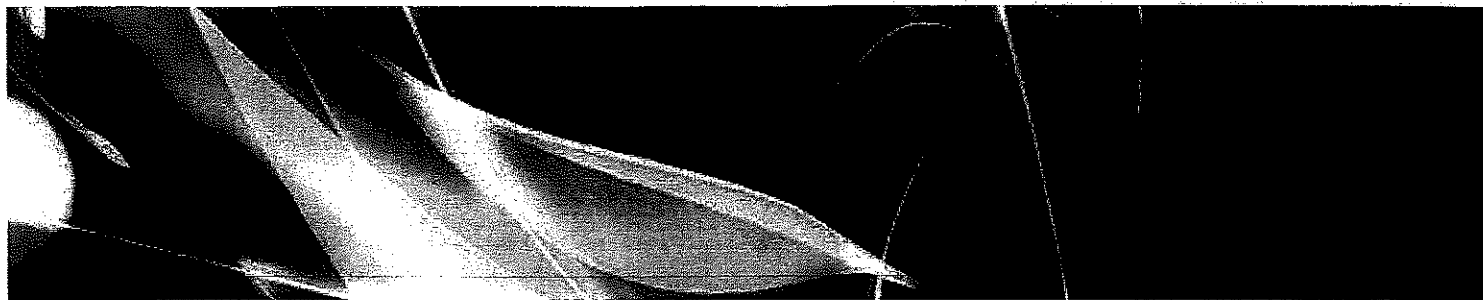
system in South Africa.

The Chamber was involved in the process of identifying problems in the FET system and of influencing the proposals to improve the situation for the benefit of the industry as a whole. This process resulted in the DHET deciding to reintroduce the N1 to N3 courses, with the view of creating a pool of candidates who are ready to enter the apprenticeship programme. The NCV programmes will also be reviewed to align them with artisan training where necessary.

### ***Mining Charter obligations***

A recent survey on the status of compliance with the Mining Charter, with specific reference to skills development, shows that employers have set up mechanisms to create an opportunity for employees to participate in various skills development programmes. The gradual decline in low literacy levels is employers' testimony of the effort to assist workers. The challenge remains with those employees who do not voluntarily enlist in these programmes.

A recent review of the Charter by the DMR led to a recommitment to sustainable growth and meaningful transformation of South Africa's mining industry. This new commitment requires employers to conduct two skills audits by 2014 and assess institutional and organisational capacity. This commitment further requires employers to increase their training expenditure gradually each year to a minimum of 5% of payroll per annum by 2004. Employers continue to measure themselves annually against these commitments to improve the competence levels of their employees.



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## **MQA**

It is the Chamber's mission to play a leading role in influencing policy and implementation plans at the MQA for the benefit of employers in their attempt to improve the skills of employees in the mining industry. This is achieved by being the key convenor of employers and by soliciting employer inputs to be forwarded to the MQA. The Chamber participated in the various committee structures of the MQA to influence the improvement in the design of workplace skills plans (WSP) and annual training reports' (ATR) requirements. The new WSP forms were adapted to align with the requirements of the Occupational Framework of Organisations. These forms help companies link their training plans directly to occupations.

### ***Discretionary grants***

Employers continue to influence the allocation of discretionary grants to various skills development projects in the MQA. Employers undertook an analysis of the MQA's discretionary grant allocation budget for the period 2010/2011 to determine the spread of funds to various projects as follows:

- 73% of the discretionary grant is spent on training that results in an occupational qualification, wherein 40% of this grant is spent on higher education qualifications and 33% is spent on further education and training programmes
- 15% is spent on programmes that support training, 3% on legislative requirements and the remainder on other stakeholder requirements.

### ***Management information system***

Employers have for some time been struggling to comply with MQA system requirements with regard to:

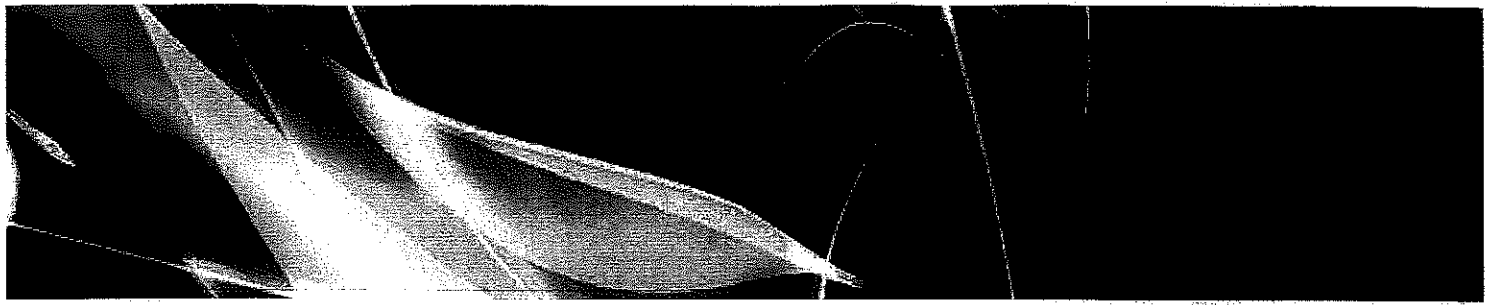
- submission of WSPs and ATRs
- registration of learners on the MQA data system
- verification of employer information
- accessing of MQA data (unit standards and qualification).

The system's problems rendered the MQA inefficient and put employers at risk of losing their mandatory and discretionary grants. The Chamber initiated an MQA-employers systems end-user forum to address all the problems and request the MQA's assistance. The MQA has since permanently adopted this forum and it continues to meet quarterly to attend to any system problems encountered by end-users. Since the establishment of this forum, the list of problems is shrinking gradually and the MQA I-Share system is becoming more efficient.

### ***Support to the mining industry's Roadmap to Zero Harm Strategy***

The 2008 Mine Health and Safety Summit required the MQA to support the Roadmap to Zero Harm Strategy that was signed by all social partners. The MQA was specifically requested to support by designing qualifications and programmes that would improve the quality and standard of the training of safety representatives. The MQA allocated funds and set up a multi-disciplinary team whose objective was to

- ensure that the content of the skills



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programmes was relevant and placed at appropriate levels for the learning required

- ensure that the learning material met the outcomes of the skills programmes and took into account the needs of learners
- advise on the selection and release of learners for training purposes
- give guidelines for the delivery and assessment of the skills programmes.

The Chamber played a critical role in co-ordinating the nomination of the employer representatives on the multi-disciplinary team, as well as the identification of appropriately qualified writers of the safety learning material. The programme was successfully implemented and will continue into the next financial year.

### ***Phasing out Fanakalo***

The use of Fanakalo was identified as a contributing factor to poor communication in those sectors of the industry where it is used as a means of communication and a contributing factor in high accident rates. The mining industry agreed to phase out the use of Fanakalo. Employers proposed that research be conducted to determine:

- the extent of use of Fanakalo in the sector
- the impact of Fanakalo on safety
- the willingness and ability of users of Fanakalo to learn another language
- the costs and resources required to phase out Fanakalo.

The outcome of this research will be used to develop an appropriate action plan that is supported by all stakeholders. The research commenced at the end of 2009 and it is anticipated that it will be

concluded in the second half of 2010.

