

19 NOVEMBER 2014

**LONMIN RESPONSE TO WEEKLY UPDATE** Business & Human Rights Resource Centre

**Regarding the IFC loan:**

The International Finance Corporation (IFC) was primarily brought in to develop engagement capacity within the Bapo ba Mogale community. It provided know-how and practical support in a number of community projects over about three to four years.

The IFC bought a significant equity stake in Lonmin and offered a \$100m loan facility. However, this loan came with extremely costly interest rates and therefore we never drew down on it. The loan facility then expired, unused.

**Regarding the Farlam Commission of Inquiry:**

Since the Inquiry's inception in October 2012, Lonmin has been committed to and supportive of the process. As requested by, and agreed with Judge Farlam, we have not made public statements about the process or the evidence presented. We expect the President to deliver the findings of the Inquiry post March next year

At times our refusal to make public statements or answer questions about the Farlam Commission and negate/refute negative statements about Lonmin and its people has been to our detriment. Despite this we have remained silent as per Judge Farlam's request.

**Regarding the large-scale housing development programme for employees:**

In 2006 Lonmin announced a R318-million housing deal with Rand Merchant Bank that would have housed 3 000 miners. This deal was never signed because the parties to the agreement did not agree on the terms.

Lonmin built three show houses for interested employees to view and for Lonmin to survey and collate information relative to designs, preferences for ownership or rent, and affordability. The employees were provided with information regarding size, cost and how to obtain financing. Lonmin intended to commence construction based on positive interest and the provision of applicable documentation and guarantees.

However, employees remained reticent to acquire ownership and few showed enthusiasm for this initiative. Those that did had difficulty raising capital from financial institutions, which were reluctant to provide finance, given the prevailing difficult economic conditions. Moreover, a survey carried out on Lonmin employees concluded that only 15% of our category 4 to 9 employees wished to pursue home ownership and 85% wished to rent property.

**Regarding Lonmin housing in general:**

Addressing the critical shortage of affordable housing in our regions of operation, particularly around Marikana, is a multi-faceted challenge that requires careful consideration and the support and co-operation of both regional and national government. The challenge extends well beyond Lonmin and the mining sector as a whole, and has no simple solution.

Housing for employees is one of the areas which goes to the heart of our licence to operate, both from a regulatory perspective in terms of the Revised Mining Charter, and morally in terms of our relationship with our employees. It is also true that whilst it requires significant investment to achieve, a successful housing policy and plan brings long-term benefits in terms of increased productivity and reduced absenteeism.

### **Housing Allowances**

In 1999 and at the instance of the National Union of Mineworkers, Lonmin concluded a collective agreement with NUM committing to pay a housing allowance to employees who elected not to live in hostels. This housing allowance continues to be paid to employees to this day in the sum of R1,950 per month. Unfortunately, the merits of paying a housing allowance have often been queried as employees often send most of the allowance back to their family home whilst electing to live in unsatisfactory, temporary accommodation around the mine.

### **Building of Houses – 1999**

In 1999, Lonmin built 1149 houses at a cost of approximately R78 million as part of a strategy to encourage employee home ownership. To drive this strategy, Lonmin created the Marikana Housing Development Corporation, a non-profit company, to manage the rental and sale of the 1 149 houses to employees. Notwithstanding a generous rent-to-buy scheme implemented, employees were reluctant to purchase these houses.

### **Building of Houses – 2000**

During 2000, Lonmin built 650 RDP houses north of Marikana and donated these houses to the Rustenburg Local Municipality.

### **Building of Houses – 2003**

In 2003, Lonmin completed a project whereby it built 369 stand-alone houses at its Karee operations. These houses currently form part of Lonmin's housing stock.

### **2003 to 2006**

During this period, Lonmin converted 28 hostel blocks into upgraded facilities at a cost of R10.3 million.

### **Completion of Hostel Conversion**

In our Social and Labour Plans, we committed to convert 128 traditional single-sex blocks into a mixture of family and bachelor units. We will complete the conversion by the end of December 2014. Upon completion, the 128 converted hostel blocks will yield 796 family units and 1,868 single units. Capital expenditure on the hostel conversion was R55.5million in 2014 which was 5% of total capital expenditure for the year. (A total of R 387million has been spent in total on the hostel conversion programme.)

The hostel conversion programme is measured and monitored by the Department of Mineral Resources annually. All the conversion work thus far has been executed by Black-owned companies

operating within the Greater Lonmin Community who for the most part been part of Lonmin's efforts to support black-owned SMMEs through various mentorship programmes.

### **Infill apartments**

Following a feasibility study, we plan to develop the open spaces between the existing renovated hostel buildings thereby using existing bulk infrastructure in terms of water and sewage facilities. Proposals have been received from the developers who are being adjudicated for work to commence in 2015. An amount of R500 million has been approved for this project to be spent over the next five financial years commencing in 2015. The scope of the project will also include security upgrades, landscaping, crèches, learning centres and recreation facilities. With the demise of the single sex hostels, the development will see the emergence of enhanced employee housing villages. These villages will then have capacity of between 4,000 and 5,000 family units.

### **Partnering with Government**

At the beginning of 2014, Lonmin contributed 50ha of serviced land for the development of 2,658 (rental and ownership) housing units at Marikana Extension 2. The Premier of the North West Province announced recently that R462 million has been set aside by regional government for the funding of this project to be implemented in phases. The implementation of Phase 1 comprising 292 BNG (previously known as RDP homes) and 252 Community Residential Units is proceeding and construction has already begun.

### **Long-term planning**

As part of our long-term planning for housing development and the enhancement of living conditions, we have conducted research and scoping projects pursuant to our sustainable and integrated human settlement strategy. Human settlement projects such as Marikana Extension 5 comprising 134 hectares of un-serviced land is currently in the concept phase and 25 hectares of land in Mooi-nooi is being considered for possible rezoning for primarily rental apartments.

### **Regarding false allegations of transfer pricing:**

The Alternative Information Development Centre (AIDC) held a press conference on 16 October 2014 where they released their report entitled "The Bermuda connection: profit shifting and unaffordability at Lonmin 1999-2012". AIDC admits it is not expert in tax and that it regards South Africa's tax laws as irrelevant for the purposes of its paper<sup>[1]</sup>. Nevertheless it continues to produce documents and press statements containing false accusations, misleading generalisations, ignorant conjecture and destructive innuendo.

The report was completely misleading. Lonmin pays tax fully and properly in all jurisdictions in which it operates. Our financial statements and structures are audited by KPMG and South African Revenue Services. Lonmin's financial statements are prepared in accordance with the International Financial Reporting Standards and assured by independent external auditors. If the AIDC believes there is any impropriety it should report this to the relevant authorities. We are not aware that AIDC has done so.

The AIDC consistently implies there are hidden profits within the Company which would have allowed it to meet the wage demands of the 2012 strike. This is false. To sustain its operations and

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<sup>[1]</sup> The Bermuda Connection: Profit shifting and unaffordability at Lonmin 1999-2012.

save jobs, Lonmin had to raise \$749m (about R8 billion<sup>[2]</sup>) from its shareholders in the four years to 2012. In 2013 it once again had to raise a further \$823m (about R9 billion) from its shareholders to keep the mine operational. The idea that Lonmin hid profits from shareholders while asking them for a total of R17bn is not credible.

Lonmin has put a series of Q&A's on its web-site in which it responds in greater detail to the various allegations made. We suggest that you visit the web-site for more details.

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<sup>[2]</sup> Calculated using October 2014 R/\$ exchange rate of 11/1