

CHIEF EXECUTIVE'S REVIEW



A major focus of our work in 2017 related to the fight for ethical leadership and good governance.

ROGER BAXTER
Chief Executive Officer

The year 2017 proved to be one of the most eventful in the industry's post-apartheid history. For the first time in several years, thanks to political developments in the ruling African National Congress and their impact at national government level, the year ended with a great deal of scope for hope for the future of the industry and our country.

HEALTH AND SAFETY

However, before turning to these positive developments, it is necessary to acknowledge and lament the one area where the industry's efforts can only be described as disappointing. After a 23-year period of consistent improvement, the industry saw a deterioration in its safety performance, as measured by the number of accident fatalities. There were 88 fatalities in 2017 compared with 73 the previous year. The Chamber extends its condolences to the families and friends of those who lost their lives.

I know that the CEOs of our members have recommitted themselves to the quest for zero harm. In 2012, the Chamber established the CEO Zero Harm Forum (formerly called the CEO Elimination of Fatalities Forum) to visibly lead by example, to drive health and safety initiatives and to share experiences to help address key challenges. Among the priorities have been

the development and management of critical controls for fatal risks, and instilling a culture in the industry that will change the behaviour of people at all levels to enhance their compliance and agility for change.

A more positive development in the health and safety sphere was the work that continued last year among current and former gold companies in the quest for solutions to the challenges of occupational lung disease (OLD). An historic class action settlement was reached on 3 May 2018, resulting from three years of extensive negotiations. This agreement provides meaningful compensation to all eligible former employees suffering from silicosis and/or tuberculosis from 12 March 1965 to date.

In further pursuit of this, the Chamber, together with the OLD Working Group, has been working with the Compensation Commissioner to support his efforts to improve the quality of administration of the Occupational Diseases in Mines and Works Act (ODMWA) compensation fund. The Chamber's members have contributed several hundred millions of rands to support the improvement of processes to ensure that compensation, already provided for, actually reaches its intended beneficiaries. The mining groups are also working with other stakeholders to integrate the country's two compensation systems – ODMWA and the Compensation for Occupational Injuries and Diseases Act (COIDA) – in a process led by the Deputy Mineral Resources Minister.

REGULATORY AND RELATED POLITICAL ISSUES

A major focus of our work in 2017 related to the development of a new Mining Charter and resistance to the efforts of former Mineral Resources Minister Mosebenzi Zwane to impose on the industry and on the country a charter that, if implemented, would have seriously damaged the industry and the national economy.

Our worst fears – expressed in this letter a year ago – were realised when a so-called Reviewed Mining Charter (RMC17) was published in the Government Gazette for immediate implementation.

The Chamber immediately brought an interdict to prevent the RMC's implementation. The Minister agreed to suspend implementation pending a review hearing which was scheduled to be heard, first in December 2017 and subsequently in February 2018.

That was not the end of litigation against the Minister. The Chamber was forced to bring yet another interdict after he threatened to stop processing new mining and prospecting rights applications pending the finalisation of the charter case. Again, in apparent recognition of the illegality of his gazetted threat, he agreed to suspend that course of action too.

These developments persuaded the Chamber that there was no purpose in further engaging the Minister. The Chamber stated that the industry had "lost confidence in the then Minister to lead

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the DMR". The Chamber also decided that there was no point in further engagement with the Minister after the publication of the unilateral charter, believing that litigation was the only worthwhile course of action.

However, though there were some risks attached to our approach, we believe that subsequent developments bear out the validity of the strategy we adopted. As is now known, Minister Zwane was replaced as Mineral Resources Minister by Mr Gwede Mantashe in the country's new President's first cabinet reshuffle.

As is also known, the RMC litigation was eventually postponed after a commitment by new President Cyril Ramaphosa to engage on a new charter. The new charter is being developed through a process of negotiation between all stakeholders. And while it will not be an easy process with many divergent perspectives of the industry, we trust the ultimate outcome will be – as in 2004 and 2010 – a consensual one that takes account of broader transformational competitiveness and sustainability imperatives. The Chamber remains committed to playing its part in this regard. At the time of writing this report, the Chamber continues to participate in the two technical task teams established by the Minister of Mineral Resources – one on transformation and the Mining Charter and the other on competitiveness and inclusive growth – as well as the Committee of Principals – with a view to developing a new Mining Charter that will facilitate the further transformation and sustainability of the industry.

The other key piece of litigation was the application for a declaratory order in respect of the recognition of the continuing consequences of previous transactions. This action was initiated before the Zwane era, and was initially a joint initiative of ourselves and Zwane's predecessor Ngoako Ramatlhodi.

We are gratified that the North Gauteng High Court found in favour of the Chamber's interpretation on this matter. It is absolutely critical to the industry's future in SA. We note that the Minister and the DMR have initiated an appeal against this majority judgment, and we respect their right to do so.