### **Learning Material Development Project**

The Chamber continues to co-ordinate and deliver MQA learning material through the Learning Materials Development Project. This has become the flagship programme of the Skills Development Unit since it has delivered beyond the expectation of the MQA. The success of this project resulted in the MQA expanding the scope of work of the project to include learning material for the Foundational Learning Competence and NQF level 6 Rock Engineering learning material to be used at universities.

At the end of this reporting period, 1 419 unit standards had been allocated to accredited training providers for learning material development across the different disciplines. Total quantities in number of learning packs, approved by the technical review groups as at July 2010 compared to 2009, are shown in table 1 on page 141.

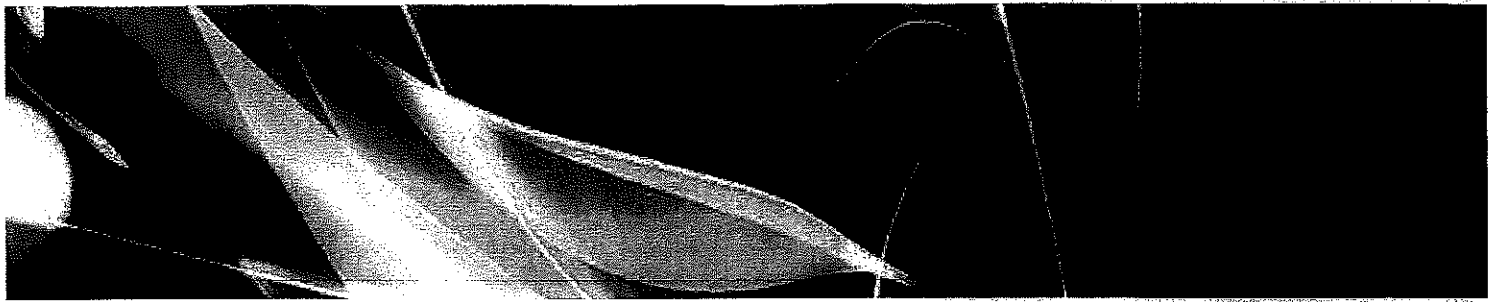
### **Personal Digital Assistant (PSA) data development**

The success of the Learning Material Development Project led to the Chamber being requested to co-ordinate the development of data for use with the PDA for the process of assessment of learner competence in the sector against unit standards. Progress of the PDA project is reflected in table 2 on page 141.

### **Chamber of Mines certificates**

Chamber certificates are critical in the set of





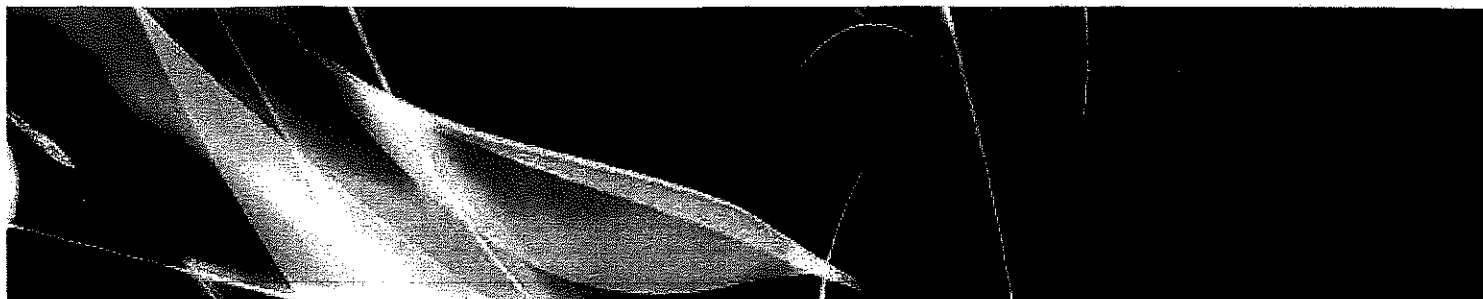
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Table 1

DISCIPLINE	AS AT JULY 2009	AS AT JULY 2010
Analytical services	56	56
Cement lime and aggregates	10	23
Diamond processing	27	27
Engineering	46	134
Geology	0	1
Jewellery manufacturing	31	54
Metallurgy	306	311
Underground coal mining	79	32
Underground hard rock mining	98	108
Surface mining	35	71
Occupational hygiene	1	9
Occupational safety	22	24
Rock engineering	76	87
Surveying	12	12
Small scale mining	4	5
Introduction to mining certificate	5	6
TOTAL	1 053	1 220

Table 2

DISCIPLINE	NQF LEVEL	STATUS
Engineering	2, 3 and 4	Assessment data development
Metallurgy	2 to 4	Full qualifications populated with the PDA assessment
Underground hard rock mining	2 to 3	Unit standards populated
Mechanised mining	2 to 3	Population of unit standards in progress



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Table 3

NAME OF CERTIFICATE	AS AT JULY 2008	AS AT JULY 2009	AS AT JULY 2010
Certificate in Advanced Mine Surveying	16	9	29
Certificate in Advanced Mine Valuation	24	28	41
Certificate in Advanced Rock Engineering	0	0	3
Certificate in Basic Mine Sampling	151	190	272
Certificate in Basic Mine Surveying	103	236	163
Certificate in Elementary Mine Sampling	37	122	126
Certificate in Elementary Mine Surveying	57	60	150
Certificate in Mine Environmental Control	1	4	0
Certificate in Mine Environmental Control/ Occupational Hygiene	30	4	16
Certificate in Mine Survey Drafting	16	22	0
Certificate in Radiation Protection Monitoring	50	120	260
Certificate in Rock Mechanics	2	6	11
Certificate in Strata Control	15	70	55
Intermediate Certificate in Mine Environmental Control	0	0	0
Intermediate Certificate in Mine Environmental Control/ Occupational Hygiene	38	45	87
Certificate in Mine Survey Drafting	0	0	26
Practical Certificate in Mine/Environmental Control	0	0	3
<b>TOTAL</b>	<b>664</b>	<b>916</b>	<b>1 242</b>

qualifications required for persons to be allowed to work in certain designated areas. In some cases this certificate is an entry requirement for a person to write the examinations to receive the Government Certificate of Competence.

Stakeholders have agreed that the provision of tuition and issuing of the certificates equivalent to those of the Chamber must be provided by accredited institutions of learning. The Chamber has set in motion a process of transferring the issuing of these certificates to accredited learning

institutions, including the MQA. The Chamber will continue to issue these certificates until the accredited institutions are ready to start providing equivalent programmes in 2012. Even after this date, the Chamber examinations will continue until 2015, when the first examinations of the new dispensation will be written. The administration of the Chamber examinations will be transferred from UNISA to the MQA as from 2012. The demand and completion rates of learners in the Chamber qualifications on a year-to-year basis is represented in table 3 above.

842

00.00

57.00

25.00

86.85

220.00

mk

**CHAMBER OF MINES OF SOUTH AFRICA**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2010**

**CHAMBER OF MINES OF SOUTH AFRICA**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

*The following reports and statements are presented:*

Executive Council's responsibility for financial reporting	145
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Income statement	147
Statement of changes in equity	147
Cash flow statement	148
Accounting policies	148 – 150
Notes to the annual financial statements	150 – 154

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**CHAMBER OF MINES OF SOUTH AFRICA  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

*Executive Council's responsibility for financial reporting*

The Executive Council of the Chamber of Mines of South Africa (hereafter "the Chamber") is responsible for the maintenance of adequate accounting records and preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The Chamber's independent external auditors, Deloitte & Touche, have audited these financial statements and their unqualified report appears on page 146.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the Executive Council to indicate that the Chamber will not remain a going concern for the foreseeable future.

