

MINING — DIAMONDS

1992

CSO diamond sales decline by 6 percent

By Sven Lünsche

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Worldwide diamond sales by De Beers' Central Selling Organisation (CSO) dropped by six percent last year to \$3,93 billion from \$4,17 billion in 1990.

The decline was widely expected as diamond dealers were buying fewer gems from De Beers throughout the year in the face of declining economic conditions in key Western countries.

In rand terms, CSO sales increased slightly by one percent from R10,80 billion to R10,89 billion, boosted by the low average rand dollar exchange rate of R2,77 over the period.

The decline of diamond sales was particularly marked in the second half of 1991. Sales of \$1,84 billion were down \$240 million from the first-half figure of \$2,08 billion, but slightly higher than the \$1,69 billion reported in the second half of 1990.

De Beers, which controls sales of 80 percent of the world's rough uncut diamonds, says demand from the key cutting centres — Belgium, Israel and India — was flat during the earlier part of 1991 and

declined during the second half of the year.

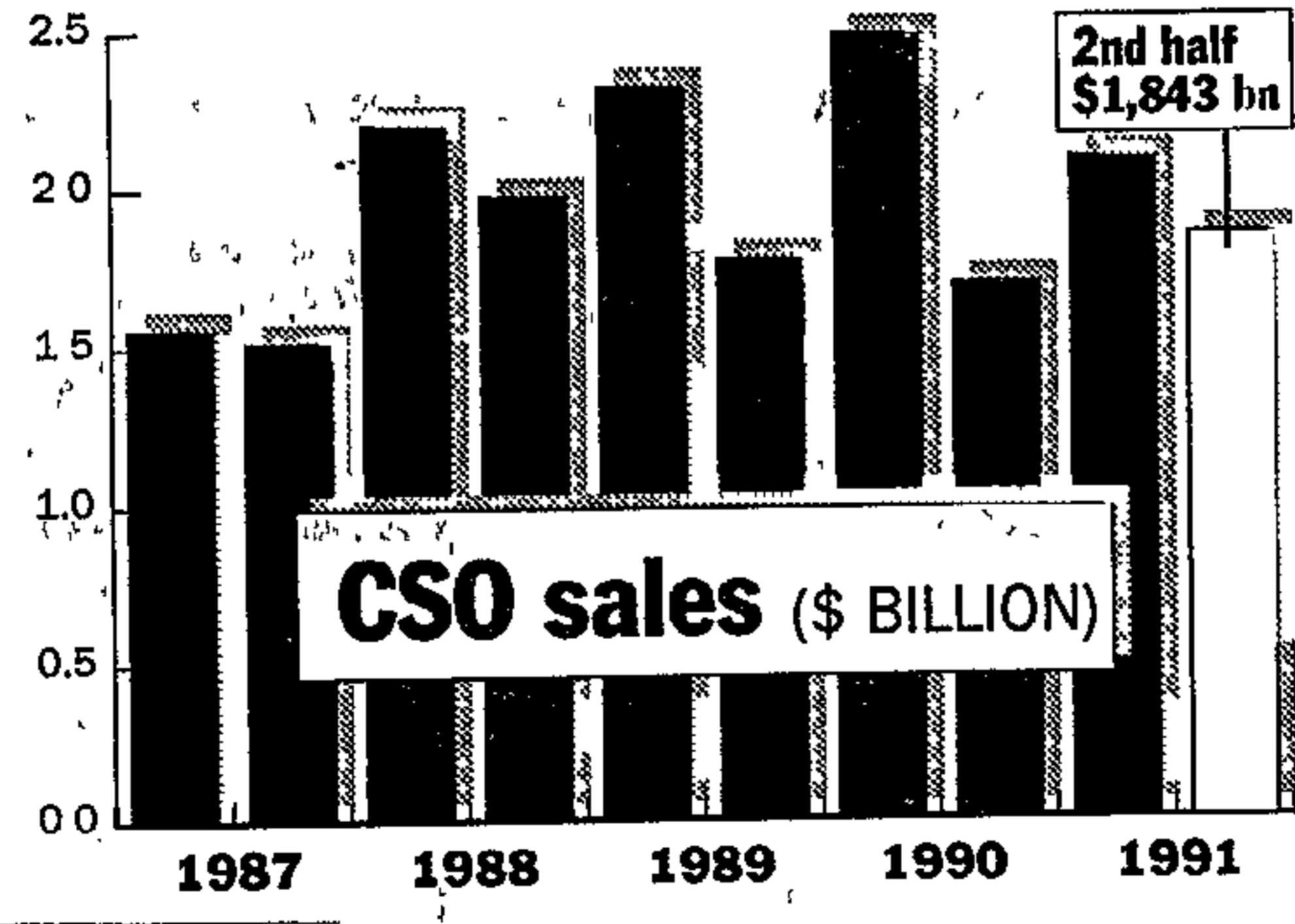
While the group described the sales figures as satisfactory "in the light of the depressed state of the main consuming markets", early indications of Christmas jewellery retail sales also pointed to a small downturn.

This is a crucial indicator of future sales because about 40 percent of diamond jewellery sales take place over the Christmas period.

"The anticipated increase in demand following the Gulf War did not materialise and the situation was further aggravated by the foreign exchange shortage in India earlier this year, which temporarily prevented CSO clients from paying for their purchases," De Beers says.

It is, however, a bit more optimistic about the year ahead, arguing that stocks are not overly high in the major markets and "once a better consumer environment takes shape, increased demand for roughs should follow".

De Beers says it is continuing to market Russian rough diamonds under the agreement signed with Russian diamond authorities earlier this year.



CSO's diamond sales drop by 6%

LONDON — Diamond sales by the Central Selling Organisation (CSO) slipped by 6% last year to \$3,93bn, their lowest level since 1987.

Revealing the figures here yesterday, the CSO said this was "a considerable achievement in the light of the depressed state of the main diamond consuming markets" — the US, Japan and Europe.

And while retail sales figures are not available, "early indications" are that they have declined during the Christmas season.

The overall decrease follows a 16% slump in the first six months to \$2,08bn. Second half sales show a 9% increase to \$1,84bn but this has been distorted by the carryover of Indian purchases which could not be paid for because of the country's foreign exchange crisis. The Indian purchases involved about \$100m.

If included in the period, it means that first half sales were \$2,18bn, just less than 12% down. In the second six months real sales were \$1,74bn, only 3,1% above the comparable 1990 figure.

JOHN CAVILL

The year's total was above the worst stock market estimates of \$3,7bn but below optimistic forecasts of \$4,2bn

In volume terms it represents a substantial decrease since the price rises of 15,5% in March 1989 and 5,5% in 1990

The CSO said demand remained flat and the anticipated improvement following the end of the Gulf War did not happen. Sales were also hampered by India's foreign exchange problems although CSO customers were now able to have normal access to dollars

Meanwhile, it said, stocks of polished goods in the main markets were "not overly high" so that if demand picked up this should quickly flow through to improved sales of rough stones

Commenting on developments in the former Soviet Union, the CSO said the \$5bn marketing agreement signed in July continued to operate under the Russian Federation authorities.

CSO SALES

Beating the forecasts

FM 10/1/92

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Sales of rough diamonds by the Central Selling Organisation (CSO) for 1991, at US\$3,93bn, are ahead of most forecasts by analysts. Many had lowered their estimates over recent months in response to the gloomy economic news from the US and erroneous, pessimistic market information on the final diamond sights.

Total sales for the year were just 6% down on 1990's \$4,17bn, after being 16% down at the halfway stage. Second-half sales were boosted by inclusion of about \$100m in sales to Indian clients, which were carried over from the first half because India's foreign currency crisis prevented payment.

De Beers' share price rose by 100c to R92 on release of the sales figures.

According to the CSO, "demand in both the rough and polished sectors of the diamond industry had been flat in the earlier part of 1991 and declined during the second half of the year. The anticipated increase in demand following the ending of the Gulf conflict did not materialise."

The results bear out chairman Julian Ogilvie Thompson's prognosis, in the annual report, that 1991 sales would be comparable to 1990 levels.

That is an aspect that has puzzled some analysts working for SA institutions. "It was surprising that so many market commenta-



De Beers' Ogilvie Thompson .. sales were comparable

had tended to be in a tighter range and a lot closer to the mark.

He adds "The analysts seemed to have a better handle on the figures previously," he says "These results certainly make you question the accuracy of the information published in the trade journals on the various individual sights."

JD Anderson research head Charles

down to 310c. A variable affecting many forecasts is the rand-dollar exchange rate which, at an average of \$1/R2,77 for the year, has been stronger than general expectations of rates between \$1/R2,90 and \$1/R3.

Even though the forecasts proved too gloomy, analysts generally see the year ahead as one of flat demand for diamonds, with no growth expected in earnings and dividends unless there is a sharp recovery in major world economies. That could come if the American economy is pumped up ahead of the presidential elections. Indications are that the Bush administration intends doing everything it can to achieve that.

Otherwise, diamond sales could be showing little or no growth for a fourth consecutive year.

Brendan Ryan

VENTRON FM 10/1/92

Tighter lines

Amic's decision to increase its investment in Bill Venter's Ventron by a further R46,5m has raised its stake in the electronics group to just below the 30% threshold that would require the Anglo American associate to make a full offer to all shareholders.

According to the Ventron share register, Amic bought 2m of the shares from Venter.



De Beers makes slight gain despite good diamond sales

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3/10 am 8/11/92

MATTHEW CURTIN

SHARES in De Beers made the most modest of gains on the JSE yesterday although analysts hailed the 6% fall in value of diamond sales by the Central Selling Organisation (CSO) as a remarkable achievement, given the depth of the world recession.

De Beers stock closed 75c higher at R91,75 yesterday afternoon

Irish Menell Rosenberg analyst David Russell said that in face of the US recession and slowing economic growth in the other main diamond markets in Germany and Japan, the CSO's performance was "remarkable".

He noted that while the sales of \$3,93bn (\$4,17bn) would help determine earnings and dividends, equally important was the strength of the group's cash balance and for De Beers Centenary, the rand dollar exchange rate.

Frankel Kruger analyst Kevin Kartun said the CSO figures vindicated De Beers chairman Julian Ogilvie Thompson's predictions of stable results in 1991

He said the CSO had survived "an unusually difficult year", characterised by the disruption to the diamond trade caused by the Gulf war and foreign exchange shortages in India.

It seemed that to combat the fall in sales to Israel and India, the CSO had lengthened its diamond sights for the benefit of other traders.

Mathison and Hollidge analyst Barry Sergeant said that if rough diamonds were considered a commodity, the mere 6% fall

in sales meant they had outperformed nearly every other commodity on world markets De Beers was set to post healthy results in contrast with other international blue chip companies like IBM, the US car companies and Rio Tinto Zinc He expected that the dividend in rand terms could be as much as 10% higher.

Sergeant said the CSO comment that stocks were not overly high in the main consumer markets boded well for the future It meant the diamond pipeline was lean and the CSO well placed to capitalise on the up-turn in world economies when it occurred

He said the performance of De Beers shares was closely tied to the performance of the Dow Jones in New York which had increased 10% in recent weeks on growing confidence of a US economic recovery. That De Beers shares had not risen as fast suggested that when there was an inevitable downward correction in the Dow Jones, the SA shares would hold their own

The overall decrease for the full year followed a 16% decline in sales in the first half to \$2,08bn Second-half sales increased by 9% to \$1,84bn but were distorted by the \$100m held over from the first half because of Indian foreign exchange difficulties at the time.

If the \$100m was excluded from the second-half sales, the increase in that period over the corresponding period in 1990 was only 3,1% higher

De Beers can ride sales fall

SI Times (BUSS) 12/11/92. (216)

ANALYSTS are confident about diamonds — even though Central Selling Organisation sales fell by 6% to \$3,93-billion last year.

Keith Bright, diamond analyst at stockbroker Edey, Rogers, says the sales were more or less in line with his expectations. He is cautiously optimistic because he sees certain points in De Beers' favour.

He believes De Beers and the CSO can turn the tap on and off at will and could have sold more diamonds if they wished.

After the heady days of 1980 when prices got out of hand, cutters and retailers needed to reduce stocks. Sales were hit and De Beers does not want a repetition. It therefore restricts supplies to the trade.

This factor, together with the world recession, has led to low stocks in the cutting industry. Inventories are much lower than they were in 1985, immediately before the previous major boom.

CSO sales are now double what they were 10 years ago, and stocks as a percentage of turnover are low.

When the economic recovery comes, cutters can be expected to operate with minimum stocks until they are

By ROBIN PEGLER

reasonably sure of its sustainability. Restocking is likely to lag behind an improvement in economic conditions.

It should be remembered that because the US presidential elections will be held in November, President Bush will do all he can to stimulate economic recovery — if possible by mid-year.

Yield

There is some inelasticity in demand for diamonds. Although buyers can trade down, they will not be able to defer giving an engagement ring, for example.

For 1990, De Beers and De Beers Centenary combined

paid a dividend of \$1.13, equivalent to 285.3c in SA currency. At present exchange rates this would be a little more than 300c.

De Beers should certainly maintain its dividend in dollar terms, so the fall in the rand will give some benefit to SA shareholders.

De Beers gives a better yield than many industrial blue chips, which are subject to the greenhouse effect of continuing institutional cash flows.

In De Beers' case the greenhouse has a ventilator — a fall on Wall Street could lead to supplies of the shares coming in from abroad. Conversely, if Wall Street continues firm, there should be US demand for diamond shares.

Mr Bright continues to regard De Beers as a good buy.

De Beers set to open Moscow office

DE BEERS Centenary is to set up a representative office in Moscow, reinforcing its relationship with the Russian diamond industry and further dispelling concerns that the five year sales agreement was in danger after the Soviet Union's break up

Deputy chairman Nicky Oppenheimer said the opening would also con-

tribute to the long term stability of the industry

The 1990 agreement comprised two parts including a five-year sales agreement and a \$1bn trade advance for the development of the Russian diamond industry

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WILLIAM GILFILLAN

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De Beers plans STAR 23/1/92 Moscow office

By Neil Behrmann

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their rough gem diamonds either directly or indirectly through De Beers, a company spokesman said

LONDON — De Beers Centenary has announced it is to open an office in Moscow — reinforcing relations between the former Soviet Union and its one-time enemy, South Africa

This frank statement contrasts with denials made only a few years ago of any direct involvement between De Beers and the former Soviet Union. Then De Beers said it acted through middlemen.

A few years ago it would have been unthinkable that the two largest producers of gold, platinum, diamonds, manganese and a variety of other strategic minerals would be openly transacting business

The glasnost began in July 1990 when De Beers announced a \$5 billion sales agreement to sell Soviet diamonds over a five-year period.

Previous deals between South African companies and the former Soviet Union were negotiated in secret

It also lent the Soviet Union \$1 billion against collateral of diamonds held in London.

For more than 30 years, successive Soviet and Russian diamond authorities chose to sell

Then, last year the South African Chamber of Mines negotiated a co-operation agreement with the former Soviet Union

De Beer promises new SA education system

B (Daw) 28/11/92

CAPE TOWN — A new educational package would be introduced within the next few weeks which would include projects aimed at alleviating backlogs, Education and Training Minister Sam de Beer said yesterday

De Beer told a media briefing a new education system was needed and he would not try to perpetuate the existing one

Although a new dispensation was in the pipeline, the basic elements of education would not change

"The country will not become wealthy overnight. Money for education will continue to be available, but in limited amounts," De Beer said

"The intellectual skills of acquiring knowledge, insight and developed reasoning will not suddenly become available by any other means than hard work"

Employers and tertiary institutions would continue to set high standards which would have to be met

Education would continue to feature prominently in political debates, but this had to be given its proper place

"For all too many people, schools represent arenas for staking their political claim by intimidation, disruption and disorder

"In preventing pupils learning and teachers from teaching, they are doing nothing less than sacrificing for their own political gain the future of thousands of children"

Constructive discipline was the single most important element to reverse the present situation in which matric results were disappointingly low, and as soon as there was a return to self-discipline, education would come into its own as a foundation for the future of South Africa

"I am very pleased to see there are other political groups who support my point of view," said De Beer. — Sapa

In search of sparklers beyond the breakers

SI Times (BUS) 2/2/92 216

ENTHUSIASM makes a man leave a financial institution to go grovelling in gravels for diamonds while receiving his former employer's financial backing.

That is André Louw, managing director of Ocean Diamond Mining (ODM) and formerly in mining research at Sanlam.

Earlier in life, Mr Louw was a geologist.

He expected no more than this week's "damp-squib" debut his group made after a reverse listing through cash shell CRB. A few shares changed hands at 210c.

Mr Louw says "I know marine diamonds have an image problem as far as investors go. But we intend to prove that many of the technical difficulties have been overcome. It is our priority to build a track record for our company and its shareholders."

Broadly speaking, there are three levels of marine diamond recovery. Divers are used to sea depths of 20 metres — more or less the A-labelled concessions off the Namaqua and Namibian coast.

Gigantic plant and equipment and big-league capital investment are needed out to sea in the C-concessions.

In between lies the B stuff, too deep for divers but shallow enough for a ship and airlift dredging equipment to suck off the overburden and



ANDRE LOUW. Even Shropshire has a stake. Picture SUE KRAMER

slurp up the diamond-bearing gravels.

This is where ODM hopes to make its fortune. It has the rights to slurp around 12 South African guano islands off the Namibian coast as well as two deep C concessions.

In a joint operation with Gal Marine, ODM has equipped a 750-ton vessel, the Lucky D. The ship's plant takes a feed of 10 tons an hour.

Based on projections from current production figures, ODM hopes to recover between 25 000 and 30 000 carats a year. The gems could fetch \$200 or more a carat.

A second ship is on the way. ODM's policy is to attract investors in equity or in joint ventures. Perhaps investors want to pay for a ship that ODM will operate — anything is negotiable.

Mr Louw says "It takes six months and R8-million or so to equip a ship. But the payback can be fewer than four years. The internal rate of return exceeds 25%."

"It is like sinking a moving mine shaft. It can be moved along when the ore reserve is finished."

So where's the rub? Mr Louw concedes that the weather can be a problem, but nowhere near as much as it is for divers.

The biggest risk is geological — the estimated 3-billion carats liberated from kimberlites along the coast aeons ago may not be found.

"We have undertaken sidescan sonar and seismic mapping to help identify submerged beaches. We are confident our techniques will work. The group has spent R18-million on exploration and surveying around the islands, testing the gravels and locating the best-yielding areas.

"The other risk lies in overspending. There is a high capital cost in any mining venture."

The group was formed in 1983 by current chairman Ivan Prinsep and registered in Guernsey. Sanlam was unable to invest while ODM was abroad. The company was patriated and a listing sought.

All shareholdings were transposed, ranging from investment company Ellerman Holdings' 17% to the 2% held by Royal Bank of Scotland and Baring Bros, and the Shropshire County Council's 1%. Sanlam put R7,5-million into convertible prefs equivalent to 15% of the equity on conversion.

The share, listed in the JSE's mining exploration sector, is capitalised at R50-million.

As Mr Louw says, marine diamond mining does have an image problem and speculation is likely to be the major mover of the share price until something sparkling emerges.

De Beers firm signs Tanzanian deal.

81 Dan 3/2/92
DAR ES SALAAM — Tanzania had signed a diamond prospecting and mining agreement with a De Beers subsidiary, a Tanzanian government official said on Friday. Water, Energy and Minerals Minister Jakaya Kikwete said the agreement to explore 22 310km² was made with Willcroft, a Bermuda-based subsidiary of De Beers Centenary AG of Switzerland. He said surveys in the past decade suggested there were more than 300 undeveloped kimberlite diamond pipes in Tanzania.

Despite being a staunch opponent of SA, the original base of De Beers, Tanzama has for years marketed diamonds through the De Beers-owned Central Selling Organisation in London.

Relations between the two countries has

warmed recently. ~~(216)~~ (216)

Formerly socialist Tanzania is also pushing through economic reforms that include incentives for foreign investment in the mining sector, where there are deposits of gemstones and gold.

"This agreement, we expect, will be followed soon by others with international companies to develop the extensive mineral resources of our country," said Kikwete.

The Mwadu Williamson diamond mine in the west of the country was at one time one of the world's largest deposits, but output declined to 11 577 carats in 1990 and reserves are expected to be exhausted by 1998, analysts said.

□ De Beers spokesmen could not be contacted for comment yesterday — Reuter

BROADACRES FM 7/2/92

Stormy weather (216)

Activities: Exploits diamond concession areas on the Cape West Coast

Control: Taiwanese investor L K Kung and chairman hold control

Chairman: J Tcheng, MD G Slabbert

Capital structure: 3,4m ord. Market capitalisation R1,5m

Share market: Price 45c Yield 10,4% on earnings, p/e ratio, 9,6 12-month high, 55c, low, 40c Trading volume last quarter, 9 000 shares

Year to June 30	'88	'89	'90	'91
Taxed profit (Rm)	0,27	0,56	0,58	0,16
Earnings (c)	7,8	16,3	17,1	4,7
Dividends (c)	nil	5	4	nil

Plucking God's treasures from the sea exposes one to the vagaries of His weather and, over the past year, God seems to have frowned on the Cape West Coast. Unfavourable weather is listed as the main reason for the one-third drop in revenue. A spokesman says that, in terms of diving days lost, financial 1991 was one of the worst ever.

Breakdown of plant also hampered production, says MD Gert Slabbert. This has now been repaired and a programme to replace old equipment is under way.

But the bad year resulted in the smallest taxed profit in nearly a decade. Broadacres also relied increasingly on credit. Accounts payable nearly doubled to R414 000, while the overdraft is up by R37 000.

Slabbert says the overdraft has since been taken care of, with three months' production — about 1 600 ct, worth just over R2m — sold at the end of calendar 1991. Weather remained bad until December, but the new year has seen an improvement. "In January the weather allowed us six working days in a row, which produced R2m worth of diamonds," Slabbert says.

The share price has been reasonably stable over the past year, but a five-year review shows it dropping from 190c at the beginning of 1987 to a low of 50c in the first half of 1988 and then climbing back to 135c a year later. Since then, it has followed a steady down trend to its present 45c.

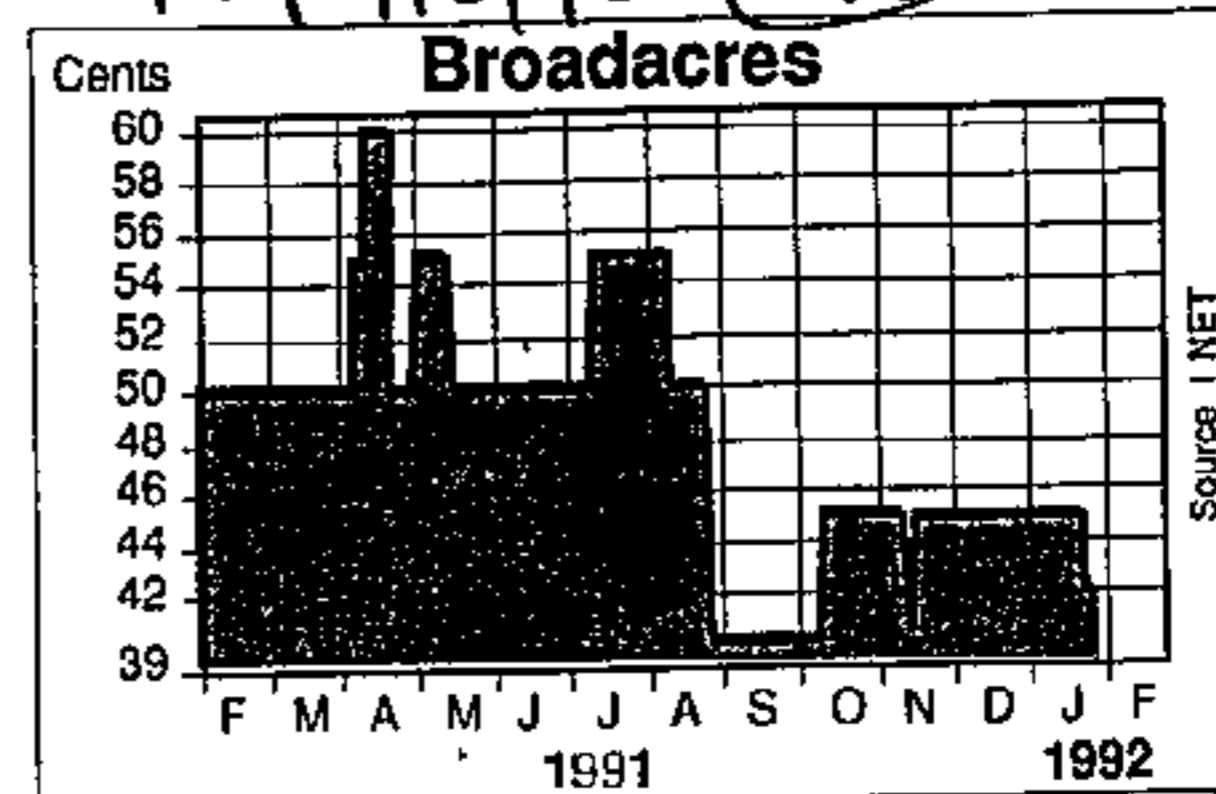
This largely reflects the volatile performance. Sparkling results follow bad ones in a bumpy ride, depending on the weather.

All of which makes investment forecasts

Contamille

COMPANIES

FM 7/2/92 (216)



difficult. The share can move quickly and appears cheap now. But potential buyers may gather better information by consulting the meteorological office and trying to predict the West Coast weather. *Shaun Harris*

Minvest to increase its fissure diamond stake

B/Day 7/2/92

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MESSINA Investments (Minvest) is looking to buy further fissure diamond properties to compensate for depleting reserves at its Messina copper mine

MD Danie Kirsten said yesterday "As our history of mining fissure diamonds has been successful we have decided to increase our thrust in this field"

However, Minvest is looking for existing operations rather than starting up greenfield operations

At the same time the mining group was looking to dispose its coal deposit — consisting of about 44-million tons of bituminous coal — near Ermelo.

A sharply lower copper price saw net income at Minvest plummet to R2,9m in the six months to December 1991 from R4,3m in the four months to December in the previous year

The comparable figures in the 1990 year include the results for four months' operations as Minvest only began operating in September 1990 after it had purchased copper, diamond, anthracite, and other mining investments from Gencor's Messina Limited

Also, Minvest's acquisition of the Bells-

WILLIAM GILFILLAN

bank diamond interests in July last year makes comparisons meaningless

Kirsten said of the R33m turnover recorded, copper comprised about R22m and R11m came from diamonds. Of this R11m, about R3m came from the Bellsbank mine. Operating income dropped to R5,9m from R8,1m

Kirsten said earnings were also hit by lower diamond prices which were down as a result of the stronger rand rather than any change to the dollar diamond price

Although the group's cash position has deteriorated significantly from R12,4m at the end of June last year to R91 000 at the end of December, he was confident this would improve following proposed sales of land at its head office in Maraisburg and from land and property at the Messina copper mine

Minvest is looking at incorporating the old mining township into the Messina municipality

The Beelsbank mine is expected to increase its profit contribution in the second half.

Groups' sub-contracts worth R34m

CAPE TOWN — The value of Anglo American's and De Beers' sub-contracting activities to small businesses burgeoned to R34m in 1991 from a start of R6m in 1989 and their Small Business Initiative (SBI) is poised to expand joint ventures with small business.

SBI manager Johan Kruger said while SBI aimed to increase its activities, there were limits.

"Further subcontracting would require substantial capital investment on the part of suppliers — our partners — so that they can produce more sophisticated products competitively," Kruger said.

5/1 Day 11/2/92
LINDA ENSOR

SBI's emphasis in future would be on joint ventures LITET, a venture capital company owned jointly by Anglo and De Beers, had already invested in five companies and had more on its books for 1992

Kruger said a minority stake was taken in emerging small businesses by providing management and technical assistance as well as financial expertise

The SBI is based in Anglo's purchasing department so that all possible subcontracting opportunities can be identified. Kruger said

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subcontractors were commissioned on the basis of strict business principles of competitive pricing, high quality and the ability to meet delivery schedules.

De Beers hit by global slump ⁽²¹⁶⁾ report

LONDON — A shadow has been cast over De Beers by fears of a global slump in diamond sales and claims that the January sight sale was down by 50%, the Sunday Telegraph reported yesterday

The De Beers report, due next month, will show the diamond trade is in its worst sales period since 1981/82, when the company cut its dividend

The industry and De Beers had successfully beaten the recession to date, with sales staying high for three years and the 1991 figure of \$3.9bn only \$200m down on 1990, the newspaper said De Beers shares

IAN HOBBS

have fallen 20% since November.

But with the recession in Europe and the US remaining dire, a deterioration in the banking system and consumer confidence in Japan, which accounts for 30% of sales, experts forecast a 16% fall in the first half

A De Beers spokesman said "The January sight was small. We are not seeing a dramatic slide, but sales are down. It would be wrong to draw parallels with the early 1980s. There is a different set of circumstances"

21/2/92
8/10/91

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London report brings gloom for De Beers

MERVYN HARRIS (216)

JSE bellringer De Beers set the tone for a gloomy share market yesterday after a London report stoked fears of a global slump in diamond sales in the wake of the current recession. *Blow 18/2/92*

The report sparked widespread selling of the shares on the domestic and London markets and could prompt further bouts of offloading by investors in New York when Wall Street opens for trading today.

The shares fell almost 2% or 175c to R91,50 on Diagonal Street, with a trade of more than 134 000 shares worth nearly R12,4m changing hands in 115 deals.

The weakness of the shares came in spite of a further decline in the rand, which normally helps prop up the shares. The unit eased to R3,77 to the dollar from R3,64 in volatile trading.

The rand tumble has helped limit De Beers' decline to 8,7% in rand terms from its peak of R100,25 in mid-November. But in dollar terms the shares are showing a steeper decline. After rising to \$32,46 in mid-November, the shares yesterday were testing the July lows of \$24,27, representing a decline of 23,5% over the period.

Mathison & Hollidge diamond analyst Barry Sergeant said perceptions about De Beers were affected by the under-performance of listed US jewellers on Wall Street. Retail jewellers in the US had been on a weak trend since 1989, but the relationship between producer-wholesaler De Beers and retailers of finished products was further apart than investors realised.

De Beers was supplying the market in such a way that stock levels were being maintained in accordance with retail demand. There was no reason why rough diamond prices should not continue to hold.

Dealers on the JSE said the sell-off of De Beers hit sentiment and sent the overall index tumbling 42 points to 3 631.

De Beers and CSO aim to lift diamond prices ⁽²¹⁶⁾ report

B/D am 19/2/92

JOHN CAVILL
and MERVYN HARRIS

DE BEERS and the CSO are believed to be tightening the supply of rough diamonds, aiming to increase prices for the first time in two years as the world economy starts to recover from recession.

In addition the CSO has been buying up uncut stones from the secondary market to reduce the potential overhang and increase control of the market, trade magazine Diamond International editor Mark Cockell said yesterday.

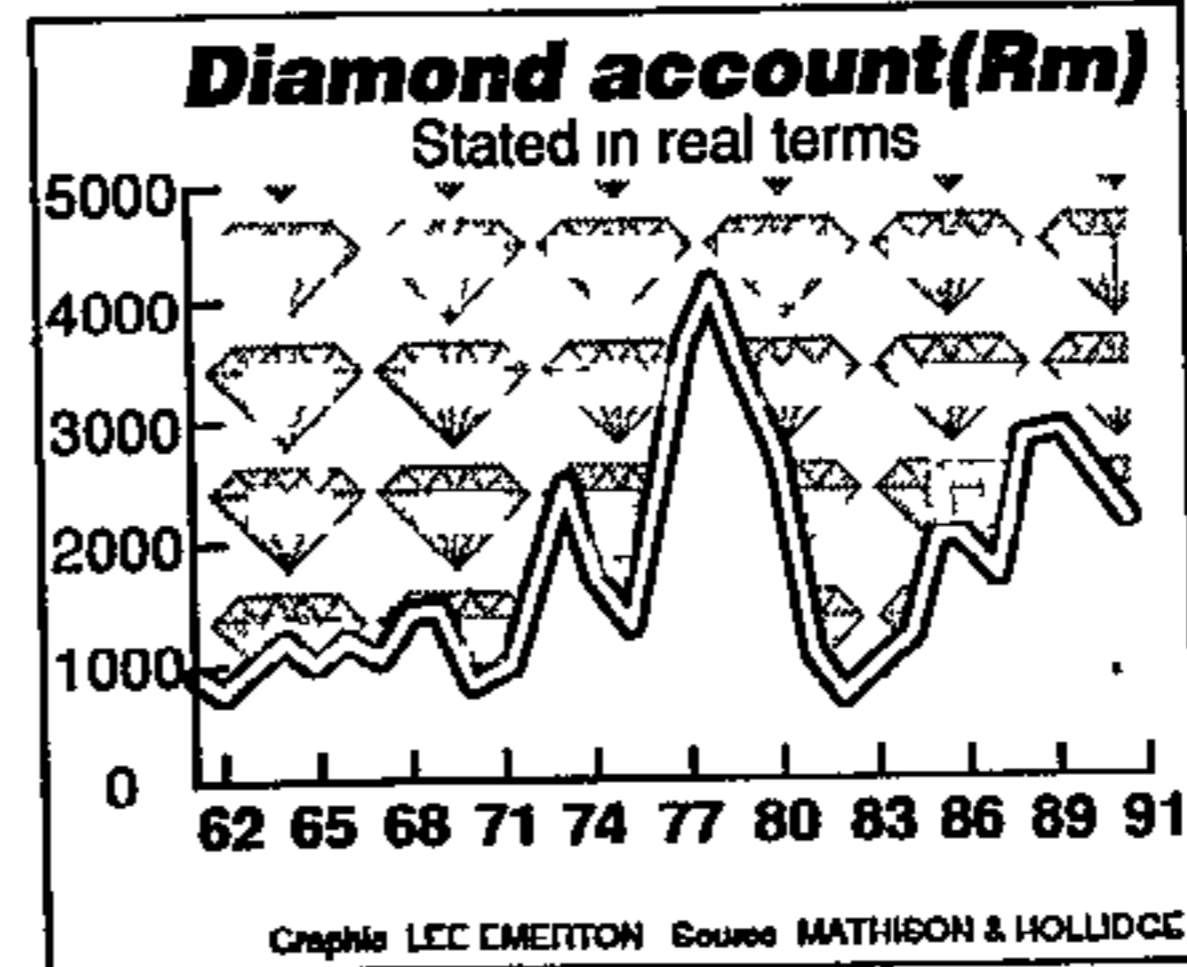
Stock market analysts in London said De Beers would wait to see how the dollar exchange rate fared but might be aiming at a price increase of 4% to 5%, possibly in September depending on confirmation that the downturn in economic activity in the US, Japan and Germany had bottomed out.

Meanwhile, prospects for gem sales at the start of 1992 are unexciting. Estimates of the January sight are contradictory. At the weekend it was reported that they were 50% down, although De Beers denied a dramatic slide.

Cockell said early figures from the trade put the January sight at \$215m to \$220m. "Since then, however, I have been told that it was more like \$265m," he said.

The figure of \$265m would represent a 25% drop from January 1991, said James Capel analyst John Taylor.

The February sight completed its second



day yesterday and was expected to be lower than January with indications that sales would be \$230m-\$240m, based on sight-holders' allocations.

"It is too early to put a figure on February but it seems clear that the CSO is trying to keep supply tight with the object of going for a price increase in line with global inflation," Cockrell said.

Mathison and Hollidge analyst Barry Sergeant said global economic conditions were vastly different to those in 1978 to 1982 when the diamond industry came under unprecedented pressure.

He said the CSO was often criticised for "strangling" the market by withholding certain types of gems and volumes in general, and the diamond account was heading back towards its 1978 peak as US economic growth was restored and consumer markets opened up in China.

De Beers sacks two London diamond sorters

CHRIS BATEMAN

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LONDON — Two long-serving De Beers diamond sorters have been sacked and three others suspended in what employees at the central sorting house in London claim is a "purge".

Both employees, who sort and grade tens of millions rands worth of rough diamonds daily, were not asked to answer charges of theft after police admitted to a lack of evidence earlier this month.

The rare insight into the controversy and the workings of one of the highest security premises in London emerged yesterday when angry and insecure workers spoke out for the first time in years.

Neil Newby, a sacked quality controller who had worked for De Beers for 25 years, was also allegedly served with notice to quit his home on which the company holds the mortgage.

His mother told the Evening Standard that four others had been accused as well and were in danger of losing their homes and "going bankrupt".

The "purge" has caused bitterness, fear and anger among De Beers employees as they are summoned from their desks before being "shown the door".

One sorter with more than 20 years experience, said people were "being picked off one by one — everyone's wondering who's going to be next". Evidence against those sacked or suspended had been so slim that "we all feel we could go the same way".

The employee, who declined to be named, described how Newby and a woman colleague with 17 years experience, had been fired and others suspended.

"They'd be having a cup of coffee next to you and get called away. You think they've been gone a long time. Next thing you know someone from personnel comes up to collect their handbag and coat. And that's it; you never see them again — it's as if they never existed." *Bl Day 25/2/92*

All those sacked or suspended have vehemently denied any dishonesty.

De Beers spokesman Roger van Eeghen said the two sacked workers would not be allowed back.

"The fact that police did charge the one person concerned was, in our view, sufficient," he said.

The company would dismiss staff if there were "suspicions, where things are not as they should be".

De Beers Sorters Sacked

216 #2 27 25 12 199

Own Correspondent

LONDON. — Two long-serving De Beers diamond sorters have been sacked and three others suspended in what employees at the central sorting house in London claim is a "purge".

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the workings of one of the highest security premises in London emerged yesterday when workers spoke out.

Mr Neil Newby, a sacked quality controller who had worked for De Beers for 25 years, was also allegedly served with notice to quit his home on which the company holds the mortgage.

One sorter, with more than 20 years' experience, said people were "being picked off one by one — everyone's wondering who's going to be next". Security inside the Charterhouse Street

building — known simply as the Central Selling Organisation — includes tomb-like sorting rooms with all-round video surveillance and impenetrable windows, roofs, drains and floor coverings (to prevent stones being lost or hidden).

Those sacked or suspended have denied any dishonesty.

A spokesman for De Beers, Mr Roger van Eeghen, would not comment on whether any diamonds had gone missing but said the sacked workers had been under suspicion "for several months".

De Beers expected to report another profit dip

By Garner Thomson (216)

LONDON — Analysts have forecast a gloomy report from De Beers next week, suggesting that the diamond giant is set to reveal its second consecutive profits slip

According to some sources here, volume sales in January and February are down 50 percent, and brokers James Capel have "guesstimated" a 13 percent slide in profits

In the light of this, Michael Coulson of Durlach and Co says he would be very surprised if there was a price rise in store this year.

But a 15 percent price rise is possible if sales

and the global economy pick up in the second half of the year, he says.

Stockpiles

Evening Standard Finance writer Amanda McCrystal echoes the gloom. She points out that De Beers also had to contend with falling investment income as interest-earning cash deposits have been diverted into the financing of stockpiles, thought to have ballooned to \$3 billion in 1991 from \$2.7 billion the year before

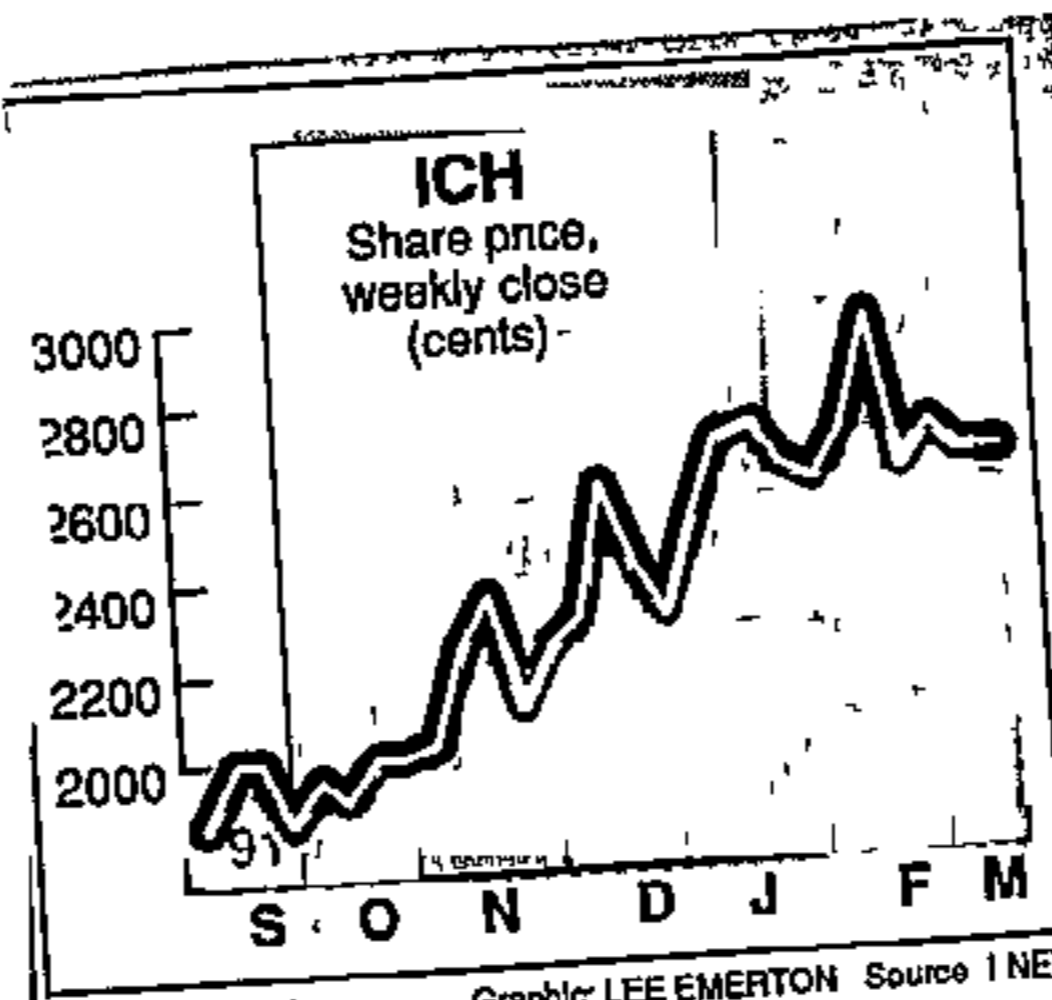
"De Beers sales have been hit hard in its main markets, the US and Japan, which together

account for nearly 60 percent of retail sales," she reports.

The economic slump is expected to continue depressing sales in the first half "which could mean total 1992 sales fall even further to \$3.5 billion — some \$700 million behind 1990's level"

However, analyst Vincent Tattersall of Williams de Broe believes the slide could soon come to an end

Plummeting Japanese import figures have been misinterpreted, he says. They simply mean Japan has been using up its high stockpiles, built up over the past two years, not that fewer diamonds are being bought.



Graphic: LEE EMERTON Source: I NET

Bl/day 6/3/92
**Venetia helps ICH
 back into the black**

MATTHEW CURTIN (216)

INDUSTRIAL & Commercial Holdings (ICH), whose major asset is its stake in De Beers' Venetia diamond mine, moved back into the black in the six months to end December.

ICH has a 12,5% stake in Saturn Mining and Prospecting which has rights to receive royalty income from Venetia. Anglovaal has the remaining 87,5% stake in Saturn.

In the interim period, ICH received a dividend payment of R165 000 from Saturn in December. The company turned in attributable earnings of R75 000 against 1990's R49 000 loss.

An Anglovaal spokesman said Venetia's development would be brought into production in the second half of 1992.

COMPANIES

Moderate expectations from De Beers

TIM MARSLAND

DE BEERS is likely to report flat to slightly better results for the year ended December, analysts said on Friday.

The group's 1991 results will be released tomorrow. *BIDAY 9/3/92*

Estimates of attributable earnings range from 641c a share to 692c, and estimates of dividends for the full year range from 305c a share to 320c

Full-year earnings for 1990 were 641c a share, while the dividend was 285,3c a share. At the interim stage, De Beers reported a 14% drop in interim earnings to \$446m

Mathison and Hollidge analyst Barry Sergeant expects an improved performance from the diamond account because of higher sales of industrial diamonds. While a slowdown in the Japanese market is of concern, indications are that the North American economies have picked up in the second quarter, boosting diamond sales.

A key factor in De Beers' results is the rand/dollar exchange rate, which averaged about R2,74 to the dollar in 1991 from R2,56 in 1990. *(216)*

Frankel Max Pollak analyst Kevin Kartun expects flat earnings

Disappointing sales from De Beers' marketing arm Central Selling Organisation (CSO) will put pressure on the results. CSO reported 1991 sales down 6% or \$240m to \$3,927bn. Many US jewellers had gone out of business in the second quarter, prompting foreign investors to offload De Beers shares in January. The shares are trading at present at about R88,75

Encouraging developments in the past year have been a deal with Angolan state-owned diamond company Endiama. In May, CSO renewed its contract with Argyle mine in Australia.

Gush likely to be De Beers 'MD'

ANGLO American deputy chairman Peter Gush is set to take over as effective MD of the De Beers group, market sources speculated over the weekend. Anglo confirmed on Friday that current MD Peter Leyden retires at the end of March. (216)

If appointed, Gush will run the group's mining operations locally and abroad (Namibia and Botswana) and oversee its prospecting operations worldwide.

He will report directly to De Beers' chairman Julian Ogilvie Thompson.

Gush will probably be appointed to the De Beers main board when it meets in Kimberley tomorrow. "He will need to be appointed to the De Beers board otherwise his level of clout will not be what it ought to be," an analyst said.

Gush rejoined Anglo in January after an absence of three years. He previously headed the group's gold and uranium divi-

WILLIAM GILFILLAN

sion but left in 1989 to pursue his own interests. He had been with Anglo for 25 years. B10as 9/13/92

Although De Beers does not have an official MD position, the person who heads Anglo's Diamond Services Division is considered to be "de facto" MD of De Beers. Gush replaced Ogilvie Thompson as chairman of the division in January, but Leyden continued to operate as the effective MD of De Beers through his position as MD of the division.

Leyden's retirement means Gush will fill both roles.

The division runs all the arms of the De Beers group that do not fall under the Central Selling Organisation (CSO).

In spite of Gush's appointment, Ogilvie Thompson will remain the unquestioned boss of De Beers.

CDM has bumper year

STAR 11/3/92

(216)

WINDHOEK — De Beers' Namibian subsidiary Consolidated Diamond Mines had their best production year in 10 years in 1991, yielding almost 1,2 million carats

Namibian Chamber of Mines president Jonathan Leslie said in Windhoek yesterday that the long-running world-wide recession caused mineral prices to weaken

"Last year CDM produced almost 1,2 million carats, as against 750 000 in 1990"

Diamond sales for the second half of 1991 were 21 percent up in rand terms on 1990.

Navachab Gold Mine, the country's biggest producer, produced 1 709 kg in 1991 against 1 453 kg the previous year

Rossing Uranium twice cut back production in 1991 to 2 500 short tons, about half its capacity, due to an oversupply on the world market

Namibia's copper production of just under 33 000 tons was fractionally up on 1990

Mr Leslie said north-western Namibia continued to be the focus of new exploration activities

"A major SA exploration company has returned and applied for an extensive area south-west of Windhoek," he said.

However in spite of this activity prospecting expenditure by Chamber of Mines members totalled about R40 million, compared with almost R67 million in 1990. — Sapa

World recession puts damper on De Beers

STAR 11/3/92

By Derek Tommey (216)

De Beers/Centenary saw its profits slide in the six months to December.

But clearly reflecting the confidence of the directors in group prospects, it has declared an unchanged dividend in dollar terms and, because of the drop in the rand, an increased dividend in rand terms.

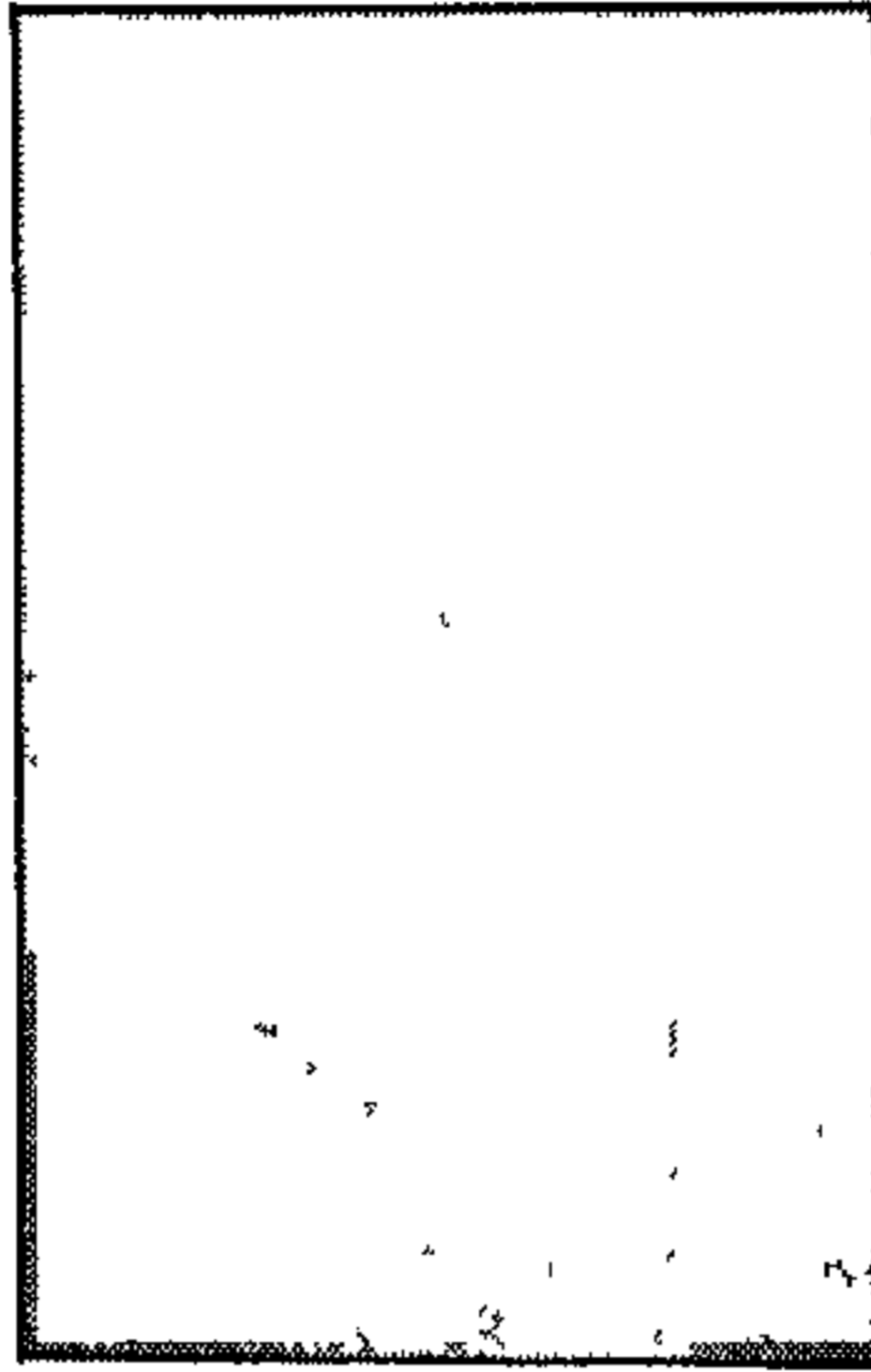
Chairman Julian Ogilvie Thompson said yesterday the diamond market was quiet, but that De Beers had a strong balance sheet and was well placed to weather any further deterioration in the market or to take advantage of any improvement.

He said it was reassuring that retail sales of diamond jewellery worldwide last year appeared to be at the same level as the previous year.

"The diamond-cutting centres are in a sound financial position and retail stocks are not believed to be too high.

"We look forward to an upturn in world economic activity later in the year, which will lead to increased diamond business," he said.

De Beers is paying a final dividend of 87,4 US cents (year ago 86,5c), making a total payment for the year of 112,1c (111,3c).



Peter Gush, deputy chairman of Anglo American, has been appointed to the board of De Beers.

South African shareholders are getting a final dividend of 236,2c, which is a 7,6 percent rise on last year, making a total for the year of 307,5c — an increase of 7,8 percent on last year's 285,3c.

The 13,7 percent drop in De Beers' attributable earnings to \$446 million in the first half of last year was followed by a 26,8 percent drop to \$317 million in the second half.

Altogether, full-year earnings

at \$763 million were down 19,7 percent on the previous year's \$950 million.

In rand terms the decline was not so sharp.

The 6,3 percent fall in first-half earnings was followed by a 24,4 percent slide in the second half, while full-year earnings were down 14,2 percent to R2,09 billion.

A breakdown of De Beers' earnings for the full year reflects more difficult trading conditions.

Earnings from the diamond account declined 11,6 percent to \$803 million because of lower diamond sales and cost inflation.

Investment income dropped 6,6 percent to \$212 million. Interest received dropped 25,9 percent to \$209 million, presumably partly as a result of financing larger diamond stocks.

De Beers did not let up on its spending on prospecting and research, which showed a small increase. But interest paid rose 86 percent to \$67 million.

Although net pre-tax income was lower, tax paid was the same last year as in 1990.

Mr Ogilvie Thompson said this was the result of the different tax rates paid in the countries in which the company operates.

Although 1991 was a quiet

year, diamond stocks increased by only 13 percent from \$2,68 billion to \$3,03 billion, suggesting that the slowdown in sales had not been too substantial.

The increase in diamond stocks appears to have been financed partly by the rise in long- and medium-term liabilities from \$1,05 billion to \$1,24 billion.

But the directors said De Beers had the equivalent of \$759 million in cash in its kitty, which should enable it to finance any increase in diamond stocks.

Mr Ogilvie Thompson would not give a direct reply to a question whether the CSO this year had reduced the quantity of diamonds being offered at its sights.

But he did say the CSO was doing its job, which was to control supplies to the market and also to support the market.

Asked about the future of the 273-carat Centenary diamond, said to be insured for R276 million, Mr Ogilvie Thompson said De Beers was in no hurry to sell it.

"We think it is rather beautiful and, to quote a popular song 'We have become accustomed to her face.'

"A buyer would have to pay a good price to make us give it up," he said.

De Beers feels chill Wind of recession

8/10 day 11/3/92 216

216 From Page 1

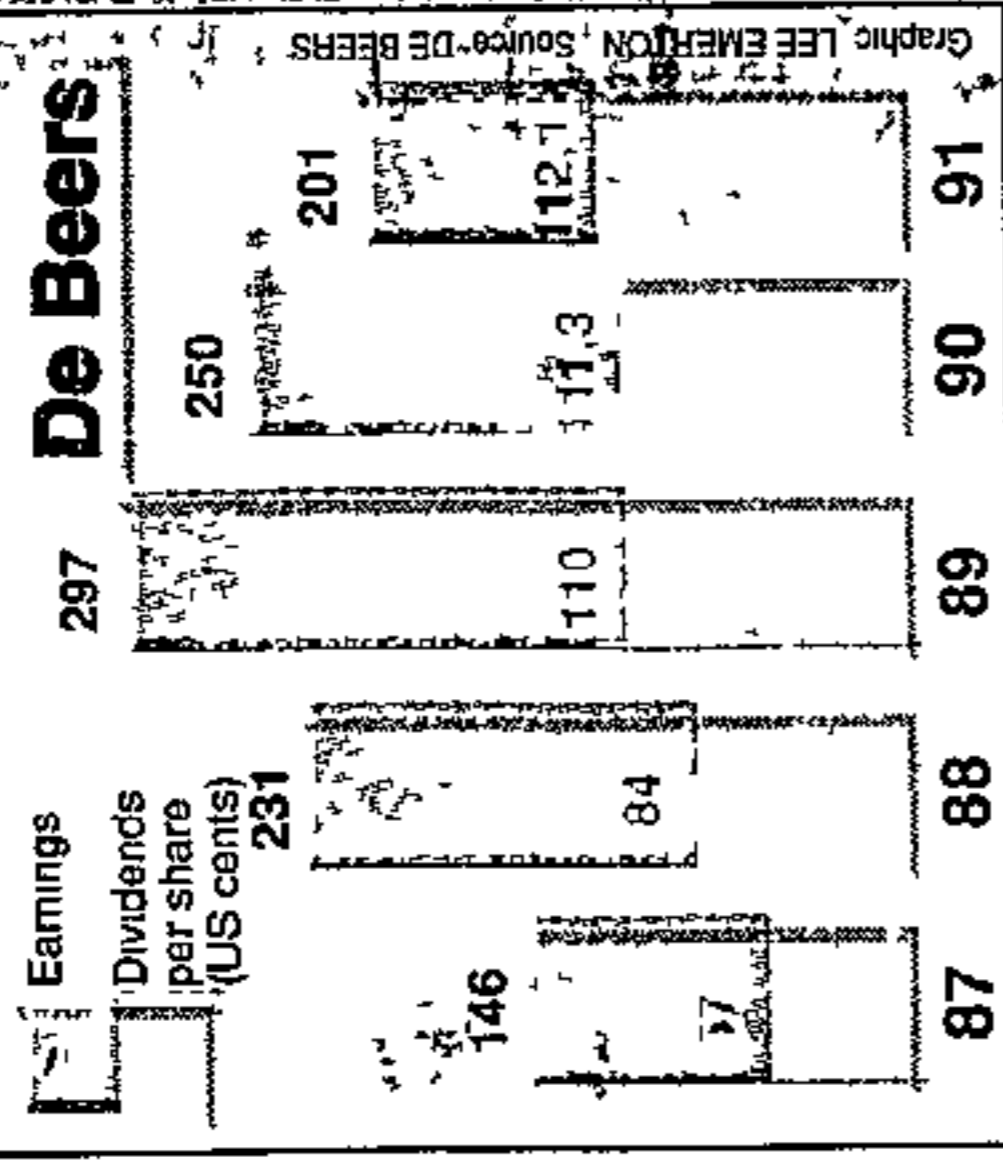
MATTHEW CURTIN

THE worldwide recession took its toll on De Beers in 1991, but the group's year-end results have confirmed the sturdiness of the diamond business.

Speculation that De Beers' hold over the depressed diamond trade was slipping has proved unfounded, with only a moderate fall in rough diamond sales during 1991, the signing of several new or renewed sales agreements by the Central Selling Organisation (CSO), and an unchanged dollar dividend declared in 1991.

In spite of a 20% fall in combined earnings to \$763m or \$2.01 a share, De Beers Consolidated and offshore arm De Beers Centenary declared an almost unchanged total dollar dividend of 112.1c for the companies' linked unit. However, with the rand's loss in value against the dollar, the rand denominated dividend rose 8% to 307.5c from 285.3c in 1990.

The CSO, De Beers' marketing arm, reported only 6% lower rough diamond sales in 1991. This took analysts by surprise, given the depth of the trough in commodity markets, after they were down 14% at the



interim stage. Rough diamond sales dropped to \$3.93bn in 1991 from \$4.17bn in 1990. Second half sales of \$1.84bn (\$1.69bn in 1990) compared with first half sales of \$2.08bn (\$2.48).

The combined diamond account of De Beers and Centenary fell nearly 12% to \$803m from \$911m the year before. The rand amount fell to R2,26bn from R2,3bn. De Beers' diamond account rose nearly

To Page 2

80% to R297m from R166m because of the rand's depreciation against the dollar and lower capital spending. Centenary's fell 17% to \$727m from \$880m because of the Gulf war and market recession.

At a news conference yesterday, chairman Julian Ogilvie Thompson said that against the background of world recession it was encouraging that CSO sales of rough diamonds had held up relatively well, while overall retail sales of diamond jewellery in 1991 matched sales of the previous year in dollar terms. It was also encouraging that "the combined profits of De Beers/Centenary have held up as well as they have".

Ogilvie Thompson said that although rough diamond sales at the first sights in 1992 were lower than in 1991, demand for diamonds would increase if the OECD economies turned round in the second half of the year, as many expected. Provided there was renewed economic growth, the CSO would be able to tailor market offtake to supply, while supporting prices by buy-

ing diamonds on the open market. The diamond pipeline was in a healthy condition, with stocks at all stages of the pipeline at manageable levels. De Beers diamond stocks rose to \$3bn from \$2.7bn in 1990, diamond cutting centres were in a sound financial position, and retail stocks "are not believed to be high".

Ogilvie Thompson said Centenary's relationship with Russia's Rossalmazoloto — the successor to the Soviet Union's Glavalmazoloto — was good. Repayments regarding Centenary's \$5bn loan to Rossalmazoloto had been made on time.

He said De Beers was not involved in diamond prospecting in Russia. While many analysts accurately forecast the group's total dividend, the sharp fall in earnings took them by surprise. De Beers' results were announced before the JSE closed yesterday and the shares fell nearly a rand on the news, but still finished 75c higher on the day at R89.75. That compares with R73.25 on the day the group released its 1990 results.

B/day 11/3/92
**CDC report
'qualified' 216**

MATTHEW CURTIN

AUDITORS Kessel Feinstein have issued a qualified approval of independent diamond mining company Consolidated Diamond Corporation's (CDC) 1991 financial statements

The report says the continuation of CDC's Free State diamond mining activities depend on sufficient recovery grade at Samada diamond mine, owned by a CDC subsidiary, to cover operating and development costs.

CDC's financial statements have been prepared on the going-concern basis which assumes sufficient recovery grade will be achieved, and do not include adjustments relating to recoverability and classification of assets

CDC turned in an operating loss after interest of R949 000 in the 16 months ended June 1991, and a total accumulated loss at the end of the period of R9,8m

Chairman C C Mumby said in his 1991 review that the mine, commissioned in August 1990, was knocked by the late arrival of its truck fleet and wet weather. Although its plant treated planned tonnage of 65 000 tons a month, grades and diamond recoveries were lower than expected

DE BEERS

FM 13/3/92 (216)

A force for stability

When sales of rough diamonds by the Central Selling Organisation (CSO) were ahead of many market expectations, that may have led to some upward revision of forecasts for the year-end results from De Beers.

That, in turn, would have led to further disappointment this week, when the group announced pro forma combined attributable earnings down by almost 20% in dollar terms and by just over 14% in rand terms.

These figures come as a reminder that the diamond industry is fundamentally a cyclical business, and that De Beers/Centenary cannot remain immune from a prolonged recession — even with its apparent flexibility to adjust to conditions (which management prefers to play down).

There should not have been any disappointment about the dividend. It was widely believed that the board wanted at least to maintain the dividend in dollar terms, and this was achieved as well as a slight increase, from US111,3c to US112,1c. On the pro forma combined accounts, that resulted in an increase in the total payout in rand terms from 285,3c to 307,5c, though actual amounts received by unitholders will depend on rates on the fixing date of March 30.

Earnings were curbed on several fronts, the two main factors being a lower margin on the diamond account and a marked adverse swing in the net interest receipts, that dropped by R240m, to R391m, or by US\$104m, to \$142m.

At \$803m, the combined diamond account was down by 12%, with Centenary — holding the activities outside SA — being hit hard, showing a drop of 17%. For De Beers — which holds the SA interests — lower capital spending and a lower rand/dollar exchange rate enabled a 79% improvement in its diamond account, which climbed to R297m.

The breakdown between the earnings contributions and the net assets held by the two companies has shifted accordingly. De Beers accounted for 23% of attributable earnings compared with 19% in 1990, and it has 53%

(47%) of the net assets, with Centenary's share dropping to 47%.

This partly reflects the respective roles now being played by De Beers and Centenary. For the former, the diamond account depends largely on sales of diamonds produced by local mines. For Centenary, which normally derives much of its income from the marketing activities of the CSO, the emphasis is now on its role as a stabilising force in the world diamond market.

Diamond stocks held by Centenary have continued to rise steadily, climbing last year to \$2,974bn from \$2,625bn in 1990 and from \$2,421bn in 1989. Its long- and medium-term liabilities show a similar trend, up from \$1,051bn to \$1,241bn, though the cash is barely changed, at \$561m. De Beers' diamond stocks were up only R9m, at R164m.

The directors comment that the diamond cutting centres are in a sound financial position, and retail stocks are not believed to be high. Chairman Julian Ogilvie Thompson

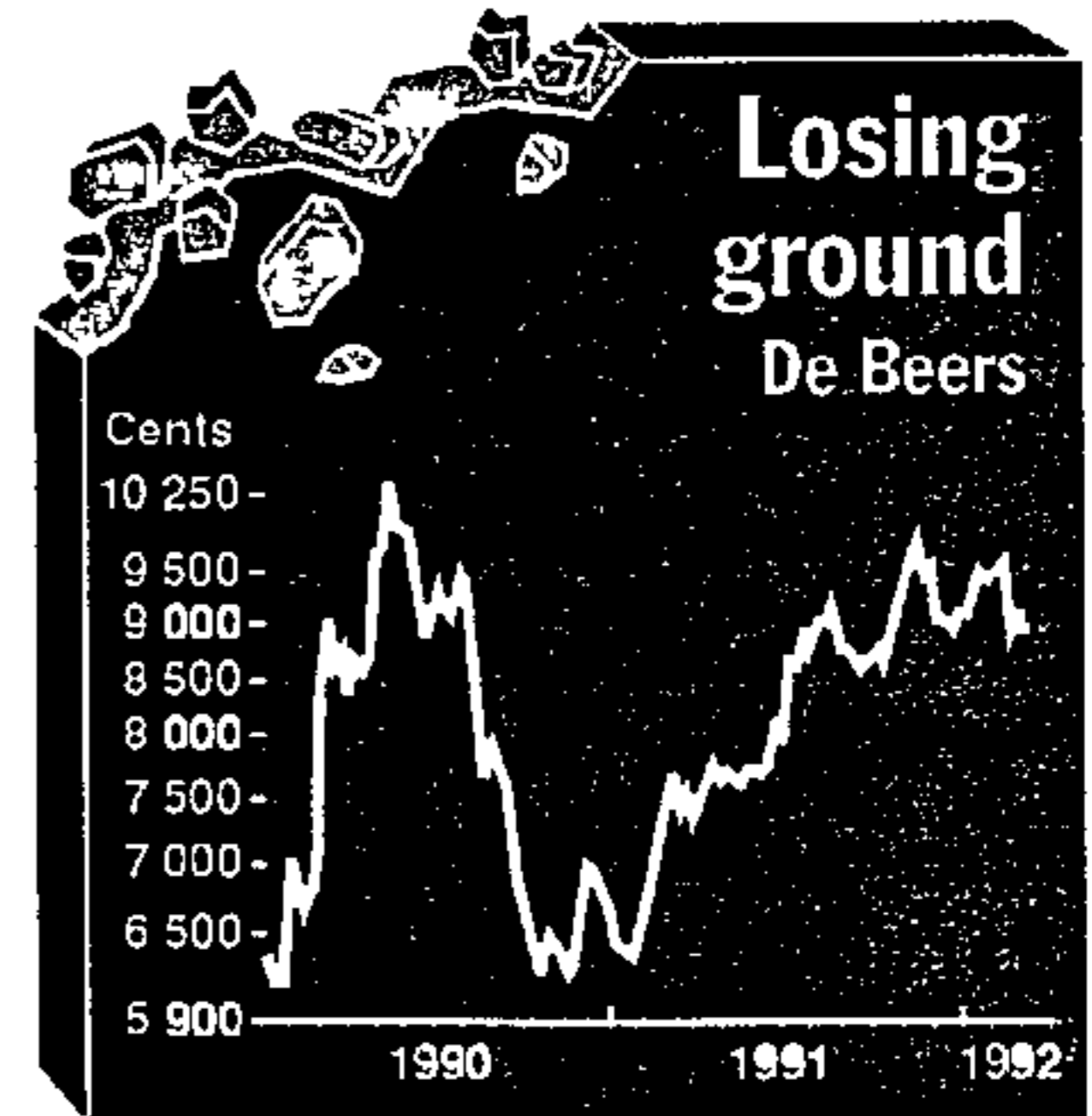


De Beers' Ogilvie Thompson
industry stocks not excessive

adds that while stocks held in the industry increased last year, their levels are not excessive and certainly not comparable with the levels of the late Seventies. He adds that the group has a strong balance sheet and he is not concerned about borrowings.

Sales of rough diamonds at the CSO sights held so far this year have dropped further, but Ogilvie Thompson contends it is much too early to take a view on sales for the year. Preliminary estimates indicate retail sales last year were level with those of the previous year, which Ogilvie Thompson considers "encouraging and reassuring for the future."

Assuming world economic activity turns upwards this year, diamond business is expected to increase. But, as Ogilvie Thompson points out, there have been false dawns be-



Source I-NET

fore during this downturn.

After release of the results, the share price gained 75c to close at R89 on the JSE, though that was on a day when the financial rand rate firmed. After these figures, investors are unlikely to be enthusiastic about accumulating the share ahead of a recovery just yet. As in the mid-Eighties, though, the profit recovery will probably be powerful when it does come.

Andrew McNulty

AMIC FM 13/3/92

Fallible tea leaves

Traditionally, two groups, subsidiary Highveld and associate AECI, have provided a fair portent of what results can be expected from Amic. This year, in spite of a halving of Highveld's earnings and 20% drop in AECI's contribution, Amic held its earnings fall to 11% and maintained a dividend of 350c for the third year in a row.

It was bolstered by improved results from Mondri and Scaw Metals. At 53%-held Mondri, higher production at the Richards Bay mill and improved operating conditions in its board division were the main contributors to an 18% increase in earnings.

Mondri chairman Tony Trahar, recently appointed joint deputy chairman of Amic, is much younger than the other deputy chairman, Boart's Hilton Davies.

Wholly owned Scaw Metals was the largest contributor to earnings, with an 8% improvement to R78m. It increased exports of value-added steel products.

The other main subsidiary, Boart International, was less fortunate. Earnings fell 27% to R48,2m as prospecting and mining activity was low throughout the world — earnings in SA were higher than those in the rest of the world for the first time since 1983.

Amic's income before tax and interest was

ROUGH EDGES

Year to Dec 31	*1990	*1991
Diamond account (Rm)	2 335	2 202
Investment inc (Rm)	581	581
Interest received (Rm)	722	573
Attrib earnings (Rm)	2 436	2 091
Equity earnings (Rm)	3 376	2 954
Earnings (c)		
— attributable	641	550
— equity	888	777
Dividend (c)	285,3	307,5

* Pro forma combined results of De Beers/Centenary linked units

BUSINESS BAROMETER

W/Week 13/3-19/3/92

Diamonds still De Beers best friend

WORLDWIDE recession took some of the shine off 1991 diamond sales. De Beers Consolidated and linked-offshore arm, Centenary announced a 20 percent fall in combined profits to \$763-million or \$2.01 a share for the year ending December 31, 1991.

Including the share of retained profits of associates, combined earnings were \$1,078-billion (1990 \$1,317-billion) or \$2.83 (\$3.47) per De Beers/Centenary linked unit (216)

Rumours were disproved that the hold on the market of the only successful cartel in the world was slipping. De Beers marketing arm, the Central Selling Organisation, sold rough diamonds worth \$3.93-billion in 1991, or only six percent less than in 1990.

De Beers announced around \$250-million has been repaid of the \$1-billion loaned to the Soviet Union's unpronounceable diamond marketing arm and now transferred to the equally unpronounceable Russian marketing arm, Rossalmazoloto of the Russian Federation.

Gush on De Beers board



PETER GUSH was appointed to the board of De Beers Consolidated Mines Limited. De Beers Centenary AG has also recommended Gush be appointed to that board at the annual general meeting of the company in Lucerne on May 13.

Diamond flood threat to De Beers price fixing

(216)
GARNER THOMSON
The Argus Foreign Service

LONDON. — A flood of uncut diamonds from Zaire and Angola is threatening to upset De Beers' price-fixing arrangements, according to a London-based bulletin of South Africa affairs

The effect could be to put pressure on diamond prices just when it seemed increases were on the way, according to the bulletin, Southscan

It warns "It may mean a revision downward of anticipated income in diamond producers Botswana, Namibia and South Africa"

Southscan quotes imports to the diamond polishing centre of Antwerp in Belgium as an indication of the huge increase in stones smuggled out of Zaire. There is no sign of the flood of stones decreasing

Escalated smuggling has its roots in "new opportunities provided by un-

stable conditions" in the diamond regions both in Zaire and Angola, says the bulletin

ARC 16/3/92
In spite of Zaire's attempt to introduce new security conditions in the diamond province of Kasai, some analysts believe President Mobutu is seeking to rapidly expand his cash resources through this means

Even though foreigners have been expelled from Kasai, Southscan reports that small foreign firms and traders are still buying stones in Kinshasa

At the same time, some 1 761 carats worth more than R3 million flooded on to the US market from Zaire last year.

Acknowledging that the import statistics may not be very accurate, the bulletin says they nevertheless indicate a "new, large flow" on to the world's most important jewellery market.

COMPANIES

Venetia diamond mine ⁽²¹⁶⁾ nears commission date

DE BEERS Consolidated is only a matter of months away from commissioning the R1,1bn Venetia diamond mine which is expected to pay for itself in two years. Venetia will start production near the end of July, and employ 700 people to be housed in Messina.

Market sources say the mine, which will be the largest of its kind in SA, could boost De Beers' earnings by as much as R700m a year. *8/10am 18/3/92*

De Beers Consolidated produced 8,2-million carats in 1990, half of which came from the Finsch mine, but Venetia will recover more than 4-million carats a year from the treatment of 3,3-million tons of ore.

Presenting De Beers' 1991 year-end results last week, chairman Julian Ogilvie Thompson said work was continuing at Venetia's bulk sampling plant, and the mine was finalising recovery methods.

MATTHEW CURTIN

Ogilvie Thompson said it was too early to forecast the diamond grades, but he said last year that they were much lower than planned because of problems recovering fines (diamonds smaller than 3mm).

Anglo American's Diamond Services Division appointed Genrec subsidiary Construction Management Contractors to co-ordinate construction. Genrec special projects executive director Eddie O'Reilly said yesterday the mine was "a fast-track project with design only slightly ahead of fabrication and erection, all running concurrently".

The mine, near the Zimbabwe border in far Northern Transvaal, was 500km from the PWV with little infrastructure and mainly gravel roads. The plant was built on a series of low kopjes which posed problems.

De Beers heads the list of SA's wealth makers

DE BEERS is the top SA business achiever, according to the Finance Week/Stern Stewart Performance 200 survey

The poll, which is published in this week's edition of Finance Week, ranks 200 listed companies by how much value management has created for ordinary shareholders. The criterion, called Market Value Added (MVA), is the difference between the market value of the firm, including debt and equity, and total capital contributed by investors to generate the market value.

De Beers' MVA is quoted as R16,4bn, to put it comfortably ahead of second-placed Anglo American (R13,7bn).

The other top 10 finishers are: third, SA Breweries (R11bn), 4th, Remgro (R8,8bn), 5th, Richemont (R7,7bn), 6th, Gencor

MICK ELLINGHAM

(R6,2bn), 7th, Johnnies (R5,4bn), 8th, GFSA (R4,8bn), 9th, Amgold (R4,3bn) and 10th, Tiger Oats, (R3,9bn)

Bringing up the rear at 200th position with an MVA rating of -R9,3bn is Iscor, while Sasol finished 199th, with an MVA of -R4,7bn

In the competition to create value, size is not the only determinant of success. Barlows, considerably larger than SAB with an FW 200 asset rank of four, sells close to its book capital.

In contrast, Tiger Oats sells at a significant premium to the small amount of capital it employs. Tiger's R3,9bn MVA ranks 10 in the competition to create shareholder value while by assets it ranks just 25th

De Beers climbs in jewel-wise

SI Times [BUSS] 22/3/92
JAPAN has overtaken the US as the world's largest retail market for diamond jewellery.

Diamond-jewellery sales to Japan have increased by 66% since 1982, reflecting the country's rate of economic growth and the rise in disposable income.

The total value of diamond-jewellery sales to Japan in 1990 was US\$11.7-billion, representing 7.6-million jewel-

lery pieces and 2.8-million carats

Tory Johnston, De Beers's market controller for the Far East, says "Our preliminary figures for 1991 show that, despite the bursting of the 'bubble economy' and the resulting slowdown in economic growth, sales value will equal that of 1990, and Japan has gained a 2% share of the world total value — it now represents 32%, followed by the US at 28%."

De Beers started marketing jewellery in Japan in 1966, and last year celebrated its 25th anniversary. Several Western jewellery customs and fashions have been introduced by De Beers into Japan, the diamond engagement ring being one example.

Today 74% of Japanese brides receive a diamond solitaire ring. Miss Johnston says Japanese consumers are knowledgeable and demanding in terms of quality and service, and the average price for an item of diamond jewellery is \$1,532 (R4,270), among the highest in the world.

Other Western customs the Japanese have taken a shine to are the tenth and twenty-fifth wedding anniversaries as suitable occasions for diamond-jewellery gifts. An interesting feature of the Japanese market is that a large proportion of jewellery is bought by individuals to wear themselves rather than as gifts for loved ones.

"An excellent example of this is today's young working woman with a high disposable income in a very fashion-conscious environment. They currently account for over one-third of the market's total sales value of diamond jewellery."

The 32nd Diamonds International Awards Ceremony was held in Tokyo in January, the first time it has been held outside Europe. This design competition is sponsored by De Beers and is the equivalent of the Oscars in the jewellery world.

CDC may be forced to close mining operations

STAR 2/13/92

216

Consolidated Diamond Corporation will have to close its mining operations if negotiations with a foreign lender prove unsuccessful

Releasing the corporation's interim results for the half year ended December 31 1991, the group disclosed it was exposed to an uncovered foreign debt liability and that the group may not be able to meet its obligations in terms of the liability

The group said that while operations were continuing at its Samada Diamond Mine profitably, it was well below expectations — due to the continuing poor grades achieved

Attempts to find alternative

sources of ore proved to be negative, and work on these deposits had ceased, the group stated

Turnover for the six months amounted to R7 562 million which led to an operating profit of R824 000

But interest of R1 642 million, a foreign exchange loss of R2,633 million, and an accumulated loss of R9,760 million led to an accumulated loss of R12,696 million

This translated into a loss of 3,91c a share

The half-year results were directly comparable with the previous accounting period as this spanned 16 months — Sapa

Gold and diamond operations face closure

B/day 216
B/day 27/3/92

MATTHEW CURTIN

THE diamond and gold mining operations of Consolidated Diamond Corporation (CDC) and Simmer and Jack Mines took a turn for the worse in the six months ended December, and both face closure in the near future.

CDC director and Simmers chairman Chris Mumby said yesterday that both CDC's Samada diamond mine and Simmers' Makonywaan gold mine might have to be closed.

Mumby said that although Samada showed an operating profit in the period, it was well below expectations because of the poor grade of diamond reserves. CDC had not been able to find alternative, richer ore reserves.

He said the group was exposed to "uncovered foreign debt liability" and CDC might not be able to meet its obligations.

Samada might have to close if discussions with a foreign lender and other parties concerning the future of the group were not successful.

Samada, CDC's main asset whose 1991 results were qualified by its auditors, posted an operating profit of R824 000 in the period. It was more than offset by R1,6m in interest charges and a R2,6m unrealised loss from a foreign exchange transaction. CDC posted a bottom-line loss of R2,9m

and the company was laden with R27m of long-term debts at December 31.

In addition, Mumby said that if work aimed at improving the mill grade at Simmers' Makonywaan mine in the eastern Transvaal did not succeed, the mine might have to be closed temporarily.

Simmers turned in an after-tax loss of R1,6m, but the bottom line was boosted by R10m from the sale of investments and slimes dam material. Simmers is not having its large reserves of gold dumps and slimes treated at the moment, but after a deal last month with Waverley Gold and Knights, the three companies have formed a large dump retreatment and property group on the East Rand.

Neither Simmers nor Waverley has a gold recovery plant, but their reserves are near Knights' plant, which now has 143-million tons of reserves, payable for 15 years at current gold prices.

Mumby, a director of Waverley, said the company's turnover in the six months ended December came mostly from slimes material being processed by Knights.

Waverley turned in an after-tax profit of R671 000, against R571 000 in 1990.

De Beers dips on gloomy sales report

By Day 3/13/92
MATTHEW CURTIN

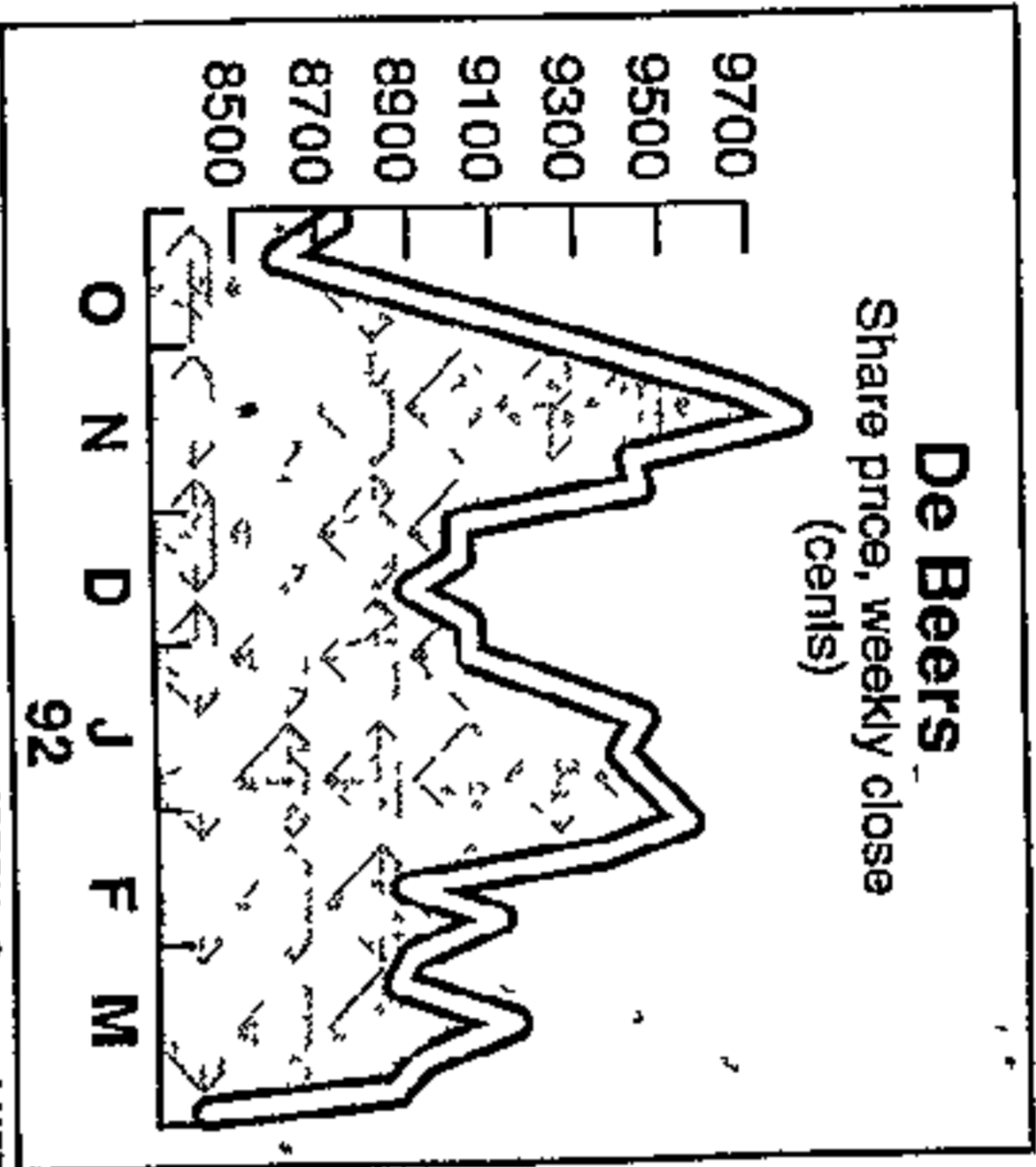
DE BEERS shares dropped nearly 5% on the JSE yesterday as the stock went ex-dividend and was hit by gloomy reports of a third successive fall in rough diamond sales at the latest Central Selling Organisation (CSO) sight.

The shares ended a day of heavy trading at R84.35, down 415c. Shares worth more than R22bn changed hands in 110 deals.

Frankel, Max Pollak, Vunderine analyst Kevin Kartun said yesterday there were growing fears that De Beers would post flat earnings growth in dollar terms in 1992 because of the continued recession.

He said the group was battling in the short term with weak demand for rough diamonds, particularly the larger, more expensive stones.

Kartun said trade estimates suggested the first three diamond sights in 1992 — 10 are held every year by the CSO in Kimberley, London and Lucerne but De Beers releases and comments only on mid-year and year-end figures — were as much as 10% down on 1991 levels. The CSO could be



Graphic: LEE EMERTON Source: I NET

heading for sales worth only \$1.6bn by mid-year, compared with \$2.1bn in 1991.

He added that it appeared De Beers was mopping up non-CSO rough diamond sales, as much as \$100m-worth so far this year, in a bid to stabilise supply and prices. There were reports of illicit sales of diamonds worth about \$6m a week from Angola.

□ To Page 2

De Beers 8/00ay 3/13/92

compared with total sales of \$200m in 1990.

Anderson, Wilson analyst James Allen said there were reports that some CSO sight-holders had received no rough diamonds in the latest sight as De Beers continued to tighten supply. They had then resorted to buying on the free market.

He noted that De Beers shares were sensitive to rumours about sight sales, one reason why the group was reluctant to release sales details more often.

However, Allen said the shares represented good value in the longer term at the current price-to-earnings ratio of nearly 11 times, if and when the US and world economies turned around.

JOHN CAVILL reports that the Siberian republic of Sakha (formerly Yakutia, part of the Russian Federation) has signed up

□ From Page 1

with De Beers Centenary to sell its entitlement of rough diamond production through the CSO.

The deal was signed in London by Sakha president Mikhail Nikolayev and Centenary deputy chairman Nicholas Oppenheimer, and in effect maintains the five-year contract in which the CSO was granted exclusive marketing of Soviet diamonds worth \$5bn.

After the break-up of the Soviet Union, Russian President Boris Yeltsin decreed that Sakha — which produced 99.8% of Russian gemstones — could sell independently 10% of its output. In terms of the new Centenary agreement, which keeps Sakha's sales under the CSO umbrella, the republic will receive the foreign exchange proceeds of 10% of total Russian sales.

Angolan officials 'are smuggling diamonds'

B/day 3/4/92 DIRK HARTFORD (216)
SENIOR MPLA officials — extending up to but not including Angolan president Eduardo Dos Santos — have been smuggling diamonds worth more than \$1bn, the London-based SouthScan publication reported this week.

The smuggled diamonds are allegedly worth several times the official receipts from diamonds traded through Angolan parastatal Endiama. Leading cabinet ministers, a provincial governor and other leading officials are said to be involved.

De Beers spokesman Richard Lamont said yesterday it had tried to warn Dos Santos in London last year of the danger of smuggling if a law allowing ordinary Angolans to trade in diamonds was passed. The law was passed in December.

Lamont said De Beers' Central Selling Organisation (CSO) signed a contract with Endiama last April to buy all Angola's Cuango basin diamond production.

The secretary of state for mines and geology as well as planning minister Emmanuel Carneiro are aware of the operation — but are apparently powerless to prevent it. A presidential adviser allegedly heads a group of traffickers who did an arms-for-diamonds deal with Israel.

SouthScan said European diplomats in Luanda had told their governments to stop all but essential humanitarian aid until after the September elections.

Three secret diamond buying houses are said to be operating in Luanda. The uncut stones, some of up to 120 carats, are carried out by VIPs or in bulk aboard Hercules aircraft that belong to Endiama.

Ex-officials in Lesotho gem row

S/Times (Buss) 5/4/42

By CIARAN RYAN and IAN ROBINSON

A COMMISSION of inquiry is to be set up in Lesotho to investigate the issue of mining licences to Swissborough Diamond Mines (SDM) on sites which had been set aside for the Lesotho Highlands water project.

The Lesotho Government revoked all mining licences issued to SDM after legal action was taken against the Lesotho Highlands Development Authority (LHDA)

SDM claimed that the water project threatened its mining rights, worth about R1-billion

Sources in Maseru say the issue of licences to SDM was expedited by a former military councillor and two former ministers.

A report in The Mirror newspaper in Maseru says licences were issued "so that at some stage the LHDA could be blackmailed into paying huge sums of money which could be shared between themselves (the former ministers and councillor). They acted behind the scenes"

Lesotho's Attorney-General and Minister of Law, Constitutional and Parliamentary Affairs, Kelebone Maope, told Business Times the licences were cancelled because

"they were obtained contrary to mining law"

"These companies (SDM and sister company Rampai) were abusing their rights. Our mining inspectors were frequently chased away from the mine."

SDM has been given 90 days to leave the site.

SDM group managing director Josias van Zyl plans to appeal to the International Court of Justice in The Hague

Mr Van Zyl has also asked President De Klerk to hold a judicial inquiry into the Lesotho Highlands Water Scheme Treaty which was concluded between the governments of South Africa and Lesotho

Mr Van Zyl is banned from Lesotho

Mr Van Zyl says cancellation of his leases was "a blatant violation of the rule of law ... and of the constitution of Lesotho"

Commissioner of Mines Baile Jesse says not only were the licences not

issued in accordance with proper procedure, they required development work to begin within a specified time and this was not done

Mr Jesse says "One suspects they knew the validity of the mining leases would ultimately be in conflict with the Highlands water project

"It is unethical to secure mining rights and then not mine them. Furthermore, these areas are not proven to have large reserves of diamonds because no geological survey was done in the area"

Mr Jesse says of the five areas for which mining leases were issued,

SDM was only working Patiseng-Khumelu, with a small operation at Matsoku

SDM secured mining rights on all the major waterways feeding in the Highlands scheme two years after the project began.

Lesotho Government mining officials doubt that the area is as rich in diamonds as Mr Van Zyl claims. Lesotho's richest kimberlite pipes are at Letsing and Kao, areas not affected by the water project

Mr Maope says "We had to consider the national and regional importance of the Highlands project above that of Swissborough"

The Lesotho Government has issued an order preventing anyone from seeking compensation for losses allegedly suffered as a result of the water project

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De Beers could bring back the sparkle next year

STAR 7/4/92

By Duma Gqubule

(2/6)

Although De Beers chairman Julian Ogilvie Thompson has said a diamond price hike is unlikely given current market conditions, Mr Spriggs does not rule out the possibility of a modest rise within the next 12 months

De Beers is unlikely to achieve any recovery in earnings until next year, but the ensuing period holds out the prospect of real earnings growth.

This is the view of Michael Spriggs, analyst at London broker SG Warburg Securities, who is forecasting little change in attributable earnings for De Beers this year, together with a maintained dividend

Market sentiment towards De Beers went distinctly bearish last week after reports of a third decline in rough diamond sales at the Central Selling Organisation (CSO) sight for March

In a recent report on the company, Mr Spriggs forecasts a second successive decline in CSO sales to \$3,6 billion for 1992 (\$3,9 billion last year), although some pick-up should be evident in the second half

With world economies set to recover later this year, a steady improvement in CSO sales is expected from 1993

Increase

If the second half of 1992 sees a pick up in retail sales, he is anticipating a small inflation-adjusting increase of around five percent.

"The prospect of a brighter SA political outlook (after the recent 'Yes' vote) and of world recovery by end-1992 enhance the attraction of De Beers, now on an undemanding price-earnings multiple of eight," says Mr Spriggs

"We expect the price to stage a spirited near-term recovery. The price outlook beyond the first-half of this year will be dependent on the rate of economic recovery in the main diamond jewellery purchasing nations, which will in turn govern the pattern of CSO sales."

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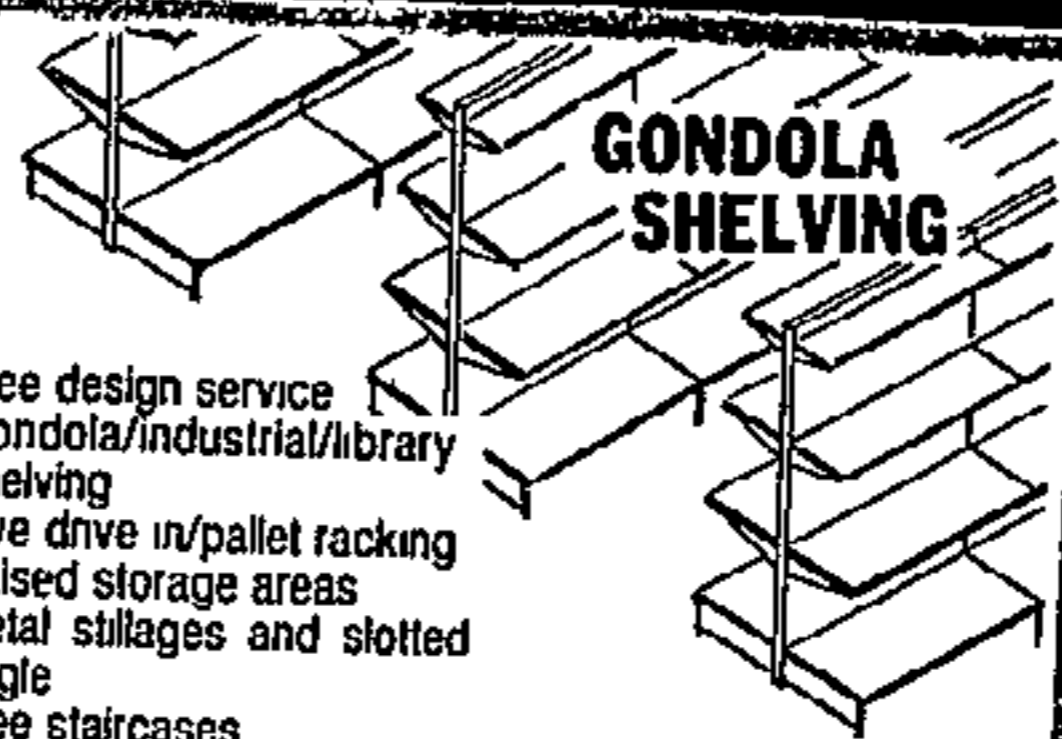
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Anamint dividend up slightly at 382c a share

Blouay 10/4/92 (216)

DIAMOND investment company Anglo American Investment Trust (Anamint) has declared a total dividend for the year ended March 1991 of 382c, just 2c higher than the previous year's 380c payout.

Anamint is an investment holding company, with its major asset being its stake in De Beers. The company holds 98,2-million De Beers/Centenary linked units, equivalent to 25,8% and 23,4% stakes in De Beers Consolidated and De Beers Centenary respectively.

Anamint, a subsidiary of Anglo American which has a 52,2% stake in the company, also has investments in several diamond trading companies.

Its 1991 dividend compares with De Beers' flat dollar dividend of 112c declared in the year ended December 1991, and mar-

MATTHEW CURTIN

ginal higher rand dividend of 313,6c (291,1c)

An Anamint spokesman noted that De Beers earnings in 1991 fell to 550c from 641c a share, with Central Selling Organisation diamond sales down 6% in the year.

Unchanged

He said Anamint's net asset value a share based on investments and directors' valuations as of March 31 stood at R88,88, 17% higher than a year ago when the figure was R75,78 a share.

Anamint stock closed unchanged on the JSE yesterday at R95, still 10% or R10 down in the past month. De Beers closed 25c lower at R82,50.

US jury to study claims of diamond price fixing

WASHINGTON — The US justice department's antitrust division had selected a grand jury to study allegations that De Beers Consolidated Mines conspired with General Electric (GE) to fix the price of industrial diamonds, the Wall Street Journal reported yesterday.

The department is acting on charges levelled by Edward Russell, former general manager of GE's superabrasives division, who was fired last November.

Russell also made the allegations in a wrongful dismissal suit filed in Cincinnati, Ohio, on Tuesday. The suit claims a senior GE official scheduled a secret meeting with De Beers in London last September to discuss a price-fixing scheme.

The official, Glen Hiner, was head of GE's plastics division at the time and allegedly acted with the full knowledge of GE chairman John Welch, who was "interested in seeing what developed".

Hiner, now chairman of Owens-Corning Fiberglas, called the charges "ridiculous" and "absolutely untrue". He added "I unfortunately am the guy that removed Ed from his position".

GE public relations vice-president Joyce Hergenhan said the assertion that

Welch knew of a secret meeting with De Beers was "absolutely outrageous". Russell, who was removed for "performance reasons", had been disputing his severance terms for some time but had never raised the antitrust charges with the company.

De Beers officials, contacted in London yesterday, said they would have no comment until they had had time to study the allegations.

In his suit, Russell also claimed GE management had approved a sham \$80m stock transaction in 1989 to hide losses at Hiner's plastics division.

He alleged that Hiner promoted a superabrasives sales manager, even though an internal inquiry had determined the man had been taking kickbacks on diamonds sales from an overseas distributor.

He further asserted that a GE manager used \$20 000 in corporate funds to visit prostitutes in Bangkok.

A De Beers spokesman said in Johannesburg he could not comment on the Wall Street Journal's report at present but that "any suggestion of price fixing was false".

B10ans 23/4/92 (216)
SIMON BARBER

Venetia will be a jewel for De Beers

START 1/19/92

By Derek Tommey

216

De Beers' Venetia Diamond Mine near Messina is showing every sign of being a winner and a most profitable investment, says De Beers/Centenary chairman, Mr Julian Ogilvie Thompson, in his annual statement to shareholders.

And although sales of diamonds, De Beers' staple products, are currently depressed they are expected to show a considerable improvement in the second half of this year and next year.

Mr Ogilvie Thompson says that Venetia should make a major contribution to the De Beers profits in the coming years.

Although construction of the R1.1 billion project is slightly behind schedule, production from the main plant is still expected to achieve design capacity by the end of this year.

In the meantime the bulk sampling plant, which yielded 300 000 carats last year, is being run on a continuous seven-day basis and the whole mine intends following suit, creating another 200 jobs.

Full capacity at the mine should be achieved by the end of 1993, making Venetia the largest producer in South Africa with an output of 5.9 million

ary and higher revenue for the new government.

Replying to a question, Mr Ogilvie Thompson said that De Beers relations with the Namibian Government were very good.

Another achievement was the recovery by De Beers Marine of 171 000 carats offshore for CDM. He said De Beers Marine has achieved increased efficiency in its operations. A third vessel with major improvements to the design of the drilling system will be commissioned at the end of this year.

He said the NUM had made wage proposals, but there was no reason why a satisfactory result should not be reached at both De Beers and the gold mines.

Mr Julian Ogilvie Thompson, said that CSO sales for the first six months of 1992 could be in the region of 15 percent below those for the corresponding period in 1991. But for the second half of 1992, CSO sales are expected to exceed those for the same period in 1991. And if the experts are right, there should be an even better market next year.

Two major advertising campaigns aimed at boosting diamond sales in Europe and South East Asia would be launched this year.

Relations with the Russians remain satisfactory, and the Republic of Sakha (Yakutia), which accounts for most of Rus-

sia's diamond production, has agreed to sell through the CSA the 10 percent it had the right to sell independently.

Mr Ogilvie Thompson says the CSO has been explaining to Russian politicians, the press and the public the necessity for and advantages of the CSO system of orderly marketing, and has opened a liaison office in Moscow.

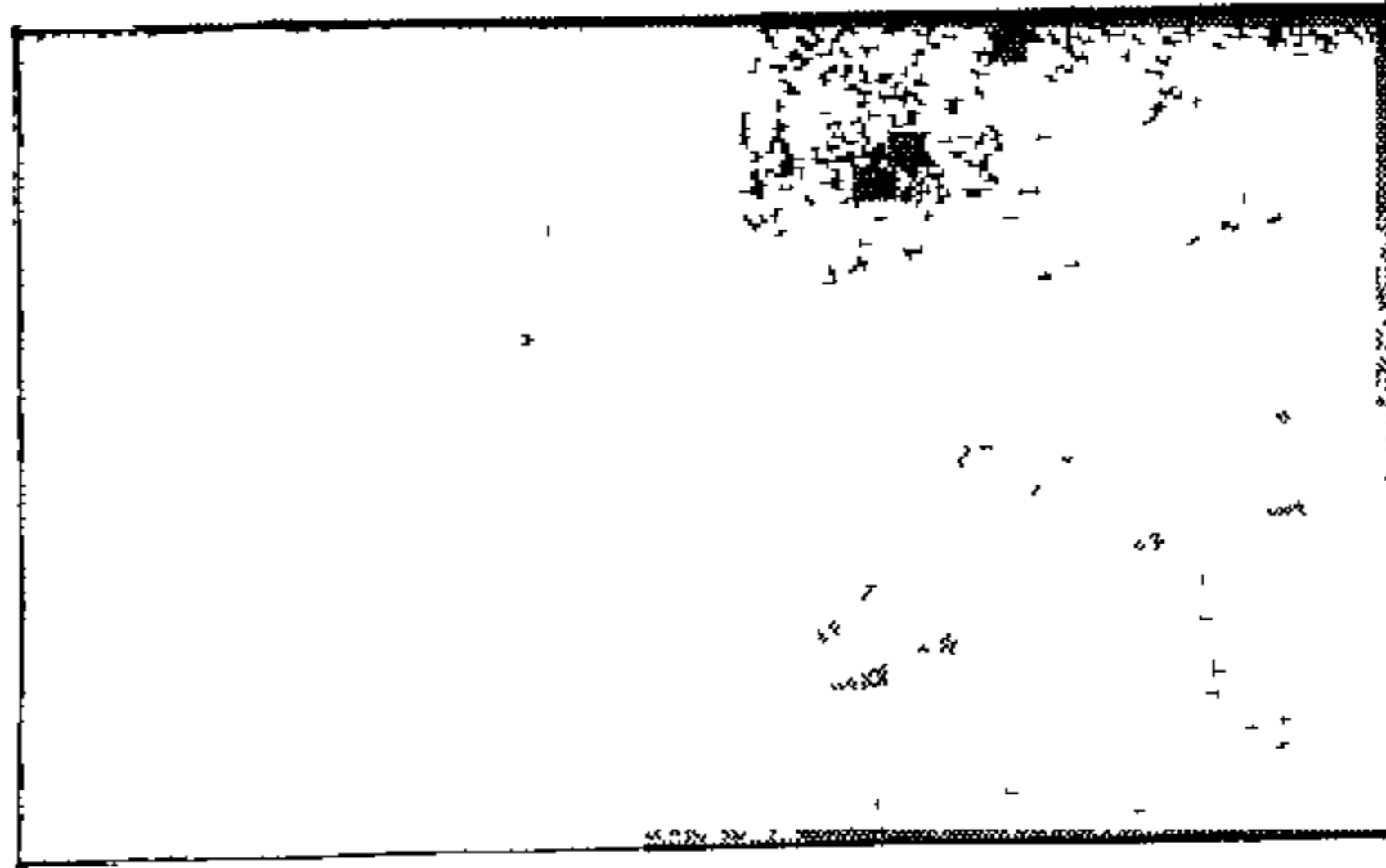
Political view

Referring to the political situation in South Africa, he said it was essential that this country should build on its successful business base, founded as it was on the right of property and not be seduced by socialist, populist, or "quick-fix" ideas that had failed so lamentably in other parts of the world.

There were the beginnings of dialogue between business, unions, politicians and government on the issue, but too little emphasis on the encouragement of investment, individual effort and enterprise.

In the Budget too little attention was focused on the efficiency of allocation of funds as distinct from the quantum of funds available.

He said the De Beers/Centenary Group remains strong financially, and so can continue its traditional function of tailoring supply to demand and promoting retail sales worldwide, he said.



Julian Ogilvie Thompson sales could be 15 percent down.

carats a year.

Total production from all the other SA diamond mines last year was 7.9 million carats — a drop of 278 000 carats. This was partly the result of a delay in building up production from the Finsch mine in its first full year of underground operations.

CDM in Namibia increased production in 1991 by 300 000 carats to more than 1 million carats. This has meant higher profits and taxation for Centen-

Recession hits CSO's sales

CENTRAL Selling Organisation's (CSO) diamond sales in the first half of this year would be about 15% lower than in 1991, De Beers/Centenary chairman Julian Ogilvie Thompson said yesterday.

However, presenting his chairman's review in London, Ogilvie Thompson said he expected sales in the second half would exceed those of 1991 as the world's major economies moved out of recession.

Japan, the US and Europe are the largest consumers of rough diamonds, but the prolonged recession knocked CSO's sales by 6% in 1991.

Ogilvie Thompson said "The current sight, the fourth of the year, which started on Monday, is at a higher level than earlier sights" *Blom 29/4/92*

Annual expenditure on advertising and market promotion had been increased to

WILLIAM GILFILLAN

more than \$164m — mostly in Europe — to sustain retail sales in the interim.

Ogilvie Thompson was asked at the news conference whether De Beers/Centenary believed CSO would benefit from an agreement in which the mines whose diamonds it sold would produce only a specific quota of rough diamonds. **(216)**

Ogilvie Thompson said the group was not considering the move and "we hope to defer the implementation of a quota system for as long as possible".

He said De Beers was concerned about the extent of diamond theft in Angola, which was weakening the world market. CSO had spent "tens of millions of dollars" buying up Angolan diamonds on the open

To Page 2

CSO *Blom 29/4/92*

market, according to CSO chairman and De Beers/Centenary deputy chairman Nicholas Oppenheimer.

Ogilvie Thompson said production at fledgling diamond mine Venetia would be 5.9-million carats, up from initial estimates of 4-million carats, when it came into full production in late 1993.

Capacity was increased when the government mining engineer granted the mine a licence to operate on a continuous seven-day basis. Venetia yielded more than 300 000 carats in 1991.

The problem relating to Venetia's bulk sampling plant not recovering diamonds smaller than 3mm had been solved, Ogilvie Thompson said.

Largely through the delay in building up Finsch mine's production in its first full year of underground operation, SA's production dropped by 300 000 carats to 7.9-million last year.

In Namibia, CDM's marine production increased to 171 000 carats in 1991 from 29 000 carats the previous year. Centenary has invested heavily in this marine production. Overall production at CDM increased to 1.2-million last year from 750 000 carats in 1990.

Asked about rumours that the Namibian government wanted to establish a structure similar to the relationship between Centenary and the Botswana government,

(216)

From Page 1

Ogilvie Thompson said no proposals had been received from the government.

Debswana's production was roughly constant at 16.5-million carats, excluding the 1-million carats in stock in 1990.

Ogilvie Thompson said Centenary's sales contract with the Russian Federation was working well with both capital repayments and interest payments being met when due.

The Republic of Sakha (Yakutia), which accounts for nearly all of Russia's diamond production, had signed a sales agreement last month under which its rough gem diamonds would be marketed exclusively through CSO.

Asked whether Centenary would be a joint venture partner with the Russian government in the development of the recently discovered rich diamond fields in the north of Russia, he said the terms would have to be attractive.

Meanwhile, a De Beers Consolidated spokesman said yesterday about 350 jobs would be axed from the group's Kimberley mines which were being restructured as mining methods were changed.

The mines, some of the oldest in the group, were also trying to reduce costs. The effect on staff would be minimised by the offer of employment elsewhere in the group, early retirement and a possible embargo on recruitment.

Fancy yellow sparkler goes on display ²¹⁶

STAR 11/1/92

The Sterns Hope of Africa — a massive 115,92 carat "fancy yellow" polished diamond ranked 32nd largest in the world — was unveiled at a glittering function in Sandton on Wednesday night

Recovered from local diggings and worth in excess of R6 million, the stone — according to Sterns — is the largest recorded fancy yellow diamond polished in South Africa in the last 50 years

The gem has aroused a great deal of local and international interest, and Sterns believes the sheer rarity of a diamond of such bulk and colour makes it one of the most priceless diamonds ever to be found in SA

The Sterns Hope of Africa, whose name is symbolic of the changes taking place in the country and reflects in a spectrum of dazzling colours "the aspirations of all South Africans", was polished in Johannesburg under tight security by local diamond cutter Johan Hefer

Sterns managing director Ivan Hayden said the company would try to find a local buyer for the stone — Staff Reporter:

DE BEERS/CENTENARY

FM 8/5/92

216

Ogilvie Thompson sees clouds lifting

Activities: Mines gem and industrial diamonds and through the CSO markets more than 80% of world diamond production Investments include Anglo American (39%), Minorco (21%), Amic (27%) and Anamint (80%)

Control: Anglo American 32,7%

Chairman: J Ogilvie Thompson, Deputy Chairman N F Oppenheimer

Capital structure: De Beers Consolidated 380,1m linked deferred shares De Beers Centenary 4,2m shares of SwFr200 each Market capitalisation R33,3bn

Share market: Price R57,70 Yields 3,59% on dividend; 8,85% on earnings, p e ratio, 11,28, cover, 2,47 12-month high, R101, low, R74,75 Trading volume last quarter, 6,7m shares

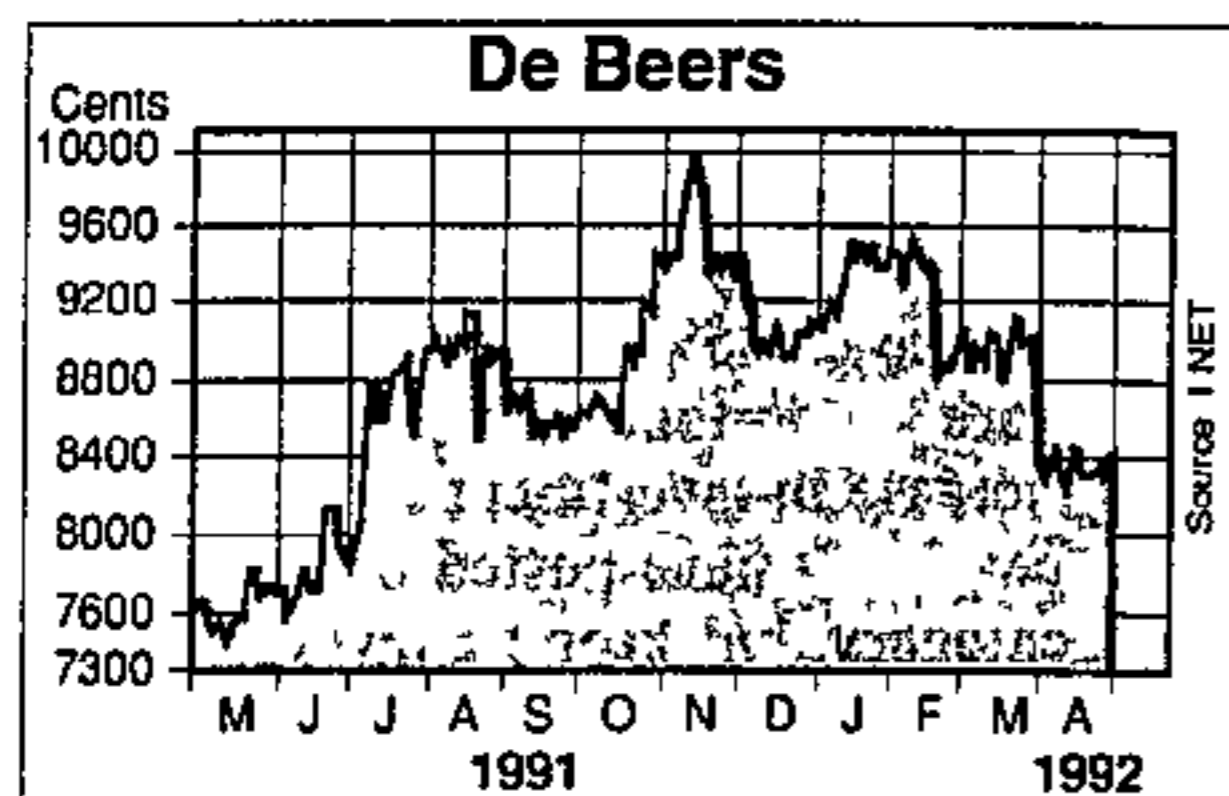
Year to Dec	'88	†'89	†'90	†'91
Investments & Loans				
Valuation (Rbn)	9.91	16.62	15.59	18.89
Diamond stocks (\$bn)	2.0	2.48	2.68	3.03
Diamond acc (Rbn)	2.5	2.96	2.34	2.2
Invest income (Rm)	366	518	581	581
Attrib earnings (Rbn)	2.09	2.87	2.44	2.09
Equity earnings (Rbn)	2.96	4.04	3.38	2.95
Attrib earnings (c)	550	754	641	550
Equity earnings (c)	780	1 062	888	777
Dividends (c)	200	280	285	307
Net worth (c)	5 560	8 664	8 552	9 528

† Pro-forma financial statistics for De Beers Consolidated and De Beers Centenary

This year's report really puts the cat among De Beers analysts' pigeons, not because of what it contains but as a result of remarks from chairman Julian Ogilvie Thompson at last week's London press briefing

For the first time in the recent history of this secretive group, Ogilvie Thompson put a precise estimate on this year's expected rough diamond sales from the Central Selling Organisation (CSO) What caused the flurry is that his estimate is markedly better than the pessimistic view taken to date by industry observers

The market had been expecting first-half sales to be as much as 30% down on the corresponding period of 1991 because of depressed world markets as the major economies battle to escape from recession The high-flying De Beers share price had tumbled from a 12-month high of R101 to around R84 and seemed headed lower



De Beer's Ogilvie Thompson . cat among the pigeons

Ogilvie Thompson says conditions are simply not that bad He forecasts half-time sales will be just 15% down Further, he estimates second-half sales will be higher than the matching period in 1991. He won't specify how much higher but analysts are taking this to imply a small rise

Those comments allow a reasonably confident forecast to be put on this year's CSO sales First-half sales should be US\$1,77bn (1991 \$2,08bn), adding, say, 10% to last year's second-half \$1,8bn puts second-half sales at \$2bn So total sales could be around \$3,77bn — just 4% below 1991's \$3,927bn That is much better than the market had expected The share price jumped last week as a result, adding nearly 400c to R87,70

The apparent reason for the prediction is that De Beers was worried by the doom-and-gloom picture painted by analysts in reports of sharp drops in sales at the first three sights, at which the CSO offers diamonds to the trade No official statistics are published about individual sights Estimates by various trade magazines for 1991 second-half sales were shown to be far too pessimistic by the figures eventually published.

Most analysts seem happy to accept the better forecast and revise their own outlooks accordingly, but others believe De Beers is manipulating the market to achieve its aims Says one "The figures just don't smell right The CSO must be stuffing the pipeline with diamonds by getting various customers to oblige it by taking on extra stock ahead of an expected market recovery next year De Beers is taking a huge gamble on developments in the Japanese and US economies

working out in its favour to make these sales figures stick"

Ogilvie Thompson detects signs of improved polished demand in both the Far East and US and notes that sales at the fourth sight were higher than at the first three He expects the fifth sight to follow suit

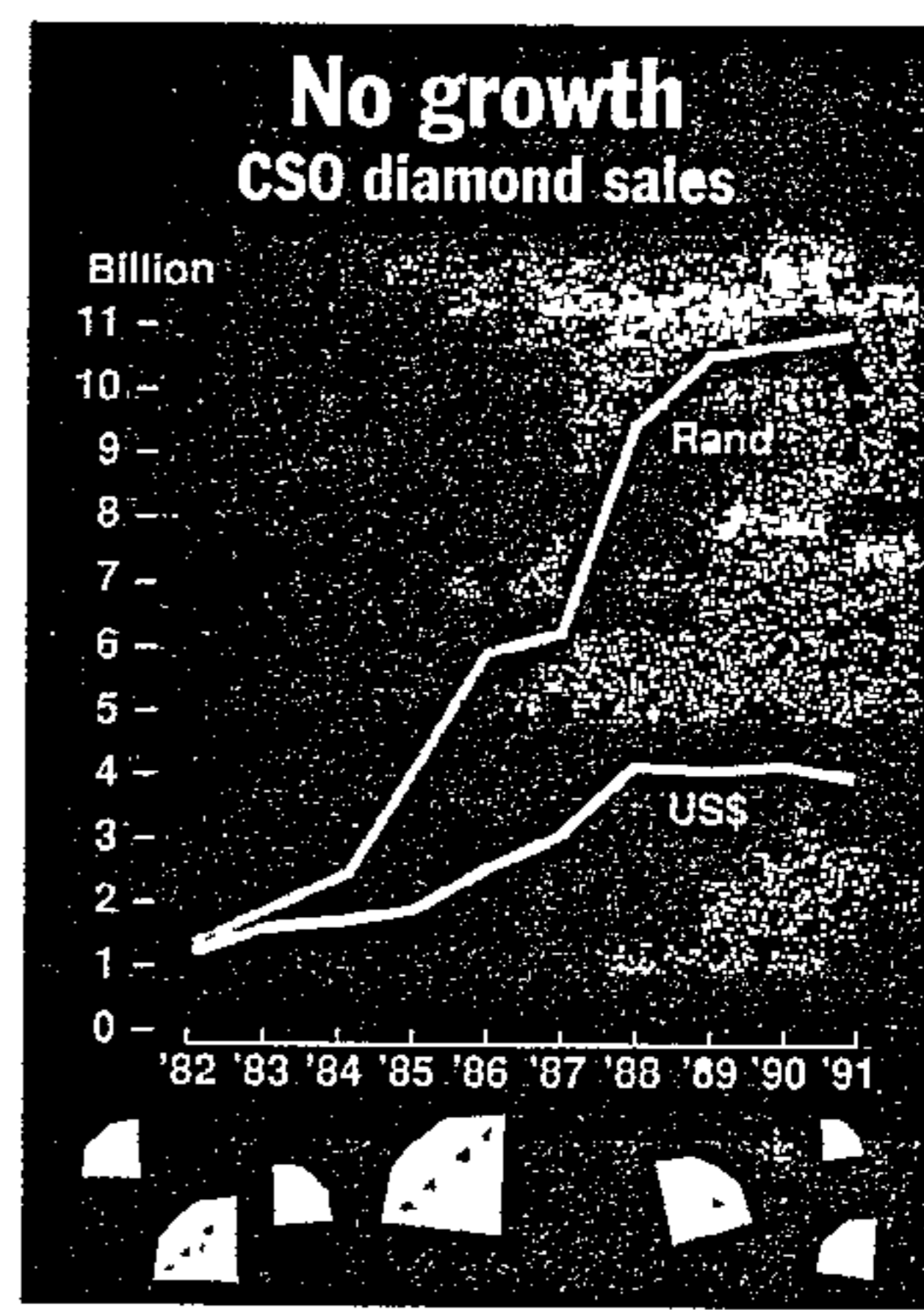
"Feeling in the trade is that the improvement in demand for polished will gather momentum When the world economy resumes reasonable growth the diamond business can be confident of renewed prosperity," he comments

The annual report makes it clear not only that the cartel remains in firm control of world markets but that it is preparing for a big improvement from 1993 Most telling point is that construction of the R1,1bn Venetia mine in the northern Transvaal is slightly delayed, but planned full annual production has been revised to 5,9m ct from the initial 4m ct

Greater output will be achieved by running the mine on a continuous seven-day basis. The revised production rate is expected by end-1993

There seems no reason for this jump in output from a mine under De Beers' direct control other than total optimism on market conditions The group is not under pressure at Venetia to push up output, as it has been in countries like Botswana where operations are joint ventures with government

De Beers last year completed its task of wrapping up world diamond output for another five years through renegotiating contracts Both Botswana and Australia's Argyle mine stayed on board while the contract



Source: DE BEERS / CENTENARY

Cont ->

P.T.O.

So near — and yet so far

STAR 16/5/92

SO WHAT was the big fight all about? At the end of several months of hard bargaining, Codessa 2 yesterday stalled with the Government and ANC camps apparently just a hair's breadth from each other's positions

The breakdown issue was the percent majority required in a constitution-making body to endorse a new constitution

After a week of rapidly shifting positions, the Government had dropped its insistence on an overall 75 percent majority in a national assembly and two thirds majority in an upper House or senate, representing minorities

Its last position was a 70 percent majority for most matters, and a 75 percent majority on the bill of rights and regional government

The ANC in turn moved from its original insistence on a two-thirds majority across the board and 75 percent for a bill of rights. It shifted to a 70 percent majority across the board and 75 percent for the bill of rights — but not for regional government

In exchange for this concession on greater majorities, the ANC — fearing that such large majorities could cause endless delays — insisted on a deadlock-breaking mechanism

They suggested that if the constitu-

PETER FABRICIUS and SHAUN JOHNSON

tion making body failed to draft a new constitution after six months, it should take those outstanding matters on which there was 50 percent agreement and put them to a national referendum, where a two thirds majority would be required to approve the new constitution

Meanwhile, the start of the Codessa 2 plenary session was postponed again and again as Working Group 2 battled to achieve compromise. The group first met at 8 am yesterday, hoping to agree before the plenary session started at 9 am. But by that time the working group had adjourned only for the ANC to consult its allies about the Government's compromise proposal

About 9.30 am the chairmen of Codessa announced that the start had been postponed for 75 minutes to allow the working group time to agree. But only at noon did the ANC emerge from consultations with its new compromise proposal

It took this straight into the working group. At lunch time the group adjourned for the Government to consult its principals on the new proposals. By 2 pm it was clear that it could not accept these, after which the Government and the ANC announced the breakdown

How the ANC's Mohammed Valli Moosa describes it:

"Our view is that a new constitution for South Africa should be drafted by a democratically elected body and that body would draft and adopt a constitution by a two thirds majority. Its decisions would not be subject to a veto

"We were subjected to all sorts of criticisms from the NP and its allies. They initially said our proposal amounted to simple majoritarianism. We pointed out that the Government had accepted the two-thirds majority principle in Namibia

"Throughout, the Government wanted decisions subject to veto by the senate, and proposed the senate be made up of the tricameral Parliament and homelands



MOOSA: Government constantly backtracking

"Obviously we and most parties rejected that. Then they proposed that the senate be weighted in terms of equal representatives for unequal votes. We call this a system of disproportionate representation, and undemocratic. Then they apparently dropped that. We kept on asking the question: Why do you want the senate to have a veto?"

"Then they proposed that we leave the senate out of it, but proposed these various (higher) percentages. We spent every day of this week in meetings of that working group. They kept on re-introducing the senate

"Eventually after much soul-searching, to avoid a deadlock, we held an 11th-hour meeting and decided to offer a position for which we don't even have a mandate. We moved the percentage up to 70 percent and the bill of rights to 75 percent. At that point we realised we were wasting our time"

Government delegate Dr Tertius Delport's version:

"We have agreed that the constitution-making process should be reached by negotiation. We raised the question of whether the final drafting should be done by the national assembly only, or should the senate be involved. To this the ANC seriously objected. Their view was that it should be the national assembly only, by a two-thirds majority

"Many parties were unhappy with this. We took it upon ourselves as Government to seek compromises. There was a feeling that if we did away with the senate option in which regional and minority interests would play a role, then the national assembly



DELPORT: Wonderful progress, except for one issue

would have to have a very considerable degree of consensus

"The figure of 75 percent was put forward

"So we conferred again. We put forward 70 percent in the national

assembly, but said that then we must single out those aspects that are very important. Thus we wanted 75 percent for a bill of rights, and for the structuring of government at central, regional and local levels

"We want a solution that will take care of many of the fears, and we are championing the rights of regions

"Every such attempt was labelled by the ANC as obstructive. Our final position was let us report on all the substantial agreements, and say 'but there is a matter outstanding'. I had the feeling that (most) of the delegates were in favour of this"



ON THEIR OWN. Phola Park residents go on the rampage yesterday morning, in the process damaging several police pulled out of the area

THE visiting Organisation of African Unity delegation, in the country to monitor the on-going violence in the townships, had a close encounter with the real thing near Phola Park this week

Shots were fired when police were conducting a massive search for suspects involved in attacks on the police and other people, according to police liaison officer Eugene Opperman

Police had cordoned off all roads leading to the squatter camp and apparently warned the OAU convoy about the shootings

In an exclusive interview with Chief Olusegun Olusola, who heads the delegation now in its fifth day of making the rounds, the Nigerian Ambassador to Ethiopia expressed the hope that they would still have the opportunity of visiting trouble spots. They also hope to visit some hostels

Olusola's delegation, made up of five ambassadors based at the OAU headquarters in Addis Ababa, was invited to South Africa by the ANC and the Pan Africanist Congress to monitor township violence

After four days of meeting the Government, political parties, the liberation movements,

OAU observers have close shave with real thing

STAR 16/5/92

JOE LOUW

including Chief Buthelezi, and as well as reaching Soweto and visiting various squatter camps, we came to the conclusion that the Government must take all parties into its confidence

"The participants at Codessa have no faith in the Government's action in curbing violence," said Olusola, "There is a definite need for more African presence in the security agencies and they must do a lot to catch up with the political situation"

About his impressions of the squatter camps they visited Olusola said poverty and squatter camps were not unique to South Africa

He said the Government

must take urgent steps to improve the lives of people in Soweto and the squatter camps. "The camps we saw were in a deplorable state, he said. "They were unsanitary, overcrowded and need urgent attention"

Asked how the delegation could reconcile giving South Africa advice on how to conduct its affairs when critics point out the abysmal human rights record of many African countries, Olusola replied

"We Africans are only as good as the 32 years of experience we have gathered since independence in Nigeria, as are other African countries

"We challenge anyone to come from outside and teach us (a better) way of how to run our countries

"We say to our brothers here

take the plunge

"Let them. Let them make takes. Poverty wars and so. excuses for democratic national unity in The OAU will towards de"

"In my own the Chief, we open the doors parties to ic elections there have been Africa anyone this process again."

Olusola will be welcome of the 51 states at the after it had national unity sation

Asked for the townships he said his to the people

"We felt we people that - known," he were very - ngly happy - last recognised able to visit -

Callers crusty as dough devours

CALLERS to Speak Out last night felt consumers are continually being ripped off by over bread or any other commodity. They felt stricter Government control on the production of bread was needed. Mrs Nothnagel, Herisom: Last week on Monday I bought a loaf of bread and when we cut it, the middle was all full of holes. On Wednesday the same thing

While the average price of bread has increased by more than 26 percent in the past year, the South African National Consumer Union says both quality and quantity have dropped. Many loaves don't make the minimum mass. Who is to blame and why is this happening? Are consumers being ripped off?

Speak Out!

ON SATURDAY

carry out various ugac 5 - I agree Consumers increase what tion will - done Mrs G Most of the brown contiv le

quality of bread the popu dog food They are offered don't have a monitoring in lace has a role model of on specials at R1.00 a tin stitute that evaluates busi

High-priced funnel (216)

Activities: Holds 25.8% of De Beers Consolidated, 23.4% of De Beers Centenary and investments in unlisted components of the Central Selling Organisation

Control: Anglo American 52.2%

Chairman: J Ogilvie Thompson

Capital structure: 10m ords Market capitalisation R10.8bn

Share market: Price R108.50 Yields 2.7% on dividend, 7.9% on earnings, p/e ratio, 12.6, cover, 2.9 12-month high, R120, low, R91.50 Trading volume last quarter, 330 000 shares

Year to March	'89	'90	'91	'92
Net profit (Rm)				
Cash	292	377	381	383
Attributable	861	1 129	999	857
Earnings (c)	861	1 129	999	857
Dividends (c)	290	377	380	382
Net worth (c)	6 532	9 216	7 578	8 888

Since, some years ago, it stopped the occasional practice of picking up a few more De Beers shares, Anamint has become a pure dividend funnel for Anglo diamond investments. With dividends from De Beers contributing 80% of cash earnings last year, they are the major determinant of Anamint's dividend policy. So, like De Beers, it has pushed up its own dividends in recent years (though only marginally last year) in spite of a decline in underlying attributable earnings.

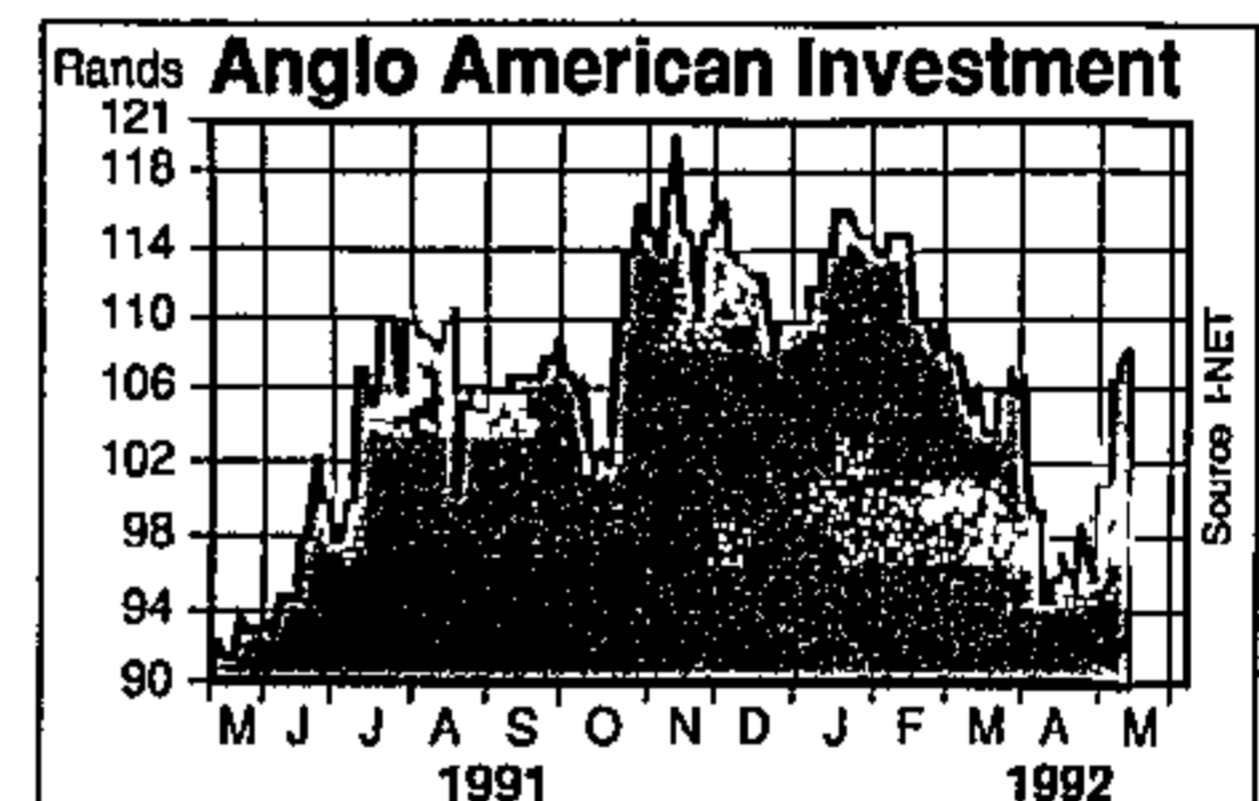
The main point of interest is the much more conservative valuation the directors always accord the holdings in unlisted CSO and industrial diamond companies. These kicked in dividends of R86.5m last year, against a year-end directors' valuation of R652.5m — a 13.3% yield basis. Clearly,



Anamint's Ogilvie Thompson
undervaluing unlisted investments

they remain substantially undervalued.

Valuing them at 5% — probably still conservative, as De Beers' historic yield is 3.4% — would add just over R1bn to net worth, another R10 a share. With the holding in De Beers also worth about R1bn more than at balance sheet date, total effective NAV is



now probably pretty close to the market price. So there seems little reason to prefer Anamint to the more marketable underlying asset, De Beers itself

Michael Coulson

Little sparkle in jewel industry

216

ARLT 25/5/92

SHARON SOROUR
Labour Reporter

PROBLEMS in the South African jewellery industry could hinder its chances to benefit from global economic growth and the likely increase in the demand for gold jewellery, according to SA Labour News

In the latest issue of the labour affairs digest, industry sources, including employers and employees, agreed that the industry faced "serious hurdles" which would limit its ability to raise manufacturing capacity.

According to Amgold chairman Mr Nicky Oppenheimer, the gold price had performed steadily during a difficult year, mainly due to jewellery sales which had offset the disappointing performance of the metal in other areas

This should result in an in-

creased demand for gold jewellery, he said.

General Secretary of the Jewellers and Goldsmiths Union, Mr Ted Frazer blamed employer short-sightedness for the industry's shortcomings.

"Wages are not high enough to attract people into the industry and so there is a shortage of skilled artisans which means the local industry can't expand capacity to take advantage of any increased demand," he said

Apart from the long history of low wages, the situation was compounded a few years ago when employers stopped training workers and no new apprentices were taken on

"We've now started training again and hope to have our industry training scheme ap-

proved soon, but there is a three-year gap to make up."

However, leading industry employer Mr Icky Kurgan denied that wages were unattractive.

He said factors limiting the industry included low labour productivity compared with workers in competing countries, import duties on parts, low profit margins, problems of scale, and long-standing problems over the government's attitude to the industry

Competition had also become "far sharper" in recent years with countries on the Pacific Rim, including China, entering the industry

But he forecast a "tremendous future" for the South African industry, especially as rising wages were expected to increase the size of the market.

De Beers joins new diamond rush

B/day 25/5/92
VANCOUVER — The discovery of diamonds in the Canadian Arctic has sparked one of North America's largest staking rushes, with De Beers laying claim to more than 5 000km² in the area

The Vancouver Sun newspaper reports that preliminary indications are that the deposit in the vast Northwestern Territories could rival major diamond mines in southern Africa

The Sun reports De Beers, perhaps hoping to protect its control of the world diamond market, has already moved in and staked out more than 5 000km²

Other exploration companies have joined the staking rush

The sudden discovery of the diamond deposit triggered a flurry of trading in penny stocks on Canadian exchanges

A large stake of the apparent bonanza is operated by the British Columbia-based mining company, Dias Met Minerals Ltd, which owns 29% of the property.

B/day 25/5/92
Its director, Wayne Fipke, stunned investors last week with his announcement the company had recovered at least 90 carats from a 160-ton sample. About 25% of the diamonds seemed to be of gem quality

The 55 carats per 100 tons compared favourably with the 20 to 50 carats per 100 tons in SA diamond mines, of which 30% was gem quality, an expert told the Sun

But he cautioned it was too early to assess the ultimate worth and economic viability of the Dias Met property

That would be possible only after at least 5 000 carats had been analysed

Dias Met's partner, Broken Hill Proprietary (BHP) Co Ltd, also expressed cautious optimism about Colorado tests showing a few stones in the bulk sample weighed one to three carats each.

BHP spokesman Jean Goity said in an interview from San Francisco that a much bigger sample was needed before any major

conclusions could be drawn about the scope of the find

But he added "This is obviously sufficiently encouraging for us to go on"

Dias Met shares jumped to C\$14.87 from C\$6.75 on Wednesday after the exploration firm announced diamonds weighing at least 90 carats had been recovered from a Kimberlite rock sample taken from the Lac de Gras site, northeast of Yellowknife

Dias Met was the fourth most active stock on the Vancouver Stock Exchange on Thursday, although falling off C\$0.24 later

"It's looking as if it's a major diamond deposit," said analyst Andrew Muir of Pacific International Securities Incorporated

The Canadian government said the discovery in the remote tundra had sparked a staking rush unparalleled in size in North America

Federal mines department manager Karen Klasen said from Yellowknife that mining claims recorded since November now covered 6 763 square miles of the northern territory

"Just yesterday we sold another 235 claim tags," she said, noting that each tag allowed a registrant to stake 2 582.5 acres

It was reported that De Beers had confirmed registering claims in the area

However, a Johannesburg-based spokesman for the company declined to comment at the weekend — Sapa-Reuter

Is De Beers taking an enormous gamble?



James Picton is a leading investment analyst who has long specialised in diamond shares

FM
29/5/92
216

What is happening to diamond shares? Venetia is proving a fine mine (though no Jwaneng) but a market cap, via ICH, of R6,9bn is way above its present value, almost equal to GFSA's capitalisation (R7bn) and 20% of De Beers' own

Meanwhile, the diamond market is in its worst shape since 1981-1982, but for different reasons. De Beers shares rise and analysts, feeling pressure to go with the flow, say buy or they keep quiet. Something odd and ominous is in the air. Where did it start? Probably with first-half CSO 1991 sales. Analysts, expecting US\$1,8bn, got \$2,08bn (15% more than they predicted)

There were trade reports of the CSO selling unusual amounts in special deals but few took any notice. A canvass of forecasts for total 1991 sales threw up a range, with \$3,65bn a fair average. The \$3,93bn (8% more) again pleasantly surprised

But 1991 earnings were dismal, down 20% in dollars, 14% in rand, and leaving cover at 1,8 times — low for a company that shoulders a stockpiling burden and has recently preferred about 2,7 times. Then came plausible reports that CSO sales in the first half of

this year might be 28% down at around \$1,5bn. One such forecast featured in the *Financial Times* on the day that De Beers officially forecast a 15% drop in first-half sales to about \$1,77bn (18% more than some analysts' ideas then)

What is going on? My view is that De Beers is taking an enormous gamble on world economic recovery, particularly in the US and Japan, the latter now the largest diamond buyer by value. The CSO has increased special deals, which means that certain sightholders volunteer (army style) to take more diamonds than they want, doubtless with a sweetener

In doing this, De Beers wrong-foots analysts, who hear only part of the story about the sights from previously (pre-mid-1991) accurate sources

Will the gamble pay off? De Beers is certainly broadcasting a slick story around the world — London, Frankfurt, Paris and later, perhaps, Toronto. While that may impress investors it will not sell more diamonds, except into the pipeline. After 18 years of strong growth (about a ninefold rise in nominal US dollar terms), retail sales of diamonds plateaued in 1989 and, in real terms, fell sharply in the past two years

Things have changed. Japan is loaded with diamonds and is trading down. The US and Europe are full. De Beers did very well in Japan, but where is the next Japan?

The CSO is burdened with heavy contractual purchase obligations and has also to buy about \$100m of Angolan goods, mainly in Antwerp, this year. Stocks rose by \$350m in

1991 and will likely increase by even more this year. Cash is being eaten up rapidly. Even in 1991 it fell by \$341m

Far from any recovery, Japanese imports fell by 21% in January-February, compared even with the Gulf War-hit same period in 1991. US imports were down by almost 14% in January. Europe is declining

Meanwhile, the US Justice Department inquiry into alleged industrial diamond price-fixing will be a major event. The US has extra-territorial judicial powers which have the Australians, who do business with the CSO, worried. Namibia's Mines Act proposes a licensing system like Botswana's and Namibia has been advertising for an official valuer to check the CSO

The diamond boom has ended. Most of the world is full up with stones, there is no new Japan, there has been no price rise for more than two years, the longest gap in two decades, and producers want one, which would only increase the CSO's obligations to buy diamonds that it cannot sell

De Beers has survived several crises but the one building up now is taking place when all the numbers are much larger and the potential fall-out greater. The *Bank Credit Analyst* predicts major stockmarket falls in a few months' time. The US economy has barely, and only patchily, responded to prolonged and substantial interest rate cuts

When recovery does come it will not herald a new expansion but merely a rally within a continuing contraction. That will not be a good environment for a truly flourishing diamond market

COMPANIES

'Gem junkies' cause for optimism

MATTHEW CURTIN

DIAMOND addicts and the diversity of De Beers' interests were the keys to the group's long-term prosperity, chairman Julian Ogilvie Thompson and deputy chairman Nicholas Oppenheimer said at an investors' presentation hosted by Davis Borokum Hare in Johannesburg yesterday.

Oppenheimer said research showed that once a consumer had bought one diamond, he or she craved more.

The gem's addictive qualities meant there was still scope for growth in the key markets of the US and Japan, which were far from saturated. De Beers was interested in new areas of economic growth such as south east China, where it had started a low-key marketing campaign.

The fourth diamond sight this year indicated an increase in demand for rough diamonds, confirmed by indications from the current sight Sales, though likely to be lower in the first half of this year compared with 1991, would better last year's levels in the second six months of 1992.

Illicit diamond business in Angola could be worth more than \$100m this year. The Central Selling Organisation, De Beers' marketing arm, was buying up what Angolan supplies it could.

Ogilvie Thompson said De Beers' investing diamond profits in areas outside the industry allowed it to ride the troughs in the commodities cycle comfortably.

Servgro looks forward to a year of prosperity

MARCIA KLEIN

SERVGRO International, the services group in the Sankorp stable, would raise R140m when it listed on the JSE in July or August.

Executive chairman Peet van der Walt said in an interview yesterday Rand Merchant Bank had valued the group's companies at R687m, and Servgro would place about 25% of the shares in a public offer. This could be through the issue of about 27-million shares at R5 each.

The R140m would be used to repay controlling shareholders' loans, and about R40m would be retained in the company for expansion.

Servgro's interests include Interleisure, Teljoy, Avis, Interpark, Fedics and Price Forbes. The company announced at the weekend it had also acquired a 22% stake in Nasionale Pers (Naspers) from the Federale Pension Fund and Sanlam, making Servgro the largest single shareholder in Naspers.

Van der Walt said the investment in the mass media market, particularly Naspers' magazines and television interests, blend-

ed in with its focus on the leisure market.

Van der Walt said it was a difficult time to go to the market, but various institutions had shown an interest in the leisure and services group. He said that both the leisure and services industries showed strong growth possibilities.

The group, which had interests in tourist-oriented Avis, Fedicas and Protea Hotels, was looking at increasing its exposure to tourism. In this light, Fedics was undertaking a large inflight catering project at Jan Smuts airport.

The service companies within the group covered a wide range of activities, but there were similarities in terms of management issues, Van der Walt said.

While the service companies normally generated strong cashflow, the group also had capital intensive companies in its portfolio, like Avis and Teljoy.

Van der Walt expected "a fair growth" in earnings in the coming year. This would be dealt with in the group's prospectus.

Abcon confident of netting goals

PÉTER GALLI

WHILE the market for prime decentralised offices still reflects chronic oversupply, activity in the sector has dropped substantially.

However, equilibrium between supply and demand was only expected by the third quarter of 1993, Abcon Properties chairman Dirk Conradie said in the annual review yesterday.

He said "Rental levels especially in centralised office areas have declined in nominal terms while decentralised areas have not

shown any signs of growth."

The industrial letting market also reflected a decline, in the number and quality of letting inquiries, while speculative industrial developments had practically ceased.

Abcon was listed on the JSE on December 2 1991 and its performance in the

three-months to end-February was slightly ahead of the forecast.

"In spite of the difficult economic environment that has seriously affected the property market, we are confident that income distribution forecasts for the year to end-February 1993 will be achieved," Conradie said.

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Quality pays off (216)

Diamonds keep on gleaming for Rembrandt group's Trans Hex. The diamond industry may be having quieter times but Trans Hex, whose business is concentrated heavily on diamond mining and selling, has turned in good results for the year to March.

Chairman-MD Francois Hoffman is pleased with the out-turn, achieved in difficult circumstances. "There is a definite overhang on the diamond market, caused principally by high inventories. This doesn't just apply to SA cutters and jewellers. We've noticed it among foreign buyers as well."

Diamond mining operations, mostly along the banks of the Orange River, are proceeding comfortably, says Hoffman. Manpower has been kept as low as possible and productivity improved. As a result cost increases have been contained well below inflation.

One disappointment was the 50%-owned Dvokolwako mine in Swaziland. Perform-

STILL SPARKLING

Year to March 31	1991	1992
Pre-tax income (Rm)	59.3	61.3
After-tax income	24.5	28.7
Attributable (Rm)	23.8	28.1
Earnings (c)	157.8	186.3
Dividends (c)	51	59

ance was poor. The mine was particularly badly hit by drought, which hit Swaziland Electricity Board's ability to respond to large power demand. The mine was repeatedly brought to a standstill by power failures.

Trans Hex is independent of the CSO. It sells locally under a reserve price system, all surplus is sold through its Antwerp offices.

Base minerals, primarily products related to the building industry, did better than expected in a depressed market. Hoffman expects no material growth this year.

There is a great reluctance to make any forecast for 1993. Hoffman hopes the present position will be maintained, particularly in view of good prospects for the green granite operation in Namaqualand.

Trans Hex is on a P/E of 12.1 compared with a sector average of 13.6, itself skewed by the inclusion of Carrigs. Compared with bellwether stock De Beers, Trans Hex is at a modest premium, which may be justified by its concentration on quality gemstones. But it looks fully priced.

David Gleason

SA firm sorts out Africa's gem finds

S/Times (BUS) 7/6/92. (216)
SOUTH African technology is putting a sparkle into Africa's diamond industry.

By IAN ROBINSON

Van Eck & Lurie (VEL) of Johannesburg — the minerals and metals division of Bateman Project Holdings — has supplied modular diamond recovery plants to Angola, Zaire and Guinea. It has also received inquiries from the Central African Republic.

VEL is executing orders for four projects for Brazilian company Odebrecht, which is managing the exploration and extraction of diamonds in the Quango region of Angola on behalf of Endiama, the State mining corporation.

Three senior VEL officials are visiting Angola.

In November 1991 VEL supplied Odebrecht-Endiama with a modular recovery plant to be based in Lusamba. The plant incorporates the new technology of X-ray sorting machines.

The modular plant concept has played a major role in VEL's success as a supplier to Africa's diamond industry. A modular plant is a self-contained unit or several

self-contained ones — modules — which when assembled in the correct sequence make up a small-scale treatment plant.

VEL identified a need in the market for transportable dense media separation (DMS) plants. Plant design is based on the principle of transporting the module with pre-installed equipment, resulting in minimum re-erection time on site.

Gravity

In DMS diamonds are separated from gravel by gravity. Diamondiferous gravel is fed into cyclones (centrifugal devices) and mixed with the dense medium. The higher specific gravity of the diamonds causes them to sink in the medium.

The first modular plant — a 10-ton-an-hour (tph) DMS ordered by Brazil Diamante for prospecting gravel in Namaqualand — was developed in 1967.

Since then VEL has sup-

plied 90 DMS units, either self-contained or associated with complete installations.

About 70% of the plants designed and supplied have been for Africa.

Director Robert Abate ascribes VEL's success to providing "African solutions to Africa's problems".

VEL's equipment has been tried and tested for African conditions.

VEL is also active in South Africa. Public Enterprises Minister Dawie de Villiers officially opened Alexander Bay Development Corporation's (Alexkor) multimillion-rand 300 tph Rietfontein South diamond treatment plant, designed and built by VEL.

VEL is also involved in design and supply of plant for the De Beers Venetia project.

VEL equipment has been adapted to marine diamond recovery off the Namaqualand coast and the company has equipped vessels belonging to various companies.

Mobile

VEL's reach extends far beyond Africa and it has been involved in most diamond treatment plants around the world. These range from 5 tph mobile prospecting plants — the standard prospecting tool in the industry — to the largest facilities in the world at Argyle in Australia.

In the past five years VEL has supplied plant to China, Burma and a country in the Middle East.

In addition to diamond recovery, VEL is involved in metallurgical process engineering for the extraction of other minerals, including coal, base metals, gold and platinum.

De Beers counters cyclical diamonds

S/Times [Buss] 7/6/92

(216)

DE BEERS presented its credentials in five financial centres in the past month — finally reaching Johannesburg this week in spite of the fact that South Africans hold the lion's share of the equity

Chairman Julian Ogilvie Thompson and deputy Nicky Oppenheimer told a packed house in Johannesburg that De Beers had weathered the recession and that prospects for diamonds were improving.

De Beers' diversification into wood-free paper manu-

By JULIE WALKER

facturing and ferroalloys through an investment in Middelburg Steel & Alloys — now Columbus — had given the portfolio balance to counter the diamond cycle

The presentation covered mining, marketing and promotion of diamonds

Angola

De Beers' Central Selling Organisation was described as a "signal success of 60 years of controlled marketing"

The seven major mining countries accounting for more than 90% of diamond

production all have contracts to sell through the CSO

Angola's official production through Endiama goes through the CSO But a recent change in the law about diamond dealing there has led to an upsurge in illicit trade

The Angolan Government ruled that any Angolan could own and deal in stones provided he did so outside the concessions areas Needless to say, the concessions are being plundered

One analyst referred to the chaos, which was resulting in a large mopping-up operation in Antwerp, possibly amounting to \$100-million

Mr Oppenheimer confirmed the details, blaming the aftermath of the Angolan civil war which had led to many idle hands.

He said the CSO bought the rebel stones where it could do so at a profit But it was hard to get a handle on the figures involved The \$100-million estimate might be too low

Part of the show was a series of five television advertisements promoting diamonds The Japanese advertisement was aimed at working girls, many of whom receive two bonuses a year as well as handsome salaries Diamonds are a symbol of success

Buying of engagement rings in Japan has grown from 6% to 80% in 10 years

Another tack promotes a gift of jewellery bearing 10 diamonds to celebrate 10

years of marriage, 25 years and so on

Worldwide retail jewellery sales topped \$39-billion last year, represented by 50-million pieces Sales have doubled since 1980

Mr Oppenheimer said diamonds were addictive — once you had one you wanted another and another The concept of a diamond at every life stage was being promoted, he said

In Japan, the average amount spent on each purchase had increased because of salary-related expenditure guidelines in the advertising A total of 55% of adult women in Japan now owned diamond jewellery

Delight

One advertisement showed a Spanish woman's delight on being presented with a diamond bracelet in an aircraft She and her partner almost join the mile-high club

The US and Japan are the joint largest markets, 71% of adult female Americans owning diamonds.

Mr Ogilvie Thompson said that diamonds were not recession proof and global economic recovery would stimulate demand De Beers shares compared favourably in terms of dividend yield Almost all dividends were paid out of investment income

The share price shed 75c to below R90 on Thursday

COMPANIES

'Worthless rock' a delicious gem

A DIAMOND digger has found a chocolate-coloured diamond worth tens of thousands of dollars high in the Lesotho mountains, which was dismissed at first as just another lump of volcanic rock

Lesotho Diamond Brokers and Mines director John Taylor said yesterday that the digger, who chose to remain anonymous, tried unsuccessfully to sell the stone to diamond dealers in Maseru, who told him it was a worthless piece of meteorite or volcanic rock. *B/Daw 9/6/92*

Taylor said he had recognised the stone was a diamond, one of the ugliest rough diamonds he had ever seen, with a pitted surface and a greyish metallic colour. The uncut stone was 75,25 carats and had been found in the Maluti mountains.

MATTHEW CURTIN

Taylor would not say how much he paid for the stone. He had it cut into a 35-carat oval gem in Johannesburg (216)

"Once cut and polished it revealed a radiant reddish dark grey/brown chocolate colour," he said.

"I've named the diamond the Mars Diamond after my favourite chocolate, the Mars Bar," he added. The diamond would be shipped to Belgium next week where it would be on display in Antwerp.

Taylor said a Belgian chocolatier had bid for the stone as well as US collectors of coloured diamonds.

He said the diamond's value was not in its clarity, but in its unusual colour, the result of natural impurities in the stone.

DIAMONDS FM 12/6/92

Where next?

(216)

Could the next major diamond mine be in either Canada or the US? Two areas attracting much interest are, in the US, west of Lake Michigan in Wisconsin and Michigan states and, in Canada, a huge area in Northwest Territories, near Lac de Gras

Kimberlite pipes have been found in both, with a well-above average incidence of diamonds. Worldwide, 3 000 kimberlite deposits are known, of which only 1 000 contain diamonds and 50-60 have been economic to mine

Of 14 pipes found by previous joint venturers Dow Chemical and Crystal Exploration near Lake Michigan, 12 have been tested and nine reportedly contain diamonds

At the first strike at Lac de Gras late last year, a 160 t sample found at least 90 ct of diamonds (equivalent to 56 ct/100 t), with about 25% gem quality and a few stones as big as 1 ct-3 ct. The pipe has a surface area of about 20 ha, which would rank it about the 10th largest in the world

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FM 12/6/92

(216)

By comparison, at De Beers' Venetia project, grade is about 100 ct/t with 35% gems

Both finds are attracting major players. Australia's BHP Minerals is involved in the Lac de Gras joint venture and is committed to fund up to C\$500m, another Australian firm, Ashton Mining (whose Argyle mine is the largest producer by volume in the world), in January bought 51% of the Lake Michigan project from Dow

De Beers' exploration arm Monopros has staked just over 1m ha around Lac de Gras. By extrapolation, the market cap of BHP's partner, Dia Met Minerals, values their Lac de Gras prospect at US\$400m

Much work still has to be done before either project is proved. Local stockbrokers point out that we've heard this sort of thing before and that claims of any mineral finds in North America — especially Canada — must be taken with several pinches of salt

De Beers, characteristically, is mum. But even on these figures the prospects look less attractive than Venetia

At worst, given the long lead times in bringing such a mine to production, De Beers can reasonably hope that the diamond market will recover before another major producer emerges.

Michael Coulson

Anglo, De Beers 'committed to SA'

Even in these adverse times the Anglo American and De Beers groups and their associated companies are committed to capital expenditure on new and existing projects in South Africa exceeding R15 billion in today's money, says Anglo chairman Julian Ogilvie Thompson in his annual statement.

The bulk of this investment is for new shafts and sub-shafts on the gold mines, new and replacement capacity for the collieries, the major new diamond

mine at Venetia, and new or upgraded facilities in the steel, aluminium, motor and paper industries

"That surely expresses our faith in the country's future", says Mr Ogilvie Thompson.

He points out that domestic investment by the private sector has been remarkably resilient, and that criticism that the large South African companies have invested little in this country, while "spiriting" funds abroad, is simply untrue

Two of the corporation's major projects are the Moab deep-level gold mining operation and the Columbus stainless steel joint venture with the Gencor group

Moab, at a cost of R1,7 billion, will be mined as an extension of Vaal Reefs

Sinking the main shaft will begin in the next quarter, and production is scheduled to start in 1997.

At full capacity, Moab will produce about 13 tons of gold a year and employ 5 000 people

STAR 29/6/92

(216)

Rough diamond sales take knock

B/day 7/7/92

(216)

JOHN CAVILL

LONDON — Sales of rough diamonds by the Central Selling Organisation (CSO) fell by 14% to \$1,79bn in the first six months compared with the same period last year — this was in line with the forecast by De Beers chairman Julian Ogilvie Thompson at the end of April.

And, unusually, they were 3% lower than in the preceding six months, normally the weaker half of the year

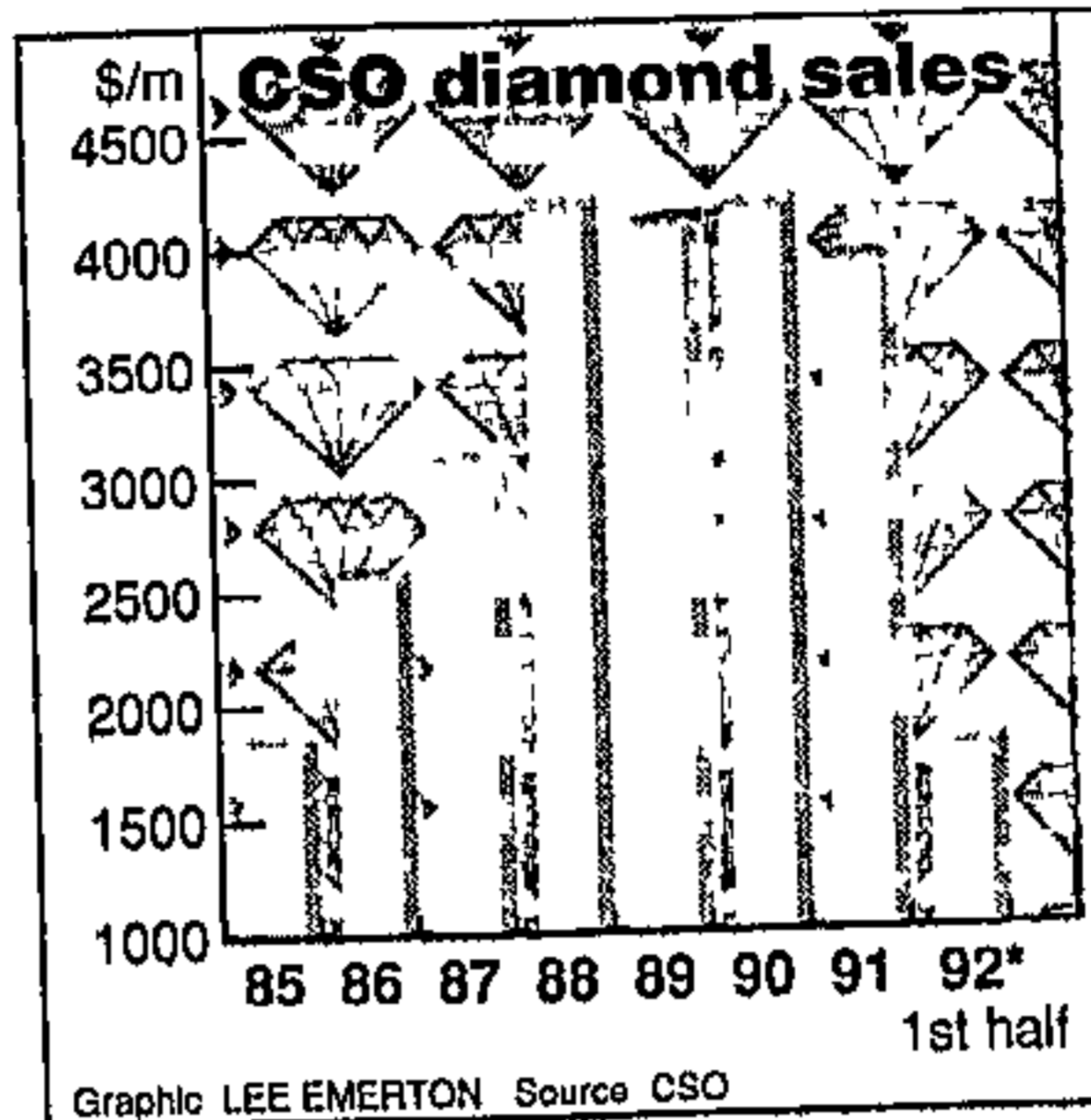
Compared with the record \$2,48bn worth of stones sold in the first six months of 1990, the latest figure shows a 28% decline

The CSO reported yesterday it had held back supplies of stones at the first three sights this year to stabilise the market

“As a result of this policy, confidence in the trade improved and sales at the fourth and fifth sights were able to be increased,” it said.

Although the international economic background remained quiet, there were “some encouraging signs from the US retail market”.

It said stocks of diamonds in the cutting centres were “not unduly high”, which meant any increase in demand would



Graphic LEE EMERTON Source CSO

quickly flow through to CSO sales.

JONO WATERS reports that De Beers shares declined 1.9% or R1.75 to R87.25 on a bearish JSE market yesterday.

Frankel Max Pollak analyst Kevin Kartun said the results were very much as had been expected.

