SOUTH AFRICA

By a Special Contributor

Anglo Platinum, the world's largest producer of platinum group metals, launched an advertising campaign at the end of 1999, saying, "Welcome to the platinum millennium". How appropriate those words turned out to be. Platinum was the metal of the first year of the new millennium, with the South African industry reporting record profits and dividends at a time when the gold industry lost some of its glister as it struggled to cope with the declining gold price.

Although platinum dominated the mining scene, major gold producer Gold Fields also created headlines when its proposed merger with Canada's Franco-Nevada Mining was vetoed by the Finance Minister in October 2000. The announcement sparked condemnation from many quarters with American and European fund managers - some of them big enough to swallow both companies whole should they wish to - expressing outrage at the decision. In taking such action South Africa seems to have missed a golden opportunity, for Franco-Nevada went off in search of an alternative investment, eventually concluding a deal in mid-2001, taking a strategic stake of almost 20% in an Australian major, Normandy Mining.

With exchange controls still plaguing the South African companies, not only in gold but across all sectors, even outside resources, South Africans must be wondering what they need to do to be part of the global playing field. But it was not all bad news. Platinum may have stolen the spotlight but diamonds also sparkled with De Beers reporting record profits and increased margins. Then, in 2001, in a major shake-up within the Anglo American group, a consortium led by the Oppenheimer family, and including Anglo American, completed the US$18 billion acquisition of De Beers. This transaction, although removing the much criticised cross-holdings between the two mining companies, also removed De Beers from the stock exchange.

Generally speaking, South African mining companies enjoyed a good season in 2000, with strong global economic growth and a depreciating currency helping to lift commodity prices with a positive effect on the bottom lines of most companies.

The coal market recovered after suffering from decade-low prices the year before.

The government released the draft of its long-awaited Minerals Development Bill that had lawyers and advisers working overtime through Christmas and New Year in order to put forward their comments on proposed changes to mineral and mining rights ownership that have deeply concerned the established mining industry in South Africa and abroad. On a politically positive note, it was announced in 2000 that two significant black empowerment deals had been struck. Flamboyant former Robben Island political prisoner, Tokyo Sexwale, announced that his company had concluded the biggest black deal in platinum when his company Mvelaphanda Holdings (Venda for "going forward” or “progress") announced it had taken a 22.5% stake in platinum producer Northam. On the coal front, Sipho Nkosi, former employee of Ingwe Coal, Anglo Coal and Eskom, announced that his consortium, Eyesizwe Coal, had been chosen as the preferred bidder for NewCoal, a coal empowerment venture set up by Anglo Coal and Ingwe aimed at promoting black ownership in the mining industry.

Antimony
China continues to dominate this market, and other players in this field simply produce the metal as it forms part of the conglomerates

coupled with other products. Metorex, a mid-tier South African mining company, however, continues to produce the metal profitably at its Consolidated Murchison mine situated in the Murchison Greenstone belt near Gravelotte, in the Northern Province. This is the oldest known operating antimony deposit in the world. The ore milling rate at the mine is settled in at 40,000 t/mth, producing annually close to 10,000 t of antimony and 1 t of gold.

Coal

What a difference a year can make. Although at the beginning of 2000 producers were crying about low prices, the smiles had returned one year later. Prices climbed from levels below the US$20/t mark to over US$30/t. Proof of what higher prices can do to earnings for the two major South African producers, Anglo Coal and Ingwe, Billiton's wholly-owned coal unit, is evident in Billiton's numbers for the half year. For the half year to end December 1999, when prices were on the down dip, Billiton recorded an operating profit of US$29 million. Half a year later, with prices around the US$25/t mark, operating profit was up at US$59 million for the six months to end June, while for the half-year to end December 2000, the company produced operating profit of US$103 million.

