TRANSFORMATION IN THE MINING INDUSTRY
– a practical approach -

15th – 16th May 2012
Rosebank, Johannesburg

By: Andrew Masongwa
CEO – Simang Group
Presentation structure

• TRANSFORMATION – WHAT IS IT?

• TRANSFORMATION BUY-IN

• LEGISLATIVE ENVIRONMENT – Mining Industry

• A PRACTICAL APPROACH TO TRANSFORMATION – CASE STUDY:
  – ANDALUSITE RESOURCES
  – LEVEL OF TRANSFORMATION COMPLIANCE
  – TRANSFORMATION APPROACH TAKEN
  – HIGH LEVEL ACTIVITY PLAN (FY:09/10)
  – CRITICAL SUCCESS FACTORS

• CONCLUSION
What is transformation?

**English Dictionary...**

A marked *change* in appearance or character especially one for the better.

**Mathematics...**

The *replacement* of the *variables* in an *algebraic expression* by their *values* in terms of another set of variables.

**Linguistics...**

... A *rule* that *systematically converts* one *syntactic form* into another; a *sentence* derived by such a rule.

**Genetics...**

The *alteration* of a *bacterial cell* caused by the *transfer* of *DNA* from another, especially if *pathogenic*.

In our context, Transformation is defined as redressing of the past or present unfair discrimination suffered by Historically Disadvantaged Individuals in SA.
The need for Transformation in the South African Mining Industry was met with varied responses by individual stakeholders.

WHAT VIEW SHOULD BE HELD BY MANAGEMENT ON TRANSFORMATION?

- BUSINESS IMPERATIVE
- NICE TO HAVE
- WASTE OF TIME

- INDIFFERENCE
- DISAPPOINTMENT
- TENSION
- EXCITEMENT
- RESISTANCE
- OPPORTUNITIES
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• CONCLUSION
Why should SA enforce Transformation through legislative means instead of allowing enterprises to make their own choices in a free state?

**1910**

**ANGLO-BOER REGIME**

- **Mine Works Act, 12 of 1911:** Prohibited Blacks accessing mining opportunities in the country
- **Colour Bar Act, 12 of 1926:** Legislated Blacks out of active participation in the economy
- **Job Reservation Act, 16 of 1911:** Reserved employment for white Afrikaners
- **Apprenticeship Act, 9 of 1953:** Reserved technical training for white Afrikaners
- **Bantu Education Act, 47 of 1953:** Prevented Blacks from obtaining decent education

**1994**

**ANGLO-BOER-BLACK REGIME**

- **MPRDA, 28 of 2002:** Opens mining opportunities to all with focus on Blacks
- **BBBEE Act, 53 of 2003:** Legislated wider Black participants back in economy
- **EE Act 58 of 1998:** Eliminate unfair discrimination in workplaces, promote AA
- **Skills Dev Act, 97 of 1998:** Made skills development compulsory for all employees

**IMPACT ACHIEVED**

**ENGLISH:**
1. Supremacy
2. Opportunities

**BOERS / AFRIKANERS:**
1. Limited affordability
2. Limited opportunity

**BLACKS:**
1. Some relief
2. Limited opportunity

**IMPACT INTENDED**

**EQUAL ACCESS & OPPORTUNITY FOR ALL**

**ENGLISH/AFRIKANERS:**
1. Supremacy
2. Advantage

**BLACKS:**
1. Poverty
2. No opportunity

English continuous annexure and Invasion of Boer and African settlements
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- CONCLUSION
The legislative framework regulating the South African Mining Industry has been reviewed and enhanced over the years.
The scorecard for the Broad Based Socio Economic Empowerment Charter outlines nine defined compliance elements:

1. **REPORTS SUBMISSION**
   - Compulsory

2. **HDSA OWNERSHIP**
   - Compulsory

3. **HOUSING & LIVING CONDITIONS**
   - Compulsory

4. **PROCUREMENT & ENTERPRISE DEV**
   - 15 points

5. **EMPLOYMENT EQUITY**
   - 17 points

6. **HUMAN RESOURCE DEVELOPMENT**
   - 25 points

7. **MINE COMMUNITY DEVELOPMENT**
   - 15 points

8. **SUSTAINABLE DEVELOPMENT**
   - 19 Points

9. **BENEFICIATION**
   - N/A in 2011

Detailed targets span over a five year period with multiple measures in each element.
… with specific targets to be achieved in the medium term until 2014

