Contextualising Illegal Mining

Nash Lutchman

Media presentation
28 June 2017
Forward-looking statement and disclaimer

Forward-looking statements

This presentation includes “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as “target”, “will”, “forecast”, “expect”, “potential”, “intend”, “estimate”, “anticipate”, “can” and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. In this presentation, for example, statements related to potential transaction benefits (including financial re-ratings), pricing expectations, levels of output, supply and demand, information related to the Blitz Project, and estimations or expectations of enterprise value, EBITDA and net asset values, are forward-looking statements. The forward-looking statements set out in this presentation involve a number of known and unknown risks, uncertainties and other factors, many of which are difficult to predict and generally beyond the control of Sibanye, that could cause Sibanye’s actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, without limitation: Sibanye’s ability to successfully integrate the acquired assets with its existing operations; Sibanye’s ability to achieve anticipated efficiencies and other cost savings in connection with the transaction; Sibanye’s ability to implement its strategy and any changes thereto; Sibanye’s future financial position, plans, strategies, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans; changes in the market price of gold, platinum group metals (“PGMs”) and/or uranium. These forward-looking statements speak only as of the date of this presentation.

Sibanye undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events.

Disclaimer

The views and insights expressed in, and during this presentation, are neither influenced, shaped nor endorsed by Sibanye. The views and insights expressed in, and during, this presentation are solely those of the presenter, shaped and influenced by his experience with, and interaction on, illegal mining and criminal activities over the past 30 years.
Scope of the presentation

1. Illegal mining in context
2. Access and Measures to Secure Mines
3. Economic, Social and Environmental Impacts
4. Criminal syndicates
5. Will legalising illegal mining work?
6. Way forward and conclusion
Illegal Mining In Context
Illegal Mining in Context

• Illegal mining is loosely described as “conducting mining activities without mining rights”.

• There is a growing misperception that illegal mining is a practicable financial solution for thousands of impoverished South Africans.

• Under this misperception, illegal mining is assumed to be harmless activities, taking place on ownerless, abandoned or derelict mines.

• It is considered to be victimless, and without negative consequences.

• In some circles it is being punted as a stimulus to entrepreneurship and economic growth.
Illegal Mining in Context

- Illegal mining is loosely described as harmlessly “conducting mining activities without mining rights”.

- Illegal Mining is more than this:-
  - Other crimes are committed before/during/after “mining activities are conducted without mining rights”.
    - Trespass
    - House-breaking
    - Bribery and Corruption
    - Theft of property
    - Being in possession of property suspected to be stolen
    - Firearm related offences
    - Assault
    - Rapes
    - Murder
    - Drug related offences
    - Prostitution
    - Human Trafficking
    - Immigration related offences
    - Armed Robberies and Carjacking
    - Environmental related offences
    » Syndicate related crime
Harmless Activity by Impoverished People
Victimless – No Consequences

Blyvooruitzicht Mine Compressor House

15 July 2014

22 July 2014

24 July 2014

28 July 2014
Illegal Mining in Context

- Illegal mining is a “practicable financial solution to unemployed impoverished South Africans”.

- Illegal Mining is more than this:-
  - Syndicate organised, driven and executed
  - Health and Safety Issues
    - Fall of ground
    - Physicality
    - Explosives
    - Specialised Equipment
    - Conveyance
    - Chemical Exposure
    - Dust Exposure
    - Exposure to Harsh Temperatures
    - Moving Machinery/Equipment
    - Fires
  - Compliance Issues
    - Capital
    - Regulatory Compliance
    - Environmental Compliance
    - Health and Safety Compliance
    - Legal Compliance
Illegal Mining in Context

• Illegal mining is a “harmless activity taking place on ownerless, abandoned and derelict mines”.

• Illegal Mining is more than this:-
  • Occurs on surface and underground
  • Occurs on closed and operating mines
  • Primarily Foreign Nationals, and ex miners
  • Currently employed miners also involved
  • Sponsored by well organised syndicates with “long reach”
  • Prospers due to socio-economic conditions, political paralysis, embattled criminal justice system
  • Illegal Mining is not victimless, and has serious consequences
  • Without reform, governance, a strict set of rules, monitoring and control, this activity will neither create entrepreneurs nor stimulate economic growth
Sponsored By Well Organised Syndicates
Well Organised - Collusion
Employee Collusion
Access, and Measures to Secure Mines
Illegal Access to Underground Workings

• Derelict, abandoned and closed mines have poor or no security controls
• Blasting / eroding concrete stops or plugs on sealed shafts
• Hole-ing
• Adits
• Operating mines
  – Poor security strategies/investment
  – Employees collusion
  – Breach of security controls
  – Shut down periods
  – Labour instability
• Employing of individuals/contractors with high risk profiles
• Via contractor companies