For the year as a whole, Ingwe produced 66.3 Mt of coal in South Africa – in line with the previous year – out of a total of 71.4 Mt. The remaining 5.1 Mt emanated from Ingwe's Australian operations. South Africa's other major producer, Anglo Coal, produced 65 Mt of coal, contributing US$169 million – or 5% – to the group's operating profit. Of this, some 53.5 Mt were attributed to the South African region, 17 Mt of that destined for the export market and 36.5 Mt for the domestic market. Anglo Coal made significant moves into areas outside South Africa, acquiring Shell's Australian coal assets in a transaction valued at US$900 million. The last remaining quoted coal company of any reasonable size on the Johannesburg Stock Exchange, Duiker Mining, was bought by Swiss-based commodity house Glencore from Lonmin in 2000. The deal was described at the time as an insult to minorities, as the take-out was done at the bottom end of the cycle, with premiums on the pre-announcement share prices not reaching 10%. Lonmin took a strategic decision to sell in order to focus on precious metals. The transaction propelled Glencore to the country's third largest coal production spot. Another important development was the empowerment transaction, which took over two years to complete, announced in September.

Sipho Nkosi, of the Eyesizwe consortium, was chosen as the eventual candidate to take over the NewCoal assets. Eyesizwe paid R360 million to become South Africa's fourth largest coal producer with an annual output of 18 Mt, with a turnover of just under R1 billion. The deal was made possible owing largely to the local electricity regulator, Eskom, taking most of the output for its coal-fired power stations. But Mr Nkosi has indicated that in future he wants the company to expand into the larger export market.

The export market and Richards Bay Coal Terminal (RBCT), meanwhile, celebrated a record, when Spoornet, the operator of COALlink, the main line between the coal regions and RBCT, celebrated the delivery of the one billionth tonne of coal by rail in December from the coal fields to the port of Richards Bay since delivery was started 25 years ago. RBCT said it expects to export around 68 Mt of coal in 2001, on track to beat last year's record annual total of 66.9 Mt. Ingwe is the terminal's top shareholder with 39.5%. Other shareholders are: Anglo Coal (25.4%), Glencore (20.9%), Total Exploration South Africa Ltd (5.7%), Sasol Ltd. (5%), Kangra Ltd (2.3%) and Eyesizwe Coal Ltd (1.2%).

Copper

South Africa's main copper contributor remains Palabora Copper, the joint venture between Anglo American and Rio Tinto. The mine is busy completing a major expansion phase, which will see it transformed from an open-pit mine to an underground operation in 2002. Flooding and poor performance led to a slower year in 2000, but on the positive side, capital expenditure costs have been reduced slightly and production should reach the new levels once the underground mine commences.

To the north of South Africa, copper production is booming again in Zambia, and South African companies are playing significant roles. Following some long protracted negotiations, three South African players and one from overseas have re-entered the Zambian Copperbelt, once the world's richest mining area per square metre before nationalisation.

Anglo American concluded a deal last year to purchase assets from ZCCM. However, while the purchase price was very low, at US$90 million, the development of Konkola Deep may require an additional investment of some US$500 million. Anglovaal Mining had been the first to enter Zambia, purchasing the Nkana slag dumps to start a major cobalt-producing operation. Metorex has also started operations in the area, after purchasing Chibuluma Mines.

Diamonds

If there was any doubt that management consultancy Bain and Co. was having an impact on the culture at diamond giant De Beers, these doubts were pushed aside when De Beers' managing director, Gary Ralfe announced at the beginning of last year that De Beers had "BHAGs in mind for the year – Big Hair Audacious Goals". Such language was clearly drilled into De Beers by Bain and Co., which is known for its usage of fancy management words. To De Beers' credit, the company had big plans in mind, although the announcement at the beginning of this year that the company had approved an offer from an Oppenheimer consortium to take De Beers private – subject to shareholder approval – was not what was considered part of the big plans.