He said the CSO had poor sales in the earlier part of the year as a result of diamonds being smuggled out of Zaire and

□ To Page 2

Diamonds

B/day 7/7/92

(216)

□ From Page 1

Angola to Antwerp, but the last two sights must have been “exceptionally good” to boost what would otherwise have been a poor half-year result

Kartun said a patchy recovery in the US and a shaky Japan had not helped the diamond sales

It would be interesting to see how the CSO's planned \$164m diamond promotion worked out, and whether it would increase

prices soon, he said Prices had not been increased since March 1990

Fergusson Brothers analyst William Bowler said diamonds were heavily dependent on the economic climate in the most industrialised countries This was especially so in the two biggest markets, Japan and the US

Bowler said the second half of the year should produce better results, in line with the predicted upturn in the world economy

Israel moving into uncut diamond market

STAR 817192

216

JERUSALEM — Israel, the world's biggest cut diamond centre, is moving into the uncut market by turning the Tel Aviv diamond exchange into a free trade zone.

The move, which was put into operation on July 1, is aimed at drawing buyers and sellers who can repatriate profits in foreign currency free of taxation, exchange spokesman Moshe Behagahon said.

And foreigners will no longer have to use an Israeli intermediary to do business.

Until last week, uncut stones had to be imported by Israeli professionals and cut in one of the hundreds of small workshops spread throughout the Ramat Gan suburb around the exchange.

"We are now going to take on the other centres dealing in uncut diamonds such as Antwerp in Belgium without any handicaps," Mr Behagahon said.

The chairman of the exchange Moshe Schnitzer told AFP that the free

trade zone would enable the Russians to open a centre in Ramat Gan selling rough diamonds, which could be followed by African countries.

Russia is the world's biggest producer of quality diamonds.

"Russians will for example sell their uncut stones in Israel to Americans who will then cut them in the United States without having to go through a European centre," Mr Schnitzer said.

Cheaper

The move will also allow Israeli dealers to buy rough diamonds more cheaply.

Until now Israeli merchants bought nearly half of their stones in London from the South African giant De Beers, which controls the world diamond market, and the other half on the open market, mainly in Antwerp.

"The free trade zone will enable us to reduce buying on the open mar-

ket and thereby reduce production costs for cut stones," Mr Schnitzer said, adding that there was no intention to "short-circuit De Beers".

The operation comes at a time when the world market is in recession.

"Sales remain very weak, even if there are slight signs of an upturn in the United States, the main importing country," he explained.

"On the other hand, in Japan we are still far from the end of the tunnel."

Israel's cut diamond exports were worth \$1.3 billion in the first half of this year, up six percent on 1991.

"But the increase is deceptive," Mr Schnitzer said, "because at the start of last year sales fell due to the Gulf War. In fact the market is stagnant and we hope for an improvement at the end of 1992 and to get us over the three billion dollar barrier for annual exports." — Sapa-AFP

De Beers shares hit dollar, pound lows

By Day 9/7/92

216

MERVYN HARRIS

BELLWETHER JSE share De Beers was under renewed pressure yesterday, but its unchanged close of R85,75 in volatile trading masked its sharp fall to new lows in dollar and pound terms on the back of the weakening finrand

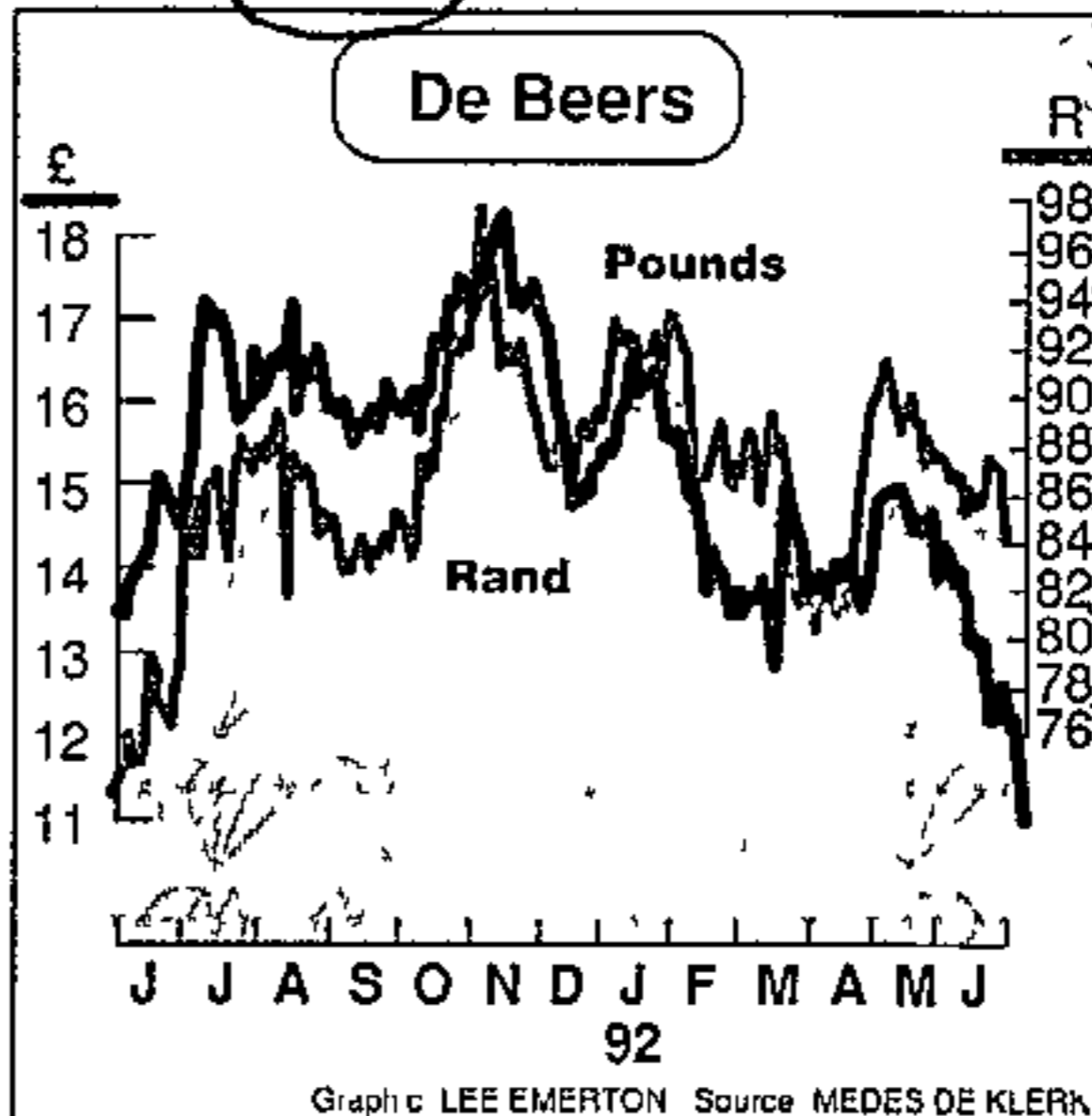
De Beers was moving into a lower trading range before the decline of the market in the wake of political turmoil, which accentuated its downtrend in terms of other currencies.

Market expectations of lower CSO diamond sales this year have taken the share down from its recent peak in May of R93,50 to R85,75 yesterday, a fall of 8,3%

However, over the same period the shares have slumped 26,7% in sterling terms to £11 from £15, while in dollar terms the fall has taken the shares down 22,3% to \$21,23 from \$27,33.

Analysts say the declining finrand, which normally acts as a buffer to support share prices in rand terms, has failed to do so because of political factors

As SA's most internationally traded share, most of the activity in the counter takes place on overseas markets, which



have taken a negative view of CSO sales despite reassurances of improved sales in the second half

The SA connection has also hit Riche-mont While the share slipped 4% in rand terms from its early-June peak to R36,50 yesterday, the share fell 22% in sterling terms from £6 to £4,70 yesterday

The offloading of shares continued yesterday, with the industrial index down 63 points to 4 304, a decline of 4,3%, this week.

CSO DIAMOND SALES

FM 10/7/92

216

Wait for the second half

Not surprisingly, first-half diamond sales from the Central Selling Organisation (CSO) are almost precisely in line with the prediction made by De Beers chairman Julian Ogilvie Thompson just two months ago. At 14% down on the first half of 1991, they are marginally better than the 15% drop he estimated when the annual report was published.

What is odd is the market's reaction to this fulfilment of Ogilvie Thompson's optimistic prediction voiced in May, when analysts were expecting first-half sales would fall by up to 28%. De Beers' shares immediately jumped 400c on that announcement, but this week the price fell 275c on Monday to R87,25, and traded at R85,75 on Tuesday afternoon.

A specific question raised, is why the share is falling on both the JSE and overseas stock

That means the last two must have averaged around US\$500m each.

Independent diamond analyst James Picton believes the higher sales levels were achieved artificially. He says De Beers persuaded about 12 of the most important of the 180 sight holders to buy greater quantities of diamonds than they really wanted.

"They have pushed \$280m-odd in unwanted diamonds into the trade and they have used up all their credit with the trade for the next five sights," he says. "De Beers is taking a huge gamble on world economic recovery. The interim dividend should be about maintained, but if the recovery is delayed any further I think they will seriously have to consider cutting the final dividend."

Frankel Max Pollak Vinderine analyst Kevin Kartun disagrees, because this would run counter to the CSO's prime role of bal-

1991's \$3,9bn

Expectations are that earnings will at best be flat and dividends maintained. Next year could show sharp growth — assuming Ogilvie Thompson's economic scenario is correct. But the payout to shareholders is likely to be more restrained as De Beers rebuilds its cash. Dividend cover has dropped from 2,75 in 1988 to 1,8 last year and may well be increased as times get better. *Brendan Ryan*

SAAMBOU FM 10/7/92

Selling the property

Saambou's disposal of about half of 86%-held subsidiary Saampro's property portfolio has made the repayment of debentures compulsory. The selloff is aimed at delisting Saampro and getting the parent out of low-yielding property so that it can concentrate on banking.

Saambou has made an irrevocable cash offer of 465c a share to minority debenture holders and 100c a share to ordinary minority shareholders.

Both offers are at the issue prices when Saampro was listed in January 1991 and a premium of 55% and 67% respectively over prices at the time of the offer on June 9.

The offer seems reasonable, considering the present economic climate and poor performance of Saampro shares. Minorities get no gain on share price but have received a small dividend of 8,25c.

But it is costing Saambou money. With the small profit of R812 000 realised on the sale of about half of the property portfolio with a book value of R35m, the group wants to get out of property as quickly as is conveniently possible. Saambou estimates the effect of the disposals and repayment of debentures, had they been effective for the year to March, would have been to reduce Saampro's NAV from 107,7c to 101,7c and EPS from 14,9c to a negative 42,7c. *Shaun Harris*

DECLINING TREND

CSO sales

	1990			1991			1992
	1st half	2nd half	Full	1st half	2nd half	Full	1st half
US \$m	2 477	1 690	4 167	2 084	1 843	3 927	1 787
Rm	6 460	4 337	10 797	5 619	5 266	10 885	5 086
Avg R/\$ rate	2,61	2,57	2,59	2,69	2,86	2,77	2,85

markets if the diamond market is as resilient as Ogilvie Thompson says it is. There is also a broader issue: can De Beers avoid the worst effects of the recession until next year's expected economic recovery brings relief?

There are two conflicting views on the share. One explanation attributes the fall in price to general anti-SA investor sentiment because of the unfavourable political situation. The other assumes the diamond market is not as healthy as De Beers is making out. Analysts are tending to accept the De Beers view, though they are worried about the patchy economic recovery signs from the US and the uncertainty over the Japanese economy, these countries being the two main markets for diamonds.

The De Beers statement says the CSO held back diamonds from the first three sights this year to stabilise the market, with the result that confidence improved and sales increased at the fourth and fifth sights. "These sales took place against the background of world economies which, in general, are still quiet though there are encouraging signs from the US retail market," comments De Beers.

Sales statistics are not officially revealed, but estimates from diamond trade newsletters are that the first three sights ran at between US\$250m and US\$270m each.

ancing supply and demand in the market. "One of the biggest mistakes the CSO ever made was to allow the supply of diamonds in the cutting centres to get out of hand in the early Eighties," he says. "It would be suicide to do this again. One has to assume the CSO knows what it is doing."

Stock levels are one of two key measures used in assessing the state of the diamond cutting industry; the other is the level of debt. On both counts, De Beers regards the diamond pipeline as healthy.

"Stock levels in the cutting centres are satisfactory and not unduly high. When the market picks up, full advantage can be taken quickly of the increased demand. Borrowings by the diamond trade from the banks are also at reasonable levels," comments De Beers.

Still, the first-half sales performance is not as good as it looks, because the comparative first half of 1991 was particularly weak. Rough diamond sales were affected by the Gulf War and were also reduced by about \$100m because of the Indian foreign exchange crisis. That money came through in the second half of last year.

In May, Ogilvie Thompson said second-half 1992 sales would be "higher" than those of the second half of 1991. Most analysts are adding 5% to that figure to forecast a total around \$3,7bn for 1992, about 5% down on

FOCUS HOLDINGS FM 10/7/92

Seeking a compromise

Goodbye Smiley Blue. Or is it? Some trendy teenagers may be temporarily put out by the imminent demise of their favourite chain of boutiques. Holding company Focus Holdings, listed on the JSE in the Retailers & Wholesalers sector, was put into provisional liquidation last Friday. The company has until August 18 to show why the court order should not be made final.

The company's main bankers — a consor-

cont ->

Clinton rapped for 'apartheid' investment

WASHINGTON — ANC solidarity groups in the US yesterday risked becoming a laughing stock when they expressed anger over a report that Democratic presidential nominee Bill Clinton and his wife Hillary once held shares in De Beers and Engelhard Corp, a company partially owned by Anglo American at the time.

"It constitutes an outrage," said Trans-Africa director Randall Robinson. "To purchase stock in De Beers is to support apart-

heid directly."

The Clintons' brief dabble in politically incorrect stocks was disclosed by the conservative Washington Times which has been poring over their tax returns.

The returns showed the couple netted a princely profit of \$769 on the sale of 170 De Beers shares between 1978 and 1980, and \$822 for the sale of Engelhard stock in 1981.

Bl Day 10/1/92
SIMON BARBER

(S) (216)

216
6/10/92

Trans Hex banks on diamonds

JONO WATERS

REMBRANDT's diamond mining subsidiary Trans Hex Group is expecting a marginal improvement in diamond prices, and sales in the current financial year.

But chairman and MD François Hoffman warns that sectors served by its secondary operational arm — the industrial minerals division — are expected to remain under pressure.

The group's latest annual report shows that almost 90% of its profits flow from its diamond mines.

This division reported net income of R25,4m (R24,6m) in the year to end March 1992, its highest yet.

Hoffman attributed the record performance to prudent inventory levels, a favourable dollar/rand exchange rate, cost containment and increased plant capacities.

The group sells diamonds independently of the Central Selling Organisation, mostly locally under a reserve price system.

Turning to its new business division, Hoffman said the group was re-evaluating the viability of Renosterkop, a tin, zinc and tungsten project near Augrabies. And the feasibility study on heavy metals from the Cape West coast should be completed by the third quarter.

The group was also looking into extracting manganese metal from a pure dolomite deposit.

Trans Hex almost doubled its expenditure on exploration to R7,1m over the 1991 figure of R4,1m.

Tokyo diamond firm to take on De Beers

B/DAY 16/7/92 (216) (4)

TOKYO — Going where few Japanese firms dare to tread, a small Tokyo diamond outfit is dipping into the gem trade in eastern Russia in a move traders say could chip away at the dominance in Japan of market giant De Beers

Arda, an independent jewellery firm, agreed in May to set up diamond polishing plants with the region of Sakha, which accounts for nearly all of Russia's diamond output and is one of the world's biggest producers

It plans to market the finished diamonds in Japan, which has become the world's largest market.

"We want to make the mineral-rich Sakha . . . like Kuwait in Siberia by exporting polished diamonds directly from there to the Japanese market," says Arda president Hiroko Karata.

"But De Beers dominates the world diamond industry and may feel uncomfortable with our plan," she says.

De Beers Centenary, the Swiss arm of SA's De Beers Consolidated, controls nearly 80% of world rough diamond trade and restricts gem sales to clients when demand falls, in order to stabilise the market

Traders say if the Sakha-Japan operation distributes diamonds at cheaper than market prices, it eventually could affect De Beers' sales in the Japanese market

"It is not our intention to confront De Beers, but to co-operate. We pay our respect to De Beers for maintaining the stability of diamond values for many years," Karata says

Arda decided to set up the venture after Sakha secured the right in December 1991 to sell 10% of its rough diamonds independently. The share increased to 20% in March

Previously, Sakha had to sell all of its output to the state-owned national diamond firm

Japanese polished diamond imports surged to 279.2-billion yen in 1991 from 135.2-billion yen in 1985, finance ministry data shows

"Russian diamonds are very popular for their good quality and we are getting them as early as September. Our initial target is to export 50 000 and 100 000 carats of polished stones per year," says Karata.

But De Beers Centenary corporate communications manager in London Richard Dickson was cool towards the challenge

"The Russians have cut and polished a percentage of their total diamond production for well over 20 years. If Sakha does start its own manufacturing, it will be following a traditional pattern," he said

"This will not have a major impact on the global diamond industry

"We would disagree totally with those who suggest that it would be a challenge to the stability of the diamond industry, which De Beers has so carefully maintained for so many years," Dickson said in a letter

De Beers already markets Russian rough diamonds under a five-year deal signed in 1990 with the former Soviet Union — Reuter

We're all right, Jack

CHARTER Consolidated, the British industrial conglomerate which is 36%-owned by Minorco, the Anglo-De Beers foreign wing, did well to emerge from the trough of recession with pre-tax profits down only 4.8%

The note of confidence, sounded at the beginning of this month by chief executive Jeffrey Herbert in announcing a dividend increase of 0.5 pence to 21.5p a share, cheered Charter's 12 000-odd shareholders

This week, however, publication of Charter's annual report provided an interesting, but fairly commonplace, example of what is behind the debate about executives' salaries

Mr Herbert, 49, enjoyed a prosperous year to the end of March. His total emoluments rose by 32% to £248 000. The pay of executive directors in total climbed 31% to £449 000

But even more surprising was the 428% leap in their "performance related" pay to £153 000. The sum of the two categories, £602 000, was 61% up on the year before

Even though the comparison is distorted — by an unquantified amount — because one of the directors included last year was an executive for only part of 1990-91, the figures were at odds, superficially, with profit performance

The clue to the apparent anomaly is the note in the accounts which says "The remuneration and performance related pay of executive directors are determined by the remuneration committee. Performance related pay is subject to the achievement of profit targets and personal objectives set at the beginning of the financial year"

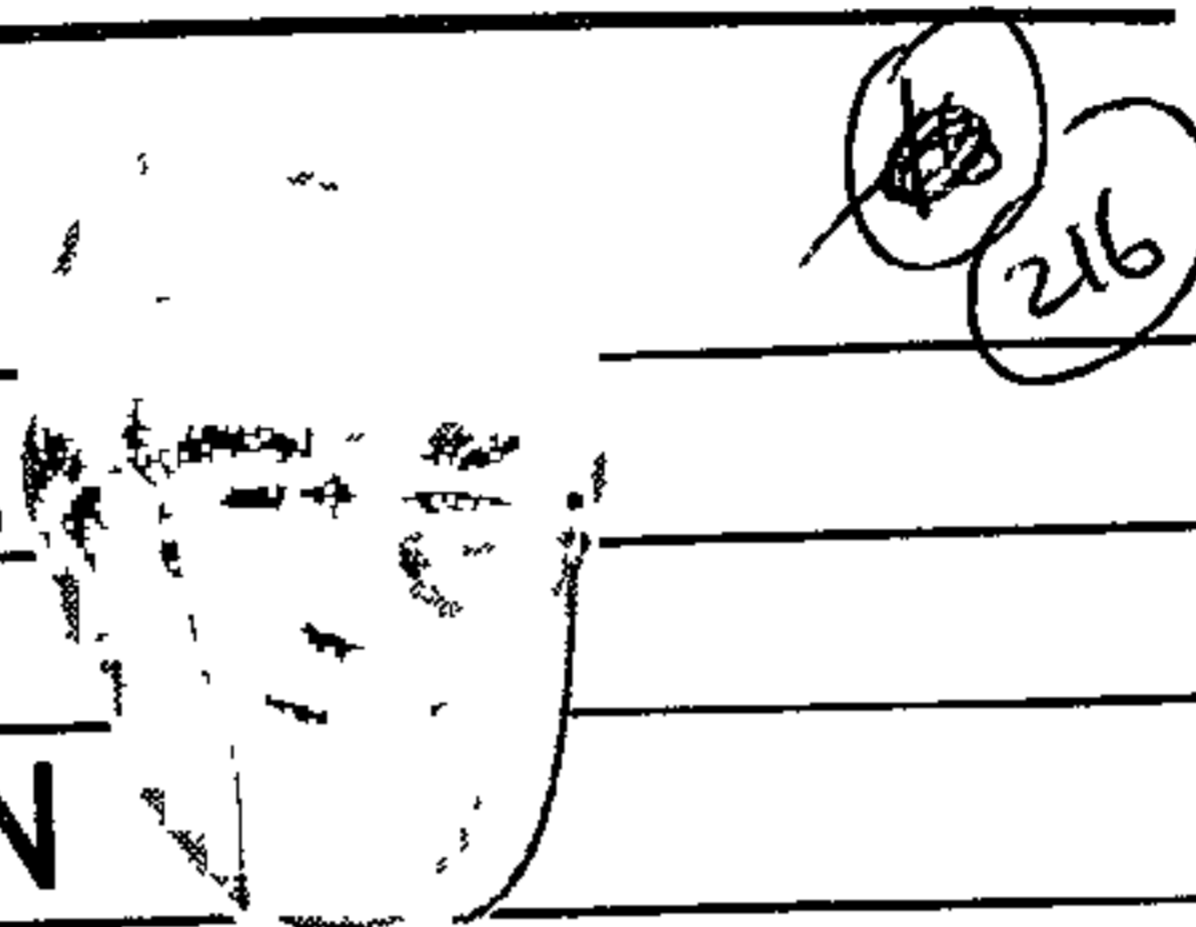
(The committee consists of two non-executives, chairman Sir Michael Edwardes, also a director of Minorco, and D E Cook, former deputy chairman of Pilkington)

Jill Sherratt, Charter's public af-

Charter Consolidated's executives and other employees are doing better out of the company than the shareholders are.

(S/Times
Bus) 19/7/92

**JOHN
CAVILL
IN
LONDON**



fairs manager, says "The targets are operating profits before interest and tax. They are crucial and the reason for the increase in performance pay was that the targets were met in a tough year

"We did jolly well considering. But it's quite hard to explain how it works"

Analysis of Charter's accounts suggests that the performance targets relate strictly to those businesses where the executives have day-to-day control

THIS means leaving out Cape, the 66.5%-owned building products subsidiary, because Charter's trio on its board — Mr Herbert, Charles Parker and Nigel Robson — are non-executive directors

It also excludes the biggest contributor to Charter's reported earnings, the 33.5% equity-accounted stake in Johnson Matthey

That reduces targeting to three di-

visions: rail track equipment, mining machinery and quarrying, and coal mining, which account for less than a quarter of group turnover and 30% of operating profits

This explains why in 1990-91, when operating profits overall (including Cape but not Johnson Matthey) inched up by 1.6%, the total remuneration package of the executive directors fell by 15% to £373 000

Blighted by a slump in orders from British Coal — which knocked 81% off mining machinery earnings — the aggregate profits of the core trio divisions emerged at £15-million, down nearly 10%

Miss Sherratt says "The performance was poor in relation to targets set at the beginning of the year which did not take into account the difficult trading which followed."

Arms, clearly, were less ambitious for 1991-92 — and they were met. With a bounce back in mining equipment after drastic labour cuts, and

coal mining, the three businesses notched up a total of £17.6-million — a gain of 17%

Thus while the construction industry's woes dragged down Cape and the consolidated group figure, the performance that counted most from the point of view of management was better than satisfactory

The present top executive team at Charter has been in place since 1990 when Mr Jeffrey was appointed its chief. He was joined by Mr Parker, 38, as commercial director and Mr Robson, 46, in charge of finance. They have not enjoyed the easiest three years

CONSOLIDATED operating earnings did rise by 11% in 1989-90 while those of the managed divisions were up by 19.4%. Since then the total performance has been flat in spite of sparkling growth in the rail fastening business, which chalked up a 93% increase to £11.8-million

It has been a time of costly restructuring. Since the 1989 fiscal year the group workforce has shrunk from 11 351 to 7 993

But what stands out from the record is that Charter's employees have fared considerably better than its shareholders. In the past three fiscal years the total remuneration package of the highest paid executive has advanced by 68%, that of all executive directors by 54%, and per capita wages and salaries of all employees (which includes top management) have climbed by 50% to an average of £16 777 a year

By contrast, shareholders' income has risen by 25%. That is somewhat better than the 22% by which the UK consumer price index has risen since the first quarter of 1989. This week's ex-dividend London share price of 496p is almost where it was at the end of March 1989

Diamond slump 'worse than admitted'

LONDON — Diamond giant De Beers is being criticised for playing down the world diamond slump

There are allegations of secret buying-in of its own stock, and worries that its dividend will be cut

Trade sources estimate the diamond glut at \$7bn.

Followers of De Beers, which controls the sale of diamonds through the Central Selling Organisation, believe the slump is far worse than the 14.3% fall reported by CSO chairman Nicholas Oppenheimer last month.

They fear second-half sales, far from rising above 1991 levels as predicted by De Beers, are set to fall.

Unofficial figures for the July sight — when the CSO sells rough diamonds to authorised buyers — put

BIDAY 20/7/92
Own Correspondent

sales at \$275m against a first-half average of \$375m

Oppenheimer recently denied suggestions that the CSO was selling rough diamonds outside the official sights

Now James Capel analyst John Taylor has raised "another more disturbing possibility" — that the CSO is selling to a De Beers subsidiary, Diamdel, which is "a sight holder", the trade term for an authorised buyer

Says a CSO spokesman "Diamdel is a sight holder and like others has been asked to take more diamonds

"But to say we have been selling diamonds to ourselves is to stretch a

point"

Durlacher & Co analyst Michael Coulson, who is also sceptical about CSO figures, warns that the De Beers final dividend could be cut by 25%

This would remove a prop to the shares

The CSO has consistently played down suggestions that the sales fall has been as severe as that of 1981-82, saying the dividend is safe

However, Coulson says "In bullying sight holders into taking more stones than they wanted at the end of the first half, it is now totally reliant on a convincing recovery in the second half

"Such a recovery seems to be receding" — Sunday Telegraph

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Rumours knock De Beers share price

DUMA GQUBULE

THE De Beers share price plunged 375c to R78,25 yesterday amid foreign speculation about a dividend cut and media reports that the company is artificially boosting CSO sales figures by selling diamonds to one of its subsidiaries secretly

The share fell 400c to a 12-month low of R78 before recovering to close at R78,25c.

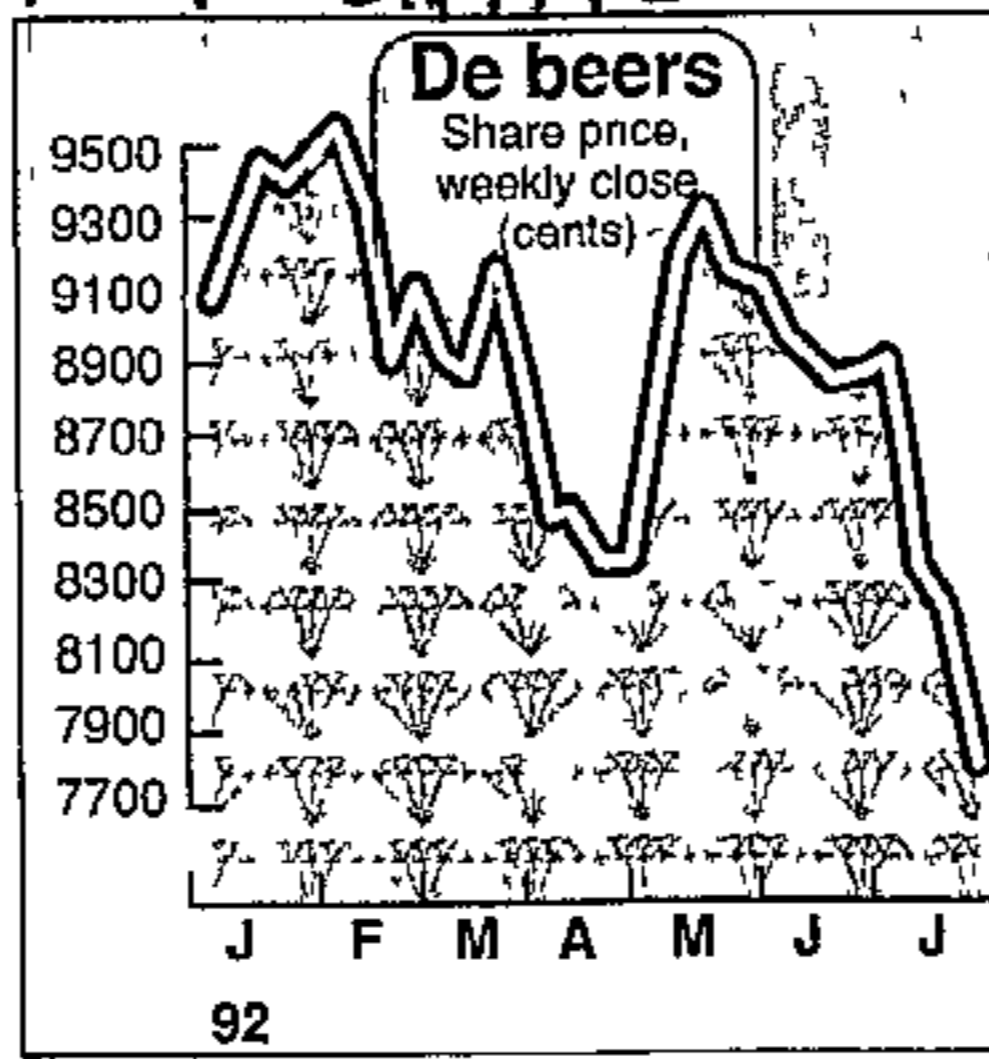
James Capel analyst John Taylor said in London that analysts had been consistently underestimating CSO sales figures over the past 18 months

The analysts' trade sources had been giving one picture while CSO sales figures gave another

He concluded, in a recent report, that De Beers, through its subsidiary and sight holder Diamdel, was secretly buying its own stock

De Beers stated yesterday "We do not comment on market speculation

"But we would like to draw attention to the fact that audited sales



Graph by LEE EMERTON Source I NET

figures were published early in July"

Local analysts described as "fanciful" the allegations, carried on the front page of the London Sunday Telegraph.

Richard Stuart of Martin & Co said "De Beers would rather cut its throat than cut the dividend"

Another Johannesburg analyst attributed the allegations to "sour

grapes by analysts who have been underestimating CSO sales figures as far back as 1988"

Reasons for this could include selling between official sights, overlooking SA sights, which were 10% of CSO sales, and the possibility that official CSO figures included sales of industrial diamonds

Frankel Max Pollak analyst Kevin Kartun said the real problem for De Beers was a "messy supply situation" due to an increase in unofficial diamonds coming on to the market

De Beers was concerned about continued smuggling of rough diamonds from Angola — estimated to total \$400m a year, compared with official Angolan production of \$200m — and sales of Russian diamonds outside formal marketing channels.

De Beers chairman Nicholas Oppenheimer recently told analysts that more than \$100m had been spent this year on "mopping up excess diamonds" which were threatening the stability of the market

(216)

De Beers loses sparkle as the market tumbles

STAR 21/1/92

By Stephen Cranston (216)

Following what analysts described as an unflattering article on De Beers in the London Sunday Telegraph, the share price shed 4.6 per cent of its value to close at R78,25 on the JSE yesterday.

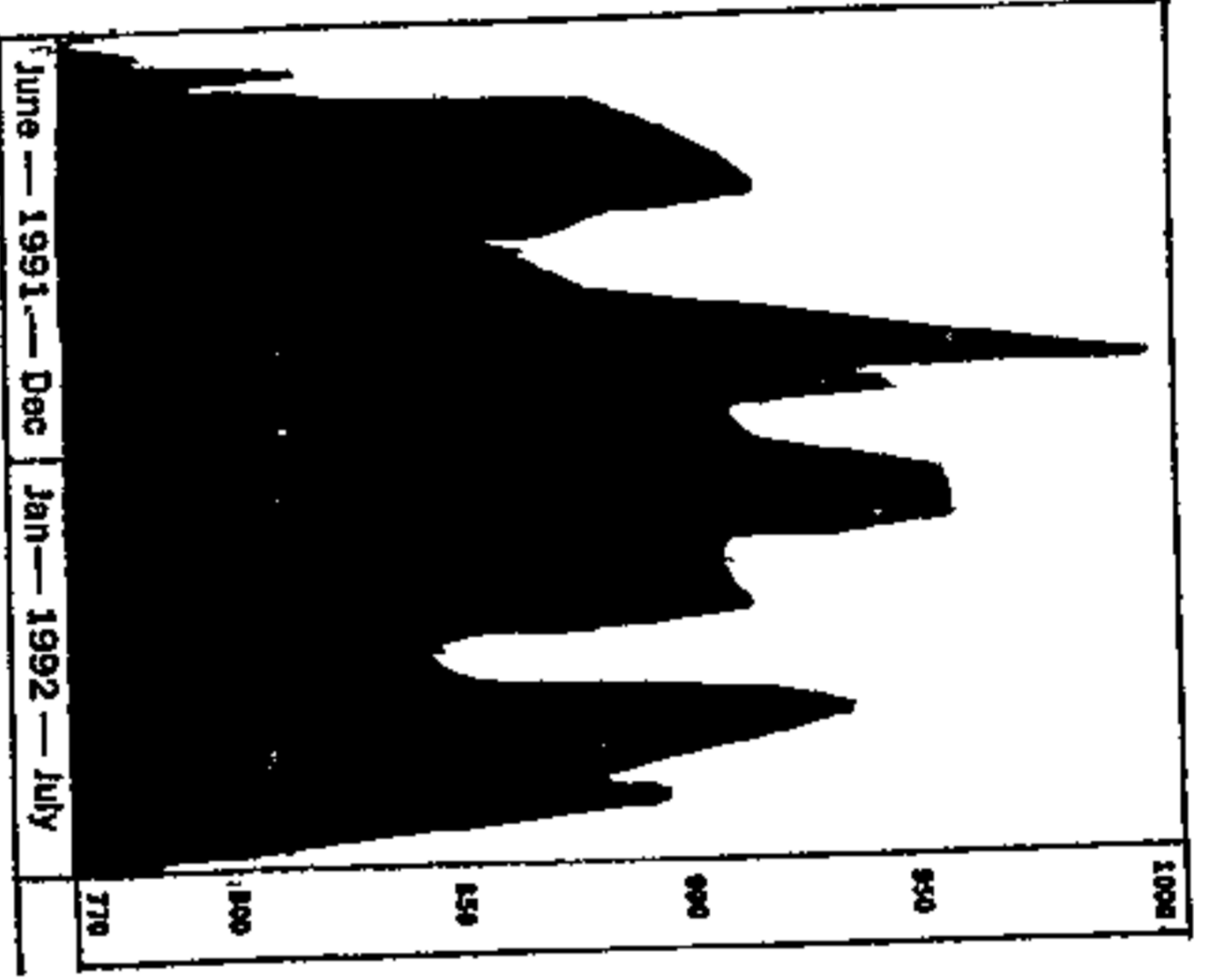
It hit a low of R78 during the day, but added 25c in late afternoon trading.

On the back of the De Beers fall, the overall index lost 63 points to close at 3437 as shares generally went into decline.

While a De Beers spokesman said the fall was no more than the usual market fluctuation, Keith Bright, a diamond analyst at Edey, Rogers said the Sunday Telegraph story had given an extra push to an already tottering share price.

"De Beers clearly expected a world economic upturn this year. With the recession continuing, there are legitimate doubts about the short-term health of the diamond market," said Mr Bright.

The Sunday Telegraph article claimed that De Beers was secretly buying in its diamond



De Beers share price dipped below R80 yesterday to close at R78,25.

stocks to minimise the fall in sales.

The author, Bill Jamieson, wrote Goldstrike, a highly critical analysis of Minorco's abortive attempt to buy Consolidated Goldfields. He is a longtime critic of Anglo American and De Beers.

Nicky Oppenheimer, who runs the Central Selling Organisation (CSO), denied on a British

television programme that De Beers was selling outside the official "sights."

The Sunday Telegraph quoted James Capel analyst John Taylor who argued that nothing stopped De Beers from selling roughs to subsidiary Diamdel, which is a sight-holder, or authorised dealer.

Mr Bright said that his own estimates from the first three diamond sights showed sales were 30 percent down.

"But the fourth and fifth sights are traditionally the busiest of the year because that is when rough diamonds are bought for the Christmas rush.

"Jamieson's criticisms are not without substance, but everybody knows that De Beers, through the CSO, is in a position to force dealers to buy when it wants them to. It does not have to resort to buying its own diamonds."

Mr Bright said De Beers shareholders should hardly complain about its ability to manipulate the market.

Mathison & Holidge analyst Barry Sergeant said selling was light yesterday — about 62 000 shares changed hands — indicating that a few small share-

holders were selling, or that institutions were lightening their holdings.

Mr Bright said many institutions were overweight in De Beers and should reduce their holdings to its relative market capitalisation.

Both Mr Bright and Mr Sergeant disagreed with London analyst Michael Coulson's contention that De Beers would cut its final dividend by as much as 25 percent.

De Beers reduced its dividend cover from 2,8 in 1988 to 1,8 in 1991, but it is cash-flush and able to pay out its dividends from its investment and interest income.

This means that even if crucial Japanese diamond sales remain poor, De Beers has the funds to ensure that dividends are maintained.

Mr Bright did not rule out a fall in the De Beers share price to R68, at which price he recommended accumulation.

"At those levels it offers more promise than virtually all South African industrial shares," he said.

Mr Sergeant advised caution, saying there was still considerable downside potential.

Demand for Benco paper

THE shares of marine, diamond exploration company Benguela Concessions Ltd (Benco) attracted demand in mid-afternoon trade on rumours of a R100m deal with Broken Hill Proprietary (BHP)

Analysts said the shares were boosted by rumours that Benco chairman John Gurney was negotiating a R100m BHP investment in Benco.

Gurney, a consultant on BHP's latest Yellow Knife diamond discovery at Point Lake in northern Canada, was not available for comment

Benco, in which Old Mutual owns a 39% majority share, rose two cents to 47c

This takes the gains to 213% since April 1 1992 — Reuter.

BIDA 2117192

(216)

Columbus recently qualified for SABS 0259 accreditation, which will improve its global competitiveness

BHP report boosts Benco

BENGUELA Concessions' shares were up 17% in mid-afternoon trade yesterday following a report confirming the marine diamond exploration group was talking to Australia's Broken Hill Proprietary (216)

Benco chairman John Gurney said BHP was one of 10 parties showing interest in investing in Benco's two deep-water concessions, bought for R3,4m in April from Ocean Diamond Mining (247) (247) (247)

"But there is no deal in place and no figures have been worked out," he said

Analysts said Consolidated Diamond Mining was also interested.

Benco shares were up 8c to 55c yesterday from 15c at the beginning of April, taking the gains to 267% for the period — Reuter.

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De Beers calls
for newspaper
to apologise

By Stephen Cranston

De Beers has demanded an apology from the London Sunday Telegraph after its recent story accusing the group of manipulating the diamond market.

In a letter to the editor of the Sunday Telegraph, which was released to The Star, De Beers director Tim Capon describes the article headlined "Diamond glut of \$7 billion" as defamatory.

Mr Capon says that at December 31, De Beers stocks stood at \$3,03 billion. "The 1992 year-end figure is likely to show an increase on this figure," he says, "but it will be modest in relation to the suggestion of an increase of \$4 billion."

"With annual sales over the last three years of about \$4 billion, the suggestion that our stocks might have risen by this amount in six months is self-evidently ludicrous."

He says sales to associate Diamdel have fallen by a greater percentage than overall sales to the market. De Beers has therefore not been able to manipulate figures through sales to Diamdel.

Mr Capon says De Beers sales figures are fully audited, are price sensitive in relation to the share price and are regarded as an important barometer of the diamond industry.

"We take grave exception to the suggestion that the figures we have published have been in any way manipulated."

He says the "totally unfounded suggestion that our sales figures have been falsely reported has had a direct impact on the company" by leading to a fall in the share price.

The Sunday Telegraph will not comment on the letters. It will reply after the author of the article, Bill Jamieson, returns from holiday next Tuesday.

TRANS HEX FM 31/7/92

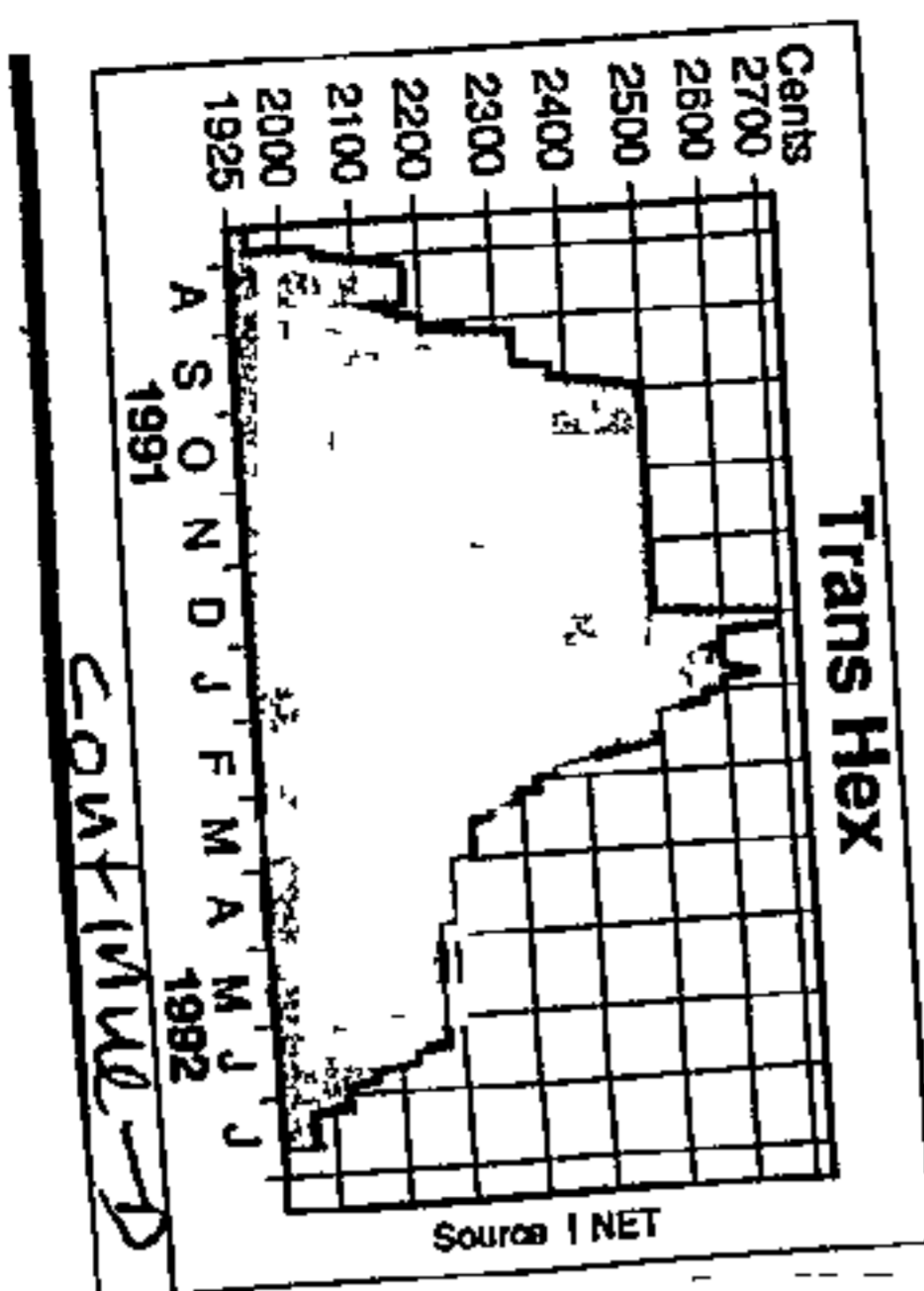
Striking some flaws

Activities: Diamond mining and marketing, some industrial minerals
 Control: Rembrandt Group 50%
 Chairman and MD: F Hoffman
 Capital structure: 15,7m ords Market capitalisation R298m

Share market: Price 1 975c Yields 3,0% on dividend, 9,4% on earnings, p e ratio, 10,6, cover, 3,2 12-month high, 2 700c, low, 1 900c Trading volume last quarter, 143 000 shares

Year to Mar 31	'89	'90	'91	'92
Shareholders int(Rm)	56,5	74,7	93,9	115,5
Return on cap (%)	27	28	24	24
Earnings (c)	105,8	147,9	157,8	186,3
Dividends (c)	36,0	46,0	51,0	59,0
Net worth (c)	375	496	623	766

The past year was the best ever for Trans Hex, whose net income after tax climbed 18% to R28,1m. The business is concentrated on diamond mining and marketing, though there is some diversification into industrial minerals. Last year diamonds accounted for 90% of after-tax income. Executive chairman Francois Hoffman says he's delighted



FM 31/7/92 (216)

ing It is getting deeper and becoming increasingly marginal with lower-grade ore reserves Hoffman warns it can remain profitable only if there are no further unforeseen operational difficulties and if costs are contained

The industrial minerals division is comparatively small beer Last year it contributed only R3,5m to after-tax profit Most was from sales into the building and construction industry, itself acutely depressed, and from buoyant demand overseas for its Namaqualand green granite

Trans Hex is pursuing new mining opportunities A tin, zinc and tungsten project, Renosterkop, near Augrabies, is under investigation and a further evaluation of the project, which has an initial cost estimate of R100m, is being undertaken Hoffman says no decision will be taken to proceed with the project without detailed consultation with major shareholders

The feasibility study into the extraction of heavy minerals, principally rutile and zircon, at Toren on the Cape west coast, has been completed, with disappointing results

Prospects for 1993 are indeterminate, subject, as it is, to the vagaries of the world diamond industry, Hoffman is unwilling to make predictions The p e is 10,6 compared with De Beers' 10,1 That's probably about right but the sector looks too high all round given present uncertainties

David Gleason

FM 31/7/92 (216)

Trans Hex's production of high-quality gemstones withstood the nervousness in the world diamond market

It's public knowledge that the industry is sitting on large inventories of rough product and retail demand is sluggish Main worry is how long De Beers can finance the growing stockpile Meanwhile, Trans Hex's position as an independent producer of fine gemstones is well-entrenched and there continues to be strong international demand at reasonable prices

However, Hoffman is not so enthusiastic about the company's poorer quality product It is proving difficult to sell what he calls "near gem" diamonds at reasonable prices

The principal diamond producing operations are at Baken, on the banks of the Orange River, about 50 km from its mouth Hoffman says this mining is proceeding satisfactorily, additions and improvements to the processing plant will be completed by year-end Further orebodies, under 40 m-50 m of pebble-rich overburden, are being evaluated by exploration and development trenches

In an unusual experiment, Trans Hex has reached agreement with residents of the Richtersveld to conduct cleaning operations in mined-out areas at Bloeddrif, about 10 km from Baken Processing and diamond recovery will be at a Trans Hex plant and the

proceeds will be apportioned between the company and private diggers

The big disappointment was the Swaziland Dvokolwako mine, in which Trans Hex has a 50% participation Hoffman says there were continuous disruptions to operations, caused principally by electric power failures These were caused largely by the drought, which obliged the sugar cane companies to pump water almost continuously, the peak loading demand placed the electric power supply to the Dvokolwako mine under extreme pressure

The character of the mine is also chang-

FM 7/8/92

216

slightly to 75c J D Anderson research director Charles Booth prefers predicting the equity EPS, he expects a 7% dip but with a maintained dividend

However, at least three analysts, James Picton in SA, Michael Coulson and John Taylor in the UK are speculating about a possible cut in De Beers' final dividend This is based on their doubts about the outlook for CSO sales Other concerns are cited, such as the large cost to De Beers of buying up diamonds entering the market from Angola As much as 3m carats are expected, generally of high quality

At this stage, this is a minority view Most local De Beers analysts still feel market conditions are much healthier than in the early Eighties, when De Beers last cut its dividend — and that was the first time in 50 years They are looking for total attributable EPS for 1992 slightly down on last year's 550c, with a pegged dividend of 307,5c

Brendan Ryan

DE BEERS FM 7/8/92

Negative sentiment (216)

Analysts expect the De Beers/Centenary interim results due out on August 11 to show a maintained dividend, but earnings forecasts range between 7% and 29% down on the 1991 first half Even if EPS do not fall more than 15%, the statistics may not lighten the negative sentiment that has depressed the share price 16%, from R90 at the beginning of July to a 12-month low of R74,75

The share has recovered slightly this week to R77,75 but the general feeling in the market is one of caution as the price could ease further Some are predicting a slide towards R60

The share shed 675c after publication of an article in the London *Sunday Telegraph* of July 19 reporting speculation by UK analysts that De Beers had manipulated the Central Selling Organisation (CSO) sales figures by selling diamonds to a CSO associate, Diamdel

The CSO wrote to the newspaper, rejecting the allegations and demanding a correction The CSO says that while Diamdel is a sightholder and buys diamonds from the CSO, it is part of the regular diamond sales system Diamdel breaks its purchases down into smaller parcels for sale to diamond dealers who are not large enough to have direct access to the sights Sales to Diamdel have been proportionately lower this year than the overall drop in market sales

Edey Rogers diamond analyst Keith Bright is forecasting a 20% drop in attributable EPS He expects a maintained interim dividend of 71,3c but points out that, to do this, De Beers may have to increase the Centenary payout by US1c to 16c That would compensate for the strength of the rand against the dollar

Anderson Wilson's James Allan forecasts De Beers/Centenary attributable EPS 25% down, with a pegged dividend Frankel, Max Pollak Vinderine analyst Kevin Kartun is looking for a 29% drop in EPS but believes the interim dividend could be increased

continue →

De Beers has analysts in complete disarray

MATTHEW CURTIN

IF A passer-by can hear chuckles coming from 44 Main Street, he is probably listening to the sound of De Beers executives chortling at the disarray among analysts as they try to forecast the corporation's interim earnings and dividends in the six months ended June 1992.

With little official information from the secretive diamond business, most analysts predict De Beers' attributable earnings will fall to between 240c and 270c a share, equivalent to a 20% to 29% drop from 339c produced at the interim stage in 1991.

Other forecasts, from leading independent analyst James Picton to Mathison & Hollidge analyst Barry Sergeant, range from 190c to 300c a share. Picton has gone on record saying De Beers is under pressure to cut its final dividend this year.

Graham Roberts, at London stockbrokers Carr Kitkat, said yesterday that earnings would fall to 269c a share, but the interim dividend would remain unchanged at 71.3c.

However, he said there were several unofficial reports in London pointing to a sharply reduced margin on De Beers' diamond account, implying far lower earnings than many analysts were expecting. In contrast, Sergeant said that De Beers had struck a deal with the Botswana government in which the government would bear the cost of stockpiling diamonds produced from local mines, relieving pressure on the Central Selling Organisation (CSO).

The diamond account margin — a crude measure of De Beers' profitability calculated by dividing diamond income by the value of Central Selling Organisation sales — has been under pressure since 1989.

Edey Rogers analyst Keith Bright said yesterday the margin was at its lowest level of 20% in 1991, compared with 22% in 1990 and 28% in 1989, and levels of more than 40% in the boom of the late '70s.

De Beers has denied reports that it was artificially inflating sales figures by selling diamonds secretly to one of its subsidiaries. The 14% fall in interim CSO sales to \$1,787bn (\$2,084bn) was not as low as many analysts forecast but reflected the pressure which sluggish demand for diamonds in the US, Japan and Europe has exerted on De Beers.

The diamond account margin has also been hit because the CSO has not increased rough diamond prices, while diamond output from De Beers mines and those which sell through the CSO continues to grow. Without a similar growth in demand, diamond stocks held by the CSO have soared, only to be further increased because of the spate of illegal diamond trading in Angola. In order to maintain its control of the trade, De Beers has had to buy up hundreds of millions of dollars worth of Angolan production outside of its existing sales agreement with the government of Angola.



Speculation runs rife over De Beers results

STAR 10/8/92

By Derek Tommey (2/6)

De Beers this week reports its earnings for the six months to June, with analysts here and abroad having a field day trying to work out what the figures and dividend will be

Assessing the performance for the half-year is not easy

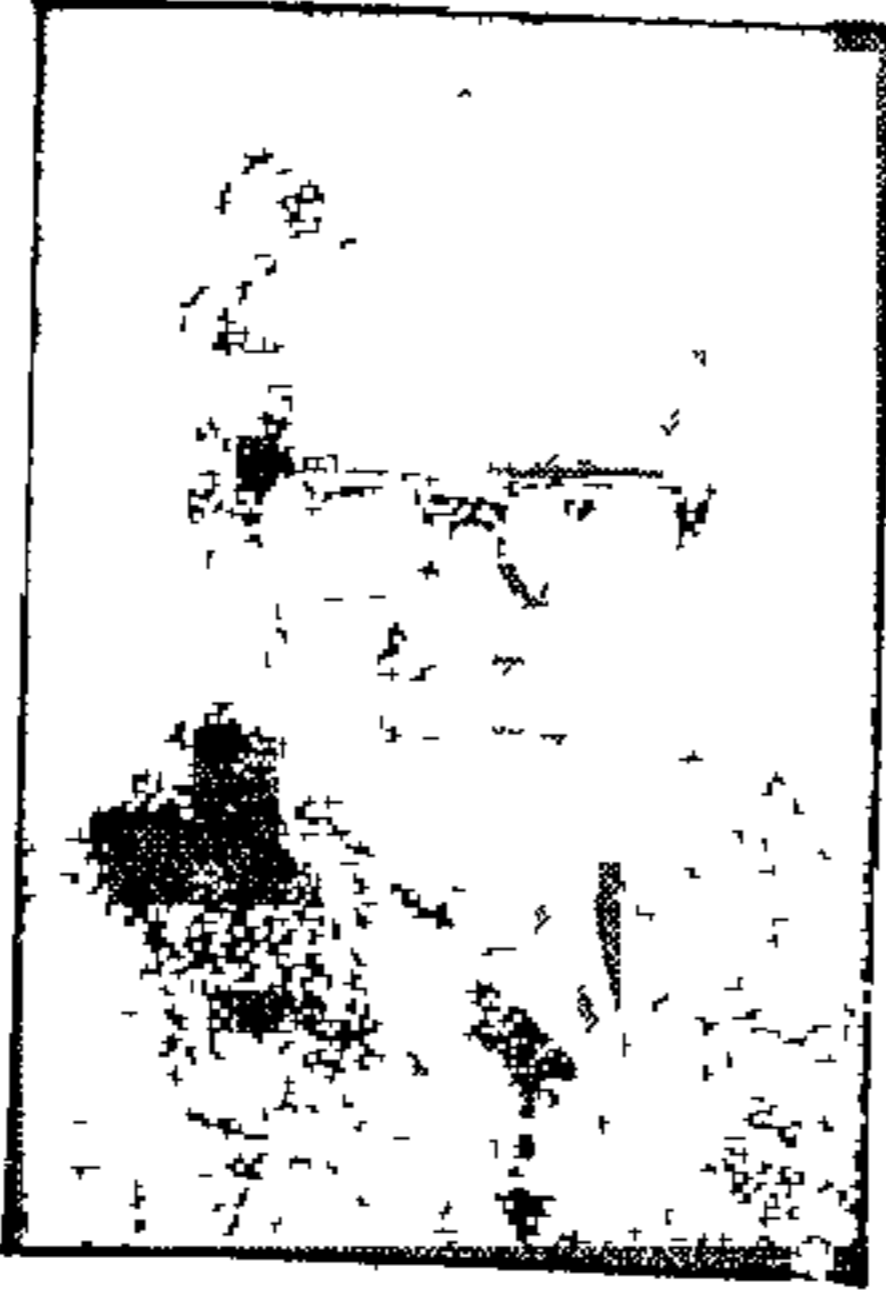
De Beers has been facing a number of problems, including weak markets for uncut stones and large-scale smuggling of diamonds from Angola, which it has had to buy back. These developments have put pressure on cash reserves

On the other hand, its new Venetia mine, which is to be officially opened on Friday, is proving to be a huge success.

The increased cash flow from this investment in the coming months could have a major impact on earnings

De Beers itself is fairly optimistic about prospects.

Deputy chairman Nicholas Oppenheimer said two months ago



Julian Oglvie Thompson . . . De Beers can afford to maintain its dividend

that there had been improved demand by cutters in the Far East and the US, which led to an increase in the volume of diamonds offered at the fifth "sight" early in June.

He said there were signs the US economy was improving and

that sales of rough diamonds in the second half should be higher than a year ago

There are no signs in this statement that De Beers had any plans early in June to cut the dividend, which some analysts are now suggesting could happen

It is also worthwhile to bear in mind the statement earlier this year by chairman Julian Oglvie Thompson that because De Beers had a high dividend cover it could afford to maintain its dividend when earnings declined

Against this background the London Daily Mail has speculated that earnings could be down sharply

It does not, however, expect a dividend cut, although it points that if De Beers needs cash, a reduced dividend could be attractive to the company.

An upsurge in smuggling and the recession are beginning to rub off on De Beers, it says

The CSO, which controls world rough diamond sales, had a profit margin of 22 percent last year. The market now feels the margin

has fallen to 16 percent, though some sources claim that it has been halved to 10 percent which would be the worst in De Beers' history

However, the newspaper says current indications are that De Beers will make a commitment to an unchanged payout

Between 1982 and 1988 CSO sales more than trebled, rising from \$1.3 billion to \$4.2 billion. They slipped to \$3.9 billion last year and totalled under \$1.8 billion in the first half of this year

Reports from Tel Aviv, Antwerp and London say the market is oversupplied with rough and polished stones.

However, analysts in Johannesburg seem to have few doubts that De Beers will not maintain its dividend. "De Beers would rather cut its throat than its dividend," says one.

Barry Sergeant of Mathison and Hollidge believes De Beers is forcing producers to stockpile diamonds at their own cost — so conserving De Beers cash holdings and helping profits

De Beers pounded ahead of results

MATTHEW CURTIN

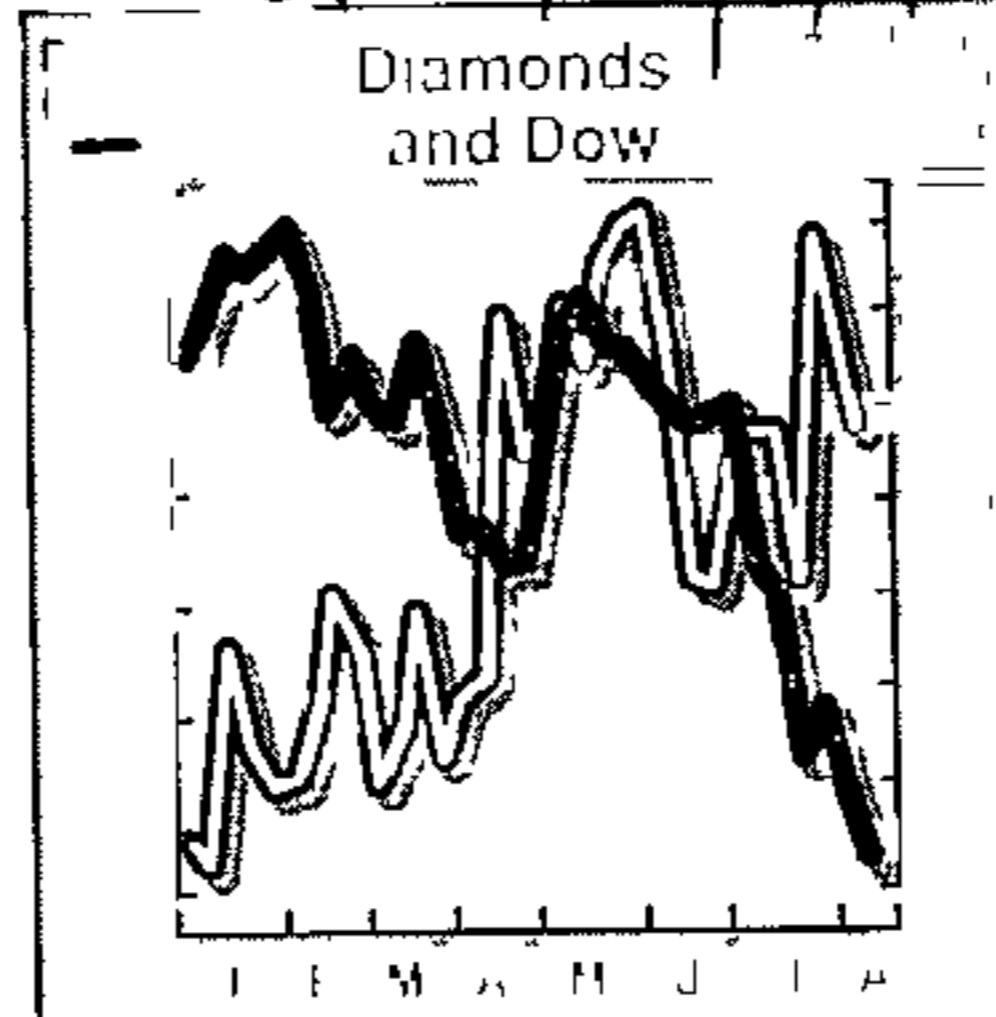
DE BEERS shares sank to a new low for the year yesterday, falling 200c or the equivalent of 3% to close at R73 on the JSE yesterday

The stock is at its lowest mark since April 1991 and has fallen 28% from a high of R101 in November

Bearish sentiment, based on falling rough diamond sales and rising rough diamond stocks held by the group, has knocked more than R10bn of De Beers' market value since the November high

De Beers outperformed the Dow Jones industrial index, a yardstick by which the shares are often measured, for much of 1991, but the shares, although often moving in line with the index, have lost ground recently

The corporation publishes its results for the six months ended June today, and analysts are divided over the degree to which De Beers has



been hit by sluggish world economic growth

Reuter reports that De Beers and Swiss-based arm Centenary were expected to maintain their combined interim dividend, despite lower earnings in dollar and rands terms.

Analysts contacted forecast rand earnings of between 220c and 250c a

share, compared with 339c in the first half of 1991

Anderson Wilson analyst James Allan said the wide range of analysts' forecasts reflected De Beers' "general lack of disclosure" of financial and sales information, as well as differences of opinion over the extent to which the profitability of De Beers diamond operations had been affected by increasing rough diamond supplies

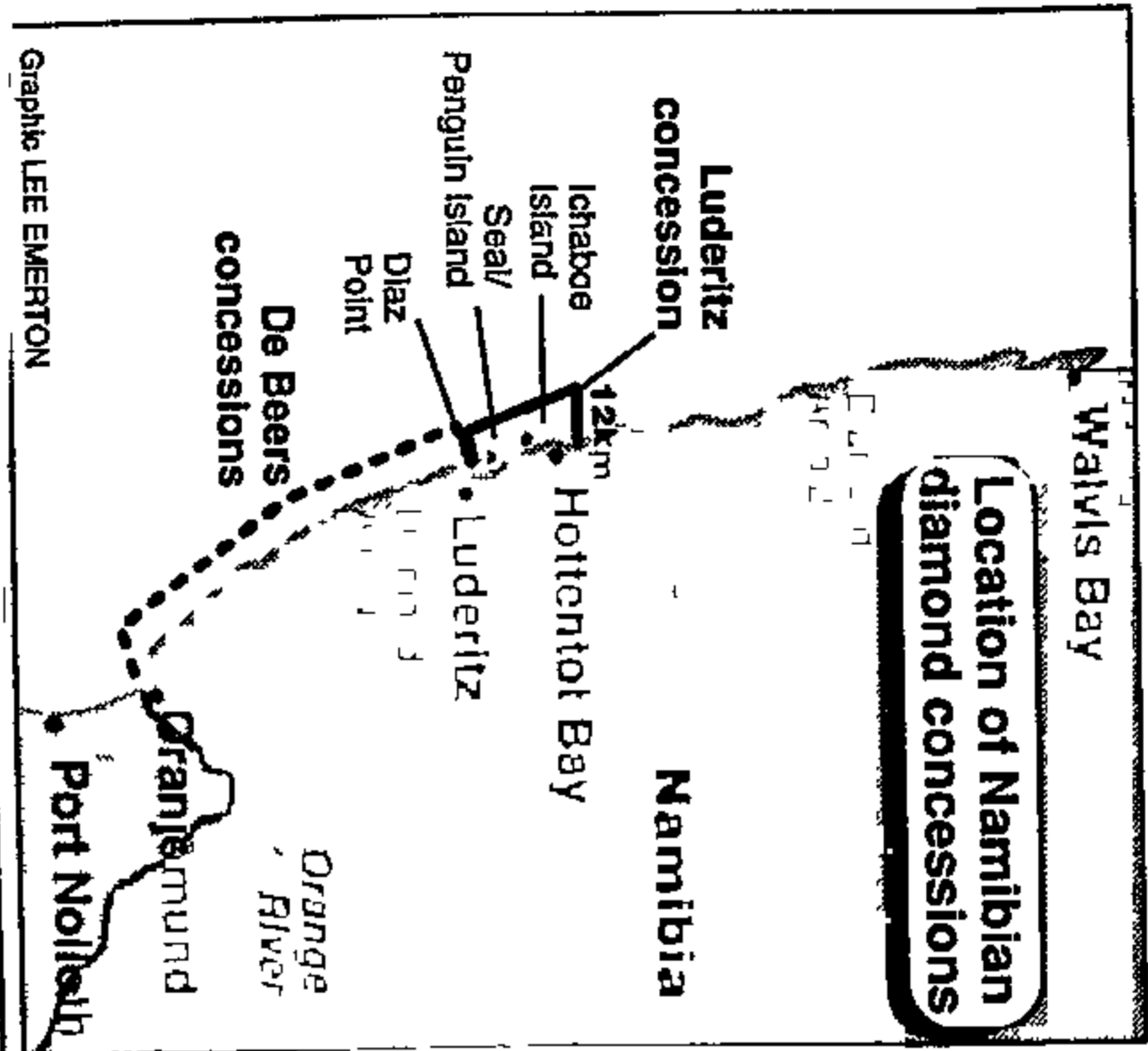
"There is no doubt things are tougher for De Beers this year, but I expect an improvement in the second half mainly because of an expected rise in Central Selling Organisation (CSO) sales," said Simpson McKie analyst Hennie Vermeulen.

Analysts said world economies were not picking up fast enough to absorb increased diamond production, and the slump in world retail sales had hit De Beers in the period under review

SA team hunts Luderitz's gems

By JON WATERS

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Graphic LEE EMERTON

A CONSORTIUM of SA businessmen has bought the Luderitz sea diamond concession off the coast of Namibia and north of concessions owned by De Beers.

The deal is the latest attempt by entrepreneurs to exploit the rich diamond deposits off the Namibian and SA coasts.

Sea diamond mining is potentially very profitable, but it is also high risk because of the bad weather in the area and need for expensive technology.

The 660km² Luderitz concession has been inactive for more than a year. It has large proven marine diamond deposits, a spokesman for the consortium said at the weekend. Geo-

physical surveys had shown a 7km² area with 400 000 tons of diamondiferous gravel at a grade of 1,73 carats a ton.

The consortium will be incorporated as a Namibian company with a view to obtaining a listing on the Namibian and Johannesburg stock exchanges.

Financial advisers Vector Financial Services (Vector), are trying to raise several million rands to get the project started, and hope to attract a SA mining house interested in diversifying into diamonds as a main financier. Vector director Chris Shone said Vector was negotiating with several groups

An analyst said at the weekend that the venture was feasible, as shown by De Beers' success in its marine diamond operations.

Although sea diamond mining in shallow water was risky, advanced technology for extracting diamonds in the shallow to mid-depth zones was now

available.

Market sources said that small sea diamond mining companies, Ocean Diamond Mining (ODM) and Benguela Concessions, were also in the market looking for money. ODM has the rights to two concessions around the SA islands within the Luderitz concession, while Benco have several concessions on the southwest SA coast.

The consortium's concession stretches 60km from Diaz Point in the south to Hottentots Bay

Sea diamonds are thought to originate from diamond-bearing kimberlite pipes in the centre of southern Africa.

The pipes were formed through volcanic eruptions about 80-million to 100-million years ago. In the past 60-million years the Orange River has entered the Atlantic at different points, leaving a diamond rich sediment along the coast.

Many of the stones are gem quality because poor quality stones have not survived in the turbulent sea

Shadow cast over the opening of Venetia mine

B/DAY 12/8/92

MATTHEW CURTIN

DE-BEERS' gloomy outlook for the diamond business for the rest of 1992, and the warning that the group may cut its final dividend for the first time since 1982, have cast a shadow over the opening of its new Venetia diamond mine.

Harry Oppenheimer will officially open the R1,1bn mine on Friday

At first sight, the opening of Venetia looks ill-timed. When the mine reaches full production at the end of 1993 or early 1994, it will produce 5,9-million carats a year — equivalent to 75% of SA's total diamond output in 1991. But the production boost coincides with rising diamond stocks held by the Central Selling Organisation and cutting centres worldwide as they face sluggish consumer demand.

Nonetheless, analysts agree that the mine is strategically important for the group. They say it will boost De Beers/Centenary earnings in the long term.

Anderson Wilson analyst James Allan said yesterday that Venetia "brings SA back into the major league of diamond producers". In 1982 De Beers diamond production was shared equally between the SA and non-SA mines at more than 8-million carats each.

Last year, SA production from the Kimberley, Koffiefontein, Finsch, Namaqualand and Premier mines fell to 7,9-million carats from 8,2-million carats in 1990, despite the first large contribution from Venetia of 303 041 carats.

That compared with the combined output of Centenary's mines in Namibia and Botswana of 17,7-million carats in 1991, down slightly from 18-million in 1990.

Frankel, Max Pollak, Vinderine analyst Kevin Kartun said yesterday that Venetia's output would more than offset the dwindling volume and quality of the rest of SA output as the

country's other ageing mines found lower quality material as they mined at deeper levels.

He said Venetia was a low-cost producer, benefiting from being a modern open-cast mine, working a seven-day week, and exploiting two kimberlite pipes with patches of very high grade material which increased its flexibility. He said the improved recovery of small stones had lifted Venetia's yield to 137 carats for every hundred tons, from original expectations of 121 carats. That compared with a yield in 1991 of 72 carats/100 tons at SA's next richest mine, Finsch, and 157 carats at Debswana's Jwaneng operation.

Kartun said Venetia was also important for De Beers' control of the diamond market. Gem diamonds made up a small proportion of total output, which included near-gem and industrial quality stones, and Venetia would be producing relatively large amounts of gem stones.

Low-cost

Allan estimated that Venetia would produce diamonds of an average value of \$100 a carat, which translated into revenue of \$590m a year once the mine was in full production — equivalent to R1,65bn at a R2,80 conversion to the dollar.

Allan said that as a low-cost mine with a profit-to-revenue ratio of more than 90%, Venetia could turn in a profit of more than R700m at full production in 1994, after assuming total production costs of R120m, royalties, and a 48% tax rate. De Beers Consolidated's after-tax profit in 1991 stood at R580m.

Allan and Kartun noted that Venetia's contribution to group earnings would be diluted first by the market commission owed to the CSO for its

valuing, sorting, selling and marketing activities, a commission which Kartun put at 15%.

Secondly, Venetia had to pay a minimum 12,5% royalty on pre-tax profit to Saturn Mining and Prospecting, a consortium made up of Anglovaal, its investment company Middle Wits, and Industrial and Commercial Holdings (ICH), whose major asset is its stake in Saturn.

De Beers is entitled to the remainder until all capital spending and interest on it is recouped. Once that is done, Saturn will receive a royalty of 50% of pre-tax profit. That, analysts say, amounts to the first chance the market has had to gauge the profitability of an individual SA diamond mine because all three Saturn stakeholders are listed companies. The Saturn royalty stems from the deal Anglovaal struck in which it ceded its diamond prospecting rights over land in the northern Transvaal, near the town of Messina, it was already prospecting for base metals to De Beers.

Anglovaal found no copper, but De Beers found several diamond-bearing kimberlite pipes.

Kartun said Venetia would add 310c to De Beers Consolidated's net asset value a share based on a 5% real discount rate for the project, and 475c and 840c to Mid Wits and Anglovaal.

ICH would have a R21 nav a share. He said with a projected cash flow of R220m in 1994, Venetia would add 50c a share to De Beers earnings in 1992 money, he said.

Kartun added that with long-term predictions of a 1% growth in diamond supplies in the '90s, and much stronger growth in jewellery demand, the increased production of gem stones from Venetia boded well for De Beers which could raise rough diamond prices as market conditions turned in its favour.

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CSO diamond contracts reduced

Dividend cut in the offing

at De Beers

8/04 12/8/92
MATTHEW CURTIN

DE BEERS/Centenary may cut its final dividends in 1992, for the first time since 1982. Yesterday, the group reported a 26% fall in combined attributable earnings in the six months ended June 1992.

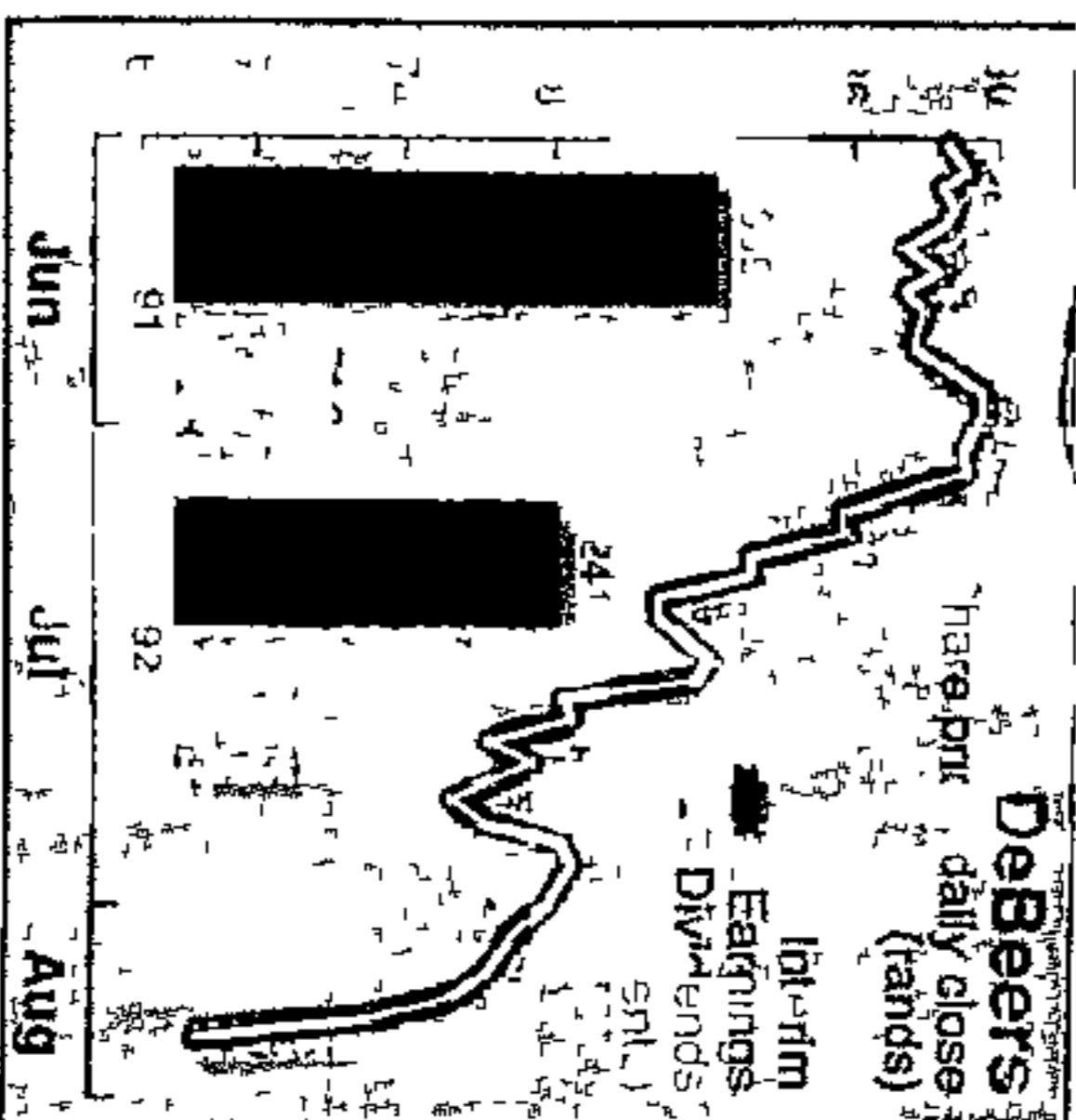
Earnings fell to \$0,87 a De Beers/Centenary linked unit from \$1,17 at the interim stage in 1991. As the rand has strengthened against the dollar, rand-denominated earnings fell further, down 29% to 241c from 339c a linked unit.

The group declared a total interim dividend of \$0,251 per linked unit, slightly higher than last year's \$0,247. That equated to a rand denominated dividend of 69,6c (71,3c) a linked unit.

The group has decided to reduce the contractual obligations of the Central Selling Organisation (CSO) to buy diamonds from diamond producers by 25% from September.

De Beers has drastically reassessed its outlook for the diamond business in the immediate future, apparently taken by surprise by the failure of the US, EC and Japanese economies to recover this year, a problem made worse by prolific illicit diamond trading in Angola.

De Beers' combined diamond account revenue — the profits from local and non-SA diamond mines, plus profits and dividends from international diamond businesses — fell 7% to \$383m from \$412m. The diamond account amounted to \$803m in the



Graphic: RUBY GAY MARTIN. Source: NET

year ended December 1991.

The fall in diamond account revenue followed a 14% drop in CSO sales to \$1,787bn from \$2,084bn in the first half of last year. Chairman Julian Ogilvie Thompson said "We no longer anticipate that sales of rough diamonds for the second half of 1992 will exceed those of the second half last year (\$1,843bn) and may well be less than sales for the first half of this year."

Ogilvie Thompson's gloomy forecast contrasts with De Beers' upbeat investor presentations held in SA and Europe in June. He said in April that diamond sales would increase if the OECD economies turned around in the second half of this year, as many expected.

De Beers/Centenary investment income To Page 2

De Beers

8/08 12/8/92

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From Page 1

rose 11% to \$14m from \$127m, reflecting improved dividends from listed investments, most importantly Anglo American.

Money spent by De Beers Consolidated on capital expenditure at the new R1,1bn Venetia diamond mine, and by Centenary in its efforts to mop up diamonds sold outside the CSO in Angola, hit the group's combined cash balance and interest income fell by 43% to \$65m from \$114m.

Earnings, excluding retained earnings of associate companies, slid to \$330m from \$446m. In 1991 De Beers produced earnings of \$763m.

Equity accounted earnings, those including retained earnings of associates, fell 22% to \$460m from \$586m in the first half of 1991. That equated to a fall in earnings a linked unit to \$1,21 from \$1,54.

The group's interim results and comments by its directors leave little doubt that the diamond business is in dire straits, facing the most serious problems since the early 1980s.

De Beers shares fell 6% or 450c to close at R66,50 on the JSE after the interim results were announced yesterday afternoon. The results were in line with many analysts' forecasts, but the threat of a lower final dividend took nearly all by surprise.

Ogilvie Thompson said: "The current outlook (for the diamond market) would indicate a significant reduction in final

dividends."

He said the US and European economies had not improved as forecast, and the slowdown in the Japanese economy had continued with further falls in the Nikkei index. Retail jewellery sales had not risen from last year's levels, and part of retail demand had been met by destocking by the jewellery industry, knocking demand for rough diamonds.

"At the same time, the market has been affected by a dramatic increase in the supply of illicit diamonds from Angola. In line with its traditional policy of supporting and stabilising the market, the CSO has purchased substantial quantities of these diamonds on the open market," Ogilvie Thompson said. Some were still being sold outside the CSO.

Increased supplies and poor sales led the CSO to invoke deferred purchase clauses in its supply contracts with producers.

Mathison & Hollidge analyst Barry Sergeant said the move could save De Beers more than \$100m in cash, if the value of diamond stocks increased only a little more this year than in 1991, when it rose \$350m to \$3bn from \$2,7bn. In 1990 Sergeant said by putting a quota system into effect, the group would reduce CSO diamond purchases, slow the growth in diamond stocks, and save on the cost of financing the stockpile.

● See Page 9

Share values plummet by R1-bn in one day

'Bloodbath' on the

STAR 13/8/92

By Magnus Heystek

JSE

216

The Johannesburg Stock Exchange suffered one of its worst one-day losses since the Great Crash of 1987 when the market dropped by nearly 3 per cent yesterday, wiping off nearly R1 billion in share values.

The shock news of a possible substantial cut in its final dividend from diamond giant De Beers reverberated throughout the market, and the Overall Index dropped by 100 points to close at 3309.

The share price of De Beers itself dropped by more than R10, to close at R62,50, as investors dumped the

shares on to the market in scenes described by some brokers as a "bloodbath".

More than 500 000 De Beers shares were traded, with a total value of more than R33 million, in 89 deals.

Overseas investors, in particular, were heavy sellers, and support from local institutions could not prevent the share price from dropping sharply.

Dragged

De Beers lost more than R700 million in its market capitalisation within hours of trading yesterday.

The industrial market was also dragged down by the shock news concerning De Beers, and dropped by 110 points to 4159, taking its de-

cline since its peak in June to nearly 12 percent.

De Beers is the largest company on the Johannesburg Stock Exchange and is by far the most favoured stock of pension funds, life assurance companies and unit trust companies.

The sharp drop in its value will affect the performance of unit trust funds in particular, all of which have large holdings in De Beers.

The outlook for the stock market has now turned decidedly gloomy and further falls are expected in the next couple of weeks.

Analysts are particularly perturbed about the implications of the warning given by De Beers concerning the outlook for the world economy

'Little hope' for quick recovery

Market reels as De Beers stocks plunge

B/DAY 13/8/92. (216)

DE BEERS shares fell nearly 10% on the JSE yesterday as the stock market staggered in the aftermath of the group's warning that it might cut its final dividends for only the second time in its history

The stock fell 590c to R62,60, wiping more than R2bn off the market value of the group. De Beers shares closed nearly 40% lower than their most recent high of R101 last November.

The De Beers collapse triggered the largest fall in the all share index since the Iraqi invasion of Kuwait last August. The overall index plunged 101 points to its lowest since October 21 1991, closing at 3 208.

The mining financial index shed 138 points to 3 530, falling below its most recent low of 3 584 on April 21. The market's unease saw industrial shares lose ground too, with the index sliding 110 points to close at 4 049, close to its most recent low of 3 887 on August 19 1991.

Weaker gold and platinum prices pushed mining shares lower, the all gold index falling to a year low of 980 points. Analysts said the gloomy outlook for the diamond trade would have an impact on forecasts for gold and platinum markets, whose fortunes — like diamonds — are tied to jewelry demand and consumer spending.

Dealers held out little hope for a JSE recovery in the short term, with shares likely to fall lower this week. They could

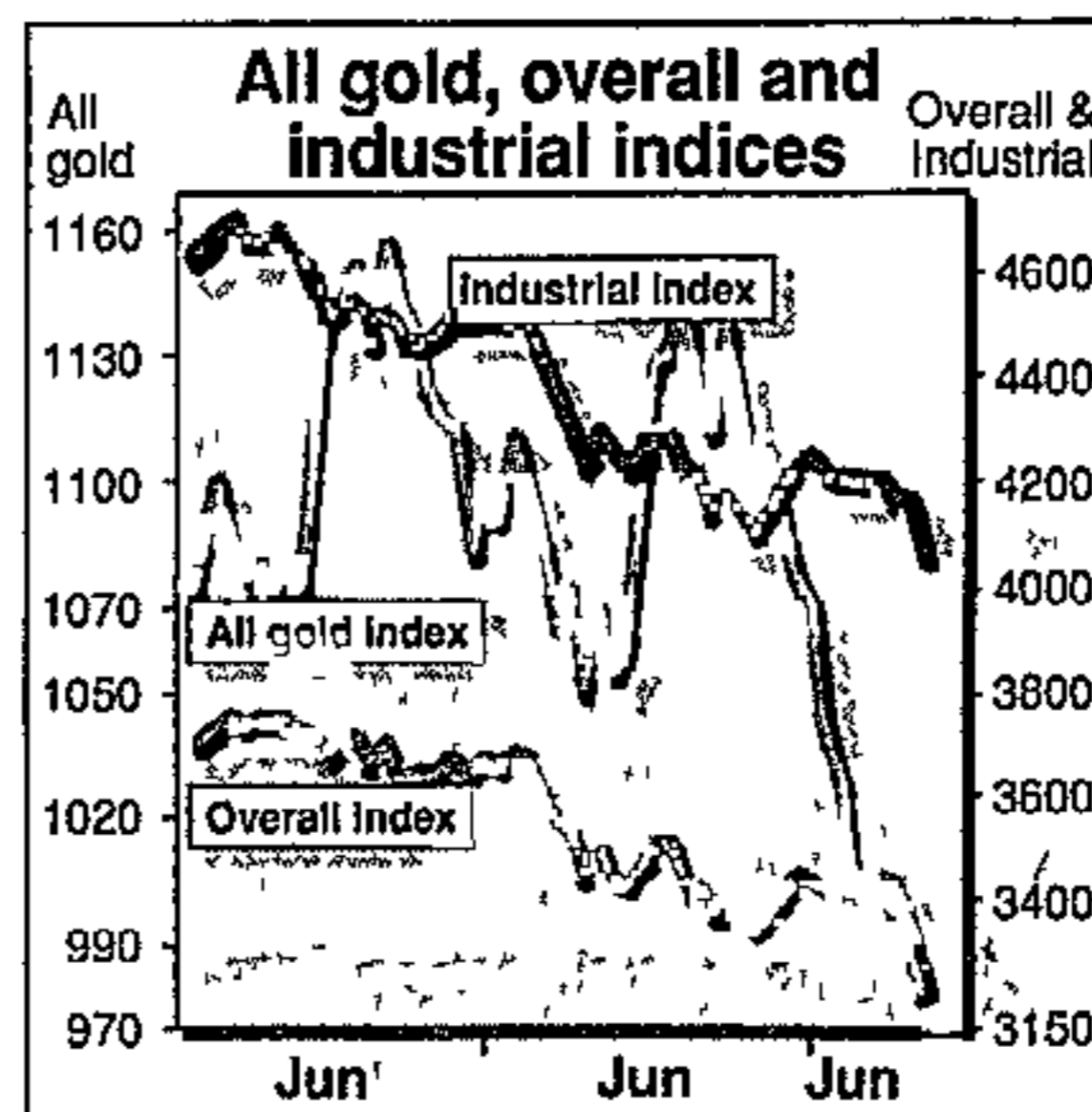
PETER GALLI and
MATTHEW CURTIN

see "blood on the market floor" Institutional players were staying out of the market or looking for bargains and "nibbling" at blue chips as they moved lower.

Panic selling by local and foreign investors was mixed with outrage among dealers and stockbrokers at the sudden turnaround in De Beers' outlook for the diamond business in 1992.

Analysts said the volte-face by De Beers chairman Julian Ogilvie Thompson was "unacceptable" and had seriously dam-

□ To Page 2



De Beers

aged the credibility of the group as a blue-chip stock, well protected from the cyclicality of commodity markets.

Ogilvie Thompson's predictions of significantly lower final dividends contrasted with recent confidential assurances given to leading Johannesburg brokers that the dividends would be maintained.

His forecast that diamond sales in the second half of the year could fall below first half levels also conflicted with comments at the De Beers roadshow, held in Europe and Johannesburg in May, that

sales could improve.

The Financial Mail reports today that De Beers' gloomy results and forecasts vindicate comments in the past three months by three leading diamond analysts, local analyst James Picton, James Capel's John Taylor and Durlacher's Michael Coulson in London, querying official sales forecasts and speculating on a dividend cut.

Analysts said not only had De Beers misjudged the depth of the global economic slowdown, but that the problem of illicit diamond trading in Angola was more serious than De Beers had let on at first.

□ From Page 1

De Beers cost-cutting will upset producers

By Neil Behrmann (216)

STAR 13/8/92

LONDON — De Beers' decision to slash purchases will have a ripple effect on international diamond producers that have so far been protected from the slide in the gem market

On the other hand, analysts say, De Beers could save itself more than a \$100 million in the rest of the year because fewer diamonds will be added to its pile

In the longer term, the decision might prove to be problematical.irate producers might wish to market more of their gems independently

De Beers controls 80 percent of the world's rough diamond market through its Central Selling Organisation (CSO) cartel

Producers in South Africa, Russia, Botswana, Australia, Namibia and Zaire sell most of their production to De Beers, which then supplies dealers and manufacturers who cut and polish the diamonds.

Through this system, De Beers has never cut the prices of its rough diamonds That is

why the announcement is such a shock to the market

No one forecast that De Beers would apply the deferred purchase clauses in its supply contracts with producers

The effect will be to reduce the contractual obligation to take delivery of diamonds from producers by 25 percent from September

In the past two years De Beers has negotiated new contracts with Russia, Australia, Angola, Botswana and Tanzania Those producers will be forced to find their own buyers, stockpile or cut output

According to a De Beers spokesman, the company last applied deferred purchase clauses in 1982 — a time when the diamond market was also depressed

By withholding diamonds and encouraging international producers to stockpile or reduce output, De Beers stabilised the market It then began to recover in tandem with the world economy from 1983 onwards

De Beers is now aiming for similar results

This time around, however, competing dealers are waiting

in the wings, anxious to grab a slice of the action These dealers are hoping that De Beers will antagonise producer members of the international diamond cartel that it controls

Last year, for example, De Beers negotiated a five-year sales agreement with Argyle, the Australian producer.

In exchange for selling more of its diamond output through the CSO, Argyle would sell more of the valuable top-quality gems independently

As a result of the latest decision, Argyle will be forced to stockpile more diamonds or cut production

If De Beers, with its powerful marketing contacts, is finding it difficult to place diamonds, Argyle is also likely to struggle

When the market improves, however, Argyle might prefer to place diamonds itself and avoid the middleman

Dealers estimate that Argyle's total output of around 36 million carats is worth about \$300 million, with gems accounting for about a third of this value Argyle already has its own sales offices in Antwerp and Bombay

The diamond market will

only improve when the world economy revives By forcing producers to bear part of the stockpiling burden, De Beers also aims at reducing excess supplies in the market

According to a spokesman, only a third of Angola's diamonds have been sold through official sources

De Beers was thus forced to buy substantial quantities of illicit Angolan diamonds on the open market

To support the prices of rough stones, De Beers has been reducing allocations to dealers and stockpiling diamonds since the second half of 1990

As a result, the company's own diamond stockpile has been rising and jumped by \$350 million to \$3.03 billion at the end of last year

That diamond mountain has risen further this year

De-stocking by jewellers in an international business slowdown indicates that diamond sales will be lower in the second half of the year

This will not give cheer to De Beers shareholders, who have seen their shares fall considerably from the peak

De Beers denies misleading market over

DE BEERS chairman Julian Ogilvie Thompson has dismissed suggestions that the group has misled the market over the parlous state of the diamond business

In an interview yesterday, Ogilvie Thompson said "The allegations that De Beers has lost credibility are unfair and ill-founded and the facts support me"

He said De Beers' decision to announce it might have to cut its final dividends, which surprised and shocked most analysts, was based on a sudden deterioration of the outlook for the diamond market in July

He denied reports that only weeks before the interim results were published, the group had informed some stockbrokers the

final dividend would not be cut

De Beers director Bertie Lincoln said directors had met stockbrokers in recent weeks. While they had said it was unlikely the interim dividend would be reduced, it was too early to comment on whether the final dividends were at risk. Ogilvie Thompson said the decision was taken at a board meeting on Monday, and the market informed as soon as possible

The group declared a total interim dividend of \$0,251 a De Beers/Centenary linked unit, marginally above last year's amount, but lower in rand terms at 69,6c (71,3c)

Ogilvie Thompson said it would require

B/DAY 14/8/92
MATTHEW CURTIN

"a pretty dramatic turnaround" in the diamond market for De Beers not to cut its final dividends

He said the local stock market was bound to react strongly to an announcement of this sort, given De Beers' importance. Lincoln said "The market was due for a correction and our announcement may have been a catalyst for the fall in share prices"

The fall in De Beers shares slowed on the JSE yesterday. Although they were traded as low as R59,50, shares closed only 90c down on the day at R61,65, 39% below their

Continue

state of diamond industry

most recent high of R101. (216)

Ogilvie Thompson said "a double problem affecting both the demand and supply side of our business", first evident in July, led to De Beers' drastic reappraisal of the outlook for the diamond market.

The Central Selling Organisation's rough diamond customers had told the group for much of the year that diamond demand was holding up even after a "sticky" July diamond sight

As late as the last of a series of Anglo-American presentations, held in Johannesburg on June 29, De Beers was relatively optimistic on the short-term outlook because the drop in rough diamond sales in

the first six months of the year was no greater than 14%, and because "in common with most forecasters" the group believed OECD economies were emerging from recession in the second half of the year

Ogilvie Thompson said if De Beers had misjudged the state of world economies, it was in good company. There had been consensus that the major world economies were poised for recovery, an opinion "shared not only by most economists but by Prime Minister John Major, Chancellor Helmut Kohl, and other world leaders"

However, the Nikkei index crashed in

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recent weeks — of importance to potential diamond sales in Japan because of the correlation between discretionary income and the health of the stock market — and the US and European economic recovery appeared slower than expected. "Obviously our own forecasts had to change in tandem and were reinforced by the evidence of the sight in the second week in July," Ogilvie Thompson said

He said the situation was "simultaneously aggravated by the sudden and unprecedented explosion in the supply of illicit diamonds" from Angola. De Beers estimated there were about 50 000 diggers at work, increasing by 500 a day

"Once this production began to flow on to the market it grew at an exponential rate until it reached the proportions of a major new mine coming into full production without the usual notice or time to prepare for its marketing.

The CSO had spent "hundreds of millions of dollars" buying up illicitly traded stones. However, De Beers faces the problem not only of what it has bought but what it may have to buy from Angola to stabilise the market," Ogilvie Thompson said. With Angolan elections set for later this year, it was unlikely that the Angolan government

would be prepared to act decisively against the illicit industry

He said the problems facing De Beers now were significantly different from the situation in the early 80s, when the group had last cut its dividends. Then, diamond cutters, overfinanced by banks, had built up huge diamond stocks in the middle of the commodities boom, trading diamonds in a casino-like fashion, at prices several times that of those of the CSO

Ogilvie Thompson said that at the moment, the CSO faced a sudden surge in supply at a time of sluggish demand — slow growth in the US was not enough to offset the fall in Japanese demand. But stocks in diamond cutting centres were not overly high at \$4bn, comparable to last year's CSO sales of \$3,9bn.

Long term prospects for the diamond trade remained good. While there was no new diamond market to compare with Japan, diamond sales would pick up strongly once OECD economies turned around, with the added impetus of increasing sales in southeast Asia, southern China and Latin America. The short-term outlook was nevertheless distinctly uncertain, Ogilvie Thompson said.

Comment: Page 6

De Beers move hits gem producers

By Neil Behrmann

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DE BEERS

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Facing up to reality

In a numbing about-face, De Beers chairman Julian Ogilvie Thompson has reversed his optimistic forecasts on the diamond market and confirmed the market's worst fears — the final dividend could be chopped

Casualties include the De Beers share price, which went through the floor on Tuesday to close 475c down at R68,25. Another, according to some analysts, was the credibility of De Beers. The group has, until now, maintained an optimistic outlook despite the many bearish factors in the diamond market.

Barely a month ago, when the CSO sales figures for the first half of 1992 were released, De Beers claimed confidence that the diamond market had improved, resulting in increased sales volumes at the fourth and fifth sights. This followed Ogilvie Thompson's upbeat prediction made in May, when he forecast 1992 second-half CSO sales would exceed those of the 1991 second half.

The credibility of the De Beers chairman is such that his predictions were accepted by institutions and most analysts, despite their unease over effects of the prolonged recession in major markets such as the US and Japan.

Three analysts, initially James Picton in Cape Town, followed by James Capel's John Taylor and Durlacher's Michael Coulson in London, openly queried the official forecasts and speculated about a cut in final dividend.

They were unhappy about their inability to reconcile the official CSO sales figures with what they had gleaned from their own sources — the official figures were far better than expected. Picton suggested De Beers was gambling on a world economic recovery in the second half of 1992 and had "pushed US\$280m-odd in unwanted diamonds into the trade."

Bitter reaction in general from JSE analysts yesterday was that De Beers had tried to massage investor sentiment through the optimistic presentations to investors made in Europe and Johannesburg at the end of May and early in June. "They must have known then what the real situation in the market was. You don't do this sort of thing," complains one analyst.

According to a De Beers spokesman, what changed the market outlook since the beginning of June was the collapse of the Japanese stock market and the worse than expected US employment figures. Japan and the US between them accounted for 59% of retail diamond sales in 1991. Ogilvie Thompson's official statement says De Beers reassessed the situation because of two "recent" developments.

Those were the slowdown in the Japanese economy combined with the lack of improvement in the US and Europe, as well as the

increase in diamonds being smuggled illegally out of Angola.

But these are aspects that have been worrying analysts since January and contributed to their gloomy predictions on first-half CSO sales. Ogilvie Thompson now estimates second-half 1992 sales by the CSO may be less than the US\$1,8bn recorded in the first half. The CSO has reintroduced the quota system on its producers, cutting its offtake from them by 25%.

BEFORE THE FALL

Six months to	Jun '91	Dec '91	Jun '92
Diamond acc (Rm)	1 189	1 013	1 063
Pre-tax income (Rm)	1 612	1 220	1 327
Attrib earn (Rm)	1 288	803	915
Equity earn (Rm)	1 692	1 262	1 277
Attributable earn (c)	339	211	241
Dividends (c)	71,3	236,2	69,6
CSO sales (Rm)	5 619	5 266	5 086

"The overall result is likely to be a greater percentage reduction in the full year's combined profits than that recorded in the first half. The current outlook would indicate a significant reduction in the final dividend," he says.

The 28,9% drop in interim attributable earnings to 241c (1991 first half — 339c) was at the more pessimistic end of analysts' expectations. Ogilvie Thompson's prediction for the full year means De Beers' attributable earnings for 1992 could fall to 385c or less, from last year's 550c.

The final could be cut at least 25%, shaping up for a total payout that should not exceed 248c, compared with 1991's 308c.

The group's latest development, the Venetia mine in the northern Transvaal, will be officially opened on Friday. A De Beers spokesman says the mine's future will not be affected by the poor market outlook. He says the plan is still to reach full output of 5,9m carats a year by the end of 1993, implying the mine will stockpile some of its production.

De Beers clearly remains confident on the long-term soundness of its business but this turnaround on short-term prospects has worsened already gloomy investor sentiment. The share is heading towards R60 or lower.

Brendan Ryan

JSE APPOINTMENTS

More depth at the top

JSE president Roy Andersen, a CA, has announced the creation of two new senior posts and, perhaps predictably, he's selected two

chartered accountants to fill them. The positions are those of director inspectorate and surveillance, and director operations.

Andersen says he wants the director of surveillance to become the JSE's ombudsman and to have wide powers of investigation. Rob Barrow, at present a senior audit partner with Coopers Theron Du Toit — one of the big four accounting practices — will take up the position on October 1. Barrow is immediate past-chairman of the Accounting Practices Committee of the SA Institute of Chartered Accountants, which helped Andersen in his selection for the post (see *People*).

The new director of operations, Neil Carter, will be responsible for the day-to-day business of the JSE. Andersen says this appointment will release him to concentrate on the strategy for the future of the JSE and will enable him to manage the development of the exchange.

Carter, who is a Scottish CA and also holds an LLB and an MBA, is financial director of Time Holdings. Before that, he was group financial director of Everite and worked for Schweitzerische Eternit in Zurich.

Andersen says the appointments will substantially enhance the JSE's senior management team which, he maintains, "will now be strong and balanced." Given his own repeated emphasis on ensuring the security of investors and his desire to ensure the exchange meets the demands of a changing environment (*Leaders* August 7), these appointments should go far in satisfying the perceived needs of a self-regulating institution. This will be particularly so if the ombudsman's position is enhanced by direct and unfettered access to the Registrar of Financial Institutions.

David Gleason

CONSOLIDATED MURCHISON

Going for gold

The Cons Murch share price has taken off after management's decision to concentrate on increasing gold output at the expense of antimony production. Investors are viewing the company as a marginal gold mine and, encouraged by the rally in the gold price, have nearly doubled the price from 85c in May to about 150c.

Gold production for 1991, at 722 kg, is 36% up on 1990's 531 kg. Chairman Michael Hawarden indicates the intention is to try to maintain this level. "We are targeting zones in the ore body which are richer in gold grade than in antimony and have spent a lot of time and effort on improving

Falling gold price adds to market gloom

By Magnus Heystek

The slide in prices on the JSE continued yesterday as further bad news in the form a sharply lower gold price depressed sentiment and sent investors hurrying for cover

Gold was fixed at \$337,30 yesterday afternoon, compared with \$346,80 on Wednesday

In the space of four trading days platinum has fallen by over six percent to \$351,75, silver by 3,5 percent to \$3,81 and gold by over three percent to \$337

Gold's decline was precipitated by the sharp drop in the platinum price on Wednesday when Japanese investors sold the metal on

fears that demand would dwindle as the Japanese economy was showing no sign of improvement.

On the JSE, the overall index shed 54 points to bring its decline to 191 points since the beginning of the week

Industrials also come under severe pressure and closed down 52 points after Wednesday's 110-point drop

It closed at 3997 yesterday in what could be a major downward break of the 4 000 level

The gold board was especially weak, shedding almost five percent of its value to 937

News of the sharp drop in economic activity in the second quarter of the year, which shows

that gross domestic product (GDP) declined by 2,6 percent on an annualised basis, added to the gloom.

Despite a brave face being put on by brokers, analysts fear a prolonged bear market

De Beers again occupied centre stage yesterday The share at one stage dropped to below R60, but some support later propped the share up somewhat It closed at R61,50

According to one broker, Cape-based financial institutions had been buyers of De Beers prior to its interim results

"They were buying De Beers at R80 last week and now they don't want to touch it at R60,"

he said

The sharp drop in De Beers, in particular, is causing havoc with the investment performance of financial institutions, especially unit trusts

With De Beers having the largest market capitalisation on the JSE, it forms the largest single shareholding of most portfolios

While the portfolios of pension, provident and other funds are able to hide the extent of their declines from the public eye, unit trust are not so lucky

The decline in the value of general equity funds has been greater than the decline in the overall market, mainly because of the heavy shareholding in De Beers

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De Beers opens major mine

(216) CT 15/8/92

MESSINA. — The opening of De Beers' Venetia diamond mine in the far northern Transvaal was important for the world's largest diamond producer to maintain stability in the industry, former chairman of the group Harry Oppenheimer said at the opening ceremony yesterday.

Venetia is the first major diamond mine to be developed in South Africa in more than 25 years and has been developed at a capital cost of R1,1bn.

The conventional opencast mine is expected to reach full operation by the end of the year and is forecast to yield more than five-million carats per annum.

"I am firmly convinced that in the long term, the opening of the Venetia mine will be shown to be a factor which will contribute in an important way to the prosperity

and stability of our industry," Mr Oppenheimer said.

He said this was despite the pressure on De Beers to cut down and economise.

De Beers is under the spotlight for reportedly misleading the diamond industry when it recently announced, contrary to previous assurances, the group might have to cut its final dividend.

De Beers Central Selling Organisation (CSO) attempted to create stability in the world diamond market but did not run a monopolistic system, he said.

"What the CSO does aim at doing, and what for many years it has done successfully, is to operate a buffer pool, stocking diamonds in bad times and liquidating its stocks when demand exceeds supply."

Mr Oppenheimer said the preservation

of an essential degree of stability was advantageous for producers, processors and consumers.

He said De Beers' old mines around Kimberley were still operating but their production could not go on forever.

The Venetia mine was important for maintaining continuity and stability in the industry although new production was not required at present.

"Venetia will ensure the continuity of De Beers production in South Africa.

This, taken together with the output of the mines in Botswana together with the Namibian production, provide the major base for the CSO which is necessary for its continued successful operation," he said.

— Sapa

De Beers Loses a lot of sparkle

(216)
AND 15/6/92

THE JSE might have been largely deserted by the small investor in recent years, as a result of which he's observed Wednesday's De Beers-inspired bloodbath with unbecoming smugness.

If you fall into this category, second thoughts will prompt a double-take, since, if you followed your pals out of the stock market and into unit trusts, your nest egg isn't looking as healthy as you thought.

Should you have taken the interest in your unit trusts that you should have done, you would have noticed that the trust or trusts you chose had filled their boots with De Beers.

Some funds have a larger De Beers exposure than others, but you'd be hard-put to find a general equity fund which doesn't feature De Beers in its portfolio.

Back to Wednesday. It was a day on which the All Market Index shed a sharp three percent. And it was a day on which two of the biggest general equity funds — Old Mutual Investors and Sanlam — fell in value by 3,4 percent and 3,7 percent respectively.

It's a difficult pill to swallow, especially since you opted for unit trusts in order to diversify your risk.

Never mind, you tell yourself, De Beers will eventually recover — it always does.

No doubt it will, though it's questionable whether it will regain its former glory as the JSE's leading blue chip.

Why? Because the company might well have

■ A short two months ago, De Beers went on a global ego trip. The music has since gone sour and the small investor has now got earache.

JOHN SPIRA, Business Staff

damaged its reputation irreparably.

Two months ago, the diamond giant's executives embarked on a global tour of international financial centres with an impressive presentation which highlighted the company's strengths and its potential.

The world's investment managers liked what they saw and heard — many no doubt bought the shares on the strength of the group's optimism.

They're now sitting on painful losses, for which they must account to their shareholders.

They've long memories, these international investment managers — which means it'll take quite some time for their faith in De Beers to be restored.

They'll be selling their De Beers into every meaningful rally, with the result that although the shares might appear cheap following their headlong decline, the credibility gap to have sprung up overnight will long place an effective cap on the share price.

For investors in unit trusts, the answer must surely be to switch out of the De Beers-laden funds

into the De Beers-shy funds.

For investors with a direct stake in equities, the news is only marginally better, since, whether warranted or not, the JSE tends to follow De Beers up and down.

In the final analysis, the fiasco of the De Beers conjuring act has exacerbated what might otherwise have been a mild correction. It renders the recovery process slower and more convoluted.

The fiddler with the two-stringed instrument should have stayed at home, for the sequel to the initial rave reviews is damning.

■ De Beers chairman Mr Julian Ogilvie Thompson dismissed allegations that the diamond group had lost credibility as "unfair and illfounded".

Market players accused De Beers of repeating an optimistic forecast in an presentation in Johannesburg at the end of June.

"If you refer to the record you will find that we were obviously referring to the long-term favourable prospects of the diamond industry which we said was poised to benefit from any upturn of the world economy."

He said the group had noted that there had been some signs of improvement in the April and June sights in London. "It was essentially a long-term forecast and one to which we still adhere."

Mr Ogilvie-Thompson said the trouble — a double problem affecting both the demand and supply side of the diamond business — first became evident in July.

"Until that time the international economic consensus was that the major world economies were poised for recovery."

THE JSE WEEK

By CIARAN RYAN

DE BEERS' shock announcement that it might cut its final dividend knocked nearly 20% off the share price and R5.5-billion off its market capitalisation. The share closed at 6050c, nearly R15 lower than a week ago.

The market has been in a decline since the Boipatong slayings in June when the JSE overall index touched 3743. It has shed 16% to 3140c.

Analysts say the market will cool further before rallying. The lack of institutional interest is failing to arrest the slide in prices which reflects fears of a deeper malaise in the world economy. Anglo American lost 9% to

De Beers knocked

10 350c in sympathy with De Beers, peeling R2.3-billion off its market capitalisation. Analysts say the De Beers scare was a major reason for gold's sudden drop to \$334 on Friday morning, after which it touched \$336. Two weeks previously gold tested the \$360 mark but failed to penetrate this technical resistance level. (216)

Cracks in the diamond market were bound to have a ripple effect on gold, a major user of which is the jewellery industry. But there are signs of consolidation in the market.

A spate of worse-than-expected company results in the past few weeks forced analysts to revise their forecasts downwards and this fuelled the selling spree

Stones on the rocks

THERE were no injuries and the ship was in no danger of sinking, although its hull had a gash six inches (15cm) wide and 74 feet (23m) long," said the report on the QE2, which ran aground off Boston this week.

It was a mild shock to everyone on board, but most of all to the experienced pilot at the helm whose charts showed he was in a channel which should have been deep enough to leave more than 2m of clear water under the QE2's keel.

Fewer than 48 hours later De Beers disclosed that its expectations for 1992 had similarly hit unexpected rocks. At the end of April and again when the Central Selling Organisation reported first-half sales of rough stones, De Beers chairman Julian Ogilvy Thompson seemed quietly confident that he was steering his luxury vessel out of the recessionary storm.

He was in good company. From President Bush to John Major and the authoritative crystal-ball gazers at the Organisation for Economic Co-operation and Development (OECD) most people were of similar opinion.

It is true that few London stock-market analysts shared Mr Ogilvy Thompson's view, but De Beers has often proved them wrong. When CSO first-half sales emerged 14% down on the 1991 figure — against Mr Ogilvy Thompson's April prediction that they would be about 15% off — stock-broker comment tended to a more cautious tone.

Thus this week's announcement of the impending dividend cut and the 25% reduction in CSO purchases from producers, which proved the analysts had been more right than they thought, proved traumatic. As the shares were unceremoniously dumped, the Lex column in the Financial Times, London's leading press commentator, was distinctly harsh in

De Beers ran aground this week only a few hours after the QE 2 hit a reef that not even the pilot suspected was there.

S/Times (Buss) 16/8/92

**JOHN
CAVILL
IN
LONDON**



its judgment that Mr Ogilvy Thompson's erstwhile positive sentiments had wrong-footed the market.

"His credibility has been dented," it said.

The analysts are more sympathetic. Even if some were surprised at De Beers' admission to vulnerability, they have seen too many blue-chip companies around the world cutting their dividends in the past 24 months to be shocked. But the question is now the future for De Beers and its rating.

THERE is precious little cheer to be gleaned from the analyses which have followed the bad news.

Charles Curnow of Durlacher's says diamonds are "a late play" in the economic cycle. "People, generally, don't buy the big stones which are the most profitable until towards the end of an upturn and it hasn't even started yet," he says.

The history of the 1980s bears this out. After the double disaster of 1981 — recession plus bloated diamond stocks in the cutting centres — and De Beers' last dividend cut, CSO sales

were flat for the first three years of economic recovery even though the gross national product of the Group of Seven picked up.

It was not until 1986 that CSO sales and De Beers' profits took off on a burst which lasted four years before the downturn, led by the US, began to bite in 1990.

Although the stock overhang which blighted the 1980s is no more, Mr Curnow says the unknown factor of leakage from Angola — estimated at \$400-million to \$500-million — which the CSO has had to buy up from the market could be causing a similar problem.

At Williams de Broe Chaplin, Rhona O'Connell says "None of the big markets looks good. Neither the United States nor Germany is doing anything. Japan, which is about 30% of world diamond jewellery sales, is a major problem."

"Imports of platinum for the jewellery industry are about 15% down and that is not good for diamond sales."

John Taylor of James Capel, which takes a grey view of prospects for the international economy in 1993, believes it may be 1995 before there is any significant recovery in De Beers' profits.

Mr Taylor says it seems that if the next 12 months continue as is, De Beers will have to use its credit lines by the middle of 1993.

The benefits of any improvement in the market will be felt first by other producers, such as Ashton of Australia, which are being asked to cut back production or hold stocks.

"The real surge in the earnings of De Beers only occurs when diamond sales are buoyant and they are able to sell stones from their stockpile."

CAPELS credits De Beers for coming to terms with reality. "What they now seem intent on doing is limiting the damage and doing their best to cope with a situation whose final outcome is still very uncertain," says Mr Taylor. "They have to husband their cash instead of distributing it to shareholders because the primary concern at all times must be to ensure the viability of the Central Selling Organisation."

Even so, Mr Taylor believes that a higher yield is warranted for De Beers. Forecasts of the total dividend this year — US112c in 1991 — range from US85c down to US73c.

On the basis of a yield of 5% that suggests De Beers share price may have further to fall to \$15.

Like the QE2, De Beers is in no danger of sinking. Embarrassing as the U-turn about the outlook may be, at least Mr Ogilvy Thompson and the rest of the board did not have to go through the automatic procedure which befell all those on the bridge of the QE2 this week.

"Drug and alcohol tests were carried out on everyone on the bridge at the time, including Captain Robin Woodall," said the report of the vessel's interrupted voyage.

De Beers confident of gem jewellery demand recovery

JOHANNESBURG —

De Beers chairman Julian Ogilvie Thompson is confident the diamond industry will improve once the world's economies recover.

At the opening of De Beers' Venetia mine in the Northern Transvaal, Mr Ogilvie Thompson once again rejected criticism that De Beers had misled the market by announcing, contrary to previous assurances, a likely cut in its final dividend

"In spite of current, and we believe temporary problems, consumer attitudes to diamond jewellery remain positive

"It is an extremely hopeful sign that in spite of the recession, retail demand has continued at the same level," he said.

"Although this demand is being met to a certain extent by continued de-stocking by the jewellery industry and supply from illicit Angolan diamond mines,

which the CSO is not able to mop up, De Beers and the diamond industry are poised to take advantage of the upturn in the world economy"

Mr Ogilvie Thompson said pressure would be exerted on the Angolan government to bring the sudden growth of illicit gems under control and channel production through more established routes.

Venetia is the first major diamond mine to be opened in South Africa in more than 25 years and has been developed at a capital cost of R1,1 billion.

The conventional opencast mine is expected to reach full operation by the end of the year and is forecast to yield more than 5,9 million carats in 1993

At full production Venetia will overtake Finch as the country's largest diamond mine

It will employ about 870 people.

Given the current state of the industry, however, it is likely that some of the mine's production will initially be stockpiled

"Venetia will further strengthen the position of De Beers/Debswana in producing more than 50 percent of the world's gem diamonds," Mr Ogilvie Thompson said

The mine was formally opened by former De Beers chairman Harry Oppenheimer, who said the mine would contribute to the prosperity and stability of the industry

(21b)

Aug 17/81/92

Venetia has key role, says Harry O

B10A7 17/8/92 (216)

MATTHEW CURTIN

DE BEERS' new multimillion-rand Venetia diamond mine would play a key role in maintaining the group's control of the diamond trade, Harry Oppenheimer said at the official opening of the mine at the weekend

"Venetia is not only of great direct importance, but in the long run will be an essential factor in the preservation of the system on which the prosperity of the whole industry depends," he said

Venetia is an opencast mine near Messina. At full production it will equal 75% of current SA diamond output. The opening was attended by 250 guests who included representatives of government, the ANC and the diamond industries of Namibia and Botswana. Oppenheimer said that "it might in many ways have been thought that this was a bad time to open a big new diamond mine".

De Beers chairman Julian Ogilvie Thompson said last week that the group would have to cut its final dividend because of an unexpected turnaround in the diamond market in July. Plummeting consumer confidence in Japan, slower than expected economic growth in the US and Europe, and an explosion of illegal diamond mining in Angola had combined to

alter previously optimistic forecasts that diamond sales would hold up in the second half of 1992

The news shook the investment community, taken by surprise by the sudden reversal in De Beers' outlook

Oppenheimer said "Certainly we are going through very difficult times indeed when the De Beers group is under great pressure to cut down and economise. However, our unique system that we have built up for the preservation of stability in the diamond industry remains firmly in place". Without that, De Beers could not have spent R1,1bn bringing a new mine like Venetia into production, he said.

De Beers' success depended on the Central Selling Organisation (CSO), which "does not, and could not, run a monopolistic system". De Beers simply could not control all the diamond production and trade carried out around the world

Instead, the CSO tried to operate "a buffer pool", stocking diamonds in bad times and liquidating its stocks when demand exceeded supply, stabilising prices in this way

□ To Page 2

Venetia B10A7 17/8/92

Venetia will produce more than 5-million carats a year at full production, equivalent to 75% of current SA production. This would ensure De Beers-owned mines continued to make a large contribution to world diamond output.

"This (taken together with the output from De Beers' mines in Namibia and Botswana, jointly owned with the governments there) provides the major base for the CSO which is necessary for its continued successful operation," Oppenheimer said

In 1980, De Beers discovered 12 diamond-bearing kimberlite pipes covering a 26ha area, 90km from the town of Messina. Evaluation of the deposits was completed in 1985 and the project was given the green light in December 1989

The current mine is exploiting two main pipes, 15,6ha in area, from an opencast pit which will be mined to a depth of 400m, to

(216) □ From Page 1

give Venetia a 20-year lifespan on its new seven-day-a-week work schedule

At full production, the mine will employ 870 people, commuting to work from Messina, Nancefield and Lebowa

The development of Venetia has been a boost for the Messina region, which has seen its copper mines mined out in recent years and agriculture hit by drought

De Beers has helped establish a 30 000ha nature reserve around Venetia, to protect the local environment from mining operations. A spokesman said that by buying several farms to form the reserve, and despite the large amounts of water required to process Venetia's output, the establishment of the mine could see a net reduction in use of the area's water resources, because of the elimination of much uneconomic but water-intensive farming

COMPANIES

Ocean plans to upgrade facility

JONQ WATERS

216

PLANS to expand the recovery plant aboard Ocean Diamond Mining Holding's (Ocean's) Lucky D mining vessel were well advanced, chairman Ivan Prinsep said in the company's annual report. *BIDAY 19/8/92*

He said the recovery plant had the capacity to treat 10 tons of diamondiferous gravel an hour, which should yield between 2 000 and 2 500 carats a month, but it would soon be increased to 20 tons an hour.

Ocean was listed on the JSE in January and is the successor to Ocean Diamond Mining (ODM).

Prinsep said Benguela Concessions had exercised an option to take part in the development of two concession areas held by the group's subsidiaries, which involved spending R20m on exploration.

He said ODM had also commenced a survey in the territorial waters of three of the island concessions off the coast of Namibia, last surveyed in 1986.

Prinsep said prospects for the company looked good as a result of the ending of sanctions. He said this would allow for investment capital and joint venture partners to be sought from major interests overseas.

Increased activities by "the larger operators" engaged in marine diamond mining off the west coasts of SA and Namibia meant the industry was widely perceived as having a major future, he said.

Namibian stake in CDM discussed

MATTHEW CURTIN (216)

TALKS aimed at giving the Namibian government a stake in diamond producer Consolidated Diamond Mines (CDM), De Beers' wholly owned Namibian subsidiary, began in Windhoek yesterday

When agreement is reached, it may give the Namibian government an equity stake in CDM similar to the joint control arrangement De Beers has with the Botswana government. Debswana, which owns Botswana's three diamond mines, is jointly owned by the government and De Beers. **BIPAY 20/8/92**

Analysts are unsure how the Namibian government will pay for a future stake in

CDM, assuming that De Beers does not give it away for free, a move tantamount to nationalisation

They note that in 1987 the group and the Botswanan government agreed that the government acquire 22-million newly issued De Beers shares. In return, De Beers received part of the country's diamond stockpile accumulated in the early '80s when the Central Selling Organisation (CSO) reduced its purchases from producers because of the slump in the diamond

□ To Page 2

Namibia **BIPAY 20/8/92**

trade

Unlike the case of Debswana, the Namibian government owns no diamonds with which to pay De Beers, but the current talks may centre on devising new tax and royalty formulas for the diamond industry

The Namibian government has shown no interest so far in nationalising the country's mining industry, dominated by CDM. Mining is the country's largest contributor to GDP, and CDM contributes at least a third of export earnings

Yesterday's negotiations were officially launched by President Sam Nujoma, Prime Minister Hage Geingob and De Beers chairman Julian Ogilvie Thompson. They introduced their teams, headed respectively by mines and energy ministry permanent secretary L S Hangala and De Beers director Peter Gush

The parties said in a joint statement that initial talks, held in closed session, were "frank and productive"

They said "negotiations would lead, with all deliberate speed, to the signing of a comprehensive, equitable and enduring

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agreement between government and De Beers, reflecting both the prerogatives of Namibia's newly won sovereignty and the imperatives of industry, stability and prosperity" All future talks would be held in confidence, and appropriate joint statements would be made from time to time

The talks come at a time when the De Beers is under severe strain because of the depressed diamond trade and an explosion of diamond smuggling, worth hundreds of million of dollars, in Angola

The CSO has applied contracts in sales clauses with the diamond producers it serves, whereby it will reduce its offtake of diamonds by 25% from September

De Beers successfully renegotiated sales contracts in 1991 with Debswana, Australian producer Argyle, and with state mining companies in Angola and Zaire. At least 80% of diamond trade passes through the CSO, but there is continual speculation that diamond producers not wholly owned by De Beers would like more freedom to sell diamonds on the open market rather than through the CSO

Broker forecasts a 43 percent cut in De Beers' final dividend

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STAR 20/8/92

By Neil Behrmann

LONDON — Stockbroker James Capel forecasts that De Beers' final dividend will plunge by 43 percent to 138,5c a share, bringing the annual dividend down to 208c from 307,5c last year

John Taylor, James Capel's mining analyst, contends that full-year earnings could decline by 27 percent to 401c

On its present share price, De Beers' prospective P/E ratio is 14,6 and dividend yield 3,6 percent

For foreign investors, the shares have slumped to \$15,50 a share, the lowest level since 1990. The price in dollars is thus half the level seen towards the end of last year

Overseas investors have also been hit by the fall in the financial rand,

which has dragged De Beers lower on international bourses

At present share prices, the prospective P/E ratio, according to James Capel, is 10,7 and dividend yield 4,8 percent

"We disagree with those who believe that the mere prospect of De Beers cutting its dividend is too horrible to be contemplated," says Mr Taylor

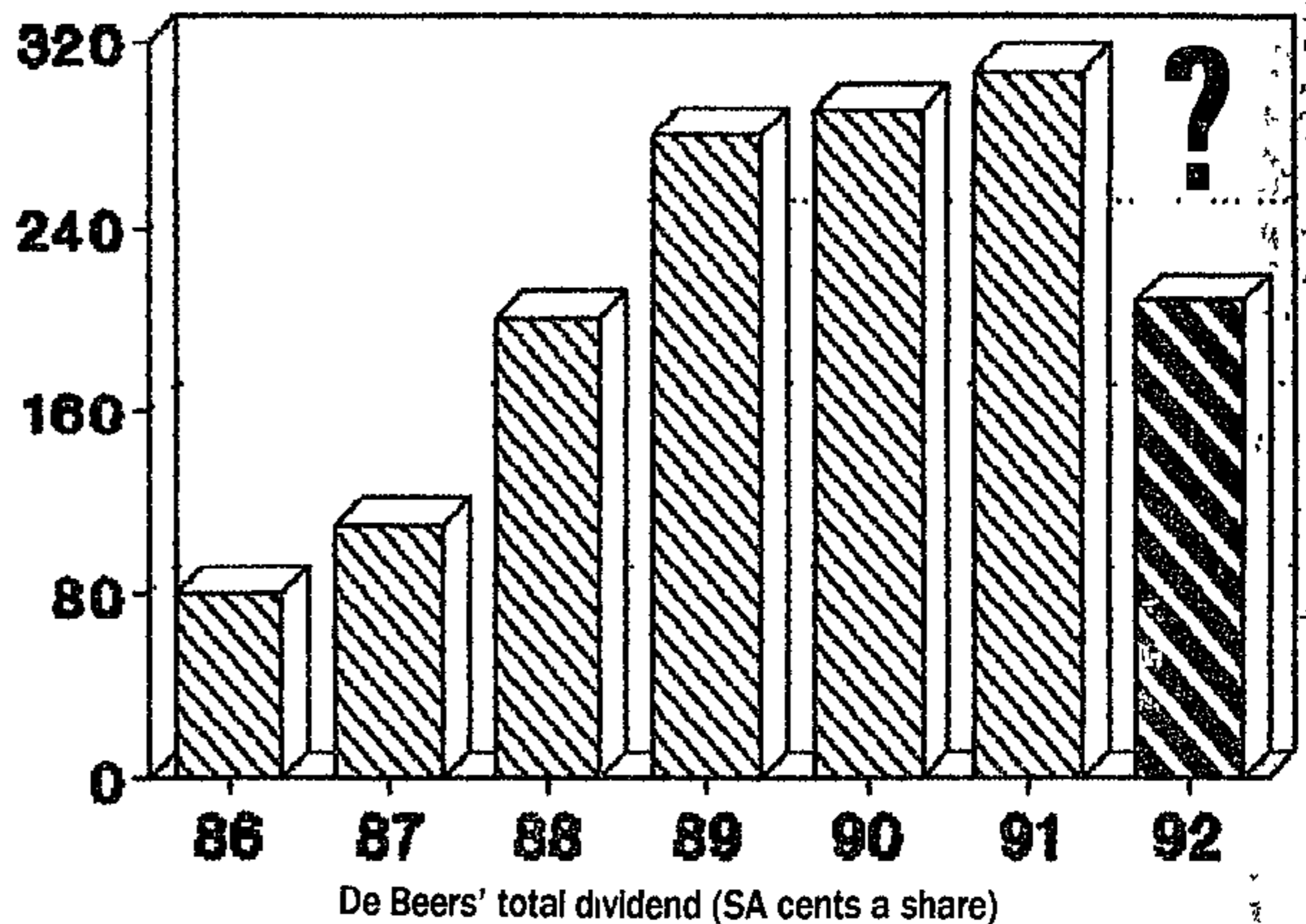
"Certainly, every company has a responsibility to their shareholders

"However, that responsibility extends to safeguarding the long-term future of the company and their shareholders"

De Beers cannot be blamed for not anticipating the deterioration of the world economy, says Mr Taylor

"What they can do and now seem intent on doing is limiting the damage and doing their best to cope with a situation whose final outcome is still very uncertain

"The primary concern at all times must be to ensure the viability of the Central Selling Organisa-



tion (CSO)"

The CSO, De Beers' London-based marketing arm, will be doing well if diamond sales total \$3,5 billion, against \$3,93 billion last year, says Mr Taylor

"Unfortunately, given our bearish views on the world economy, we cannot get too excited about the prospects for 1993 un-

less re-stocking at the retail end picks up"

De Beers' earnings are thus likely to decline further in 1993, forecasts Capel

The firm notes that interest received on cash balances fell to R180 million from R320 million in the six months to June

If the next twelve months continue to be

weak, "De Beers will thus have to utilise its credit lines by the middle of 1993," says Mr Taylor.

Capel thus does not expect an increase in De Beers' earnings until 1994 and then the rise will be muted and the dividend will be no higher than 75 US cents a share, equivalent to 208 SA cents at present exchange rates

Namibia De Beers in crucial talks

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Sowetan 20/8/92

Sowetan Africa News Service

WINDHOEK - Negotiations for a new deal between the Namibian government and the country's principal diamond miners, De Beers Centenary, began on a cordial note yesterday.

President Sam Nujoma urged both sides to be "patient, flexible, responsible and realistic".

"I am sure that we will remember who is most expert in diamonds and I am sure that you will remember who governs this country," said Nujoma "Together we will prove that those who predict failure or prefer conflict are wrong"

Mr Julian Ogilvie Thompson, chairman of De Beers who led his industry's delegation at the opening of the talks, thanked Nujoma for the "balanced" message.

"We greatly appreciate the spirit of national reconciliation with which you have approached

■ Namibia and De Beers begin negotiations on a new sales and working arrangement:

this and indeed all other matters in your country"

The negotiations are aimed at a new agreement between De Beers through its CDM operation in Namibia and the Namibian government. This will be the first agreement between these two parties as the present CDM operation here is one which predates Namibia's independence in March 1990 and the exclusive sales contract between CDM and the Central Selling Organisation in London expired at the end of last year.

Observers think it unlikely, however, that Namibia will seek to go entirely outside the CSO

Are diamond cartels forever?

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WJM aul 21/8-27/8/92

A HOST of crucial questions have been raised by the dip in the fortunes of diamond producer De Beers, not least the future of the Central Selling Organisation (CSO) diamond cartel.

There is no doubt that De Beers, the jewel in Anglo crown and the foundation of the Oppenheimer empire, lost a lot of its lustre after the announcement that the final dividend could be cut.

De Beers is a bellwether stock on the Johannesburg Stock Exchange, representing eight to nine percent of the market capitalisation or value of the exchange as a whole.

A darling of the unit trusts, one of the bluest of blue chips, and a widely traded share in an illiquid stock exchange, it is closely watched by stockbrokers' analysts.

When De Beers appeared, in announcing its interim results, to have changed its tune on the future course of earnings, predicting a cut in the final dividend, many analysts were wrong-footed.

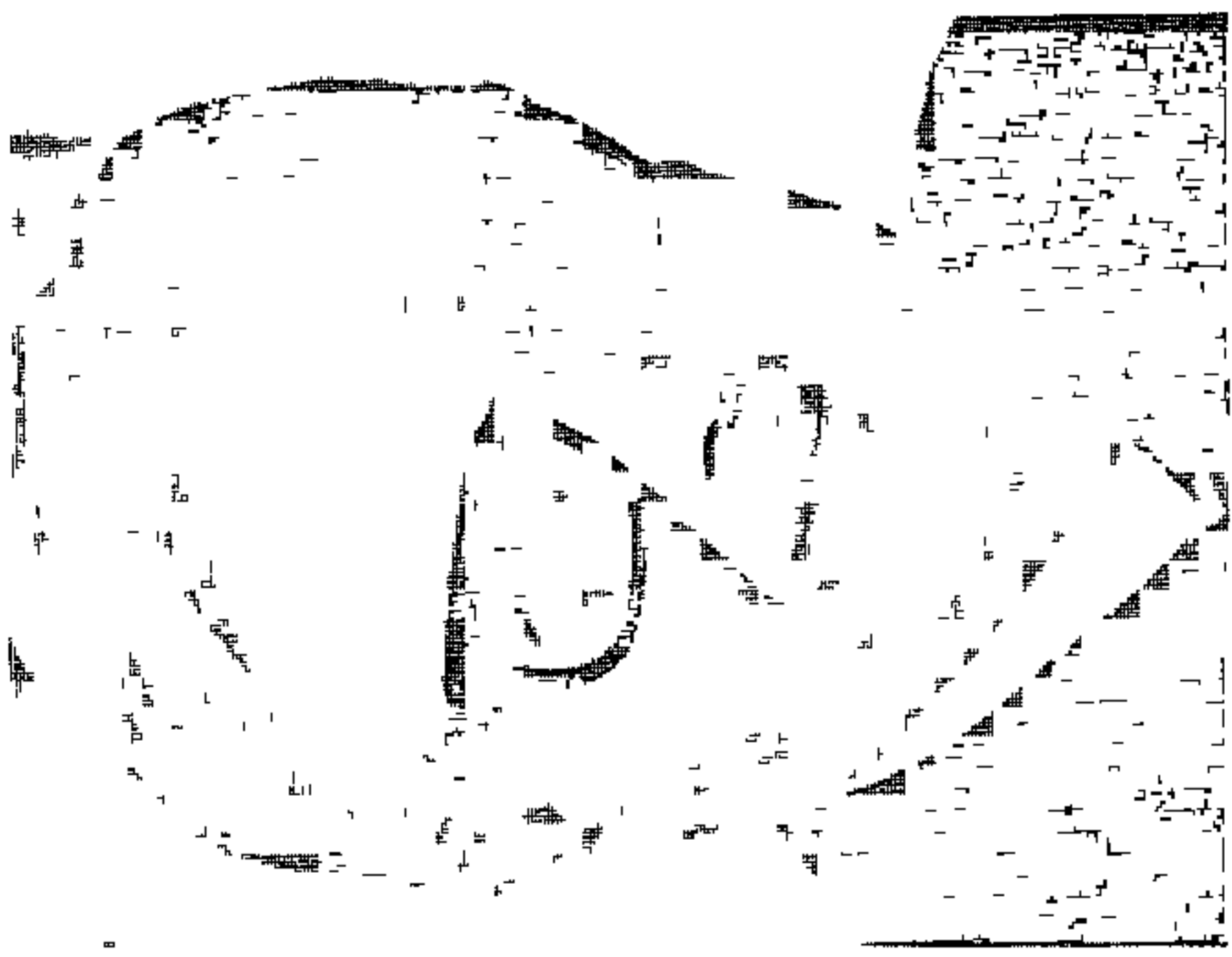
Analysts felt De Beers chairman Julian Ogilvie Thompson had painted a rosier picture of the fortunes of the world diamond market, and hence De Beers, than was warranted.

The resulting disillusionment pushed De Beers down to R58,50 mid-week, from around R93, wiping more than R13-billion — equal to the market value of Rembrandt, for example — off the market capitalisation of the JSE and dragging the entire stock market, nervously waiting for an excuse to fall, down with it.

The problem is simply stated: either De Beers executives misled those it spoke to, or misread world markets. If it could world markets so wrong, how confident can one be about its ability to calculate its ability to ride out its present crisis.

Ogilvie Thompson, one of the most powerful men in South Africa, avoided direct interviews and defended himself in lengthy press releases this week against unusual criticism emanating from the JSE.

He defended a claimed "numbing about-turn" on the future fortunes of the kingpin diamond producer and rebutted assertions that he had damaged South Africa's investment prospects.



Julian Ogilvie Thompson . . . Not available for interviews

Deferred purchase options or a quota system have kicked in to keep even more diamonds flooding the market from cartel mines — including the De Beers' Venetia mine opened this week. The CSO's contractual obligation to buy rough diamonds from suppliers has consequently dropped by 25 percent.

De Beers will put pressure on a new Angolan government after the September elections to join the cartel or it will simply let it go the way of Sierra Leone, which has fallen outside the De Beers net. Already, De Beers in South Africa and its Botswana operations control 50 percent of the diamond market. The CSO controls 80 percent of the diamond market worldwide.

The cartel is already 60 years old, and has arguably survived because it serves the interests of all, including consumers whose asset value is maintained.

But as logicians will attest, past events, however consistent, are not in themselves certain to be repeated in the future. And the CSO, like other cartels, will crack if participants lose confidence in its ability to give them a good deal and decide to work outside it.

For the moment, confidence is on De Beers' side. Ogilvie Thompson said at the opening of the R1.1-billion Venetia mine this week: "We are going through yet another of those difficult periods in the world diamond market, when the role that De Beers and the CSO play is so vital. Nevertheless, despite current, and we believe temporary problems, consumer attitudes to diamond jewellery remain positive. Indeed it is an extremely hopeful sign that despite the international economic recession retail demand has continued at the same level."

However, how long can De Beers mop up Angolan diamond supply? This is equivalent in Ogilvie Thompson's words to the proportions of "a major new mine coming into full production without the usual notice or time to prepare for its marketing."

De Beers director Gary Raife said in November last year around \$300-million of Angolan goods can be soaked up. That figure has certainly risen with new diggers supplying even more diamonds, and could be \$400-million or even more.

who had got it right, and suggesting that analysts should do their own homework and not rely too much on company information.

An embittered analyst said: "Had it happened in the UK he would have to step down. In similar circumstances, the BP chairman did the honourable thing."

De Beers' importance to the JSE is outweighed by its place in the international gem market. It is the lynchpin in the world's only successful cartel, which is why it has come under pressure from a flood of "illicit" diamonds from Angola.

At the end of November 1991 Angola legalised possession and dealing in rough diamonds for individuals. The result was a diamond rush in Angola's diamond fields and a boom in illegal diamond digging and smuggling.

Frankel Kruger analyst Kevin Kartun points out De Beers and the CSO have been through worse crises before, particularly in the 1980s when the hard asset bubble burst and diamond cutting centres were caught with huge stocks

The issue of Ogilvie Thompson's forecasts and corporate accountability and openness was courageously raised by *Business Day*, a newspaper owned ultimately by Anglo, in an editorial.

It noted "SA's system of interlocking groups — some essentially run as family businesses — is often seen to have reduced directors' awareness of their responsibilities to all shareholders. In a world where competition for international funds grows increasingly intense, South Africans must be perceived to be complying with international expectations of unambiguous disclosure or be left out of the investment race."

"De Beers' handling of its dividend cut has inadvertently done this country's investment hopes a disservice. If corporate South Africa ignores the message of the De Beers uproar, it must share the blame if South Africa struggles to attract foreign investment."

Obviously stung, Ogilvie-Thompson, said in a media release: "The allegations that De Beers has lost credibility are unfair and illfounded and the facts support me." Had the De Beers directors wanted to mislead the market they would not have announced a cut in the final dividend, he said.

In essence his defence is that De Beers misread the world economy. Demand for diamonds — a discretionary purchase — fell further than it should, and supply of illicit diamonds meant De Beers had to mop up more than expected to keep diamond prices from falling.

Some analysts *The Weekly Mail* spoke to were strictly off the record — scathing about Ogilvie Thompson's denials. Others, notably those not specialising in De Beers, were more sympathetic, concurring that the world economy had been difficult to read, pointing to the handful of analysts, such as independent James Picton,

DE BEERS

Breaking the tables of the law

JOT's warning has seriously eroded confidence in De Beers' omniscience



De Beers, from its unique position at the centre of the diamond cartel, has laboured over many years to build confidence in the diamond market and in its own ability to maintain equilibrium in that market in

the face of periodic trauma. The outcome has been enormous credibility — at retail level, in the trade and in financial markets — in the signals coming out of 44 Main Street, Johannesburg, and 17 Charterhouse Street, London. Sadly, the events of the past week have undermined that credibility. Only the degree is arguable.

Of course, however the manner of its delivery, news of a likely dividend cut was bound to hammer the share price. A dividend cut is, after all, a very unusual event for De Beers. Since the Great Depression of the early Thirties, when all the SA diamond mines were closed, the only time it has happened was in the years 1980-1982.

But this time De Beers has succeeded in addition in leaving influential analysts and portfolio managers with the idea that they had been caught flat-footed because they'd listened to less-than-candid official statements being made by De Beers' management right up to the first week of July.

It took chairman Julian Ogilvie Thompson two days after the interim announcement to respond to the market's palpable outrage at what had occurred. In its usual lofty manner De Beers released a statement explaining what had caused management to change its forecast on sales of rough diamonds by the Central Selling Organisation (CSO) in the second half of this year. It was a forthright statement that described suggestions that De Beers had misled the market as "unfair and ill-founded".

Ogilvie Thompson said the problem affecting both the demand and supply side of the business first became evident in July, as until then the international economic consensus was that the major world economies were poised for recovery.

He cited two main events that had occurred since the Anglo American Corp presentations to investors in Johannesburg, Europe and London during June. One was the sudden worsening in financial markets, including the renewed plunge in the Tokyo stock market, and in economic conditions, notably in Europe. The other was the "sudden and unprecedented explosion" in the supply of illicit Angolan diamonds reaching the market.

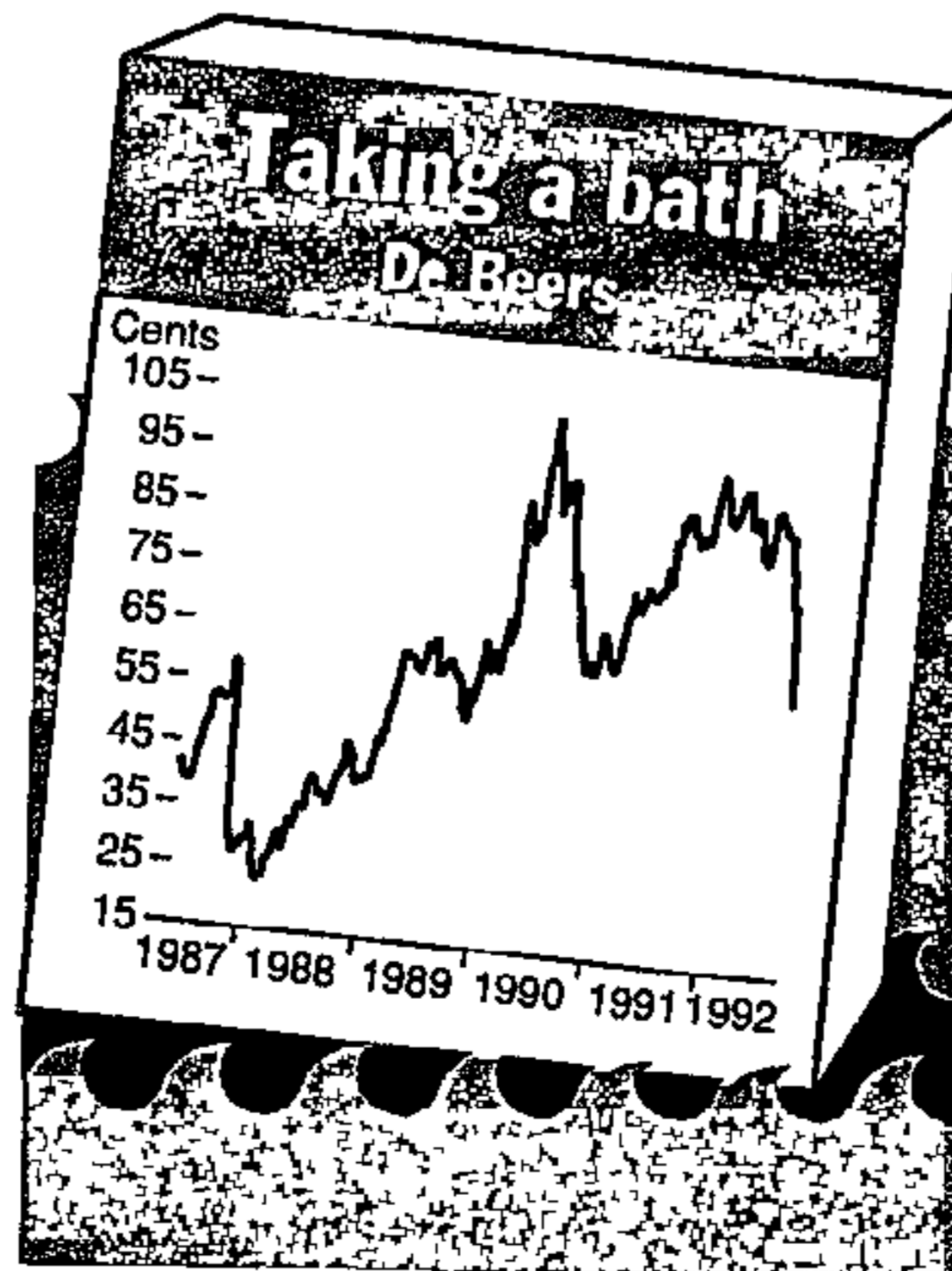
This apparently led to a radical reapprais-

al by management of the diamond market's near-term prospects. When first-half CSO sales figures were released in early July, the official forecast was that second-half sales would exceed those of the second half of last year. When interim results were issued last week, De Beers had concluded that second-half sales may well be less than those for this year's first half, which were down 14%.

That may explain the latest forecast. But aggrieved analysts and investors still find it difficult to understand why De Beers, so fastidious about market stability in the past, released bad news so abruptly, after sending out a series of positive messages to the market during the year. They cite a pattern of events from which these signals emanated, including a press conference for the preliminary 1991 results, the 1991 annual report in April (Ogilvie Thompson said "attitudes to and sales of diamond jewellery are encouraging"), the De Beers presentations to local and international investors, the Anglo American presentations, and the first-half CSO sales release on July 7.

When, at the preliminary results press conference, an analyst expressed some surprise that the 1991 rough sales had been as good as they were, Ogilvie Thompson observed that official figures for the individual CSO sights are not published, and the unofficial figures and speculation that goes around the market is not necessarily correct. His point, in essence, was "listen to us rather than market rumour." Well, some did — and look what happened.

Other analysts were not content to rely too heavily on the signals from De Beers. They did some independent thinking and research and came up with bearish conclusions.



Several analysts in London and SA forecast a possible dividend cut well ahead of the official warning. They have been thoroughly vindicated.

Those who took a more positive line are arguing that they were too bullish because they listened to De Beers which characteristically hands down market interpretation as Moses handed down the tablets from the mountain.

Steve Oke, of London broker Smith New Court, says "Along with a few others, we were made to look idiots. We had been worried about sales in the US and Japan. But after the first-half CSO figures, we felt Julian Ogilvie Thompson knew better, as they were almost exactly in line with his 15% forecast."

"He was asked about the Angolan problem at the De Beers presentation on April 28, and we were given the impression it was not much of a problem. At the Anglo American presentation at Claridge's on July 2, he reiterated the views he gave in April. So we were telling people that while earnings would probably be flat, there was no need to worry about the dividend. Now the share price is going to be in a vacuum until we see the year's outcome next March."

Another London broker, Graham Roberts, of W I Carr, says "We were bearish after the May sights, and were looking at a possible cut in interim dividend. But we were led along to believe that 1993 was going to be better. I don't think anyone was expecting the combination of a big final dividend reduction plus a weak market into 1993."

Adds Roger Chaplin, of Credit Lyonnais Laing "I was certainly surprised. After what sounded like a fairly bullish presentation by De Beers and Anglo, we were forecasting unchanged earnings for this year and a pick-up in 1993. We were recommending De Beers as a long-term buy at US\$21-\$22."

Yet another London broker, Robert Weinberg, of Société Générale Strauss Turnbull, says "We were questioning whether De Beers could retain its recession-proof status when other luxury goods companies were feeling the squeeze. But we were impressed by the CSO's first-half sales and reassured by the De Beers' presentation which said it did not see the necessity for imposing quotas on the producers, that cutting centres' stocks were healthy, and that the second six months would be better."

"The Anglo American presentation gave no hint of what was to come and I was certainly not expecting a dividend cut."

Of course, few would argue that business managers faced with a new and unexpected situation should not change their minds,

Continue → *Continued on page 27*

Continued from page 24

their ability to do so is often what makes them cleverer and more successful than politicians. Some analysts, such as Chaplin, feel De Beers was genuinely caught out by the extended world recession and revelations of the extent of the Angolan problem.

But investors have plainly been taken aback by the time that De Beers took to appreciate what was happening in the market — and to communicate it. This sits curiously with the company's intelligence systems which are intended to ensure management is not caught unawares by market swings. A couple of years ago, incidentally, Ogilvie Thompson said the group's market intelligence had been markedly improved since the last diamond recession (*FM* Anglo American Corp Survey, March 1990).

It's notable that the interim results announcement states that retail sales of diamond jewellery have not risen from last year's levels. "Moreover," it adds, "part of this retail demand has been met from de-stocking by the jewellery industry in the consumer markets, thereby reducing demand for rough diamonds." Even allowing for the sudden escalation of the Angolan problem, this suggests management had been basing its forecasts less on what was actually happening in the diamond market than on predictions for the world economy.

The question at issue is not whether De Beers intentionally misled the market. They are all honourable men. It is whether De Beers has lost its touch. For it undoubtedly gave out unduly positive messages for too long.

When reality was perceived last week, some investors who had bought De Beers over recent months — after the presentations, etc — started dumping the stock, thus contributing to the precipitous drop in the price, which was traumatic. Danger now is that when the diamond market turns more favourable, investors may be less receptive to assurances along those lines from De Beers, and the share price could languish at lower levels for longer than it might otherwise have done when De Beers was perceived to have been more prescient.

But maybe it was not all De Beers' fault. One reason for the shock in financial markets is that the warning of a dividend cut has come so quickly after the diamond market peaked in 1988. The diamond market enjoyed an extraordinary boom in the Eighties, riding as it was on the longest post-war period of economic expansion, and fuelled partly by the Japanese "bubble economy".

Moreover, a harder look at the past 14 or so years does suggest that De Beers' stabilisation efforts have been less effective than before. There have been some rather sharp fluctuations in the group's fortunes. In the inflationary environment of the late Seventies, De Beers' profits were being driven by an international hard assets mania, management warned repeatedly the situation was unhealthy and applied special price surcharges to dampen the exuberance.

In 1981, when the CSO was trying to reduce supplies to a choked trade pipeline, sales of rough diamonds were cut by half. De Beers cut its second-half dividend in 1980, then reduced the total payout by a third in 1981 and by a quarter in 1982.

Recovery was at first hesitant, but from the mid-Eighties growth was exceptional. CSO sales in US\$ grew by 40% in 1986, by 20% in 1987 and by 36% in 1988, before dropping by 2% in 1989. De Beers' balance sheet swung rapidly from being heavily borrowed and with diamond stocks peaking at \$1.95bn, to being highly liquid.

During this period world sales of retail jewellery continued to grow steadily, helped by the annual promotion and marketing expenditure of more than \$100m, and now as high as \$160m. Sales of polished diamond jewellery last year were said to be holding up, but some analysts think retail demand slackened more than was generally believed.



De Beers' Ogilvie Thompson not his best friend this year

With hindsight, the logic of a dividend cut should not have been dismissed, given a sufficiently bearish view on the world economy. An analyst who had forecast this as a possibility, Michael Coulson, of London broker Duriacher & Co, had noted that in the last recession the dividend cover on attributable earnings had varied between 2.8 in 1979 and a low of 1.5 in 1982.

In 1991 the cover was 1.8, and a maintained dividend, based on Coulson's forecast of a 15% earnings drop, would mean a cover of only 1.5 times. He added that, "the dividend will depend on perceptions of the diamond market's prospects in 1993 and the group's cash needs at that time, and it may even be that De Beers would be prepared to borrow to maintain the rate." But he added that a 25% dividend cut would result in a saving of just over \$100m, a "very significant sum" in a difficult time.

Just how difficult a time it will be, and

whether a 25% dividend cut will be the extent of it, will depend partly on confidence — at consumer level and in the trade. The decision to invoke the quota system, whereby De Beers will reduce its offtake of diamonds from producers by 25% from September is an adverse signal to the industry, but should help to improve the market fundamentals.

Part of the problem is that demand withered just as considerable new supplies were coming on to the market. CDM, a producer of high-quality gems, increased its output by 446 415 carats last year. Last week former De Beers chairman Harry Oppenheimer opened the Venetia mine, which at full output will produce more than 5m carats/year of mainly medium-quality gems. In Botswana, the biggest producer, Jwaneng, increased its output by 362 647 carats last year (though this is partly replacement capacity).

These are long-term projects, embarked upon some years ago. Venetia is being brought on stream in a US election year. Output from these mines can be stockpiled, if necessary with further quotas. But there may be a bigger problem in Angola.

Illicit diamond digging and trading escalated soon after the ceasefire ended the Angolan civil war in May 1991, and De Beers estimates there are now more than 30 000 diggers in the Cuango region alone. Last month a CDM spokesman said up to 3m carats could reach the black market from Angola. James Picton, a local analyst who forecast a possible dividend cut, notes that these are generally high-quality gems, and estimates it could cost De Beers more than \$500m to mop up the illicit supplies to the market.

De Beers has expressed confidence that the illicit trading will be stopped after the Angolan elections. But that does not sound an easy task.

The great pity about the events of the past week is that De Beers, after becoming more open about its business, may now be persuaded to return to the covert manipulation of its cartel through winks, nods and nudges. And, indeed, that may well be as essential to the maintenance of market stability — if that is a virtue — as its buffer stock dealing. For cartels inevitably enter periods when market tensions are intrusive.

If stability and predictability are what the market wants, it has reason to castigate De Beers for its uncharacteristic slip and to hope that JOT, having been jolted to a sober landing, will give up notions of "improved" corporate communications.

But perhaps there are some investors who have been persuaded that last week has created a permanent crack in a cartel that has till now defied all predictions of inevitable spontaneous implosion. That could present what the philosophers call a paradigm shift. If so, some investors might reason they are better off operating in a market characterised by fluctuation. And if they should prove to be clever enough to outguess the cartel — by no means a certainty — they could be the seeds of its destruction.

Andrew McNulty

Ailing De Beers stalls mining shares

JOHANNESBURG — Mining shares led by De Beers and Anglo took a beating on the JSE yesterday as the combination of a strong financial rand, an easier bullion price and the sharp falls in De Beers took their toll, dealers said

But investor demand for relatively recession-proof stocks saw financial and industrial blue chip shares attract interest

The Industrial Index was 21 points higher at 4 031, but the Overall Index slid 10 points to 3 157 The Gold Index shed 20

points to 938

De Beers plunged a further 310c or 5,2% to a R56 close, following last week's announcement that the group might cut its final dividend

The share has lost about R19 or 25% since the announcement About 2,45-million shares worth R153,24m have traded at prices downwards from R74

Analysts said that negative reports in leading financial weekly magazines sparked renewed private investor selling

De Beers dragged Anglos and

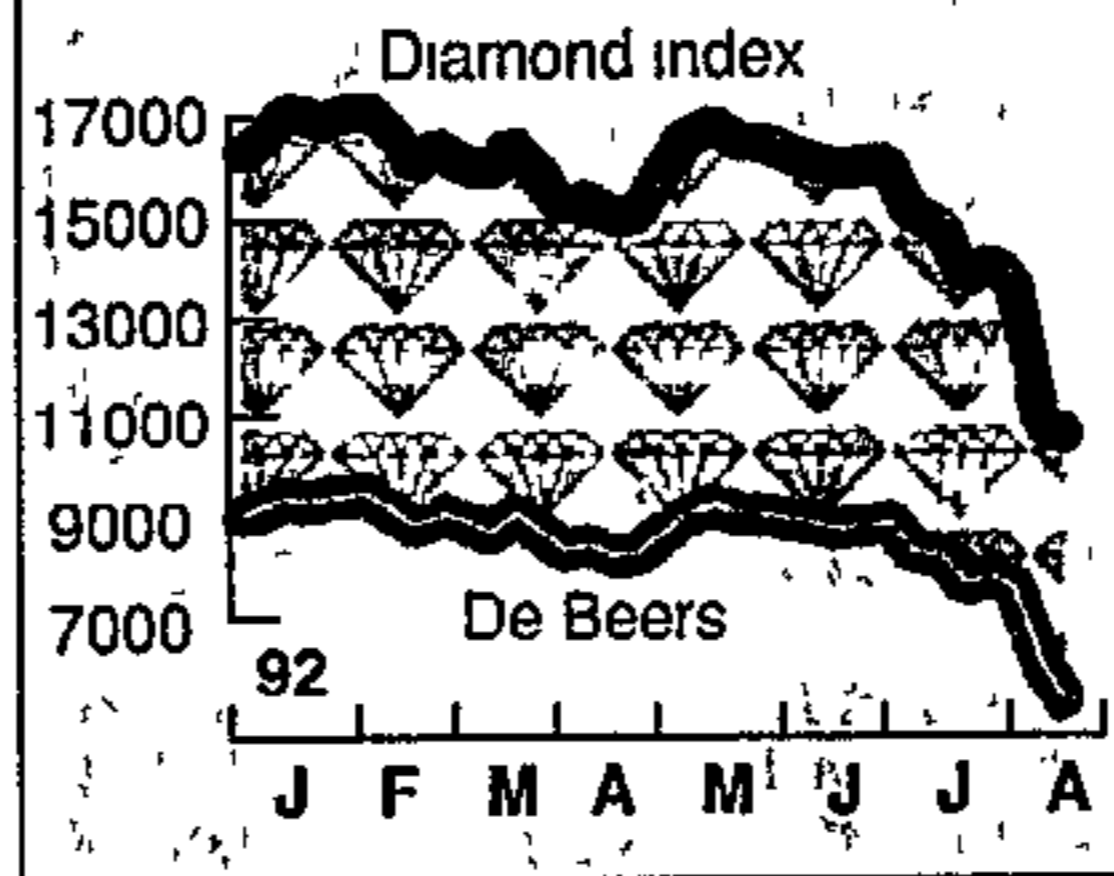
216 CT 21/8/92
Anamint lower

Firm industrials were Remgro up 50c to R23,60 and parent Tegkor 35c higher at R15,10 on 200 000 shares changing hands Golds weakened with Vaal Reefs off R5 to R144 Platnums firmed and Rusplat added R1 to R71

● A second day of recovery for Tokyo stocks pushed the Nikkei up 617,02 points to close at 15 267,76

● The dollar hit a record low yesterday, trading at DM1,4515 in Frankfurt

De Beers & diamond index



Graphic LEE EMERTON Source I NET

De Beers shares fall further 5,2%

8/1 DAY 2/18/92 PETER GALLI (216)

DE BEERS plunged a further 310c or 5,2% to a R56 close yesterday, following last week's announcement that the group might cut its final dividend

The share has lost about R19 or 25% since the announcement. About 2,45-million shares worth R153,24m have traded at prices downwards of R74.

"It has lost its status as market leader and is no longer dragging blue-chip industrials down with it. It is likely to remain in the dog box until details of the dividend cut are announced," an analyst said.

Most fund managers canvassed report

To Page 2

De Beers 8/1 DAY 2/18/92 (216) From Page 1

that they have already lightened some of their holdings in the group, saying the share no longer deserves its status as a desirable international stock. The question now being debated in investment circles is what should be done with these holdings.

Local sentiment has been damaged, with dealers, analysts, fund and investment managers all expressing disappointment.

General market feeling is that the share still has downside potential, perhaps even below the R50 level, which could be reached early next week if losses continue

to sustain the present momentum.

While fund and investment managers are cagey about disclosing the share's weighting in their equity portfolio, this ranges from about 5% to well over 10%.

A JSE dealer said yesterday two possibilities were being touted on the floor. The first was a token dividend cut of about 8%. "The second is that the group, which is likely to be hard pushed for cash to sustain the ailing diamond market, might pass the final dividend completely," he said.

De Beers denies warning Russia

By JOHN CAVILL: London

Times (BUS) 23/8/92
MYSTERY surrounds a Moscow report that De Beers Centenary sent a memo to Moscow about "the dire state of affairs" in Russia's diamond industry, alleging mismanagement and that stones "have surfaced on the black market".

(216)
A spokesman for De Beers in London says: "No memo was sent."

The report appeared in the English language business magazine *Commerzant*.

It concerned the marketing agreement between Yakut, which mines most of Russia's diamonds, and the Central Selling Organisation.

The plan was presented by Valery Rudakov, director of *Almaz Rossii* (Diamonds of Russia), who signed the 1990 five-year contract, under which Soviet diamonds would be marketed through the CSO. De Beers Centenary would lend the Russian industry \$1-billion.