On a separate matter, the Chamber has agreed to join, as a respondent, the application brought by attorney Hulme Scholes which challenges, amongst others, the validity of both the 2004 and 2010 Mining Charters. The Chamber does not share this view. The Chamber participated in the development of the original Mining Charter in 2004 and its revision in 2010, and views these as important instruments for achieving the transformation of the sector.

There are other regulatory issues still pending, including the amendments to the MPRDA. However, we are confident that the new rational and consultative approach means that a fair and constitutional outcome is assured.

We join much of the rest of South Africa in looking forward to a new era that we hope has begun under the new government and its leader, President Ramaphosa.

Towards the end of 2017 the Chamber published a report based on a survey of members which showed that, should South Africa introduce changes to its mining regulatory regime that put the country again into the world's top 25% of global mining jurisdictions, planned investment over the next 5 years would be some 84% higher than was planned at that stage, with consequent improvements in employment and all the other factors to which mining contributes.

These findings resonate well with the initiative announced by President Ramaphosa in April regarding the quest for an additional US\$100 billion in investment. We seriously trust that this is where we are headed in these new circumstances, and the industry looks forward to playing its part.

MINING ECONOMICS

There are also some positive signs for the industry internationally as the global economy begins to show some signs of recovery.

The weighted dollar commodity price index (coal, iron ore, gold and platinum) for South Africa hardly moved between 2016 and 2017. In dollar terms, this is due to the lacklustre price trend for gold (+0.8%) and the decline in platinum prices (-4%), negating 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. Total production of commodities increased by 3.5% between 2016 and 2017.

On average the rand strengthened against the dollar by 10% over the same period. The rand has continued to strengthen since the beginning of 2018 due to a renewal of political confidence, though the currency movements are a double-edged sword for the industry's exports.

In Rand terms, each major commodity exhibits unique trends, which in general can be explained by the differential recovery in markets for South Africa commodities:

- 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%, but 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.

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- **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 South African coal.
- **Iron ore** prices increased by over 12% between 2016 and 2017. The high quality iron ore puts South Africa in the 'higher tier' price range due to the 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.

RESPONSE TO UNCTAD'S "MISINVOICING" REPORT

In February the Chamber published a second report from independent economic consultancy group, Eunomix, which we had commissioned. We believe that the two reports strongly refute any suggestion that misinvoicing and other illicit financial flows are at all substantial or systemic where SA's mining industry is concerned.

The industry would support any strengthening of SARS or other financial authority's capacity to monitor and enforce the comprehensive systems designed to prevent illicit financial flows. And we hope that where these have occurred, particularly on a criminal basis, that the perpetrators are appropriately punished and/or required in other ways to remedy their misdoings.

COMMODITY STRATEGIES

As part of intensifying the industry's leadership approach, the Chamber is overseeing, in consultation with relevant member companies, the development of strategies in respect of a number of key commodities.

The first to be completed regards coal which, notwithstanding environmental concerns, remains a key part of South Africa's energy mix and that of numerous other major economies. A national strategy for the platinum industry has also been developed, and is to be the next focus of our attention in this respect.

MINING COMMUNITIES

Another new area of Chamber endeavour is our work in mining communities. While our members have widespread programmes in place for community engagement, conflict between mines and their communities is a concern. The Chamber has implemented

on-the-ground pilot engagements and programmes at Emalahleni and in the Northern Cape, where we hope that the work we do will be helpful in itself and that the lessons we learn will be valuable to the industry as a whole.

NEW NAME, NEW BRAND

In 2017, following extensive research and introspection, the Chamber's Council agreed that the organisation should rethink its identity and its name, to be more reflective of what it is and what it wants to be. So, it is with great pleasure that we will announce at the 2018 Annual General Meeting that this 128-year-old entity will be renamed the Minerals Council South Africa. And as the Minerals Council, in its more modernised state, will reflect the promise of a prosperous, safe, transformed and progressive organisation for the future, and hence we have unveiled a new logo to reflect that.

In looking forward, we are not refuting our industry's difficult past. We acknowledge that while the mining industry has contributed significantly to the development of South Africa, our impact on the country and its people has not always been positive, and we are committed to addressing the negative impacts of our legacy. And to building a new legacy of which all South Africans can be proud. We believe that significant progress has been made in addressing legacy issues (such as OLD and pension payments) and transforming the industry.

THANKS

It falls to me to sincerely thank Chamber President, Mxolisi Mgojo, for the wise leadership he has displayed during this most eventful of years when delicate and tough decisions have had to be made with ongoing regularity. He has been ably supported by his Vice Presidents, Andile Sangqu, Neal Froneman and Steve Phiri. As always, my thanks go, too, to the Chamber Council, to our executive team and the Chamber's entire staff for all the progress and hard work we have seen in the period under review.

The year ahead will bring forth, I am sure, different kinds of challenges and hopefully fewer crises. Nonetheless, the period will require continuing hard work, dedication and enlightened decision making. I am confident that the new Minerals Council will progress further in its task of representing and assisting its members as we look forward to a new dawn for South Africa's mining industry and for the country itself.



ROGER BAXTER
Chief Executive Officer

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