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>DESCRIPTION</th>
<th>MEASURE</th>
<th>COMPLIANCE TARGET BY 2014</th>
<th>PROGRESS ACHIEVED BY</th>
<th>Weighting</th>
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<tbody>
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<tr>
<td>1 Reporting</td>
<td>Has the company reported the level of compliance with the Charter for the Calendar year</td>
<td>Documentary proof of receipt from the department</td>
<td>Annually</td>
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<td>Y/N</td>
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<tr>
<td>2 Ownership</td>
<td>Minimum target for effective HDSA ownership</td>
<td>Meaningful economic participation</td>
<td>26%</td>
<td>15%</td>
<td>26%</td>
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<td>Full shareholder rights</td>
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<td>Y/N</td>
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<td>Conversion and upgrading of hostels to attain the occupancy rate of one person per room.</td>
<td>Percentage reduction of occupancy rate towards 2014 target.</td>
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<td>Y/N</td>
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<td>Conversion and upgrading of hostels into family units</td>
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<td></td>
<td>Procurement spent from BEE entity</td>
<td>Capital goods</td>
<td>40%</td>
<td>5%</td>
<td>10%</td>
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<td></td>
<td>Services</td>
<td>70%</td>
<td>30%</td>
<td>40%</td>
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<tr>
<td></td>
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<td>Consumable goods</td>
<td>50%</td>
<td>10%</td>
<td>15%</td>
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<td></td>
<td>Procurement &amp; Enterprise Development</td>
<td>Multinational suppliers contribution to the social fund</td>
<td>Annual spend on procurement from multinational suppliers</td>
<td>0.5% of procurement value</td>
<td>0.50%</td>
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<tr>
<td></td>
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<td>Diversification of the workplace to reflect the country's demographics to attain competitiveness.</td>
<td>Top Management (Board)</td>
<td>40%</td>
<td>20%</td>
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<td></td>
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<td>Senior Management (Exco)</td>
<td>40%</td>
<td>20%</td>
<td>25%</td>
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<tr>
<td></td>
<td></td>
<td>Middle Management</td>
<td>40%</td>
<td>30%</td>
<td>35%</td>
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<tr>
<td></td>
<td></td>
<td>Junior Management</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
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<td></td>
<td></td>
<td>Core Skills</td>
<td>40%</td>
<td>15%</td>
<td>20%</td>
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<tr>
<td></td>
<td>Human Resource Development</td>
<td>Development of requisite skills, incl. support for South African based research and development initiatives intended to develop solutions in exploration, mining, processing, technology efficiency (energy and water use in mining), beneficiation as well as environmental conservation and rehabilitation</td>
<td>HRD expenditure as percentage of total annual payroll (excl. mandatory skills development levy)</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
</table>
... with specific targets to be achieved in the medium term until 2014.

SCORECARD FOR THE BROAD-BASED SOCIO-ECONOMIC EMPOWERMENT CHARTER FOR THE SOUTH AFRICAN MINING INDUSTRY

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>DESCRIPTION</th>
<th>MEASURE</th>
<th>COMPLIANCE TARGET BY 2014</th>
<th>PROGRESS ACHIEVED BY</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>7 Mine community development</td>
<td>Conduct ethnographic community consultative and collaborative processes to delineate community needs analysis</td>
<td>Implement approved community projects</td>
<td>Up-to-date project implementation</td>
<td>Implementation of projects will serve to enhance relationships amongst stakeholders leading to communities owing patronage to projects.</td>
<td>15%</td>
</tr>
<tr>
<td>8 Sustainable development &amp; growth</td>
<td>Improvement of the industry's environmental management</td>
<td>Implementation of approved EMPs.</td>
<td>100%</td>
<td>Annual progress achieved against approved EMPs.</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Improvement of the industry's mine health and safety performance</td>
<td>Implementation of the tripartite action plan on health and safety</td>
<td>100%</td>
<td>Annual progress achieved against commitments in the tripartite action plan on health and safety.</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Utilisation of South African based research facilities for analysis of samples across the mining value chain</td>
<td>Percentage of samples in South African facilities</td>
<td>100%</td>
<td>Establish baseline</td>
<td>25%</td>
</tr>
<tr>
<td>9 Beneficiation</td>
<td>Contribution of a mining company towards beneficiation (this measure is effective from 2012)</td>
<td>Additional production volume contributory to local value addition beyond the base-line</td>
<td>Section 26 of the MPRDA (percentage above baseline)</td>
<td>The beneficiation strategy and its modalities of implementation outline the beneficiation requirements per commodity extracted in South Africa.</td>
<td></td>
</tr>
</tbody>
</table>

TOTAL SCORE 100%
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• CONCLUSION
CASE STUDY: ANDALUSITE RESOURCES (PTY) LTD

Andalusite Resources, a co-owned subsidiary of Simang, is the world’s second largest producer in its market with success stories all round...
... Company performance all round

- ALL other KPIs
Andalusite’s performance against the Broad Based Socio Economic Empowerment Charter for the Mining Industry is 5% short of Excellent.

