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Bright quarter for gold mines

CT 8/1/96 (BR) (214)

By CHARLOTTE MATHEWS

Johannesburg — Improved productivity and cost controls are likely to lift the gold mines' December quarterly figures, which will start to appear this week.

But the next two quarters will be tougher, analysts said yesterday.

The loss of productivity over the Christmas holiday season will not be reflected in the figures for December but in the quarter ending in March.

"The mining groups have been getting their houses in order after the collapse in the early part of the year when productivity took a nose-dive," said Trevor Pearton, a mining analyst at Frankel Pollak.

"Improved communication and working relations are getting production back together again."

Much of that recovery would be consumed in capital expenditure by those mining houses whose financial years ended in June and December, he said.

Simon Village, a mining analyst at Simpson McKie James Capel, said gold production was unlikely to be higher this quarter for the whole industry.

He blamed rationalisation, which has resulted in the closure of some shafts.

Profitability should improve because costs had been contained, he said.

Full calendar operations would have no effect on the December quarter because legislative changes still had to be made and were unlikely to be achieved before the middle of this year.

Village said full calendar operations would not solve productivity problems. They would enable some mines to improve planning of production and maintenance. This should smooth production profiles and help to reduce costs.

Mature South African mines should control costs more vigilantly and improve efficiency, he said. In addition, the labour force needed more incentives, but this had to be linked to increased accountability.

The effect of more holidays in December and early this year would be accounted for in the March quarter.

An analyst, who asked not to be named, said the gold mines would have received little support from a near-static gold price in the December quarter. At present gold shares were following the buoyant gold price, but the market believed local gold mines had little scope for improvement.

He doubted that the present gold-price rise was sustainable because central banks had extensive gold holdings, which would feed into the market and cap the price.

Gold would only achieve a higher base when perceptions started to gather momentum that inflation rates in the leading economies had bottomed out, he said.

Among the mines mentioned by the three analysts, improvements were expected from Elandsrand, Western Deep Levels, South Vaal and Vaal Reefs and as well as a small improvement at Driefontein, which could benefit from a grade recovery.

Pearton said he was concerned about the Gengold mines, which could have been disturbed by the change of management.

Buffelsfontein has scaled down its underground operations and will probably show little improvement in the December quarter.

Kloof, which has endured a major strike, was likely to struggle in the March quarter.

Gold Fields dashes mining optimism

(214) ET(BR) 10/1/96

BY FIONA LENEY

Johannesburg — Early expectations of a strong recovery for the South African gold mining industry in the December quarter last year have received another setback.

Gold Fields yesterday released another set of disappointing figures, belying analysts' predictions of an overall, if modest, improvement in the mining house's fortunes compared with the previous quarter

However, some analysts were quick to point out that the Gold Fields figures did not necessarily represent the fortunes of the industry They suggested that the quarterly figures of the other mining houses could well vindicate their optimism

Gold Fields' profit after tax was R268,1 million, slightly down from the poor September figure of R268,5 million Capital expenditure rose R9 million to R218 million

A small increase in the average gold price helped lift gold revenue by R12 million to R1,110 billion Total working costs increased marginally, but unit working costs declined slightly

"The disappointment overall is that we haven't made progress in reversing trends and the poor performance of two operations," said Alan Munro, Gold Fields' executive director of the gold division

Gold Fields' shares failed to move on the news Trevor Pearton, an analyst with Frankel Pollak, thought the results would have a limited impact on gold shares generally "(Shares) are reacting more to gold price volatility than to actual production," he said

Kloof's Leeudoorn and Deelkraal did particularly poorly, posting working losses of R17,5 million (R1,2 million) and R6,6 million (R1,1 million) respectively

Munro said that the problems at Leeudoorn, a relatively small part of the Kloof operation, stemmed from geological difficulties.

"The whole question of restructuring Leeudoorn is receiving constant attention"

Kloof's overall profit after tax was buoyed by a 20 percent increase, to R121,3 million, in working profit at the Kloof mine This was mainly due to increased yield

GOLD FIELDS GROUP

Third quarter results (Rm)

Munro confirmed that last week's strike had hurt the company, but said the impact would only appear in the next quarter's results

Measures were being taken to improve relations with the workforce throughout the company's mines, he added

At Deelkraal, the yield was up to 5,8 grams a ton, from 5,4, but tonnage milled fell to 290 000 (340 000). Munro said the situation was serious, though bonuses had been introduced as an incentive to improve productivity

Driefontein increased profit after tax to R177 million, from R172,2 million. Substantial increases in both yield and production at East Driefontein outweighed a drop in working profit to R83,3 million (R86,1 million) at West Driefontein.

Dries and Kloof declared unchanged dividends, but Deelkraal's dividend was passed once again.

Troubled Northam Platinum dashed hopes of a recovery by returning a loss of R22,7 million, nearly three times the previous quarter's loss of R7,6 million.

Gold Fields Coal increased taxed profit from R8,9 million to R12,9 million

The group's base metal operations fared less well. Black Mountain's taxed profit declined from R16,8 million to R10,9 million; Zinc Corp's from R5,3 million to R3,6 million, and O'Okiep's from R8,3 million to a loss of R653 000

ALL THAT GLITTERS *Gold Fields' Alan Munro is upset because the group could not reverse declining trends* PHOTO JOHN WOODROOF

Gold Fields' mines lift production

McKay (214)
BD 10/1/96

GOLD Fields has opened the December quarter reporting season on a flat note, with static after-tax profit as its mines chased higher grades.

The group — which counts Kloof, Driefontein and Deelkraal among its mines — lifted gold production to 24 524kg (24 297kg), despite a fall in tonnage to 2,8-million tons (2,9-million) as grade leapt to 8,7g/t (8,3g/t).

Average prices remained effectively static but tight cost control helped lift pre-tax profit to R304,4m (R299m).

Gold operations GM Alan Munro said Kloof and East Driefontein improved performance. Leeudoorn's was disappointing. Foundations for 'improving profitability had been laid and would be bolstered by steps to improve productivity, including a full calendar week and incentives. Deelkraal started a bonus scheme for stoping workers.

See Page 5

Production increase sees small gains for Gold Fields

BD 10/1/96 (214)

Madden Cole

MARGINAL increases in gold production and revenue helped Gold Fields of SA show a modest improvement in pre-tax profit to R304,4m in the December quarter compared with R299,4m in the previous quarter

Gold division chairman Alan Munro said yesterday that the results represented a consolidation on which future recovery would be based Doornfontein's figures were not included following the finalisation of the scheme of arrangement with Blyvooruitzicht

A slight drop in tonnage milled to 2,8-million (2,9-million) tons was offset by a marginal improvement in average grade to 8,7g/t (8,3g/t) which boosted gold production to 24 524kg, a 1% increase on the previous 24 297kg

"However, the reduction in working costs to R34 142/kg from R34 363/kg and a 4% increase in working profit to R272,8m has been an important achievement," Munro said

The increase in gold production was achieved mainly through improved grades from Kloof and East Driefontein, but with the gold price virtually flat at R45 202/kg, gold revenue was little changed at R1,11bn (R1,09bn)

"We made an improvement and paid more tax, although we did not make a major move forward Our aim is 120 tons a year which would require we fill our mills with good material to maintain yields "

Kloof and Deelkraal were major contributors to the improved quarter, with Kloof recording improvements in tonnage milled, yield and a drop in unit costs As a result, working profit increased 20% to R121,3m. Last month's strike cost the mine a week's production, incurring a loss of R25m

Geological problems continued to hamper Leeudoorn, which posted a sharp increase in its working loss to R17,5m (R1,2m loss) Adding to its woes was a rise in unit costs after a fall in gold production to 1 730 kg (2 030,5kg) Prospects for the current quarter were not good, Munro said

Libanon showed improvement, reducing its working loss to R8,2m from a previous R10,7m loss

Deelkraal had a disappointing quarter, moving firmly into the red Munro said the mine looked for better tonnage and quality, but managed to improve grade to only 5,8g/t (5,4g/t), with tonnage falling to 290 000 (340 000) tons This depressed production to 1 679kg (1 28kg) East Driefontein managed to increase yield, benefiting from a rise in gold revenue and a drop in working costs, which boosted working profit to R100,7m (R86,1m)

Gold revenue at West Driefontein was static, with working profit falling to R83,3m (R86,1m)

GOLD FIELDS OF SA December Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
EAST DRIEFONTEIN	645	9,2	5 920	259,4	28 267	45 280	—	—	—
September	705	8,1	5 686,7	227,5	29 994	45 131	—	—	—
WEST DRIEFONTEIN	640	9,6	6 123	302,7	31 565	45 170	177 029	45	22
September	645	9,5	6 132,7	295,9	31 134	45 170	172 208	39,1	19,1
KLOOF	485	14	6 771,3	382,7	27 414	45 326	—	—	—
September	480	13,2	6 358,5	386,6	29 196	45 157	—	—	—
LEEUDOORN	332	5,2	1 730	288,6	55 402	45 293	—	—	—
September	350	5,8	2 030,5	266	45 830	45 219	—	—	—
LIBANON	414	5,6	2 300,9	271,5	4 885,6	45 295	97 618	25,1	18,1
September	407	5,6	2 260,8	277,4	49 962	45 227	95 294	34,8	25,1
DEELKRAAL	290	5,8	1 679	285,5	49 312	45 246	(6 552)	(19,9)	(19,9)
September	340	5,4	1 828,1	240,6	44 729	45 234	1 034	(14,2)	(14,2)

Analysts concerned by poor management at SA gold mines

(214) CT (BR) 16/1/96

BY ROSS HERBERT

Johannesburg — As the market prepares for the next round of gold mines' quarterly results this week, analysts say the industry's greatest weakness is quality of mine management

The analysts make the claim despite frequent claims in the industry's annual reports that South Africa's deep-mining expertise is unparalleled

And analysts, particularly in London, say progress on productivity and industrial relations, to which productivity is closely tied, will be the subject of increasing market scrutiny

"When we have these quarterly presentations, they are forever telling us about this appaling situation with public holidays and unmotivated workers What they are telling us is they want workers to manage themselves because management can't manage them," said Rob Weinberg, a gold analyst at Morgan Grenfell in London "I think the industry has been making too many excuses for too long"

Continuing industrial strife and poor attention to productivity were the reason several analysts said they were disappointed in Gold Fields' results last week Comments by Alan Munro, Gold Fields' executive director, blaming labour for productivity problems, drew fire

"You can't just blame labour Management has to come into the equation That's the feeling on this side," said a Fleming Martin gold analyst in London

"To blame the workers is an absolute indictment of management It's ludicrous," said one industry executive, who asked not to be named

Reacting to such criticism, Munro said he prefers to go slow and leave industrial relations to mine management "For an operation with 11 000 workers nine layers of management between workers and me, I don't think that is too many"

"It's a statement of fact that things aren't working That we don't do things as some analysts would like us to, I have no doubt about it But you don't just snap your fingers and things happen in five minutes," Munro said

Justin Baring, who works on the South African desk at Baring Securities, said "We think if they could cut costs by 4 percent in the South African gold industry, they could double profits For example, Freegold managed to make 5 percent of its workforce redundant without strikes, yet Kloof makes three workers redundant and the mine goes on strike," Baring said

Though labour costs account for just over half of working costs in the industry, analysts estimate that as much as half of those costs are attributable to supervisory staff

Despite criticising management for failure to focus on itself, analysts credit top management, including Munro, for launching a variety of productivity improvement programmes this year They say that the political transformation, thinning margins, the Vaal Reefs disaster and the Leon Commission report on health and safety seem to have created a real shift in top management focus

Even some in the National Union of Mineworkers (NUM) have praised the shift in attitude "They are trying, but they are doing a lot of thrashing about They don't know how to go about it," said Fleur Plimmer, who directs health and safety for the union

UNHAPPY *Miners say though senior management is making an effort to change, working conditions remain poor on local mines*

Though Plimmer sees change, the union chairmen at a variety of mines say they do not Anglo American's gold division has brought in new human resources and industrial relations managers at Vaal Reefs, but managers routinely bypass local union representatives and try to deal directly with NUM headquarters, they say

"The attitude of management has not changed as far as we are concerned," said Hoyce Pundulu, a union regional secretary responsible for Vaal Reefs

Further down the hierarchy, feelings are more bitter and accusations more serious Workers on a variety of mines say underground supervisors still beat workers

"They are talking about things at head-office level, but you go back to the mines and it's just like the old days The workers are still getting beaten up They are still using repatriation as a means of retrenchment for injured workers," said Charles Freeland a former mine official now with the NUM

For the market, the successful implementation of seven-day-a-week operations will be a key test, with potential to influence share prices But it could also has the potential to exacerbate management-union relations

The challenge will be to make progress on structural issues limiting productivity, such as unsupervised underground crews, workers waiting for miners who only arrive an hour after work crews, and training workers in multiple disciplines to cut down on serial tasks

Freegold mine will harm Anglo results, says Godsell

(214) CT(BR)16/1/96

BY ROSS HERBERT

INDUSTRIAL MEDICINE *Improving industrial relations will be crucial to Anglo American's gold operations, particularly at the troubled Freegold unit, says Bobby Godsell* PHOTO JOHN WOODROOF

Johannesburg — Anglo American's gold and uranium results for the December quarter will be pulled down by bleak results at the Freegold unit, Bobby Godsell, the company's gold and uranium chief executive, said yesterday

"Some of our companies are in very grave trouble, particularly Freegold," he said "The situation at Freegold is very bad It's bad and it's been grim for some time"

Godsell said he couldn't provide any specifics in advance of the public announcement of results, but one analyst predicted "the blood is not going to stop flowing at that operation for a long time"

For the quarter ended in September, Freegold contributed 43 percent of Anglo's gold mine production but only 10,6 percent of available profit

Freegold results will bring into stark relief the need to improve productivity and the industrial relations upon which major productivity gains will depend — issues analysts both here and abroad agree will be subject to increasing investor scrutiny Word of poor results at Freegold had spread yesterday to stock analysts, which helped drive Freegold shares down 75c to 3 550c Amgold (Anglo's gold share investment company) shares were driven down 1 900c to 33 600c