Commerzant said: "De Beers, which some observers believe intends to stake a claim in Diamonds of Russia, submitted a memo to the Russian Government outlining the dire state of affairs in the industry."

According to *Commerzant*, the memo said 640,000 carats of unsold diamonds worth \$1-billion were being stored.

De Beers' threat to scrap union recognition

B/DAY 24/8/92
ALAN FINE (216)

THE NUM declared a wage dispute with De Beers on Friday — and the corporation threatened to scrap its recognition agreement with the union

NUM assistant general secretary Marcel Golding said that the union was unable to accept De Beers' 8% wage offer and had applied for the appointment of a conciliation board to consider the dispute. The union's wage proposal stands at 15% to 21%.

A further area of dispute was the NUM's demand for the establishment of an agency shop system — recently achieved at Harmony and agreed to in principle with certain parties to the Chamber of Mines' wage

negotiations

De Beers, said Golding, was refusing to consider the proposal

He said De Beers had given notice of its intention to terminate the recognition agreement following NUM members' participation in the August 3 and 4 stayaway

De Beers' case was that the union had failed to adhere to the terms of the agreement which required that it seek alternatives in such cases

Golding said the NUM denied the charge as it had notified De Beers of the planned stayaway and had suggested alternatives,

including a 24-hour shutdown in place of the recent two-day mass action stayaway. However, agreement had not been reached

WILSON ZWANE reports that De Beers spokesman Shane Leisegang said yesterday the corporation had made it clear to the NUM that unless amendments to its agreement with the union regarding protest activities not related to work were accepted, it would "have no choice but to cancel the agreement and renegotiate it"

He said the agreement between the corporation and the NUM stipulated that the union should try to consult De Beers before

To Page 2

De Beers

B/DAY 24/8/92

(216) From Page 1

taking part in any mass protests unrelated to work issues

Such consultation should be held with a view to finding alternatives to protests so that operations were not disrupted, Leisegang said

He said the proposal for a 24-hour shutdown by the NUM was an effort to disrupt operations because the union had rejected the corporation's demand that lost produc-

tion be made up by working extra shifts

De Beers' proposals included greater accountability on the part of union office bearers in complying with the agreement.

Of the agency shop agreement, Leisegang said De Beers had so far not been persuaded by the union's argument that it should deduct union fees from workers who were not NUM members.

Smugglers add to woes of De Beers

STAR 24/8/92 (216)

ILLICIT diamond production in Angola is adding to the woes of recession-hit De Beers Centenary, but the company's exploration agreement with the Angolan State diamond company Endiama is not in jeopardy.

"The smuggling is not jeopardising the future of De Beers in Angola," said Roger Eeghen, deputy manager of corporate communications in London.

"But the Angolans are jeopardising their own future by seeking short-term gains at the expense of longer-term benefits."

It seems the Angolan government is equally committed to a future for De Beers in its coun-

try. Multimillion-dollar agreements signed early last year re-established the De Beers presence that had lapsed in Angola in 1985.

"We want to keep the agreements with De Beers sound and there is room for an increase," said Angolan Prime Minister Fernando Franca van Dunem.

The first of the two agreements signed in January 1991 provides for a \$50 million (about R139 million) loan by De Beers Centenary to Endiama and the construction of a sorting house in Luanda which would be open to all dealers.

In terms of this agreement, all of Angola's diamond production

in the Cuango field in the north-eastern province of Lunda Norte should be marketed through the Central Selling Organisation. It was agreed that Angola would retain 20 percent of its production for selling through other channels.

The second agreement provided for exploration and possible mining of the Camutue kimberlite pipes, also in north-eastern Angola, and general prospecting for new primary sources. It was agreed that De Beers would spend a minimum of \$50 million over the next five years in pursuit of this — Star Africa Service □

No one needs diamonds but cartel ensures price soars

STAR 24/8/92

216

A diamond rush in Canada and Angola during troubled times for the industry raises ominous questions, reports KENNETH GODDING.

IT IS ironic that there is an unprecedented, greedy rush for diamonds by miners in Angola and Canada precisely at a time when the diamond business is in turmoil and questions are inevitably being asked about the ability of the world's most successful cartel to keep its tight grip on the market.

In Canada's Northwest Territories, the discovery of 81 small diamonds, some of gem quality, has sparked the biggest rush to stake mining claims in the history of the North American industry.

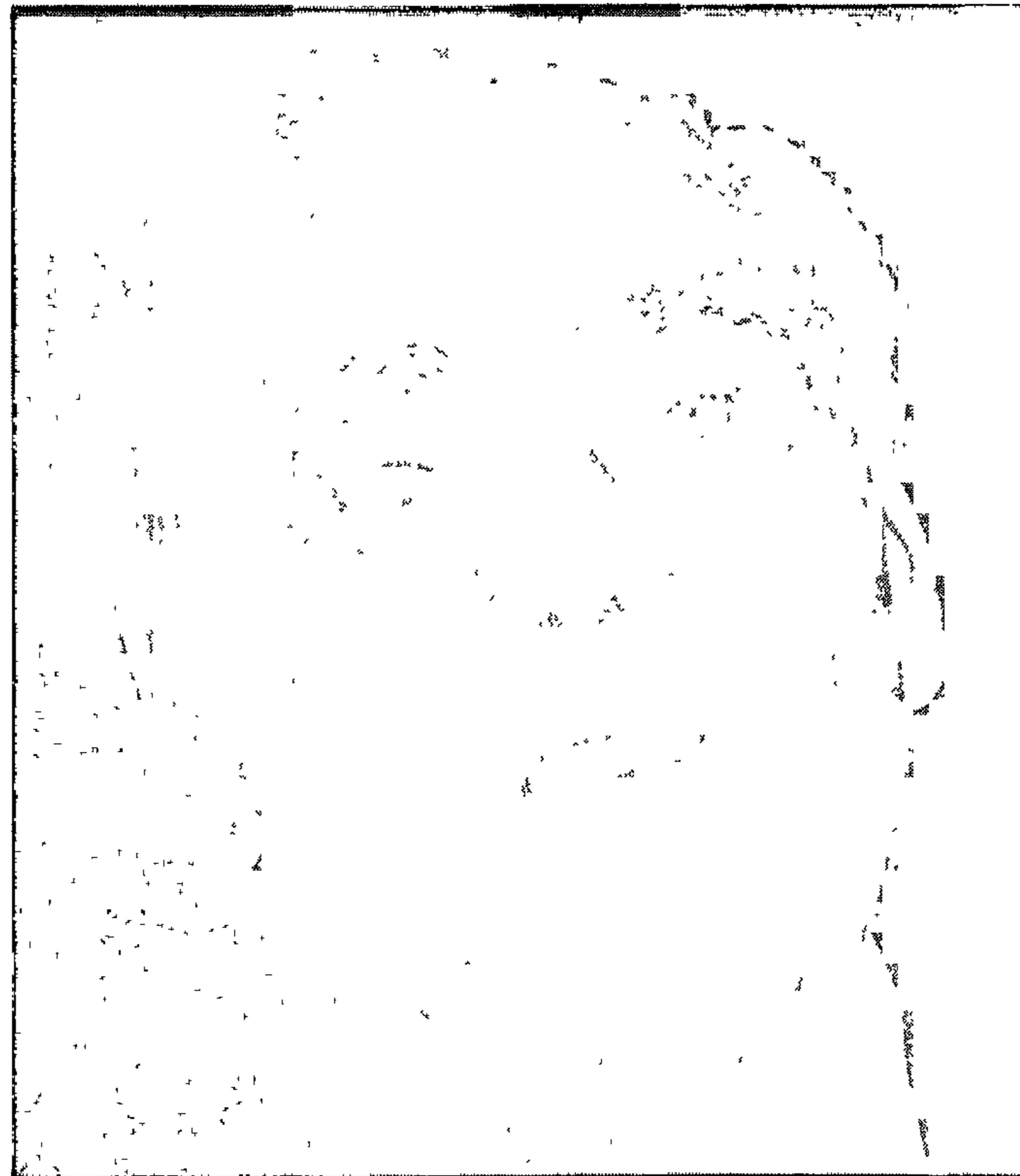
In spite of all the hectic activity, it is very unlikely that anyone will find enough big diamonds to make the development of Canada's first diamond mine worthwhile.

The odds in favour of making a fortune are much better in Angola. More than \$1 million (R2,7 million) worth of gem diamonds a day are being smuggled out of that country for sale in Antwerp.

An estimated 50 000 private-enterprise diggers are at work already and their numbers are being swelled by about 500 a day. This rise of illegal mining, particularly in the Cuango region, which produces 80 percent of Angola's diamonds and some of its highest-quality gemstones, began in May last year, after the peace accord which allowed freedom of movement for the first time in 16 years.

The onset of the dry season and the fall in river levels from the end of May this year has encouraged what De Beers, the South African group that dominates the world diamond business, describes as "a sudden and unprecedented explosion in the supply of illicit Angolan diamonds reaching the market."

Although there are so many diggers at work, questions are being asked about whether there might be more to this "explosion." Did the rebel Unita movement build up a stockpile which is now being released? Is Endiama, Angola's State-owned diamond company, implicated in some way? In the murky world of diamond dealing such rumours abound.



Harry Oppenheimer defends the Central Selling Organisation, saying it does not, and could not, run a monopolistic system. But he wishes it could.

De Beers probably knows the answers because its intelligence network is remarkable. What is also remarkable is that all those scrambling for diamonds in Angola or staking expensive claims in Canada take it for granted that the diamond cartel will be able to continue to keep prices up and make all their efforts worthwhile.

The cartel has survived partly because nobody needs diamonds. They are composed of very hard carbon so they can be useful for drilling tough material, but there are substitutes for this use. Gem diamonds are solely for decoration and serve no useful purpose.

But the cartel has ensured that rough (uncut) diamond prices have risen steadily since the 1930s — even when, in the depths of the 1981-86 recession, the price of a top-quality,

1 carat gem diamond slumped in the retail market from \$60 000 (R166 200) to \$10 000 (R27 000).

The cartel is organised by De Beers's London-based Central Selling Organisation (CSO), which markets about 80 percent of the world's rough diamonds. The CSO has been mopping up as many of the smuggled Angolan diamonds as possible to prevent havoc in a business already suffering severely from soggy demand in the US and Japan, the two biggest markets, which share about two-thirds of demand between them.

De Beers says that, because times are tough, it will probably have to cut its annual dividend payment for the first time since 1981. It has also told the producers to cut deliveries by 25 percent — something the CSO contracts permit at times of stress.

De Beers releases a controlled stream of rough diamonds to the market through "sights" offered by the CSO 10 times a year to about 160 selected buyers. They are offered boxes of diamonds, each worth between \$500 000 (R1,38 million) and \$25 million (R69,25 million). The contents are judged by the CSO to balance the buyers' requirements with market demand. Buyers have either to accept all the diamonds or reject the box.

Harry Oppenheimer, whose family effectively controls both De Beers and its sister group, Anglo American Corporation, was defending the cartel again this month at the formal opening of the R1,1 billion Venetia diamond mine in Transvaal. "The CSO does not, and could not, run a monopolistic system," he said. "In bad times like this, I sometimes wish we could. The fact is that

the level of world diamond production which is carried on in many countries cannot be controlled. Diamond prices cannot be fixed artificially but have to be set at a level which allows production and consumption to be equated.

What the CSO for many years has done successfully is to operate a buffer pool, stocking diamonds in bad times and liquidating its stock when demand is in excess of the level of supply. In this way it has been able to preserve an essential degree of stability in the price of this ultimate luxury of gem diamonds to the common advantage of producers, processors and consumers of this unique natural product."

All very altruistic. But De Beers makes huge profits from diamonds — a record \$1,24 billion (R3,4 billion) in 1990 and more than \$1 billion (R2,7 billion) last year.

The cartel nearly lost control of the market in the early 1980s. It was a time of galloping inflation, a weak dollar and low interest rates. Merchants, particularly in Israel, stockpiled diamonds with borrowed money as a hedge against inflation, and when recession hit, they had to dump diamonds faster than the CSO could mop them up. The CSO's diamond stocks, worth less than \$1 billion in 1980, rose to \$1,9 billion (R5,2 billion) by 1984. Hundreds of diamond investment trusts and traders were bankrupted at that time and Australia and Zaire challenged De Beers's near-monopoly.

De Beers has taken good care that merchant stocks have never again been built for speculative reasons, frequently going to the banks — the potential financiers of stockpiling operations — to "educate" them about the way the diamond market works.

After the bust came boom. Diamond sales in value terms jumped by 20 percent in 1987 and another 37 percent the following year. To cool the market, the CSO imposed strict price increases: 13,5 percent in May 1988 and 15,5 percent in March 1989. Underlying the boom was phenomenal growth in demand for diamonds in Japan, where lack of living space encourages people to display their wealth by buying small but expensive items.

It must be open to question whether another Japan can be found to lift the diamond market as the present recession ends. — The Financial Times □

Wildcat diggers take sparkle out of De Beers

81 DAY 24/8/92

(216)

LONDON — A diamond rush in Angola is unsettling De Beers, the SA-based company which has long kept a firm grip on the market in the gems

De Beers shares have more than halved in value in nine months and share analysts say their faith in the stock has been shaken by the company's change of heart on prospects for the global diamond market

Earlier this year, De Beers indicated to analysts in world financial capitals that it believed the diamond market was picking up. But, in recent half-year results, the firm was subdued, predicting a drop in rough diamond sales in second-half 1992. It blamed much of the drop on a diamond rush by illegal miners in Angola which was causing an oversupply.

"We're not saying they deliberately misled us, but they have lost some credibility," mining analyst John Taylor of brokers James Capel said.

In November 1991, De

Beers shares reached \$32.75 each, but on Friday stood at \$15. Mining analyst Roger Chaplin of brokers Credit Lyonnais Laing forecasts a bottom of \$10 over the next year.

De Beers corporate communications executive Roger van Eeghen denies De Beers misled market makers.

"We were not intentionally upbeat. Some analysts have told us all the signals were there, but they just didn't take heed of them."

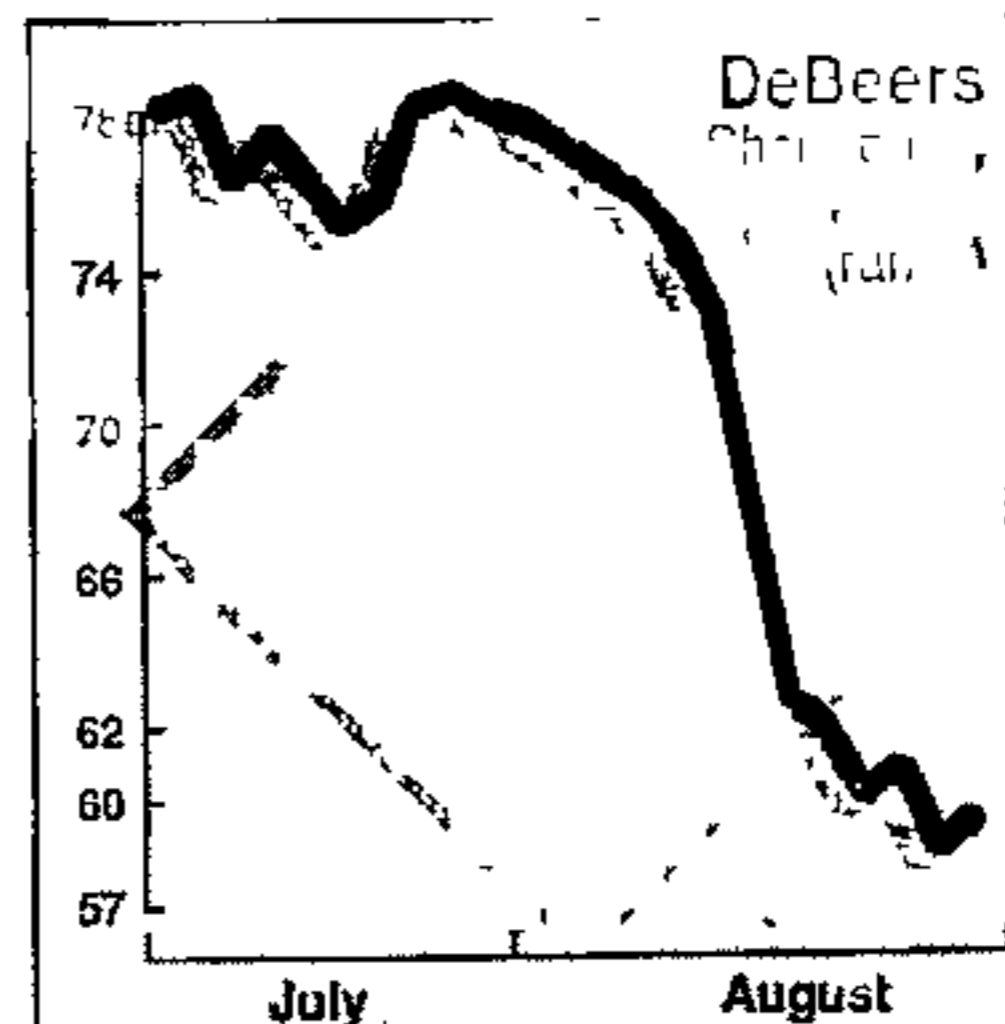
De Beers says the Angolan crisis and gloomy global economy led to its reassessment of the market.

It estimates that more than 50,000 garimpeiros — wildcat diggers — are stripping Angola's alluvial diamond beds of its best stones. Another 500 diggers are arriving daily to plunder diamond-rich river beds in Cuango province.

De Beers London-based selling arm, the Central Selling Organisation, has been buying up stones to stabilise the market.

Analysts are concerned De Beers underestimated the impact of the Angolan rush, which the company says will flood the market with diamonds worth about \$500m — more than 10% of total global output.

The company has a contract with Angola's state-



Graphic: RUBY-GAY MARTIN Source: I NET

owned Endiama diamond company to buy legal diamonds. But this deal lost its impact since the government allowed citizens to possess diamonds.

Analysts also criticise De Beers for not releasing a balance sheet with its results and they predict an erosion of its cash balance because of the gem stockpile. Chaplin estimates the balances will fall to less than \$400m by the end of 1992 — Reuter.

De Beers still under pressure

276

STAR 25/8/92.

Diamond giant De Beers led equity declines in steady JSE trade yesterday as investors took to the sidelines after sharp falls in New York and UK markets, dealers said.

But some of the leading stocks bounced off lows as the strength of the bullion price helped underpin sentiment, they said.

Strong features were stocks in the financial services, food and gold sectors.

The overall index closed 31 points weaker at 3148 and the industrial index was off 30 points at 4046.

Gains in index-linked shares boosted the gold by 15 points to 945.

"If the gold price holds at these firm levels, it should help cushion our market against sharp falls in world markets," said James Bredenkamp of Senekal, Mouton & Kitshoff Inc.

DE BEERS remained under selling pressure from local and overseas investors.

The price dipped 295c to a 32-month low of R53,80 before recovering to close at R54,25 on over 151 110 shares traded.

Dealers said comments in the Sunday press by the South African Mutual Assurance Society (Old Mutual) investment chief Johannes van der Horst had added to the bearish sentiment.

Mr Van der Horst said that there was a real danger of De Beers being rerated on the basis of a cyclical stock, rather than, as in the past, as a leading blue chip.

He said Old Mutual would not be an aggressive buyer of De Beers stock for the present.

"Old Mutual is a major player in this market and other investors watch its movements very closely," one trader said.

ANGLOS was also under pressure, the share falling 200c to R97,50, off an earlier R97 low.

The weak futures market also contributed to the easier trend, dealers said — Sapa

Journal highlights Venetia's success

MATTHEW CURTIN

8/10/91 25/8/92

(21E)

THE rarity of commercially viable diamond deposits, the depressed diamond trade and pitfalls associated with diamond mining are working against the establishment of a major producer in North America.

Recent diamond discoveries in north-west Canada have spurred the search for a commercial diamond mine in North America, but progress of four new mines — in SA, Australia, Guinea and Indonesia — has proved instructive, says the London-based Mining Journal.

In its latest report, the journal said the success of De Beers' new Venetia mine and Normany Poseidon's Bow River mine in Australia contrasted with mines struggling in Guinea and southeast Kalimantan in Indonesia.

The discovery last year of 81 small diamonds in a 59kg sample by Dia Met Minerals in Canada's North-West Territories had fuelled great speculation by the local press and investment community, triggering a rush to stake claims in the area around the Point Lake kimberlite pipe. The diamond-mining euphoria was likened to the gold rush of the 1890s, the report said.

Mining claims covered more than 27 000km² compared with only 7 000km² in the Hemlo area after the discovery of Can-

ada's richest gold deposit. Exploration was also under way in northern Ontario and in Alberta, and the diamond hunt had spread across the US border to Arkansas.

The report said "It remains to be seen, however, whether (the Point Lake site) or any one of the other prospective deposits are economically attractive."

The area in Canada was "hardly conducive" to the development of mining, it said. It was remote, poorly served by infrastructure, and suffered harsh winters and sweltering summers.

Venetia

"Unfortunately for the would-be producers in North America, the current economic climate is hardly favourable for an increased output of diamonds," said the report.

Although diamond prospecting was attractive even for latecomers because of the random dispersal of economic deposits, the likelihood of finding rich deposits was small. Kimberlite pipes were responsible for two-thirds of current world production, with much of the remaining production from alluvial and beach deposits, but only 33% of all kimberlites contained diamonds. Of those, only one in 20 were esti-

ated to be economic.

The journal said De Beers' Venetia mine, which began production in the second half of 1990, was well on its way to becoming a successful producer, and the Bow River mine had made good progress in the past year. The mine was tapping an alluvial deposit on the western shore of Lake Argyle, with original estimates of 4.6-million carat reserve, and a yield of 46 carats for every 100 tons of gravel.

The mine was commissioned in 1988, and although the processing plant exceeded expectations, the yield fell to 33 carats. The mine was expanded two years ago, and in 1991 treated 3.2-million tons of material, yielding 30 carats a ton, producing nearly 1-million carats altogether with an after-tax return of A\$7.1m.

In contrast, the diamond mine set up in Guinea by Association pour la Recherche de Diamant et d'Or (Aredor) in 1984 to mine alluvial deposits was yet to meet original forecasts.

Difficult ground conditions leading to erratic flows of ore to the treatment plant, the presence of large boulders in the deposit which precluded the use of draglines, and declining grades in 1987 and 1988 knocked the mine.

Aredor had found larger than expected diamonds in the early years, but they

"dried up" in 1989.

Operations at the mine were suspended early this year, after Aredor had invested more than \$100m, and stakeholder Bridge Oil had written off its investment in the mine in 1991.

In southeast Kalimantan, the Indonesian Diamond Corporation gave the go-ahead to an open-cast mine in November 1990. Production began only last September after labour and equipment shortages, with capital costs rising 50% to \$3m.

Largest

Equipment problems and licensing difficulties with local authorities hit production, and without sufficient feed material, the treatment plant was shut at the end of December. Mining was suspended at the end of April — pending a re-evaluation of the project — after attempts to restart production failed as wet weather compounded production difficulties.

World natural rough diamond production fell to 99.2-million carats in 1991 from a peak of 101-million carats the year before. Australia, with its huge Argyle mine, was the largest producer by volume, followed by Zaire (19-million carats), Botswana (16.5-million), the CIS (13-million) and SA (8.2-million).

De Beers blaming NUM unfairly Golding

61 DAY 25/8/92

DIRK HARTFORD

DE BEERS was so "paranoid" about its results that it was trying to blame the union for its disappointing performance instead of its bad management, NUM assistant general secretary Marcel Golding said yesterday. He said the dispute between NUM and De Beers was because of a "pathetic" wage offer. The reasons De Beers gave for wanting to renegotiate its recognition agreement with the NUM were "absolutely untrue"

De Beers said yesterday the NUM had reached agreements with other mines on a one-day work stoppage, to be made up in overtime, to mark mass action earlier this month. The company claimed it had been singled out for a two-day stayaway. Disciplinary action against employees who supported this was continuing. Golding said the NUM had com-

plied with agreed procedures in negotiations on the stayaway, but De Beers was unhappy with the outcome "They had the option of going to arbitration, but they did not"

NUM and De Beers are in dispute after the NUM rejected an 8% wage increase offer (216)

Meanwhile, De Beers and the white Council of Mining Unions have agreed on a 7% basic wage increase with additional merit awards.

W/M out 28/8 - 3/9/92

De Beers threatens over NUM stayaway

Weekly Mail Reporter

216

100

213

WHILE the National Union of Mineworkers (NUM) was applying for a conciliation board hearing on its wage dispute with De Beers, the mining house was this week talking of cancelling the union's recognition agreement and dismissing workers en masse

De Beers' threats to de-recognise the NUM are in retaliation for workers having participated in the August 3 and 4 stayaway. According to the company, this was in breach of an agreement reached in 1989 requiring the NUM to consult the company on non-work-related protest action and ensuring that this does not disrupt the operations of the company.

Furthermore, claims company spokesman Glenn Byrant, the NUM refused to extend to De Beers an agreement it had reached with other mining groups that workers who stayed away on August 3 would make up for lost production at a later stage.

NUM spokesman Jerry Majatladi countered that the union did notify De Beers of possible protest action and that the NUM had no immediate control of workers' actions, as the stayaway was initiated by Cosatu.

In addition to firing 300 workers and disciplining others over the stayaway, De Beers has tabled amendments to the recognition agreement. These would make the union more accountable for the actions of its members, clarify "the duty to consult" and provide for stiff "sanctions" in the case of a breach. If these are rejected, the NUM may be de-recognised.

The NUM is taking the threat seriously, but says it has not been able to consider its response as a number of office bearers are abroad.

Underwater gems: Diamonds for Africa

216
AET 29/8/92

■ Vast quantities of diamonds lie at depths of 100 metres and more off the Namibian and South African west coast. De Beers Marine has developed the capability to extract these riches from previously untapped depths.

WILLEM STEENKAMP Weekend Argus Reporter

DE BEERS, the international diamond mining giant, has become a world leader in sub-sea mining operations, extracting high-quality diamonds from depths of up to 200 metres.

De Beers Marine general manager Dr Graham Rees told Weekend Argus that the company had developed a marine mining capability which was way beyond anything comparable elsewhere in the world.

These methods could eventually be extended to mine other high-value minerals such as gold, silver, and platinum from the ocean floor.

"It is real Jules Verne technology," said Dr Rees.

De Beers have a fleet of six vessels engaged in mapping, sampling and mining the seabed, and recently bought a seventh vessel, the Deep Sea Pacific which arrived in Cape Town Harbour recently after being towed from the Bahamas.

Besides the Deep Sea Pacific, the Grand Banks will be commissioned next month before operating off Namibia.

De Beers Marine seriously started investigating and developing a deep-sea mining capability only in 1984 after prospecting vessels found substantial deposits of diamond-bearing gravels on the seabed.

Overseas marine experts were contacted to find viable methods of mining at previously untapped depths. But techniques had to be developed locally as no such technology existed elsewhere in the world, Dr Rees said.

Equipment and techniques were perfected to such a level that diamond production from the sea-bed jumped from about 29 000 carats in 1990 to more than 170 000 carats of mostly gem quality last year.

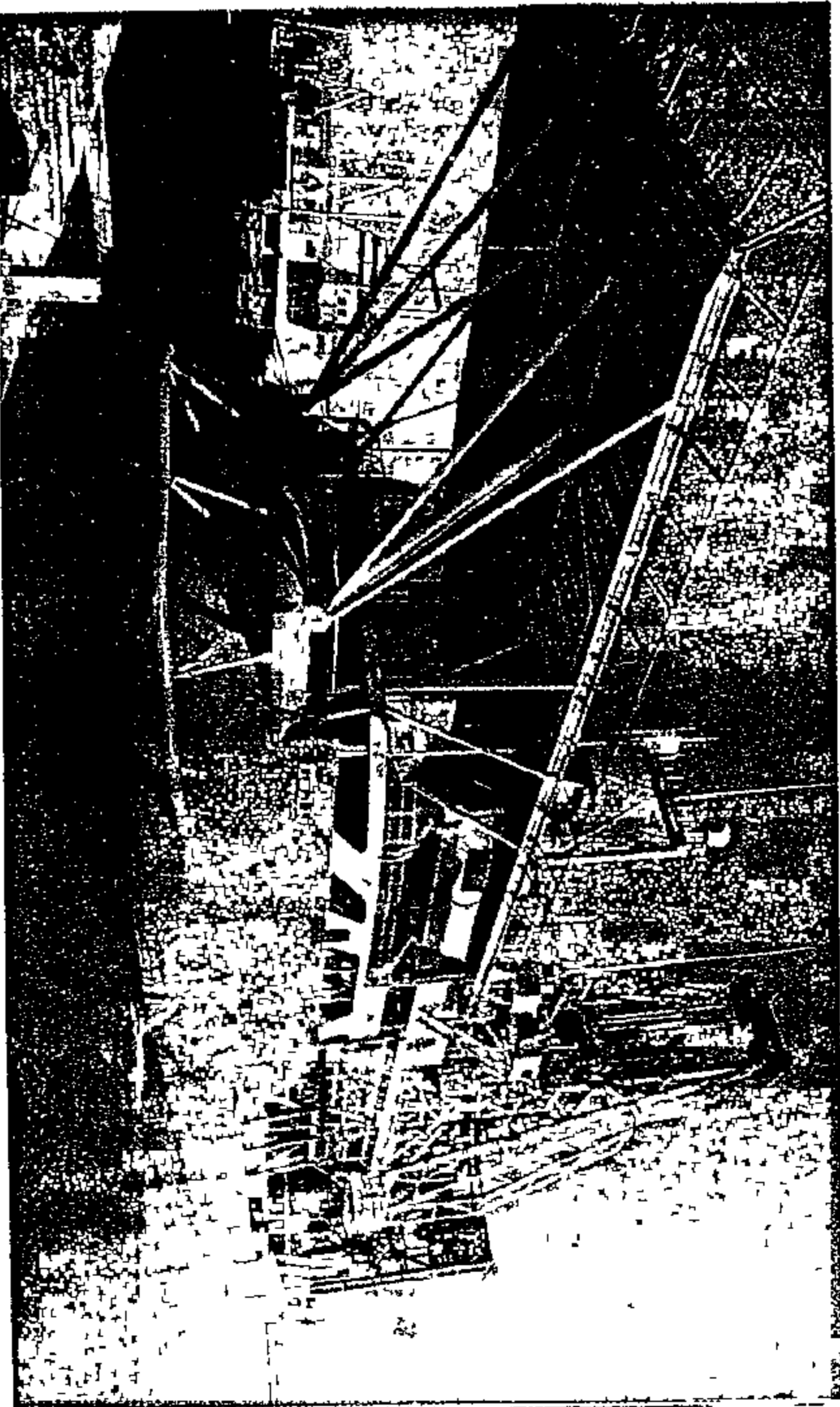
And this seems to be just the beginning.

Some of the vessels use powerful airlift equipment to draw diamond-rich gravels from the ocean floor with rocks as big as large watermelons being sucked up.

Because of the difference in pressure at the ocean floor and on the surface, these rocks were brought up at 14 metres a second. Strong reinforced rubber hoses used to slow the gravels down on the vessels, were torn to shreds.

Dr Rees said De Beers Marine had developed a unique concept to overcome the problem. De Beers could work 24 hours a day in recovering diamonds from vast depths and were world leaders in this technology.

The company also uses a unique remote controlled "crawler" to recover diamonds. The crawler weighs more than 40 tons and is similar to a bulldozer without the blade.



Pictures: LEON MULLER
Weekend Argus

□ **DIAMOND BONANZA.** The mining vessel Grand Banks, which has been refitted in Cape Town, will sail for Namibia next month to recover diamonds from the ocean from depths of up to 200 metres.

It is lowered to the ocean bed while technicians on board the Louis G Murray, the mothership which houses the crawler, can control it accurately via underwater cameras and TV monitors.

Dr Rees said De Beers were positive about their mining on the sea-bed. Diamonds recovered were of exceptional quality and with land deposits dwindling, seabed production would be increased to make up the shortfall.

■ The development of a sea mining capability by South

Africa has not passed unnoticed in the international community. Britain's Channel 4 Television recently visited De Beers Marine vessels to shoot footage of their operations.

■ Geologists believe that millions of years ago diamond-rich inland kimberlite deposits in Southern Africa were eroded by huge rivers and transported to the sea off the Namibian and South African coast.

It is only now with new technology that diamond-rich deposits at deeper depths can be effectively mined.



□ **MARINE MINING.** Dr Graham Rees, manager of De Beers Marine, with one of the large rocks sucked up from the ocean by one of De Beers Marine's diamond mining vessels off the Namibian coast. De Beers recovered more than 170 000 carats from the ocean off Namibia last year.

Worst could be over for De Beers

THE same punters who were talking De Beers up to R130 last year are now talking it down to R40. Ignore them at both ends of the spectrum. De Beers' all-time peak was R110 in mid-1990. This week it fell below R52 before picking up.

The price has halved from R101 last November, but at the current level certainly all of the dividend cut and most of the doubts about management credibility have been discounted.

De Beers completed a European-American roadshow in Johannesburg on June 3 (B on graph), two days after the start of the fifth Central Selling Organisation (CSO) sight, (A on graph). Most analysts believed that sales after the first three sights of 1992 were down by about 30% on the same time last year.

So for first-half sales to be down by only 15% as De Beers deputy chairman Nicky Oppenheimer intimated, sights four and five had to be loaded with stones.

At the June 3 presentation,

Mr Oppenheimer indicated that sales for the second half of 1992 would be better than they were in the last six months of 1991. Those were already R100-million because of payments by India for stock delivered in the first half.

Now De Beers forecasts that the second half-year sales will be lower than for the first six months, which themselves were 14% down on 1991. This could be because sights four and five of 1992 were a little loaded, leaving less to be sold at sights six to 10.

Points C and E on the graph show the sixth and seventh sights, interrupted by the De Beers warning on August 11 (D) that the full 1992 dividend could be cut.

holders bailed out of the shares, not least because South Africans in particular tended to be highly overweight in the JSE leader.

It has been impulse selling. The earliest knock is usually the cheapest. At current prices De Beers offers fair value.

De Beers' August 13 reply to the charge that it repeated an optimistic forecast at Anglo American's June 29 roadshow is that events to damp the diamond market occurred subsequently.

It blamed Japan's weakness for reducing demand and Angola's illegal diamond diggers for flooding the market with stones.

The statement said the problem first became evident by mid-July, thus exonerating the accused by a mere few days.

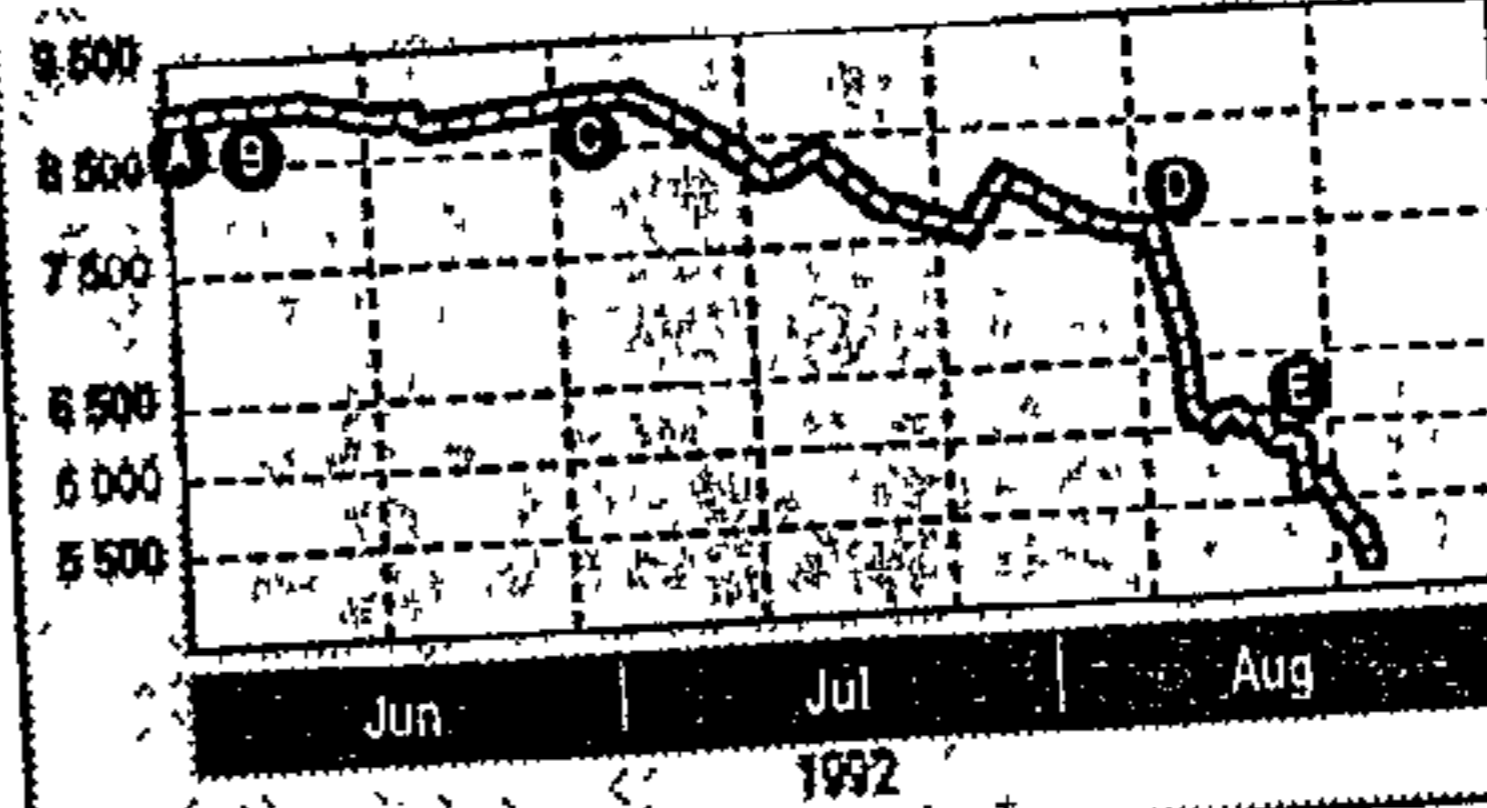
It is a little hard to swallow that sentiment of the diamond market can change so sharply

DIAGONAL STREET

by JULIE WALKER



DE BEERS CONSOLIDATED MINES LTD



- A Fifth CSO sight begins June 1
- B De Beers completes presentations in SA on June 3
- C Sixth sight begins July 6
- D De Beers warns of likely cut in dividend
- E Seventh sight begins August 17

in only a fortnight on what were hardly unknown potential gremlins. Known as class action, it involves a law suit by a class of shareholders who feel wronged.

One expects the chief players to be a little closer to the ground than that. Until then, De Beers' utterings were ignored at one's peril.

If the 1992 dividend is cut to about 225c, the forward yield is 4%, last suffered 10 years ago.

CSO sales might be 20% off to \$3.3-billion, otherwise the word significant in the warning is hardly necessary.

De Beers is traded as American depository receipts in America. If it is deemed to have misled shareholders, it might face the same music as did BP and Saatchi & Saatchi.

Three of BP's ADR holders claim it led them into believing the dividend would not be cut because shortly after chairman Bob Horton resigned, BP said there would be no significant changes of strategy.

A Saatchi ADR holder was paid \$9.5-million after claiming the directors had failed to disclose negative information before Saatchi's share price fell from 200p to less than 100p.

Saatchi, punished for not having predicted the recession, believed it could have won the case, but settled out of court at lower cost.

Creditors (216) queuing up outside CDC

JONO WATERS

CREDITORS are after independent diamond producer Consolidated Diamond Corporation (CDC), which has been plagued with problems since its inception **BIDAM**

The company announces in a notice today that "negotiations have commenced from which it would appear that a compromise with creditors may be necessary"

It produced a bottom-line loss of R2,9m and was laden with R27m in long-term debts at December 31 last year. **31/8/92**

CDC, which issued a cautionary announcement in April when it suspended operations at its Samada mine in the Free State, again advised shareholders to exercise "extreme caution". Its shares, currently at 50c, have not traded for a month.

The company failed to run Samada profitably after the opencast mine had been affected by flooding, equipment problems and the poor grade of the Kimberlite ore.

In March it was understood that management was expecting a foreign lender to bail the mine out, but there has been no news of the deal since.

The notice said a further announcement would be made as soon as possible.

Anglo trying to wipe us out, claims union

STARZ 31/8/92

By Thabo Leshilo
Labour Reporter



The National Union of Mineworkers alleged at the weekend that Anglo American Corporation had embarked on a campaign to "wipe out" the union at Anglo mines in the aftermath of the August 3-4 ANC-SACP-Cosatu stayaway

NUM press officer Jerry Majatladi said about 6 000 workers at (Anglo subsidiary) De Beers Diamond Mines had supported the strike

"De Beers reacted by declaring war against the NUM by unilaterally deciding to terminate the recognition agreement signed by the two parties," said Mr Majatladi.

He said the decision, if effected, would mean "the total elimination of the NUM from all De Beers mines".

Mr Majatladi said several mineworkers had already been dismissed at Koffiefontein, Kimberley Mines as well as at Finch Mine and Premier Mine

De Beers spokesman Shane Leisegang rejected the NUM's allegations as false and misinformed. "Such statements could lead to unnecessary confrontation," he warned.

"As yet, no employee has been dismissed in this regard, although hearings continue in respect of a number of employees who absented themselves without permission and were already in receipt of comprehensive final written warnings prior to the stayaway."

The agreement with the union provides that the NUM consult Anglo on non-labour protests and that it ensures such action does not disrupt the operation of the company

Mr Leisegang noted that it was impossible to terminate the agreement without formally notifying the NUM

● The NUM and the O'Okiep Copper Company meet at the conciliation board in Cape Town today in a bid to resolve their dispute over wages and conditions of employment

Mining giant denies claim

DE BEERS has denied it had decided to end a recognition agreement with the National Union of Mineworkers, as alleged earlier by the union.

Last Thursday, NUM also alleged the diamond giant had dismissed workers for staying away during the national strike on August 3 and 4

De Beers mines which had dismissed workers for taking part in the ANC/SACP/Cosatu alliance stayaway included Koffiefontein, Kimberley Mines, Finsch, and Premier Mines, according to the union

On Friday, De Beers issued a statement refuting "false allegations made by the National Union of Mineworkers that De Beers had terminated the recognition agreement it has with the union" (216) (216)

21/8/15
21/8/15
mefaw
OS

Strike ballot for miners

Bloom 3/9/92
DIRK HARTFORD

THE NUM and the Namibian Mine Workers' Union (MWU) have deadlocked in negotiations with De Beers and will be balloting their members on strike action.

And workers at De Beers' Premier Mine in Cullinan are planning to march today from their hostel to the mine manager's office to protest the dismissal of workers who participated in the general strike.

De Beers and its Consolidated Diamond Mines (CDM) operation in Namibia have offered a 9,5% increase against the NUM's demand of 15,4% and the MWU's demand of 22%.

CDM, with mines at Oranjemund and Elizabeth Bay, is the largest employer in Namibia. De Beers employed about 6 000 workers at the Premier, Finch, Koffiefontein and Kleinsee mines, said the NUM ~~(216)~~ (216)

De Beers said it regretted the NUM's declaration of a deadlock as the company had proposed mediation and had indicated it was prepared to consider further proposals ~~(217)~~ (217)

De Beers' offer would bring the minimum wage to R955 per month

De Beers losing grip on market ⁽²¹⁶⁾ report

STARZ '89/192
RAMSAY MILNE

NEW YORK — De Beers, described as “the secretive South African company that dominates the world diamond trade”, was given some unwelcome publicity on the front page of The New York Times yesterday in a report suggesting the diamond cartel might be losing its grip on the world monopoly.

One reason for the disarray, says the newspaper, is the flood of Angolan diamonds now pouring on to the usually ordered world market.

Although the Angolan government as a rule cooperates with the cartel, the recent war has left large portions of the

country ungoverned.

This is especially true along a 180 km stretch of the diamond-rich Cuango River, where about 50 000 prospectors are digging for gems

Now that these illicit stones are hitting the market, the industry has been shown up as not being so immune to the recession as it seemed.

Pretending

The newspaper, quoting its Johannesburg correspondent, says that adding to the industry's gloom are charges that De Beers did not properly inform investors about the wobbly state of the industry by glossing over evidence of falling demand and ignoring the Angolan problem.

James Picton, a Cape Town analyst, is quoted as accusing De Beers of “trying to give the mar-

ket a lift by pretending that sales had been better than they actually were”

In spite of danger signals about the effect on diamond sales of the world recession and the Angolan rush, says the paper, “many were lulled by the bullish assurances of De Beers' patrician chairman, Julian Ogilvie Thompson”

In the same report, however, Thompson rejects this charge, saying the company could not have foreseen Japan's stock market crash, which cast a chill over the diamond market in that country, or the explosion of diamonds from Angola.

“The allegations that De Beers has lost its credibility are unfair and ill-founded, and the facts support me,” he declares with what The New York Times describes as “the regal assurance for which the company is famous”





It's a dry river bed diamond rush

Illegal diggers at work on a stretch of dry river bed in Angola

(216)
De Beers estimates that 50 000 diggers, rising by 500 a day, have been plundering alluvial gravels since the Angolan civil war ended. Usually the river is diverted to allow digging, but diggers are reportedly recovering stones from beneath the water. *SITime/Buss*

This year an estimated \$500-million of stones will flow not through CSO-aligned Angolan government channels but directly to Antwerp, causing problems for the CSO. *6/9/92*

De Beers is urging the Angolan government, which derives no foreign currency or tax benefit from the illicit trade, to bring the situation under control.

Russian crisis for De Beers

(216)

CT 7/9/92

Own Correspondent

LONDON. — Smuggled Russian diamonds are proving a bigger crisis for De Beers and the Central Selling Organisation than the illegal mining in Angola, claims a report in the Sunday Telegraph published here yesterday

It quotes an Antwerp industry "source" as saying "Angola is what De Beers is admitting to publicly

"But it's the goods from elsewhere that are really worrying the market. Angola is a smokescreen for the more serious problems created by organised crime and diamond smuggling from Russia"

The Sunday Telegraph says "the international diamond industry is being rocked by its biggest crisis for 50 years"

The Sunday Times, reporting on the visit to Moscow by Harry Oppenheimer, former chairman of De Beers, with chairman Julian Ogilvy Thompson and Nicholas Oppenheimer, says

there were stories in Russia of "former KGB agents and crime groups taking advantage of the chaos in the industry"

But it also quotes Tim Capon, a director of De Beers, saying "There is a lot of concern about what could happen in Russia. But the situation there is controlled and controllable"

Mr Capon disagrees with suggestions that Russia could sell off its stock of gem stones to boost foreign currency earnings

"When the Russians have dumped other commodities, the one thing they have not done is dump diamonds for short term cash benefit"

However, he also admitted there were "different organisations and different personalities involved"

A recent report in Commercant, the English language Moscow business magazine, claimed De Beers had warned the Russian government about "mismanagement" in the diamond industry and that there were billions worth of top quality stones being held in storage

De Beers 'flexing its muscle'

BIOA-4 7/19/92

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JONO WATERS

DE BEERS had exaggerated the Angolan problem to put pressure on producers such as Russia not to break ranks with the Central Selling Organisation (CSO), a local analyst was quoted in the US as saying last week

In an interview with the New York Times, Frankel, Max Pollak, Vinderine analyst Kevin Kartun said in the meantime, De Beers was increasing its share of production through its Venetia diamond mine and putting a huge emphasis on ocean diamond mining

The article was published the day before De Beers signed an agreement to set up a joint venture in the far-eastern Yakutia region of Russia. The new company, North Star, would have a cutting workshop capable of producing 100 000 carats of diamonds a year

Kartun was quoted as saying that with a greater share of rough stones, De Beers would have "more muscle to cow other producers into line"

The Times said the last thing De Beers would want was for Russia to break ranks with the organisation and speculated that was the reason why Harry Oppenheimer was in Russia, "ostensibly on vacation".

The report added "While few suggest De Beers and the cartel are in mortal danger, many analysts predicted that regaining its grip will cost De Beers heavily

"Aside from the expense of mopping up the diamond surplus, some analysts say De Beers may be losing its autocratic hold on the industry," the article said

Analysts speculated last week that the mopping up of Angolan diamonds had cost De Beers anything from \$100m to \$500m

Kartun said at the weekend it was interesting to note that the Russian factor had never been mentioned at presentations, yet it was more of a threat than Angola. "The aim is to scare in a weak market."

The Russian Interfax news agency said in the Yakutia deal, each party was to provide half of the start-up capital for North Star and De Beers was to provide the production equipment

The agency also said De Beers planned to take part in the development of the Nezdansky gold reserve in the Yakutia region. The area accounted for 99.8% of Russian diamond production and was the largest source of gold in Russia

De Beers assures Russia on gem price

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#2G 8/9/92

MOSCOW — The world diamond market is in the doldrums, but South African-based diamond giant De Beers has no plans to change the price it pays for rough Russian gems

Deputy chairman Nicky Oppenheimer said in Moscow yesterday morale in the industry was low because recession in major markets was lasting longer than expected

But, he added "There are no plans for us to reduce the price for uncut diamonds"

Mr Oppenheimer is deputy chairman of De Beers Centenary AG and De Beers Consolidated

Mines He is also chairman of the of the firm's London selling operations

On the eve of the formal opening of the firm's Moscow office, he said cooperation was in

Russia's interest to ensure it received the maximum return for its diamonds

"I see this as a very important milestone in relations between Russia and De Beers"

Polishing up the Russians

STARZ 10/9/92

2377

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The Oppenheims visited Moscow to look after their interests, reports PETER PRINGLE.



Harry Oppenheimer . . . on his first visit to Russia.

THE OPPENHEIMERS were in town this week cutting quite a dash as they tried to ensure that Russian diamonds stay within the strict boundaries of their diamond-selling monopoly, De Beers

On Tuesday they opened elaborate new offices on Tverskaya Street where all the fashionable Western retailers are vying for space. Parliamentary deputies and businessmen came

Seven cars whisked the De Beers team around from official offices to the Cultural Foundation, where the company donated more than R4 million of fine art and Russian treasures, including a long-lost letter from Pushkin, another from Turgenev and still another from Tolstoy to Gandhi found in South Africa by De Beers' for-

mer chairman, Harry Oppenheimer.

His son Nicky, who is deputy chairman, explained. "We have a tradition of extending ourselves into the cultural life of the countries where we do business. There's a synergy between the beauty of a diamond and the beauty of the art we see here."

"Very interesting," said Harry Oppenheimer as he toured his own generous gifts

He was making his first visit to Russia at the age of 84, al-

though his De Beers company has been dealing with the Soviet Union, often at arm's length during the Cold War, for the past 30 years.

Nicky Oppenheimer admitted that the world diamond market was going through difficult times. Recessions hit jewellery companies first and De Beers more than most because for years it has controlled all but a small percentage of the diamond market.

The job of the diamond merchants was to bring back confidence, said Nicky Oppenheimer. "Confidence is uniquely important to the diamond trade."

But confidence in De Beers is also demanded by the diamond producers

Russia digs out 25 percent of the world's diamonds — after southern Africa's 50 percent — and if Moscow decided to go it alone in the market that would seriously upset the controlled price set by De Beers. The price of diamonds could crash.

Since the new Russian gov-

ernment emerged, De Beers executives have been flying into Moscow in the company's jet, buttering up politicians in Moscow and in the main diamond-producing region of Yakutia in eastern Russia.

Some members of the Russian parliament, sniffing capitalist exploitation, are determined that Russia should have more control over the sale of its diamonds than it had under the corrupt communist government, which MPs accuse of selling out to De Beers.

The Oppenheims, and a dozen fresh-faced, smartly suited De Beers executives, are equally determined that there should be business as usual

The Russians replied to the deluge of expensive gifts with something also priceless that costs almost nothing: a brilliant concert by child prodigies.

"It was a small demonstration of our own power," said Svyatoslav Belza, the Cultural Foundation's compere — The Independent. □

CSO sales forecast to top \$5bn as times get better

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 B/DAY 10/9/92
 JOHN CAVILL and
 MATTHEW CURTIN

LONDON — Diamond sales by the Central Selling Organisation (CSO) could top \$5bn in 1996 — 25% up on last year's total — as world economic activity recovers, says a special report by the Economist Intelligence Unit (EIU) published in London.

However, the 82-page report — *Diamonds A Cartel and Its Future* — forecasts that average growth of total sales of rough gemstones (including non-CSO sales) over the next five years will be about half the 12% annual rate achieved in the 1986/91 period.

World retail diamond jewellery should show a similar trend, rising by 4% to 5% annually compared with 9% during the past five years.

On the supply side, production is expected to increase by 15% to 119-million carats, says the report. The chief additions will come from the Venetia mines in SA (4-million carats), the fourth stream of production at Jwaneng (4-million carats) and the new Jubilee operation in Yakutia, in the Russian Federation.

Angolan output will "probably exceed 2-million carats by 1996", while

Australian levels are expected to recover as a 33% increase in ore processing capacity at the Argyle mine offsets declining grades.

Looking at the future of the CSO, the report says its promotional efforts should help "a recovery in demand earlier than might otherwise have occurred".

It says the CSO could face a testing time when the recession is over, when demand for diamond jewellery and ultimately for new diamonds picks up, and with it the incentive for producers to break with the cartel or seek a degree of independence.

Co-operation

This will take time to happen and the report concludes "If members begin to break ranks, as they have done in the past, the cartel can be expected to mobilise its formidable resources to maintain discipline".

Meanwhile, former De Beers chairman Harry Oppenheimer said at the opening of the group's Moscow office on Tuesday that the successful

preservation of the diamond trade depended on co-operation between De Beers and the Russian industry.

Oppenheimer said the diamond business faced two great changes at the moment, "very bad times in the world" which had prompted De Beers to announce that it might have to cut its final dividend, and the emergence of Russia "as very much the largest and most important producer in the world, second only to De Beers".

The opening of the Moscow office was an important event. It was fortunate that political change in SA and Russia had made it more practical for De Beers and the Russian industry to work together "as it is essential we should".

Oppenheimer said the poor current conditions in the diamond business were not grounds for long-term pessimism about the industry.

"Quite the contrary, the fact that we felt it necessary to take such steps is simply because in running this industry, we have to put the interest of our shareholders, important though they are, behind the necessity of keeping our money available for the protection of the industry as a whole."

Venetia boost for MidWits

By Derek Tommey

(216)

The Venetia diamond mine is expected to become SA's largest producer, with output of 5,9 million carats a year.

It should also make a major contribution to MidWits' earnings, which rose 16 percent to R54,1 million, equal to 16,8c a share, in the year to June, says chairman Clive Menell in his annual statement to shareholders.

The dividend is up from 6c to 7c a share.

The group is budgeting for a modest increase in earnings in the current financial year.

MidWits is Anglovaal's exploration and mining investment arm.

Net worth of MidWits shares,

excluding its interest in Venetia, was 334c (361c) at end-June. After including the stake in Venetia, net worth was 965c (722c).

Some 37 percent (26 percent previously) of earnings came from mining activities, while 54 percent (74 percent) was interest. This reflects the company's cash holdings of R260,1 million.

Exploration for gold in the Sun area in the northern Free State was encouraging, but political and economic uncertainty did not justify major expenditure.

At the Oribi prospecting area further mineral rights have been bought where diamond drilling has shown potentially exploitable gold grades at mineable depths.

The share price of Industrial & Commercial Holdings (ICH), which has an effective 6,25% interest in Venetia diamond mine, has fallen from R32,25 in early August — when De Beers dropped its bombshell on the market — to around R21

What the true value of the share should be is complicated by a number of factors, including confusion on precisely how the 25% quota announced by the Central Selling Organisation (CSO) on its producers will affect the Venetia mine

ICH chairman Dru Gnodde referred queries to Anglovaal which controls Saturn, the company that receives dividends from Venetia. An Anglovaal spokesman says Saturn has not yet been informed about the imposition of a quota on Venetia or its effects on Saturn's expected earnings

A De Beers spokesman says that, while the quota will apply to the SA producing mines as a whole, full details are still awaited from the CSO as to how specific mines will be affected. He says this might vary from mine to mine, depending on demand for the various types of diamonds produced

One analyst is speculating that Venetia might be minimally affected because of the high profit margins expected at this new, open-cast mine. A De Beers spokesman confirmed immediately before the official opening of the mine on August 14 that the build-up to full production was going ahead as scheduled, despite the poorer outlook for the diamond market

Venetia is aiming for full output at 5,9m carats annually by December. Saturn gets a 12,5% royalty from Venetia until the capex on the mine is recouped, and then splits the profits equally with De Beers. ICH is entitled to 12,5% of Saturn's earnings

ICH earned 1,6c a share in the year to June, but Simpson McKie analyst Hennie Vermeulen, assuming a 25% quota on Venetia, reckons the current year's earnings would be 52c a share, building to 420c in financial 1996 when the quota should be removed. On this basis, he values ICH shares at R28. If there's no quota, Vermeulen revises his value to R30

Other analysts are more conservative. One points out that ICH, at R28, puts a value on Venetia of R6bn, which looks too high in these market conditions. He reckons R23 is a fairer price

It's difficult to get excited about the diamond market now but the situation regarding Venetia and ICH bears watching

Brendan Ryan

tender by the Zimbabwe government and was awarded to Auridiam Zimbabwe, a subsidiary of Auridiam Consolidated of Australia; whose management was involved in the discovery of the Octha alluvial diamond field and project management on the Argyle diamond mine. Other contenders were Trans Hex, Reunion Mining and Tabex.

Tracing the history of De Beers' involvement in the area, Russell says the original intention may have been to exploit the Venetia and River Ranch ore bodies in tandem, using shared technical management facilities in nearby Messina. "However, De Beers fell out with Zimbabwe's government over the issue of marketing the diamonds, with the Zimbabweans insisting on using their own Mineral Marketing Corp, while De Beers, as always, remained inflexible with its CSO, or producers' co-operative as described by Nicky Oppenheimer recently," he says.

De Beers director Robin Crawford says Russell is "misinformed" — it's clear we tried our best to find ways of bridging the needs of the Zimbabwean government and ourselves over the marketing of the production and the resuscitation of the Zimbabwean diamond cutting industry. But the government remained intransigent on the priority reservation of goods for local cutting, which De Beers continues to believe will prove to be unprofitable for both the local factory and the mine.

The deposit was controlled by De Beers for almost 20 years but was never developed. Exploration and sampling produced more than 5 500 carats of gem quality diamond and three separate kimberlites were identified. De Beers hung on to its EPO over the area, registering seven contiguous precious stones claim blocks and continuing its exploration work right through the Rhodesian bush war — all over a period when exploration elsewhere in the country had virtually ceased.

Russell says he believes the loss of the River Ranch prospect "must have been a blow, even if it's played down by management." During a presentation in London in May last year, De Beers chairman Julian Ogilvie Thompson dismissed the prospect as "a small pipe that we discovered in the early Seventies, it was not payable then — effectively, our rights have lapsed since. That is a pity. We think they (the Zimbabwean government) made the wrong decision. I do not think it would have been more than 60 000 carats a year for five or six years. So the whole matter is totally out of proportion."

Russell concludes that the failure of the negotiations between De Beers and the Zimbabwean government "will in all likelihood preclude De Beers from any new diamond exploration in the country."

Crawford says De Beers is disappointed about the treatment it has received from the Zimbabweans. "Naturally, we hope a better understanding will develop over time."

Meanwhile, Auridiam's group geologist Alex Romanoff has confirmed from Perth that the company has embarked on a small

mining operation on the River Ranch from which about 5 000 carats of gem quality have been recovered. These will be sold, he says, at a sight to be held soon. Russell says he understands the largest diamond recovered to date is a gem of 17 carats.

Auridiam's plans, which depend on the outcome of its current small-scale mining operation, are believed to include the establishment of an open-cast mine designed to produce between 420 000 and 560 000 carats a year from 700 000 t of ore. That implies an average grade of 60 to 80 carats per 100 t of ore over an ore body of about 6 Mt of kimberlite. When approached with the predicted grades, Trans Hex's chairman Francois Hoffman described them as "very good indeed — if it's there, of course."

Russell says he has been given to understand that about 15% of the projected output from River Ranch will be channelled to the Zimbabwean cutting industry, which is well experienced in the cutting of emeralds, and the balance will probably be sold through the CSO. Crawford's response is "There has been no discussion with De Beers concerning the sale of the balance of the production through the CSO."

David Gleason

DE BEERS FM 18/9/92

Across the river

216

De Beers is suffering in more ways than merely being castigated for having allegedly misled the market about its short-term prospects. Last year, it lost an exclusive prospecting order (EPO) over a small cluster of diamond pipes known as the River Ranch in Zimbabwe.

The importance of the EPO is that it is only 60 km from the new Venetia diamond mine near Alldays in the northern Transvaal. Broker Irish & Co analyst David Russell says the River Ranch exploration area is regarded as part of the Venetia pipe cluster, though one geologist describes that as a figment of the imagination.

The River Ranch prospect was put out to

FM 18/9/92
OCEAN DIAMOND MINING
Still undercapitalised (216)

The average perception of marine diamond mining is of a man with a caravan, a dog and a wet suit. Nothing could be further from the truth. Mining diamonds from the seabed around the SA and Namibian coasts is now big business. The equipment is sophisticated and expensive, as are the ships that carry it and the men who manage it.

Ocean Diamond Mining (ODM) was listed in January through the cash shell CRB Holdings. In something of a triumph for chairman Ivan Prinsep, Sanlam was persuaded to invest R7,5m cash for 3,6m convertible preference shares. This represents a small but important move by Sanlam into what is, essentially, a venture capital project.

ODM is concentrating on marine diamond concessions off Luderitz, to which it refers

FM 18/9/92 (216) COMPANIES

Activities: Marine diamond mining and exploration

Control: Ellerman Holdings 20,4%, Barings Nominees 16,2%

Chairman: I R M Prinsep, MD A C Louw

Capital structure: 20,6m ords Market capitalisation R25,7m

Share market: Price 125c 12-month high 200c, low, 125c Trading volume last quarter, 632 000 shares

Year to March 31	'89†	'90†	'91†	'92*
Turnover (Rm)	2,1	4,9	0,01	0,7
(Loss) Profit after tax	0,2	(0,5)	(1,3)	(0,002)
Capital employed	1,4	1,1	(330)	5,6
Net worth (c)	n/a	n/a	n/a	27

* 15-months period † Pro forma figures from prelisting statement

collectively as the Island Concessions. Names redolent of romance and fantasy are included in the list: Plum Pudding island, Possession, Ichaboe, Albatross and eight others. These form the core of joint venture activities with Gal Marine, a private company owned by Gershon Ben-Tovim, a former Israeli naval officer.

Results for the 15 months are, on the face of it, unimpressive, with a net operating loss of R26 000. But some consolation to investors should be the conservative treatment of potentially difficult accounting areas as it is impossible to value diamond reserves precisely, they are not shown as assets, goodwill is written off in the year it accrues, and investments in subsidiaries are stated at cost.

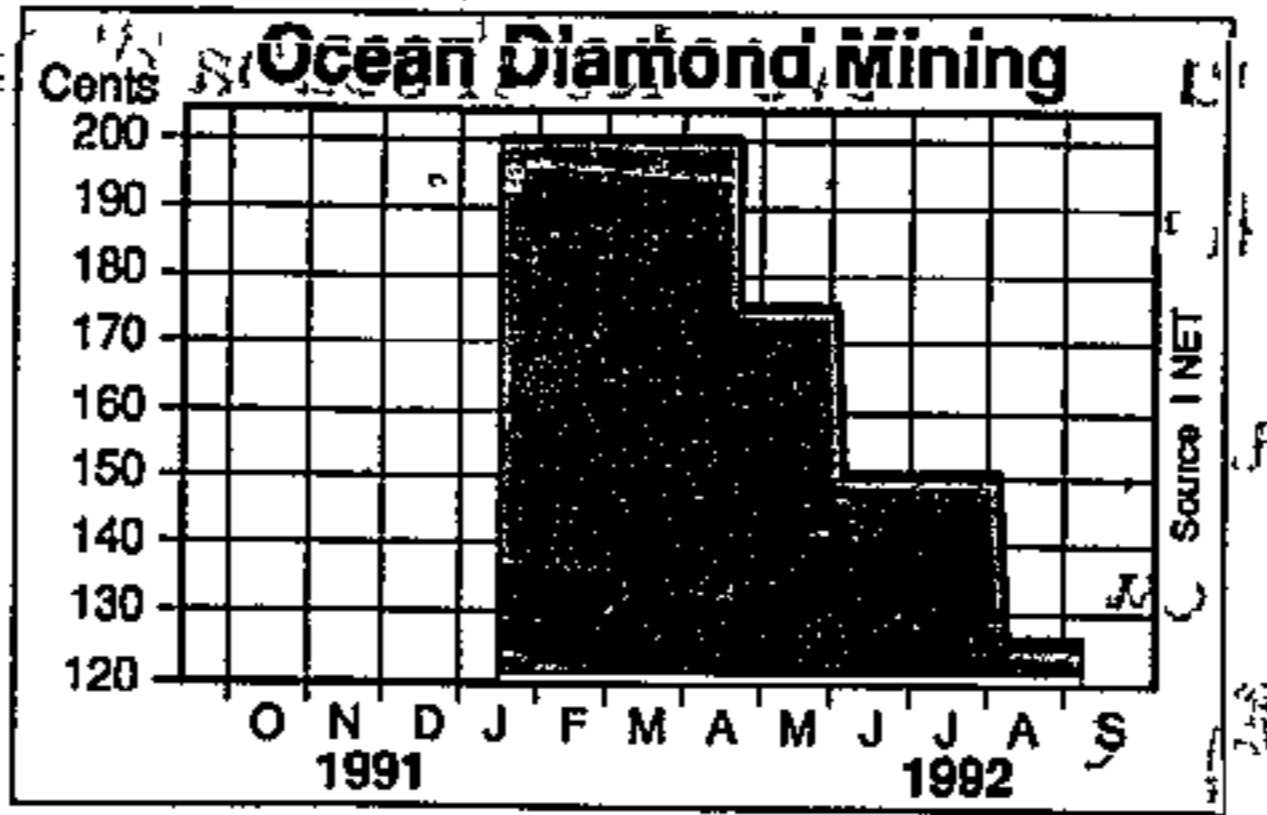
The listing statement shows the potential of the diamond reserves could be 40m carats. So net worth as presented in the balance sheet is almost certainly understated.

The continuing problem is that ODM is undercapitalised. It is using a chartered dredging vessel, the *Lucky D*. The ship which employs a remote, air-lift operation dredging system, has no divers. This makes operation much less weather-dependent and MD Andre Louw confirms that only one day has been lost so far to bad weather.

The plant can handle 10 t of gravel an hour and produce between 2 000 ct-2 500 ct a month. This is small beer. ODM is doubling capacity of the heavy media treatment plant to 20 t/hour, which should produce about 3 000 ct a month, but even that will leave it in the unexciting end of profitability.

Louw says ODM needs, ideally, an injection of about R15m if it is to become a substantial cash generator with access to two or three dredging vessels and the ability to map the geology of its areas precisely.

Commentators have suggested that only



FM 18/9/92 (216)

about 3bn ct (from an original 10bn) survived the movement during the Cretaceous era from interior kamberlites to the coast, and subsequent redistribution. One consequence is that marine diamonds off the SA and Namibian coasts are considered of exceptional quality.

There is an opportunity for someone here. Meanwhile, with the stock at 125c and on a colossal price, investors will probably wait for management and the major shareholders to raise the capital needed to enable ODM to turn its assets to account.

David Gleason

Continue

Cash flow problem seen for De Beers

By Garner Thomson
Star Bureau

LONDON — City of London analysts predict that De Beers will face cash flow problems by December and start testing its bankers' nerves in earnest, The Spectator magazine warns

But it says De Beers' real problem is neither the recent Angolan diamond rush, nor the secret selling of Russian stones, but the consequences of a \$1 billion Russian Federation trade loan in exchange for the exclusive right to market around 60 percent of its diamonds that is the core of the company's ills

Finance writer Edward Whitley quotes one analyst as saying "De Beers is over a barrel. It has no idea of how many diamonds the Russians are mining. It simply receives a certain number in a cardboard box every month

"Not only does De Beers have to take delivery of the Russian diamonds to add to its absurdly high stock, but if it is to support the diamond price, it is a keen buyer for the 40 percent of diamonds which the Russians polish and sell themselves

"It must be particularly gall-

ing to have paid the \$1 billion in cash, and then have to watch the price of diamonds collapse"

De Beers told Mr Whitley that, given renewed economic growth, all its problems were solvable

But he quotes another dealer as saying "They don't want more diamonds. There are diamonds everywhere.

"Leaving aside Russia and Angola, there has just been a massive find in Canada, which is said to dwarf the South African mines.

"De Beers is trying to keep diamonds as a luxury product when it is plain that they are just a commodity"

Michael Spriggs of Warburgs says the company is facing an unprecedented problem now and it is not immediately clear how it will come out of it

With a stockpile of more than \$4 billion this year, its cash will fall below \$0.5 billion — "possibly even less," he told Mr Whitley.

"De Beers may have to resort to debt financing, which brings its attraction into question.

"Indeed, you have to ask the question about its associate-company — whither Anglo American?"

MID WITS

Time for the payback

FM 25/9/92
216

Activities: Investment company with major stakes in Anglovaal's gold exploration programme as well as the Venetia diamond mine
Control: Anglovaal 53%

Chairman: C S Menell

Capital structure: 321,6m ords Market capitalisation R2,2bn

Share market: Price 670c. Yields 1,0% on dividend, 2,5% on earnings, p/e ratio, 40,0; cover, 2,4 12-month high, 990c, low, 615c

Trading volume last quarter, 4,7m shares

Year to June 30	'89	'90	'91	'92
Turnover (Rm) ...	46	47	104	100
Taxed profit (Rm)	31,0	33,8	54,0	62,4
Earnings (c)	12,7	10,8	14,5	16,8
Dividends (c)	6,0	6,0	6,0	7,0
Net worth (c)	293	372	361	334

With the first royalties starting to flow from the Venetia diamond mine, Mid Wits shareholders are poised to realise some of the potential earnings which have firmly underpinned this share for the past two years

The company should be able to pass much of the benefits of this new income through in higher dividends now that Anglovaal has decided to put on ice its Sun gold project in the northern Free State. A decision to develop the mine could have resulted in a heavy call on Mid Wits to fund its share of the cost of setting up a deep-level gold producer which could cost as much as R4bn, according to some analysts

Venetia, officially opened in August, is rapidly building towards full output at an annual production rate of 5,9m carats from the end of December. That will make it the largest diamond mine in SA

Mid Wits holds 66% of Saturn, which gets a 12,5% royalty based on Venetia's profits before capital expenditure, until De Beers recoups the R1,1bn spent on establishing the mine. After that, the mine's profits will be split equally between Saturn and De Beers

Industrial & Commercial Holdings (ICH) is entitled to 12,5% of Saturn's income. That gives it an effective 6,25% stake in Venetia and, more important in this context, allows a value to be placed on Venetia by working back from the ICH share price

That figure is highly relevant to any valuation of Mid Wits. At June 30, Mid Wits's



Mid Wits's Menell .. a modest increase in earnings

share price was 800c, but its tangible net worth was only 334c. However, this figure excludes Venetia. Net worth leaps to 965c a share when allowance is made for Venetia

The ICH share price is now about R21, which values Venetia at R4,57bn. That works back to a value of 466c a share for Mid Wits, bringing its current net worth, adjusted for the present market value of Venetia, to 800c, still comfortably above the present share price of 670c

Saturn got R7m from Venetia during the year to June as its 12,5% royalty, which indicates Venetia's profit before capex would have been R56m. The figures will soar this year, though by how much is not clear because of uncertainty over how the 25% quota cut imposed by the Central Selling Organisation will affect Venetia

The quota applies to all De Beers SA mines, but it has not been spelt out how it will affect them individually. There are grounds for believing Venetia may be minimally affected

Chairman Clive Menell forecasts cautiously that Mid Wits "is budgeting for a modest increase in earnings"

Borehole results and detailed geological assessment from the Sun project area reveal there is a gold mine to be developed there. However, higher gold prices and a more settled political environment are needed before Anglovaal will take the plunge

The decision to hold back is positive for Mid Wits in the short term because it enhances the company's strong financial position during uncertain times in the local and international economy

Mid Wits has about R400m in cash and near cash left from the 1990 rights issue. This year, the company will spend only

R500 000 on the Sun project and R7,4m on the Oribi gold project. Mid Wits's cumulative expenditure on these projects to end-June totalled R114,8m. Interest received will remain an important part of total income despite the gradual slide in interest rates

Interest receipts contributed R54,5m (1991: R77,5m), while income from other investments totalled R27,9m (R17,8m). Those investments include a 49% stake in the Lavino chrome operation, a 48% stake in Eastern Transvaal Consolidated Gold Mines and 49% of Rhino Andalusite

Mid Wits ranks as one of the better investments in the mining exploration/mining holding sectors with its exposure to chrome, gold, diamonds and a potential new gold mine. However, the short-term value of the share is going to be determined by developments in the diamond market in general and the Venetia mine in particular. Venetia now accounts for 58% of Mid Wits's net worth and should soon be the largest contributor to earnings

Brendan Ryan

SOUTHWITS FM 25/9/92 Going into coal

Activities: Mining exploration company controlling a number of gold, base metal and coal prospects

Control: First National Nominees 64%

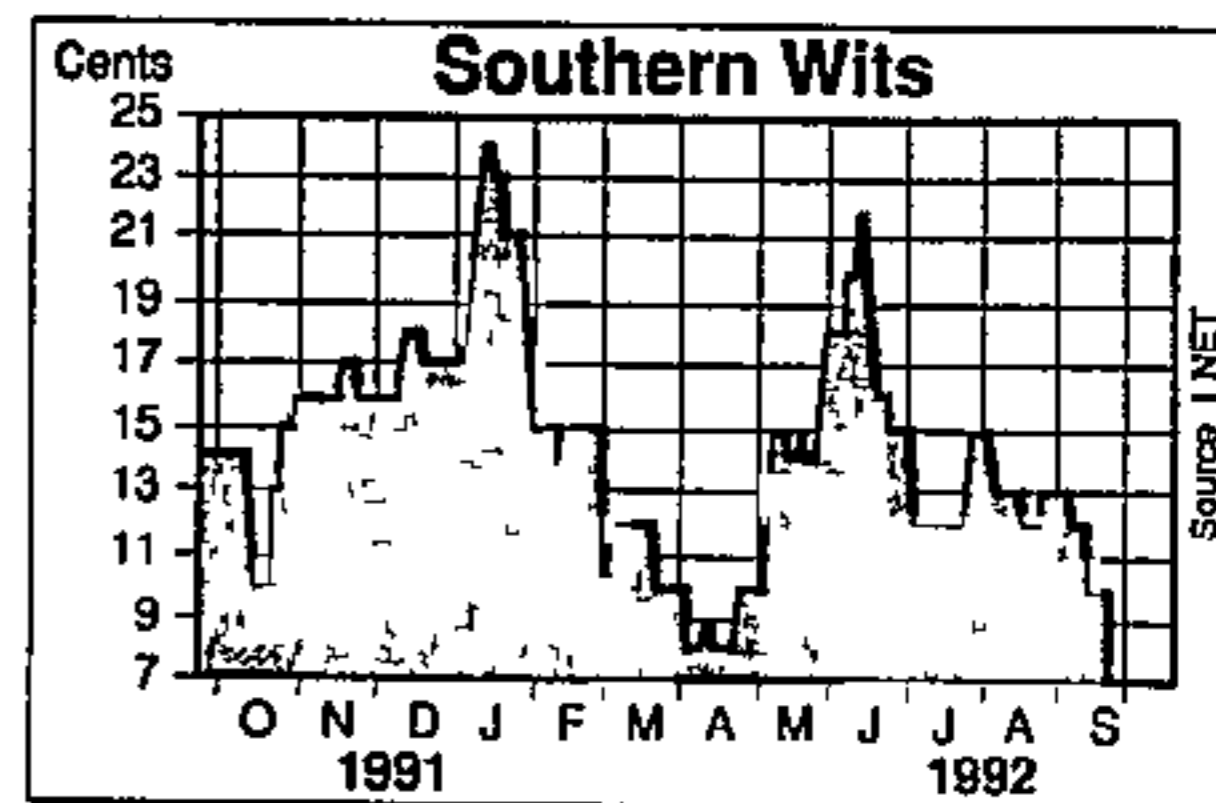
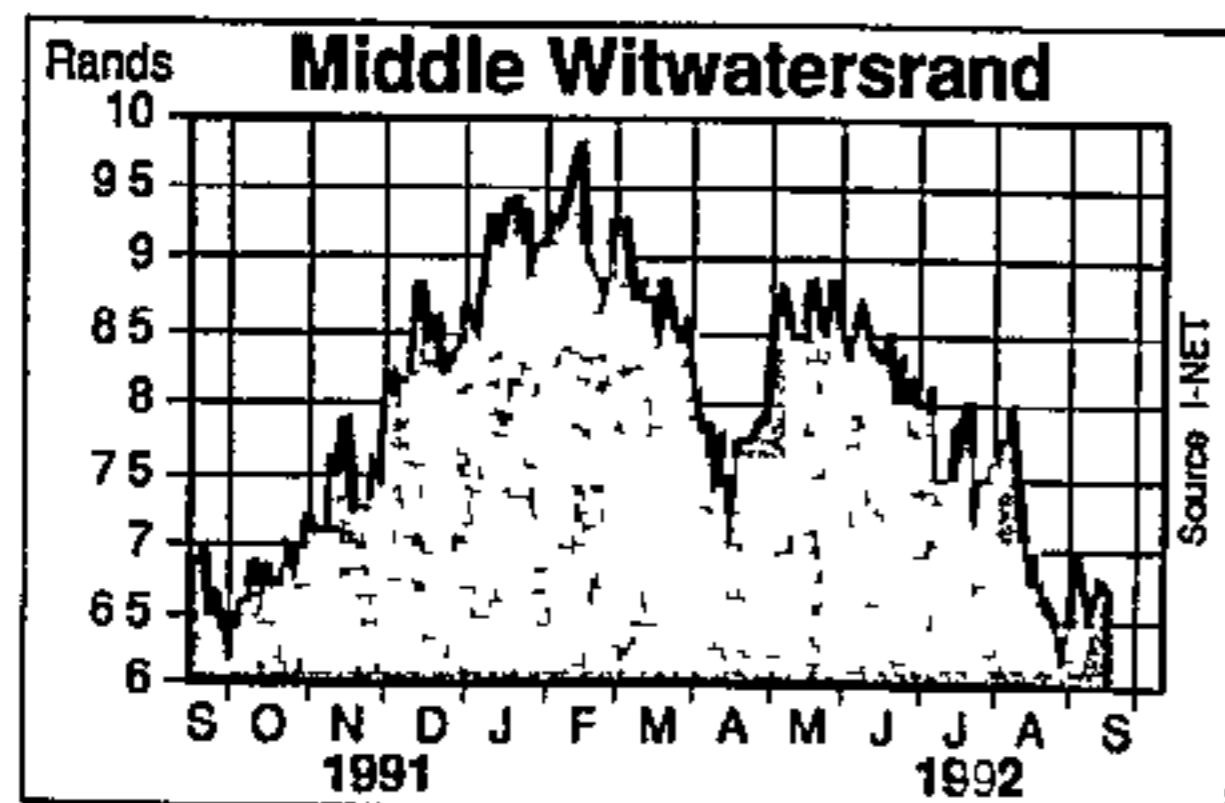
Chairman & MD: N Stavrakis

Capital structure: 32,8m ords Market capitalisation R3,3m

Share market: Price 10c 12-month high, 24c, low, 8c Trading volume last quarter, 0,7m shares

Year to February	'89	'90	'91	'92
Available cash (Rm)	2,6	2,0	1,9	1,2
Exploration expenditure (Rm)	1,8	1,1	5,1	2,9
Net loss	1,4	0,7	0,1	0,5
Earnings (c)	(5,0)	(2,2)	(12,6)	(1,5)
Dividends (c)	nil	nil	nil	nil

SouthWits is still battling to find a profitable mining operation that will generate cash to spend on exploration. The only financial success so far underlines the fact that chairman



Diamonds aren't forever: De Beers over barrel?

Weekend Argus Correspondent

LONDON. — City of London analysts predict that De Beers will face cash-flow problems by December and start testing its bankers' nerves in earnest, according to The Spectator magazine.

But De Beers' real problem is neither the recent Angolan diamond rush, nor the secret selling of Russian stones, but the consequences of a \$1-billion (R2,8-billion) Russian Federation trade loan in exchange for the exclusive right to market around

60 percent of its diamonds that is the core of the company's ills.

Finance writer Edward Whitley quotes one analyst as saying: "De Beers is over a barrel. It has no idea of how many diamonds the Russians are mining. It simply receives a certain number in a cardboard box every month."

Whitley adds: "Not only does De Beers have to take delivery of the Russian diamonds to add to its absurdly high stock, but if it is to support the diamond price, it is a keen buyer for the 40 percent of diamonds

which the Russians polish and sell themselves.

"It must be particularly galling to have paid the \$1 billion in cash, and then have to watch the price of diamonds collapse."

De Beers told Whitley that, given renewed economic growth, all its problems were solvable.

But he quotes another dealer as saying: "They don't want more diamonds. There are diamonds everywhere. Leaving aside Russia and Angola, there has just been a massive find in Canada which is said to dwarf

the South African mines

"De Beers is trying to keep diamonds as a luxury product when it is plain that they are just a commodity."

The company is facing an unprecedented problem now and it is not immediately clear how it will come out of it, says Michael Spriggs of Warburgs

"De Beers may have to resort to debt financing, which brings their attraction into question. Indeed, you have to ask the question about their parent company — wether Anglo American?"

Is the diamond sparkle flawed?

ARG 26/9/92

216

■ Analysts differ on the depth of the difficulties facing the diamond market. Some speculate about a "free fall", while others are adamant the price will never drop

Weekend Argus Correspondent

WHEN diamond giant De Beers stirs, a number of African countries start trembling. It is not yet clear exactly what danger the world diamond market is in, but recent tremors in the usually steady diamond world have already sent shock waves through diamond-producing countries

Botswana and Namibia, where diamond sales make up 80 percent and 31 percent respectively of their annual export revenue, would be especially hard hit if the gems should lose their sparkle

Others like Angola, Zaire and Sierra Leone would face even harder times, especially if the bottom should fall out of the diamond market.

Analysts differ on the depth of the difficulties facing the diamond market. Some speculate about a "free fall" while others are adamant that the price will never drop

But they agree that the world demand for diamonds has fallen as disposable income in all parts of the world dries up after a prolonged recession. Even the once insatiable Japanese demand for the stones has levelled off

But then Dr Kevin Kartun, diamond market analyst for Frankel Max Pollak Vinderine, believes De Beers has "a very hard core" diamond market in jewellery like engagement rings

"There has been a fall off in demand in Japan, but some of that has been made up by a slow upswing in the United States economy and imports to Hong Kong are up 35 percent," he says

On the supply side, De Beers' marketing arm, the Central Selling Organisation (CSO), has brought stability to the world diamond market by ensuring that it handles virtually all the world's diamonds

With political uncertainty in the former Soviet Union states, Angola and Zaire, many thousands of carats of diamonds have found their way on the market outside the CSO pipeline

To maintain its hold on the market, De Beers has been forced to buy the "illicit" diamonds

But, Dr Kartun says, "De Beers has told me that a greater proportion of the world's diamonds is flowing through the CSO now than ever before"

He agreed that there were problems on the supply side but said that "everyone is looking at the negative aspect of De Beers"

He pointed to the seemingly anomalous opening of the new Venetia diamond mine in the northern Transvaal as an indication that the company was tightening its grip on world diamond production and warned "Nobody is ever direct in the diamond business"

Whatever the murky truth of the diamond world, De Beers recently announced a shock dividend cut and a decision to reduce by 25 percent its purchases of diamonds from producers

The announcements were ominous for Botswana and the governor of its central bank, Quill Hermans, warned that his country's economy would slow sharply and renewed the call for an urgent need to diversify the economy

Dr Kartun explained the cut in purchases: "If De Beers can't control Russia and Angola at least they can control what comes through their market."

He said mines would usually continue produc-



□ LOSING LUSTRE: The diamond world has been rocked by De Beers' recent shock dividend cut.

has been in Russia, ostensibly to open a De Beers office there, but, according to Africa Analysis magazine the real reason for the visit is part of continuing efforts to keep a grip on the flow of diamonds

It said the outcome of the Oppenheimer visit to Russia was being awaited with anxiety by diamond producers and dealers worldwide

If De Beers lost its hold, the global diamond market might go into free fall and individual countries might have to take over the marketing of their stones

But Dr Kartun is confident that De Beers will never lower its diamond price

As long as the uncertainty remains diamond producers in Africa and elsewhere will be biting their nails to see if the latest ripple in the diamond market is just that — or the beginning of the end of sparkling diamond revenues

tion and carry the cost of stockpiling themselves until they could market their surplus diamonds "The pipeline stays the same, it just gets a bit longer"

Angola, the country singled out as the scapegoat by De Beers when it announced its dividend cut, was "only a smokescreen" and the real danger was Russia which produces some 12-million carat of diamonds a year and is reported to have a R2,7-billion stockpile

Angola, Zaire, Sierra Leone and Guinea are all in the same smuggling league, says Dr Kartun

Diamond smuggling in Africa and Russia could result in the much-feared fall of diamond prices which in turn would, ironically, seriously hamper the ability of the very same countries — especially Angola and Zaire — to rebuild their shattered economies

Former Dr Beers chairman Harry Oppenheimer

Cullinan blames losses on costs

CT 28/9/92 Own Correspondent (216)

JOHANNESBURG. — Cullinan Holdings has blamed its massive losses in the year to end-June 1992 on non-recurring costs and interest payments on short-term debt rather than on operational inefficiencies.

Cullinan is involved in electrical contracting, ceramics and property after disposing of its African Cables, Cullinan Beaching Clays and Cullinan Minerals operations in the past year.

Although turnover improved 10% to R462,2m (R419,1m), operating income plummeted to R4,7m (R9,9m). The turnover of discontinued operations dropped to R47,3m from R247,3m in 1991.

Interest payments of R21,9m and "exceptional charges" of R17,8m resulted in a net loss after income from discontinued operations of R33,5m.

Attributable income for discontinued operations fell to R1,7m from R5,9m in 1991. The dividend was passed. Losses a share amounted to 230,4c compared with the restated loss a share of 2,2c in the 1991 financial year.

The 1991 annual report reflected earnings a share at 70,7c. Chairman Alan Clark said the remedial action initiated by the group in the first half of the year indicated the need for a complete restructuring and a reduction of short-term borrowings.

Gearing had already improved, but debt levels were still unacceptably high.

Office and exploration costs knock Benco

LINDA ENSOR

(216)

CAPE TOWN — Onerous exploration and administration expenses wiped out the profit of sea diamond mining company Benguela Concessions (Benco) in the year to end-June. *BIDM 30/9/92*

Poor sea conditions reduced the time spent at sea by 29% compared with the average for the last five years. Gross sales fell 15,6% to R16,2m (R19,2m). The number of carats produced fell 23,3%.

A loss of 8,18c a share was recorded compared with the break-even situation of last year, though the weighted average number of shares in issue increased to 44,849-million (43,599-million).

Exploration and administration costs of R7,4m (R7,7m) wiped out the R4m (R7,8m) in net mining income after interest payments. Long-term liabilities increased to R7,2m (R3,3m) and contributed to Benco's becoming a net payer of interest last year.

Chairman John Gurney said Benco was in dispute with the Receiver of Revenue over R269 000 in tax arising from previous assessments.

A three-month option granted by an international mining group on June 1 on joint development of Benco's middle- and deep-water concessions had been extended, Gurney said. Negotiations were continuing.

The international party is believed to be Australian-based Broken Hill Pty Ltd, which is discussing the exploitation of deep sea concessions 6C and 14C off the Cape west coast.

Gurney said Benco was also in advanced negotiations with a different party for a shallow-water concession.

JONO WATERS

Business as usual for De Beers

DE BEERS has shrugged off reports that the Russian diamond market is in disarray because of the deteriorating relationship between Moscow and the country's diamond producing region.

Reuter reported yesterday that a battle for control of eastern Russia's vast diamond wealth had broken out between central government and the break-away Siberian republic of Sakha. "The power struggle has sent shivers down the

spine of wealthy foreign investors, including diamond giant De Beers and Japanese jewellery company FFR, which agreed to buy diamonds from the region this year," the report said.

However, Central Selling Organisation (CSO) public relations executive Joan Braune said in London yesterday that there were no reports from De Beers' Moscow office of new de-

velopments in Sakha. Braune said the situation in Russia at the moment was "rather confused", but developments "had certainly not sent a cold shiver down De Beers' spine".

"The relationship between De Beers and the Russians is good". In 1991, De Beers Centenary agreed to lend the Russians \$5bn over five years secured by Russian diamonds held as collateral in London. The CSO originally signed an exclusive sales agreement with the former Soviet Union's trading arm Glavalmazaloto, then replaced by Russia's Rossalmazaloto, now superseded by a new joint-stock company, Almazny Rossia-Sakha.

The autonomous republic of Sakha, which accounts for the lion share of Russian gem output, secured the right to retain 10% of its rough diamond production for independent sale, with the remainder marketed exclusively by the CSO.

Reuter said Sakha was using the relaxing of centralised rule from Moscow to proclaim its sovereignty, insisting on a return to its coffers of some profits.

But a compromise worked out in September — giving Sakha and Moscow an equal say in the industry, had since been repudiated by Sakha officials, the Russian news agency Tass quoted a senior Russian official as saying

One gets the impression Yakutsk does not want joint control with Moscow over the policy of trade in unprocessed diamonds," said Leonid Gurevich, co-chairman of a Russian parliament committee on the diamond industry. He said: "We cannot agree to this."

Gurevich said if Sakha did not rein in its ambitions for more control, Moscow could be forced to revert to the old centralised structure of the diamond industry. "Then everybody, especially Sakha, would lose out," he said.

The September agreement on joint control was worked out by Gurevich's Russian commission and a Sakha delegation. It was negotiated after Russia re-

acted to reports Sakha officials were selling diamonds to the CSO above a 10% quota agreed with Moscow.

The Moscow-Sakha deal said Almazny Rossia-Sakha (Diamonds of Russia) should control the whole diamond industry, including mining, grading, primary cutting, evaluation and sales, of the diamonds produced by the company.

The sides agreed to establish a federal diamond centre to supervise the equally-divided Almazny Rossia-Sakha operation and to report to Russian and Sakha parliaments. Gurevich said this compromise had been upset at a crucial moment. Next week, Russia's parliament will discuss a draft law on the mining, production and use of precious metals and stones and on state control over these operations

Russia threatens De Beers' dominance (216)

LONDON — Russia was threatening major new disruption to the already troubled De Beers' Central Selling Organisation (CSO) by demanding special privileges, a BBC TV report said last night.

In the in-depth report, De Beers director Gary Ralfe said the Russians were imposing their demands by failing to meet their full commitment to supply uncut stones.

The report said that De Beers' historic dominance of the diamond market was under threat and the action by Russia, the world's main source of quality stones, undermined the CSO's control of the cartel.

BIDM 5/10/92
JIAN HOBBS

Ralfe said the Russians, who signed a contract in 1990 agreeing to sell no more than 5% of their production independently, now wanted to increase that figure to between 20% and 30%.

The BBC said it understood that the Russians, desperate for foreign currency, started putting the pressure on De Beers and the CSO towards the end of 1991 and this has increased greatly because of the country's growing economic crises.

Leonid Gurevich, co-chairman of a par-

liamentary commission on the Russian diamond industry, told the BBC that restricting their independent sales to 5% meant "we cannot feel that our trade with De Beers is performed on equal terms".

There are serious fears that other major supplier countries such as Angola, which is also creating problems, Botswana and Namibia could demand equal, privileged status within the organisation.

Ralfe made no direct comment on widespread speculation that more Russian rough stones have found their way on to the open market in Antwerp.

De Beers weighs up widespread retrenchments in attempt to

DE BEERS is considering widespread retrenchments as part of a major southern African rationalisation programme to cut costs in the diamond industry.

Company spokesman Glenn Bryant confirmed the company held a top-level meeting yesterday to consider mechanisms — including retrenchments — to streamline its operations.

A top NUM team was called in on Friday for a briefing on the state of the industry and was warned layoffs were inevitable.

In July, De Beers' Central Selling Organisation (CSO) announced a 25% cut in

its international diamond quota

A source at the company's Premier mine near Pretoria said talk was of retrenchments at the mine of the order of 1 500 people — close to 50% of the workforce. But Bryant denied that any such plan was in place.

Bryant said De Beers was looking at "all sorts of ways" to rationalise across the group. Retrenchments were likely but numbers had not been determined.

NUM general secretary Kgalema Motlanthe said the union had been told at the briefing that retrenchments were on the

DIRK HARTFORD

cards at De Beers' Namaqualand and Kofffontein mines.

Motlanthe said the union's information was that the industry was in serious trouble. The NUM is currently in dispute with De Beers over wages and dismissals of its members after the August general strike.

An industry analyst said retrenchments were inevitable. He said diamond sales had been virtually flat since 1988 and there had been no price increase since 1990.

He added that diamond supplies had

increased rapidly in the same period especially from Angola and Russia.

Sales in 1988 totalled \$4.2bn, as against \$3.9bn in 1991. He predicted sales this year would total \$3.4bn.

The world diamond jewellery market did not perform any better. Sales totalled \$39.5bn in 1990, \$39bn last year and, he estimated, would be at \$39bn this year.

De Beers had about \$850m in cash at the end of 1991 and more than \$1bn the year before. This year it was unlikely to be liquid and might even have borrowings.

He predicted De Beers would concen-

trate on full production like Premier.

Last year valued a year was

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The summit

Share

equities spurred the metal to \$350 and closed \$351.85. The year was steady

Russian diamond ⁽²¹⁶⁾ sell-off threat spells trouble for De Beers _{ARLP 6/10/92}

The Argus Foreign Service

LONDON. — Russian officials are threatening to sell at least a portion of a treasury diamond stockpile estimated to be worth around \$3 billion (R8.5 billion).

The officials went on record in a BBC programme on De Beers' problems with Russia

The programme filmed piles of magnificent diamonds in the vaults of the treasury, known as the Gochran

These diamonds were mined over many years.

Worries about the diamond market and a dramatic slide in the financial rand hit De Beers' shares which slumped by more than 20 percent to \$9.87 on international financial markets

As reported, continued stability of De Beers' 62-year-old international diamond cartel will be dependent on De Beers' future relationship with Russia.

About 99 percent of Russia's diamond mines are in Yakutia, Siberia and the region produces between 12 million to 18 million diamonds a year, valued around \$1.5 billion (R4.2 billion), estimate De Beers, independent dealers and The Economist Intelligence Unit

Yet potential capacity may well be double that level, say Antwerp and London dealers who are well acquainted with the country

Dealers fear that Russian producers will eventually attempt to sidestep De Beers' requested reduction in supplies and raise scarce cash by exporting more diamonds from mines and stockpiles.

Such a move would take place during any market upturn

In on the record interviews with the BBC, some Russian officials confirmed dealers' worries, although there are other diamond industry officials who have severe doubts about such a policy.

Leonid Gurevich, co-chairman of the Russian parliament's commission on the diamond industry said that sales of diamonds from the treasury stockpile would help Russia's own struggling industry

The diamonds could be either sold to Moscow diamond cutters or on to the international market

Gary Ralfe, a De Beers director in charge of Russian business, said that any sales from the stockpile would be in violation of Russia's agreement with De Beers

In terms of that agreement, De Beers buys 95 percent of Russia's rough diamond exports

The agreement which expires at the end of 1995, covers \$5 billion of Russian diamonds and De Beers has lent \$1 billion to the Russians over that timespan. It holds Russian diamonds in London as collateral.

"I don't believe that the Russians would be silly enough to sell the stocks," said Mr Ralfe

"The consequences on the diamond business would be catastrophic"

Sales of a large stockpile on to the diamond market would undermine confidence of the trade, he said.

Russian authorities have also asked De Beers if they could sell as much as 20 to 30 percent of their rough diamonds outside the De Beers' cartel. But the issue of independent sales would only arise in 1995 when the new contract is open for negotiation

Russian diamond officials said that they would observe the present agreement, said Mr Ralfe.

Yevgeny Bychkov, head of the Russian Committee of precious metals hopes that a "mutually beneficial solution will be found"

Russians threatening to disrupt diamond market

STAN 7/10/92

216

By Neil Behrman

LONDON — Russian officials are threatening to sell at least a part of a diamond stockpile estimated to be worth around \$3 billion (R8.5 billion)

The officials went on record to that effect in a BBC programme on De Beers' problems with Russia. The programme showed piles of magnificent diamonds in the vaults of the Treasury, known as the Gochran.

These diamonds were mined over many years.

Worries about the diamond market and a sharp slide in the financial rand have hit De Beers' shares, which have slumped by more than 20 percent to \$9.87 on international markets.

About 99 percent of Russia's diamond mines are in Yakutia, Siberia, and, according to estimates by De Beers, independent dealers and the Economist Intelligence Unit, the region produces between 12 million and 18 million diamonds a year, valued around

Job cuts likely at De Beers

De Beers confirmed in a statement yesterday that because of world economic conditions it is introducing cost-cutting measures at its mines, "many of which are old, high cost and labour intensive producers".

An exercise is in progress to determine the options available to De Beers.

"Employment costs amount to about half the total operating expenditure at De Beers' mines, which means that retrenchment is having to be included amongst the options under consideration," De Beers said.

\$1.5 billion (R4.2 billion)

Dealers fear that Russian producers will eventually attempt to sidestep De Beers' requested reduction in supplies and raise scarce cash by exporting more diamonds from mines and stockpiles. Such a move would take place during any market upturn.

In interviews with the BBC,

"However, given the social implications and high cost of retrenchment, all alternative options are being investigated.

"The extent to which De Beers will be forced to implement cut-backs is necessarily a function of the timing of the long-awaited world economic recovery.

"However, the diamond industry continues to be well structured, and with the necessary adjustments De Beers will be well-positioned to take advantage of an economic recovery in world markets.

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Russia's own struggling industry. The diamonds could be sold either to Moscow diamond cutters or on the international market.

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Russian authorities have also asked De Beers if they could sell as much as 20 to 30 percent of their rough diamonds outside the De Beers' cartel. But the issue of independent sales would arise only in 1995 when the new contract is open for negotiation.

Cutbacks mooted by De Beers

By Montshiwa Moroke

The National Union of Mine-workers (NUM) and De Beers are to meet again next Tuesday to discuss the retrenchment of diamond mine workers. *STAN*

NUM general secretary Kgalema Motlanthe said the meeting was a follow-up to two meetings held last week.

Also on the agenda would be the relations between the union and the mining house.

Motlanthe said the union had been told that retrenchments were on the cards at the De Beers Namaqualand, Koffiefontein (Kimberley) and Premier (Pretoria) mines. *7/10/92*

He agreed the country was in a recession.

"It is a reality we take into account in our planning. Most South Africans are not alive to the fact that we are ... actually on the brink of a depression."

De Beers spokesman Glenn Bryant said the company, like those in other sectors, had to cut costs.

Retrenchment was unfortunately one option, he said.

He said there had not yet been agreement on how many would be retrenched.

Retrenchment was being considered as part of a major southern African rationalisation programme, Bryant added.

Anamint pays same though earnings fall

By Sven Linsche (216)

Anglo American's diamond investment company, Anamint, maintained its interim dividend at 72c, but equity accounted earnings slumped by 23 percent, reflecting the depressed state of the diamond industry.

Dividends from listed associate companies De Beers Consolidated (De Beers) and De Beers Centenary (Centenary) showed a marginal increase to R69,4 million in the six months to end-September from R68,8 million last year.

However, the retained earnings of associated companies were 27,4 percent lower at R262,5 million (R361,7 million).

This comprises Anamint's interest of 98,2 million De Beers Centenary linked units, representing holdings of 25,8 percent in De Beers and 23,4 percent in Centenary. STAR

The slump in earnings from these associates led to a decline in equity accounted earnings to R335,7 million (R433,6 million), equal to a drop in earnings per share to 336c (434c) 9/10/92

The directors warn that the depressed outlook for the year would indicate a significant reduction in combined final dividends by De Beers/Centenary.

Anamint's net asset value per share was sharply lower at R58,25 (R91,25)

Diamond slump weighs on Anamint

BIDAY 9/10/92

(216)

MATTHEW CURTIN

THE unexpectedly depressed state of the diamond business took its toll on Anamint, Anglo American's diamond investment subsidiary, in the six months ended September 1992

The company, whose major asset is its stake in De Beers, reported a 23% fall in equity accounted earnings to 336c (1991 434c) and held its interim dividend at 72c a share

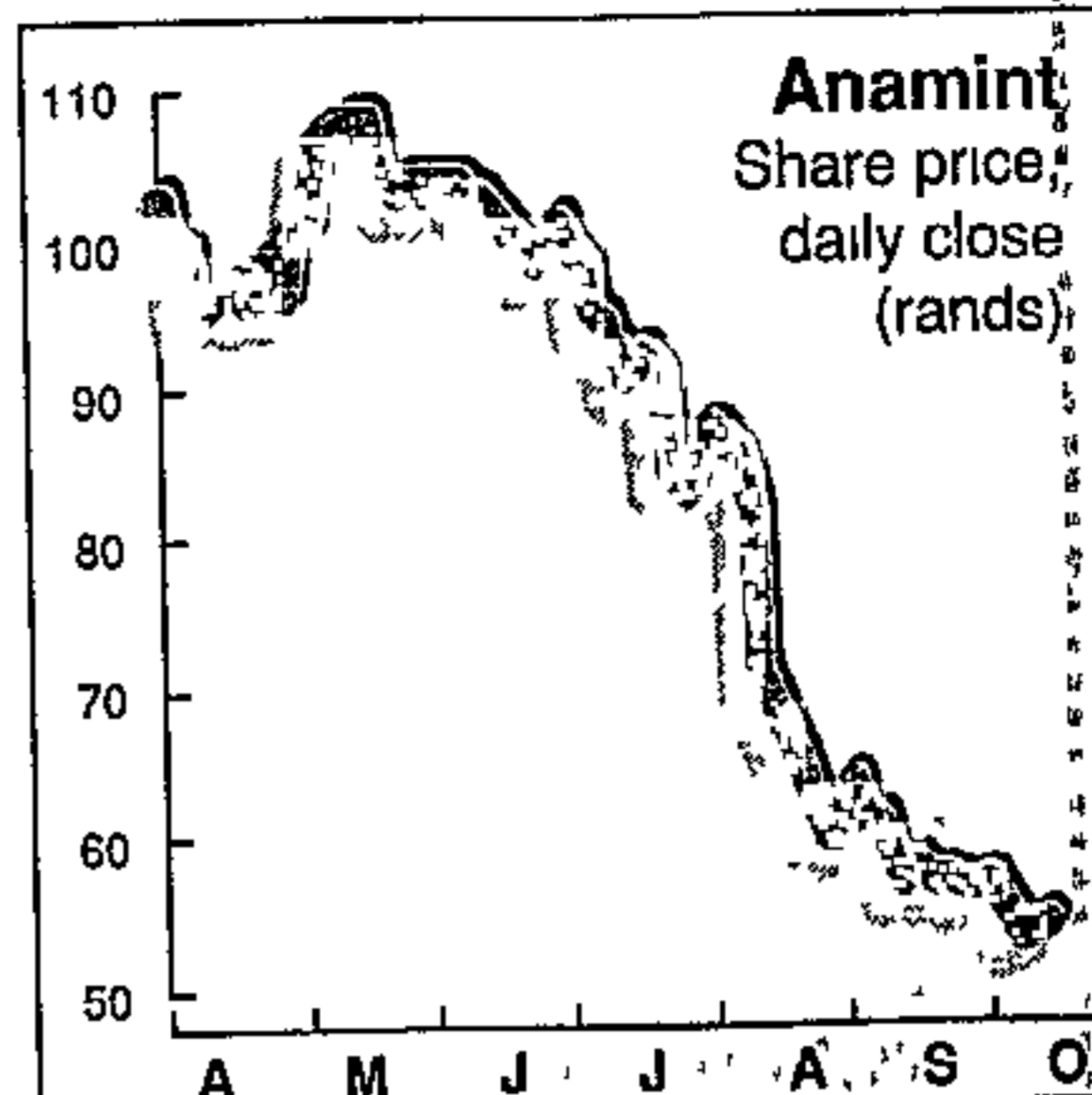
However, Anamint shareholders face the prospect of a sharply lower final dividend and considerably poorer attributable earnings

Anamint chairman Julian Ogilvie Thompson reiterated, in a statement yesterday, De Beers' announcement in August that "the current outlook for the year would indicate a significant reduction in combined final dividends" from De Beers Centenary and De Beers Consolidated

Anamint's dividend receipts from De Beers rose slightly to R69,4m from R68,8m

De Beers paid an interim dividend of 70,7c (70,1c) per De Beers/Centenary linked unit.

Dividend receipts from unlisted investments — Anamint has stakes in a number of diamond trading companies — rose to



Graphic RUBY GAY MARTIN Source I NET

R10,5m (R10m) Anamint's administration expenses after interest income fell to R6,1m from R6,3m.

Pre-tax profit rose 2% to R73,8m (R72m) Anamint paid negligible tax in the period and attributable earnings rose to R73,2m from R71,9m

However, retained earnings from associate companies, including De Beers, plummeted 27% to R263m from R362m

Anamint shares have tumbled more than 50% from a high of R120 earlier this year to yesterday's JSE close of R54

Flow of diamonds slows

(216) CT 16/10/92

ANTWERP, Belgium. — The flow of Angolan diamonds into Belgium is tapering off, easing what has been a major headache for the De Beers group.

Paul Hunter, who buys diamonds for De Beers Consolidated Mines' Central Selling Organisation (CSO) in Antwerp, the world's biggest diamond trading centre, said yesterday that the Angolan supply had fallen sharply.

"I'm buying at least 50% below previous levels of Angolan diamonds," Hunter said.

De Beers shares have fallen by two-thirds in value in 11 months, a drop analysts say was caused part-

ly by alarm over an oversupply of the precious gem from Angola.

A few months ago Hunter was buying between \$2m to \$3m Angolan stones each week. In one week — at the height of the rush — he bought nearly \$40m worth of the gems.

Hunter attributed the drop to heightened political instability in the country following elections last month.

In addition, the first rains had arrived, making it difficult for "garimpeiros" — or wildcat diggers — to plunder alluvial diamond beds in Angola's Cuango province.

Mining analyst Roger Chaplin of Credit Lyonnais Laing in London said a reduction in Angolan stones would help lessen some of De Beer's financial woes.

"But they still have a general problem with oversupply of diamonds and the possible leakage of Russian stones onto the market," Chaplin said.

The company estimated in August that Angolan diamonds would be worth about \$500m — more than 10% of the world's total diamond output. Hunter's job in Antwerp has been to try and stabilise the market by buying up the stray gems.

De Beers suffers Angola's crisis

By DPM
13/10/92

POLITICAL tensions over election results in Angola could set back hopes by De Beers Consolidated Mines of a government clampdown on diamond smugglers in the short term, analysts said.

But they said De Beers, which is battling an oversupplied market and sluggish demand, was likely to gain if Unita refused to accept its election defeat and resumed hostilities.

De Beers said in August there had been a dramatic increase in the supply of illicit rough diamonds from Angola after saying earlier it hoped the government would tighten up on mining after the election.

Government and Unita officials said shortly before the election that they would tackle the problem, but now say there are more urgent matters to attend to.

"Despite pressure by De Beers, action to curb the flood of diamonds on to the market is not going to be a priority until a new government is firmly in place," said a stockbroking analyst who declined to be identified.

"But it can expect a respite if the civil war is

resumed. This, together with the onset of the rainy season after prolonged drought, would restrict access to the diamond areas."

Analysts said whatever changes occurred in Angola the main problem for De Beers was still weak world diamond demand, a situation which had been worsened by uncontrolled supplies of diamonds from both Angola and Russia. Its share price, which closed at R48.25 yesterday afternoon, has more than halved in value this year. Analysts said they expected it to drift sideways until the annual results are released in February, barring new statements by De Beers indicating changed conditions.

De Beers' London-based selling arm, the Central Selling Organisation (CSO), has been buying up stones at great cost to stabilise the market, and from September cut by 25% contracted deliveries from major producers.

The CSO markets some 80% of the world's gem diamonds on behalf of major producers.

A diamond analyst consultant said he believed it would take three to five years for demand to catch up to supply.

"It's a huge problem and there is nothing ahead to bail them out," he said.

"The US economic recovery is faltering, Japan has cut CSO diamond imports in dollar terms, and Russia has admitted to a stockpile of high-quality gems worth \$3bn, much of which is finding its way on to the market outside the CSO."

"Assuming all the major producers play ball and abide by their reduced quotas, combined with the fact that they are unlikely to cut production, the production build-up in rough diamonds would be worth \$1bn a year," he said. In terms of the CSO agreement, De Beers has to take up that supply.

Kevin Kartun of Frankel, Max Pollak, Vinderine said he expected the dividend to drop sharply to bring it into line with dividend cover of two times. A consensus view was that the combined final dividend for the linked units of De Beers and its Swiss-based arm, Centenary AG, would fall at least 38% to R1.53 a share, making R2.23 for the full year compared with a previous R3.17 — Reuter.

Little confidence

De Beers, NUM meet to 're-examine' links

Blom
14/10/92 ALAN FINE (216)

REPRESENTATIVES of De Beers and the NUM met in Johannesburg yesterday to begin a process of "re-examining and strengthening their relationship" following the corporation's threat to scrap the recognition agreement between the two.

They also discussed retrenchments which De Beers had said could become necessary given the depressed state of the diamond industry.

The parties have been at loggerheads since the work stayaway on August 3 and 4, which management said contravened the terms of bilateral agreements, a view the NUM disputes.

They are also in dispute over wages, on which mediation is scheduled for tomorrow.

NUM general secretary Kgalema Motlanthe said yesterday's meeting identified four specific areas which were to be explored in detail by a small working party over the next few days.

These included mass action, retrenchments, agreements which appeared to be no longer adequate, and communications between the union and management at various levels.

On retrenchments and the plight of the industry, Motlanthe said De Beers had not disclosed any specific numbers, saying only that it wished to keep the number as low as possible.

He criticised what he saw as the corporation's unwillingness to disclose fully details of the situation, saying it hampered the search for solutions.

He said other unions at one diamond mine had proposed a 10% wage cut as a way of avoiding retrenchments. But the NUM needed more information before it could make any decision as drastic as a wage cut.

Comment from De Beers had not been received at the time of going to press.

The dollar's surge came on expectations that

- The Bundesbank Council's meeting on Thursday would produce a further easing as evidence of Germany's economic slowdown mounts; and
- The US Federal Reserve would not be seen providing a crutch for President George Bush by lowering short-term dollar rates before America goes to the polls on November 3

Weight was added to the argument when Belgium, Holland and Switzerland, which, with Germany, form the hard core of the D-mark bloc, reduced key interest rates, along with Denmark and Sweden

But, as usual, there are contradictory factors in the equation. For example:

- Otmar Issing, Bundesbank chief economist and member of the council, said German inflationary *expectations* were falling,
- Johann Wilhelm Gaddum, also of the Council, warned against rapid cheapening of money, while underlying inflationary pressures remain (service sector prices are rising by 5.2% a year and the January increase in VAT will jolt the CPI) — even if the central bank is taking a relaxed view of the monetary growth overshoot,
- UK Chancellor Norman Lamont, faced his parliamentary inquisitors about the collapse of sterling and economic policy, adding little to anyone's knowledge apart from the strong hint that, following the one-point cut to 9% in base rate, Britain will not be rushed into opening the monetary taps too soon; and
- Federal Reserve chairman Alan Greenspan rebutted speculation about political influences. The Fed would do what was necessary, when it was necessary. "It would be irresponsible to delay a needed cut in interest rates until after the election," he said

What was overlooked by those who nailed the D-mark as the next selling target was the amount of Bundesbank intervention which is due to be unwound. The Bundesbank laid out DM90bn (US\$60bn) in intervention during the September crisis of the European Monetary System

Almost all of it was in the form of loans which will be repaid before the end of this year.

Even controlled, this buying of D-marks will bolster the German currency

One wild card in the hand, however, is the extraordinary EC summit in Birmingham this weekend. Top of the agenda is the Maastricht Treaty and how it can be semantically mangled into a shape acceptable to the Danish electorate at a new referendum, as well as Eurosceptics in the UK, Germany and France

But given the role of the Bundesbank in shaping European monetary policy, the Birmingham gathering will be milked for clues about what the next move in Frankfurt will be and, more important, its timing. Last week, with three months D-marks priced at 8.3% in the Euromarkets, the Bundesbank had ample scope for a half-point cut in the Lombard rate of 9.5%

On Tuesday, however, the three-month Eurocurrency rate was up to 8.8% with fewer people now betting on Bundesbank action before the end of the year — barring yet another realignment of ERM parities to accommodate the pressures remaining in the system ■

FORECASTS FM 16/10/92

Way off target

How good are stockbrokers' reports advising investors which shares to buy or sell? It may be an unfair example but a survey of their research into De Beers shows six out of eight analysts predicted the share's price badly and only two got it consistently right

The doyen of JSE research firms, Martin & Co, the broker whose analysts run away with nearly all the top awards in the annual *FM* survey, said in a June report that, with the price of De Beers at R88.75, they should "buy for a recovery". Two months later, after the announcement of De Beers' interim results, Martin told clients that, with the price at R68.50, the stock was a "short-term sell"

The truth is that the diamond market and international economic conditions had been almost universally misread. Martin excused himself by saying, "Even more of a shock is De Beers' backtracking on diamond sales made only six weeks ago by group chairman Julian Ogilvie Thompson and CSO chairman Nicky Oppenheimer. It was on the basis of these forecasts that market expectations were revised upwards." Which shows analysts should do their own research rather than rely on one, supposedly impeccable, source

Not that Martin was alone. In September last year, with De Beers' price at R91.50, broker Anderson Wilson's analyst recommended the share should be bought: "De Beers is firmly in control of the diamond market with over 90% of the world's supply of gem diamonds marketed by the CSO"

Not according to a gloomy Ogilvie Thompson. Months after the Anderson Wilson report, he said a "sudden and unprecedented explosion" in the supply of illicit diamonds from Angola, reaching world markets, was a major factor contributing to the malaise in diamond sales by De Beers' CSO, and to De Beers' warning that it might be necessary to reduce its final dividend

In August 1991, with the share price at R90, brokers Davis Borkum Hare recommended clients "should continue to accumulate". But that's hardly surprising since DBH is De Beers' house broker and hosted the major presentation given by De Beers to investors in Johannesburg in May

Frankel Max Pollak Vinderne's analyst was caught up in the general euphoria. In a report late in March he said "We believe the share can be accumulated to take advantage of the recovery in the world diamond market expected later this year or early in 1993"

Nor are SA brokers the only ones to get it wrong. In April London brokers S G Warburg told investors they should add De Beers' stock to their portfolios. Smith New Court, a London broker specialising in SA stocks, issued a report in May titled "The Sparkle is Returning," in which it said "Our recommendation remains (that De Beers is) a Buy on a two-year view."

Smith New Court's analyst Steve Oke says: "We were worried about sales in the US and Japan. But after the first-half CSO figures, we felt Julian Ogilvie Thompson knew better, as they were almost exactly in line with his 15% forecast"

Institutional fund managers have mixed feelings. UAL's Bill Bellovay says "We were led up the garden path by all brokers but especially by those we consider the leading research specialists". Southern's Paul Beachy Head believes the underlying fundamentals for the world diamond market changed rapidly over a short period. "I do have a certain sympathy for the analysts. After all, they can work only with the facts available at the time"

Another institutional fund manager blames De Beers' management. "The information released is so sparse, veiled and selective that it's become virtually impossible to analyse the company's prospects. The diligence of the research work isn't something we question. But we do think brokers should develop sources for market intelligence outside of De Beers"

Two researchers from the random sample got it right. Broker Senekal Mouton & Kitshoff's Hilton Ashton told investors in September last year to sell De Beers down to R70. He repeated that recommendation in early June.

But it was James Picton, widely regarded as the international community's most sophisticated De Beers watcher, who identified the problem. He said "My view is that De Beers is taking an enormous gamble on world economic recovery, particularly in the US and Japan, the latter now the largest diamond buyer for value. The CSO has increased special deals, which means that certain sightholders volunteer (army style) to take more diamonds than they want, doubtless with a sweetener" (*Fox* May 29)

That, added Picton, enabled De Beers to wrong-foot analysts who hear only part of the story from previously reliable sources. He said later "The interim dividend should be about maintained but, if the world recovery is delayed any further, I think they (De Beers) will seriously have to consider cutting the final dividend" (*Fox* July 10)

Brokers and their research analysts don't claim infallibility. They are acutely aware of the dangers inherent in their business, which is why most of their reports invariably contain, in fine print, a caveat denying accuracy, completeness or correctness and advising clients not to rely upon them. In other words, there is no substitute for an investor's own research and no surrogate for the investment decisions made. Be warned! ■

De Beers boss holds talks

SCIAM 16/10/92

MATTHEW CURTIN (216)

ANGLO American and De Beers chairman Julian Ogilvie Thompson has had talks with financial institutions in Cape Town this week, coinciding with the continuing collapse on the JSE of shares in the Anglo-De Beers stable, and a report that the flood of Angolan diamonds is tapering off.

An Anglo official said yesterday that Ogilvie Thompson was in Cape Town on other business. However, "he took the opportunity to speak to a number of institutions, with other Anglo and De Beers staff, as part of the group's ongoing investor relations programme".

Anglo shares have fallen 18% in value in the past month, with De Beers and Amic losing 15% each, and gold investment company Amgold 9%, wiping billions of rands off the overall market value on the JSE. De Beers' surprise announcement in August that it would have to cut its final dividend significantly this year triggered the loss in investor confidence.

At the time, Ogilvie Thompson said the failure of world economies to turn around and an explosion of Angolan diamond smuggling had led De Beers to revise its outlook for the diamond business for the rest of 1992.

Some analysts said yesterday that while the Angolan situation had posed problems for De Beers, the more serious threat came from uncertainty in the Russian diamond industry.

One said De Beers' much publicised concern

about Angola was "a smokescreen" to cover genuine anxiety about the threat of uncontrolled Russian diamond exports and the breakdown of the group's agreements with the Russian authorities.

However, Reuter reported from Antwerp yesterday that the flow of Angolan diamonds into Belgium was tapering off, easing what had been a major headache for De Beers.

Paul Hunter, a diamond buyer for De Beers' Central Selling Organisation in Antwerp, said the Angolan supply had fallen sharply.

"I'm buying at least 50% below previous levels of Angolan diamonds," Hunter said.

A few months ago Hunter was buying between \$2m-\$3m Angolan stones each week. In one week — at the height of the rush — he bought nearly \$40m worth of the gems.

Hunter attributed the drop to heightened political instability in the country after elections last month and the first rains which made plundering of alluvial diamond beds difficult.

Mining analyst Roger Chaplin of Credit Lyonnais Laing in London said a reduction in Angolan stones would help lessen some of De Beers' financial woes. "But they still have a general problem with oversupply of diamonds and the possible leakage of Russian stones onto the market."

Russian diamond agreement signed

~~JOHN~~ JONO WATERS

216

DE BEERS yesterday welcomed the news of the signing of an agreement between Russia and the diamond-producing region of Yakutia at the weekend. *BJDAM*

The agreement provided for joint control over eastern Russia's diamond reserves and was positive for the diamond industry, Central Selling Organisation (CSO) public relations executive Joan Braune said from London. *9/10/92*

Reuter reported on Saturday that acting Prime Minister Yegor Gaidar and Yakutia's leader Mikhail Nikolayev had signed a protocol during a visit to the region.

Yakutia had been insisting on a return to its own coffers of some diamond profits.

Russia's diamond industry would now be run by a jointly owned company called Russia-Sakha Diamonds, which would extract, sort and classify all locally produced diamonds. The organisation would in turn be supervised by a Federal Diamond Centre which would report to both Russian and Yakutian parliaments.

Braune was unable to disclose further details of the deal, but said an authorised body would be welcome as the situation in Russia up until now had been "confused".

Frankel Max Pollak Vinderine analyst Kevin Kartun said it looked like some kind of order was emerging in the Russian diamond industry. The agreement would be positive for the industry and could mean a price increase if supplies were tightened up outside the CSO.

Own Correspondent
JOHANNESBURG. —
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Diamond control pact delights (216) De Beers

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CT 19/10/92
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Diamond deal may cost dearly

By **RONNIE MORRIS**
Supreme Court Reporter

A DIAMOND mining company, Benguela Concessions, faces a potential R140-million law suit for alleged breach of contract.

The action against Mr John Wilson, chief executive officer of Benguela Concessions Ltd (Benco), may be brought by the Gibraltar-based Nami-

bian Minerals Corporation Ltd.

The action, if brought, would be the largest action ever filed in South Africa and follows an order in the Supreme Court yesterday by Mr Justice W A van Deventer that documents seized at Benco's offices and Mr Wilson's home should be retained by the deputy sheriff as evidence at the damages trial.

(216) CT 22/10/92

The court heard that negotiations had occurred between Benco and Namibian Minerals earlier this year for the establishment of a joint venture to mine diamonds off Namibia.

The concessions were held by Benco and Namibian Minerals would provide the finance.

An agreement was entered into and

signed by Mr Wilson, on behalf of Benco, and Mr Alistair Holberton, on behalf of Namibian Minerals.

However, Mr Wilson had subsequently denied a written agreement had been entered into and Namibian Minerals brought an in-camera application for an "Anton Piller order".

Mr Ashley Bliss-Ward, instructed by Mr Neil McDougall of Francis Thompson and Aspdon, appeared for Namibian Minerals

Diamonds are not forever . . .

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ARCS 24/10/92

THE De Beers board meeting on August 11 this year began normally apologies for absence from two Rothschilds, a proposal for a new board member. As usual the board met under the sepia prints of the founders, Cecil Rhodes and Sir Ernest Oppenheimer, in the old colonial style, two-storey, brick and wrought ironwork headquarters at Kimberley. The Oppenheimer family is sentimental.

But the mood of the meeting was far from sentimental. De Beers announced that earnings had fallen by a quarter and announced that it may have to cut the final dividend and defer the purchase of 25 percent of production from the major producers.

The news hit the stock exchange like a thunderbolt — De Beers had tried to talk up the market and predicted that diamond sales, in the doldrums for 18 months, would pick up. Not only did De Beers seem in trouble but it had got wrong the one answer it is believed to be infallible on — the state of the diamond world.

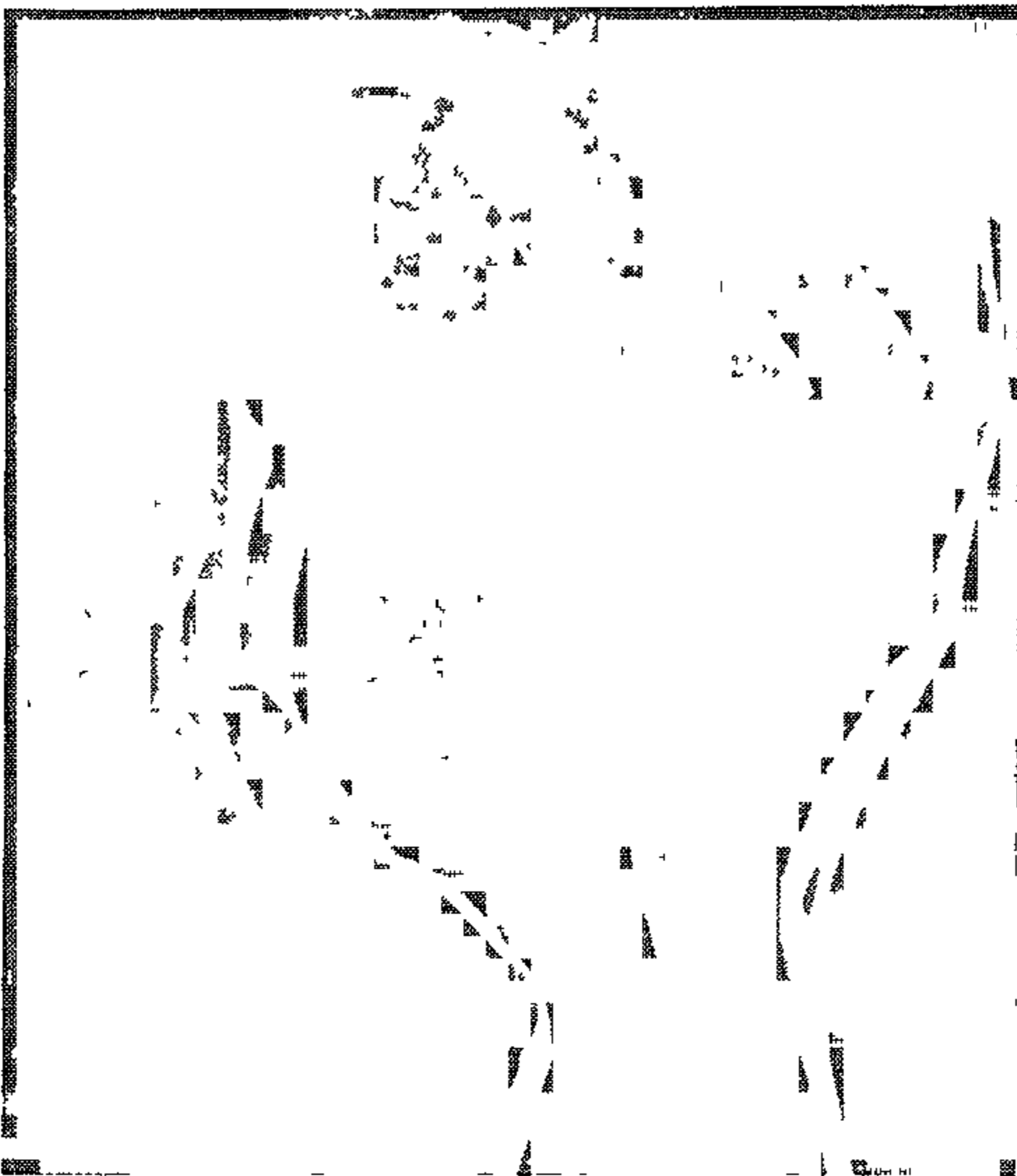
The gentlemen of De Beers are supposed to be infallible because they set the question. Indeed they invented it — a huge complicated glass bead game with thousands of players, lives and livelihoods dependent on it.

Billions are spent on mines from the Namibian desert to the Siberian permafrost. They produce industrial diamonds, but the huge profits are in gemstones. This industry depends upon a regular supply at a steady price, and that De Beers provides.

The diamond world is like a huge edifice based on a faith that diamonds are forever, that they are rare, that they are — and always will be — valuable. Diamonds are forever is double-edged. It also implies "don't resell them".

The public has to keep buying new diamonds and in the inner sanctum at the De Beers headquarters in Charterhouse Street in London the mantra runs "Nobody needs one, everybody wants one".

RICHARD DOWDEN of The Independent News Service in London reports on the myths and realities of the world of diamonds — a huge glass bead game with thousands of players and one powerful family.



□ **GLASS BEAD GAME:** The diamond mantra has it that "nobody needs one, everybody wants one"

Gem diamonds are as useful as a shattered windscreen. De Beers's crusade is to keep them desirable.

But there has been a sharp decline in diamond sales recently. The closures in the Ratners chain are only part of a worldwide collapse. That is the recession.

But there are now two extra threats to the whole diamond edifice — Angola and Russia. The size of the Angolan threat was laid out in a sorting room in Charterhouse Street earlier this year. Along one wall, eight glistening pools of diamonds had been laid out like eight upturned bags of sugar. One pile had large stones in it, like sugar lumps. Along another wall were four smaller piles. The longer line — worth about £20 million — was four

months' worth of smuggled Angolan diamonds. The shorter line was all Angola's legally mined diamonds. De Beers says it is only buying half the smuggled Angolan production.

De Beers buys the smuggled stones in Antwerp — the marketplace for the 20 percent of world diamond production which is not bought by De Beers at source. De Beers's office there intervenes in the rough market and buys to keep the price up. It is a vital link in the system.

The other threat to De Beers is longer-term and less controllable. Russia started producing diamonds in the 1950s and is now the biggest single producer in terms of value.

At first Moscow sold to De Beers and kept in the cartel. In 1963, anti-apartheid legislation

prevented the Soviet Union from dealing with a South African company. So De Beers set up a company called City West East Ltd to buy Russia's diamonds. It operated in London but City West East was never registered at Companies House.

Almost all Russia's diamonds come from the north-east Siberian province of Yakutia. In 1990, De Beers signed a five-year deal with the Soviet Union under which De Beers lent \$1 billion a year over five years in exchange for the Soviet Union's diamond production and the stockpile.

During the break-up of the Soviet Union, Yakutia fought successfully to be allowed to market 20 percent of the diamonds independently. This week, Russia and Yakutia agreed to form a joint company to mine and sort the diamonds, but relations are still strained between them. The reorganisation of Russia's diamond industry is causing deep anxiety in Charterhouse Street. Who is De Beers to deal with — and trust?

Ironically, the danger time for De Beers will come when the diamond market improves. By imposing the 25 percent quota, De Beers presents the producers with three options. They either lay off workers and close mines, they stockpile, or they sell on to the open market and allow the price to drop. Most countries will stockpile.

If and when the good times come again, De Beers will want to buy those stockpiles. The temptation for the producers — even those contracted to De Beers — will be to make large, quick profits by selling off their stockpiles directly to a thirsty market.

If the producers sell direct to the market, De Beers will be denied the windfall profit it makes from the stockpile accumulated in bad times. Without that profit, De Beers will be even less able to buy up all the production during the next recession. That is when the other producers will move in and take their pound of flesh. The family-run cartel will become a co-operative of national producers.

Rough

PETER MALHERBE
investigates
from London

Diamonds

5/ Times 25/10/92 (216)

RUSSIAN gangsters who smuggle diamonds from remote mining villages in Siberia are the latest threat to the once-sparkling diamond industry.

The De Beers empire — which, through its London-based Central Selling Organisation (CSO), controls sales of 80 percent of the world's uncut gems — already faces an onslaught of "illegal" stones entering the market from diggings in the Cuango region of Angola

Now, according to reports in London, the company's control of the industry is being further threatened by Russia's "mafia" dealers, who skim diamonds from mines in the Yakutia region of northern Siberia and sell them in backroom deals.

De Beers has dismissed reports of the illicit Russian dealers as exaggerated and denies that the multinational company is in trouble.

But a British newspaper has reported that the scale of diamond smuggling by gangsters, operating in the Yakutia region is threatening to destabilise the industry

The situation in Yakutia is complicated by political uncertainty,

The threat of moves towards independence for the republic — and its industry — receded this week with the news that the Russian government and Yakutia had reached an agreement to share diamond revenues and establish a joint company to handle Russia's output

The output will be handled by the De Beers-controlled CSO, but the deal does not affect the "mafia" trade

The thugs reportedly operate in the barren mining towns, using strong-arm tactics learnt from American gangster movies

The faceless men are said to pride themselves on being able to organise anything in these backwaters, and have a steady supply of gems from mineworkers eager to supplement their wages

It is claimed the men have strong political allies in officials opposed to a deal struck between the Russian Federation and De Beers.

The agreement, which holds until 1995, perpetuates the company's dominance in marketing the Russian output of gems

De Beers has denied any opposition to the deal, saying it has not come across anyone in authority in Moscow or Yakutia who believes the contract should not be honoured

The Yakutia dealers are accused of buying up rough stones at rock-bottom prices and transporting them hundreds of kilometres to the province's capital, Yakutsk, where they are sold to backroom buyers

The stones then allegedly find their way to Antwerp, the diamond trading capital of the world, where they could flood the recession-battered market and drive prices down

De Beers, which is already committed to buying much of Russia's output as part of the billion-dollar loan agreement, is compelled to buy illegal stones — mainly from Angola — to keep prices up

By mid-year, De Beers had already spent R600-million (\$200-million) buying up excess stock.

De Beers prides itself on never dropping the price of uncut diamonds, keeping the market stable by buying up stones when demand is weak and selling its stockpiles when conditions pick up

But the imbalance between the value of the stockpile

De Beers is being forced to build up and the drop in diamond sales is at the heart of market concerns about the industry's future.

It is clear from recent actions that De Beers views the Russian situation with concern

Mr Harry Oppenheimer, the company's former chairman, visited Moscow last month in what was seen as an attempt to win over the Russians.

De Beers officials claimed it was a private visit, but it coincided with a debate in the Russian

parliament on plans to set up the new national diamond federation

The first indication that De Beers was in troubled waters came in August when it announced it would slash its annual dividend — something it has only done once before in its post-war history

De Beers share prices in London have tumbled by more than 60 percent since last November

The dilemma facing De Beers has aroused intense media speculation in London, where the company operates from a discreet building in Charterhouse Street

A De Beers spokesman in London, Mr Andy Lamont, said the CSO was formed to run a buffer stock to support the industry in times of reduced demand.

The stockpile was worth R9-billion (about \$3-billion) at the end of last year, representing 75 percent of annual sales. Mr Lamont said the stockpile would increase this year, but he was not sure by how much

He added the rapidly-changing political situation in Russia had been a cause for concern, but the creation of a single organisation was a positive move.

It would make negotiations easier when the Russian contract expired at the end of 1995.

Mr Lamont denied De Beers was facing severe problems, saying that while sales of rough gem diamonds would decrease this year, this was no different to the position facing many other companies during the world economic recession

De Beers buying agent in Antwerp, Paul Hunter, said in a recent TV programme that his office was "very busy" buying rough stones coming on to the market.

If De Beers was perceived not to be supporting the market, it would collapse, he said.

New threat to industry as De Beers faces onslaught from Russian gangs

Premier mine to slash jobs

DE BEERS is to cut about a quarter of the 3 860 jobs at its Premier diamond mine as part of a rationalisation drive, assistant GM Eddie Robertson said yesterday.

De Beers said earlier this month it was cutting costs at its mines because of world economic conditions.

Robertson said while some workers would be moved to other De Beers mines, there were limited places available.

However, the cuts at Premier would not affect the milling rate of about 620 000 tons a month from underground operations and its dumps. Premier produces about 2.3 million carats a year.

Opencast operations were expected to stop next September, he said.

However, the underground block-caving operations would last until about 2007 when the mine was 730m below surface in the richer brown kimberlite pipe in the

eastern section of the mine.

Construction of the 100 000 ton stockpile for the brown kimberlite was completed last year as the ore disintegrated rapidly when exposed to air and moisture — cutting down milling costs, Robertson said.

No exploration had been carried out below the 730m level and would not occur unless the economic climate improved.

The average grade achieved at Premier last year was 30.8 carats/100 tons, but was as high as 65 carats/100 tons in some areas.

Once Venetia reached full production in December, it would produce 75% of SA's diamonds. Premier was currently De Beers' second largest SA producer behind Finsch mine, but was one of the highest-cost producers because of the massive reinforcement needed in block-caving.

JON WATERS

CSO denies gem deal is threatened

2/6
SIDM 30/10/92

JONO WATERS

THE five-year contract signed by De Beers and Russia in 1990 was not threatened by Russian parliamentarian Leonid Gurevich's insistence that it be renegotiated, Central Selling Organisation (CSO) public relations executive Joan Braune said in London yesterday.

The Financial Times reported on Tuesday that Gurevich, who co-chairs a state commission examining the Russian diamond industry, said the agreement was "not a partnership".

He said that other diamond-producing countries like Australia had obtained much better terms from De Beers. Australia could sell 15% of its diamond exports independently of the CSO, while Russia could sell only 5%.

Braune said CSO head Gary Ralfe had a number of meetings with Russian officials last week and did not expect Russia to renegotiate the agreement.

She added that politicians sometimes made statements that did not agree with the business. The Financial Times quoted Ralfe as saying that Gurevich was "not running the diamond business".

Reuter reported yesterday the Russian parliament wanted to tighten up on the diamond industry, transferring control to parliament or the central bank from the

committee on precious metals.

The agency said some committee members were unhappy with a deal signed with De Beers whereby the organisation would market diamonds produced in Yakutia.

Reuter quoted a member of the committee as saying the Russian foreign trade firm, Almazyuvelier, was fulfilling direct contracts with De Beers and disregarding national interests.

Almazyuvelierexport, which handled diamond export sales, was the Russian partner in the deal with De Beers. Russian parliamentary committees demanded that a special committee be created "to investigate wrongdoing" in the industry, including the alleged disappearance of funds paid to Yakutia by De Beers.

Earlier this month, Russia and Yakutia signed an agreement on joint control over eastern Russia's diamond wealth, ending months of wrangling.

About 20% of the world's diamonds come from Russia, most of them from Yakutia, a region which gave itself semi-autonomous status as the Republic of Sakha two years ago.

Earlier this month, Russia and Yakutia signed an agreement on joint control over eastern Russia's diamond wealth, ending months of wrangling.

De Beers roadshow and its R16bn vanishing act

S(Times (Buss) 11/11/92

THE demise this week of General Motors chairman Robert Stempel holds an interesting analogy for South African investors and in particular De Beers' shareholders

Granted, cars are not gemstones, but there are some common links between the former GM boss and De Beers chairman Julian Ogilvie Thompson. Until this week they headed two of the world's biggest companies.

According to international press reports, Mr Stempel was "encouraged to go" after failing to handle his company's problems with sufficient urgency. He also failed to communicate the sheer battle facing GM to his troops

First

The threat of pressure from directors and shareholders caused Mr Stempel to throw up his job because he "could not in good conscience continue to watch the effects of rumours and speculation that have undermined and slowed the efforts of General Motors people"

This was the first time since the 1920s that the conservative, bureaucratic board of General Motors had had the courage to oust its chief executive.

There is no suggestion that the De Beers board has ever even considered edging out Mr Ogilvie Thompson (Jot), 58. Nor has he ever been accused of failing in his fiduciary duties

But like GM, De Beers shareholders have seen a loss of confidence in their company. Its market capitalisation has fallen from R34-billion to R18-billion since the beginning of July.

It was around that point that some-

De Beers chairman Julian Ogilvie Thompson was upbeat about the group's prospects in a roadshow for investors at mid-year. Since then De Beers' market capitalisation has fallen by R16-billion.

Comment by CHERILYN IRETON. (216)

one alerted Mr Ogilvie Thompson — lately home from an upbeat investment roadshow tour of three continents — that his market forecasts were off the mark and that De Beers was facing a grave threat from sales of illicit Angolan and Russian stones

That threat and the mixed way in which the group's short-term prospects were communicated to the market were responsible for De Beers relinquishing its spot as the JSE's top company

Its total market worth is now down to about R18-billion, putting it third against Richemont and Anglo American. In all, R16-billion has been lopped off its paper value.

Anglo has not escaped unscathed. Its share price has mirrored the De Beers decline. The share is trading about R84,50 — down from R120 at the beginning of June and R132 at the start of the year. Although now in the No 1 spot, its capitalisation has fallen R8-billion from R27,7-billion

The price collapse, lost fortunes and red-faced analysts are stories still told all over town. They also continue to warrant lengthy analysis in British and American publications.

In spite of this it seems that South African shareholders, including the heavily invested institutions and mutual funds, have accepted the diminished worth of their holdings

After all, the share prices have been at these low levels before and those with long enough memories will probably remind you of the days in the early 1980s when De Beers traded below R5.

Little

Rumours are partly to blame for De Beers' battered market credibility. But the market remains unconvinced that De Beers and Jot were caught off guard by developments

In private conversations some institutional fund managers maintain that management must take responsibility for the group's loss of investor respect. At the same time, they continue to recommend the accumulation of shares at the deflated prices

That will be of little comfort to those investors who were shaken this year. Their only consolation may be the realisation that so, too, were the paper fortunes of heirs Nicholas Oppenheimer and Hank Slack

Diamond mine promising

BIPAM 2/11/92
LONDON — Canada's new Lac de Gras diamond area could rival Botswana with production of up to 7-million carats a year, according to a special study by mining analyst Roger Chaplin of London broking and financial services group Credit Lyonnais Laing

If the forecast comes true and the stones are of gem quality Lac de Gras, in the Northwest Territories, could put further long-term strains on De Beers — which is also prospecting the area — and its effort to retain control and stability in the oversupplied diamond market.

Chaplin's report says Lac de Gras has the potential to add 20% to total world output of rough diamonds and 33% to the gem supply

The first kimberlite pipe drilled by Dia Met Minerals, the Canadian

JOHN CAVILL (216)

group backed by Broken Hill Proprietary of Australia, was "giving world class results and we estimate a value of approximately \$2bn for this pipe (called Point Lake) alone

"There are many more pipes to be found, some of which are likely to exceed Point Lake in size and grade," it says

Point Lake may have reserves exceeding 105-million carats and annual output could start at 3.5-million carats

There are only five diamond mines in the world which produce more than 3-million carats a year. They account for 75% of production

Dia Met Minerals share price has soared by 2 000% during the past 12 months.

Synthetic diamonds becoming easier to make 216

NIJMEGEN — Scientist John Giling beams like a proud father at the glittering diamond in the palm of his hand

It takes millions of years for carbon to turn to diamond under the extreme pressure and heat of the earth's depths. But Giling made his tiny stone in just hours in the laboratory.

"We are aiming at making single crystals of diamond larger than are naturally available," he said. "Researchers all over the world are seeking that breakthrough. We can only hope we are lucky," said Giling, who works at the Dutch University of Nijmegen.

Synthetic diamonds have been around since the '50s, but new techniques are making them simpler and cheaper to produce.

The advances boost prospects of putting synthetic diamonds to exciting new uses, like prosthetic human hip joints and heart valves that the body won't reject, super-strong and transparent satellite windows and linings for nuclear reactors.

The new methods could also produce synthetic diamonds bigger than famed natural

BLOOM 4/11/92
gems like the Hope or Cullinan diamonds — and just as pure and brilliant.

But diamonds are more than status symbols and tokens of everlasting love, of course.

Industry needs them because they are the hardest substance known. Man-made diamonds, usually duller and browner than the gem-quality natural variety, are put to such workaday purposes as cutting and abrading.

The supply of natural diamonds for industry is far too low to satisfy the growing demand.

Traditionally, energy-hungry high pressure machines have been used to make synthetic diamonds. The costs were high and the diamonds small.

A simpler, cheaper technique called chemical vapour deposition (CVD) is now gaining ground.

Scientists say the size of diamonds that could be grown this way is theoretically unlimited. Bigger stones would open up new uses.

The CVD process requires little more than a microwave oven, a few gases and a surface for the diamond to grow on. Hydrogen gas and a

simple hydrocarbon compound such as methane are heated to 2,200°C.

Microwaves split the gases into atoms, and hydrocarbon fragments from the methane settle on the surface.

By a little-understood chemical reaction, hydrogen atoms help steer carbon atoms into the diamond's tight lattice structure.

CVD is already being commercialised for certain basic applications, but scientists hope to unlock even greater potential, said Russell Messier, director of a diamond research consortium at Pennsylvania State University.

He estimates the market for the material could reach \$1bn by 2000.

Researchers' greatest hope is to make semiconductors from synthetic diamond. These could withstand five times more heat than silicon and be used in harsh environments, such as jet engines.

Giling claims to have grown the biggest single crystal diamond film to date by one CVD method. The 0.4 carat stone's structure is comparable to that of natural diamonds. — Sapa-Reuter

Russian diamond firm keen on De Beers deal

MIRNY — Industrial leaders in Russia's diamond heartland of Western Yakutia say they will fight attempts to break off or renegotiate a \$5bn deal to sell diamonds through De Beers. (216)

The agreement to export gems worth some \$1bn a year via De Beers has come under fire from Russia's media and parliament. The contract ends in 1995.

"We cannot imagine a future without De Beers," diamond firm Yakutalmaz's deputy director-general Semyon Zilberg told Reuter in a recent interview.

Yakutalmaz is the local branch of Almaz-Rossii-Sakha, a recently founded joint stock company running the diamond industry from mining to marketing.

Speaking at his company's headquarters in Mirny, the diamond capital, he said if Russia tried to compete with De Beers or flood the market with stockpiled reserves, it would destroy the diamond market.

"De Beers has developed a unique model, making it possible to keep raising diamond prices," he said. "It is in our interests to keep the diamond price high. That is why we accept their way of thinking."

Yakutia, some 8 000km east of Moscow, produces 99.8% of Russian diamonds. It is allowed to sell about 20% of its production itself and exports most of these gems through De Beers. Yakutia declared itself a sovereign region two years ago, naming itself the Republic of Sakha and claiming more autonomy from Moscow. BIDA 10/11/92

In 1990 De Beers signed its first official deal with Russia with Almazyuvellexport, Russia's only foreign trading company allowed to export diamonds.

The Soviet Union had covertly sold rough diamonds through De Beers' Central Selling Organisation since 1959. But ties with De Beers are being challenged by a group of Russian parliamentarians heading a commission to supervise the reorganisation of the diamond sector. The deputies say Russia got a raw deal and would be better off going it alone. They have proposed setting up a Federal Diamond Centre to control the Russian diamond industry.

But the local government in Yakutia was opposed to control of diamond sales from Moscow, forcing the commission to abandon this idea. — Sapa-Reuter.

● See Page 6

De Beers shares keep climbing

MERVYN HARRIS (216)

JSE bellwether De Beers rose 4,8% or 250c to R54 yesterday in a continuation of its recovery from recent lows on strong foreign and domestic demand to lift its gains to 8% this week.

Edey Rogers analyst Keith Bright said "People who seemed to have panicked when De Beers announced a possible cut in the final dividend are now taking a longer-term view. The second half of the year to December is expected to be bad but this has already been discounted by the market. At the current price, the shares are on a high historic dividend yield."

"The diamond trade is expecting an increase in rough diamond prices in January. It will be the first increase in three years

and can be justified by the trade sharing the costs of maintaining the stockpile and the diamond market generally," he said

Frankel Max Pollak Vinderine analyst Kevin Kartun said "The resumption of hostilities in Angola is resulting in a drying up of supplies of illicit diamonds arriving in Antwerp from Angola."

"This will be positive for De Beers' balance sheet as the company will have to buy in fewer diamonds," he added

Rumours of large-scale retrenchments by De Beers are also rife

● See Page 5

2
11/11/72
BRIGHT

Yakutia insists it is no threat to De Beers yet

MIRNY — Siberia's vast diamond fields have given birth to a local cutting industry which, in theory, should create shockwaves for De Beers.

But Russia's diamond bosses say a powerful processing industry capable of denting the SA company's 60-year hold over the industry is at least decades away

"To set up a big cutting and polishing centre like those in Israel, Belgium and India is an expensive operation and takes a long time," said one of them, Semyon Zilberg.

"We won't see this happen in our lifetime," Zilberg said. Zilberg is deputy general director of Yakutalmaz, regional branch of the recently established diamond producing monopoly Almaz-Rossii-Sakha

The Siberian diamond heartland of Yakutia, which produces 99.8% of Russian diamonds, may be decades away from challenging big cutting centres, but the government has already licensed eight joint-ventures in a bid to launch its polishing industry

One of the polishing firms in Yakutia, about 8 000km east of Moscow, cut its first stone last month

"Ideally, if we turned all the rough diamonds we produced in this country into jewellery, we would not need De Beers," Zilberg said in a recent interview at Yakutalmaz headquar-

ters in Mirny, diamond capital of Russia "But this is an ideal, a theoretical situation, not an option"

Russia signed a \$5bn deal with De Beers in 1990 to sell 95% of its diamonds — most of them rough (uncut) The deal, valid until 1995, means that as far as rough diamonds are concerned, De Beers has a virtually exclusive relationship with Russia.

But Yakutia, which declared "sovereignty" two years ago and renamed itself the Autonomous Republic of Sakha, has long wanted more economic and political autonomy from Moscow To achieve this, the self-declared republic is now creating its own cutting and polishing industry

Recently the Yakutian foreign ministry told De Beers it had licensed eight diamond-cutting joint ventures between companies representing the Yakutian government and foreign partners These included two Israeli companies, Tadam and Raubhard Arie Josef, and South Korea's Wonson Ed, said news agency Interfax

Yakutia also has a cutting venture with De Beers-Polyarnaya Zvezda (North Star).

The first joint venture to be set up, Tuumaada Diamond with Japanese partners Arda Trading Company, announced it had opened a cutting factory in the Yakutian town of Suntar in May, Itar-Tass news agency said

Last month the first diamond was cut using Japanese equipment.

A Japanese jewellery retailer said he had a contract with Arda, which would start exporting polished stones this month and had already published a price list

For the Yakutians this was a coup

For De Beers, the news introduced a new element of uncertainty and a potential threat to an already battered market.

But despite this, Alan Campbell of De Beers' Moscow office said they could not react yet, because they did not know the true extent of Yakutia's nascent cutting industry

"We don't know how much these ventures are producing, how big they are, how many people they employ," he said. "We don't know where they are getting their rough diamonds from, whether they get them from Yakutia or Moscow . there has yet to be evidence that anything (significant) is actually taking place."

Zilberg of Yakutalmaz dismissed the ventures as a drop in the ocean

"These joint ventures may develop over the next five years But even that is hugely optimistic," Zilberg said "It is impossible to develop this industry quickly"

Diamond-cutting joint ventures have the right to export cut diamonds and can receive an export licence — Reuter

BIDAM 12/11/92

216

Foreign investors go for SA sea diamonds ⁽²¹⁶⁾

DEREK TOMMEY

JOHANNESBURG. — Sea diamonds — the quality gemstones found off the mouth of the Orange River — are attracting overseas investors.

An associate company of Australia's Broken Hill Proprietary (BHP) is proposing to spend up to \$60 million (R180 million) over the next five years investigating the recovery of these stones.

This growing interest follows reports that De Beers, which has large sea concessions and has spent considerable sums of money developing mining techniques, is finding it a most profitable operation.

According to De Beers' annual report, the company has six vessels engaged in mining or prospecting in coastal waters

Market talk in Cape Town is that De Beers' proceeds from the sale of sea diamonds this year could exceed R350 million

BHP has entered into a joint venture agreement with Benguela Concessions (Benco), a company which has a number of diamond concessions off the Namaqualand coast — and also has Old Mutual as one of its major shareholders

The \$60 million will be used to take up equity capital in Benco during the five-year period leading to BHP acquiring 75 percent of Benco's issued share capital. Benco shares have a market value of R16 million.

The programme, which will have two phases, is aimed at developing Benco's deep water concessions

In Phase One, BHP will spend \$15 million (R45 million) over 30 months carrying out a survey, sampling programme and feasibility study to determine the viability of recovery from deep-water concessions

If Phase One is successful, BHP will spend \$45 million (R130 million) in the following six months outfitting and commissioning a prototype mining vessel

Diamond yield worth R8m

JONG WATERS

(216)

WEATHER conditions once again affected Broadacres Investments' sea-diving diamond operations over the past financial year, chairman John Tcheng said in the annual review. *BLOM 20/11/92*

He said favourable weather conditions had permitted six consecutive diving days in the third quarter, but inclement weather had prevented diving in the fourth quarter of the financial year to end-June.

However, in the period since the end of the financial year, favourable weather conditions had allowed a record number of diving days and had yielded diamonds with a value of more than R8m.

Tcheng said while production and maintenance costs were monitored closely, the harsh climatic conditions and age of the group's equipment had resulted in increasing replacement and maintenance costs.

This had affected the group's profitability and cash flow severely.

Prospects for the coming year would depend on weather conditions and the state of the world diamond market, he said.

COMPANIES

Benco in \$60m deep water mining deal

⁽²¹⁶⁾
BENGUELA Concessions (Benco) had agreed in principle to a \$60m development of its deep water concessions on SA's west coast with Australia's BHP Minerals, deputy chairman Peter Bieber said yesterday. The agreement provided for a two-phase programme in which BHP would invest \$60m in equity capital, and provide specialised manpower to prove reserves and commence commercial mining. Bieber said during phase one, BHP

^(D) ⁽¹⁹⁸³⁾
JONO WATERS

would undertake a comprehensive survey, sampling programme and feasibility study to determine the viability of diamond recovery from the deep water concessions. The programme was expected to take about 30 months. ^{BHPM 24/1/92}
Phase two would depend on the success of phase one and would take a further 36 months, he said.

Angolan diamond flow slows down

BLOOMING 24/11/92

(216) JOHN CAVILL

LONDON — Angola's diamond production has slumped, taking pressure off De Beers which has been spending an estimated \$500m a year to mop up stones smuggled into the Antwerp market

In the latest Southern African review from brokers James Capel, analyst John Taylor reports that the outlook for De Beers and the oversupply of diamonds "is looking considerably better than the situation that prevailed three months ago"

"Russia and the Central Selling Organisation appear to be edging towards an agreement while the supply has dropped dramatically in both Zaire and Angola.

"In the case of Angola we hear that official Endiamo production has almost halved. Furthermore, Anglos (Anglo American sources) inform us that the num-

ber of illicit diggers is now minimal with Unita controlling the diamond areas and the rains having fallen in southern Africa."

It was estimated that up to 50 000 "illicit" diggers were at work along the Cuango River in the Lunda Norte province

De Beers spokesman said yesterday "Our reports from Antwerp tell us that the supply of rough stones from Angola has been reduced to a very small flow.

"Our understanding is that most of the official mining companies have withdrawn from the diamond areas because of the security situation. And the rains which started at the end of September have flooded the diggings and made access more difficult," he said

Joint deal brings Benco hope of being more flush

CAPE TOWN — Sea diamond mining company Benguela Concessions' (Benco's) \$60m deal with Broken Hill Proprietary Company (BHP) would result in the build-up of Benco's cash reserves, chairman John Gurney said yesterday.

—He said less funds would have to be siphoned off to cover exploration and administration costs as these would be the responsibility of the joint venture. In the past, profits generated by Benco's shallow mining operations were used for exploration purposes

In the year to end-June administration and exploration costs of R7,4m converted the pretax profit of R4m into a pre-tax loss of R3,4m

While payment of a dividend to shareholders was a possibility, Gurney said this would have to be weighed up against the necessity of building up cash reserves to enable Benguela to preserve its position in the second phase of the joint venture

During the first phase, lasting about two-and-a-half years, BHP

25/11/92 (216)
LINDA ENSOR

would invest \$15m in deep water diamond exploration and thereby gain 30% of the joint venture

If this was successful, a \$45m second phase would commence which would involve the acquisition of a mining vessel and result in BHP's stake rising to 75%

Benco would then have to take on its 25% share in the cost of the second phase.

Gurney said while shallow water diamond mining had generated a flow of good quality stones which had been washed up, there were no proven ore reserves on which to plan future mining, hence the need to find a partner to share the capital cost of deepsea mining.

In BHP, Benco had found a major mining group with a good exploration philosophy which was keen to develop its concessions.

Gurney said it would take about five years for the benefits of the BHP deal to flow through.

FM 27/11/92 (216) FOX

the R1,7bn Moab development at Vaal Reefs Alan McKerron, head of Anglo's new business division, says Anglo has not yet decided precisely how it will fund its share of the Namakwa project

The IDC loan is at commercial rates and will be drawn down as work is completed during the first phase, so that the IDC will effectively fund 40% of the cost and Anglo/De Beers the balance

Bearish stock market conditions and the general weakness in commodity markets, which has also affected the titanium slag, rutile and zircon that Namakwa Sands will produce, have ruled out the alternative funding approach of listing the company and selling some of the Anglo/De Beers equity stake It's likely Namakwa will eventually be listed, but project director Neville Keys says there are no immediate plans for a flotation

Tricky metallurgical process

At full mining output of 16Mt/year, Namakwa will produce 195 000t/year of high-grade titanium slag, 120 000t/year of pig iron, 140 000t of zircon and 38 000t of rutile

The smelter, the heart of the operation, will generate 64% of Namakwa's revenues, which Keys estimates will average about R350m annually in 1992 money at full output He declines to provide estimates on profitability now Reason is the state of the market, which is depressed because of the world recession as well as oversupply from the R1bn expansion brought on line by Richards Bay Minerals (RBM) in 1991

RBM is the world's only supplier of high-grade titanium slag which can be used to produce titanium pigment through the chloride process. Pigments accounted for 91% of the world's total consumption of 3,4Mt of titanium dioxide in 1990

RBM's expansion brought its slag production capacity up to 1 Mt/year, but latest statistics from RTZ show it produced only 671 000 t in the first nine months of this year, meaning the plant is running at about 90% of capacity on an annualised basis

Namakwa will compete directly against RBM in the market Some analysts point out Anglo/De Beers is doing the country a favour by having the guts and money to take on RBM and prove it does not have a monopoly on successful ilmenite smelting technology Smelting the ilmenite into titanium slag and pig iron is a complex and tricky metallurgical process RBM refuses to sell its technology, so Anglo has developed its own process with the aid of Mintek

While the market for titanium dioxide feedstocks is now depressed, Anglo is forecasting a shortage of the materials from about 1996, with Namakwa slated to hit full production from 1999

Rob Still, MD of Rhombus Exploration which is involved in a heavy mineral sands joint venture with Shell in Natal, agrees with those forecasts "Market growth will easily be able to accommodate another two heavy mineral sands projects the size of Namakwa," he says "Anglo's decision to pro-

NAMAKWA SANDS FM 27/11/92 Taking the plunge (216)

The decision by Anglo American Corp and De Beers to go ahead with the Namakwa Sands project delivers a much-needed boost to SA's flagging economy, but the structure of the deal underlines the key funding role played by the Industrial Development Corp (IDC)

Total cost in January 1992 money is R945,9m. This is split into two phases, with R624,3m to be spent in Phase 1 from 1992 to 1994 and R321,6m to be invested during Phase 2 from 1996 to 1999

Anglo and De Beers hold all the equity in Namakwa, split 80/20 between them But they have negotiated a R370m loan from the IDC, of which R200m is to be drawn down during the first phase of the development

Nobody could accuse Anglo of being short of cash, but the balance sheets of Anglo and De Beers appear to be under financial pressure De Beers has to defend the embattled diamond market, while Anglo has some other hefty funding commitments The main one is its joint 61% share, with Amgold, in

FOX FM 27/11/92 (216)

ceed with Namakwa is good for our company and the future of the SA titanium industry"

Final indication of how seriously Anglo/De Beers is taking this project is shown by the appointment of Anglo deputy chairman Graham Boustred as chairman of Namakwa Boustred was intimately involved with two of Anglo's biggest success stories — Highveld Steel & Vanadium and Anglo American Coal Corp — and he has a reputation for achieving what he sets out to do

Brendan Ryan

UNDERLYING inflationary pressures in the economy will probably show an accelerated decline in the next six to 12 months, says the Afrikaanse Handelsinstituut's inflation barometer

Its fourth-quarter reading of 11,2% is down from 11,8% in the third, 11,9% in the second and 12,1% in the first quarter of this year

AHI economist Nick Barnardt says this points to a moderate cut in interest rates next year

He says that in the absence of major changes in factors like VAT, a consumer-price index rate of 11% in the second half of 1993 is a strong possibility. It would be the lowest since the first half of 1984

Moves to counter the Government's growing deficit, however, could send inflation rates soaring again next year

Mr Barnardt says the AHI's barometer combines 17 variables which, in one way or another, reflect underlying inflationary pressures. It provides useful guidelines for price, wage, Budget, investment and monetary policy de-

Hope of moderate interest rate fall

5 Times (Buss) 29/11/92

By ZILLA EFRAT

decisions in the coming months

The strongest positive contributions to lower inflation at present are low credit extension, the balance-of-payments surplus, single digit producer-price index inflation and subdued inflationary expectations

The greatest threat, however, on the inflation front for 1993 is SA's large fiscal deficit. It could exceed R23-billion, or 7% of gross domestic product.