De Beers had a record year in 2000. The group sold more rough diamonds (US$5.67 billion versus US$5.24 billion in 1999), showed record cash flows, and reported greater return on capital than in the last decade. Restocking in the cutting centres following a successful Millennium diamond campaign, which forced cutters to stock up on rough products, boosted sales. De Beers also announced a new strategy – moving from being the buyer of last resort to becoming supplier of choice. With this in mind, De Beers launched the Diamond Trading Company (DTC), replacing the old Central Selling Organisation, and whose objective it will be to move from passively selling diamonds to marketing them through the DTC.

De Beers had a big fight on its hands – the group came under increasing scrutiny from pressure groups such as Global Witness to answer questions about conflict diamonds. Conflict diamonds, De Beers said, make up a mere 4% of total world production. However, De Beers was at the forefront of campaigning against these stones. The effect on consumer confidence could threaten the entire legal diamond industry. The World Diamond Council and the United Nations General Assembly are currently introducing measures to combat the trade in conflict diamonds. De Beers announced in 1999 that it had closed all of its buying centres in Africa and was only selling diamonds from its own mines or bought as a result of buying contracts with mines such as Ekati, or from Russia.

De Beers also embarked on an aggressive expansion strategy by launching a hostile bid for Canada's Winspear Resources, only to surprise the market a few weeks later when it launched a similar attack on Australia's Ashton Mining. Winspear was successful. Ashton was not. But the initiative proved that De Beers was serious about its role as a major diamond producer.

While the investment community had been calling for an end to the cross-holding between Anglo and De Beers – Anglo owned 32% of De Beers, De Beers owned 35% of Anglo – it was not until 2001 that a consortium led by the Oppenheimer family announced it was making an US$18 billion offer to take De Beers private.

But, it is not only De Beers that produces diamonds in South Africa. Tokyo Sexwale, whose company Mvelapahanda Holdings had become one of the rising stars in black mining circles, became deputy chairman of Trans Hex, the diamond company affiliated to tobacco and liquor conglomerate Remgro (formerly the Rembrandt Group) controlled by the Rupert family. Trans Hex had earlier merged with Mr Sexwale's Gem Diamonds. Trans Hex continued its good form of the past and once again provided the local and international mining community with large stones, thanks to its alluvial and ocean mining operations.

Gold

120 years after the discovery of the yellow metal on the Witwatersrand, which led to the proliferation of South Africa's economy and diversified industries, the gold industry is in crisis. Continued low world prices and lack of co-ordination between producers, in terms of marketing, meant that the industry globally performed poorly in 2000. During the year, the gold priced failed to react to oil crisis, inflation fears in the US, a weakening dollar, and a falling stock market. The gold price started 2000 at US$281/oz and finished the year at US$273/oz, having reached a high of US$314/oz in February and a low of US$264/oz in October.

The good news for South African producers was the declining rand that led to local gold prices climbing to record levels. In 2000, the metal traded at R55,491/kg in January, and then finished the year at R66,803/kg, climbing as high as R67,302/kg in October.

While this was positive for mine earnings, share prices failed to respond to the climbing rand numbers, a clear indication that the shares are still judged according to the dollar gold price.

Gold Fields stood out as the best performing gold company with continuously improving operations, although, as noted earlier, its global potential was severely restricted by the failure to secure government approval for its proposed merger with Canadian Franco-Nevada.

Franco-Nevada and Gold Fields had earlier in the year proposed a US$4 billion merger, which would have created a gold company that was debt free, with US$800 million in offshore cash, putting it in a strong position to be a major player in the global consolidation game.

