

**ADDRESS BY DESHNEE NAIDOO, CEO OF VEDANTA ZINC INTERNATIONAL,
TO THE PORTFOLIO COMMITTEE ON SMALL BUSINESS DEVELOPMENT,
ON 23 AUGUST 2017, CAPE TOWN**

Honourable Bhengu and members of the Portfolio Committee, thank you for the opportunity to present to you. I intend addressing all of the questions that you posed to us, as well as giving you some insight into the way in which we, at Vedanta Zinc International provide opportunities for small businesses. May I also apologise for not being able to attend the first meeting date that you set as I was out of the country at that time.

Introductions

Before I begin, I would like to introduce to you some of the team members from Black Mountain Mining that I have with me today: These are:

Andre Trystman, General Manager, and a member of the VZI executive.

Christo Witbooi, head of Corporate Affairs and Stakeholder Relations

Louise van den Heever, Human Resources Manager at Gamsberg

Sanjay Jain, Commercial Head.

Background

By way of background, I want to share with you the origins of Vedanta. Our executive chairman, Anil Agarwal, knows very well what it is like to be a small business and small business owner. One of the key values that he has instilled throughout Vedanta is entrepreneurship, within our group and beyond. For example, we call contractors business partners, to reflect our mutual interests.

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skorpion zinc



black mountain



the lisheen mine

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Our chairman was born and raised in the small town of Patna in India. At the age of 15 he joined his father's small business making aluminium conductors, before he left for the big city of Mumbai at the age of 19. The global entity that is Vedanta, was once a small business that collected scrap from cable companies.

Vedanta in Africa

Vedanta has had a presence in Africa since 2004, and is one of the few global entities investing large sums of money into the region – more than 4 billion US dollars to date.

Vedanta acquired Black Mountain Mining in the Northern Cape, from Anglo American in 2010, together with Skorpion Zinc in Namibia and the Lisheen Mine in Ireland. These were mines that Anglo American considered were reaching the end of their lives, and which would need active and extensive investment to be sustained.

The Lisheen Mine was indeed in closure mode. However, through investment and ingenuity, the Black Mountain and Skorpion mines have since been given a new lease on life. And it is Vedanta that is unlocking the Gamsberg orebody, which has been known for many decades, but no-one had yet managed to unlock its value.

Following the completion of the Gamsberg feasibility study in late 2014, the first phase of the 400 million US dollar development of the project was approved. From ground-breaking in mid-2015, the project is now well on its way to production, which is expected to start in mid-2018. For interest, the bulk of this investment money is being spent in South Africa, with South African suppliers.

Black Mountain and Gamsberg

Operations at Black Mountain, located around and near Aggeneys, comprise two underground shafts, a processing plant, and the Gamsberg open-pit mine and processing plant.

We have a vision of developing the Black Mountain natural resources complex, into a world-class development bringing prosperity to the region and its people for many decades to come.

Black Mountain is one of the largest private sector employers in the Northern Cape, currently employing 1,500 people. Around 75% of BMM's employees are from the Northern Cape, including 60% from the Namaqua district, from the Khai-Ma and Nama Khoi municipal areas.

Gamsberg has thus far created more than 1,100 jobs during construction, which is expected to rise to 1,500 jobs during peak construction. In operation, Gamsberg will create 850 to 900 permanent jobs.

Of the current construction employees, 712 people (or 64%) are from the Northern Cape and 324 (or 29%) are from the local Khai-Ma community. We work closely with the department of labour to promote local employment, and have a central recruitment centre within the Khai-Ma Local Municipality.

We take very seriously our commitments to our values, and the needs of the communities in which we invest.

Approach to empowerment and SMMEs

Our approach to the empowerment of historically disadvantaged South African communities is an holistic one – from internal business operations to working with BEE-compliant and local partners externally, and ensuring a partnership-driven model for societal development. We have a very intense focus on the advancement of women, both within the business and among our suppliers.

At Black Mountain, we have adopted a three-pronged strategy to promote SMMEs and co-operatives at multiple levels.

- First, we build capacity among, and provide support to local SMMEs registered on our programme. Interventions include business training, mentoring and coaching, specialist support and training; assistance in obtaining financing; and marketing and market expansion support.
- Second, we procure from BEE and local vendors. Our procurement policy framework is conducive to local procurement; we have set up systems to identify and capture opportunities for local procurement; and we facilitate and support linkages of SMMEs to opportunities.
- Third, we monitor the vendor's and our own performance on compliance with socio-economic initiatives. We provide operational support to SMMEs enlisted as local suppliers to Black Mountain to ensure effective servicing of contracts and responsibilities.

While we cannot say that we have the perfect programme in place, we are proud of what we have been able to achieve.

To date, we have registered 72 SMMEs, with 69 having been assessed as eligible for the BMM Local Supplier Development Programme. Together, these SMMEs have experience across 91 goods and services, and have successfully registered as companies with CIPRO. Through this programme, we have awarded five large sub-contracts to a value of R528,400, creating 41 jobs.