Other unfavourable factors include double-digit increases in wages, salaries and labour costs and the upward pressure on fuel prices

Mr Barnardt says it will be

virtually impossible to drastically reduce the fiscal deficit in a single year

Any attempt would require such a large tax rise and spending cut that the recession would most probably degenerate into a full-scale depression

The tax base would shrink further, resulting in an even larger decline in State revenue

Mr Barnardt says the recession and its lagged negative impact on tax revenue imply that the State's real income at unchanged tax rates is due to fall further in the next fiscal year

This will result in an even bigger fiscal deficit, even if State spending shows no increase in real terms

Mr Barnardt says the only realistic solution would appear to be gradual deficit reduction through a three-year plan. Even a modest reduction to 6% of GDP next year would require drastic tax and expenditure measures

Fruits

For example, if real spending were left unchanged, it would require a rise in the VAT rate from 10% to 15%. This would raise inflation by about four percentage points, resulting in a CPI inflation rate of about 15% by the end of 1993 as opposed to the prospect of 11% suggested by the barometer

Mr Barnardt says this would once again deny the economy the opportunity of enjoying the fruits of a lower CPI inflation rate, even after suffering a recession of more than four years

The AHI believes that the reduction of the fiscal deficit should be achieved as far as possible by limiting State consumption spending, and that tax increases should be avoided or kept to an absolute minimum

Mr Barnardt says the Economic Forum could be the ideal place where the Government, labour and business could reach some agreement which would help to curb the price-wage spiral. This would result in a rapid decline in inflation

De Beers to shed 20% of staff at SA mines

5 Times (Buss) 29/11/92

DE BEERS is to lay off 22% of its workforce in South Africa as a result of the sharp decline in the international diamond market

Industrial relations manager Steven Lenahan says that at least 3 000 hourly paid and managerial workers will be asked to leave unless some accept voluntary retirement. The current staff complement is 13 500

Retrenchments are being discussed with the National Union of Mine Workers (NUM).

Discussions are also taking place with the Mine Workers

Business Times Reporter

Union of Namibia about possible retrenchment of some of the 6 000 workers at Consolidated Diamond Mines

No lay-offs are planned for the 5 500 workers at the Jwaneng and Orapa mines in Botswana

Mr Lenahan says that although the retrenchments are regretted, "it is a step that had to be taken to ensure the survival of operations"

The first cutbacks will be made at the Kimberley and

Premier mines. Discussions are taking place at other mines

The NUM was successful in negotiating a 10% wage increase on November 6, taking minimum pay to R959 a month

The union initially asked for an "above-inflation" increase and an "agency shop" agreement in which all workers would contribute to a fund to help pay for collective bargaining

Mr Lenahan says no agreement was reached on the agency matter, but it could be discussed in the future

By TERRY BETTY

POSITIVE political sentiment helped the JSE end on a high note on Friday, with the indices showing a rise across the board — the all-share index rose 1,16%.

The gold index showed the most sparkle, rising 25 points or 3,08% on Friday, even though the gold price came off slightly. Analysts say the index lifted on the back of a weak rand which was trading just over R3,00 at the end of the week.

Political developments such as the ANC-IFP meeting, and the State President's intention to



have minority rule voted out before April 1994, were responsible for the shine on the rest of the JSE indices

It is also suggested the market is more upbeat because of the likelihood of a greater than expected drop in interest rates next year, and the prospect of a turnaround in the US economy.

Analysts say everything was extremely well bid, and all stock on offer was taken up easily. "But it would have been even

better had most of our clients not been at the cricket."

It would seem ABSA results, due in about two weeks, are going to be better than expected, as the share price has started to firm. It has risen to R9,00 from at a low of R7,75 in mid-October

Richemont, which reported disappointing results on Wednesday, lifted its share price as people were picking up scrip after going short ahead of results

Victory for Afbank two

TWO former African Bank employees have won a small victory in their quest to recoup around R50-million forfeited to the SA Reserve Bank

On Friday the Pretoria Supreme Court ruled that they could amend their claim for the return of this money, but the Bank was awarded costs

The men — Alan Young and Henry Harper — were found guilty of fraud and foreign exchange contraventions in 1988 and sentenced to 14 years' jail

The two men, released in a general amnesty last year, are taking legal steps to claim back a share of R100,4-million in profits they allege they made while working for Afbank from September 1985 to May 1986

The Bank alleges that the profits were made by contravening exchange control regulations

LABOUR

All that sparkles isn't sold

A slump in the world diamond industry has forced giant De Beers to cut back on thousands of jobs, reports

FERIAL HAFFAJEE

DIAMOND miners face a Christmas with little sparkle this year. Thousands will lose their jobs and others will have to take early retirement or wage cuts through downgrading.

Diamond sales have slumped and the job cuts are "absolutely unavoidable", says cartel De Beers.

South African diamond mines employ 14 200 workers, the National Union of Mineworkers (NUM) says. 4 000 workers will lose their jobs while the company says fewer than 3 000 will be retrenched.

Premier mine in Pretoria will retrench 1 519 miners, Finsch and KMD in Kimberly will together lose 1 077 workers, Koffiefontein and Klemzee mines in Namaqualand will lose 1 476 jobs, according to the NUM.

NUM general secretary Kgalema Motlanthe says the union's role is "limited to damage control. We are bearing the brunt of the company's cost-cutting and we have to now ensure that our members get proper severance packages," he says.

The union has already secured retrenchment agreements with Kimberly and Premier mines and will fight to secure a single retrenchment package for all diamond miners.

The major features of the agreements are:

- Full disclosure of all relevant information
- Adequate notice of retrenchment and one month's notice pay and an

w/ Mail 11/12 - 17/12 1992. (216)

Myths keep the diamond price sky-high

DIAMONDS are splintered stars fallen to earth, they are the tears of the gods and the ultimate gift of love with which even Cupid tipped his arrows.

Diamonds are in fact simple but very hard gemstones which look so like pebbles "that most people would pass them by without a glance".

They have no intrinsic value except in myths — which the De Beers diamond empire has built on and sustained.

They also have several industrial uses, such as in dentists's drills and record needles.

Through its Central Selling Organisation (CSO) in London, De Beers carefully matches supply to demand, careful not to flood the market. "Just like a scientist uses a pipette," says the National Union of Mineworkers general secretary Kgalema Motlanthe.

extra month in company housing. Workers may get an additional six months in the housing at the company's discretion.

- No new recruitment, the termination of all temporary and contract work and the opportunity of transfers to vacant posts to miners.

- "First in, first opportunity" rules if the economy improves and the demand for diamonds increase, vacancies at the mine will be filled by those retrenched workers with the longest service records.

De Beers industrial relations director Shane Leisegang says no central retrenchment agreement has been signed but there is "consistency in practice" on most mines.



Giant gem... The 27.3-carat De Beers Centenary Diamond

De Beers skilful manipulation maintains the stone's high price and its reputation of value and exclusivity.

The CSO also runs one of the most sophisticated marketing and advertising campaigns in the world "creating a number of traditional buying

Some miners have been transferred to other mines or vacant posts at the same mine and many have accepted early retirement. But demotions are problematic because workers are hesitant to take a drop in status and salary. The company has also disposed of all contractors.

"We have been trying for a number of months to sustain operations rather than close mines. The South African mines are very old, expensive and difficult to mine," says Leisegang.

In 1980, the industry also went into a slump — the Koffiefontein mine and other open cast mines were closed and there were many retrenchments. It was difficult to re-open Koffiefontein mine and the company is unlikely to close mines this time around.

occasions for all consumers at various life stages".

So consumers believe it is the done thing to buy a diamond for a 16-year-old girl, for engagements and wedding anniversaries.

Women are the targets of the advertisements but men are also being drawn into the net with slogans like "Whoever said diamonds are only a girl's best friend?"

But stable markets in North America, Japan and Australia have gone into slump — sales to Japan, for example, used to account for 30 per cent of world diamond sales but now only account for 11 per cent. De Beers lowered its dividend this year but remains in the World 100 companies.

The cartel's marketing efforts will continue unabated and it will continue to stockpile diamonds, awaiting the upturn in the economy.

"We believe we have a plan to see us through to an upturn in the economy," says Leisegang.

Retrenchments are being negotiated with the Mineworkers Union of Namibia at De Beers' Namibian operations but there will be no cut backs in production at the company's thriving Botswana operation. The mines there will stockpile internally.

De Beers will put R1,5-million into a retrenchment fund to retrain redundant workers. The company will work with the NUM projects department to plan programmes and skills training.

The company has also brought in financial advisers to help miners to invest their severance packages wisely and to tell them about opportunities for self-employment.

Cope (Co-operative Planning and Education)

A quote...



Back for forever?

THUS the intense focus on the De Beers story, from the anti-like thousands digging for "illicit" diamonds in the Angolan bush to tales of a Russian "mafia" running stones out of Yakutia and speculation on the standing of its chairman, Julian Ogilvy Thompson. Virtually all the coverage has been negative.

As one London analyst said this week "If you can't kick a big guy when he's down, when can you?"

Yet the share price has rallied. After its 60% drop to \$9.88, De Beers climbed back to \$12.75. The bounce of a dead cat? A floored heavy-weight lifting his head off the canvas, only to hear the count reach 10?

There has been the usual quick trading for a small profit and, of course, the vagaries of the financial rand only add to the in-and-out operations of the professional arbitrageurs. De Beers is both blessed and cursed with being one of the few SA stocks which is liquid enough for it.

There, however, have not been signs of any major selling into the rally — which one might expect. And Wednesday this week provided an interesting example of the way De Beers has been traded lately.

In London they dipped to \$11.75, but when New York opened the market turned. De Beers closed at \$12.25 on Wall Street, with 250,000 shares traded — high volume for the stock compared with recent performance.

A confluence of factors is at work which, in spite of the uncertainties, is earning De Beers "hold/buy" recommendations among several leading London brokers.

Wall Street's buoyancy is one. The Dow Jones Index of blue chips is just 4% off its record high touched in June, but the broader-based Standard and Poor indices are all within a hairsbreadth of their peaks scaled

It is barely 17 weeks since the trauma of the De Beers/Centenary interim report and the crescendo of woe and gnashing of teeth which greeted the dividend cut warning announced in Kimberley. Bad news is always a good media story, especially when it involves glamour, mystery and the downfall of the mighty

S/Times (18455)
6/12/92

**JOHN
CAVILL
IN
LONDON**

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on November 30. That was due to the first real glimmer of recovery in the US contained in the data for the third quarter, helped by growing optimism as America awaits the inauguration of President-elect Bill Clinton.

And as Sir Ernest Oppenheimer once noted, what is good for Wall Street is good for De Beers.

The flooding of the Cuango River in Angola and Unita's control of the whole of the country's north-east region has brought diamond mining there to an almost complete halt. De Beers confirms that the flow of gem stones sold to Antwerp outside the Central Selling Organisation's net is now a trickle.

The Russian picture seems brighter, with reports that Yakutian output, hampered by the Siberian winter and shortages of mine sup-

plies, is down by 25%. Michael Coulson, the Credit Lyonnais Laing analyst who was one of the few who actually forecast that De Beers might cut its dividend despite the reassuring noises made before the August interim, said "The Russians have been selling polished stones but not delivering their full quota of rough to the CSO."

And there has been the financial rand's uptick since the Reserve Bank's move to stem the outflow of offshore investment.

Coulson believes the markets now have a different perspective. "People are saying that US Christmas sales may be better than expected and 1993 could see some growth, even though Japanese and European markets will be difficult," he said.

"Then there's the CSO's full year sales figures in the first week of

January. Market estimates range from \$3.1-billion to \$3.5-billion. We are looking for \$3.45-billion.

"If they come out within that range the attitude will be that sales are down *only* by, say, 15% and if De Beers can back that with a statement that the diamond market has at least stabilised — because of the relief on the supply side — it will be positively received.

"And there is always the possibility that, come the final results and dividend in March, De Beers will spring a surprise. That, however, will depend on the shape of Centenary's balance sheet: the board may well feel that, having already been hanged for the dividend warning, it might as well be hanged for a sizeable cut," he said.

AT Societe Generale Strauss Turnbull, Robert Weinberg said "All the bearish stories which came out after the interim were overdone — the press and TV were looking for a story. They forgot that De Beers is not a one-legged creature. It has a huge portfolio (\$3-billion) to use as collateral for borrowing and if it is using up cash to stabilise the diamond market that is precisely what De Beers is about."

"The panic selling is over and sensible investors are now taking a pragmatic view of the stock. CSO sales, of \$3.4-billion, are already in the price and if one assumes the dividend is going to be \$0.78c — against \$1.12c last time — the yield, net of withholding tax, is 5.4% on \$12.25, which is not out of line with the other mining houses. In fact, it rates De Beers at a slight discount to the rest.

"I don't see the share zooming up. But if the dividend is \$0.78c, then the present price is about as good a level as any to get into De Beers."

ANC man eyes Anglo assets

THE state should nationalise most of the cross-holdings between Anglo American and De Beers, ANC minerals economist Paul Jourdan suggested at a weekend workshop on anti-trust, monopolies and mergers

Jourdan's suggestion is not official ANC policy as the workshop was arranged by the ANC to debate the issue and gain information before formulating policy.

His paper drew strong reaction from representatives of the big mining houses. Although no firm policy conclusions were reached, ANC-aligned speakers did, however, emphasise the need to do away with pyramids

Jourdan said De Beers and Anglo each owned about a third of each other, and if

~~SECRET~~ GRETA STEYN (216)

these equity stakes were nationalised, no private shareholders or other corporate holders would be directly affected. Part of the cross-holding could be used for an employee shareholding scheme, leaving the state with a 15%-20% stake in each mining house.

He noted De Beers appeared to have learnt to live well with the Botswana state being given half the equity in Debswana

Jourdan said the argument that conglomerates had to be large to mobilise massive resources was not necessarily true, as some of the subsidiaries were major companies in their own right and

To Page 2

Anglo assets

did not need assistance from the "mother" company. He noted JCI as an example, saying it was difficult to determine what it gained from being part of the Anglo stable

He argued the state should take over the responsibility for marketing minerals to influence the world price and that breaking up the interlocking mining oligopolies would reduce prices paid by the metal fabrication industries, encouraging exports of finished metal-based products

JCI economist Ronnie Bethlehem described the paper as "an attack on the corporate sector and a threat to SA itself"

He noted the paper did not address the issue of compensation for nationalising the cross-holdings. SA already had a deficit of 8% of GDP and was threatened by a public debt trap, financing the nationalisation by

issuing debt could only harm local and foreign business confidence in SA

He could not see an advantage in the state being a major shareholder that took over the marketing of minerals, as "SA mining companies are price takers and not price setters". He feared if the paper was accepted as ANC policy it would trigger capital flight, driving SA deeper into under-performance

Anglo American public affairs consultant Michael Spicer agreed with Bethlehem, saying the paper was cause for "serious apprehension". Referring to the De Beers situation in Botswana, he said the Botswana government's equity rights had been paid for by a variety of means, including policy on taxation and royalties, that he could not envisage in SA

From Page 1

BIDAM 7/12/92 ~~SECRET~~ (216)

De Beers to retrench half its diamond workers ⁽²¹⁶⁾ NUM

^{610mm 7/12/92}
DE BEERS is poised to retrench half of the workers on its major diamond mines — nearly a third of its SA workforce, says the NUM

DIRK HARTFORD

The union said the jobs of 4 000 of the 8 000 workers on the major mines were on the line

A De Beers spokesman said it was not possible to put an exact figure to retrenchments as consultation with affected employees was still continuing. Some had been offered early retirement and various other options were being looked at

NUM's figures could apply to the number of jobs that would be lost, but this did not mean that as many workers would be retrenched, the De Beers spokesman said

He said De Beers employed 13 677 people in SA at the beginning of this year. In Namibia it employed 5 750 and in Botswana 5 157. Large retrenchments were also on the cards in Namibia

Premier mine would retrench 1 519

workers, Finsch 693, Kimberly Mines 384, Koffiefontein 563 and Kleinsee mine 913, the NUM said

Negotiations between the NUM and De Beers on retrenchment packages were currently under way

The NUM said production had been reduced at De Beers' new Venetia mine but that no jobs had yet been cut.

Jobs were also under threat in its geological division, but a final decision on numbers had not yet been made

The NUM said the loss of jobs in the mining industry was a "national crisis" demanding a radical response from the state, employers and the union

Since 1987 150 000 jobs had been lost in the gold mining industry and 20% of workers in the coal industry had been retrenched

De Beers to axe 4 000 jobs

(216) CT 7/12/92

From DIRK HARTFORD

JOHANNESBURG — De Beers is poised to retrench half of the workers on its major diamond mines which amounts to nearly a third of its SA workforce, according to the NUM

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Gem giant shrugs off law suit

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ARC 12/12/92

MARC HASENFUSS
Business Staff

SEA diamond mining group Benguella Concessions (Benco) has rejected a threat by the Namibian Minerals Corporation (NMC) to sue Benco for R140 million for alleged breach of contract.

Speaking at the group's annual meeting in Cape Town yesterday, chairman Dr John Gurney emphatically denied that there was any agreement between the two groups.

NMC alleged that Benco and NMC entered into and signed an agreement for the establishment of a joint venture to mine diamonds off Namibia.

Dr Gurney said Benco had handed the matter over to its legal advisers. "We are confident of the outcome. There's absolutely no doubt their claim is fictitious."

"We believe we should get this matter into court and settled as fast as possible." He said he could not comment further on the matter as it was sub judice.

Dr Gurney, however, conceded that it would be catastrophic if the court's decision went against Benco.

The R140 million damages suit would not derail the recent agreement signed with giant Australian company Broken Hill Pty's (BHP) business group BHP minerals.

"They have seen the claim we are pleased that they took a very balanced point of view."

Dr Gurney described the agreement with BHP to develop Benco's deep water concessions off the West Coast as the most exciting development since the group's inception.

The agreement envisages a two-phase programme during which BHP will inject R180 million as well as specialised manpower resources to establish reserves and commence commercial mining operations.

During Phase I, BHP will undertake a comprehensive survey, sampling programme and feasibility study to determine the viability of diamond recovery from the deep water concessions. This will cost R45 million and take two and a

half years.

The Phase II programme (on a R135 million budget) will span an additional three-year period — encompassing the acquisition, outfitting and commissioning of a prototype mining vessel.

Dr Gurney said the target for the first phase of the project was 1 million carats. This would justify the cost of putting a new diamond mining vessel to sea.

BHP's share in the joint venture will be 30 percent at the end of Phase 1, rising to 75 percent at the end of Phase II. Thereafter capital expenditure will be in the ratio of 75 percent BHP/25 percent Benco.

The high risk profile of sea diamond mining — compounded by a R3,7 million loss in the financial year to end June — has meant an unfavourable market rating. Currently the share trades at around 50c.

Another positive development bolstering the group's long term prospects was the sale of sea mining Concession 2A to Alexcor.

Dr Gurney said the group now had no debt.

Sale of shares boosts ODM

JONO WATERS

OCEAN Diamond Mining (ODM) reported net earnings of R69 000 before extraordinary items, or 0,3c a share, for the six months ended September 30, MD Andre Louw said yesterday. *BIDM 15/12/92*

However, the sale of 49,99% of the shares in two companies increased the group's net profit to R3,23m after extraordinary items.

There was no comparable period as the company was listed in January

Operating profit of R345 000 was achieved on turnover of R2,21m. Interest, finance charges and the loss on the sale of certain fixed assets were blamed for the reduced net earnings. *(216)*

The recent agreement between Benguela Concessions and Broken Hill Proprietary to spend \$60m on the development of certain diamond concessions could have significant implications for the ODM group, which had interests in the venture, Louw said

EVIDENCE of an extraordinary abuse of government power has emerged from a bitter dispute between South African diamond miner Josias van Zyl and the Lesotho Highlands Water Project

Van Zyl has had five mining leases in Lesotho, valued by geologists at R2,5-billion, summarily nationalised by the kingdom's ruling Military Council at — he charges — the instigation of the South African government. He also alleges that mining plant and equipment, infrastructure and workers' housing valued at about to R10-million had been destroyed by Lesotho soldiers

Van Zyl alleges the Lesotho government is effectively controlled by Pretoria. As proof, he says South Africa was responsible for the establishment of the Military Council when it precipitated the downfall of the government of Leabua Jonathan by closing its borders with the landlocked kingdom.

He also refers to charges by King Moshoeshoe II that the Highlands Water Treaty was imposed on the country by South Africa

An eminent international law specialist who was consulted by Van Zyl believes the argument will hold up in court. The lawyer also stresses that although the allegations have been put to President FW de Klerk in a series of petitions, the state president's office has yet to issue a denial.

It was reported this week that De Klerk had rejected any claim that Van Zyl may have against his government, denying responsibility for any

Diamonds are forever drowned in Lesotho

W/Max 18/12-22/12/92

A three-way battle is being waged over diamond concessions valued at R2,5-billion high in the mountains of Lesotho. By PAUL STOBBER

loses the businessman suffered in Lesotho. The South African and Lesotho governments are partners in the Highlands Water Project, an ambitious R10-billion scheme to dam the water of the Orange River for South Africa and provide hydro-electric power for Lesotho

In August 1988, Van Zyl's company, Swiss-bourgh Diamond Mines (SDM), was granted prospecting and mining rights over five tracts of the mountain kingdom. Almost three years later, in July 1991, it emerged that part of the Highlands Water Project encroached on the Rampai area, one of the tracts which had been leased to SDM

The company offered to consider giving up its rights to the Rampai area, valued at R660-million, in exchange for R50-million and the extension of its rights in its remaining four lease areas

es was scheduled to continue to be heard in the Lesotho High Court on March 24 1992. But, shortly after the proceeding started, the judge was presented with a government gazette which revoked SDM's leases and indemnified the Lesotho government and the LHDA from any claims for compensation

The judge then ruled that he could not hear the matter and SDM launched an application for the scrapping of the decree. The Lesotho High Court has yet to hand down a decision.

Shortly afterwards, the company's mining plant sustained about R10-million damages when it was vandalised by men described as wearing uniforms of the Lesotho army

In the meantime, Van Zyl has launched a campaign to get the international community to press the Lesotho government to restore the leases and compensate him for his losses. He is also considering taking his case before an international body for a ruling.

In his campaign he makes it clear that he holds the South African government equally responsible for his losses. He points out that the root of the problem is the unlawful action of the LHDA, which can only act with the approval of both the Lesotho and South African governments

Van Zyl also condemned South Africa's apparent "lack of concern for the welfare of its nationals", given that it has re-established diplomatic links with Lesotho while one of its citizens was being mistreated



Hank Slack named Minorco's new CE

(216) JOHN CAVILL (216)

LONDON — The troika of MDs running Anglo-De Beers' international group Minorco is breaking up and a single CE has been appointed — Hank Slack, Harry Oppenheimer's son-in-law

Minorco said yesterday the two other members of the trio, Roger Phillimore, Oppenheimer's godson, and Tony Lea, had resigned as MDs of the \$2bn group

Lea, who wanted to return to SA, had been offered a senior job with Anglo American in Johannesburg from the middle of 1993 and would remain a director of Minorco. But Phillimore would leave "to pursue his own interests" — understood to be in the world of fine arts

Minorco sources said the management streamlining was triggered by Anglo's offer to Lea. While the troika had seemed suitable and worked during the group's transformation, a "simplified and strengthened management structure" was better for an operating company

When Slack, who has been a director of Minorco since 1981 and chairman of the executive committee for more than three years, was offered the CE post, Phillimore decided to make a complete change.

The three were the young Turks who in 1986 urged a change of direction for Minorco to galvanise its passive portfolio investments

Since 1990 Minorco has laid out nearly \$1.2bn in a string of acquisitions, from

To Page 2

Minorco ^{BIDAM} 18/12/92

major US gold producer Independence to a limestone mine in England, quarries in Germany and tungsten mining in Portugal

Deals agreed in the past two months will bring Minorco's total spending to \$1.8bn. It still leaves the group with about \$1.3bn cash (net of borrowings) as at the last balance sheet date

This has changed Minorco from a dividend-receiving and share-dealing operation into one with sales of \$1.7bn last year (up from \$771m in 1990-91)

(216) From Page 1

The new top management at Minorco will now consist of Slack, joined by Peter Burnell (formerly of Charter Consolidated and Anglo American of South America), financial director David Fisher and group technical director Tim Wadesdon

In addition, a new independent non-executive director joins the board — Peter Wilmot-Sitwell, chairman of S G Warburg Securities and vice-chairman of its parent company, the investment bank Warburg's

De Beers shares regain some ground after Yakutia scare

THE De Beers share price recovered some ground in late trading on the JSE on Friday to close R1,25 down at R57,75 following the announcement from Yakutia that the authorities would set up a diamond exchange and more polishing plants.

Reuter reported Yakutia vice-president Vyacheslav Shtyrov as saying the republic would open a diamond exchange in Yakutia next year and establish 10 or 15 polishing plants by 1994.

"It will all be organised like a real market . . . sooner or later one of the main diamond markets in the world will be in Russia," he said.

Yakutia produces 98% of Russia's diamonds and markets one-fifth of these.

However, Central Selling Organisation public relations executive Joan Braune said the Russians had been polishing diamonds for a long time and it was unlikely to affect the market.

"The Russians have behaved very responsibly in the way they have marketed their diamonds up to now and it shouldn't really affect the market if they polish any more."

She said she was surprised that the drop in the share price was attributed to the news, but said the market was very sensitive at the moment.

"I do not see anything threatening or unsettling by this latest move."

BIDAY 21/12/92
JONO WATERS

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Russia is the only diamond producer with its own cutting industry but western experts say it runs at a loss.

But, Shtyrov said, Yakutia's cutting centres would be small with foreign equipment and the staff would be trained by experts from Russia and abroad.

Yakutia jolted De Beers this year with news that its first cutting factory in Suntar had cut its first diamond. However, Campbell said the factory was unlikely to threaten De Beers' hold over the Russian diamond market.

He said the Yakutian foreign ministry told De Beers it had registered eight cutting joint ventures. Ten or more plants are planned in the next two years, but most are still only on paper.

The first firm was set up by Sakayama diamond joint venture between the Yakutian foreign ministry and Japanese trading company Arda. Shtyrov said it had published price lists and had already exported cut diamonds to Japanese jewellers.

Sakayama plans to open a second cutting factory in Verkhnevilyusk. A joint venture with an Israeli firm is to open another plant by the end of next year.

"It is more profitable to cut diamonds ourselves, they are a unique raw material and must be put to maximum use," said Shtyrov.

Flood of cheap sparklers may upset world market

The Argus Foreign Service

MOSCOW — Signs are growing here that Russia is preparing to flood the market with cheap diamonds in a bid to boost vital foreign currency earnings

And, in the process, it could cause the price of the gems on the world market to plummet

De Beers, which for years negotiated in secret with the old Soviet Union, now takes 95 percent of the country's output — and will continue doing so until 1995

But the company, Diamonds of Russia and Sakha, which has taken over sales from the Kremlin and the provincial government of Yakutia, plans to cash in on diamond resources as soon as possible

However, a senior spokesman, Sergei Ulin, denied the world diamond market would be plunged into turmoil as a result

The company would not sell diamonds "irresponsibly", he said although many diplomats and experts remain unconvinced

Russia's diamond industry is inefficiently run and under great pressure to increase earnings

Already De Beers' shares have been hit by reports that another diamond exchange is scheduled to be opened in Yakutia next year, with more cutting factories soon to follow

■ Lonrho has rejected Gencor's offer to buy Western Platinum and the Ashanti gold mine in Ghana

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Yet analysts at Shearson Lehman do not rule out the possibility of a Gencor takeover of South African platinum mines, some time in the future

Lonrho is heavily indebted, they say. Since chief executive Tiny Rowland is on the way out, the company may well embark on further asset sales. Lonrho, however, may wait until Mr Rowland retires from the board, said David Morgan, an analyst at Shearson.

In a statement to shareholders where he signalled his intention to retire within three years, Mr Rowland said that there had been extensive discussions with Gencor.

"Gencor have a strong natural interest in buying out our 73 percent of (Western Platinum) and your company's important mines in Ghana and Zimbabwe," he said.

Gencor is already a "junior partner" in the Western Platinum mine, he said.

"They came forward with several ideas which would have resulted sooner rather than later in Lonrho becoming South African-controlled."

"This was not in line with Lonrho's thinking as the board sought to do a deal more beneficial to the whole of the company."

"Although we could not agree to merge in the way they proposed, we are still partners and good friends."

COMPANIES

De Beers welcomes Russian step

LONDON — De Beers/Centenary yesterday welcomed the centralisation of control of the Russian diamond industry which was approved by the Moscow parliament.

A report from Moscow claimed the move to set up a federal diamond centre, answerable to the parliaments of Russia and Yakutia, the autonomous republic within the federation, "could cause further damage" to relationships with De Beers.

But a spokesman for De Beers/Centenary said "It will be a good thing for the industry. Given the importance of diamonds to their foreign exchange earnings it is perhaps natural that the parliaments would want to be involved."

"However, the Russian parliament also confirmed the control of the joint venture company (Diamonds of Russia and Sakha) and that now means that we know who we will be dealing with

JOHN CAVILL

(216)

"It does not alter our role in marketing the Russian and Yakutian diamonds and we have a good relationship with the man in charge of the company, Valery Rudakov," he said

Rudakov, head of the former Soviet agency Glavalmazloto signed the 1990 deal under which De Beers/Centenary loaned the Russian diamond industry \$1bn for five years and which formalised the marketing of rough stones through the Central Selling Organisation (CSO)

Since then Yakutia, which produces 98% of the Russian Federation's diamonds, has won the right to sell 20% of its output — which is being done through the CSO — with another 5% being sold independently in Moscow to give the Russians "a window" on the state of the market

23/12/92
B/DAM



JULIAN OGILVIE THOMPSON: cut dividends



SOL KERZNER: the Sun King

Julian hits a rocky road...

DE BEERS' chairman Julian Ogilvie Thompson sent waves through the Johannesburg Stock Exchange with the shock August announcement that the company would probably be obliged to cut its dividend for the current financial year.

The announcement came only weeks after both De Beers and Anglo American Corporation gave presentations to investors locally and abroad. There was little hint at these events that the diamond market was in disarray from oversupply and under-demand.

De Beers' share price tumbled from R97 to R44 before rallying to around R60. The worst effect on South Africans was not felt so much by the diamond industry itself but by investors.

Being the JSE's leading share in terms of trade and trend-setting, De Beers' collapse brought the whole market tumbling down. From early June, when the JSE

STimes 27/12/92

THE TYCOONS

overall index peaked it tumbled by almost a quarter by mid-October

While in the longer run, the stock market has proved to be the best hedge against inflation and has given the best returns to in-

vestors, there are inevitably periods when cash in the bank would have given a better return.

Hardest hit were investors who had saved through JSE-linked insurance policies which matured when the market was closest to the bottom. Had their investments matured a few months earlier, their returns would have been much better.

But Sol's folly pays off

SOL KERZNER'S media machine saw to it that South Africans got a dose of glitz and glamour in 1992 in between the violence and turmoil.

Mr Kerzner was reinstated as Sun International boss in September — in time to steer a four-month media blitz that peaked with the early December opening of the R830-million Lost City development.

Initially tagged Sol's Folly, the Lost City drew the world's rich

and famous for three weeks of festivities that included Jean Michel-Jarre's laser and light show, the Million Dollar golf tournament and the Miss World pageant.

Hordes of international and local journalists and cameramen were flown in for the 21-day party.

During development, the project provided about 5 000 jobs for contractors and on opening, 1 000 permanent work opportunities.

Courting

A technical perspective on prospects for shares

STAR 29/12/92

Dee Campourogliou, technical and market researcher for Frankel Max Pollak Vinderine Inc, suggests technical analysis points to demand for JSE shares outstripping supply.

Outlook '93

Just as 1990 was characterised by a strong downward corrective wave in the market, so was 1992, with the overall share index falling by nearly 22 percent

It started off slowly enough in June, with the Dow Jones industrial index showing signs of flagging and the FTSE-100 entering a serious corrective wave. But then a series of exacerbating factors took over in the ensuing months

Breakdown in political negotiations, violence in Botswana and Bisho, mass action and the realisation of its effect on a deepening economic recession added further fuel to an already falling equity market

De Beers' announcement of reduced expectations in August shattered confidence, causing the share to fall from around 7 500c to a low of 4 460c (-40 percent), with the concomitant ripple effect virtually across the board.

The gold price, after trying to rally beyond \$350 during October, again continued to disappoint.

But what of the future?

The market has been heavily oversold and buyers have been returning, particularly in the latter part of November.

In fact, our technical signals are pointing to much better prospects for 1993, although the current rally certainly cannot be sustained to much beyond current levels before a short-term corrective wave sets in

Nonetheless, given the positive medium-term prospects (considering a six-to-nine-month time horizon), this potential downward move should provide tardy investors with yet another opportunity to accumulate selected stocks at technically cheap levels.

That is not to say we are forecasting a glorious bull market into the future — too many imponderables exist in our current socio-political and economic climate — but in terms of our technical research, demand seems to be outstripping supply, which is the stuff of which bull phases are made.

The London and New York markets have been helping of late, and technical signals here too reflect positive potential on a three- to-five-month view, although a short-term downward correction should materialise in the next few weeks

It must be noted, however,

that disturbing signals are present for the Dow in the latter part of 1993

Dollar strength since early October put paid to an appreciation in the gold price, but at its recent high of Dm1,6055 the dollar has become overbought on a short-term view, suggesting a cycle of weakness is about to begin, providing some respite for gold

Nonetheless, a stronger dollar (above Dm1,60) is expected in the course of 1993, which leaves us with beleaguered bullion.

A short-term upside ceiling appears to be in place between \$343 and \$345, and the medium-term signals do not encourage us to place our expectations on anything beyond that.

Long-term signals (six months plus) are starting to intrigue, but gold would need to penetrate the \$350 level for us to be convinced of a sustainable turnaround

The prospects for platinum look more promising.

The recent strong depreciation of the rand against the dollar also appears to have run its course for the present as reflected in a heavily oversold short-term condition, but as the dollar strengthens next year, further weakness can be expected, if not at the recent rate

Focus can then again be applied to rand hedge shares in the course of 1993

Mining

The mining board is comprised of coal, diamond, gold and metals and minerals, which in broad terms have not been favoured since the beginning of the decade

De Beers, in particular, at its recent low of 4 460c, has shed 55.5 percent of its value since its peak in November last year

We expect a strong price performance from mining products and mining financials early next year, and this should be accompanied by a

superior performance against the market as a whole.

This statement, however, needs qualification, and should not be regarded as a blanket one.

Price action on De Beers, in the recent rally to 5 800c, provides a clue. Short-term buying pressure is strong, but of more importance is the emergence of medium-term buying pressure, which implies that the current rally should be sustainable well into 1993

In addition, the stock shows potential to beat the market average during this time. The share is highly tradeable, and should be bought into any short-term weakness for positive prospects, at least for the next six-to-nine-month time horizon

Mining financials should also sparkle in the early part of next year, and the shares favoured within mining houses for recovery potential on a six-month view are JCI, Anglo American and Gencor, in that order

Charter's recent strong performance has placed it in expensive territory on a short-term view, so some market under-performance is likely in the next couple of months

Minorco, within the mining holdings sector, also falls into this category, but superior prospects for 1993 suggest that the share should be accumulated, but only after some price retracement

When looking for recovery potential within the holdings sector, it is Middle Wits that stands out.

Of technical interest, too, is Rustenburg Platinum, both for its potential price advance and re-rating ability against the overall share index.

Coal shares should continue to disappoint, and we would avoid the gold market, except for short-term trading opportunities, until such time as bullion achieves a sustained break beyond \$345 an ounce

● In a subsequent article the writer will discuss prospects for the industrial board



MINING - DIAMONDS

1993

Sales glint ⁽²¹⁶⁾ for De Beers ^{ARG 7/1/93}

Business Staff

JOHANNESBURG — Sales of rough diamonds by the Central Selling Organisation (CSO) last year were better than the market expected.

But unless chairman Julian Ogilvie Thompson pulls a rabbit out of a hat, the results are not good enough to prevent De Beers cutting its final dividend, market analysts say

Sales fell to \$1,63 billion in the six months to December from \$1,79 billion in the first half of the year, and from \$1,84 billion in the second half of 1991

Total sales for the year dropped 13 percent to \$3,4 billion from \$3,9 billion in 1991.

This was a slightly smaller fall than the 15 percent decline many market analysts had expected

Analysts also found encouraging a CSO statement that it expected world retail sales of diamond jewellery in 1992 to compare favourably with those of the previous year.

"Rough diamond prices are firm and cutting centre stocks and bank borrowings are at reasonable levels and in line with business activity", the CSO said

Last August, Mr Ogilvie Thompson caused consternation among investors when he said De Beers might have to cut its final dividend

He blamed this on declining Japanese purchases and also on an unprecedented explosion in the sale of illicit diamonds from Angola.

However, as London broker James Capel reported earlier this week, exports of diamonds from Angola are believed to have fallen, though sales to Japan are down, so De Beers is not yet out of the woods.

Analysts also point to other factors which could have depressed De Beers' earnings in 1992. These include a reduction in investment income because of the use of cash to finance larger diamond stocks, lower margins on diamonds sold, and lower earnings from equity investments

These considerations have resulted in analysts forecasting total dividends for 1992 of 220c to 250c (307c in 1991)

But they point out that these figures are conservative and that the dollar's recent firmness could lead to a higher dividend.

Diamond sales shot in the arm for De Beers

By ARI JACOBSON

DE BEERS' diamond distribution arm, the Central Selling Organisation (CSO), saw sales of rough diamonds fall 13% or \$500m to \$3,42bn last year — but this better than expected result added sparkle to JSE share prices yesterday.

De Beers, leading a rally, gained R2 on the day to R59,75 a share.

Market players mentioned that the good news leaked out "possibly in New York last night" and encouraged early demand for both De Beers and associate Anamint on Diagonal Street yesterday.

Nevertheless, Johannesburg stockbrokers do not believe the CSO sales will prove sufficient to help De Beers stave off the final dividend cut forecast by chairman Julian Ogilvie-Thompson last August.

Expressed in local currency, the CSO's sales tumbled 10% last year to R9,52bn from R10,9bn in 1991.

In dollar terms, sales were \$1,63bn in

last year's second half against \$1,79bn in the first half

Diamond analysts said that forecasts out of London had diamond sales falling a further \$400m to about \$3bn for the year.

Bedecked by large-scale retrenchments locally, De Beers has seen its share price plummet from a November 1991 high of R101 to its August low of about R52, following Ogilvie-Thompson's announcement.

Analysts pointed out that fair value for the share was at its current trading price between R57 and R60 a share.

Simpson Mckie's diamond analyst Henrie Vermeulen pointed out that the share was trading at a 32% discount to net asset (based on yesterday's share price) and so was relatively cheap.

Vermeulen added that certain factors would be supporting the diamond share in the current year such as the decline in diamonds smuggling out of Angola, which is being thwarted by the civil war and the rainy season.

"And the Soviet Union, the other large

player in the diamond market, can barely provide its stated quota of 75% of production."

In addition, while the Japanese economy would not recover this year, the US was expected to show a mild upturn "which will allow CSO sales to move sideways or even slightly up for the year".

Another analyst said that those bullish on De Beers would see this "as mildly encouraging" and those bearish "would be unswayed" by the latest CSO figures.

The CSO's analysis of the market was, if anything, more up-beat than many analysts had expected.

A De Beers spokesman said that the CSO had managed to stabilise diamond sales even with the global slump in demand, with the 15% decline in sales for the first six months reduced to a 13% fall-off in the final part of the year.

"We are a little cautious about making predictions for the new year and realise our reliance on the world economy improving," he said.

● JSE closing report — page 11

January diamond sight boosts JSE

8/00M 13/1/93.
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MERVYN HARRIS

THE flagging diamond market was given a boost yesterday by news of improved January sight figures with estimates ranging from \$350m to \$370m against expectations of \$300m

This follows better than expected CSO diamond sales in 1992, which gave a fillip to Diagonal Street as De Beers led the market to higher ground

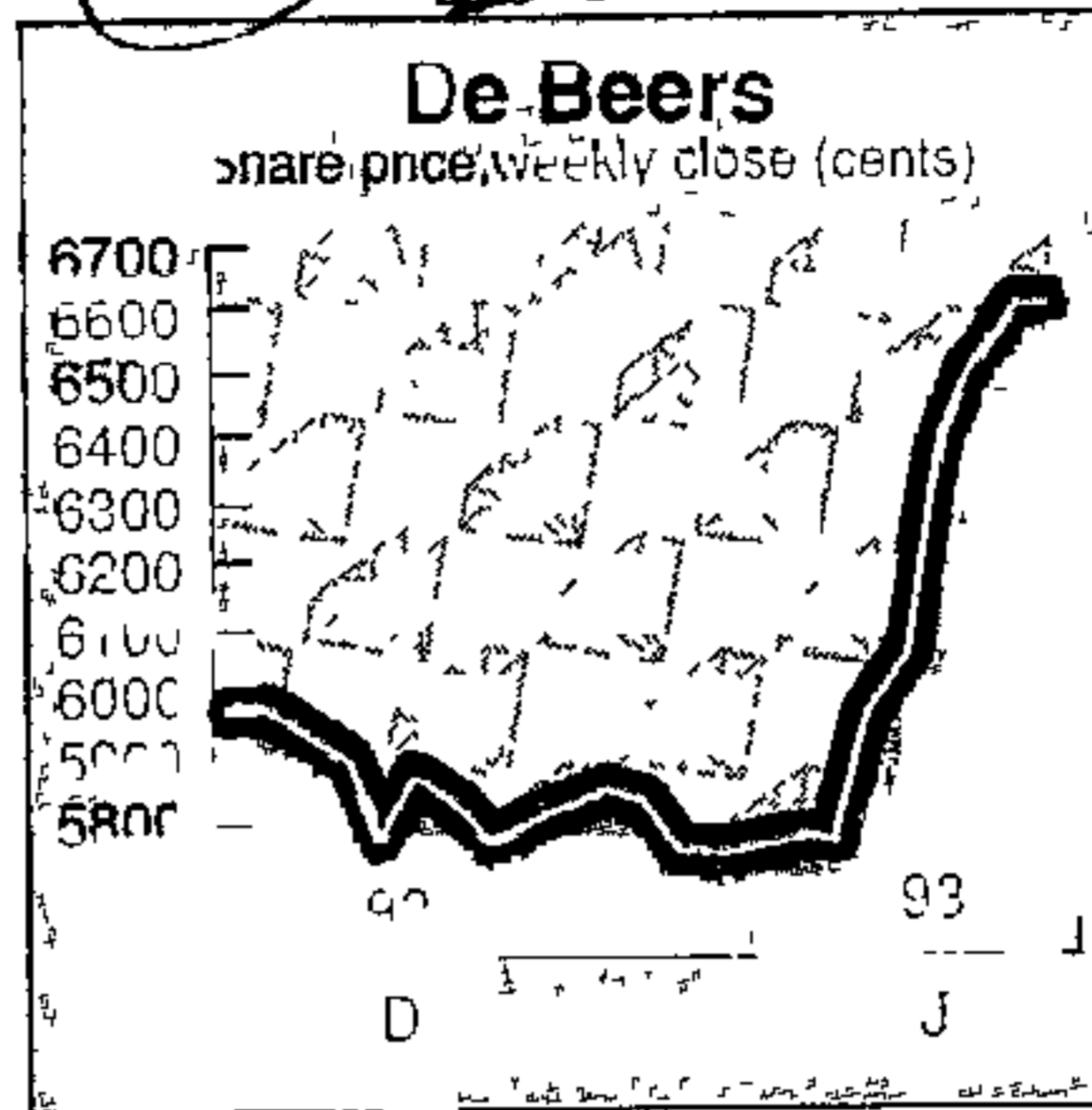
Yesterday's news also injected fresh life into the JSE, with De Beers leading the recovery to finish 75c up on the day at R66 after touching a low of R64,25 and a high of R66,25

The improved sentiment spread and the JSE overall index recovered most of its morning loss of 18 points to end three points down on the day at 3 408

The January sight is one of 10 held during the year in London, Lucerne and Kimberley when about 150 of the most important diamond manufacturers and dealers buy their supplies of rough diamonds

Figures for the sights are only estimates as De Beers issues no official numbers

Analysts yesterday said it remained to be seen whether the higher figure could be



Graphic LEE EMERTON Source I NET

sustained over the next few months

The latest estimates are, however, still well down on previous years

In January 1991 the sight was estimated at \$430m and in January 1990 at \$520m.

This month's sight is not, however, expected to affect the earlier warning by De Beers of a cut in the final dividend for the year to December 1992

Diamond market gets a boost

Finance Staff
and Financial Times

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Stam 13/1/93

Confirmation that the diamond market is stabilising after last year's disastrous slump was provided by the first of De Beers sights this year

According to analysts, sales at the January sight of about \$350 million exceeded sales expectations by about \$50 million

The better-than-expected sight boosted De Beers share price on the JSE yesterday to R66 from a day's low of R64,25. Since the beginning of the year the shares have gained 800c

Last year sales by De Beers' London-based Central Selling Organisation fell 13 percent from the 1991 level to \$4,147 billion last year — the lowest for five years

De Beers warned last summer that it might cut its 1992 dividend in March, and industry observers say it used up all the \$300 million cash it had in the bank at the end of 1991 and was forced to borrow

Only a few months ago, a large number of unwanted stones was flooding the market, and there were fears that rough (uncut) diamond prices might collapse

But now traders suggest that prices are getting firmer, and there are shortages of particular types of polished stones. "Rough diamond buyers say the market is now in balance rather

than a buyer's market as it was a few weeks ago," says Mark Cockle, editor of Diamond International, the trade publication

A few traders suggest that De Beers' first rough diamond price increase since a 5,5 percent rise in March 1990 is not far away

However, both diamond producers and De Beers itself have incurred considerable financial pain to return the market to stability

Buffer pool

Apart from its own production in Namibia and South Africa, De Beers has contracts to sell most of the rough diamonds produced by Angola, Australia, Botswana, the Commonwealth of Independent States, Tanzania and Zaire

It operates a "buffer pool", stocking diamonds in bad times and liquidating stocks when demand runs ahead of supply

Rough stones are released to the market in a controlled stream, through the sights offered by the CSO 10 times a year to about 160 chosen buyers

Each buyer is offered boxes of diamonds costing between \$500 000 and \$25 million and has to accept or reject them all

Traders maintain that the CSO reduced the value of diamonds on offer at each of the last five sights in 1992 to a total

of about \$300 million — low by recent standards. At the same time, De Beers told diamond producers to cut their deliveries by 25 percent

Last year De Beers also had to cope with an unexpected flow of rough diamonds from Angola where, at its peak, about 50 000 private enterprise diggers were picking stones from dried-up river beds

The stones were smuggled out of Angola, mainly to Antwerp, where De Beers tried to buy them. At the height of the rush, De Beers' buyer in Antwerp spent nearly \$40 million in one week

The group estimates that about \$500 million worth of stones was smuggled out of Angola last year, representing a 10 percent addition to world supply

This compares with Angolan production of about one million carats of rough diamonds worth about \$100 million in 1991

Renewed tension

Renewed political tension and war in the country recently has stopped the smuggling and even brought an end to the government's own diamond production

Rumours of substantial smuggling out of Russia have also dogged the market

However, De Beers says the five-year marketing contract signed in 1990 with the then So-

viet Union allowed five percent of production to be sold outside the cartel

The rough diamonds surfacing in Moscow for export to the West outside the cartel's channel are mainly from this source, according to De Beers

Michael Coulson, analyst at the Credit Lyonnais Laing financial services group, says it is good news for the diamond market that stability has been achieved at CSO sales level above those seen through much of the 1980s

But he suggests there will have to be substantial growth in demand — about six percent a year following a "recovery" year with 12 percent growth — to absorb all potential supply by the late 1990s

Ironically, much of the extra supply is coming from De Beers' new R1,1 billion Venetia mine in the Northern Transvaal which, when in full production later this year, will become SA's biggest diamond mine

Coulson says "Some suggest it won't be until 1998 that the market will be entirely in balance — and the CSO will still be left with a substantial diamond stockpile to finance"

De Beers is looking east to help mop up the extra supply. Having developed the Japanese appetite for diamonds virtually from scratch over the past decade, the company is looking to new markets in China and India by the end of the 1990s

Sparkling news lifts De Beers yet again

JOHANNESBURG —
JSE share prices ended mixed yesterday in "fairly active afternoon trade spurred by continued demand for market leader De Beers," dealers said. Shortly after the official close the Overall Index was off three points to 3 408 while the Gold Index eased 12 points to 789. The Industrial Index fell six points to 4 556.

Key stock De Beers recovered from its earlier losses to climb 75c to R66,00. The gain was attributed to better-than-expected January sight sales — which close on Friday — expected to be up at least \$70m on previous data.

The rise came after shares valued at some R9,79m changed hands in 141 deals and lifting its gains so far this month to 850c or 14,78%. However, associate Anglos fell 75c to R96,50.

On the gold board, Kloof fell 25c to R24,25, Western Deep dipped R1,25 or 2,7% to R44,75 and Dries fell 50c or 1,6% to R30,25.

Declines

Doorns, one of the biggest declines in the day, slid 15c or 23% to 50c on the back of quarterly results that said the mine has been earmarked for closure.

In industrials, Barlows slumped 75c to R45,50. SA Breweries shed 25c to R61, Remgro slipped 35c to R27,15 and M-Net lost 20c to R5,50.

Bucking the downward trend, AECI rose 25c or 4,3% to R6,10. RMBH fetched 50c or 4% to R13 and Iscor was up 1c to 83c.

The biggest loser on the day was property sector listed Grovewalk which slumped 15c or 75% to 5c. Dealers were unable to give any reason for the collapse of the share price other than that "something is obviously not kosher at their offices."

Dealers said that there was no "aggressive" buying on the market and they expected the steady trend to continue. — Sapa-I-NET

CSO DIAMOND SALES

FM 15/1/93

(216)

Now for the real test

Second-half sales of rough diamonds by the Central Selling Organisation (CSO) came out bang in line with most analysts' expectations. But predicting these was the easy part — forecasts are far more diverse on 1992 earnings and the all-important question of what will happen to the final dividend.

And, just as important, there is the outlook for 1993. Some analysts are looking for the start of a recovery in De Beers/Centenary's fortunes, others are predicting further dividend cuts as the cartel has to finance its burgeoning stockpile.

Second-half sales of US\$1,63bn were 11.4% down on the \$1,84bn recorded for the last six months of 1991. It meant total CSO sales for 1992 dropped 13%, to \$3,4bn, from the 1991 total of \$3,9bn. Nearly every JSE analyst's prediction fell in the range of \$3,3bn to \$3,5bn.

At the interim stage, chairman Julian Ogilvie Thompson warned of a "significant" reduction in the 1992 final, from the 1991 final of 236.2c.

Anderson Wilson analyst James Allen is predicting a 30% drop in attributable earnings to 385c a share, from 1991's level of 550c, and he expects the total payout to be 30% down, at 215c, from the 1991 total of 308c.

Des Mayers, of G O'Flaherty, estimates attributable earnings of at best 400c a share and a total dividend between 150c and 200c, while Edey Rogers analyst Keith Bright is looking for attributable earnings of 375c but is more optimistic on the dividend, forecasting a total of 225c.

But the market has been largely discounting the possibility of a cut in the 1992 dividend. On the key question of what happens this year, there is a marked split in opinion. Bright, for example, believes 1993 will show a considerable improvement over 1992, with CSO sales rising to \$3,8bn, attributable earnings jumping 30% to 487c and the dividend recovering to 275c.

Some analysts are looking for a maintained dividend for 1993 but Mayers and James Picton, who consults for Anderson Wilson, are more pessimistic. Mayers reckons earnings must deteriorate further, even if CSO sales rise somewhat, because of the



De Beers' Ogilvie Thompson will he surprise the market?

financial pressure of funding the diamond stockpile. He adds that if the recovery in the US economy falters, there will be further dividend cuts from De Beers.

Picton believes that a fundamental change has taken place in the diamond market to the detriment of De Beers' overall position. He, too, warns of further dividend cuts, pointing out that the CSO stockpile must be approaching \$4bn and large stockpiles have become a permanent feature of the business.

"The stockpile grew from \$254m in 1977 to \$3,03bn in 1991 during a period where there was more boom than bust in the market," he says. "De Beers cannot go on pretending the stockpile is a temporary thing."

Picton also queries De Beers' confident comments on the state of the retail jewellery market, saying the cartel is using the statistics selectively to promote confidence in the business.

"In the four years since 1988, rough diamond sales have declined 18%. Throughout this period, De Beers has claimed that stocks in the pipeline were under control. How can they then claim that retail sales of diamonds have held up?" he asks.

According to De Beers, retail jewellery sales have held up well through the recession,

standing at \$39bn in 1991, compared with \$38,7bn in 1988. Picton points out the actual diamond content is only a small fraction of the total jewellery sales, it amounted to \$6,83bn in 1988. The balance is made up of the value of precious metals used along with promotion, distribution and manufacturing costs.

"Jewellers are using more gold and less diamonds, which means the percentage of that total figure represented by diamonds is dropping. I think De Beers are still gambling on a strong recovery in demand to pull the market around but I believe that demand is simply not there. Whether CSO sales are \$3,6bn or \$3,8bn this year is academic. They would have to be around \$4,5bn to make any real change in De Beers' fortunes. The share is ex-growth," says Picton.

At R66, the share is well above the 12-month low of R44,25 reached on October 15. That may seem like a promising rebound, but the release of the year-end results and the annual accounts — especially the balance sheet — will offer more useful insights into recovery prospects.

Brendan Ryan

De Beers polishing up diamond market

(216)

APG 16/1/93

LONDON — There is an almost tangible feeling of relief in the diamond-cutting centres of Antwerp, Bombay and Tel Aviv

The diamond producers' cartel run by De Beers has regained its tight grip on the market

Only a few months ago, a large number of unwanted stones flooded the market, and there were fears uncut diamond prices might collapse

Now traders suggest prices are getting firmer and there are shortages of particular types of polished stones. Rough diamond buyers say the market is now in balance rather than a buyers' market as it was recently, says Mr Mark Cockle, editor of trade publication *Diamond International*

A few traders suggest De Beers' first rough diamond price increase since a 5.5 percent rise in March 1990 is not far away

However, both diamond producers and De Beers itself have incurred considerable financial pain to return the market to stability. Sales by the group's London-based Central Selling Organisation, which controls at least 80 percent of world trade in rough diamonds, fell 13 percent from the 1991 level to R10.5 billion (\$3.147bn) last year the lowest for five years. De Beers warned that it might cut its

1992 dividend in March. Industry observers say it used up all the R2.4 billion (\$800m) cash it had in the bank at the end of 1991 and was forced to borrow

Traders maintain the CSO reduced the value of diamonds on offer at each of the last five sighthouses of 1992. At the same time, De Beers told diamond producers to cut their previously agreed deliveries by 25 percent which meant the company's stockpile was not growing at such a fast rate

Last year De Beers also had to cope with an unexpected flow of rough diamonds from Angola where about 50 000 private diggers were picking stones from dried-up river beds

The stones were smuggled mainly to Antwerp, where De Beers tried to buy them. At the height of the rush, De Beers' buyer in Antwerp spent nearly \$40m in a week

Rumours of substantial smuggling out of Russia also dogged the market

Mr Michael Coulson, analyst at the Credit Lyonnais Laing financial services group, says it is good news for the diamond market that stability has been achieved. But he suggests there will have to be substantial growth in demand of about six percent a year after a recovery year with 12 percent growth to absorb all potential supply by the late 1990s

De Beers shoots down debt reduction ploy speculation

By Neil Behrmann

(216)

LONDON — De Beers has refuted rumours that proceeds from Charter's intended sale of Johnson Matthey will ultimately be used to reduce borrowings.

Charter's negotiations to sell its 38 percent, or £350 million, stake in Johnson Matthey has led to speculation that there will be a chain reaction within the Anglo American empire

According to this theory, Charter will use the cash from the JM sale to buy out Minorco's 36 percent holding in itself. De Beers would then sell its 21 percent holding to Minorco and use the cash to repay loans

De Beers's denial is to be expected, say analysts, but they also believe that such inter-company dealings are unlikely

Swiss-based De Beers Centenary owns the holding in Minorco, which is regarded as a strategic international holding, particularly if De Beers Centenary

and De Beers Consolidated eventually split.

The key to Johnson Matthey's sale, say analysts, lies in its platinum connections

Minorco has a 30 percent holding in platinum refiner Engelhard. Without an indirect interest in another platinum refiner and manufacturer, the door is open for it to bid for a controlling stake in Engelhard in the US

Several brokers believe Rustenburg will buy JM, its long-time marketing agent and refiner

The problem is SA exchange controls, although Rustenburg can easily raise funds abroad

European monopoly restrictions might also be a hindrance

Other contenders for the Charter holding are rumoured to be German precious metals refiners, Degussa or Heraeus

The huge European metals group Metallgesellschaft is also cited as a possible buyer

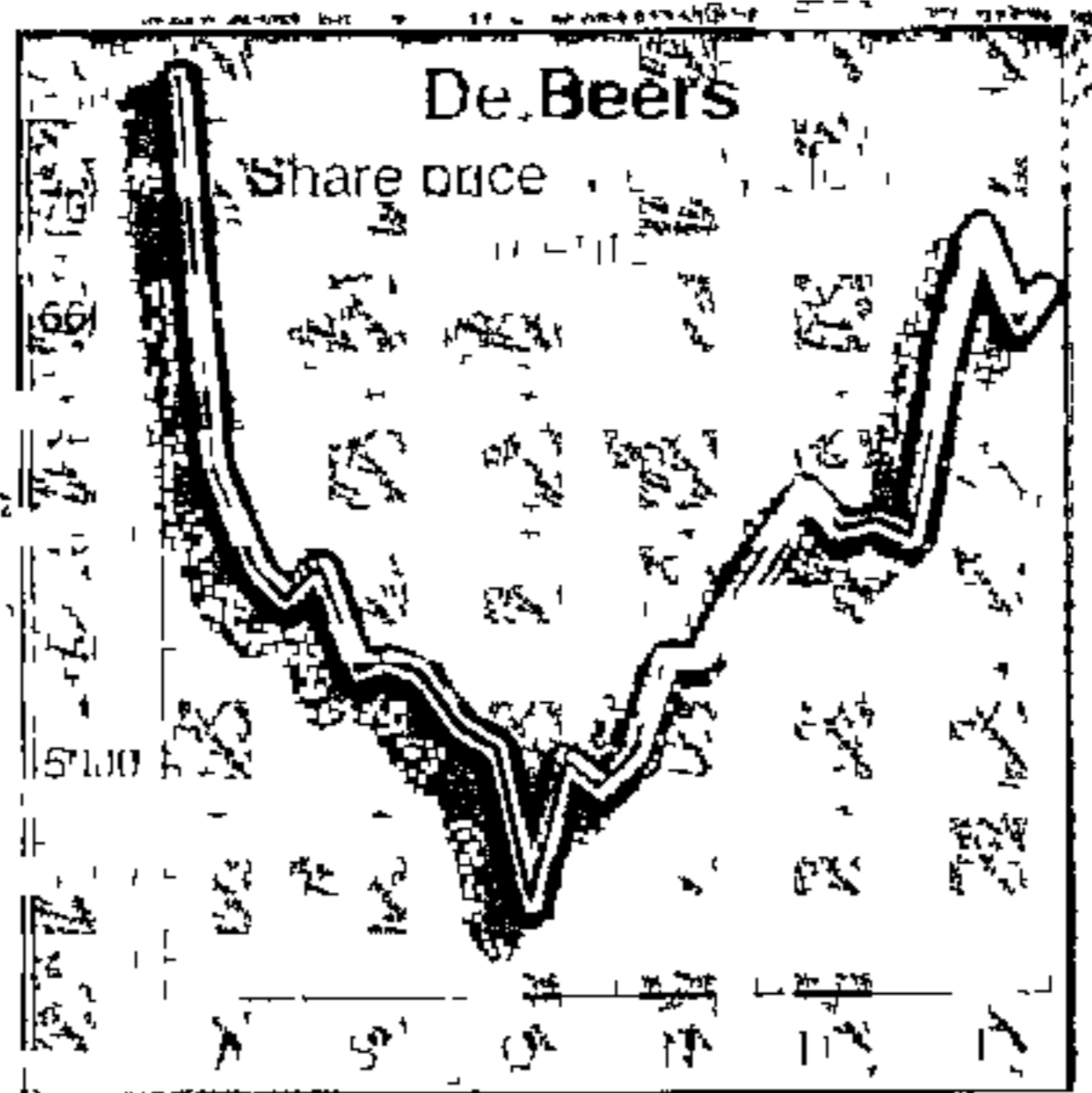
Star 21/1/93

Cops urged to focus on people

DURBAN. — Leading Natal peace negotiators last night urged the South African and KwaZulu police forces to improve their community relations.

At a meeting of the Natal/KwaZulu Regional Dispute Resolution Committee, both forces were criticised for failing to promote themselves adequately at grassroots level.

Committee members called for the police forces to urgently establish effective local initiatives aimed at bringing them closer to the public — Sapa



Graphic RUBY GAY MARTIN Source I NET

De Beers sets tone for firmer market

810m
22/1/93 MERVYN HARRIS (216)

JSE bellringer De Beers set the tone for a firmer market yesterday as investors piled into the shares at a lower level after sharp losses on Wednesday.

Demand was boosted by a report from London that the Central Selling Organisation (CSO) expected a decline in rough diamond production from last year's problem areas — Russia and Angola.

The shares recovered all of the previous session's loss of 150c to close at R66,75 on a turnover of 245 000 shares worth more than R16m changing hands in 86 deals.

Reuter reports that CSO marketing executive Robin Walker said in London that production from Russia was expected to go down this year.

At the same time, the weather and greater efforts by government were having an effect on the supply of illicit diamonds from Angola. "Some residual flow out of Angola is expected this year but at greatly reduced levels," Walker said.

At the end of its mopping-up operation last year, the CSO estimated it had bought up to two-thirds of all illicit Angolan diamonds entering the market. "We managed to preserve a price, to preserve stability, to underpin the market before it caused any damage," Walker said.

The Russian problem had in the end been much more manageable than widely perceived, Walker suggested. "The rumoured overflow of diamonds from Russia never happened." If anything, Walker said, production from Russia might even be going down because of lack of investment and severe engineering problems.

Worldwide demand for diamonds shifting to Asia

STAR 28/1/93

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LONDON — Global demand for diamonds is shifting to Asia and should help to stabilise retail sales in 1993 at last year's depressed levels, says De Beers's Central Selling Organisation (CSO).

CSO deputy chairman Alex Barbour expresses the view in an interview with the Israeli diamond trade magazine Mazal U'Bracha.

He forecasts that Russian diamond production will drop 25 percent this year, with possible shortages of some types of polished diamonds

Production

"We, at the moment, can't see any reason for our diamond sales to drop any further," he is quoted as saying.

The CSO sells around 80 percent of the world's diamond production

"Worldwide, retail sales will not be all that different, in 1993. What we're seeing is some juggling in the pipeline," he says

The CSO expects an upsurge in demand in Southeast Asia, including Thailand and China, in 1993.

Retail sales should be lower in Japan, but higher in the US, he says

As a result, Barbour says the CSO will be increasing its Far East advertising by several million dollars this year, including some consumer advertising in mainland China.

Earlier this month the CSO announced its worst annual rough diamond sales figures since 1987.

The figures showed that 1992 sales, at \$3.42 billion, had fallen 13 percent from the previous year's \$3.93 billion.

On the supply side, Barbour estimates Russian production in 1993 for the first time

"At the moment there is less coming out of Russian mines — about 25 percent less in the actual delivered production this year

"We don't get the official figures, of course. But, according

to our information, that figure seems reasonable."

Despite all the problems in the Russian industry, he sees no changes to the current supply contract between new marketing venture Diamonds of Russia-Sakha and the CSO

Glut

Last year's operations to stabilise the market in the face of a worldwide glut of diamonds had not badly affected the CSO's own financial position, he says

"We have extremely large facilities that we can draw on today, and a tremendously strong balance sheet, which shows assets in investments outside the diamond industry of approximately \$5 billion."

Barbour says there is no truth to suggestions that the CSO may need to borrow from Anglo American's overseas investment arm Minorco to support diamond buying. — Sapa-Reuter.

De Beers to review its (216) exploration in Australia

Star Foreign Service

MELBOURNE — The Australian exploration arm of the giant South African De Beers diamond group is reviewing its local activity in the wake of the recent Aboriginal land rights decision.

This is the first public indication that the decision could have a serious impact on the level of mineral exploration in Australia. *STAR*

The High Court last year ruled invalid the long accepted premise that before white settlement Australia did not have a civilised society and that there was no system of land ownership.

This effectively opened the way for widespread Aboriginal land claims and yesterday led De Beers Australian company, Stockdale, to raise its concern. *28/11/93.*

Stockdale referred to the Forrest River Reserve in Western Australia's Kimberley district where it has a highly promising diamond prospect and said it was now, in the balance because an Aboriginal organisation has claimed the area.

Market enthusiasm pushes up De Beers share price by 40%

STAR 29/1/93

By Neil Behrmann

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LONDON — De Beers shares have surged around 40 percent from their low point last October because brokers are more enthusiastic about a diamond market recovery.

Despite some hopeful signs, however, it is still premature to be optimistic about any marked revival.

Some recovery in De Beers shares is justifiable, considering that at one stage the market capitalisation in dollars only covered the company's diamond stockpile and excluded mining assets and investments around the world.

Also, sales at the first 1993 "sight" in January are estimated at \$325 million — above expectations. This followed better-than-expected turnover of \$3.4 billion in the second half of last year.

The De Beers promotion team is doing its utmost to cheer up the market.

Nevertheless, dealers and independent analysts are wary

After all, the US economy is only just beginning to revive and Japan and Germany, the two other leading diamond-buying nations are in recession. So it is unlikely that there will be a surge in diamond demand.

In a study for IDC Holdings, a leading London diamond dealer, Antwerp-based consulting geologist Luc Rombouts is cautious about prospects for the diamond market in the Nineties.

He calculates that in 1992 the world's natural diamond supply of 105 million carats was worth \$5.8 billion.

This is well in excess of demand estimated at 86 million carats and worth \$4.8 billion. De Beers' decision to defer purchases from producers by 25 percent has stopped diamond prices from falling, he says.

Yet the market is likely to remain flat.

If global growth rates are maintained at relatively low levels for three to four years, diamond demand will remain around \$4.8 billion to \$5.7 billion.

About 70 percent of these diamonds will be sold by De Beers. Nominal prices will remain stable, but will decrease in real, inflation-adjusted terms.

Even if global economic recovery allows demand to rise by an average two percent a year in the next decade, present supplies are sufficient to meet demand.

At an annual compound rate of two percent, world demand by the year 2002 will have grown to 105 million carats worth \$5.8 billion in current money terms.

This assessment takes into account fast-growing consumption in Asia and possible future demand in China, says Dr Rombouts.

Thus prices, in real terms, are unlikely to rise, even in a better economic growth scenario, he argues.

The operating and capital costs of De Beers as well as contract purchases from Russia, Argyle and others, cost the company about \$3 billion to \$3.2 billion a year.

LABOUR Economic circumstances determine laying off of workers on diamond mines

By Ike Motsapi

THE National Union of Mineworkers and De Beers Consolidated Mines Ltd have entered into an agreement of first retrenching newly appointed employees when the need arises at mines

Both parties accept that changing economic and operational circumstances can lead to possible retrenchments but that the mine will make every effort to avoid or limit laying off staff

It is recognised that the ways of limiting terminations will be influenced by the individual circumstances.

Retrenchments

Mr Jerry Majatladi, media and Press officer of NUM, said "Subject to any agreement reached at the divisions, the selection of employees for retrenchment will be based on the principle of last in first out (Lifo)"

According to the agreement, divisions, however, after having disclosed the reasons to NUM, reserve the right to retain the services of employees who have particular skills and experience

A notice period of one month or 30 calendar days applies which may, at the discretion of the divisions, be commuted to one month's salary in lieu of notice

The termination date remains unchanged as the end of the notice period and no pension fund payments will be made before this date

Should a member have secured alternative employment the divisions shall,

New deal for miners

Sowetan 4/2/93



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LAST IN Union agrees with De Beers

On new retrenchment rules:



where reasonably possible, release him to take up such employment

Payment for the notice period shall attract all regular payments and deductions in respect of the pension fund and medical benefit society, any bond subsidy payments and water and electricity allowance payments

This clause may be waived by agreement between NUM and the divisions

- Age 55... no reduction
- Age 56... Reduced by 20 per cent
- Age 57... Reduced by 40 per cent
- Age 58... Reduced by 60 per cent and,
- Age 59... Reduced by 80 per cent or three months' basic salary whichever is the greater

The mine and NUM have agreed to establish a scheme to assist members retrenched from the divisions Both parties agreed that the scheme will help retrenched workers acquire basic vocational skills through short training courses

It is expected that these newly acquired skills will help them find alternative sources of income

The mine pledged to allocate R1,5



Jerry Majatladi ... last in first out.

million to an account to establish the fund for the purpose of the scheme

This fund will be jointly managed by NUM and the mine.

Majatladi added "In addition to the notice period, employees being retrenched shall be entitled to a further one month's housing benefit.

"Where an employee lives in his own house, an additional month's subsidy, where applicable, shall be paid, and where an employee occupies a unit

of a mine accommodation, he shall be entitled to occupy the property for an additional month

This agreement, which was signed this month, will remain in force and effect for a minimum period of 24 months from date of signing, whereafter any party wishing to amend any clause may submit its proposals to the other party in writing

The period given for this is two weeks prior to any meeting being convened.



FOCUS

Diamonds are forever — just ask Archie

BIDNEY 4/2/93
HAROLD FRIDJHON

ARCHIE Shapiro, arbitrageur extraordinary, who has just celebrated his 60th year of association with the JSE, reckons he has dealt in 1.2-billion De Beers shares, equivalent to three times the present issued ordinary capital of the diamond company.

He bought them, he sold them, dealing in the world's major share markets, with Johannesburg as home base. At times the transactions were primarily to acquire or dispose of shares. On other occasions the De Beers were used purely as currency counters.

Although Shapiro had a personal affinity with De Beers, largely because the shares were freely traded, his arbitrage dealings were also spread across the gold boards, including mining financials, generating turnovers running into many millions. And he never forgot his beginning was a chance job as a \$5-a-month office boy.

SA abandoned the historic gold standard in the drying days of 1932, detonating a frenzied boom when the JSE reopened after the new year holidays. But to recently matriculated Archie Shapiro and to thousands of school-leavers, these events had no meaning. Their concern was getting a job. And jobs were scarce.

Shapiro was desperate. He had to help support his mother. A friend suggested he try the stock exchange; he believed the people there were busy

That was a modest assessment of the activity in Holland Street. Apart from hectic buying by South Africans, orders were flooding in from London and Paris. Without a shred of knowledge of the stock exchange, Archie boldly went into the building and knocked on the first door he saw.

A voice shouted "come in." He went in to be brusquely asked "What do you want?"

"A job, please" triggered off a torrent of high-decibelled, Teutonic-laced words which Shapiro took to imply "Get out. We have no jobs."

He moved along the corridor. An open door prompted him to give the place a second chance. The people in the office were sorting mounds of paper and writing in ledgers. But one man looked up and quietly asked "What can I do for you?"

Encouraged, Archie replied, "I'm looking for a job." He was aware of being piercingly studied before the man replied, "25 a month and you can start right away."

That was the beginning of a 60-year association with the JSE and a 40-year old relationship with Eric Freemanantle until he died in 1973.

Freemanantle became Archie's teacher and, over time, friend and partner in 1949.

Archie was a fast learner. From tea boy, messenger delivering scrip, writing the post book, he graduated to an understanding of the books and the

paper creation which in those days was a vital byproduct of the share market. As an unauthorised clerk, he was allowed on the floor of the exchange not to deal, but to deliver orders. Quick-witted Archie asked questions, observed and absorbed the striking of bargains and making of deals.

Impatient, he wanted to be a participant. His time came in 1937 when he achieved the status of authorised clerk, a dealer.

His real career had begun. But he could not have chosen a more inclement climate. April 9 1937 was a Black Friday, a day of sackcloth and ashes in JSE history.

The bottom fell out of the gold share market after an obscure American Senator protested that the US could no longer pay a fixed price for gold.

An indication of losses on that day was the bellwether West Wits shedding 75 shillings to 280 shillings and losing a further 100 shillings to touch 198 shillings before the month was out. Heavy selling came from all points of the compass. The heights in brokers' offices burned through the night as clerks and principals sorted brokers' notes and buy/sell instructions.

For young Shapiro the experience was a baptism of fire. But it was also part of learning about the vagaries of markets and the closing of deals

through the tumult of high-pressured trading scrammages. He adapted quickly and readied himself for the next market phase.

In the months ahead, gold shares moved along a recovery incline as buyers filtered back into the world's major gold share market which was poised on the threshold of another dynamic surge triggered by favourable reports emanating from the West Wits line.

But the nascent boom was cut short by the German invasion of Poland.

Holland Street withdrew into itself during the war years as European markets closed and the US had still to be fully alerted to profits from gold. But when hostilities ceased and the western world started repairing battered economies, activities were resumed in the bourses. Under the tutelage of Eric Freemanantle, Shapiro sharpened his skill as an arbitrageur, trading on price differentials as well as on currency variations.

The West Wits line was proved and mines were floated. Exploration was uncovering the riches of the Free State. In April 1946 the Geduld borehole produced a core which assayed 25 037 pennyweights, equivalent to 10.5 oz./ton. And more to come were Jack Scott's efforts in Klerksdorp.

London was alive to what was happening on the Johannesburg market and Shapiro was the link between Throgmorton and Holland streets. But Freemanantle, alert to the arbitrage possibilities if more markets participated

carpet-bagged in the Brussels and Paris bourses and the over-the-counter market in New York, selling the attraction of SA gold shares. The arbitrage business cascaded as Pollack and Freemanantle was the first Johannesburg brokerage firm to install a private telex line between London and other links. This enabled Shapiro to secure bids and offers faster than any other firm.

Shapiro has seen the JSE through many changes — the temporary move to rented premises in Fox Street, while the Holland Street premises were rebuilt, and then Diagonal Street. He has seen markets boom and slump. He has seen old mines die and new mines come to the market. He has watched the broadening of the JSE as shares in industrials, banks, insurance companies and great trading houses dominate market values.

Consultant to Frankel Max Pollak Vindertine, with whom he merged Max Pollak and Freemanantle, Archie is not an active participant in the day-to-day dealing, his son David carrying on where he left off. But he goes to the floor every day.

The JSE is his other home, his club, his abiding interest. He will probably hang on, waiting for his faith to be justified that sooner or later the world will return to gold as a store of value. Meanwhile, he nurtures a firm belief that diamonds are forever.



ARCHIE SHAPIRO a long career which saw him rise rapidly from tea boy to dealer. Picture SUE KRAMER

Investing in gold



Dip in Minvest's net income

BIDAY 5/2/93
MESSINA Investments (Minvest) should exceed last year's earnings of 42c, provided diamond and copper prices remained at current levels, executive chairman Tony Buchan said in a statement accompanying the company's results

In the six months ended December 31 1992, net income fell to R2,41m (R2,93m). Turnover decreased slightly to R32,5m (R33,8m), but operating income which fell to R2,72m (R5,93m) was in line with management expectations, Buchan said

Finance charges of R75 000 (R43 000) reduced pre-tax profit to R2,64m (R5,89m), but the company footed a lower tax bill of R115 000 (R2,97m). As a result, after-tax profit decreased marginally to R2,53m (R2,92m)

Buchan said Messina Copper Mine ceased production last month, but proceeds on 2 498 tons of copper already mined would be earned in the next six months. Integration of the Bellsbank diamond interests was now complete and operating results for Messina Diamonds were forecast to meet expectations for

(216)
JONO WATERS

Minvest's financial year

Star diamonds started production in December and would contribute to earnings for the remainder of the financial year. Star diamonds was purchased by the company in July last year for R8,3m

Net borrowings of R7,8m are expected to be wiped out by the end of the financial year as a result of the disposal of a major portion of Messina Copper's mining assets

Capital expenditure commitments more than doubled to R2,51m from R1,08m in the previous year.

In the annual report for the year ended June 30 1992, Buchan said primary exploration was concentrated upon a titanium deposit at Muden in Natal. Prospecting for diamonds in Botswana was also under way with an Australian partner

Minvest shares closed unchanged yesterday at 150c in the mining holding sector. This was midway between its high and low over the past year, placing the share at a historical dividend yield of 6,5%

De Beers price rise seen as PR ploy

By Neil Behrmann

LONDON — De Beers' announcement yesterday of a 1.5 percent increase in the prices its rough diamonds is aimed at lifting the spirits of the diamond market.

Diamond dealers and analysts describe the move as a "public relations ploy."

Although the market has revived slightly from its September depression, business is still slack.

Antwerp-based diamond consultant Luc

Rombouts said "It is rather odd that De Beers is raising prices soon after its decision to cut purchases from producers by 25 percent."

The market had not turned yet and De Beers diamond stockpile was estimated at the high level of \$4 billion

But the price increase was very small. So the decision appeared to be a public relations exercise aimed at raising market confidence

Dealers also contend that the price increase is an attempt to sooth car-

tel producers.

De Beers' marketing arm, the Central Selling Organisation (CSO), said the price rise reflected "increased demand of certain rough gem categories".

In a separate announcement to dealers, however, the CSO said that buyers could refuse to buy parcels at next week's sale, known as a "sight".

Dealers interpret this statement to indicate that De Beers remains concerned about the strength of the market.

Star

11/2/93

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1,5% increase the first since 1990

CSO to hike prices of its diamonds

THE Central Selling Organisation (CSO), De Beers' marketing arm which controls the lion's share of the world diamond trade, is to increase prices of its rough diamonds by an average 1,5% from Monday.

The diamond cartel's announcement yesterday could represent a message to the market that diamond jewellery sales continue to be strong, particularly in the US and Far East. The announcement may also soften the coming blows of a sharp reduction in the group's final dividend on

JONO WATERS

top of weak 1992 earnings.

However, it does little to reassure sceptics concerned that the market is still heavily oversupplied. De Beers faces the costs of financing its growing multibillion-dollar diamond stockpile, with the prospect of having to buy rough diamond production currently constrained by the 25% quota imposed on CSO mine suppliers.

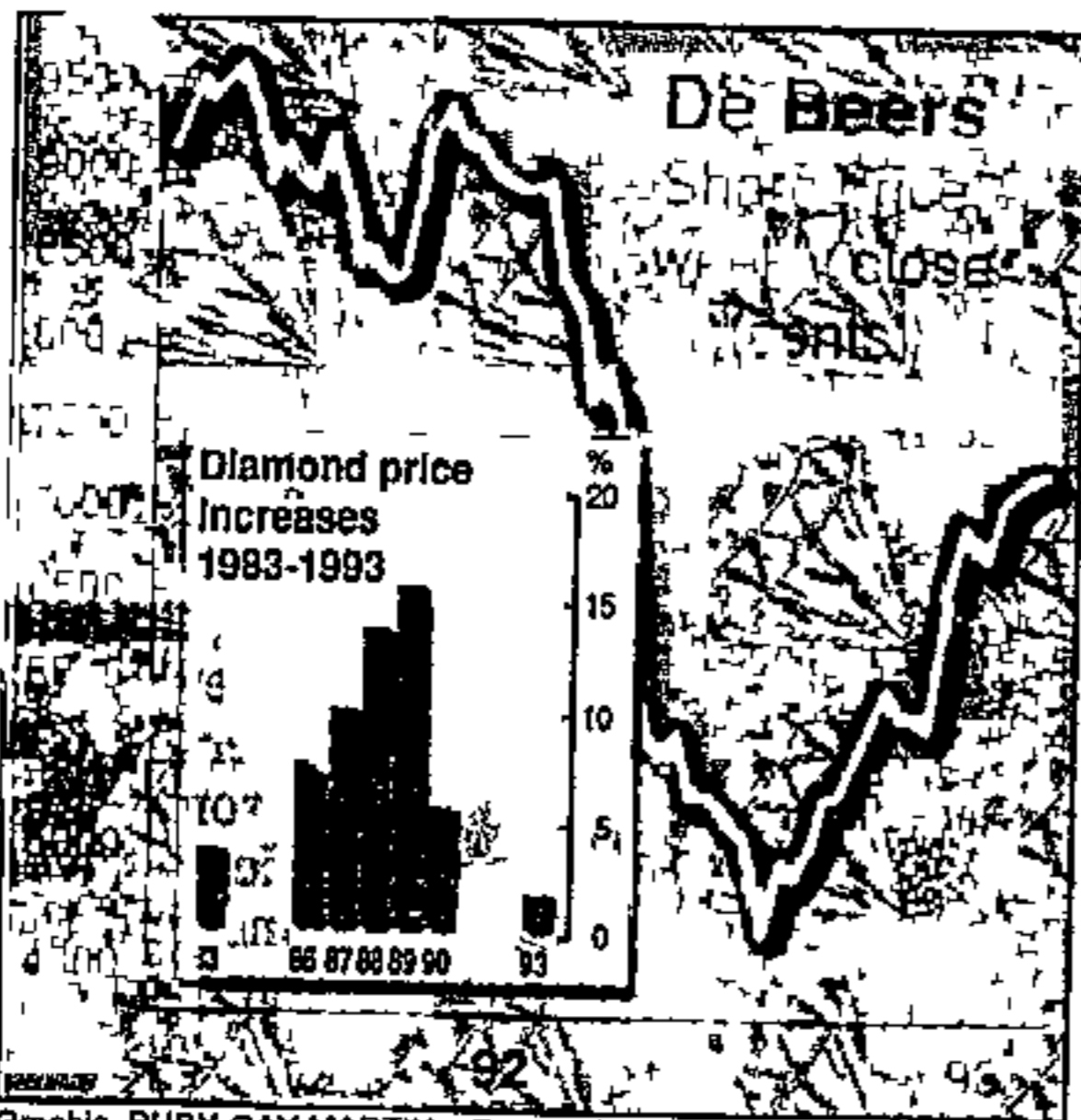
De Beers shares started climbing early in the morning on the JSE on rumours of an announcement and reached a high of R72,75. There was a flurry of foreign buying and De Beers closed 100c up at R72.

De Beers shares have climbed about 40% since the low of R44,25 in October. This is in spite of last month's announcement of a fall in 1992 sales to \$3,42bn (1991: \$3,93bn).

The CSO said the increase would take effect from the February sight next Monday. It is the first price increase since the 5,5% rise in March 1990, and the lowest since the 1940s. The last comparable price increase was 1,55% in 1975.

Anderson Wilson analyst James Allen said the price increase was more symbolic than anything else. "This is an attempt by De Beers to underpin sentiment in the diamond market."

To Page 2



Tax

in top income earners' taxes was to be expected to finance tax relief for low income earners. Senekal, Mouton & Kitshoff economist Louis Geldenhuys said "Indirect taxes like VAT hit low income earners the hardest, and it would make sense to balance an increase in VAT with income tax relief. But given the state's revenue problems, it will probably have to raise the top marginal tax rate if it wants to do

something about fiscal drag at the bottom end of the scale."

Rand Merchant Bank economist Rudolf Gouws said raising the tax rate would be a disincentive. "Tax relief for lower income earners to alleviate the effects of a higher VAT rate would be a sound move, but it would be unfortunate if it was accompanied by a rise in the top marginal income tax rate."

From Page 1

CSO ups rough diamond price

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(211)

From JONO WATERS

JOHANNESBURG The Central Selling Organisation (CSO) De Beers' marketing arm which controls the lion's share of the world diamond trade, to increase prices of its rough diamonds by an average 15% from Monday.

The diamond cartel's announcement yesterday presents a fresh challenge to the market that diamond producers have continued to be from particularly in the US and Europe. The announcement may also soften the competitive bid for a reduction in the group's production on top of weak 1991 earnings.

However, the little-known sure sceptics concerned that the market will be able to cope with De Beers' new offer of financing of a rough diamond stockpile with the prospect of a limited rough diamond production currently constrained by the 2% quota imposed on CSO mine supplier.

De Beers share price climbed 8% in the morning on the JSE on rumour of an announcement and reached a high of R727. There was a flurry of foreign buying and De Beers

closed 10% up at 1672.

De Beers shares have climbed about 40% since the low of R44.25 in October. This is in spite of last month's announcement of a fall in 1992 sales to \$3.47bn (1991 \$3.93bn).

The CSO said the increase would take effect from the February sight net Monday. It is the first price increase since the 5.5% rise in March 1980 and the lowest since the 1940s. The last comparable price increase was 1.55% in 1975.

London Wilson analyst James Allen said the price increase was more symbolic than anything else.

This is an attempt by De Beers to underpin sentiment in the diamond market.

He said the market was weak as it would not be able to sustain a larger price rise.

Allen dismissed the good January sights as reason for the increase. The sights were good compared to January 1991 but were still poor compared with the two previous years he said.

Edey Rogers analyst Keith Bright said traders had been expecting the increase for some time now.

He believed De Beers were testing demand and the price increase was a forerunner to a large

or one later in the year.

Ferguson Price, Hall, Stewart & Co analyst William Bowler said there was pressure from producers who had not received a price increase in the past three years. "The CSO imposed production quotas in September last year and this is a way of compensating producers for the 25% cut in production."

Bowler said rough dealers did quite well after the January sights and the profit margin between CSO prices and dealers sales prices had widened.

"When the CSO sees prices in the open market are moving out of line with their own prices, they will be encouraged to adjust their prices upwards."

Retail jewellers would not expect another price increase would depend on a sustainable improvement in demand for diamond jewellery in the major diamond consuming markets, he said.

"Since the very large price increase in 1989, De Beers has preferred to increase prices more frequently at lower numbers in line with international inflation."

In a statement yesterday the CSO said it would also change its assortments for rough gem diamonds particularly in the size range above three quarters of a carat.

De Beers fine-tunes its investor relations

B/DAM 11/2/93 (216)

DE BEERS may be fine-tuning its investor relations with the strongest message yet that the fortunes of the diamond market are turning around, just six months after the furore over the diamond group's down-beat market forecasts for 1992 and likely final dividend cut.

Yesterday's announcement by the CSO that average rough diamond prices would rise by 1.5% from February 15, confirmed that there had been a sustained recovery in jewellery sales, particularly in the US and Far East.

De Beers spokesman Sej Motau says "the US is showing continuing steady recovery and the Christmas season has been better than expected", although he notes sales in Japan have been as poor in 1992 as they were the year before.

At the same time, De Beers has been canvassing Johannesburg stockbrokers about their 1992 earnings and dividend forecasts, something the group admits it did not do before the August interims.

Otherwise, the announcement might seem something of a damp squib. The price rise is negligible, it follows nearly three years on from the last increase of 5.5% and has been widely expected. The New York-based Rapaport Diamond Report has noted good demand and strong rough diamond prices since the new year. Motau says CSO price increases on rough diamonds "to a certain extent" reflect price movements which have already happened.

However, the average price rise hides

MATTHEW CURTIN

price increases of perhaps 10% for some stones, particularly for gems in demand from CSO customers serving the US and Hong Kong/China markets.

Rapaport noted there were some "severe shortages" for certain gems, adding Chinese goods were "hot" at end-January.

Diamond International, the London-based magazine, estimates Hong Kong's imports of polished gems rose 23% in the first nine months of 1992 compared with the year before to total US\$1.46bn.

However, one analyst detects some "cheek" in the price announcement. The diamond market is still oversupplied, even if Angolan smuggling and fears of Russian leakage outside the CSO's grasp are on the wane, the strong dollar will add to the impact of higher prices for diamond buyers and cutters in Belgium, Israel and India, and the new-found market stability has come at the price of severely weakening De Beers' balance sheet and cash flow.

De Beers, he says, may be sounding out the investment community in preparation for as "neutral" a dividend cut as it can muster, accompanied by vague indications that the worst is over.

Motau says "It is too early to predict how the market will develop in 1993." The group was less coy nine months ago about the prospects for 1992, but then it misjudged them badly.

Samada in the balance

JONO WATERS

CONSOLIDATED Diamond Corporation (CDC) was discussing with major creditors and third parties possible restructuring or refinancing of its curtailed Samada operation in the Free State *BIDA*

In the annual report for the year ended June 1992, chairman Chris Mumby said an evaluation of additional sources of supply of material for Samada was being undertaken by potential investors. *11/2/93*

"Investigating additional sources of supply may well result in a solution being found to Samada's current predicament"

Mining at a much reduced rate had resulted in a small profit before interest. Every effort was being made to resolve Samada's current difficulties and return it to profitability.

FM 19/2/93.

FOX

DE BEERS/CSO

(216)

A cosmetic lift

The unexpected announcement last week of an overall 1,5% increase in rough diamond prices by the Central Selling Organisation (CSO) is being viewed by analysts as a De Beers morale-boosting exercise for the diamond trade. Many feel it is unjustified.

De Beers says the price increases reflect increased demand for rough stones, particularly in the size range above three-quarters of a carat.

Market observers say the CSO has noticed prices for these stones rising in the open market to levels slightly above prices charged at the sights.

"The CSO wants that benefit to be passed back to its producers as some reward, however slight, for the sacrifices they have made with the imposition of the 25% quota cut last year," says one analyst. "It's no big deal but it is encouraging."

James Picton, consultant to stockbroker Anderson Wilson, says the increase is meaningless and reflects De Beers's unrealistic optimism over market conditions. "They are looking at the slight improvement in the US and hoping the rest of the world is following. But the market cannot absorb the large quantities of diamonds that have been offered in the first two sights of 1993. I don't know why De Beers is doing this when it cannot escape a significant cut in the final dividend."

The share price has recovered well to current levels around R69, from the low of R44,25 in October. What happens next depends heavily on how much the final dividend is cut.

Fergusson Bros research head William Bowler says the share price looks very vulnerable ahead of the final results, and could weaken once the expected dividend cut is announced.

Brendan Ryan

'Greens' see red over plans to mine estuary

Bitter tug of war for St Lucia's treasures

STAR 20/2/93

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ST LUCIA — Vast flocks of pelicans float like clouds on the waters of Africa's biggest estuary, scooping up fish with their bulbous bills. A hippo ambles out of the shallows under a full moon, heading for a night's grazing along the shores of St Lucia estuary.

But if a major mining company has its way, the pelicans will be joined by giant dredgers and the hippos by bulldozers in a project to harvest the estuary's heavy minerals.

The "green" movement is outraged at the mining plan by Richards Bay Minerals (RBM). Environmentalists say it would destroy the character of one of the country's most spectacular wilderness areas and have an unpredictable impact on the ecology.

RBM rejects the charge, saying only a limited area will be mined, and that the area will be rehabilitated afterwards. The project, it says, will bring in \$6 billion in foreign exchange.

THE fight hots up to save Africa's biggest estuarine wetlands from the dredgers, writes ANTON FERREIRA.

"All things considered, the 'anti' lobby would sacrifice these massive benefits to the people of South Africa on the altar of white elitist spiritual yearning for a wilderness experience," said RBM spokesman Barry Clements.

"This talk about saving St Lucia by preventing the mining

See 'Greenpiece' on Page 11

is one of the biggest hoaxes in the annals of South African conservation," he said.

Among groups fighting the dredging plan is the Natal Parks Board (NPB). It wants to incorporate the area in a wetlands nature reserve.

"It is the largest estuarine system in Africa, and is considered absolutely unique in the southern hemisphere," said NPB ecologist Roger Porter.

"It supports the largest populations of hippo and crocodile in southern Africa, and is crucial for migratory bird and marine species — tens of thou-

sands of water birds use it."

The estuary, recognised as a wetland of international importance, stretches about 50 km from north to south.

The dunes which RBM plans to mine cover 1 400 ha between the estuary and the ocean.

It would be mined by bulldozing the dunes, mixing the sand with fresh water in an artificial pond, then sucking up the resulting slurry with a dredger and separating the minerals — ilmenite, zircon and rutile. The minerals are used in applications from paint through cosmetics to nuclear reactor control-rods.

RBM, half-owned by Britain's Rio Tinto Zinc, says the foreign exchange earned from the deposits at St Lucia would secure up to 25 000 jobs in the country every year. The company has said that once its dredgers were finished, bulldozers would re-form the dunes to their original contours.

But the "greens" say the area

has greater economic potential as a tourist destination. They argue that RBM will never be able to recreate its complex ecosystem. "They will be importing nutrient-laden river water into a nutrient-poor system for the dredging operation," Porter said.

"The soil mixed with this water will be in a totally changed state, and species evolution will be locked into a completely different pathway."

Independent scientists have carried out an environmental impact assessment into the mining plan, and their report is expected in mid-March.

But the anti-mining lobby, which has organised a major petition drive, believes RBM should be stopped regardless of the outcome of the study.

"You've got to look at the morality," said veteran conservationist Ian Player, who played a key role in saving South Africa's rhino from extinction.

"Morality must say that there's so little wilderness left, that there can only be one answer — you've got to turn it into a park" — Sapa-Reuter

CDC

216 FM 26/2/93

What misery means

Activities: Mines and markets diamonds

Control: Speriam Securities 98,4%

Chairman: C C Mumby

Capital structure: 75m ords Market capitalisation R11,25m

Share market: Price 15c 12-month high, 175c, low, 15c Trading volume last quarter, nil shares

Year to Jun	'90*	'91†	'92
Turnover (Rm)	4,7	2,9	10,8
Operating loss (Rm)	(1,2)	(0,8)	(0,4)
Long-term debt (Rm)	—	23,3	23,8
Earnings (c)	(131)	1,8	(7,9)
Dividends (c)	—	—	—
Net worth (c)	37,9	52,3	14,8

* Year to Feb 1990 † 16-month period

All it takes is an uncovered foreign loan for managers to learn the real meaning of misery. That's more or less what happened in the case of Consolidated Diamond Corp (CDC), which suspended its mining operations at its major asset, the Samada Diamond Mine, last April.

Samada is in the Ventersburg district, between Welkom and Virginia in the Orange Free State, an area long known for its diamond occurrences. But diamond production is rarely easy and the grades at Samada's open-cast kimberlite have proved significantly lower than earlier geological predictions.

Last year, the mine's operating loss was as little as R398 000. That small achievement was drowned by the flood of interest payments (net R2,3m) and the loss incurred on converting the company's foreign debt at devalued currency rates (R3,2m). That merely serves to underline an already painfully learnt SA lesson about what happens when foreign loans are left uncovered.

CDC's loss for the year was R5,9m — a number substantially inflated by losses from extraordinary items of R22,2m. Most of those arose from a write-off of R20,9m of

FINANCIAL MAIL • FEBRUARY • 26 • 1993 • 85

FM 26/2/93.

COMPANIES

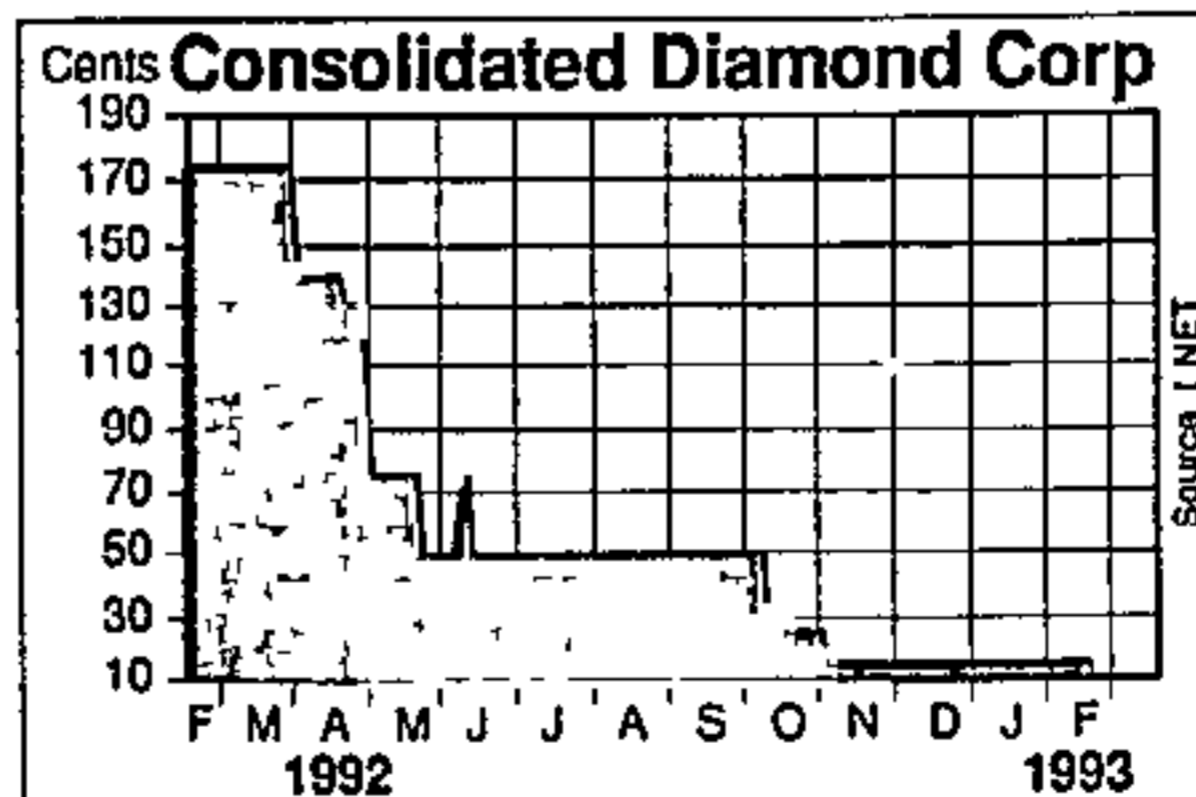
216

development expenditure, mining rights and working costs, all of which were previously capitalised.

Just to compound the company's misery, its auditors have, quite rightly, qualified their annual report. They have assumed, they say, that CDC will continue as a going concern. However, it may not; if it doesn't, they draw attention to reclassifications of assets and liabilities which might become necessary if the company is wound up.

There is some comfort in this rather sad story of failed geological promises, a high fixed cost structure, inadequate quality to compensate for lower grades and an unfortunate exposure to foreign loans. It lies in the relatively small number of local investors who have been burned in this venture. The company is 98,4% owned by Speriam Securities, whoever they are, apparently Panamanian registered.

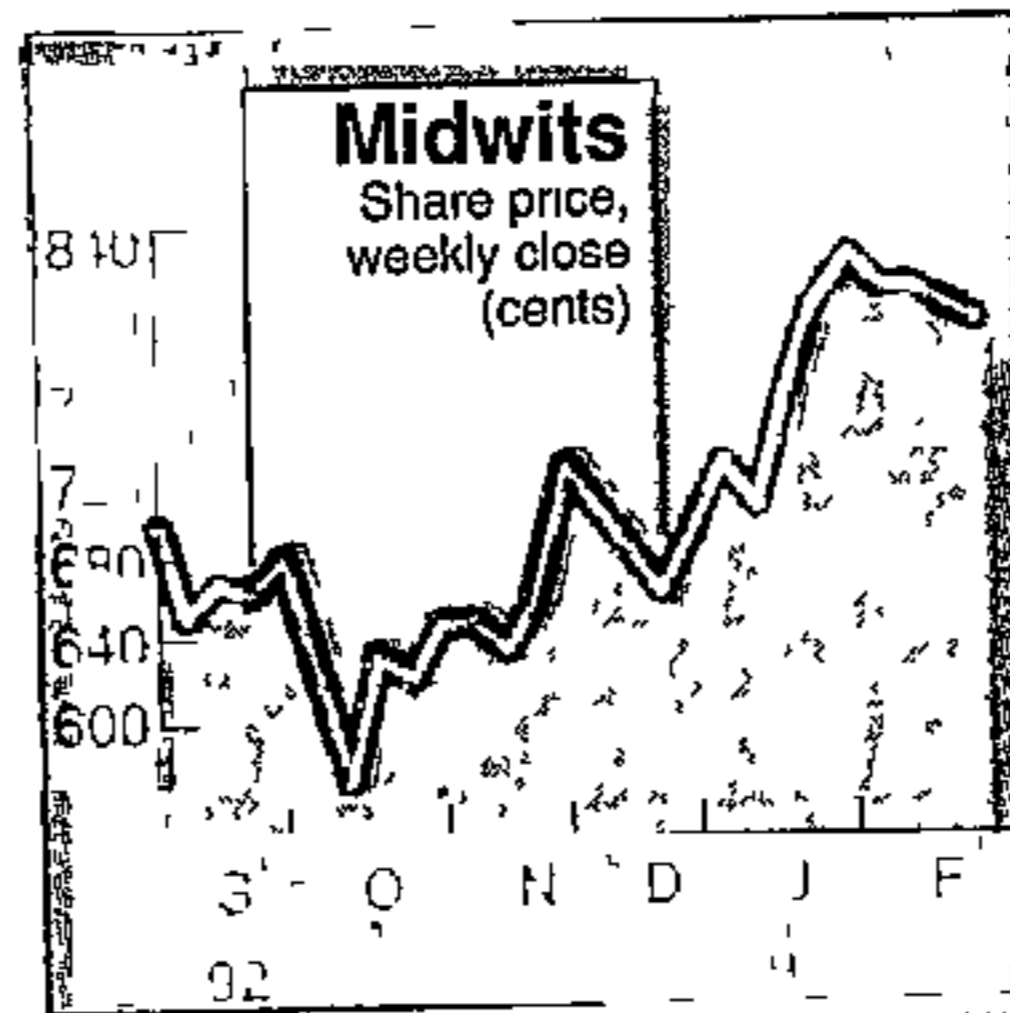
Financial director Rob Rainey tells the



FM a third party is seriously considering the possibility of refinancing or restructuring the operation, in conjunction with other ore-bodies near the mine. Rainey says he expects a result from these exercises in the next two to three months and he confirms the interested party is foreign.

For a company which grew out of ill-fated Cengold through a transmuted listing statement, perhaps the best that can be hoped for is that someone else will take it over and remove it from the JSE's boards. When that happens it will be a case of not a moment too soon.

David Gleason



Graphic: LEE EMERTON Source: HNET

MidWits ups earnings 28%

DUMA GOUBULE 216

MIDDLE Witwatersrand, the Anglovaal group's mining, investment and exploration subsidiary with a stake in the Venetia diamond mine, reported a 28% increase in earnings to R31,8m for the half-year to end-December.

The company turned in earnings of 9,9c (7,7c) a share, from which an interim dividend of 2,2c (2c) a share was declared. *B/D Amey*

Income from the group's investment in De Beers' Venetia mine rose 66% to R4,7m (R2,8m). MidWits receives an 8,2% share of Venetia's profit through its stake in Saturn Mining and Prospecting. *26/2/93*

Chairman Clive Menell said De Beers had informed MidWits that diamond production from Venetia would not increase as fast as expected as a result of the CSO's imposition last year of production quotas on its mine suppliers.

MidWits made a surplus from investment realisations of R4,5m after the sale of a portion of the group's portfolio of gold shares.

Total income slipped to R44,5m (R46m). The investment portion rose to R18,3m (R12,5m) and interest received fell to R17m.

Expenditure came to R6,3m (R6m), which was mostly for prospecting R5,3m (R4,5m). Tax absorbed R9m, outside shareholders R950 000, preference dividends R1,1m and an associate contributed R4,6m, resulting in attributable earnings of R31,8m (R24,9m).

Regional accord on mines

IN A historic meeting held over the weekend, shaft stewards from De Beers mines in SA, Botswana and Namibia agreed on a three-point strategy to combat problems in the diamond mining industry.

It also aimed to develop a closer relationship between NUM members and their southern African counterparts. The initiative is viewed by the NUM, under whose auspices the meeting was convened, as a first step in the process of regional co-operation.

A Shaft Steward Council of Southern Africa has been established to draw up a document to be presented to De Beers. This will consist of a corporate charter aimed at securing recognition of fundamental employee rights, proper disclosure of information, and a commitment to worker involvement in decision-making.

The thorny issue of "free riders" will be raised in an attempt to persuade management to intervene in making all workers who benefit from the collective bargaining structure contribute to the financial side of the process. So far the NUM has had limited success with this demand, although

8/10/93 2/3/93
ERICA JANKOWITZ

Rand Gold did agree to the establishment of a collective bargaining fund at Harmony Gold Mine in 1992.

The third and most far-reaching issue to be tackled is legislation covering workers' rights in the three countries. This aims at harmonising conditions of employment within the group despite geographical differences.

NUM assistant general secretary Marcel Golding said oversupply of diamonds could be viewed as a cyclical rather than a structural problem. However, De Beers had retrenched workers at its SA mines and discussions on this issue were currently being held at its Botswana operations.

As the Central Selling Organisation had implemented a 25% quota in September 1992 in a bid to contain its stockpile, the industry was likely to contract still further. Because De Beers was regarded as a financially healthy operation, the NUM was concentrating efforts on minimising effects of retrenchment by looking for "creative ways of maintaining employees on the books".

R2,25m Rexcor share offer

BIDAY 213193
NEW DIAMOND mining company Rex Mining Corporation (Rexcor) launches a R2,25m public share offer today as a prelude to its scheduled April 5 JSE listing.

Rexcor owns a small mine near Theunissen in the Free State. Small diamond mining companies have had mixed fortunes in the past, with Consolidated Diamond Corporation battling to survive, and Messina Investments increasingly dependent on diamond output from its Star Diamond mine, next to the Rexcor operation, bought last year from Loucas Pouroulis for R8m.

Rexcor will issue 2,25-million shares at a take-up price of 100c to meet capital spending requirements of R1,91m, additional expenses, with remaining proceeds used to supplement working capital.

The company has forecast earnings a share of 3,07c in the year to December 31 1993, increasing to 19,74c in 1994, and 20,27c in 1995. It plans to declare a single yearly dividend from 1994.

Rexcor says diamond output averages 90% gem or near-gem quality, and esti-

MATTHEW CURTIN (216)

mates the "in situ value of run-of-mine material" at R129 a ton, compared with working costs of R88 a ton.

Rexcor plans to increase production from current levels of 1 200 tons a month to 5 600 tons a month by November this year, when it plans to commission the new Leeuwkop shaft at a cost R1,14m.

The Rex mine treated 5 200 tons of ore in the year to December 1992, achieving an average price of R516 a carat, with production costs of R476 a carat, turning in a pre-tax loss of R2,6m in the 10 months ended December 1992. Consulting mining engineer H G Mosenthal said in his report attached to the listing prospectus that it was "vital" that the new shaft was "completed expeditiously".

The Rexcor board includes property developers and brothers Peter Shaff (executive chairman), and Gary Shaff (operations director). Former Star Diamond Mine MD Nicolaas van der Merwe will act as MD

HOUSE OF REPRESENTATIVES

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

General Affairs

Rationalization: temporary employees

*1 Mr C I NASSON asked the Minister of National Health

- (1) How many temporary employees in the service of her Department lost their jobs as a result of rationalization during the latest specified period of 12 months for which figures are available;
- (2) whether she intends introducing any further rationalization measures, if not, why not, if so, how many temporary workers is it estimated will lose their jobs as a result thereof during the next 12 months?

C19E INT

*The MINISTER OF NATIONAL HEALTH Mr Speaker, in pursuance of the Cabinet's decision to effect a saving on the salary account, 34 temporary employees were retrenched. Unless the Cabinet decides otherwise, I do not intend to implement any further personnel rationalisation measures.

*Mr C I NASSON Mr Speaker, last year the hon the State President announced that all Government departments should rationalise and reduce their personnel by 5%. It is estimated that approximately 46 000 Public Service workers are going to lose their jobs.

The hospitals will also have to rationalise their personnel. Most of the employees or officials are going to receive an attractive retirement package to which up to five years of service will be added. However, there is another category of employees, namely the assistants, the labourers and the general employees, who are still in the temporary service of the hospitals. The programme of rationalisation will be a serious blow

HOUSE OF REPRESENTATIVES

to them, as they are not contributors to the Government Service Pension Fund. They will consequently receive a retirement package which will certainly not be worth their while [Interjections.] As a matter of fact, these employees, who have already been prejudiced because they are still temporary, are going to be seriously prejudiced by any rationalisation programme. To crown it all, they will have no other choice but to accept this rationalisation package.

There are thousands of temporary employees at hospitals who, after 25 years of service at a hospital, are still employed on a temporary basis. Many of these employees have also reached retirement age and they are also being prejudiced, even if they retire on pension at the normal retirement age. In 1991 there were protest actions by hospital personnel at all the hospitals in this country. One of the grievances which was raised countrywide, was that the conditions of service of these assistants, labourers and general workers were still very unfavourable and unacceptable, especially the fact that these workers were still employed on a temporary basis. These temporary employees have very little if any protection against malpractices in their work situation. As a result the matrons at the hospitals can do as they like with these workers. They can even mistreat those people. These workers are afraid of the matrons of hospitals [Time expired.]

*Mr H B CUPIDO Mr Speaker, rationalisation, whether in the Public Service or in the private sector, is unavoidable. As a result of the economic situation in which the country and the world finds itself, the State is being forced to economise. This leads to the department requesting personnel whose functions are not essential for the functioning of such a department, to participate in the rationalisation programme. When one talks of rationalisation it is not a question of members "losing" their jobs or being "dismissed". It is the responsibility of every department implementing the rationalisation programme to investigate the extent of hardship which may follow as a result of rationalisation. I am overjoyed that the Department of National Health, through the hon the Minister

of National Health, responded that thorough investigations take place after planning, and planning with accompanying consensus with the staff members involved. It is also gratifying to hear that the Department of National Health does not plan any further rationalisation of personnel.

*Mr C I NASSON Mr Speaker, the hon member for Kasselsvlei is completely out of touch with reality. He need only enquire at hospitals. Then he will realise that what I stated, is the true situation. If that hon member's party is insensitive to the aspirations of these workers then the NP is going to lose a great many votes [Interjections.]

It is a great pity that the hon the Minister announced this afternoon that she was not going to introduce any further measures. The temporary employees in our hospitals have very little if any protection against malpractices in their work situation. As a result, a matron at a hospital can do as she likes with these workers. Consequently these employees are scared to death of the matrons of hospitals because they can be threatened with dismissal as a result of the most trivial offence. In the case of many of these dismissals, matrons are often guilty of unfair labour practices.

The trade unions are continually negotiating with the various provincial administrations and the Commission for Administration with regard to the improvement of conditions of service of this category of worker. On 27 and 28 January this year trade unions and labour organisations held such negotiations, and it is a pity that no press statements were issued after the negotiations in order to inform the public. I should like to ask the hon the Minister why these employees could not have been appointed on a permanent basis. What is she going to do to ensure that the pensions of these temporary employees will not be detrimentally affected when they retire due to rationalisation? If these employees were to be appointed permanently today, and they would therefore be allowed to contribute to the Government Service Pension Fund, what would happen to these previous years of service which such employees served in a temporary capacity? Some employees have been in the service of the State on a temporary basis for up to 25 years.

*The MINISTER OF NATIONAL HEALTH Mr Speaker, the hon member is out of touch

with what is happening here [Interjections.] I must point out to him that he formulated his interpellation incorrectly. He clearly asked how many temporary employees in the service of her department lost their jobs. My department does not manage hospitals. I think that the hon member should have done his homework more thoroughly [Interjections.] He should have formulated the matter more clearly and indicated that he wanted to talk about the treatment of general assistants by provincial administrations. [Interjections.] As the interpellation reads, I must give him information with regard to what the Department of National Health and Population Development did, which is a completely different department. I would advise the hon member to go and do his homework [Interjections.]

I am prepared to reply to the hon member in general, and to say that the guideline of the provincial administrations was that all employees should be treated fairly in this process of staff reduction, and that it was clearly to be taken into consideration that services were not allowed to be compromised and that the rendering of service to the public had to be given the highest priority.

I also want to point out to the hon member that temporary employees contribute 5% of their salary to the pension fund, while permanent employees contribute 8%. Therefore if they are changed to permanent employees immediately there is a financial implication which has to be taken into consideration. There are quite a few factors which are therefore being investigated at the moment [Interjections.]

Debate concluded

QUESTIONS

†Indicates translated version

For oral reply

General Affairs

State President

Certain company in Lesotho: alleged confiscation of interests

*1 Mr L T LANDERS asked the State President

(1) Whether he has received a request from

HOUSE OF REPRESENTATIVES

South African investors in and shareholders of a certain company, the name of which has been furnished to the State President's Office for the purpose of his reply, calling for the appointment of an independent public commission of inquiry into the alleged confiscation of this company's interests in Lesotho, if so, (a) when and (b) what is the name of this company,

- (2) whether he will comment on the revocation by the Lesotho Government of a specific mining leases order whereby the interests of the said company were allegedly confiscated, if not, why not, if so, what are his comments? C7E

The STATE PRESIDENT

(1) Yes

(a) 30 March 1992

(b) Swissbrough Diamond Mines as represented by one Mr Josias van Zyl

(2) No

Mr L T LANDERS Mr Speaker, arising out of the hon the State President's reply, I want to ask him whether he would tell the House whether the company in question requested that an independent judicial commission be appointed to inquire into this matter. Would he also tell the House whether he intends to appoint one, and if not, why not?

The STATE PRESIDENT Mr Speaker, on two occasions the State President—in one instance it was the hon the Minister of Foreign Affairs who was the Acting State President at the time—wrote to Mr Van Zyl to inform him of our decision. After further representations, I again wrote to the same Mr Van Zyl in December 1992. I do not want to give any details here, because there is a court case pending in the Lesotho High Court at the moment in which the subject matter of this question is at issue. However, I just want to quote two paragraphs from the two letters concerned.

In the letter, dated 3 June 1992, from the hon the Acting State President, it is stated *inter alia*

Die aangeleentheid is deeglik oorweeg, waarna daar tot die slotsom gekom is dat u self in hierdie geval tot die Regering van Lesotho

HOUSE OF REPRESENTATIVES

behoort te wend en dat die Suid-Afrikaanse Regering nie aan u versoek kan voldoen nie.

In a letter, dated 3 December 1992, which I signed, it is stated *inter alia*

Na deeglike oorweging van die aangeleentheid, moet ek u meedeel dat die Regering van oordeel is dat daar nie aanvaarbare gronde bestaan op grond waarvan aan u versoek om vergoeding gehoor behoort gegee te word nie. Die Regering ontken enige aanspreeklikheid vir skade wat u in Lesotho sou gely het. Dit staan u derhalwe vry om voort te gaan met enige alternatiewe stappe wat u mag oorweeg.

Mr L T LANDERS Mr Speaker, further arising out of the hon the State President's reply, I want to ask him please to inform the House why the South African Government did not intervene diplomatically, or otherwise, on behalf of South African nationals who suffered damages, allegedly to the amount of R1 billion in Lesotho, apparently as a result of the actions of the Lesotho government which, it is alleged, was acting on the instructions of the South African Government, whereby the interests of South African nationals were destroyed and taken away from them.

The STATE PRESIDENT Mr Speaker, the South African Government does not need sermons from that hon member with regard to its duty to safeguard the interests of South African nationals. However, the South African Government can only do so in cases in which it is convinced that those interests have been harmed, in the first instance, and, secondly, if interests have been harmed, that they were harmed on a basis which justifies intervention by the South African Government. If the hon member had listened properly, he would have noticed, from what I quoted from the letter dated 3 December, that we made it clear to Mr Van Zyl that we were convinced that there were no acceptable grounds on which we could comply with his request for some other form of compensation.

Mr L T LANDERS Mr Speaker, further arising out of the hon the State President's reply, can he then also tell the House whether it is not true that a document emanated from his office, a document which was penned by a certain Dr

Ackermann and which was called the "Advies-dokument", in terms of which Swissbrough Diamond Mines, according to Dr Ackermann's recommendation, be paid an amount of R50 million in settlement of the claims being made by Swissbrough Diamond Mines. If that is in fact the case, then what happened to that recommendation?

The STATE PRESIDENT Mr Speaker, as I stand here I am not aware of such a document. If the hon member could let me have a copy I will look at it. I shall also talk to Dr Ackermann as soon as I get to my office.

However, I have before me, as part of the material collected in preparation for this question, the considered advice which was given to me at different times by the Department of Foreign Affairs and the Department of Water Affairs and Forestry. I also have before me an analysis of the whole history of the matter, in which such an advice does not feature at all.

I would also like the hon member to let me have that copy and to tell me to whom the document was addressed. If it was an internal advice document I would be extremely interested to know how the hon member got possession of such a document.

Mr L T LANDERS Mr Speaker, arising out of the hon the State President's reply, is it not true that Protocol 4, which was signed by South Africa and Lesotho, provides for the raising of foreign loans in excess of \$500 million for the fulfilment of obligations of the South African Government, the Lesotho government and the Lesotho Highlands Development Association in terms of the water treaty, the specific purpose of those loans being to make good compensation for people who lost their properties in terms of the development project?

The STATE PRESIDENT Mr Speaker, there is no question about it. Provision is made in the protocols for compensation for those who are entitled to it. However, if a person comes forward and bases a claim on certain assumptions when there are no grounds for such assumptions and when technical advice indicates that there are no such grounds, it would be irresponsible to positively consider any request for compensation if all the advice that one gets militates against the suggestion that there is a proper claim for compensation.

Mr L T LANDERS: May I put a final question, Mr Speaker?

Mr SPEAKER Yes, the hon member may ask a final question.

Mr L T LANDERS Mr Speaker, further arising out of the hon the State President's reply, it is alleged—I am not saying that this is so, but I have been informed of this in writing and telephonically, and I would be satisfied if the hon the State President would answer yes or no—that directly or indirectly a request was made to Mr J van Zyl that the proposed draft petitions that he made available to the hon the State President and the other departments affected be held back until after the referendum which was held in the Republic of South Africa on 17 March 1992. Is this in fact so?

The STATE PRESIDENT Mr Speaker, I am not aware of any such thing.

Ministers

Certain company in Lesotho: compensation to shareholders

*1 Mr L T LANDERS asked the Minister of Water Affairs and Forestry

- (1) Whether he or his Department has received any recommendations in respect of or requests for the payment of compensation to the shareholders of a certain company, whose name has been furnished to the Minister's Department for the purpose of his reply and whose interests in Lesotho were allegedly confiscated as a result of the implementation of the Lesotho Highlands Water Project, if so, (a) from whom were these recommendations or requests received and (b) what is the name of the company concerned,

(2) whether any compensation has been paid to the shareholders of this company, if not, why not, if so, (a) what compensation and (b) on what grounds,

(3) whether he will make a statement on the matter? C14E

The MINISTER OF WATER AFFAIRS AND FORESTRY

- (1) Yes I received a copy of a request to the South African Government, which re-

HOUSE OF REPRESENTATIVES

Star 3/13/93
**Rex Mining planning
public offer and listing**

By Derek Tommey

the Consulting mining engineer, HG Mosenthal

A small diamond company, the Rex Mining Corporation, is making a public offer of 2 250 000 shares at 100c a share to raise working capital and to enable it to obtain a listing on the Johannesburg Stock Exchange.

Rex has a diamond mine in the Theunissen district. Last year the company milled 5 200 tons of ore with an average recovery of 31 carats a ton.

The company plans to sink a new shaft to build output up to more than 6 000 tons of ore a month, averaging 25 carats a ton.

This increased production should result in working costs dropping to around R88 ton treated. At this level the Rex mine is viable operation, says

The directors say that gross mining profits should rise from R907 554 this year to R3,8 million in 1994 and to R3,9 million in 1995. Attributable profits are expected to increase from R529 685 this year to R3,4 million next year and to R3,5 million in 1995. The company is not expected to be liable for tax until 1996.

Earnings a share are forecast to rise from 3,07c this year to 19,74c next year and to 20,27c in 1995.

After the share offer has been completed the company will have a total issued capital of 17,25 million shares.

It is forecasting a dividend of 6,58c a share in 1994 and 6,76c a share in 1995.

De Beers tremor rattles market

216

BIDAM 4/3/93

DUMA GQUBULE

SPECULATION about De Beers' results, due next Monday, sent the market tumbling after the diamond shares took a knock on the JSE yesterday

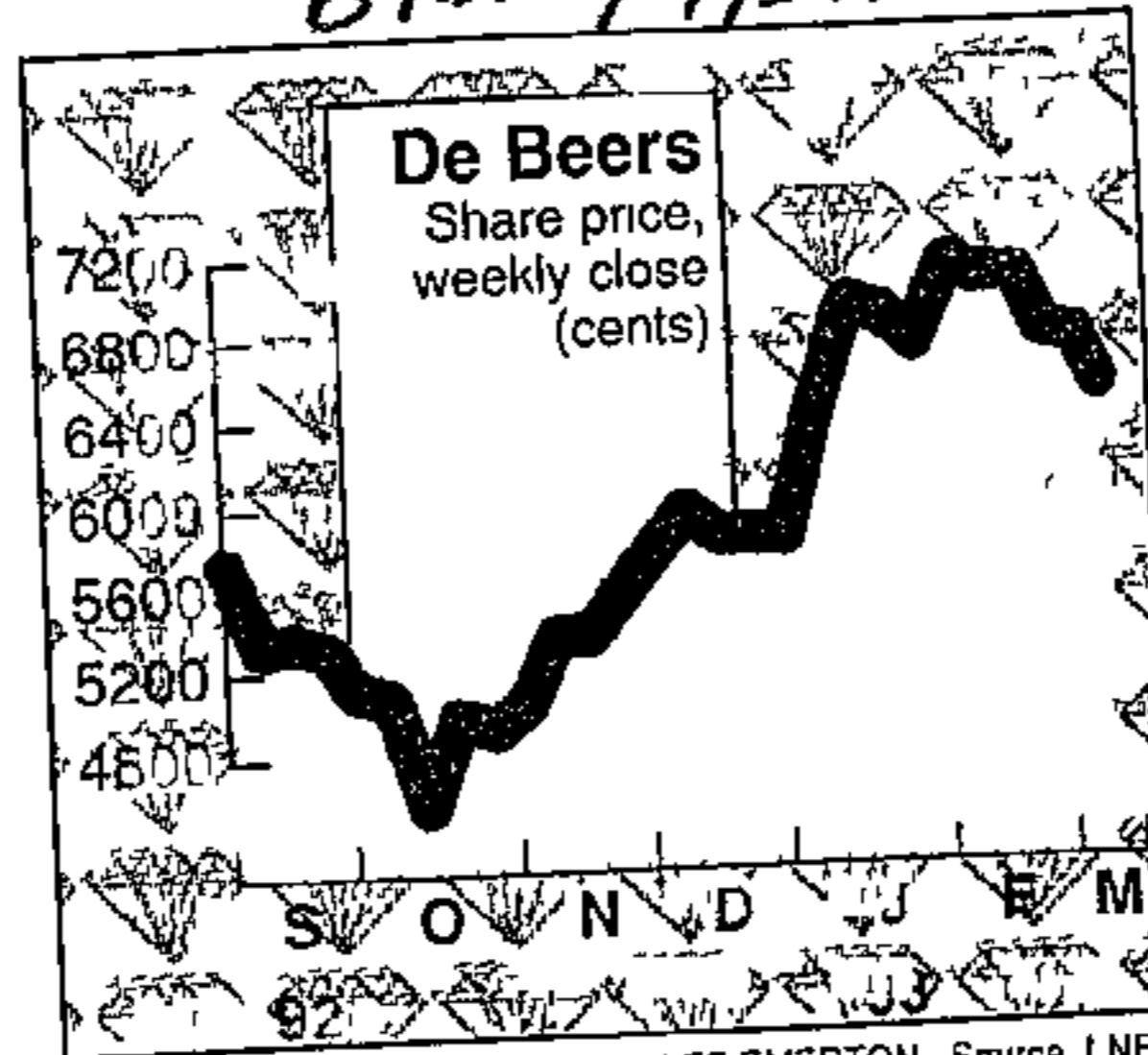
De Beers, which makes up 8% of the all share index, opened 25c firmer at R67,25, before a "mystery seller" came onto the market, and the shares plunged 450c (6,7%) to a low of R62,75c

The market, which had opened slightly stronger, immediately changed direction and the all share index plunged 44 points to 3 356 from its high for the day of 3 400

The industrial index dropped 49 points from its high to a low of 4 419 The gold index fell to a low of 945 from 958

Dealers said De Beers' shares had later recovered 150c to R64,25c as the selling had been "overdone" More than 357 000 shares, worth R24,3m changed hands in 160 deals

The all share index rose to end the day 30 points lower at 3 367 The industrial index ended 37 down at 4 429 and the gold index



Graphic LEE EMERTON Source I NET

at an unchanged 947 points

Market analysts said they expected De Beers' board to announce a 25%-40% cut in its dividend for the year to end-December after its meeting in Kimberley on Monday. A rand dividend of 307,5c was declared for the year ended December 1991

To Page 2

De Beers

BIDAM 4/3/93 216

From Page 1

A dealer said the share price's downside was limited as the bad news had already been discounted Anything less than a one-third cut in the dividend would provide some relief for the market.

But O'Flaherty analyst Des Mayers said it would be prudent for De Beers to slash its dividend by almost half.

He said the only payout should come from non-diamond investment income because of the problems De Beers was encountering in controlling its rising stockpile (expected to top \$4bn) which was diminishing cash resources and moving the company into a borrowing position

There was no point in borrowing to pay a dividend The company needed to preserve cash resources to obviate the need for

another dividend cut this year, he said

Last August's shock warning that De Beers might cut its dividend for the second time in its history resulted in a 10% drop in its share price to R62,60c and a subsequent drop to a low of R44,25c The stock market staggered, registering its largest one-day fall since the Iraqi invasion of Kuwait the previous August.

The warning followed an upbeat assessment by chairman Julian Ogilvie Thompson of the diamond industry's prospects made only a few weeks earlier

In London, Carr, Kitcat & Aitken analyst Graham Robert said yesterday the company would be careful this time not to send the wrong signals when deciding on its dividend policy.

tor Dame Hough yesterday

R520m Post Office loss
BUSINESS Day incorrectly reported yesterday the Post Office suffered a loss of R30m more than budgeted for. In fact, the utility incurred a loss of R520m compared to an expected R570m loss. Business Day regrets the error.

Japan steel exports up

JAPAN's steel exports in January rose 3.9% from the same month a year ago to 1.24-million tons, marking the ninth consecutive month of year-on-year gain, the Japan Iron and Steel Federation reported in Tokyo yesterday. A spokesman said sharp increases in exports to China helped offset plunging exports to the US in the wake of anti-dumping duties on carbon steel imports.

REPORTS Sapa Business Day Reporters AP DJ

as much labour as technically possible

China spends R9m on office block

THE Great Wall Group, a trading company founded by the mainland Chinese government, has bought a R9m office block in Bedfordview to start its business venture in SA.

The office will be opened officially at a function this evening.

China's trade with SA previously was conducted discreetly through Hong Kong until political changes in SA prompted it to introduce direct trading links last year.

Exhibitions are now planned in both countries, starting in Johannesburg in April with a trade expo organised by the China Council for the Promotion of International Trade.

The Great Wall Group will be involved in an exhibition in SA in September, when 100 corporations will display a variety of goods including textile, industrial, chemical and

hardware products. SA businessmen will be invited to exhibit in Beijing in March 1994.

"We came here with the express purpose of facilitating trade and economic co-operation with SA," said the group's business manager Qingguo Jiang. "Apart from the Bedfordview offices, we have R2m in other assets and are looking into other real estate opportunities and joint investments with local businessmen. We also are hoping to invest in factory and manufacturing plants."

And China and SA Trading GM Chenxiong Liu said "About 200 Chinese businessmen will come to SA to meet their counterparts and discuss business."

TRACY SCHNEIDER

'Tax hike will slow economy'

PRETORIA — The tax hike to be imposed in the March 17 Budget will slow down an almost static economy further and stagnation will continue into 1994, economists say.

Stellenbosch Bureau for Economic Research economist Nils de Jager said yesterday consumer confidence was at a low ebb anyway and would be depressed further as disposable incomes shrank.

Sales would decline further, spare industrial capacity, now at about 20%, was likely to increase as would unemployment and crime.

The conventional Keynesian medicine for a rundown economy, De Jager said, was to increase state spending directed at creating jobs and to reduce taxation. However, in government's present Catch 22 situation, this was impossible.

It could be said taxation was being raised to pay interest on government's massive debt which had reached 9% or nearly R30bn.

Interest on the debt was the largest

single Budget item, even exceeding the education vote.

De Jager said the debt problem had been aggravated by government writing off R3.6bn in drought aid in the coming financial year instead of over three years as first intended.

But De Jager added, perhaps the most worrying consequence of higher taxation was the impetus it would give to greater unemployment.

Absa senior economist Adam Jacobs said tax hikes would contract the economy further and could result in government's tax take from companies and individuals actually decreasing in spite of the hikes.

"We are caught in a vicious circle with company profits and taxpayers' incomes threatened by declining consumer demand and growing unemployment," he said.

Jacobs said another serious consequence would be a further shrinking of personal savings.

GERALD REILLY

De Klerk rejects mine loss claim

CAPE TOWN — Government was not liable for losses suffered by SA company Swissborough Diamond Mines, President F W de Klerk said in Parliament yesterday.

Replying to a question by Luwellyn Landers (LP Durban Suburbs), he said government had told Swissborough director Josias van Zyl there were no acceptable grounds for the appointment of an independent inquiry into the alleged confiscation of the company's interests when the Lesotho government revoked its mining leases as part of the Lesotho highlands water scheme.

Van Zyl had been told to direct any claims to the Lesotho authorities. The Swissborough issue is pending before the Lesotho high court.

The question had been why government had not intervened after SA nationals had suffered a R1bn loss. De Klerk said it had to establish if the loss had been suffered, and then if intervention was required. — Sapa

Chamber call for wage restraints

MARIANNE MERTEN

THE Northern Transvaal Chamber of Industries had urged that wage restraints be included in Finance Minister Derek Keys' model for economic restructuring, it said in a statement yesterday.

The Keys model, due to be published next week, is thought to address economic restructuring to promote the productivity of resources.

Wages had risen over the past three years despite negative growth to such an extent that it had increased the unit cost of production, a chamber spokesman said.

Wage increases had created a structural economic problem which could not be addressed by only looking at wage restraints, but other factors such as export incentives and government control needed to be examined.

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UUM 120

Fears over De Beers sends market tumbling

From DUMA GOUBULE

JOHANNESBURG. — Speculation about De Beers' results, due next Monday, sent the market tumbling after the diamond shares took a knock on the JSE yesterday.

De Beers, which makes up 8% of the All Share index, opened 25c firmer at R67,25, before a "mystery seller" came onto the market, and the shares plunged 450c (6,7%) to a low of R62,75c

The market, which had opened slightly stronger, immediately changed direction and the All Share index plunged 44 points to 3 356 from its high for the day of 3 400

The Industrial Index dropped 49 points from its high to a low of 4 419 The Gold Index fell to a low of 945 from 958.

Dealers said De Beers' shares had later recovered 150c to R64,25c as the selling had been "overdone" More than 357 000 shares worth R24,3m changed hands in 160 deals.

The All Share index rose to end the day 30 points lower at 3 387.

The Industrial Index ended 37 down at 4 429 and the Gold Index at an unchanged 947 points.

A dealer added that a gloomy report painted by Finance Ministry special advisor Japie Jacobs about the March Budget helped to dampen investor confidence.

Market analysts said they expected De Beers' board to announce a 25%-40% cut in its dividend for the year to end-December after its meeting in Kimberly on Monday. A rand dividend of 307,5c was declared for the year ended December 1991.

A dealer said the share price's downside was limited as the bad news had already been discounted. Anything less than a one-third cut in the dividend would provide some relief for the market.

But O'Flaherty analyst Des Mayers said it would be prudent for De Beers to slash its dividend by almost half.

He said the only payout should come from non-diamond investment income because of the problems De Beers was encountering

in controlling its rising stockpile (expected to top \$4bn) which was diminishing cash resources and moving the company into a borrowing position.

There was no point in borrowing to pay a dividend The company needed to preserve cash resources to obviate the need for another dividend cut this year, he said.

Last August's shock warning that De Beers might cut its dividend for the second time in its history resulted in a 10% drop in its share price to R62,60c and a subsequent drop to a low of R44,25c.

Reuters reports that heavy volumes were reported in Del Monte food (2,2m shares), Rusties (215 000) — which fell one rand to R58,75 — and Utico (114 000).

Mining house conglomerate Anglos recovered near the close to shed 50c to R94,50.

Gold shares edged up early in the day but soon fell back. Vaal Reefs slid R2,50 to R164,50 and Kloof lost 25c to R29,50. Free Gold added 25c to R29,75

CT 4/3/93 (216)

Unita's diamonds of war

WJW 01 5/3-11/3

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216

ANGOLA'S Unita rebels are helping fund their guerrilla war by selling hundreds of thousands of dollars' worth of illegally mined diamonds to international buyers

Intermediaries have made payments to Unita officials for diamonds smuggled across Zaire's southern border, many of which have ended up in the hands of the De Beers cartel

In the last week of January, Unita officials were paid \$400 000 (about R1.2-million) in cash by dealers in the Zairean town of Tshikapa, about 100 kilometres from the frontier with the Angolan state of Lunda Norte, the heart of the country's diamond mining, according to sources close to the deal. Lebanese dealers working as licensed traders in Tshikapa say that about one-third of the diamonds they handle are from northern Angola, almost all of which is in Unita hands

"The cross-border trade has been on

Zairean traders are buying

diamonds from Unita—and

many of the gems may be

funding their way to De Beers,

reports CHRIS MCGREAL

for a long time, but we used to deal with individuals. Many were Zaireans who knew who acted as traffickers from the diggers. Now they come with Angolans who don't speak French. The Angolans come in uniforms and there's always Zairean soldiers, officers, with them. The Zaireans do the negotiating but the Angolans take the money. We know who we are dealing with, it's Unita," said a dealer in Tshikapa

"I would say that about one-third of all the diamonds we handle come from across the border and they all end up in the hands of De Beers. It knows where they come from, that's De Beers' job." In a written statement, De Beers said

its Tshikapa buying office was closed in January because of unrest in Zaire and that it has no knowledge of any \$400 000 parcel of diamonds

"The buying offices are open to all comers and unless an offerer of diamonds openly showed his affiliation we wouldn't be aware of it. We have no arrangement with Unita to buy diamonds illegally exported from Angola," said De Beers spokesman Tom Tweedy

Aside from its mining contracts, De Beers has long bought up illegally mined diamonds in the name of "market stability". Dealers in Tshikapa say that although De Beers maintains that the first it knows of the transaction is when it views the diamonds it is about to purchase, the cartel usually has knowledge of a major deal from early on because it wants to ensure high quality gems did not stray into competitors hands.

Others in the industry say De Beers cannot be in any doubt about the source

of diamonds which experts can determine. Kevin Kartun, a Johannesburg mining analyst, said: "In some cases they can tell from which mines diamonds came from. Anything it doesn't buy through regular channels De Beers calls an open market transaction and it wants those Angolan diamonds. One of De Beers' key roles is regulating the market. You can't have a lot of rough gems washing around the market. They have to go in and mop it up."

The Lebanese dealers were unable to say if the cash went to individual Unita members or the organisation as a whole. Although \$400 000 is a small proportion of the estimated \$500-million De Beers spent last year to buy up legally and illegally mined diamonds from Angola, the cash would go a long way toward supporting Unita which has watched its funds diminish since the peace process began in 1991. Unita needs cash for weapons, food, fuel and mercenaries

French venture

AN unusual combination of two African National Congress members, two South African Police officers, a kwazulu Police officer and a policeman from Lebowa are visiting Paris to study crowd-control methods.

It is the first time the ANC has taken part in a venture like this with the SAP. The group left last week and will return to South Africa on March 15.

The delegation was invited by the French government as a follow-up to a report on crowd-control at mass demonstrations released by a committee of the Goldstone Commission. Apart from crowd-control the delegation will also study French police training methods.

The ANC members are John Jeffery and Sidney Mafumathi. The SAP officers are Major General AF de la Rosa and Major NM Ntseane. Major NE Mbatia represents the KZP and Major I.S. Molomo the Lebowa Police.

Rexcor tries to put some sparkle into its mining

REX Mining Corporation aims to raise R2,25-million from the public in return for the issue of 13% of the equity of the new diamond-sector listing Rexcor's only business is RDC, which operates as Rex diamond mine near Theunissen, in the Free State

According to the Rexcor prospectus, RDC paid R4-million for the Rex mine in May 1991. RDC effected R2-million in improvements and paid a net R500 000 on properties, mineral rights and claims from various parties, including Rexcor directors, during 1992. In January 1993, Rexcor bought RDC for R15-million, for R7 cash and the balance in R1 shares

The directors believe the share premium is justified because of the prospects of the company. They forecast earnings of 3c this year, and 19,7c next year. The offer is fully underwritten

These assets, which produced losses of R3,6-million after permissible writeoffs in the 22 months to December 1992, are valued at R15-million based on the present discounted cash value of anticipated future monthly cash flows over the estimated mining life of Rex using "prevailing fair rates of return"

Trends

Independent consulting geologist E Geryts says the estimated life of Rex is 21 years based on a conservative valuation of the probable and possible ore reserves. Consulting geologist Felix Mendelsohn's report says there are no proven reserves at the mine

The earnings forecast assumes no material adverse changes in the diamond market and legislation, an average recovery of 25 carats per 100 tons, average selling price of R551/carats at an exchange rate of 310c to the dollar, and no cost inflation countered by zero weighting of historical trends in relation to diamond-price rises

Rexcor's executive chairman, Peter Shaff, says the

By JULIE WALKER

discounted cash flow takes into account tax after the assessed losses have been recouped. He adds that, due to the falling rand, Rexcor is already fetching R820 a carat for rough gems

Mr Shaff says almost all the R15-million valuation accrues in the first eight years of Rexcor's life, for which there are possible reserves. He says a discount rate of 20% before tax and 12% after tax for eight years was used in the calculations, compared with industry norms of 13,3% and 10% respectively

Rexcor says the proceeds of the rights offer will be used to develop a new shaft which will push production up from 1992's 5 200 tons to 26 500 tons this year and 69 000 tons a year thereafter

In 1992, Rex mined 5 200 tons of fissure material that yielded 1 601 carats of high-quality stones. A sample of 220 carats is graded in the prospectus at 90% gem or near-gem. The mine has operated sporadically since 1912.

Fissures are notoriously unreliable and the risks attached to small-mining ventures well logged. The JSE insisted on a risk warning on the front of the Rexcor prospectus, drawing attention to the profit history.

Mixed forecasts for De Beers

Star 8/3/93

De Beers is likely to report better 1992 results tomorrow than first predicted after the shock fall in first-half earnings, analysts say.

But, there is little consensus in South African financial markets on precisely what to expect when De Beers reports.

Some analysts describe recent talk from the company itself on second-half performance and the outlook for 1993 as upbeat, but others warn that its cash deficit is still a problem.

Analyst Barry Sergeant of stockbrokers Mathison Hollidge says "Earnings will be down heavily as expected, but the thing that really counts will be cash flows, which seemed to have turned the corner in the last quarter of 1992."

Analysts say earnings in rand terms should be lifted by a weaker domestic currency against the dollar.

Poor prospects for world retail diamond sales this year will influence De Beers' decision on

the size of an expected dividend cut, they say.

Forecasts show a range from R1,68 billion to R1,52 billion, against R2,09 billion in 1991.

De Beers, a traditional market leader on the Johannesburg Stock Exchange, has swayed sentiment in the run-up to results, dampening activity amid divergent views on the bad news to come.

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Conversion

"I think there are more side bets on De Beers at the moment than the July Handicap," says Sergeant.

In terms of the currency conversion rate applicable at December 31 1992, the expected drop in local attributable earnings translates into a sharper fall in dollar terms to between \$550 million and \$498 million versus a previous \$763 million.

Analysts' projections on the total year dividend, which was last cut in 1982, range between

259c, and 200c per linked unit, against a previous 308c.

In terms of the currency conversion rate, the expected lower year dividends in rand terms translates into 85-66 US cents per linked unit, against a previous 112,1c.

Analyst James Allen of Anderson Wilson & Partners says the improved cash flows were helped in part by last year's 25 percent cut by the Central Selling Organisation (CSO), the marketing arm of De Beers, in diamond producers' quotas.

But he says he does not expect De Beers to be able to maintain better sales, as seen in January and February, because the world retail diamond market remains weak.

A major reason for the cash flow deficit in 1992 was an estimated \$650 million increase in world diamond stocks, partly because of a fall in the level of CSO sales to \$3,4 billion from \$3,9 billion in 1991, analysts says. — Sapa-Reuter

De Beers weighs in

ARI JACOBSON

DIAMOND company De Beers will carry a lot on its shoulders when reporting results this week — although a bad performance is already anticipated — but the hope for a near term rally in SA shares could rest on a better-than-anticipated outcome

De Beers has an 8% weighting in the JSE's All Share index so its not surprising that the share market bobbed up and down last week as rumours started flowing on De Beers' financial results for the year to December, due out tomorrow.

The signal that will influence the share price, according to leading analysts, will come through the group's decision on a dividend distribu-

tion Market players are also quick to mention that the cash position of the diamond giant will be of importance

The expectation is of a 25% to 40% cut in dividend declarations and anything better may be viewed as a victory

Leading diamond analyst Des Mayer feels that De Beers may have to cut its dividend declaration by 50% otherwise fund the payout with borrowings

De Beers traded above the R100 mark some 18 months ago but is now stuck in the R60 a share price range

This week's results could provide the necessary prod to lift De Beers and in turn the entire market — even though the real recovery for De Beers, based on earnings,

may only happen in 1995

Thursday last week De Beers share fell 6,7% or 450c a share to touch a low of R62,75, before kicking back to a R64,25 close

By Friday it was trading still higher at R66,50 a share as positive sentiment on better-than-anticipated financial performance began circulating in the market

Yet the feeling in the diamond community is that world sales will not pick up in 1993 and a price of between R50 and R55 a share is considered fair value

The diamond trade journal Mazal U' Bracha mentions that while the Central Selling Organisation (CSO) sales peaked at about \$4bn over the period between 1988 and 1991, sales are expected to

fall to an average of between \$2,8bn and \$3,5bn over the next few years

Stockbrokers Ed Hern Rudolph point out in its latest report that "solving the problems facing De Beers' distribution arm, the CSO, will require successful negotiations, money and time"

They point out that it took four years to resolve a similar crisis in 1981

Harry Oppenheimer allens current economic conditions to the depression of the 1930's

Focusing on the diamond market he says there are similarities "in the emergence of new important producers and the accumulation of stocks in order to preserve the stability of the trade"

2/6

CF 8/3/93

De Beers reduces its payout by 21%

B/DAY 10/3/93

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MATTHEW CURTIN

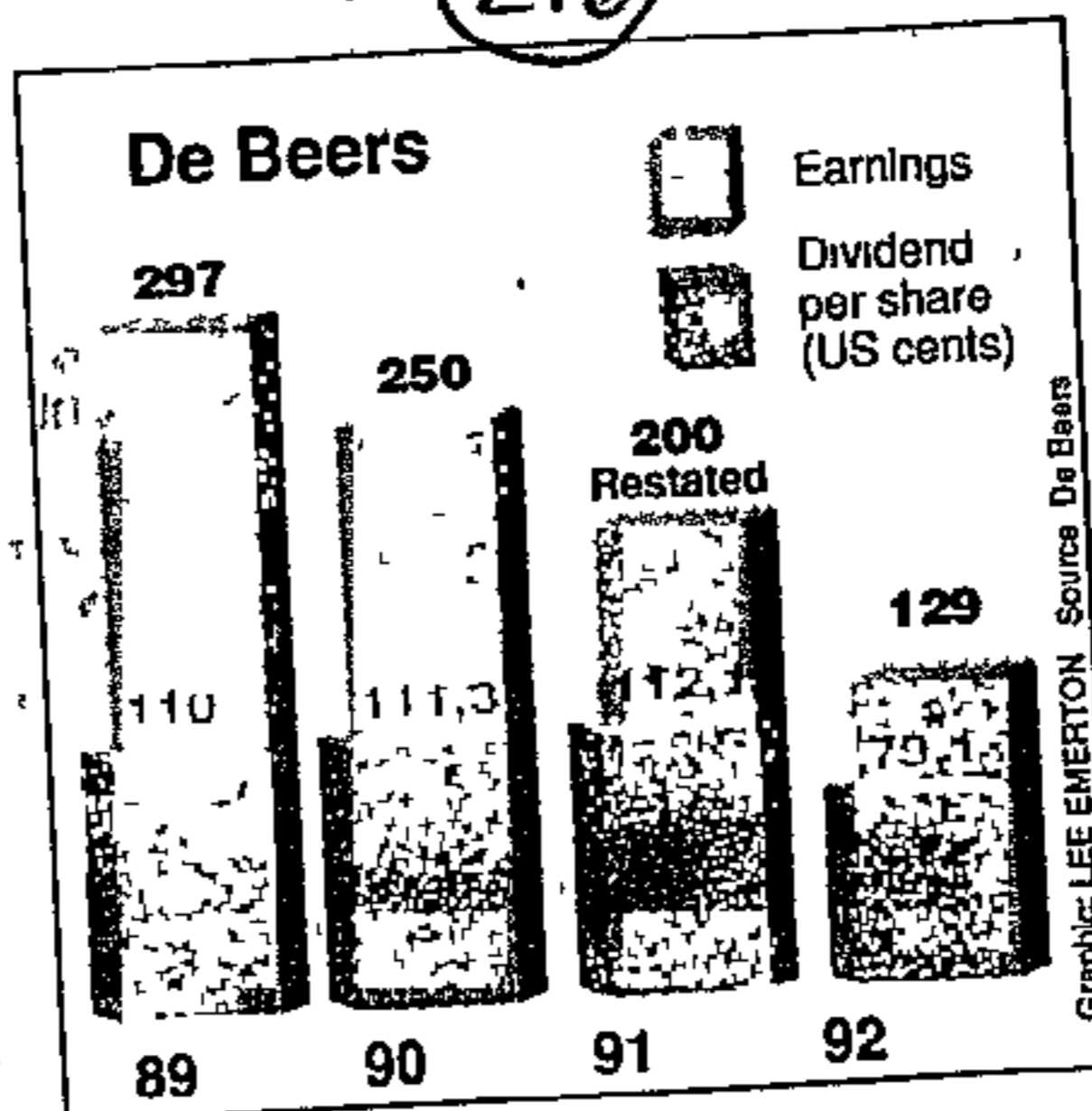
DE BEERS has cut its dividend for the first time since 1982 as the group predicted it would in August last year. The group reduced the payout to shareholders by 21% after combined attributable earnings tumbled by more than a third in the year ended December 1992.

The group declared a \$0,791 dividend a De Beers/Centenary linked unit compared with \$1,121 in 1991. The dividend fell in rand terms to 241,6c from 307,5c.

Combined attributable earnings fell to \$491m (\$759m) equivalent to earnings a linked unit of \$1,29 (\$2,00). Rand-denominated earnings fell to R1,4bn (R2,12bn), or 372c (558c) a linked unit.

The results represent something of a turnaround for De Beers which has pulled through a torrid year in the diamond business with its control of the diamond market intact and its balance sheet dented, but not as damaged as the market feared.

It surprised and angered the market last year when it revised its views radically on the strength of the diamond market, but the dividend bettered analysts' forecasts of



\$0,70, with many predicting the payout would fall by between 40% and 50%.

De Beers shares climbed as high as R69 yesterday, and closed still 4% or 260c higher at R68,86.

Chairman Julian Ogilvie Thompson said the results were "testimony to the tough year we faced". The facts reflected the

To Page 2

De Beers

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From Page 1

failure of world economies to recover from recession in the second half of 1992, coupled with the surge of diamond smuggling from Angola, and de-stocking by Japanese customers which outpaced the fall in retail diamond jewellery sales in Japan.

He said De Beers had acted quickly in the face of the depressed outlook for the diamond market by imposing production quotas on mines supplying the Central Selling Organisation (CSO) and announcing the dividend cut. This had strengthened the group's balance sheet and ensured "the long-term viability of the industry and the interests of our shareholders".

Combined pre-tax profit fell to \$728m from \$1,027bn. That largely reflected reduced profit on the diamond account, which represents profits from diamond mines in and outside SA, plus profits and dividends from international diamond operations. It fell to \$644m (\$801m).

Net interest received was sharply lower at \$30m (\$141m). Investment income was marginally higher at \$211m (\$208m), and

the group's spending on prospecting and research rose to \$133m (\$115m).

Despite the sharp fall in profitability, De Beers' tax bill fell only 11% to \$224m (\$252m), largely the result of tax losses carried forward by CDM, the group's Namibian mining company. After-tax profit stood at \$504m (\$775m).

The costs of stabilising the diamond market were shown in the combined balance sheet in which long- and medium-term debt rose to \$1,49bn (\$1,24bn).

Diamond stocks jumped to \$3,77bn (\$3,03bn), but the total would have been higher had the CSO not imposed the quotas from September last year.

The drain on the group's cash resources as it mopped up about \$300m worth of extra and illicit diamond supplies from Angola was reflected in the group's net current assets which fell to \$179m from \$557m. Swiss-based Centenary's cash reserves fell to \$204m (\$561m).

De Beers net asset value a linked unit fell to \$23,04 (\$31,02).

De Beers results lose their sparkle

(216) AUG 10/3/93

DEREK TOMMEY

JOHANNESBURG — De Beers chairman Julian Ogilvie Thompson was the bearer of some bad news yesterday when he said De Beers Centenary, South Africa's biggest company and responsible for production of half the world's diamonds, was reducing its 1992 dividends

But the market was more interested in the good news he had and the diamond giant's shares closed 260c higher at R68,85

American holders of De Beers will see their 1992 dividends cut by 29 percent from 112,1 US cents a share to 79,1 cents. But the weaker rand means South African investors will get 241,6 cents a share, which is 21 percent less than the 307,5c a year ago.

The lower dividend was expected.

Last August, Mr Ogilvie Thompson warned that the final dividend might be substantially reduced and investment interest was centred more on the size of the cut.

Some brokers said the reduction was probably greater than optimists had been expecting.

But it was smaller than the decline in De Beers' profits — and the market saw this as a sign that the company was expecting better times in 1993.

In dollar terms, De Beers profits fell 35 percent from \$759 million (200 US cents a share) to \$491 million (129 cents a share).

In rand terms, the fall was from R2,1 billion to R1,4 billion.

The lower profits and the drop in share price last year were linked to three major problems seen to be facing the company. These were:

- Fears Russia might undermine the Central Selling Organisation (CSO),

- The uncontrolled and large-scale sale of diamonds from Angola and,

- The weaker diamond markets.

Mr Ogilvie Thompson said yesterday these problems had lost much of their importance, but he was not prepared to forecast 1993 results.

Gary Ralfe, De Beers' director responsible for Russia, said that Russian production of rough diamonds had fallen 25 percent last year owing to mining problems and was expected to fall a further 15 percent this year.

Russia is allowed to sell 5 percent of its production itself to determine market prices.

Mr Ralfe said concern had been expressed about the size of Russian diamond stockpiles.

Its stockpile of diamonds of 10 carats or more was seen as a war chest unlikely to be sold. But it was

possible that some diamonds from a stockpile of small stones might be entering the market.

Russia had a diamond-cutting industry which was unlikely to be expanded as it was "value negative" — the yield from polished diamonds was less than from rough stones.

Russian polished stones were likely to start coming on to the market again after the lifting of a 20 export duty.

De Beers believed only small quantities of diamonds were now coming out of Angola. Last year some \$500 million to \$600 million worth of Angolan diamonds reached the market, with De Beers buying about two-thirds.

Diamond purchases by De Beers Centenary had resulted in De Beers's diamond stocks rising from R8,3 billion in 1991 to R11,5 billion, a R1,15 billion increase in long- and medium-term liabilities and a R960 million drop in net current assets.

However, these purchases had confirmed De Beers's commitment to the stability of the diamond industry.

This, together with the imposition of quotas on producers, had restored the balance between supply and demand.

Consumer attitudes to diamond jewellery remain positive and it seems that 1992 sales will have matched those for 1991 and 1990, with improved sales in the US.

De Beers results in line with expectations

By Derek Tommey

Julian Ogilvie Thompson, chairman of De Beers, was the bearer of some bad news yesterday when he said De Beers Centenary, SA's biggest company and responsible for production of half the world's diamonds, was reducing its 1992 dividends.

But the market was more interested in the good news he had and Beers's shares closed R2,60 higher at R68,85.

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But the weaker rand means SA investors will get 241,6c a share, which is 21 percent less than the 307,5c a year ago.

The lower dividend was not unexpected.

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was centred more on the size of the cut.

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De Beers pushes shares up

ET 10/3/93

JOHANNESBURG. — Shares ended mostly better as diamond giant De Beers buoyed sentiment following the release of annual results, which analysts said were at the top end of expectations.

However, turnover in the shares was steady, with over 300 000 shares changing hands as the shares rose R2,60 to R68,85.

The Overall Index rose 34 points to 3 425 and the Industrial Index made 28 points to 4 449. The Gold Index was 15 points better at 1 013.

Anglos was also firm, adding a rand to R98.

Industrials were a firm spot amid improving sentiment.

Dealers said the market appeared to have been oversold recently. SA Breweries led with a one rand gain to R62 and Barlows was 50c better at R44,50.

Richemont made a steady 40c to R36,40 and Remgro climbed 50c to R24,25.

Gold prices were firm despite the failure of the metal's dollar price to perform. Dealers said the rand gold price was provid-

ing a valuable cushion to local mines.

"They (the mines) look like having another good quarter and there is a lot of underlying strength in the shares," a dealer said.

Vaal reefs was up a rand to R177 and Kloof made 25c to R32.

Rusplats was 50 cents better at R58,75 and JCI made 50c to R50,50. Minorco rose 75c to R58,75.

Stanbic hovered around recent highs, adding a rand to R83. — Reuter

(2/6)

De Beers cuts dividend 21%

CT 10/3/93 (216)

From MATTHEW CURTIN

JOHANNESBURG — De Beers has cut its dividend for the first time since 1982 as the group predicted it would in August last year

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Shares climb

The results represent something of a turnaround for De Beers. It surprised and angered the market last year when it revised its views radically on the strength of the diamond market, but the dividend bettered analysts' forecasts of \$0,70, with many predicting the payout would fall by between 40% and 50%.

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He said De Beers had acted quickly in the face of the depressed outlook for the diamond market by imposing production quotas on mines supplying the Central Selling Organisation (CSO)

and announcing the dividend cut.

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Tax bill

Net interest received was sharply lower at \$30m (\$141m). Investment income was marginally higher at \$211m (\$208m), and the group's spending on prospecting and research rose to \$132m (\$115m).

Despite the sharp fall in profitability, De Beers' tax bill fell only 11% to \$224m (\$252m), largely the result of tax losses carried forward by CDM, the group's Namibian mining company. After-tax profit stood at \$504m (\$775m).

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De Beers net asset value a linked unit fell to \$23,04 (\$31,02)

IT IS not often that the market reacts favourably to results from a company which reports a 29% cut in its dividend and a 36% fall in earnings.

De Beers, having lost the investor relations battle hands down at the interim stage, has bounced back, working in part on the simple principle that if you warn everyone that results will be awful, when they turn out to be only half as bad this comes as something of a pleasant surprise.

The group's determination to avoid the public relations debacle of August last year — when De Beers issued only a terse statement warning of a likely dividend cut because of the deteriorating prospects in the diamond market — was all too evident at Tuesday's announcement of the preliminary year-end results.

The De Beers directorate turned out in force for the news conference held on the 18th floor of Anglo American's new granite and marble-lined head office building at 55 Marshall Street.

The conference was chaired by Anglo group public affairs consultant Michael Spicer, and attended not only by chairman Julian Ogilvie Thompson and deputy chairman Nicholas Oppenheimer, but directors Peter Gush, Bertie Lincoln, Gary Ralfe and Jeremy Pudney. The corporate communications department provided extra support amid an array of microphones and loudspeakers for the telephone link between the Johannesburg meeting and reporters and analysts in London.

This time there have been no forecasts Ogilvie Thompson declines to comment on the prospects for the diamond market in general, likely diamond sales in 1993, or dividend payments in the coming year. But the group has been at pains to show that the factors which so troubled the diamond trade six months ago have largely disappeared, which is why the market has received the results so well.

