Emerging Miner Strategy Workshop

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Key messages

Coal Supply Strategy

Five pillars to accelerate the advancement of Black Ownership in the Coal Mining Industry

Milestones to fulfill some of the EMS objective
Eskom’s coal requirement will increase to 2 480 Mt with power station life extensions

- Between financial years 2011 and 2013, Eskom’s requirement was ~ 4 000 Mt of which up to 2 100 Mt coal remains unsecured.
- Eskom’s coal requirement has declined in the short term due to healthy stockpiles and reduced electricity demand.
- With the projected 10 year life extensions for 8 of Eskom’s coal-fired power stations, Eskom’s requirement is estimated to be ~ 4 591 Mt of which up to 2 480 Mt coal remains unsecured.
- These planned life extensions may introduce some opportunities for the Emerging Miners to supply coal.
Eskom is implementing its Coal Supply Strategy

- **Progress coal supply from the Waterberg**
- **Driving policy changes in the coal supply sector**
- **Progress implementation of New Coal Technologies**
- **Advancing of Black Ownership in Coal Mining**
- **Partnering with other SOC’s**

**Actions taken to implement the five key elements**

- Eskom is already in an advanced stage of securing coal from mines in the Waterberg for its Mpumalanga power stations
- Eskom is currently working with stakeholders like DMR, DEA, DWA and DPE in alignment of policy requirements
- Various companies are currently pursuing the development of fine coal into various final products for combustion-related application. Eskom is currently working with mining houses to facilitate progress
- Eskom has identified five pillars to accelerate advancement of Black Ownership in the Coal Mining Industry
- Eskom is working together with other SOC’s in developing Emerging Miners
Eskom is progressing its Black Emerging Miner Strategy to increase competition, grow the economy and secure primary energy resources.

Eskom has formed a foundation for the development of the Black Emerging Mining Industry for the security of coal supply.
The Mine Development Fund will follow a developmental investment model

- Taking a higher level of risk
- Having a long term investment horizon
- Offering a high degree of support to funded Black Emerging Miners
- Sacrificing some enterprise value in favour of new entrant Black Emerging Miners, by only taking minority equity positions
- Seeking alignment with Eskom’s needs and plans

The Mine Development Fund is being created to:

- Contribute to the transformation of the mining industry by supporting the entrance and growth of Black Emerging Miners
- Support Eskom’s need to secure contracted coal and limestone supply at a fair price
- Generate a targeted financial return for the Fund’s investors
- Taking a higher level of risk
- Having a long term investment horizon
- Offering a high degree of support to funded Black Emerging Miners
- Sacrificing some enterprise value in favour of new entrant Black Emerging Miners, by only taking minority equity positions
- Seeking alignment with Eskom’s needs and plans

Eskom is also creating a Mine Development Fund to further assist in achieving its development targets
Eskom using Coal Trading as an option to secure coal resources and enhance transformation

Policy on Traders

- Working group commenced on internal policy amendment for the use of Coal Traders

Requirements

- Must add value to the product that will be supplied to Eskom.
- Must adhere to the same legislative requirements as a mining right holder, with the exception of the off take agreements
- Coal Supply Agreement will be based on the duration of the off take agreements
- Traders will be required to move through the value chain
Eskom using its export allocation to fulfill its transformational objectives

- Eskom has an allocation for 3Mtpa at Richard Bay Coal Terminal, currently only 1.6Mtpa due to rail capacity constraints
- Allocation was acquired through a shareholding in SDCT
- The allocation is currently being leased for a period of a year
- Eskom intends to use the allocation to fulfill its transformational objectives
- An RFP will be issued in the near future to the market to identify an entity which could utilise the allocation to give effect to the transformational objectives
Development of additional technologies for Emerging Miners to be able to supply Eskom’s primary energy requirements

- **Blending**
  - A significant quantity of good quality fine (<0.5mm) coal is discarded annually
  - If the use of briquetting technology is proven successful and cost effective, Eskom can use this good quality coal in power stations that require high quality coal
  - An estimated 160Mt of fine coal already exists on various dumps in and around Mpumalanga
  - Eskom’s Cost-plus mines produce fine coal through mining and processing
  - New technology has been developed to bind the fine coal using minimal binding agents, some technologies use no binders
  - Coal blending will reduce quality variability
  - A blending system will take several sources of coal with different qualities and mix the varying components together in such a manner that the resultant coal is consistent and meets power stations’ specifications
  - A centralised blending facility, potentially linked to a washing plant will improve Eskom’s capabilities to upgrade low quality coal and reduce variability
  - On-line analysis can provide real time information which could improve blending options and also assist power stations with the coal feed quality information
  - Load losses due to inconsistency can be managed

- **Briquetting**
  - A significant quantity of good quality fine (<0.5mm) coal is discarded annually
  - If the use of briquetting technology is proven successful and cost effective, Eskom can use this good quality coal in power stations that require high quality coal
Consolidation of smaller Black Owned mining resources for development

**Eskom**
Chairing the working group on this project
Conducted a study on possible coal consolidation terminal for possible integration with consolidation of Black Emerging Miners

**Department Mineral Energy (DMR)**
Early engagements with the DMR on the identification of prospecting rights for possible consolidation

**Department of Water Affairs (DWA) and Department of Environmental Affairs (DEA)**
Identified as stakeholders for a proposed steering committee
To date, progress has been made on the implementation of the Emerging Miners Strategy

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<th>Initiatives Taken</th>
<th>Progress</th>
<th>Key Insights</th>
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<td>Creating a Mine Development Fund</td>
<td>• Eskom-led Mine Development Fund model has been designed&lt;br&gt;• The Fund design is going through approvals</td>
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<td>Use Coal Trading as an option to secure coal resources and enhance transformation</td>
<td>• Eskom is currently revising its policy to accommodate Value Adding Traders to be moved upstream in the production value chain, i.e. actual coal mining and development&lt;br&gt;• Value adding Traders are those which will be able to add value within the coal value chain through beneficiation, washing and screening, crushing and/or blending different coal qualities to meet Eskom’s specification</td>
<td>• This progress is in line with the timelines set within the Coal Supply Strategy</td>
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<td>Increase Black Ownership as a means to transform the industry</td>
<td>• Use of purchasing leverage to empower Black Owned suppliers and increase equity stakes to 50% + 1 share in existing coal suppliers&lt;br&gt;• Developing Black Emerging Miners throughout the Waterberg by entering into MoUs with suppliers to assist them with access to funding from commercial banks</td>
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<td>Utilise commercially acceptable levers to increase Black Ownership</td>
<td>• Eskom to look at alternative ways of leveraging its SDCT allocation to meet its transformational objectives&lt;br&gt;• Tests on the use of coal fines for briquetting are in progress</td>
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<td>Consolidation of smaller Black Owned mining resources for development</td>
<td>• Partnering with DMR and use of Emerging Miners RFI to identify Black Owned mining resources that could be consolidated into larger entities for development&lt;br&gt;• Investigating synergies for the establishment of coal processing plants</td>
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Eskom has determined a number of milestones that are to be accomplished by the year 2014.

- Approval of Eskom’s financial contribution to the Fund
- PFMA approvals in line with Eskom’s SOC status
- Creation and implementation of the Fund
- Fund raising from co-investors
- Revising Eskom’s policies to accommodate Value Adding Traders
- Complete briquetting technology’s business case by 31 July 2014
- First applications for funding
- Conclude a contract for the use of Eskom’s SDCT allocation
Thank you