*Approval of annual financial statements*

The Annual Financial Statements as set out on pages 147 to 154 were approved by the Executive Council on 15 September 2010 and are signed on their behalf by:



Mr S Nkosi  
President



Mr MG Diliza  
Chief Executive

## Independent auditor's report to the members of the Chamber of Mines of South Africa

We have audited the annual financial statements of the Chamber of Mines of South Africa which comprise the balance sheet as at 30 June 2010, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 147 to 154.

### *Executive Council Responsibility for the Financial Statements*

The Executive Council is responsible for the preparation of these financial statements in accordance with South African Generally Accepted Accounting Practice, and in the manner required by the Labour Relations Act in South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Chamber of Mines of South Africa at 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Labour Relations Act in South Africa.

*Deloitte - Touche*

Deloitte & Touche  
Per A J Zoghby  
Partner  
Johannesburg  
15 September 2010

# Balance sheet as at 30 June 2010

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## ASSETS

### Non-current assets

Equipment	1
Other investments	
Investments	2

### Current assets

Accounts receivable	3
Bank and cash	4

### Total assets

55 851 219

38 934 953

## FUNDS AND LIABILITIES

### Funds

Accumulated funds	
Project funds	5

### Current liabilities

Accounts payable	6
Short term loan	7

### Total funds and liabilities

55 851 219

38 934 953

## Income statement for the year ended 30 June 2010

### Notes

Revenue	8
Other income	9
Administrative and operating costs	10
Deficit before depreciation	
Depreciation	
Operating deficit	
Interest income	
Project income	5
Project expenditure	5

### Increase / (decrease) in project funding

14 931 983

(7 062 250)

## Statement of changes in equity for the year ended 30 June 2010

### Notes

Balance at 1 July 2008	
Decrease in project funding for the year	
Transfer from project funds	
Balance at 30 June 2009	
Increase in project funding for the year	
Transfer to project funds	

### Balance at 30 June 2010

5

27 832 557

6 521 247

34 353 804

mk

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## Cash flow statement for the year ended 30 June 2010

	Notes		
<b>Cash flows from operating activities:</b>			
<b>Net cash outflow from operating activities</b>	<b>11</b>	<b>(131 222)</b>	<b>(938 974)</b>
<b>Cash flows from investing activities:</b>			
Additions to equipment			
Investment income			
(Increase) / decrease in investments			
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(13 631 811)</b>	<b>9 508 989</b>
Net (decrease) / increase in cash and cash equivalents			
<b>Cash and cash equivalents at beginning of the year</b>			
<b>Cash and cash equivalents at end of the year</b>	<b>12</b>	<b>12 755 561</b>	<b>26 518 594</b>

### Accounting policies for the year ended 30 June 2010

#### Revised standards and interpretations in issue and adopted

During the current financial year, the following applicable standards and interpretations issued, amended or revised became effective and were adopted in the current financial year:

- AC 144 (IFRS 7) (revised) - Financial Instruments : Disclosures
- AC 101 (IAS 1) (revised) - Presentation of Financial Statements
- AC 123 (IAS 16) (revised) - Property, Plant and Equipment
- AC 116 (IAS 19) (revised) - Employee Benefits
- AC 114 (IAS 23) (revised) - Borrowing costs
- AC 125 (IAS 32) (revised) - Financial Instruments : Presentation
- AC 128 (IAS 36) (revised) - Impairment of Assets
- AC 133 (IAS 39) (revised) - Financial Instruments : Recognition and Measurement

These new, revised or amended standards and interpretations did not have a material effect on the financial statements.

#### Revised standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations and/or amendments to the standards and interpretations were in issue but not yet effective:

	Effective on/after
• AC 139 (IFRS 2) - Share-based Payments	1 January 2010
• AC 442 (IFRS 9) - Financial Instruments	1 January 2013
• AC 126 (IAS 24) - Related party disclosures	1 January 2011
• AC 125 (IAS 32) - Financial Instruments : Presentation	1 February 2010

On 16 April 2009, the Accounting Practices Board ("APB") issued its latest set of annual improvements, titled Improvements to statements of GAAP 2009. The annual improvements included 15 amendments to various standards:

• AC 142 (IFRS 5) - Non-current Assets Held-for-sale and Discontinued Operations	1 January 2010
• AC 145 (IFRS 8) - Operating Segments	1 January 2010
• AC 142 (IAS 1) - Presentation of Financial Statements	1 January 2010
• AC 118 (IAS 7) - Statement of Cash Flows	1 January 2010
• AC 105 (IAS 17) - Leases	1 January 2010
• AC 128 (IAS 36) - Impairment of Assets	1 January 2010
• AC 133 (IAS 39) - Financial Instruments : Recognition and Measurement	1 January 2010
• AC 504 (IFRIC 14) IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
• IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Executive Council anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Chamber.



## Accounting policies (continued)

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### Accounting policies

#### Accounting policies

The principal accounting policies and basis of accounts used are in all material respects consistently applied. The annual financial statements have been prepared in accordance with the historic basis, except for certain financial instruments which are stated at fair value and these policies conform with South African Statements of Generally Accepted Accounting Practice.

#### Revenue recognition

Revenue represents contributions from members, administration fees and interest income. Contributions are recognised when invoiced and consist of contributions for operating costs and capital expenditure, collected in-line with the yearly approved budget. Administration fees are earned in respect of services provided to associated entities. Interest income is accrued on an effective yield basis.

#### Project income

Project income represents contributions from members for specific projects.

#### Project expenditure

Project expenditure relates to expenditure incurred on projects approved by the Executive Council.

#### Equipment

Equipment is stated at historical cost less depreciation. Depreciation is calculated using the straight line method so as to write off the cost of each asset less its residual value over its estimated useful life.

The rates of depreciation used are:

Motor vehicles	5 years
Computer equipment	3 years
Furniture and fittings	5 years

#### Investments

Unlisted investments comprise shares in related companies and are stated at cost. Other investments comprise monies invested to fund liabilities and projects which are stated at cost.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash and short term deposits. The carrying amount of these assets approximates fair value. Credit risk is limited as the counter parties are financial institutions with high credit ratings.

#### Financial instruments

Financial assets and financial liabilities are recognised on the Chamber's balance sheet when the Chamber has become a party to contractual provisions of the instruments. Trade receivables and payables are stated at their nominal value. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts.

#### Retirement benefits

The policy of the Chamber, subject to the rules of the Chamber of Mines Retirement Fund, is to provide retirement benefits for its employees. Payments to the defined contribution fund are expensed as they fall due.

The Chamber of Mines does not have a post retirement medical aid liability as this liability has been fully funded.

#### Other investments

Other investments consists of gold coins and medallions. These investments are valued at the lower of cost or net realisable value.

#### Management judgements

In the process of applying the Chamber accounting policies, the most significant judgements made by management relate to the following:

- revaluation of the useful lives and residual value estimations of assets and,
- the bad debt provision

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### Impairment

An annual impairment review of assets is carried out by comparing the net book value of the assets with their recoverable amount. Recoverable amounts are based on the higher of the value in use and the fair value less costs to sell. Value in use is determined by applying a discount rate to the anticipated pre tax cash flow for the remaining useful life of the asset.