A key element is that the group's total \$0.79 dividend looks sustainable and is higher than average market forecasts of \$0.70. Dividend cover has continued to fall, down to 1.6 times from 1.3 times in 1991 and 2.7 times four years ago, but the com-

De Beers bounces back as market headaches ease

B/DAm 11/3/93.
MATTHEW CURTIN

(216)

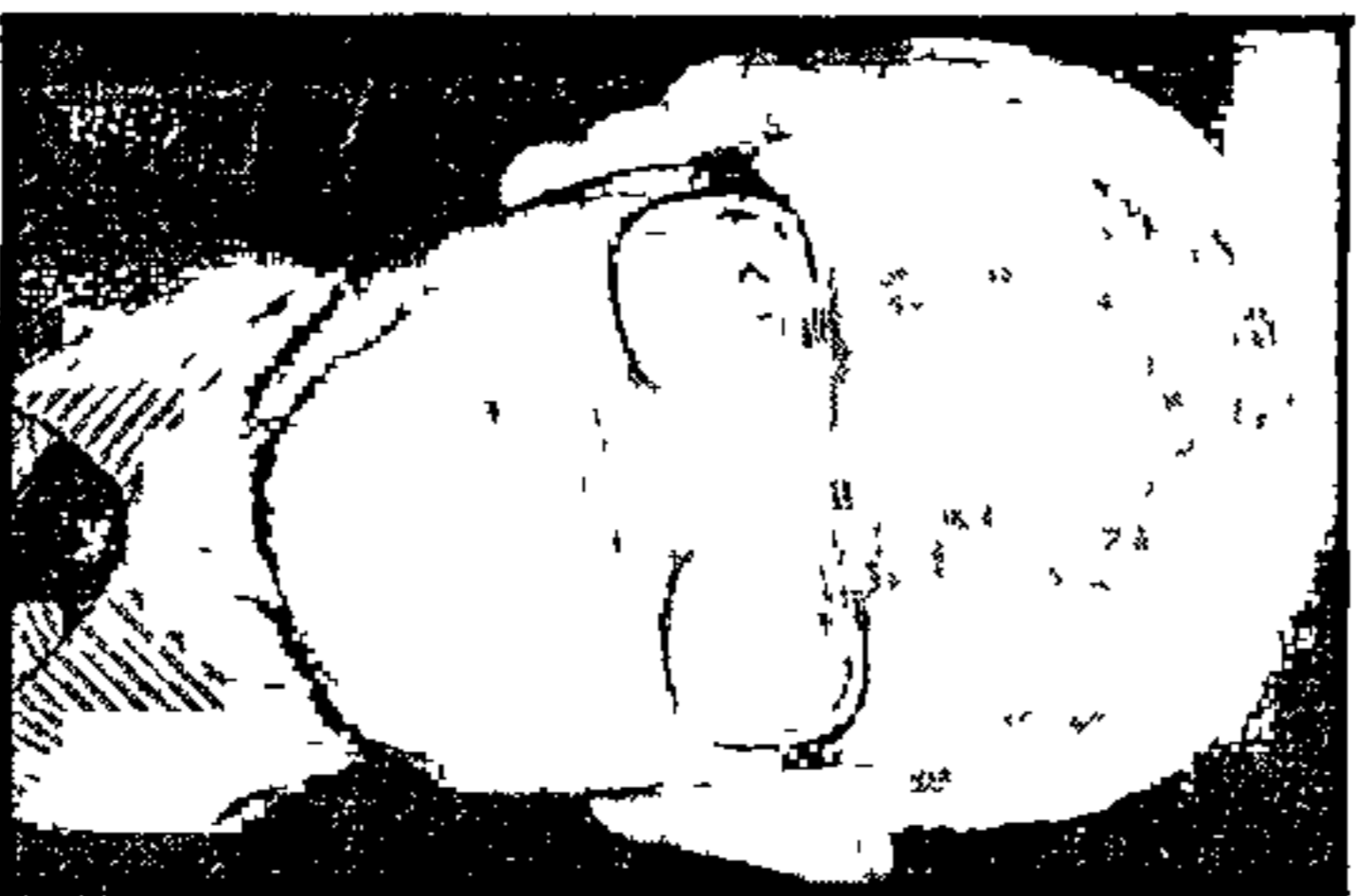
lined balance sheet is impressively strong.

The threat to De Beers' finances stemmed from two sources: Angola and sluggish retail jewellery sales. The Central Selling Organisation (CSO), the group's marketing and distribution arm, was confronted with an already oversupplied diamond market flooded by illicit Angolan material at a time when retail sales, encouragingly strong in early 1992, deteriorated suddenly as US, European and Japanese economic recovery did not materialise in the second half of the year.

While the CSO was having to spend cash to buy the Angolan supplies to preserve market stability, De Beers also faced the prospect of financing a burgeoning diamond stockpile.

De Beers took action itself, by imposing quotas on mines supplying the CSO to curb the increase in its diamond stocks. In addition, diamond jewellery sales outside Japan showed resilience and good rains and renewed civil war in Angola made informal alluvial diamond mining doubly difficult if not impossible. De Beers spent about \$300m buying Angolan diamonds in 1992, but much more than was spent by August.

Pudney, head of the group's consumer advertising division, says although retail sales data is still coming in, it looks as if the volume and



OGILVIE THOMPSON

value of world diamond jewellery sales were flat year on year, "bolding up extremely well for a mass, luxury market product".

Group cash flow figures will not be available until the annual report is published later this year, and Ogilvie Thompson declines to comment on them until then.

However, gearing remains low at

17% — long- and medium-term borrowings were up at \$1.49bn (\$1.24bn) Ogilvie Thompson notes the group has used only a small portion of its borrowing facilities. Centenary's cash reserves have shrunk sharply but still amounted to \$204m, while combined net current assets stood at \$179m (\$557m) at December 31. Combined investments stand at more than \$5.4bn Capital spending on De Beers' mines has peaked with the commissioning of the new Venetia mine last year. Diamond stocks did rise, 24% to \$3.77bn (\$3.03bn), but would have been much higher without the CSO quotas.

Ogilvie Thompson says De Beers is "comfortable" with its borrowing position. Frankel Pollak Vindnerne analyst Kevin Kartun observes: "It is what the balance sheet looks like when times are bad, the mind can only boggle at what it will look like when times are good."

Perhaps the key to De Beers' presentation was the detail it gave about the Russian diamond mining business, which many said last year was going to prove the real thorn in the side for the diamond business. Angola and retail sales were only side issues, analysts said, as the diamond trade became politicised in Russia, with some politicians in Moscow and producers in the diamond-mining province of Sakha deter-

mined to go it alone without De Beers.

Ralfe, the CSO director responsible for Russia, is to the point. Russian diamond mines are abiding by CSO quotas because they have no choice as output falls — a reflection of the general malaise afflicting Russian industry. Mine managers are unable to equip their operations adequately. Diamond output fell 25% in 1992, and will fall 15% this year as the Udachnaya mine moves into more difficult deep-level mining and the new Jubilee mine, already 18 months behind schedule, is set for another year of delays.

Ralfe says there is a large Russian diamond stockpile estimated at \$1bn of polished stones, but a 20% export duty imposed at the New Year has put paid to exports in January and February, although sales will rise if, as expected, the duty is lifted. He stresses the Russian government has regarded the stockpile as "a war chest" and still seems to do so.

He says there are direct Russian sales to Antwerp in terms of the country's agreement with the CSO allowing it to sell 5% of output outside the organisation. De Beers is concerned there may be more leakage, but it is not on a scale which will disrupt the market.

Ralfe agrees De Beers faces the threat of a concerted Russian attempt to set up rival cutting centres to those already in existence — New York, Antwerp, Israel and India have close links to the CSO — spurred by the weakness of the rouble and the desire to add value locally to diamond output.

However, Russian diamond polishers, some in joint ventures with Western operators, are producing cut gems whose value is less than that of the rough stones they are buying. And he says every diamond producing country, including SA, has had "polishing ambitions", but none has been able to set up an economic industry.

On the subject of Russia's commitment to its agreements with the CSO and the stability of the diamond trade, Ogilvie Thompson adds: "The Russian government is not so silly as to muck up the market as much for themselves as for others."

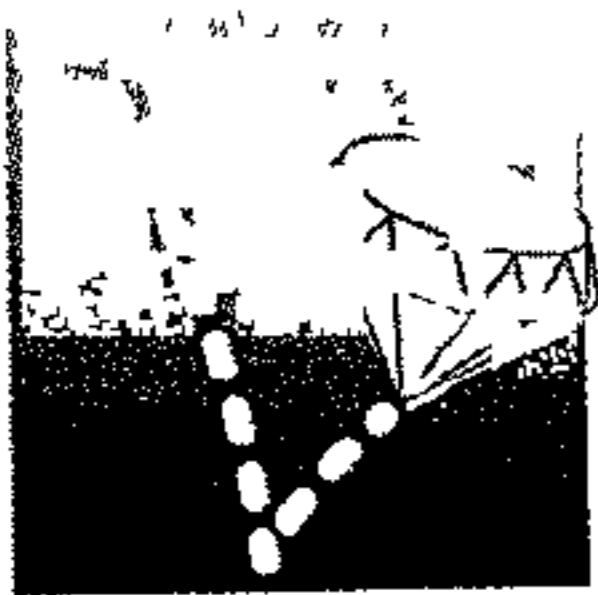
DE BEERS

FM 12/3/93

The heat's off for now

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But it could be some time before underlying diamond markets recover



After all the fears since De Beers released its interim results last August, it is perhaps inevitable that the year-end figures resemble the curate's egg. The 29% dividend cut in the dollar dividend is worse than some analysts had forecast, but borrowings have not deteriorated anywhere near as much as earlier pessimistic predictions indicated.

It leaves the impression that actions taken since mid-year — as well as some unusual and fortuitous events — are helping the diamond cartel to bridge a particularly tough phase with much success. The market's initially positive response was shown in a share price that gained 260c after the results to close at R68,85.

But serious underlying problems still stand in the way of full recovery. And, while encouraging progress is being made in shoring up the structure of the market, some concerns in this area have been deferred rather than eliminated.

A 35% dip in dollar attributable earnings again is not as bad as some had feared. Market reaction to the dividend cut — for which De Beers had prepared the ground well — will vary between local and foreign shareholders.

It looks worse for foreigners, whose annual combined dividend from De Beers/Centenary is cut in US dollar terms by 29%, with the final reduced 38%. In rand, a cut of 21,4% (with the final dividend down 27,2%) does not seem unduly harsh.

A key factor behind the 35% slide in pro forma combined attributable dollar earnings — much steeper than the 26% drop at half-time — is the US\$157m or 19,6% fall in the diamond account. Investment income is marginally up at \$211m.

Apart from sagging overall demand for rough diamonds, the diamond account would have been influenced by the deferred purchase clauses De Beers invoked with producers from September, as well as changes in the pattern of demand for different qualities.

More important, however, is the plunge in net interest income, from \$141m to \$30m. Though this shaves about \$111m off pre-tax income, it could be considered encouraging that the deterioration is not significantly worse.

To some extent, exchange rates bedevil comparisons. But it's notable that the pro forma combined balance sheet shows long- and medium-term liabilities (held primarily in Centenary) climbed by \$249m or about a

fifth, to \$1,49bn. Centenary continues to hold cash of \$204m (1991 \$561m), giving net borrowings of \$1,32bn. De Beers Consolidated has cash of R190m (R715m), giving net borrowings of R276m.

Some had expected that the balance sheet would be substantially more heavily geared. Similarly, while combined diamond stocks are sharply higher, at \$3,76bn (\$3,03bn), they're not as bad as the \$4bn-odd some analysts had thought likely.

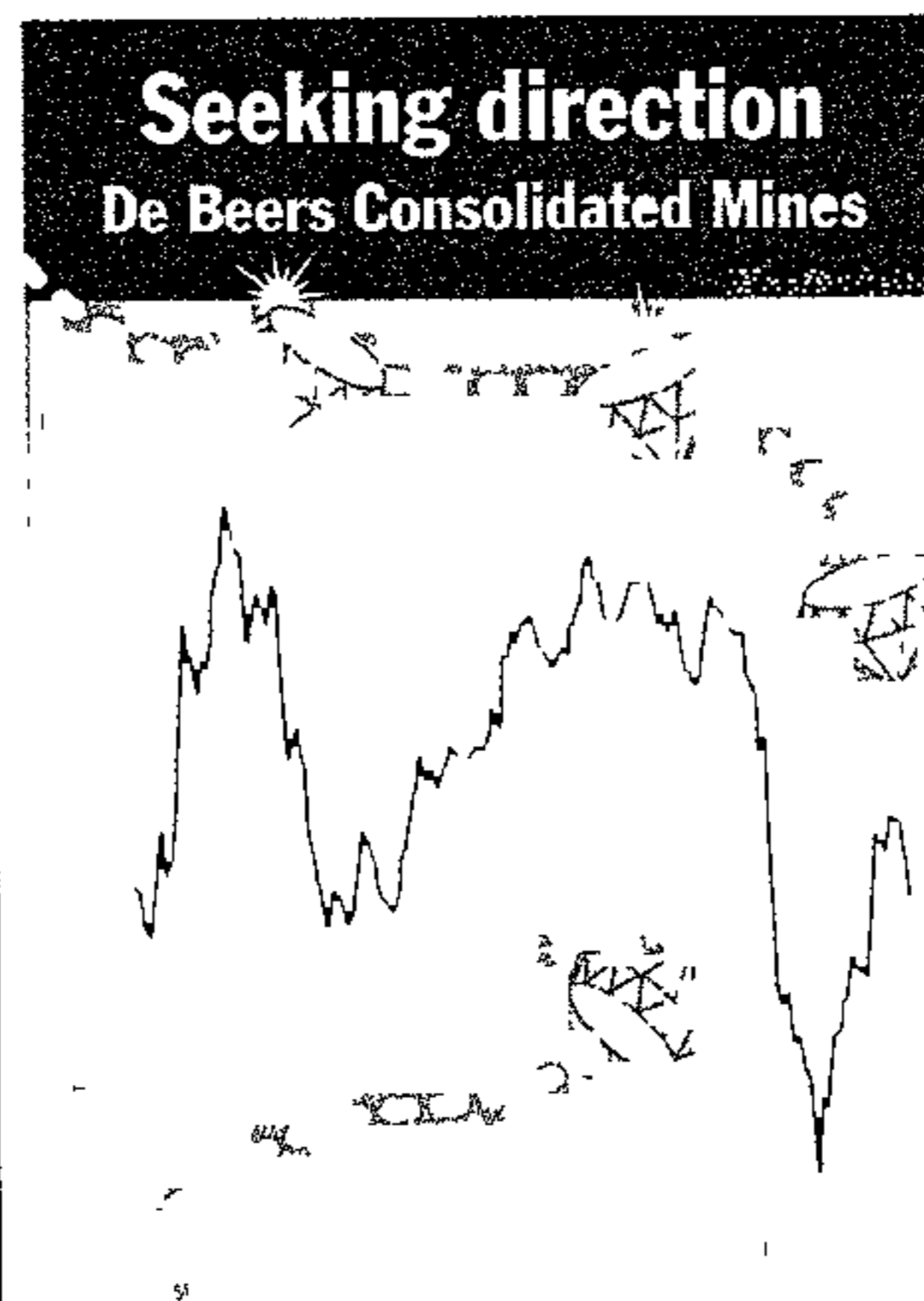
Also notable is that large repayments have been received on the \$1bn loan made to the Soviet Union in 1990 — \$400m by December 31 and a further \$50m since.

It would be surprising if there were not some good news and, indeed, a positive tenor to the release of the results. This was partly anticipated by the recovery in the share price from an October low of just over R42 to almost R70 late last month.

There were also signs of more buoyant pre-Christmas sales of diamond jewellery in the US. More recently, unofficial reports have filtered through that sales of rough diamonds at the Central Selling Organisation (CSO)'s January and February sights were well above earlier expectations.

These developments were confirmed at this week's press conference by chairman Julian Ogilvie Thompson and other De Beers directors. Whether the more positive trend continues, though, will depend partly on whether the more exceptional events continue to work in De Beers' favour, as well as on whether fundamental demand continues to improve.

One reason liquidity is better than it might



have been is that leakage of illicit diamonds out of Angola to the black market — where they were being bought by the CSO — has largely dried up. This happened only fairly late in the year, with the onset of the rainy season, and the Angolan elections, which led to renewed civil war.

Unfortunately, the wet season ends about late May, and there is no guarantee that war will continue to hold up illicit trading. The directors are emphatic that the CSO is not knowingly buying diamonds from Unita, though small quantities of illicit diamonds may still find their way to the official buying centres in Antwerp and elsewhere.

Ogilvie Thompson estimates that supplies from Angola, from the official diamond company Endiama and the black market, probably rose by about \$500m-\$600m, of which the CSO would have taken about two-thirds. That compares with market estimates as high as \$1bn banded about last year.

Quotas of about 25% in the rough diamonds bought by the CSO from producers obviously bring immediate financial benefits for De Beers. Also, Ogilvie Thompson says this has restored the balance of supply and demand in the cutting centres. The February price increase has been readily absorbed.

The quota principle has worked effectively in the past. In the early Eighties De Beers sharply reduced its own output. But this defers rather than eliminates the current problem of excessive production.

Ogilvie Thompson says De Beers's own production is again being cut back. This includes Venetia, whose build-up to full production is being slowed down. But production by individual producers is not specified. He confirms that the CSO will buy stocks kept at mines when market conditions improve sufficiently. He adds there are no plans to change the quotas now, but they will be reviewed if conditions change.

Paradoxically, while some of the market's greatest concerns last year related to supplies from CIS states, more recent events in that region have been among the more bullish developments for De Beers.

CSO director Gary Ralfe explains that Russian producers have, in effect, been abiding by quota arrangements — not so much because they are stockpiling, but because their production has been falling sharply. By their own admission, he says, Russian output fell 25% in 1992. A further 15% decline is expected this year.

This appears to be primarily a result of the imploding Russian economy. Development of a major new mine has been repeatedly delayed, because of difficulties in procuring materials and equipment.

Supplies from Russia could have been

JSE PRICES PAGES

Because of a problem with the TNPC computer system, it has been necessary to set our JSE prices manually this week. Consequently, there may be discrepancies from the normal presentation and some data may not have been updated. We apologise for any inconvenience.

greater, as they have a stockpile of polished diamonds with an estimated value of \$1bn. However, there was a hiatus in the supply of Russian polished stones owing to the imposition of a 20% export duty.

Few Russian polished diamonds were bought, which created a shortage of this type. This in turn contributed to the buoyant CSO rough sales in January and February. It seems the export duties are now being lifted. Ralfe believes this could release a deluge of Russian polished diamonds, simply to make up for lost sales.

If so, this could contribute to a curtailment of subsequent rough sales by the CSO. Ogilvie Thompson says "While there has been a temporary shortage of polished diamonds from Russia, we've sold more. When those sales pick up, we'll hold back again."

Another stimulus to the "very good" first two CSO sights was unusual demand from India, flowing partly from the rupee becoming fully convertible and partly from increased offtake from the US.

Activity in the Indian cutting centres had earlier been severely depressed by that country's foreign exchange difficulties. Numbers of people active in the trade had shrunk radically from the 700 000-odd at the peak of the boom. Resolution of the currency problems could in itself have helped to rejuvenate that industry.

However, recovery in Indian demand may partly reflect trading down in the qualities of stones re-

quired. India primarily processes small, low margin diamonds. CSO executive director Jeremy Pudney says there has been some trading down to lower qualities by consumers, particularly in Japan. But he adds that the pattern of demand varies widely between markets — and has been quite good for higher quality stones in the US.

However helpful these "exceptional" developments may have been, the industry is still stuck with a fundamental dilemma: production capacity has expanded substantially and retail jewellery sales remain wedged on a four-year plateau. A sustained resumption of growth at retail level is probably the most important factor that will enable a recovery in De Beers' profits and finally ease fears about the structure of the market.

Pudney comments encouragingly about retail trends. He notes that about 53m items of diamond jewellery are bought each year. He adds the number bought last year was about the same as in 1991, and the CSO believes the value was about maintained.

Last year De Beers trumpeted that annual retail sales had grown from \$20bn in 1980 to \$39bn in 1991. It is not mentioned that its estimate of annual retail sales has been at about \$39bn since 1988 — a longer plateau than in the last diamond recession.

Preliminary estimates are that last year's

US retail market (about 29% of the total) grew about 4% in value, with the volume of items such as engagement rings at least stable, and at higher prices. As expected, Japan (29%) is now the weakest of the large markets and the estimated value of diamond jewellery sold there fell about 5%.

In Europe (17%), German retail sales were strong, increasing around 9% by value, while sales value also improved in France — but they were slightly down in the UK and Italy. Sales in south-east Asia (11%) are thought to be slightly up.

Deputy chairman Nicky Oppenheimer noted last year De Beers believes the diamond market remains immature. So it should therefore broaden and deepen as wealth and income rises. But diamonds remain a luxury whose sales are linked to economic activity. Logically, sales are sensitive to disposable income, asset values and consumer attitudes.

It is difficult to see grounds for significant improvement in any of these conditions in the major jewellery markets. The only exception is the US, where a potentially fragile recovery has begun. Ogilvie Thompson concedes that Clinton's plan for more taxes on the wealthy is cause for concern.

In Japan, deflation of asset values has been especially severe. And in Europe, Germany appears to be entering its recession, in Italy, economic and political morale are sinking.

Trade stocks of rough diamonds evidently are not unduly high, but CSO sights will probably become more subdued without a solid recovery in the world economy. While strains on De Beers' liquidity may well have eased, it's premature to look for a marked recovery in earnings. And, while the production quota remains in force, there is no point expecting a higher dividend.

In the dour Nineties, there can be little confidence about a return to the conspicuous consumption and vigorous diamond market of the euphoric Eighties.

Against that background, the share is reasonably priced and should continue to trade in the present range around R60 and somewhat higher.

Andrew McNulty

DIFFERENT CUTS

Year to Dec 31	1989*	1990†	1991†	1992†
Diamond account (Rm)	2 958	2 335	2 237	1 850
Investment income (Rm)	518	581	582	607
Net interest (Rm)	660	631	393	86
Attributable earnings (Rm)	2 865	2 436	2 120	1 413
Equity earnings (Rm)	4 036	3 376	2 689	2 169
Earnings (c)				
— excluding share of retained profit of assoc	754	641	558	372
— including share of retained profit of assoc	1 062	888	785	573
Dividend (SAc)	280	285	308	242
Dividend (USc)	110.2	111.3	112.1	79.1
Diamond stocks (\$m)	2 476	2 684	3 034	3 765
NAV (c)	8 664	8 552	9 528	9 738

* per share

† Pro forma combined figures attributable to De Beers/Centenary linked units

Jottings on De Beers

S/Times (B455) 14/3/93

DE BEERS chairman Julian Ogilvie Thompson described how destabilising supply developments and Japanese retailer destocking led to the 35% decline in the diamond group's earnings to \$759-million in the year to December 1992

In rand terms the dividend was cut by 21% to 241,6c a share, but in dollar terms the decrease was 29%. The majority of De Beers's linked units are held by South Africans.

In the aftermath of the panic accompanying last August's warning of a substantial dividend cut, De Beers shares have rallied from a low of R44 to the present R67 level. The price was R94 last May.

It would be wrong to reflect on the mood of the directors present at Tuesday's Johannesburg and London-linked press conference as upbeat, but a few indicators suggest the bottom of the diamond market has passed.

Contract quotas of producers

were trimmed by a quarter in value terms during the last few months of 1992

Ogilvie Thompson said that the first two sights of 1993 had been very good, stimulated by exceptional factors, excluding which he could not estimate how the market might otherwise have been

The factors include fewer Angolan stones due to rain and war; a hiatus in polished stones from Russia because its government imposed a 20% general export duty no buyer will pay; and big Indian demand

De Beers director Gary Ralfe related some of his first-hand knowledge of Russian developments. Happenstance, Russian production had declined by the same quarter required by the CSO and a further 15% decline is anticipated this year.

Poor general economic conditions and deeper deposits are among the reasons. The new Jubilee mine has been delayed by 18 months already because of the difficulties of equipping it. The Russian mine manager's lament: How can I build a plant when I can't even get cement?

Russia's polished stockpile could be worth \$1-billion. However, says Ralfe, in contrast to its steps in other commodity markets, Russian policy seems not to be to undermine the diamond price.

It is entitled to sell 5% of its rough production as a check against the prices won through the CSO, which sells the rest. Other producers have no need of such a system, which evolved historically because it would have been improper for Russia to despatch government diamond-valuers to do such checks.

The Russian diamond industry has become politicised, but there is increasing realisation on all sides of the political spectrum that nobody's interests are served by upsetting the CSO appecart.

Russia has repaid \$450-million of the \$1-billion advanced two years ago by De Beers. The loan is secured by diamond collateral held in London.

Another director, Jeremy Pudney, said consumer demand for diamonds is strong — 53-million items of diamond jewellery are sold each year. America is picking up, Japan and Europe are holding reasonably well and south-east Asia has high potential for growth for "the luxury product aimed at the mass market."

Question time at the conference produced cautious, stock answers — no necks stuck out. Supply and demand at the cutting centres has been restored and De Beers describes the mood there as "cautiously optimistic."

The JSE view of the share falls into the same bracket

CASH-HAPPY JOFFE

BIDVEST's acquisition capacity will top R600-million, chairman Brian Joffe said this week.

Announcing expansion plans this week which involve the delisting of Afcom and Crown and a R30-million rights issue in Bidvest, Joffe said that institutions say they want to have their stakes alongside his own and not in small subsidiaries.

The diverse nature of the group meant that some divisions held in the listed companies would fit better in the unlisted divisions.

Delisting the companies would also remove the possibility for a conflict of interest when the Bidvest group made acquisitions.

Other benefits include access to cash flow, scope for tax planning

and the opportunity to disclose less to competitors.

Top company Bidcorp will raise R13-million to follow its rights in Bidvest. A large percentage of each company's shareholders have indicated their intention to follow their rights. Joffe says that when all the debentures convert, Bidcorp will own 46% of Bidvest, compared with the current 51% diluted. "In the new South Africa it is not necessary to retain absolute control," said Joffe. "30% is enough."

Standard Merchant Bank advises the minority that the terms offered by Bidvest are fair and reasonable. The cash offers (detailed in Week in Brief on Page 7) bear premium to the prices quoted before the cautionary announcements.

S/Times (B455) 14/3/93

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De Beers offers stake to Namibia

Star 23/3/93

(216)

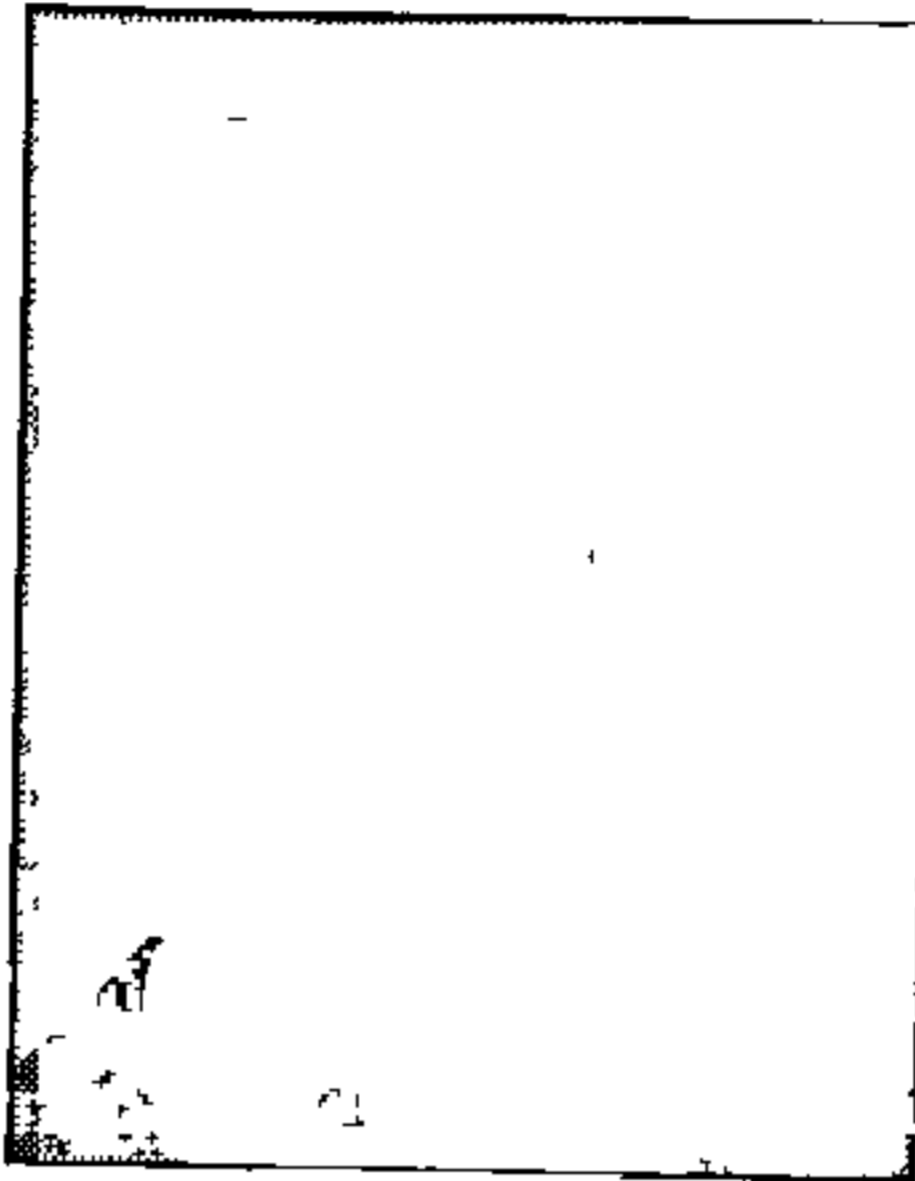
By Tom Hood

CAPE TOWN — Faced with threats of nationalisation, De Beers is offering the Namibian government a stake in its huge diamond-mining business in Namibia.

The offer was disclosed by Peter Gush, head of De Beers' diamond division and deputy chairman of Anglo American Corporation

The Namibian government has been under pressure from politicians to take over South African-owned mines

Gush, making the keynote speech at a conference on mining investment in Namibia, said. "We have offered to negotiate with the Namibian government a participation in the diamond business in Namibia, recognising the major position Consolidated Diamond Mines



Peter Gush "the future of Namibia is bright."

has in the economy

"We have been in Namibia for many years and we have been criticised for being part of the earlier regime

"We have been criticised also for benefiting at the expense of

the people, even though diamond taxes are very high by international standards.

"We recognise the pressures the government faces and believe they too recognise the stresses being faced by the mining industry, particularly the diamond sector

"We have done this because we believe in this country and we believe these negotiations will be on sensible, reasonable issues and will not be a reflection of the past"

Gush said De Beers also had major exploration programmes which were truly an investment in the future of Namibia, and reflecting a confidence that the future would be sound

"We believe the future of Namibia is bright and the policies will make it thus

"In the private sector there is a saying 'We are putting our money where our mouth is.'"

ICH reports healthy rise

DUMA GOUBULI

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INDUSTRIAL and Commercial Holdings (ICH), whose major asset is its 12,5% holding in Saturn Mining & Prospecting, reported sharply higher attributable earnings of R210 000 for the half year ended December 1992.

Saturn in turn has rights to receive income from Venetia diamond mine.

The remaining 87,5% stake in Saturn is held by Anglovaal and Mid Wits.

Results published today show the company's income at R347 000, which included dividends from unlisted investments of R329 000 and interest of R18 000.

Expenditure absorbed R131 000, tax R6 000 and attributable income stood at R210 000 (R75 000), equivalent to 1,52c (0,54c) a share.

The company decided not to declare a dividend for the six month period but would again consider a declaration in August.

Benguela still making losses

CAPE TOWN — Diamond sea-mining group Benguela Concessions' loss per share rose to 6,2c in the six months to December from 4,1c for the year-ago period.

Accumulated loss was R5,2 million (R648 000). The consolidated income statement shows 9908 carats were produced (16 794 in the previous six-month period to December 1991).

Mining income was R1,1 million (R1,9 million). Calculation of the loss per share is based on the net consolidated loss after tax, but before extraordinary items for the period of R2,8 million (1991: R1,8 million).

Prevailing poor sea conditions and the reduction in the fleet of own and subcontractors' smaller mining vessels contributed to reduced diamond production.

Negotiations with BHP Minerals over the establishment of a joint venture for development of the middle- and deep-water concessions has reached an advanced stage, Benguela says.

It says surplus cash in current assets has been "utilised post-balance sheet to redeem major long-term liabilities".

"Negotiations with Namibian Minerals Corporation (NMC) for a joint venture operation in the Namibian Concession held by CDM (Pty) was not successful," it says — Sapa

Trade surplus drives up yen

TOKYO — The yen's surge against a backdrop of Russian turmoil suggests it may have acquired the safe-haven status of the dollar, but Tokyo dealers say Japan's huge trade surplus was behind much of the recent gain.

"There is not much demand for the dollar right now, but with Japan's large trade surplus, the need for the yen has been increasing," says a Japanese city bank economist.

Others argue the old market equation — political tension or war directly leading to dollar buying — is no longer valid in the post-cold-war era.

In the nation's current account, Japan posted a record \$182,60 billion trade surplus in

calendar 1992, up from \$103,04 billion a year earlier.

The large surplus means not only Japanese exporters have an abundance of dollars to sell from foreign currency earnings, but also that overseas buyers of Japanese goods need yen, dealers and analysts say.

International capital flows were briefly channelled into the dollar when news broke of the confrontation between Russian President Boris Yeltsin and his legislature.

But the yen benefited more in the longer run, partly because of the recent strong performance of Tokyo stocks.

"World money flows appear to be heading towards the yen when I look at latest currency

market movement," says Spotchi Saito, chief trader at Hight Kanei Fushokun Bank.

Indeed, foreign investors have turned net buyers of Japanese stocks since early March when the crisis started to intensify.

This move was accelerated by a relatively poor performance in other world stock markets.

German shares, for example, ended near a four-week low as the DAX 30-share index closed with a loss of 37,41 points at 1 601,40 on Tuesday.

"The latest developments in international currency markets do not mean the yen has become a safe haven, but mainly factors favour it for now," a dealer said — Sapa-Reuter.

46 pc unemployment rate forecast

Unemployment could surge from its present level of 35,3 percent to 46,2 percent of the workforce by the end of the decade, according to a team of economic researchers.

Their forecast is contained in a discussion document *Modeling the SA Economy*, sponsored by the ANC/Cosatu aligned Macro-Economic Research Group (MERG), the Development Bank of South Africa and the University of Durban Westville.

Underlying the economic assumptions of their model is a forecast of an rise in SA's real gross domestic product of only

14,9 percent by 1999.

"The model is not a response to or alternative to the model government has put out," said economic research Stephen G. Hb, referring to the Finance Department's Normative Economic Model issued two weeks ago. "We see it as part of the contribution to the debate."

The other authors of the model are Dirk Ernst van Seventer of the DBSA and Americans Lance Taylor and Bill Gibson.

Gelb said the structural model dealt with the distribution of income, wealth and power in the economy, but the model would

need other world and inputs from other areas such as the

The model provides an analysis between export-led growth with 21 percent annual growth and a 10 percent annual growth rate. It suggests a 10 percent annual growth rate would lead to a 10 percent annual increase in GDP growth, if such a rate were maintained.

The forecast would lead to a 10 percent annual increase in GDP growth, if such a rate were maintained. It is clear that the model more responsive to changes in wage that in the 1980s. The current

Benco turns in increased loss

JONO WATERS (216)

SEA diamond operation Benguela Concessions (Benco) turned in an increased after-tax loss of R2,78m in the six months ended December 1992 after bad weather had affected diamond production. *B10M*

This was equivalent to a loss of 6,2c a share compared with the previous loss of 4,1c a share. *25/3/93*

Turnover decreased to R5,04m (R7,85m) as diamond production fell to 9 908 carats (16 794 carats). After mining expenses of R3,89m (R5,92m), mining income dropped to R1,15m (R1,94m). A nearly fourfold increase in long-term liabilities to R7,16m (R1,85m) saw interest on borrowings increase to R327 000 (R52 000).

An extraordinary item of R7m for the sale of certain mining rights was transferred to the non-distributable reserve. Accumulated losses at the end of the period amounted to R5,26m (R648 000 — loss).

Chairman John Gurney said the fall in production was a result of poor sea conditions and the reduction in the number of available mining vessels.

Negotiations with BHP Minerals concerning the establishment of a joint venture for the development of the middle and deep water concessions had reached an advanced stage.

The claim for \$72m in damages following the failure of the negotiations for a joint venture with Namibian Mineral Corporation was still continuing, Gurney said.

De Beers talks to Zimbabwe

HARARE — De Beers is set to negotiate its return to Zimbabwe's mining industry this week, two years after being thrown out of the country over marketing disagreements

"We are meeting senior officials of De Beers this week and if all goes well, we will be encouraging them to come," Mines Minister Eddison Zvobgo said in an interview with the Sunday Mail.

Zvobgo refused to discuss why De Beers, whose claim to a diamond area in southwestern Zimbabwe was cancelled in 1991 when it refused to market its output through the state-owned Minerals Marketing Corporation, was being allowed back — Sapa-Reuter

Star 2913193

De Beers, Zimbabwe agree

(362) World diamond giant De Beers is set to negotiate its return to Zimbabwe's mining industry this week, two years after being thrown out of the country over marketing disagreements (216)

ANDREW KRUMM

De Beers considers return to Harare

(216)

THE Zimbabwean government is to meet senior De Beers personnel in Harare this week to discuss the feasibility of marketing Zimbabwean diamonds through the Central Selling Organisation (CSO).

The diamond giant was thrown out of Zimbabwe in 1991 — and its claim to a diamond mine cancelled — when De Beers refused to market the mine's output through the state-owned Minerals Marketing Corporation.

Sapa-Reuter reports that Zimbabwe Mines Minister Eddison Zvobgo told the Harare Sunday Mail yesterday "We are meeting senior officials of De Beers this week and if all goes well, we will be encouraging them to come"

He said Zimbabwe, which produced 1.3 million carats in 1992, was keen to market its diamonds through the CSO, De Beers' marketing arm and the world's largest diamond controlling group. He refused to discuss Zimbabwe's reasons for the move.

He said De Beers could also be interested in diamond exploration and mining.

Confirming the meeting would take place, De Beers spokesman Tom Tweedy said in Johannesburg "We are pleased to re-establish contact with the Zimbabwean government"

He declined to disclose any details

BLD/AM 29/3/93

BROADACRES

Whimsical profits

Fundamentals of Broadacres's fickle sea diamond recovery business are encapsulated in the interim results — what other kind of company could post six months' EPS at 60% more than its share price and still pass its dividend? Broadacres recovers diamonds from the seabed off the west coast

But weather conditions for much of the past three years have been atrocious, the exception being the six months to December MD Peter Slott-Nielsen says "For the first time in over three years, sustained favourable weather permitted an extended period of diving days which yielded record production in number of carats and quality of stones"

Net income of R1m meant Broadacres wiped out the accumulated loss of R600 000 as at last June, but the Hong Kong business-

Fm 2/4/93 (216)
men who hold 70% of the shares are keeping a tight rein on the purse strings. The board has retained the additional cash, citing capital spending requirements and uncertainty about next year's weather.

Diamond concessions along the west coast are divided into strips running out to sea, each further divided into sections. All Broadacres' production comes from shallow ocean areas and the surf zone, where recovery operations are most seriously hampered by bad weather.

It operates concession 12 — from the Admiralty strip onshore to 30,4 m beyond the low water mark — in its own right. It also recovers diamonds from 12A and 11A, receiving a percentage of profits from Trans Hex which holds these concessions. The "A" part of the concession extends 1 km offshore, while the "B" and "C" sections are deep-water areas.

Other diamond companies such as Benguela Concessions and De Beers Marine are moving operations into the deep-water sections, where mining is less disturbed by Cape storms. This involves heavy expenditure. Broadacres does not have access to the deep-water concessions.

At 1 km from shore, the Broadacres boat crews are working at depths of 30 m. Slott-Nielsen says the company operates 12 boats and 10 shore units, the maximum that can be put into the available areas without logistical problems. The operation seems likely to remain on a hand-to-mouth basis with fortunes exposed to the whims of west coast weather. That makes Broadacres a high-risk, high-reward investment.

Brendan Ryan

SA platinum 'backbone' for Lonrho

LONDON — The South African platinum operation — and the new German joint CE were named as potential saviours yesterday at Lonrho's agm in London.

Bock, who has invested £130m of his personal fortune in the company, was given a standing ovation when chairman Rene Leclezio said he was the leader the troubled multi-national conglomerate needed for the future.

Only a few shareholders expressed reservations about Bock's coming in as heir apparent

and joint CE with Tiny Rowlands, and the appointment was unanimously approved.

Leclezio told shareholders that, at the end of the worst year in Lonrho's history, assets net of current liabilities still stood at more than £2,3bn.

He said press comments that there was "something to hide in Lonrho's accounts" were unjustified and that this had been established by an independent professional appraisal.

The meeting opened with an filmed report on Lonrho's platinum

mining interests in SA. Leclezio said such mining formed the long-term backbone of Lonrho's business and it would not require much of an improvement in prices before it started making substantially higher profits.

He said that while Lonrho had concentrated on reducing its debt, with gearing at February 28 down to 44% with a net debt of £769m, in the last two years £421m was invested in platinum group metals extraction and refining, in gold mining, hotels and sugar production.

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CF 3/4/93

New link in hunt for gems

(216)
ARG 3/4/93

MARC HASENFUSS
Business staff

IN a multimillion rand investment breakthrough, Canadian mining group Menora Resources has agreed to increase its stake in Cape Town's Ocean Diamond Mining to about 27 percent.

This represents an important reversal of the hardline stance Canada took on investment in South Africa during the sanctions era.

The deal between the two groups is subject to JSE and Reserve Bank approval.

If it goes through, Menora will become ODM's principle shareholder.

The Toronto-based group, which already holds a 7,7 percent stake in ODM, is listed on the Montreal Stock Exchange and has other interests in gold mining and base metals.

By increasing its stake, Menora will give ODM the cash injection required to finance a new mining production vessel.

■ Exploration for diamond deposits on the seabed off the Cape coast is becoming less and less like looking for a needle in a haystack.

A new vessel can cost between R15 million to R20 million.

ODM managing director Mr Andre Louw said the deal came after "months and months" of negotiations with the Canadian group and was helped along by prevailing bullish sentiment for diamonds in Canada.

He confirmed the deal would see shares change hands at above market price. The group currently trades at around 110c on the JSE.

Mr Louw said Menora would raise the required capital by exploiting Canadian "diamond fever."

"Anything to do with diamonds will fly in Canada these days."

Mr Louw said group was negotiating for equipment for the new production vessel.

The group at present operates one vessel, the Lucky D, to comb an area off the Namibian coast about five times the size of Lake Geneva.

Mr Louw said the new vessel would be bigger than the Lucky D and would be used in the so-called "island concessions" which have already been surveyed by the group.

The deal follows hard on the heels of a joint venture agreement between Benguela Concessions (Benco) and Broken Hill Pty of Australia.

Investment by two groups of the calibre of Broken Hill and Menora should pull in investors like flies to sherbet. However, trade has remained thin.

Mr Louw said ODM was still considered a flyer by investors. "But we feel the group is starting to get things right."

Unfortunately, sea diamond mining had been likened to searching for a needle in a haystack.

Now ODM aims to bring stability to the industry by systematic exploration similar to the efforts undertaken by De Beers and Benco.

De Beers barred from Pentagon auction 216

SIMON BARBER

WASHINGTON — The Pentagon is to auction off 2-million carats of diamonds, including a large number of gem quality stones, from the National Defence Stockpile this year.

But De Beers has been barred from bidding because of its anti-trust problems in the US.

The first round of the auction was set for this month, but bids will now not be opened until June 4 because of unusually strong dealer interest.

The Defence Logistics Agency has appraised the goods — all uncut and unpolished stones from Brazil and Zaire — but declines to make the estimate public. Privately, officials say they hope to raise up to \$100 a carat, or \$100m, in the first round. Proceeds will be used for base repairs.

The sale is not expected to have an impact on the industrial or the retail jewellery market.

Buyer interest has been sparked by the unusual quality of the stones on offer. "The colours, shapes and general quality of the stones are quite different from the norm," IDC (Holdings) Ltd chairman Jack Lunzer told the Wall Street Journal.

Congress authorised the sale last year as part of a post-Cold War sell-off of "strategic" stockpiles. If sales proceed as planned, the Pentagon will be left with about 5-million carats of industrial grade diamonds which it no longer needs, thanks to the availability of synthetic stones.

Star 15/4/93

(216)

Russians rethink diamond pact

MOSCOW — Russia would make more from the diamond trade if it abandoned its right to sell five percent of its production and put everything through De Beers' Central Selling Organisation (CSO), according to a senior Russian diamond industry executive.

Sergei Ulin, a director of Almaz-Rossii Sakha (ARS), the state-dominated company which produces and markets Russian diamonds, believes "it's quite evident that changes are required" In the past he has defended

Russia's 1990 agreement with De Beers under which 95 percent of rough diamond export must go through the CSO

"The world is very different from when we signed the agreement, and we are different too," Ulin said, he now believes that the separate sale of five percent — agreed so that Russia had a means of checking the price it was paid by De Beers — is undermining the CSO's "one-channel" system which aims to keep prices as high as possible.

Some parliamentarians

and the State Committee for Precious Stones and Metals have on the contrary complained that five percent is too little and that the sales are only allowed in Moscow.

"I don't believe that 5, 10, or 15 percent, whether it is sold in Moscow or anywhere else, will give us the information which we would like to have," Ulin said. It would be better for Russian representatives to attend De Beers' diamond sales or "sights" in London as did other producers to ensure fair play — Financial Times

Raiding Neptune's locker

It was Zsa Zsa Gabor who said she'd never hated a man enough to give back his diamonds. That's why, of course, they are forever and why there's so much money in them. It's worth noting, as Benguela Concessions (Benco) chairman John Gurney does, that the world market has expanded enough in five years "to absorb a doubling of production in five years" *FM 16/4/93*.

There's a mystery in the annual report, too. It arrived at the *FM* on March 31. That's three months after the JSE's deadline, five months after Gurney signed it and after the interim was published. No-one seems to know how this happened.

Activities: Marine diamond exploration company which acquires, develops and exploits sea diamond concessions off the west coast

Control: SA Mutual

Chairman: J J Gurney, MD J R Wilson

Capital structure: 44,8m ords Market capitalisation R26,9m

Share market: Price 60c Yields 12-month high, 70c, low, 15c Trading volume last quarter, 1,4m shares

Year to June 30	'90*	'91	'92
Revenue (Rm)	10,4	19,0	16,2
Operating profit (Rm)	1,4	0,1	(3,4)
Earnings (c)	6,5	0,1	(8,2)
Dividends (c)	—	—	—
Net worth (c)	279,3	101,9	93,7

* 16-month period

operations will lead to a pot of diamonds in Neptune's locker. SA Mutual and BHP seem to think it may. *David Gleason*

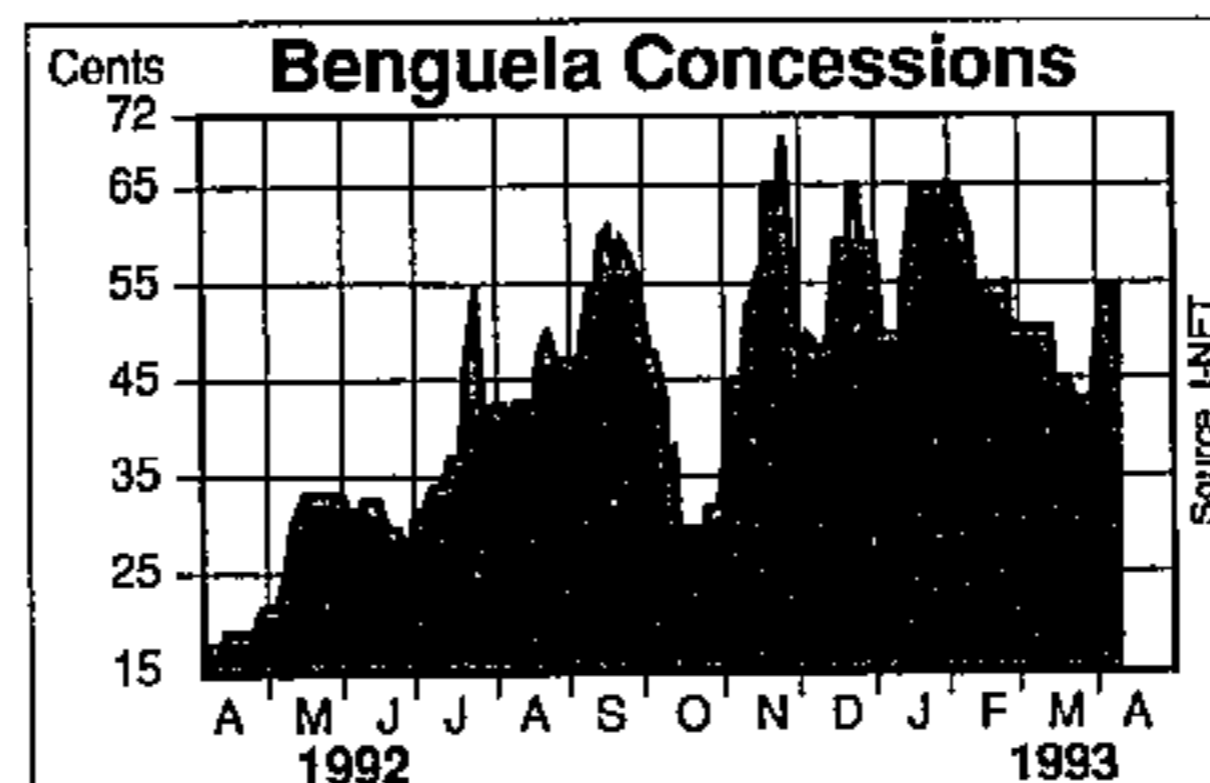
Not that it matters too much. This is a company in which shareholders invest not for short-term returns but for long-term promise. Results confirm that 1992 was a bad year, with caratage produced at 30 000, about a quarter less than in 1991. The first six months of this year reinforce the trend, only R5m worth of diamonds was sold, compared with R8m in the first half of 1992.

Benco is concerned solely with exploration and development of marine diamond deposits. It holds a number of concessions off the west and Namibian coasts. It at first concentrated on shallow water areas but has now made a calculated decision to invest almost exclusively in deep water. It has relinquished some shallow water concessions and that, with particularly bad diving weather in 1992, accounts for the fall in production.

The good news is that Benco has completed its joint venture link with BHP Minerals. That company has agreed to pick up all exploration costs on Benco's deep sea concessions from January this year and has undertaken to invest at least US\$15m.

That expenditure, expected to finance exploration and the feasibility of deep-sea mining over three years, will include the purchase of a vessel suitable for sampling and trial mining. A second phase, put at \$45m, allows for the purchase of a deep-sea mining vessel and the start of mining.

Benco has had its ups and downs in its short (three-year) history. An argument with Namibian Minerals Corp (NMC) led to NMC obtaining a search order on the



home of Benco CE John Wilson last October. The argument continues but Benco's directors seem unconcerned about threatened legal action.

In the end, the question is whether Benco's

De Beers not troubled by US diamond auction

By Neil Behrmann

216

LONDON — The US will be selling valuable diamonds from its strategic stockpile in coming months

The Pentagon will auction one million carats for an estimated \$50 million to \$100 million at the beginning of June

The average price of the diamonds is more than \$50 a carat, so the quality is good

Another one million carats is expected to be sold in September, leaving the US National Defence Stockpile with about 5 million carats of industrial, gem and near-gem diamonds.

Diamond dealers who have examined the collection say that there are some beautiful stones among an exceptional assortment

"The Pentagon will achieve its sales target easily," says Jack Lunzer, chairman of IDC Holdings, a London manufacturer of gem and industrial diamonds

"The colours, shapes and gen-

eral quality of the stones are quite different from the norm," says Lunzer who will be bidding at the auction

Some white gems are so unusual that they will cost as much as \$300 a carat

There are also large stones weighing as much as six to seven carats

The sale comes amid a weak recovery in the diamond market, but De Beers says that the auction will not affect its business

The Pentagon has sold cheap industrial diamonds before, but this is the first time it has offered quality near-gems and gemstones.

The Pentagon bought the diamonds in the Fifties and Sixties for industrial purposes. Industrial diamonds are used for grinding, drilling and wire-cutting in the aerospace, shipbuilding, mining and tank-construction industries.

Yet before synthetic diamonds were made, says Lunzer, the US bought natural industrial

diamonds. Many of them now have a much higher value, he says, because they are now classified by the market as gems or near-gems. The diamonds have thus become an unexpected treasure of the Pentagon.

The auction was originally scheduled for mid-April, but was postponed to accommodate a growing band of dealers who interested in buying

More than 150 diamond dealers from Antwerp, Tel Aviv, New York, London, Bombay and Sydney are examining the diamonds in a vault of Citibank in New York following an advertising campaign

The Pentagon is selling diamonds over and above sales of other commodities from its strategic stockpile, including cobalt, manganese, cadmium, bauxite, silver and vanadium

The stockpile was built up after World War II as a strategic reserve in the event of conflict with the former Soviet Union, a major producer of the

minerals. The value of the stockpile is estimated at about \$8 billion

Proceeds from sales will go towards military repairs

De Beers is not prepared to comment on the value of the auction because it is not bidding

Some dealers suspect that De Beers boosted its recent monthly sale to \$500 million from an average of less than \$340 million last year because it feared the auction.

London and Antwerp dealers disagree because the Pentagon stones are so different from De Beers' assortment

"Our marketing strategy has not been influenced by the auction and it will not have an impact on our sales," says a De Beers official

De Beers' annual sales last year were \$3.4 billion. In good years they can be more than \$4 billion. So the Pentagon auction is only a fraction of the company's annual turnover, he says

Few surprises due from De Beers

BIDAM 20/4/93.

(216)

JULIAN Ogilvie Thompson would spring few surprises in his De Beers chairman's statement, covering the year to end-December 1992, which is to be released next week. However, he would give the market cause for cautious optimism for the rest of this year, analysts said yesterday.

De Beers shares rose 50c to R76,50 on the JSE yesterday, representing a 16% increase in the past month. The stock fell immediately after De Beers announced its 29% dividend cut in early March but confidence that the diamond market has "bottomed out" has helped buoy shares since

Frankel, Max Pollak, Vinderine analyst Kevin Kartun said the 20% export tax slapped on Russian diamond exports in the New Year had been lifted but the deluge of Russian

MATTHEW CURTIN

material, which De Beers had feared would hit the market once the tax was scrapped, so far appeared to be only "a trickle".

The tax curbed Russian exports of polished stones, and contributed to the strong first three diamond sites this year, ahead of last year's figures as the Central Selling Organisation was able to sell "into a vacuum".

Kartun put the value of these sights at \$1,5bn with sales for the year likely to reach \$3,8bn compared with \$3,42bn in 1992, and \$3,91bn in 1991.

There was little threat that supplies of rough diamonds from Russia's mines would increase because the development of the new Jubilee

mine, relied upon to substitute falling output from older mines, was falling further behind schedule.

Kartun said Ogilvie Thompson might give details of current talks between CDM, De Beers' Namibian diamond mining company, and the Namibia government, expected to end with the parties striking a similar agreement to the one established in Botswana. There, the government has a 50% stake with De Beers in local diamond mining company Debswana.

Another analyst suggested there was little chance that the explosion last year of illicit diamond mining in Angola would recur.

Anderson Wilson analyst James Wilson said the problem areas for De Beers remained on the retail side.

IDB probe: Mining bosses suspended

TWO senior De Beers mining executives have been suspended pending an investigation into illegal diamond buying.

Mr Frik Blaauw, 45, general manager of the Kimberley and Koffiefontein mines, was relieved of his duties on March 25. This week, Mr Dave Lloyd, 47, the security manager at both mines, was also suspended.

Police in Kimberley confirmed this week they were investigating a case of illegal diamond dealing which could involve De Beers employees.

Mr Blaauw — described as a "cowboy who liked to live it up" —

By DIANA STREAK

became joint manager of the mines in December.

One Koffiefontein resident said "I think he has three Mercedes". De Beers sent letters to employees ordering them not to discuss the case. Residents of Kimberley — described by one as a De Beers "feudom" — and the Free State town of Koffiefontein are reluctant to do so.

Another person in Koffiefontein said "People have been told not to say anything or they will be fired".

Mr Glenn Bryant, Johannesburg-based corporate communications

manager for De Beers, was tight-lipped this week, saying

"The case of Mr Blaauw is awaiting independent arbitration, agreed upon by both parties, and the arbitrator is currently abroad."

He said Mr Lloyd would face an internal hearing on May 10.

The police investigation involves four diamonds with a total weight of 31.86 carats and a street value of R40 832.

Police spokesman Major Johan Hickman said the investigation was "not aimed at any specific person related to De Beers at this stage, but it is possible that employees of De Beers could be involved."

FRIK BLAAUW

De Beers suspends mine executives

GRETA STEYN

216

DE BEERS had suspended two mining executives — allegedly linked to a police investigation into illegal diamond buying — and was investigating their activities, it was confirmed yesterday.

Spokesman Tom Tweedy said an internal hearing was scheduled for May 10 for the security manager of the Koffiefontein and Kimberley mines, Dave Lloyd. The mines' GM Frik Blaauw's case awaited arbitration at a date not yet set. He was suspended on March 25.

BIDM 26/4/93
The De Beers investigation into their activities was not necessarily linked to a police investigation into illegal diamond dealing, Tweedy said.

The Sunday Times reported yesterday Kimberley police were investigating a case of illegal diamond dealing which could involve De Beers employees. Diamonds with a total weight of 31,86 carats and a street value of more than R40,000 were said to be involved. Kimberley police said the investigation was not aimed at any specific person related to De Beers at this stage.

De Beers relaxes purchasing quotas

BIDAM 28/4/93

(216)

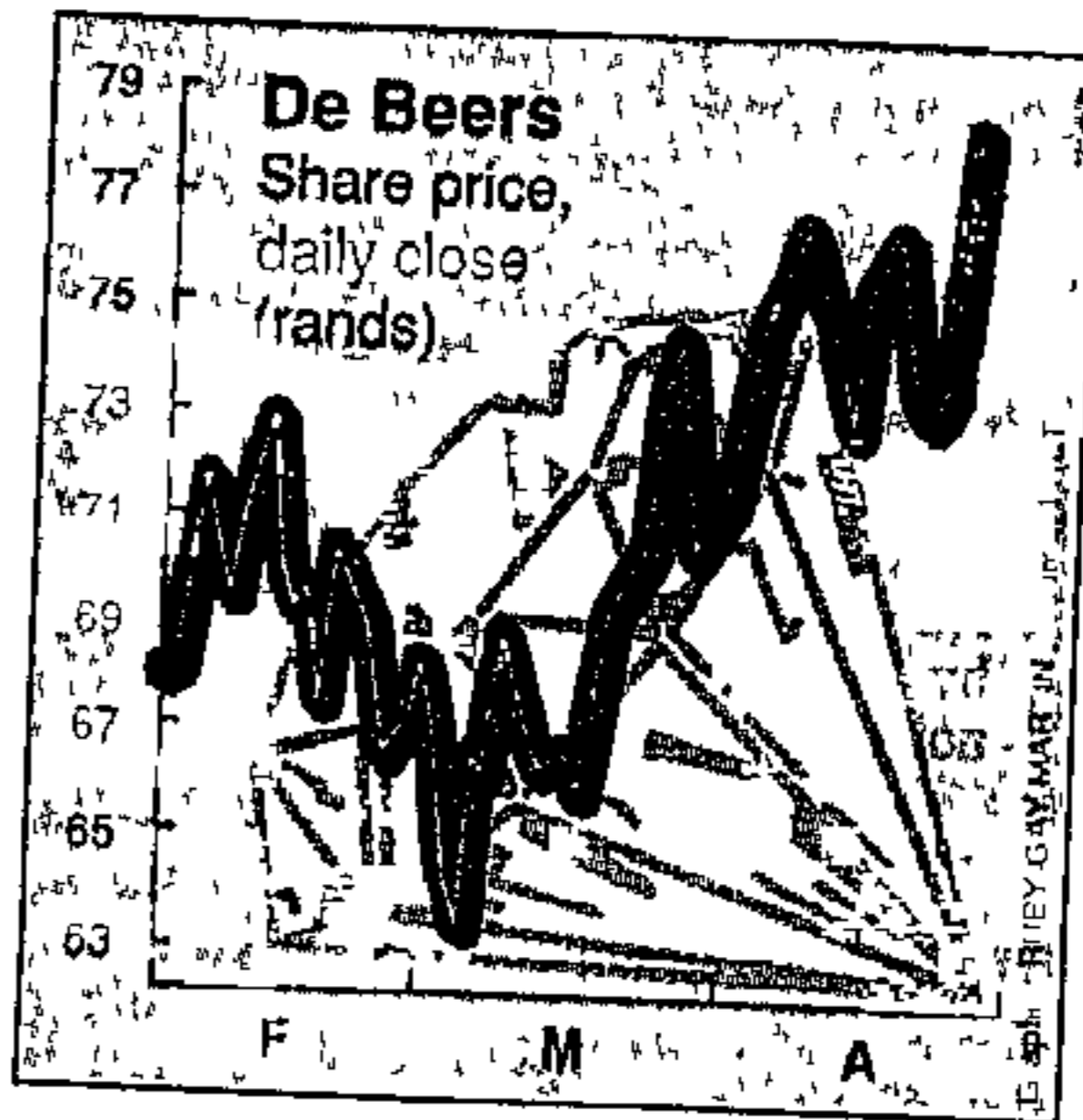
MATTHEW CURTIN

THE Central Selling Organisation (CSO), De Beers' diamond distribution and marketing arm, has relaxed purchasing quotas imposed last year on its mine suppliers because of further improvement in the diamond market.

The CSO announcement — that the quotas would be raised to 80% from 75% from May 1 — coincided with a cautiously optimistic yearly statement from De Beers chairman Julian Ogilvie Thompson.

Addressing brokers and reporters via a phone link from London, Ogilvie Thompson said rough diamond sales at the first three sights this year were "very good", though influenced by "exceptional factors". These included buoyant demand from Indian diamond cutters, benefiting from the full convertibility of the rupee and improved exports to the US, the slowdown in supplies from Angola, and the hiatus in Russian exports, curbed by a 20% export duty in the process of being lifted.

He denied allegations that De Beers was in any way involved in supporting Unita following claims on Monday regarding SA's role in Angola.



Ogilvie Thompson said De Beers had to buy illicit diamond supplies to stabilise the market, but he did not know "how many, if any, come from Unita". The diamonds would be bought anyway, and Angolan supplies had subsided to "a trickle" this year. The improvement in diamond supply and demand was registered by the market yesterday De Beers shares jumped 250c on

To Page 2

De Beers

BIDAM 28/4/93

(216)

From Page 1

the JSE to R78,75, as 91 000 shares, worth R7,1m, changed hands in 84 deals.

Ogilvie Thompson said retail sales in the US were firm, but sluggish in Europe and poor in Japan. However, the new Japanese economic stimulus package might "do the trick" in reviving demand.

The diamond group has continued to claw back more of the ground it lost in last year's investor relations debacle when the CSO announced unexpectedly that quotas would be imposed as it tried to cope with a flood of diamond supplies from Angola and Russia and poor diamond sales.

Since January good news about the diamond business has seeped out steadily and Ogilvie Thompson reiterated comments made last month that the group had successfully stabilised the diamond market

after the "testing" problems in late 1992.

He said the CSO had corrected "the imbalance between supply and demand in the cutting centres, held back those qualities of diamonds in weak demand, and made substantial purchases on the open market". Customers absorbed the CSO's 1,5% average rough diamond price increase announced in February.

In the year ended December 1992, De Beers turned in better than expected results, with combined earnings down 35% at \$491m and the dollar denominated dividend cut to 79,1c from 112,1c. The diamond stockpile reached a record \$3,77bn (\$3,03bn), and the group's annual report showed the pressure on De Beers Consolidated and Centenary cash flow

First-quarter diamond sales show sharp rise

Star 28/4/93

By Neil Behrmann

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LONDON — Diamond sales rose sharply in the first quarter of the year, says De Beers chairman Julian Ogilvie Thompson and the company intends increasing purchases from producers slightly.

Presenting the 1992 annual report yesterday, Ogilvie Thompson refused to disclose figures, but dealers estimate that around \$1.25 billion worth of stones were sold by De Beers in the first quarter.

The average of the three sales, known as "sights", are thus estimated at more than \$400 million (average of \$340 million at the ten sights held last year).

Ogilvie Thompson said the market had readily absorbed the recent price hike for roughs.

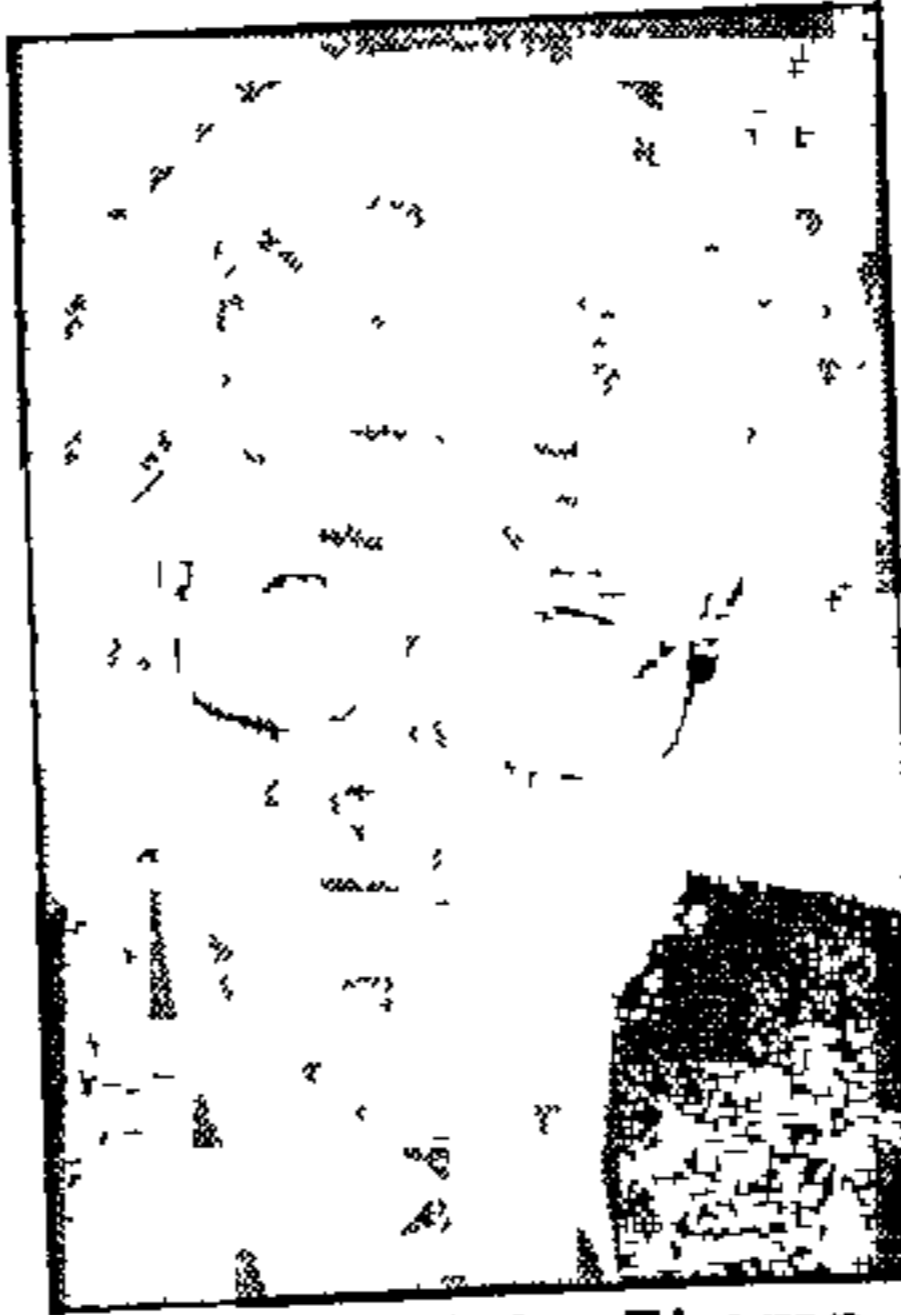
Independent dealers, however caution that sales at the sight next week will fall sharply.

"Dealers are very worried because they have absorbed a lot of stock," said a manufacturer.

"They are worried that the market is recovering very slowly and they are concerned that De Beers' diamond stockpile has soared to \$3.8 billion from \$2 billion, five years ago."

Ogilvie Thompson cautioned that the company would adjust its sales programme, partly because the US Pentagon is selling two million carats of quality diamonds in the next six months.

The value of the first sale is



Julian Ogilvie Thompson... market readily absorbed recent price hike

estimated at \$50 million to \$100 million, dealers say

Despite concerns, De Beers is sufficiently confident to raise marginally its purchases from producer members to 80 percent of annual output from 75 percent.

Last September, De Beers, which controls about 75 percent of the world rough diamond market, reduced purchases from producers such as Botswana, Australia and its own mines by a quarter. The move helped support the market.

However, the company discloses in the report that lower quotas led to a reduction of the workforce at SA mines of 25 percent — over 3 000 employees.

Sales of rough diamonds were very good at the first three sights,

said Ogilvie Thompson, mainly as a result of falling supplies from Russia and Angola.

Russian output fell by 25 percent last year and was set to fall further in 1993, said Gary Ralfe, an executive director and specialist on the region. It was unlikely to recover for some time, he said.

Dealers said it was impossible to estimate Russian intentions because the political situation was so uncertain.

According to Ralfe, \$1 billion worth of rough diamonds are sold through De Beers, and another five percent, or \$50 million worth, independently.

Over and above this amount, the Russian industry polishes and exports \$500 million worth a year.

The Russians are now repaying amounts owed to De Beers, and borrowings from De Beers have fallen to \$550 million from \$1 billion.

Relaxation of exchange controls boosted exports of Indian diamond manufacturers by 15 percent to \$2.8 billion, said Ralfe.

There were higher exports to the US as a result of better demand during the Christmas and Thanksgiving season.

East Asian purchases were also buoyant, but sales declined in Japan last year, and European markets are sluggish.

De Beers estimates that retail diamond jewellery sales were 16 million carats worth \$39 billion in 1992, unchanged on the previous two years.

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DE BEERS

FM 30/4/93 216

Forecast: no guessing, please

Predictably, De Beers's annual report and chairman's statement contain few surprises. The dividend cut has been absorbed, borrowings haven't ballooned frighteningly and chairman Julian Ogilvie Thompson brightly says stability's been restored to the market.

As though to underline that, producers' quota entitlements have been raised from 75% to 80% of productive capacity. An announcement made simultaneously with the release of the annual statements by the Central Selling Organisation (CSO) in London says producers may supply the increased capacity next month.

The CSO says the change is in line with the "changing relationship between anticipated CSO sales for 1993 and potential supply." That is De Beers longhand for "things are getting better." The JSE greeted the news by euphorically marking De Beers shares up nearly R3 on the day.

Even so, relief within the group is not without reservation, serious underlying problems still stand in the path of full recovery. These are related, of course, to the world economy and its recovery from years of recession. It is here that Ogilvie Thompson reports a mixed bag. The US market is improving, but easiness in Japan has persisted for months and includes, even now, widespread de-stocking within the trade. Europe is an area of sluggish sales but that is balanced by good growth in Far Eastern markets such as Hong Kong and China.

The CSO's first three sights this year have been very good, says Ogilvie Thompson. He regrets that they've been influenced by exceptional factors, a scarcity of supply from Angola (though he should be pleased about that), a hiatus in supply from Russia; and buoyant demand from India because of a fully convertible currency.

These factors work their way through to prospects for this year. In this area, so vital to investors, Ogilvie Thompson is eloquently silent. Signals from retail markets are mixed, the strength of existing demand is based on exceptional factors which won't persist; what is needed is a strong, solid and broad international economic recovery. De Beers's radar screen has never been more cluttered.

The report is 88 pages of variable quality information. An initial, hasty examination reveals some interesting statistics. The first is that the diamond stockpile is a record US\$3,765bn. A De Beers-watcher is quick to point out this is not a record percentage of sales. Nevertheless, it is enough to encourage an involuntary sucking of teeth.

The second is the way a balance sheet date can distort reporting. Material investments show an end-1992 dip of about R5,3bn from 1991. Of course, since then, the principal

investments have shown an appreciable improvement. If anything, therefore, the balance sheet is now considerably stronger.

What is clear is that no-one, least of all the analysts assembled to listen to Ogilvie Thompson's words of wisdom on an open line from London, is prepared to say how 1993 will turn out for De Beers. Wisely, to a man, they say they'll have to consider matters. Yes, well, of course.

David Gleason

GENCOR

Even tougher times

Chairman Brian Gilbertson predicted a tough ride for Gencor in the year to August with no significant upturn in revenues before 1994. The 10% drop in first-half earnings bears out his forecasts. But times are even tougher than he expected. He is reconsidering the verbal forecast made last October that shareholders might receive an increase of about 2c a share in this year's total dividend in spite of lower earnings.

The maintained interim indicates caution.

FM 30/4/93

MAINTAINED INTERIM

Six months to	Feb 28 '92	Aug 31 '92	Feb 28 '93
Attributable income (Rm)	562	699	593
Earnings (c)	47,8	55,5	43,1
Dividends (c)	16,0	29,0	16,0
Net asset value (c) .	1 435	1 341	1 336

Gilbertson comments "I would be surprised if we don't at least maintain the final but I'm losing my nerve a little over intentions to increase the payout."

The reason is the grim business conditions facing each of Gencor's diverse mining and industrial operations. Though there have recently been more favourable signs, with the decline in ferrochrome prices halting and gold starting to perform, Gilbertson remains cautious.

"The gold price has only started to move in the last four days. I'll get excited about it when the price is up another \$50," he says.

Gencor is heavily committed to new projects in the pursuit of real growth. They include the R7bn Alusaf expansion, the R3bn Columbus stainless steel expansion, the R1bn expansion of Sappi's dissolving pulp mill at Saiccor and the R800m upgrading of Engen's refinery in Durban.

Latest development (Fox April 23) was the raising of Gencor's stake in Richards Bay Minerals from 25% to 50%, at a cost of R671,2m, paid mainly through the sale of

some equity stakes in Engen and Malbak.

Those sales again raised the issue of Gencor's possible unbundling of its nonmining interests which Gilbertson says will be put shortly to the Gencor board for a decision.

He says: "At the meeting three questions will be put to the directors — whether we unbundle, if so to what extent we unbundle and how fast we do it. I cannot be more specific and there are powerful arguments both for and against unbundling."

If the group goes all the way with unbundling proposals, Gencor would pass all its stakes in the various industrial subsidiaries to its shareholders and be left only with its mining interests.

Despite the bad times, Gencor continues to spend heavily on exploration which absorbed R50m in the six months to February (previous comparable six months R39m).

The search for a suitable vehicle outside SA to expand the group's international mining and exploration business remains the priority following the failures to do a deal with Lonrho over its international mining interests and get control of Australian coal mining group Oakbridge.

Lonrho spurned Gencor's overtures. The Oakbridge deal was killed by the tighter exchange controls imposed by the SA Reserve Bank on the use of the financial rand for such investments. Gilbertson notes that a US company, Cyprus Minerals, now appears to have made a successful bid for Oakbridge.

"This lack of an international mining arm continues to be our single biggest failure. It's a critical area and we are continuing to work on it, which is why Hans Smith has been moved from Samancor to work with Bernard Smith in the new business division."

Gilbertson concedes the Reserve Bank restrictions are a serious hindrance. "To meet them you have to find a very good project overseas and there are not that many of them to be found at the bottom of the commodity business cycle."

The share has recovered from its 12-month low of 895c last November to current levels around 1150c but has underperformed the general recovery in the mining house sector.

A maintained final would put Gencor on a forward yield of 3,9%, which is by far the highest of the major mining houses and compares with a sector average of 2,7%.

Though the short-term forecast is for another drop in earnings in the second half, Gencor remains an attractive investment through its exposure to real growth from new projects across the industrial and mining sectors and the prospect of resurgent income from investments such as Samancor and Gengold.

Brendan Ryan

Gold output

falls 12 tons

31/22
2/4/93
MOSCOW — Russian gold production fell by almost 12 tons in 1992 to 129.5 tons, official figures published this week by the Itar-Tass news agency showed.

It quoted the state statistics office Goskomstat as saying gold output in the first quarter of this year fell by 6-million oz compared with the 1992 period.

Russian officials had expected the drop in production last year due to more difficult mining conditions, a lack of finance for new equipment and lower world gold prices.

Russian gold reserves totalled 308 tons earlier this month, up from 240 tons in November 1991 when the first official figures were disclosed.

Goskomstat said the production fall was reflected in the output of bullion after refining, which was 7% less than in 1991. — Sapa-Reuter.

Russia hopes to get diamond output back in full swing again

30/4/93
UDACHNY — Russia, which produces about 20% of the world's rough diamonds, has suffered falling output in recent years, but officials hope to redress the imbalance by mid-decade.

"Production dropped at the end of the '80s and beginning of the '90s," Russia-Sakha (ARS) vice-president of diamonds Semyon Zilberg said in an interview. "But we are trying to even this out by 1995."

"We have always tried to maintain stable production, but sometimes circumstances prevent us," he said at ARS headquarters in Mirny, about 450km north of Udachny in Russia's diamond heartland, the Siberian region of Yakutia.

The problem is that the vast open-cast Udachny mine, producing almost all — 85% to 95% — of Russia's diamonds, must close down for two to three months every year because of the accumulation of toxic gases at the base.

ARS, Russia's new joint-stock dia-

30/4/93
mond company, which now controls the whole industry from mining and extraction to valuation and sales, plans to open Tsaritsa, the first mine to be found in Siberia, to supplement output later this year.

The firm is constructing the world's first underground diamond mine, the International, in the Siberian permafrost plains which should go into production in 1994-'95.

It is also involved in the new Lomonosov mine project near Arkhangelsk, but it is not yet clear whether these diamond deposits will turn out to be profitable to mine.

Although Russia produces about 20% of the world's rough diamonds, it keeps precise data about its production a closely guarded secret.

De Beers of SA signed a five-year deal to buy 95% of Russia's rough diamonds for export. The agreement expires in 1995.

De Beers, which controls about 80% of the world market, dropped its purchase quota of rough diamond

216
purchases from producer countries by 25% last year, because world diamond sales dropped by a third.

In late April, De Beers announced it would increase purchase quotas by 5% from May 1 because of a recovery in global diamond sales.

"Revenue in the diamond industry is high, but overheads are too," Zilberg said. "We spend as much on maintenance and new equipment as we do on the whole mining and extraction operation every year."

He said ARS had signed a contract with Angola, another major diamond source, to build an extraction plant there. It had also sent geologists to Canada to help advise on excavating mines recently discovered in that vast country's northern permafrost zone.

The Udachny, a giant open-cast pit, is Russia's largest diamond mine and possibly the second biggest in the world after the Tanganyika in Tanzania. — Reuter



Macadam's is the country's largest manufacturer and



European aid deal to bolster reforms

B/D/M 5/5/93

BRUSSELS — The European Commission this week suggested an accelerated opening of its markets and better targeted aid to help struggling central and east European countries. The package should bolster market reform in some countries threatened by rising unemployment and falling productivity, the commission said.

The proposal would cut a wide range of average import tariffs from 4% to 2% and two years after EC association agreements take effect, not the current four years. Similarly, duties on sensitive industrial products, mostly chemicals, would be abolished after two years rather than four years. Duties on industrial goods such as cars, glass, and shoes would be abolished in three rather than five years.

Accompanying quotas on these products in Poland, the Czech and Slovak Republics, Bulgaria and Romania would be raised by 30% instead of 20% a year. Quotas on Hungarian goods would be raised 25% a year rather than 15%.

The phased increase in quotas should start 18 months after the trade deals begin. Individual EC governments must back the commission proposals for them to succeed. They are expected to be tabled at the June EC heads of state meeting.

Separately, the commission proposes more relaxed market reform and disbursement rules in east and central Europe, and

In the Baltic states

Cash for programmes spread over several years should be available for the first time with aid better focused on projects boosting economic reform. Also, funds would be released to allow countries to take advantage of loans covering 75% of the cost of large transport projects from the EC's 5-billion European currency unit (ecu) growth package.

Countries must raise 25% of the cash for such transport projects themselves to claim the growth package funds but this could be difficult for many east and central European countries struggling under IMF constraints, the commission said.

Meanwhile, the US yesterday urged the EC to overcome French resistance and urgently approve a five-month accord setting strict limits on oilseed production.

US Agriculture Secretary Mike Espy raised the issue during a 90-minute meeting with EC farm chief Rene Steichen in Brussels, his first visit to the US's largest trading partner since becoming President Bill Clinton's agriculture chief.

Steichen said neither side had asked to reopen the arrangement — worked out last November — but that the agreement was "final", and a vote should be held by June. The agreement would limit oilseeds production to 5,128-million hectares of land, take 15% of land out of production in the first year and 10% in subsequent years. — AP-DJ.

China issues market rules

Diamonds 'look gloomy'

GABORONE — The outlook for the diamond industry in Botswana was "gloomy" and the country "was now entering a critical phase", the 1992 Bank of Botswana annual report, issued in Gaborone yesterday, said.

"Even prior to the imposition of the quota on diamond exports, the need for macro-economic adjustment was becoming more, and more compelling."

"The current macro-economic imbalances in Botswana are expected to intensify while the full impact of the quota on diamond exports is felt in 1993 and beyond," the report said.

The report criticised the government for not being prudent enough and said: "The thrust of adjustment would have to fall on ways and means of curtailing government expenditures, recognising that the scope for raising additional government revenues in Botswana is very limited." B/D/M 5/5/93.

The increase in private consumption and household sector credit caused great concern, the report said. — Sapa.

VACANCY

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Strong CSO sales, but prospects weak

810M 6/5/93 (216)
DE BEERS's Central Selling Organisation was heading for \$350m to \$450m in rough diamond sales midway through its fourth sight but question marks still hung over the strength of retail demand, market sources said yesterday.

This estimate of sales at the sight suggested the CSO, De Beers' marketing arm, would report half-year sales worth more than \$2bn, at least 12% higher last year's figure of \$1.79bn.

They said that strong though diamond sales were, news that economic growth in the US — credited with sustaining diamond jewellery consumption in the past year — was faltering

MATTHEW CURTIN

was cause for concern

Disappointing first quarter GDP growth figures have been compounded by a 1% fall in the US government's index of leading indicators, its largest monthly drop since 1991

De Beers shares fell 200c to R79.75 in low-volume trade on the JSE yesterday in spite of a weaker firand.

Frankel, Max Pollak, Vinderine analyst Kevin Kartun said indications were that the sight was strong, reflecting factors cited by De Beers earlier this year negligible supply of gems from Angola and Russia and good demand in the US and the Far East.

"The market is nevertheless right to be nervous about sluggish world economic recovery, especially given the importance of the US and Japanese economies to the diamond market," he said

Anderson Wilson analyst James Allan said De Beers should be "very concerned" at the gloomy news from the US, adding that De Beers shares were overvalued at current levels

He said the good CSO sights this year might not reflect encouraging retail demand, but only the easing of diamond supply with stocks building up at cutting centres and retail outlets. Allan said the burden of supporting the diamond stockpile was being shared by producers, De Beers and sightholders alike

Another analyst said growth in diamond jewellery demand in 1993 was likely to be flat in real terms, but it was clear the CSO had increased its market share as last year's flood of Angolan and Russian material had subsided.

He said a Tel Aviv source had noted that the mood among rough diamond customers was "not as chipper" as it had been earlier this year

However, it was "a fair bet" the forthcoming royal wedding in Japan of Prince Naruhito would spur demand for jewellery of all sorts

Japan has said it would buy gold overseas to issue commemorative coins for the wedding, but whether diamonds as opposed to pearls — traditionally the stuff of Japanese royal adornment — would benefit was another matter.

DE BEERS/CENTENARY

FM 7/5/93

Still less than sparkling

216

Activities: Mines gem and industrial diamonds and, through the CSO, markets more than 80% of world diamond production Investments include Anglo American Corp (39%), Minorco (21%), Amic (27%) and Anamint (80%)

Control: Anglo American Corp 32,7%

Chairman: J Ogilvie Thompson, Deputy chairman N F Oppenheimer

Capital structure: De Beers Consolidated 380,1m linked, deferred shares De Beers Centenary 4,2m shares of SwFr200 each Market capitalisation R30,3bn

Share market: Price 7 975c Yields 3,1% on dividend, 7,2% on earnings, p e ratio, 13,9, cover, 2,4 12-month high, 9 400c, low, 4 425c Trading volume last quarter, 18,4m shares.

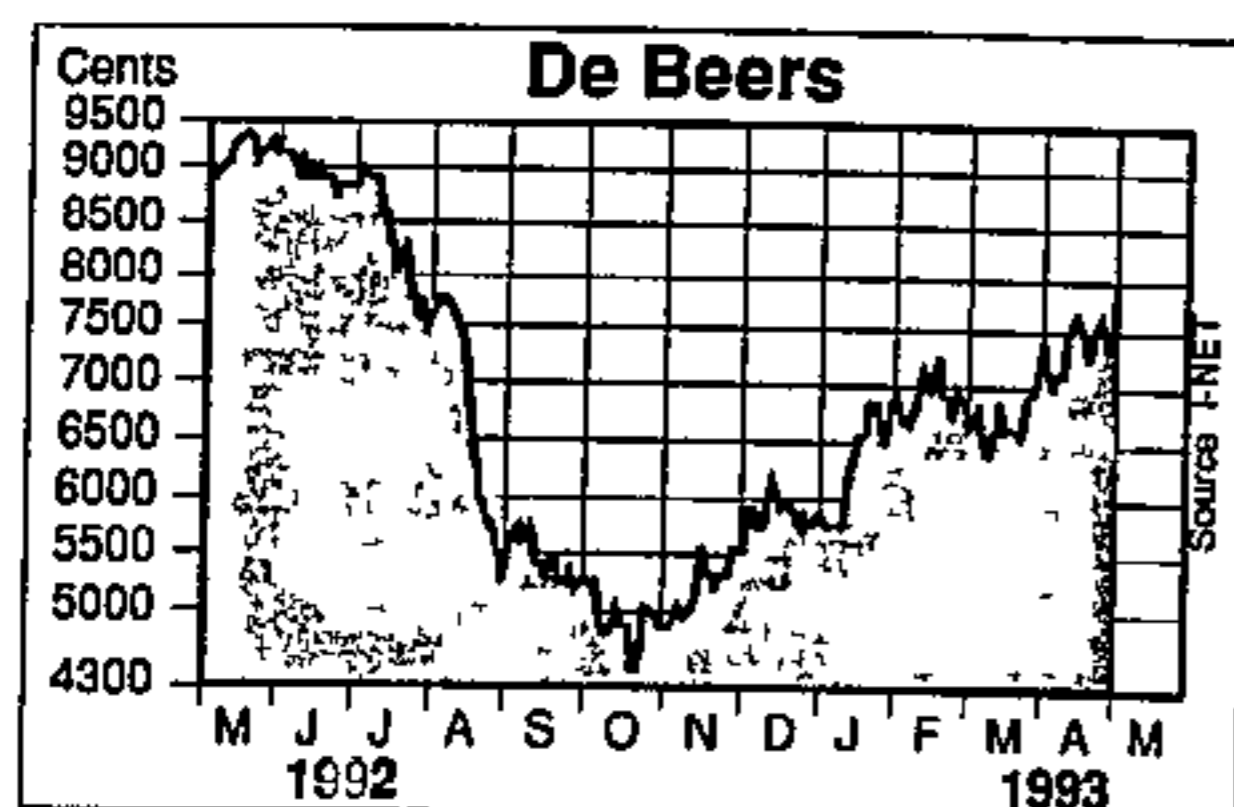
Year to Dec	*'89	*'90	*'91	*'92
Investments & Loans				
Valuation (Rbn)	16,6	15,6	18,9	16,6
Diamond Stocks (\$bn)	2,5	2,7	3,0	3,8
Diamond Acc (Rbn)	3,0	2,3	2,2	1,9
Invest income (Rm)	518	581	581	607
Attrib earnings (Rbn)	2,9	2,4	2,1	1,4
Equity earnings (Rbn)	4,0	3,4	2,9	2,2
Attrib earnings (c)	754	641	558	372
Equity earnings (c)	1 062	888	785	573
Dividends (c)	280,0	285,0	307,5	241,6
Net worth (c)	8 664	8 552	9 528	9 738

* Pro-forma financial statistics for De Beers Consolidated and De Beers Centenary

Chairman Julian Ogilvie Thompson is more cautious in his latest review compared with the gung-ho statements he made this time last year on CSO sales De Beers shares then soared to a high of R94 before the reality in the diamond market brought them down to a low of R44,25 He points out the signals from the retail markets are mixed and current good demand for rough diamonds cannot be sustained without a general recovery in consumer spending This will need a more broadly based upturn in the world economy than is now discernible

Yet, in what is aptly described by some analysts as a nudge-nudge, wink-wink approach, De Beers is again, but more subtly this time, spreading the message that conditions in the diamond markets are not as bad as many observers believe

One example is the announcement, coinciding with the release of the annual report last week, that the CSO quota imposed on



De Beers' Ogilvie Thompson
exceptional factors unlikely to persist

producers is being eased from 75% to 80% That follows the 1,5% average diamond price increase announced in February, an event that analysts generally viewed as a cosmetic measure

Then there's the issue of the CSO's first three sights for 1993 By all accounts, these have been excellent, averaging at least US\$500m each De Beers does not release official figures on the sights, so analysts have to work on what they can glean from the diamond trade and decipher from the comments from De Beers

Ogilvie Thompson says the first three sights were "very good" but influenced by the scarcity of diamonds coming from Angola since the onset of the rainy season and the resumption of the civil war, a drop in Russian polished diamond supply and buoyant demand from India

He says these "exceptional factors" are unlikely to persist That is one of the few points with which analyst James Picton, consultant to Anderson Wilson, agrees He contends that, in addition to the Angolan and Russian factors, the CSO has filled the pipeline with diamonds to get the trade to share with the CSO and producers the burden of carrying the rising stocks of diamonds

"I said last year De Beers was taking an enormous gamble on the market and I still believe this," he says "The disruptions to supply from Angola and Russia are short-term, they will last perhaps a year, while conditions in the main consuming markets are awful and getting worse Latest figures for imports of polished diamonds into Japan for January show these are 24% down in dollar terms on 1992 levels, which were 21%

down on the previous year"

A look at the accounts reveals the cost to De Beers of maintaining control over the world diamond market with the stockpile now up to \$3,8bn (R11,5bn) from the year-ago \$3bn (R8,3bn) De Beers Consolidated shows a negative cash flow for 1992 of R821m after a drop of R850m the previous year, De Beers Centenary shows a negative cash flow of \$370m, compared with a dip of just \$1m in 1991 Group interest income was slashed to R297m from R579m

Ogilvie Thompson, as usual, makes no specific predictions for this year He merely offers the platitude "We shall continue to fulfil, for as long as necessary, our traditional role of stabilising the diamond market in the interests of all"

Analyst predictions on this year's earnings are, understandably, mixed Frankel Pollak Vinderine's Kevin Kartun is looking for a 9% rise in equity earnings and an 8% increase in the dividend; Anderson Wilson's James Allen reckons equity earnings could rise 5% but says the dividend is going to be cut again to 205c to help fund the stockpile

However, even an 8% rise in the dividend to 261c would put De Beers on a forward yield of only 3,3% That makes the current share price look fairly expensive given the sluggishness of the recovery in the US and the continued worries over the European and Japanese markets

Brendan Ryan

DEL MONTE/ROYCHEM

FM 7/5/93

Will forecasts be met?

DELFOOD

Activities: Manufactures markets and distributes branded confectionery and food products, as well as scanning and export of deciduous fruit

Control: Del Monte Royal Corp 65%

Chairman/CE: V S Imerman

Capital structure: 97,4m ords Market capitalisation R843m

Share market: Price R8,65 Yields 1,1% on dividend, 3,4% on earnings p e ratio, 29,7, cover, 3,1 12-month high, R10, low, R5,50. Trading volume last quarter, 6,0m shares

Year to November	Feb '90	Feb '91	Aug* '91	Nov† '92
ST debt (Rm)	0,2	n/a	9,6	66,0
LT debt (Rm)	0,6	n/a	0,1	19,7
Debt equity ratio	(0 03)	n/a	n/a	0,81
Shareholders interest	0 58	n/a	0,60	0,37
Int & leasing cover	4,4	n/a	3,9	3,9
Return on cap (%)	22,3	22,1	16,0	17,0
Turnover (Rm)	103,7	118,4	248,6	374,0
Pre-int profit (Rm)	10,4	13,1	30,5	53,4
Pre-int margin (%)	10,0	11,1	12,0	14,0
Earnings (c)	12,5	15,0	22,9	36,4
Dividends (c)	4,1	3,1	5,0	12,0
Net worth (c)	56	68	118	119

* 18-months † 15-months, excludes Del Monte deal

Diamonds: Bid to win back mines

es 11/5/93. (216) (2)

LISBON. — The Angolan government has launched attacks to recapture the diamond-mining areas of north-eastern Angola from Unita rebels

Diplomatic sources here and in Luanda said the government appeared to have launched the offensive with helicopter-borne troops on key mining regions of Lunda North province last week

Unita radio had said that such attacks had been rebuffed and a Russian-built Mil Mi-8 helicopter had been shot down, they noted

The radio also reported that rebel forces killed 19 government troops when they ambushed a military column near Saurimo, the capital of Lunda North, last Wednesday.

These were the first reported clashes in the diamond-mining region for several weeks and the first word of a government drive to expel Unita forces from the north-east

"I am sure the government has not yet seized control of the area," one Luanda-based diplomat said

Diplomats say the government is anxious to deny Unita access to the diamonds as a potential source of revenue

SA diplomats in Luanda

LUANDA. — A South African team arrived here yesterday to prepare for the re-opening of Pretoria's diplomatic representation in Angola.

The Angolan Foreign Ministry welcomed the team, headed by Pretoria's Southern African affairs chief, Mr G J Groleer. But Unita rebels said they viewed the re-opening "badly". — Sapa-AFP

The government depends on more than \$3,5 billion (about R10,5bn) a year in oil revenues to finance its own war effort.

Sources estimate Angola produced about \$600 million (about R1,8bn) worth of diamonds last year, only \$250m (about R750m) of which were exported through official channels

Unita has controlled most of the diamond mining areas in Lunda North and Lunda South provinces since a 1991 peace accord began to break down last October

● The Abidjan peace talks have been adjourned until tomorrow while the Unita delegation flies home for consultations with rebel leader Dr Jonas Savimbi on the last major sticking point, the government's demand that Unita withdraw immediately from the cities which it currently occupies — Sapa-Reuter

Tanzanian mine seeks De Beers' help

DAR ES SALAAM — The Tanzanian government has asked De Beers to help save a diamond mining company from collapse after years of haphazard production. (216)

De Beers holds a 50% share in the company, Mwadui Williamson Diamond Mines in the northern Shinyanga region. (216)

A two-man De Beers team, director R.M. Crawford and mining expert Roy Edwards, flew to Dodoma in central Tanzania last Thursday for talks with Prime Minister John Malecela. BIDM 11/5/93
Tanzanian reports quoted Malecela say-

ing that plans for rehabilitating the ailing mines were ready. His office said the main aim was to raise production capacity. Malecela also urged De Beers to look at the possible expansion into other areas.

Crawford said yesterday De Beers had proposed sending a small technical management team to the mines. Mwadui Williamson was a small producer of less than 70 000 carats a year. As grades fell, the mine could no longer be operated on the same large scale for which it had been designed. — Sapa-AFP

Steady climb for De Beers shares

B/DAY 24/5/93

216

MATTHEW CURTIN

DE BEERS shares reached their highest price on Friday since July last year as the stock continued its steady climb back towards the R90 level seen a year ago

The shares rose 75c to R83,50, compared with its most recent high of R92,50 in mid-May 1992 but about twice as high as its October low of R44,25

In recent weeks, the shares have tracked the steady climb in shares on Wall Street. De Beers' dependence on healthy diamond sales in the US, in contrast with poor retail demand in Japan and Europe, has helped cement the close correlation between the performance of the diamond stock and the Dow Jones industrial index

Market sources were divided at the weekend over whether De Beers had entered expensive territory and would regain the R90 and R100 levels seen before last year's unexpected announcement of the dividend cut.

Edey Rogers analyst Keith Bright said although there was no question of the restored health of the diamond trade in 1993, the rise in De Beers above R75 could be "a false start" as overall retail diamond demand was likely to be flat again this year

Investors could take heart from the strong diamond sales so far this year, which he estimated at \$1,93bn. Last year's half-year sales figure was \$1,79bn

However, Bright noted that even De Beers attributed the good sales to exceptional factors — low Angolan and Russian supply coupled with the US economic recovery — and sales would be lower in the second half

In addition, diamond stocks remained high and the group's margins squeezed. The average 1,5% rise in CSO prices announced in February followed three years of flat prices, and De Beers was unlikely to be able to push through another increase in 1993 because of the fragility of US economic recovery

The restored stability in the diamond trade would be offset this year by an, at best, flat performance by the group's large investment portfolio and the damage the recession had done to its cash balances

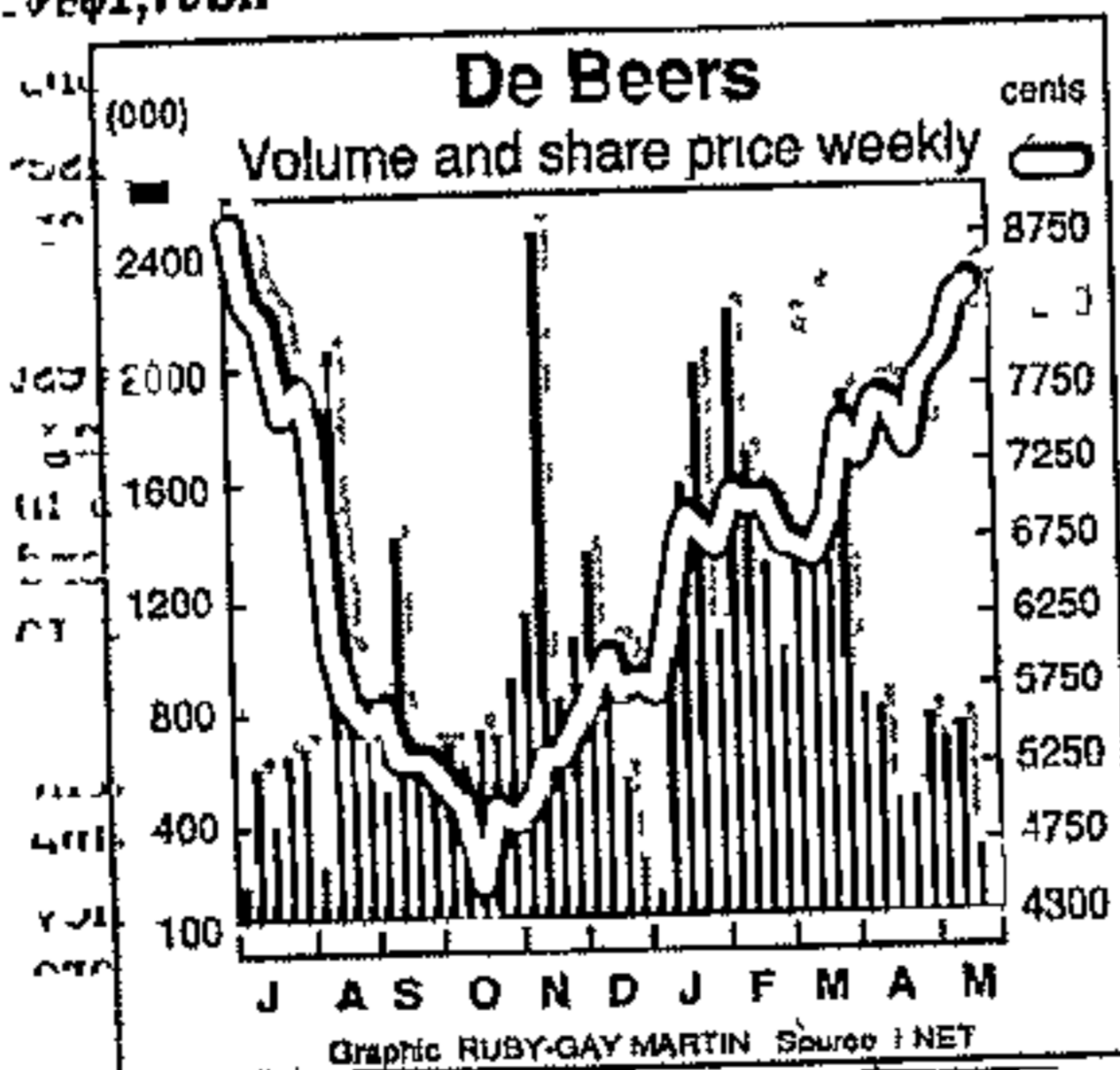
Bright said investors could no longer take comfort from the cushion which De Beers investments and cash reserves once provided for poor trading conditions. In the year ended December 1992, combined investment income for De Beers/Centenary was almost unchanged at \$211m and interest income tumbled to \$103m from \$207m

In contrast, Mathison & Hollidge analyst Barry Sergeant said factors which had buoyed diamond sales so sharply this year had also transformed the diamond group's cash flow after a debilitating nine-month period last year when it had to mop up illicit supplies from Angola

The turnaround was off a low base, but it would bolster De Beers' results in 1993 and 1994 if early signs that the Japanese economy was near the bottom of the recession proved correct and the US turnaround was sustained

One encouraging sign was that it seemed many of the diamond mines supplying the CSO had reacted to the deferred purchases imposed on them by cutting back production rather than stockpiling diamonds at the mines

Sergeant said De Beers shares could reach the R100 mark in the short to medium term



South Korea rises to fourth in world diamond-buying ranks

JONO WATERS

THE Central Selling Organisation's (CSO's) preliminary 1992 sales estimates show that South Korea is now the world's fourth largest consumer of diamonds

South Korean demand increased rapidly in recent years, with purchases of \$358m last year.

Industry observers said this showed that the Far East continued to be the engine room of growth for the consumption of minerals and metals.

The CSO, De Beers' marketing and distribution arm, estimated that \$7.9bn was spent worldwide on diamonds last year.

Sales of diamonds for engagement rings was the largest contributor to CSO coffers.

Retail jewellery in 1992 held up well with sales of \$41bn compared with earlier estimates of \$39bn.

The US remained the largest consumer of diamonds, spending \$2,76bn last year.

Japan was the second largest purchaser, with \$2,12bn of stones being purchased.

World top ten

	\$m	Diamond value as % of GNP
USA	2,761	0,048
Japan	2,124	0,063
Italy	571	0,051
S. Korea	358	0,131
Germany	202	0,013
Thailand	170	0,174
Taiwan	160	0,089
France	134	0,011
Spain	134	0,026
Canada	133	0,023

Graphic: RUBY-GAY MARTIN

Two other Asian countries appear in the CSO's top 10 list — Thailand in 6th place and Taiwan in 7th.

The diamond market has been hit by the world recession and was oversupplied as a result of illicit production in Angola.

However, an analyst said indications are that the US was re-stocking while the rate of de-stocking had slowed in Japan.

De Beers shares, which slumped to below R50 last year as a result of the depressed state of the diamond market, closed 75c lower at R77,75 on the JSE yesterday.

Trans Hex puts in a polished performance

MARC HASENFUSS

Business Staff

216
AR 6-9-93
PAROW-based diamond group Trans Hex put in a polished performance in the year to end March — increasing attributable profits 26 percent to R35,5 million

A final dividend of 37c was declared, bringing the full year payout to shareholders up 8 percent to 64c a share

The attributable profit figure includes an extraordinary item of R4,2 million — relating to a decline in the provision for deferred taxation.

Disregarding the extraordinary gain, net income from normal business activity came in at R31,3 million — an 11 percent gain over the previous year

Net income before taxation increased 8 percent to R66,4 million in the 12-month period.

Trans Hex is an investment holding company with interests in diamond mining, mining and the processing and marketing of base minerals

Contribution by activity to net income is roughly 90 percent from diamonds and the balance from industrial minerals and exploration and development.

■ Premier-owned Hi-Score and Score-Clicks reported earnings of 53,4c a share and 29,7c a share in the year to end April

Comparable earnings figures (Hi-Score 37c and Score-Clicks 20,4c) from the previous financial period are for 14 months

and are not strictly comparable Hi-Score paid a final dividend of 11c, bringing the total payout for the year to 18c (previously 16c) a share.

Score-Clicks declared a 7c final dividend, pushing the full year payout to 11c (previously 9,5c) a share.

Directors pointed out that the results did not include any income from Metro Cash and Carry (Metcash) — except for dividends accruing on investment This is on line with group policy not to equity account earnings unless at least a 20 percent stake is held

Metcash continued to perform well — nearly doubling earnings in the year to end April.

Clicks and Diskom also performed strongly in the period under review, and further growth is anticipated for the retail chain on the back of store expansion

Score-Clicks' stake in Score supermarkets was sold to a management consortium in May last year The company was de-listed and converted to a private company in which Score-Clicks has a 10 percent investment

■ Rhombus Exploration (RhoEx) posted a 28 percent drop in net income to R1,2 million in the six months to end March

Directors said the Taaibosch Colliery made a contribution to profits.

Following a rights issue by Rhombus Vanadium, RhoEx now holds a 53,8 percent stake in RhoVan.

Analysts see De Beers heading for record

B/D ay 11/6/93

MATTHEW CURTIN

DE BEERS may be heading for record first-half rough diamonds sales, which analysts estimate will amount to at least \$2.2bn compared with \$1.79bn in 1992.

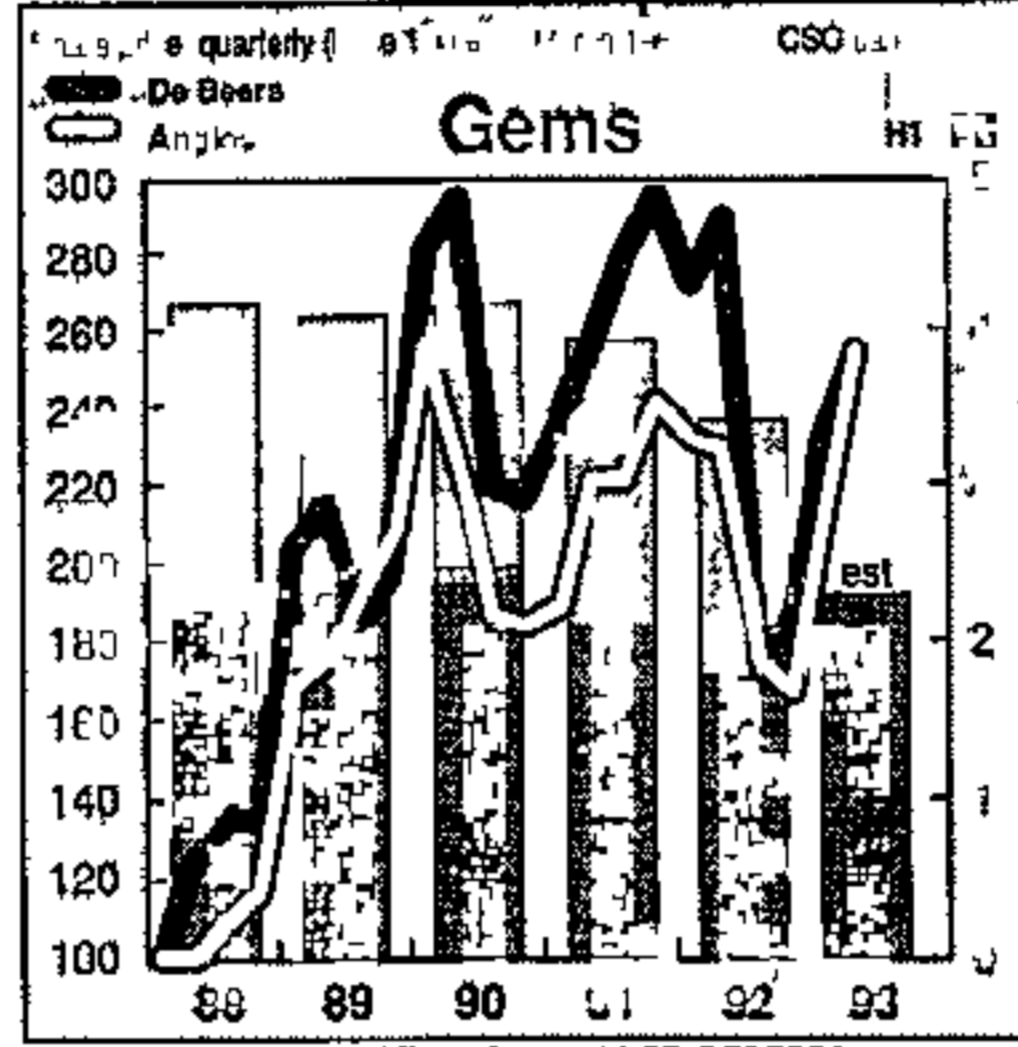
One market source said his upper mid-year estimate was \$2.5bn, which would see sales overtake their 1990 high of \$2.48bn

However, all estimates pointed to sharply lower second-half performance. Factors which gave the Central Selling Organisation, the group's marketing and distribution arm, an unexpected boost at its first three diamond sights this year would fall away. Total 1992 sales were \$3.42bn

De Beers shares climbed 50c to R79.50 yesterday, making up more of the ground they lost after reaching R83.50 in late May (216)

Analysts said the CSO had increased its market share this year after battling to soak up the flood of Angolan and Russian diamonds in mid-1992. Angolan production subsided with renewed fighting between the government and Unita, and fears of increased Russian supplies, when an export tax was lifted earlier this year, proved unwarranted.

Second-half sales would reflect uneven diamond jewellery consumption



Graph by RUBY GAY MARTIN Source: NET DEBEERS

worldwide. One source said unexpectedly poor results from Richemont, as Cartier and Dunhill sales slipped, suggested diamond and luxury goods sales would remain under pressure. "A more positive factor may be that while consumers may choose a Timex watch rather than a Cartier when times are tough, they seem to buy smaller diamonds rather than none at all," he added.

G O'Flaherty analyst Des Mayer said "everything has gone De Beers' way since late last year, apart from world economic growth" He estimated a strong fifth diamond sight and first-half sales of \$2.3bn.

Mayer said: "The US economy wor-

ries me no end. There is a question-mark over the success of the stimulus measures in Japan, which are likely only to have an impact on diamond sales next year, and polished diamond prices seem to be under pressure." The CSO increased its rough diamond prices for the first time in years in February.

The market had rated De Beers shares "unusually accurately this year". The shares' recovery to R70 by February rightly reflected improving conditions in the diamond business last year, and since then the stock had been carried by higher gold prices, thanks to the group's stake in Anglo American.

The stock was likely to settle in a R78 to R80 range in the medium-term, he added.

Frankel, Pollak, Vinderine analyst Kevin Kartun said first-half sales would be more than \$2.2bn, after \$380m, \$500m, \$500m, \$450m sales at the first four sights this year, with the fifth likely to be at least \$350m. The continued US economic recovery, although patchy, was good news for the diamond trade.

Fergusson Bros analyst William Bowler said early signs were that the fifth diamond sight totalled \$400m to \$420m, putting half-year sales at \$2.45bn.

Yen for sparklers cheers De Beers

216 CT 14/6/93

From MATTHEW CURTIN

TOHOKU, JAPAN — Hopes that the yen's rise will aid De Beers' efforts to revive diamond sales in what is one of the world's largest markets may have been reinforced with reports of jewellery sales in the country.

A Tokyo newspaper, the *Shimbun*, reported that department stores' diamond engagement rings sold at 400,000 to 500,000 yen (US\$1,000), were sold in May, a doubling of sales in May compared with the same month last year.

De Beers' spokeswoman said that the company's improved demand for diamonds and imported luxury goods, the report said, was due to the change in price and the rise of improved consumer confidence, although Japanese economic recovery was "spotty".

Market sources said at the weekend the news was encouraging because there had been little good news on the demand for the diamond trade even if the Central Selling Organisation had stabilised supply in 1992.

They said De Beers was expecting the marriage of Crown Prince Naruhito to former diplomat Ma-

sako Owada to encourage other Japanese couples to take the plunge, bolstering diamond ring sales, now the standard engagement gift in the country.

Japan is the major consumer of diamonds after the US, with sales worth \$2.12bn in 1992. But sales have fallen steadily in recent years, as retailers ran down stocks. There was also slack demand in jewellery stores.

Strong US diamond sales over Christmas have ensured that overall retail demand for De Beers' product has remained flat in spite of falling consumer spending in Japan and Europe.

COMPANIES

A glimmer of hope from Japan

HOPES that last week's royal wedding in Japan will revive diamond sales in what is one of De Beers' major markets may have been realised with reports of jewellery sales improving sharply in May

A recent report in Tokyo newspaper Nihon Keizai Shimbun said that at a leading department store, diamond-mounted engagement rings, priced at 400 000 to 500 000 yen (about R13 600), were "selling well, and sales in May doubled by year-to-year comparison" *BiDay 14/6/93*

Better diamond jewellery sales were accompanied by improved demand for pearl jewellery and imported luxury goods, the report added, ascribing the change to price cuts and signs of improved consumer confidence, although Japanese economic recovery was "spotty" *(216)*

Market sources said at the weekend the news was encouraging because there had been little good news on the demand side of

MATTHEW CURTIN

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Japan is the major consumer of diamonds after the US, with sales worth \$2,12bn in 1992. But sales have fallen steadily in recent years, as retailers ran down stocks. There was also slack demand in jewellery stores *(220)*

Strong US diamond sales over Christmas have ensured that overall retail demand for De Beers' product has remained flat in spite of falling consumer spending in Japan and Europe

De Beers upbeat on diamond sales

B/Nay 18/6/93

(216)

MATTHEW CURTIN

DE BEERS cut 4 000 jobs or one quarter of its workforce in SA and Namibia in its effort to restore stability in the diamond market over the past year, chairman Julian Ogilvie Thompson told the World Diamond Congress in Antwerp.

In a speech to close the 26th congress, he said the diamond industry "has just weathered another crisis, one which a number of outside commentators again predicted would be terminal".

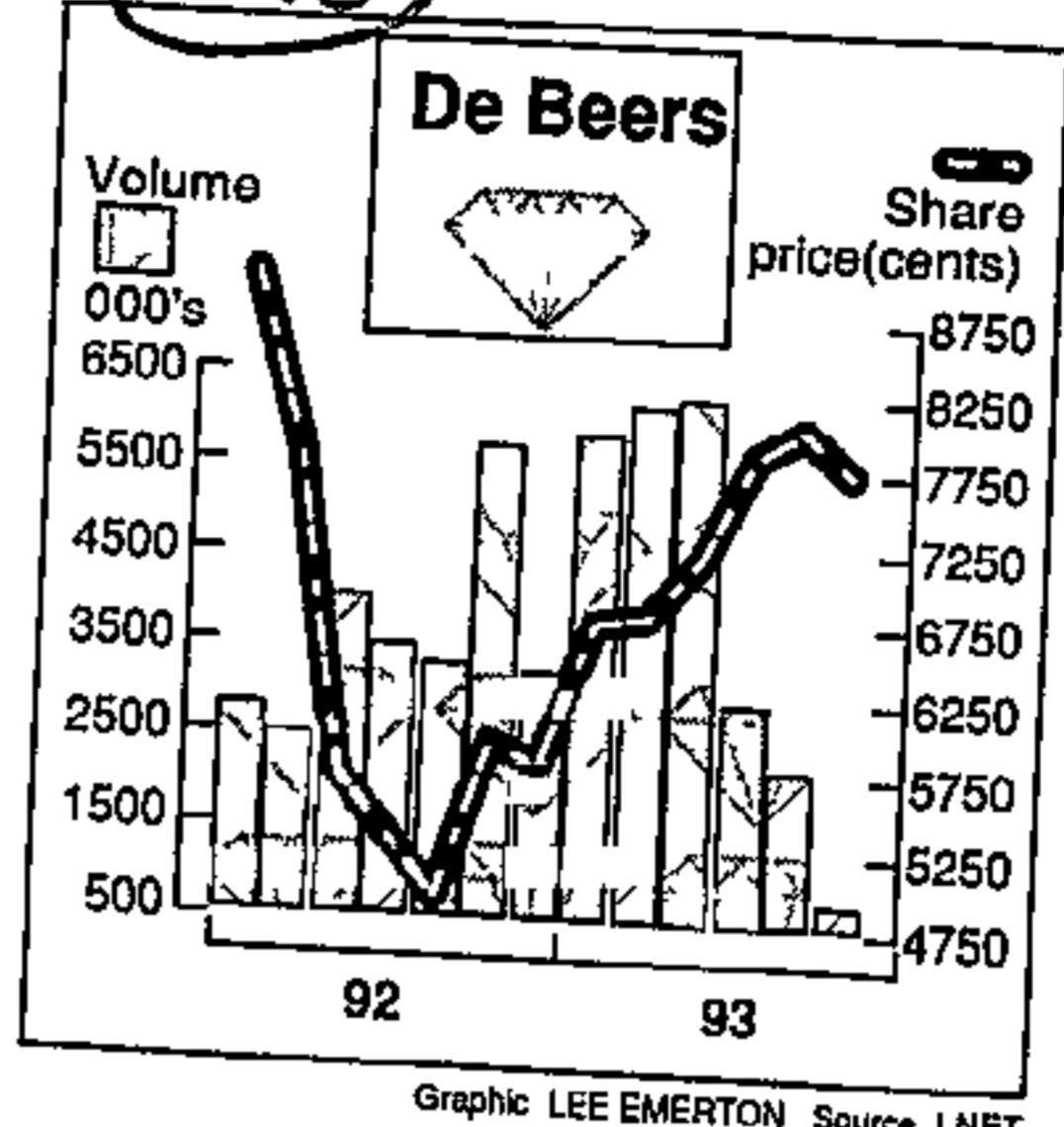
However, the fact that diamond cutting centre stocks were "not excessive" lent weight to his belief that "we can be cautiously optimistic about the future".

"There will be no dramatic improvement in business, however, until there is a resurgence of world economic activity, and that, unfortunately, may still be up to a year away," Ogilvie Thompson said.

Restoration of stability to the diamond market had not come cheap. Manufacturers' profit margins fell and producers had to make sacrifices, which in De Beers' case led to sharp reduction in its dividend, large production cuts and retrenchments. "The price of not restoring stability, however, would have been higher still — indeed it does not bear thinking about".

Ogilvie Thompson said half-year rough diamond sales figures from the Central Selling Organisation, to be released next month, would not be "a reliable guide to 1993, as a whole".

Some of the factors responsible for improved sales would be "transitory" — low levels of rough diamond supply from Angola and Zaire, shortages of polished gems from Russia, and



Graphic LEE EMERTON Source I NET

buoyant demand from India, spurred by budgetary incentives.

"At the other end of the diamond pipeline, and partly I am sure as a result of the power of advertising, are a number of a positive factors."

Diamond jewellery sales were proving resilient to recession, consumer attitudes were "strongly favourable" to diamonds, the market for gift-giving occasions continued to grow, and the appetite of diamond jewellery buyers for more stones was difficult to sate. He said De Beers' marketing campaign would reach a record 900-million people in 1993.

Diamond exploration continued apace regardless of market conditions, but few new deposits turned out to be feasible.

"Of the 3 700 known (diamond-bearing kimberlite) 'pipes' in the world, only 3% have been worth mining on even a small scale, and fewer than 1% could be regarded as significant producers," he said.

De Beers made 100 discoveries a year on average, an important one once every 10 years "and we are overdue for the next one".

ANAMINT FM 18/6/93

Following De Beers

Activities: Holds 25,8% of De Beers Consolidated, 23,4% of De Beers Centenary and investments in unlisted components of the Central Selling Organisation

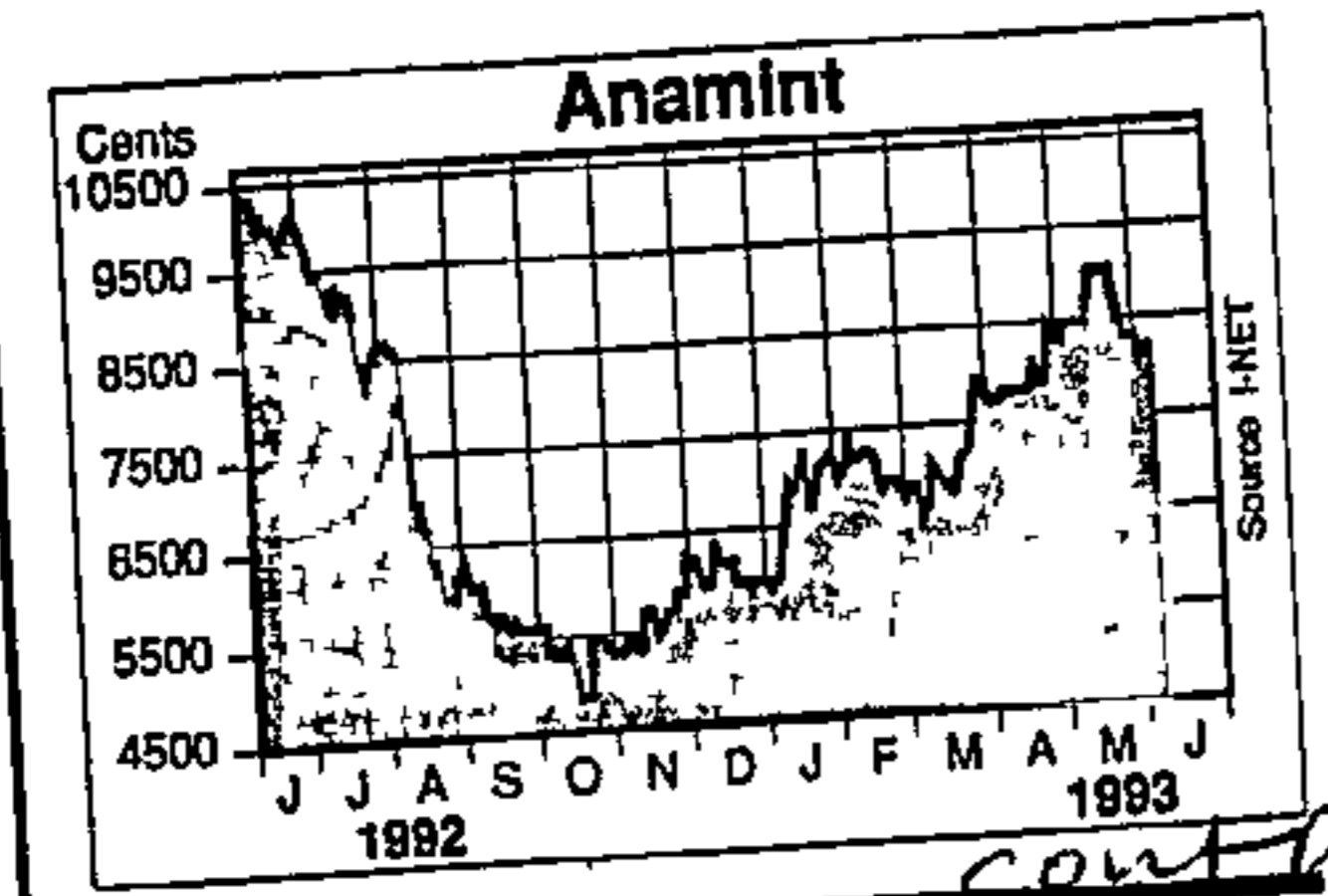
Control: Anglo American 52,2% (216)

Chairman: J Ogilvie Thompson

Capital structure: 100m ords Market capitalisation R8,2bn

Share market: Price R82 Yields: 3,8% on dividend, 8,1% on earnings, p/e ratio, 12,3, cover, 2,1 12-month high, R103,50; low, R49. Trading volume last quarter, 1,5m shares

Year to March 31	'90	'91	'92	'93
Net profit (Rm)				
Attributable	377	381	383	312
Equity-accounted	1 129	999	857	667
Earnings (c)	1 129	999	857	667
Dividends (c)	377	380	382	312
Tangible NAV (c)	9 216	7 578	8 888	7 648



FINANCIAL MAIL • JUNE • 18 • 1993 • 99

COMPANIES FM 18/6/93

(216)

This is a company whose reason for existence is certainly open to question. Its prime function is to hold, on behalf of Anglo American Corp, 26% of De Beers and 23% of De Beers Centenary.

On that basis, who needs it? Well, Anglo obviously likes it. "It's part of our control structure," says an Anglo manager. The corporation is hot on control and the structures it has put in place to give these effect. However, it does offer investors a direct avenue of participation in the heart of De Beers' operations — the unlisted diamond trading companies. What's interesting in passing is that De Beers itself owns 10% of Anamint — a neatly incestuous arrangement.

Anamint's 1993 result is dull and entirely in line with the fortunes of its major investments. As investors are well aware, De Beers itself didn't have the best of years. The diamond account fell 20% to US\$644m, interest earned declined by a half, attributable earnings were 35% lower and equity accounted earnings were down 29%. All that meant the total dividend was reduced by 21% in rand terms.

The effect on Anamint was predictable. Earnings were 19% lower than in 1992 and the dividend was reduced 18%.

When this company was reviewed last year, the exceptionally conservative valuation applied by the directors to the unlisted CSO and industrial diamond companies was considered cause for comment. This year, these investments provided dividends of R84,1m from companies valued at R650,6m. That is a yield of 13%, a level most investors pray for and it lends strength to the view the valuation is unnecessarily cautious.

If a dividend yield of 5% were to be applied, this would increase the directors' valuation by about R1bn, and that, in turn, would increase Anamint's NAV by about R10 a share to R86,50. The FM's all in favour of a prudent and conservative approach to accounting matters but isn't this taking things a bit far?

Finally, there's a tale I can't resist telling. For a company like Anamint, which has a market capitalisation of R8,2bn, it's odd to receive an annual report in which the income statement contemplates assets and liabilities and the balance sheet discusses net income and dividends. "Oh lord," said my Anglo respondent, "you haven't got one of those, have you? We stopped the print run half way through."

It goes to show, doesn't it, that gremlins are present even in the greatest corporations?

David Gleason

China buys SA's gem-cutting laser

EDWARD WEST (216)

LASER Optronic Technologies had secured a R300m order to supply locally developed and manufactured laser diamond cutting systems to China, Laser MD John Bond said at the weekend.

The venture was originally funded by a R4m grant from the Industrial Development Corporation (IDC) in 1991 and a R29m technology and expertise transfer from Baasel Lasertech in Germany.

Bond said the system could earn SA billions of rands by adding value to rough diamonds. For example, SA exported 886 000 carats of unpolished stones and 12,7-million carats of rough diamonds to India, which had no diamond deposits. The country employed about 1-million people in its gem polishing industry and added value of about R2bn to their imported diamonds and stones. *15/07/93*

The laser cutting system, with 80% local content, was developed with the grant from the IDC's funding project to stimulate local technology development.

There had been controversy about the grants, and particularly the secrecy regarding which companies benefited from the grants. Bond said the grant was used to fund Laser's research and development programme on the use of lasers for diamond processing.

By applying the technology to the diamond cutting industry, Laser reduced gem weight losses and improved throughput and processing speeds.

Interest offsets loss in deep-sea gem mining

MARC HASENFUSS (216)
Business Staff ARG 29/6/93

CAPE Town-based Ocean Diamond Mining (ODM) posted a "shallow" R23 000 loss in the year to the end of March

Group turnover came in at R4,4 million — but was reduced to a loss of R271 000 at operating level. Interest earned of R248 000 offset most of the operating loss.

The previous trading period is not comparable as figures represent only two months' trading.

ODM's profits in the period under review were knocked by a two-month non-productive period at mid year in a joint venture. However, managing director Mr Arnold Louw said the group's 50 percent share of this profit was sufficient to cover all other costs incurred for the year.

Proceeds from the sale of nearly 50 percent of the shares in two subsidiary companies realised an extraordinary profit of R3,16 million for the group. This left profit for the year at a satisfactory R3,14 million.

The balance sheet showed cash on hand at a healthy R3 million, but interest bearing debt stood at more than R4 million.

Better news for ODM was the suc-

cessful negotiation for the purchase of the Lucky D mining vessel, which would be renamed the Oceandia.

Mr Louw said ODM had gained full control over the mining operations with the Lucky D, enabling the group to "determine its own destiny".

■ Karos Hotels crept back into the black in the year to the end of March — thanks to effective control of operating expenses.

Better cost control saw an 18 percent increase in turnover to R105 million, transformed into a 37 percent gain to R27,6 million at operating level.

Directors said an improved contribution from the recently completed Polana Hotel also contributed to the turnaround.

Profit before dividends came in at R4,6 million (previously a loss of R164 000) — but the payment of preference dividends reduced the bottom line to R82 000 (previously a R3,9 million loss).

Directors said the downgrading of many hotels in South Africa to two-star establishments would have a significant impact on the market, increasing competition among lower graded hotels and reducing competition in the three, four and five-star market.

Russian gems delivered to De Beers

MOSCOW — Russia's leading diamond company had delivered its third batch this year of stones worth hundreds of millions of dollars to De Beers, it was reported in Moscow yesterday (216)

The Russia-Sakha Diamonds joint-stock company, formed last July with Russia and the diamond-rich region of Yakutia as primary shareholders, distributes 95% of its uncut diamonds through De Beers

Russia is midway through a five-year, \$5bn agreement with the diamond cartel,

in which Russia can sell only 5% of its rough stones independently

The Yakutia region mines 98% of all diamonds in Russia, which accounts for about one-fourth of the entire world supply of uncut diamonds

The chairman of the Russian committee on precious metals and stones said last month the country's five-year contract with De Beers should be renegotiated to allow Russia to sell 20% of its diamonds independently — AP-DJ

R30 m earmarked for expansion

MARC HASENFUSS
Business Staff

216
MAY 30 1993

PAROW-based diamond and industrial minerals group Trans Hex is spending more than R30 million this year, chairman Mr Francois Hoffman says in his annual review

He said this capital expenditure demonstrated a commitment to expanding Trans Hex's current business, and developing new opportunities

"We expect to fund these requirements mainly from internal resources and will fully utilize the cash flow benefits of the recently announced tax relief to broaden our asset base"

Mr Hoffman said the group's industrial minerals division was forecasting unchanged market conditions in the year ahead

He said the division's contribution to group earnings would be determined by continued cost-cutting exercises, the absence of two losing activities, improved margins and the supply of road

stone for a major road-building programme in Swaziland

Profits from the division's beneficiated limestone products were only expected to accrue later, he cautioned

The diamond division expected to hold its current position 'in the foreseeable future'

Mr Hoffman said the diamond market remained stable and sales were being concluded at firm prices over the full range of production

Trans Hex's Toren heavy minerals sand study had been shelved after finding ore reserve could not support total capital requirements

Mr Hoffman said the study to extract magnesium metal from a pure dolomite deposit owned by the group would be resumed following the resolution of legalities

The Renosterkop tin, zinc and tungsten project would remain under study — particularly process modifications and other possibilities to reduce total capital

requirements

Industrial holding Toco increased attributable income 14 percent to R16.3 million in the year to the end of March — the group's sixth consecutive year of increased earnings

Toco also announced the acquisition of a 50 percent stake in the New York-based Park Plus Corporation for \$8.85 million (nearly R30 million) The group would finance the acquisition and the subsequent expansion of export business from internally-generated funds

The acquisition of Park Plus would, however, see Toco suspend the payment of cash dividends until they were "consistent with the group's ability to finance its profitable expansion"

Instead shareholders would be rewarded with the issue of bonus shares once a year in place of the final dividend For the period under review, four bonus shares would be issued for every 100 already held

Anglo sees gold's gains sustained

B/Day 30/6/93

ANDY DUFFY

GOLD's recent gains should be sustained over the next 12 months, but there was little chance of a recovery in the fortunes of the diamond industry, Anglo American said in its 1993 annual report. (216)

The corporation, which in the year to March reported an 8% slide in attributable earnings to R1,532bn, said that although the metal price had risen on the back of uncertainty in developed economies and speculators' activities, underlying demand was also growing stronger.

China and the Far East were now the growth engine room, and if costs were controlled and wage awards restrained, the SA gold mining industry could look forward to a "healthy performance in the year ahead"

But Anglo warned that encouraging diamond sales by the Central Selling Organisation in the first four sights were due to "exceptional factors," such as falling supply from Angola and Russia. The momentum, which would boost earnings, could not be sustained without a recovery in consumer spending.

Anglo's gold interests, which include Vaal Reefs, Freegold and Ergo, increased equity accounted earnings from R245m to R258m for the year, 10,5% of the total.

The market had shifted through 1992 from one driven by speculator interest to one sustained by underlying demand, Anglo added.

The centre of gravity for the market had continued to shift from developed economies of the West and Japan to developing regions, such as the Middle East and China.

"Regional markets in these devel-

oping countries have provided the bulk of new demand for physical gold," the group added. "It seems likely that this trend will continue into the next century."

Supply and demand was in the suppliers' favour, so prices for the year ahead "look favourable".

The contribution from diamonds, last year Anglo's mainstay through its holding in De Beers, was cut by 23% to R494m for the year under the strain of lower CSO sales and higher rough diamond stockpile.

The CSO's efforts to stabilise the market had allowed a 1,5% price increase in February to be absorbed. Demand in the US had held up well.

But current sales relied on a shortfall in diamond supply from Angola and Russia, and increased demand from India and the US, Anglo added.

A sustainable recovery depended on a "more broadly based upturn in world economies than is at present discernible".

On coal, it said although supplies to Eskom were expected to remain static this year, falling contributions from exports were expected to cut 1994 earnings from Amcoal to below the 1993 level. It sustained a 6% earnings drop to R252,3m for the year before abnormal items, as sales to Eskom declined 1,8-million tons to 28,1-million tons, and steam coal exports came under pressure.

The corporation, which had maintained its total dividend at 345c a share, awarded its board a 25% increase in remuneration.

This lifted the total payout for services as directors, alternate directors and managers from R20m to R25m.

'SA owes mine R2-billion'

(216) APR 3 11 93
JOHANNESBURG — Swiss-
bourgh Diamond Mines says
the South African government
owes it R2 billion for its part
in "creating the circumstances
to allow" the Lesotho High-
lands Development Authority
to escape its legal obligations
to the mine

Swissbough said in a state-
ment on Thursday that a joint
decree was drawn up by the
South African government and
the former military govern-
ment of Lesotho "with the im-
moral aim to assist the Leso-
tho Highlands Development
Authority to escape its legal
obligation to compensate
Swissbough Diamond Mines"

Mine managing-director Mr
J H van Zyl and director Mr
D A Delpport said "Swissbough
Diamond Mines has sufficient
evidence at its disposal to es-
tablish and confirm the South
African government's complica-
ty in advising, assisting and
supporting the government of
Lesotho in passing the decree"

The company's claim is
based on the fact that part of
Swissbough's rights are situ-
ated in the Lesotho highlands
valley which is due to be
flooded to produce the giant
Lesotho Highlands Water Pro-
ject

The company said it was
still awaiting the outcome of

its application made 15 months
ago in the Lesotho High Court
for the decree to be set aside
Both the South African and the
Lesotho governments are re-
spondents in the case

"The company contends that
the South African government
is liable, alternatively, jointly
liable in damages in excess of
R2 billion for the total amount
of the loss suffered by the
company, its subsidiaries, ces-
sionaries and successors in ti-
tle"

Swissbough said a memoran-
dum had been served on Presi-
dent De Klerk on June 14 1993,
drawing his attention to the is-
sue — Sapa

De Beers gains, smugglers lose

CT 7/7/93

Business Staff

(216)

A DECLINE in smuggled rough diamonds from Angola and Zaire, which last year threw the market into turmoil, and a shortage of polished diamonds from Russia helped De Beers Central Selling Organisation (CSO) push up sales by 52% in the six months to June over the last half of 1992.

But the CSO warned in a statement yesterday that it "would be unwise" to expect sales to continue at this level.

Meanwhile, precious metal prices rose yesterday to their highest levels in three years. Gold closed at \$391.60 an ounce in London and at \$392.25 in New York.

● Full reports — Page 9

Record diamond sales for De Beers

CF 7/7/93 (21b)

Just in time for De Beers' annual report, the company turned in record diamond sales for the first half of the year, outstripping market expectations with a 20% leap on the year to \$2,54bn.

The group's distribution and marketing arm, the Central Selling Organisation (CSO), also further relaxed its purchasing quota for mine suppliers, raising it to 85% from 80% — the second rise in less than three months.

The further movement over the bleak first half of 1992 was beaten by the second half, starting 50% higher than the second half of 1992.

But De Beers' chairman, Sir Ernest Oppenheimer, sounded a cautionary note that "sales are not likely to continue at this level for the remainder of 1993".

De Beers, which was forced to make the first dividend cut in a decade this year, said the growth in sales had beaten all predictions and deliveries entitlements.

The gains were underpinned by a fall-off in supply from Russia and a decline in smuggled rough from Angola and Zaire which last year threw the market into turmoil. But De Beers warned that such factors were likely to prove transitory, and that there had

been some increase in diamond supplies from these regions.

It said buoyant demand was seen from India and the US markets, but warned that there had been no real underlying improvement in retail demand, and the market for polished diamonds remained weak.

In Cape Town James Picton, consultant to a Johannesburg stockbroking firm, said he thought De Beers had compelled customers to take more diamonds in an attempt to kickstart the diamond market "in order to regain credibility with the investment community — which it lost almost completely after a dividend cut in August following its "roadshow."

'Talking up'

"And diamond sales depend on confidence. They have to talk the market up."

Picton said it was also necessary for De Beers to regain credibility in the diamond market because the huge Canadian Lac de Gras output would be on the market in five years' time.

However, in view of the state of the world economy, Picton thought it unlikely demand for diamonds would be strong enough for sales to justify the in-

creased buying by De Beers' clients.

The failure of world economies to recover and a flood of diamonds, particularly from Angola, had forced the company to impose a 75% quota on suppliers last September, and spend heavily to mop up oversupply.

The diamond market stabilised, but its efforts cost De Beers dear. In the year to December about a quarter of its workforce was retrenched, combined earnings fell 35% to \$491m, and the dividend was cut by 21%. Its balance sheet was also badly bruised, as stocks rose to a record \$3,77bn.

Analysts expect CSO sales in the second half to remain at last year's level, bringing the total for the year to \$4,17bn — the highest since 1988. Though diamond margins remain under pressure, analysts expect De Beers' attributable earnings this year to rise at least 20% on 1992.

The market responded warmly to the De Beers announcement. De Beers Consolidated Mining, which opened at R85, briefly touched R88,75 before closing at R86, its highest level since July 1992 and 95% higher than last October's low. — Business Editor and Own Correspondents

Record gem sales revive De Beers

ANDY DUFFY

JSE mainstay De Beers turned in record diamond sales for the first half of the year, 'outstripping market expectations with a 42% leap on the year to \$2,54bn.

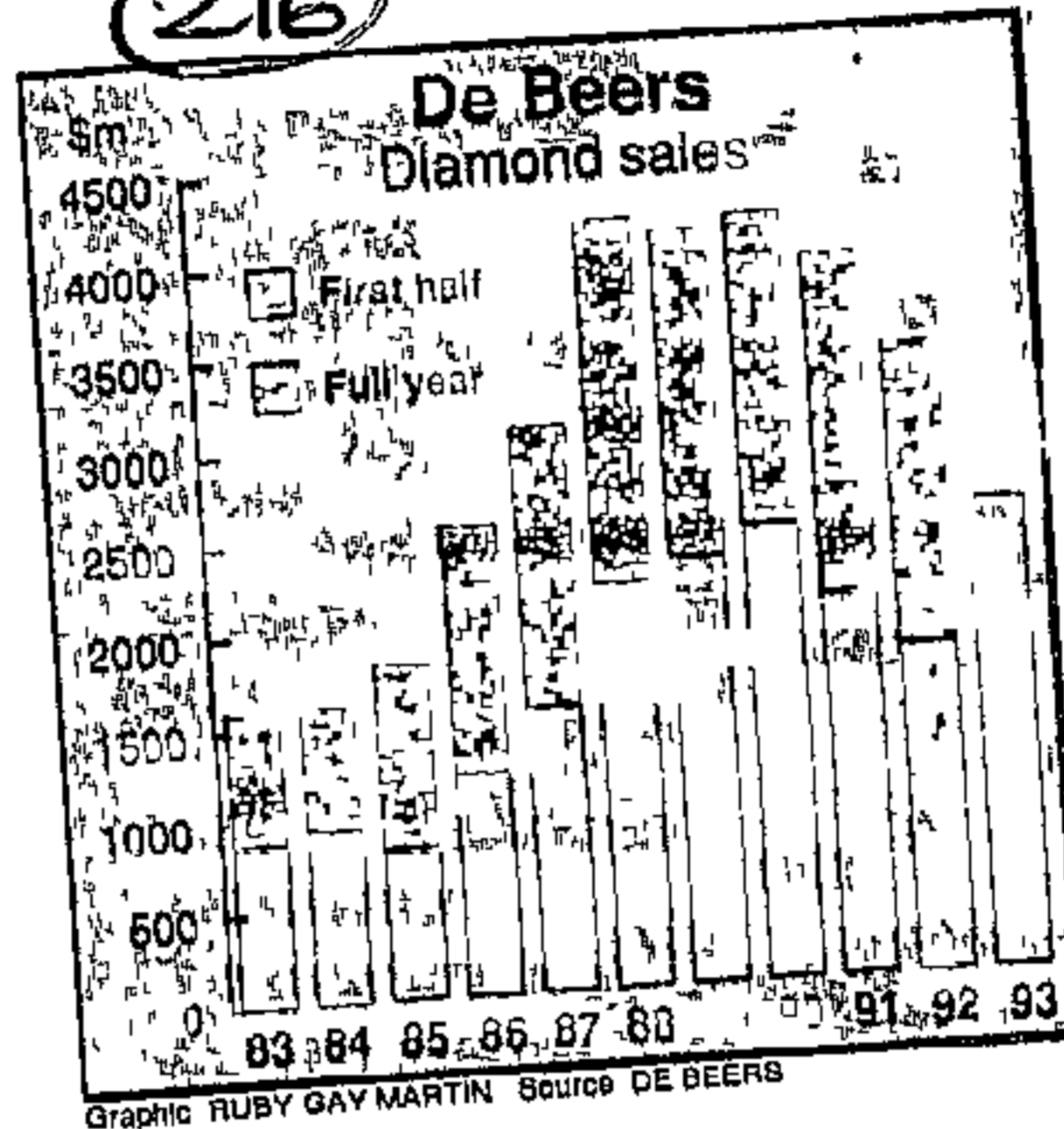
The group's distribution and marketing arm, the Central Selling Organisation (CSO), also further relaxed its purchasing quota for mine suppliers, raising it to 85% from 80% — the second rise in less than three months.

The gains were underpinned by a fall-off in supply from Angola, Zaire and Russia, which last year threw the market into turmoil. But De Beers warned that such factors were likely to prove transitory, and that there had been some increase in diamond supplies from these regions.

It said buoyant demand was seen from India and the US markets, but warned that there had been no real underlying improvement in retail demand, and the market for polished diamonds remained weak.

"Sales are not likely to continue at this level for the remainder of 1993," De Beers said. "No dramatic improvement in retail sales is expected until there is a resurgence of world economic activity."

Despite the caution, the figures — 56% up on the previous six months — still represent a stark turnaround in De Beers' fortunes since late last year. The failure of



Graphic: RUBY GAY MARTIN. Source: DE BEERS

world economies to recover and a flood of diamonds, particularly from Angola, had forced the company to impose a 75% quota on suppliers last September, and spend heavily to mop up oversupply.

The diamond market stabilised, but its efforts cost De Beers dear. In the year to December about a quarter of its workforce was retrenched, combined earnings fell 35% to \$491m and the dividend was cut by 21%. Its balance sheet was also badly bruised, as stocks rose to a record \$3,77bn.

□ To Page 2

De Beers

Analysts expect CSO sales in the second half to remain at last year's level, bringing the total for the year to \$4,17bn — the highest since 1988. Though diamond margins remain under pressure, analysts expect De Beers' attributable earnings this year to rise at least 20% on 1992. (21b)

They said De Beers was likely to have the capacity to boost its dividend by more than 12%, but that it might choose to hold at last year's level and channel the funds into repairing its balance sheet. And though the increase in quotas to 85% might have been justified in the first half, De Beers could just as quickly drop the figure

back if conditions deteriorated.

"Everything that could have gone right for De Beers since October has gone right," said G O'Flaherty analyst Des Mayer. "I'd put a big question mark against whether this is the start of a trend. De Beers are moving very cautiously. Things could move very quickly against them."

The market responded warmly to the De Beers announcement. De Beers Consolidated Mining, which opened at R85, briefly touched R88.75 before closing at R86, its highest level since July 1992 and 95% higher than last October's low

□ From Page 1

Diamond sales at record high, but De Beers cautious

Star 7/1/93

By Derek Tommey

Purchases of rough diamonds through the Central Selling Organisation (CSO) soared to a record \$2,54 billion in the six months to June.

It brought to an end 30 months of depressed conditions in the diamond market after the worldwide slide into a major recession.

This year's first-half figures were \$913 million, or 56 percent more than in the second half of last year, and \$756 million, or 42 percent more than in the first half of last year.

Buyers on the Johannesburg Stock Exchange liked the CSO figures, which were issued early yesterday afternoon and shares of De Beers, the world's largest diamond producer, rose 100c to R86.

But the rejoicing over the De Beers figures was muted

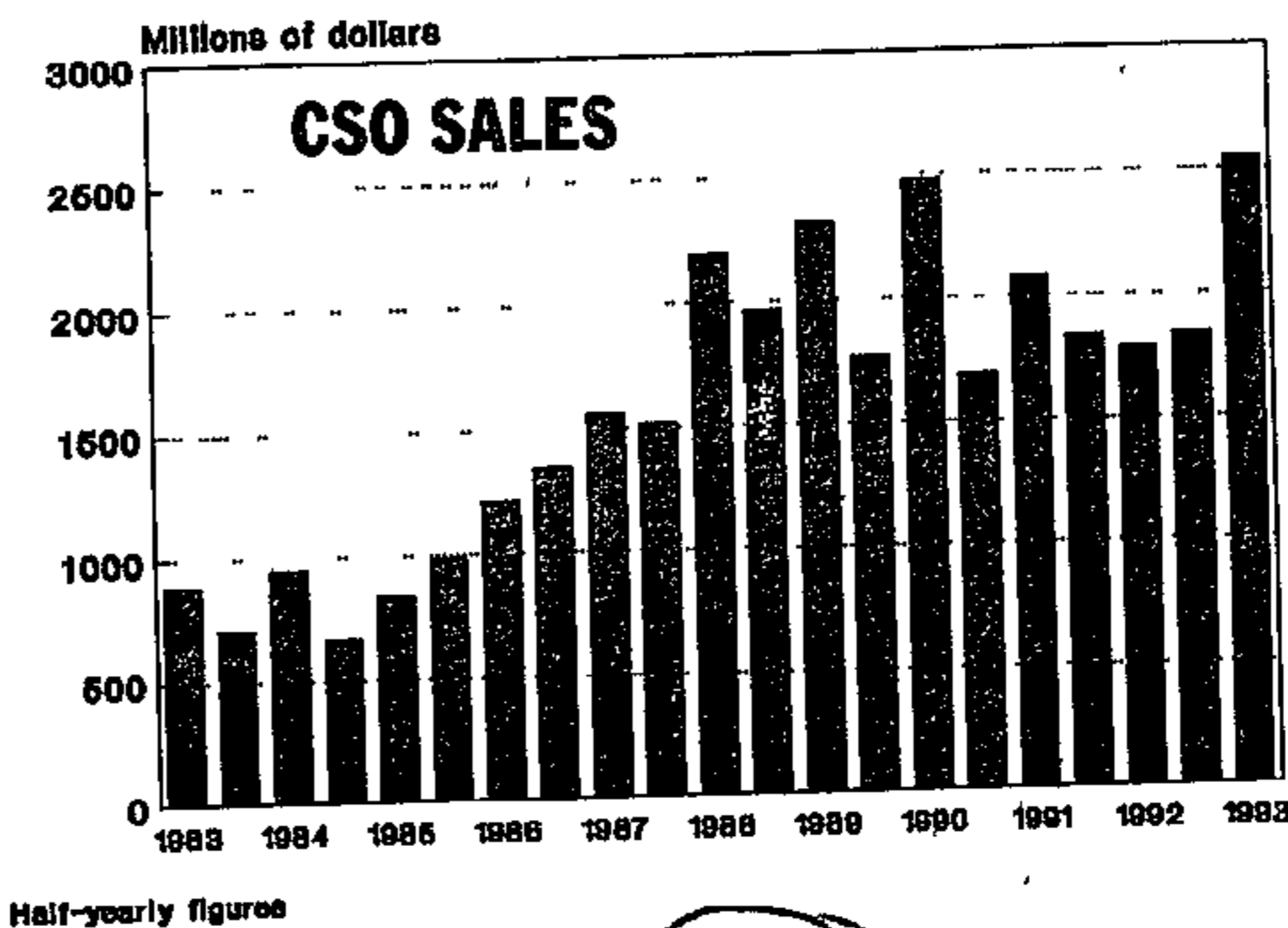
Factors

The diamond producer has pointed out that a number of exceptional and probably non-repeatable factors had boosted CSO sales in the first half of the year.

It is also apparently worried about the lack of lift in the American economy as the United States is the most important market for gem diamonds.

It is well known that if the Americans don't have enough money to buy diamonds, then the whole market suffers.

The CSO says that demand for its rough diamonds improved strongly in the first half, partly as a result of factors



which are likely to be transitory

These factors included a reduced supply of competing rough stones from Angola and Zaire, a drop in supplies of polished diamonds from Russia after the imposition of an export duty there (subsequently reversed), buoyant demand in India and increased exports of polished stones to the US.

Demand was also stimulated by restocking in the cutting centres and some consumer markets, especially the US, in the expectation of an upturn in the economy.

The CSO says that although demand for rough diamonds remains firm, sales in the first half may not be a reliable guide to 1993 as a whole.

Supplies from Angola and Zaire have increased, as have sales of polished stones from Russia.

In addition, the US government sold \$77 million worth of rough stones from its stockpile in June, and similar sales are expected later this year.

A final consideration is that

the market for polished stones is not as strong as for rough stones — indicating a potential imbalance in the market.

De Beers says it remains cautiously optimistic, but expects no dramatic improvement in retail sales until there is a resurgence in world economic activity.

With American investors turning to gold because they see little chance of an upturn in their own economy, De Beers would be wise to remain cautious.

This is especially so because it is unknown at this stage whether the upsurge in Angolan diamond sales in the second half of last year, which had a marked effect on the market, may not repeat itself.

The Angolan sales, and poor economic conditions led to the CSO imposing 75 percent production quotas on its members.

This was raised to 80 percent in May and has now been raised to 85 percent.

But the fact that it is not back to 100 percent would also seem a strong reason for caution.

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DE BEERS

Will the sparkle last?

216

FM 9/7/93.

Simply stunning. Rough diamond sales for the first six months of 1993 of US\$2,543bn were substantially above market expectations and a record for any six months

The Central Selling Organisation (CSO), De Beers' marketing arm, reports half-year sales 56% higher than in the second half of 1992 and 42% better than the same period last year "I was expecting about \$2.4bn," says analyst Des Mayers of O'Flaherty & Co "This is a very big number indeed"

This extraordinary performance is being carefully played down by the CSO, indeed, chairman Nicky Oppenheimer has cranked the PR machinery of the greater group into gear to ensure warnings about the second half get home Sales, it says, are "not likely to continue at this level for the remainder of 1993" Take note

Nor do the results meet with universal approbation Anderson, Wilson consultant James Picton, a noted De Beers watcher, is convinced the latest figures are merely part of an orchestrated campaign to rehabilitate the group's image in the investment community "De Beers," he says, "is attempting to kick-start the market It is relying on an Eighties-style world economic recovery and there's no sign of that"

Market sources pinpoint a number of reasons for buoyant sales First, the CSO applied a tight rough diamond distribution policy in 1992, as chairman Julian Ogilvie Thompson confirmed in his annual statement That was coupled with a quota system, which restrained deliveries from producers by 25%, and open market purchases by De Beers of large quantities of Angolan rough

Second, US Christmas 1992 retail sales are reported to have been very good That took finished stock out of the market, stimulating demand for replenishment

Third, liberalisation of foreign exchange controls in India boosted demand India, the world's largest cutting centre by volume (about 650 000 cutters work there), is an



Oppenheimer . don't expect this to go on

important factor in De Beers' game plan Making the rupee freely convertible meant that cutters earned more for finished product, that enabled the industry to increase its volume offtake

Lastly, De Beers sources confirm a shortage of Russian polished because of the new CIS 20% export surcharge Russian product is highly regarded and that, coupled with a reduction in rough supplies from Zaire and Angola, affected the sights

Picton, however, is scornful about the Russian shortage "De Beers," he says, "is under severe pressure. BHP is positioning itself to enter the market with new supplies from its heavy involvement in Canada's Lac de Gras area in about five years' time and is known to be seeking options to the CSO for marketing Faced with that, what better way to signal your control than by limiting the stocks the industry wants most?"

A De Beers spokesman retorts that it will be years before the Lac de Gras deposits are brought to commercial production, adding that De Beers is heavily involved in the area through its Canadian exploration company Monopros, which has staked about 1.5m ha around the BHP discovery

BHP CEO Jerry Ellis is reported to have commented at a recent meeting of investment analysts in London that requirements ahead of any decision to proceed with a mine are considerable They include putting together a bulk sample of 10 000 ct and that means draining a lake as well as obtaining all kinds of bureaucratic approvals That seems to confirm supplies from Lac de Gras are a long way down the line

Mayers and Picton agree that CSO second-half sales are likely to be about the same as last year — roughly \$1.6bn That

would give sales for the year of around \$4.1bn, an increase of about 21% Mayers says the exceptional circumstances which applied until June are unlikely to be repeated to the same degree He expects sight volumes to be reduced considerably

All that would leave De Beers with earnings of about 500c a share (1992 372c) Mayers expects De Beers' dividend to be unchanged in dollar terms (US\$79.1c) and 8% better in rand at 260c

Mayers points out that cross-holdings make De Beers crucial to Anglo American In February, De Beers was about R73 on the JSE and Anglo R103 Anglo has since risen, on the resurgent gold price, to R150 Other things staying equal, that should push De Beers up to about R84 In fact, the counter is R86 (it barely moved in heavy trade after the sales figures were announced)

All that implies the market has taken De Beers's warnings about the second half to heart, investors have chosen, it seems, to keep a watching brief

David Gleason

MERHOLD/NEW REPUBLIC

FM 9/7/93.

Anxious to be quoted

In a deal designed to remove duplication and release synergies, New Republic Bank (NRB) has bought Merchant Trade Finance (MTF) from Merhold, the financial and investment arm of the SA Bias Group

The FM (Fox June 25) can lay claim to prescience we signalled the possibility of this transaction well in advance Effective July 1, the price is approximately R45m, to be settled by an issue to Merhold of 14.2m NRB ordinaries, a 40.3% stake Before the announcement, Merhold held 22.8% of NRB, so its total holding of 63.1% is above the 49% permitted by the Banks Act

The bank's MD Mac Mia says Merhold's excess shareholding will be reduced when institutional shareholders Sanlam and IGI take up their rights Bringing in an additional shareholder hasn't been ruled out

NRB's pre-acquisition asset base was about R500m, MTF lifts it to R900m Mia says it is expected to grow quickly and should top R1bn by next March

This is possible, he says, because of existing synergies (the complementary nature of the businesses allows a more balanced lending portfolio), better utilisation of management skills, and economies of scale in terms of rationalisation, administration and technology These benefits will allow an expansion of services.

It seems likely facilities provided by MTF, such as aspects of forex, letters of credit and

A LOT OF FOREVER

	CSO Sales		Full year
	First half	Second half	
	US \$million		
1983	887	712	1 599
1984	945	668	1 613
1985	837	986	1 823
1986	1 214	1 343	2 557
1987	1 560	1 515	3 075
1988	2 201	1 971	4 172
1989	2 317	1 769	4 086
1990	2 477	1 690	4 167
1991	2 084	1 843	3 927
1992	1 787	1 630	3 417
1993	2 543		

Venetia 'likely to miss target'

BiDay 9/7/93
(216)

THE first full year's production at De Beers' R1,1bn Venetia diamond mine was likely to fall short of its initial target, the group said yesterday.

Though De Beers' marketing organisation, the Central Selling Organisation (CSO), had relaxed purchasing quotas earlier this week, the group said Venetia would not meet its capacity of 5,9-million carats by the end of the year.

The mine produced 1,87-million carats between its opening in August and last December, but had slowed production in the wake of De Beers' attempts to combat oversupply in the diamond market.

Though De Beers reported record first-half sales earlier this week, it added that the market remained subdued. Venetia, which has a licence for seven-day-week operations, was operating on a five-day week.

De Beers was unable to forecast what Venetia's actual out-turn would be because, it said, the impact of the quota system would be spread across all its diamond mines.

A spokesman said production would depend on the direction of the market for gems.

Industry sources forecast, however, that the high grade producer would produce between 4-million and

ANDY DUFFY

4,5-million carats, and that much of that would be stockpiled by De Beers.

"So far they've sold a very small proportion of what has been produced," one source said.

De Beers' comments follow a steady stream of indicators that the operation would fall short of the schedule set for it in 1991.

The CSO's decision last September to put forward deferred purchase clauses in its quota agreement with suppliers had affected the mine's move to full production.

Industrial Commercial Holdings, which is entitled to dividend income from Venetia through its 12,5% stake in Saturn Mining, showed income from Saturn of R0,28m in the half year to December — 54% lower than the previous year.

Anglo American, which through Anamint has an interest in De Beers, has recently also said that Venetia was operating at reduced output.

Though the stabilisation in the market had led De Beers to relax the quota from 75% to 80% in May, and to 85% earlier this week, analysts believe the quota could just as quickly be tightened if conditions deteriorate.

Until De Beers released additional information, it was difficult to size up Venetia's expected contribution.

Demand buoys up De Beers

St. Times (Buss)

11/7/93

DE BEERS reached a 12-month high of R88,75 after the Central Selling Organisation announced 42% higher diamond sales of \$2,54-billion for the first six months of 1993

The CSO warns that although demand for rough stones remains firm, it would be unwise to consider the first-half jump a reliable guide for the year's outcome

Sales were aided by seasonal factors, fewer Angolan and Zairean roughs, the first-quarter shortage of Russian polished stones, buoyant demand from India and increased exports of polished stones to America. (216)

India has 250 000 diamond cutters who bring in stones for polishing and export. Full convertibility of the rupee improved their fortunes and they were able to handle more stones. The second-largest cutting centre is Israel with 9 000

The dry season and political instability in Angola and Zaire have led to renewed

supply of stones from these areas, but not in the large quantities of last year.

Russian polished supply dried up because of the introduction of a 20% export surcharge. Although this is thought to have been removed, bureaucracy is hampering the normal flow of diamonds.

Another new source of supply in the second half of the year is the American Government, which sold \$77-million of roughs from its strategic stockpile and is believed to plan more sales.

