MEDIA STATEMENT

MINING INDABA 2018: CHAMBER OF MINES HOSTS MEDIA BRIEFING ON THE STATE OF THE MINING NATION

Johannesburg, 5 February 2018. The Chamber of Mines, led by CEO Roger Baxter, today hosted a media briefing on the State of the Mining Nation at Mining Indaba 2018.

The full address is included below:

COMMENTS BY CHAMBER OF MINES CEO, ROGER BAXTER

It has become a 'tradition' for the Chamber of Mines to kick off our Indaba week with this informal session on our assessment of the State of the Mining Nation. It seems almost inconceivable that it's a year since we were last here: So much has changed, yet so much has stayed the same.

That said, I would suggest that there is a new sense of hope, a new buoyancy in the industry and the country that we have not seen for some time. And that gives us quiet confidence in a resurgence of the industry in the year ahead.

You would have seen the increased activity of the Chamber's economics team during the year, ably led by Henk Langenhoven. And today we publish the second edition of our Facts and Figures pocketbook, which we believe is a handy guide to the state of the sector. This document is also downloadable form our website.

So, taking a look at where we were and were we are today, here are some of the key highlights:

Based on information available:

- In 2017, our projected estimates indicate that the industry constituted 6.8% of the economy, marginally down from the 7% of overall GDP in

2016. In real terms, the industry is estimated to have expanded by 3.7% in 2017, with a contribution of R312 billion.

- The direct contribution of mining to fixed investment amounted to R93.4 billion; while total primary mineral sales reached R424 billion.
- Despite the somewhat depressed state of the industry, it paid R5.8 billion in royalties, and taxes of some R16 billion.

Employment was 464,667 by the 3rd quarter 2017, up from 457,290 at the end of 2016. It was not, as we know, a good year for gold and platinum. This increase in the number of employees across the mining industry is largely thanks to industrial minerals - iron ore, chrome, coal, manganese.

So despite the tough times we've been going through, we've been fighting to hold our own, helped by the market in some sectors thanks to the welcome, albeit gradual, improvement in the world economy.

The weighted dollar commodity price index (coal, iron ore, gold and platinum) for SA hardly moved between 2016 and 2017. We saw a lacklustre price trend for gold (+0.8%) and a decline in platinum prices (-4%), offsetting the increases in the prices of coal (+28%) and iron ore (+22%).

The equivalent rand index also hardly moved (given differential price movements and weights). Total sales of commodities exported increased by nearly 7% (in real terms) in 2017 on 2016. On average the rand strengthened against the dollar by 10% over the same period.

In Rand terms, each major commodity exhibited unique trends:

- The gold price declined by more than 8% between 2016 and 2017, mainly driven by geopolitical uncertainties subsiding during 2017. Sales of gold were up by about 1% even as production declined by 3%.
- Platinum prices declined by over 12% over the same period, mainly due to environmental issues and the uncertainty regarding the pace and technological direction of electric vehicle development. Platinum sales grew by 0.5% (in real terms) but production declined by 4.1% over the period.
- Coal export prices improved by 17% between 2016 and 2017, and are more or less on par with the prices achieved during the 2008 commodities price peak. The volume of coal sold

declined slightly (-1%) over the period but production increased by 1.5%. India seems to have an insatiable demand for SA coal.

- Iron ore prices increased by over 12% between 2016 and 2017. High quality iron ore puts SA in the 'higher tier' price range due to Chinese environmental concerns which has forced lower quality iron ore prices to decline. The volume of sales of iron ore increased by more than 5% and production by 12% over the period.
- The two star performing commodities were chromium and manganese. Sales of the former increased by over 6% and production by over 14% during the period. Chromium prices increased by 63% over the period. Manganese sales jumped by nearly 140% and production by nearly 40% between 2016 and 2017. Manganese prices accelerated by 20% over the same period. These movements are also related to the pace and technological direction of electric vehicle development.

But the challenges of the regulatory environment in 2017 were arguably the worst the industry has ever experienced. The extent of the damage done to South Africa's institutions, the economy as a whole and the mining industry in particular, has been immense. Minister Zwane's unilaterally imposed revised Mining Charter, which has the potential almost to sink the industry, was the lowest point reached in living memory. It left us with no choice but to bring a legal challenge. Even though we are well aware that, ultimately, developing a vision for the future on transformation (and many other issues) is dependent on a consultative multiparty approach, circumstances last year placed obstacles in the way. We have been talking to other stakeholders about setting in place conditions for that approach. We will be hosting a similar briefing tomorrow morning to provide an update on the legal issues, and also on some of our views on how the transformation process can be taken forward. We do hope that you will join us then.

For now, I am pleased to say that for the first time in many years, it is possible to look forward with a reasonable degree of hope rather than foreboding. The initial signals from the new leadership of the ruling party give cause for cautious optimism. Of course, we know there are complex political dynamics at play, and we will have to accept a degree of patience.

And even in the event of the best possible outcome – which means new government leadership and a rapid improvement in the quality of governance, we know that the way forward will hold challenges.

But we will stand ready to play our part in good faith in meeting them. The benefits for all could be highly significant.

To illustrate how significant, I’d like to remind you of the survey we carried out in the 2nd half of 2017. While it was published in mid-December, we know many of you were either already on leave or focused on the ANC conference.

Among other things, we asked members to tell us what the impact would be on their investment plans in the event of a return to better practice in policy, legislation and regulation formulation. Specifically, the Chamber looked at what could happen if the policy, regulatory and governance environment improved substantially, enabling the South African mining industry to return to the top 25% of global mining jurisdictions as per the Fraser Institute rankings.

In total, 16 mostly large member companies making up the overwhelming bulk of mining production in South Africa, representing many mining operations across various sectors responded to the survey.

The main finding was that the estimated currently planned capital spend in the mining sector over the next four years of R145 billion – mainly “stay in business” capex - could potentially increase by R122 billion (84%), most of it new, additional investment, in a more stable and conducive environment.

The impact on employment creation would be 48,000 people in the industry itself. Both direct and indirect jobs created would amount to around 150,000 much needed jobs in the current environment.

In the new political environment we are hopefully looking forward to a more attractive policy, regulatory and governance environment - through ethical leadership, good governance and the adoption of competitive, stable and predictable policies. It will mean considerable new investment in mining. This would create huge economic and transformation benefits for the country and the multiplier effects would be profound. Not only would this result in a significant growth in annual investment, but there would be a sizable increase in jobs, export earnings, GDP and, importantly, transformation.

When we meet here again next year we’ll be able to assess the extent to which progress has been made.

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