"Labour relations is the crucial I want to say battlefield, but I don't want to use that word crucial issue Management alone cannot save Freegold It's going to require a hell of a lot more co-operation," Godsell said

One reason for this is that Anglo is now locked in negotiations with unions over extending operations to seven days a week

Godsell said the company hoped to meet unions in the next few weeks to forge a turnaround plan

However, union assent is far from certain

The National Union of Mineworkers is likely to make demands for a share of the profits brought by seven-day operations And union members complain that Anglo mine managers repeatedly go over the heads of local union chapters to the national headquarters National union representatives have recently refused to schedule appointments with Anglo managers until local members are invited

Godsell said he was not aware of that problem "We have learned in a very blunt and ordinary sense that we have to share power

"We are going to have to change the way information is shared, the way that targets are shared, the way feedback is given Ninety percent of the working reality is determined by the relationship between a worker and his immediate supervisor It's that relationship that is absolutely critical Nothing will change until things change at the coal face"

Among the likely changes are consolidation of management layers, the merger of production and engineering, which now have two separate management chains, and a re-examination of levels of overhead costs

International analysts say the quality the gold industry management and its ability to improve labour relations will be under increasing scrutiny

☐ See Page 17

Setbacks take gloss off mining results

BD 17/1/96 (214)

David McKay

STRONGER performances by Gengold and Anglovaal for the December quarter were offset yesterday by Gengold's disclosure that it had cut 800 jobs and Anglovaal's warning that its Target exploration project had been put back by 18 months

Gengold, which lifted pre-capex income 19% for the quarter to R66m, said that an experimental work detail installed at St Helena last year had failed Eight hundred of the mine's 4 800 workers would go

The scheme — which paid workers on the mine's No 4 shaft according to their performance — had been rendered unprofitable by operating hitches, Gengold MD Tom Dale said

St Helena suffered a R5,1m operating loss for the quarter, against a R4,9m loss in the September quarter

Gengold had already been forced to axe 3 500 jobs at Buffelsfontein prior to the mine's takeover by Randgold The Buffels losses would cost about R75m, Dale said

The St Helena cuts would cost far less, as workers had been taken on with a minimal pay-off package

The losses nevertheless represent a blow to Gencor's plans to reshape operations and cut costs

The company said yesterday it was considering transforming mine management fees into equity holdings, in line with the reorganisation plans

Dale said the scheme to merge its Evander mines — Kinross, Winkelhaak, Bracken and Leslie — had finally moved forward. The government mining engineer had recommended that the plan go ahead Clearance from inland revenue was still being sought.

Anglovaal lifted pre-capex income to R34,8m (R30,9m) as higher gold production offset a slight deterioration in

Continued on Page 2

Mines

(214) BD 17/1/96

Continued from Page 1

the average price received

However, completion of exploration at Target, mooted as one of the few major new gold mining projects in SA, had been put back to 1998 Exploration had reached the boundary of Anglovaal's Loraine Exploratory drilling would now begin

Consulting mining engineer Roger Dixon said the exploration had shown areas of intersected water and heavily jointed ground which had prompted changes to the layout

Development would have to be extended The rate of development had fallen behind forecasts

Anglovaal said it had sufficient funds to complete the exploration programme

See Pages 6 and 7

Produce or face closure, Anglo mines told

(214) CT (BR) 19/1/96

By Ross Herbert

Johannesburg — The gold mining industry has been warning that failure to make significant improvements in productivity would result in large cutbacks in operations and employment.

Yesterday, Anglo American's gold and uranium division announced its intention to deliver, increasing the pressure on unions and management.

Five mine shafts in Anglo's troubled Free State Consolidated Gold Mines (Freegold), "under current price, cost and productivity trends, will have to close during the March quarter", putting 10 000 mine workers out of a job.

The reading of the statement to a packed auditorium of analysts and reporters by Bobby Godsell, the gold division's chief executive, rang with an air of finality.

"One gets the impression there is rather heavy use of the stick to beat the unions. Why not more carrot?" asked Jeffery Campbell, gold analyst for Mercury Asset Management, who listened to Godsell by telephone from London.

Godsell would not spell out exactly how or if productivity could be re-evaluated between now and March, but he did caution listeners to note his exact words. Translation: there is not much time to bargain.

Godsell said the five shafts had lost R40 million in the December quarter and had an unprofitable record for the past eight quarters.

A further six shafts with inconsistent profits were also at risk, he said. All the shafts could still be saved, but significant concessions would have to come from unions.

The key question for the unions is whether to interpret yesterday's announcement as simple fact or more sabre rattling.

The company said it had been discussing the lack of productivity at two of the shafts — Saaiplaas No 3 and 7 — since 1990.

At other shafts, discussions about working on holidays, Saturdays and Sundays had been going on for months with few signs of progress.

Godsell said his turnaround strategy for the marginal shafts would start with a summit meeting on January 25 at which every aspect of cost, from management to workers to scheduling and weekend work, would be put on the table.

Godsell expressed an interest in changing the basic structure of pay with a lower basic rate and much higher bonus tied to productivity.

Getting union members to agree to major work changes in time for Anglo's deadline will not be easy. Worker cynicism runs deep.

Unions have been resisting calls for Sunday work, while agitating over safety and working conditions. Although there have been discussions with regional and national union structures, much of the information on the company's condition has not reached the lowest levels.

On visiting Anglo mines, workers have released a torrent of discontent over retrenchments, hostel conditions, food, use of subcontractors, and continuing racial practices such as separate lifts.

Moreover, union reaction to the threatened closure has tremendous precedent-setting potential. Godsell has made his intention clear to press for holiday and Sunday work.

Industry analysts have mixed reactions. "What is the chance that a slimmed-down mining company will pay slimmed- down management fees?" one asked.

Anglo does not disclose management or service fees it extracts from the mines. Stock analysts continue to complain that it makes South African shares uncomparable with other gold stocks, which are not burdened with fees.

"What I liked about the presentation is that the company is now taking positive steps. What we saw in the last quarter was muddling, with management saying 'We hope not to close any shafts, but we might'. I would rather that if they are going to close, they just do it," said David Hall, an analyst at Barings Securities.

"If they do not resolve the labour issue at Freegold, I think a lot of international investors will start to get nervous," [illegible] an analyst

LAST CHANCE *Anglo American's Bobby Godsell has told the unions that there is not much time left to bargain* PHOTO: JOHN WOODROOF

Anglo American Gold Mines
Quarters ended December 1995 and September 1995

	Gold Produced (oz)		Profit after tax (R million)	
	Dec	Sep	Dec	Sep
Freegold	727 218	764 095	51 7	57,6
Vaal Reefs	562 156	544 [illegible]	[illegible]	131,0
Western Deep	330 063	[illegible]	82,2	77 8
Elandsrand	120 179	130 982	35 6	41 0
Ergo	105 [illegible]	102 541	19 9	23 0

‘Room for improvement’ as JCI mines record profit

BD 19/1/96 (214)

David McKay

JCI’s three operating gold mines yesterday reported a R79,8m combined profit for the December quarter, but John Brownrigg, CE of the group’s gold and uranium division, believed there was room for significant improvement in productivity. Brownrigg said managers at Randfontein Estates, Western Areas and HJ Joel were vigorously pursuing agreements with trade unions and associations to implement a seven-day-a-week shift programme In some cases, permanent agreements have been signed with wage increases backdated to June 1995

This upbeat tone was bolstered by news of secured funding for the exploitation of the South Deep ore reserve through the forward sale of 100% of planned gold production of 7,3-million ounces of gold over an eight-and-a-half year period to 2004

A rights offer of R510m in June 1995 and capitalisation awards to shareholders with options to take shares instead of cash dividends were other components of the deal The forward selling of gold secures R450m in current money of the R1,1bn which is needed to exploit the reserve

Re-engineering at Randfontein Estates had been completed Working costs rose to R238m from the previous quarter’s R226m and this combined with a lower gold revenue to cut the profit from gold to R14,9m (R35,1m)

A R1,8m uranium profit for the review quarter added to a R1,7m increase in net interest received and sundry revenue, and a reduced tax liability of R10,2m resulted in a profit after tax of R25,1m (R31,6m).

Milled throughput rose to 1,834 Mt from the previous quarter’s 1,772Mt. The average yield fell to 3,04g/t from 3,2g/t, resulting in overall gold production decreasing to 5 573 kg (5 768 kg)

A marginal increase in the average gold price received partially offset the decreaed output resulting in a gold revenue of R252, 9m - R8,5m lower than the previous quarter’s R261,4m

A profit after tax of R53,6m (R49,3m) was posted at Western Areas, where gold production reached its highest level since December 1980, increasing to 4 742kg (4 543kg) This was due to increased production with fewer disruptions because of public holidays in the quarter

However, capital expenditure increased by R34,3m to R102m (R67,7m) Spending totalled R12,9m (12,8m) at the Western Areas section incurred as a result of underground development

At the South Deep section the ventilation and main shafts were in full-scale sinking mode, and underground infrastructural development had progressed

A 2,6% increase in the average gold price received combined with the higher output resulted in gold revenue being 7,1% higher at R219,9m — R14,5m up from the previous quarter’s R205,4m This increase was due to the forward selling transaction which secured funding for exploitation of South Deep ore reserves

Brownrigg said profitability at HJ Joel had been restored Working costs of R47,9m reflected a R1,9m decrease and this combined with the above gold revenue to produce profit from gold of R3m (R2,3m) and a profit after tax of R1,1m (R1,4m)

The evaluation of refinancing at HJ Joel had been completed The mine would approach the market to secure the additional funding required for necessary infrastructure In the quarter under review capital expenditure increased to R28,7m (R19,7m) mainly incurred through ore reserve development, the decline project and the ventilation projects

The overall development rate continues to climb, with ore reserves increasing to 1,1-million tons, despite encountering water intersections, while sampling results have shown a satisfactory improvement

In other projects, Brownrigg announced that the proposed merger between Gengold’s Beatrix mine and HJ Joel would not take place after extensive research and evaluation found there were no potential benefits to HJ Joel shareholders

JCI December Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit after tax R000s	Profit after capex R000s	EPS after capex cents
RANDFONTEIN	1 834	3,04	5 573	129,77	42 706	45 382	25 135	11 861	41,1
September	1 772	3,26	5 768	127,69	39 227	45 313	31 609	18 268	51,7
WESTERN AREAS	721	6,58	4 742	243,24	36 983	46 378	53 570	(48 421)	59,3
September	683	6,65	4 543	247,37	37 190	45 211	49 291	(18 356)	54,6
HJ JOEL	199	5,65	1 124	240,92	42 655	45 367	1 105	(27 577)	0,6
September	198	5,77	1 143	251,57	43 579	45 578	1 442	(18 209)	0,7

Profit is the bottom line as Freegold faces crisis

ST(BT) 21/1/96

(214)

I DON'T think the trade unions expect us to operate mines at a loss," is the opinion of Clem Sunter, chairman of Anglo American's gold and uranium division The comment pertains to this Thursday's summit at which all the interested parties at Anglo's giant Freegold mine will debate the crisis faced by the mine

In a nutshell, Freegold operated five shafts at a loss of R40-million during the December quarter — not its first loss by a long chalk Gold profit from the mine was R52,7-million, and after sundry income, interest, tax and capital expenditure, the mine reported a loss of R5,1-million to shareholders

Three of the shafts are nearly depleted but the two Saaiplaas shafts have plenty of reserves Bobby Godsell, managing director of the gold division and an expert in industrial relations, says the matter is simple either those shafts operate at a profit, or they close The losers will be 10 000 employees, the Welkom community and the national reserves but not the shareholders Lest it be overlooked, the directors have a fiduciary obligation to look after the interests of those who provide equity capital Six other shafts are also at

By JULIE WALKER

risk Management says the mine has reserves enough for another 20 years of production and its intention is to ensure the viability of that production

Anglo American is by no means the only group to face these difficulties, neither did it have only bad news during the quarter Vaal Reefs performed extremely well, and the life of Western Deep Levels is to be extended by 14 years through a R1,1-billion investment in current money The No 1 sub-shaft system is to be deepened to 4,1km below datum to mine more tonnage from the Ventersdorp Contact and Carbon Leader reefs This should yield 475 tons of gold generating R3,5-billion in 1996 money

Labour relations soured so badly at Loraine, a Free State mine in the Anglovaal stable, that the No 3 shaft was closed this week by an illegal strike

Anglovaal says continuous operations were introduced in 1993 to save the marginal mine from closure, negotiations on continuing full-calendar mining were in progress when the strike began and Anglovaal believes related issues led to the strike

Loraine lost R3-million in the last quarter and its future is in jeopardy

Anglovaal had more bad news than good the Target exploration venture adjacent to Loraine is seven months behind schedule, and progress has been hampered by difficult ground and dewatering problems However, Target has enough funds to cover the rescheduled timetable

ET Cons faces an inquiry into alleged arsenic poisoning, and Village Main was closed and no distribution estimate can be made until the plant is dismantled and the site rehabilitated

Gengold had an eventful quarter Not only did it sell its investments in four of its managed operations (Buffels, Stilfontein, Grootvlei and Unisel), it also applied to the Government Mining Engineer and to the Commissioner for Inland Revenue to consolidate its operations in the Evander region into a single mining company

Tom Dale, Gengold's managing director, says the GME has written to Inland Revenue recommending the lifting of ring-fencing considerations to permit a single entity He expects a result this quarter, which could lead to a reduction in the number of mines to four Evander, Beatrix, St Helena and Oryx Gengold had a dozen only a year ago consolidation is the name of the game and lies behind Randgold's bid for the four mines