But even before the deal was blocked, rumours had already started that AngloGold was looking at launching a hostile bid for Gold Fields. Although it never materialised the deal did look on the cards, and was apparently only vetoed by the Anglo American board, which decided not to support a hostile bid for Gold Fields. AngloGold, after being the darling of the market only twelve months previously, learnt how tough gold mining could be. Although the group still managed to produce 5% more ounces, at 7.2 Moz, and operating profit rose, headline earnings declined by 11% to R1.77 billion "mainly as a result of a focus on growing the business and the subsequent increase in net interest paid". But, AngloGold proved the worth of its recent geographic diversification, with some of the overseas operations offsetting the group's bad performance at many of the South African operations. However, Elandsrand and Deelkraal were no longer considered core parts of AngloGold’s operations and were sold for R1 billion in cash at the end of 2000 to Harmony, which has developed a habit of picking up AngloGold's non-core assets.

In the meantime, AngloGold expanded its horizons further by completing the acquisition of Australia’s Acacia Resources. The group also came to the rescue of Ashanti Goldfields when it bought half of the Geita mine in Tanzania, for US$205 million and project finance provision of US$67 million. The cash went a long way in helping Ashanti bolster its balance sheet after the hedging debacle towards the end of 1999 threatened its existence.

AngloGold also bought half of the Morila mine, in Mali, from Randgold Resources for US$132 million. Harmony expanded its production profile completing the hostile acquisition of Randfontein Estates before acquiring Elandsrand and Deelkraal and launching a hostile bid for Australia's New Hampton Goldfields. A later, higher, offer was accepted by New Hampton's board.

Harmony also became involved in a black empowerment deal at home when it sold a 10% stake in the company to Komanani for R400 million. Brett Kebble, who resigned from Western Areas after it transpired that he lent money to Durban Roodepoort Deep (DRD), without the knowledge of the Western Areas board, to finance a purchase by DRD of Randfontein shares to block the Harmony bid, made a comeback in October when he returned as chief executive of Western Areas. The company said Mr Kebble was best suited to take strategic control to help decide whether the company's 50% stake in South Deep (jointly owned by Western Areas and Canada's Placer Dome) should be sold or kept in the stable. The situation remains unresolved. The South African Chamber of Mines figures for 2000 show that gold production was down for the year at 428.3 t, from 449.5 t in 1999.

Mining Houses

Anglo American's move to London, in 1999, led to a new lease of life for London mining houses. Although Billiton moved to the City some time before Anglo American, Anglo's listing as a primary stock in London in May 1999 "added plenty of meat to the London mining sector". Even so, the mining sector is relatively small, with its weighting only a quarter of the weighting of Vodafone, for instance. Anglo moved quickly to transform itself once it was established in London. The group started 2000 with the US$900 million acquisition of Shell Coal's Australian assets, outbidding other players. At the time it was said the price was high, although the assets were considered of strategic importance. Anglo was vindicated this year, with coal prices climbing by 50%, making the acquisition look cheap.

Then in May, the company announced the appointment of a new chief executive, putting former Mondi head and executive director Tony Trahar in charge of the day-to-day running of the company, with Julian Ogilvie Thompson moving into a non-executive chairman's role.

Mr Trahar did not waste time. In less than seven months before year-end, he had shed all of the non-core businesses of substantial size and announced at a year-end function that Anglo had shed 75% of its 20% stake in financial services group FirstRand, in which it held a stake as a result of the legacy of the restructuring of the South African industry. Anglo in the end swapped 15% of the FirstRand stake for a 7.1% stake in mining house Billiton and 11.3% in gold company Gold Fields.

At the time, it was immediately thought Anglo would swoop on Billiton, but Anglo sold its interest as Billiton went on to complete a merger with Australia's BHP.

In January 2001, Anglo increased its position in Gold Fields to 17%. Anglo overall had a remarkable 2000. Net earnings of US$2 billion were boosted by the group's major investment in platinum and diamonds, which both enjoyed record years. Anglo competed unsuccessfully with Rio Tinto for ownership of Australian iron ore (and other minerals) producer North. After having its own way for many years in the small South African market, Anglo now finds itself with much greater competition globally.

