This is the Mining Industry

“Long Cold winters and Short beautiful summers”
More than half of NDP priorities can be tackled by mining

- Economy and employment
- Economy infrastructure – The foundation of social and economic development
- Environmental sustainability – An equitable transition to a low-carbon economy
- An integrated and inclusive rural economy
- Positioning South Africa in the world
- Transforming human settlement
- Improving education, training and innovation
- Promoting health
Mining matters for the growth, development and transformation of South Africa

Supplier Industries:
- Manufacturing
- Chemicals
- Consumables (e.g. diesel, timber)
- Rail
- Port
- Electricity

Capital goods:
- Equipment
- Machinery

MINING
- Exploration
- Infrastructure development
- Mine development and operating
- Treatment (Washing – e.g. coal, sizing e.g. iron ore, smelting e.g. precious metals)
- Refining (Pure Gold, PGM, Ferro Alloys)

Direct Services:
- Geological
- Engineering
- Health and safety
- Education skills

Related Services:
- Financial services
- Banking
- Stock market (JSE)
- Auditing and consulting services
- Business services

Energy
- Electricity
- Liquid fuels
- Methane gas for FCs

Manufacturing
- Autocats
- Chemicals/liquids/ferilisers

End consumer markets
- Electricity
- Liquid fuels
In 2014, the South African mining industry contributed:

- 7.6% to GDP
- Around 15% to FDI
- 20% of private investment
- 1.4 million jobs
- 25% of exports

Source: Chamber of Mines estimates; StatsSA
SA Coal mining sector – burning issues

- Falling Coal export prices (-60% since 2012)
- Some areas of policy uncertainty – especially on strategic minerals and export restrictions (which the industry thought were resolved)
- Some policy and regulatory challenges (and various government departments wanting to add extra costs on to coal mining – e.g. Environmental legislation)
- Unexpected upward revision in coal royalties (change to the base calculation), resulting in large unplanned increased in royalty for industry
- Some infrastructure constraints (but not all players take up export entitlements)
- Water management and ability to feed back into water supply
- Falling productivity
- Rapidly escalating costs
South Africa’s share of the global total has fallen from 14% in 2004 to 8% in 2014

Source: SA Chamber of mines, SAIMM, Industry research
## Competitiveness in mining is driven by multiple factors

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<td>- Security of tenure</td>
<td>- Environmental impact</td>
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<td>- Rule of law</td>
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<td>- Macroeconomic stability</td>
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<td><strong>Product demand</strong></td>
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<td>Accessibility of markets</td>
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<td>Domestic demand</td>
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<td>International demand</td>
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<td><strong>Regulatory</strong></td>
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<td>Regulatory and legal requirements</td>
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<td>Institutional capacity</td>
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SOURCE: McKinsey & Company

Chamber presentation to IHS Energy conference
Mining has a set of characteristics that include:

- It is a high risk industry, with long lead times from exploration through to mine development and ultimately through to closure.
- It is very capital intensive and a large portion of the capital is spent in the development of the mine.
- It is exposed to cyclical commodity markets.
- It is generally a “price-taker” and cannot pass on cost increases to the final consumer.
- It is geographically captured.
- It requires access to cost competitive and efficient infrastructure.

In order to encourage investment into mining, policies need to recognise the characteristics of mining and help reduce the risks of investment in long term projects.
Given long life cycle, mining needs predictable, stable and competitive policy and regulatory environment

Cash flow over life cycle

Price cycle

Chamber presentation to IHS Energy conference
Creating a successful coal mining sector

- More effective problem solving partnership between government, business and organised labour
- Regulatory and legislative environment that is stable, predictable and competitive
- Stable and constructive labour relations environment and better social license to operate
- Access to available, efficient and cost effective infrastructure (electricity, rail)
- Solutions to improve productivity (next generation mining) and reduce cost pressures
South Africa ranked 64/122 most attractive mining investment jurisdictions in the 2014 Fraser Institute Survey (we should be in top 20)
**Underlying reasons for South Africa not faring well in the Fraser Institute mining rankings (great potential)**

<table>
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<tr>
<th>Factor</th>
<th>Deterrent Score</th>
<th>Encouragement score</th>
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<tbody>
<tr>
<td>Policy potential assuming industry best practice</td>
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<tr>
<td>Quality of the geological database</td>
<td></td>
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<td>Availability of Labor and Skills</td>
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<td>Uncertainty over which areas will be protected as parks</td>
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<tr>
<td>Environmental regulations</td>
<td></td>
<td></td>
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<tr>
<td>Quality of infrastructure</td>
<td></td>
<td></td>
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<tr>
<td>Trade barriers (tariff &amp; non-tariff + forex restrictions)</td>
<td></td>
<td></td>
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<tr>
<td>Mineral potential assuming existing regulations</td>
<td></td>
<td></td>
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<tr>
<td>Security situation</td>
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<tr>
<td>Regulatory Duplication and Inconsistency</td>
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<td>Efficacy of the mineral legal system</td>
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<td>Taxation regime</td>
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<td>Socioeconomic agreements</td>
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<tr>
<td>Uncertainty on administration &amp; interpretation of regs</td>
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<tr>
<td>Labour regulations/labour militancy/work disruptions</td>
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<tr>
<td>Political stability</td>
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<td>Uncertainty concerning disputed land claims</td>
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Fraser Institute Survey 2014 factors encouraging investment in exploration versus deterrents to investment for South Africa