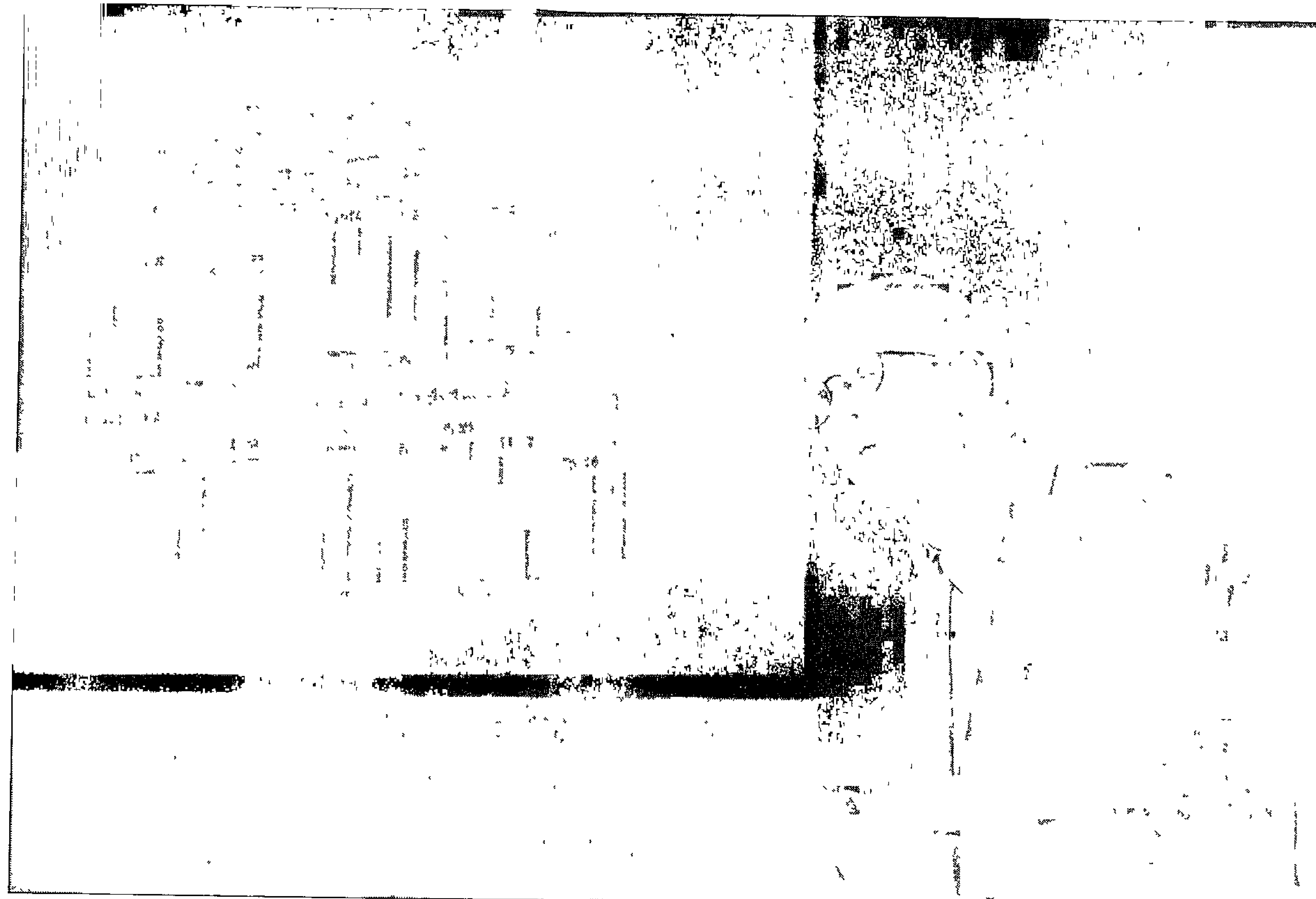
Randgold, which reports tomorrow, intends to operate regional management over its stable of mines The two parties reached final agreement on the sale, on the original terms of R126-million all or nothing this week but the approval of the regulatory authorities is needed and Buffelsfontein shareholders have still to endorse the restructuring Anglo American owns 25% of Buffels Mr Dale reports that Anglo's two directors on the Buffels board voted in favour of the deal

Drilling on reef at Oryx during 1995 surpassed by 240m the 2 000m target Mr Dale says the geostatisticians are analysing the results and a mining plan is being formed Oryx has money to last till the end of February The drilling results improved in the last quarter of the year and Oryx looks to have a chance of going ahead

After a much improved September quarter, JCI held steady in the three months to December In compliance with good corporate governance, Bill Nairn became non-executive chairman and John Brownrigg chief executive Biggest news was the forward sale of the entire planned gold output of 7,3-million ounces to be produced by Western Areas' South Deep mine from now until 2004

In the same transaction, Western Areas has bought rand-denominated gold call options for 4-million ounces such that 55% of the production benefits should the gold price rise Also 45% of planned revenue is protected against the weakening of the rand vis-à-vis the dollar by the purchase of rand-dollar call options Western Areas used most of the money it raised in the June 1995 rights issue to pay R450-million cash for the options, thereby saving tax on interest

The deal looks good but management stands chastised for not informing members when terms were struck two months ago JCI also announced its HJ Joel mine in southern Free State needs R400-million and a rights offer will be undertaken soon



JOHN BROWNRIGG, chief executive of JCI, who says Joel needs R400-million in a rights offer

Picture JON HRUSA

Western Areas foils fall in gold

WESTERN AREAS took out a gold hedge to prevent being foiled by a decline in the real gold price, writes **JULIE WALKER.**

John Brownrigg, chief executive of JCI's gold division, notes that in 1995 terms, the real gold price fell from an equivalent R70 000/kg to R45 000/kg during the eight years commencing in 1988

By the use of derivatives, South Deep's cash flow in the coming eight years is secured and it is still able to benefit from a rising gold price because it has bought options on both the gold price and the exchange rate

"If the rand collapses against the dollar, working costs will be inflated so we have protected ourselves against such a cost squeeze," says Mr Brownrigg

The 7,3-million ounce sale represents 5,5% of the gold content of the ore body and 8½ years of its 65-year life

Western Areas raised R510-million in a rights issue last June, and if it had raised the outstanding R600-million required to finance the balance of the capital expenditure, there would have been another 11% dilution in equity and no protection against a fall in gold

The R450-million paid up-front for the options was paid as cash to Standard Corporate and Merchant Bank which then satisfies the counter-parties offshore

Mr Brownrigg says the Reserve Bank has no objections to a deal whereby R450-million leaves the country as a hedge

Storm damage and strikes knock Randgold mines

BD 23|1|96 (213) (214)

[illegible]id McKay

[illegible]NDGOLD-administered mines [illegible]vooruitzicht, Harmony, ERPM [illegible] Durban Rooodepoort Deep re-[illegible]ed a disappointing quarter af-[illegible] storms, a shutdown, strikes [illegible] retrenchments reduced work-[illegible] profits at three mines and [illegible]ed a working loss at another, [illegible] chairman Lionel Hewitt

[illegible]lyvooruitzicht maintained [illegible]erground and surface grades [illegible] kept working costs under [illegible]t control, but a storm of "once [illegible]-century" proportions caused [illegible]er failures which hit under-[illegible]ound operations and reduced [illegible] production to 918kg (951kg) [illegible]ace production was main-[illegible]ed despite the weather condi-[illegible]s, but working profit after [illegible]ute payments came down to [illegible] from R4m at end-September

Hewitt said Blyvoor's acquisi-[illegible] of Doornfontein was complet-[illegible]n November 6 and rationali-[illegible]on and cost containment [illegible]asures already had led to an [illegible]rovement in working costs [illegible]luction at Doornfontein was [illegible] affected by the storm.

[illegible]roduction was further dis-[illegible]ted by two labour disputes di-[illegible]d at one of the contractors on [illegible] mine. Doornfontein 's results, which would be consolidated from the March quarter, showed a working loss of R11,6m (R4,6m).

Blyvoor cancelled its management contract with Randgold after the acquisition of Doornfontein and paid R17,7m to Randgold in compensation Blyvoor expected to save about R3,3m a year as a result of the cancellation

The cancellation of management contracts at Blyvooruitzicht and Doornfontein, the creation of a carbon-in-pulp plant and the further development of exploitable reserves at Western Deep Levels tribute would require a R40m rights offer, which is expected to be made in the next four to six months

Durban Roodepoort Deep suffered a working loss of R2m for the quarter against a profit of R3,4m at end-September Planned stoppages as a result of a plant upgrade programme, following a R79m rights offer, reduced underground tonnage to 86 000t (99 000t) and increased working costs to R53 000/kg (R41 000/kg), while the inclusion of lower-grade ores reduced the underground yield from 4,32g/t to 4,03g/t.

Costs were adversely affected by wage increases, retrenchment costs and expenses related to the closure of the First Wesgold plant, which was affected due to a lack of surface resources

Profit after taxation fell from R9,4m in the previous quarter to R3,9m. An unprocedural strike and above average seismicity reduced underground tonnage to 254 000kg (268 000kg) The grade also came down from 7,37g/t to 6,9g/t. Capital expenditure, reduced from R18,5m in the previous quarter to R16,6m, included R11m for the development of the Far East Vertical Project.

Harmony posted a loss after taxation of R16,4m (R22,7m) as the refocusing and rightsizing of underground operations at Harmony continued. The retrenchment of 3 000 employees has already showed an improvement in yield which rose 3,49g/t during this period from the previous quarter's 3,4g/t Ore milled was reduced from 1,5-million tons to 1,4-million tons and gold produced fell from 5 098kg to 4 793kg.

Hewitt said Doornfontein, Harmony and ERPM had hedged a proportion of their gold production for six months beginning this month to fund reorganisation and remedial work at Doornfontein and to secure stable revenue at ERPM and Harmony

[illegible]DGOLD [illegible]ember Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
[illegible]VOOR	142	6,46	918	288,08	44 561	46 905	(14 243)	(15 787)	(35,96)
September	147	6,47	951	282,52	43 670	47 065	4 863	3 815	15,9
[illegible]RBAN DEEP	86	4,03	347	212,50	52 666	45 151	(2 158)	(2 613)	(39,4)
September	99	4,32	428	178,23	41 227	44 944	2 033	(66 810)	(1 012)
[illegible]ORNFONTEIN	352	2,22	782	133,03	59 880	45 074	(10 460)	(10 533	—
September	323	2,94	950	147,24	50 062	45 241	(3 300)	(3 277)	—
[illegible]RM	254	6,90	1 752	336,18	48 739	45 244	3 889	(12 713)	(8,3)
September	268	7,37	1 974	331,16	44 959	45 042	9 369	(9 210)	(6,0)
[illegible]RMONY	[illegible]	[illegible],49	4 948	150,85	43 244	45 100	(16 462)	(24 [illegible]	[illegible]
September	1 816	3,4	5 291	144,31	42 462	45 111	22 726	10 442	36,6

Restructuring costs force Randgold mines into the red

(214)

ET(BR) 23/1/96

By Ross Herbert

Johannesburg — Randgold, the smallest of South Africa's "big six" mining houses, yesterday reported December quarter losses at all but one of its mines as heavy restructuring losses took their toll

The group said its Harmony mine had taken a R38 million extraordinary charge as nearly 3 000 workers have accepted a voluntary retrenchment package that is part of a plan to further downsize the mine

The Harmony charge was just one of a number of extraordinary items that contributed to a poor quarter after encouraging results for most of 1995 Only ERPM stayed in the black, though its profit after tax and extraordinary items slipped nearly 60 percent from the previous quarter

Production at Blyvooruitzicht suffered from a once-in-a-100-year storm that cut power to the mine It was merged with Doornfontein, which was acquired from Gold Fields Blyvoor also paid an extraordinary charge of R17,7 million to Randgold and Exploration for cancellation of its management contract, which will result in R3,3 million in annual savings

Randgold's chairman, Lionel Hewitt, said the merger of Doornfontein and Blyvooruitzicht was "significantly more difficult" than anticipated, in part because all of Doornfontein's production will be processed at Blyvoor's plant

A subcontractor hired by Gold Fields for mining at Doornfontein told workers it did not have the money to pay them

This resulted in industrial action and lost production Blyvoor management had to pay out the workers, fire the subcontractor and hire new workers.

Problems at the ore processing plant at Durban Roodepoort Deep drove up working costs and forced the mine to stockpile 6 000 tons of ore on surface while the plant was repaired.

ERPM was hit with high seismic activity that cut production 1,1 percent. The mine also experienced a two-day strike when workers rejected agreements between the company and National Union of Mineworkers negotiators

"What we find disturbing is we have a pact with labour and we negotiated deals and they haven't abided by them," Hewitt said.

"What they didn't like intensely was an agreement to use subcontractors for security and hostel management," said ERPM managing director Deon le Roux.

"We had a grass-roots revolt. We just have to keep communicating until all the workers understand."

Hewitt also announced an impending R41 million rights issue for Blyvooruitzicht, which he thought would be finalised by the end of February.

Jobs summit

Bobby Godsell, the chief executive of Anglo American's gold and uranium division, is to meet Labour Minister Tito Mb[illegible] this morning. The minister requested a detailed briefing on potential retrenchments at Anglo's Freegold mine after [illegible] of the possible 10 000 layoffs at the mine. Mboweni said he [illegible] with the gold mining industry before any future lay-off plans.