Billiton also showed strong financial results and was more active in acquisitions than Anglo. Billiton increased its stake in alumina refiner Worsley, in Australia, bought stakes in iron ore producer CVRD, in Brazil, and went to the market to raise US$700 million to fund some of the acquisitions. On a smaller scale, former conglomerate Anglovaal Holding, which split into Anglovaal Mining and Anglovaal Industries, came into its own. Avmin came under pressure at the end of 1999 when De Beers bought a substantial stake in the company in order to get control of the remaining 50% of the Venetia diamond mine. However, Avmin decided to sell its interest in Venetia to De Beers on the understanding that the diamond producer would dispose of its interest in Avmin to portfolio investors. With this ownership cloud dispersed, Avmin now focuses on ferrous metals, base metals and gold, with its Zambian operation on target to become one of the lowest-cost cobalt producers in the world.

Avmin announced later in the year that shareholders in the company had agreed to form Arctic Resources, controlled by the Menell family, whose control over Avmin would have ceased in June 2001 when the high voting shares the family owned would have expired. Arctic is a banding together of shareholders who received Avmin shares when De Beers sold its stake in Avmin. Arctic shareholders include banking group Investec and private investors, making up 40% of Avmin's shareholders.

Then, at the beginning of this year, Avmin announced it had acquired, in the market, a 14% stake in mining and steel group Iscor.

Nickel
South Africa's sole primary nickel producer remains the Nkomati nickel project, run by Avmin and owned 75% by Avmin and 25% by Anglo American. The mine produced 4,400 t of nickel in the past financial year and, after taking the PGM credits into consideration, costs of production were negative. The two companies are busy looking at increasing production at the mine from the current level to 19,000 t/y of nickel. Total cost of the project will be in the region of US$220 million and it will take some 2-3 years to bring the mine up to full production. The remainder of the country's nickel production comes from the platinum mines, which produce the metal as a by-product.

Platinum
What a year it was for platinum. With the price rising 45% over the year, Anglo Platinum was quickly forgiven for not coming up with record production over 2 Moz for a second year in a row. The higher revenue ensured that the world's biggest platinum producer showed net earnings of US$1 billion, the first time a company solely based in South Africa with local operations managed to achieve this. But, it was Anglo Platinum's announcement in May that had the investment community excited. Angloplats, which changed its name from Anglo American Platinum Corp. (Amplats) to Anglo Platinum (Angloplats), announced it was planning over the next seven years to increase production from 2 Moz/y to 3.5 Moz/y, at a cost of R12 billion. The increase in production is greater than the world's second biggest producer, Impala Platinum's, 2000 output of around 1.1 Moz.

Implats itself announced plans to expand, as did Lonmin Platinum, to increase its production from 660,000 oz/y to 830,000 oz/y, as a result of increasing demand for the metal. Smaller players also were active. Kroondal Platinum was the best performing stock in the South African market in 2000.

However, the company was more in the news for the fact that majority shareholder, Aquarius, had made an offer to buy the company. The first offer failed. Aquarius had planned to list in South Africa, to complement its listing in Australia and London's AIM. The Reserve Bank blocked this planned move and Aquarius made a per-share offer of R32 in cash to Kroondal shareholders.

Although some players fiercely rejected this, the move in the end succeeded. But not before Northam Platinum, another small player who had finally managed to show a profit after ten years of losses in the Gold Fields of South Africa stable, had announced it was thinking about making a higher offer for Kroondal, having acquired a small stake in Kroondal in the market. The move in the end did not materialise, and Northam sold its holding, allowing Kroondal to start looking at a delisting.

Northam was also in the news for becoming the company that became involved in the biggest black empowerment deal. Tokyo Sexwale's Mvelaphanda Platinum announced it had bought a 22% stake in Northam facilitated by Angloplats, for R500 million. Angloplats, with 22.5%, and Mvela are the company's biggest shareholders, with Mr Sexwale taking over the chairmanship of the group late last year.