Where the recoverable amount is less than the net book value, the impairment is charged against income to reduce the carrying amount of the affected assets to recoverable amounts. The revised carrying amounts are amortised on a systematic basis over the remaining useful life of such affected assets.

### Provisions

Provisions are recognised where the Chamber has a present legal or constructive obligation as a result of a past event, a reliable estimate of the obligation can be made and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## Notes to the annual financial statements for the year ended 30 June 2010

### 1. Equipment

#### 2010

Motor vehicles  
Computer equipment  
Furniture and fittings

<u>3 131 871</u>	<u>2 231 291</u>	<u>900 580</u>
------------------	------------------	----------------

#### 2009

Motor vehicles  
Computer equipment  
Furniture and fittings

<u>2 715 994</u>	<u>1 826 550</u>	<u>889 444</u>
------------------	------------------	----------------

#### 2010

##### Reconciliation of movement:

Net book value at beginning of year  
Additions  
Depreciation

<b>Net book value at end of year</b>	<b>695 972</b>	<b>52 085</b>	<b>152 523</b>	<b>900 580</b>
--------------------------------------	----------------	---------------	----------------	----------------

#### 2009

##### Reconciliation of movement:

Net book value at beginning of year  
Additions  
Depreciation

<b>Net book value at end of year</b>	<b>656 874</b>	<b>103 362</b>	<b>129 208</b>	<b>889 444</b>
--------------------------------------	----------------	----------------	----------------	----------------

# Notes to the annual financial statements for the year ended 30 June 2010 (continued)

## 2. Investments

Rand Mutual Assurance Company Ltd

4 shares @ R20 (2009: 4 shares @ R20 each)

Executive valuation R 80 (2009: R 80)

Term deposits:

Disaster relief fund

Insurance claim fund

Epidemiology study for former mine workers

Occupational lung disease in the mining industry

Mining industry occupational safety & health project

Guidelines on environmental management in mining

Bargaining council consultancy project

Subvention of salaries

Development of closure strategies

Global instruments on climate change

Guidelines on biodiversity

International council on mining and metallurgy (ICMM)

Public seminars on environmental performance

22 923 878

7 991 894

## 3. Accounts receivable

Accounts receivable - members

Accounts receivable - non members

Total accounts receivable

Other receivables

Less: Provision for doubtful debts

18 891 137

3 163 034

## 4. Bank & cash

Cash at bank

Cash on call

Amounts classified under investments

**Bank and cash**

12 755 561

26 518 594

## 5. Project funds

*Disaster relief*

*Insurance*

*Former mine workers project*

Balance at 1 July 2009

Received

Expenditure

**Balance as at 30 June 2010**

9 959 590

*Occupational Lung Disease In The Mining Industry*

Balance at 1 July 2009

Expenditure

**Balance as at 30 June 2010**

-

*Project funding recovery*

This amount primarily relates to the recovery from the Chamber's insurers of irregular expenditure that occurred in previous financial years. This funding recovery will be utilised for future projects.



## Notes to the annual financial statements 5. project funds (continued)

### *Development Of Frameworks For Closure Strategies*

Balance as at 30 June 2009

Expenditure

**Balance as at 30 June 2010**

-

### *Global Instruments On Climate Change*

Balance as at 30 June 2009

Received

Expenditure

**Balance as at 30 June 2010**

300 000

### *Guidelines On Biodiversity*

Balance as at 30 June 2009

Expenditure

**Balance as at 30 June 2010**

-

### *ICMM*

Balance as at 30 June 2009

Received

Expenditure

**Balance as at 30 June 2010**

174 413

### *Bargaining Council : Consultancy*

Balance as at 30 June 2009

Expenditure

**Balance as at 30 June 2010**

-

### *Public Seminars On Environmental Performance And*

Balance as at 30 June 2009

Expenditure

**Balance as at 30 June 2010**

-

### *Subvention Of Salaries*

Balance as at 30 June 2009

Received

Expenditure

**Balance as at 30 June 2010**

1 457 863

### *Mining Industry Occupational Safety & Health Project*

Balance as at 30 June 2009

Received

Expenditure

**Balance as at 30 June 2010**

9 163 531

### *Guidelines on Environmental Management in Mining*

Received

Expenditure

**Balance as at 30 June 2010**

248 400

### *Creation of the Bargaining Council*

Received

Expenditure

**Balance as at 30 June 2010**

-

### *Strategic Positioning of the Chamber*

Received

Expenditure

**Balance as at 30 June 2010**

-

## Notes to the annual financial statements 5. project funds (continued)

Creation of Development "Vehicle" for the Mining Industry  
Received  
Expenditure

**Balance as at 30 June 2010**

-

27 832 55712 900 574**6. Accounts payable**

Accounts payable - members

Accounts payable - non-members

Accruals

17 649 47315 664 740**7. Short term loan****Chamber of Mines Building Company (Proprietary) Limited**

This loan is unsecured. Interest free and payable on demand.

3 847 9423 848 392**8. Revenue****Contribution from members**45 770 01944 244 954**9. Other income**

Administration fees

Other income

5 386 6963 206 513**10. Administrative and operating expenditure**

Auditors' remuneration

- Current year

- Other services

Staff costs

Operating costs

52 468 02449 462 321**11 Reconciliation of increase in project funding for the year to net cash flow from operating activities:**

Increase / (decrease) in project funding for the year

Adjustment for :

Depreciation

Interest received

**Operating funding before working capital changes**13 620 674(9 073 104)**Working capital changes**

(Decrease) / increase in accounts receivable

Increase in accounts payable

(Decrease) / increase in loans

Increase in inventory

(13 751 896)8 134 130

Net cash outflow from operating activities

**12 Cash and cash equivalents****Bank and cash**12 755 56126 518 594



## Notes to the annual financial statements (continued)

### 13 Financial instruments

The organisation's non-derivative instruments consist of cash deposits with banks, accounts receivable and payable and loans from group companies.

#### *Currency risk management*

The organisation is not exposed to currency risk, other than the translation of its foreign bank account balance.

#### *Categories of financial instruments*

The financial assets of the Chamber consists of investments, accounts receivable and cash and cash equivalents. These are considered loans and receivables for both 2010 and 2009 financial years. The financial liabilities consists of accounts payables (excluding accruals) and short term loans. These are considered financial liabilities at amortised cost for both 2010 and 2009 financial years.

#### *Interest rate risk management*

The organisation adopts a policy of regularly reviewing interest rate exposure and maintains both fixed and floating rate borrowings

#### *Credit risk management*

Management has a credit risk policy in place and exposure to credit risk is monitored on an ongoing basis. Provision is made for specific doubtful debts, and at the year end management did not consider there to be any material credit risk exposure that was not provided against. Reputable financial institutions are used for investing and cash handling purposes. The movement in provision for doubtful debts is analysed as follows:

Balance at the beginning of the period

Provision increased for the period

Provision utilised for the period

(509 555)

(392 242)

#### *Fair values*

The carrying amounts of the financial assets and liabilities carried on the balance sheet approximate their values at the end of the year.