RANDGOLD DECEMBER QUARTERLY RESULTS

	31/12/95 Cap-Ex (R millions)	Profit (loss) after tax & extraordinary items 31/12/95	30/9/95
ERPM	[illegible]	[illegible]	[illegible]
Blyvoor	[illegible]	[illegible]	[illegible]
Doornfontein	[illegible]	[illegible]	[illegible]
Harmony	[illegible]	[illegible]	[illegible]
Durban Deep	[illegible]	[illegible]	[illegible]

* Includes R17,7 [illegible] extraordinary [illegible]
** [illegible]
*** Inc[illegible] million extraordinary item

Freegold productivity debate will have nationwide repercussions

(214) CT (BR) 26/1/96

Ross Herbert

hannesburg — "We need to be ore productive," said the anager

"You dog, how dare you call me A You're the overpaid one"

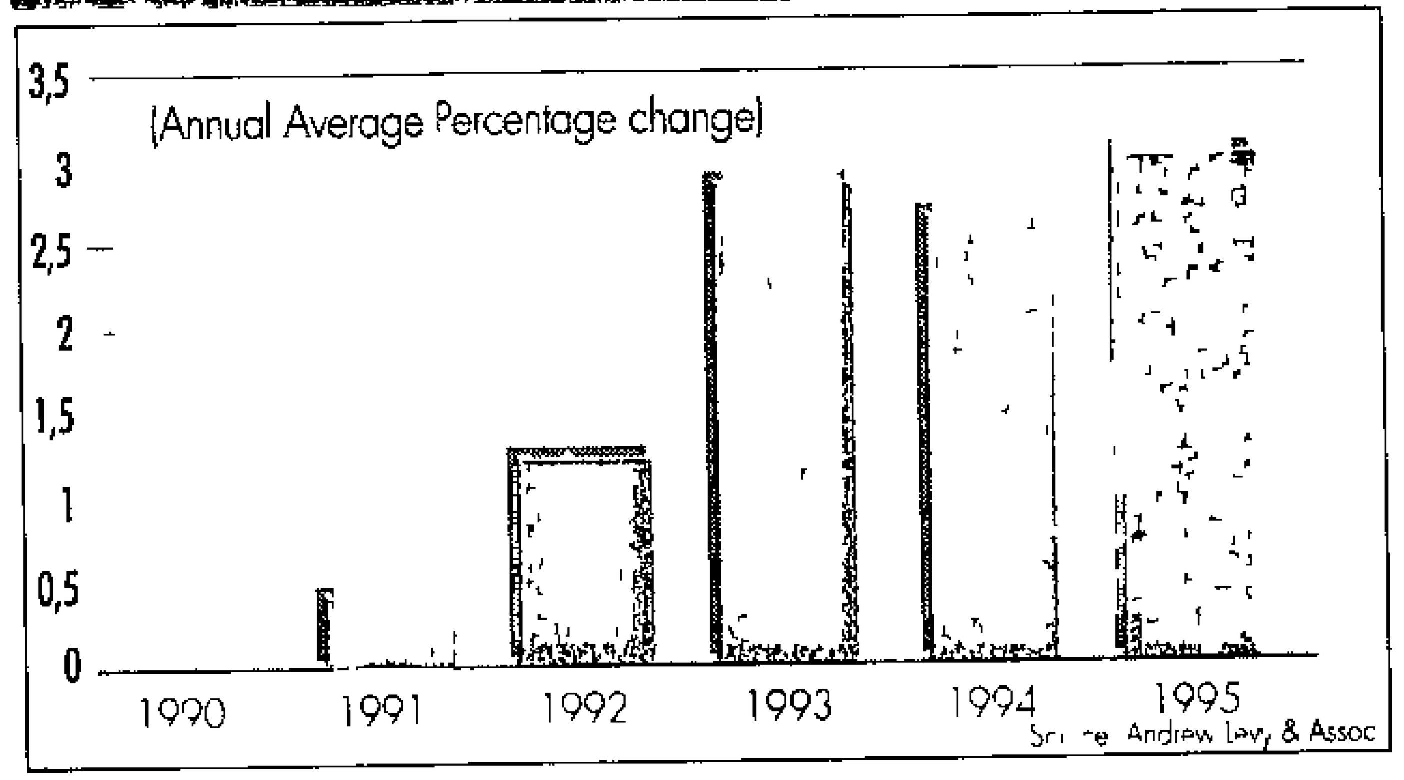
Such has been the acrimonious ne at productivity meetings tween labour and management, mething Anglo American hopes ll change after yesterday's onference with unions over the fate t gold mining at Freegold

After a year of warnings, Anglo nd that five consistently unprofitable mine shafts at Freegold ould be closed at the end of March nd 10 000 workers retrenched, nless significant improvements in roductivity are made Six other hafts are also at risk

The solution is not simply working harder Fundamental changes in ork scheduling and mine procelures are needed

Bobby Godsell, the chief executive of Anglo's gold division, went o Welkom to bargain, promising that all aspects of costs and management will be on the table

Labour Productivity, All South African Industries



"Management alone cannot save Freegold Bluntly, we need to share power," he said

If Godsell delivers on his promise and wins a major productivity-improving deal, it will have influence far beyond Freegold

Godsell says he intends to pursue productivity improvements at all Anglo's mines, including agreements and exemptions allowing holiday and Sunday work

The inducements that labour wins, assuming a deal is reached, will be precedent-setting within Anglo and influential throughout the mining industry

The NUM has already made clear its intention to make mine management a central issue of productivity, asking thorny questions about how much of the payroll goes to management and why management overheads and perks cannot be cut before workers are retrenched

Randgold and Gengold, both under greater economic pressure than Anglo, have already gone down that road

Both have significantly expanded the amount of information given to workers and are boosting productivity by cutting back head office and mine management staff in addition to job cuts at lower ranks

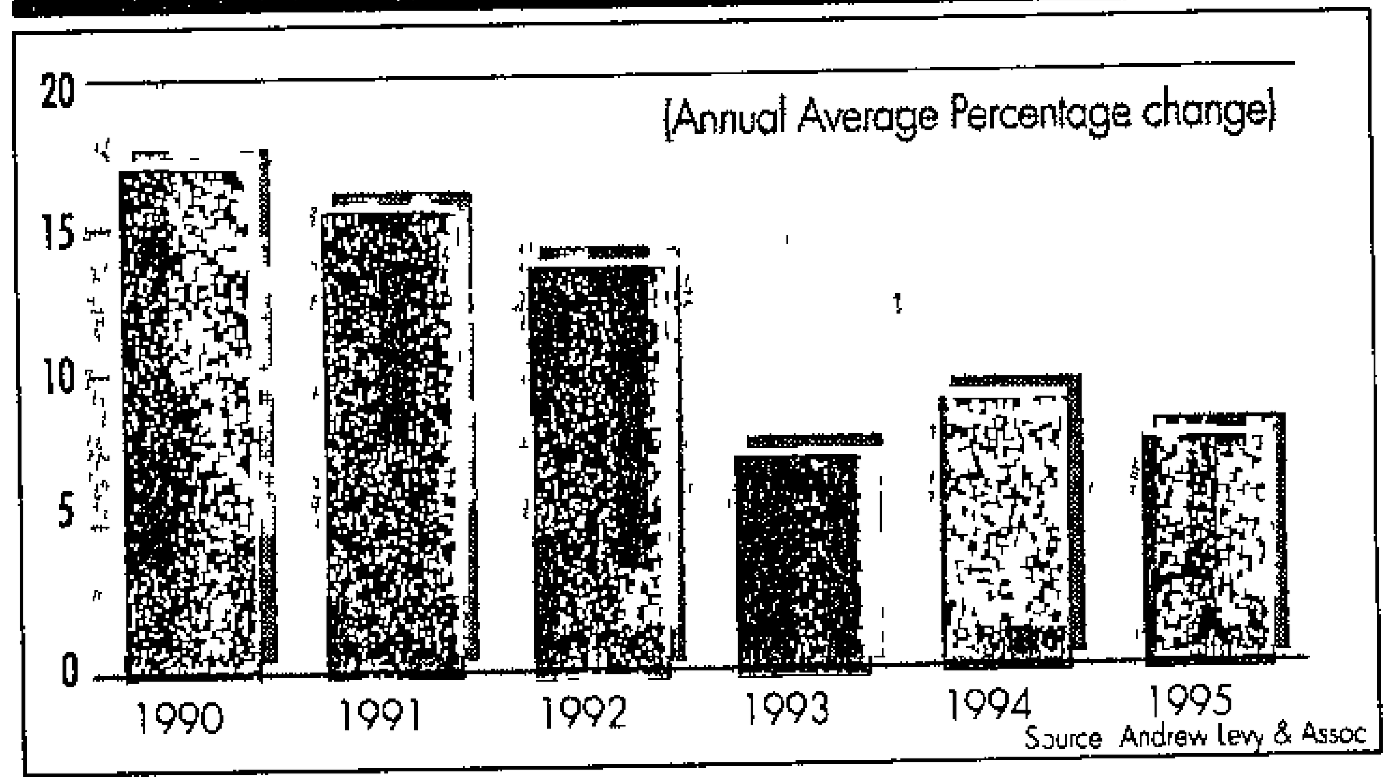
Randgold regularly distributes information on bonus calculations, including details of working cost allocations and the allocation of salary and pay costs between workers and higher grades

The mining industry of today has important parallels to the motor industry of 1994, which also faced hostile unions, productivity problems and rising competition

The landmark productivity-based pay pact in the motor industry became possible only after the seven-week strike in August 1994 restored mutual respect between management and labour

But it also ushered in a more collaborative, information-sharing relationship in the industry, not

Unit Labour Costs, All S.A. Industries, at Current Prices



unlike the efforts under way at Randgold, Gengold and Anglo

Those efforts have required real changes in industrial relations practice Industrial relations staff cannot simply be functionaries, but must be prepared for real bargaining, or ensure that executives who have that power, such as Godsell, involve themselves in face-to-face negotiations

"For years the conduct of industrial relations in South Africa was fire fighting," said Harry Gazendam, the human resources director at Toyota

Gazendam was a principal negotiator of the three-year motor industry wage pact, which includes company-specific productivity incentives on top of normal pay

Reaching agreement on productivity requires major changes for both management and labour

"By and large there is a clearer understanding of productivity bargaining in the unions than there is in management

"Management looks at it as more pay for more production, as opposed to looking at how we work and how we man the job," said labour consultant Andrew Levy

Labour's biases against productivity run deep, in part because productivity schemes have often been little more than cost-cutting exercises that cut jobs and make little change to structural inefficiencies

Countering that view means significantly increasing the amount of communication with workers, not just the top union officials

Productivity is the central issue facing all South African manufacturers Productivity is a central issue in the privatisation debate, though Cosatu is fighting to keep the subject out of the discussion

Labour productivity has been improving and unit-labour costs declining, but unit-labour cost increases at present prices have averaged a 10 percent increase per year for the past decade

Productivity also runs counter to labour's push for centralised bargaining Both the NUM and Cosatu have pushed hard for centralised bargaining and against productivity-based pay schemes Getting centralised bargaining entrenched in the new Labour Relations Act was a key objective for Cosatu

However, productivity-based pay schemes are inherently company-specific or, in Freegold's case, likely to be shaft-specific

A major agreement to accept company-specific, productivity-related pay, following on the heels of last year's productivity-based agreement in the motor industry, could provide companies with leverage against centralised bargaining agreements

If the Freegold talks fail to achieve fundamental productivity changes and 10 000 workers are retrenched, the pressure on the NUM members can only increase

As Godsell says, the productivity question will not subside with the resolution of the problem at the five worst mine shafts, six more shafts are in only slightly better shape and will soon demand a solution

Gold mines face uphill struggle as labour issues loom large

CT (BR) 29/1/96 (214)

By Fiona Leney

Johannesburg — The South African gold mining industry faces six difficult months The period ahead will be characterised by the thorny issues of labour relations and productivity and will be compounded by an up-and-down gold price, analysts said

They predict poorer results for the next two quarters, partly because of the effect on output of nine public holidays

But the continuing tensions between unions and management, likely to come to a head during the second quarter's wage negotiations, are likely to hurt earnings, they said

The December quarterlies were a mixed bag, said Trevor Pearton, of Frankel Pollak Vinderine, but contained few surprises

Pearton identified the conflict between Anglo American and the mining unions over productivity as a crucial issue that the industry urgently needed to resolve

Anglo's December quarterly results were clouded by operations at its giant Freegold mine, which moved into a R5 million loss from a R12,6 million profit in the previous quarter

Bobby Godsell, the gold and uranium division's chief executive, said the group could no longer sustain the losses and threatened to close five shafts with the loss of 10 000 jobs if productivity was not improved

Pearton welcomed Godsell's move "Labour has been an important issue throughout the past year, but it was swept under the carpet until now," he said

"Anglo is grasping the nettle at last Godsell has identified the issues critical to the industry, and he's given a strong signal that he intends to tackle them"

Another industry analyst, who wished to remain anonymous, expressed doubts about the confrontational nature of Anglo's approach While it could work in the short term and in Goldfields' particular case, he said, there was a risk of destroying sensitive industrial relations throughout the industry

"This can have disastrous consequences for marginal mines, where just to break even they need a full month's work One lost day can make the difference between profit and loss," he said

Anglovaal's Loraine mine, which posted after-tax losses for the December quarter of R1,8 million from a R1,2 million profit in the previous quarter, was just such an example Production at the mine was hit by tensions over pay negotiations related to continuous operations

"What used to be a small hiccup has become a huge one because operating margins are so thin," he said "If anything, that's going to become more pronounced in the next couple of quarters"

Their reservations contrast with the bullish view of Chamber of Mines economist William Houtman earlier this month

"In many significant respects the gold mining industry turned the corner during the September 1995 quarter," he said

Analysts are sceptical whether gold's climb past $405 an ounce last week can be maintained over the next two quarters

Hurbey Geldenhuys, of EW Balderson, said that a strong gold price could prove a mixed blessing for the mining houses

"If gold continues strengthening, and mines show a reasonable profit during wage negotiations in the second quarter, management is going to struggle to convince unions that they shouldn't have a 15 percent rise, despite that being far too high above inflation," he said

Pearton believes that a higher gold price can only delay the painful but essential productivity reforms facing the industry

The volatility of the gold price, and Randgold's disappointing results during the December quarter, had taken the shine off marginal operations, some analysts said

"Full calendar operations were going to be the holy grail of mining last year," one analyst said "But they haven't come through yet Sure, productivity will eventually improve; the question is whether it will be enough"

Geldenhuys, however, disagrees He points to Loraine where, despite a poor performance, shares are selling well

"The point about a marginal mine is that a very small increase in the gold price can double or triple profit," he said

Gencor in deal with two Canadian firms

(214) BD 1/2/96

David McKay

GENCOR planned a $115m asset swap with two Canadian companies in return for 49,9% of their equity, in a move which would create a new international gold producer, executive director Mick Davies said yesterday

Davies said a letter of intent had been signed with Eldorado Corporation and HRC Development Corporation outlining the deal

Gencor's asset package included the 95 000oz a year Sao Bento Gold Mine in Brazil, five exploration development gold projects in Brazil, 20 exploration development gold projects in Turkey and five properties in North America. Davies said the rights to use and sub-license Gencor's bacterial oxidation technology was included in the deal.