The polished-stone market is weaker than that of roughs. The CSO predicts no dramatic improvement in retail sales until the world economy recovers

Better sales allowed the CSO to lift average prices 1,5% in February, mainly on stones of three carats and greater, where demand is strongest.

In May, producers' delivery entitlements were raised 5% to 80%. This figure has now been lifted to 85%.

Terra tops unlisted probe

St. Times

THE Business Practices Committee, chaired by Louise Tager, is to investigate Terra Exploration & Development (Buss)

The inquiry will be undertaken in terms of the Harmful Business Practices Act.

Terra has issued shares to the public either for cash or in exchange for shares in other non-listed public companies. It was refused a JSE listing last year (11/7/93)

Terra is a subsidiary of Falcon Development. In the past few years it has undertaken an elaborate paper chase, issuing shares to holders of various companies controlled by Mike de Pinna.

The companies include Hemisphere, Redbark, New Era and Great African Resources. They all required qualified financial statements, generated little or no income and were largely dormant (Buss)

The committee will also investigate limited liability companies FCF Developing Capital, Falcon Developing Capital, FCF Securities and La Roc, and proprietaries Falcon Corporate Finance, REF Corporate Finance, Terra Holdings, Principal Securities, Principal Mining, Manresa Investments CC, all

subsidiaries, directors, employees, brokers or agents.

Anyone wishing to make a representation may write to the committee's secretary, Private Bag X84 Pretoria 0001, before July 22.

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De Beers hits 12-month high

DE BEERS' share price reached 12-month high recently at R88,75, after the Central Selling Organisation (CSO) released figures showing a 42% rise in diamond sales at \$2,5bn for the six months of 1993.

However the share closed out this week at R86 a share with diamond analysts warning that "it would be unwise to consider the first half jump a reliable guide for the year's outcome".

Sun International on expansion trail

Biday 19/7/93

SUN International is involved in preliminary negotiations for new non-casino hotels in Johannesburg and Cape Town and is considering certain projects offshore, says newly appointed MD Peter Venison.

He said in an interview that Sun International had made a significant effort overseas to bring business to southern Africa.

The company had offices in London, Germany and France, and recently established offices in New York and Hong Kong. It had also hired public relations consultants in the US, France, Italy, Britain and Hong Kong.

Venison said Sun International was one of the few tourism players — along with Sator and the airlines — which spent money overseas and attracted foreign visitors. When tourists visited as a result of its efforts, they spent only part of their time at Sun International resorts, as the company was not represented in the major tourist cities.

Venison said some competitors had been rebranding their hotels, and there was room at the top end of the market. Sun International's hotels had the quality to justify high rates, and he believed people would pay for quality.

If SA expected to do half as well as Australia in terms of tourism, it would need 34 new hotels the size of the Palace at Lost City.

Venison said it was important now for the group to move overseas. For 18 months

MARCIA KLEIN

it had looked at a number of countries, had meetings with governments, examined casino regulations, invited government officials here, and sought partners. "We are working towards a couple of projects," he said.

Venison was reluctant to give details of the group's fortunes over the past year, as results to end-June will be published shortly, but he did say the Sun City complex had reaped the benefits of the group's marketing effort. Generally, however, it was adversely affected by political events and recessionary conditions.

In the two weeks after Chris Hani's assassination the group had more cancellations than bookings. Other political events had had a similar effect.

At the Sun City complex, all occupancies were up on last year. The Cabanas had not run at less than 90% occupancy this year and the Palace had achieved about 80% occupancy. This was about 10% higher than budget, but the average rate was slightly below expectations. Overall, the Lost City's performance was better than expected.

Venison said there was significant growth in the number of visitors, over and above those expected when additional rooms became available. He attributed this to the investment in publicity, and a broadening of the market through new facilities.

Biday Trans Hex to expand

19/7/93
JOHN DLUDLU

HOLDING and investment company Trans Hex was planning to expand its operations and develop opportunities, chairman and MD Francois Hoffman said in the financial statement for the year ended March 1993.

The company, which has interests in diamond and industrial mineral mining, projected capex of R30,1m this year which Hoffmann said demonstrated commitment to expansion.

The proposed ventures would be financed from internal resources. (216)

The Rembrandt-owned group was expecting the past year's market conditions for industrial minerals to remain unchanged.

Improvement in its contribution to group earnings would be determined by cost cutting, improvement in margins and the absence this year of two loss-making activities. (232)

Management was restructured after executive director Frans Mostert retired. He was replaced by Peter Danchin.

The group reported a net income of R35,5m (R28,1m), equivalent to earnings a share of 207,6c (186,3c). A final dividend for the year of 64c (59c) was declared.

WAREHOUSES

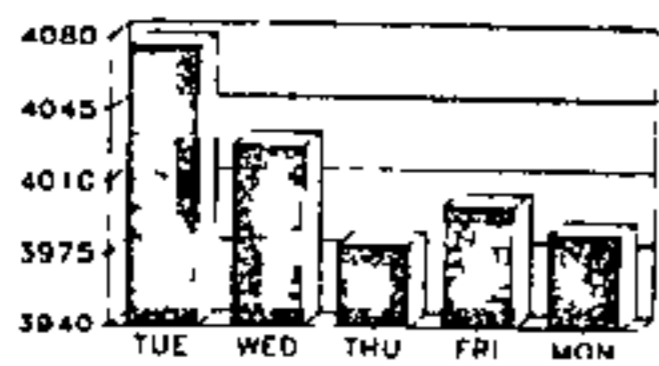
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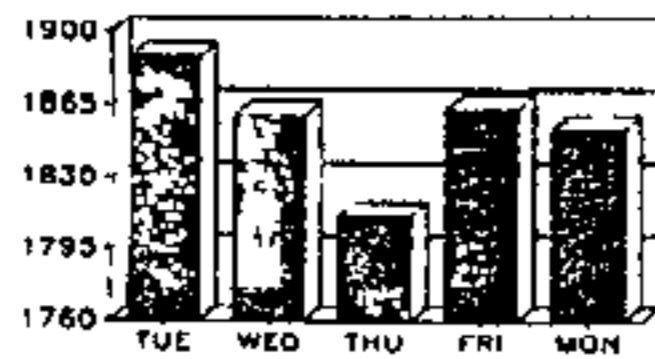
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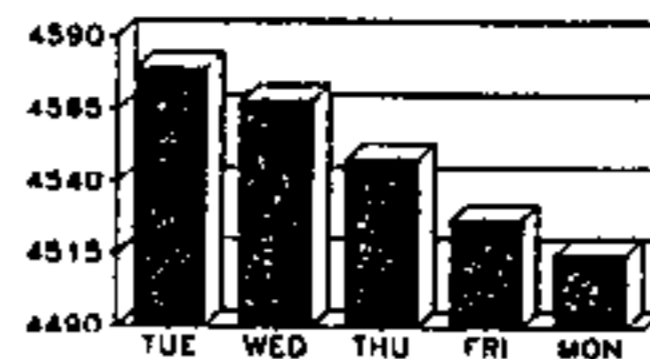
JSE Overall



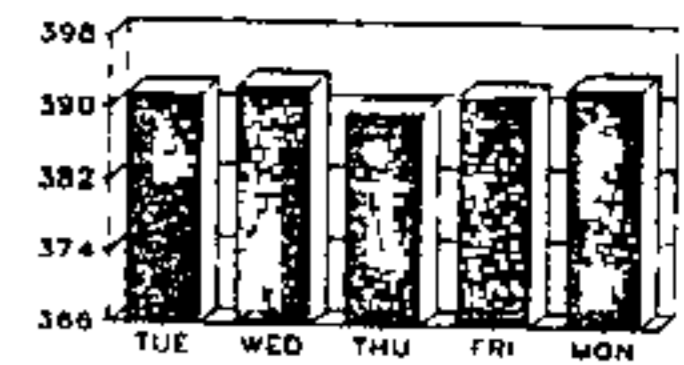
JSE All-gold



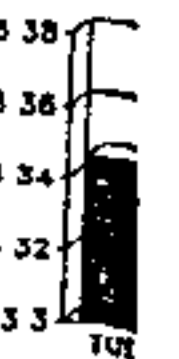
JSE Industrial



Dollar gold price



Do



BUSINESS

Star 27/7/93

Russia's diamond chief reassures world markets

(216)

By Derek Tommey

De Beers shareholders and world diamond traders will breathe a little easier after a recent report in the Russian newspaper Tass

The earlier concern stemmed from a perception that Russian diamond production was suffering from a lack of control — a situation that could lead to unscheduled Russian sales. This would disrupt the diamond market and, more seriously, hit their profits — perhaps sharply

But the Tass report, featuring an interview with Andrey Kirillin, first vice-president of Diamonds of Russia, Sakha, should go a long way to reassuring diamond traders that they can count on the Russians not to do anything silly — or anything contrary to their interests

Kirillin told Tass reporter, Vitaly Makarchev, that his company controls 98 percent of Russian diamond production, that it is the only organisation in Russia allowed to export rough diamonds and that its diamond exports are undertaken only on the basis of his company's agreement with De Beers.

Agreement

Kirillin said diamonds are supplied to De Beers under a five-year agreement concluded between the Soviet Union and the company in 1990 and confirmed by the government in power in Russia in 1992.

President Yeltsin had issued a decree granting Diamonds of Russia, Sakha, exclusive rights to export rough diamonds

In spite of financial problems

and difficulties arising from the transition from being part of the Russian bureaucracy to a joint stock company, Diamonds of Russia, Sakha, had not lost control of the diamond industry, said Kirillin. Furthermore, diamond mining is taking place at all diamondiferous pipe deposits in Yakutia

His company accounted for a considerable part of the world production of diamonds and was aware of its responsibility for the stability of the world diamond trade

This is achieved in operations with other major diamond producers

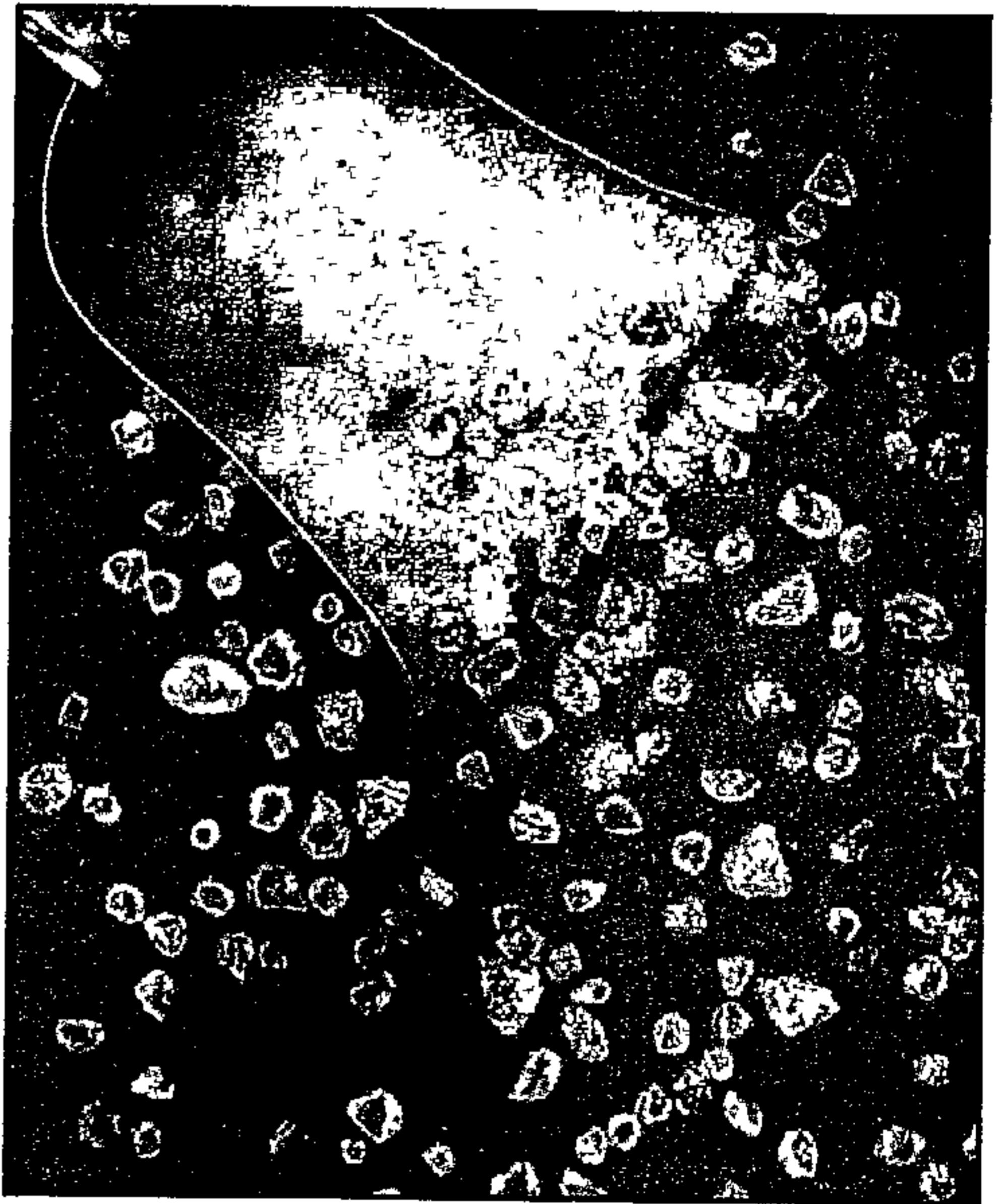
"We regard De Beers as our long-standing partners," he continued. But he added that his company would look after its interests. This applied primarily to the level of prices paid for Russian diamonds and the means of controlling these prices

"We are prepared to show flexibility and expect the same from our partners," he said

His company had just dispatched its third large batch of rough diamonds to the De Beers group since his company was founded at the start of this year. Each batch was worth hundreds of millions of dollars. He was now negotiating with De Beers about the price to be paid for these diamonds

Kirillin's remarks help strengthen the view of Gary Ralfe, De Beers' man in charge of relations with Russia, that the Russians are unlikely to flood the world diamond market, even though it needs cash to bale out its struggling economy.

The diamond industry, contrary to market speculation, has



Glittering . . . there will be no deluge of diamonds.

been more stable over the last three years than other Russian commodity markets, he told Reuters

"Polished Russian diamonds, which are not being sold through the CSO, are not undercutting prices in Antwerp and Israel," Ralfe said. "It shows competent and rational marketing."

"The gem diamond market is the best example of the kind of stable market producers like to have to ensure a consistent and

hopefully rising value for their production," he said

World diamond sales fell by 30 percent last year. But De Beers countered recession-hit demand by buying 25 percent less from producers and cutting the supply of rough gems

The industry recovered this year, according to the CSO. Sales for the first half of 1993 were 42 percent higher than the same period last year and 56 percent higher than the second half of 1992

to be set up, but would have to... rather... thought out to

R200-m Gem Venture

MARC HASENFUSS
Business Staff

216

ARC 11/8/92

MARINE diamond miners Benguela Concession (Benco) has finally concluded a R200-million joint venture with Australian mining conglomerate Broken Hill Proprietary (BHP) — a move that could rocket the Cape Town-based group

into the big time.

A possible tie-up with BHP has been in the ofing since late last year.

According to a financial notice published today, the joint-venture agreement will see Benco transfer 75 percent of its deepwater concessions to BHP. In return, BHP will spend over R200 million to develop these concessions

The deal is still dependent on approval from shareholders. They will vote on the resolution

at a general meeting soon.

The joint venture provides for a sharing of costs in commercial mining operations in a ratio of 75 percent by BHP and 25 percent by Benco. The deal excludes Benco's shallow-water operations

According to Benco directors, the scale of development in the joint venture was beyond the funding of the group's present known resources

"The joint venture fills the void of major project funding and in-

ternational mining expertise which could transform Benco from a modest exploration company into a partner in a major diamond producing company."

The directors add "If the feasibility study demonstrates economic viability it will lead to further development with a view to attaining commercial mining and thereafter further investment by both partners in a new marine diamond producing company"

The R200 000 plus will be spent

in two phases. Phase 1 incorporates the exploration and feasibility phase and will cost R50 million. Phase 2 will see the development of the concessions with a view to attaining commercial mining

Phase 1 of the feasibility study started in January and is due for completion by 1995

Benco directors warned that it was too early to gauge the impact of the joint venture on the group's future earnings

ODM will switch to sampling

AGG 21/8/93 (216)
MARC HASENFUSS
Business Staff

OCEAN Diamond Mining (ODM) will spend most of the financial year ahead sampling reserves in areas where diamonds have already been found, managing director Andre Louw said in a statement released at the group's annual general meeting yesterday.

"The aim will be to change the status of these reserves — by further detailed sampling — to 'proven and delineated' reserves."

Mr Louw said the temporary change-over from mining operations to sampling during the August/September period would see ODM post a small loss in the interim period to end September.

However, he stressed that careful management of time and resources would allow the group to undertake additional sampling work and mining.

He was confident that ODM could recover sufficient diamonds

during the second half to cover costs for the whole year and still show a small operating profit.

"The emphasis during the remainder of our financial year will be to establish sufficient proven reserves for the mining boat Lucky D and for future (and probably larger) mining vessels."

Mr Louw said the rationale behind the new policy was to justify the introduction of at least one additional mining vessel to increase group profitability.

He indicated that the vast majority of diamonds recovered in the West Coast waters were high quality gem stones of acceptable "market" size.

Mr Louw pointed out that ODM's technology of deeper water remote or diverless mining was now a proven and established method of diamond mining, capable of consistent production over long periods.

This means ODM's production is not weather dependent, which

restricts down time to occasional breakdowns, crew changes and visits to port for fuelling and victualling.

ODM started to draw investor attention on the JSE recently — touching a high of 240c before retreating to its current price of around 210c.

A recent report of the group by renowned brokers James Capel recommends ODM as a strong buy.

They said, "The unprecedented interest in Canadian diamond explorers is spilling over into other diamond plays as investors seek out undervalued opportunities. As investors become more discerning, the relative undervaluation of ODM is increasingly obvious."

■ Shareholders approved ODM's acquisition of Solid Pump by an overwhelming majority at a special meeting convened after the AGM. Solid Pump holds the mining permit over sea diamond area 7(b) — believed to have substantial deposits.

De Beers comeback expected

BY ANDY DUFFY

RECORD diamond sales were likely to lift earnings at De Beers by at least a fifth for the first half of this year, market sources said yesterday.

But the JSE mainstay, which cut its dividend last year, was likely to hold the dollar payout when it reported later this month.

Devaluation would lift the rand dividend by about 10% to 76c, but De Beers would aim to continue rebuilding its balance sheet, sources said.

The results, the first after De Beers' fall from grace last year, were likely to be underpinned by the revival in sales by its distribution arm, the Central Selling Organisation (CSO), which had risen to a record \$2,54bn in the first half.

But analysts' forecasts vary widely, between 290c and 328c a share, compared with 241c last time, as the market grapples with the impact of higher CSO sales on operating and interest income.

Though there had been no major upswing in retail demand, earnings would re-

flect falling supplies from Angola and Russia, which last year wreaked havoc on De Beers. (216)

Stocks, which hit \$3,77bn last year, were expected to have fallen by around 10%, while the \$1,49bn debt burden could have fallen by about \$300m.

But De Beers was expected to maintain its focus on the balance sheet, and to channel funds there rather than increasing dollar dividends.

"There's got to be a desire to rebuild dividend cover," said Fergusson Bros analyst William Fergusson, "and to get the balance sheet looking better."

De Beers is also expected to break with tradition and provide an interim balance sheet to underline any improvements. "De Beers wants the diamond industry to believe the diamond market has recovered," one source said.

Sluggish world economies and a flood of diamonds, particularly from Angola, last year forced De

Beers to impose a 75% purchasing quota on mine suppliers, and cut a quarter of its workforce and its final dividend by 21%.

Such costly attempts to stabilise the market allowed a 1,5% rise in prices in February, and the relaxation of the quota in April and last month.

But the company cautioned that exceptional factors had powered CSO sales forward for the first half. The lack of real retail recovery or demand for polished diamonds would lead to a fall in second half sales.

Listings error in diagram

IN A diagram showing the new corporate structure of Anglo American Industrial Corporation (Amic) in yesterday's Business Day, Amquip, Highveld Steel & Vanadium, LTA, Mondi and N F Die and the international operations of Scaw and Boart were listed as wholly owned subsidiaries. The listing should have read wholly or partly owned subsidiaries.

De Beers loses some sparkle as profits drop 9 percent

MARC HASENFUSS
Business Staff

(216)
ARL 18/8/93

DE BEERS/Centenary put in a flawed performance in the half year to end June — with the marked recovery in first half Central Selling Organisation (CSO) diamond sales not filtering through to bottom line

News of De Beers' below par performance had a muted effect on the JSE yesterday with the overall index closing 17 points up at 4007. De Beers closed slightly easier on the day at R89,75, after flirting at a new high of R92,50 in early trade.

Pre-tax profit came in 6 percent lower at \$444 million (previously \$473 million) for the period under review.

This was made up of a \$373 million (\$379 million) diamond account, investment income of \$111 million (\$139 million) and interest received of \$33 million (\$65 million).

Bottom line eased up nearly 9 percent to \$482 million, thanks to a sharp reduction in the group's tax bill from \$136 million to \$86 million.

Earnings came in at 93 US cents (previously 86 cents) a linked unit, from which a 25,2 US cents (25,1 cents) dividend was declared.

These figures were inflated in rand terms in line with the currency's loss against the dollar in the six-month review period. Earnings climbed to 296c from last year's 242c a linked unit and the dividend was up 20 percent at 83,9c a linked unit.

The actual dividend payment to unit holders — scheduled for November 3 — depends on the dollar/rand exchange rate prevailing at the fixing date of September 20.

The strong first half diamond sales saw the group's diamond stocks cut by \$527 million.

Long and medium term liabilities were \$629 million lower, while net current assets of \$513 million increased by \$334 million — resulting in an overall improvement of \$963 million.

However, directors anticipated that these improvements to the balance sheet would not be sustained in the second half as second half CSO sales were unlikely to match the first half.

■ Sir Chippendale (Chips) Keswick, chairman of Hambros Bank and a director of the Bank of England, has been elected a director of De Beers Consolidated Mines.

Results rattle the JSE

Record sales

fail to boost

B/Away 18/8/93

De Beers

(216)

DE BEERS/Centenary has reported a 6% decline in pretax profit in the half-year to June 30, in spite of record Central Selling Organisation (CSO) diamond sales in the same period.

Lower operating profits at Centenary's mines in Namibia and Botswana, plus re-trenchment costs at SA operations, dented the benefits of the dramatic first-half recovery in diamond sales after the market's collapse in 1992.

The results rattled the JSE in late trade yesterday as investors expected the strong CSO sales to translate into sharply improved earnings. De Beers shares closed 25c down on the day at R89,75, after touching a new high of R92,50 earlier.

The all share index closed 16 points higher at 4 006, but down from its 4 017 high of the day.

However, a considerable reduction in the group's tax bill transformed the diamond producer's bottom-line profitability. Attributable earnings climbed to \$0,93 (\$0,86c) a linked unit, and a flat interim dollar-denominated dividend worth \$0,252c (\$0,251c) was declared.

The figures were inflated in rand terms because of the currency's loss in value against the dollar in the period, so earnings rose sharply to 296c (242c) a linked unit. The rand-denominated dividend was upped to 83,9c (69,6c) a linked unit. Combined net pretax profit slipped to

MATTHEW CURTIN

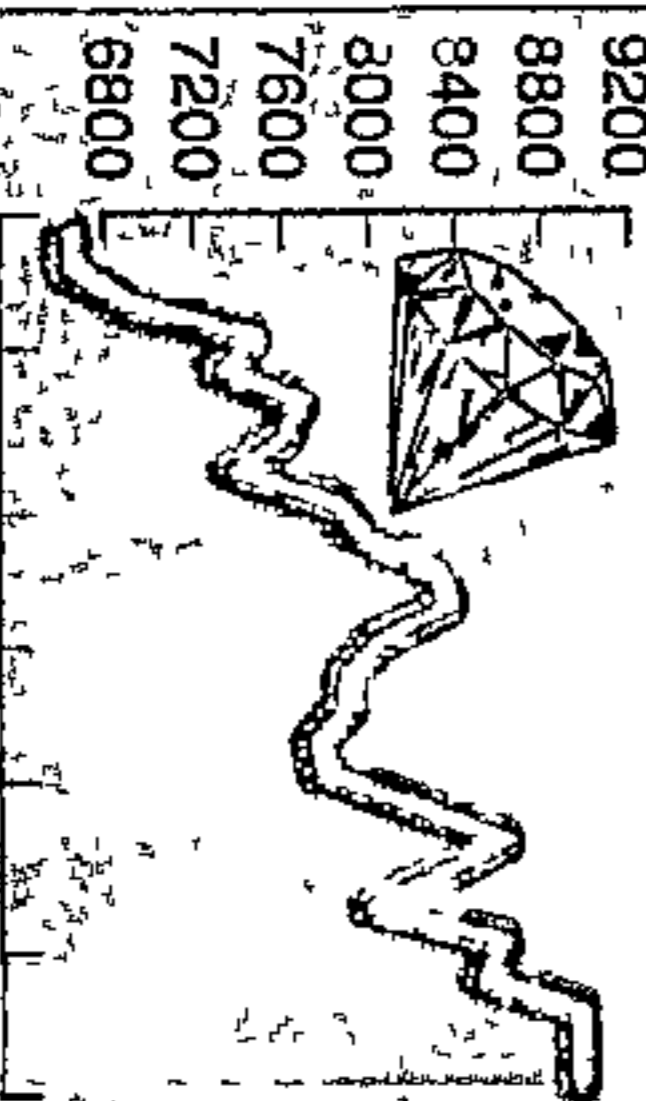
\$444m (\$473m) on an increase in diamond sales to \$2,54bn from \$1,79bn in 1992. The diamond account — profits from local and non-SA diamond mines and income from the group's international diamond businesses — showed a small decrease to \$373m (\$379m).

Chairman Julian Ogilvie Thompson said the account in the case of De Beers Consolidated improved significantly as diamond production accelerated at Veneta, and other mines reaped the rewards of cost-cutting during recent months.

He said operations at Veneta, unaffected by the northern Transvaal drought, □ To Page 2

De Beers

Share price, weekly close (cents)



Graphic: KAPPA/FOOLMAN SOURCE: LNET

De Beers

B/Away

18/8/93 □ From Page 1

were running smoothly. But as the build-up to full production was proceeding more slowly, the mine was operating two rather than three shifts seven days a week.

Centenary's diamond account was adversely affected by Debswana's decision to run operations at full tilt and stockpile output not required by the CSO. The mine's profit fell because reduced deliveries to the CSO were not compensated for by lower operating costs, in addition to the cost of holding diamond stocks on site.

Ogilvie Thompson said reduced quotas and the limited effect of cost-cutting programmes, begun only in February, ate into profits at CDW's Namibian mines. Negotiations about the future control of the mines were continuing with the government.

Lower interest payments and reduced research and exploration spending were more than offset by falls in investment income, down at \$111m (\$139m), and 50% lower interest receipts of \$33m (\$65m). Tax provisions dropped to \$86m (\$136m) in the wake of reduced profitability, leaving after-tax income at \$358m (\$337m).

Attributable earnings rose to \$353m (\$325m) as profit attributable to outside shareholders declined. With a flat contribution of \$129m (\$128m) from the group's associate companies, equity accounted earnings rose to \$482m (\$455m). (216)

The combined interim balance sheet showed a significant reduction in diamond stocks to \$3,24bn (\$3,2bn) from \$3,77bn at year-end in December. Long- and medium-term debt fell sharply to \$61m (\$1,35bn)

from \$1,49bn. Net current assets, including improved cash balances, stood at \$513m (\$571m) compared with \$179m at year-end.

Ogilvie Thompson said there were no signs of a resurgence in illicit Angolan supplies which blighted the diamond market last year. Formal mine production had stopped and illicit output amounted to tens of millions of dollars compared with the \$500m to \$600m estimated in 1992.

Supplies of Russian gems, which were kept back by the imposition of export taxes earlier this year, were approaching more normal levels.

Ogilvie Thompson said in the retail market the position in the US remained "rather satisfactory". The restocking of diamonds which had inflated CSO sales was unlikely to continue but, although imports had out-paced retail sales, it reflected the re-establishment of a more balanced US market.

In Japan there were signs that retailers' destocking had levelled off. Retail sales were flat in yen terms, and so improved in dollar terms.

Overall, worldwide retail diamond demand in 1993 was likely to be "a little better" than the flat performance of 1992. Its impact on De Beers' results would depend on the extent to which diamond cutters and retailers rebuilt their stocks. □ Ogilvie Thompson said yesterday Ham-bros Bank chairman Sir Chippendale Kes-wick had been elected to the board of De Beers Consolidated Mines.

Picture: Page 6

Record sales fail to boost De Beers results

CT18/8/93

(216)

From MATTHEW CURTIN

JOHANNESBURG — De Beers/Centenary has reported a 6% decline in pre-tax profit in the half-year to June 30 in spite of record Central Selling Organisation (CSO) diamond sales in the same period.

Lower operating profits at Centenary's mines in Namibia and Botswana, plus re-trenchment costs at SA operations, dented the benefits of the dramatic recovery in diamond sales in the first half this year after the collapse in the diamond market in 1992.

The results rattled the JSE in late trade yesterday afternoon as investors expected the strong CSO sales to translate into sharply improved earnings. De Beers shares closed 25c down on the day at R89,75 having touched a new high of R92,50 in earlier trade.

The Overall Index closed 16 points higher at 4 006, but down from its high of the day of 4 017.

However, a considerable reduction in the group's tax bill transformed the diamond producer's bottomline profitability. Attributable earnings climbed to \$0,93 (\$0,86c) a linked unit, and a flat interim dollar-denominated dividend worth \$0,252c (\$0,251c) was declared.

The figures were inflated in rand terms because of the currency's loss in value against the dollar in the period so that earnings rose sharply to 296c (242c) a linked unit. The rand denominated dividend was upped to 83,9c (69,6c) a linked unit to keep it line with the dollar sum.

Combined net pre-tax profit slipped to \$444m (\$473m) on an increase in diamond sales to \$2,54bn from \$1,79bn in 1992. The diamond account — profits from local and non-SA diamond mines and income from the group's international diamond businesses — showed a small decrease to \$373m (\$379m).

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He said operations at Venetia, unaffected by the drought in the northern Transvaal, were running smoothly, but as the build-up to full production was proceeding more slowly, the mine was operating two rather than three shifts on a seven-day-a-week basis.

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The combined interim balance sheet showed a significant reduction in diamond stocks to \$3,24bn (\$3,2bn) from \$3,77bn at year-end in December. Long- and medium-term debt was fell sharply to \$861m (\$1,35bn) from \$1,49bn.

Net current assets, including improved cash balances, stood at \$513m (\$671m) compared with \$179m at year-end.

Income from diamond sales down from \$379-m to \$373-m

De Beers turns in disappointing figures

Star 18/8/93
216

SQUEEZED diamond margins have led to a modest increase in De Beers interim earnings — with a slightly improved rand dividend.

■ BY STEPHEN CRANSTON

There was some disappointment yesterday that De Beers' earnings rose by just nine percent to US 93c a share in the six months to June

Analysts had expected a better result after the 42 percent increase in the Central Selling Organisation's (CSO) rough diamond sales for the same period to a record \$2,543 billion

Income from diamond sales, known as the diamond account, was down from \$379 million to \$373 million

Chairman Julian Ogilvie Thompson says costs increased in Botswana because production was not cut back, although deliveries were lower, in line with the reduced quota taken up by the CSO

Des Mayers, analyst at brokers O'Flaherty & Co, said the diamond account margin was squeezed even more than expected

De Beers benefited from a satisfactory retail market in the US, where restocking ensured that the rise in imports exceeded the increase in sales. There was also a shift



Outsize gem ... former chairman Harry Oppenheimer examines the 273-carat Centenary diamond held by Julian Ogilvie Thompson.

back to larger, more expensive stones

This was offset, however, by destocking in Japan, though at a lower rate, and by disappointing sales in Europe

In rand terms, the weaker currency puts a more attractive tinge on the results

The diamond account was up from R1,072 billion to R1,19 billion. Earnings per share rose 22 percent to 296c, which was at the lower end of analysts' expectations

Disappointment about earnings was offset by the maintenance

of the dividend in dollar terms, against expectations that dividend cover would be increased

The international Centenary Depositary dividend has been maintained at US 15c and the local De Beers dividend has been increased from 28c to 34c, with the total dividend rising from US 25,1c to 25,2c.

In rand terms, the dividend has been lifted from 69,6c to 83,9c

Ogilvie Thompson once again dismissed speculation that De Beers had any inten-

tion of unstapling De Beers Centenary from De Beers

Investment income, drawn almost entirely from sister companies in the Anglo stable, fell from \$139 million to \$111 million. Lower cash balances and lower interest rates pushed interest received down from \$65 million to \$33 million

Combined prospecting and research expenditure was down from \$64 million to \$33 million

Pre-tax income fell from \$473 million to \$444 million, but there was a \$50 million reduction in the tax bill, enabling attributable earnings to increase by nine percent from \$325 million to \$353 million

De Beers has published an interim balance sheet for the first time, to meet the requirements of the Companies Act. It has strengthened since year-end as the better diamond sales allowed stocks to fall by \$527 million to \$3,238 billion.

Long- and medium-term borrowings have been reduced by \$629 million to \$861 million.

Net cash reserves are up from \$94 million to \$423 million.

Mayers says diamond sales in the second half will be well below those in the first half, but will be comparable with those in the second half of last year.

He expects earnings for the full year to increase in rand terms from 372c to 500c and the final dividend to be maintained

DE BEERS/CENTENARY

Fm 20/8/93

Defensive measures paying off

(216)

In many ways, De Beers' accounts are looking far better than was thought probable only a few months ago. Cash flow has patently strengthened, liquidity has held up well and the balance sheet is looking far healthier than was once feared.

The pro forma combined income statement for De Beers Consolidated, which holds the SA interests, and De Beers Centenary, which holds the foreign activities, shows that, overall, small net interest (about US\$3m) was received in the six months to June — a far cry from the onerous interest bill some envisaged for this year.

A basically maintained dollar dividend would have been much in line with expectations, but attributable earnings up 8.1% in dollar terms and 22% in rand were probably towards the lower end of market forecasts. A lower effective tax rate played a large part in the earnings improvement.

The bottom-line recovery is all very well, but the market was hoping for rather more than the reassurance — which is certainly tacit in the latest figures — that De Beers would remain firmly in control of the diamond industry.

Expectations were raised by reports throughout the first half that sights (sales) of rough diamonds by the Central Selling Organisation (CSO) had been particularly large. When the CSO released first-half sales figures, they were better than expected, a record for any six months.

At the time De Beers again took care — as when 1992 group year-end results were published — to temper undue enthusiasm by pointing out that rough sales had been boosted by a number of factors which were exceptional and would not necessarily continue. These included the drying up of supplies of gems from Angola, a shortage of supplies from Russia which meant the CSO supplied more gems to meet demand for the Russian categories, and a resurgence of demand from the Indian cutting centres.

Given the surge in rough sales, though, some may well have been hoping for stronger evidence of recovery in the diamond margin. As ever, conversions of all the figures in these accounts are bedevilled by exchange rates. But dollar figures — the currency in which the bulk of the combined income is earned — indicate no great upswing in fundamental profitability of the diamond activities.

Combined accounts show the half-year diamond account down by \$6m, but up by R118m to R1,19bn in rand terms. The difference is only partly because of the rand's depreciation. The diamond account of De Beers Consolidated, whose results are influenced heavily by profitability of the SA diamond mines, rose from R192m to R273m

Chairman Julian Ogilvie Thompson attributes this partly to the rise in production at the new Venetia diamond mine and to the cost-cutting measures carried out at local mines, where the labour force was reduced by about 30%, with some 3 000 jobs shed. He notes that the mines responded "extremely well," and are now running slightly below budgets. There were expenses attached to these cost programmes, while the mines' profit margins would have been curbed by the 75% producer quotas instituted a year ago. By last month these had been raised to 85%.

Balance sheets, published for the first time with the interims, show combined long- and medium-term liabilities fell from the year-ago \$1,35bn to \$861m, while net current assets are also down from \$671m to \$513m. More important, is that bank deposits less overdrafts amounted to \$423m at June 30, much higher than the \$94m at December 31.

Thanks both to the quotas and the surge in rough sales, diamond stocks have not increased alarmingly. At June 30 they were valued at \$3,24bn (1992 \$3,2bn) or R10,8bn (R8,88bn). A caveat here is that these don't include all stocks held at mines. The Botswana mines, for example, are 50%-held and are not consolidated.

However, the directors, continuing their cautious theme, say these improvements to the balance sheet will not be sustained in the second half because second-half CSO sales are unlikely to match first-half sales, while deliveries of diamonds against quota to the CSO are likely to increase in the second half.

Retail sales are showing some positive

trends, but it remains unclear how far these will be extended. Demand from the US, in particular, has benefited from restocking in the trade, usually a crucial swing factor for De Beers' profits.

But Ogilvie Thompson says this restocking cannot be expected to continue at the same rate seen in the first half, if it continues at

STRAINS CONTINUE

Combined results*

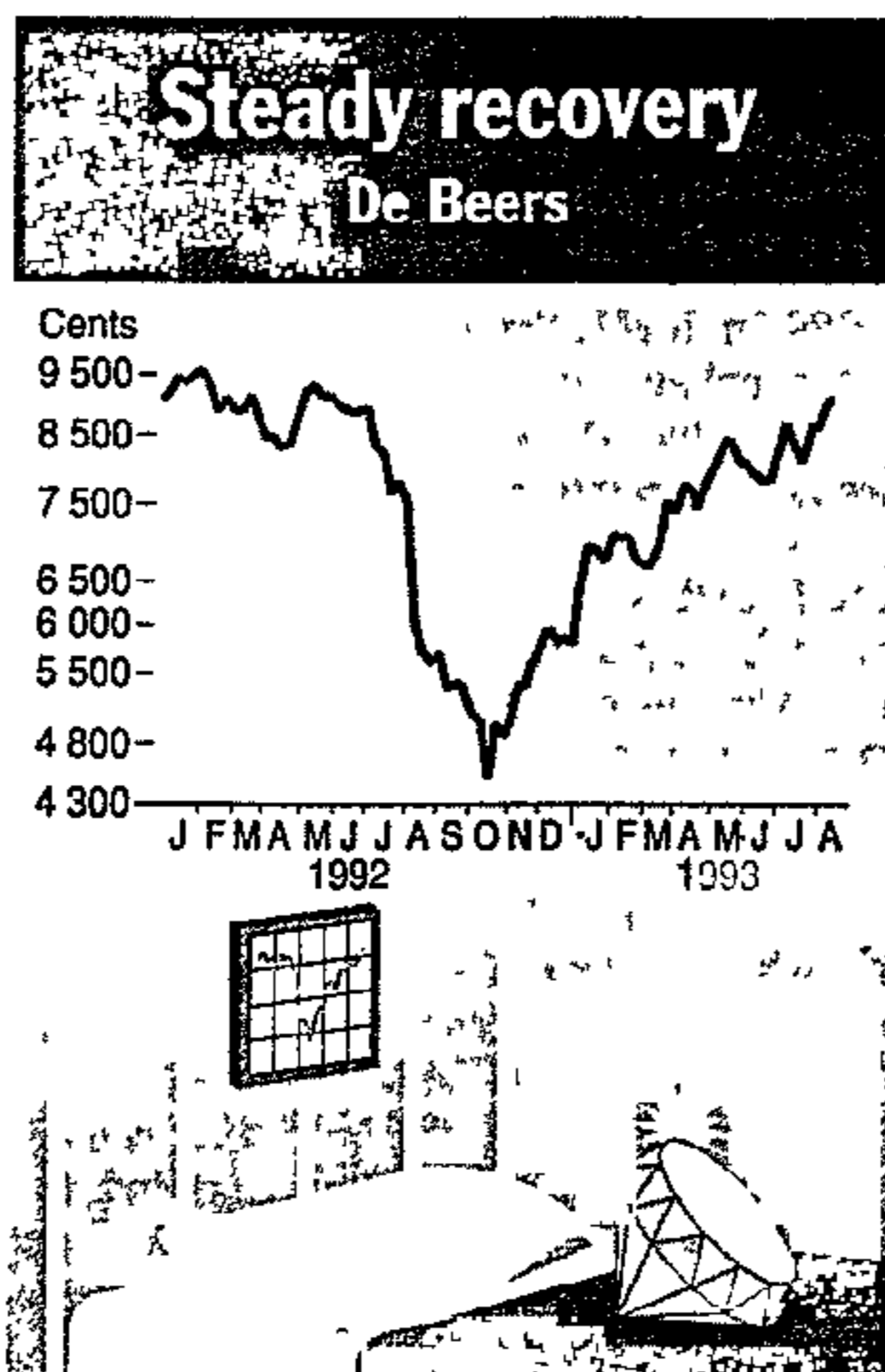
Six months to	Jun 30 '92	Dec 31 '92	Jun 30 '93
Diamond account (\$m)	379	265	373
Investment inc (\$m)	139	72	111
Net interest inc (\$m)	27	3	3
Attrib earnings (\$m)	325	166	353
Equity earnings (\$m)	453	304	482
Earnings (USc)			
— attrib	86	46	93
— equity	119	80	127
Dividend (USc) ...	25.1	54	25.2
Dividend (SAc)	69.6	172.4	83.9†

* Pro forma combined results for De Beers Consolidated and De Beers Centenary † Converted at June 30 exchange rate

all. In Japan, the destocking that hampered demand last year appears to have at least levelled out and may have ended. Otherwise, buying patterns still tend to reflect the mixed economic conditions. The trend towards buying smaller gems has continued in Japan, in the US, there has been a move towards more expensive stones.

The message from the interims is that the worst almost certainly is over. But it's also implicit in the figures, and in the directors' comments, that a full-blooded earnings recovery is not yet in sight. That will have to wait for more robust and sustained restocking in the trade, and that will need greater economic growth and confidence in the world economy. This makes it difficult to justify a share price much higher than the R90-odd now.

Andrew McNulty



IMPALA PLATINUM Fm 20/8/93 Ruined by rhodium

The annual results are sparkling at operating level, only to be severely reduced by the vagaries of the marketplace. Impala returned record production of platinum group metals. Platinum sales volumes rose 17% to a record 1,101m oz. Similarly, palladium sales reached a record 500 000 oz. Rhodium, the key metal in previous years, was held at 1992's 95 000 oz.

Despite this considerable increase in sales

De Beers' shares fully priced, says UK broker

Star 20/8/93

216

BY STEPHEN CRANSTON

De Beers is already fully priced at current levels of around R89 or \$19,50, says Vincent Tattersall of London brokers James Capel

But he says the fundamental strength of the group has justified its rerating from the low level of R44 at which it was priced last October

Tattersall says it is particularly significant that diamond stocks have been reduced by \$527 million, which was \$100 million to \$150 million more than he had forecast

He had predicted De Beers would earn 95 US cents in the first half of the year — which was just two cents ahead of the 93 cents result.

He now believes attributable earnings for the full year will increase from 127 cents to at least 160 cents.

Barry-Sergeant of Johannes-

IMPROVED cash flow is seen as a welcome feature of the diamond giant's interim results.

burg brokers Mathison & Holdge says the most welcome feature of the interim results has been the great improvement in cash flow. The diamond stockpile has fallen for the first time since 1988

From 1988 to the end of 1992 the diamond stockpile virtually doubled from just over \$2 billion to almost \$3,8 billion and cash flow fell steadily to a negative 102 cents in the 1992 financial year.

"De Beers is restoring health to its stocks and the reduced diamond stocks and reduced borrowings are of far more long-term significance than the reduced diamond margin"

Nevertheless, Steve Oke of London brokers Smith New Court says the fall in the diamond margin from 21 percent to 15 percent of CSO sales remains a mystery

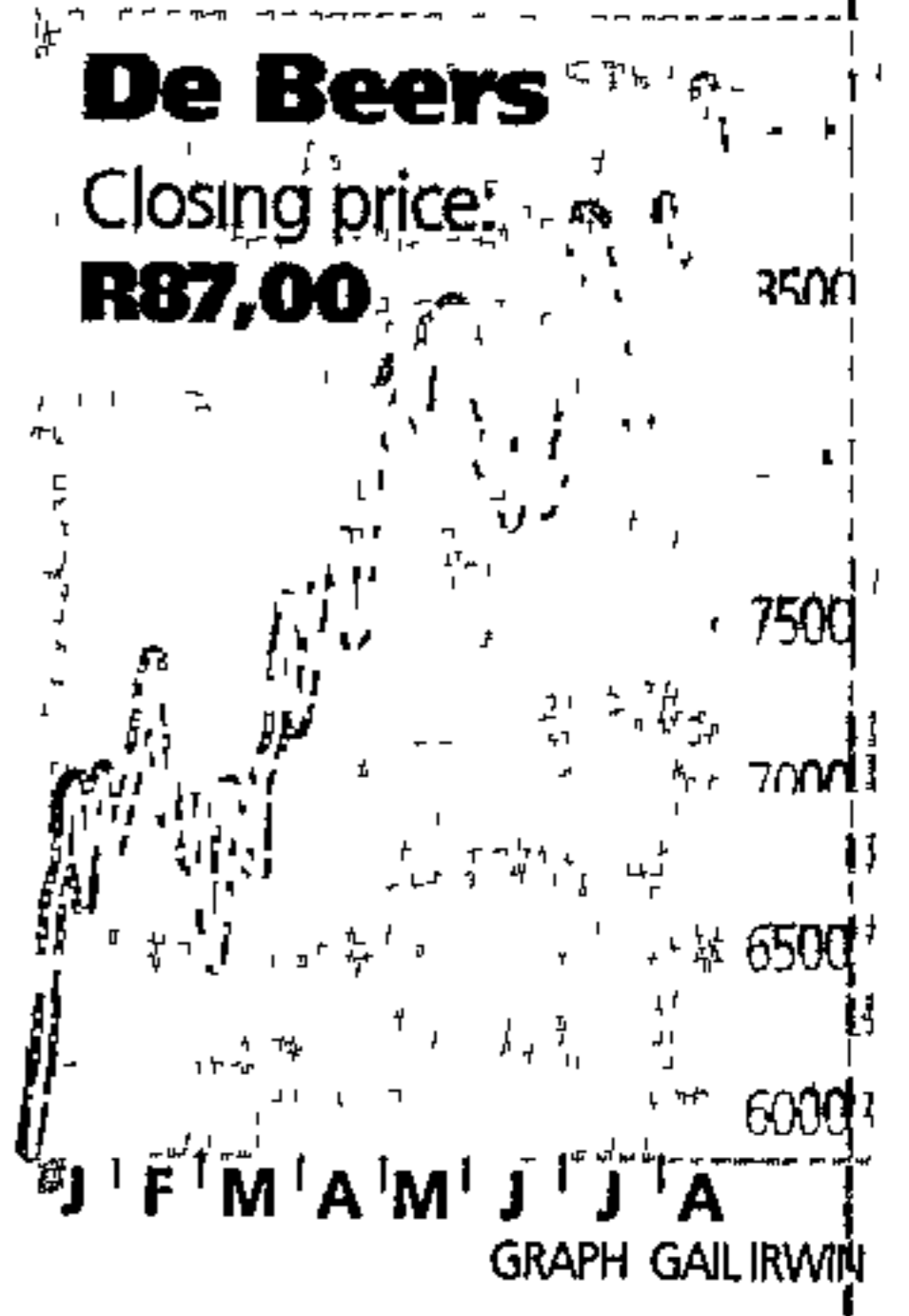
"Diamonds sold from the stockpile tend to be better margin gems, and we know that De Beers provided for the retrenchment costs in the South African mines in the last financial year

"It's hard to believe that the cost of maintaining production in the Botswana mines would have had such a significant impact on profitability"

Credibility

De Beers has restored some credibility with the investment community by ceasing to make predictions. Its over-optimistic prediction last year was one of the reasons that the share was downrated so much, Oke says

Kevin Kartun of local brokers Frankel Pollak Vinderine says



De Beers' public relations has improved as they would not have made presentations to journalists and analysts in the past.

"Behind the caution I think there's a lot of satisfaction. Chairman Julian Ogilvie Thompson seemed in a good mood on Tuesday"

Diamond mining at sea 'feasible'

(21b)
AUG 21/8/93

PROSPECTS for diamond-mining off the West Coast were once unfathomable — but new technology has cast new light

Benguela Concessions (Benco) chairman John Gurney told delegates at the Mineral Exploration 1993 conference in Cape Town that mining diamonds from the sea could be feasible

The statement was made scarcely an hour before Dr Gurney convinced Benco shareholders to approve — by an overwhelming majority — a R200-million joint venture with Australian mining conglomerate Broken Hill Proprietary

The joint venture will see Broken Hill — in exchange for 75 percent of Benco's deepwater concessions — fund the majority of work needed to explore and mine off the West Coast

Dr Gurney said technological successes in marine diamond mining were encouraging renewed interest, moving the industry from the "hit and miss" methods employed in the near-shore environment towards more conventional mining with sophisticated equipment in deeper water.

The sea could supply significant quantities of gem diamonds in the medium term. Dr Gurney said recent advances in position fix-

■ Dr John Gurney, Benco chairman, said this week that technological advances in marine diamond-mining were encouraging renewed interest.

MARC HASENFUSS, Business Staff

ing and geophysical measurements had greatly assisted the mapping of the relatively small-scale features. This allowed much to be distinguished before a diamond sampling programme was devised

"Research and experimentation have improved the sampling tools available to prove ore, and even more important, have confirmed that sea diamond mining in at least some areas of the ocean can be viable."

In spite of the technological advances in the industry, diamond mining was undertaken on or close to shore by small boats and shore-based pumps (usually a tractor fitted with an industrial hose to suck up sediment). This type of mining produced around 150 000 carats a year (South Africa 100 000 carats and Namibia 50 000 carats)

Dr Gurney said there was limited potential for

this type of operation to expand. It was also weather dependent and thus erratic

In deeper waters several medium-sized vessels used air to recover gravel to prospect for and mine diamonds in water up to 50m deep

In water deeper than 100m sophisticated mining heads and robots combined with air-gravel recovery systems mounted on large converted drilling ships were now being used by bigger operators like De Beers

He said more than 170 000 carats were produced in 1991 from deepwater concessions in Namibian waters and a further increase could be expected

■ Offshore diamond mining required special consideration, said De Beers' chief geologist Dick Foster

He cautioned that the marine diamond industry was high-cost, long-term and high-risk

Diamond deposits were remote and could not be seen, there were no public geological maps, geophysics was slow and expensive and diamond deposits, although scattered over vast areas, were patchy

Resources, such as crew on a mining vessel, could not be widely spread

Walvis Bay, islands transfer 'no threat to diamond mining'

By AUDREY D'ANGELO

THE transfer of Walvis Bay and the offshore islands to Namibia is unlikely to have any disruptive effect on Ocean Diamond Mining's operations, chairman Ivan Prinsep told shareholders at the agm yesterday.

ODM is carrying out mining operations under contract for the holder of the diamond concessions on the offshore islands, Eiland Diamante.

In a statement issued at the meeting ODM directors said both

companies "have for a long time envisaged the ultimate re-incorporation of the islands into Namibia and are confident that the mining lease held by Eiland Diamante will be honoured under the re-incorporation."

"Eiland Diamante and ODM are in contact with both the SA and Namibian governments in the matter and there would not appear to be any reason why operations should not continue under the aegis of the Namibian authorities

once reincorporation has taken place."

Prinsep, in answer to questions, said: "When Namibia became independent not one single mining lease was cancelled, to my knowledge. They respected the investment that had been made."

Stressing the value of the concessions and of ODM's own concessions, Prinsep said the marine diamonds recovered were gem stones averaging half a carat. When cut they were a quarter carat, which

was the size of the average engagement ring. *21/8/93*
"Our product is going to the top end of the High Street market."

An enormous mine in Australia produced poor quality diamonds that sold for \$9 a carat. SA was "in an astonishingly fortunate position" of having resources of high quality marine diamonds that sold for \$2 a carat. *(21/8/93)*

An indication of the potential value of the diamond resources was a decision by the Australian

conglomerate Broken Hill Proprietary (BHP) to invest \$60m in a joint venture with Benguela Concessions to develop deep water concessions adjoining those of ODM.

Prinsep said that ODM was currently sampling to prove the value of the resources in its concessions, and pinpoint areas with a high concentration of diamonds, before commercial mining started.

Proven resources would attract more investment.



De Beers bosses shy about sporting their diamonds

STIMES (BYSS)
22/8/93

NOT a single diamond twinkled on any of the big guns presenting De Beers' interim results to June. Not a tie pin, not a Mick Jagger-style diamond in the tooth, no diamond-encrusted spectacle frames, not even a ring.

Yet when I mentioned it, director Peter Gush reproved me for wearing only a modest engagement-ring stone.

After a strong recent run to a peak of R90, De Beers shed 150c to R88 on the JSE after the results.

(216)
The cash pile jumped from \$94-million in December 1992 to \$423-million at June 30, long- and medium-term liabilities fell \$629-million to \$861-million and diamond stocks were reduced by \$527-million to \$3.2-billion through good sales.

Chairman Julian Ogilvie Thompson declined to say whether a diamond-price increase was in the offing. Americans restocked in the first half and are again looking for bigger stones.

He hopes the Japanese will follow suit after destocking for a long time.

Supply of illicit stones from Angola and

Zaire was far below last year's levels, but Russian polished was back in evidence.

After last year's drama when De Beers was accused of overbullishness and later had to cut the dividend, the board is taking no chances. The interim comments are laced with caution about the second half-year; improvements to the balance sheet are not expected to be maintained, Central Selling Organisation (CSO) sales are unlikely to match the first half's and deliveries of diamonds against quota will rise.

Producers' delivery entitlements were cut by a quarter last year, but returned to 85% in July.

A lower tax bill allowed De Beers to show attributable earnings of \$353-million, 9% up on the position at June 30, 1992. Income from the diamond, investment and interest accounts fell by an aggregate 6% to \$444-million.

The total dividend a linked unit was higher at 25.2 US cents.

● On Wednesday, De Beers will have been listed for exactly 100 years on the JSE.

COMPANIES

OCEAN DIAMOND MINING
Fm 27/8/93
Looking for the Big One

Ocean Diamond Mining (ODM) attempts to make a living sucking diamonds from the Atlantic sea bed, in that, it has been singularly unsuccessful — it has returned operating losses in the last four years (216)

However, it would be a mistake to base an investment judgment on that criterion in isolation. ODM's business rests on the proven premise that, millions of years ago, during the Cretaceous era, diamonds laid down in kimberlites in the continental interior, moved to what is now the ocean. On the way, the fabulous deposit at De Beers's mine at Oranjemund was created, the land-based proof of the riches guarded now by the Atlantic.

Three decades ago, Texan entrepreneur and wild man Sam Collins decided he could

FINANCIAL MAIL • AUGUST • 27 • 1993 • 113

colls →

Fm 27/8/93
Activities: Marine diamond mining and exploration

Control: Ellerman Holdings 20,4%, Barings Nominees 17,5%.

Chairman: I R M Prinsep, MD A C Low

Capital structure: 20,6m ords Market capitalisation R41,2m

Share market: Price 200c 12-month high, 230c, low, 100c Trading volume last quarter, 337 000 shares

Year to March 31	'90	'91	'92	'93
Turnover (Rm)	4,9	0,01	0,7	4,4
Profit (loss) (Rm)	(0,5)	(1,3)	(0,002)	(0,271)
Capital employed (Rm)	1,1	(330)	5,6	12,9
Net worth (c)	n/a	n/a	27	42

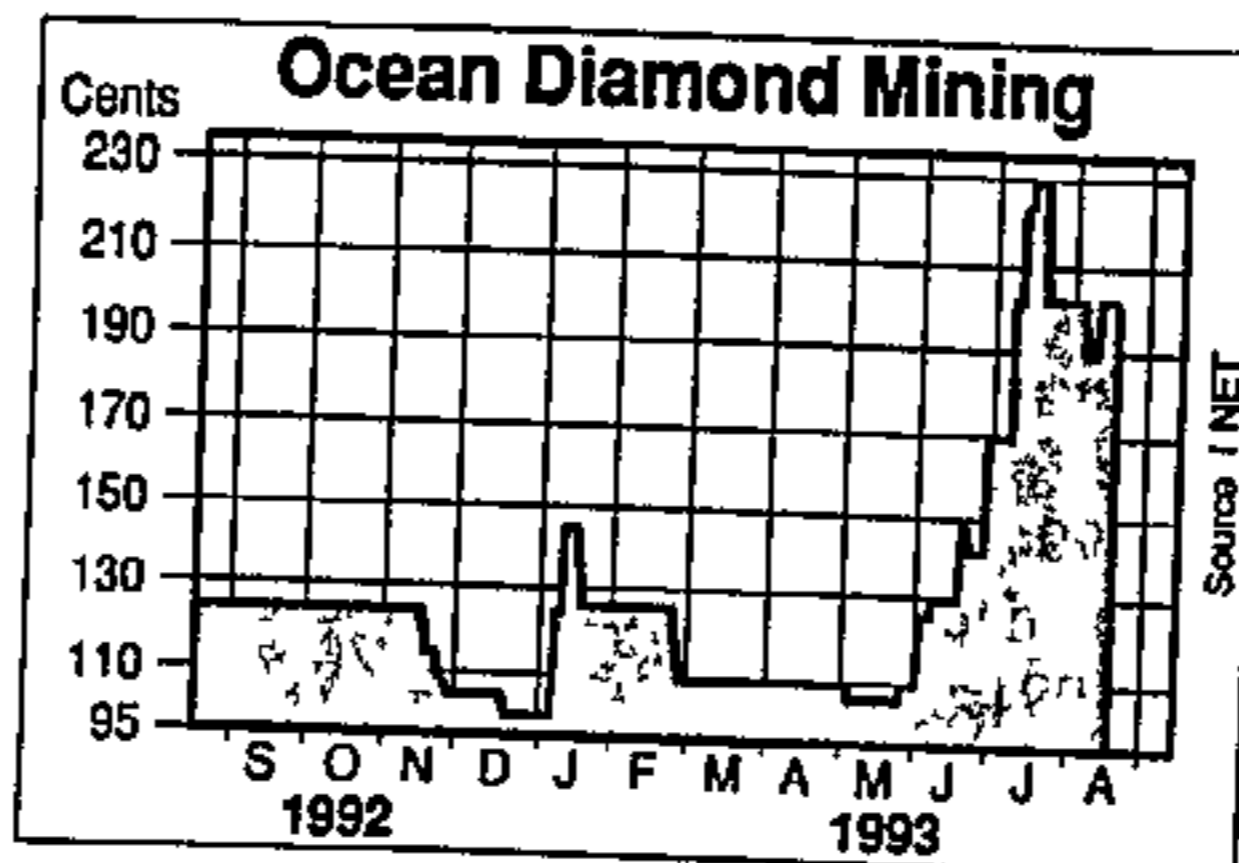
† Pro forma figs from pre-listing statement
 * 15-month period

with a 33% holding in activities which may turn out to be highly satisfactory for investors who went along for the ride

ODM's small operating loss for 1993 and its involvement in marine diamond mining through the purchase of its own vessel are matters which are no doubt important for management but will have little impact on investors and the share price. What counts here is the Big One; getting involved with BHP is definitely a move in that direction.

David Gleason

engineer the process of sucking diamonds from the ocean floor. That caused an awful botheration for De Beers, anxious to protect its mineral rights, and an even greater bother when he showed the concept could be made, after a fashion, to work. Now, 30 or so years later, the underlying engineering principles have been refined to the point where De Beers's marine operations grow monthly in importance. By the end of the century, when Oranjemund's been exhausted, diamond mining will still be going on, all of it in those rich waters.



The concept and process have spawned a shoal of companies, all attempting to emulate the success of the giant. The essential prerequisite is to obtain prospecting leases in and around areas of known diamond deposits. ODM has been reasonably successful at this: it holds three concession areas (6C, 14C and 7B) in the sea stretching from Alexander Bay to just north of Lamberts Bay, and island concessions off Luderitz. For curious investors, concessions are divided into the "A" zone (1 km from the high-water mark), "B" zone (the next 4 km) and "C" zone (deep water).

ODM has sold 49,9% of its interest in areas 6C and 14C to Benguela Concessions (Benco) for R3,375m and given Benco an option to buy another 17%. It is these concessions which constitute the core of Australian international mining group Broken Hill (BHP)'s joint venture arrangement with Benco and in which BHP has undertaken to invest US\$60m.

It is this kind of activity which makes ODM so interesting: the potential for profits on a large scale is clear and exciting. Even assuming Benco exercises its option to take up a greater interest, it will still leave ODM

COMPANIES

De Beers' Venetia posts 30% earnings rise

DE BEERS' R1,1bn diamond mine Venetia posted a 30% rise in earnings for its last financial year, though the performance was down on previous expectations

The mine, potentially the largest in SA, made around R72m (R56m) before capex for the 12 months to December, according to newly released figures.

Earnings at the mine had been expected to surge, following its formal opening in August last year

But analysts said the figures underlined the decision by De Beers to slow Venetia's production after the deterioration last year in diamond sales.

Venetia produced 1,87-million carats in the four months to December, and De Beers has already warned that the mine will not reach its optimal capacity of 5,9-million carats targeted for the end of this year

Despite the size of the Venetia

ANDY DUFFY

operation, De Beers has kept a blanket of secrecy over the mine's performance and prospective out-turn for 1993. On Friday the company was unable to confirm Venetia's earnings had been R72m *B/day*

The figures emerged only after the Anglovaal-owned Middle Witwatersrand (Midwits) reported its year-end results last week. The mining, exploration and investment company owns 65% of Saturn Mining and Exploration, which is entitled to 12,5% of Venetia's royalties *30/8/93*

Midwits said the dividend from Saturn's Venetia stake had increased to just R9m (R7m). Under the agreement with De Beers, Saturn's stake in the royalties will move up to 50% once Venetia recoups its capital expenditure

A senior Anglovaal source said it expected earnings from Venetia to

increase this year, but that De Beers had given no indication about the time scale for Venetia recovering its capex. "We don't get any more information than is printed in the press," the source added

Last year's poor market conditions forced De Beers' marketing arm, the Central Selling Organisation, to put forward deferred purchase clauses in its quota agreements with mine suppliers, including Venetia. The move came into force one month after Venetia opened.

The stabilisation in the market since then has allowed De Beers to relax the quota twice. It now stands at 85% *(216)*

Though De Beers said Venetia's production was accelerating, the mine is still operating two rather than three shifts, seven days a week. A spokesman said moving to three shifts would depend on a further relaxation in the CSO's quota

TRANS HEX
Fm 3/9/93
Another record year

Activities: Diamond mining and marketing, some industrial minerals (216)

Control: Rembrandt Group — 50%

Chairman and MD: F Hoffman

Capital structure: 15,1m ords Market capitalisation. R340m

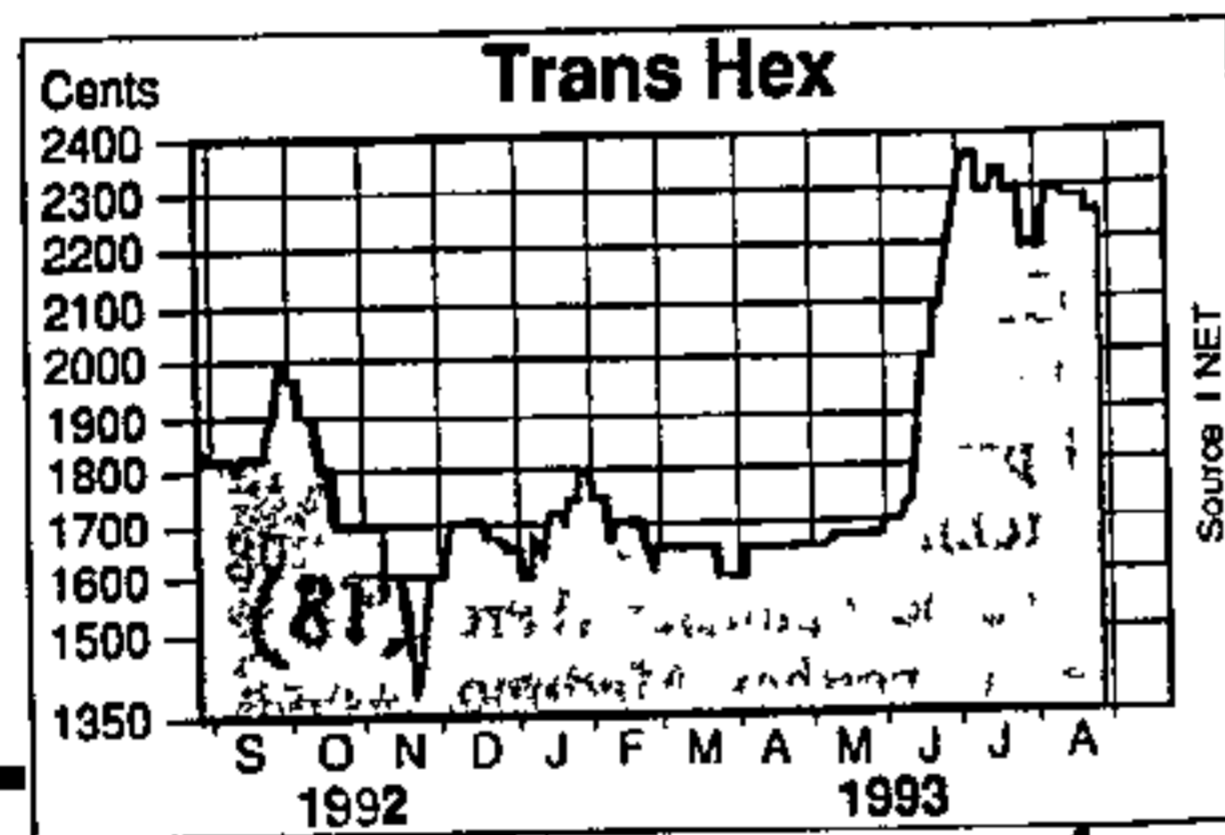
Share market: Price 2 250c Yields 2,8% on dividend, 9,2% on earnings, p e ratio, 10,8, cover, 3,2 12-month high, 2 350c, low, 1 400c Trading volume last quarter, 198 000 shares.

Year to March 31	'90	'91	'92	'93
Shareholders int (Rm)	74,7	93,9	116,5	142,3
Return on cap (%)	28	24	18,5	17,1
Earnings (c)	147,9	157,8	186,3	207,6
Dividends (c)	46	51	59	64
Tangible NAV (c)	496	623	766	944

This company is characterised by consistency, an unusual quality but even more unexpected in mining Trans Hex produced another excellent return and another record for what must be satisfied shareholders

Net pre-tax income rose 8% to R66,4m and, after bringing to account the reduction in deferred tax provisions (R4,2m) arising from the lower corporate tax rate, attributable profit was R35,5m EPS, at 207,6c, were 11% up on 1992, also a record year

Chairman and MD Francois Hoffman devotes much time in his annual statement to the performance of the industrial minerals division, an agglomeration of products which finds ready acceptance in the building and construction industry It is really a small part of Trans Hex's business, contributing only 10,5% of taxed profit last year



Cont →

COMPANIES

Fm 3/9/93

The company is involved mainly in diamond production and marketing In 1992, this contributed R63m pre-tax (95%), however, lease payable to the State and tax took R32,4m (51,4%) The diamond division's taxed profit increased 16% to R29,5m

Hoffman says no new diamond discoveries have been made in SA for many years (though I assume he's excluding Venetia, admittedly found more than 10 years ago) and grass roots exploration is costly and now offers limited success With those presumptions, Trans Hex is concentrating its efforts on what Hoffman calls "re-evaluation of local occurrences with proven historical capabilities" (216)

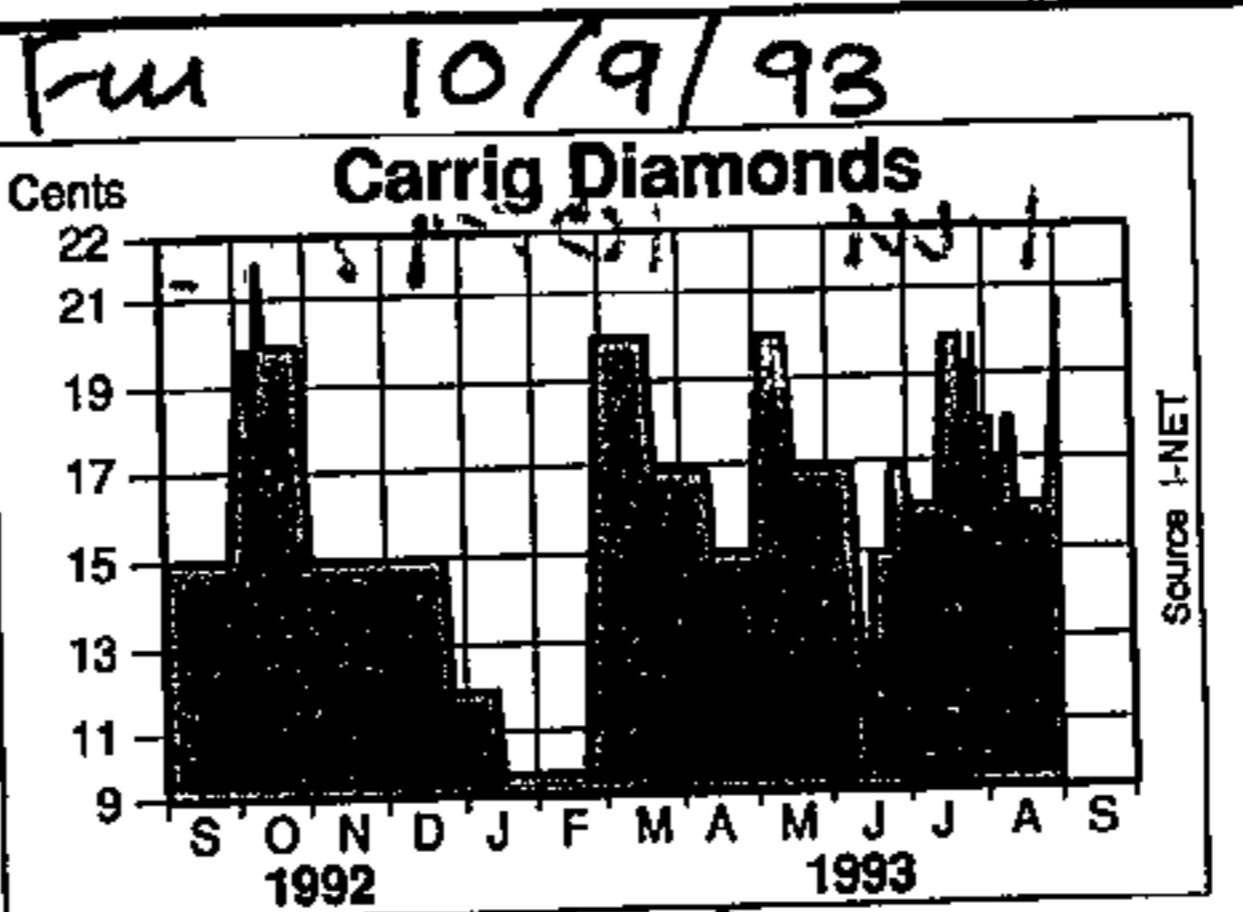
So the company's exploration targets are largely in and around areas it is already mining That is certainly true of its principal mine, the Baken/Sanddrif operation on the banks of the Orange River in the Richtersveld It is a sizeable operation which involves moving 7 Mt of overburden a year and treating 1,86 Mt of ore through the metallurgical plant

The group's open pit mine at Dvokolwako in Swaziland has given endless trouble Trans Hex has a 50% participation in this mine, which faced power disruptions in 1991 This year, the mine has revealed marginal grades compounded by acute difficulties in treating clay-rich ores Hoffman says that if a recent improvement in price continues and if costs can be contained, it might be possible to achieve marginal profitability It sounds like a big if The mine's chances of being closed this year must be rather better than good

The next year appears to hold more of the same for Trans Hex. It produces mostly gem diamonds of good quality and size These find a ready acceptance in SA and abroad Hoffman says no constraints in moving the product were experienced over 1993

The counter is trading near its 12-month high of R23,50 but good results ensure it isn't on a demanding p e Even so, and considering the company has no new developments on its drawing boards, this is a stock to hold rather than buy

David Gleason



CARRIG Fm 10/9/93
Merging with Rex (216)

Activities: Diamond mining and marketing
Control: Consolidated Mining through Egoli
Chairman: N D Lowenthal
Capital structure: 20,1m ords Market capitalisation R3m
Share market: Price 15c 12-month high, 20c, low, 10c Trading volume last quarter, 116 000 shares

Year to March 31	'90	'91	'92	'93
Turnover (Rm)	6,8	8,7	7,3	3,7
Operating inc (Rm)	1,0	(2,0)	(2,2)	(0,9)
Attributable inc (Rm)	1,0	(1,9)	0,6	(0,9)
ST debt (Rm)	—	—	4,1	5,6
LT debt (Rm)	2,0	2,0	2,0	2,0
Earnings (c)	5,5	(10,2)	(10,8)	(4,7)
Dividends (c)	2,0	—	—	—
Tangible NAV (c)	56,5	45,4	48,5	43,8

It is the only company in the Consolidated Mining (CMC) group that isn't making a positive contribution, says Carrig Diamonds chairman and CMC director Norman Lowenthal. At least it's been consistent. Carrig has returned a loss for each of the past three years.

On that basis, it's small wonder CMC's directors decided they had to do something to stem the haemorrhaging that's why it was announced last week that Carrig and Rex Mining, also listed in the diamond sector, were to merge their interests. The deal comes six weeks after shareholders were first warned of negotiations in a cautionary

Following a series of complicated transactions, Carrig's mining assets and operations will be vested in Rex, Carrig will become Rex's holding company with 82% of Rex's issued equity, and both companies will continue to be listed on the JSE's diamond board.

However, CMC loses control of Carrig in this process. The company's major share-

(216)

holder will be Peter Shaff, now chairman and CE of Rex. CMC's equity holding will reduce to a modest 19%. In another arrangement, the loan which Carrig is carrying from CMC of R6,2m will be held as convertible debentures repayable in 1999, the CDs carry no coupon but will qualify to share in any dividends *pari passu* with ords.

Lowenthal says the intention will be to rationalise the combined mining operations, and to press ahead with exploration activities which he hopes will yield exploitable diamond deposits. That sits diametrically contrary to the position adopted by Trans Hex (*Companies* September 3), whose board believes there's nothing to be gained from any further diamond exploration in SA.

The notice to shareholders is decidedly bearish. It doesn't foresee the benefits from rationalisations seeping through before the 1995 financial year. That is supported by the estimate that the effect of the deal on the two companies over financial 1993 would have been to turn Rex's profits into a loss, and to turn Carrig's losses into near-breakeven. Those are sobering figures, they illustrate clearly that a long haul lies ahead for those investors who choose to stay with their holdings.

Given the control positions in both companies, it is reasonable to presume shareholders meetings will approve the proposals, so there's little point in recounting Carrig's dismal 1993. The best I can do is reach for a hankie, and hope the merger will produce champagne results a few years down the line.

David Gleason

Venetia mines a R250m profit

MATTHEW CURTIN

VENETIA, De Beers' new diamond mine in the northern Transvaal, made R250m pre-tax profit in the half-year to June 30, according to market estimates based on figures released yesterday with results from investment company Industrial and Commercial Holdings (ICH)

ICH turned in a sharp improvement in attributable earnings in the year ended June 30 to R351 000 (R222 000) equivalent to 2,54c (1,6c) a share. The company declared a 2c dividend after a nil pay-out the previous year. *Business 10/9/93*

More importantly, a company spokesman said since year-end, ICH received R2,0625m in dividends from its 12,5% investment in Saturn Mining, Prospecting and Development.

Saturn was entitled to royalty income from Venetia equivalent to half the mine's pre-tax profit after the recoupment of its capital costs, but only 12,5% before. *(216)*

The dividend payment showed Saturn's after-tax profit stood at R16,5m, approximately equivalent to R31m before tax and equal to the 12,5% Venetia royalty, implying the diamond mine made pre-tax profit of nearly R250m. The ICH spokesman said the company would distribute an interim dividend for the 1993/4 financial year worth 15c a share to absorb the Venetia royalty.

In the year in review, Saturn received only a R604 750 dividend from Venetia, the subsequent increase reflecting the mine's steady build-up to full production, albeit slowed by implementation of reduced Central Selling Organisation quotas

Blow to De Beers' synthetic diamonds

DE BEERS Industrial Diamond Division (Debid) has undertaken a wide-ranging restructuring exercise to counter the impact of sliding worldwide demand for its synthetic diamond output 16/9/93

In the biggest blow so far, the company yesterday announced the loss of 106 jobs at its manufacturing plant in Shannon, Ireland. The plant employs 800 workers. (216)

Industry sources said the value of trade would fall to \$500m-\$550m this year, from \$600m in 1991, at a time when the sector was becoming increasingly competitive.

De Beers shared 90% of the business with the abrasive products division of US group General Electric, but output was growing from EC, Japanese and South Ko-

MATTHEW CURTIN

rean producers. Most industrial diamonds were manufactured although there was an increasing supply of natural stones from diamond mines worldwide.

Consumption — for a wide range of tools — had held up in the '80s, but the recession in Europe and Japan, and only slow recovery in the US, was denting demand.

Public affairs director Brian Cullingworth said operations in SA, Britain, Sweden and Ireland had been under review and "corrective measures" were being taken.

Management would try to make up the job cuts at Shannon by offering early retirement and voluntary retrenchments.

Deep-sea gem mining company has option

Business Staff

(216) ARG 18/19/93

OCEAN Diamond Mining (ODM) has entered into an option agreement with Tenmohs Diamonds, which holds a prospecting permit over Sea Diamond Area 9b off the Namaqualand coast

The agreement will see ODM manage an exploration programme in the prospecting area over three years, during which ODM has an option to acquire 49,5 percent of Tenmohs for R2,5 million.

The group has a second option to buy out the remainder of Tenmohs for another R2,5 million

ODM managing director Andre Louw said the agreement was exciting for the group as the accompanying prospecting area had already produced significant amounts of diamonds.

He stressed that no exploration or survey work had yet been done in this area.

Mr Louw said the agreement would not affect ODM's results in the year ahead, but that longer-term benefits for the group could be significant

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Anamint earnings 20% ahead

JOHANNESBURG. — Anamint, Anglo American's diamond investment subsidiary, posted earnings 20% up for the six months to September, as the company exploited the first half turnaround in the diamond market

Attributable income from its stake in De Beers and unlisted components of the Central Selling Organisation jumped from R73,2m to R88,5m, as De Beers' record first half sales fed through to higher receipts

Anamint's interim dividend was pushed up by the same margin, to 87c But in line with earlier statements

from De Beers, Anamint warned that the improvement in diamond sales was unlikely to be sustained in the second half of the year

Dividend receipts from the De Beers holding rose from R69,4m to R83,8m, but income from the unlisted investments dropped back slightly

Interest income after administration expenses rose by R1m to R1,3m

Higher attributable earnings, combined with retained earnings up more than a quarter at R326,1m, pushed equity accounted earnings to R414,6m (R333,8m)

CT8/10/93

Anamint first-half earnings rise 20%

By Day 8/10/93

ANDY DUFFY

ANAMINT, Anglo American's diamond investment subsidiary, posted earnings ahead more than a fifth for the six months to September, as the company exploited the first half turnaround in the diamond market.

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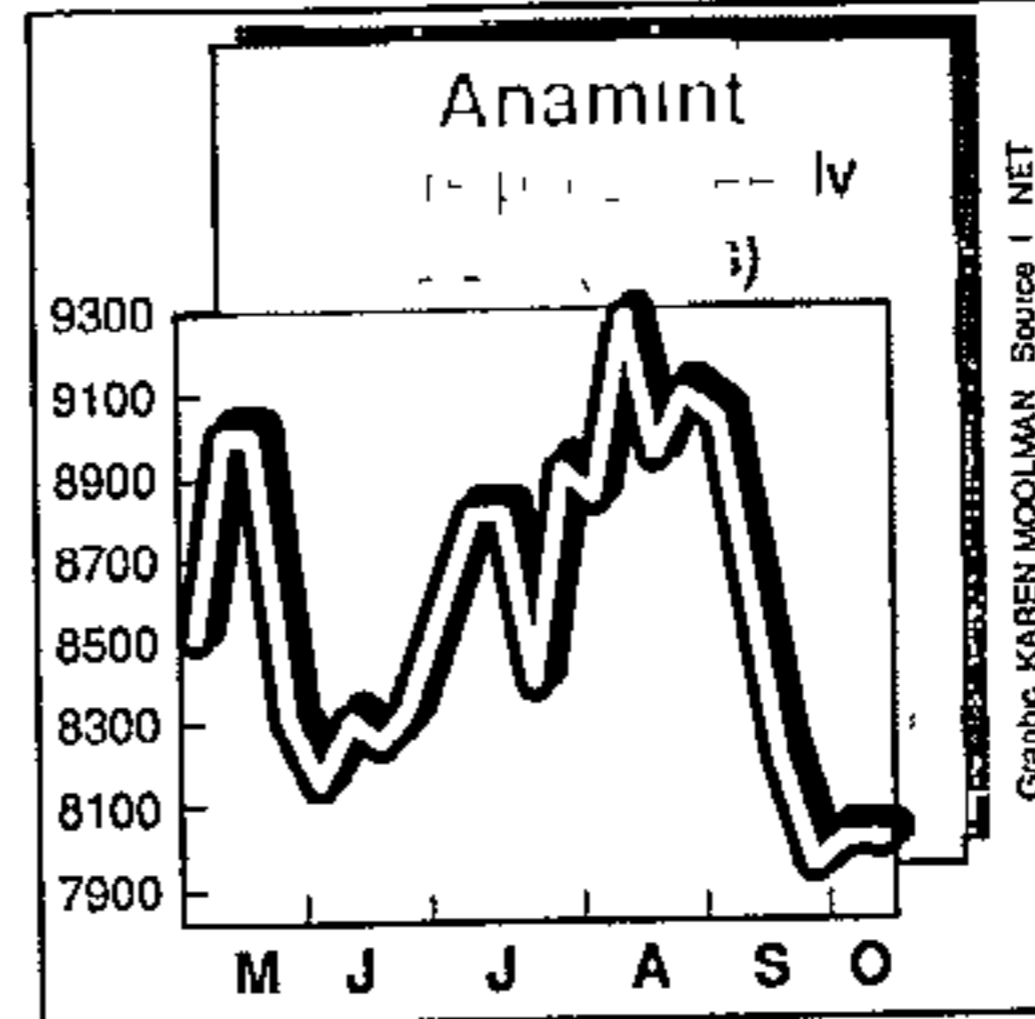
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Interest income after administration expenses rose by R1m to R1,3m.

Higher attributable earnings, combined with retained earnings up more than a quarter at R326,1m, pushed equity accounted earnings to R474,6m (R333,8m).



A combination of disrupted supply from Russia and Angola, and higher demand from the US and India had led to CSO sales leaping 42% to \$2,5bn year on year in the first half. The CSO has also relaxed its purchasing quotas.

Despite the prospect of a higher payout following De Beers' results, shares in Anamint have performed sluggishly on the market. They were fixed at R80 yesterday, against a year high of R95 in August.

Market watchers believe there is little reason to hold the share, when investors can buy directly into De Beers.

(216)

Sea mining firm 'in good health'

MARC HASENFUSS
Business Staff

216 ARG 9/10/93

SEA diamond miners Benguela Concessions — who recently tied up a joint venture agreement with Australian mining giant Broken Hill Propriety (BHP) — needed to focus on operating profitably with a smaller fleet in the year ahead, chairman Dr John Gurney said in his annual review

He said the change in operating environment — from an almost exclusively shallow water activity to the limits of a sustainable diver-based operation (25-30m depth) using three steel-hulled vessels — had taxed Benco's management

"This results in high operating costs from these larger vessels which demand an efficient crew and diving team, as well as target-directed diamond recovery operation to ensure profitability."

He said profitability was only achieved by the Ocean Stroom, but good progress was being made in turning the other two vessels, the Ocean Dolphin and the Western Jupiter, into profit centres

However, Dr Gurney stressed the group was in good health and well positioned to progress towards a viable mining programme

"The outlook for 1993/94 is considerably better — all exploration expenses will be met by BHP"

Dr Gurney said the fleet reduction, staff cuts and other cost-cutting measures introduced in the second half of the last financial year would significantly reduce operating expenses and leave a small profit at bottom line

He pointed to recent developments in sea diamond mining in Namibia by De Beers Marine which indicated that substantial quantities of diamonds could be profitably recovered using remotely controlled mining heads — provided that suitable ore reserves had been located

"We are poised to embark on such a search and can, if successful advance to a mining phase through the BHP/Benco joint venture"

Benco has concentrated its exploration efforts on comprehensive geophysical surveys in sea mining concessions 6c, 13c and 14c as part of the BHP/Benco joint venture.

■ Benco's shares have quietly drifted down to 55c on the Johannesburg Stock Exchange with shareholders seemingly immune to the fact that the tie up with BHP adds considerable muscle to the group's prospects.

De Beers Cuts Back on 100 Diamond Research Staffers

JOHANNESBURG — De Beers has retrenched nearly a quarter of its diamond research staff in Johannesburg because of falling demand for its industrial diamonds.

The company's industrial diamond division said at the weekend that more than 100 of its 432 laboratory staff in south Johannesburg would be retrenched in the wide-ranging cost-cutting effort.

The cuts, which will be made across the board, come less than a month after De Beers axed 106 staff at its diamond manufacturing plant in Shannon, Ireland.

A spokesman said the losses followed the collapse in demand from industrialised nations for industrial diamonds. He said the value of the market had fallen from \$600m in 1991 to \$480m this year.

The situation had been compounded by the growth of new competition from the Far East and Europe. Though De Beers had managed to main-

tain its 40.45% share of the market, prices and margins had come under severe pressure.

"If you're going to compete, then you have to streamline cutting staff," the spokesman added.

The industrial division had also trimmed staff at its head office and in the UK, leaving its total workforce at around 2,300.

Market sources believe much of the rationalisation stems from the appointment of MD James Campbell, who joined the company from Ancoel

in March.

The spokesman said the division had started an attrition exercise late last year, but that the process proved too slow in cutting costs. He said that further retrenchments were expected for the rest of the group, which would attempt to make some of the cuts through early retirement of voluntary staff.

A spokesman for the rest of the group, which said there had been no further cuts last year, cut 4,000 posts in southern Africa — a quarter of its staff.

He said that the proportion of the cuts through attrition was expected to be higher than in the past.

The spokesman said that the proportion of the cuts through attrition was expected to be higher than in the past.

CT 11/10/93 (216)

De Beers no longer a 24-carat 'saviour'

(216)

ARC 16/10/93

Weekend Argus Correspondent

KIMBERLEY — In the present economic climate Kimberley could no longer look to De Beers as the "fairy god-mother who, when all else fails, will come charging to the rescue."

This was said by Nicky Oppenheimer, only son of Harry Oppenheimer and chairman of Anglo American Corporation and De Beers Consolidated Mines, who was the guest speaker at 113th annual meeting of the Chamber of Business

Mr. Oppenheimer said De Beers was a mining company and the one weakness of mining companies was the resource they mined was not infinite

"Every diamond that De Beers mines in Kimberley means there is one diamond fewer to be mined.

"In a sense, Kimberley has been luckier than many other mining towns — the mines here have been active for more than 100 years and if costs can be cut and efficiency increased, there is a chance that it will be possible to keep them operating into the next century."

Mr. Oppenheimer said the dumps would continue for some time after the mines had ceased operating only if the demand for smaller diamonds could be sustained in the face of rising supply throughout the world.

"Once again Kimberley and the diamond industry are faced with problems

"These include, on the diamond side, flow from the slowdown in the world economies, and even De Beers cannot exert influence there

"Quotas have also been applied to all producers selling through the Central Selling Organisation for the last year and these cutbacks in sales have had to be met, by the Kimberley mines cutting back their production"

By MAGGIE ROWLEY
Deputy Business Editor

MARINE diamond mining and explorations company, Benguela Concessions (Benco) should be in a position to drill its first holes for sampling diamond ore reserves early next year, MD explorations, Dr Stuart Smith told the AGM yesterday.

Smith said improved facilities as a result of BHP Minerals International Exploration agreeing to providing exploration and development capital, management and expertise using remote controlled mining heads in their concession areas should speed up their current sampling programme.

The joint venture, confirmed unanimously at a shareholders' meeting in August and recently approved by the government, provides for a two-stage

Benco to sample reserves 'next year'

programme

As a result of the joint venture, the core business of the company is being shifted from exploration, development and the recovery of diamonds from the concessions to a directed plain aimed at commercial scale mining.

BHP had given them a two-year period in which to complete the sampling and feasibility study.

Step one is to prove viable ore reserves by selecting and sampling target areas.

Their new sampling tool ought to get 100% recovery

and was capable of destroying boulders to get to the gravel deposits and cutting trenches of 2.8m by 1.2m into the bedrock. This will involve expenditure of about \$20m.

Depending on the results and the outcome of the feasibility report, BHP will then decide on whether it will proceed to stage two which would require a further \$45m investment to acquire a 75% interest in the company's concessions and the acquisition of a mining vessel.

A 3500t vessel with advanced capabilities was

being considered for this

Chairman John Gurney said the outlook for the current year to end June 1994 was considerably better than the previous year when it reported a consolidated net loss of R3,3m.

Besides all exploration expenses to be met by BHP, the fleet reduction, staff cuts and other economies introduced in the second half of the past financial year would significantly reduce operating expenses. A small profit for the current year was

expected. Gurney said they were currently in litigation with the Namibian Mineral Corporation (NMC) which is suing Benco for alleged breach of contract.

He reassured earlier claims that no agreement had been entered into between the two companies and no damages have been incurred, as claimed by NMC.

The case, he said, was due to go to court in April next year. "It is a pain in the neck as there is a process called discovery which requires that we put everything in document form on the table which is taking up a lot of management time and expense."

"However we are confident that we did not have an agreement," he said.



Debid lays off staff in Ireland

DEBID, De Beers's industrial diamond division, is to reduce the workforce at its manufacturing and processing plant in Ireland by 90 staff to try to pull down costs in response to tight market conditions.

The move — which was accompanied by a 10% wage reduction at the Shannon plant — came just weeks after the division axed 106 staff at the factory and more than a quarter of its 432 laboratory staff in south Johannesburg. *B Day*

Debid MD James Campbell said the job losses were vital to protect the company against a market that could be more than a year from recovery. *12/11/93*

The losses left the Irish workforce nearly 30% down on the number of staff earlier this year.

Campbell said Debid would review the Irish activities in 12 months.

He believed more cuts would not be needed provided the market did not deteriorate any further.

There would be no salary cuts in the SA operations, he said, and additional job

ANDY DUFFY

losses in Johannesburg were not expected.

However, Campbell said this depended on there being "no further shocks"

"We think we're at the bottom of a new level of stabilisation," Campbell said.

"We have responded to market conditions by getting ourselves in shape. We're now going to have to get our act together to survive," he said

The losses were prompted by a sharp decline in demand for industrial diamonds which had cut the value of the market by about a fifth to R480m since 1991.

The impact was worsened by the growth of new competition from the Far East and Europe, which had sliced into De Beers's margins, he said. *(216)*

Campbell said that even when the market did recover, it was unlikely to show the 20-25% growth sustained in the 10 years to 1991 "We have to get ourselves more streamlined for the rigours of the next decade," he said.

De Beers axes more jobs in Ireland

216

12/11/93

SHANNON, Ireland — SA diamond giant De Beers has announced the second set of redundancies in the past seven weeks at its plant at Shannon, County Clare, in the Irish Republic.

In addition to seeking 90 job losses, on top of 120 jobs shed in September, the company said it was imposing a 10% wage cut as part of a worldwide bid to maintain competitiveness in the face of the international recession.

The move means De Beers will have got rid of more than 200 of its 700-strong workforce in Ireland this year.

De Beers hopes Yuletide sales will boost industry

BIDAY 19/11/93

MATTHEW CURTIN

DE BEERS is waiting for signs of strong Christmas jewellery sales to sustain this year's recovery of the diamond trade into 1994 after rough diamond sales tailed off in recent months in line with the diamond producer's forecast in the mid-year.

Market sources yesterday said further recovery in De Beers' share price would depend on how good Yuletide sales were in the group's main markets, Japan, the US and EC.

The stock fell 75c to R83,25 yesterday. Analysts said November's diamond sight — the penultimate meeting of the 10 De Beers holds each year at which it sells rough diamonds to appointed dealers — showed estimated sales of about \$260m to \$270m, with a similar figure expected for the last sight next month.

De Beers announced the appointment of its first Chinese sightholder at a news conference in Shanghai on Wednesday.

Central Selling Organisation (CSO) president Anthony Oppenheimer said the appointment of China National Pearl Diamond and Jewellery Import & Export Corp confirmed "China's status as a member of the community of diamond nations".

De Beers has upped contacts with China, increasing advertising spending after a seven-year programme aimed at cultivating a diamond jewellery buying tradition, and carrying out prospecting and research of the local diamond industry.

Closer ties with China follow the new entry or return of De Beers into a number of African countries, most recently Ghana. (216)

An analyst said De Beers was working hard to secure control over as much diamond production as possible ahead of the spurt in diamond output expected from Canada in the late '90s to preserve the CSO's de facto monopoly of the diamond trade.

Analysts said the November and

December sights were normally below-average, as dealers stocked up well before Christmas. The CSO, De Beers' distribution and marketing wing, was in line for total 1993 sales of \$4,1bn to \$4,2bn after record first half revenue of \$2,5bn.

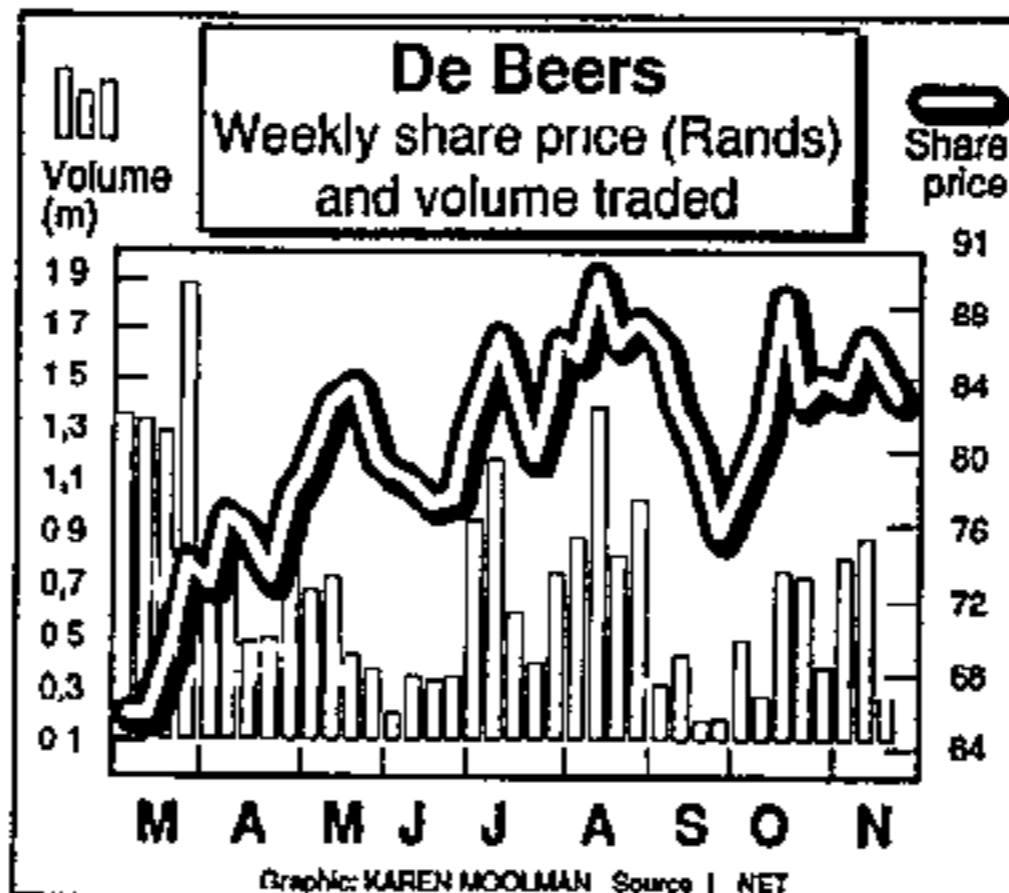
Last year's sales stood at \$3,4bn.

G O'Flaherty analyst Des Mayers said with no sign of recovery in the all-important Japanese market, the CSO was dependent on the slow but steady improvement in consumer spending in the US to buoy overall retail demand.

Good US Christmas sales would require diamond cutters to restock early next year and could help the CSO record solid sales in 1994 of as much as \$4bn, warning that it was too early to gauge next year's performance accurately.

Mayers said De Beers shares were fairly priced at R83. The recovery in the stock from R73 in February entirely reflected its holding in Anglo American, whose shareprice had surged to R159,50 in line with the rally in gold prices.

De Beers shares were unlikely to move sharply up or down until new information about the health of the diamond trade emerged early next year, he said.



De Beers looks at global ^(21b) opportunities

Own Correspondent

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Closer ties with China follow the new entry or return of De Beers into a number of African countries, most recently Ghana.

Hefty tax break boosts Trans Hex bottom line

MARC HASENFUSS
Business Staff

TRANS Hex put in a polished performance in the half year to end September by lifting net income 12 percent to R19 million — thanks mainly to a hefty cut in the tax bill

But profits for the Parow-based diamond and mining group were somewhat flawed at pre-tax level

Squeezed margins and a marked increase in the interest bill transformed a 5 percent hike in turnover to R110,6 million into a slight 1,6 percent drop in pre-tax profits to R36 million in the period under review

However, the R2 million drop in the tax bill and (to a lesser extent) the reduction of the net deficit retained by associate companies to a meagre R15 000 bolstered bottom line

Earnings a share came in at 125,3c (previously 111,7c) from which a 30c dividend was declared to shareholders. The payout was covered 2,4 times

Directors pointed out that group income does not accrue evenly throughout the year and the interim profits were not necessarily half the full year's income

In their divisional review, di-

rectors said all production units, barring the Orange River projects, were functioning according to plan

They said operating results to date from the Orange River projects had resulted in a revision of long term planning

This would provide for increasing earth moving requirements to maintain an acceptable balance between exploration, mine development and mining

Production will be maintained at current levels which may have the effect that earnings from this division will grow at a lower rate than in the past years

In addition, Trans Hex's diamond division is currently assessing pre-Karoo diamond bearing paleo-river occurrences and searching for kimberlites in Zimbabwe

In the interim period, the group's industrial minerals division secured an agreement with Hong Kong-based Arcouris Asia Americas to market Tylon tile adhesives and grout in the East

Directors said the construction of a plant to manufacture part of the product range in Guandong province — on the Chinese mainland — was still in the planning stage

However they cautioned that these extensions would not have a

significant effect on the earnings of the industrial minerals division in the short term

Group capital expenditure for the interim period amounted to R12,4 million — considerably less than the R19 million spent in the corresponding period last year

Mine development and exploration costs were also markedly lower at R924 000 (previously R2,9 million). These costs were capitalised provisionally during the period under review

Group policy makes for the capitalisation of mine development and exploration costs when a viable mine is proved. These amounts are written off over the life of the mine

Merhold Investment Corporation increased its interest in Logtek from 18 percent to 31 percent by acquiring the holdings of Old Mutual and the Krok family

Merhold will fund the buying of its increased stake with the issue of new Merhold shares in the ratio of 275:100

Merhold chairman Chris Seabrooke said Logtek was uniquely positioned to provide integrated logistic support services to government agencies and business — but was prevented from doing so internationally until sanctions were lifted

(216) ARCE 23/11/93

Russian gem sales worry De Beers

CT30 11/93 (216)

ANTWERP. Sales by De Beers hit a record in 1993, showing a rise of 20% from 1992, dealers and market analysts said yesterday.

But recent signs of a sharp rise in exports of rough stones from Russia could deflate optimism stemming from forecasts of buoyant Christmas sales in the key US market, they said.

"The market was recovering and now there is unease over what may happen," said Dilip Mehta, president of dealers Rosy Blue.

Antwerp dealer said they were con-

cerned at a sudden surge in supplies of rough stones channelled through Western joint-venture manufacturing operations in Russia.

"We saw Russian stones coming out in the spring but then there was a vast amount of restocking going on and nobody really noticed. This time the market is thin," one dealer said.

The Wall Street Journal yesterday quoted first deputy prime minister Yegor Gaidar as saying his government would sell diamonds to pay the deferred wages of coal miners.

British market analysts expect total 1993 sightings (SAES) of rough diamonds by De Beers' Central Selling Organisation (CSO) in London of \$4.1bn to \$4.25bn, compared with 1992's \$3.42bn and a record \$4.17bn in 1991 and 1988.

"The market is still very sensitive, the US looks good, everything else is flat and Japan appears particularly bad," said Michael Coulson, analyst at brokers Credit Lyonnais Laing.

He said a 42% rise in CSO sales to \$2.54bn in the first half of the year

stemmed from replenishing depleted stocks but that meant a significant transfer of CSO stocks to wholesalers. He predicted lower De Beers sales in 1994.

● Meanwhile De Beers Centenary AG said it has reached agreement with the government of Ghana on the development of the Birim River diamond reserves.

The deal, which also includes Lazare Kaplan International and Ghana Consolidated Diamonds, provides for the establishment of a bulk sampling plant

BIDAY 30/11/93
**De Beers 'could
hit record sales'**

ANTWERP. — De Beers could hit a record this year, showing a rise of 20% from 1992, dealers and market analysts said yesterday.

But recent signs of a sharp rise in exports of rough stones from Russia could deflate optimism stemming from forecasts of buoyant Christmas sales in the key US market, they said

"The market was recovering and now there is a dip over what may happen," said Samp Mehta, president of dealers Rosy Blue NV.

Antwerp dealers said they were concerned at a sudden surge in supplies of rough stones channelled through Western joint-venture manufacturing operations in Russia

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Antwerp dealers feared that a wave of Russian sales could disturb the equilibrium that had been restored to the rough market by a sharp cutback in CSO sales since September. Rough diamond prices fell about 10% between July and early October as Indian dealers dumped stocks

If Russian exports continued at the current rate, this could upset rumoured plans by De Beers for heavy sales early in the New Year, the dealers said. — Sapa-Reuter.

Anglo's soar worries analysts

B/Day 9/12/93

MATTHEW CURTIN

THE relentless upward movement in Anglo American's share price, catching associate De Beers in its wake, defied market fundamentals, analysts said yesterday.

De Beers, expected to notch up record rough diamond sales in 1993, climbed 400c to hit R93,50 yesterday for the first time since the mid-'92 crash in the diamond market. Anglo reached a new high of R178 after putting on R10 in good trade.

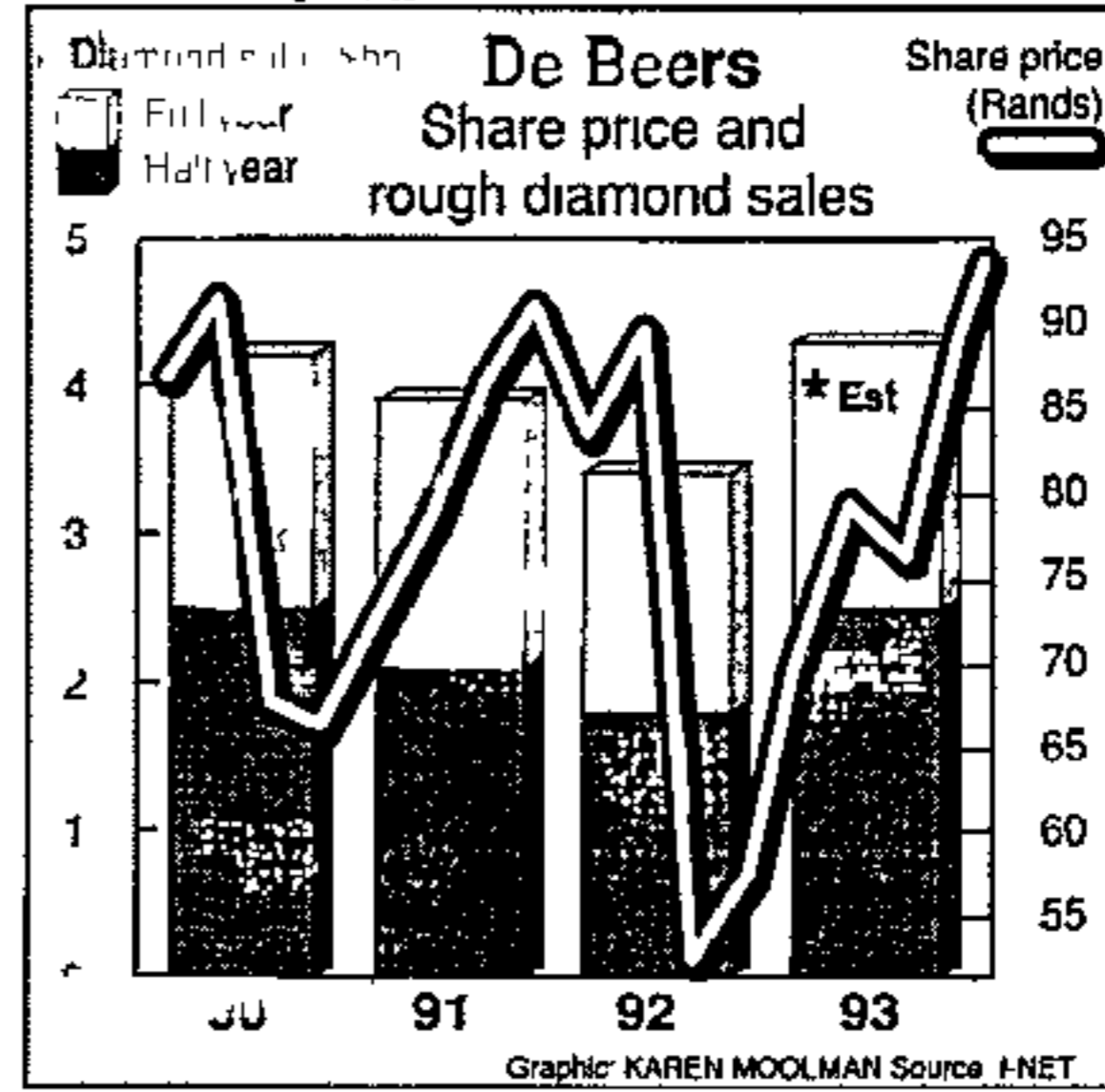
Frankel, Pollak, Vinderine analyst Peter Davey said Anglo's share price "defies fundamentals" and De Beers's was "in dangerous territory" (216)

Despite talk of US interest, conclusive evidence that the shares were being driven higher by American fund managers was lacking.

Senekal Mouton Kitshoff analyst Hilton Ashton said: "Anglo is simply a highly tradeable SA counter with the best exposure to the whole economy."

Anglo had good exposure to gold mining and a range of industrial operations. De Beers remained the most liquid blue chip stock and investors could be attracted by its Anglo stake.

"However, renewed impetus in retail



diamond sales at Christmas will be vital to justify the recent increase in De Beers's share price," Ashton said. "Otherwise, diamonds already in stock and cutting centres and retail outlets would curb demand for new stones in 1994."

Despite weak second half rough diamond sales, the Central Selling Organisation is likely to report yearly sales in excess of US\$4,1bn. Sales peaked in 1988 when they reached \$4,17bn, and stood at \$3,4bn last year.

CSO sales shoot to glittering new high

BIDAY 2112193

MARCIA KLEIN

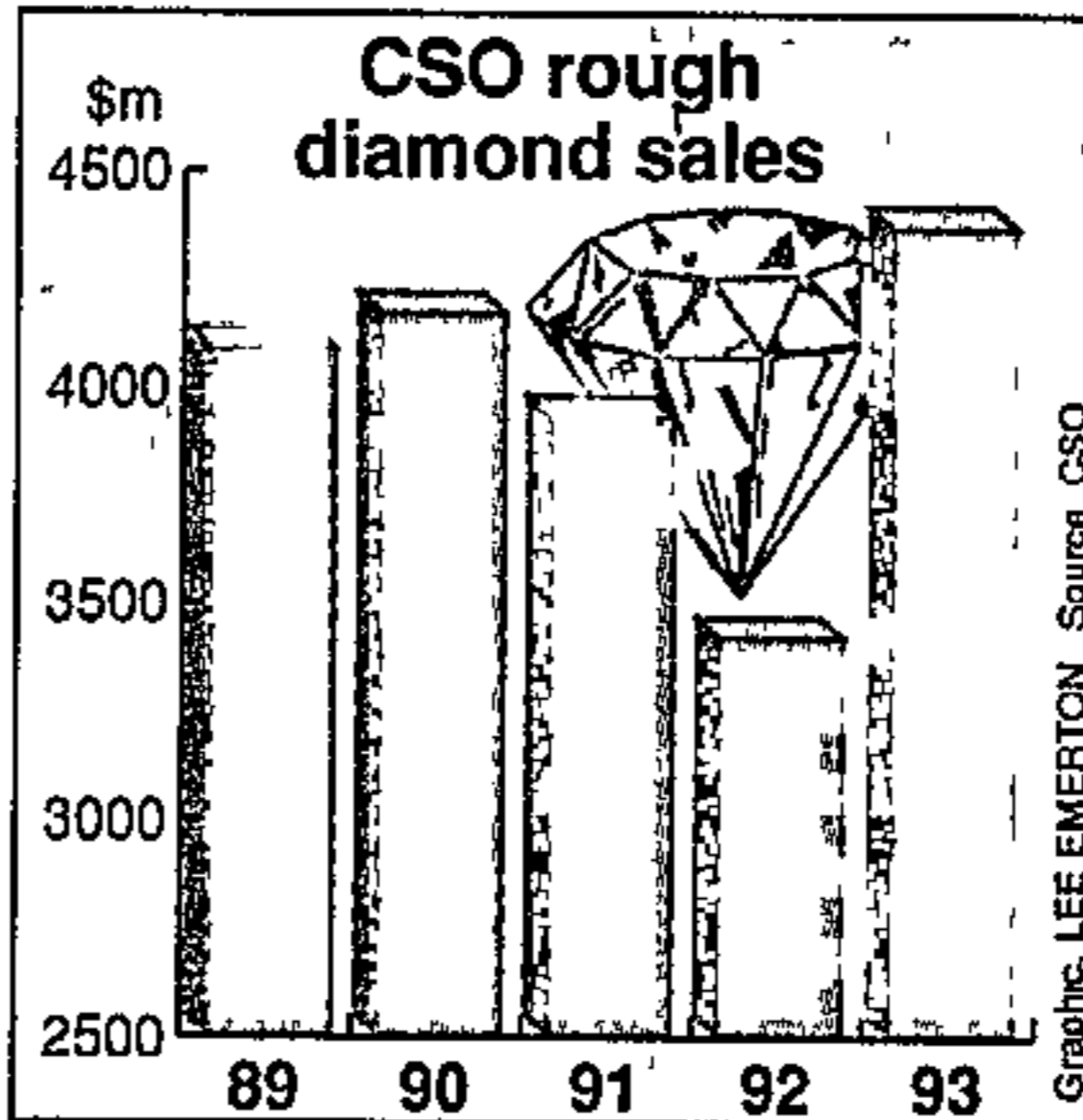
DE BEERS' marketing arm, the Central Selling Organisation (CSO), has reported record full-year rough diamond sales of \$4,37bn (R14,8bn) largely because of a strong first-half performance.

The sales, which were slightly better than market expectations, were 28% higher than last year's \$3,42bn and 5% higher than the previous record annual sales of \$4,17bn in 1988. (21b)

The increase reflected a 42% rise to \$2,54bn in first-half sales and a 12% increase to \$1,82bn in second-half sales. De Beers said the first-half rise was largely due to trade restocking, mainly in the US, following reduced sales in late 1992

In the full year, the two main growth areas continued to be the US and East Asia, while European demand remained generally weak. Retail diamond jewellery sales had held up well.

The CSO raised rough diamond prices 1,5% in February and this "affected categories of rough diamonds above three quarters of a carat where demand was



strongest" An analyst said there was talk of a price increase next year.

De Beers said the rough market appeared "satisfactory", but there were signs of oversupply in the lower and cheaper quality range due to sales from Russian and US stockpiles previously set aside for industrial and technical use

□ To Page 2

CSO

BIDAY 2112193

□ From Page 1

Depending on Christmas season sales, the CSO expected this year's world retail sales of diamond jewellery to be marginally higher than 1992's \$41bn. Prospects for the CSO's rough gem sales would depend on continuing improvement in the world economy, De Beers said (21b)

Analysts said it would be difficult for the CSO to show any significant increase in sales next year, particularly off the high

base of the first half.

Fergusson Bros director William Bowler said full-year sales were a bit better than market expectations. The major issue was profitability on those sales, which would be known only when De Beers announced results for the year to end-December. In the first half, a large percentage of sales were in low margin goods. But the Indian trade was overstocked, so second-half sales should yield a higher margin.

CSO sparkle returns to the diamond market

ET 2/12/93 (216)

By **AUDREY D'ANGELO**
Business Editor

SALES of rough diamonds through the De Beers Central Selling Organisation (CSO) shot up by 28% in 1993 to a record \$4.3bn after falling in 1991 and 1992.

Sales totalled \$3.4bn last year and \$3.9bn in 1991 compared with \$4.1bn in 1990.

Sales of \$1.8bn in the second half of the year were 12% higher than in the same period last year. They followed a very strong first half when sales rose by 42% to \$2.5bn.

A statement issued by De Beers explained that the sharp increase in first-half sales was due to re-stocking by the trade, particularly in the US, following reduced sales to the market by the CSO in the second half of 1992.

The CSO is still keeping tight control over supply. Producers' delivery quotas are currently 85% of the 1990 figure. They were increased from 80% in July and from 75% in May.

The CSO statement said that although the general rough diamond market appeared satisfactory, there were some signs of oversupply in the lower and cheaper quality range.

"The market balance for these categories has been affected by the sale of rough diamonds from Russian and US stockpiles previously set aside for industrial and technical use.

"Retail and diamond jewellery sales have held up well given a weak global economy. In 1992, world diamond jewellery sales were estimated to have been 55m pieces worth \$41bn of which the US and Japan accounted for nearly 60%.

"In 1993, the two main growth areas continued to be the US and East Asia, while Europe remained generally weak. Japanese trade remains cautious because of the economic situation.

"Depending on sales during the important Christmas season, world retail sales of diamond jewellery in 1993 are expected to be marginally higher than in 1992, in US dollar terms.

"The prospects for rough gem sales will be determined ultimately by the continuing improvement of the world economic situation."

Syffrets mining analyst Peter Major said yesterday. "The reason sales have risen so far is because they fell down so far last year.

"De Beers is a very cyclical share and if you look at it over the past 30 years you see it rising and falling like a wave. It was a hard fall last year, so everyone knew it would come back by at least 15% this year. But it has come back much more strongly than anyone expected."

Major pointed out that CSO sales last year had been helped by the troubles in Angola and Russia. Both those countries had previously sold diamonds in competition with the CSO.

There had also been pent-up demand

because, following disappointing interim results last year, De Beers had slowed the supply of diamonds to the market. This had caused jewellers and cutters to run down their inventories.

Major said diamonds were also cheap in US dollar and yen terms compared with their price a few years ago, making it more attractive to buy them.

Discussing the current De Beers share price, Major said it was already discounting improved diamond sales. "De Beers earnings are still way below what they were in 1990 yet the share price has already returned to the level it was at three years ago."

However, Major said, SA shares were still offering good value to US investors. The price/earnings ratio of shares in the Dow Jones index was 45 to 1 "so we are only half as expensive as New York."

A spokesman for De Beers admitted that the absence of diamonds from Angola "accounted for a considerable portion" of the rise in CSO sales.

"Diamonds from Angola swamped the market last year. This year they slowed to a trickle."

Production in Russia had fallen by 25% in the past year.

Boland Bank economist Francois Jansen pointed out that the higher diamond sales had helped SA's trade surplus. "Exports of precious and semi-precious stones were 48% higher in the first 11 months of this year than in the same period in 1992."

CSO record puts sparkle back in diamond market

Business Staff

JOHANNESBURG. — Sales of rough diamonds through the Central Selling Organisation (CSO) in 1993 reached a record \$4.4 billion — well above market expectations

The turnover was 5 percent higher than the previous record of \$4.2 billion achieved in 1988.

Analysts were expecting second-half 1993 sales to be more or less in line with those of the second six months of 1992

In the event, the figure rose by 12 percent, which statistic, added to unusually buoyant first-half sales, combined to generate an all-time record.

The performance should be seen against the background of a recessionary world economy, though it should be noted that sales of rough diamonds in the first six months of 1993 (42 percent higher than in the same period of 1992) were largely the result of trade restocking, particularly in the United States

Upon release of the figures yesterday, De Beers shares firmed by some 200c to R105,75c, following relatively strong gains over the past few days

In May 1990, De Beers hit a peak of R110.

A CSO statement notes "The CSO raised rough prices by 1.5 percent in February 1993 and this affected categories of rough diamonds above three-quarters of a carat where demand was strongest

"Producers' delivery entitlements are currently at 85 percent, having been increased from 80 percent in July 1993 and from 75 percent in May 1993"

The CSO labels the general rough diamond market as "satisfactory", but

detects signs of oversupply in the lower and cheaper quality range of rough diamonds

"The market balance for these categories has been affected by the sale of rough diamonds from Russian and US stockpiles, previously set aside for industrial and technical use"

Retail diamond jewellery sales held up well, given the weakness in the global economy

The CSO discloses that 1992 world diamond jewellery sales are estimated to have been 55 million pieces, worth \$41 billion, of which the US and Japan accounted for nearly 60 percent

In 1993, the two main growth areas continued to be the US and East Asia

Europe remained weak. In Japan, because of the strong yen, retail sales, while down in the local currency, were ahead in dollar terms

"Depending on sales at the important Christmas season, world retail sales of diamond jewellery in 1993 are expected to be marginally higher than in 1992, expressed in dollars

"The prospects for rough gem sales by the CSO will be determined ultimately by the continuing improvement of the world economic situation"

Des Mayers, analyst at stockbroking firm G O'Flaherty, is looking for 1994 sales of around \$4 billion, but warns of the many wild cards in the industry that could upset any such prediction

"Russian sales are an unknown quantity, while supplies from Angola are extremely difficult to forecast

"And we can't be sure that the US economic recovery will be sustained"

Market expectations left far behind.

CSO sales at record \$4,4 bn

Star 21/2/93

SIGNS of oversupply seen in the lower and cheaper quality range of rough diamonds

BY JOHN SPIRA

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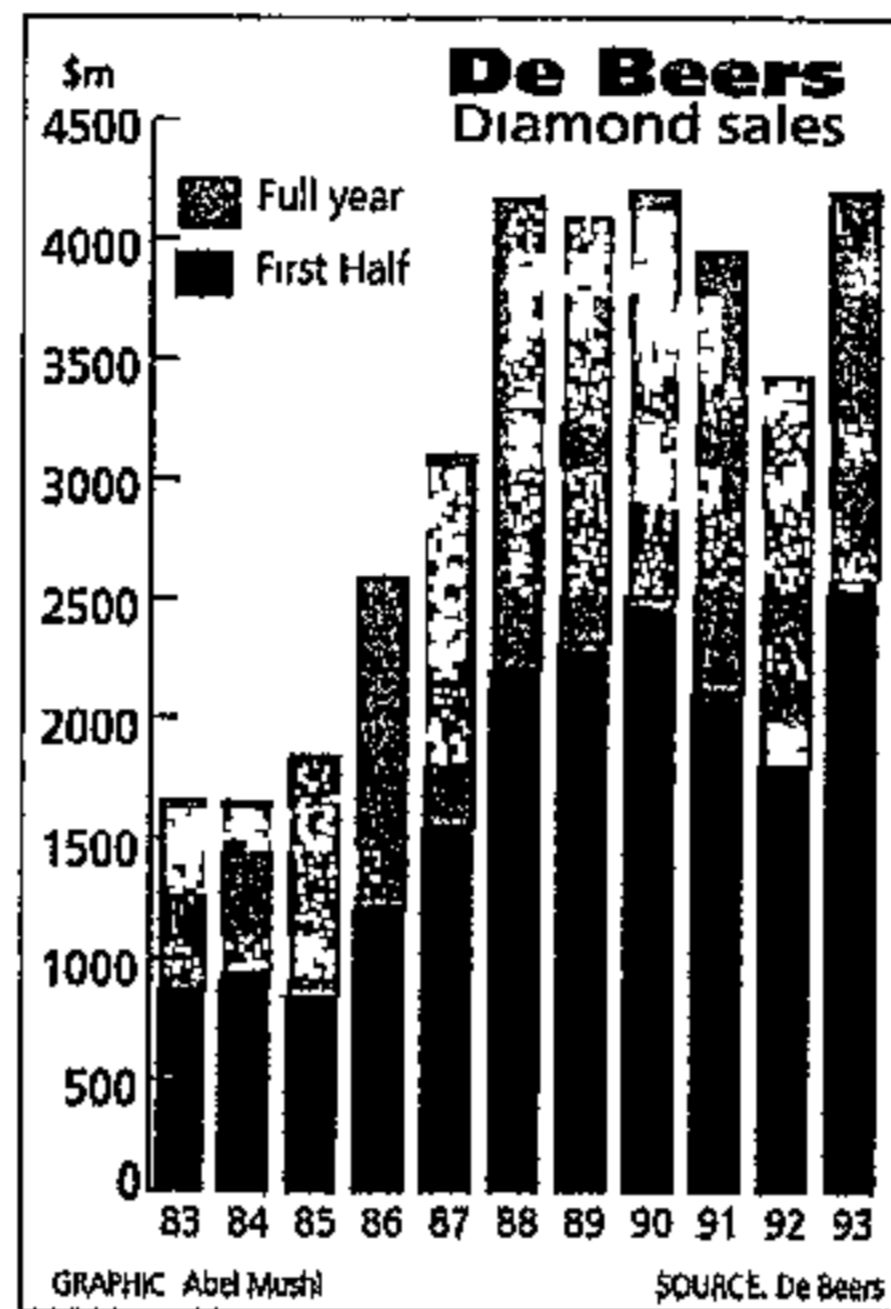
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gories of rough diamonds above three-quarters of a carat where demand was strongest

"Producers' delivery entitlements are currently at 85 percent, having been increased from 80 percent in July 1993 and from 75 percent in May 1993"

The CSO labels the general rough diamond market as "satisfactory", but detects signs of oversupply in the lower and cheaper quality range of rough diamonds

"The market balance for these categories has been affected by the sale of rough diamonds from Russian and US stockpiles, previously set aside for industrial and technical use"

Retail diamond jewellery sales held up well, given the weakness in the global economy

The CSO discloses that 1992 world diamond jewellery sales are estimated to have been 55 million pieces, worth \$41 billion, of which the US and Japan accounted for nearly 60 percent

In 1993, the two main

growth areas continued to be the US and East Asia.

Europe remained weak. In Japan, because of the strong yen, retail sales, while down in the local currency, were ahead in dollar terms.

"Depending on sales at the important Christmas season, world retail sales of diamond jewellery in 1993 are expected to be marginally higher than in 1992, expressed in dollars

"The prospects for rough gem sales by the CSO will be determined ultimately by the continuing improvement of the world economic situation"

Des Mayers, analyst at stockbroking firm G O'Flaherty, is looking for 1994 sales of around \$4 billion, but warns of the many wild cards in the industry that could upset any such prediction

Fortnight 216

"Russian sales are an unknown quantity, while supplies from Angola are extremely difficult to forecast

"And we can't be sure that the US economic recovery will be sustained

"Crucial to next year's performance will be the level of Christmas sales in the fortnight ahead. As was the case a year ago, the US offtake will be vital"

Mayers points out that some R70 of the De Beers share price is accounted for by Anglo American.

"De Beers has been riding on the strong Anglo price rise since February

"I see Anglo as being fully valued, with the R30 or so diamond component of the De Beers share price fairly valued."

Russian diamond sales hurt De Beers

Monday 22/12/93

EDWARD WEST

DE BEERS fell sharply on the JSE yesterday on US profit-taking and reports that uncut industrial diamonds were being sold by Russia in breach of the agreement with the Central Selling Organisation (CSO).

The share fell 4,7% or 500c to R100. Dealers said US investors, who were the driving force behind the share's peak of R106,50 last week, were taking profits.

De Beers, which controls 80% of the world's rough uncut diamond market, detected the influx of diamonds on open markets in Antwerp and Tel Aviv some months ago, a De Beers spokesman said.

The CSO has five-year exclusive rights to sell 95% of Russia's diamond production in terms of an agreement reached after Russia rejoined the diamond cartel in 1990.

The spokesman said that although the diamonds sold outside the agreement had had a negligible effect on the market, volumes were of sufficient quantity to raise concern if the sales continued (216)

"It is difficult to say why it is happening or who is doing it, but the volumes involved are enough to cause nervousness." Negoti-

ations were under way with Russian authorities to stop the sales.

The UK Financial Times reported that Russia had "leaked" between \$40m and \$80m of diamonds to the West in the past few weeks. It said Moscow, desperate for hard currency, was selling uncut diamonds from its treasury stockpile directly to dealers. The stones were outside the marketing deal because at the time they were stockpiled they were classified as non-gems for industrial and technical use.

The CSO this week reported a record \$4,355bn rough diamond sales for the year, 28% higher than in 1992 and 5% higher than the previous record in 1988.

Dealers said the record CSO sales had been discounted already in the De Beers' share price and sales in the first half of 1994 were unlikely to reach the levels achieved in the first half of 1993.

The fall in De Beers' share price pulled down associate Anglo American, which slipped 1,5% or 300c to R194,50c.

Fm 24/12/93

Still doubts about momentum

Sales of rough diamonds by the Central Selling Organisation (CSO) for 1993 have reached an all-time high, but analysts remain worried about the overall state of the diamond market and the lofty De Beers share price

Second-half sales of US\$1,823bn (1992 second half — \$1,63bn) make this the third-best result for the second six halves on record. When combined with record first-half sales of \$2,543bn, they add up to total sales of \$4,366bn, which is 5% up on the previous best of \$4,172bn set in 1988.

The results are marginally better than analysts expected. James Picton, consultant to Anderson Wilson, was looking for \$4,25bn, while Des Mayers of G O'Flaherty had recently increased his estimate to \$4,3bn from \$4,2bn.

The statement from the CSO gives no explanation for the better-than-expected second-half sales, which are 12% up on the last half of 1992 despite the cautionary note sounded by the group in August. At that stage most analysts felt second-half sales would be largely unchanged from 1992's \$1,63bn, which indicated total sales for 1993 of around \$4,17bn.

The CSO comments: "The increase in first-half sales took place as a result of trade restocking, particularly in the US, following reduced sales to the market by the CSO in the latter part of 1992. First-half sales were also affected by a number of other, mainly short-term, factors."

"Though the general rough market appears satisfactory, there are some signs of oversupply in the lower and cheaper quality range of rough diamonds. The market balance for these categories has been affected by the sale of rough diamonds from Russian and US stockpiles, previously set aside for industrial and technical use."

The CSO statement concludes prospects for rough gem sales will be determined ultimately by the continuing improvement of the

(216)
world economic situation

Though latest sales figures were ahead of forecasts, there is scepticism that the momentum will be maintained. Fergusson Bros director William Bowler says "Sales in the first quarter of 1993 were particularly strong and I do not believe these levels will be repeated in the first quarter of next year. That will leave a deficit to be made up later in the year if De Beers hopes to repeat 1993 sales volumes."

Mayers emphasises that the outlook hinges on the US economy continuing its growth trend and the rest of the world starting to show some improvement next year. "If that does not happen then next year's sales could fall back to around \$4bn," he says.

Picton comments "All you can say about the US, which accounts for about 30% of the retail diamond market, is that conditions are OK. Demand in South East Asia is strong but this accounts for only 5% of the market. Conditions are dreadful in the major consuming markets of Japan and Europe."

"The best indicator of the true state of affairs is the production quota still imposed by the CSO which has averaged 19% for 1993. The real issue is not whether annual sales are \$4,2bn or \$4,3bn or whatever figure, but why the quota is still in place in a year of all-time record sales volumes. The obvious answer is that the CSO's contractual obligations to buy diamonds are substantially higher than the record sales levels just reported."

The share price rocketed to R106,50 on Monday and came within striking distance of the all-time high of R110 set in May 1990. Much of this has been driven by associate Anglo American Corp's shares. Mayers points out every R1 rise in an Anglo share translates into a 24c increase in the price of De Beers.

"You have to take a view on Anglo," he says. "At R193, it looks extremely expensive. That makes De Beers fully priced because, though the diamonds assets are being fairly valued, the worth of the non-diamond interests has been overinflated," he comments. Bowler adds "Anglo and De Beers, like a number of other stocks, are overdue for corrections, but De Beers could get back to its all-time high before that happens."

Brendan Ryan

Anglo shares rise to another new high

BIDay 28/12/93

MATTHEW CURTIN

INVESTOR confidence in Anglo American proved unshakable on the JSE yesterday as the market's leading counter hit yet another new high in good trade, closing 400c up at R203

The rise took Anglo's market value to R47,2bn, more than 7% of the exchange's total market capitalisation of nearly R640bn.

In afternoon profit-taking the stock fell from a morning peak of R205, but the bullish sentiment in the mining industrial group continued to spill over to associates and subsidiaries.

Although stablemate De Beers failed to hold on to early gains which took the shares above R100 at one stage, the diamond producer seems to have shrugged off last week's jitters caused by reports that Russia was selling gems outside its agreement with the Central Selling Organisation.

Russian authorities have denied any leakage from its agreement in

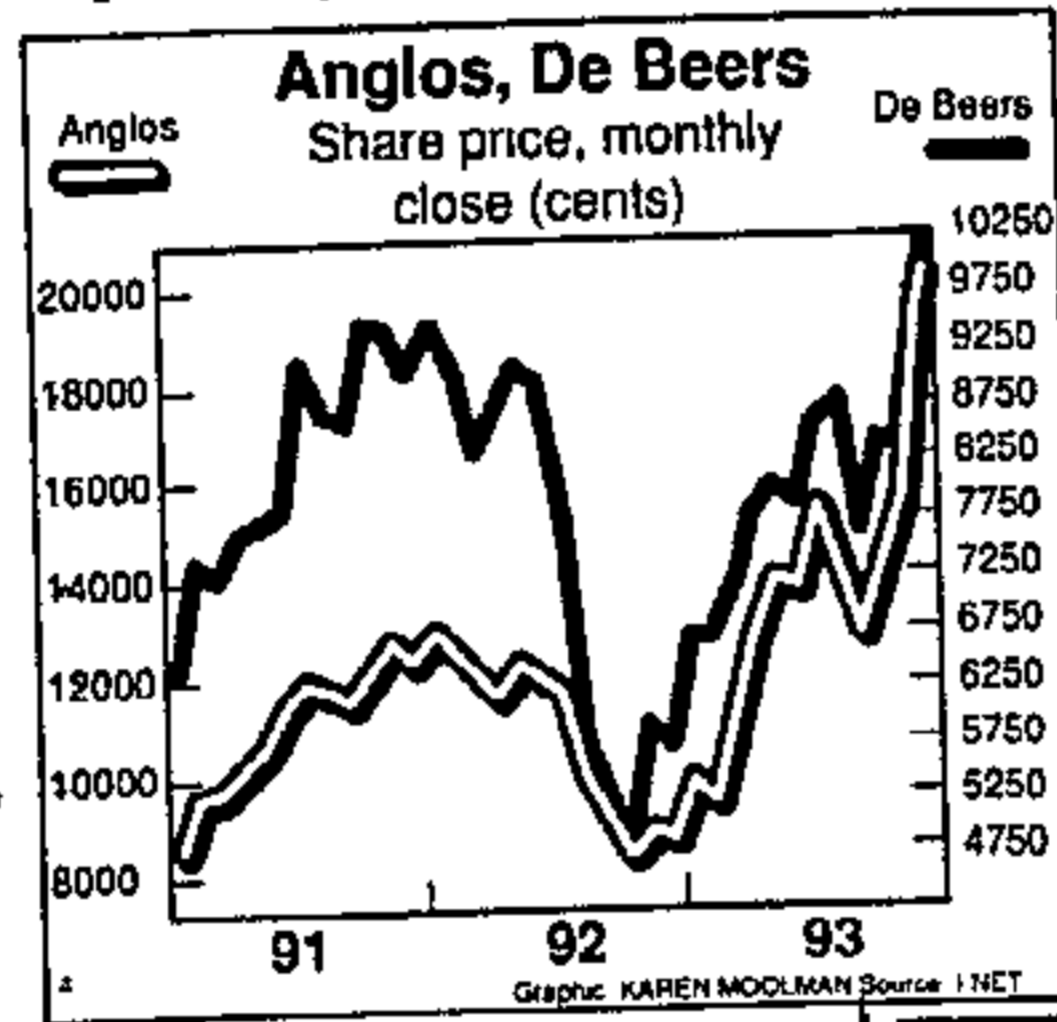
spite of De Beers officials' comments that between R40m and R80m worth of diamonds had reached dealers in Antwerp. De Beers shares closed at R99,75, 175c higher on the day compared with a high of R106,50 on the eve of the announcement of record and higher than expected rough diamond sales in 1993 (211) (216)

Minorco, Anglo's offshore mining and minerals group with expanding pulp and paper interests, put on 100c to close at R93,50. Industrial holding company Amic joined its parent in hitting a new high, climbing to R115 in the day.

Analysts said these share prices could not be justified by fundamental business conditions or by any but the most over-optimistic of forecasts for the economy in 1994 to 1995, despite the welter of confidence in the SA economy.

This confidence, they said, was based on improving economic indicators and the tying of the IMF loan, which could be expected to be reflected in Anglo group companies' market rating, given their exposure to the economy at large.

The analysts reiterated the important role of foreign investors, for whom Anglo and other blue chips still represented good value in dollar terms, in driving shares to prices at which local institutions had to deal to ensure their portfolios performed.



MINING — DIAMONDS

1994

DE BEERS

Fri 7/1/94

Dancing with the Russian bear

216

De Beers is facing a serious predicament in its relations with Russia in 1994, a year before the contract that gives the Central Selling Organisation (CSO) exclusive marketing right to Russian rough diamonds is due to be re-negotiated

The problem for De Beers could be compounded because in 1993 it extended valuable favours to Russia. It reportedly allowed Almaznaya Rossiya-Sakha (ARS) to deliver more than its allotted annual quota and to get paid for its shipments at an accelerated rate. However, the CSO director in charge of Russia, Gary Ralfe, denies that the Russians delivered more than their quota.

Neither ARS nor the republic of Yakutskaya, where the diamonds are mined, want to undermine such benefits. In total, their sales of rough to the CSO earned about US\$1.2bn in 1993. This is substantially up on 1991 and 1992. It is also above the \$1bn norm anticipated when the Soviet Union's diamond-sale agency, Almazjuvelirexport, signed the single-channel marketing agreement with the CSO in 1990. The increase in Russian rough sales to the CSO occurred while other diamond producers remained under De Beers quotas.

However, ARS's rivals in Russia, led by the Russian Committee for Precious Gemstones and Metals (Komdragmet) — a State agency under the Ministry of Finance — want to raise diamond sales of its own. To do so, Komdragmet demonstrated readiness in 1993 to evade the terms of the CSO contract.

De Beers' leaders are well aware of this, but they are uncertain what to do about it. If they try to impose sanctions, this would only hurt their strongest ally in Russia, ARS. If they turn a blind eye to Komdragmet's second-channel sales, there is likely to be an increase in the diamonds sold this way in 1994. If the CSO intervenes to mop up the surplus, the floodgates from Russia may open. Finding a workable incentive for Komdragmet chairman Yevgeniy Bychkov to co-operate with De Beers has proved elusive.

In any case, De Beers and the CSO are concerned at the possible deterioration of their bargaining position, ahead of new contract negotiations in 1994-1995. This is exactly what some industry observers believe Bychkov is intending to accomplish.

Trouble started in April and May of 1993, when the Antwerp market suddenly received a large number of small diamonds. "They had snow on their shoes," a diamond industry source told the *FM*, meaning they had originated in Russia. Antwerp estimates for the total value of the Russian stones sold then are between \$100m-\$150m.

Another burst of small goods from Russia occurred between November and December

The total of these sales for the year is believed to be between \$200m-\$300m, almost 25% of ARS sales to the CSO.

Objections were raised by Ralfe, who visited Moscow and Yakutia in May. His Russian counterparts denied they were breaking the terms of the CSO contract. One Russian claim is that small stones that are classed as "technical diamonds" — for industrial use rather than for gemstone cutting — are not covered by the exclusive market-



ing arrangement with the CSO.

There was no other CSO move until late November. At that time, the market for small goods of less than half a carat was much weaker, owing to a glut in the Indian cutting centres where most of these stones are polished. In late November, the diamond industry press began to report Russian "dumping" and De Beers officials were willing to confirm publicly what they believed about the "technical diamond" sales. Ralfe also wrote to Finance Minister Boris Fyodorov, reiterating the CSO complaint.

Fyodorov conceded that his control over Komdragmet was less than comprehensive and maintained that Russia was not violating the CSO's terms. Komdragmet officials were more dismissive. Blaming De Beers for inspiring an anti-Russian campaign in the press, they flatly denied "technical diamond" sales of anything like the Antwerp estimates. They also denied they were exploiting an ambiguity in the contract.

ARS officials believe Komdragmet is behind the sales, even if the sales channels appear not to be under its control. The reason, in the view of most Russian observers, is that the committee needs cash, for itself and for financing government projects. It is widely believed in Moscow that Bychkov is allied in a variety of diamond-selling moves with Prime Minister Viktor Chernomyrdin.

This impression has been strengthened by

statements from First Deputy Prime Minister Yegor Gaidar and by Fyodorov that to make good on spending commitments, without inflating the budget deficit, the Ministry of Finance will sell diamonds (as well as gold) to the central bank for hard currency.

The Antwerp sales of "technical diamonds" is not Bychkov's only option for realising quick cash. Earlier in the year, he tried to interest US and other foreign banks in providing large loans to be collateralised by diamonds from Komdragmet's large stockpile. The banks declined.

Another Bychkov option is to sell partially cut stones as polished goods, not rough, into expanding markets like Bangkok and Hong Kong. By classifying the stones as no longer rough, their sale is not covered by the CSO agreement. There has been some activity of this type, mainly through Belgian and Israeli diamond merchants, but there is no confirmation of sizeable sales. De Beers has not formally claimed that this activity violates their contract.

The De Beers options in response are limited because the CSO dare not expose its weakness. Far better for De Beers officials to use the press to raise the pressure on the Russians and then see how next year's talks on rough delivery quotas materialise.

If then the CSO demands the Russian government choose between the benefits it is getting from the contract and the "illegal" trade, it would be unwise for the CSO to penalise ARS by docking its delivery quota by the amount of the "technical diamond" sales suspected to be of Komdragmet origin. This would strengthen the case Bychkov made throughout 1993 in favour of an early re-negotiation of the CSO contract and a substantial increase in the share of rough diamonds Russia can sell on the open market, outside the CSO channel.

It may be wiser for De Beers to offer a carrot, rather than wag a stick. This could take the form of an offer for De Beers support for Bychkov's borrowing schemes, if Komdragmet stops the second-channel selling. De Beers officials have hinted they are not averse to the transfer of part of the Russian diamond stockpile to the CSO, or to other Western bank vaults, from which they cannot "leak".

John Helmer in Moscow

DEL MONTE ROYAL

Swallowing hard

All indications are that Del Monte Royal, the international food group cheekily grown out of a takeover bid mounted last year by local company Royal and backed largely by Anglo

P T O →

American Corp, will achieve its previously announced targets for financial 1993

Chairman Vivian Imerman is completing a comprehensive presentation, apparently intended for public airing early next month. This will include its results for the year to end-November. Market analysts believe Del Monte has been rescued this year courtesy of the UK fiscus and major tax breaks in other countries. "That simply isn't true," says Imerman flatly. However, the shares have generally underperformed a vibrant and buoyant JSE.

Reports are that Del Monte has been adversely affected by a substantial overhang of canned fruits on the European market. "The entire industry was affected," claims Imerman. "Time may show Del Monte came through better than most." The 1992 year was a phenomenon with the world's major deciduous fruit producing areas with all hav-

ing good weather and producing bumper crops.

This has had a severe impact on SA fruit growers in the western Cape. Many farmers in the Ceres and Tulbagh growing areas are complaining bitterly that prices offered by Del Monte's wholly owned canning company SA Preserving (Sapco) are substantially below those of the last two years. Canning Fruit Board chairman Bertie van der Merwe confirms this.

The board, which comprises representatives of canners and growers, sits annually to set minimum prices for the principal canning crops — peaches, pears and apricots. For the past two years agreement has been elusive. Ceres farmer Peter Versfeld says Sapco's offer of R600/t for yellow cling peaches is down from last year's effective price and about the same as for 1991. "We've had to absorb two years of inflation," he says. "The

effect is to force me — and other farmers — to apply for further extensions of credit, yet again."

Sapco's payment procedure has also aroused indignation farmer Frans Conradie says Sapco is paying for deliveries on the basis of 50% in 30 days, and the balance over another 90 days without interest.

Van der Merwe confirms Sapco's pricing policy for this year's peach crop appears to have followed that for apricots. "Last year, the price was R500/t. This year, Sapco offered R400/t for only 60% of its offtake of 10 000 t and said the balance was at a price to be negotiated. The company's initial offer was R175/t, subsequently improved on protest to R250."

SA's export earnings from canned fruits

TORQUE

Rich man, poor man . . . rich man

Some businessmen adopt high profiles. Others seek anonymity. And this is the week the *FM* carries its annual survey of SA's rich and famous — a rundown on the country's top 20 families.

It is a small and exclusive group and, by and large, the same names crop up year after year. Occasionally, there are excitements. Last year, for example, the Oppenheims were displaced from the number one slot by the Ruperts but they fixed that in 1993 and have returned to their traditional position as the country's wealthiest family.

Equally predictable, the survey is viewed with extreme disfavour by some — especially those whose wealth is publicly displayed. As SA inches towards a new political — and perhaps, economic — dispensation, some of the 20 are muttering darkly that the *FM*'s survey has the effect of spotlighting their wealth, a development now considered politically damaging, and will the Editor please desist.

Of course, not everyone has this view, in fact, one of the players is prepared to go to considerable lengths to retain membership of the Club of Twenty. W & A joint chairman Jeff Liebesman, now holidaying with his family on the ski slopes of Aspen, Colorado, went to the trouble of telephoning to reveal additional family holdings, strangely, the effect was to rescue him from oblivion (he'd fallen off the list) and put him back in lights.

It certainly says volumes about the importance Liebesman attaches to the annual wealth rankings. Conversely, I wonder how the Jowells feel having watched a sizeable portion of Trencor's investment in W&A shrink over the year?

Penalty paid

Every now and again there's a story about

overcoming adversity. "The JSE's my life's work and I'll be back on the floor on December 29," stockbroker Elaine Price told me in July after she had been suspended for six months.

She was wrong, but only by a few days. Price was back on the floor on Monday — January 3. Previously a sole trader, Price was found guilty of taking positions for her own benefit, failing to disclose these and running her firm into a cash shortfall. In fact, her liquidity difficulty went out to as much as R2m but the money was repaid and solvency was never an issue.

However, she had been naughty. Part of the penalty is that she can't head a broking firm for three years so Price injected her business and staff into broker B Shapiro (now called Cahn, Price, Shapiro). Then she sat around for six months.

Now, she's a partner in a broking firm again and back on the trading floor. "It's fantastic to be back," she says. "And it's even better to be back in the middle of a bull market. I'm doing tremendous business."

Well, she has completed part of the sentence, and she smiled through it — which couldn't have been easy. I hope — with an eye on the rules — she has a successful 1994.

A spot of local bother

It seems Anglo's man in Aussie is in difficulty. Normandy Poseidon executive chairman Robert de Crespigny is about to be charged by the Australian federal director of public prosecutions with failing to ensure a takeover document issued to shareholders didn't contain misleading information.

Poseidon, a large Adelaide-based mining company, is held to the extent of at least 19.9% by Minorco (which acquired the shares in the massive deal it put together last

year with Anglo). Australian mining analysts say they are convinced De Crespigny's personal holding is probably hooked in some way to the greater Anglo group.

De Crespigny's personal difficulties stem from the 1989 takeover bid by Brunswick NL, of which he was chairman, for Bendigo Gold. From this distance, it's not easy to put it all together but, essentially, the State appears about to allege that De Crespigny, together with Brunswick's MD at the time, revalued Brunswick, drove up the share price and launched a bid for Bendigo on the basis of Brunswick's asset base which was valued somewhat dubiously.

The difference, of course, is that the Australians take company discipline seriously.

Pie in the sky

But I mustn't praise Australians overly. Why, I am bound to ask, is Qantas, Australia's national flag carrier and owned, presumably, by all Australians and not just PM Keating, playing politics with an SA football?

Apparently, a trivia quiz to be held next month in the Sydney Town Hall and billed as a fund-raiser for the ANC, is being sponsored by Qantas, which is providing 10 return flights Sydney/Honolulu. An angry reader of *The Australian* is jumping up and down about this. The only possible explanation, he says, is that Qantas is "cosying up to the incoming ANC government to secure preferential landing rights in SA."

No-one at Qantas in Sydney would speak to me. Surprise!

Right. Let SAA sponsor a fete to raise cash for the principal Australian opposition party. Prizes can include 20 return air fares to Ouagadougou.

David Gleason



Foreign demand takes De Beers to new high

BIDON 12/11/97
FOR MATTHEW CURTIN

DE BEERS hit a high of R110,25 on the JSE yesterday as strong foreign demand for the shares carried them above their previous closing high of R107 recorded in May 1990.

The rally in the shares takes De Beers market capitalisation to nearly R42bn and follows several months in which the group's performance has been overshadowed by associate Anglo American.

The shares' last rally above the R100 mark nearly four years ago was triggered by the establishment of the group's Swiss-based offshore arm Centenary which houses the Central Selling Organisation and the group's non-SA mining interests.

Market sources said increasing evidence of lively Thanksgiving and Christmas retail jewellery sales in the US could justify growing investor confidence in the dia-

mond producer. World diamond jewellery sales were estimated to have grown 1% to 3% in 1993 to more than \$45bn. (216)

However, they said the immediate appeal of De Beers lay in the high discount at which it was trading to Anglo.

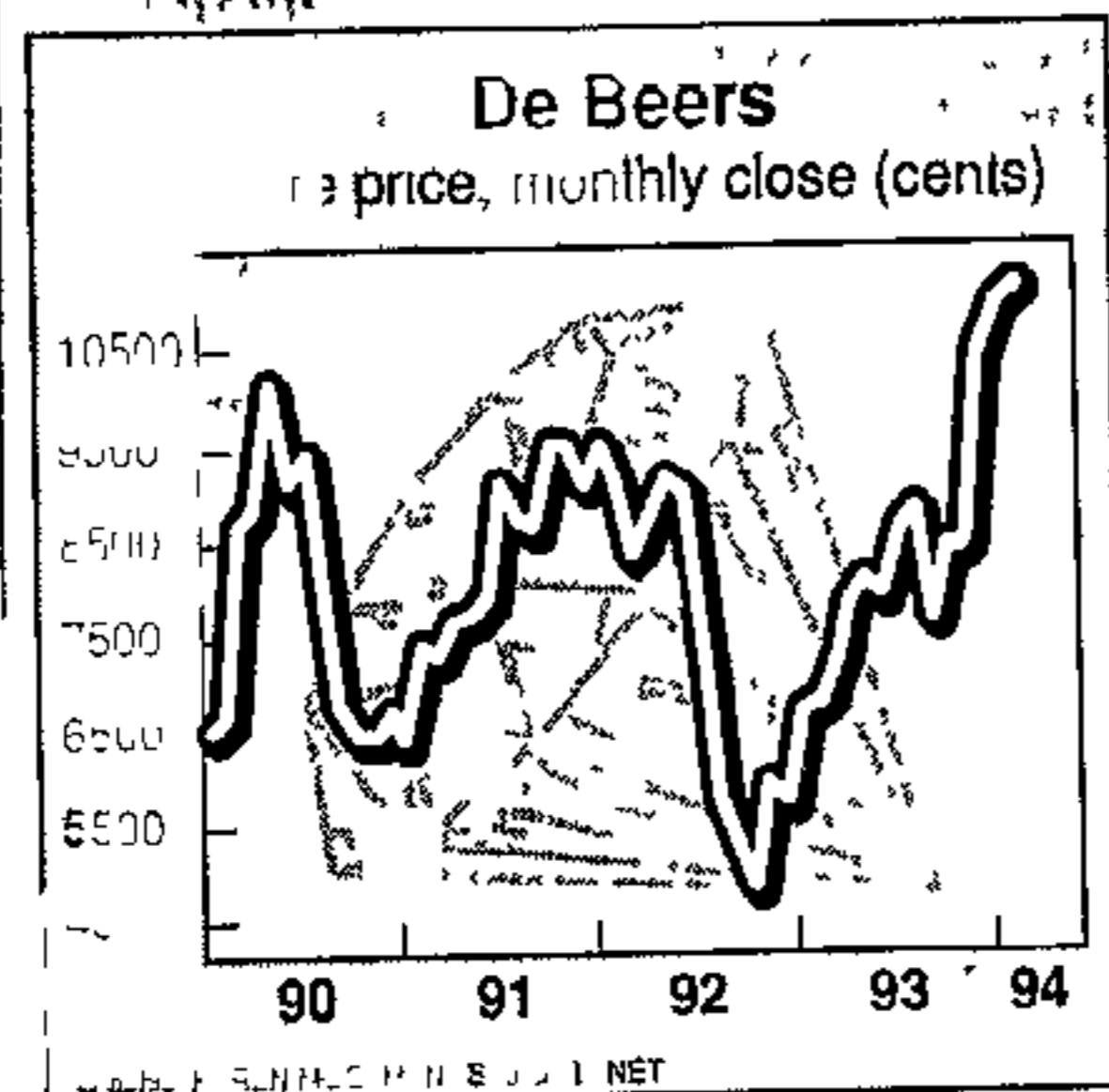
They pointed out De Beers had a direct 38,6% stake in Anglo. Anglo had a direct 6,7% stake in the diamond group in addition to a 13% effective holding via Anglo American Investment Trust (Anamint).

Anglo shed R14,50 to close at R207 as De Beers gained 125c or 1,1% on the day although it lost ground from an early morning high of R113,50. Investors traded more than R50m of shares in the two companies.

Fergusson Brothers analyst William Bowler said early estimates of US jewellery sales last month put growth in double figures after a surge in demand at Thanksgiving. US retailers were expected to restock in the weeks ahead after careful buying in 1993.

Bowler said the news was less encouraging from De Beers' other main retail markets in Japan, Italy and Germany where consumer spending remained depressed.

He noted good December jewellery sales were vital for the health of the diamond market. Sales in the December quarter accounted for 40% of all diamond jewellery sales in the US in a year, 45% in Italy, 49% in Germany, and 29% in Japan.



Fun 14/11/94
BROADACRES

Highly speculative (216)

Activities: Diamond extraction on the West Coast, north and south of the mouth of the Olifants River.

Control: Shui Lung Investments 71%

Chairman: J Tcheng; MD. F P Slott-Nielsen

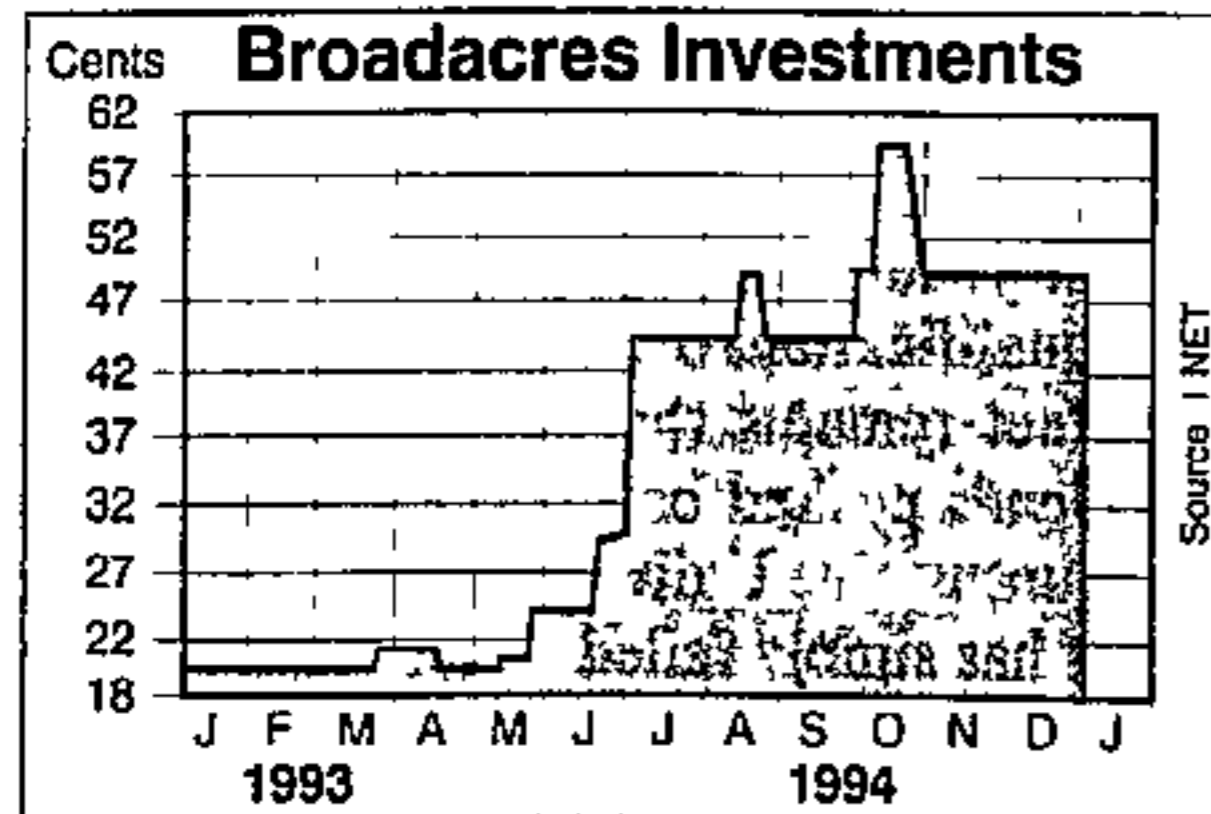
Capital structure: 3,4m ords Market capitalisation R1,7m

Share market: Price 50c Yields 20% on dividend, 81% on earnings, p e ratio, 1,24, cover, 4 12-month high, 50c, low, 20c Trading volume last quarter, 10 300 shares

Year to June 30	'90	'91	'92	'93
Turnover (Rm)	—*	—*	5,0	11,7
Attributable (Rm)	0,6	0,2	(0,5)	1,4
Earnings (c) ...	17,1	4,7	(13,9)	40,3
Dividends (c)	—	—	—	10,0
Tangible NAV (c) ..	99,9	101,4	83,6	113,9

* Not disclosed

The market clearly believes Broadacres is highly speculative. What other share stands on a dividend yield of 20% and a p.e of 1,24 times? Put another way, which other counter has earnings nearly equal to the share price? None that I know of



Fun 14/11/94

The reason, of course, is that weather is something investors don't like being held hostage to — and that's exactly what's entailed with Broadacres. For the weather to be what MD Peter Slott-Nielsen calls "good" it must be really foul in the winter months and balmy in summer. That produces the two-fold effect in winter of removing the sand overlay and exposing the diamond-bearing gravels for easy extraction and, in summer, of good weather to enable Broadacres to get to the gravels.

This is the combination which turned up trumps for Broadacres in financial 1993 and the results glow and glitter through the income statement. Turnover rocketed to R11,7m — an increase of 1,3 times over 1992. Net profit of R2,7m swept aside the previous year's loss and the company was in the happy position of paying tax of R1,3m.

Can it happen again? Nielsen says the outcome of the first six months of operation for 1994 is that production is marginally behind that for the preceding year; nevertheless, he's reasonably satisfied with performance. "We've spent a lot on rehabilitating gear and equipment," he says. The company's traditional bad time starts now, as Cape weather conditions worsen and the seas begin building their stormy momentum

(216)

Prospects are "weather dependent," says chairman John Tcheng, "and no forecasts can be made at this stage." This risk factor requires an unusually high reward ratio.

David Gleason

FM 14/1/94

Activities: Mines and markets diamonds
Control: Speriam Securities 98%
Chairman: C C Mumby
Capital structure: 75m ords Market capitalisation R30m
Share market: Price: 40c Trading volume last quarter, nil shares

Year to June	'90	'91	'92	'93
Turnover (Rm)	4,7	2,9	10,8	nil
Operating loss (Rm)	(1,2)	(0,8)	(0,4)	nil
Long-term debt (Rm)	—	23,3	23,8	nil
Earnings (c)	(131)	1,8	(7,9)	(6,4)
Dividends (c)	—	—	—	—
Tangible NAV (c)	37,9	52,3	14,8	—

lated loss now stands at R39,5m, and the balance sheet accordingly reflects a huge diminution in shareholder wealth. Of that amount, R21m is a write-down against the original value of mining assets, which says a lot about the nervousness of the directors

The company is 98%-owned by Speriam Securities, registered in Panama. If anyone knows the identity of this faceless grouping, please tell — it is an intriguing aspect of a sad tale

The best that can happen is that CDC is taken over by a third party That should signal the existence on adjacent farms of economically viable diamond deposits Only then will a semblance of sparkle return to the stock

David Gleason

CDC's principal asset is a diamond mine called Samada in the Ventersburg district of the Free State, between Welkom and Virginia Considerable investment was made in plant and mining equipment to bring the diamondiferous deposit to account

However, there's many a slip — as CDC's shareholders have discovered to their horror. The deposit is a kimberlite pipe in which the diamond distribution is clearly uneven There are rich spots, and equally poor ones. The only way around the problem is to concentrate in rich areas and that, probably, will require a new shaft and additional capital The auditors reveal as much in their report

Chairman Chris Mumby confirms that "additional sources of supply of material was carried out and material tested through the Samada plant " This is longhand for saying the company is exploring anxiously, and the FM's information is it is doing so in association with a large, foreign mining company — though I'm unable to track down the identity

The annual accounts contain a jumble of information For example, turnover is recorded as nil for the year. This is derived, according to a note to the accounts, from total operations turnover of R8,5m, and from a negative turnover of R8,5m from suspended operations. To understand negative turnover, readers are referred to note 14, which deals with extraordinary items and nowhere discusses turnover. I don't know how this kind of gobbledegook gets past the auditors

The company made a net operating profit of R3,1m after operations at Samada mine were suspended in April 1992 No explanation is given of how this was accrued If directors can make profits without a mine, why have one at all?