#### *Capital risk management*

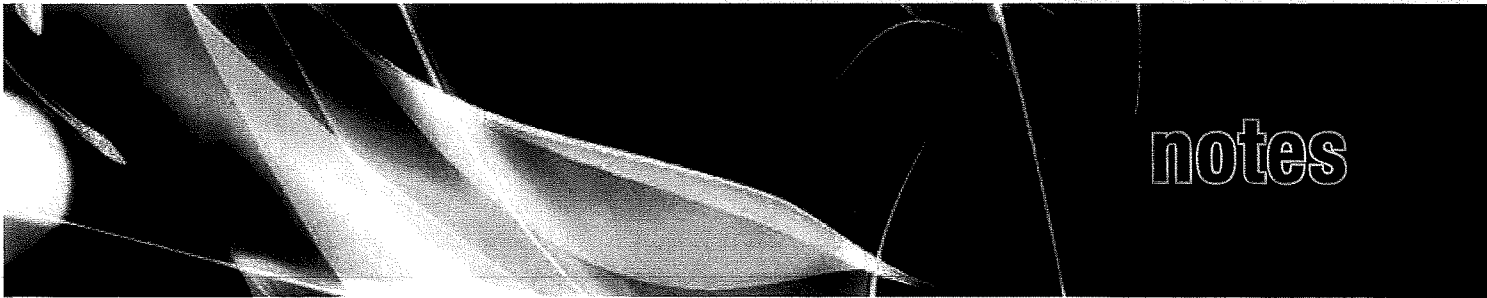
The Chamber manage their capital to ensure they will be able to continue as a going concern. The capital structure consist mainly of accumulated and project funds.

### 14 Subsequent events

As at the date of signing these financial statements, there were no significant or material post balance sheet events which would require adjustments to or disclosure of in the annual financial statements.

### 15 Taxation

The Chamber of Mines of South Africa is exempt under section 10 (1) (d) of the Income Tax Act.



notes

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notes

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## Minutes / Action List

DEPARTMENT OF MINERAL RESOURCES				
MINING CHARTER PROJECT STEERING COMMITTEE MEETING				
	10 November 2014			
	09h00			
	DMR Building DG Boardroom			
	CFO: Me. Irene Singo			
	DDG Joel Raphela	JR	DDG Mosa Mabuza	MM
	Me. Irene Singo	IS	Me. Malefshane Kola	MKola
	Me. Nkhensani Masekoa	NM	Me. Rebone Nkambule	RN
	Me. Motlatso Kobe	MKobe	Me. Ditsietsi Morabe	DM
	Mr. Thembinkosi Mbonyana	TM	Mr. Nkosinathi Zweni	NZ
	Me. Tebogo Phahladira	TP	Me. Modilati Malapane	MM
	Mr. Eddie Shilaluke	ES	Mr. Pieter Alberts	PA
	Mr. Heinrich Mundt	HM	Me. Beverly Williams	BW
	DG Dr. Thibedi Ramontja	TR		
	Me. Ansia Daniel	AD		

### Supporting Documents:

- Agenda
- Meeting Attendance Register
- Annexure A: Project Steering Committee & Project Workgroup
- Minutes of previous meeting held on 10 November 2014
- Project Action List as at 10 November 2014
- MC Charter Project Plan

**Minutes / Action List**

No		Actions	
		Responsible	Date
1.	<b>Welcome &amp; Introduction</b>		
	The Chairperson, Me. Irene Singo welcomed all present at the MC Charter Project Steering Committee. She introduced Heinrich Mundt, and Me. Beverly Williams, from Entsika Consulting as the newly appointed project manager and project administrator on the MC Charter Project.	Info	
2.	<b>Attendance List and Apologies</b>		
	The attendance register was circulated and apologies were noted for the DG, Dr. Thibedi Ramontja and Me. Ansia Daniel, the appointed Project Director from Entsika Consulting.	Info	
3.	<b>Purpose of Meeting and Acceptance of Agenda</b>		
	Me. Irene Singo stated that the purpose of the Project Steering Committee meeting will be to review progress on the Mining Charter project and governance of the Mining Charter project. The members that will be presented on the Mining Charter Project Steering Committee and Project Workgroup were agreed upon as per <b>Annexure A</b> attached herewith.	Info	
	The Agenda for the meeting was accepted as presented.		
4.	<b>Progress Made:</b>		
	The CFO gave feedback on the progress made to date and confirmed the appointment Heinrich Mundt from Entsika Consulting as the project manager of the Mining Charter Project as well as Beverly Williams, the appointed project administrator.	Info	
	IS confirmed that a decision was made to implement a web based system as a Management Information System for the Mining Charter data and that two service providers were invited to present possible web base solutions to the project steering committee. She confirmed that the decision was based on the risk identified with the capturing of data in Excel and the limitations that Excel present on reporting going forward.	Info	
	HM confirmed that a meeting was held with the Chamber of Mines on 6 November 2014 after which the DG and members of the	Info	



**Minutes / Action List**

No		Actions	
		Responsible	Date
	project steering committee was provided with feedback on the issues as identified in a meeting held on 7 November 2014.		
<b>4.1</b>	<b>Process Mapping – Mining Charter</b>		
	A process map outlining the suggested Web based process to be followed was circulated to all members.	Info	
<b>4.2</b>	<b>Critical Decisions</b>		
	The CFO confirmed that the following key decisions need to be taken by the steering committee based on the outcome of the Chamber of Mines stakeholder meeting.		
	<b>Date of Submission</b>		
	<p>HM stated that the mining company representatives that attended the Chamber of Mines meeting were of the opinion that the submission date of 15 December 2014 as proposed by DMR was unrealistic considering the limited time and due process that need to be followed by the mining companies involved. It was therefore suggested by the DG that 23 January 2015 will be proposed as the alternative date for the mining companies to submit the Mining Charter Templates/ Questionnaire's for 2012 and 2013.</p> <p>The suggested date of 23 January 2014 was deliberated and accepted as the final submission date for mining companies to present the completed 2012 and 2013 Mining Charter Templates.</p> <p>It was agreed that mining companies will present the Mining Charter templates relevant to 2014 by 31 March 2015 unless information can be provided earlier.</p>	Info	
	<b>Revision of Mining Charter Questionnaires</b>		
	HM stated that the representatives at the Chamber of Mines meeting requested the Department to align the Mining Charter questionnaires exclusively to the requirements as stipulated in the Mining Charter. Examples of issues as raised were provided to the members, which included information not relevant to compliance to the Mining Charter and aggregated reporting instead of detail reporting.	Info	



**Minutes / Action List**

No		Actions	
		Responsible	Date
	It was agreed that the project task team will review and amend the templates and questionnaire's to address the issues as raised by the Chamber of Mines and also to align questions to what is relevant to the Mining Charter only. It was further agreed that the questionnaires will be amended to allow for aggregated reporting where and if possible. The project task team must provide feedback on the progress made at the next Steering Committee meeting.	Task Team	17/11/14
<b>5.</b>	<b>Presentation of Web Based Prototypes</b>		
	Two companies, introduced by Entsika Consulting were invited to present a prototype of the proposed web-based solution to the steering committee after which the proposed solutions as presented presentations were deliberated in detail by the members of the steering committee.	Info	
	It was agreed that the web base prototype presented by Mr Loot van Rensburg was the most suitable to the requirements although concerns were raised by certain steering committee members, on the approach to be followed with the web base system rather than the Excel route given the time and cost involved.		
	<p>The following agreement was reached by the project steering committee:</p> <ul style="list-style-type: none"> <li>To continue with the sourcing and development of the proposed web base solution.</li> <li>To further investigate the legal requirements in terms of the law in hosting the data on the Web. Mr Pieter Alberts was invited to the steering committee to give his input on the matter.</li> <li>To set up a meeting and involve the CSIR in the provision of a possible web base solution.</li> <li>Ensure that the revised template questionnaires are available on the web base system within the agreed timeline (10 working days) given the strict deadline of the project.</li> </ul>	Task Team	Ongoing