Eldorado and HRC Development would pay for the assets by issuing voting and non-voting treasury shares amounting to 49,4% of equity in their companies on a fully diluted basis, and 40% of the outstanding voting rights in the companies

Eldorado would issue about 12,2-million common shares and about 11,6-million non-voting shares to Gencor HRC Development would issue about 7,7-million common shares and about 4,9-million non-voting shares.

Management of Eldorado and HRC Development would remain unchanged with Gencor having a minority representation on both boards.

Gencor gold executive director Gary Maude said at the London announcement of the transaction that a gold price of between $600 to $700/oz would be needed if SA were to bring on any major new mining project. "If the market thinks it needs more SA projects, that is where the price will settle"

Gencor joins Canadians in $115m deal

(214) CT(BR) 1/2/96

BY FIONA LENEY

Johannesburg — Gencor gave the clearest signal of its intention to seek its gold fortunes abroad when it announced a $115 million assets-for-equity swap yesterday with two Canadian gold-mining and exploration groups

Mick Davis, Gencor's executive director, said the company's assets included its 95 000-ounce-a-year Sao Bento gold mine and five gold-exploration development projects in Brazil, 20 exploration projects in Turkey and five in North America

The deal also included the North American rights to use and sub-licence Gencor's sophisticated beneficiation process known as Biox

Gencor's Mick Davis

Gencor would receive common and non-voting shares in each company, giving it 49,9 percent of Eldorado and HRC Development and 40 percent of the outstanding voting rights in the two companies Gencor would also have a seat on each board

Eldorado is quoted on the Toronto Stock Exchange, and HRC Development on the Vancouver exchange

"Gencor has clearly made the decision to expand its gold mining operations abroad," said EW Balderson gold analyst Hurbey Geldenhuys

"(Gencor Chairman) Brian Gilbertson has already said they are interested in world class deposits and moving into different countries," he said This was one way Gencor could quickly acquire the quality gold-mining assets it needed to boost the metal's contributions to Gencor's group fortunes

The deal will give the new consortium four producing gold mines totalling 200 000 ounces a year, 5,4 million ounces in current gold resources and exploration concessions on five continents A Gencor statement said the new group would have a production target of 500 000 ounces annually within five years and a million ounces in 10 years' time

"There is a trend for South African gold producers to believe there must be better prospects abroad," Geldenhuys said JCI have exploration and mining interests in African countries such as Ghana and Zambia

In most foreign mines, the metal could be accessed by open-cast mining — a far more attractive operation than in South Africa, where the ore body is the deepest in the world The downside is that ore in foreign open-cast mines tends to be of a poorer grade

Gary Maude, Gencor's executive director responsible for gold, said the company had invested in a management team that had an ability to discover and acquire gold deposits and place them into production in a cost-effective manner

He said he was confident Eldorado and HRC Development would maximise the value of these assets and generate substantial returns

Gold's surge gives hope to struggling mines

ST 4/2/96

(214)

By SVEN LUNSCHE

THE country's beleaguered gold mining industry has been thrown a slender lifeline by the sharp rise in the gold price

Nine of the 15 gold mines classified by the Chamber of Mines as marginal have been reprieved by bullion's recovery, to more than $415 an ounce on Friday from $380 at the beginning of the year

However, Anglo American said on Friday that the higher price had not bailed out its troubled Freegold mine, and five shafts — employing 10 000 miners — still faced closure next month

The marketing director of Anglo's gold division, Kelvin Williams, said the five shafts "could not be saved by the price rally alone under current price, costs and productivity trends"

Anglo would nevertheless reassess the position if gold rose steadily for the rest of the month

Although other marginal mines were reaping benefits, Chamber of Mines economist Roger Baxter said a long-term improvement could be achieved only through increased productivity, and not "windfalls related to the gold price".

South Africa's gold mines are the world's most expensive Last year they produced 522 tons, the most in the world, but 10 percent below the previous year and the lowest tonnage since 1957

Gold was fixed in London on Friday afternoon at $416,25 an ounce, its highest level since February 1990, when the price was boosted by the Gulf War It tested $420 in New York before settling at $415

The rally has been triggered by US commodity funds, which have been buying the metal out of fears that recent worldwide increases in interest rates will push up inflation, against which gold is a traditional hedge

Underlying the rise in the metal's price is a more stable demand-supply equation, which analysts say bodes well for a rise to about $440 over the next few months.

Last year total gold production fell by one percent to 2 268 tons while demand, particularly from the jewellery and industrial sectors, rose by six percent to 3 216 tons, says the Gold Fields Mineral Services research group The gap between demand and supply is expected to widen again this year

Another boost for the gold price is mines' decision to scale back on forward sales, which tend to limit price rises

The immediate beneficiaries of the surge have been investors in gold shares on the Johannesburg stock exchange The all-gold index rose nine percent to close at 1 903 on Friday, its highest level in 13 months The all-share index was up by 95 points to a record high of 6 994

Gold share prices have risen by 41 percent on average this year, with some marginal mines more than doubling their value.

● See Business Times

Canadian deal gives Gencor a small beginning

(214) ~~ARG~~ ST 4/2/96

EVEN though this week's $115-million investment by Gencor in a junior mining company based in Canada will not add to this and next year's earnings it is an important step towards Gencor's goal of attaining global presence

Mick Davis, Gencor's financial director, and Gary Maude, charged with expanding Gencor's gold presence worldwide, made the announcement simultaneously in Johannesburg and London this week

Mr Davis says Gencor looked around the world for a partner with which to expand its gold-mining and exploration portfolio, identified Eldorado Corporation and its sister company HRC Development, and made the initial approach. "It was without a doubt our first choice," says Mr Davis Eldorado and HRC are effectively one group sharing common management but with separate portfolios. Shares in are listed in both Vancouver and Toronto, the market capitalisation of Eldorado being US$90-million and of HRC $20-million. The group's three executives have more than 80 years of mining experience between them, and have been responsible for identifying and developing deposits bearing 12-million ounces of gold, mainly in South America

MICK DAVIS

Mr Davis says their entrepreneurial flair is required, small-scale thinking can get swamped in a big place like Gencor

Eldorado and HRC will acquire a portfolio of assets from the Gencor group including the São Bento gold mine in the Gencor-owned Billiton fold Mr Davis says some corporate restructuring will be necessary to permit the transactions

São Bento, in northern Brazil, produced 95000 oz of gold last year at a cash cost of $300/oz with recoveries of 92% This figure is expected to climb as the Gencor-patented Biox process beds down Eldorado-HRC will acquire the North American rights to use and sub-license Gencor's Biox technology as part of the deal.

The other assets sold by Gencor are five gold exploration projects in Brazil, five in North America and 20 in Turkey Eldorado-HRC will pay for these assets by issuing Gencor with voting and non-voting shares equivalent to a 49,9% equity stake Of this, 40% will be voting shares, and Gencor can convert the non-voting shares one for one to maintain a 40% vote whenever another issue of Eldorado shares pushes down its voting component

The Gencor assets add to the Eldorado stable's existing portfolio to give the following

- Four gold mines producing 200 000 oz a year;
- A group gold resource of 5,4-million oz,
- 15 625 square miles in exploration concession on five continents,
- Annual exploration expenditure of $25-million,
- Biox (R) rights in North America.

It also aims to be producing 500 000 oz a year within five years and 1-million oz in 10. The estimated cash cost of mining in Brazil is $195/oz and in Turkey $150/oz — less than half the average in South Africa Gencor will put only two directors on the 10-strong Eldorado board so as not to tinker with the entrepreneurial approach Eldorado will shortly raise development capital of $25-million in a rights issue. This may be a problem for Gencor it cannot take money out of South Africa to follow its rights because of forex controls Mr Davis says Gencor has not decided whether to follow

Gencor shares did not react much to the news on Wednesday, particularly as the market was fighting a downtick in gold. But those of Eldorado moved up $1,25 to $6,50 and of HRC by 50c to $2,50

The market obviously thinks the growth prospects for Gencor are good enough to warrant a price of 20 times historic earnings

As much as I like the group, I think it looks fully priced for the moment at R15,15

Mines may buy back hedged gold

David McKay and
Adrienne Giliomee

SA gold mines may buy back their hedged gold production following last week's rise in bullion which saw the metal soar to the highest levels in almost six years

Gold was fixed in London on Friday afternoon at $414,50/oz, after a morning fix of $416,25/oz In Hong Kong on Saturday gold fell $2,20 to an afternoon close of $415,55 while in New York it tested the $420/oz level but lost steam to end the day at $415.

Gengold CE Tom Dale said "it was not impossible" that it would buy back gold from its Beatrix mine which had been sold forward, but said a decision had not yet been taken

He said Gengold had had three meetings last week to discuss gold market movements, instead of the usual one, and there would be another meeting today.

Gengold — which has sold forward 90 tons of Beatrix production — implemented a hedge strategy in the fourth quarter of last year which ensures a minimum average price of R47 000/kg

Continued on Page 2

Gold

(214)
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Continued from Page 1

but limits Beatrix's upside to 70% of any increase in the gold price above this level.

JCI's Western Areas could choose not to deliver for 45% of the volume not covered by rand-gold options if the spot gold price was higher than the contract price. It has sold forward 249 tons or eight years of total product — the largest by an SA producer.

E W Balderson gold analyst Jens Jacobsen said forward sales by SA mines would contribute substantially to an estimated 1 700 tons physical shortage during the next three years.

The Chamber of Mines said on Friday that the rise in the gold price could cut the number of marginal mines by more than half. Senior economist Roger Baxter said that if the gold price remained at the $410 to $420 level for some time, it would reduce 15 marginal mines to seven.

Based on the fourth quarter figures of 1995, the gold price would have to stabilise at $510/oz to eliminate all the loss-making gold mines in SA.

He said the major issues facing SA mines were still the containment of costs and the productivity levels.

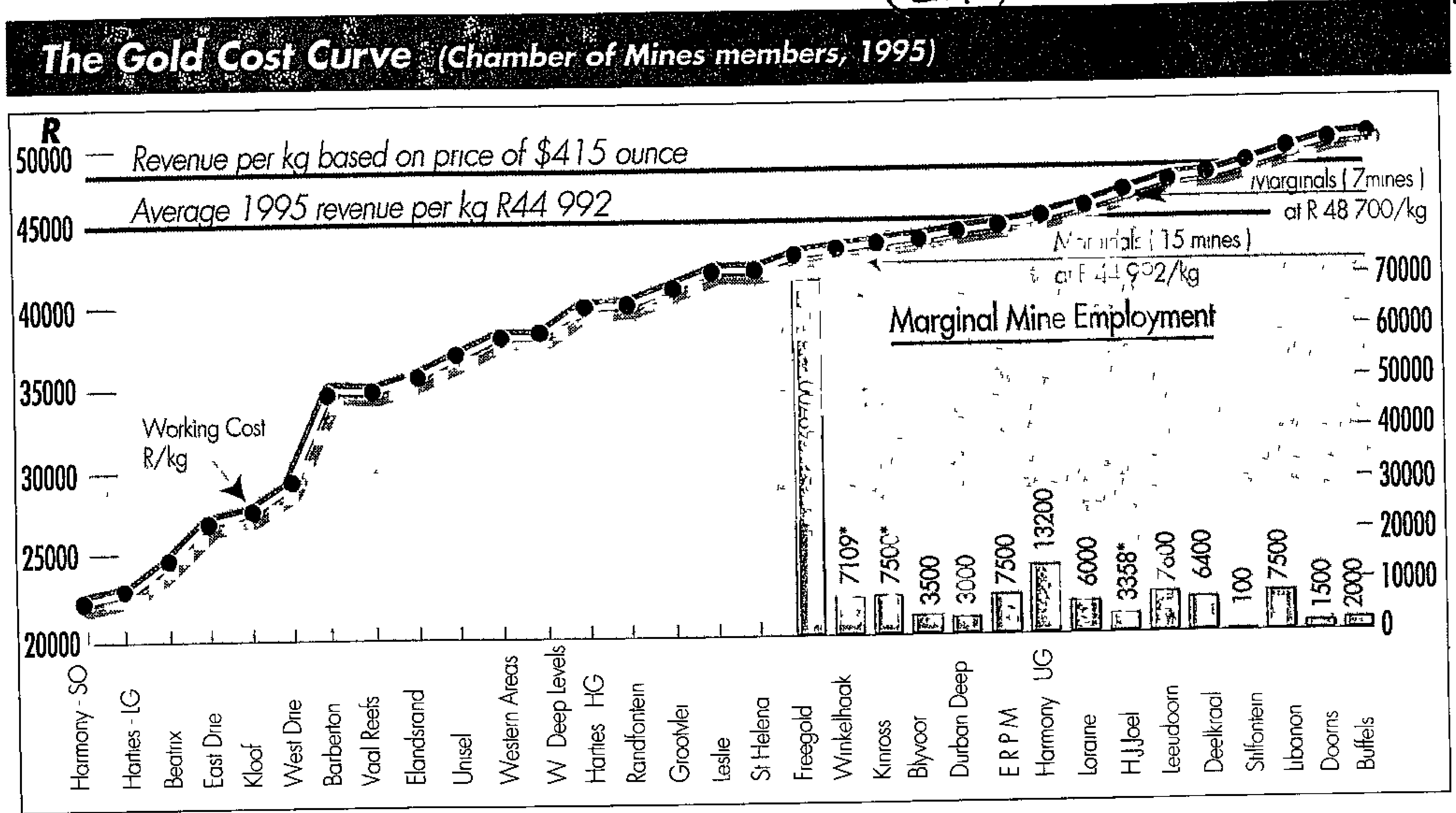
Meanwhile, Anglo American said the rise in bullion could not save the proposed 10 000 job losses at its Freegold mine next month. Spokesman James Duncan said the price will provide its troubled Freegold shafts only with some breathing space.