Towards the end of 2016, we recognised that we needed to simultaneously accelerate work on the Gamsberg Project, while at the same time increasing our positive impact on the local community. We engaged the services of a consultant to advise and support us in this process and – through this engagement during March and April 2017 - identified several fast tracking opportunities for out-sourcing to local suppliers. These included the provision of services such as laundry, canteen facilities, staff transport, air-conditioning maintenance, belt spillage and cleaning, as well as building maintenance. Of the 32 opportunities, nine have already been placed into the tendering process, with more to follow.

Compliance with the MPRDA and Mining Charter

Vedanta continuously seeks to maximise constructive and mutually beneficial engagement with HDSA-owned firms. We comply with the MPRDA and the Mining Charter, which has very specific requirements in respect of procurement. And, we report on this annually to the DMR.

Our expenditure with BEE companies in 2016 was R946 million. This equates to 84.2% of our discretionary expenditure of R1,123 million during this period. BEE expenditure between January and June 2017 is R746 million, representing 85% discretionary expenditure of R878 million.

Engaging with SMMEs

We continue to seek out and include HDSA-owned firms in our tender processes, and also carefully consider such firms in adjudication processes. We have often awarded important and

strategically significant contracts to HDSA firms, although specific experience may have been lacking on the part of such firms. This has been possible through specific risk mitigation approaches.

The criteria we adopt when assessing SMMEs is based on range of technical and commercial factors. Specifically, when assessing contractual engagements with SMMEs we realise that there may be gaps, and we try to be as supportive as possible as a result. For example, where our standard payment term is 30 days, we often approve 15-day payment terms for SMMEs. We may agree to amend payment milestones during the contract, and have provided additional assistance for transportation of locally-based vendors.

Through our interventions 12 new local businesses were created in 2015, with a commercial value of R7.1 million. These businesses continued to grow in 2016, with an increase in commercial opportunities of R23.75 million.

Our approach to housing and the housing project

Housing and accommodation for our employees and business partners is very important to us at VZI, and we play a facilitating role in the process of land, service and housing acquisition and provision. We want to create options that will allow employees to implement sensible and affordable choices.

The two service providers 3C Projects and ChadCon were appointed on the project to develop housing units for Gamsberg project employees - 3C Projects in May 2015, and ChadCon in October 2016.

Our vision was to start the housing programme with a few units and gradually expand the scope of the programme as the business case for Gamsberg project was refined, and the necessary regulatory approvals were obtained.

I am going to now hand over to Andre to take you through our interactions with Chad Construction and 3C Projects, as well as some of the more successful SMME engagements we have achieved, and the lessons we have learned.

Details on the 3C and ChadCon processes

3C was one of several bidders considered for the tender of 100 houses. The company was appointed to construct three show-houses on the basis that the balance was to be awarded based on performance; 3C completed the work albeit one month late. Complete payment was made, without any late delivery deduction, although this was specified in the original agreement.

Work done by 3C was sub-standard, requiring constant follow-up from BMM to rectify the quality of work performed. But, what was most concerning to Black Mountain, was that the facilities provided by 3C for its own employees were below acceptable standard. 3C sought to house eight persons in a single room, for example. This, along with unacceptable safety breaches and human resources practices led to ongoing engagement between Vedanta and 3C.

Despite the challenges with the project execution, 3C was awarded a contract for a further three houses, which was later increased to five houses. 3C declined this contract.

All our engagements with 3C were conducted through written correspondence; 3C's final payment was made in May 2016. No concerns or issues were raised during or at this time.

A further point to note is that despite the fact that Black Mountain's payments were always up-to-date, there were issues with outstanding payments from 3C to Northern Cape-based suppliers and contractors, which required our intervention.

The first subsequent correspondence from 3C projects was an email to VZI CEO in June 2017, in response to which we have invited 3C to sit around the table with us and discuss the matters so as to resolve them.

ChadCon was awarded a much larger contract, valued at R74.5 million, for the construction of 93 houses, in four phases.

Despite the fact that ChadCon was unable to submit a standard contract performance guarantee, Black Mountain waived this requirement, and instead agreed to retain a fixed percentage of the invoice value from each invoice until the sum required for the performance guarantee was retained.

Unfortunately, progress by ChadCon kept slipping and, despite repeated commitments, the company failed to deliver on time. In further efforts to support them, Black Mountain relaxed the delivery timeline on a number of occasions. When ChadCon faced cash constraints, Black Mountain fast-tracked payment on submission of invoices.

Notwithstanding this, ChadCon continued to face multiple execution challenges, including late payments to suppliers, sub-standard accommodation for employees, employing expatriate employees without work permits, as well as non-adherence to health and safety guidelines (including incidents of not reporting serious safety incidents).

In the end, ChadCon did not complete even a single house. Black Mountain had no option but to place it in breach of contract, and reduced the project scope to 20 houses. A final notice of termination was issued, under which the contract terminated in mid-July.