Source: Chamber of mines
Measures to Secure Operating Mines

• Access control systems
• Intelligent lamp room controls
• Air locks
• Close circuit television systems with thermal capability
• Unmanned aerial vehicles
• Intensified stop and search procedures
• Highly trained Search and Rescue Teams
• Reward systems
• Other measures – “Food Bans”; “Saturation Patrols”; “Armed Guarding”
Improvised Explosive Devices
Well Organised
Confiscated Arms
Security Measures
Bypassing Controls
Sleeping Place Underground
Bypassing Controls
Bypassing Controls
Illegal Mining Tools and Processing
<table>
<thead>
<tr>
<th>Artisanal/small scale mining (ASM)</th>
<th>Illegal mining</th>
</tr>
</thead>
<tbody>
<tr>
<td>According to the ICMM, artisanal and small scale mining (ASM) includes a range of operations from “small, informal subsistence activities through to organised formal small commercial mining activities”</td>
<td>In SA, mining and related activities are regulated by numerous statutes. MPRDA, Sect 3 MPRDA provides for state custodianship of mineral resources for the benefit of all South Africans.</td>
</tr>
<tr>
<td>ASM is “broadly understood to refer to mining activities that are labour-intensive and capital-, mechanisation- and technology-poor”</td>
<td>The state (through the DMR) may grant authorisations contemplated in MPRDA, including prospecting and mining rights, mining permits, and environmental authorisations.</td>
</tr>
<tr>
<td>ASM incorporates both formal and informal activities, where informal activities include those operating outside the legal framework of the host country (that is, illegal mining)</td>
<td>Legislation also prohibits the holding/trading without a permit of certain metals in an unwrought state.</td>
</tr>
</tbody>
</table>

Source: Chamber of Mines
Economic, Social and Environmental Impacts
Economic Impacts of Illegal Mining / Illicit Gold Trade

• Costs industry and annually an est. R20bn/year in lost sales, taxes and royalties
• Theft of copper, electricity cables, dragline cables, diesel, and materials prejudice economic viability of companies and pose risks to mine infrastructure
• Significant increase in security costs
• Work stoppages and production losses as a result
• Underground fires and explosions
• Cost related to repairs and maintenance
• Cost to State and mining companies to commission Mines Rescue Services for rescues
• Unquantified environmental and social costs

Source: Chamber of Mines
Social Impacts of Illegal Mining

- Influx of undocumented immigrants - 90% of arrested illegal miners are undocumented immigrants
- Significant safety and health risks to miners at legal operations, illegal miners and communities (increase in crime related activity)
- Increase in crime - explosives, diesel, copper cables and other equipment from mines
- Destroys the social fabric of mining communities – fear, coercion, human rights abuses, prostitution, substance abuse
- Number of mining accidents/incidents and near - misses in recent years related to illegal mining
- Risk of interruption of electricity supply (theft of copper cable) to underground workings
- Threats to employees, booby traps, tampering with mine equipment

Source: Chamber of Mines
Mining Communities and Illegal Mining

- Part of the community, or bully themselves into the community
- Sheltered, protected, equipped, “educated”, transported
- Illegal Miners (and syndicate leaders) are seen as benefactors
- Illegal miners are often cash flush – this attracts help and services
- Focus on short term gains, not sustainability
- Drug Abuse
- Teenage/Learner Pregnancies
- Poor service delivery conflated with Business SLP’s
Environmental Impacts of Illegal Mining

- Sabotaged pipelines contaminate the environment
- Illegal water usage and wastage
- Sinkholes created due to water pipeline ‘spiking’
- Mercury contamination of environment
- Excavation and reopening of sealed and rehabilitated shafts, with associated hazards

Source: Chamber of Mines
Criminal Syndicates
Criminal syndicates

• Precious metals and stones (gold and diamond)
• Deeply embedded, unfettered funding, well structured and resourced, far reaching tentacles
• Operate internationally
• Operate with impunity
• Involved in other organised crimes
• Pay the way – demand payback – expose illegal miner
• King Pins are often untouchable
• Illicit Trade flourishes, and flows unhindered
• Huge losses to the Country’s fiscus
Value Chain in Illicit Gold Trade

Tier 5: Top international receivers

Tier 4: National and international distributors

Tier 3: Regional bulk buyers

Tier 2: Buyers on surface, around the mine

Tier 1: Illegal miners

Source: Chamber of mines
Considerations for Legalising Illegal Mining
Considerations for Legalising Illegal Mining

• Legislation
• Safety (accidents, injuries, fatal accidents)
• Occupational Health
• Personal Protective Equipment – hard hats, face masks, glasses, overalls
• Medical Support
• Security
• Engineering and Maintenance
  – maintenance of infrastructure – who ensures adequate maintenance
  – operating conditions - ventilation, underground support, PPE, pumping – who covers those costs?
• Organised Labour
• Environmental Compliance
• Pricing – ensuring fair pricing? Will a formal model be established?
• Illicit Trade and Organised Syndicates – Responsible Gold?
Way forward and conclusion
Way forward

• It is unlikely that operating mines would partner with “illegal miners” involving deep level mining plans

• Right-sized employee teams would also hamper operating mines from partnering with “illegal miner” cooperatives in terms of existing surface and underground production plans, and production profiles

• It is likely that operating mines could partner with “illegal miner” cooperatives only within a well defined set of rules

• A well articulated legal framework would need to be in place

• Governance, control and “policing” capacity would need to be resourced

• Criminal syndicates cannot be part of the solution

• Consideration and clarity would be required in terms of the MHSA, rehabilitation liabilities, worker rights, taxes and royalties, SLP’s and Mining Charter requirements, etc.

• Operating mines will support related initiatives within a clear set of rules

• Consideration must be given to regulatory concessions

• Health and Safety, as well as Law and Order, cannot be casualties of such a programme
Questions?