Picture: Page 3

Fresh hope for marginal gold mines

(Z14) CT(BR) 5/2/96

BY ROSS HERBERT



* Source The Employment Bureau of Africa

Johannesburg — The surging gold price has cut the number of South Africa's marginal mines by half

Gold has risen $25 an ounce since January 3 and hit $418 early on Friday But mining executives said this would not boost employment nor bring relief to mines such as Freegold, where Anglo American has threatened to lay off 10 000 workers if there are no major improvements in profits

In December, 15 mines were considered marginally profitable when the average gold price received by mines in the Chamber of Mines was R45 591 a kilogram

The Chamber defines "marginal" as outright money losers or those mines making a profit of less than 6 percent of revenue Eight mines were losing money in the December quarter

If Friday's gold prices are sustained over the next quarter and costs stay in line with those in December, all the gold mines that are members of the Chamber of Mines would be profitable, with only seven in the marginal category

While the Johannesburg all gold share index rose 9,4 percent over last week, shares in December's 15 marginal mines improved an average of 12,7 percent

Marginal mines employed about 146 000 people in December If gold remains at present levels, it could inflate worker expectations and affect productivity-improvement talks in the industry

Executives said that however welcome the higher gold price was for mine management, it would not boost employment, or necessarily secure jobs at marginal mines

"The higher gold price is going to grant marginal mines temporary relief, but in the long term it won't sustain them," said Roger Baxter, senior economist at the Chamber He predicted gold would settle at about $410 an ounce

James Duncan, a spokesman for Anglo's gold and uranium division, said the company had warned unions that the higher gold price would not save the five mine shafts set to be closed unless they improved profits considerably

"We are not going to be happy with a change in profitability (at the five unprofitable Freegold shafts) that is purely riding on the back of a gold price rise," Duncan said

Though price was a factor, the five shafts also had to make headway on costs and productivity or face closure in March, Duncan said

The five shafts were producing at a cost of R56 000 a kilogram, which meant they would break even at a gold price of $477 an ounce, said Kelvin Williams, marketing director for Anglo gold

Alan Munro, the chairman of Gold Fields, said that even if the higher price was sustained in the vicinity of $420, there would be no changes in employment or capital spending Gold Fields operates three of the mines on last quarter's marginal list

"You need to get to a price of $500 an ounce to talk about fundamental changes in production or employment," he said

Randgold operates seven of last quarter's 15 marginal mines It welcomed the higher price but said it would not consider any major boost in employment

"We think the price is going to stay high, but it doesn't change our strategy, which is going to stay with very tight cost control," said Richard de Villiers, head of human resources for Randgold

The higher price has boosted the company's pay limit 10 to 15 percent, but that will not mean more mine workers Mines such as Harmony and Durban Deep have large, relatively low-grade ore bodies that could support more workers at higher gold prices, but Randgold has already cut back processing plant capacity to match a lower production profile

De Villiers said Randgold might shift workers to lower-grade areas and save high-grade areas for the future "I don't see us increasing capacity Probably the price would (first) have to stay up a good 12 months," de Villiers said

☐ *See special reports Page 26*

Gold companies require revamp

BD 8/2/96 (214)

David McKay

THE management and structure of SA's gold mining companies would have to be revamped if the industry was to avoid becoming the "whipping boys of international investors", a mining analyst said yesterday

Frankel Pollak mining research head Trevor Pearton told the Global Mineral Exploration and Mining Development conference in Johannesburg that the "hierarchical" management style of the mining houses had to change to accommodate new labour educational standards

He said the gold mining industry had slumped 30% in terms of the net present value of the future cash flows of the mines year on year from October 1994 Market capitalisation of the gold board had fallen by a greater amount

The slump in investment value of nearly all gold stocks could not be explained only in terms of the deterioration of mine ore reserves, but also by the changing role of the workforce "It is clear therefore that the industry cannot afford to wait for change to occur at its own pace," Pearton claimed.

He said management should change to give the facts and consequences to labour tasked with running unprofitable sections

Chamber of Mines chief economist Richard Grant told the conference that companies had to attack labour costs, which accounted for more than 50% of total expenses, if their costs were to fall SA's average working costs were 36% higher than those of rivals in Australia or Canada, he said

Samantha Sharpe reports that Fleming Martin Securities Inc president Lloyd Pengilly said the recent gold price increase should not distract the industry from its restructuring plans or lead unions and management into renewed wages conflict

Pengilly told the Investment in African Mining Conference in Cape Town that although the higher price could extend the lives of some marginal mines, it was hardly the solution to the problems plaguing the industry

African mining was in an exciting new phase, with the entry of new players and intensified exploration activity, Pengilly said

However, to keep the momentum of exploration going it was imperative that the industry produce some successes "and that means work still needs to be done"

Pengilly said mining houses and governments of African countries would have to determine codes for employment practices and environmental legislation

Mining tax policies had to be decided in order to give clarity to the tax environments in which mining houses and exploration companies had to work Pengilly said· "SA still boasts a magnificent mining industry and is still the world's largest gold producer."

Local mining houses fall behind in Africa

CT (BR) 8/2/96 (214)

By Ross Herbert

Cape Town — The South African-style mining finance house would dwindle to irrelevance in the long term as faster, less bureaucratic international rivals stole away investment funds and new mining prospects, mining analysts said yesterday

"The South African firms have, for a variety of reasons, largely missed out on the rush of African exploration The Canadians have already stolen the march," said Michael Spriggs, the director of corporate finance at SBC Warburg, at a mining investment conference in Cape Town

According to figures from Echo Bay Mining, only 5 percent of the production of the top ten north American firms was outside that continent in 1985 By last year, 42 percent was outside, a percentage that Echo forecast would grow to 60 percent by 2000

That production, largely of low-grade deposits, is funding growing exploration budgets, which contribute to an ever-shrinking market share for the South African firms which once dominated

"Why has the traditional mining finance house done so badly compared with more conventional companies? I would argue that the fundamental reason for the difference in relative performance has much more to do with corporate structure than external factors," said Robert Davies, a mining analyst for Barings Securities

Although South African firms are racing to explore in Africa, they continue to suffer from slow, heavily bureaucratic foreign exchange rules and are far slower in raising new capital than north American firms

"It's absolutely incredible how many Canadians there are running around Africa, and it's incredible how much money they can raise with a small staff," said a mining analyst.

The finance house structure has, according to Davies and other analysts, deprived South African mining companies of cash and slowed decision making Companies such as Gold Fields and Anglovaal were not leading companies in the world of mining, he said

There were good reasons for its foundation, but it was producing significantly lower cash flow as a percentage of capital than north American rivals, Davies said

"A unitary structure generates more cash flow for every dollar invested in the business Higher cash flow enables the company to spend more on exploration, which leads to higher growth," he said.

"What we need to see in South Africa are some major changes in management structures," said Lloyd Pengilly, the president of Fleming Martin

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Four-hour days at troubled mine shafts

(214) ET(BR) 19/2/96

By Ross Herbert

Johannesburg — Workers spend only four productive hours at the rockface in each shift, according to a study of the five unprofitable Freegold mine shafts that Anglo American vows to close unless productivity is improved

The gold-mining industry will continue to lurch from crisis to crisis, union leaders said, until management candidly analyses the mystery of such low productivity

To its credit, Anglo American management has sought to avoid finger-pointing about the productivity problem in a bid to avoid increasing tensions and stifling co-operation

But the National Union of Mineworkers (NUM) and the Mine Workers Union (MWU) say blame must be laid on management or the productivity issue will never truly improve

"The situation at Freegold should never have gotten to this point All the productivity ideas that are being discussed now in committees were raised months ago and management didn't do anything," said Fred Bond, the president of the MWU

The Freegold committees of workers and management are pursuing a wide variety of cost-cutting and productivity-improving initiatives But Bond said management at Anglo had to scrutinise itself and ask why productivity was allowed to erode to the point of crisis.

Bond said he would press hard to implement other cost-saving ideas and would not agree to extend the temporary Sunday work pact signed on Friday unless all other ideas were implemented and proved insufficient

"They had discussions for a whole year on the problem at Freegold They even brought in a consultant We identified the problems months ago but they don't act," he said

James Motlatsi, the president of the NUM, agreed At the Friday signing ceremony granting permission for Sunday work at Freegold, he said the co-operative, tripartite process launched at Freegold should have been started years ago The process should be applied to all mines, not just the unprofitable ones, he said

Lack of discipline is a critical issue cited by management and unions alike However, Bond said that management throughout the industry was afraid to enforce codes of conduct for fear of precipitating strikes

"There are managers who will find 200 people sitting around at underground stations long before knock-off time, and no one asks the workers what they are supposed to be doing," he said Bond said that many more workers were reported for knocking off early, but disciplinary action was only taken against a few

Motlatsi agreed that supervisors and officials needed to look at themselves, but he disagreed with the idea that people "sitting around" was the problem

"The people on primary production at the face are not the ones wandering around It is engineering and tertiary people who don't know what to do If people are trained what to do they won't be wandering around," he said

"The real problem is transport People are spending too much time travelling to the face The company needs to get more man-carriages so people can get to their work places faster," he said

"The summit meeting at Freegold was the first time management raised the issue of discipline to us as an organisation," Motlatsi said

R600m rights offer to bring Oryx to full production

BD 28/2/96 (214)

David McKay

GENGOLD's Oryx gold mine planned a R600m rights offer to bring the mine to full production over the next two years, MD Tom Dale said yesterday.

He said full production of 120 000 tons a month would be reached by May 1998, with full monthly gold production of 875kg at a yield of 7,3g/t expected 14 months later The yield compared with the national average of 6g/t.

Dale said the decision followed the discovery of mineable reserves of 38-million tons, giving Oryx an estimated life of 26 years with employment for an estimated 4 000 people.

Dale said Gencor would underwrite the rights issue, expected to take place at a substantial discount to the current market price. The R600m would bring the Welkom-based gold mine to an operating break-even position

"We are heartened by this unequivocal support from Gencor and it is now up to the mine and head office teams to deliver," Dale said

Gengold had decided to halt stoping on the mine in November 1994 pending exploration by reef development of a postulated central high-grade payshoot Underground drilling had suggested better grades were available at a time when the mine produced poor initial grades

Gencor had underwritten expenditure of R12m a month during calendar 1995 to fund 2 000m of reef development planned for the year However, the Oryx team had developed 2 240m of reef and completed 105 additional boreholes which penetrated reef

In terms of the debt restructuring agreement between Oryx Gold Holdings, its major shareholders and bankers, the compulsory convertible debentures in Oryx Gold of R746m would be converted to Oryx Gold equity at R1,50 a share on March 6.

Prior to the rights offer, the issued share capital of Oryx Gold would be consolidated on a one-for-10 basis

Dale said further details of the project and rights issue would be provided to shareholders in due course

Dale had said earlier Gengold could investigate buying additional mineral rights as part of its revised plan for Oryx mine and that a geostatistical and mining plan for Oryx was being undertaken The mining rights were adjacent to Oryx

In the six months to December Oryx Gold Holdings reported a taxed loss of R143 000 after financing costs wiped out interest income of R57,3m

Anglo gold mines will lift output slightly — Sunter

(214) BD 14/3/96

David McKay

ANGLO American's three gold mines — Vaal Reefs, Western Deep Levels and Elandsrand — would lift gold output just above the level of last year, outgoing gold and uranium division chairman Clem Sunter said in the mines' annual reports

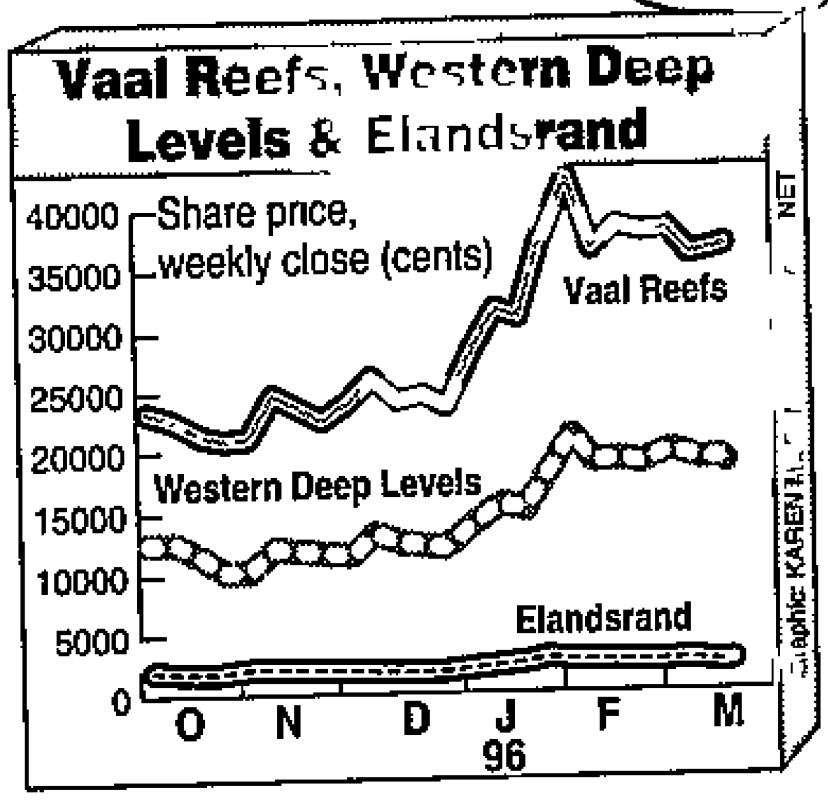
Total gold production for the three was expected to rise to 121 000kg, against 117 000kg last year, with Vaal Reefs and Western Deep Levels halting the slide in production which had characterised their performances in recent years But Elandsrand's slide would continue, Sunter said