**Frazer Institute Survey 2014 factors encouraging investment in exploration versus deterrents to investment for South Africa**
Capital investment outlook looks weak (lower prices, rising costs, plus uncertainty on some aspects of policy)

Capital expenditure by SA mining companies by commodity* (R million)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Cost (Rm)</th>
<th>Split</th>
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</thead>
<tbody>
<tr>
<td>Gold</td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>PGM</td>
<td>7700</td>
<td>3235</td>
</tr>
<tr>
<td>Coal</td>
<td>3235</td>
<td>1665</td>
</tr>
<tr>
<td>Total</td>
<td>69200</td>
<td>34175</td>
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Source: SBG Securities, Company reports, Chamber of mines estimates, based on top 3-5 largest producers per sector; estimated 2014/2015
Summary of regulatory framework areas creating challenges

- **The MPRDA amendment bill**: the industry requires regulatory certainty (issued include s11 approvals, s26 export restrictions, strategic minerals, pricing, regulation of dumps, etc.).

- **Transformation Regime (B-BBEE Act & Mining Charter)**:
  - need for certainty on interpretation (continuing consequences of previous BEE deals).
  - Eskom 51% versus Mining Charter 26%.

- **Taxation of the mining sector**:
  - Resource rent taxes, changes to royalty base, environmental taxes, carbon tax.

- **Section 54 stoppages**: in some cases inconsistent implementation of regulations.

- **Labour instability and cost**: union rivalry increases risk of protracted and violent strikes:
  - The need to introduce secret strike balloting and flexibility to s18 agreements.
  - The social wage issues.

- **Environmental requirements**:
  - Previously fragmented system with duplication.
  - Challenges regarding funding requirements for environmental trust funds.
Environmental issues affecting the coal mining industry

1. Water Resources Management
   • Security of Water Supply, competition of water with other users
   • Water Quality Management i.e AMD from abandoned mines.

2. Interface of Coal Mining with Protected Areas
   • COM members commits not to mine in legally protected areas
   • There is no framework guiding policy to govern the interface/Coexistence of mining and biodiversity conservation in the cases wherein the protection and declaration of water sensitive areas came after the mining activities.

3. Regulatory Matters
   • The mining industry commit to implement the One Environmental System however, certain challenges hinders effective implementation of the OES.
     • Fragmentation - in that the OES only deal with synchronisation of timeframes (300days)
     • Unrealistic regulations i.e NEMA Financial Provision Regulation (Double provisioning)
     • Regulation of Mine Residue Deposits and Stockpiles as hazardous Waste in terms of Waste Legislation.
Creating a regulatory and legislative environment that is stable, predictable and competitive (Policy and Regulatory Certainty)

MPRDA amendment bill
• Government is aware of the critical importance of finalizing the Bill.
• Various challenges in first draft addressed through significant engagement between business, government and parliament.

Transformation
• Dti provided a year’s period to allow for alignment between Charter and DTI codes.
• Dual process on interpretation (bilateral discussion and court process).
• Government needs to create coherence of policy between Eskom requirements and the Charter.

Certainty on Taxation
• DTC interim report supports existing royalty system which obviates need for RRT.
• DTC proposes phasing out capital ring fencing.
• However, DTC also recommends equalization of mining tax with manufacturing (i.e. reducing immediate capital expensing).

Carbon tax
• The Chamber calls for a 5 year delay to implementation due to crisis facing the sector and fact that RSA is below “Peak-Plateau-Decline line” committed to in Copenhagen in 2009.
Progress on the policy challenges

Section 54 safety stoppages
- Agreement by DMR to speed up the development of the Enforcement Policy pertaining to Section 54’s.

Deputy President’s NEDLAC task team – minimum wage and strike action committee
- NEDLAC process underway, results expected by mid-2016.
- Looking at measures to prevent/resolve L/T strikes and create greater labour stability.

Environmental licensing
- New “One Environmental system” in place. Real progress made with commitment by government that environmental licenses will be issued within 300 days.
- Challenge of environmental trust funds being addressed (hopefully DEA will take on board proposed changes).
Vision for the South African coal mining industry

**Government and trade unions:**
proud of and fully supportive of the mining industry and acknowledge industry as important for the country

**Workforce,**
transformed, productive, fair wages and non-discriminatory, safe and healthy workplaces

**Investors** regard industry as a good investment destination

**Management** not only focus on profits, but provide decent jobs, play positive role in mining communities and sensitive to environment

**Key exporter**
Key earner of foreign exchange
Key taxpayer
Creator of decent jobs
Developer of skills
Key contributor to economy

**CONSTRUCTIVE PARTNERSHIPS**
**BUILT ON TRUST**
THE REGULATORY ENVIRONMENT AND ITS EFFECT ON COAL MINE DEVELOPMENT

Roger Baxter
Chief Executive
4 February 2016