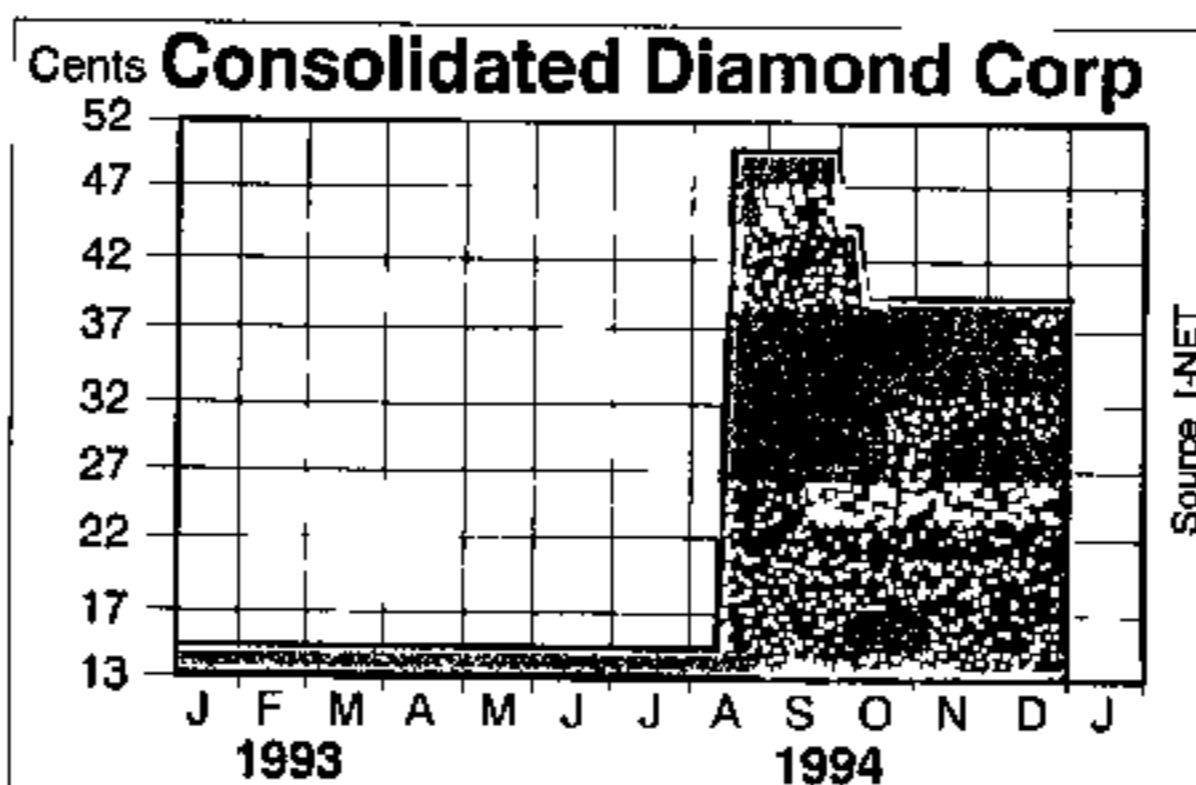
Another foreign exchange loss is reported — this time of R2,1m (last year R3,2m) — though it's only fair to note these are largely unrealised CDC's carried forward accumu-

CDC FM 14/1/94

Takeover needed

I suggested last year it would be merciful for someone to take over Consolidated Diamond Corp (CDC) and delist the share That now seems closer, and not a moment too soon — though a takeover may not automatically result in a delisting (216)

Technically, CDC is insolvent it has net current liabilities of R27,3m which include an unsecured — and still uncovered — D-mark loan of R25,9m, repayable this year All this has now induced a qualified audit report Kessel Feinstein says the financial statements have been prepared on a going-concern basis but all kinds of questions hang over that assumption



ODM goes for Namibia listing

MARC HASENFUSS
Business Staff

216
ART 19/1/94

CAPE Town-based Ocean Diamond Mining (ODM) has been granted a listing on the Namibia Stock Exchange (NSE).

The marine diamond mining company makes its debut on the NSE boards today with the listing of 22,6 million ordinary shares.

The NSE listing is appropriate considering that ODM has mining rights in the Island Concessions just off the Namibian Coast.

■ The two northern Cape mines in the Gold Fields stable — Black Mountain and O'Okiep — had mixed fortunes in the quarter to end December.

Black Mountain achieved a commendable turnaround in the quarter, posting a healthy after tax profit of R5,7 million (previous quarter a R4,6 million loss).

Directors attributed the better performance to a high level of sales and improved metal prices.

Fortunes at the O'Okiep, however, took a turn for the worse.

The copper mining company showed an ominous R8,3 million loss for the quarter on the back of a falling copper price and rising costs.

Gold Fields' gold mines — Driefontein Consolidated, Doornfontein, Deelkraal and Kloof — produced slightly lower after tax profit of R388 million for the quarter under review.

Directors said the 2 percent dip in after tax profits was mainly due to markedly lower net sundry revenue of R39 million.

The Gold Fields group, however, managed to push up attributable earnings 12 percent to R132 million — thanks to a 16 percent jump in income from investments.

■ Anglovaal's December quarterlies were a mixed bag, with higher profits from Hartebeestfontein and ET Cons and lower ones from Loraine and Village Main.

Overall gold income was slightly down at R421 million from R424 million in the previous quarter.

ODM looks to raise R50m locally, abroad

WINDHOEK — Ocean Diamond Mining Holdings profit for the year ending March 31 should at least reflect much-improved results achieved in the first half, managing director Andre Louw said

Speaking as the Cape-based company was listed on the Namibian Stock Exchange, he said it was also consulting with international stockbrokers James Capel on prospects to raise R50m locally and abroad by mid-year. He did not elaborate on the nature of the possible funding.

In the year to last March, the company made a R23 000 loss before extraordinary items following a first half profit of R69 000.

But, in the six months to September 1993, it posted a R646 000 profit.

Louw said the company is spending more time exploring its offshore diamond reserves and only spending enough time mining to pay for its activities as part of a five-year expansion programme.

However, mining between September and December 1993 was more productive on average than in the first six months, and he expected the year-end would at least match the trend suggested for the first half figures.

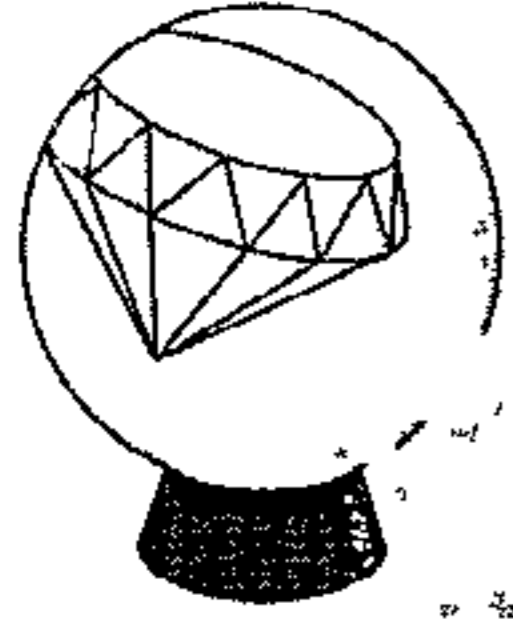
Some 95% of ODM's mining operations are currently off 12 islands which are to be returned to Namibian control from SA along with Walvis Bay port on February 28.

DE BEERS

Fm 21/1/94

Is the diamond market over the worst?

Probably, but don't get carried away about either the market or the share price



A few days ago, De Beers' share price reached a record high of R114,50, lifting market capitalisation to more than R42bn. The price was much more than double the low of about R44 set after the August 1992 dividend warning and the market value had regained about R24bn. Does this mean De Beers is over its troubles?

Sentiment about the diamond industry and towards the share has improved since the gloom of 16 months ago. It's not hard to see grounds for a more cheerful mood.

In 1993, Central Selling Organisation (CSO) rough diamond sales hit a record US\$4,37bn. Concerns about the inflow of Angolan diamonds have largely faded for now and De Beers has essentially retained control of the market throughout a period of unpredictable and complex difficulties.

When De Beers releases results for the 1993 year, it is expected to have a much stronger balance sheet than 12-18 months ago — with healthy growth in earnings. The dividend should at least be maintained in dollar terms and will probably be higher in rand terms thanks to exchange rates.

Though developments are brightening the outlook for diamond interests, the value of nondiamond investments — especially 39%-held Anglo American — has soared.

The strong surge in Anglo's share price in recent months made further increases in De Beers' price almost inevitable. Cross-shareholdings between the two encourage investors to look for relative value. Anglo's price climbed more rapidly than De Beers' in late December-early January. When London stockbroker James Capel decided De Beers was offering better value and advised investors to switch from Anglo, this helped weaken Anglo's price while the diamond group jumped to a new high.

From that standpoint, De Beers, long seen by international investors as SA's leading blue chip (though its market value was recently overtaken by Anglo), has been benefiting not only from better fundamentals in the diamond market but also from the wave of foreign interest in SA equities.

Foreign investors homed in on Anglo for several reasons. It is seen as easily the largest single entrée into the economy and remains by far the world's biggest single gold producer. The value of Anglo's gold portfolio has ballooned with the rising gold price and boom in gold shares.

It has been a bullish confluence of events for De Beers. But the group still depends

fundamentally on its main business of diamonds. While management is again showing flexibility and proving capable of managing a potential crisis, basic problems continue to impede a return to sustained growth.

The immediate, basic dilemma has not changed much from a year ago. Despite robust sales of rough diamonds last year, there is oversupply. This has been eased (or deferred) by the production quota system imposed on mines since the third quarter of 1992. The international economy has yet to recover with enough vigour and breadth to take demand for retail diamond jewellery firmly back on to a growth path.

Last year's CSO sales, especially in the first half, were boosted by restocking in the trade as well as by what De Beers chairman Julian Ogilvie Thompson described as exceptional factors related to Angola, India and Russia. The first two of these are not likely to be repeated this year, the Russian problem is less severe, at least for now.

That will leave 1994 demand for rough more closely tied to retail demand. Ferguson Bros analyst William Bowler contends that stocks have been building up in the trade, so the CSO could well adopt a more cautious stance unless retail demand picks up more swiftly than is now expected.

The three largest retail markets are the US, Japan (trade sources estimate these account for about a third each) and Europe (about 20%). The other large segment is South-East Asia (about 16%), comprising Hong Kong, Singapore, Taiwan, Thailand, Malaysia, China, Philippines and Korea. Of these, only the US and East Asia are now showing solid growth in retail diamond jewellery sales. That is simply inadequate to generate the demand needed to draw down stocks and absorb current production, especially when production quotas are lifted.

The CSO noted a broadening in the US retail market during 1993, with demand rising for more expensive items and smaller, cheaper-quality goods. Sales were strong between Thanksgiving and Christmas. Trade sources estimate total 1993 sales could be about 8% ahead of 1992.

Other markets have been less positive. In Japan, where the economy and consumer mood remain thoroughly depressed, sales value has been affected by trading down to lower quality goods. Fashions may also be shifting, competition from pearl jewellery was another factor. At best, it seems sales there were flat in yen terms, though there could have been some increase in dollars.

Retail demand in Europe also remains on a plateau, hardly surprising considering the mood in the big economies. CSO spokesman Andrew Lamont confirms offtake in Italy was flat or slightly lower, though not as bad as had been feared because of the economic and political problems there, in Germany, too, dollar sales were flat.

In South-East Asia growth remains healthy, again helped by the vigorous expansion of the Chinese economy. But this segment is not large enough to compensate for weakness elsewhere. China is growing fast from a base of almost nil. By the turn of the century, it should be a major market, the first Chinese sight holder was appointed by the CSO late last year. But for now China accounts for only about 1%.

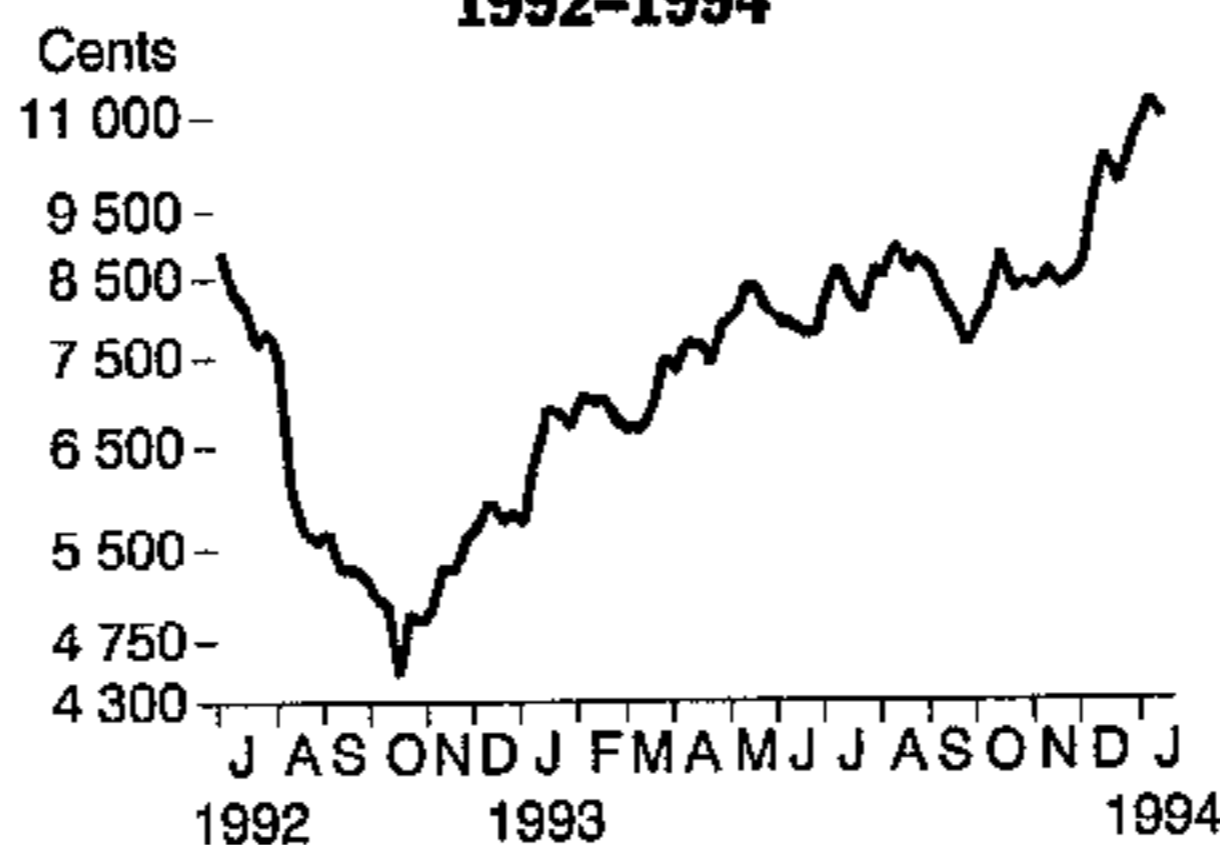
World retail sales apparently grew in low single-digit figures last year. *Diamond International* editor Mark Cockell estimates growth of about 2%-3%, with diamond jewellery sales at \$42bn worldwide, an improvement after two flat years. Given the strength of Christmas sales in the US, he says, the trade expects restocking by retailers.

Local analyst Des Mayers of stockbroker G O'Flaherty believes the growth could have been as high as 5%. This remains well below rates of around 14% in the mid-Eighties, when mining capacity was lower.

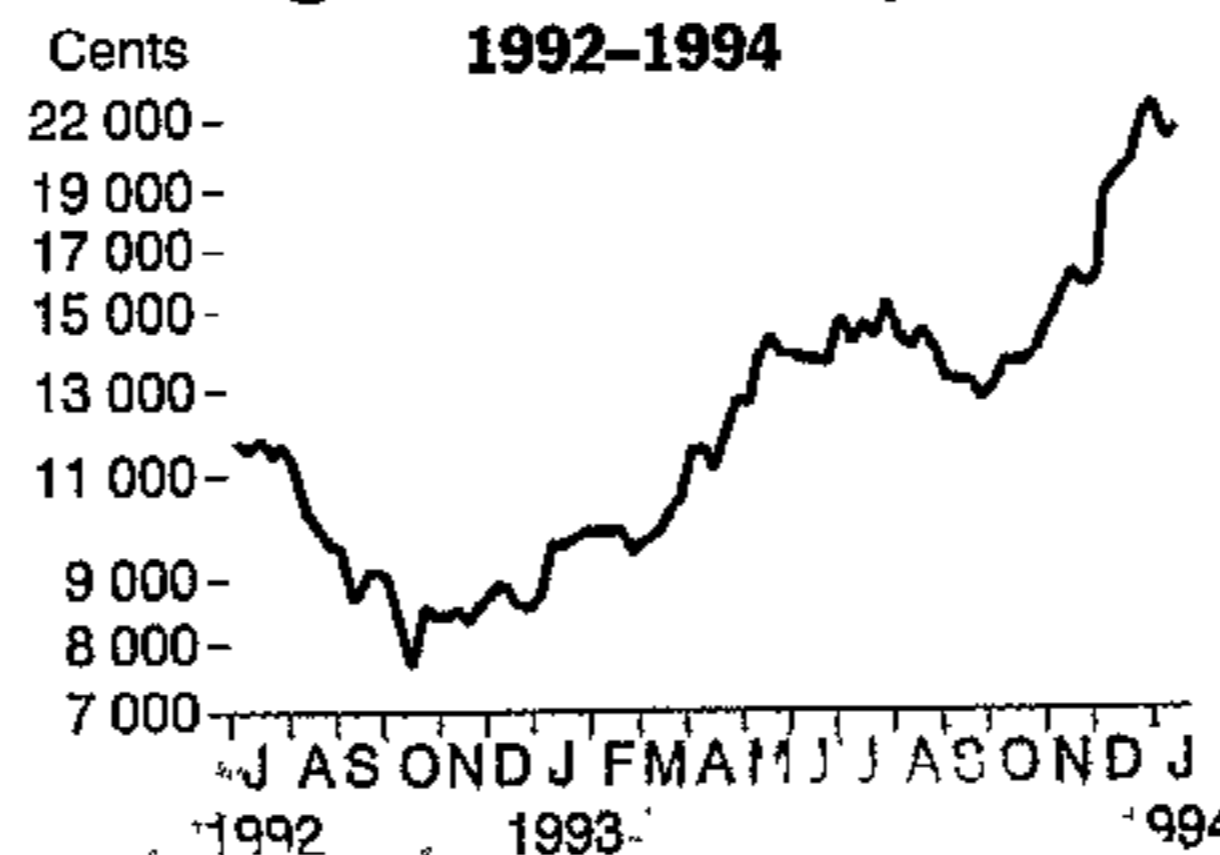
The Russian imbroglio heightens the difficulty of balancing supply with demand. Sales of diamonds through non-CSO chan-

Steady recovery

De Beers share price 1992-1994

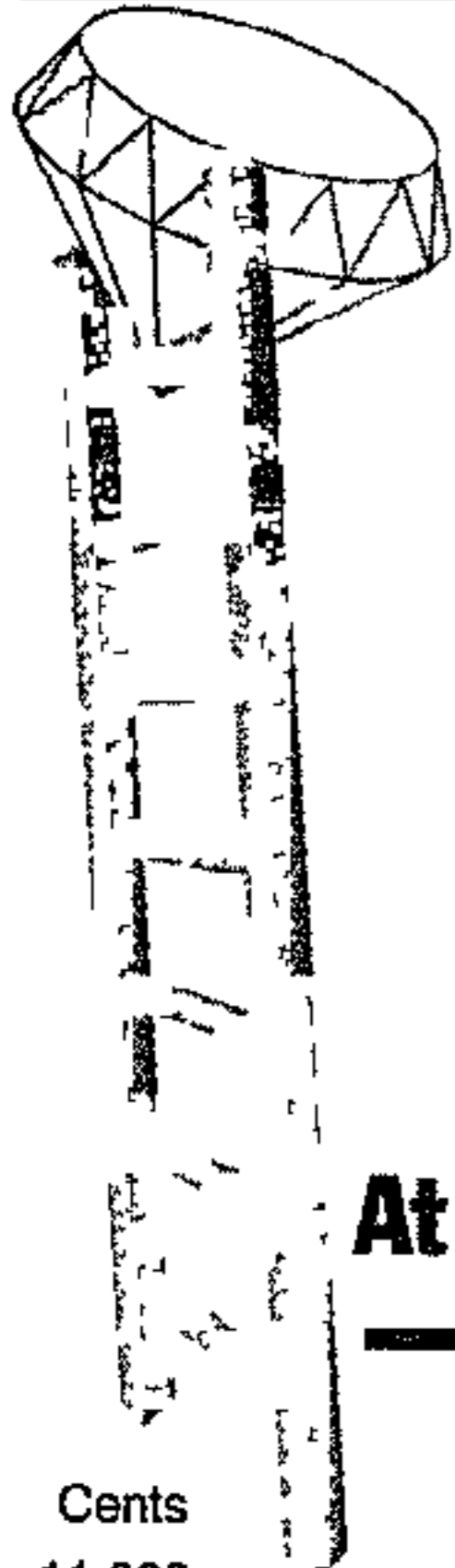


Anglo American share price 1992-1994



Fri 21/1/94

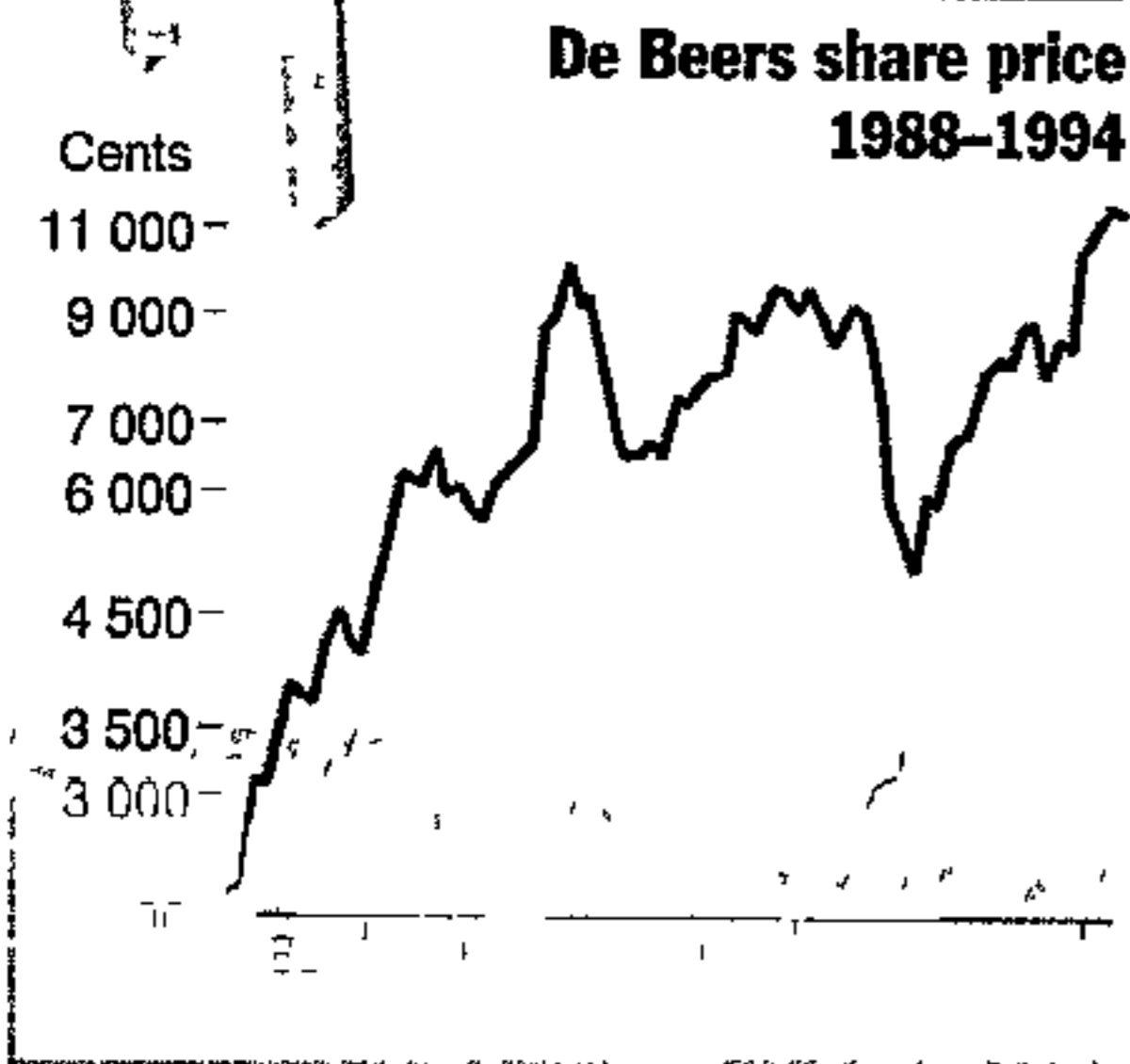
(216)



rainy season but market reports indicate supply fell in 1993 to less than half the previous year's. Again, this problem has been capped, not necessarily resolved.

Continuation of the production quota system indicates De Beers is not yet convinced the diamond market has stabilised. Though the capacity to deploy this

At record heights



system helps to vindicate De Beers' cartel marketing structure, its use inflicts immediate pain on producers, including De Beers.

After the quota was introduced, De Beers moved swiftly to cut SA and Namibian output and operating costs — and that meant shrinking the workforce. At the Botswana mines, on the other hand, De Beers says production continued with no cutbacks in the labour force "due to the nature of the mines." The spokesman adds that in Botswana it is more cost-effective to stockpile diamonds above ground. Also, the mining of lower grade ore has affected production.

The substantial stocks held in Botswana will eventually have to be moved into the pipeline. In the last diamond market recovery in the mid-Eighties, De Beers bought in the Botswana stocks by issuing shares to the Botswana government. Perhaps a different solution will be found this time. Botswana, meanwhile, is apparently pressing for the quota system to be eased or lifted.

The first 1994 rough diamond sight started this week. Given market uncertainties, and the exceptional factors that influenced last year's first-half sights, analysts expect early sights this year to be more subdued, though still large. Estimates are for \$500m, against about \$600m in January 1993.

For the full year, most forecast slightly lower CSO sales. Steve Oke of London broker Smith New Court is looking for about

\$4.2bn, Bowler for about \$4.15bn, down 5%. However, as Bowler emphasises, the important issue is the profitability of these sales. The margin on the diamond account last interim was the lowest in many years. With production cost cuts taking effect, and better quality diamonds being sold, the margin could widen usefully in the next two years.

On that basis, 1993 earnings could be well up Mayers, for one, forecasts attributable EPS of 520c (1992 370c), Bowler predicts 506c. In London, Michael Coulson of Credit Lyonnais Laing (who forecast the 1992 dividend cut) is looking for EPS of US235c, up about 18%, and pegged dividends.

But enthusiasm is muted. "With European and Japanese retail markets remaining difficult, I don't see any dramatic changes ahead," says Coulson. "De Beers is on the turn and recovering but it will be a fairly slow business." Another London analyst, Roger Chaplin of T Hoare & Co, adds "My feeling is that De Beers' figures may be disappointing. It'll be a gradual recovery."

Like Anglo American, the De Beers share has had an excellent run. By Tuesday, it had eased back to R107. Several analysts say good underlying value is emerging, especially with better growth in the world economy, but they would prefer to see the share fall below R100 before viewing it as a buy. Even then, buyers should be prepared to live with the Russian risk. *Andrew McNulty and John Cavill*

Fri 21/1/94

(216)

nels from Russia rose sharply in April/May and again in November/December, taking the estimated total for last year to between \$200m-\$300m, almost 25% of official sales by Almaznaya Rossi-Sakha (which co-ordinates mining, marketing, cutting and export operations) to the CSO.

Possibly of greater significance than the bald numbers, though, is the evident fluidity and complexity of the Russian situation (*Fox* January 7). De Beers' official pronouncements have understandably been restrained, but inevitably information flows into the trade. It adds uncertainty and, some believe, justifies a risk discount on the share price.

Aside from the costs that De Beers may have to incur in buying up additional Commonwealth of Independent States production that seeps into the market, there are concerns that Russia could soon formalise another marketing channel, separate from the CSO. And Russia, with potential to produce 25% of the world's gems, is the biggest production bloc after De Beers.

This may already be happening. Israeli trade journal *Mazal U'Bracha* reports that a parallel rough marketing system, in violation with the CSO contract, has emerged and "even become institutionalised." It notes that a few dozen Belgian and Israeli merchants are enjoying informal "Moscow sights," and even those vying for the tenders are allowed to make additional purchases.



Ogilvie Thompson ... coping with a Russian threat

Last year the CSO benefited from mining problems in Russia, where production was falling partly because of shortages of materials. This resulted in shortages of certain qualities, which the CSO met from its own stocks. It's unclear how long it will be before Russian output recovers. Large new mining prospects could be brought to production, assuming capital is available.

But current Russian production may be less important than potential supplies from inventories. Russia has built up stocks over decades, their quality and value has never been disclosed but *Mazal U'Bracha* believes they exceed \$7bn.

Diamonds are apparently featuring increasingly in barter transactions. Supplies from the CIS could increase, as could the prospect of a change in structure of the market, which for years has been dominated by the CSO's single-channel marketing.

"In such circumstances the CSO monopoly would be in question, though it would remain dominant because some of the mines De Beers controls are still the most profitable," says Mayers. He adds that even in such a scenario, De Beers and the Russians (if they act rationally) would gain much from co-operation or co-ordination.

"This would guarantee continued market stability and prosperity for the industry, the Russians and De Beers," Mayers adds. "A dent or schism in the monopolistic structure may not be a doomsday scenario, though it would increase the shares' risk factor. Against this, the 'Angolan flood' in 1992 would be little more than a minor headache, which, incidentally, is not yet over."

Resumption of the Angolan war curtailed the supplies. A De Beers spokesman says it is estimated slightly more rough Angolan goods came on to the market at the end of the

Plan to halt swamp of Russian gems

BIDAY 27/11/94

ANDY DUFFY

A COMPANY closely linked to De Beers has tabled a \$3.3bn loan plan to the Russian government in a bid to defuse the threat of diamonds from the former Soviet Union swamping the world market. (21b)

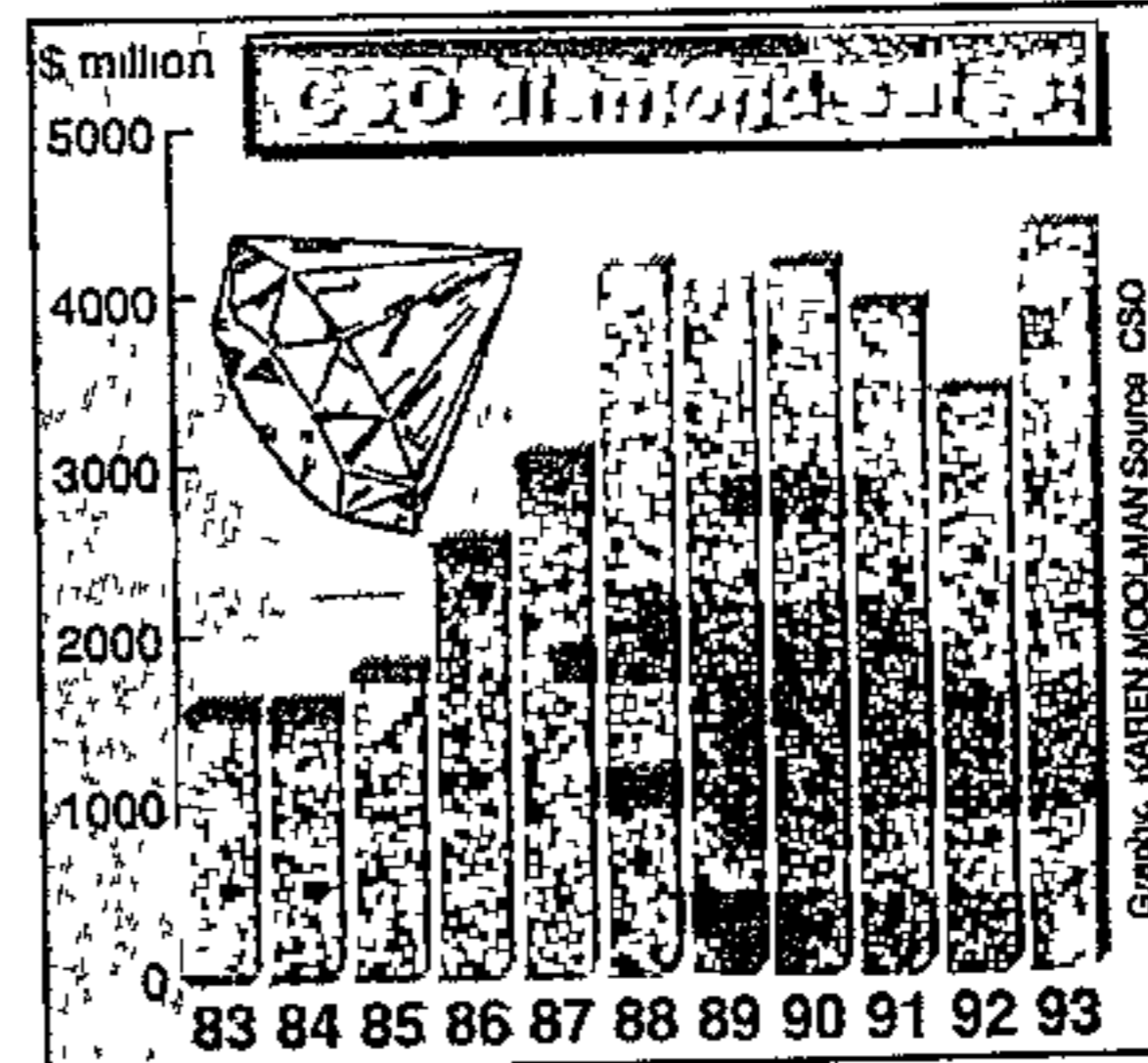
In terms of the plan, the US government or the World Bank would lend the money to the cash-strapped Russian government, with Russian gems worth \$4.5bn as collateral. The plan would halt Russian diamond supplies for 10 years, while De Beers's Central Selling Organisation (CSO) would buy the gems should Russia default.

The diamond giant, which is involved in high-level discussions with the Russian government, refused to be drawn yesterday. But it was understood that De Beers would back the plan as a means of tying up Russia's diamond stockpile, estimated to be worth \$6bn to \$8bn.

The proposal was lodged last month by US diamond marketing company Lazare Kaplan International, a De Beers sightholder and its partner in Ghana.

It comes amid fears that De Beers could struggle to staunch the flow of Russian diamonds onto the market, outside of Russia's agreement with the CSO.

Russia sold diamonds valued at \$200m to \$300m last year, in breach of the CSO



agreement. But industry sources fear political and economic turmoil in Russia could lead to far more gems sweeping the market and breaking the CSO's grip.

"The Russian stockpile is a huge threat," said G O'Flaherty analyst Des Mayers. "\$200m to \$300m is not a huge figure, but it could be the tip of the iceberg."

The CSO and De Beers have already arranged a \$1bn loan to the former Soviet Union with rough diamonds as security.

But backing the new plan would be a gamble. The CSO's current stockpile — estimated at \$3.4bn — is already uncom-

□ To Page 2

Diamonds

BIDAY

27/11/94

□ From Page 1

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Sources said De Beers had to weigh the threat of swelling its stockpile against the prospect of unfettered diamond supplies butchering prices. It emerged in December that bureaucratic rivalries in Russia had led to the export of Russian diamonds outside the CSO framework. (21b)

Russia's main diamond company Almaz Rossii-Sakha (ARS) struck a five-year agreement with the CSO in 1990, under which the CSO had the right to sell 95% of Russia's diamond production. ARS netted about \$1.2bn from the agreement last year.

But rival organisation Komdragmet,

which is run by the Finance Ministry, opposes the CSO agreement, claiming it cuts Russia's diamond earnings. Komdragmet is thought to have sold diamonds in Antwerp and Tel Aviv last year in an attempt to earn hard currency.

Industry sources said ARS had little chance of forcing Komdragmet to abide by the CSO agreement. De Beers would face a growing number of diamonds trading outside its control unless Russian supplies were curtailed.

Mayers said: "The bottom line is that for De Beers to continue to control the industry is becoming more and more difficult. It has done remarkably well to keep the ship afloat this long."

De Beers in plan to halt threat to CSO

From ANDY DUFFY

JOHANNESBURG — A company closely linked to De Beers has tabled a \$3.3bn loan plan to the Russian government in a bid to defuse the threat of diamonds from the former Soviet Union swamping the world market.

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Good half for Minvest

28/1/94
Star
BY DEREK TOMMEY

Messina Investments (Minvest) had a highly profitable six months to December

Operating income from diamond mining at R5,2 million was not far short of the R5,62 million earned in the previous 12 months.

The directors report that operating income for the six months was derived solely from diamond operations

Copper mining ceased in January last year

They say that diamond production was significantly higher, with the increase coming largely from Star Diamonds, which started production in February last year

Turnover for the six months was R17 million

Net income before tax was R5,2 million (year ago, R2,6 million) while net income after extraordinary items was R4,8 million (R2,4 million).

This was equal to 31,7c (20,2c) a share on the weighted average of the enlarged share capital

Net asset value of Minvest shares at December 31 was 358c (year ago, 305c). The share closed at 375c last night.

The directors say that the remaining assets of Messina Copper Mine will be sold in the next six months and are expected to fetch R1,8 million in cash.

Emphasis

Cash generated from operations and Messina Copper Mine asset sales, together with the R1,3 million raised from the rights issue last December, will be used to secure and develop further mining operations, with particular emphasis on diamond mining.

Earnings for the remainder of the financial year are expected to at least equal those of the first half

21b

Mininvest gets sparkling reward

Monday 28/11/94

ANDY DUFFY

INDEPENDENT mining house Messina Investments (Mininvest) has been well-rewarded for its decision to pull out of copper and focus on diamonds, with attributable income nearly doubling for the six months to December. The closure last year of Messina Copper Mine cut turnover from R32,5m to R17m, but higher diamond output and revenue pushed operating income from R2,7m to R5,2m. Despite a higher tax bill, net income rose to R4,9m (R2,4m), bolstered by an extraordinary charge of R847 000.

The rise in earnings a share was limited to 57% to 31,7c. The company's share base rose to 13,2-million shares after a rights issue in December which raised R1,3m (216)

There was no interim dividend, but executive chairman Tony Buchan said second-half earnings were "expected to at least match those of the first half". He said diamond production was "significantly higher", especially from Star Diamonds.

Glittering days predicted for diamond market

Star 11/21/94
BY CLAIRE GEBHARDT

De Beers/Centenary could lift its 15 percent production quotas in March to coincide with the release of its 1993 results, predict stockbrokers Mathison & Hollidge (216)

In a bullish forecast which includes a strong "buy" recommendation, analyst Barry Sargent says fundamentals indicate that demand in the diamond market will far outstrip supply to the turn of the century.

Given expected positive gross domestic product (GDP) growth in Europe this year, a boom time for De Beers/Centenary is predicted.

This indicates that South Africa's premier blue chip is undervalued at current levels, he says

When De Beers releases results for the 1993 year, earnings are expected to be up by 31,8 percent to 170 US cents a share (1992: 129c) and dividends by 26,6 percent to 100c (79c) on significant improvement in the group's cash flows.

The increases in rand terms will be much higher.

The share price is forecast to rise from current levels to around R144 by the end of 1994, or early 1995.

Sargent predicts that supply will increase by only three percent a year to the turn of the century, while demand is estimated to be growing seven percent a year compound

The forecasts are based on world retail sales in 1993, which increased by 5 percent in dollar terms, despite negative GDP growth in every European country and Japan.

For 1994, positive growth is expected internationally.

The current "new" supply threats posed by Russia, Zaire and Angola are not regarded as material.

De Beers/Centenary's advertising budget of \$170 million for 1994 is also expected to give the retail market a boost.

The biggest growth potential by the turn of the century is identified as China.

Sargent says the financial rand mechanism remains important for De Beers/Centenary.

Were the financial rand to



Still a girl's best friend

be abolished, prices for many shares, including De Beers/Centenary, could be expected to discount the possibility in advance

On the other hand, events that are "bad" for South Africa will, to some extent, be good for shares such as De Beers

However, the benefits would be quickly discounted as fundamentals were re-examined.

With the group's asset and earnings structure counting heavily in determining a future share price, Sargent notes that from December 31 1992, 68 percent of the group's fixed assets were located outside South Africa — the majority in Namibia, Botswana and London

The majority of income is derived offshore, with just slightly under 80 percent of 1992's taxed income sourced from non-South African sources

Diamond stocks are all, or nearly all, offshore, as is most of the cash.

"Of De Beers/Centenary's vast investment portfolio, the most important interest by a considerable margin is Anglo American, followed by Minorco and Anglo American Investment Trust (Anamint)

"Anamint is itself more exposed to diamonds than De Beers/Centenary.

"The only true rand hedge of consequence in the portfolio — an equity with no South African operations — is Minorco."

Gems: Russian rejection thwarts De Beers' control

CT 4/2/94 (216)

JOHANNESBURG — Attempts to prevent Russian diamonds flooding the market and loosening De Beers' grip have suffered a major setback, with a key element in Russia's regime rejecting a proposed \$3.5bn diamond loan

According to reports filtering out of Russia this week, its finance ministry has said the country would rather raise money by selling its gems outright than have them tied up as collateral on the loan

The ministry, through diamond agency Komdragmet, was blamed last year when diamonds worth \$200m-\$300m seeped out of Russia, breaching an agreement with De Beers' Central Selling Organisation

Its opposition to the loan could scupper the plan, allowing gems from Russia's \$6bn-\$8bn stockpile to come on to the market outside the CSO's control

De Beers said yesterday the CSO would not buy the gems from Russia. The CSO's stockpile is already uncomfortably high at an estimated \$3.4bn

Though CSO officials met Russian government representatives in Moscow this week, there was still no clear picture of the reaction to the loan proposal. But sources said the plan looked still-born

It emerged last week that US diamond marketer Lazare Kaplan International, a CSO signatory and De Beers' partner in Ghana, had tabled the loan proposal

The plan envisaged the US government or the World Bank lending the money, with gems worth \$4.5bn held as collateral. The loan would cut Russia's diamond supplies for 10 years, while De Beers would buy the gems should it default

Russia's main diamond com-

pany Almaz Rossii-Sakha has a supply agreement with the CSO, struck in 1990. But Komdragmet opposes the agreement, and has said it could net 30% more in diamond earnings sold outside the CSO structure

Market concern about the result should the loan proposal fail to get off the ground trimmed nearly 6% from De Beers' share price in two days' trade at the end of last week. The share has recovered, closing 425c or 4% ahead yesterday at R108.75

Industry sources said it was unlikely Russia would attempt a swift gem sale, because returns on the gems would diminish rapidly if prices were wrecked

But Russia's finances remain desperate. The IMF warned this week the country's stumbling economic reform endangered a \$1.5bn loan, the second slice of a fund set up to help rebuild the economy

30% jobless worldwide

CT 4/2/94

WASHINGTON. — Thirty percent of the world's labour force is either out of work or underemployed — a global jobs crisis gripping both rich and poor nations, a United Nations agency said.

"It's a crisis that in some countries could really explode and undermine the social fabric very badly," Ali Taqi, chief of staff of the International Labour Organisation, said

The Geneva-based ILO estimates that more than 820 million people worldwide are either unemployed or working at a job that does not pay a subsistence wage.

In a new report on the global economy called "Defending Values, Promoting Change," the ILO said the problem is no longer confined to developing countries but is afflicting industrial countries as well

"Few countries are spared a serious and in many

cases deepening employment crisis," ILO director general Michel Hansenne said in the report

"Industrialised market-economy countries, most of which two decades ago had achieved and thought they could sustain virtually full employment, now face an unemployment rate of 8.5%," he added

But it is in the poor countries where the crisis is most acute — and where the dangers are greatest. Taqi told Reuters the situation in Africa is particularly troublesome, with most countries there experiencing a continued major decline in living standards.

"Sub-Sahara Africa is a general disaster," he said.

He warned that the tentative steps toward democracy from Latin America to the former Soviet Union could be brought to a halt and even reversed if workers find they don't have the means to earn a decent wage.

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600 jobs at stake as cash-strapped De Beers faces quitting Ireland

The Argus Foreign Service

Argus Foreign Service (216)

DUBLIN. — After more than 30 years, De Beers may leave Ireland in a dispute with its 600-strong workforce here over a cost-cutting programme.

Workers at the industrial diamonds division at Shannon voted to reject a planned 10 percent pay cut and have asked for strike action to be sanc-

tioned. Now De Beers management has warned that it may move production elsewhere.

The company admits difficulties. Prices for its products have slumped and it is now suffering significant losses from the recession and increased competition. Last year staff at the Shannon plant were reduced from 750 to under 600.

The Irish Labour Court accepted that the company was still suffering "unsustainable losses" and recommended that staff take a 10 percent pay cut. They have now rejected that recommendation while offering to accept to a 5 percent reduction.

But management says the offer is insufficient and the situation is "serious." De Beers director Chris Taylor said

there was now a danger that the production carried on at Shannon would be transferred to other plants.

In a special message to workers before the vote, he told them: "You know the company is in serious trouble. This is a critical time for the future of the Shannon operation and the future of your job here."

West Coast treasure hunt

Lynda Loxton

A FLURRY of diamond exploration activity on the West Coast could lead to big increases in output within the next few years.

Diamond mining has been the preserve of a few small operators and giants De Beers Marine and CDM (Pty) in Namibia. Now a few independents are starting to take an interest in what has been called one of the few remaining largely untapped marine diamond deposits in the world.

On the home front Johannesburg Stock Exchange-listed Benguela Concessions has received a US\$15-million shot in the arm from Australia's Broken Hill Properties (BHP) to step up its search for viable marine diamond deposits. It has had a small vessel out on several concessions off the West Coast since just before Christmas and its larger sampling vessel, Geomaster, is due to set sail soon.

Chairman John Gurney, who is also professor of geology at the University of Cape Town, is cautious about when and where Benguela could start producing diamonds, but he hopes it will be soon. He has been prospecting off the West Coast for 17 years, starting with a tractor and a pump and knows the coast probably better than most experts.

Internationally, a UK-based company registered on the Vancouver stock exchange this week swept a group of 30 investment advisers down along the West Coast and into Cape Town for a

briefing on its coastal concessions.

Namco president Alastair Holberton said he planned to list the company on the Namibian stock exchange within the next three months, raising "not less than R50-million".

Namco has already raised a similar amount on the Vancouver stock exchange and will spend about \$3-million on exploration over the next year.

All this activity raises questions about the prospects for diamonds, especially if production increases dramatically because of the two independents.

Simpson McKie analyst Rodney Yaldwyn told the investment advisers on the Namco jamboree he was fairly bullish about diamonds. Demand generally depended on the state of the economies in North America, the Far East and Europe. All except Japan, perhaps, were showing signs of recovery and although sales by De Beers' cartel, the Central Selling Organisation, were expected to fall off slightly this year, they were expected to grow by between four and six percent a year from 1995.

Reports of new finds in the North Western Territories of Canada this week could mean the market will soon be flooded with diamonds.

Yaldwyn says this has to be balanced by the fact that many mines in South Africa and Botswana are "very mature" and reaching the end of their productive lives. New sources of diamonds would be needed to offset this and increased production off the West Coast would fill an important gap.

(216) WMI-17/2/94

FM 11/2/94
MINVEST

Star rising again

Some may worry about the state of the diamond market but interim results from Messina Investments (Minvest) show there is more profit to be made in diamond mining than in producing copper (216)

In the six months to December, Minvest made operating profit of R5,2m on turnover of R17m generated solely from diamond mining. This compares with operating profit of R2,7m on turnover of R32,5m in the six months to December 1992, when the Messina copper mine was still contributing to revenues.

The Messina mine was closed in January

FM 11/2/94

last year. Since then, Minvest has earned income from the Bellsbank and Star diamond mines, the latter making a growing contribution. Minvest bought Star from Loucas Pouroulis's Salene Mining for R8,3m in July 1992. Star had previously been unprofitable and came with a R20,5m tax loss. (216)

Unlike normal kimberlite pipe deposits, the diamonds at Star, as at Bellsbank, are found in fissures, mining these requires specialised knowledge and skills. Minvest MD Danie Kirsten says the Star mine was returned to profitability through carefully concentrating mining operations on fissures proven to be diamond-bearing.

Monthly production from Star is now running at 2 000 carats compared with 3 900 carats from Bellsbank, but it is planned to increase Star's output to at least 4 000 carats within about two years. The tax loss and continuing capital expenditure mean it will be about another five years before Star has to pay tax. The R1m tax charge for the six months relates solely to Bellsbank. Kirsten expects the tax rate to remain at about 20% for the next few years.

Minvest's listing was moved in November to the diamond sector and the rights issue in December of 630 000 shares at 220c was fully subscribed. The aim was to improve availability of this tightly held stock, of which directors control more than 60%.

The share has trebled over the past 12 months from a low of 150c to the current high of 475c — in the week after release of its results. Minvest put on 115c, equivalent to a 32% jump.

For the second half, it is predicted that EPS will at least match the 31,7c in the first six months. But an important consideration for investors is the conservative dividend policy. Dividend cover in financial 1993 was a stiff 4,4 times, imposed to build up cash during the changeover period with the closure of Messina.

At end-December, Minvest had R9,2m in the bank with another R1,8m to come in the second half from the sale of the remaining Messina Copper assets. Finances now look good, so more could be paid out. Kirsten acknowledges Minvest's cash position is "reasonable" and says the directors are looking again at dividend policy. *Brendan Ryan*

Namco dives for coastal diamonds

ARG 12/2/94 (216)

■ The rush is on for South Africa's rich marine diamond deposits as more international companies search for wealth off the west coast of South Africa and Namibia

WILLEM STEENKAMP

Weekend Argus Reporter

A NEW international marine diamond company is set to take on diamond mining giant De Beers in exploiting vast marine diamond deposits off the Namibian coast and the South African west coast.

Namibian Minerals Corporation (Namco) hopes to produce up to 3 per cent of the world's annual output of gemstone-quality diamonds by the turn of the century. Five modern ships, fitted with advanced marine mining equipment, will sweep the ocean floor for diamonds.

At the official launch of Namco in Cape Town this week, chairman Alaister Holberton, said more than 100 million carats of diamonds had already been produced on the west coast over the past 86 years.

He believed there was still a vast untapped diamond resource under the cold waters of the Atlantic Ocean.

Namco has acquired the rights to three deepwater concessions. Two concessions are situated to the north of Luderitz off the Namibian coast, and the third, concession 12B, is situated off the South African coast near the Olifants River mouth.

Roger Daniel, Namco operations manager, said it was estimated that the three concessions could contain about 35 million carats of diamonds.

The technology needed to mine varying types of seabed on a large scale and at depths of up to 300m has been developed and proven to be commercially viable over the past three years.

This has greatly reduced the lead-time to production compared with the time required to mine typical kimberlite deposits on land. Namco has already acquired the rights to the "tramrod" seabed crawler technology.

According to Mr Daniel, this is one of the prime recovery technologies in use for commercial diamond production.

The technology was developed by Alluvial Mining, the specialist subsidiary of the large Dutch marine mining and dredging group, Royal Boscalis Westminster. The technology is exclusive to De Beers Marine, Namco and the Australian BHP group which is involved with Benguela Concessions.

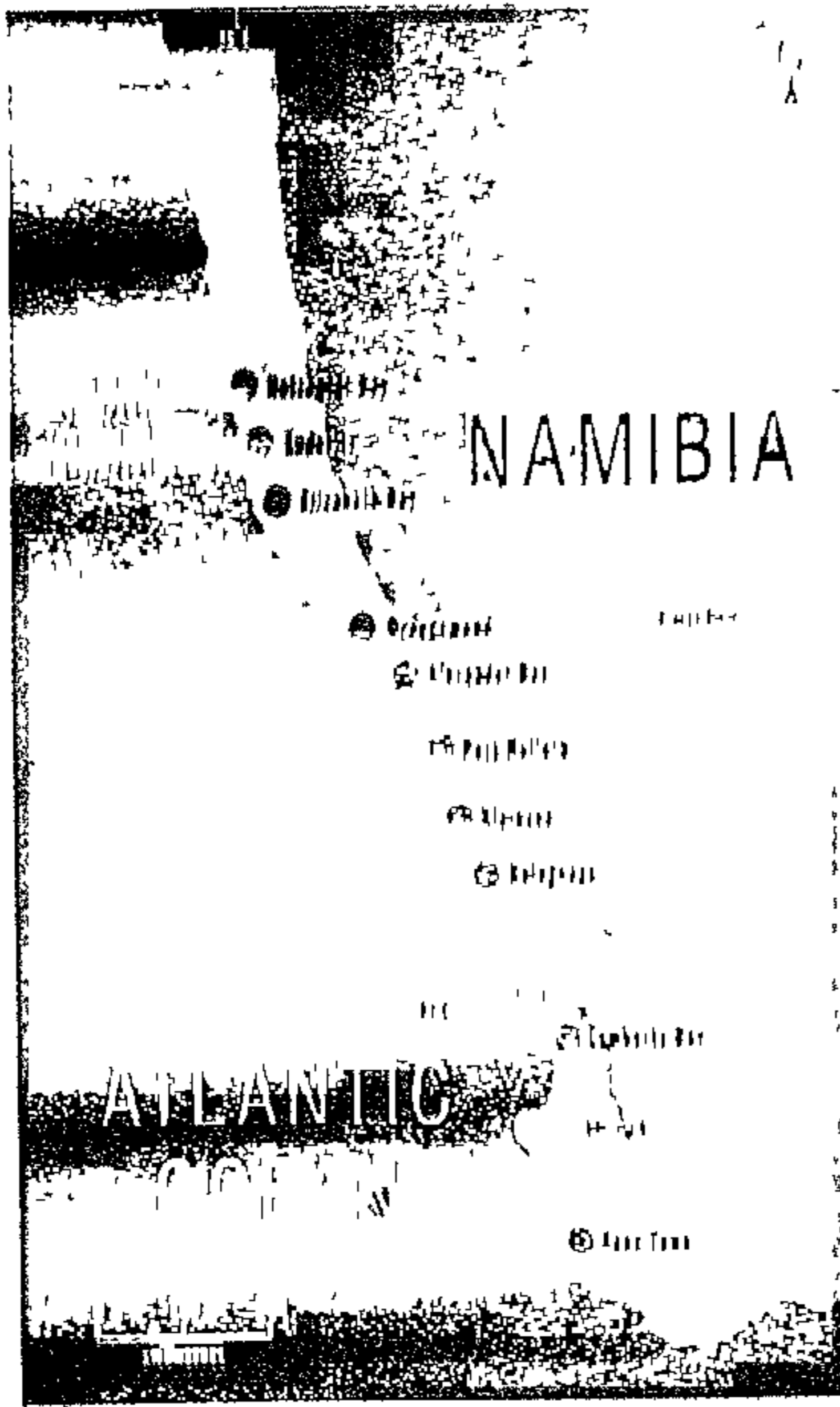
During the launch of Namco, it was announced that the company was backed by R59,5 million from foreign investors and was hoping to raise a further R50 million from local and Namibian shareholders to boost its capital base.

■ Diamonds were first discovered in the desert near Luderitz in 1908. Zacharias Lwala, a labourer, cleaning sand off the railway track near Luderitz, picked up a shiny stone and the boom started.

The town soon boasted its own stock exchange and amazing diamond strikes were made in the desert. Millions were made and lost overnight. Soon prospectors moved south and De Beers started the world-famous Oranjemund mining town.

CON DIAMOND AREA 1

CON DIAMOND AREA 2



□ **DIAMOND FEVER:** The map shows the three diamond concessions on the South African and Namibian west coast where newly established international diamond mining company Namco is set to recover diamonds.

Diamonds are trumps

MARC HASENFUSS
Business Staff

OCEAN Diamond Mining Holdings (ODM) rose sharply on the Johannesburg Stock Exchange this week to hit an all time high of 310c as sentiment for marine diamond mining spread

This follows a favourable response from the local investment community to the Namibian Minerals Corporation roadshow which rolled through Cape Town mid-week.

Until recently the prospects for diamond mining were unfathomable — but increased research and technological advances have shortened the odds considerably.

The tightly held ODM shares are not pulling institutional in-

vestors yet but are climbing strongly on small investments into the bargain priced diamond stock. Only 2 000 shares changed hands on Thursday.

However, a strong rumour in the market is that an unnamed institution is considering a "block buy" of ODM shares. Sanlam already owns a 15 percent stake in the group.

Additional interest this week in fellow listing Benguela Concessions — which is holding at 120c — also underlines the more favourable perceptions for sea diamonds.

Andre Louw, managing director of ODM, said "People are probably taking us (sea diamond miners) more seriously now. local brokers have been following us closely."

Mr Louw will be taking an in-

vestment roadshow to Canada and the United States in mid-March. With diamond fever high in North America Mr Louw and the company's brokers James Capel are likely to draw the crowds, and hopefully dollars too.

He said the group would have to consider a rights issue to dilute the tightly held shareholding if the group wanted to pull a foreign investor on board.

Funds from the rights issue, which should total about R50 million, would be used to acquire a much needed second mining vessel to complement the overworked Lucky D. Mr Louw hopes to secure the second vessel — which could cost between R25 million and R30 million by early next year.

The balance of the funds would be used by ODM to finance other exploration costs.

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ARG 12/2/94

De Beers in pay cut row ^d

Star 15/2/94

Dublin — De Beers is threatening to leave Ireland after more than 30 years because of a dispute with its 600-strong workforce over a cost-cutting programme.

The workers at the company's industrial diamonds division at Shannon have voted by a small majority to reject a planned 10 percent pay cut and have asked for strike action to be sanctioned

Now De Beers management has warned that it may move production elsewhere

The company admits that it is in difficulty

Prices for its products have fallen dramatically and it is suffering significant losses

Last year, in an effort to cut costs, staff at the Shannon plant were reduced from 750 to just under 600. (2/6)

The Irish Labour Court — the industrial disputes tribunal — accepted that the company was still suffering unsustainable losses and recommended that the staff take a 10 percent pay cut — The Independent.

COMPANIES

De Beers' jump forecast

Biday 15/2/94

ANDY DUFFY

DIAMOND group De Beers' earnings could jump at least 30% for 1993, and herald a further slackening in purchasing quotas, market sources said yesterday.

Forecasts suggest that earnings, including those from associates, will hit 740c a linked unit (573c) for the year, lifted by record gem sales last year and strong input from newest mine Venetia.

Forecasts for the dividend, which fell more than a fifth last year to 241.6c, range from 16% to 30%.

De Beers, which reports its full-year results in March, was also expected to lift from 85% to 90% the purchasing quotas imposed on its suppliers.

But analysts said such a move would stem more from pressure from suppliers in Namibia, Botswana and Russia than market justification.

De Beers' results were nevertheless likely to show a dramatic turnaround in its fortunes, against its dismal 1992 performance, analysts added.

The group had already shown the first impact of high CSO sales at the interim

stage, which cut stocks from \$3,77bn at the 1992 year-end to \$3,22bn.

Record full-year CSO sales of \$4,86bn were expected to have further boosted De Beers' diamond account. Venetia was expected to have made a pre-tax contribution of about R500m, against an estimated R72m for the previous 12 months (215)

Sources were divided over prospects this year, however Mathison & Hollidge analyst Barry Sergeant said a recent OECD report which forecast positive GDP growth this year for 22 of its 24 members boded well for diamond sales.

But other analysts cautioned that although the US economy was strengthening, European recovery was patchy, while key market Japan remained subdued.

Fergusson Bros analyst William Bowler said De Beers could not justify relaxing the purchasing quota now.

De Beers' share price has recently made strong gains, propelled in part by US buyers to an all-time high last month.

Diamond prices: Firms indicted

(216)

CT 18/2/94

WASHINGTON — General Electric Co, De Beers Centenary AG of Switzerland and two executives were indicted by a federal grand jury yesterday on charges of conspiring to raise and fix the price of industrial diamonds around the world

The Justice Department said the two firms account for 80% of the market in industrial diamonds, which are man-made gems used in saws to cut stone and concrete, in bits for oil-drilling and in machine tools

The indictment claims the price-fixing scheme was carried out by GE manager Mr Peter Frenz and De Beers associate Mr Philippe Liotier, beginning in 1991. It said the increased prices went into effect worldwide in February and March 1992

According to the government the pair and unnamed co-conspirators agreed to swop pricing plans before showing them to their own distributors and customers

If convicted under the Sherman Act, the corporations could be fined up to \$10m (R3,4m) or twice their gain or their victims' loss as a result of the crime, whichever is greater. The individuals face a maximum penalty of three years in prison and a fine of \$350 000 (R1 190 000) or twice the gain or loss, whichever is greater

Mr Frenz is a German citizen and the managing director of the European operations of GE's industrial diamond business

Mr Liotier is a French citizen and former director of Sibeka, a Belgian company with a 50/50 joint venture with De Beers to manufacture industrial diamonds in South Africa, Ireland and Sweden. He also was chief executive till 1992, of Diamont Boart, a Belgian tool manufacturer that bought diamonds from GE and De Beers

De Beers has corporate ownership links with De Beers Consolidated Mines Ltd — Sapa-AP

DIAMOND COMPANIES

Treasure of the deep

Marine diamond mining has come of age *Fun 4/13/94*

A new truth has emerged among diamond cognoscenti. It is that anyone with a sizeable investment in marine diamonds — and that means, effectively, the deposits off the southern African west coast — has a good prospect of turning very handsome profits.

Suddenly, the Cinderella of diamond mining — epitomised by the dreams of men perceived crazed with visions of untold wealth — has achieved new respectability. Investors now know conclusively that mining marine diamonds is possible and profitable.

Not much else will explain the extraordinary increases in share prices over the last year. In February 1993 it was possible to buy Ocean Diamond Mining (ODM) at 125c a share. Today, that purchase requires 300c, an increase of nearly 1,5 times.

Of course, all these stocks have been dragged along, willy-nilly, by the steadily rising price of the giant, De Beers. A year ago, it was a modest R69,35. Now it is at R107. Benguella Concessions (Benco), locked into a firm relationship with Australian mining finance house BHP, one of the world's largest, is trading at 100c compared with last February's 55c. And that is despite the overhang of a civil court action set down to be heard in the Cape Supreme Court in April.

At the other end of the scale is Broadacres Investments, a company which was one of the *Sunday Times*' Top 100 Companies in 1986. Essentially, Broadacres extracts diamonds using divers from the shallow "A" concession areas near Lamberts Bay.

It is a process heavily dependent on weather conditions, which is one reason why investors are wary of the stock. Even so, Broadacres' share price, helped by early indications from MD Peter Slott-Nielsen that the first six months to December 1993 have been reasonable, has swept from 20c a year ago to the current 52c.

What lies at the bottom of all this unusual activity and action? For many years we have known of exceptional deposits of gem-quality diamonds in gravel and pebble beaches in the territorial waters off the South African and Namibian coasts. Estimates of this reserve of diamonds vary from 1,5bn to 3,0bn carats.

Where they come from is apparently insoluble. The most popular theory is that the

primary origin was somewhere in the continental interior. These kimberlite pipes were severely eroded over millions of years (most of the kimberlites in southern Africa are between 80 and 120 million years old) and the diamonds were released and carried to their present locations — very approximately — by such rivers as the Orange and Buffels (216).

Benco chairman and geologist John Guerne says another river, the Great Karoo, is thought to have left the continent somewhere near the present mouth of the Olifants. This river is thought to have cut the offshore Cape Canyon which extends to the end of the continental shelf west of Saldanha Bay. The extent of the erosion over these enormous lapses of time is difficult to comprehend: the present pipe at Kimberley may be as much as 1,4 km below its original level.

Rolled here and there by wave action, occasionally sand-blasted by wind, only the best and largest of the diamonds have survived. Many of the smaller, industrial-type stones have simply disappeared. This is one reason, perhaps the most significant, for the presence of such a large concentration of fine diamonds in West Coast waters.

Diamonds are at the heart of the world jewellery trade, so the continued supply of gem-quality diamonds is of the utmost importance to the whole industry. Yet this has been in decline for some time. In 1990, De Beers' Central Selling Organisation (CSO)

about half — 602 000 carats.

What this implies is that gem-quality (fine) diamonds are diminishing in quantity. Sceptics may disagree but the evidence points that way. And it explains why De Beers was so keen to press Venetia, the new northern Transvaal mine which it owns with Anglo Vaal, into production and why the deposits off the West Coast are now perceived to be so vital.

The Orange River is the great dividing line. North of it, many of the deep water concessions are held by Consolidated Diamond Mines (CDM), the renowned producer which mines diamonds along a 160 km stretch of shoreline. These concessions have been explored and are now mined by De Beers Marine as contractor to CDM.

CDM, which produced 1,548m carats in 1992, is to become equally owned by the Namibian government this year. The terms of the deal remain secret and De Beers officials are silent, the market expects the Namibian government's present 68% share of CDM's earnings will be unchanged when the new ownership comes into operation. "The only likely benefit may be better defined mineral rights."

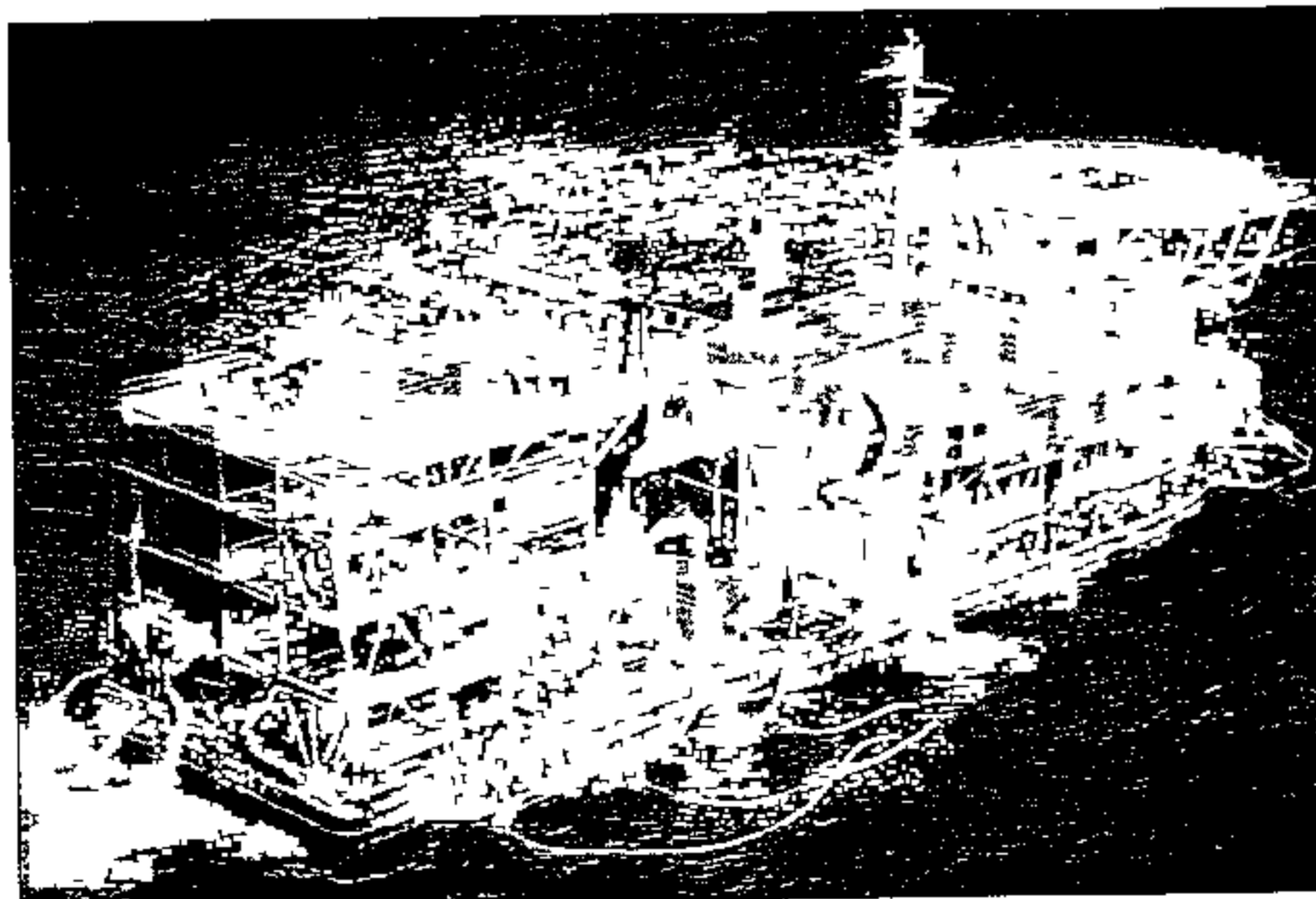
"On the face of it," says one analyst, "it seems to follow closely along the lines of the Botswana arrangement which gave the Botswana government an effective 70% slice of earnings."

Back in the Fifties, exploration for diamonds on beaches under water was started by two small companies. Between 1961 and 1965, these efforts were substantially reinforced by Sam Collins, a robust Texan known for hard living and salty language. He stormed up and down the coast with barges, pumps, pipes and a feisty approach and he was sufficiently successful for De Beers to buy him out and breathe a corporate sigh of relief. It was Collins who turned a dream into reality.

Since then, De Beers Marine has exhaustively explored these stormy and unpredictable waters with growing confidence and success. Over financial 1993, diamonds produced by De Beers Marine totalled 260 000 carats of CDM's total production and another 60 000 carats were produced by independent contractors. So 21% of CDM's total production in 1992 came from the sea.

For CDM, the harvest of the sea is becoming steadily more important. Analysts suggest that within about eight years, CDM will have exhausted its land-based diamond reserves and the mining operation will be exclusively at sea, producing perhaps as much as 1,4m carats of largely gem-quality diamonds a year.

The counter is that CDM's life of mine has



Trawling for stones unexpected riches

suggested that about 12,5% of diamonds mined ended up in jewellery.

However, the world's largest diamond producer in 1990 — Argyle — produced a very modest 5% of its total yield as fine diamonds. Similarly, the Kimberley mines — for long the principal SA supplier of De Beers' gem-quality diamonds — are producing progressively less: in 1980 1,2m carats, in 1992

Fun 4/3/94

216

been 10 years for the last decade, each year its life is extended. And it seems unlikely, with present technology, that CDM's annual production from marine sources will ever reach levels which exceed current rates of extraction from land. Guerny believes differently, however. "There seems no reason to me to believe CDM's production from marine sources is limited. De Beers Marine has plans for nine ships at least, which could certainly match current land production at CDM or even beat it."

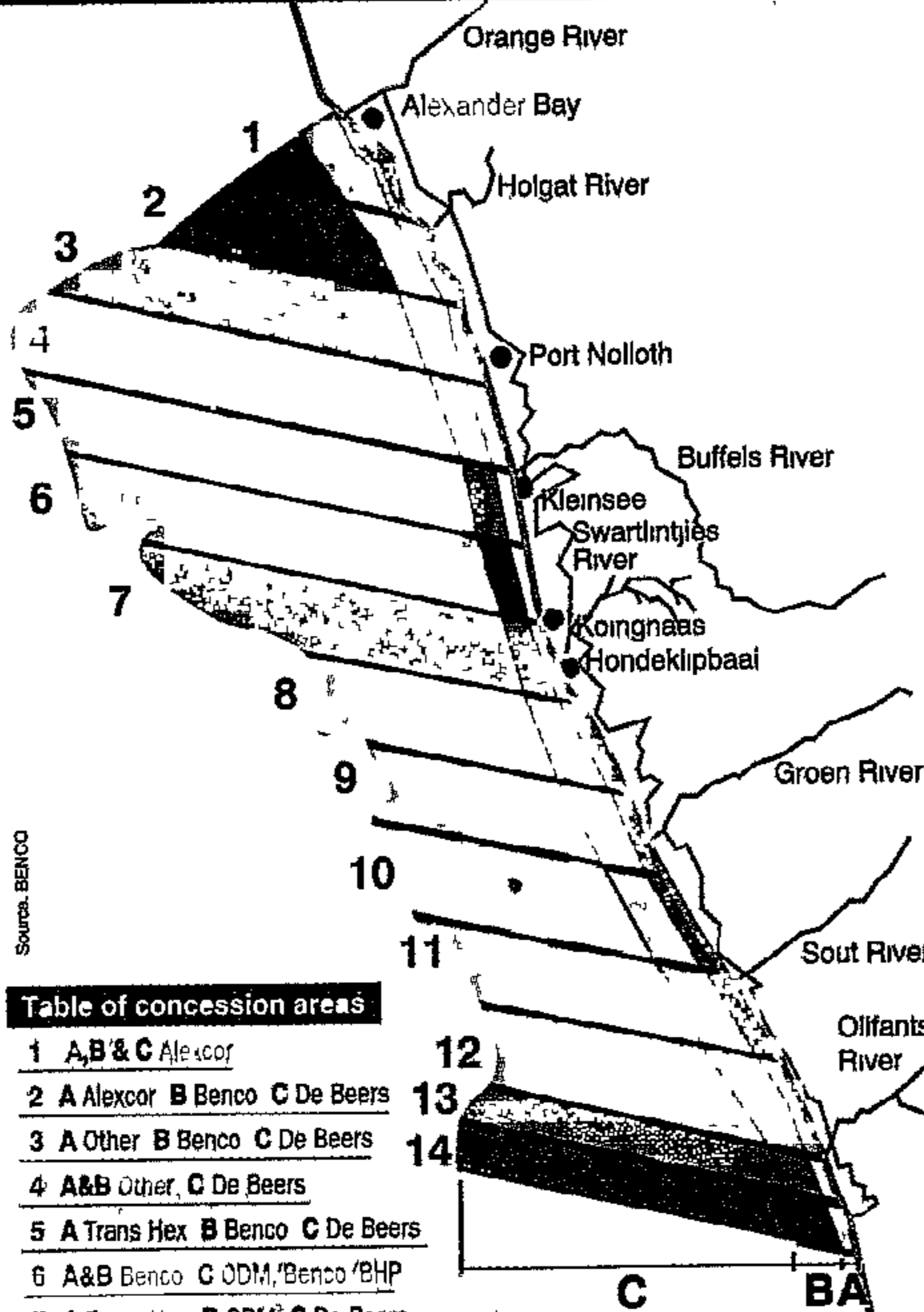
Meanwhile, De Beers Marine's fleet of vessels used in offshore mining and prospecting work is expanding. The company has four vessels in place and another may be converted soon to fit CDM's production plans. The ships are mostly converted oil-drilling vessels.

South of the Orange river, in SA waters, the diamond catch diminishes in size. There seems no rational explanation for this, other than wave action and tidal drift over long periods. Nevertheless, the size of diamonds recovered south of the Orange river appears about a third less, on average. Guerny takes issue with this. "Size does not diminish in the manner you describe. Average size is controlled by proximity to a river channel feeding diamonds to the sea from inland. At the mouth of the old Karoo river (the modern day Olifants) the average size of diamonds is just as big as at the mouth of the Orange."

Diamond lease areas granted in SA coastal waters are split into 20 contiguous, parallel strips (see illustration). Three zones are applied — A, B and C. Area A is 1 km wide and parallels the coast. Its inshore boundary is 30 m inside the low-tide mark. Area B extends seaward for another 4 km; Area C is generally in much deeper water, rarely less than 100 m deep. It extends to the limit of the continental shelf, a variable distance sometimes as much as 100 km.

The companies most involved in this area, De Beers aside, are ODM, Benco with BHP,

Marine magic: diamonds in demand



Source: BENCO

Table of concession areas

1	A, B & C	Alexcor
2	A	Alexcor
	B	Benco
	C	De Beers
3	A	Other
	B	Benco
	C	De Beers
4	A & B	Other
	C	De Beers
5	A	Trans Hex
	B	Benco
	C	De Beers
6	A & B	Benco
	C	ODM, Benco, BHP
7	A	Trans Hex
	B	ODM
	C	De Beers
8	A & B	Namagroen
	C	De Beers
9	A	Namagroen
	B	Tenmeses
	C	De Beers
10	A & B	Other
	C	De Beers
11	A, B & C	Trans Hex
12	A	Trans Hex
	B	Namco
	C	De Beers
13	A & B	Oceana
	C	Rand Mines
14	A & B	Other
	C	ODM, Benco, BHP

Concession area subdivisions

- A = shore line to 1km
- B = 1km to 4km
- C = 4km to continental shelf



and Rembrandt group mining arm Trans Hex

ODM was established in 1984 and subsequently backed by Sanlam. Now, about 76% of ODM's equity is held abroad and it is listed on both the Johannesburg and Namibian stock exchanges. ODM holds exploration leases to diamond concessions 6C & 14C in SA waters, 49,9% of which it has sold to Benco. This can be increased by Benco to 67% if it meets certain exploration expenditure and if the concessions are converted to mining leases. And ODM has also acquired the rights to concession 7B and has an option to area 9B.

In addition, ODM holds the rights to what is called the Island Concession covering the islands off the Namibian coast in the vicinity of Elizabeth Bay and Luderitz. These islands, with names redolent of romance and mystery (like Plum Pudding, Albatross, Ichabo), are SA possessions handed over to

Namibia at the same time as Walvis Bay. ODM MD Andre Louw says the Namibian authorities have confirmed their intention to abide by the terms of the concessions granted by SA.

The Island Concession, actually held by Trans Hex through its company Eiland Diamante, forms the basis of ODM's mining operations. These have recently turned an important corner with the company reporting a R646 000 profit for its latest interims. What it needs now is to broaden its capital base to acquire another sea mining vessel and to retire debt. At a guess, shareholders should expect the company to seek to raise another R50m, but Louw won't confirm this.

The important link is that which involves Australian mining giant BHP (1992 turnover Aus\$14,9bn, after tax profit \$588m). In late 1992 Benco announced a joint venture between itself and BHP. The agreement called for a two-phase programme involving an investment of US\$60m by BHP. The connection with ODM is that its areas 6C and 14C, 67% of which could ultimately be owned by Benco, constitute the core of the BHP joint venture (though Guerny says, "This is not Benco's perception").

The fly in Benco's ointment is its long running argument with Namibian Minerals Corporation (Namco). This Namibian-listed Canadian company is in contention with Benco about the structure of a proposed joint venture to exploit some SA diamond concessions. Namco is claiming damages of US\$72m and the case is set down for hearing in the Cape Supreme Court in April.

Other listed companies involved in the extraction of marine diamonds are Broadacres Investments and Trans Hex. The Rembrandt group mining company is characterised by its consistent results — they improve steadily and the last interims reveal yet another increase in EPS (this time to 125,3c) and a higher dividend (30c).

Up to now, however, Trans Hex's involvement has involved using contractors to conduct the operations in exchange for a royalty.

Broadacres operates in shallow waters north and south of the Olifants river mouth. Its problem is it is dependent on weather conditions. For once, these came up trumps for the company last year and indications are that the 1994 interims will be encouraging. Nevertheless, this is a stock which demands an unusually high reward ratio.

The key for investors is that gem quality diamonds continue to be in demand, supply from traditional land-based resources isn't quite what it used to be. The marine reserves of the West Coast are the largest and best in the world. The Minerals Bureau reports that, in 1992, CDM diamonds fetched an average \$320 per carat. By comparison, the Botswana product received \$100 and SA's a very modest \$90.

Marine diamond mining has come of age. Opportunities to participate are rare and, while investment still needs to be thought through thoroughly, when an opening comes it should be seized.

David Gleason

(216)

'Jury out on the dividend'

ARC 5/3/94

JOHANNESBURG — De Beers Consolidated Mines and its Swiss-based Centenary AG is likely to link next week's combined dividend declaration to the outlook for quotas for diamond producers, analysts say.

"The jury is still out on the dividend", Barry Sergeant of stockbrokers Mathison Hollidge said.

Analysts' forecasts for the dividend for the De Beers/Centenary Linked Unit range from a maintained 79 US cents to 100 US cents after expected higher earnings for the year to end December.

In local currency terms, the dividend will definitely be well up on the previous 241,6c because of a weaker rand versus the dollar.

Mr Sergeant said the dividend payout, only to be decided at the board's meeting on Tuesday just before the release of the results, would depend on the review of production quotas by De Beers' selling arm — the Central Selling Organisation (CSO).

"It's hard to see how they can justify increasing their dividend while the producers are stuck with quotas", Keith Bright of Foord Meintjies said.

A De Beers spokesman said in January the quotas were unlikely to be lifted in the first part of this year, but analysts said they hoped for more clarity on Tuesday or even an announcement that the quotas would be lifted later this year.

Solid results expected from De Beers

ARG 8/3/94

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Business Staff

DE BEERS is not likely to increase its dividend in dollar terms, in its year-end results to be announced today, unless it relaxes the present quotas on diamond producers, say analysts Keith Bright of Ford, Meintjes and Des Mayers of G O Flaherty.

De Beers' Central Selling Organisation currently only takes 85 percent of the production from contracted mines, and Mr Mayers says it would be inequitable if shareholders were rewarded as long as producers were made to suffer from reduced income because of the quotas.

But because of the deteriorating rand/dollar exchange rate, an unchanged dividend of 79 US cents translates into an improvement from 241c to 275c in rand terms.

Peter Davey of Frankel Pollak Vinderine, however, believes that earnings will be so buoyant that the dividend can be increased from 79,1 US cents to at least 86 US cents, equivalent to R3.

De Beers would have then at least increased their dividend cover as Mr Davey predicts that attributable earnings will increase from 372c to 538c, a 45 percent increase.

This is more optimistic than the 520c predicted by Mayers and the 525c to 530c range predicted by Bright.

The diamond account, De Beers's income from diamonds, is the most difficult part of the earnings equation to predict.

Central Selling Organisation sales were at their highest level since 1988 but in the first half of the year, the diamond account margin was 15 percent down from 21 percent a year earlier.

Mr Davey expects the margin to improve to 17,5 percent in the second half and Mayers also expects a "substantial" improvement.

■ **Metair Investments**, the motor components company controlled by the Wessels family, achieved a substantial turnaround from its poor 1992 results.

Earnings per share increased by 260 percent to 517c in the year to December to exceed its 1991 record result.

The dividend was increased by 225 percent to 130c, as chairman Elizabeth Bradley says that shareholders deserved some reward for standing by the company during its difficult time.

She says that trading conditions were somewhat better as vehicle sales increased by five percent and labour unrest and political stayaways were not as disruptive.

Turnover increased by 55 percent to R565 million, with sales up 25 percent.

The operating margin jumped from three percent to eight percent. The tax bill increased almost fivefold to R15,1 million but the effective tax rate of 32 percent reflected that tax losses remained to be used.

Record sales boost De Beers' earnings

BIDAY 9/3/94

ANDY DUFFY

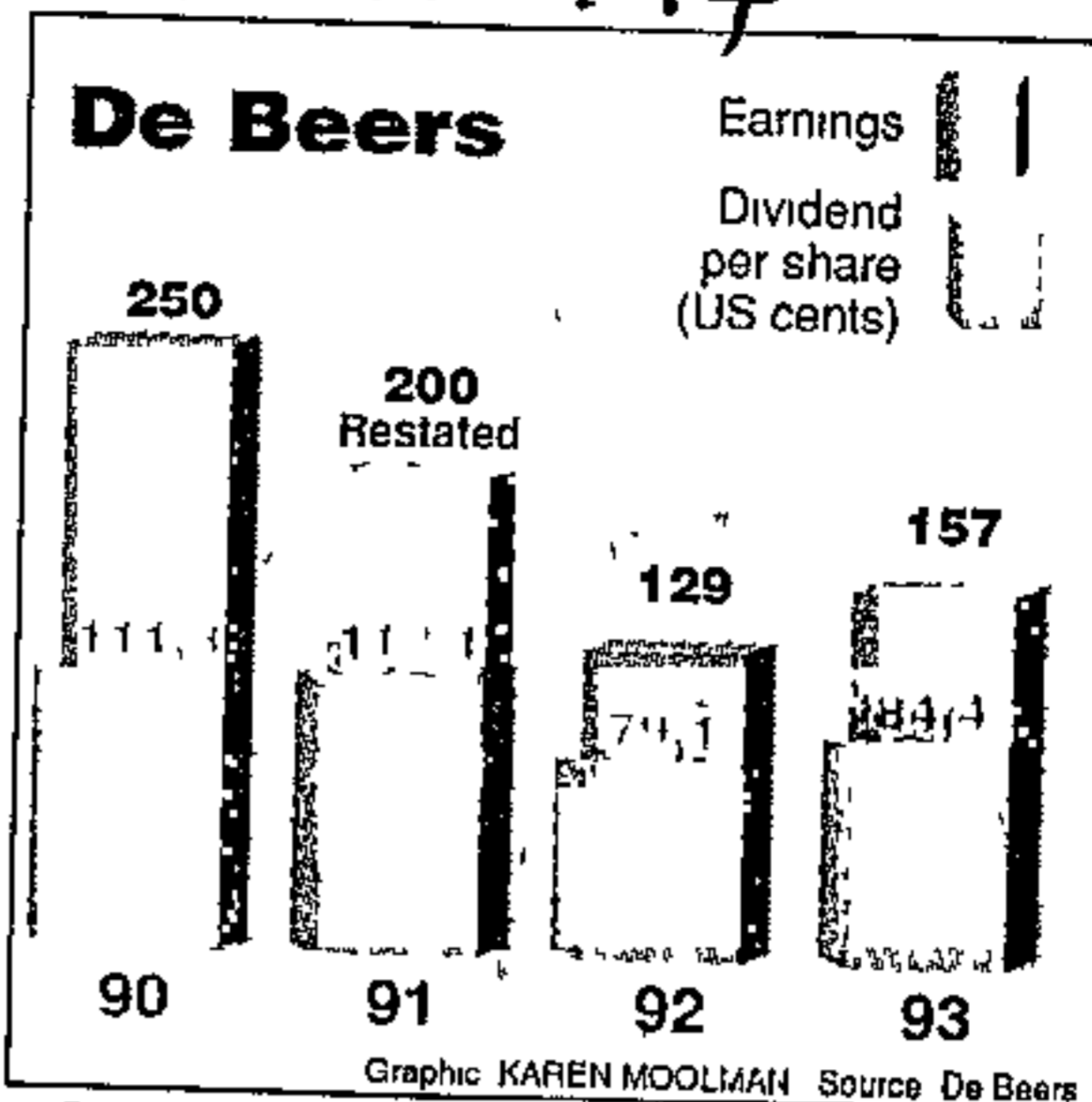
JSE mainstay De Beers' earnings jumped 22% to \$595m for the year to December, propelled by record sales and the removal of retrenchment costs (216)

A recovery in retail demand and greater input from Venetia also bolstered the performance, with the diamond empire pushing its dollar dividend up 7% to 84.4c a linked unit. Combined rand earnings hit 514c (372c), while the rand payout rose nearly one fifth to 286.8c a linked unit.

The results — which were above market expectations — were greeted with gusto on the JSE. De Beers' share price hit a high of R116, before closing on profit-taking at the previous high of R115.

Chairman Julian Ogilvie Thompson said retail sales could continue to rise this year if healthy GDP growth forecasts were borne out. But De Beers was not convinced yet that the recovery could justify relaxing purchasing quotas imposed on suppliers.

De Beers also warned that the threat of Russian diamonds sweeping the market was eroding confidence in the industry, and De Beers' ability to control it.



Ogilvie Thompson said the performance stemmed from record diamond sales, which jumped 28% to \$4.36bn last year and De Beers' painful attempts to stabilise the market in 1992.

The results also leaned heavily on De Beers Consolidated Mines. The company more than doubled attributable earnings to R745m, with the diamond account lifted from R205m to R614m, in part by Venetia.

To Page 2

De Beers

BIDAY 9/3/93 From Page 1

and the removal of retrenchment costs which had hit 1992 figures. De Beers Centenary's attributable earnings were effectively static at R390m (216)

De Beers' preliminary estimates suggested the three-year slump in jewellery demand was over. The US market had seen a 7%-9% rise in the value of diamond sales, while East Asia — which accounted for a major chunk of demand — had risen 16%-17% in value over the previous year.

But sales to Japan fell 7% in yen terms, with only the dollar's decline providing some relief. De Beers said sales had held up well, given the depth of the Japanese recession.

Fortunes in Europe were mixed, with the important Italian market hit badly. Sales in local currencies were off 4%, but dollar sales were down 17%.

The improvements fed through to De Beers' balance sheet, with debt dropping from \$1.5bn to \$1.2bn, while net asset value jumped from \$8.7bn to \$13.2bn.

But while sales had shown signs of recovery, the structure of the diamond industry remained overshadowed by Russia.

Russia accounts for more than 20% of world diamond production and desperately needs hard currency. It sold industrial diamonds worth \$350m last year, with gem quality stones worth \$40m-\$80m seeping out in December in direct contravention of the CSO agreement.

CSO MD Gary Ralfe said talks with Russian officials had helped stem the flow. Russia had made clear it did not want to disrupt the market, and it was not undercutting prices on polished stones. He was confident that Russia would agree to the renewal of the CSO contract next year.

But the market would remain worried by the threat of diamonds from Russia's gem stockpile — thought to be worth \$7bn — leaking onto the market.

The stockpile is controlled by finance ministry body Komdragmet, which opposes the CSO agreement.

Ralfe said De Beers backed a plan tabled last year, under which Russia would use its stockpile as collateral for a \$3.3bn loan. He was not confident Komdragmet would accept the plan but hoped the government would see things differently.

Sparkling earnings growth from De Beers

216

CT 9/3/94

From ANDREW DUFFY

JOHANNESBURG. — JSE mainstay De Beers' earnings jumped 22% to \$595m for the year to December, propelled by record sales and the removal of retrenchment costs

A recovery in retail demand and greater input from Venetia also bolstered the performance, with the diamond empire pushing its dollar dividend up 7% to 84.4c a linked unit. Combined rand earnings hit 514c (372c), while the rand payout rose nearly one fifth to 286.8c a linked unit.

The results — which were above market expectations — were greeted with gusto on the JSE. De Beers' share price hit a high of R116, before closing on profit-taking at the previous high of R115.

Chairman Julian Ogilvie Thompson said retail sales could continue to rise this year if healthy GDP growth forecasts were borne out. But De Beers was not convinced yet that the recovery could justify relaxing purchasing quotas imposed on suppliers.

De Beers also warned that the threat of Russian diamonds sweeping the market was eroding confidence in the industry, and De Beers' ability to control it.

Ogilvie Thompson said the performance stemmed from record diamond sales, which jumped 28% to \$4.36bn last year and De Beers' painful attempts to stabilise the market in 1992.

The results also leaned heavily on De Beers Consolidated Mines. The company more than doubled attributable earnings to R745m, with the diamond account lifted from R205m to R614m, in part by Venetia and the removal of retrenchment costs which had hit 1992 figures. De Beers Centenary's attributable earnings were effectively static at R390m.

De Beers' preliminary estimates suggested the three-year slump in jewellery demand was over. The US market had seen a 7%-9% rise in the value of diamond sales, while East Asia — which accounted for a major chunk of demand — had risen 16%-17% in value over the previous year.

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De Beers rewards shareholders

Business Staff

(216) ARLT 9/3/94
A strong improvement in the local De Beers company was the main contributor to the 21 percent improvement in the attributable earnings of the De Beers group

Total earnings, equivalent to 514c a share in South African currency, were slightly below market expectations, with forecasts almost all in the 520c to 540c range

The biggest disappointment of the results was the fall in the diamond account of De Beers Centenary, which holds the non-South African interests, from \$596 million to \$562 million

Chairman Julian Ogilvie Thompson says that the fall is partly accounted for by redundancy costs at the Namibian subsidiary CDM and the downsizing of De Beers Industrial Diamonds at Shannon in Ireland.

Centenary lost some of its share of the market to De

Beers Consolidated, which was bolstered by a contribution from the Venetia mine for the full year

Consolidated's diamond account swelled from R205 million to R614 million. The previous year's numbers were unusually depressed as it took its redundancy costs in that year

To the surprise of some analysts, the total dividend for the year was increased by seven percent to 84.4 US cents — equivalent in rand terms to a 19 percent hike to 286.8c

Shareholders will be rewarded at a time when producers are under pressure as only 85 percent of their production is bought by the Central Selling Organisation.

Mr Ogilvie Thompson says that while there has been a "pleasing" increase in sales it is too early to tell what the sales pattern will be for the year as a whole and therefore too soon to relax quotas

He would not comment on the CSO's plans for price increases

The De Beers balance sheet improved during the year. Although diamond stocks increased by 10 percent to \$4.12 billion, this was at a slower rate than the 28 percent increase in CSO sales to \$4.36 billion

Long and medium term liabilities fell from \$1.49 billion to \$1.20 billion and gearing was reduced from 17 percent to 10 percent

After three years of recession, retail diamond sales picked up during the year. Sales in the United States increased by at least seven percent, and there was a 29 percent increase in the average purchase price

A strong marketing push encouraged 30 percent of American brides to include diamonds in their wedding bands, and 75 percent of brides have diamond engagement rings

De Beers agent 'bought illegal diamonds'

An ex-employee claims De Beers ran an secret operation to buy up diamonds after Angola declared open trade in the gems. **John Grobler and Reg Rumney report**

POLICE in Namibia are investigating claims that Consolidated Diamond Mines, a De Beers subsidiary, was involved in an undercover operation to buy up Angolan diamonds

According to an 11-page sworn affidavit by former CDM employee George Thomas Pearson, the Namibian Diamond and Gold Branch was also actively involved in the illegal diamond buying operation

Pearson said he was also instructed to buy up rhino horn and elephant tusks, and given a pistol "in case anything went wrong with the deals"

He and his girlfriend had run the operation for six months last year from a private house in Windhoek

If true, the allegations shed light on how De Beers coped with the flood of diamonds from Angola that bypassed its closed marketing system when the Angolan government declared open trade of diamonds in Angola.

Asked for comment on the accusations, CDM denied the claims and said that Pearson had a criminal record of illegal trafficking in diamonds and other contraband

However, no evidence of such a criminal record could be traced in either the Namibian or South African courts

This week when approached a second time, a CDM spokesman said the company would not comment "It is a police matter. It is not proper that we comment," said Andre Marais, personal assistant to CDM managing director Abel Gower.

Inspector General Gerrit Badenhorst of the Namibian Police confirmed there was an investigation into a case of extortion in connection with the allegations, but refused to be drawn on what this involved. Badenhorst would not confirm or deny Pearson had a criminal record

Neither CDM nor the police denied Pearson's allegations directly

According to Pearson's affidavit, he and his girlfriend, Maggie Muscat, were set up in a private house in Windhoek during June 1992 with the express brief to buy up all available diamonds, particularly Angolan gems which were flooding the market at the time, for CDM under the express orders of a member of CDM security

Inquiries about the house revealed that it has intermittently been used by the Namibian Police and Security Branch to house guests or other people they had dealings with

Pearson named several high-ranking CDM and Diamond and Gold Branch personnel as his contacts during their illegal buying operations.

Names of suspected illegal diamond dealers were also supplied to him during this period by the officers in question

Pearson said in all, he and his girlfriend concluded 35 such illegal transactions, worth an estimated \$2-million in total. All transactions

were duly video-recorded and taped on the instructions of CDM Security and the Diamond and Gold Branch, some of which video-tapes he (Pearson) retained without his employer's knowledge as a form of assurance against possible future prosecution.

These tapes he left for safekeeping, he said, because he "did not trust them .. not to turn it against him."

"On a few occasions, smugglers brought in rhino horns and elephant tusks, which I was instructed to buy on behalf of (a member of CDM security and a senior Namibian policeman)

"Both gentlemen provided cash to buy these articles, which were subsequently delivered to either (of them) at the CDM Centre or at the garage at his private residence in Suderhof suburb," Pearson stated.

He claimed that on one occasion, CDM's head of security gave him R250 000 to enter Angola and buy diamonds from Unita, with the express orders to try and determine which route such diamonds were smuggled into Namibia.

(216) WJM 18-24/3/94

Unfriendly US does good turn for De Beers

8 Times [Buss]
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By SVEN LUNSCHÉ

DE BEERS' relationship with the United States has always been acrimonious. The latest indictment of the diamond giant for alleged price fixing is indicative of official US attitudes which effectively prevent De Beers from doing business there.

But De Beers had a lot to thank the US for last year. Were it not for buoyant sales of diamonds in the US, it is doubtful whether De Beers could have reported a 21.2% rise in net attributable earnings to \$595-million (1992 \$491-million) for financial 1993. 1313194

Underpinning the first increase in world retail diamond sales in four years, the US business improved by about 8% in value, says Jeremy Pudney, marketing director of the Central Selling Organisation (CSO), De Beers' London-based marketing arm.

The American Diamond Industry Association (ADIA) estimates that imports of polished diamonds surged by 26% to 9.7-million carats last year and were valued at almost \$4.5-billion.

The revival in retail diamond sales, in tandem with the economic recovery, boosted Christmas business alone to about \$11-billion, says the ADIA.

Mr Pudney says prices of US diamond jewellery also surged. The average price of an engagement ring rose by more than 29% in a year.

However, diamond sales in the two other major markets, Europe and Japan, which account for a respective 20% and 30% of the retail total, remained flat, says Mr Pudney. In domestic currency terms, sales in Japan fell by 7% and in Europe by 4%.



JULIAN OGILVIE THOMPSON

The Far East (excluding Japan) is fast emerging as a major market for diamond jewellery, says Mr Pudney. Korea, Taiwan and Thailand have overtaken Germany and France in sales. Overall sales to the region rose by 15% in value.

Prospects for world diamond sales this year will depend on whether the US recovery spreads to Europe and Japan, enabling a further rise in CSO sales on the back of last year's 28% improvement to \$4.4-billion.

De Beers chairman Julian Ogilvie Thompson said at the presentation of the 1993 results that retail sales could continue to rise in line with a modest improvement in world economic growth.

Whether this will lead to a concurrent rise in CSO sales is questioned by most analysts. They expect sales to remain stagnant or fall to about \$4.3-billion this year.

Another problem for De Beers is uncertainty about Russia. CSO managing director Gary Ralfe admits that Russia sold diamonds worth \$80-million in December from its stockpile. They went direc-

tly to the major cutting centres of Antwerp and Tel Aviv in contravention of Russia's agreement with the CSO.

After discussions with government officials, Mr Ralfe believes "Russia has no intention of further destabilising the diamond market".

But the uncertainty about Russia adds to a volatile supply situation which prevented De Beers from withdrawing the 85% production quota it has imposed on mines.

Evidence of oversupply is that De Beers' diamond stockpile increased by \$300-million last year to \$4.1-billion. The stockpile was in part boosted by the first full year of production from Venetia mine in the Northern Transvaal.

Mr Ogilvie Thompson said that in line with quota requirements, Venetia was mining lower-grade areas. But full production at the mine lifted the diamond account for the SA operations of De Beers Consolidated from R205-million in 1992 to R614-million last year.

Outside SA, the diamond account for De Beers Centenary declined by 6% to \$562-million (\$596-million). The group attributes the fall to several factors, including retrenchment payments at the industrial diamonds division.

In the long term, De Beers will also have to look over its shoulder to assess the impact of new diamond miners. The list is headed by the Lac de Grass mine belonging to Australia's Broken Hill (BHP) in northern Canada.

Mr Ogilvie Thompson said discussions with BHP about the marketing of Lac de Grass diamonds were taking place.

Although producers must be unhappy about De Beers' decision not to relax quotas, shareholders will be delighted at the results which were accompanied by unexpected increases in dividends.

De Beers unlikely to relax its buying quotas

B/Day 22/3/94

DE BEERS would continue restraining sales by its suppliers until a sustained recovery in demand reduced the diamond empire's record level of stockpiled gems, market sources said yesterday.

Though sales for the first two months of 1994 are estimated to have hit a record \$1.2bn, such levels were not expected to prove sustainable.

Depressed demand from the vital Japanese market and the prospect of more Russian gems reaching the market could also limit De Beers' room to manoeuvre.

Analysts said that at best the stockpile would fall marginally this year, while diamond sales would match last year's record \$4.36bn. But neither could justify De Beers lifting the 85% purchasing quota currently imposed on suppliers, despite its recent surge in earnings and dividends.

ANDY DUFFY

De Beers' strong 1993 performance was marred by concerns over its cash-consuming stockpile, which hit \$4.12bn, up 10% on the previous year and two thirds higher than its 1989 level.

The damage was inflicted in the second half as sales fell sharply, and De Beers bought more gems from its suppliers after its Central Selling Organisation (CSO) twice relaxed purchasing quotas.

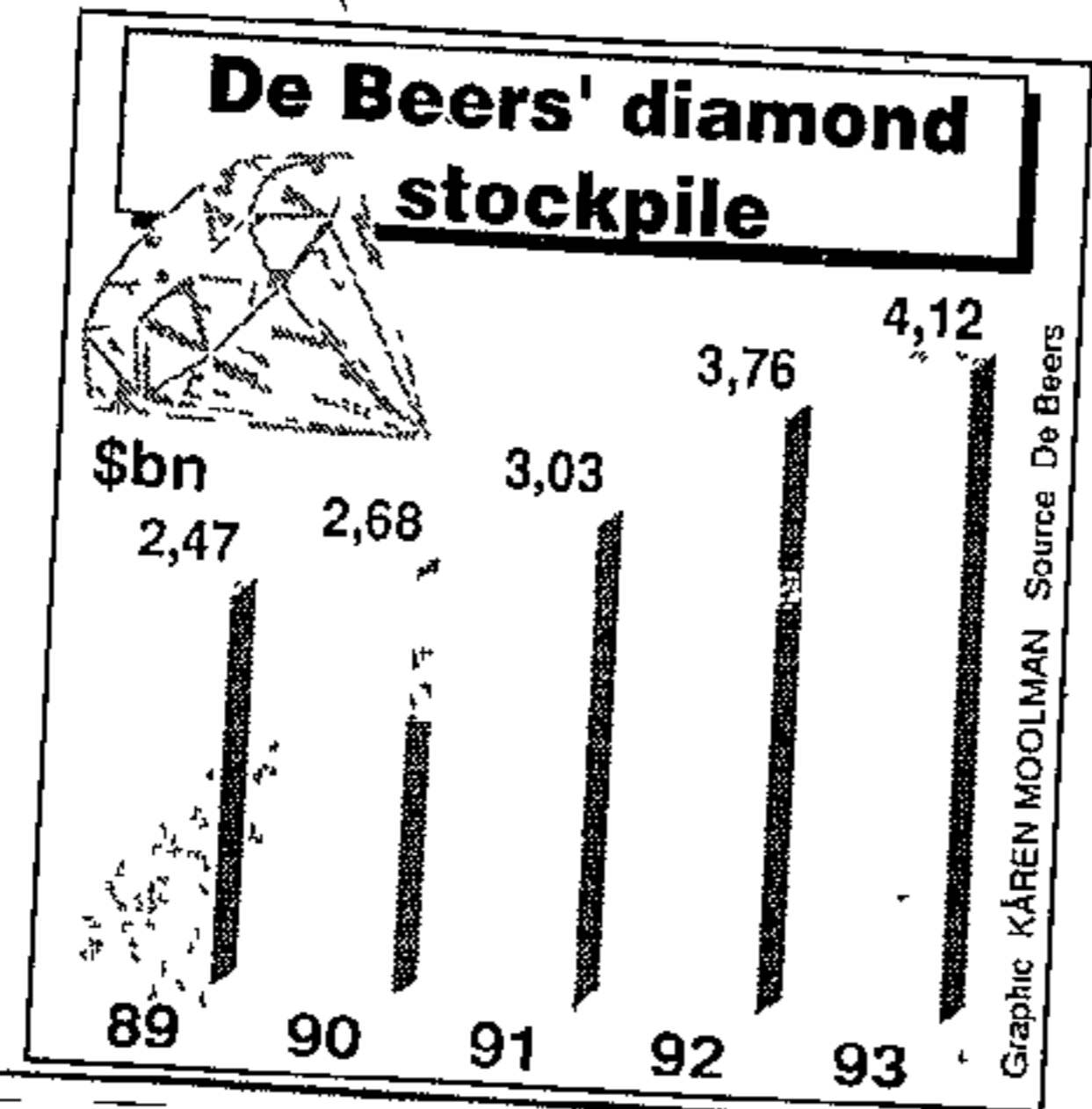
De Beers was also forced to mop up a portion of Russian gems thought to be worth around \$430m that seeped on to the open market outside the CSO structure.

A recovery in the US is thought to have propelled the rise in sales in January and February, but Japan remained depressed.

G O'Flaherty analyst Des Mayers said it was impossible to judge when the company might relax quotas. He added that stocks could be lower if no further Russian gems appeared on the open market. This could be a "critical factor" in De Beers' fortunes, he said.

Fergusson Bros analyst William Bowler said De Beers might relax quotas toward the end of this year as a "sweetener" in preparation for the renegotiation of several CSO contracts.

But De Beers would have to chase new markets in China and the Far East, such as Taiwan and Korea, if it was to significantly drain its gem reservoir. Other sources said De Beers could cut its own production, including output from the new Venetia diamond mine, to deflate supply.



Record 'sights' not unexpected

Star 22/3/94

■ BY DEREK TOMMEY

Diamond share analysts in Johannesburg said they were not surprised by reports from Antwerp that sales at the first two sights of 1994 had reached a record level of around \$1.2 billion

This lack of surprise was highlighted by the 25c drop in De Beers shares yesterday to R110 a share.

Local analysts said they did not expect this high level of sales to continue at the next sights on April 5. The market

could not continue absorbing such a large quantity of diamonds, they said (216)

There was also some doubt as to whether the January and February sales reflected a completely genuine demand

Analysts pointed out that the United States is planning to auction diamonds from its stockpile. And the more cynical of them tend to the view that De Beers could be either pushing more diamonds into the market to depress demand and prices at the US auction.

Sapa-Reuter reports from Antwerp, the world's largest diamond trading centre, that (sales) of rough stones from De Beers' London-based Central Selling Organisation (CSO) totalled \$650 million at the January sights and over \$550 million in February

Antwerp dealers said the pattern of De Beers supply appeared to be following last year's trend with early strong diamond deliveries timed to meet heavy post-Christmas restocking demand in the United

States, the world's largest market for polished stones

But they said that while the surge in US demand meant the market could absorb the first flood of stones for processing, the current level of supply was unsustainable in the longer term

"With the recovery in the US, the market can absorb the first two sights, but it cannot go on at this rate, otherwise prices are going to fall," said Mendy Kasziner, head of Kasziner Diamonds NV.

Anamint declares rise of 19,2% in dividend

31 Day 15/4/94

BARRY SERGEANT

ANAMINT, the largest stakeholder in De Beers/Centenary, has declared a 19,2% increase in its dividend to 372c for the year to March 31

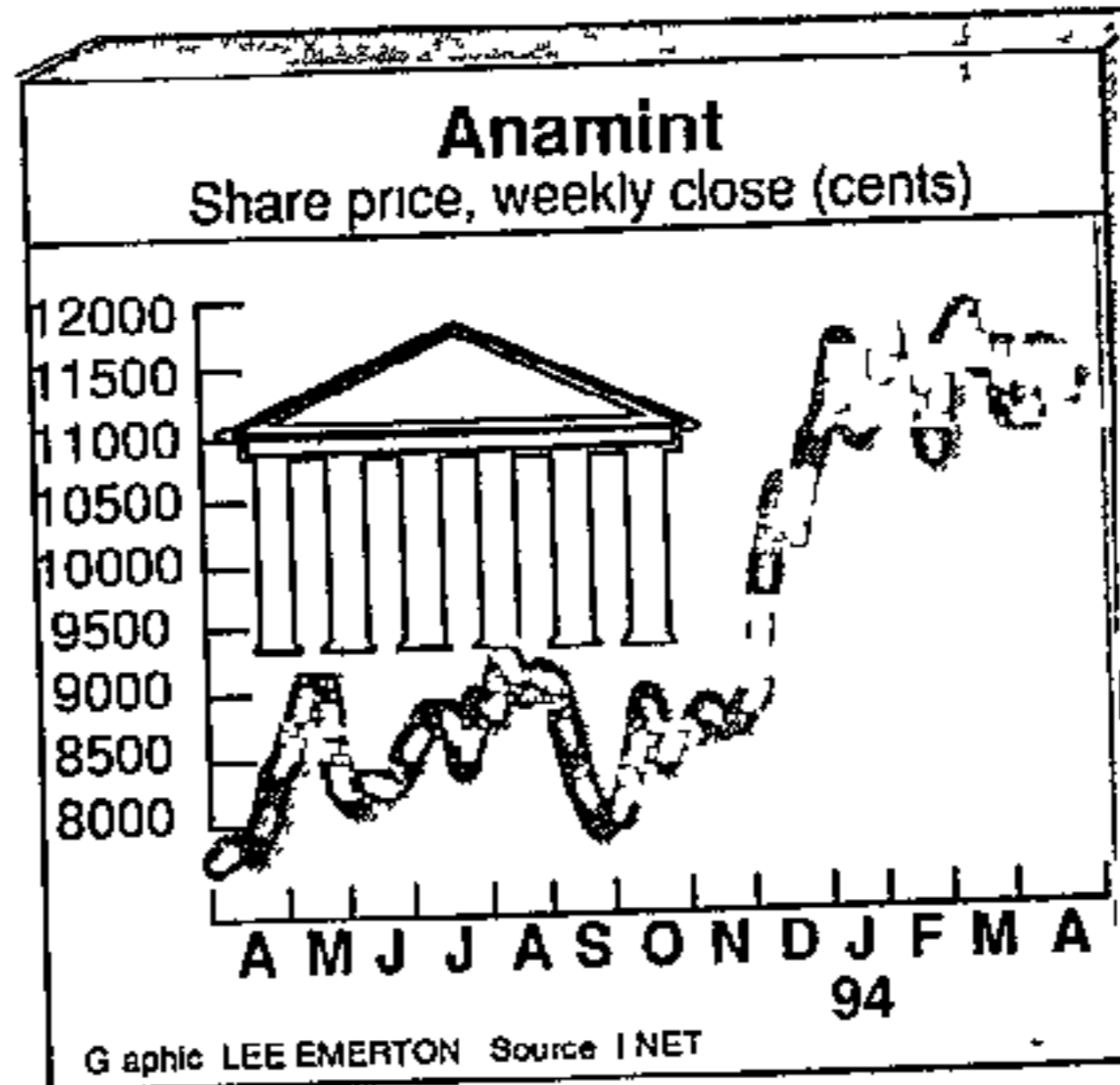
Attributable earnings increased 19,2% to 372c a share and equity accounted earnings increased 27,3% to 845c a share.

Anamint closed at 11 200c a share last night, offering a dividend yield of 3,3% (2,8%) and an earnings yield of 7,5% (6,5%) after the latest results. Capitalised at R11,2bn, about 93% of Anamint's net asset value on March 31 consisted of its holdings in associates De Beers Consolidated and Centenary AG, listed as linked shares

The balance of Anamint's interests were shareholdings in various unlisted diamond trading companies. Its holdings expose it to the global diamond business. In 1993 De Beers/Centenary's selling arm, the Central Selling Organisation, reported record sales of diamonds in dollar terms.

London sources say this year's sales of rough diamonds have been at encouragingly high levels, but that it is too early to forecast 1994's sales

Anamint's results follow an 18,9% increase in rand terms in De Beers/Centen-



ary's dividends for the year to December 31 1993. De Beers/Centenary's dividend increase in dollar terms for the same period was 6,7%, from 79,1c a share to 84,4c a share

In dollar terms, De Beers/Centenary's equity accounted earnings over the same period increased 21,7% and its attributable earnings 15,6%. The depreciation in the rand's value relative to the dollar accounts for De Beers/Centenary and Anamint's improved results in rand terms.

(216)

De Beers on course to repeat record gem sales

BIDAY 18/4/94

BARRY SERGEANT

DIAMOND giant De Beers kept pace with its record 1993 sales of rough diamonds for the first quarter of 1994, London and Antwerp diamond dealers said at the weekend

Trade estimates put the April sight at around \$450m, 20% down on the February sight, but enough to bring first quarter sales to around \$1.6bn, equal to the estimates for the first quarter of 1993

Analysts said this appeared to strengthen the case for the prospect of 1994 sales equalling those last year, when De Beers' Central Selling Organisation hit a record \$4.37bn. They said the Japanese economy was still something of a wild card, and that European recovery continued to be patchy

Market sources said the fall in the

April sight against that in February was probably due to large standing stocks in India, where the industry is drawing to a halt for the long May holidays. Bombay sources said Indian sights had fallen 30% over that for February

Dealers said the February sight, initially estimated at \$500m-\$550m, had been revised upwards and had probably been in the order of \$550m-\$600m

Analysts said the pattern of rough diamond sales so far this year seemed to have followed that for 1993, with the first two sights being sufficiently large to allow replenishment of pre-Christmas stocks

Antwerp dealers were reported to have said that rough diamond sales

outside the De Beers empire were rare

They said some gems had been seen this month from Angola, but very little from Zaire, Sierre Leone or Liberia

But the flow of Russian rough gems on European markets — widely seen as a threat to De Beers' hold on the market — had been less than expected. London dealers said some larger stones had been seen, and that the licensing problems which had held up Russian goods now appeared to be out of the way

Dealers also said there appeared to be encouraging demand from China, but saw the increased demand as non-sustainable in the short term

New York dealers said there could be an increased shortage of roughs in the city if Japanese demand picked up later in 1994

'Offensive': De Beers sues BBC

216

20/4/94

from LINDA ENSOR
LONDON — De Beers Consolidated and its international, London-based trading company the Diamond Trading Company are suing the BBC for libel following what they said was an "offensive and inaccurate" portrayal of the company.

A BBC spokeswoman said

yesterday the broadcasting corporation would be "vigorously defending" the libel action.

A writ was issued by De Beers' attorneys on Monday following the broadcast by BBC2 on Sunday night of a two-part programme, The Diamond Empire, which delved into the history of De

Beers, describing it as "one of the largest diamond cartels in the world"

The BBC spokeswoman said the second part of the documentary scheduled for this Sunday would definitely go ahead

No amount of damages has been cited in the writ as un-

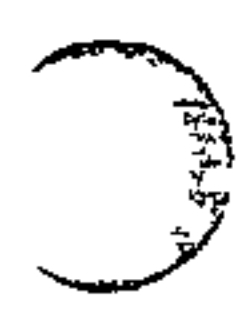
der British law this is left to the court to decide

De Beers press spokesman Mr Bill Lear said the corporation had found the programme "offensive and inaccurate" in a number of aspects

Mr Lear said De Beers had been aware for some time

that the film was being made and had pointed out certain factual errors contained in it

Some of these errors were not removed in the final version. He said De Beers had made repeated offers to the BBC to make available one of its directors to assist with the programme but the offers were turned down



De Beers' new mine to cut production

BIDAY 20/4/94
(216)

BARRY SERGEANT

DE BEERS' new diamond mine, Venetia, would cut production this year after more than doubling its output in 1993, chairman Julian Ogilvie Thompson said in the group's annual report.

The northern Transvaal mine produced close to 5-million carats in 1993, compared with 1,9-million carats in 1992, but Ogilvie Thompson said the mine would lower production in 1994 to minimise costs.

He said the mine also planned to pursue a lower grade satellite pipe and to gradually phase in costly waste stripping incurred in deepening the open pit.

De Beers/Centenary's preliminary estimates of world retail diamond sales had suggested a small overall increase for 1993 — the first in four years. Diamond sales could be expected to increase further "if the consensus forecasts of a higher rise in world GDP this year prove correct".

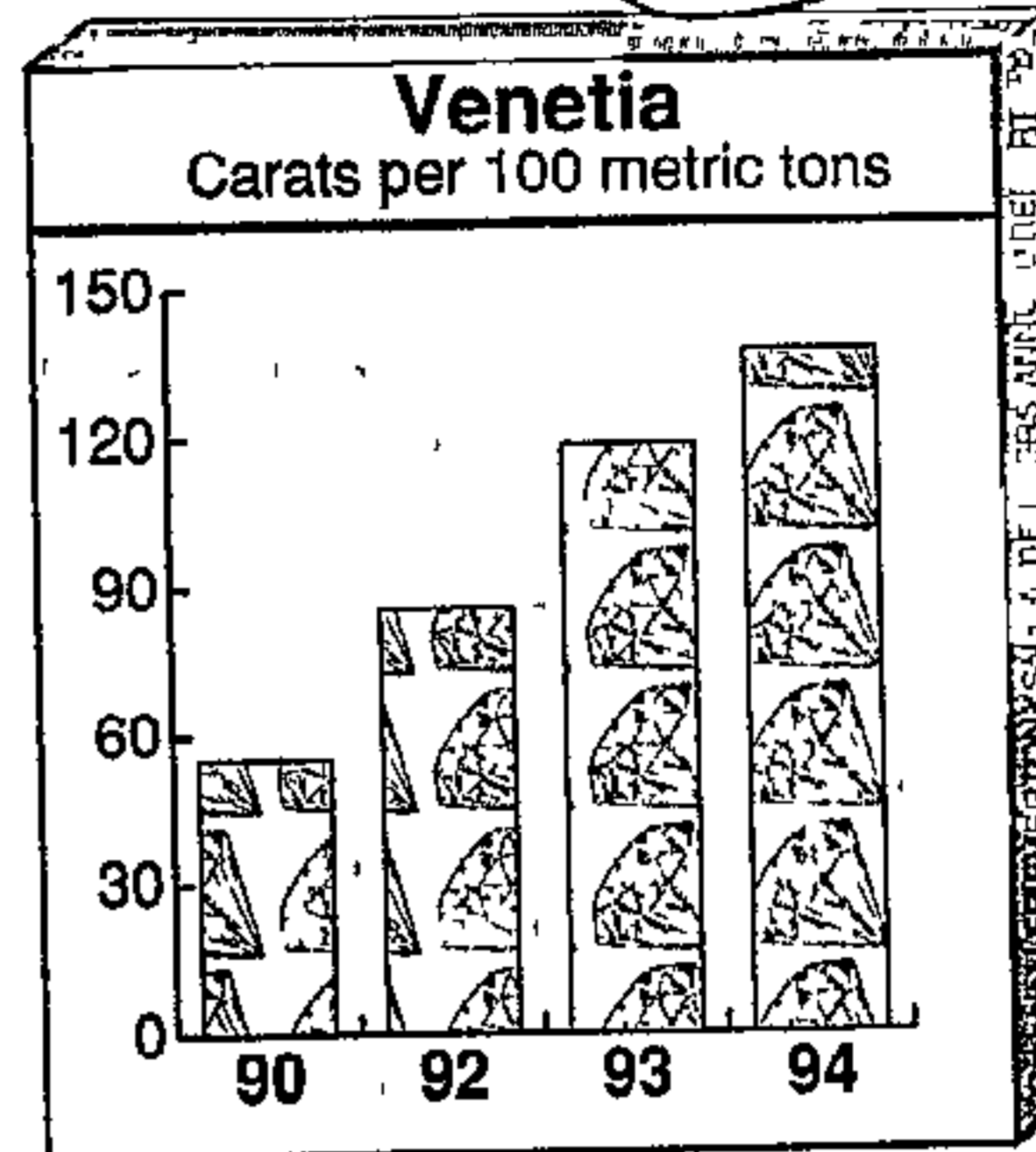
De Beers lifted attributable earnings 21,2% to \$595m in 1993, mainly through record rough diamond sales which rose 28% on 1992 to \$4,4bn. The dividend increased 6,7% to \$0,844, translating to a rand dividend rise of 18,7% to R2,868.

The report also detailed greater exploration and marketing efforts.

De Beers' SA diamond mines increased production 2,3% to 9,8-million carats, including the 3,1-million carat increase recorded by Venetia. Production was cut 41,6% at Finsch to 2-million carats, and 34,7% at Premier to 1,6-million carats.

Mines operated by Centenary AG cut production 9,3% to 14,7-million carats. Botswana production fell 7,7% to 14,7-million carats, and Namibian production fell 26,4% to 1,1-million carats.

Marine production in Namibian waters



increased 16,3% to 302 754 carats. Total production fell 5,2% to 25,7-million carats in 1993.

Ogilvie Thompson said Asian demand had increased substantially in recent years.

"Taiwan, Korea and Thailand have become the fourth, fifth and sixth largest diamond consuming countries and China, from a low base, is showing rapid growth."

Relationships with producers had been cemented during the year. "The Russian authorities," says Ogilvie Thompson, "continue to state that they have no wish to destabilise the diamond market and we are confident that co-operation will extend beyond the life of the present contract."

He said "discussions with the Angolan government will, it is hoped, lead to important decisions on buying, prospecting, mining and marketing that could make a major contribution to economic recovery when peace is finally restored".

De Beers maintains firm grip on market

(216)

W/M 22-28/4/94

De Beers is moving to retain control of the world diamond market, reports **Reg Runney**

DE BEERS is prospecting in Canada's Northwest Territories. Other attempts to keep a firm grip on the global diamond market are outlined in the just released De Beers Consolidated / Centenary annual report for the year to end December

De Beers chairman Julian Ogilvie Thompson notes that the company is "actively prospecting with some encouraging results, in eight countries on four continents, including large areas we have staked in Canada's Northwest Territories, which appears likely to become a diamond producer in the foreseeable future. We are in contact with the principal operators."

Ogilvie Thompson also puts a brave face on what has been seen as a big threat to the De Beers diamond cartel, the sale of rough diamonds by Russia outside the cartel agreement.

Acknowledging the Russians have sold gem diamonds from their stockpile and within their industry in contravention

of the producers' agreement, as well as "technical diamonds" in ways that also contravened the agreement. Ogilvie Thompson notes the Russian approach for 30 years has been that co-operation between two largest diamond producers in the world helps market stability.

The Russian authorities continue to state that they have no wish to destabilise the diamond market, and we are confident that co-operation will extend beyond the life of the present contract."

On Angola, another worrying uncontrolled source of rough diamonds in 1993, Ogilvie Thompson states: "Our discussions with the Angolan government will, it is hoped, lead to important decisions on buying, prospecting, mining and marketing that could make a major contribution to economic recovery when peace is finally restored."

Despite the big increase in the supply of Russian diamonds to the open market in second half of 1993, the combined profits of De Beers and Centenary recovered by 21 per cent to \$595-million, while the total dividend was raised by seven per cent.



Generations . . . The four members of the Oppenheimer dynasty on the boards of De Beers and Centenary. From left they are Anthony, Nicky, Harry and Sir Philip Oppenheimer

Record total diamond sales of \$4.366-billion for 1993 year were 28 per cent higher than in 1992. The results are attrib-

utable to the beginnings of renewed growth in retail sales of diamond jewellery worldwide, says Ogilvie Thompson.

But the real reason such figures can be announced, he adds, was the success of the Central Selling Organisation — the single channel marketing system on which the cartel depends — in averting the crisis threatened in 1992, and restoring "stability and confidence to the market"

Diamond sales fire up the trade surplus

(21) SAMANTHA SHARPE

DIAMOND exports rocketed last month to send SA's trade surplus soaring to R2,56bn from February's R1,09bn, Customs and Excise figures released yesterday showed.

March's exports rose 26% to R8,26bn, while imports rose only 4% to R5,7bn.

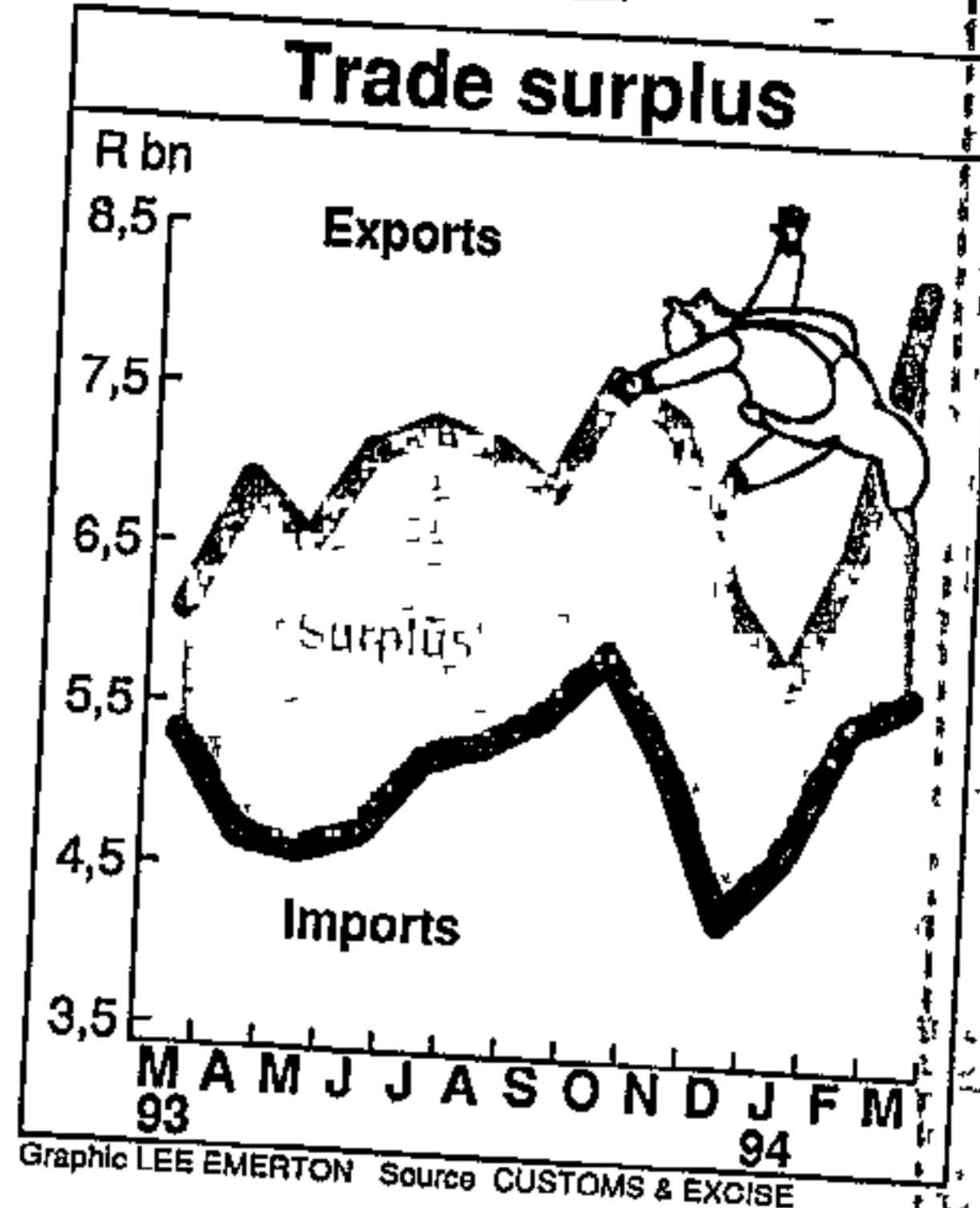
The strong rise in exports surprised economists, who expected the growth of imports to outstrip that of exports. They said the negligible growth in imports suggested the upswing had paused for breath in March. It followed two months of robust growth in the import bill.

Diamond sales led the acceleration in exports, with precious stone sales abroad of R1,96bn in March (R491m), a movement economists described as exceptional. However, they said such sales were erratic.

There was a marginal increase in exports excluding diamonds. If precious stones were excluded from both months, exports were R6,3bn in March compared with R6,09bn in February.

A pick-up in commodity prices and gold's resilience on international metals markets would combine with growth in the economies of SA's trading partners to underpin export volumes, economists said.

The first quarter's cumulative trade surplus was R4,7bn, which compared favour-



ably to the same time last year when the trade balance was a positive R3,4bn.

The latest trade balance was of particular significance in the context of current balance of payment difficulties, said Ed Hern Rudolph economist Nick Barnardt. A consistently high trade surplus would help alleviate the problem of capital outflows.

□ To Page 2

Diamond ~~Bill~~ 22/4/94

□ From Page 1

which had been plaguing the SA economy.

Old Mutual economist Ursula Maritz warned that reserves fell significantly in March, despite the healthy surplus. The effect of the positive trade balance was insufficient to offset what must have been large capital outflows during the month.

SA Foreign Trade Organisation economist Carlos Teixeira said figures for un-

classified imports suggested that low oil imports were keeping the bill down.

Another economist said the 44% rise in machinery imports over the first quarter suggested fixed investment spending was picking up as the recovery gained momentum. SA had a tiny capital goods industry, but it was encouraging to note that exports of machinery were also rising rapidly.

(21b)

Sparkle fades from diamond share Benco

12/23/44 (21)

By ARI JACOBSON

DIAMOND mining corporation share Benco fell 1/4 to 1/2 on (B) news that taken which would over the last four months reaching some 30,000 to 40,000 current 2100 a share.

A 12700 share of Benco in the 1940-1941 period was sold for 1000. The company's agreement with the United States Corporation, which contains the provisions for the production of diamonds, is the subject of a suit filed in the Federal District Court in New York City.

At the time of the suit, the diamond share was selling for 1000. The company's agreement with the United States Corporation, which contains the provisions for the production of diamonds, is the subject of a suit filed in the Federal District Court in New York City.

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DE BEERS

Fun 29/4/94

Profit margins taking strain

216

Activities: Mines gem and industrial diamonds and, through the CSD, markets more than 80% of world diamond production Investments include Anglo American Corp (39%), Minorco (21%), Amic (27%)

Control: Anglo American Corp 32,7%

Chairman: J Ogilvie Thompson Deputy Chairman N F Oppenheimer

Capital structure: De Beers Consolidated 380, 1m linked, deferred shares De Beers Centenary 4,2m shares of SwFr200 each Market capitalisation R42,3bn

Share market: Price 11 125c Yields 2,6% on dividend, 6,8% on earnings, p e ratio, 14,7, cover, 2,6. 12-month high, 11 600c, low, 7 325c Trading volume last quarter, 6,9m shares.

Year to Dec 31	'90	'91	'92	'93
Invest outside				
diamond ind (Rbn)	13 0	16,0	12,9	29 4
Diamond stocks (\$bn)	2,7	3,0	3,8	4,1
Diamond acc (Rbn)	2,3	2,2	1,9	2,4
Investment inc (Rm)	581	581	607	563
Attrib earnings (Rbn)	2,4	2,1	1,4	2,0
Equity earnings (Rbn)	3,4	2,9	2,2	2,9
Attrib earnings (c)	641	558	372	514
Equity earnings (c)	888	785	573	754
Dividends (c)	285,0	307,5	241,6	286,8
Net worth (c)	8 552	9 528	9 738	14 131

* Pro Forma financial statistics for De Beers Consolidated and De Beers Centenary

With the share trading between R100 and a record high of R116, compared with the previous peak of R94 in 1992, De Beers shareholders have justification for beiting out a refrain of "Happy days are here again."

Chairman Julian Ogilvie Thompson's latest review provides them with grounds for a repeat chorus when he says "Sales of rough diamonds by the CSO (Central Selling Organisation) started the year well Our balance sheet is strong Provided all major producers maintain their commitment to the CSO's marketing principles, the industry can look forward to renewed prosperity as the world economic recovery gathers pace"

Nearly everything, it seems, is just fine in the diamond market and those aspects that aren't can be handled by the CSO A feature of the latest review is the more robust than usual "tub thumping" by Ogilvie Thompson on the virtues of the CSO

There's a good reason for this A flood of new diamond production will hit the markets over the next few years from large mines coming on stream in Russia and North America, there is also potential for smaller operations in a host of countries including Zimbabwe, Tanzania, Ghana and Angola

The CSO needs to control this new production to keep its grip on the world diamond market And this draws attention to some negative aspects of De Beers' situation



Ogilvie Thompson . thumping the tub

Understandably, Ogilvie Thompson, plays up the plus factors such as record CSO sales during 1994 of US\$4,37bn, the resumption of growth in world retail sales of diamond jewellery during 1993 for the first time in four years, De Beers' strong balance sheet and continuing good sales by the CSO during the first sights of 1994

The negatives are that, despite a year of record CSO sales, the diamond stockpile continues to rise, reaching \$4,1bn (1992 \$3,8bn) while the CSO continues to restrict members to quotas equal to 85% of normal full output

Also, at 16,9%, the profit margin on the diamond account in 1993 was the lowest on record It compares with a margin of 21% during the depths of the 1981-1982 recession All this raises the obvious question how diamond account profit margins can fall (and stocks rise) in a year of record sales

Noted De Beers watcher James Picton suggests the CSO last year bought up large quantities of the diamonds sold outside its own channels He estimates the CSO lifted

its share of the world market from about 80% in 1992 to more than 90% last year

That explains how CSO sales would rise because of greater market share as well as the lower profit margin caused in part by the costs of buying on the open market and the continued rise in the CSO's stockpile

Says Picton "However one looks at it, 1993 was a bad year for De Beers, it was dressed up by necessity to appear good"

Despite this bearish view, even Picton predicts further growth in De Beers earnings and dividends this year, he forecasts 1994 attributable EPS of 549c (1993 514c) and dividends of 300c (287c)

G O'Flaherty analyst Des Mayers predicts a 25% increase in attributable EPS this year and a rise in the dividend payout to 350c He believes the market's bullish view on De Beers prospects is justified but he is worried about the long-term outlook, especially De Beers' liquidity.

According to Picton, after paying the final dividend, De Beers Centenary will have \$32m in the bank while De Beers Consolidated will be cash negative to the tune of R28m This probably explains the timing of the £150m loan stock issue the group has arranged

The annual report reveals the new Venetia mine produced 4,9m carats last year at a grade of 137,5 carats per 100 t, making it by far the largest and richest SA producer This year, to minimise costs, production will be reduced to an unspecified level

At levels over R100, the share price is being driven as much by perceptions about the fate of SA, because of its stake in Anglo American Corp, as it is by the diamond market

That makes for volatile swings either way because De Beers is exposed to international economic trends and the vagaries of local politics Investors sitting on appreciable capital gains might want to think about realising some of them

Brendan Ryan

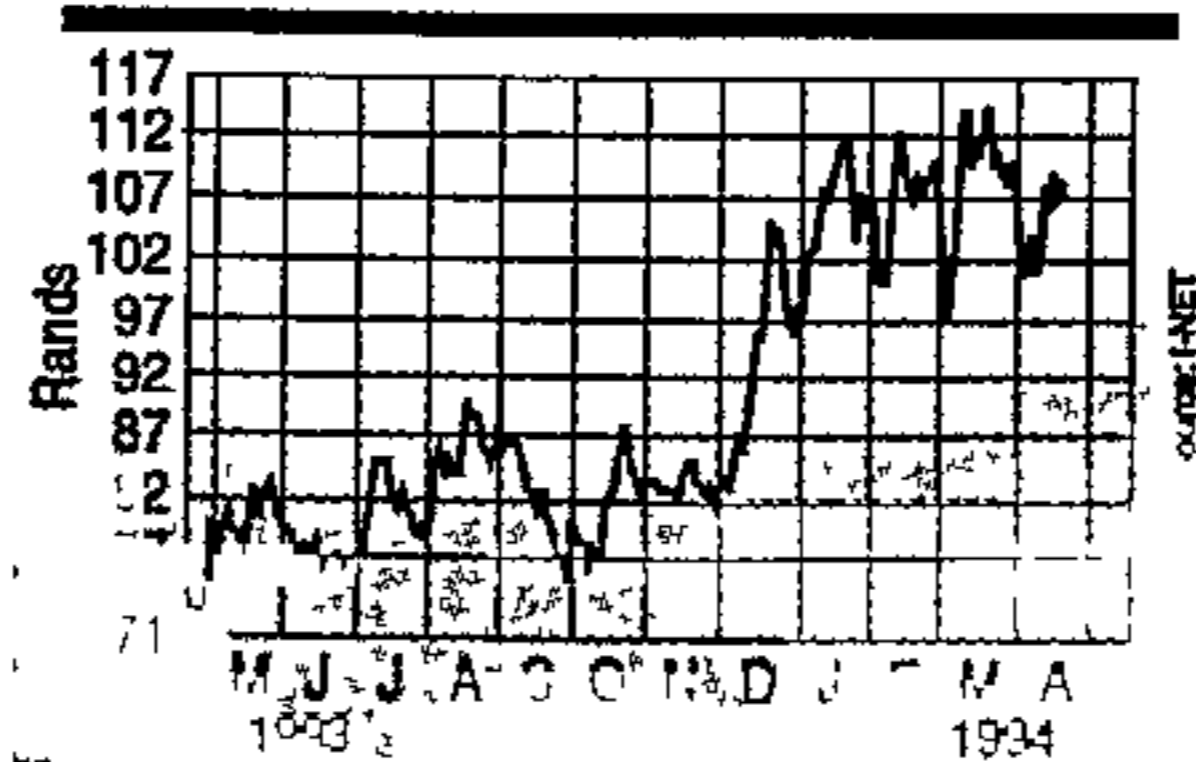
Fun 29/4/94

Haunted by its past

If this review had been written a month ago, it would have been easy to conclude that the jump in NEI's share price from a 1993 low of 270c to 660c was a clear indication the market was satisfied all cupboards in the group had at last been cleared of skeletons But, with the price back to 515c, giving up much of the ground regained, it is doubtful the same can be said now

The central problem is that one simply doesn't know what to believe Since the

De Beers



New diamond mining company to list

BIDAY

LAIS194

EDWARD WEST

CAPE TOWN — A new diamond mining company, Regional Resources, hoped to attract black investors when it lists on the JSE this month, director Eric Alexander said yesterday.

The company's board includes President FW de Klerk's son Willem, prominent black businessman Moses Leoka, and three Australian directors including William Loughton, a co-founder of the Ashton Mine in western Australia, the largest diamond mine in the world.

Alexander said the company would start pilot opencast mining production at its medium-sized diamond pipe about 18km from Postmasburg in the Northern Cape in September

Exploration activity was already complete.

Initial production would be worth R6m annually, with operating costs estimated at R2m, generating a forecast pre-tax profit of about R4m. The company intended to sink a shaft within three years.

Alexander said the mine would only be the start of its activities in southern Africa and the company was exploring in other areas in Botswana and Namibia.

The company believed SA's next government would change mining

legislation to allow the holding of mining rights only on areas that were being exploited, similar to legislation in Australia and Canada.

He said De Klerk had been helpful in solving bureaucratic problems.

After the listing, which would raise about R2,2m, about 60% of the company's shareholding would be held abroad, with about 20% held locally.

Start-up costs for plant and equipment at the mine were just R1m because the company had managed to "pillage" substantial second-hand equipment in the Postmasburg area, he said.

Mining grades were estimated at 12 carats per hundred tons of ore.

Moscow warning on De Beers deal

MOSCOW — A senior diamond industry official said at the weekend Russia was having problems in its agreement with De Beers and warned that it would be a mistake for the South African diamonds giant to toughen its stance towards Moscow.

Under its contract with De Beers, Russia sells 95% of its rough gem diamond output through De Beers' Central Selling Organisation (CSO).

But the contract runs only to 1995 and Leonid Gurevich, deputy head in charge of diamonds at the Russian State Precious Metals Committee, told Reuters it would be subject to further negotiations after it expired.

He said the Russian side would have a meeting with De Beers soon to discuss "a whole range of problems".

Gurevich, indicating that Russia was not happy with the present deal, said: "If De Beers want to change their attitude from a gentle stance to a tough one, it will be their mistake."

The latest Russian warning came amid signs of a split in the De Beers policy towards Russia following the departure this month of the firm's Moscow representative Richard Wake-Walker.

De Beers in Moscow said Wake-Walker, an experienced Russia specialist respected by Russian officials, had resigned and would be replaced by Raymond Clark. The company declined further comment.

"I think Wake-Walker was replaced because he's too gentle

Diamond contract in the balance

to work in Russia from the De Beers point of view. We knew him as a very good businessman and as a man who did not have hostile feelings towards Russia," Gurevich said.

Gurevich said Russia had not breached its contract with De Beers.

"There were claims last year that Russia was selling diamonds on the world market. These were special size rough diamonds given to Western refineries for refining. They had detailed specifications," Gurevich said.

"De Beers had bought similar diamonds from the world market. We asked them to bring us samples so we could compare them with those given by Russia to Western refineries. There was no reply," he said.

De Beers said in December that Russian diamonds worth between \$40m and \$80m had "leaked" onto the Antwerp mar-

ket without going via the CSO.

In claims denied by Russia, it blamed the Precious Metals Committee for unregulated sales of diamonds.

Russian officials say under the De Beers deal, industrial diamonds sold by Russia must first be offered to the company. They say Russia is not to blame if De Beers declines the offer.

They say De Beers and Russia both use the same definition to distinguish less valuable industrial diamonds from gems used for jewellery, but that the division between the two is vague.

Officials at the Precious Metals Committee, one of Russia's main policy-making forums for gems and precious metals, make no secret of their dislike for the De Beers deal and complain they have no way of checking if prices they receive are correct.

Many Russian diamond producers feel confident that they could expand their independent sales by modifying the De Beers contract without depressing world diamond prices.

Indian diamond traders last week reported small volumes of cheap Russian gems sold in India at prices that undercut those of De Beers.

Any new contract with De Beers must be ratified by the new parliament which is dominated by conservative nationalist and communist deputies.

Russian diamond industry officials have in the past urged De Beers to allow Russia the right to sell a bigger percentage of its rough diamonds on the open market. — Reuter

29/5/94 (216)

De Beers sees no threat from Russian gem sales

BIDAY 11/5/94

DIAMOND empire De Beers has played down suggestions that Russia would toughen its stance on selling the bulk of its gems through De Beers' Central Selling Organisation

The company said earlier this week that it was confident the Russian government would agree to renew its CSO contract — which stipulates that 95% of its production goes through the CSO — when the agreement expires next year

Market sources have warned that De Beers' grip on the diamond market could be loosened unless it is able to corral Russian supplies. Russia is thought to have a stockpile worth at least \$6bn

Russian State Precious Metals Committee deputy head Leonid Gurevich said at the weekend that Russia was not happy with the CSO quota. He said the contract would be subject to further negotiations after it expired, and that Russia wanted meetings with De Beers to discuss a "whole range of problems"

But De Beers said it was upbeat because of the nature of its 30-year relationship with Russia, and the fact that the agreement was "in the interests of both parties". The Russians had always stuck to the agreement. "The CSO provides an effective service for the Russians," a De Beers spokesman said

MUNGO SOGGOT

Negotiations for the renewal of the contract were in full swing, and there was no reason to believe there would be any changes to current terms (216)

In his chairman's statement last month, Julian Ogilvie Thompson said "The Russian authorities continue to state that they have no wish to destabilise the diamond market, and we are confident that co-operation will extend beyond the life of the present contract."

But he said that during 1993 Russia sold gem diamonds and "technical" diamonds in contravention of these agreements

He said cooperation between De Beers and Russia — the world's two major producers — "was widely recognised as being in the common interest"

In December 1991, following a decree by Russian Federation President Boris Yeltsin, the government of Yakutia — an autonomous republic within the Russian Federation which produces 99.8% of the federation's total diamond production — secured the right to retain control of 10% of its gem diamond production for independent sale.

The Yakutia government said in March that it would continue to market this 10% through the CSO

De Beers accused of imitating gems

Own Correspondent

LONDON — A wealthy French businessman has decided to sue international diamond merchants De Beers for £4 million (about R20m) after he discovered that his wife's gems were worthless pieces of glass.

Mr Guy Guillemard was reported by a newspaper yesterday to have said the two antique pink stones went missing while in the care of the company and were replaced with glass imitations.

The gems were given to Mr Guillemard's wife, Frederique, by a great aunt in 1988.

In 1990 the couple from Lozere, France, asked De Beers in London for a valuation.

The conglomerate's experts said the stones were worth £4m.

They advised the couple to send them to New York where they would be granted a certificate of quality by the Gemological Institute of America.

Mr and Mrs Guillemard took out insurance cover and deposited the diamonds at a bank in London while arrangements were made to ship them.

The gems were taken from the vault in March 1990 on the first leg of their journey to New York. Security guards took the locked and sealed parcel to De Beers.

But in April, the Guillemards were told the parcel had been opened and the stones re-examined and found to be glass.

(216) CT16/5/94

Russians to ⁽²¹⁶⁾ talk on new De Beers deal

CT 19/5/94

MOSCOW — Russia and De Beers have agreed to modify the terms of a major diamond marketing deal, but a top Russian official said yesterday they had different ideas about what they had to change.

"The two sides are talking about modifications to the existing agreement, but they assume completely different changes," Leonid Gurevich, responsible for diamonds at the Russian Precious Metals Committee, said by telephone. De Beers officials could not be reached for comment immediately.

Under the current marketing deal, which expires next year, Russia has promised to sell 95% of its gem diamonds through De Beers' London-based Central Selling Organisation, responsible for trading 80% of the world's gem diamonds.

Russia and De Beers agreed in a joint statement released yesterday after a day of top-level talks that the cooperation deal should be changed to take account of new Russian political and economic circumstances.

Cooperation would continue while the changes were agreed and Russia promised to check the leakage of gemstones to world markets, something De Beers officials have said breaches the marketing deal. Russia denies the charge.

But some Russian officials oppose cooperation with the South African firm, claiming they could get better prices for their gems elsewhere.

Gurevich said Russia's main interest now was in building up its own domestic diamond market and he did not want these efforts to be restricted by its agreement with De Beers.

Gurevich declined to comment on the talks.

Ocean Diamond Mining plans fund raiser

(216)
APR 28/5/94

MARC HASENFUSS
Business Staff

OCEAN Diamond Mining Holdings (ODM) is finalising plans to raise between \$20 million (about R73 million) and \$30 million (about R110 million) to buy a second mining vessel, expand its exploration programme and tidy up the last scraps of its debt.

Managing director André Louw said at the weekend that funds would not be raised through a straightforward rights issue, but that ODM would place a proportion of shares with selected overseas investors.

The foreign investors would act as automatic underwriters,

while shareholders would be offered new shares after the pre-arranged offshore placement as a "clawback".

Mr Louw stressed that although most of the shares would go offshore, ODM was not looking for one major foreign shareholder.

The two major shareholders in ODM are UK-based Ellerman Holdings (20 percent) and Sanlam (14 percent).

Most of the funds will be used to finance a second mining vessel, he said. "The basic design will be similar to our Lucky D vessel, but the new vessel will have a larger plant and a greater dredging capacity."

The rights issue will also increase the marketability of ODM's shares, especially considering that investor demand will be driven by the strong turnaround in the year to end March.

The group swung R3 million into the black (1993, R23 000 loss) on the back of a strong second-half performance.

Central to ODM's improved fortunes was the termination of a joint venture operation with Gal Marine and Yarn Diamonds in April last year, leaving the group free to mine its own concessions.

Mr Louw said the second half of the year was a better reflection of the operating capability of the Lucky D vessel.

Mining and sampling in the first half of the financial year was hindered by extensive repairs to the vessel.

He pointed out that port calls and repairs in the first half amounted to 51 days against 11 days in the second half, while mining days in the first half were 79 days compared with 121 days in the second.

Mr Louw pointed out that the Lucky D spends one month mining and the next sampling.

"Obviously, the answer is for us to buy a second production ship so that we can have one vessel on full-time mining and the other on full-time sampling."

De Beers fails to allay fears for CSO's future

MUNGO SOGGOT

INVESTORS were anxious about the future of De Beers' Central Selling Organisation (CSO), despite the diamond cartel's sanguine view of Russia's increasingly assertive stance on its CSO agreement, analysts said yesterday.

The deal — which stipulates that Russia sells 95% of its rough diamonds through the CSO — is up for renewal next year.

But the market has been unnerved by reports that elements within the Russian government oppose the renewal, and that De Beers was offering to reshape the existing contract in a placatory bid.

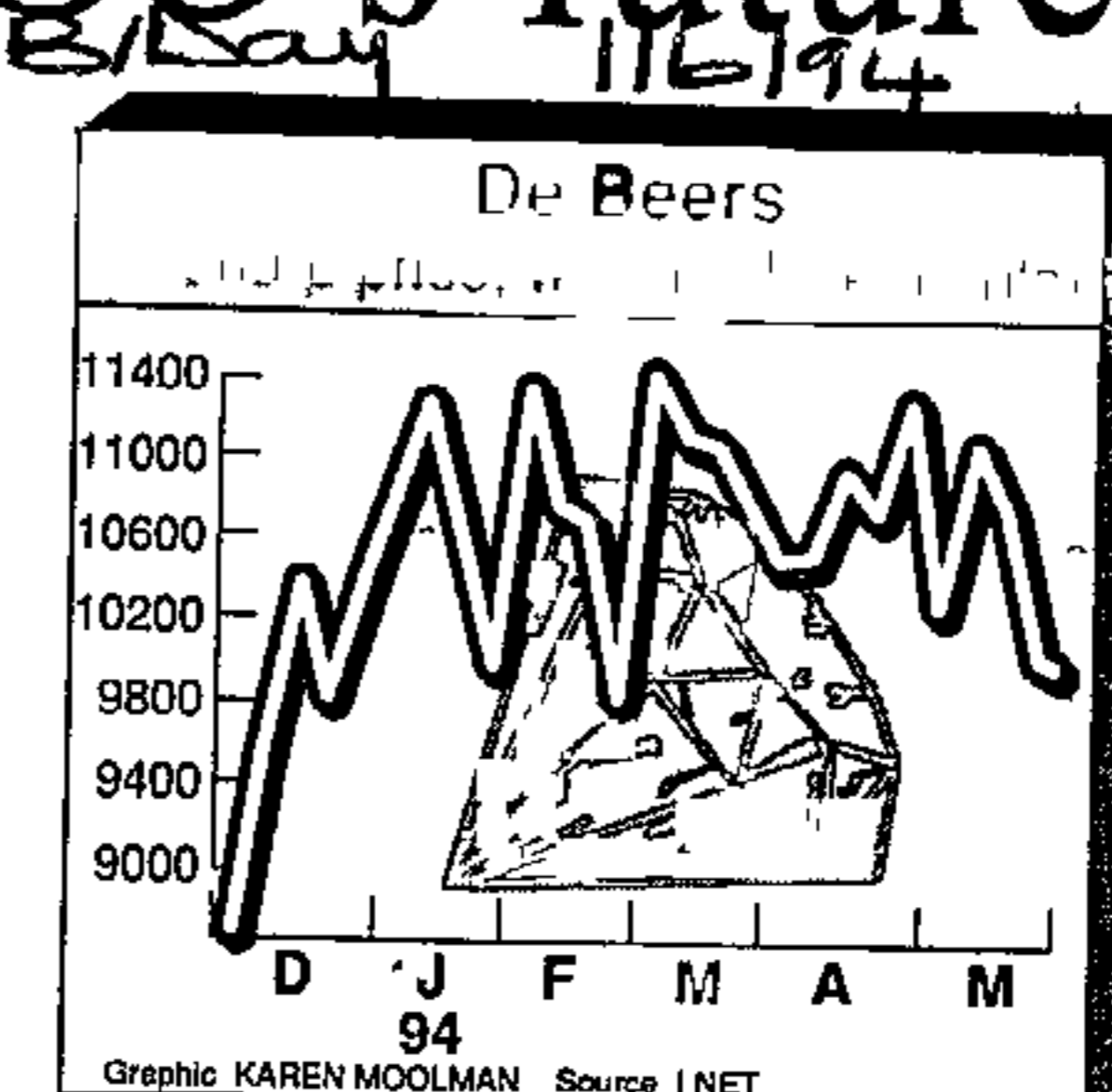
The CSO's control over the diamond market could be severely weakened unless it reduces Russia's gem stockpile, thought to be worth \$6-\$8bn. (216)

De Beers has said it would renegotiate the terms of the contract when it comes up for renewal. Both sides have agreed to keep the talks confidential. But Russia apparently broke that agreement at the weekend, when the state precious metals committee head Yevgeny Bychkov said Russia intended to set up its own market.

De Beers said it was not concerned about the development, as there were many diamond trading bourses worldwide.

The company nevertheless slipped on the JSE on Monday, at one point hitting R100 before closing 25c down at R100,25 on deals worth R14,3m.

G O'Flaherty & Co analyst Des Mayers said it was difficult to predict what could happen in negotiations between De Beers and Moscow and that the relationship between the two parties had entered an "intricate stage" because of political develop-



ments in the former Soviet Union. But another analyst said the establishment of the bourse might be part of a "staggered exit" by Russia from the CSO. He said it was likely the Russians would renew the agreement, but the new terms would stipulate that Russia sell about 75% of its rough diamonds through the CSO. And after the next agreement expired, Russia would "phase out its agreement with the CSO to a considerable degree", cutting and polishing "much more" than 40% of its diamonds and marketing them through the new bourse. He said the key to the negotiations was that Russia had the "bulk cream of the world's diamonds". He said Bychkov had openly said he could get 20%-30% better prices for Russia's diamonds on the open market than through the CSO. Another analyst said the new bourse might weaken the incentive to leak diamonds out of Russia.

A diamond is forever and De Beers shows how it, too, will live up to its slogan

Star Syndicate plays the global piper

4/6/94 216

WHEN times are good they sell, when bad they stockpile or cut back, but they're always on top of their market, writes
NEIL BEHRMANN from London

DURING the Great Depression, Sir Ernest Oppenheimer formed the De Beers diamond cartel to combat an international gems slump

The ingenious monopoly, formally called the Central Selling Organisation (CSO) but known as the Syndicate in the gems trade, was established to control the supply and sale of rough diamonds. The formation of the CSO was urgent. Demand for diamonds had collapsed following the 1929 stock market crash. New southern African diamond discoveries threatened to swamp the market.

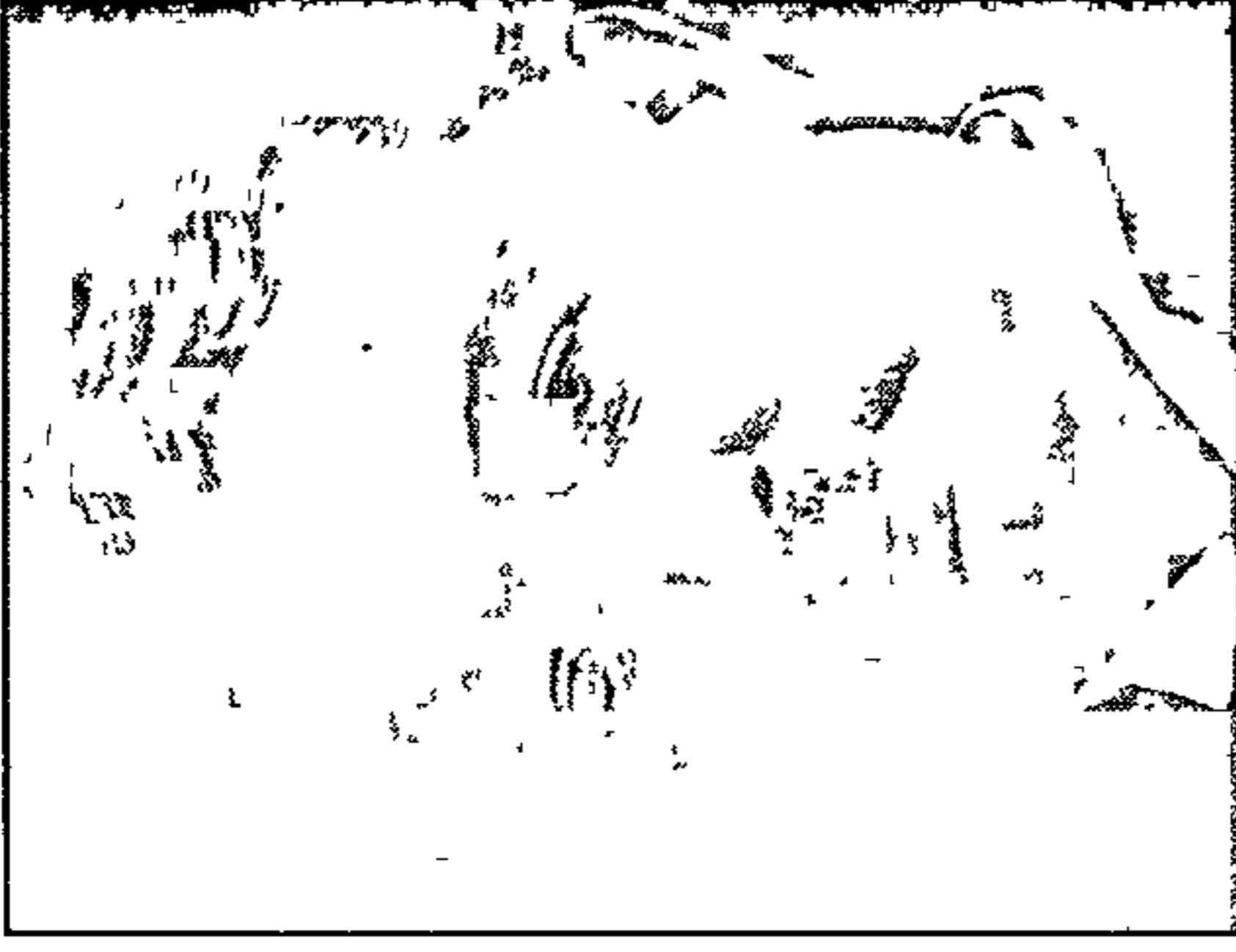
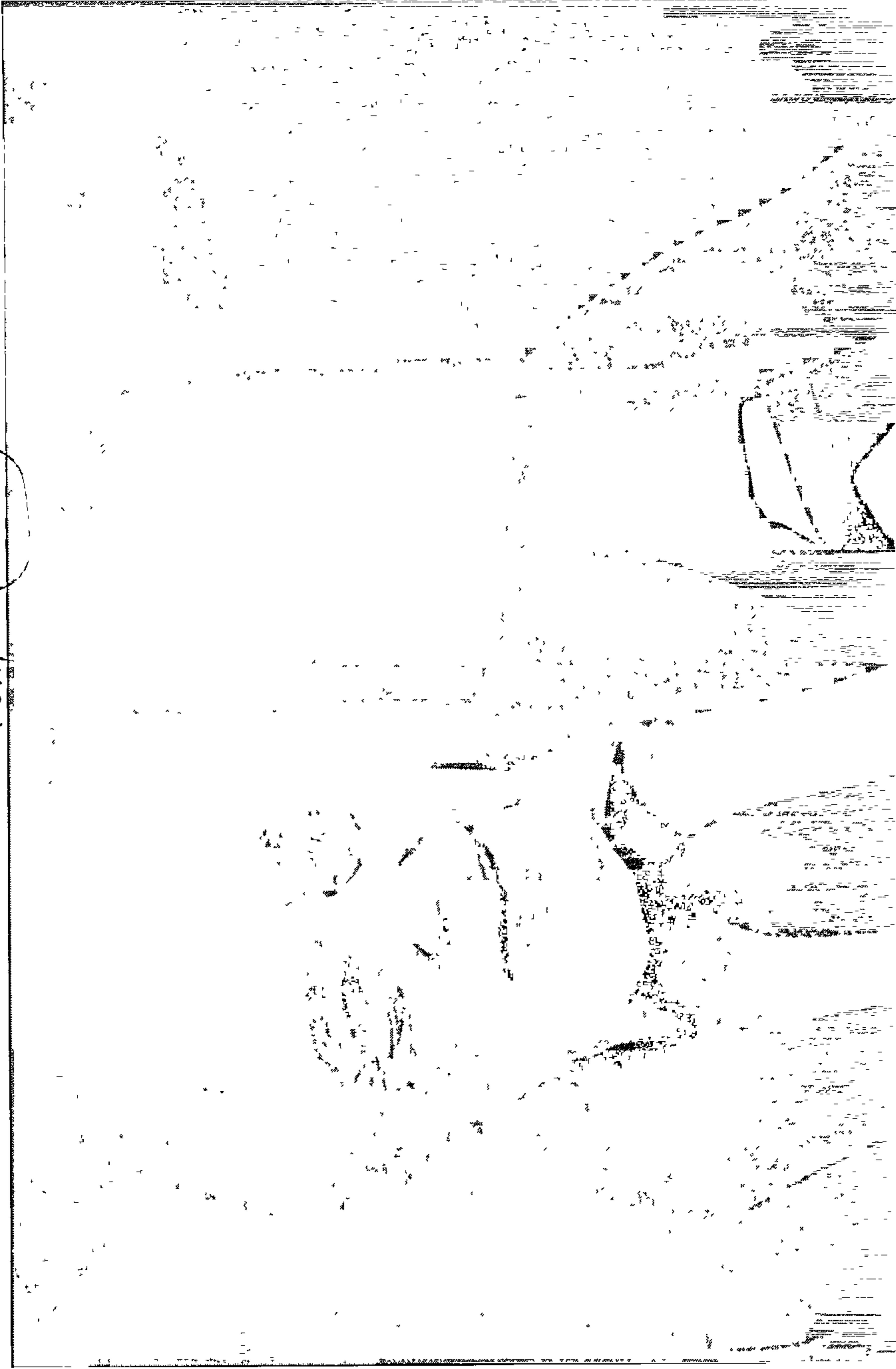
This year, De Beers is celebrating the 60th anniversary of the Diamond Trading Company, the selling arm of the CSO. Yet despite annual diamond sales of \$4.4 billion (about R16 billion), the cartel is encountering nagging problems. Supplies from Russia and other key producers are outpacing demand and Canada threatens to become a major producer by the end of the century.