As part of further discussions with ChadCon, and in an effort to achieve an amicable settlement, Black Mountain has been open to enabling ChadCon to complete the 20 houses, provided the company meets its obligations. Black Mountain has offered additional assistance both through the revision of payment milestones, and additional financial support.

Celebrating successes

Our discussions would be incomplete without highlighting some of the significant successes we have achieved in developing and contracting with SMMEs, particularly at Gamsberg. It is rare in the current mining climate that a company is able to make such a significant investment, and where broader social commitments are deemed as important as project delivery timelines. I would like to mention just three examples:

The first is the appointment of **Gulfstream Energy** for fuel supply.

All the major fuel service providers tendered for this work. In the normal course of business, one of these suppliers would have been the preferred choice for an open-pit mining operation, offering the most risk-minimising option. The committee would be aware that fuel is what keeps an open-pit operation running 24/7. No fuel, means no mining, so this is a critical input for us, both from a cost and delivery perspective.

After deliberation, we awarded this contract to Gulfstream Energy, which is a woman-majority owned HDSA fuel distributor that was started in 2009. Currently servicing only 1% of the South

African energy-distribution market, Gulfstream Energy is experiencing excellent growth, and we at Vedanta are proud to support it.

Gulfstream Energy's responsibility extends beyond the supply of fuel, to include the setup on site, and the management of all related infrastructure. After the first year of operation, and on the strength of the service performance, we extended the contract with Gulfstream for a further four years, increasing the scope to include current operations at Black Mountain. The contract value is approximately R950 million over the five-year period.

Another example of a successful business venture that VZI is proud to be associated with is **Namakwaland Konstruksies or Namkon**. This is a 100% black-owned, and 33% women-owned company.

While the engagement of Namkon in February 2016 was for specific, smaller contracts, over a period of time, and through a supportive working relationship, we have been able to award further contracts to the company. This has included a contract for the completion of 16 houses, as well as civil reticulation services to all 127 plots for the new Gamsberg housing development.

To provide support in ensuring the quality of work and minimisation of rework, we have engaged the services of a leading consulting firm to assist with QA and QC oversight and coaching at Black Mountain's cost. The total value of the various contracts with Namkon amount to R45 million, and we expect our relationship to continue to flourish.

Another example is **Liviero Civils**, which is constructing Gamsberg's Tailings Storage facility. Liviero is a majority BEE-owned firm operating in the mining and construction sector.

The construction of the tailings storage facility is another critical project item for Gamsberg, requiring significant technical expertise, and is a decision that we will be satisfied with for the life of mine. Every one of the other seven firms participating in the bidding process had far more tailings construction experience than Liviero. But, we were able to select Liviero by mitigating risks created by their lack of experience by partnering Liviero with an experienced consulting partner. This partner was able to confirm the design of the TSF, and to provide oversight during construction. Additionally, Black Mountain appointed another leading consulting firm to provide further oversight on behalf of Vedanta.

Liviero continues to perform well on this contract and, on the strength of this performance, will certainly qualify for further contract awards. The value of the current contract is R265 million.

Lessons learned

Have we learned some valuable lessons during this time? Certainly we have. And we are currently incorporating these into our procurement and operating processes going forward. Some of these that I can share with the committee are as follows:

- The first is that it is necessary to increase the level of granularity in payment milestones when dealing with SMMEs in order to provide greater degrees of understanding and transparency, and to ensure that there is a better understanding of cash flow requirements by the SMMEs.
- Another learning is that we need to consider and address the challenges that our business partners experience in recruiting and retaining local employees. This is something that we require them to do, both in line with Mining Charter requirements and in support of our intention to create opportunities for local communities. We have seen the need for active and continued engagement by BMM with communities on this issue.

- Yet another learning has been the need to institute pro-active coaching and monitoring of personnel and safety, health and environmental aspects relating to smaller contractors. We also need to continue with the process of agreeing faster payment terms, and the need to continue relaxing selected contractual provisions - such as waiver of liquidated damages provisions - based on merit.

Finally, we have seen that engaging consulting partners to provide ongoing quality assurance programmes is beneficial to the SMME and to the company, so as to enable early identification of deficiencies and avoid re-work.

Conclusion

We do hope that we have been able to shed some light on the matters on hand, as well as Vedanta's vision for the future in the Northern Cape.

Regarding the contractual disputes, I had personally appealed to both companies to allow me to the opportunity to investigate the matters, and to engage with them directly. My door remains open.

The experience has not, however, caused us any doubt that the route Black Mountain - and VZI - is taking in facilitating SMME development is the right one. We are aware that, the world over, many SMME firms fail in their efforts. We will not be discouraged from continuing with our approach. We hope that 3C and ChadCon, too, have learned from the experience and we wish them well for their futures with other contracting companies.

We would, of course, be open to answering further questions. And, if we don't have the answers immediately on hand, we will certainly undertake to expeditiously respond to the committee.

Thank you again for your time and consideration today.