## Minutes / Action List

No		Actions	
		Responsible	Date
6.	<b>Project Communication</b>		
	<p>It was agreed that the Project Task Team will continue to engage with other stakeholders, including organised labour following the meeting held with the Chamber of Mines.</p> <p>Also that a follow up meeting will be scheduled with the Chamber of Mines to consult and provide feedback on the issues as raised during the 1<sup>st</sup> meeting.</p> <p>The Project Office must map the timelines, given the revised date and provide the steering committee with a project plan</p>	<p>Task Team</p> <p>Project Office</p>	<p>TBA</p> <p>17/11/14</p>
7.	<b>Way Forward</b>		
	<p><b>Decisions Taken:</b></p> <ul style="list-style-type: none"> <li>- The final date of submission of Mining Charter Questionnaire has been concluded as 23 January 2015.</li> <li>- The task team should revise the Mining Charter Questionnaire and provide feedback at the next meeting</li> <li>- The Department to source and continue with the development of a web based solution instead of Excel database.</li> <li>- The task team to set up a meeting and involve the CSIR in the development of a web based solution</li> <li>- The task team to involve and consult with all remaining stakeholders, including organised labour on the matter.</li> <li>- The task Team with PA should investigate the legal requirements for the hosting of data on the web.</li> <li>- The Project Office to map the project timelines and provide a draft project plan for review and approval.</li> </ul>	<p>Task Team</p> <p>Task Team</p> <p>Task Team</p> <p>Task Team</p> <p>Project Office</p>	<p>17/11/14</p> <p>Ongoing</p> <p>TBA</p> <p>TBA</p> <p>Ongoing</p> <p>17/11/14</p>
8.	<b>New Matters:</b> No additional matters were added to the Agenda		



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**BRIEFING NOTES REGARDING THE MEETING HELD BETWEEN CHAMBER OF  
MINES AND DMR ON MINING CHARTER TEMPLATES.**

**1. Introduction**

The Department of Mineral Resources (DMR) and Chamber of Mines (COM) held a meeting on the **06 November 2014** in order to discuss the Mining Charter Templates. At the meeting, a number of comments and inputs were made which were largely taken into consideration and subsequently incorporated into the revised templates.

The follow-up meeting was held at the Chamber of Mines offices on the **25 November 2014**, to highlight the changes in the revised Mining Charter Templates. Then the revised templates were presented to the Chamber of Mines at the said meeting, and the following was further noted (as per Charter Elements):

**Employment Equity:**

COM raised a concern and suggested that a separate spreadsheet/template on Senior Management be developed to cater for those companies having expanded organisational structures in order to avoid duplication of reporting at Senior Management (Exco level).

With regard to the column on Foreign Nationals, the COM has suggested that the Department must remove the column on African and Non-African but rather to remain only as Foreign Nationals.

**Human Resources Development:**

Members of Chamber raised a concern to differentiate between Artisanship, Apprentice and Learnerships for the reporting purpose.

COM suggested that there should be a separate column for skills programmes on the template.

**Mine Community Development:**

In a case of Social and Labour Plans still in process of reviewal,

The question was raised pertaining to the Social and Labour Plan which are still in review process and had not yet been approved.

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The DMR responded that the companies are entitled to and must report on the commitments made, as per their approved Social and Labour Plans.

Housing and Living Conditions:

No comments were raised

Ownership:

With regard to the Full Shareholder Rights spreadsheet, it was agreed that the column for "Management Control" should be replaced by "Management Fees".

It was further agreed that there should be a column for "Other Broad-Based Structures" which will cater for structures such as Family Trust, etc.

Procurement:

It was agreed that a column for "BEE Entities percentage" should be inserted/created.

There was a concern raised whether audited financial statement would be focusing on financial year or calendar year.

Furthermore, the COM raised that multinationals audited financial statements reflect also international project/ operations.

The DMR maintained that audited financial statements are credible statements.

Sustainable Development:

Though there were no remarks raised, however there was mutual consensus that any other matter on this element will be raised with the COM representative.

Suggestions on the System:

With regard to the system (web based system), the companies have expressed their willingness to partake in piloting phase of the system (including Sasol).

The companies raised concern on whether the system will allow for uploading of spreadsheets and documents.

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The question was also raised if the system would allow two or more individuals working on different Charter element/spreadsheet at the same time.

## 2. Wayforward

- Chamber of Mines will submit a written document detailing further comments and inputs on the Mining Charter Templates within two days from the date of the meeting (therefore due date is 27 November 2014).
- The DMR will prepare a clarification document/guideline with regard to the templates and their population thereof.
- With regard to the timelines on the submission of the populated templates, the DMR mentioned that the issue will be raised at the MIGDETT Technical Task Team meeting on the 26 November 2014.

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**DEPARTMENT OF MINERAL RESOURCES**  
**MINING CHARTER PROJECT STEERING COMMITTEE MEETING**

Agenda of Meeting				
<b>Date:</b>	2014/11/17		<b>Time:</b>	09h00 – 11h00
<b>Venue:</b>	DG Boardroom, DMR Building, Pretoria			
<b>Attendees: (Steering Committee)</b>	Dr Thibedi Ramontja	DG	Me. Rebone Nkambule	RN
	Mr. Joel Raphela	DDG JR	Me. Cathy Leso	CL
	Mr. Mosa Mabuza	DDG MM	Me. Ditsietsi Morabe	DM
	Me. Irene Singo	IS	Me. Motlatso Kobe	MK
	Me. Malefshane Kola	MK	Mr. Heinrich Mundt	HM
	Me. Nkhesani Masekoa	NM	Me. Ansia Daniel	AD
<b>Apologies:</b>				
<b>Chairperson</b>				

No.	Item	Responsible Person
1.	Welcome and Introduction	
2.	Attendance List and Apologies	
3.	Confirmation of the Agenda	
4.	Approval of Minutes of Previous Meeting	
5.	Project Action Log	
5.1	Mining Charter Questionnaire Revision and Validation	
5.2	Web Based System Implementation	
5.3	Stakeholder Engagement / Communication	
5.4	Legal Requirements	
6.	Project Plan with Timelines	
7.	Moloto Involvement (MC Templates) – Scope of Work	
8.	Validation of List of Mining Companies	
9.	Mining Charter Questionnaire Guidelines	
10.	<b>New Matters</b>	
10.1		
10.2		
10.3		

11.	<b>Confirmation of Date &amp; Time for Next Meeting:</b>		
	<b>Date:</b>	Monday, 17 November 2014	
	<b>Time:</b>	09h00 – 11h00	
	<b>Venue:</b>	DG Boardroom, DMR Building	