Chamber of Mines' figures show average gold production for members' mines fell to 48 300kg last year from a previous 53 700kg and sources have suggested output could fall further this year

Anglo's overall gold production is likely to fall, depending on the fate of five threatened shafts at its biggest operation Freegold It has previously warned that the closure could chop production 16% to 78 000kg this year

A decision on the shafts is expected by the end of March — Freegold's year-end

But Sunter said Vaal Reefs, whose production fell to 66 172kg last year from 70 687kg in 1994, would lift output to 68 000kg this year. This hinged on "success in increasing productivity levels and concluding negotiations to ameliorate the adverse impact of public holidays", he said



More public holidays, lower grades and a decrease in area mined, following the accident at No 2 shaft in which 104 employees were killed, knocked production Pre-capex net income slipped 21% to R535,3m

Western Deep Levels' production, which fell to 35 833kg last year from 38 743kg, would rise to around 38 000kg

The operation was knocked last year by falling tons milled and grades, and higher costs, which left the mine unable to exploit a 3% rise in revenue received to R44,801/kg Net income before capex fell 39% to R264,8m

Sunter said the No 1 subshaft deepening project — costed at R1,1bn in 1996 money terms — would result in a further 475 000kg of gold being recovered to the year 2026

Elandsrand's production which fell to 15 448kg from a previous 15 870kg was expected to hit 15 000kg, Sunter said Tons milled rose last year, but lower grades and higher costs cut pre-capex net income 26% to R141,8m

Capital expenditure on Elandsrand, which fell 35% last year to R86,4m, would drop to R83m in 1996 and would be managed "in accordance with the gold price and production levels"

Sunter said the higher gold price of the past two months would be sustained for the year as tightness in the physical market encouraged investors to view the metal positively

An excess of gold demand against the available supplies of newly mined gold and scrap metal also spurred on investor's optimism, Sunter added Continued growth in physical demand was felt in developing markets of the Middle and Far East

Demand for gold in Japan had recovered, with further progress being made through the medium of Gold Accumulation Plans created and promoted by the World Gold Council

India continued to lead this market with important contributions coming in from South Korea, Indonesia, Malaysia and China, Sunter said

The quietness of last year's market had concealed real underlying strength, with the price ending the year firmly at $387/oz

While the gold market in 1994 showed a further drop in volatility, the firmer tone of the price was maintained and the average price of gold at London price fixes last year was $384/oz, unchanged from the average price for 1994

Gold-mining profit is tied to productivity

(214) CT (BR) 14/3/96

By John Spira

Johannesburg — Should productivity in South Africa's gold mines improve, profitability would surge dramatically, enhanced by a local gold price R100 higher than last year's average

This view is contained in Global Gold Equities, published by London-based RBC Dominion Securities, whose mining division recently merged with that of Hambros Equities UK

The firm suggested that productivity should improve owing to the gradual introduction of more flexible working attitudes, including the possibility of operating 365 days a year instead of the present sub-300 days It believed, too, that labour-related disturbances would decline

"While unit cash costs have increased, it is largely a product of lower output The actual rand-cost figure in 1995 rose 7 percent year-on-year and can for the most part be attributed to annual wage increases

"Should South African output recover to 1994 levels, unit costs would fall, opening the way for a turnaround in working profits"

While the industry would not turn around overnight, the firm believed selected shares such as Vaal Reefs, Randfontein and Freegold should show short-term improvements in margins, "although some beneficial rationalisation cannot be ruled out"

Looking at various mines' sensitivity to a $10 move in the gold price, RBC calculated leverage in relation to earnings a share

Scoring 15 percent or more were (in descending order of sensitivity) Harmony, Kinross, Freegold, Winkels, Western Deep, Kloof and Elands Sub-15 percent leverage was found in Randfontein, Buffels, Dries, Vaal Reefs, Harties, Western Areas, Southvaal and Beatrix

Based on a gold price of $405, and relating the ruling share prices to a discounted cash flow calculation, RBC's worldwide ranking table rated Buffels first, Winkels second, Harties third, Western Deep fourth, Vaal Reefs seventh, Kinross eighth and Western Areas 10th

Gold Fields needs R200m for Deelkraal

BD 15/3/96 (214)

David McKay

GOLD Fields of SA would need to tap shareholders for at least R200m to fund the development of its Deelkraal gold mine, analysts said yesterday

The group declined to comment on the cash needed in the rights issue called yesterday, but analysts estimated R350m was needed to fund the mine's No 1 tertiary shaft.

Gold division MD Alan Munro said part of the funding would be drawn from Deelkraal's operating performance He said the group considered Deelkraal's funding needs as "urgent", and hoped to detail the plans at the group's March quarter gold division results in April

The mine, which warned last November that it was considering financing for the project, said yesterday poor operating profit over the last three years had prevented it amassing the cash needed

Gold Fields said Deelkraal was also looking to tie up with other companies to pursue mineral rights to its south The adjacent Anglo American mine Elandsrand has long been mooted by analysts as a possible tie up target

Analysts said about R200m would be needed to fund the development, given the mine's operating performance.

On the current 475c share price Deelkraal would need to issue 44,1-million shares, against the 99,5-million in issue, before any discount to raise R200m Gold Fields and its associates, which together hold 49,2% of Deelkraal, was likely to be left with a far greater stake after the cashcall

WINNING FORMULA

(214)

FM 15/3/96

Few gold mines are major taxpayers, but a number could show useful benefits in earnings and dividends from the adjustment to their tax structures Estimates of potential effects on earnings per share for the 10 largest producers (by market capitalisation) range from zero to as much as 9,5%

The changes affect mines which two years ago chose to remain subject to gold mining formula tax rather than move on to the dual system of company tax and STC Almost all continued under the formula tax the only exceptions were Harmony, Blyvoor, Durban Deep and ERPM

Tax rates for mines that continued under the old system have been adjusted at two levels The rate on nonmining income — usually interest on cash balances — is cut from 48% to 42%, and the formula tax, which is linked to capital expenditure, has been reduced

Where a mine has large capital spending requirements the earnings benefit is small, and vice versa As the new rates

take effect for years of assessment ending on or after April 1 1995, mines will have to adjust their tax provisions according to their financial year-ends

Fergusson Bros gold analyst Dean Cunningham estimates the following effects on EPS and dividends (assuming earnings are paid out in full) Driefontein, an improvement of 6,6% to 129c, Kloof, 3,9% to 107c, Vaal Reefs, 5,2% to 1 657c, Western Deep, 9,5% to 890c, Freegold, 3,5% to 210c, Elandsrand, unchanged at 60c, Randfontein, 6,5% to 115c, Western Areas, 1,1% to 187c, Beatrix, 5,5% to 134c, and Harties, 4,9% to 86c

However, some mines may deploy any improvement in liquidity towards increasing their future spending ■

Four mines poised to go over to 'full calendar'

BD 22/3/96 (214)

David McKay

FOUR of SA's largest gold mines are poised to convert to full calendar operations — a move the industry has vaunted as crucial to bolstering profitability in the besieged sector

JCI, Gold Fields and Gengold said earlier this week they were planning to implement full calendar operations on their mines.

JCI's Randfontein Estates and Western Areas and Gold Fields' Libanon and West Driefontein — together they produced 18 738kg of gold and a total net income before capex of R470,7m in the December quarter — said they would move across in the next six to 12 months

Randgold's East Rand Proprietary Mines — which posted a R1,06m pre-capex profit for the December quarter — went over to the system last week Gengold said its Kinross, Winkelhaak and Leslie were pursuing the issue

Management and the unions agreed on full calendar operations only during wage negotiations last year

Full calendar operations have been seen as one mechanism to close the gap between the profitability of SA and overseas gold mining

Analysts have cautioned, however, that extending the working week would only revive fortunes if it was tied to a rethinking of management practice

JCI gold and uranium division CE John Brownrigg said the South Deep section of Western Areas would go full calendar within the next six months Randfontein Estates would shift across in 12 months

JCI had sent a team to sister mine HJ Joel to develop a full calendar model Joel had been using it for the past two years, and had achieved a 50% improvement in production stoping

Gold Fields had established a steering committee to co-ordinate full calendar policy, and management had been talking at mine level for some time The group was committed to the system, but there were no plans at this stage to introduce it at Kloof

ERPM said there had been a 100% turnout among the mine's 3 000 underground staff for its first full calendar shift But Randgold said there were no plans to follow suit on other operations

Gengold said its St Helena operation had been running continuous mechanised ore retrieval on its No 2 shaft with the co-operation of the unions Its developing mine Oryx had gone full calendar in 1994

The system was "on the agenda" at Kinross, a spokesman said, and could have a limited application at Winkelhaak. Meetings with the unions were under way at Leslie

Anglo American declined to comment, although last month it shifted some of the threatened shafts at Freegold to a "12-days on, 2-days off" shift plan in a bid to save jobs

Anglovaal said it had no plans to push ahead with the system, although its Loraine mine was the first to introduce a seven-day working week, in January 1993.

EXECUTIVE SUIT

West Witwatersrand shares put in precarious position

BD 26/3/96 (214)

SHARES in West Witwatersrand Gold Holdings were sickly yesterday, hit by fears the mine's life could be shortened, dealers said

The shares, which closed at a year low of 125c on Friday, slumped 40% to 75c at the close following owner Consolidated Mining Corporation's announcement that economic ore reserves "appear to be less than previously evaluated"

The company said it was currently in negotiations which could affect its share price, and cautioned shareholders.

"Today's announcement indicates the life of the mine could be shortened," said John Handley, mining analyst at Kaplan and Stewart. "They were only looking at a life of about 17 to 20 years If its life is shortened, then it's starting to become rather short."

Investors were avoiding the share "like the plague", said one dealer Another said the share price had been coming off steadily for a while now and was unlikely to reverse its downhill trend

"This share could be in for quite a few knocks still," Handley said "They have spent a substantial amount on a new mill to treat higher tonnages. Now it looks like they're not going to get it "

With three weeks to go before the industry announces quarter results, dealers said yesterday's announcement pointed to further bad figures

WestWits slumped to a loss before capital spending of R4,08m in the quarter to December from a R590 000 profit in the preceding quarter. Gold output in the December quarter fell to 850kg from 1 003kg —Reuter.

Struggling HJ Joel looks 'forward' to next century

(214) BD 28/3/96

David McKay

STRUGGLING gold mine HJ Joel was considering selling forward its entire gold production until 2001 to avoid tapping its shareholders for more cash, owner JCI said yesterday.

The group, in the prospectus for Joel's R400m rights offer, said it was confident the total R859,4m needed for the mine's capital expenditure would be covered by the rights issue cash and future mining profits on a forecast gold price of R45 000/kg. But JCI said it would be "prudent" to protect Joel from a falling gold price by hedging production.

The prospectus estimated that the mine would sustain post-capex losses of R267m this year and next before debt and preference share obligations, but would break into profit in 1998.

It forecast Joel's total production would be 27 763kg to 1999 — worth R125m at Joel's forecast gold price.

The group warned that the volatility in gold and currency markets had lifted the cost of such hedging, and management would wait for the markets to settle before going ahead.

The terms of the hedge were not disclosed, though JCI said it would be "structured so as to give the company the flexibility to benefit substantially from any upside move in the gold price".

JCI used a similar flexibility mechanism when it sold forward the production of its Western Areas mine for eight and a half years to help fund the R1,1bn development of South Deep's ore reserve.

JCI said that once the capex had been completed the mine would have "much greater robustness, cost competitiveness and operational flexibility and will no longer be a marginal producer".

The group has already channelled R1,3bn into Joel with a hefty R700m of this being raised from shareholders.

The prospectus blamed a litany of woes affecting the successful redevelopment of the mine for its failure to meet targets set when it tapped shareholders for R284m in April 1994. These included the workforce's poor morale, pinned on "unfounded rumours of mine sale or closure".

Such factors left development between October 1993 and June 1995 at 22 294m compared with the targeted of 36 306m. Lower production cut revenues R111m.

The prospectus for the deeply discounted rights offer failed to mention likely dividends to shareholders. But JCI had set the mine some tough targets to meet the revised mining plan.

Tons milled were forecast to jump from 790 000 tons this year to 1,013-million next year, while gold production would jump 37% to 6 195kg and 9 252kg by 1999.

Estimated average working costs over the life of the mine were set at R164,37/t — almost a third lower than Joel's costs in the six months to December.

MANAGEMENT

Gold Fields puts woman at top

BD 28/3/96 (214)

David McKay

MINING group Gold Fields has given its clearest indication yet that it intends to update company culture with the milestone appointment of a woman to a senior management position.

But new coal, base metal and platinum division GM Barbara Day seems largely unfazed by suggestions that her appointment is a benchmark in the mining industry

Day takes over a difficult portfolio, featuring the ailing presence of Northam Platinum, from Helgo Kahle, who has switched to the new position of company representative for West Africa in Accra, Ghana

Day dismisses the gender factor as extraneous, believing that men and women manage in accordance with their management styles

What is Day's management style? "Ask anybody who has worked for me "

However she does admit that, traditionally, women do not generally get on in the SA mining industry

"At the time I joined Gold Fields, women usually followed their spouse's lead So if the husband had to move to take a higher position, the wife would usually sacrifice her job in order to follow," she says

Day believes Gold Fields, and the mining industry as a whole, encourages long-term plans "I started at Gold Fields almost 20 years ago in the group's computer department, before moving to personnel. Then it was back to the computer division, then the property section, then into the mineral economics division, and finally to the finance division, where I was manager

"In all this time I have never seen tokenism in Gold Fields' corporate culture, and I do not believe my current appointment is a question of tokenism "

Day graduated from Natal University with a B Sc in maths and chemistry "I expect the chemistry will now become important again," she says

After university she decided to teach, but soon left the profession to join Anglo American in Welkom It was from there that Day joined Gold Fields

Day's experience in the Gold Fields finance division could stand her in good stead, as cost effectiveness and productivity are becoming watchwords in the day-to-day running of Gold Fields' mines

Barbara Day ... breaking new ground

Northam Platinum is an example. "I am not pessimistic at this stage about the future of Northam," Day says. "It is a good ore body which has to break even in the short term Gold Fields set itself a series of tasks — firstly to improve the mine's tonnages and ore grade before turning to the second task of bringing down the mine's operating costs " Northam is now at the second stage.