<table>
<thead>
<tr>
<th>Category</th>
<th>Compliancy Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPORTS SUBMISSION</td>
<td>Compulsory</td>
<td></td>
</tr>
<tr>
<td>PROCUREMENT &amp; ENTERPRISE DEV</td>
<td>15/15</td>
<td>100%</td>
</tr>
<tr>
<td>MINE COMMUNITY DEVELOPMENT</td>
<td>15/15</td>
<td>100%</td>
</tr>
<tr>
<td>HDSA OWNERSHIP</td>
<td>Compulsory</td>
<td></td>
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<tr>
<td>EMPLOYMENT EQUITY</td>
<td>14/17</td>
<td>92.86%</td>
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<tr>
<td>SUSTAINABLE DEVELOPMENT</td>
<td>19/19</td>
<td>94.74%</td>
</tr>
<tr>
<td>HOUSING &amp; LIVING CONDITIONS</td>
<td>Compulsory</td>
<td></td>
</tr>
<tr>
<td>HUMAN RESOURCE DEVELOPMENT</td>
<td>6/25</td>
<td>23.81%</td>
</tr>
<tr>
<td>BENEFICIATION</td>
<td>N/A in 2011</td>
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</tbody>
</table>

Legend:
- FULLY COMPLIANT
- SEMI COMPLIANT
- NON COMPLIANT
- NOT APPLICABLE

Andalusite Resources will have to focus on HRD in 2012 over and above having to put action plans in place to comply with increased targets for 2012.
AR achieved the reported good performance consistently since 2009 by following a simple pragmatic approach…
STEP 1: ✓
Establish how Transformation is viewed by Management and Leadership

Management and Leadership of Andalusite Resources recognised the following:

- GIVES COMPETITIVE ADVANTAGE
- KEY TO THE VERY EXISTENCE OF MINE
- KEY TO THE GROWTH OF THE MINE AND FUTURE SUSTAINABILITY
- SAW AN OPPORTUNITY FOR NEW WAYS OF WORKING
- AN OPPORTUNITY TO MANAGE CHANGE IN A CONTROLLED ENVIRONMENT

Recognising Transformation as a Business Imperative, is a critical milestone in laying the foundation for a successful and sustainable Transformation process.
STEP 2: ✓ Consult, Consult and Consult again...

The customised process followed in developing the AR TRANSFORMATION PLAN

- **CONDUCTING AN ANALYSIS**
  - STRUCTURE ANALYSIS
    - HDSA Roles & Responsibilities
    - Job content
  - WORKFORCE PROFILING
    - General, Core and Support
  - SALARY DIFFERENTIALS
  - POLICIES, PROCEDURES & HR PRACTICES
  - ... more

- **CONSULTING WITH EMPLOYEES**
  - DISCUSSIONS
    - EECB
    - Workers forum
    - Heads of Departments

- **DEVELOPING A 5 YEAR PLAN**
  - 5 YEAR OBJECTIVES
  - ANNUAL OBJECTIVES
  - ACTIVITIES FOR EACH SCORECARD ELEMENT
  - CRITICAL SUCCESS FACTORS

- **CONSULTING WITH EMPLOYEES**
  - DISCUSSIONS
    - EECB
    - Workers forum
    - Heads of Departments

- **CEO SIGN-OFF & PLAN SUBMISSION**
  - PRESENT TO BOARD
  - CEO Sign off
  - Submit to Department of Mineral Resources

Transparency and consultation with the workforce lies at the core of a compliant process for the development a medium term Transformation Plan.
A robust Change Management Plan needs to form part of the resultant Transformation Plan and Strategy.
STEP 4: ✅
The entire process was managed as a fully fledged project with a Gantt Chart, Critical path and a project team to drive the activities…

<table>
<thead>
<tr>
<th>Task Name</th>
<th>'09 Aug</th>
<th>'09 Sept</th>
<th>'09 Oct</th>
<th>'09 Nov</th>
<th>'09 Dec</th>
<th>'10 Jan</th>
<th>'10 Feb</th>
<th>'10 Mar</th>
<th>'10 Apr</th>
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<tbody>
<tr>
<td>1. INSTITUTIONAL ARRANGEMENTS</td>
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<td>2. Transformation Board Committee</td>
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<td>3. Management Forum</td>
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<td>4. Consultative Body</td>
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<td>5. TRANSFORMATION AUDIT</td>
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<td>6. Preparations</td>
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<td>7. Audit: Policies/Practices/8 Pillars…</td>
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<td>8. SWOT analysis</td>
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<td>9. Reporting: TBC/Mngmt/CB</td>
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<td>10. STRATEGIC PLANNING</td>
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<td>11. Transf. strategy formulation</td>
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<td>12. Strategic direction/Policies</td>
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<td>13. AR targets (8 Pillars)</td>
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<td>14. Risk &amp; Mitigation</td>
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<td>15. Implementation planning</td>
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<td>16. Key activities/timeframes</td>
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<td>17. Budgeting</td>
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<td>18. Balance 09/10 &amp; FY:10/11</td>
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<td>19. Board Committee Sign off</td>
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<td>20. IMPLEMENTATION &amp; ROLLOUT</td>
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<td>21. Implementation</td>
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<td>22. Monitoring</td>
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<td>23. Continuous reporting</td>
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<td>24. Internal: TBC/CB/Mngmt</td>
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<td>25. External: DoL/DM</td>
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<td>26. Review &amp; improvement</td>
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</table>
… with implementation supported by strict adherence to a number of Critical Success Factors which were never compromised at any stage!

Above all, TRANSFORMATION is a process without a definitive end!
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- **CONCLUSION**
Elevating Transformation to a Business Imperative, ensures its sustainability and achievement in the future!