## Minutes / Action List

DEPARTMENT OF MINERAL RESOURCES				
MINING CHARTER PROJECT STEERING COMMITTEE MEETING				
Meeting	Mining Charter Project Steering Committee Meeting			
Date	17 November 2014			
Time	09h00 – 10h00			
Venue	DMR Building, DG Boardroom			
Meeting Chairperson	DG Dr Thibedi Ramontja			
Meeting Attendees	DDG Mr. Joel Raphela	JR	DDG Mr. Mosa Mabuza	MM
	Me. Irene Singo	IS	Me. Malefshane Kola	MKola
	Me. Nkhensani Masekoa	NM	Me. Rebhone Nkambule	RN
	Me. Cathy Leso	CL	Me. Ditsietsi Morabe	DM
	Me. Motlatso Kobe	MKobe	Mr. Bongiwe Mabusela	BM
	Mr. Thembinkosi Mbonyana	TM	Me. Beverly Williams	BW
	Mr. Heinrich Mundt	HM		
Apologies	Me. Ansia Daniel	AD		

### Supporting Documents:

- Agenda
- Meeting Attendance Register
- Minutes of previous meeting held on 17 November 2014
- Project Action/Risk Log as at 17 November 2014
- Mining Charter Project Plan (Draft Only)

## Minutes / Action List

No		Actions	
		Responsible	Date
<b>1.</b>	<b>Welcome &amp; Introduction</b>		
	The DG, Dr Thibedi Ramontja welcomed all present at the Mining Charter Project Steering Committee.	Info	
<b>2.</b>	<b>Attendance List and Apologies</b>		
	The attendance register was circulated and apologies were noted for Me. Ansia Daniel, the Project Director from Entsika Consulting.	Info	
<b>3.</b>	<b>Purpose of Meeting and Acceptance of Agenda</b>		
	The purpose of the Steering Committee meeting will be to review progress and ongoing governance on the Mining Charter Project.	Info	
	The Agenda for the meeting was reviewed and the following amendment was made to the Agenda: Remove Agenda point 7. "Moloto Involvement (MC Templates) – Scope of Work".		
<b>4.</b>	<b>Approval of Minutes of Previous Meeting</b>		
	The Minutes of the Steering Committee meeting held on 10 November 2014 was circulated per e-mail for review to all steering committee members. The minutes of the Steering Committee meeting were accepted as presented without any changes.	Info	
<b>5.</b>	<b>Matters Arising from Previous Meetings</b>		
	<b>Project Action Log</b>		
	HM referred to the attached Project Action Log and stated that all actions from the previous meetings will be logged against the person responsible. All outstanding actions will continuously be tracked for progress until the action is completed. The following actions were noted during the meeting held on 10 November '14:	Info	
<b>5.1</b>	<b>Mining Charter Questionnaire Revision and Update</b>		
	HM stated that the Work Group reviewed and updated the Mining Charter Questionnaires as agreed during the previous meeting. He confirmed that all questionnaires were completed, except for BBBEE and Procurement. He explained that the Work Group stated that they require input from, BM whom was on leave during last week in order to finalise these Questionnaires.	Work Group	17/11/14

## Minutes / Action List

No		Actions	
		Responsible	Date
	HM confirmed that the Work Group will meet immediately after the Steering Committee meeting to finalise the outstanding Mining Charter questionnaires.		
	RN stated that input will be required from Moloto to finalise the templates. She confirmed that Moloto developed the formulas required to calculate the score card. This statement was supported by TM. HM further confirmed that the formulas used for the calculation of the score card will be required in the design of the web-based questionnaires.	Info	
	It was agreed that Moloto need to deliver the formulas used to DMR as part of the hand-over of the deliverables. MK requested that the handover of the formulas should be included in the Terms of Reference (ToR) for Moloto. Also that Moloto should be informed of the current processes and consequent review and update of the Mining Charter questionnaires and their contractual obligations going forward.	IS	18/11/14
	It was agreed that the Work Group should continue to finalise the Mining Charter questionnaires. Also that the templates need to be signed off by the DDG's once completed. The final updated Mining Charter questionnaires will be handed over to Moloto to incorporate the formulas.	DDG's	21/11/14
<b>5.2</b>	<b>Web-based System Implementation</b>		
	HM confirmed that a meeting was held with CSIR on Wednesday, 12 November 2014 regarding their possible involvement in the development of a web-based system. He said that the CSIR demonstrated a prototype which is available but confirmed that the CSIR indicated that they will not be able to develop a working solution within the strict timelines required. Also that the system as presented by the CSIR is currently not web-based, although they are planning to do so in the near future.	Info	
	HM said that a decision was therefore made by DMR to invite companies to submit proposals for the implementation of a web-based system.	Info	

## Minutes / Action List

No		Actions	
		Responsible	Date
	HM stated that the ToR was issued on Friday, 14 November 2014 and confirmed that the closing date for submission is 17 November '14, after which internal processes will be followed in the appointment of a preferred supplier.	CFO	24/11/'14
<b>5.3</b>	<b>Stakeholder Engagement / Communication</b>		
	HM confirmed that the planned follow-up meeting with the Chamber of Mines scheduled for last week did not transpire due to the unavailability of a number of mining company representatives. He confirmed that a follow-up meeting is proposed for 24 November '14 by the Chamber of Mines, which need to be confirmed. The DG indicated that he will attempt to intervene to secure an earlier meeting.	Work Group	24/11/'14
	It was agreed by all present that the stakeholders involved should not be allowed to derail the process as long as the Mining Charter questionnaires are aligned to the requirements of the Mining Charter.	Info	
	HM stated that a stakeholder feedback meeting was held with UASA and Solidarity on Thursday, 13 November '14. He presented the members of the steering committee with minutes of the meeting, summarising the matters discussed and outcome of the meeting.	Info	
	HM confirmed that stakeholder feedback meetings still need to be scheduled with SAMDA and NUM.	Work Group	21/11/'14
	NM requested the DG to intervene in securing a meeting with NUM as some difficulty was experienced in this regard.	DG	21/11/'14
<b>5.4</b>	<b>Legal Requirements</b>		
	HM said that the legal requirements to host the web-based system still need to be confirmed and finalised. He confirmed that follow-up discussions will be scheduled with Mr Pieter Alberts to conclude this matter. Feedback will be provided at the next meeting.	HM	24/11/'14
<b>6.</b>	<b>Project Plan with Timelines</b>		
	HM said that the project plan was completed but stated that some difficulty was experienced with accessing and printing the document. He confirmed that IT indicated that they will resolve the matter directly after the meeting.	HM	17/11/'14

**Minutes / Action List**

No		Actions	
		Responsible	Date
	HM agreed to circulate the project plan to members of the steering committee for review and comment once available.		
	HM responded to a question raised by MK, asking on which date the Mining Charter Questionnaires will be ready for submission to the mining companies for completion.  HM stated that the plan as it currently stands indicate 8 December '14 as the date to submit the Mining Charter questionnaires. HM confirmed that the proposed date as per the project plan took into account the finalisation of the Mining Charter questionnaires and formulas, the development of the web-based system, for which ten (10) working days are allowed according to the ToR. Also included in this timeline is the testing of the system.	Info  HM	  08/12/'14
	The DG requested HM to involve some of the mining companies in the testing of the system. HM indicated that some companies, present at the Chamber of Mines meeting confirmed that they will assist in testing the system.	HM	5/12/'14
7.	<b>Validation of List of Mining Companies</b>		
	HM confirmed that a list of mining companies was received from RM including names of senior people per company to whom the Mining Charter questionnaires will be circulated. He said that the Work Group will purify the list in order to confirm the completeness thereof and finalise all mining companies involved. The Work Group to sign-off the final list of Mining Companies involved.	Work Group	21/11/'14
8.	<b>Mining Charter Questionnaire Guidelines</b>		
	HM stated that guidelines should be developed for certain areas of the Mining Charter questionnaires, to guide the mining companies in completing the templates. RM confirmed that guidelines were developed by Moloto which were handed over to DMR.  The Work Group was requested to review and update the existing guidelines in relation to the reworked questions.	Work Group	18/11/'14



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**CHAMBER OF MINES OF SOUTH AFRICA**

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4 February 2015

### **Chamber of mines response to DMR regarding the Mining Charter ownership template**

The Chamber and its members wish to thank the DMR for the opportunity to provide input into the Mining Charter template – ownership component. This document summarises our areas of disagreement, proposals and requests as raised in the meeting yesterday, and adds to these based on the web based template we received this morning.