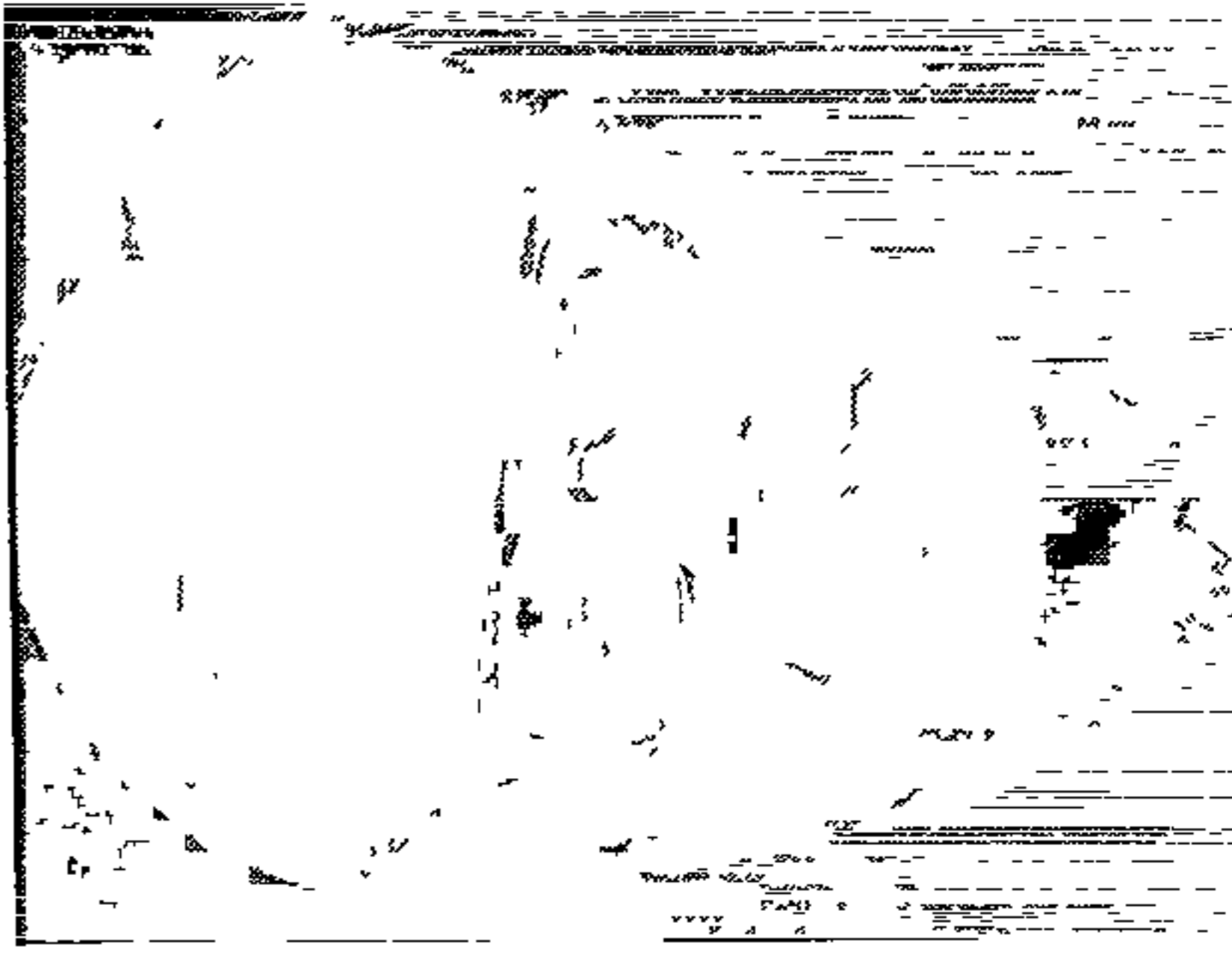
DE BEERS has been forced to buy surplus gems and request the cartel's producer members to either stockpile themselves or cut output

Sixty years after Sir Ernest stabilised the world diamond market, the Oppenheimer dynasty is still intimately involved and owns a significant stake in the company. Although De Beers is currently headed by Julian Ogilvie Thompson, Sir Ernest's grandson Nicholas is chairman of the CSO and deputy chairman of De Beers. Since Nicky is likely to succeed Ogilvie Thompson, succession of the dynasty will continue.

Meanwhile, Harry Oppenheimer, who was chairman of De Beers for decades



CECIL JOHN RHODES: The policy of balancing supply with demand was his



From deep mines in the hinterland to the cutters of Tiffany, the New York jewellers, De Beers dominates the diamond industry. It controls about 75 percent of the world's uncut rough diamonds pass through the Syndicate. They own the mines in Russia, Africa and Australia, to the diamond dealing centres of Antwerp, Tel Aviv, Bombay, New York and elsewhere. De Beers thus acts as a buffer between producing nations and diamond dealers and manufacturers. During slack periods, the CSO stockpiles excess diamonds to supply. When demand improves, it draws more from production and inventories.

Meanwhile, De Beers magnifies the mystique of diamonds with a R640 million annual advertising and promotional campaign. Periodically the De Beers cartel has come under strain. In the Eighties it suffered from recession in the main diamond jewellery markets in the US, Japan and Europe. Purchases failed to match production, which more than doubled in the past decade to around 105 million carats, each weighing 200 milligrams.

Less than 20 percent of these diamonds are truly quality gems and the remainder are very near-geen and industrial stones. Nevertheless, De Beers had to cope with a glut of quality Russian gems and smuggled Angolan stones. Forced to buy surplus gems, its diamond stockpile grew to R14 billion last year from less than R4 billion in 1984.



SUCH was the pressure that in 1992 De Beers' profits slumped and the company was forced to slash its dividend, for the second time in its entire history. But last year De Beers surprised sceptics who had predicted that the cartel would flounder, and reported a 28 percent increase in sales to R16 billion.

Profits recovered and sales this year remain satisfactory. Despite this progress, diamond dealers contend that the giant multinational-rand corporation is still wounded.

Diamond jewellery sales are growing in the US and Asia, but are slow in Japan and Europe. Industry analysts and dealers caution that luxury-goods markets must recover rapidly. If they don't, De Beers will still struggle to absorb supplies from Russia and elsewhere.



HARRY OPPENHEIMER - No longer at the helm but still a guiding influence in the corporation's affairs

Organisation of Petroleum Exporting Countries (OPEC) flounders from crisis to crisis. Other commodity cartels from tin, cocoa to coffee failed dismally.

On the other hand, the international diamond cartel is still surviving because of its unique structure and De Beers' role as middleman between diamond producing nations, dealers and cutters. Unlike OPEC, De Beers singlehandedly dictates how the monopoly is run. It can thus moderate internal discord that has undermined other cartels.

Only De Beers buys from producers and sells to dealers, only the corporation sets prices at each end. Over and above these disciplines, De Beers vigorously promotes itself and the diamond industry. It carries out a highly sophisticated marketing, promotional and public relations campaign.

We can gain some insight into the workings of this remarkable cartel by examining history and the facets of De Beers' extensive operations.

Cecil John Rhodes, the founder of De Beers, originally devised the idea of a diamond cartel in the late 19th century. The hub of Rhodes' plan was to supply only sufficient diamonds in any year to match international demand. To help Rhodes in his

aim, a select group of merchants and brokers, known as the London Diamond Syndicate, bought the diamonds from De Beers.

It was in the depressed Thirties that Sir Ernest Oppenheimer extended Rhodes' grand design of the Syndicate. Since then, the CSO as middleman has continued to buy diamonds from producer members of the cartel, notably Russia, Botswana, De Beers' own southern African mines and Australia.

Producers invariably complain about the prices De Beers pays and some resent the Syndicate's profit margins. Russia, for example, is currently negotiating for a better deal.

By and large, however, producers back the cartel, particularly during diamond market recessions. The cartel is also successful because of its influence over the diamond dealing community.

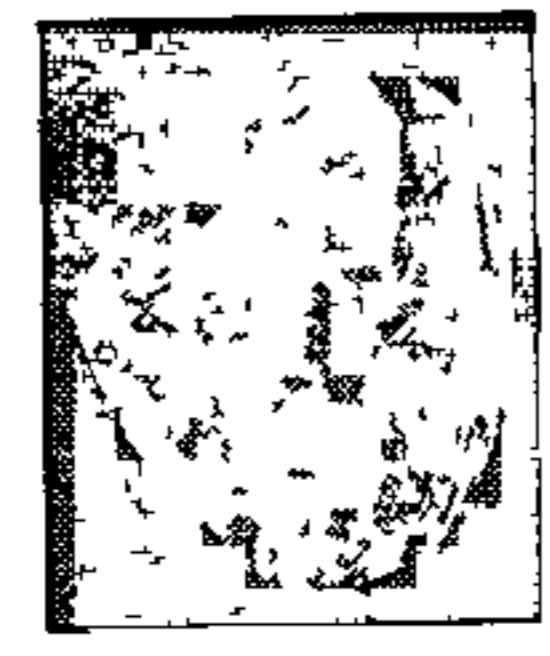
Some 5 000 types and qualities of diamonds are bought and sorted by the CSO at its Charterhouse Street headquarters, near London's Hatton Garden. They are offered to 165 select *diamantiers* 10 times a year at sales, known as "sights".

Once inside the ornate, tightly secured London building, the dealers are ushered into private rooms. There they are left to

"sight" plan brown cardboard boxes containing an assortment of the latest diamonds.

Dealers may query a gem's colour or clarity, but generally do not haggle over the price of each box of diamonds. Some boxes are worth millions, others much less.

De Beers is paternalistic with dealers who must be prepared to buy both saleable and temporarily unpopular diamonds.



DEALERS thus sometimes stockpile or sell some diamonds at a loss. They complain that the market is currently experiencing a slack period. In g, a slack period. The CSO's sales are higher. Yet diamond dealers and manufacturers say they are struggling under the burden of De Beers' high prices, which on average soared twofold during the past three decades.

It is difficult to pass on the increase in costs. As a result, quotes of polished stones are either stagnating or falling. There is a shortage of some expensive diamonds, but other types can't be sold easily, complain dealers.

Despite these qualms, dealers and cutters readily concede that the health of the international diamond market depends on the Syndicate.

"People mesmerised by producer cartels forget that De Beers is a highly effective sales organisation which has convinced miners, dealers and the jewellery industry that its marketing muscle is indispensable," comments an official of the Antwerp Diamond High Council.

Indeed, De Beers' advertising and promotion budget is four times higher than levels in 1980. Its campaigns helped swell worldwide diamond jewellery sales to 54 million pieces worth around R150 billion in 1993. From 35 million pieces, valued at around R73 billion, in 1980.

The huge promotion budget covers market research, and a worldwide network of up to 200 advertising and public relations officials. De Beers has its own large team which is supplemented by advertising agencies. N.W. Ayer in the United States and J. Walter Thompson elsewhere.

Advertising takes place in 29 countries. The overall psychological aim is to maintain confidence in the cartel and the industry. Above all, the Syndicate perpetuates the mystique of diamond gems as the "ultimate

JULIAN OGILVIE THOMPSON: Present chief executive



NICHOLAS OPPENHEIMER: Will close the circle of the family dynasty

expression of love". That accomplished, De Beers focuses on individual products, with the engagement ring the first step in a series of diamond-studded occasions.

The master sales plan which persuaded the world that "diamonds are forever" began in 1938 when Harry Oppenheimer asked N.W. Ayer to woo American couples into buying more diamond engagement rings. Today the US is the world's biggest market, accounting for 30 percent of the total.

Using the US as a role-model, De Beers has applied similar promotional techniques worldwide. Three decades ago only one out of 17 Japanese couples bought engagement rings. Now about three-quarters do.

De Beers is looking to China for the next wave of jewellery consumption, but that will take time to develop. Knowledgeable dealers and analysts contend that unless jewellery markets grow rapidly in the next few years, the CSO will battle to maintain market balance and relentlessly raise prices. Production and stockpiles of gems are growing, particularly in Russia.

To survive in its present form well into the next century, the De Beers cartel will have to modify its strategies, say industry participants.

R9-m for Trans Hex arm

MARC HASENFUSS ²¹⁶
Business Staff *ALL 15/6/94*

OCEAN Diamond Mining Holdings (ODM) has offered to buy-out Trans Hex subsidiary Eiland Diamante for about R9 million, according to a financial notice issued today.

The deal will be funded by ODM exchanging 90 ODM shares (currently trading at R5,10) for every 100 Eiland Diamante shares held to acquire all or part of the 2 million shares held by Eiland Diamante

Trans Hex, which holds 74,32 percent of Eiland Diamante, has already accepted ODM's offer

The buy-out represents an opportunity for ODM to acquire sole control of Namibian Mining

licence area ML 27/93 The licence area comprises the 12 former South African Islands off the Namibian coast and their territorial waters

ODM is already the sole and exclusive mining contractor to Eiland Diamante for this licence area and most of its present mining and sampling activities are conducted in this area

If the offer had been accepted on April 11 last year, earnings for the year to end March 1994 would have increased by 0,9c a share to 12,56c

ODM directors pointed out that the acquisition's effect on future earnings could even be greater. "The future benefits are, however, unable to be calculated at this stage"

ODM expansion plans hinge on larger vessel

BISAP 15/6/94

MUNGO SOGGOT

MARINE diamond exploration and mining group Ocean Diamond Mining (ODM) would need a substantially larger mining vessel to expand its operations, the company said in its annual report.

The report said this would enable the Lucky D — the group's mining vessel — to be deployed for sampling work in order to continue to increase mineable ore reserves ahead of the larger, full time unit.

The possibility of acquiring a new vessel was under review with the group's financial advisers in London and Johannesburg.

ODM reported a drop in attributable profit to R2,5m (R3,1m) but lifted earnings a share to 11,61c a (0,11c a share) for the year to March. Turnover rose to R10,5m from R4,4m the previous year.

The company said that the handing over of 12 islands off the Namibian coast to the Republic of Namibia posed no threat to its operations.

On January 19 ODM was admitted to a dual listing on the Namibian Stock Exchange, in addition to its listing on the JSE.

The report added that Island Diamonds Limited — which signed a contract with ODM in 1983 whereby ODM became Island Diamond's "sole and exclusive contractor" — had applied to acquire additional areas for exploration in the extensions of the islands' territorial waters (21b).

If the application succeeded, any additional area granted to Island Diamonds would be covered by the contract.

The group had made "significant progress" in the exploration programme in the joint venture with Benguela Concession (Benco), which also involved mining group Broken Hill Proprietary Company.

"Early indications from the survey and sampling are encouraging."

The report said that the outcome of the lawsuit between Benco and Canadian based group Namibian Minerals Corporation would have no effect on the exploration programme.

by SHARON SOROUR

Annual pay talks with De Beers Consolidated Mines have begun with the National Union of Mineworkers demanding a 19.1 percent rise. Management is offering 3.9 percent.

(216) (AM) APR 18/94
More than 6 000 diamond mine workers will be affected by the talks. The next round of talks will be on June 21 and 22.

leave, access to traditional healers, study bursaries, full-time safety stewards, medical aid and an incentive bonus scheme.

□ □ □

□ □ □

Other demands by the union are equal shift allowances, overtime pay, a transport allowance, 35 days paid annual leave, maternity and paternity leave, compassionate and sick

Gold basket is riddled with holes

Star 22/6/94

BY DEREK TOMMEY

Do not expect a major increase in the gold price. In fact, it could come under pressure in the years to come.

This is the message Mike Brown, economic consultant to brokers Frankel Pollak, Vinderine, has brought back from the Financial Times 1994 Gold Conference in London earlier this month.

He says several developments are already affecting the price and could affect it in the future, in particular the increase in new mine production in the coming years.

Other depressing factors include the continuing growth in central bank gold loans and possibly higher central bank sales, an upsurge in forward selling, increased sales of gold scrap and the sluggish growth in markets for the metal.

Unfortunately, in the light of the potential increase in supplies, demand for the metal is not up to earlier expectations.

Brown does not expect gold sales by the "big five" central banks — those of the US, Ger-

many, Switzerland, France and Italy.

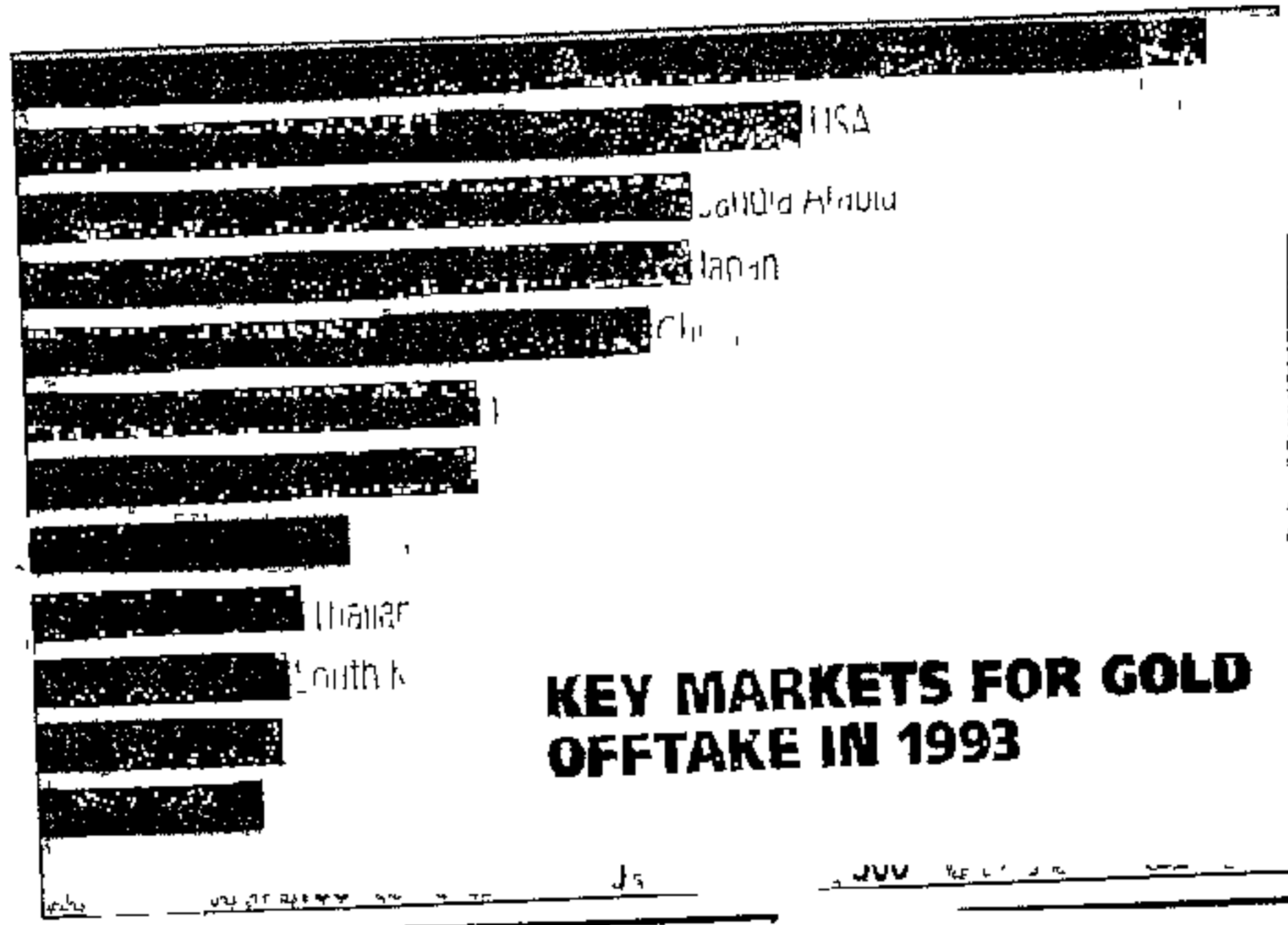
But banks with reserves in the 10 million ounce category — those of Holland, Belgium, Japan, Austria, the UK, Portugal, Spain, China, India and Venezuela — have apparently all been active in the gold market.

Another threat to the price is the European Central Bank which, if it comes to fruition, will be acquiring 14 000 tons of gold by merging the reserves of all European Union central banks — 6 000 tons more than is held by the equivalent-sized US economy (216).

Contrary to earlier expectations of a significant decline in world gold production in the final years of this century, production is now expected to continue to grow.

Australia and the surrounding areas of the Pacific rim have the potential to rise production by 100 tons.

Latin America, the CIS and Africa could match this performance — leading to a 10 per cent rise in world production over the next five years.



Analysts expect CSO to set new sales record

Bitsey 23/6/94

MICHAEL URQUHART

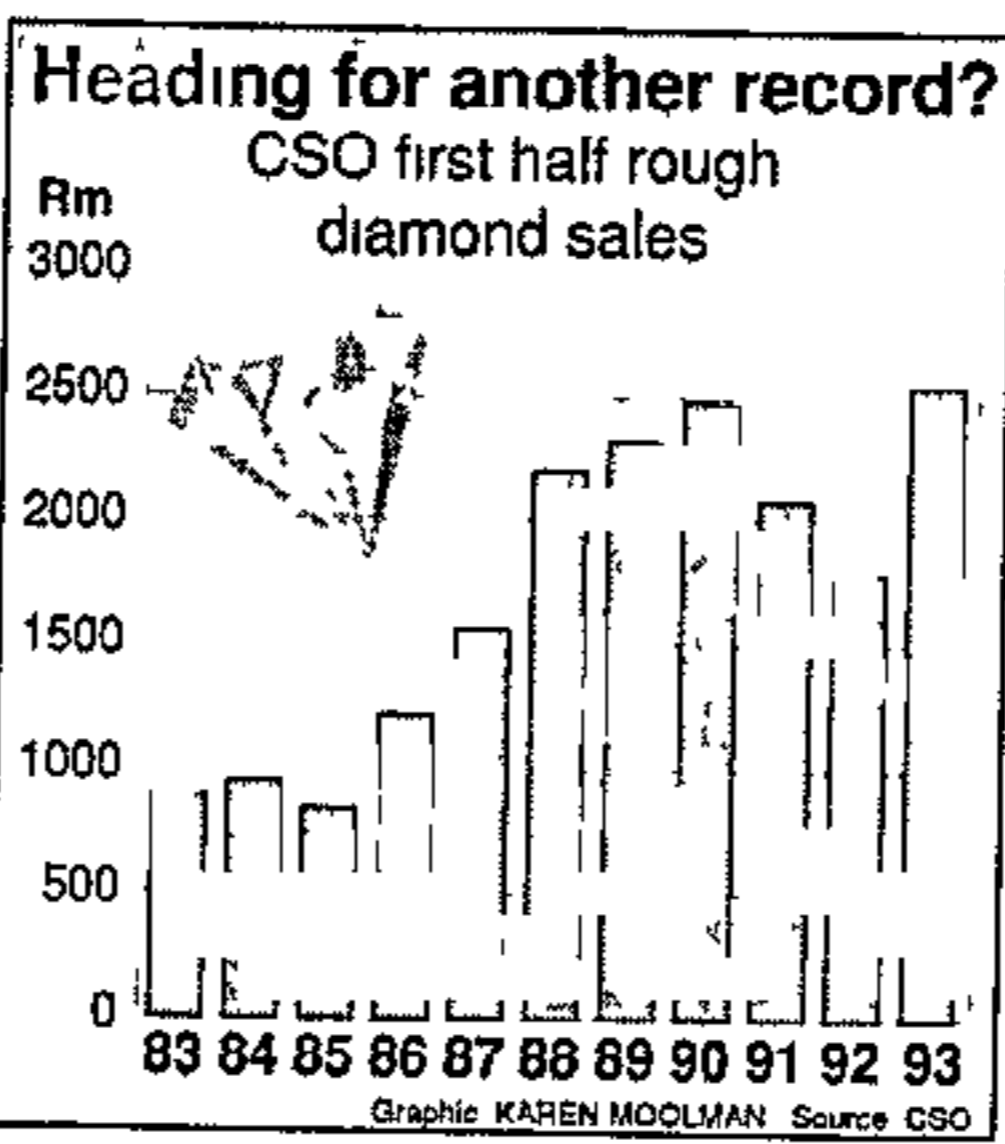
De Beers' marketing arm, the Central Selling Organisation, could hit another sales record for the first half, with some observers expecting diamond sales to hit \$2.7bn, sources said yesterday. Analysts said that first half sales figures — due for release next week — would show a rise on last year's record, as the world economic recovery gained steam.

Last year's record first half figure of \$2,543bn, which was 42% higher than the same period of 1992, took the market by surprise.

The increase had been largely a result of trade restocking following reduced sales to the market by the CSO in the latter half of 1992.

But the five sights for this year are estimated to have been \$650m, \$550m, \$450m, \$500m and \$325m. This puts total sales from sights at \$2,475bn, and if non-sight sales are equal to those of the same period last year, total diamond sales for the half should total nearly \$2,7bn.

For the first half last year, sight sales equalled \$2,325bn, while non-



sight sales equalled \$218m. Analysts said the main factor likely to lead to improved sales was the general world economic recovery, especially in Europe and Japan.

One analyst said the main market to watch would be Japan, as economic forecasts indicated the economy would come out of recession by the end of the year. Combined with the strength of the yen, which is currently just above 100 yen to the dollar, this should lead to large increases in the dollar sales of diamonds.

Despite a 7% decline in jewellery sales in yen terms last year, the strengthening yen meant the dollar value of the sales had increased 6%.

The analyst said he did not expect stocks to move in the first half, after growth in the CSO stockpile of nearly \$900m in the last half of 1993. There would also not be anything unusual in terms of production from Russia and Angola, and US stocks were being sold off in an orderly fashion.

The international mining department of Credit Lyonnais Laing also expected record first half CSO sales, but said high figures might have given the market "severe indigestion".

The bank attributed the lower value of the final sight of the half, which it estimated at \$300m, to market oversupply.

The bank also said sightholders' complaints about having the wrong goods for the current market underlined the CSO's current problems, as customers had to take large quantities of rough that they could not turn a profit on.

Canadians get diamond shares

MARC HASENFUSS ²¹⁶
Business Staff

ARC 25/6/94

A CANADIAN public company has secured a 30 percent stake in Regional Resources — the soon-to-be-listed Cape-based diamond miners

Apparently the unnamed Canadian company applied for half the issued shares — but its stake was restricted by over-subscription

An announcement earlier revealed that Regional's R1-a-share offer to raise R2,2 million was oversubscribed 104 percent — suggesting that diamonds are a speculator's best friend

The strong demand for scrip was in spite of a bold prospectus warning to potential investors that the shares should be considered speculative and risky.

Other offshore share applications came from Australia, Switzerland and the United Kingdom, Regional's director Jason Alexander said.

The foreign buying is in line with the international outbreak of "diamond fever"

He would not reveal the identity of the stakeholders until after the listing. Local investors hold 25 percent of Regional's issued shares.

Regional mines in the Northern Cape and Namibia, holding prospecting rights in the Kouewater Diamond Project and Puros Alluvial Diamond Claims

An industry source said gem quality ranged from "above average to exceptional"

Mr Alexander said Regional was continuing with its stated business plan at its mines — but noted that if adequate returns were not secured the group would go offshore to raise additional funds of R2-3 million to sink a shaft at Kouewater.

Dante Parisi, a resident partner at sponsoring brokers Lowenthal & Co, predicted the share would trade at a premium on debut

"This is the first new share issue in the new South Africa and, considering the overseas support, we are very optimistic"

This sentiment was echoed by Mr Alexander. Given the over-subscription and the number of inquiries after the share offer closed, the share cannot do anything other than open at a premium.

He also pointed out that Regional offered grassroots participation for the small investor

"Hopefully this listing will encourage other smaller miners to use the JSE after all, stock markets work on supply and demand and Regional is a classic example of over-demand"

However, other brokers canvassed on the pending listing were less enthusiastic and put a 'SPECULATORS ONLY' sign up instantly.

Mr Alexander conceded there were detractor — but said "the proof will be in the pudding." Regional lists at R1 on the JSE's mining and exploration board on July 4

CSO's first-half sales at record \$2,6-bn

All smiles on diamond front

Star 30/6/94

■ BY DEREK TOMMEY

Diamond producers should be happy because the current year has started on an upbeat note for them

Sales of rough diamonds through De Beers' Central Selling Organisation (CSO) in the first half reached a record \$2,58 billion, despite the CSO holding back on supplies to cutters and dealers in the second quarter

Although the half-year sales are only 1.5 percent higher than the year-ago figure of \$2,54 billion, which was also a record, they are a sparkling 41.5 percent higher than the \$1,82 billion worth of sales in the six months to last December.

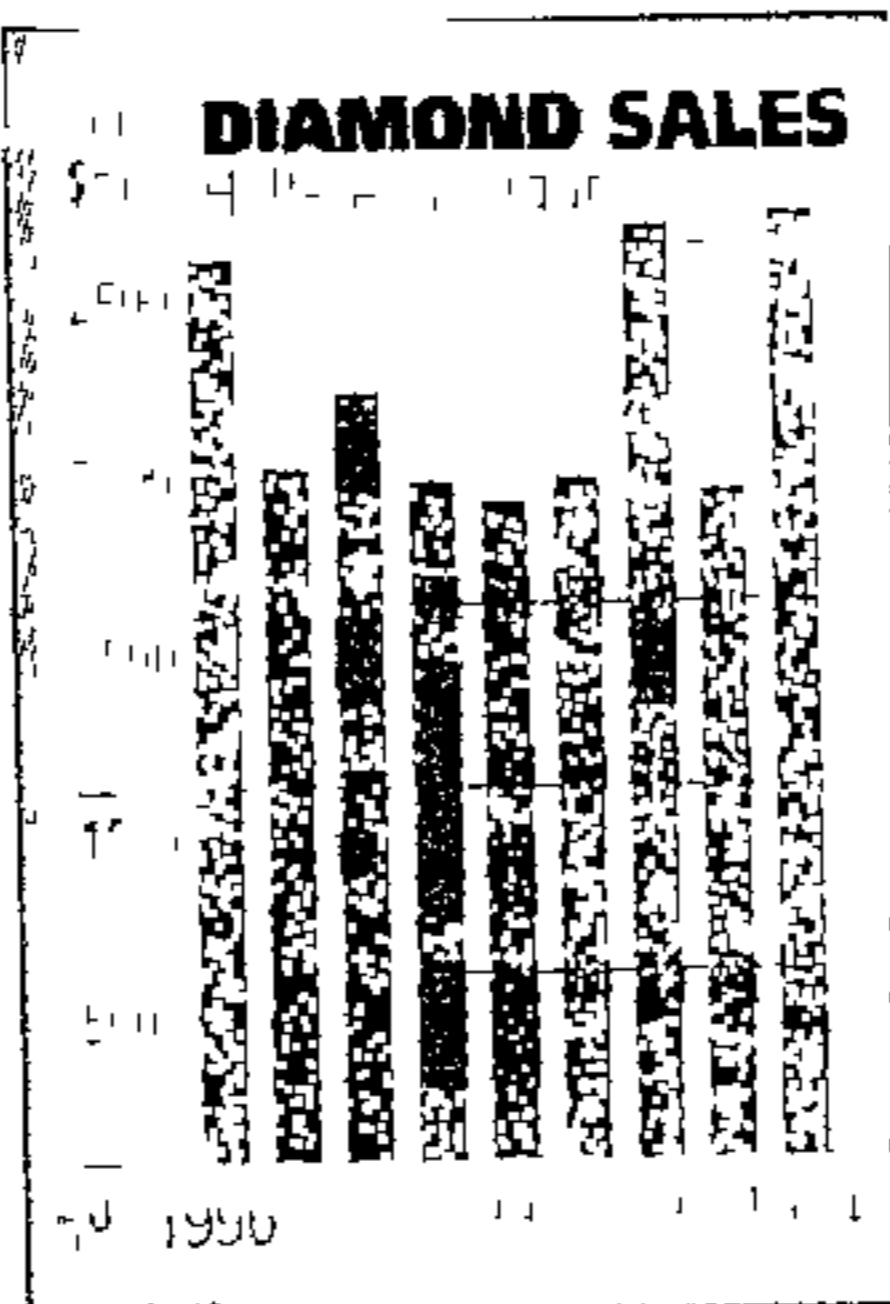
For De Beers-watchers, this is good news

The rand sales figures in the first half of this year were up 12.8 percent, compared with last year, and up 45 percent on the figures for the second half of last year

Diamond profits this year should be comfortably higher.

The latest CSO sales figures suggest there has been a strong and sustained recovery in confidence in the diamond industry.

Dealers say the upsurge in sales at the start of last year probably can be explained by the need for the diamond industry to rebuild stocks after



30 months of a recessionary rundown.

The drop in sales in the second half of last year was probably the result of the trade growing cautious until it could determine the strength of the market.

The record sales in the first half of this year suggest the trade had a good Christmas season and probably expects even better sales this coming Christmas.

However, the CSO is not so optimistic

It reports the strong demand for rough diamonds and a stock build-up in the cutting centres led to concern (presumably on the part of the CSO) about the industry's profitability and to a decision to re-

duce supplies.

Nonetheless, overall, the CSO gives a fairly encouraging picture of the market.

"Demand for retail jewellery remains high in East Asia and is stable in the US. Trade confidence for the future is fairly positive." (210)

Demand in Europe and Japan continues to be generally weak, but there are signs that these economies have bottomed.

But it adds that any significant improvement in sales is dependent on an improvement in Japan and Europe and on the CSO's clients being in a position to increase their levels of profitability — which looks like a euphemism for widening their margins and raising their prices.

The CSO says it is continuing to talk to the Russians on their new sales contract.

It says the Russians have made it clear they support market stability, which presumably can be taken to mean they agree in principle with the CSO's aims.

Diamond negotiator Yevgeny Bychkov said last night Russia had been receiving 15 percent to 35 percent more for diamonds sold direct to the market than to De Beers, reports Sapa-Reuter

Upbeat prospects for coastal diamonds

By ARI JACOBSON (216)

THE scepticism about marine diamonds on the West Coast sea-bed is "slowly dissipating" said Ocean Diamond Mining (ODM) chairman Irm Princip at the agm yesterday.

ET 30/6/94
He said it was clear that the "big boys" like De Beers were investing large sums and 300 000 gem quality diamonds found last year justified their investment.

MD Andre Louw leaves for Europe today to attract further foreign funds, about R75m to R100m — for the purchase of a second ship.

Princip predicted that this may well be last time the group "goes to the market".

He said that ODM was confident the third and fourth marine diamond vessels would be paid for out of the group's profits.

The directors forecast a "quantum leap" in earnings with each ship purchased.

De Beers issue second writ against BBC TV

CT 30/6/94
Own Correspondent

(216)

LONDON — De Beers has issued a second writ for libel against the BBC for the second part of its two-part series on the company's activities

After the first part was screened on April 17, the corporation and its international trading arm, the Diamond Trading Company, issued a writ against the broadcaster, accusing it of libel for its "offensive and inaccurate" portrayal of the company

A BBC spokeswoman confirmed yesterday that a second writ had been issued and that the corporation would "vigorously defend" both actions

CSO sales reach record \$2,58bn

BR Day 30/6/94

MICHAEL URQUHART

ROUGH diamond sales by De Beers' Central Selling Organisation (CSO) rose to a record \$2,58bn for the first six months of this year, propelled by growing retail demand, the company said yesterday.

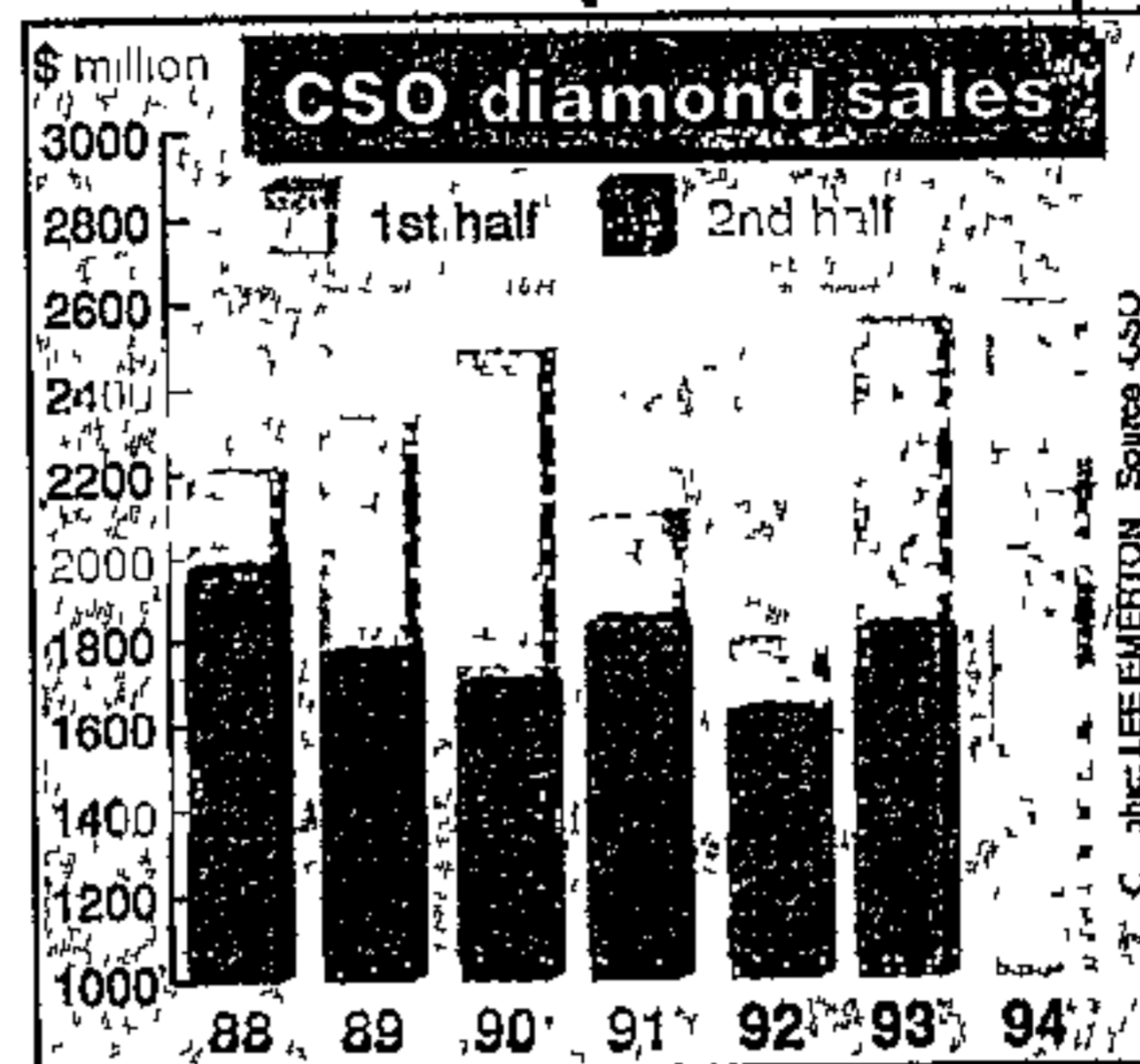
Sales were 1,5% higher than in the same period last year. In rand figures they rose 12,8% to R9bn. The market had been expecting an increase (216)

De Beers ascribed the strong demand, particularly in the first quarter, to increased confidence in retail markets

The CSO reduced stocks in the cutting centres in the second quarter, after stocks built up and profitability was put in doubt.

Analysts said cutting centres' profitability would be the major factor holding back CSO sales in the second half. Estimates of full-year sales ranged from \$4,4bn to \$4,8bn (\$4,36bn)

An analyst said cheaper diamonds sold during the recession had slashed cutters' profitability, which, combined with higher



bank debt, had squeezed margins.

Investors would be looking at the margin De Beers achieved on its sales when it published its half-year results in August

The main factors affecting sales in the second half would be the rate of economic recovery in Europe and Japan and negotia-

□ To Page 2

CSO sales

BR Day 30/6/94

□ From Page 1

tions with the Russians.

De Beers said demand for jewellery remained high in East Asia, and was stable in the US, while demand in Japan and Europe remained generally weak. There were signs that these economies had bottomed out in dollar terms, and the strong yen had put Japanese demand ahead in dollar terms. Generally world consumption had remained resilient. (216)

Producers' delivery entitlements remain unchanged at 85%, a level set in 1993

Sapa-Reuter reports from Moscow that

a Russian official said yesterday a new round of talks with De Beers representatives would begin next month, but issues in dispute had not yet been resolved. The two sides agreed last month that the current contract should be altered to take account of the changes in the Russian political situation

The deal allows Russia to sell 5% of gem exports on its own behalf outside the CSO to test the market. Russian precious metals committee head Yevgeny Bychkov said these had brought in prices 13%-35% higher than De Beers' sales.

Cutters feeling squeezed

CSO DIAMOND SALES

As a bold number, first-half sales of rough diamonds by the Central Selling Organisation (CSO) seemed fair enough the US\$2,58bn total was 1.5% up on the exceptionally good first six months of last year and 4.5% higher than the second half of 1993. After the unofficial reports of the large sights during the first quarter, analysts were expecting an overall result in this range. More interesting than the figures, however, is the accompanying comment — particular-ly the references to conditions in the cutting centres.

In his annual review earlier published in the 1993 annual report in April, chairman Julian Ogilvie Thompson did not have much to say about the trade, though he noted that restocking in the trade had contributed to the strong sales in the first half of 1993. When dealing with prospects, he added that "stability and confidence have been restored in the rough diamond market stocks and bank borrowings in the cutting centres have risen in line with the higher turnover but are not unduly high."

With the interim sales figures, though, it's stated that the CSO "reduced supplies to the market in the second quarter, following a build-up of stocks in the cutting centres, and

the 1995 year

Meanwhile, Charter is to raise £93m through a 1 for 4 rights issue to top up the offer, it already has a war chest of a net £156m cash. The issue has been fully underwritten by Hambros, which at least indicates confidence in the deal by the City.

Another feature is that the major seller of Esab (48%) turns out to be Incentive, a Stockholm-listed investment vehicle within the famous Wallenberg group. Why are they jumping ship? It seems Wallenberg is seized with the opportunities offered by pharmaceuticals — Incentive has just acquired a strong position in pharmaceutical company Cardio, involved heavily in medical high technology.

Conversely, Esab fits Charter's bill it is in manufacturing, it is industrial, it is a world market leader, and its principal business applies only slowly changing technologies. The Charter view is obviously that it's buying in close to the bottom of the market. And it needs to be right about this £260m is an awful lot of money.

At 5.225c, the counter is far from its 12-month high of 6.000c. It is on an historic peak of 21, almost exactly in line with the sector average. It offers an excellent, independent, and hedge potential. SA investors could do with more information about the company though, its managers seem rather remote and they spend little time here apart from sudden bursts of concentrated activity. Even so, my view is that the rights should be followed

David Gleason

markets to absorb these more expensive diamonds. Also, some analysts contend that diminishing margins have been developing as a long-term, structural problem for the trade.

For now, though, it has to be seen as simply another facet of the central dilemma facing De Beers there continues to be an over-supply of diamonds and major retail markets have yet to show sufficiently vigorous growth to resolve the situation.

Stodgy demand in Japan and Europe remain obstacles to a broadly based recovery in retail sales. The CSO says demand for retail jewellery in these regions remains generally weak, but there are signs that the economies of both have bottomed out. In the US, the biggest market, it adds, demand is "stable." That's not greatly encouraging; even with growing economies, there will have to be a resurgence in willingness to buy expensive diamonds.

Two conclusions may be drawn the pro-

ANOTHER STEP UP

CSO Sales

Year	First half	Second half	Full year
1994	945	668	1 613
1984	837	986	1 823
1985	1 214	1 343	2 557
1986	1 560	1 515	3 075
1987	2 201	1 971	4 172
1988	2 317	1 769	4 086
1989	2 477	1 690	4 167
1990	2 084	1 843	3 927
1991	1 787	1 630	3 417
1992	2 543	1 823	4 366
1993	2 580	1 823	4 403

US\$m

continued concerns in respect of cutting centre profitability."

There is also a verbatim repeat of a sentence that appears elsewhere in the annual report, not in the chairman's review but in the section on the rough diamond market. It reads: "Any significant improvement in the sale of rough diamonds remains dependent on an improvement in the Japanese and European markets and on CSO clients being in a position to increase their levels of profitability."

It suggests De Beers has decided to place more emphasis on what appears to have been a nagging and potentially serious problem. Analysts say there have been continuing complaints from the cutting centres about their diminishing profit margins. Some cutters have gone out of business in Israel.

Over the past 18 months profitability in the trade has apparently worsened as the cutters have built up stocks of poor quality, low margin diamonds which will not necessarily be cleared simply by an upswing in the economic cycle.

De Beers may be able to help manage these down by adjusting advertising and promotional campaigns and by increasing supplies of higher margin goods to the trade. But this will still depend on the capacity of retail

FOX

FW 8/7/94

ducer quota of 85% is unlikely to be lifted soon, and De Beers will probably have to rely even more on its investment income for earnings growth this year

21B Andrew McNulty

Diamond trade looks for 'quality, not quantity'

B/Bay 11/4/94
MICK COLLINS

THE diamond trade was looking for less quantity and more quality at the Central Selling Organisation's (CSO) next sight, due to be held on Monday, analysts said at the weekend

Profitability in the trade was under pressure after heavy sales of rough stones to the industry in the first quarter

Cutting centres were hopeful that the goods on offer would be more "desirable" from a trade point of view, they said

The trade was looking for sights that would on average be "considerably smaller" than the first half but which would allocate more profitable goods to the trade

One analyst said De Beers had already acknowledged its concern by reducing supplies to the market in the second quarter following a build-up of stocks

"In the first quarter they thumped a lot of goods into the sector and dealers had to go to the banks to look for finance for the cutting centres. Borrowings increased during the first half of the year which led to the present concerns" (216)

G O'Flaherty analyst Des Mayers said the outturn at the sight would be small as "traditionally this is a holiday period overseas"

He said the size of the November and December sights would also be small as

the period was too late for cutters and polishers to work with goods in time for the Christmas trade

He forecast that CSO sales for the second half of the year would be a "shade above" the R1,82bn recorded in the second half of last year

Another analyst said De Beers was pumping the supply situation to ensure its sales continued to reflect a recovery

First-half sales by De Beers rose 1,5% to R2,58bn, with the CSO noting strong demand from the cutting centres as a result of increased retail market confidence

But the CSO added that it had reduced supplies to the market in the second quarter, following a build-up of stocks in the cutting centres and fears over margins

The CSO said any improvement in the sales of rough diamonds remained dependent on an improvement in the Japanese and European markets and on CSO clients being in a position to increase their levels of profitability

One source said cutting centres' profit margins were under pressure and over the past year cutters had built up stocks of poor quality stones which could not be readily marketed even if there was an economic upturn

Speculators fancy Cape diamond group's shares

(2/6)

MARC HASENFUSS

Business Staff

SPECULATORS swooped on small Cape-based mining group Regional Resources this week

Diamond miners Regional, in which Canadian group Cetec Engineering has a 30 percent stake, touched a high of 150c this week when about 80 000 shares changed hands

This represents a 50 percent gain since the shares were listed at R1 about two weeks ago. The group's options — convertible at 150c — traded between 30-55c

Ironically, most market analysts canvassed before the share's listing were highly sceptical of the share

The share gains have been fuelled by rumours that Regional has strengthened its connection with its Canadian stakeholder as regards acquiring additional diamond mining concessions

Director Jason Alexander would neither confirm or deny the rumour this week. He would only refer to the group's prospectus, which states that the group would actively search for other diamond deposits on land or at sea.

The group is currently exploring diamonds concessions in the Northern Cape (Kouewater Diamond Project) and Namibia Puros Alluvial Diamond Claims

Lowenthal & Co resident partner Dante Parisi attributed the gains to keen buying of the tightly held scrip.

Only 4,3 million shares are in issue, along with 4,6 million op-

ARLT 16/7/94
tions Trade showed willing buyers and less than eager sellers driving the price

Mr Parisi said the group was working on a number of interesting diamond projects in the Northern Cape and Namibia. "They are going hell for leather... I'm sure they will find something"

■ Stellenbosch-based Union Mines, which digs for manganese in the Postmasburg area, jumped to 93c at midweek before retreating to 85c yesterday

According to market sources, interest in the share is being fuelled by what many deem an excessive and unrealistic dividend prediction for the year ahead. The share closed at 60c last week

Trade was heavy with nearly two million shares changing hands

Concern has been expressed, however, that Union's chairman and controlling shareholder Nic Lotterie is selling off his personal stake

Estimates show his personal stake reduced from 6,2 million shares in May to 4,9 million shares in July

But Mr Lotterie emphasised, in a telephone interview with Weekend Argus, that shares had been "booked-over" to family members and a consortium

He said his family consortium still owned over 12 million Union Mine shares

Commenting on business since year end, Mr Lotterie noted that the group had secured enough orders for the rest of the year from both overseas and local buyers

Canadian
deal for ⁽²¹⁶⁾
De Beers
ET 19/7/94

DE BEERS said yesterday it had entered into an agreement with Mill City Gold Mining and Tanqueray Resources to explore and possibly exploit the Yamba Lake diamond area in Northwest Territories

If De Beers decides to bring a mine into production, it will need financing of up to \$500m for the first mine and will earn a 51% interest in the project area

The agreement in principle is subject to a due diligence exercise by De Beers

De Beers will subscribe for C\$2m in common shares each in Mill City and Tanqueray

INTERNATIONAL

De Beers \$360 m plan for Canada diamond mine

VANCOUVER. — De Beers Consolidated Mines has joined the race to build the first diamond mine in Canada's Arctic, by announcing it will spend up to \$360 million (R1 317 m) to develop a promising discovery.

The secretive South African concern, which controls the world diamond market, said yesterday it had reached an agreement in principle to evaluate land held by two small

companies — Tangueray Resources and Mill City Gold Mining.

If the property lives up to hopes, De Beers will finance up to \$360 million of the costs of building a mine, probably in early 1998, for a 51 percent stake in the project.

De Beers, traditionally tight-lipped about its activities, was not considered a serious con-

tender in Canada until yesterday's announcement.

"This move by De Beers is an aggressive one and it shows they are taking this area seriously as a future diamond producer," said Tom Hoefler, executive director of industry group NWT Chamber of Mines.

The property, a 61 757 hectare claim block called Yamha Lake, lies within the so-called

ARCTIC 19/7/94
Corridor of Hope in the frozen tundra of Canada's Northwest Territories.

Signs so far suggest one of the world's richest untapped troves of diamonds.

Exploration frenzy has swept the Arctic area since diamonds were discovered there in 1991. Promising finds by tiny diamond-exploration firms have attracted major international mining groups. — Reuter.

W T N



INTERNATIONAL

De Beers \$360 m plan for Canada diamond mine

APR 19/79

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Signs so far suggest one of the world's richest untapped troves of diamonds.

Exploration frenzy has swept the Arctic area since diamonds were discovered there in 1991. Promising finds by tiny diamond-exploration firms have attracted major international mining groups. — Reuter.



Diamond mine's production soars

EDWARD WEST

CAPE TOWN — Marine diamond production at Consolidated Diamond Mines (CDM), the De Beers subsidiary mining diamonds along the Namibian coast, soared to 302 754 carats last year from 29 195 carats in 1990, a report on the company released yesterday showed. **BISAY**

The report came amid speculation that the Namibian government was negotiating with De Beers for a 50% stake in CDM. **20/7/94**

A De Beers spokesman said the parties agreed to withhold comment until negotiations were over.

The increase in production came despite lower quotas by the Central Selling Organisation, which forced lower activity levels at CDM's main plants last year. **(216)**

During the year a five-year prospecting and sampling programme was approved for a wide range of targets to generate additional reserves.

'No negatives' for Trans Hex

By ARI JACOBSON

A PICKUP in world diamond prices and constant output would allow the turnover of the Trans Hex group to increase for the year to March 1995, said chairman Francois Hoffman after the group's AGM in the Cape yesterday.

Hertzog also expected the group to benefit from "the weakening rand" to boost the rand value of diamond earnings in the current financial year. "I see no negatives for the group in the current year" (21) CT 23/7/94

However, he did not expect diamond output to increase because no additional capital spending would be forthcoming this year.

Hoffman bade farewell to the group after 30 years service and will be succeeded by a new non-executive chairman, Edward Hertzog, who is also the Rembrandt group's executive vice chairman.

Rembrandt controls the Trans Hex group, which is involved largely in the recovery of rough diamonds from the Orange River region.



Howard Smith has been appointed chairman of Gilbeys, with effect from July 31, 1994. He succeeds Admiral Hugo Biermann, who has retired

ODM details clawback, share offer

JOHANNESBURG — Ocean Diamond Mining Holdings Ltd has announced an issue price of 510c for its proposed clawback offer and offer of shares for cash

(216) CT 2/8/94
The clawback offer will raise nearly R61,69m, and the maximum to be raised from its share offer would be almost R18,51m

Shares issued in terms of the offers would total 12 096 053 and 3 628 816 respectively

The entitlement in respect of the clawback offer is 50 new ordinary shares for every 100 held on August 5
— Reuter

From MICHAEL
URQUHART

JOHANNESBURG — Russia has unveiled plans to cut and polish more of its own diamonds, in a move which could place further pressure on De Beers' diamond monopoly

Reuter reported from Moscow yesterday that state precious metals committee deputy head Leonid Gurevich said that the Russian government had given preliminary backing to a plan to refine more of its own diamonds

This would probably mean fewer Russian gems sold through De Beers' Central Selling Organisation (CSO), he said

De Beers' Moscow office GM Raymond Clark said the Russian move was of some concern in an already fragile market

But Clark said there was little De Beers could do except manage the Russian situation. He said the impact of the programme would depend on the capacity of the diamond manufacturing industry, and how quickly this could be geared up

A De Beers spokesman said Russian diamonds were already sold on the open market, although he was unable to say in

Russia unveils new diamond plan

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CT 4/8/94

what quantity

But he said Russian plans were not too worrying as they had already committed themselves to stability in the market

Russia and De Beers currently have an agreement whereby Russia markets 95% of its rough diamonds through the CSO.

Discontent

But there have long been rumblings of discontent from Russian officials who say they could get better prices on the world market

In a bid to dam a possible flood of gem quality Russian diamonds, De Beers are renegotiating their sales deal. But talks have already been postponed twice

Despite the news, De Beers shares moved up 350c yesterday to close trade at R116,50. Analysts said De Beers was mirroring the recent moves by Anglo

American

Anderson Wilson analyst James Picton said De Beers could do little about the Russian moves, as the fact that the Russians produced gems of desirable quality left them in the driving seat

These gems are currently mixed with lower quality stones from Australia and Africa in the sight boxes, which are then sold to sight holders as a job lot

Picton said increasing production of gem quality stones from Russia, with Canada likely to come on stream from 1997, meant the two together should produce at least \$3bn of mostly desirable gem quality stones by the turn of the century

De Beers, with its less desirable stones, was likely to become the "supplier of second resort"

He said although De Beers should adapt, it would have to accept lower profit margins

FM

12/18/94

(216)

in the rush to own a portion, however small, of what is acknowledged to be an important mining segment. On top of it, ODM will pay a dividend, though modest (R450 000), to holders of its 3,6m 6% noncumulative, convertible (at the holder's option, one-for-one) prefs. What makes this remarkable is that ODM is, principally, an exploration company from which a traditional dividend is rare.

Its principal business is to locate, survey and prove economic deposits of marine diamonds. Exploiting those reserves is expensive, so what investors will expect is that ODM will enter into arrangements — usually of a joint venture nature — with wealthier partners and then let the profits cascade into the company's waiting swag bag.

If it sounds simple in theory, it is a lot more complex in practice. Essentially, however, that's what ODM is about. MD Andre Louw has clearly been busy last year with various deals, picking up exploration area licences, entering into arrangements with other parties intended to produce mutual benefit, monitoring activities to protect ODM's interests, and finally getting on with marine mining. It is a bewildering array of activities.

It is in its mining operations that ODM appears to have come right. Its mining vessel "Lucky D" has been hard at work, mostly in ODM's mining licence area off the Namibian coast. This is a significant departure from previous practice, where the ship was operated by a joint venture partner in other concession areas.

The effect is instant revenue soared to R10,6m (1993 R4,4m) and produced an operating profit of R3,2m (1993 R271 000 loss). The FM predicted in March that ODM would seek to expand these activities by buying another mining vessel, for which it would probably need to raise around R50m. Chairman Ivan Prinsep confirms some of this in his annual statement, saying a substantially larger mining vessel will be bought and ways of financing it are being discussed in Johannesburg and London.

ODM's balance sheet reflects its rejuvenated operations. Total interest-bearing borrowings stand at R7m, or R3,5m net of cash. Debt equity (applying ordinary shareholders' funds) is a modest 0,25:1.

An important element of ODM's assets is tied up in SA concession areas 6C and 14C, which ODM holds in a joint venture agreement with Benguela Concessions (Benco) and which, in turn, is locked into

exploration and extraction agreements with Australian mining finance house BHP. While exploration work is in full swing, it is clearly too early for an assessment.

The other key to ODM's future lies in its relationship with Island Diamonds, previously called Eiland Diamante and controlled by Rembrandt Group's Trans Hex. ODM holds an exclusive mining contract from Island to recover diamonds around Namibia's island concessions. Some concern was expressed about the continuity of the licences following Namibian independence but these have been honoured in full by the new government.

More important, ODM has concluded a deal to buy Island from its shareholders for about R10m — to be settled by issue of nine ODM for every 10 Island shares. Prinsep says the offer has been accepted by more than 90% of Island's shareholders and the effect on ODM over the next few years will be significant.

No-one should expect — though given the nature of investors everywhere, I am sure they do — instant rewards from an investment in marine diamond exploration companies. Perhaps this element of doubt and time is what inspires overseas shareholders to have more faith than the locals. The shareholding is largely foreign. For those with patience — and a little faith — this could be an investment which will move oceans.

David Gleason

OCEAN DIAMOND
 FM 12/18/94
Could move oceans

Activities: Marine diamond recovery and ocean floor exploration

Control: Ellerman Holdings 18,6%, Baring Nominees 9,8%

Chairman: I R M Prinsep, MD A C Louw

Capital structure: 22,6m ord's Market capitalisation R124m

Share market: Price 550c Yields 2,1% on earnings, p/e ratio, 47,4 12-month high, 590c, low, 140c Trading volume last quarter, 1,5m shares

Year to March 31	'91	'92	'92	'93
Turnover (Rm)	0,01	0,7	4,4	10,6
Profit loss (Rm)	(1,3)	(0,002)	(0,271)	2,551
Cap employed (Rm)	(330)	5,6	12,9	17,1
Net worth (c)	n/a	27	42	61,9

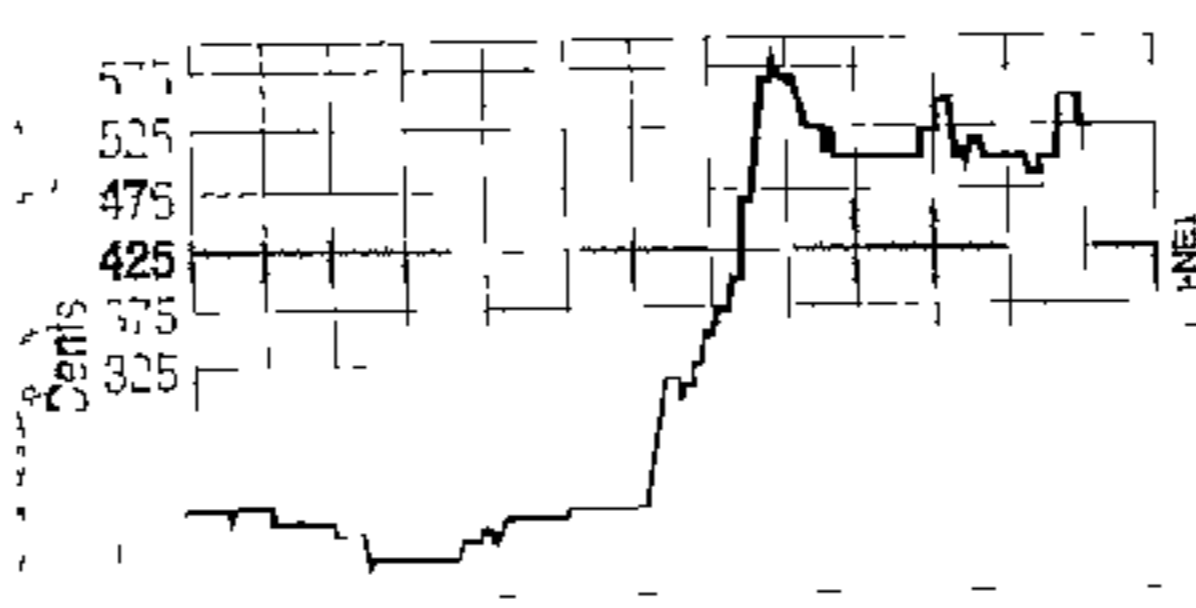
† Pro-forma information from pre-listing statement * 15 months

(216)

When the FM last wrote about ODM and the marine diamond industry (Leaders March 4), the share price was 300c, enough to excite comment.

Now it is 550c, testimony to a general anxiety by investors not to be left behind.

Ocean Diamond Mining



Illegal outflow of Russian gems the problem

De Beers trips over smugglers

Stop 1/18/94

■ BY DEREK TOMMEY

The Russian Prime Minister, Viktor Chernomyrdin has appointed a high-powered committee to find ways to stop the illegal flow of uncut diamonds from Russia.

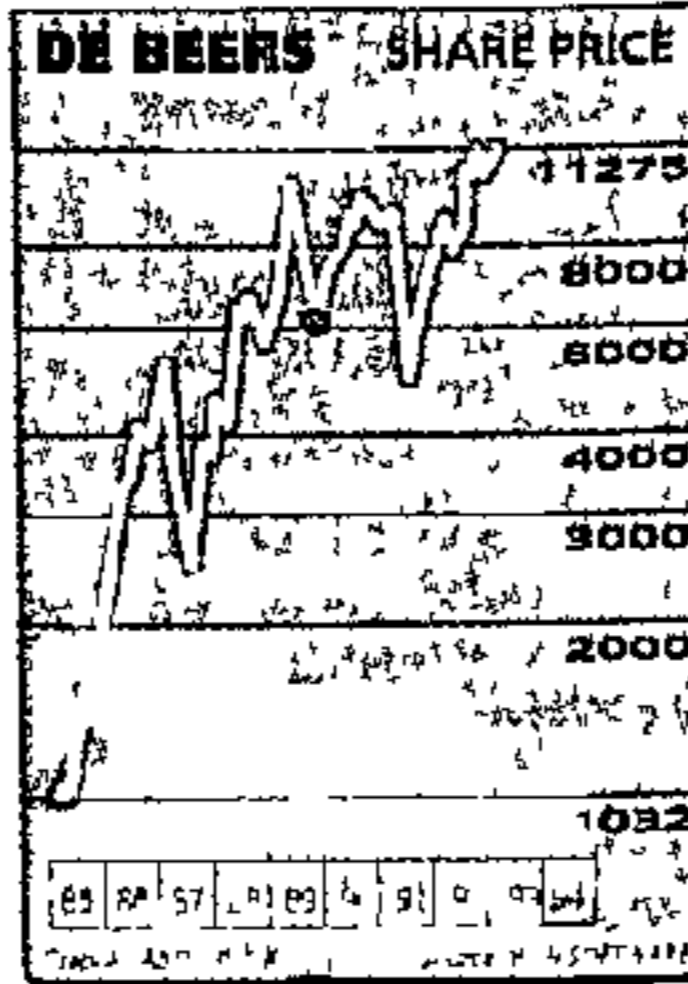
This was disclosed by directors of De Beers/Centenary in Johannesburg yesterday when the company's disappointing results for the six months to June were released.

The poor showing was attributed to the disruptive effect which the "leakage" of rough diamonds from Russia was having on the market.

Russia has a contract to supply the Central Selling Organisation (CSO) with all but 5 percent of its production. The "leaked" diamonds fall outside the 5 percent figure.

De Beers reported earnings of \$341 million — equal to 90 US cents a share — for the six months.

This was 3.2 percent below the \$353 million — equal to 92c US cents a share — for the same period last year.



Including retained earnings of associate, the group earned \$460 million — equal to 121 US cents a share (earnings of \$482 million) — equal to 127 US cents — a year ago.

The interim group dividend is maintained at 25.4 US cents a share. In rand terms, the dividend is 9c higher at 92.8c a share — an increase of 11 percent.

De Beers' directors would not give an estimate of the size

of the "leakage", but analysts said the importance given to it by the Russian government and the drop in the De Beers earnings suggested it could be large.

Julian Ogilvie Thompson, chairman of De Beers, said the diamonds came from Russian stockpiles, but he pointed out these were not unlimited.

He said the quantities of competitive Russian rough diamonds appearing on the markets had exacerbated ongoing concern about profitability and led to a drop of confidence.

He said the CSO had responded to the current situation by reducing the level of its "sights" in June and July and would do so again this month.

CSO sales for the second half of this year would, like those last year, be well down on the first half.

But jewellery sales in the US were expected to improve by 5 to 10 percent later this year, and there were signs that retail demand for diamonds was improving in Japan, China and Europe.

Record sales fail to boost De Beers

MICHAEL URQUHART

DE BEERS posted attributable earnings of R1,2bn (R1,12bn) for the six months to June, but the rand's devaluation disguised a slight fall in the diamond group's dollar bottom line

The JSE mainstay said higher tax and thinner margins lay behind what analysts dubbed a staid performance, despite record first-half sales from its Central Selling Organisation

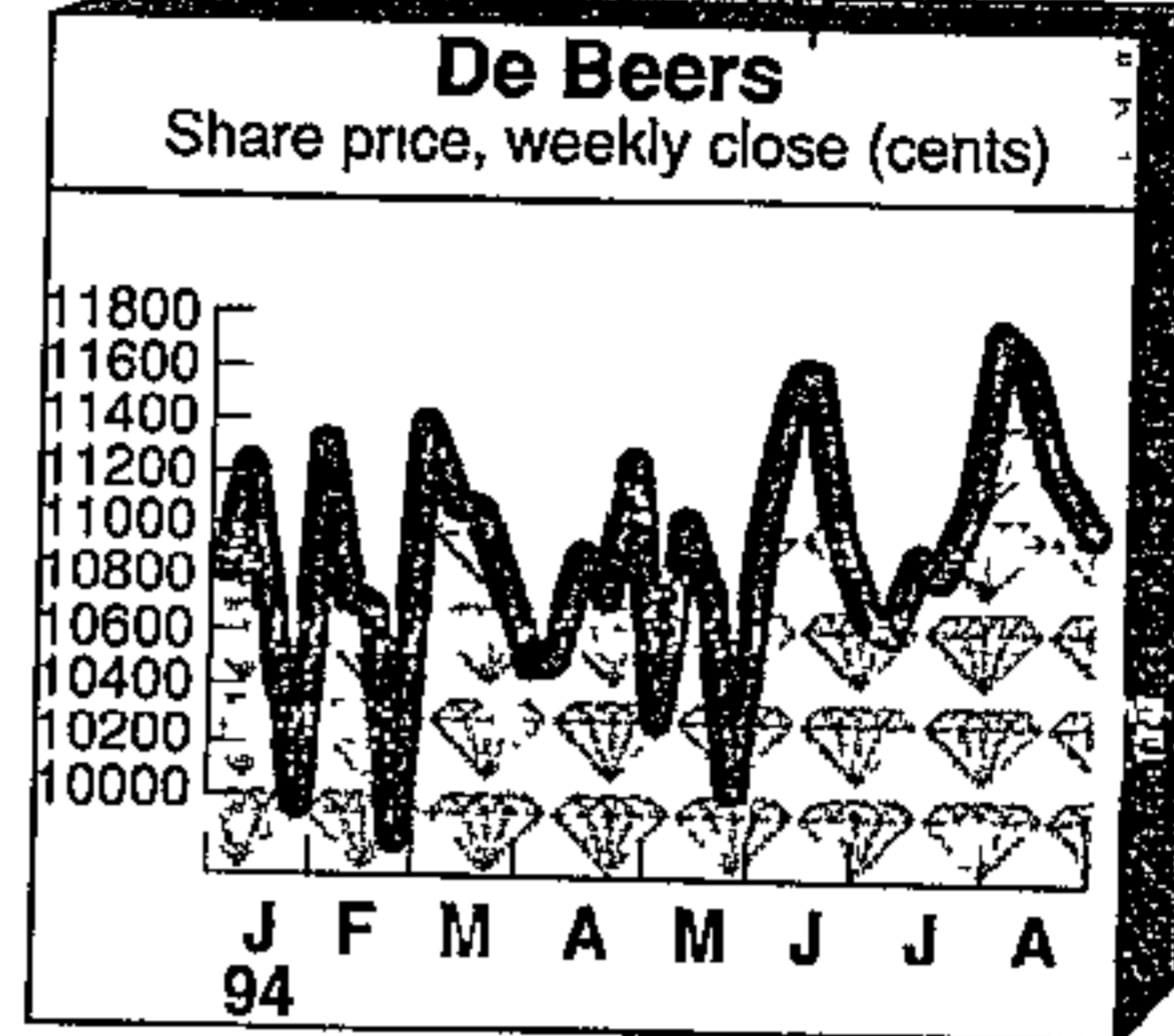
Chairman Julian Ogilvie Thompson also warned that second-half sales would be well below those for the first half.

Negotiations with the Russian government and diamond authorities — which many analysts believe will determine De Beers' long-term direction — were continuing, but Ogilvie Thompson gave no indication on any progress.

Earnings a De Beers/Centenary linked unit were 314c (296c), while dividends increased 8,9c to 92,8c (83,9c).

Dollar earnings a share were softer at \$0,90 (\$0,93), while the dollar dividend rose just 0,8% to \$0,254

Ogilvie Thompson said margins had



been slim but he expected the market to pick up during the year. This would be dependent on the supply of illicit Russian diamonds and the effect this had on market confidence. CSO outside purchases were up on the previous year.

The diamond account — profits from diamond mines and the group's international diamond business — was up in dollar and rand terms to R1,38bn (R1 19bn). Investment income was also up to R432m

□ To Page 2

De Beers

(R353m), but increased prospecting costs and income payable partially offset this

De Beers subsidiary Monopros had discovered 70 kimberlites in Canada, half of which contained diamonds, and 20 of which were barren. These figures were from all over Canada but did not include joint ventures such as the Yamba Lake project

Although sales of diamond jewellery in the January to May period had remained constant, De Beers expected an increase of 5% to 10% in the second half and further increases next year. Indications were that the jewellery trade was restocking, it said

Ogilvie Thompson said the balance sheet remained strong, with the group well placed to meet its obligations

Higher first-half rough diamond sales

led to a decrease in the CSO stockpile of \$95m to \$4,03bn. Long- and medium-term liabilities decreased R97m to R3,99bn (R4,09bn), while net current assets increased to R1,44bn (R243m)

Ogilvie Thompson said the Russians were committed to maintaining stability in world diamond markets. He was not prepared to discuss methods the Russians would use to stop illicit diamond sales.

He said De Beers had tried to restore equilibrium to the diamond market by cutting back on the last two sights, and would cut back on the coming sight. Lower sales could lead to a decrease in suppliers' quotas should the quantities received by the CSO remain static or increase.

● See Page 11

Russia cuts into De Beers' sales

ALIDE DASNOIS
Business Staff

ARG 17/8/94

COMPETITION from Russian rough diamonds will affect De Beers sales in the second half of the year, the diamond giant has warned.

De Beers said that though world jewellery buying was buoyant, deliveries of Russian stones were competing with sales from De Beers' London-based Central Selling Organisation.

As a result the group, which markets 80 percent of the world's rough diamonds, had cut back on its own supply to stabilise the market.

However discussions with the Russian authorities were continuing and Russia was committed to the need for market stability.

In spite of stronger sales in the first half of the year, De Beers' profits slipped 3,4 percent. Combined profit of De Beers Consolidated Mines and its Swiss-based offshore arm, De Beers Centenary, totalled \$340 million, compared with \$353 million in the first half of last year.

Higher tax and a weaker rand-dollar exchange rate dented profits.

Interim dividends on De Beers/Centenary linked units were 25,4 US cents or 92,8c at June 30's exchange rate (83,9c last year).

■ The recently listed Health and Racquet Club reported attributable profit of R5,4 million in the six months ended June, compared with R6,2 million for the full year to December. Turnover was up 40 percent on an annualised basis and new clubs had contributed to sales, said joint CEs Rod Mitchell and Peter Gardner.

The maiden dividend would be declared in March, the directors said.

■ Textile manufacturer Frame posted a profit of R27,1 million in the year ended June, after a R12,7 million loss last year.

Chairman Mervyn King predicted the current year's results would be even better.

■ The public offer of shares from soon-to-be-listed investment group Harvest Securities was undersubscribed, with only 842 300 shares of the 1,5 million on offer being taken up. However the preferential offer to existing shareholders was over-subscribed and the 3,4 million shares on offer will all be allotted.

Harvest is to be listed on August 25 in the "Financial - Investment Trusts" sector of the JSE.

■ Gold Fields of South Africa has declared a final dividend of 140c a share, making 210c (200c) for the year ended June.

Attributable income is up from R290 million to R357 million, largely because of a 39 percent rise in income from investments, boosted by the higher rand gold price.

■ Protea Assurance Company has maintained its interim dividend at 30c in the six months ended June in spite of a deficit of R3,3 million. In the same period last year, Protea showed a surplus of R12,4 million.

Managing director Andrew Tainton said short term insurance results had been affected by higher crime rates and an unusually large number of fires.

■ Sentrachem and The Premier Pharmaceutical Company are to merge their animal health care businesses from next month.

Dull showing from the diamond giant

ET 17/8/94

(216)

By MICHAEL URQUHART

DE BEERS posted attributable earnings of R1,2bn (R1,12bn) for the six months to June, but the rand's devaluation disguised a slight fall in the diamond group's dollar bottom line.

The JSE mainstay said higher tax and thinner margins lay behind what analysts dubbed a "staid" performance, despite burgeoning first half sales.

Chairman Julian Ogilvie Thompson also warned that second half sales would be well below those for the first half.

Negotiations with the Russian government and diamond authorities were continuing.

Earnings a De Beers/Centenary linked unit were 314c (296c), while dividends increased 8,9c to 92,8c (83,9c).

Dollar earnings a share were softer a 90USc (93USc), while the dollar dividend rose just 0,8% to 25,4USc.

Ogilvie Thompson said margins had been slim due to the poor state of the diamond market, but he expected the market to pick up during the year.

This would be dependent on the supply of illicit Russian diamonds and the effect this had on market confidence, he said. CSO outside purchases were up on the previous year.

The diamond account — profits from diamond mines and the group's international diamond business — was up in dollar and rand terms to R1,38bn (R1,19bn). Investment income was also up to R432m (R353m), but increased prospecting costs and income payable partially offset this.

De Beers subsidiary Monopros had discovered 70 kimberlites in Canada, half of which contained diamonds, and 20 of which were barren. These figures were from all over Canada, he said, but did not include any joint ventures such as the Yamba Lake project.

Sales of diamond jewellery in the January to May period remained constant, but De Beers expected an increase of 5% to 10% in the latter half of the year and further increases in 1995. Indications were that the trade was restocking.

Ogilvie Thompson said the balance sheet remained strong, with the group well placed to meet its obligations.

Higher first half rough diamond sales led to a decrease in the CSO stockpile of \$95m to \$4,03bn. Long and medium term liabilities decreased by R97m to R3,99bn (R4,09bn), while net current assets increased to R1,44bn (R243m).

Wholly-owned subsidiary, the Diamond Corp Sierra Leone Ltd (DCSL) has been granted an exclusive prospecting licence for Sierra Leone.

The two-year concession covers 15 800km² off the coastline. DCSL will invest about \$3m over nine months in surveying the seabed before sampling.

De Beers under ⁽²¹⁶⁾ pressure ^{27 20/8/94}

JOHANNESBURG — SA shares ended mixed in unenthusiastic trade ahead of the weekend on disappointment over the failure of the firm gold price to follow through and sapped by trendless overseas markets

De Beers came under renewed pressure from a big US offshore seller, dealers said, to end R2,50 lower at R107

This was mainly the cause of the Overall Index shedding 15 points to 5 799, while the Industrial Index lost 27 points to 6 589 and the Gold Index rose 15 points to 2 196

Randgold shed 25c to R8,25. Vaal Reefs added R8 to R405, developing Oryx made 10c to R5 and marginal Loraine gained a whopping R1,25 to R21,25.

Northam Platinum sank 75c to R4,50, while quality Rusplats made 75c to R102,25

Remgro lost R1 to R26,50, Pick 'n Pay fell 40c to R12 and Sappi added R1 to R57 Argus Newspapers slid R2,50 to R30,50

● Carlton Paper Corp Ltd said previously announced negotiations were not expected to end before mid-September

● Persetel Holdings Ltd is to offer Persetech Ltd shareholders the right to subscribe for ordinary shares at R2,50 each. The rights offer, open to shareholders on register September 2, will raise R386,62m. The offer entails one Persetel Holdings share per one Persetech share, and is designed to obtain the spread of shareholders required to obtain a JSE listing

De Beers facing its 'sternest challenge'

BIDAY 22/8/94

MATTHEW CURTIN

THE Central Selling Organisation (CSO), through which De Beers controls worldwide sales of rough diamonds, is confident it can overcome what some analysts are calling one of the sternest challenges in its 60-year history.

The analysts believe the London-based CSO faces a threat to its dominance of the diamond trade, primarily from the recent flood of unauthorised sales of Russian diamonds outside the CSO, but also from the prospect of significant diamond output from Canada.

But De Beers insists it can overcome these obstacles. "Russia's interest in maintaining the value of its diamond inventory will prevent it from ruining the diamond business," says CSO MD Gary Ralfe.

He said the tensions which have surfaced between De Beers and Russia as they renegotiate marketing arrangements did not detract from the fundamental relationship of "a willing buyer talking to willing seller".

De Beers Centenary, the Switzerland-based De Beers affiliate which runs the CSO, estimates that about \$350m of Russian diamonds — about 8% of De Beers own diamond sales — were sold last year outside the CSO.

De Beers itself supplies about 50% of the world's diamonds, but through the CSO arrangements it has marketing control over about 80% of the total rough diamond trade.

"De Beers needs all the resources it can muster to control the diamond trade, but its balance sheet is under real strain for a group

which acts as central banker to the industry," says Michael Coulson, international mining analyst at London stockbrokers Credit Lyonnais Laing (216).

Coulson expects the weak diamond market to push stocks towards \$5bn by end-1994, leaving De Beers with an inventory greater than its yearly sales, which stood at \$4,37bn in 1993.

But the CSO says it is in Russia's interests to help stamp out the unauthorised diamond sales.

Ralfe notes that the De Beers relationship with Russia dates back to the 1950s and has withstood various pressures.

De Beers starts the third round of talks with the Russian authorities in September, aimed at reworking the deal that expires next year.

The 1990 agreement gives De Beers the right to market 95% of Russia's rough gem output destined for exports, with the remaining 5% being sold directly by the Russians. In return, De Beers lent \$1bn to the Soviet government of 1990, repayable in five years and secured by a shipment of diamonds.

As well as the unauthorised sales, Ralfe is concerned about the large stockpile of diamonds held within Russia — an estimated \$4bn-\$8bn diamond inventory of often high-quality gems, which Russia established for strategic reasons. And Ralfe notes that Russian diamond output may rise substantially when new Siberian mines begin production.

"Why is Russia so important to De Beers? The most important fact is that while De Beers supplies 50% of the world's gem diamonds, Russia has the capacity — I use that word advisedly — to produce up to 25%," Ralfe says.

Ralfe is confident Russia knows a sound relationship with De Beers is in its "national interest", noting the high powered delegation put together by Prime Minister Victor Chernomyrdin for the diamond talks.

The team includes Yevgeny Bychkov, head of the State Committee for Gemstones & Precious Metals, Finance Minister Sergei Dubinin, and foreign economic relations ministry representatives.

One leading SA diamond analyst is also optimistic. "I am convinced the Russians need De Beers as much as De Beers needs them." Negotiations will lead to a win-win outcome, even if De Beers wins less than the Russians, he says.

Meanwhile, the CSO faces the challenge of a surge in Canadian diamond supply over which it has no control yet. Analysts believe the planned mine near Lac de Gras, in which Australia's BHP has a stake, will come on stream in 1997 or 1998, producing high quality gems of the sort available from Russia.

Coulson says De Beers faces a tough choice between giving the Russians — and perhaps the Canadian mines — a greater say in the CSO's marketing arrangements, or allowing more diamond sales to take place outside the CSO — AP-DJ

Minvest lifts payout 44%

■ BY DEREK TOMMEY

Diamond producer Messina Investments (Minvest) has increased its annual dividend by 44 percent from 12c to 17,5c a share *Star*

This sharply increased dividend follows a 31 percent rise in earnings a share from 53c a year ago to 69,5c in the year to June *2018/94*

However, it also reflects the company's strong cash position. At June 30 the company had cash resources of R11,5 million, against R7,4 million a year earlier.

Normal operations contributed R5,2 million of the increase, R1,4 million came from a rights issue and the further sale of Messina copper mine assets brought R2,5 million (less the payment of R1,7 million for Star Diamonds).

The higher profit was the result of an improved contribution from Messina Diamonds and the first full year's production from Star Diamonds

Operating income rose from R7,6 million to R9,7 million, and taxed income from R6,6 million to R9,0 million.

Tax took R1,8 million (R960 000) When Minvest bought Star in 1992 it had a tax loss of R20,5 million.

The directors say both mines have budgeted for higher production and increased real earnings in 1995.

The company is seeking other mining operations, with particular emphasis on diamond mining.

(216)

Messina earnings up 35%

INDEPENDENT mining house Messina Investment lifted attributable earnings 35% to R9m for the year to June, thanks to improved contributions reported from Messina Diamonds and Star Diamonds.

However, the increase in earnings a share was diluted by the issue of 724 000 new shares during December last year.

The improved earnings were achieved despite a 31% drop in turnover caused by the sale of the Messina copper mine.

The turnover of R36,3m was derived totally from diamond mining, where turnover increased 52%.

Operating income from the diamond mines had increased from R5,6m in 1993 to R10,5m in 1994.

The dividend increased from 12c to

MICHAEL URQUHART

17,5c, reducing dividend cover marginally from 4,4 times to 4 times.

Further sale of assets from the Messina copper mine raised R2,5m, while a final payment of R1,7m was made for the purchase of Star Diamonds *Bidun*

Star was purchased from Salene Mining for R8,3m in July 1992. The mine had previously been unprofitable and came with a R20,5m tax loss. *30/8/94*

Minvest said both diamond mines were operating well and it had budgeted for increased production for the coming year. *(216)*

The group would be actively looking for further mining operations, particularly diamonds, it said.

Gem giant De Beers is now canning diamonds

SEVENTEEN nautical miles off the coast of Namibia, armed with techniques that would not be out of place in a science fiction novel, De Beers is vacuuming diamonds from the seabed 125m below

The giant SA group is pushing mining technology to the limit, to explore for and recover tens of thousands of very small precious stones scattered across hundreds of square kilometres of seabed.

The Debmar Atlantic, a converted oil exploration vessel, has been turned into a floating diamond mine. It sucks up tons of material a minute from which the diamonds are sorted. Then, for security reasons, the diamonds are canned on an automated production line, with technology most commonly used for peaches and pineapple chunks

Each can is filled with a mixture containing up to 1 900 diamonds

De Beers Marine, a wholly owned subsidiary of the group, is the only company operating at these depths. The stones in these Namibian waters are 60-million years old and may have travelled 1 500km, washed down the Orange River by thunderous downpours in the Transvaal

To locate the diamonds, De Beers me-

BIDAY 11/9/94
ticularly sampled an area as large as Holland. Only the most durable diamonds survived the trip, according to DBM's GM Graham Rees. Nearly every one recovered is of gem quality, which is what makes the considerable expense of fishing them out of the sea worthwhile. De Beers Marine (DBM) has spent about \$200m to buy and convert its seven vessels. More than \$50m has been spent exploring since 1991. A vessel such as the Debmar Atlantic costs about \$6m a year to operate. Even so, the sea mine costs far less than the \$500m it would take to create a diamond mine on land

The Debmar Atlantic uses a huge drill to get at the stones. A short helicopter hop away its sister vessel, the Louis G Murray, is using an under-sea robot crawler, as big as a truck, with hydraulic drills operated electronically from the ship. (21b)

Last year DBM sucked up 302 754 carats of diamonds from the sea bed, 16% more than in 1992. This year the seabed is likely to yield even more carats, says Rees. It is impossible to say how much the seabed diamonds are worth, but DBM's production last year was about a third of Namibia's diamond output in carats and more than that in value — Financial Times.

Boost for West Coast diamond bonanza

THE Cape West Coast marine diamond bonanza has taken another leap forward with Canadian Diamond explorer Namco on the verge of investing R100-million for an exploration programme

The company has just completed a series of shallow-water bulk sampling tests of seabed gravels on the important 12B concession at the mouth of the Olifants River

The tests have yielded glittering deposits of marine diamonds. The average size of gemstones found was over one carat, compared to Namco's estimate of 0.6 carats, and some stones were over five carats

Namco is the second largest holder of marine diamond concessions in Namibia — after De Beers — and hopes to produce between three and five percent of the world gem output within the next five years

"The important news for us is that these initial and selective results ver-

By JEREMY WOODS

SITimes [CITIMETRO]
ify the geological model. This will now be subjected to a R20-million bulk sampling programme," said Alastair Holberton, chairman and chief executive of Namco, from the group's London offices on Friday 4/9/94

The model referred to is a detailed survey of Namco's extensive West Coast diamond concessions carried out by high-tech sonar scanners to identify diamond bearing gravels

"Based on the results of our bulk sampling programme, we would then hope to go ahead with a R100-million plus full mining programme

"The average size of the diamonds was more than we had anticipated and the level of recovery was very satisfactory," he said (2/10)

"We now have a good idea of the recovery grades we can expect from 12B"



WEST COAST GEMS . . . Namco's Roger Daniel inspects gemstones sucked up by the company
Picture. NIC BOTHMA

Speculators bid up Benco

Stock 6/19/94

BY MARC HASENFUSS

Speculation drove marine diamond miners Benguela Concessions (Benco) to a 12-month high of 430c last week

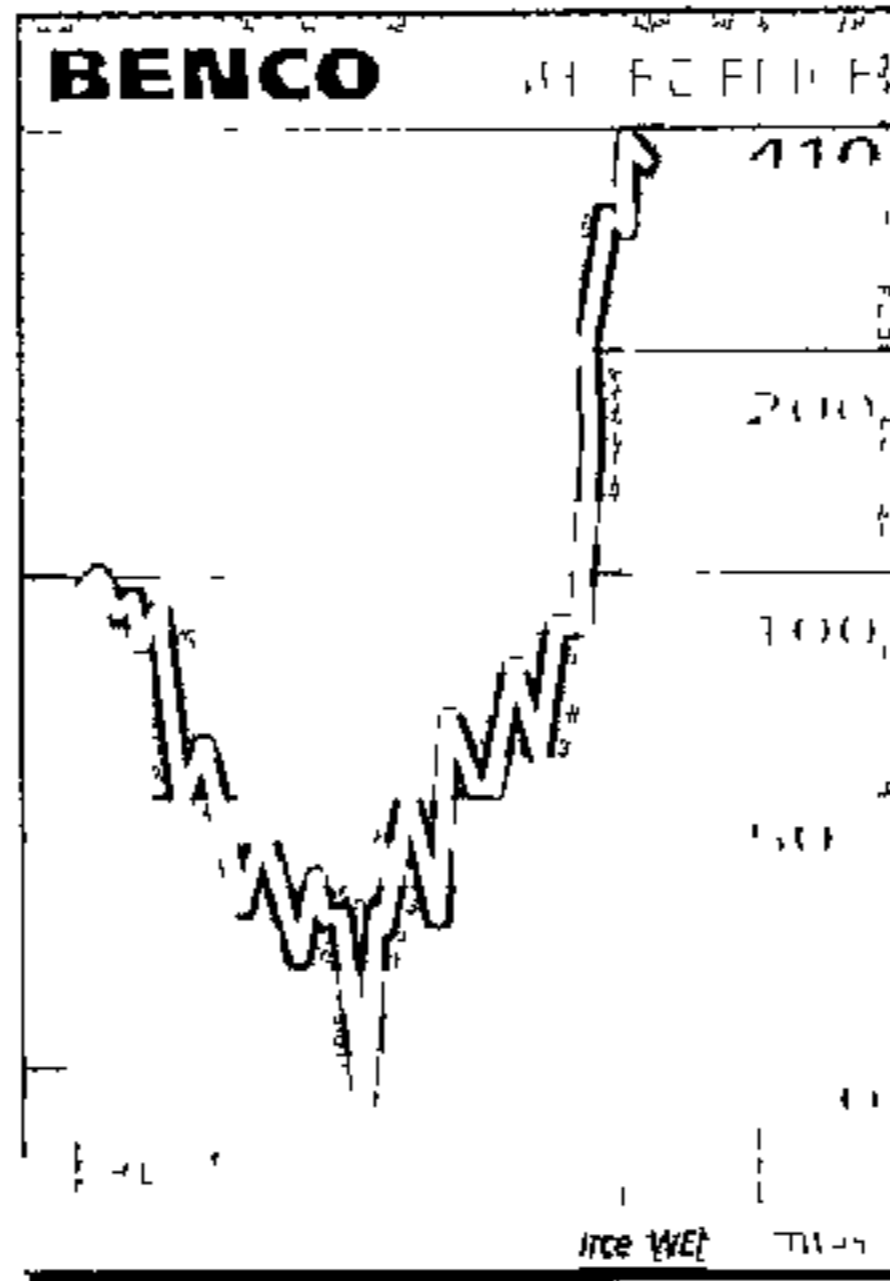
The share has increased a mind-boggling eight-fold from a 52c low a year ago

As mining production goes, there's still nothing to write home about with Benco's recently released results to end May showing a tide of red

According to the group's annual report sales of about R11 million was recorded during the year, but this was negated by a similar sum spent on mining expenses

Other expenditure — exploration costs (R80 000), administration (R2,6 million) and abnormal items (R1,9 million) — drilled into bottom line, leaving deep losses of R4,1 million or 9,28c a share

Benco chairman Dr John Gurney confirmed there were all kinds of rumours in the market and that it was unlikely that the



year-end results were fuelling sentiment.

However, he said the group was doing some exciting things

"We've got a good boat which is getting us some encouraging samples but we haven't got a mine or anything like that"

Gurney said Benco was surveying concessions on a regional basis

"About 10-20 percent of the

holes have got diamonds in"

There's been nothing significant since year-end, except for an announcement last month by Canadian-based Diamond Fields Resources (DFR) that its wholly owned subsidiary Angra Pequena Diamond Co had signed a definitive agreement with Benco and its Australian exploration partner BHP Minerals International Exploration

The agreement granted Benco and BHP the right to earn a 50,1 percent interest in the deep waters and 50 percent of the shallow waters of DFR's Luderitz Sea Diamond Concession

One market source suggested overseas investors might be rushing local diamond companies after the dramatic downward correction in the Canadian diamond market

Other speculative diamond stocks have also ticked upwards on the JSE recently

Carrigs, a ConsMining subsidiary, doubled from 85c to close at 170c last week

TRANS HEX

Staying consistent

From 16/9/94

Activities: Recovers and sells rough diamonds and also recovers, processes and markets industrial minerals

Control: Rembrandt Group 50%

Chairman: F Hoffman, Joint MDs P D Danchin and P J Pienaar

Capital structure: 15,1m ords Market capitalisation R332m

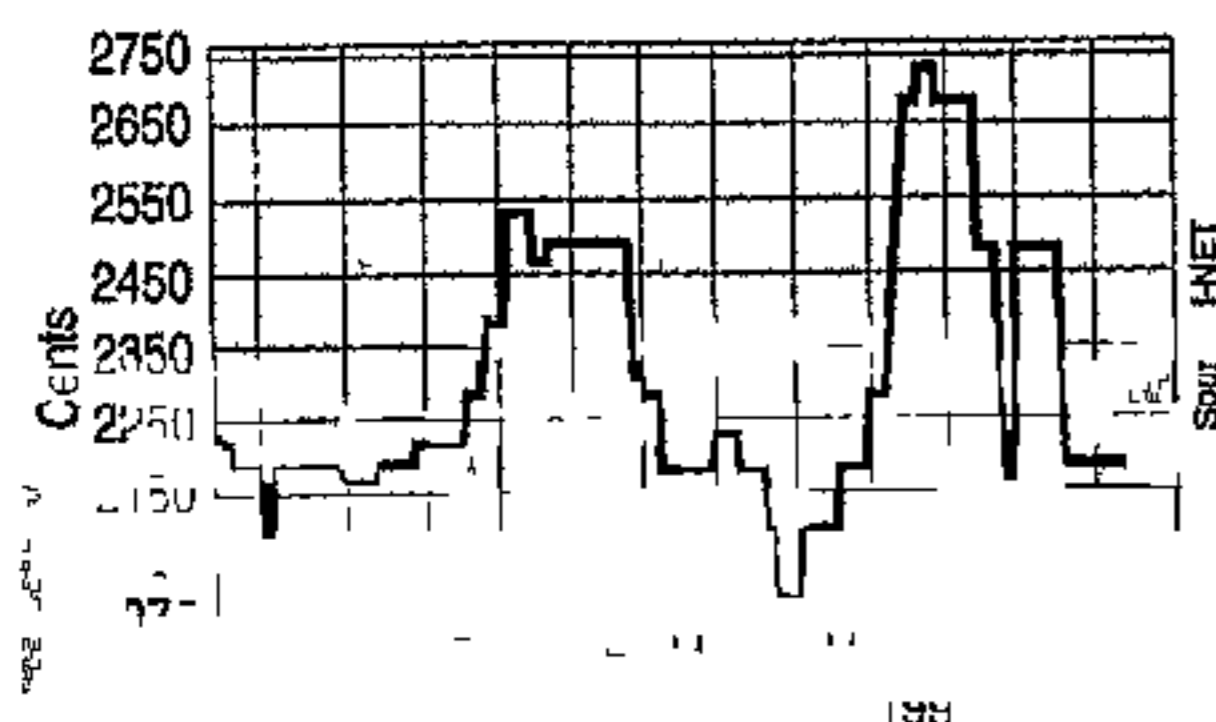
Share market: Price R22 Yields 3,2% on dividend, 10,1% on earnings, p e ratio, 9,9, cover, 3,2 12-month high, R22, low, R20 Trading volume last quarter, 191 092 shares

Year to March 31	'91	'92	'93	'94
Shareholders' interest	0,90	0,89	0,89	0,92
Turnover (Rm)	n/d	n/d	209	231
Pre-tax profit (Rm)	59,3	61,3	66,4	64,4
Net income (Rm)	23,8	28,1	31,3	33,6
Earnings (c)	157,8	186,3	207,6	223,2
Dividends (c)	51	59	64	70
Tangible NAV (c)	623	766	944	1 134

Consistent financial results remains a hallmark of Trans Hex — an unusual characteristic for a comparatively small mining

COMPANIES

Trans Hex



company whose profits are derived mainly from mining and selling diamonds

Efforts have been made to diversify the activities into industrial minerals and these now account for more than a quarter of capital employed, but the profit mix has not changed much. In the year to March 31, the diamond division made a taxed profit of R37,5m (1993 R29,5m), while the industrial minerals division posted a taxed profit of just R2m (1993 R3,3m)

EPS were 7,5% higher at 223,2c and the dividend was increased by 9,4% to 70c. Pre-tax income for the year was slightly lower at R64,4m, largely because mine development and exploration costs increased, but earnings benefited from a lower tax charge — though the effective tax rate remained high at 48%.

Cash flow was considerably better than the profit performance, net cash inflow moving from a negative R601 000 to a positive R10,6m, factors influencing this figure included sharply higher depreciation and lower investment in fixed assets. At year-end there was no debt and cash resources of R13,5m (1993 nil)

Outgoing chairman Francois Hoffman notes that the alluvial mining operations on

the left bank of the Orange River in the Richtersveld rural area remains the company's most important diamond production centre, generally yielding diamonds of good quality and size

Last year, he noted that these diamonds generally find ready acceptance in the markets of SA and elsewhere and that "no constraints were experienced in selling production at market-related prices" This year, however, the annual report is silent on market conditions and diamond sales. And it's notable that the balance sheet shows stocks rising by almost 50% to R51,9m, with diamond stocks of R38m (R22,7m) accounting for most of the increase

Among new developments, Trans Hex

has acquired shares in listed Ocean Diamond Mining in exchange for its interest in subsidiary Eiland Diamante Ltd, which holds a mining lease over the three nautical mile territorial waters of the 12 islands off the Namibian coast. On the current market price its ODM stake is now worth just less than R7m, only about 2% of Trans Hex's market cap

At R22, the share price has retreated from its 12-month high of 2 750c, presumably reflecting weakness in the diamond market. But the consistent growth in earnings and dividends over more than seven years and the earnings multiple of 9,9, suggests the share should be held

Andrew McNulty

COMPANIES

impossibilities, and investors have been seized by visions of incalculable cornucopia

Benco was established five years ago on the vision of John Gurney, an academic geologist of note (he is a professor of geochemistry at UCT), who has established an international reputation for his knowledge of the geophysical nature of SA's Atlantic sea floor

Financial 1994, however, has contained elements which Gurney must have found fulfilled his worst nightmare. The first chapter of a long and traumatic civil action ended in the Cape Supreme Court with the abrupt resignation of Benco CE John Wilson, said by presiding Judge JH Conradie to have "acted badly throughout" and, despite that, victory for Benco in the action for R250m damages brought by Namibian Minerals Corp (Namco). Namco has already lodged notice of its intention to appeal the decision.

The important aspect of Benco's business this year is the way its joint venture with Australian mining finance house BHP has progressed. BHP committed itself to spending US\$60m, Gurney says the exploration programme is expensive and ambitious but is paying off.

The Benco annual report doesn't release much new information other than that 10%-20% of the holes have found mineralisation. This warrants being taken seriously because it indicates the existence of really large areas of mineralisation. Benco's problem is that it doesn't know — yet — how to mine these. This will be the ultimate test. This puts Benco squarely into the category of exploration rather than mining, at least for now.

Meanwhile, Gurney confirms the new sampling vessel is operating at near maximum capacity. Early technical problems have been solved and the ship is operating at better than the planned number of daily samples. Gurney says he expects it will be sent to Namibia earlier than expected because the sampling schedule is now so well advanced.

Benco's areas of operation are in deep water and medium depth concessions off the SA coast, some shallow water diamond recovery to generate funds and now concessions in Luderitz Bay through a deal with Vancouver-based Diamond Fields Resources.

The company has an equity base of 44,9m ordinary shares in issue, however, there are also 15,9m options in place which enable holders to convert into Benco shares at 200c each. The share price is currently 450c, the options are priced at 275c and may be converted into Benco ords on November 25 (and only on that day).

The gap is enough to warrant examination by investors willing to wait another two months or so. The share price displays all the signs of a stock greatly favoured by a class of investors with substantial mood swings. As long as the promise of riches

remains, so will interest in the stock be inordinate. Results of the last year's work deserve to be taken seriously. *David Gleason*

BENCO

Merits serious interest

Activities: Marine diamond exploration company which acquires, develops and exploits sea diamond concessions off the west coast

Control: SA Mutual

Chairman: J J Gurney, MD H S Smith

Capital structure: 44,9m ords. Market capitalisation R202m

Share market: Price 450c. 12-month high, 450c, low, 52c. Trading volume last quarter, 4,1m shares

Year to June 30	'91	'92	'93	'94
Revenue (Rm)	19,0	16,2	12,7	10,9
Operating profit (Rm)	0,1	(3,4)	(3,2)	(4,2)
Earnings (c)	0,1	(8,2)	(7,5)	(9,3)
Dividends (c)	nil	nil	nil	nil
Tangible NAV (c)	101,9	93,7	101,3	111,5

It isn't often that it proves apposite to recommend the shares of a company which has returned a loss for its last year. In the case of Benguela Concessions (Benco), however, the Atlantic seaboard diamond

Benguela Concessions



exploration company, the losses really don't matter. It's what Benco might find beneath the ocean floor that counts.

There is a certain romance attached to this kind of operation; ever since the flamboyant Texan Sam Collins stormed up and down the SA coastline with barges likened to vacuum machines, and proved it is possible to make several fortunes from this strange occupation, the mining world has been gripped by the technological

Market in danger from gems flood

(216)

CT 19/9/94

Own Correspondent

LONDON. — A collapse of the world diamond marketing system is in prospect as the seepage of Russian rough gems on to the open market has escalated to \$150 million worth (about R540m) a month.

The Russians, desperate for foreign exchange, have stepped up the pressure on De Beers' Central Selling Organisation, which controls 80% of the world gem trade, by selling ever greater amounts on the open market.

According to authoritative market sources, the Russian diamond flood could wreck the official marketing system and force price cuts or tighter production quotas around the world.

De Beers, which has prided itself on avoiding a fall in diamond prices since 1935, has had fraught meetings with the Russians in recent weeks — some of which top Russian officials failed to attend.

The talks, due to begin again on Friday, are aimed at extending De Beers' agreement on marketing Russia's diamonds, which expires next year.

Russia, the world's second-largest producer after South Africa, is unhappy over the price for diamonds sold through the CSO.

De Beers director Mr Gary Ralfe, who has been leading negotiations with the Russians, is still hopeful a new agreement can be reached. — The Telegraph plc

Market 'taking a hammering'

Russian gem sales a threat to De Beers

Bl Day 20/9/94

MICHAEL URQUHART
and LINDA ENSOR

DE BEERS's control over the world's diamond market is being threatened by Russia, which is selling diamonds worth \$150m a month outside its agreement with the company

Sources close to the Central Selling Organisation said the Russian sales, equivalent to about 40% of the CSO's monthly output, were hammering the market

The CSO had been forced to cut its own sales in a bid to shore up prices, which would seriously hamper its second-half performance. Leakages of Russian diamonds had forced De Beers to cut back dramatically on the allocations it made in its last three sights, a source said

The illicit sales represented a serious threat to the CSO's world marketing system, which marketed 80% of the world's rough diamond production. If Russian sales were maintained they would make up more than 32% of sales

Sources said the system was already under pressure after the CSO imposed a 15% quota on producers. This was creating a severe supply overhang and leading to a "pressure cooker" type situation, as stocks were damming up and there was no outlet for producers in CSO sales

De Beers is negotiating a new marketing contract with Russia. The current one expires next year. The company was believed to be negotiating with three groups — the government of Yakutia where 99% of Russian rough diamonds are produced, Komdragmet, which controls the diamond industry, and the Russian Treasury which controls the diamond stockpile

The Russians are reportedly unhappy about the price at which the CSO sells their diamonds and the loss of their polishing

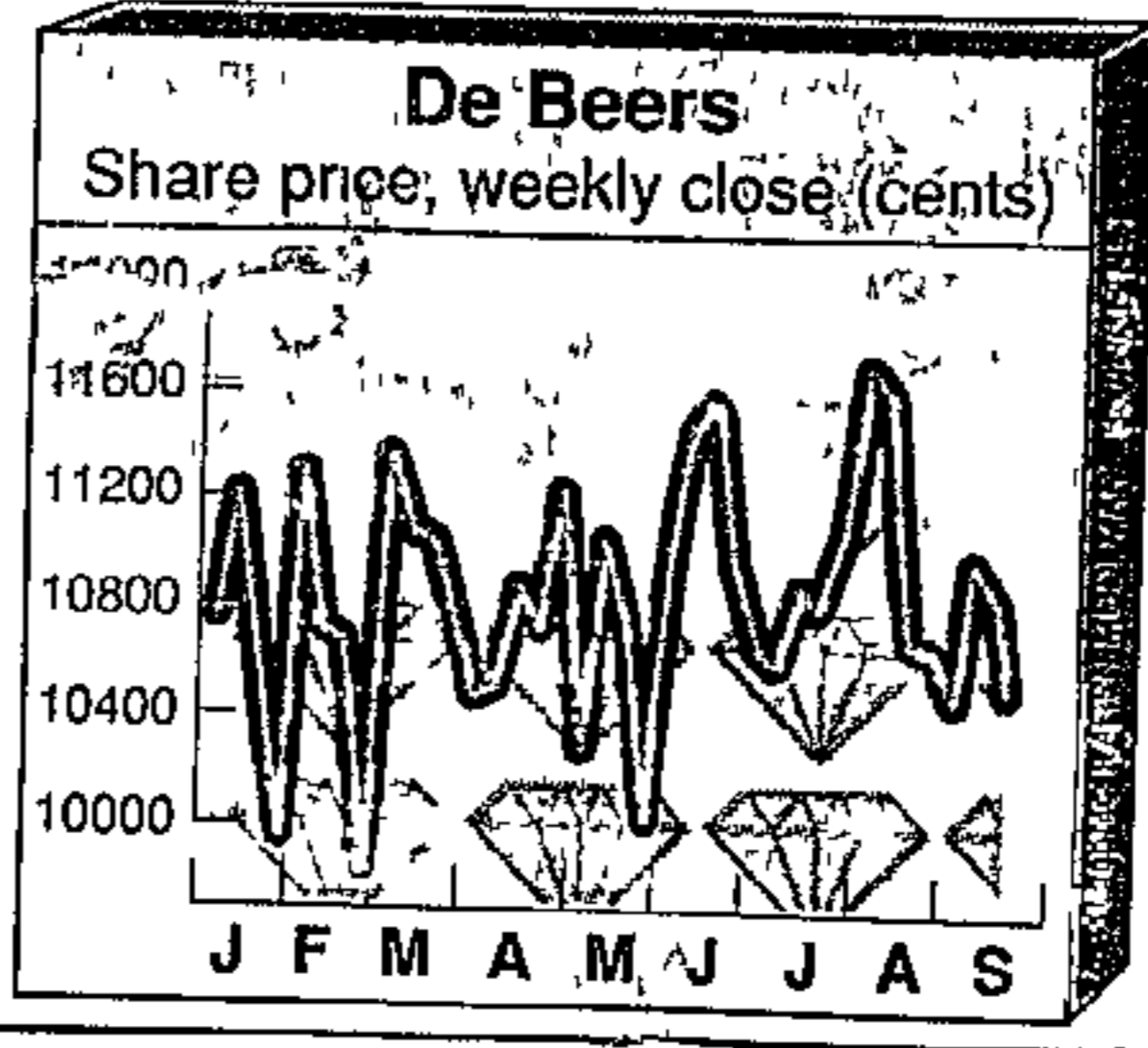
industry to Antwerp and Tel Aviv

In a recent communique the parties said they were "committed to the stability of the international diamond market, and to taking the necessary steps to curtail Russian rough gem diamonds reaching the market outside current arrangements"

But there has been little evidence of this. Sources said the leakage of diamonds had the approval of officials desperate for foreign exchange earnings (216)

Whether Russian sales could be maintained at their current high level depends on the size of its stockpile, thought to be worth \$4bn to \$8bn. Such a stockpile would mean that Russia could continue sales of \$150m a month for two to four years

Analysts say the surge in sales could simply be the Russians stepping up the pressure on De Beers to get more favourable terms when the contract is renewed



Plague blow to De Beers

CT 28/9/94

216

JOHANNESBURG — De Beers has been dealt a blow in Surat, India, where a pneumonic plague outbreak is severely disrupting business activity

Surat is the world's largest diamond cutting and polishing centre and absorbs about 40% of the Central Selling Organisation's diamond sales

Pneumonic plague is a form of the bubonic plague which decimated Europe in the 14th century. Unlike bubonic plague, the disease is spread through airborne infection. However, antibiotics can cure it.

The outbreak has spread to Delhi, carried by two men who were among the estimated 300 000 people who fled Surat to escape the deadly disease, health officials said yesterday.

In Surat the official death toll was little changed at 44, but the number of suspected cases rose to 531 from 452 on Monday.

Disease disrupting business

International airlines were rerouting flights from high-risk areas and several countries including Germany, Pakistan and the six Gulf Arab states — the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Bahrain and Qatar — are screening passengers arriving from India.

A De Beers spokesman said it was too early to tell how long the plague would last, or how badly the cutting industry was affected. He said if the situation lasted for weeks or months it would be a cause of concern for De Beers.

Analysts said it was unlikely cutters would be working, due to the ease of transferability of the disease. But there was little information coming out of the area on how badly the industry had been hit.

An analyst said the plague could not have come at a worse time for De Beers, as the jewellery market was stocking up for the Christmas season. Most retail diamond sales took place in the second half of November and the first half of December.

But the effect of the plague on rough diamond sales and sales of polished goods to the retail market would be muted by the oversupply situation existing for Indian goods, he said.

There was a polished diamond stockpile in Bombay which could supply retail demand, but if the plague lasted long enough this would eventually lead to a shortage of Indian stones in the retail market — Own Correspondent, Sapa-Reuter.

Namco pegs yield at \$12,6bn

JOHANNESBURG — A comprehensive geophysical survey of Namibian Minerals Corporation's (Namco) three claims off the West Coast indicate that they could contain diamonds worth more than \$12,6bn. (216) CT 28/9/94

Senior namco geological adviser Lawrence Minter told the Investment Analysts' Society it was now estimated that the three claims contained 78,3m carats compared to the original estimate of 37m carats worth \$5,1bn

The three claims are off the SA

coast and off Luderitz Bay and Hottentot Bay in Namibia

Chairman and CE Alistair Holberton said large scale bulk sampling was expected to get underway in early 1995. "By 1998, we hope to be producing 3% to 5% of the world's gem diamond output, or more than 500 000 carats a year."

Namco, which is listed on the Vancouver Stock Exchange, starts trading on the Namibian Stock Exchange tomorrow

Judgment on cancelled mine deal

JOHANNESBURG. — In a landmark judgment, the Lesotho High Court yesterday overturned a 1992 decree cancelling a lease entitling Swissbourgh Diamond Mines to mine in the Rampai/Katse Dam area. (216)

Swissbourgh managing director Mr Josias van Zyl said the decision could turn the R11-billion Lesotho Highlands Water Project into a "white elephant". The scheme will supply hydro-electric power to Lesotho and water to the PWV area from 1997.

Mr Van Zyl said he planned to sue the Lesotho government, which had passed the decree, for R2bn in compensation.

Lesotho's Chief Justice B Cullinan found the decree to be in breach of the 1983 Human Rights Act.

The decree cancelled the leases without entitling Swissbourgh to compensation.

Mr Van Zyl said the judgment meant the authority could continue building the Katse Dam — the project's centre piece — but could not open the sluice-gates as it would submerge the mining lease area.

29/9/94

From SIMON BARBER
in WASHINGTON

THE latest bid by the US Justice Department to skewer De Beers as an evil cartel goes before a federal court in Columbus, Ohio, on Monday. The charge is that De Beers Centenary conspired with General Electric Co (GE) to fix the price of synthetic industrial diamonds of which they together control around 80% of the world's supply. De Beers, which evidently considers the case an attempt by President Bill Clinton's activist antitrust enforcer, Anne Bingaman, to play Captain Ahab versus Moby Dick, won't be there. Nor will the two European businessmen, Peter Frenz and Philippe Liotier, who were indicted along with the companies. Only GE will be on hand to defend itself from potential fines of at least \$10m.

The single count indictment, extracted from a grand jury by Bingaman's trust-busters last February after a two-year investigation, is built around the alleged exchange of new De Beers and GE price lists in late 1991 and early 1992 by Frenz, then MD of GE Superabrasives Europe and Liotier, then CE of Diamant Board, a Belgian toolmaker owned by a company, Sibeka, in which De Beers Centenary held a 20% stake.

The case effectively rests on the jury being convinced that Liotier was acting as an agent of De Beers rather than as the head of a major consumer of both GE and De Beers products.

The closest thing the Justice Department has to a smoking gun is a fax Frenz sent his head office on December 16, 1991 providing details

DE BEERS UNDER US JUSTICE FIRE

of planned De Beers price increases supplied him "confidentially" by Liotier, and enquiring whether GE planned to follow suit. Liotier, wrote Frenz, is "supporting a price increase." If Liotier did indeed say that, and said it on behalf of De Beers rather than simply as the head of a toolmaker who was prepared to go along with a price hike, it would indeed be compelling evidence of collusion.

The trouble is proving Liotier really was De Beers's designated cut-out. As it happens, the Justice Department has lately shown signs of worrying that what it can show went on between Frenz and Liotier between November 1991 and February 1992 may not be enough to persuade a jury that there was a conspiracy between GE and De Beers. What is contained in the indictment, as GE lawyers put it in recent court papers, is "rather banal evidence of an alleged price information exchange between a relatively low-level GE employee and a GE customer". Perhaps mindful of this, the prosecution has told the court it intends offer additional "background" evidence not contained in the indictment. This will cover

three meetings involving Glen Hiner, then a senior GE executive (now chairman of Owens Corning Fiberglas), which allegedly led up to the Frenz-Liotier exchanges, and which the government contends are "direct and highly relevant evidence of the development of a relationship between GE and De Beers that culminated in the price-fixing agreement".

The meetings

GE agrees that Hiner did indeed meet De Beers' Julian Ogilvie Thompson and Nicky Oppenheimer in London in September 1989, Frenz, Liotier and Sibeka's Etienne Davignon in Paris in February 1991, and Ogilvie Thompson again, in London, the following September. What GE and Hiner himself contest is the government's version of what transpired on these occasions. This may be summed up as establish trust over cigars and cognac, hatch plot, approve plot. GE says that if this is what the Justice Department wants to argue, it will move to have evidence of the meetings barred from the trial. Failing that, it will call 110 witnesses to the stand and blizzard the jury with 1 400 exhibits to rebut the

prosecution's interpretation. If the judge does allow the Hiner meetings to be put to the jury, the key issue will then be the credibility of the government's principal witness to what was said. He is Edward Russell, the former GE Superabrasives vice president who first raised the collusion charges after dismissal in 1992 for poor performance.

In a suit against GE settled the day before the Justice Department announced the indictment, Russell described conversations with Hiner in which the latter disclosed how he had been richly, but secretly, entertained by Ogilvie Thompson in 1989 and how the subject of "price stabilisation" had first been mooted. Russell also said he had been told by Frenz that at the February 1991 meeting, Hiner had told Sibeka's Davignon "you know, there's only two of us in the marketplace we must be able to do something about stabilizing pricing".

It is unclear how much weight such testimony will carry if it is ruled admissible. First, it is all hearsay. Second, it is denied by Hiner, who has not been charged. Third, Russell, as part of his settlement with GE, signed a statement averring that he had "no personal knowledge" of price fixing. But the Justice Department does have other cards to play, among them the testimony of two relatively junior GE employees, Stephen Palovchik and Mark Harnden, who will say they were concerned that the Frenz-Liotier connection was a "conduit" for collusion. GE is pressing to have their evidence ruled out of order, too.

Gem probe go-ahead

By ARI JACOBSON

MARINE diamond group Benco got the go-ahead last week from global natural resource group BHP to continue with its exploration, after a two-monthly review meeting in San Francisco, chairman John Gurney said at its AGM in the city yesterday.

He stressed that "there are no guarantees" and the exploration potential of its concessions on the West Coast will be reviewed in December.

BHP and Benco have formed a joint venture to explore certain conces-

sions along the West Coast for marine diamonds — the finance for the exploration has been sponsored by BHP. BHP has already contributed about \$15m to the joint venture in roughly two years.

Gurney said should everything go according to plan "Benco will have something to say about proven ore reserves by the middle of next year."

Benco produced diamonds worth R10,8m (not yet for sale) in the year to May 1994 but with mining expenses of R10,9m the group made an operating loss.

(216) CT22/10/94

Court told of De Beers 'price-fixing'

CT 28/10/94

From SIMON BARBER

(216)

COLUMBUS — De Beers Centenary knew that its European industrial diamond distributor was attracting customers by helping them evade taxes and divert funds to secret Swiss bank accounts, it was claimed in court here yesterday.

Former general manager of General Electric's Superabrasives division Mr Edward Russell, the key witness in the Justice Department's criminal price-fixing case against GE and De Beers, outlined how the transactions worked.

He said that De Beers Swiss-based distributor, Eskenazi, would typically sell De Beers products to customers for a third more than the normal price, and then place the difference in a Swiss account for the customer that "no one knew about".

Mr Russell said that in 1988 he told his immediate superior, Mr Glen Hiner, general manager of GE plastics, that this practice was eating into GE's own sales, and endorsed the idea of Mr Hiner raising the matter directly with De Beers chairman Mr Julian Ogilvie-Thompson.

The two men met at De Beers headquarters in London in 1989, and were joined by Mr Henry Dyer, head of De Beers industrial diamonds, and Anglo-American heir-apparent Mr Nicky Oppenheimer.

Mr Hiner reported back that the meeting was cordial and that the issue of "pricing stability" had been discussed. According to Mr Russell and the Justice Department, this was the start of an increasingly cozy relationship between two arch-rivals.

GE claims that Mr Russell is taking revenge for his dismissal in November 1991 and cannot be believed.

De Beers mum on sales claim

From JOHN CAVILL (216)

LONDON — The Central Selling Organisation (CSO) yesterday refused to comment on a report that "free" rough diamond sales by Russia have hit \$500 million (about R1,75bn) in the first eight months of this year — cutting the De Beers's share of the world market from 80% to 75%

"We are currently in negotiations with the Russians and are unable to say anything about the situation," said a De Beers Cente-

nary spokesman here

ET 1/11/94
The report in the Wall Street Journal questioned the CSO cartel's ability to survive the pressure of increasing world supplies of gem-quality diamonds

It suggested that the Russians are playing a brinkmanship game with De Beers to squeeze better terms out of the next sales agreement with the CSO due at the beginning of 1996

The report quoted Mr Leonid Gurevich, head of the Precious Metals and Gems Committee in Moscow, as saying "Depending

on the quality, the market pays 13% to 35% more for our diamonds than De Beers"

De Beers also refused to comment on that claim

Citing diamond trade warnings that the Russian tactics could backfire if they destabilised prices, the report concluded "Even if the cartel remains intact, rising competition from outside producers could finally force De Beers to cut prices — something it prides itself on always having avoided"

COMPANIES

De Beers raises Tanzania stake

DE BEERS Centenary had increased its stake in Tanzanian diamond mining company Williamson Diamonds from 50% to 75%, the company said yesterday

Willcroft, a subsidiary of De Beers Centenary, acquired an extra 25% of Williamson from the Tanzanian government

The government is to retain a 25% stake through the State Mining Corporation.

The restructuring of Williamson would see De Beers investing about \$8m in upgrading the Mwadui mine, including the installation of a new diamond recovery plant.

De Beers, which signed a diamond prospecting and mining agreement with the Tanzanian government in 1992, would use its expertise to extend the life of the Mwadui mine.

The 146ha Mwadui pipe was discovered in 1940 by John Williamson, who founded his own company to develop the mine

The Tanzanian mine was a producer of high quality gem diamonds in its heyday

MICHAEL URQUHART

These included several famous pink stones. *BIDON*

Production at Mwadui had reached a peak of almost a million carats in 1967, but had fallen since then to an all-time low in 1994 *1994*

Since the mid-1970s the mine had been managed and administered as a parastatal, but the deal is in line with Tanzania's policy of reform and privatisation.

De Beers has prospecting rights in Tanzania covering an area of 22 000km²

The announcement of the deal follows close on the heels of De Beers subsidiary The Diamond Corp Sierra Leone being granted an exclusive prospecting licence by the government of Sierra Leone

The two-year Sierra Leone concession covered 15 800km² off the coastline of southern Sierra Leone

De Beers' share price fell 200c or 2% to R98,50 on the JSE yesterday *(216)*

November 2 1994 11

De Beers to boost ⁽²¹⁶⁾ Tanzanian interests ²¹¹¹¹⁹⁴

DE BEERS is to increase its investment in Tanzania, De Beers announced yesterday

The Tanzanian Parastatal Reform Commission and Willcroft Company Ltd, a subsidiary of De Beers Centenary AG, announced that De Beers is to increase its shareholding in Williamson Diamonds from 50% to 75%. The United Republic of Tanzania through the State Mining Corporation will hold the balance of the shares.

De Beers said about \$8m would be invested in upgrading the Mwa-dui mine including the installation of a new diamond recovery plant.

BHP adds R60m to diamond probe

S1 Times 6/11/94

By JEREMY WOODS

BHP, one of the world's largest mining groups, has committed a further R60-million to its joint venture with Benguela Concessions to explore for diamonds on the West Coast.

And on Friday, West Coast diamond producer Ocean Diamond Mining took delivery of its new R32-million mining ship, which will now be refitted in Cape Town before starting work at ODM's West Coast concessions in the New Year.

"The BHP move was encouraging for the industry. But from our side we have proven reserves and are excited about being able to increase our mining capacity with the arrival of our new ship," said Joe Consul, ODM's finance director.

The latest funding from BHP comes after an extensive drilling and sampling programme by BHP and Benco at their West Coast concessions for most of this year.

The exploration was started in a bid to establish whether the rich marine diamond deposits along the

West Coast extended across the BHP and Benco concessions.

"We have had some good results and it is encouraging for us and the rest of the marine diamond industry on the West Coast that BHP is committing further funding to our joint operation," John Gurney, Benco's chairman, said this week.

Some R15-million is to be spent on further exploration while R45-million will be spent on putting a mining vessel to sea.

Mr Gurney said the first phase of the exploration had been started to establish whether features identified on the sea bed contained diamonds.

"That has now been completed and many of the areas we examined were found to contain diamonds."

The second phase of the operation is to look at the more promising areas.

"We found some areas are better than others and now we are going to focus

on the best targets"

The third phase of the exploration programme is to drill newly discovered ore bodies to determine grades (216)

The results of BHP's development programme have been keenly anticipated by other concession holders as well as Benco shareholders.

Earlier this year Benco shares could have been bought for 95c and the Benco options for 12c. This week the shares were trading at R4,80, having recently been up to R6 and the options at R2,80 having been up to just under R4.

"It would have been disappointing for us and other operators if at the end of fairly lengthy explorations, BHP had decided not to go ahead in funding the joint venture," said Mr Gurney.

Benco's current success and huge stock market gains have not been won without controversy.

Earlier this year the company was involved in a lengthy court case with Canadian marine diamond explorer Namco over a disputed contract between the

two companies which Namco insisted had been signed by John Wilson, a former Benco director and a former chief executive of Shell.

Forensic tests showed the contract had indeed been signed and Wilson immediately resigned as a Benco director.

This week Mr Gurney confirmed that "no other board member knew of the signing of the Namco contract other than Wilson".

He said it was time Benco put the "whole thing behind us and got on with mining diamonds".

The latest Benco annual accounts says that a claim by Namco for damages arising from a purported breach of an agreement over a joint mining venture had been made against Benco.

"The claim was dismissed but the dismissal is subject to an appeal by Namco. In the light of advice received, the directors do not consider that the outcome of the appeal will have a material impact on the company's liabilities," said Mr Gurney.

Activities: Holding company concentrated in diamond mining

Control: Directors 60%

Chairman: A D S Buchan MD D G Kirsten

Capital structure: 13,2m ords Market capitalisation R85,8m

Share market: Price 650c Yields 2,7% on dividend, 10,7% on earnings, p e ratio 9,3, cover, 4 12-month high, 650c, low, 235c Trading volume last quarter, 52 000 shares

Year to June 30	'91	'92	'93	'94
Turnover (Rm)	47,9	76,8	52,5	36,4
Operating income (Rm)	13,5	7,5	7,6	9,7
Attributable (Rm)	11,4	8,9	7,6	10,3
Earnings (c)	78	42	53	69,5
Dividends (c)	*16	9 75	12	17,25
Tangible NAV (c)	208	261	399	377

* Includes 8c special dividend

diamond mining operations

This year, on much reduced turnover of R36,4m (1993 R52,5m), operating income leapt 28% to R9,7m, interest of R1,1m, a modest tax bill and an extraordinary item of R1,3m from the sale of assets, took

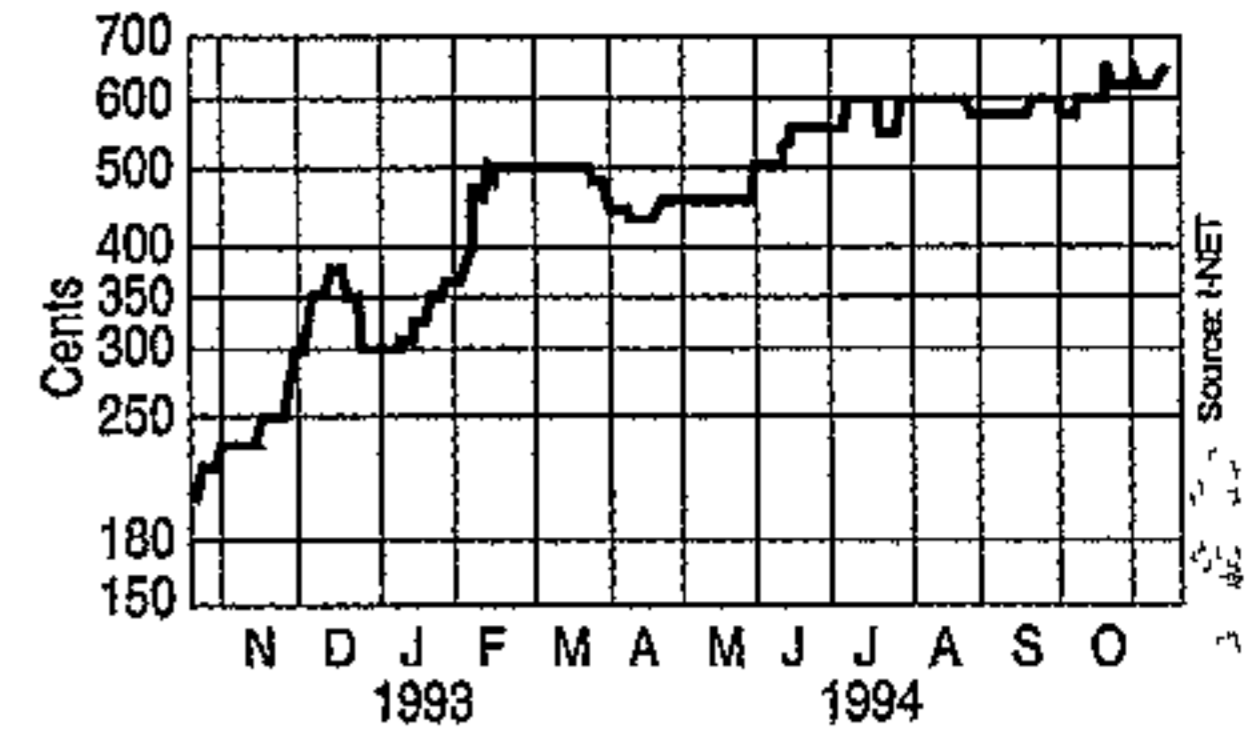
earnings to R10,3m (R7,6m) **21b**

These results derive from two operating diamond mines Messina and Star Diamonds. This year, Messina contributed 43 337 carats, an increase of 12% helped by a change in mining practice. The big performer was Star, which turned in its first full year with Minvest. Star was bought from Loucas Pouroulis's Salene Mining for R8,3m in July 1992 and previously was unprofitable, it brought with it a tax loss of R20,5m and the effect will be to hold down Minvest's tax rate for some years.

The balance sheet is clean cash resources now stand at R11,7m (1993 R4,2m) and there is a tiny overdraft of R178 000. This is the way a mining company should be run, especially one which has no Big Daddy around the corner. But it's nice to see, all the same.

The company needs to expand its operations, it wants to do so in diamonds but isn't averse to other minerals, and, intriguingly considering its origin, it is as-

Messina Investments



sessing the Bushman's Copper mine in Botswana, where the lack of water appears a major stumbling block. Even this small project has come up against the ubiquitous hand of exchange control. Minvest says it needs an offshore partner to supply the forex for its Botswana venture.

Off a low of 150c, the counter stands at 650c, the historical p e at 9. My guess is that Minvest should be able to generate EPS over 1995 of 85c, giving a prospective p e of 7,6. Timidity here must be a bit like looking a gift horse in the mouth.

David Gleason

MESSINA INVESTMENTS

Gift horse

Despite trauma in world diamond markets, this small company, all that's left of a formerly great base metal mining operation, goes on producing sparkling results from its

Namibia secures 50% cut in CDM

216 224

CT 25/11/94

From MICHAEL URQUHART
JOHANNESBURG. — The government of Namibia would gain a 50% stake in De Beers' Namibian operations with the formation of Namdeb, a jointly owned company containing all of CDM's diamond assets, De Beers announced yesterday

CDM — De Beers' wholly owned Namibian diamond mining company — would be reconstituted as Namdeb and would be equally owned by De Beers and the Namibian government.

In return De Beers has secured a number of key strategic objectives, including securing mineral and mining rights for 25 years and keeping Namibia's diamond production within the CSO.

Each party would have equal representation on the board and the new management committee

CDM contributed to the economy of Namibia, contributing 11% of its GDP, 34% of its export earnings and more than 90% of state taxes from the mining industry.

It is also the largest private sector employer in Namibia.

The 25-year agreement was signed by De Beers chairman Julian De Groot, British Thomson and Namibia's President Sam Nujoma yesterday. De Beers committed itself to increasing where possible the procurement of supplies and goods, and to the training, employment and promotion of Namibian nationals. Namdeb would provide over time towards a fully autonomous Namibian management structure.

De Beers and the government will also be investigating the commercial viability of Namdeb establishing a diamond-cutting and polishing factory in Namibia. The factory would be supplied

with rough diamonds by the Central Selling Organisation

De Beers Marine was kept out of the agreement, and will continue to mine CDM's offshore diamond prospects on a contract basis. De Beers' part interest in the Navachab gold mine also falls outside the accord. Certain of the offshore and onshore areas not suitable for diamond prospecting and mining will be relinquished immediately, while the remainder will be held by Namdeb under 25-year mining licences or renewable three-year prospecting licences.

The text of the accord was kept confidential, but it is understood the Namibian government, which currently gets about two thirds of CDM's profit, will increase this slightly

The government's revenues from Namdeb will be established as a percentage of pretax profit.

Business Report

Harry's not worried — diamonds are forever

(216) CT 28/11/94

JOHANNESBURG —

When billionaire Harry Oppenheimer finally quits the board of De Beers next month he leaves at a time when the diamond-mining group he built into a global empire is facing serious problems

But after 60 years as a director of De Beers, including 27 years as its chairman, he is not worried — and his parting shot when he announced his retirement last week was. "It has always been like that."

"I keep reading nowadays about how the diamond trade, and De Beers with it, is going to be destroyed, perhaps by the Russians, or as a result of new discoveries in Canada or God knows what other new development," the 86-year-old entrepreneur said "Nothing of the sort is going to happen"

But in Japan, the United States and Europe — De Beers' three largest markets — the economy and consumer mood remains depressed

Wholesale

There are too many diamonds at the wholesale level, and in order to keep its virtual diamond monopoly intact De Beers must buy up the growing surplus To keep prices from collapsing, De Beers will have to spend at least \$500m buying up the oversupply, Stefan Kanfer says in his recent book about De Beers, titled *The Last Empire*

Diamonds smuggled from Angola are being dumped on the market, slipping past the De Beers-controlled Central Selling Organisation (CSO) through which most of the world's diamonds are sold

And sales of diamonds through non-CSO channels from Russia rose sharply last year to \$300m,



BILLIONAIRE . . . Prospects are not a problem, and never have been, says Harry Oppenheimer, who announced his retirement from the De Beers board last week.

almost 25% of official sales by Almaznaya Rossi-Sakha (which coordinates mining, marketing, cutting and exporting) to the CSO, according to the Financial Mail

"A chill wind is blowing, and many will wither before its blast," Kanfer writes "Not De Beers, not Harry"

Oppenheimer is one of the richest men in the world, with *Fortune* magazine putting him in the top 20 His companies control 54% of the Johannesburg Stock Exchange listings, representing one fourth of SA's wealth

De Beers, along with its gold-mining sister Anglo American, presides over 1300 businesses, 90% of the world's diamonds and much of its gold

It all started on a humble farm in the

northern Cape owned by hapless brothers Diederik and Johannes De Beer who sold their land for £6 000 in 1871

Barely months afterwards, a rich vein of diamonds was discovered on the property which was to become known as the Big Hole and the centre of SA's diamond-mining industry

Although they passed up an incalculable fortune, the brothers' name lived on

Rhodes

In 1885 politician Cecil Rhodes and his partner Charles Rudd began buying up claims held by

the De Beers Mining Company and Kimberley Mines. The two companies were merged and De Beers was formally registered in March 1988

It was Oppenheimer's father Sir Ernest who carried the company into the 21st century, and Harry himself who guided De Beers and Anglo American into the powerful force that it is today

Kanfer writes that De Beers' phenomenal profits in the US can be traced to Oppenheimer's "A Diamond is Forever" advertising campaign

Until the end of World War II, less than 1% of Japanese brides wore diamond wedding rings A relentless De Beers campaign raised that figure to 70%

In Germany, De Beers introduced the concept of a triset, a third wedding band studded with diamonds, in 1967 and that country became the third largest diamond-consuming nation

Oppenheimer is confident De Beers will weather the storm, but his parting advice this week was co-operation to ensure its continued prosperity

"Co-operation between all the major producers is beyond doubt in the interests of them all, not only of De Beers, and just for that reason there will, in the long-run, be co-operation," he said

Good advice, according to the Financial Mail, which would "guarantee continued market stability and prosperity for the industry, the Russians and De Beers" — Sapa-AP

AdRetail
UP WHERE YOUR SALES BELONG

Pressure builds up on De Beers

Star 28/11/94

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BY NEIL BEHRMANN

London — De Beers shares are coming under pressure and will be tested in coming days, say London brokers

For a start, De Beers stock is acutely sensitive to developments on Wall Street, a market which has been under pressure the past week

Secondly, London analysts believe the Namibia/De Beers deal implies that the company will be losing half of its rich Namibian diamond assets with negligible compensation.

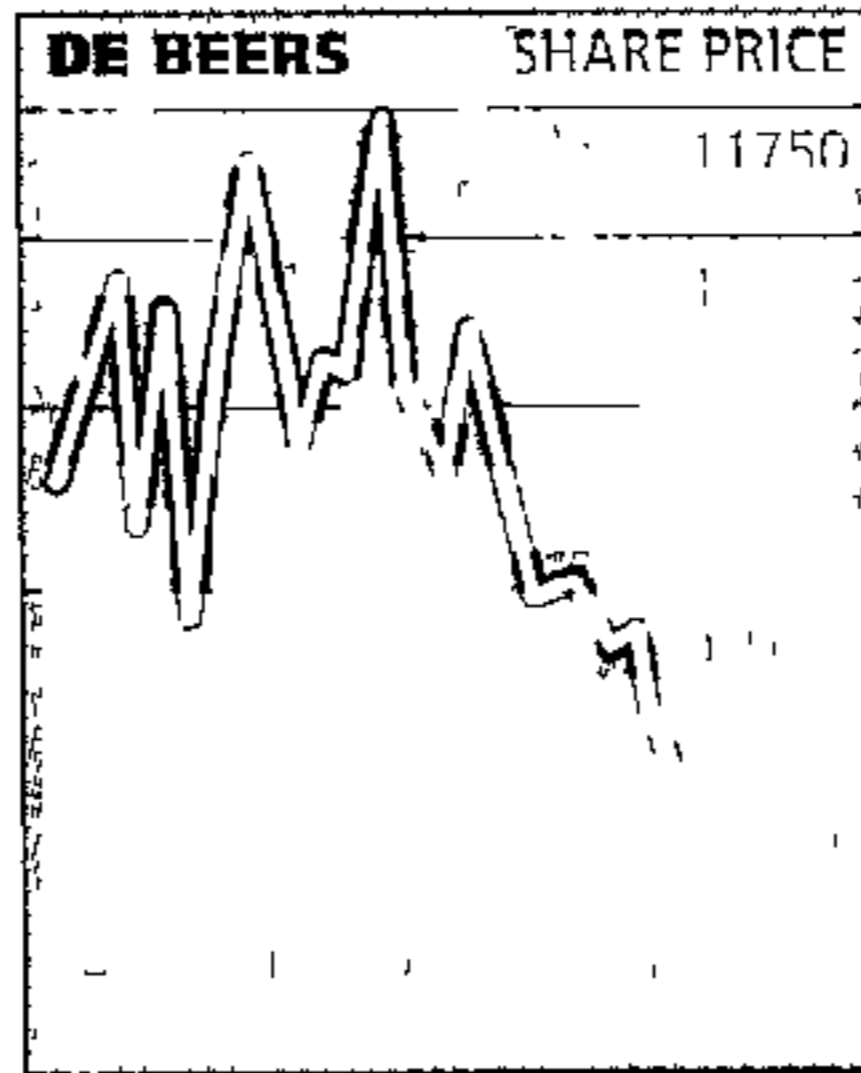
Namibia won't be investing capital in the new venture to be known as Namdeb Diamond Corporation (Pty)

In a vague statement, De Beers said last week an undisclosed proportion of the Namibian government's profits from the diamond mines would be invested in the joint enterprise in future years.

In return, the accord will last 25 years and De Beers, which controls about three-quarters of the world output of diamonds, will have sole marketing rights to Namdeb's production

"De Beers is effectively giving away half of its top-quality Namibian mines without compensation," said Roger Chaplin, a mining analyst at T Hoare & Co

De Beers did not disclose the worth of its Namibian holdings, which mine diamonds on the southwest African coast



Yet CDM, De Beers' 75-year old Namibian diamond mine, produces 1.14 million carats of diamonds a year

About 95 percent of these are top-notch gems. Each carat, weighing a fifth of a gram, is probably worth at least \$200, estimates Chaplin.

So its highly profitable annual sales could exceed \$200 million, he said

The value of the diamond interests could be worth \$1 to \$2 billion.

De Beers refused to confirm these estimates, but Chaplin believes that they are conservative.

If his calculations prove correct, De Beers would be losing about \$750 million worth of assets

In London, De Beers stock rose to \$23 from \$22.25 last Thursday, but down from \$24.50 on Monday. Analysts said the shares fell with Wall Street and ahead of the Namdeb announcement

"The market does not appear to understand the negative implications of the deal," said Chaplin

Yet there is a positive side to the agreement. The whole mine could have been nationalised, but this way De Beers keeps control of the marketing of Namibia's diamonds.

De Beers negotiations with Namibia dragged on for three years, officials said.

The diamond mines accounted for 34 percent of Namibia's exports and 11 percent of its gross domestic product, said Julian Ogilvie Thompson, chairman of De Beers

He praised the Namibian government for agreeing to sell all the diamonds to the cartel and complained that independent Russian sales continued to threaten market stability.

Polished diamond prices have been stagnating since the Eighties.

Illustrating that the diamond market is sticky, De Beers' own quotes have also stagnated in recent years. It is much more difficult for the company to raise prices.

De Beers claims it has never cut prices. Dealers, however, buy an assortment of diamonds in boxes at De Beers' sales.

They say that prices can effectively be cut or raised because the mix of gems is changed in the assortment.

It is, however, very difficult to prove this

"Russian sales threatening stability of trade"

BY DEREK TOMMEY

Russian sales are threatening the stability of the diamond trade, says De Beers chairman Julian Ogilvie Thompson

But the sales do not mean, as some people predict, the end of the Central Selling Organisation (CSO), which controls most of the world's diamond sales

Speaking at a dinner in Windhoek last week to mark

the restructuring of De Beers' Namibian diamond interests, he said De Beers had seen such problems many times in the past 60 years. On each occasion, the CSO and the diamond industry had emerged stronger than before

De Beers might be planning to meet the Russian challenge by fighting it in the market place, he said

Competing Russian interests have been leaking diamonds to the market in contravention of

their contracts with the CSO. This was placing Russia in the role of competitor with other diamond producers in the context of a finite market for a prime luxury product, he said

De Beers would utilise its core competences which cannot be matched in the industry and which not only gave it the competitive edge, but also the expertise to be adaptable and innovative, should change be necessary, he said.

Sasol quits R700m Coalex project

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ET 1/12/94

From MICK COLLINS

JOHANNESBURG — Sasol has announced its withdrawal from the R700m South Dunes coal export terminal (Coalex), which could sound the death knell for the project.

The company said it had reached agreement in principle with a number of Richards Bay Coal Terminal (RBCT) shareholders to acquire a 5,2% interest in RBCT. It declined to say from whom the shareholding had been acquired.

A spokesman said the acquisition would enable Sasol Mining to export 3-million tons of coal a year when the total throughput at RBCT reached 58-million tons. Sasol intended to start exporting coal from 1997.

Plans for the rival Coalex project were drawn up by companies denied access to RBCT, in which Anglo American's Amcoal and the recently merged interests of Trans-Natal and

Randcoal, Ingwe, are the major shareholders. The Coalex consortium had included Anglovaal, Gold Fields, Iscor and Sasol.

A Coalex source said Sasol's withdrawal was a major blow to the project. "We knew there was a chance it would withdraw and that the consequences would not be very good." The remaining consortium members would meet on Monday to decide on the project's future. "We will see if anything can be salvaged — but I doubt it."

Analysts said it was likely that Amcoal and Ingwe had granted the RBCT facility to Sasol as they feared the extra export capacity from Coalex could lower prices.

Sasol Mining produces 41-million tons of coal a year, most of which is consumed by Sasol petrochemical plants. The coal for export will be supplied by the company's Twistdraai mine.

De Beers cleared by US judge

From SIMON BARBER

WASHINGTON — The Justice Department's latest bid to nail De Beers on anti-trust charges blew up on Monday when Federal judge George Smith ruled that the government could not prove collusion between De Beers and General Electric to rig industrial diamond prices (2/6)

The case was still at least a month from going to jury when Judge Smith issued a written opinion declaring that the government's case did not hold. He said he had never before dismissed criminal charges without hearing the defence.

The Justice Department's anti-trust division had contended that a series of contacts in 1991 and 1992 between GE's European sales manager Mr Peter Frenz and Mr Philippe Liotier, general manager of Belgian toolmaker Diamant Boart, were part of a scheme between GE and De Beers to raise diamond prices at a time of global recession. CT 7/12/94

To prove its case, the government had to show that Mr Liotier secretly represented De Beers when he gave advance pricing information to GE.

"It is a link the government failed to establish, despite Herculean efforts," the judge wrote.

Activist anti-trust enforcer Ms Anne Bingaman said in a terse statement: "We respect and accept the decision in this case."

Ocean Diamond Mining in a slump

(216) RD/4/12/94
OCEAN Diamond Mining (ODM), the marine diamond exploration company, yesterday posted an attributable loss of R530 000 for the six months to September compared with a profit of R646 000 for the same period last year

But chairman André Louw said a new R34m mining vessel, which would commence operations in March, would add R6m to R8m to the company's bottom line when it reached full production of 40 000 carats a year

The vessel was acquired through a rights issue which raised R57m

The company's other vessel, Oceandia, was involved in reserve development. The acquisition of the new vessel shifted the emphasis from exploration to mining.

MICHAEL URQUHART

Last month Oceandia was refitted at a cost of R3m with equipment which could work in depths of up to 150m.

During the period ODM also acquired 90% of Island Diamonds, the holder of the Islands concession area, funded by the issue of 1,6-million new ordinary shares at R5,50. The balance of Island Diamonds had been acquired subsequently.

Profit from mining operations was maintained at R2 300, but a one-off loss of R674 000 on revaluation of stock at Island Diamonds, and higher exploration expenditure of R698 000 (R252 000), turned an operating profit of R741 000 into an operating loss of R733 000

Ocean Diamond Mining turns in loss

From MICHAEL URQUHART

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CT 14/12/94
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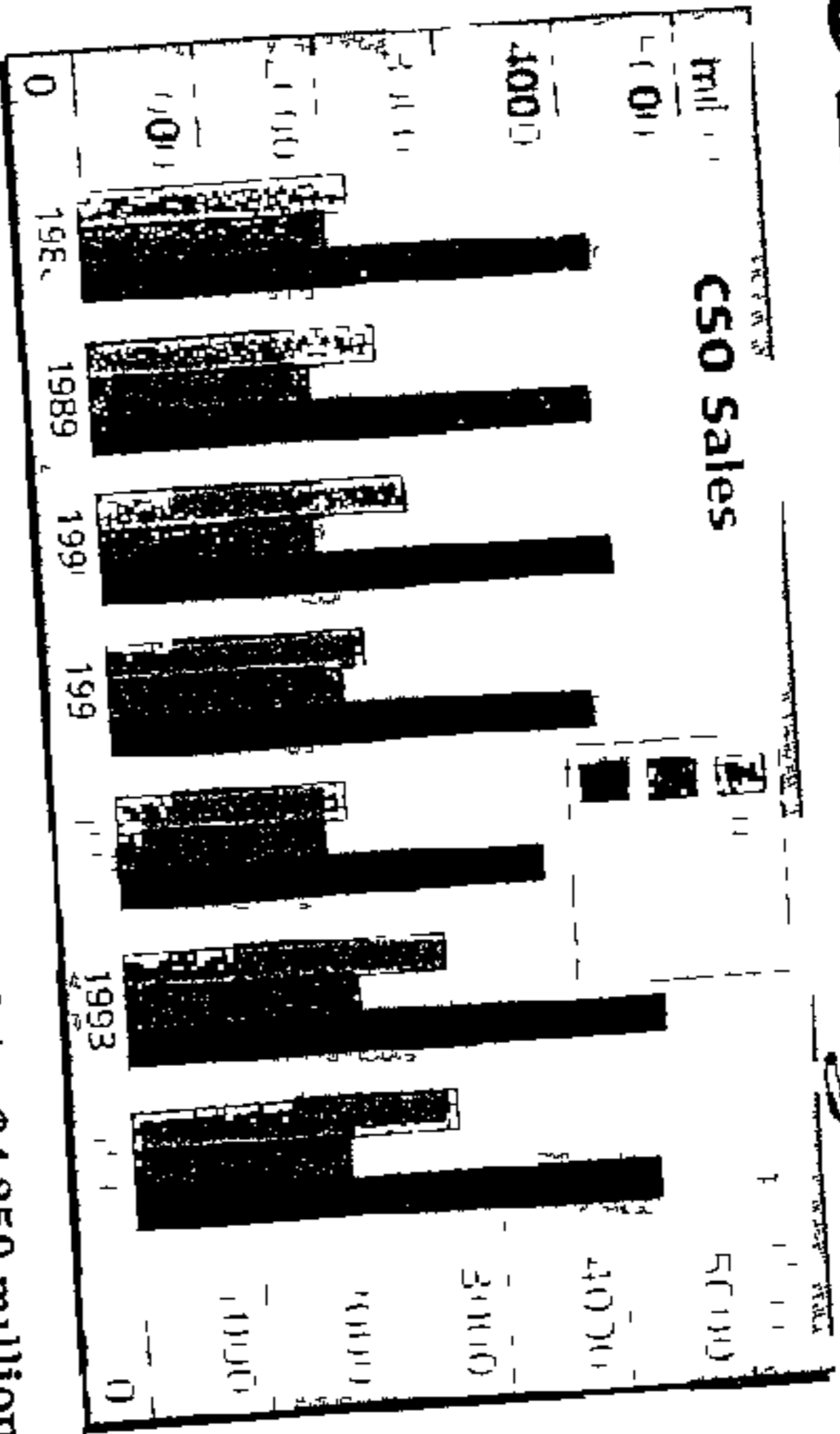
Russian sales have limited impact on CSO

Diamond sales hold up well

BY DEREK TOMMEY

Many De Beers' shareholders will feel a lot better following the publication last night of the Central Selling Organisation diamond sales figures for the second half of this year.

Reports of large-scale Russian diamond sales outside the Central Selling Organisation led to fears earlier this year that the CSO figures for the second half of the year would be well down on a year ago and this would have a major knock-on effect on De Beers. But although the reports of heavy Russian sales were true (according to market sources they totalled at least \$500 million in the full year) and forced the CSO to reduce supplies to the market, the improved economic conditions and buoyant



demand for diamonds especially in East Asia came to the rescue of CSO. It reports that 1994 second half sales amounted to \$1.67 billion, which is down only \$153 million on the \$1.823 billion a year ago. Total CSO sales for the year

amounted to \$4.25 billion which was \$116 million or 2.7 percent down on 1993's figures. CSO sales in rands rose 5.9 percent to R15.0 billion. In view of the large-scale Russian selling the CSO figures look good. It is clear that

but for the Russian sales, the CSO would have had a really outstanding year.

For De Beers' shareholders, the CSO figures should bring considerable relief. (21b)

They have seen the price of their shares — the real South African blue chip — slump by 26 percent from R120.75 in August to R89 at the end of November before staging a minor recovery in the past two weeks.

While there is no certainty that De Beers shares will quickly start recovering to their old levels, the CSO figures do put the Russian selling into perspective. They suggest that the Russian threat to the diamond market is much less than many people had feared.

Retail demand for diamond jewellery remains high in East Asia and shows signs of improvement in the United States.

Demand in Europe and Japan continues to be generally weak in local currency terms although there are signs that the economies in these areas are beginning to recover. Overall, world consumption of diamond jewellery has remained resilient and 1994 world retail diamond jewellery sales are expected to at least match last year's record level.

However, any significant improvement in the overall demand for rough diamonds is dependent on an improvement in the Japanese and European consumer markets, say diamond traders.

Star 21/12/94

CSO figures hit by illicit gem sales

(216) BD 25 21/12/94

MICHAEL URQUHART
and JOHN CAVILL

DIAMOND sales for De Beers' Central Selling Organisation (CSO) this year were \$4,25bn, 2,7% down on the previous year's, as illicit Russian sales and a plague in India sent second-half sales spiralling down after a record first half

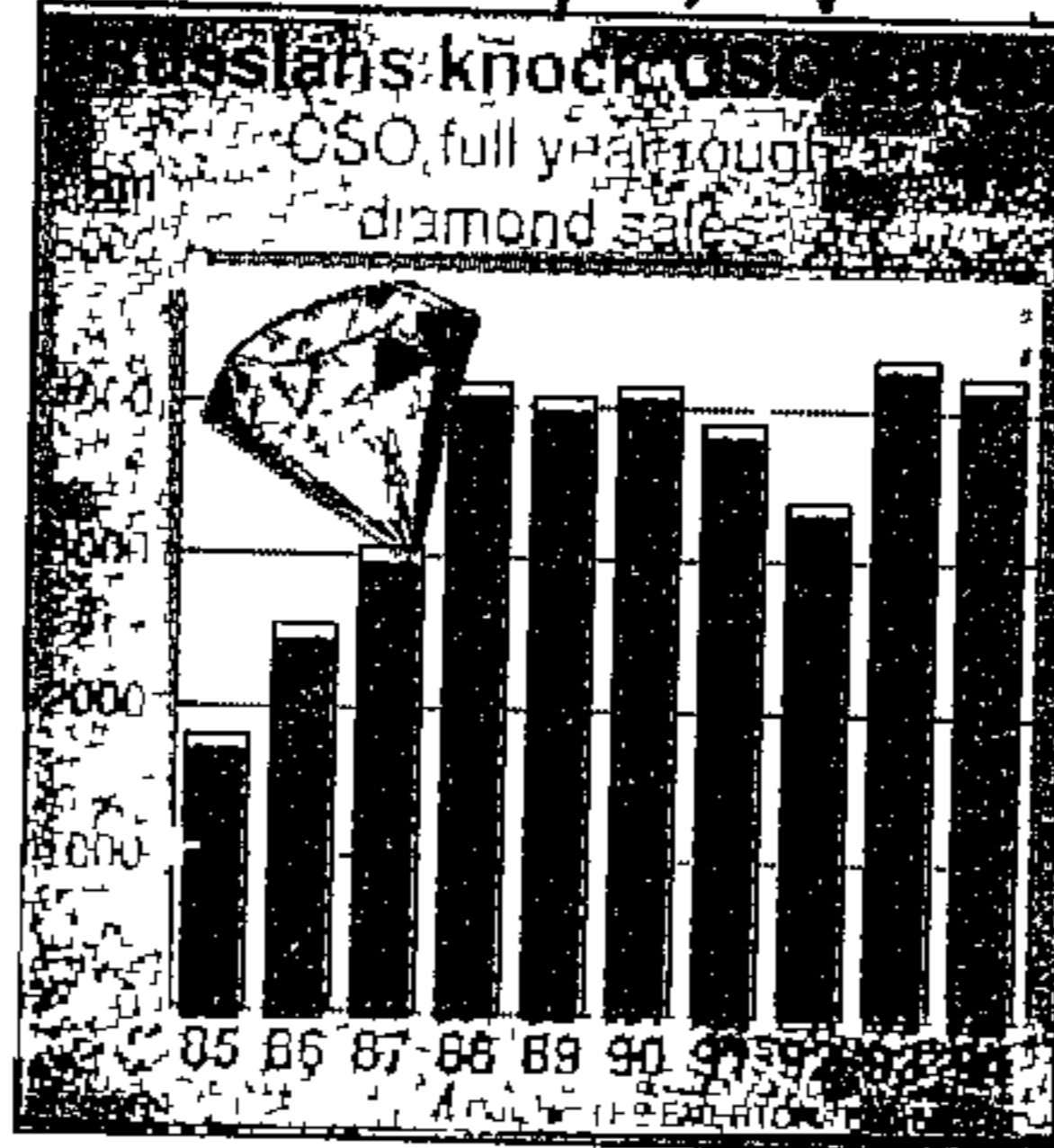
Sales of \$2,58m for the first half were offset by second-half sales which were down 8,4% on the same period last year

Second-half sales were about 35% below those of the first half. This compared with a 28% decline between the first and second half last year and was the biggest drop since 1990 when major industrial economies were sliding into recession

De Beers said illicit sales of Russian rough diamonds and pneumonic plague in India's major cutting centre were the main factors that knocked sales in the second half. The CSO said it reduced supplies at the end of June because of the build-up of stocks — especially Indian polished goods — in cutting centres

One analyst ascribed the lower sales to De Beers stepping aside when the Russians increased sales, rather than forcing the cutting centres to take too many diamonds

The market took the lower sales figures



in its stride, with De Beers' share price falling only 25c to R93.

The analyst said the sales were within the \$4,1bn-\$4,4bn range which the market had expected. There might even be a measure of relief that sales had not been below \$4,1bn. Had sales been above \$4,4bn, this would have indicated sales that could not be sustained by the cutting centres, he said. If illicit Russian sales, rumoured to have

□ To Page 2

Diamonds (216)

been \$500m, were taken into account, real growth in the world diamond market was about 7%.

A London-based analyst said. "The bright point about the Russians is that it shows how buoyant the diamond market is if you add \$500m of bootleg sales to the CSO figures." Should the Russians and the CSO come to an agreement in their latest round of talks, and the Russians stop illicit diamond sales, De Beers would be able to take advantage of this growth.

De Beers warned at the interim stage that sales for the second half would be well below those of the first half. It said the CSO

BD 21/12/94 From Page 1

would reduce diamond supplies after a build-up of stocks in cutting centres and concern about cutting centre profitability

De Beers said retail demand for diamond jewellery remained high in East Asia and had shown signs of improvement in the US. Demand in Japan and Europe remained weak, although there were signs that it was beginning to recover. Any significant improvement in demand for rough diamonds would depend on an improvement in the Japanese and European consumer markets.

● See Page 4