Aluminium

Billiton, the country's only aluminium producer, managed to increase output to a total of 842,000 t of aluminium in 2000. The Hillside smelter, at Richards Bay on the KwaZulu-Natal coast, was again the top performer, with a total output of nearly 500,000 t. During the latter part of last year, the group's newest smelter, Mozal, in which it has a 47% stake, started production, contributing 30,000 t to Billiton’s output. Aluminium was responsible for 43% of Billiton's group operating profit, equivalent to US$212 million.

Iron ore

Ownership of the integrated iron and steel company Iscor came under attack from mining house Avmin at the beginning of 2001, after Avmin announced it had acquired a strategic stake of 14%. One of Iscor's prize assets is the Sishen iron-ore mine, valued by analysts at close to US$800 million. The mine produced a total output of 22.7 Mt of iron ore in the year, up slightly from the 21.6 Mt produced in 1999. Thabazimbi produced just over 2.1 Mt. Avmin, which has a 50% interest in the Beeshoek iron ore mine, produced close to 2 Mt in 2000.

Steel

Iscor reported operating profit of R851 million for the 2000 financial year on the back of sales of R13.6 billion. Saldanha, the loss making producer on the country's west coast, continued to hurt the group, with Iscor showing a loss from the export-only Saldanha steel mill of R473 million. In 2000, Iscor produced 5.3 Mt of steel, 58% of production going to local customers.

The operation is shared equally with the state-owned Industrial Development Corp., which was in partnership with Avmin in an attempt to oust the current Iscor board. However, Iscor agreed to unbundle the company and to list the company as two separate units, a steel company and a mining company (Kumba), which should be completed by September 2001.

South Africa Commodity Summary

Commodity	Unit	Production	Sales (R million)
Gold	kg	430,778	25,272
Silver	kg	144,232	169
Diamonds	ct	10,805,303	na
Alluvial	ct	1,006,834	na
Non alluvial	ct	9,714,325	na
Marine	ct	84,144	na
Palladium	kg	55,818	7,709
Platinum	kg	114,459	13,339
Chromite	t	6,620,754	1,076
Copper	t	137,092	1,573
Iron ore	t	33,707,364	3,039
Lead concentrate[1]	t	75,262	108
Manganese ore	t	3,635,427	1,232
Nickel	t	36,616	1,994
Zinc[1]	t	62,703	309
Coal	t	222,890,211	19,732

Source: Department of Minerals and Energy
na - not available
[1] Contained Metal

Heavy Minerals

South Africa's primary producer of heavy minerals remains Richards Bay Minerals, the joint venture between Billiton and Rio Tinto. As usual, little in the way of production detail is disclosed. For the year, though, Billiton reported operating profit of US$155 million at the operation, contributing 18% to its total operating profit. The country's other producer is Namakwa Sands, which says it is comfortable that profits should be stable from now on. The company is currently looking at increasing production at a cost of R2 billion. A feasibility study should be completed by 2002 with production to start in 2003/04. Southern Mining remains on track to develop its Corridor Sands project in Mozambique. Over the past year, capital has been injected into the project, through investment house Brait Capital Partners, to the extent of R90 million.

Australian diversified miner WMC has been studying the project after injecting cash to gain access to the data. If the Corridor Sands project proceeds to development, WMC’s interest could rise to 54%, with Southern Mining (36% and the Industrial Development Corp. 10%) the other partners. It is estimated the Corridor Sands project will cost US$500 million to develop in its initial phase.

The newest entrant is Iscor. Iscor owns 40% of Australian mining company Ticor, which, in turn, has taken a 50% stake in Iscor’s heavy minerals venture on the KwaZulu-Natal coast. Ticor bought its stake for R1 billion in foreign exchange and has taken over management of the venture. Iscor has in the past few years invested nearly R500 million in developing the project, including significant investment in technology. The other Iscor heavy minerals prospects are at Gravelotte, in Mpumalanga, and in the Eastern Cape, although environmentalists are opposing this latter venture.