The following represents the collated proposals from companies:

#### **A. Continuing consequences – the exclusion of past transactions**

The Chamber and its members strongly disagree with the exclusion of previous transactions concluded post the implementation of the MPRDA in which HDSA shareholders exited for value as this amounted to empowerment. Even though BEE companies have sold out, or ESOPS have vested, the exiting of those assets was not within the control of the mining companies and so companies should not be prejudiced in this assessment process. Its exclusion represents incomplete information capture and would result in misleading results. We recommend that companies be allowed to include these transactions, on the basis that they complied with the requirements of the Mining Charter at the time.

#### **B. Timing of % reported on: at point of transaction and current %**

Linked to the previous area of disagreement, companies should be afforded the space to indicate value at the point of the transaction, not only current value. Presentation of these results should indicate both outcomes, to ensure all aspects of the efforts of companies to achieve meaningful empowerment is appropriately captured.

Original price: This is not available in all instances (e.g. sometimes the BEE entity contributed mineral resources which were not valued or the parties merely did a JV without an original purchase price). Should one include capital expenditure by the BEE company into the mine? A volume based measurement approach may be instructive.

We recommend the template should capture value of empowerment at the time of the transaction as this represents the economic value transferred.

#### **C. Transparency of process**

Companies request the ability to understand how the collation occurred and understand how the methodology employed. Given the inter-related issues of asset sales, and how the internal company structures/transactions feed into company total is critical to the outcome. E.g. JV assets, with multiple owners and BEE partners, BEE partners owning equity of SA and non-SA assets. To ensure issues pertaining to double counting or under counting is avoided. We request the methodology be disclosed and that companies receive individual (private) feedback on application of the methodology to itself prior to release of results.

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**COUNCIL OF THE CHAMBER: M Teke (President), Ms KT Kweyama (Vice President), G Briggs (Vice President),**  
A Bam, MCutifani, P Dunne, J Evans, N Froneman, T Goodlace, C Griffith, G Heale, N Holland, MJ Houston, B Magara, N Mbazima,  
X Mkhwanazi(Dr), D Matlou, RMoodley, M Mothoa, SA Nkosi, M O'Hare, B Petersen, S Phiri, N Pienaar,  
N Pretorius, A Sangqu, MP Schmidt, BSibiya, PWSteenkamp, SVenkatakrishnan.

*MK*



#### D. Request for projections

Companies are restricted from provided projections on its businesses and is closely regulated in terms of JSE and international exchanges. Companies strongly disagree with all requirements for projections relating to their businesses. (e.g. projected vesting dates) In some instances, it requires projections of commodity prices, etc, which takes us back to the concern raised in the previous point. We propose any requests for projections be eliminated.

#### E. Current value

Companies as rule, do not provide forecasts of its business. Hence, the request for value to be provided at the time of the transaction or the point of grant or conversion of rights. This is especially relevant for purposes of collation, where different companies would make different assumptions on Rand exchange rate and commodity prices, yielding very different outcomes. For transaction purposes, external independent third parties are used to provide valuations, it is not done by the companies internally. The current % HDSA ownership can be presented to ensure DMR can assess performance, without the values being presented.

#### F. Outstanding debt and Net value

The mining companies who have sold assets to BEE partners and community trusts cannot demand information relating to their balance sheet situation. BEE companies should provide this. It is not possible to allocate present debt to original transactions where the BEE company has multiple assets and debt facilities. Some BEE companies did not use their dividends for debt repayment – should the dividends taken be deducted from the debt outstanding?

Even in the instance where the company has provided guarantees, the relationship lies between the BEE company and the banks, it is not always possible for the company to access that information. Furthermore, BEE partners have independent business, with varying interests and the companies have no say nor knowledge on how that is utilized. This is effectively requesting information pertaining to Net Value and is not in terms of the agreement of the Mining Charter. We recommend it be removed.

#### G. Demographic representation

There are many instances for companies where the BEE entity provided an undertaking to its HDSA status and demographics. Information on demographics is very difficult to obtain. This changes over time. It is proposed that only the HDSA% at the date of the transaction be evaluated, where possible. Demographics information on individual HDSA groups is rarely available, specifically the broad-based empowerment trusts. It would be impractical to ask BEE entities to do detailed research on their demographics and the changes over time. It is recommended that total % be allocated per transaction, but demographic requirement be removed. Alternatively the DMR may place these regulatory requirements of disclosure on the BEE companies.

#### H. Principles applied to Assessment

Assessing companies only based on the flow through principle does not take account of the modified flow-through principle. In addition, certain BEE transactions were concluded prior to the introduction of the Amended Charter and the Mining Codes and the DMR endorsed these transactions based on the principle of HDSA majority ownership and control. This principle should continue to apply in respect of transactions concluded at that point in time. In addition, the BEE companies' decision to adopt a certain controlling stake, to allow themselves to partner with others that may add value to its company, is not in the control of companies. It is often the result of funding mechanisms, which ensures the effectiveness of the transaction and allows for transfer of skills. We recommend use of the word economic interest.

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### I. Marketing fees

Not applicable in the context of ownership. It forms part of the business operations at asset and equity level. We propose it be removed.

### J. Trickle dividend

This relates to a component of the ownership and the capitalisation of entities as part of those transactions. Ownership represents the economic participation in an entire operational asset and trickle dividend viewed in isolation may unduly benefit some companies and prejudice other companies, when looked at in isolation. E.g. the existence of trickle dividend does not suggest economic value has been transferred, it is completely independent of overall value of ownership. The reverse also applies, i.e. the absence of a trickle dividend does not mean no economic value was transferred. We recommend it be removed.

### Process/structure issues

- A 'SAVE' function that allows for review of results entered, so that authorized person may ultimately use a separate "SUBMIT" function. It is likely that different people may capture different components and it would be useful to have the flexibility to i) first review and check captured information, ii) allow different users to capture information and go back to complete or allow other users to also capture information.
- Are the companies with a number of mining rights going to be provided with individual user names and passwords per mining right? We recommend consideration of link between transactions and mining rights. E.g. The template seeks to only establish the current values of the BEE transactions as at the date of measurement, thereby excluding the BEE shares vested and benefits of rights offerings as per the conditions of the Mining Rights. It is recommended that a table outlining the BEE status at the time of the granting of Mining Right be inserted and information with respect to the sale of shares and benefits be covered.
- Further consideration could be given to accommodate commodity specific submissions, per transactions, with allowance for units of production. This may streamline the process and remove the complexity of collation with company cross holdings, JVs, international assets and asset-level to equity