Analysts are doubtful about the mine's chances of reporting slightly improved profits, even though off a low base, when the group reports its results for the March quarter in about two weeks time But Day is unmoved by what she terms analysts' negativity "The improved platinum price has assisted Northam, with platinum sales in March being helped by the weaker rand in February," she says.

Day admits that her new position involves a steep learning curve. She has never been called on to make the kind of decisions she now has to make

However, there are points of common ground· "I had a clear knowledge of the cash management of all the operations in the Gold Fields stable, particularly their difficulties with inflation and static metal prices." In the cash-strapped environment of the local mining industry, an ability to balance the books will be vital

Gold Fields opened the December-quarter season on a low note with Northam posting a loss of R30,4m and cash resources declining to R56m — hardly a smooth introduction for Day Gold Fields' base metal division fared little better for the quarter Zinc Corporation (Zincor) posted a drop in profit from R5,3m to R3,6m, while the copper mine O'Okiep produced a loss of R653 000 from a profit of R8,3m in the previous quarter

Both Zincor and O'Okiep are of particular interest to Day, whose appointment includes chairmanship of both these companies But again, she is not ruffled by the less than cheery track record in Gold Fields' recent base metals operations She was also unperturbed that Gencor had embarked on a feasibility study investigating a zinc smelting and refining operation on the Eastern Province coastline

"Gencor's plans to build a zinc smelter may not represent a clash of interests with Zincor because the latter supplies the domestic market while Gencor hopes its smelter will be export-dedicated," says Day

However, she admits there is some concern about Zincor's future feed resources "Zincor will have to keep its eyes open for possible ore resources It is not a pressing concern at the moment, but we have to establish long-term strategic reserves "

O'Okiep has come through a difficult period, but Day is adamant that the past two years have been promising for the operation, which recently resumed paying dividends. Although she concedes the copper price does not look promising in the near future, she does not believe it will collapse

Does she envisage immediate changes to Gold Fields' coal, base metal and platinum division? She refuses to be hurried "It would be foolish to make changes for the sake of making changes," she says

Freegold merges shafts to cut costs

David McKay (214) BD 2/4/96

ANGLO American's Free State Consolidated Mines (Freegold) had merged several shafts to reduce overheads following declining ore reserves and a squeeze on margins, regional GM Dave Hodgson said yesterday

He said four shafts of President Brand had been merged with President Steyn shafts, reducing administrative and management costs and representing a yearly saving of R5m in the mine's budget. Job losses would be "minimal" and would not affect operating shafts which employed more than 9 200 people.

President Brand 5 shaft had become President Steyn 5 shaft, President Brand 2 shaft had become President Steyn 6 shaft and President Brand 3 shaft had become President Steyn 7 shaft. President Brand 1 shaft, now President Steyn 8 shaft, would be on a care-and-maintenance basis after ceasing operations this month.

Hodgson said further amalgamations were possible, depending on the success of steps taken to save the struggling Saaiplaas 3 and 4 shafts and Freddies No 9 shaft, where 10 000 jobs could be axed if they failed to improve profitabilities.

In February Anglo American's gold and uranium division implemented a stringent shift system to increase productivity at these shafts. At the time the corporation believed President Brand 2 and 5 shafts were at risk and had monitored them to assess their long-term future. Amalgamations involving these shafts did not mean they were saved, Anglo American said. The exercise could be seen as further attempts to improve profitability.

An analyst said it would be 18 months before benefits of the amalgamation would take affect.

SA 'still to be notable gold producer beyond 2000'

(214) BD 3/4/96

LOS CABOS — SA's gold output would be more than 460 tons in 1997, SA Chamber of Mines CE Tom Main said

Main told the World Gold and Silver Institute's annual conference that recent SA government estimates that output this year would dip to 460 tons were wrong and they should be retracted

Government released the estimates last month, alongside dire warnings of job losses across the mining industry.

Recent figures showed SA output last year was down 61,5 tons to 522,4 tons — the lowest level since the 1950s

Anglo American gold and uranium division chairman and CE Bobby Godsell declined to give a production estimate but said there was no doubt that output continued to decline.

Godsell said output had largely been on the wane since the halcyon days of the early 1970s with production at around 1 000 tons.

He said he could not give an estimate because much depended on the dollar/rand exchange rate, although he denied that SA's gold potential had been fully explored

He said the exhausted fields notion was "quite wrong".

"SA is well placed to be a player of significance into the 21st century," Godsell said, although he recognised the challenges of declining grades and mature mines

Of the country's 32 producers, three had outputs greater than 50 tons a year and one was in excess of 100 tons — Reuter.

Gold production 'will stay above 500 tons until the end of the century'

(214) CT(BR) 3/4/96

BY FIONA LENEY

Johannesburg — South African gold production would remain above 500 tons a year until the end of the century, the government's minerals bureau said yesterday.

The bureau was responding to the Chamber of Mines' criticism of a government-commissioned report that suggested South Africa's gold output would slump to 460 tons next year.

The report by the Council for Geo-Science was based on "worst case" projections for the industry, and had not been intended as a production forecast, a spokesman said.

The Council for Geo-Science had produced the research at the behest of Pik Botha, the minister for mineral and energy affairs.

The document suggested that production could plunge to 460 tons next year if the gold price remained weak, the rand strong and marginal mines were forced to close.

Tom Main, the chief executive of the South African Chamber of Mines, criticised the figure at the World Gold and Silver Institute's annual conference in Mexico on Monday. He told reporters he did not know where the figure came from and called for the ministry of mineral and energy affairs to retract the statement.

Eric Hammerbek of the Council of Geo-Science said the report had been based on conditions prevailing in the industry at the end of last year, when the report was drafted.

Since then, the gold price had firmed and the rand had weakened, making many marginal gold operations profitable. South African gold production of 522,4 tons last year was the lowest since the 1950s.

Hurbey Geldenhuys, a gold analyst with the stockbrokers EW Balderson, said though production was declining in the long term, he expected no further significant falloff for the next few years.

"Production should be around 517 tons this year and much the same in 1997," he said.

Keith Spencer, the general manager of gold operations at Gold Fields, agreed. "As far as we are concerned, gold production should remain pretty constant," he said. "But it's no secret that South African mines have moved right up the cost curve as they have had to mine deeper and the marginal operations are struggling," he said.

Bobby Godsell, the chairman and chief executive of Anglo's gold and uranium division, conceded that South African output was declining, but denied that the country's gold potential had been fully explored. "We expect to be producing in the hundreds of tons as far ahead as we can see," he said.

☐ See Page 23

All signs point to higher profitability from December thanks to higher prices

Gold mines expected to do well

CT(BR) 3/4/96

(214)

By Charlotte Mathews

Johannesburg — Hopes are high that the next round of quarterly results from the gold mines will show a distinct profit improvement over the December quarterly figures, mainly because of an improvement in the gold price

The reports are due to start in the middle of the month

One gold analyst said the average gold price during the March quarter was about R48 500 a kilogram, about R3 500 higher than in the December quarter

Total gold production was likely to be slightly lower because of the public holidays over Christmas Traditionally, figures from about December 21 are included in the March reporting period, rather than the December quarter

Analysts remained negative about prospects of any significant productivity improvements being realised in the past three months, though some felt Anglo American could show some gains

Within the Anglo American stable, Vaal Reefs, South Vaal and Western Deep Levels were believed to have lifted production figures Measures taken at Freegold, including the most recent announcement of the merger of the President Steyn and President Brand mines, could have helped profitability

One analyst said the mines needed to return to 1994 production levels, boosted then by rising expectations over the general election

In response, management was trying to retrain workers In the longer term, the policy of making workers multiskilled and giving them more responsibility for managing themselves, combined with bonuses, would probably boost productivity But this could take another two years, the analyst said

Oryx, Blyvooruitzicht and East Dagga are holding rights issues or undergoing capital reconstructions Oryx is planning to raise R604 million and Blyvooruitzicht R40 million East Dagga is altering its capital structure partly to gain access to institutional capital to fund new projects

The timing of these offers had probably been determined partly by the gold price, which helped sentiment, and partly by the pressing need for funds, analysts said

The market does not expect any major announcements from this set of quarterly announcements But analysts suggested that there could be a statement from Eastvaal in the next few months on the development of its infrastructure and an announcement on the consolidation of ownership at Evander

There could also be details of discussions between Deelkraal, which has been looking at financing options for the development of its Number 1 tertiary shaft and Elandsrand

There has been speculation that the best way to raise funds would be to allow Elandsrand to mine the area not readily accessible to Deelkraal through a tribute agreement, or for Deelkraal to sell the deeper part of its mine to Elandsrand

Gold price expected to boost mines' quarterlies

(214) BD 15/4/96

David McKay

THE gold industry would show the benefit of a higher gold price and operational improvements in results for the March quarter, despite damage inflicted by public holidays at the start of the period, analysts said at the weekend

The quarterlies, which kick off today with Gengold, would be characterised by lower tons milled which could leave production down about 5% on the previous three months at 125 143kg — mainly the result of public holidays in January

But analysts said revenues would be lifted by a higher average gold price at $400,09/oz, against the December quarter's average $385,29/oz

Revenues would be further boosted by the rand's 14% depreciation since midway through the quarter

Costs were likely to have been reined in, as the mines embarked on determined productivity drives which had already led several to cut their workforces

Overall earnings after capital expenditure were expected to be about 15% above last quarter's R150m performance.

The reduction in tax on post-capex profits to a maximum 46% from 53% announced in the Budget was also likely to benefit the figures

Analysts expected Anglo American to show the strongest productivity gains, with most eyes on its mainstay Freegold

Anglo retrenched about 3 400 from the operation at the end of last year and the fate of another 10 000 Freegold workers on unprofitable shafts is due to be disclosed as the group announces its March quarter performance The threatened shafts moved to a 12 days on, two off shift in February, but Anglo has warned the January performance was poor

Gengold had also heavily restructured, though analysts said the full benefits would not be felt in the current quarter The group shed 1 800 jobs at Winkelhaak last month, has sold control of four mines to Randgold and is pushing ahead with plans to merge its Evander operations

Analysts said Gold Fields of SA's Leeudoorn and Libanon would show some recovery while productivity bonuses at Deelkraal would start to make an impact as advance rates picked up The Leeudoorn and Libanon operations recorded losses in the December quarter of R17m and R8m respectively

But analysts were sceptical that Deelkraal — which needs refinancing — would break even

Anglovaal's Hartebeestfontein mine would show some improvement, but advance rates at the Eastern Transvaal Consolidated operation had been hampered by heavy rainfall in Mpumalanga

Analysts said Randgold's Blyvooruitzicht would be its strongest performer, amid higher output and cost cutting, with Durban Deep also offering a good showing

Western Areas was again expected to star for JCI

Dries adds lustre to Gold Fields

(214)

David McKay

BD 17/4/96

GOLD Fields of SA lifted after-tax profit 11% to R298m for the March quarter after an improved gold price and an outstanding performance from East Driefontein mine, gold executive director Alan Munro said yesterday.

Other highlights included profit of R5,8m from Northam Platinum, which had cut costs and was showing signs of turning the corner. The mine recorded a loss throughout the year, including a R22,7m loss in the previous quarter.

Base metal and platinum executive director Peter Janisch said the results indicated a period of recovery for Northam.

A stronger average gold price of R47 945/kg countered the effect of the decline in gold production to 24 005kg (24 524kg). The increased gold price lifted Gold Fields' gold division revenue by R42m to R1,2bn, Munro said.

Total working costs were lower at R827m (R837m) which translated into a marginal increase in unit working costs from R34 142/kg to R34 460/kg.

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East Driefontein boosts Gold Fields' profit figure

BD 17/4/96 (214)

David McKay

AN INCREASE in gold production at East Driefontein and a higher average gold price bolstered an otherwise disappointing quarter for Gold Fields of SA's gold division, executive director Alan Munro said yesterday

The average gold price was R47 945/kg (R45 202/kg) East Driefontein lifted working profit to R157,4m (R100,7m) despite the interruption of production by an underground fire The fire had been extinguished and the affected area would become operational by the end of April, Munro said

Gold production increased to 6 740,7kg (5 920,0kg) due to increased stoping from the No 4 sub-vertical shaft area

An increase in tonnage milled at a slightly reduced yield — which in the March quarter was 11,8g/t (9,2g/t) — was likely to be achieved in the next quarter, Munro said

As a result of East Driefontein mine's performance, Driefontein Consolidated, which includes the West Driefontein mine, increased profit after tax to R217,7m (R177m) Although Deelkraal reduced its after tax losses from the last quarter from R6,5m to R1,3m, Kloof Gold Mining Company Limited's mines produced poor performances as all three mines failed to lift gold production on the last quarter, Munro said

Libanon reduced gold production from 2 300,9/kg to 2 131,8/kg and increased working costs slightly from R112,4m to R113,6m The mine's working loss increased from R8,2m to R11m in the March quarter

Leeudoorn, meanwhile, reported increased working losses from R17,5m in the December quarter to R19,6m in the current quarter as gold production fell to 1 537,6/kg (1 730,0/kg) due to geological discontinuities

Munro said Leeudoorn would continue to experience difficult mining conditions during the current quarter which would restrict tonnage milled

Kloof reduced gold production to 5 971,6/kg (6 771,3/kg) for the quarter, while costs increased to R30 656/kg (R27 414/kg)

Kloof mine decreased working profit to R104,8m (R121,3m) with public holidays contributing to production losses.

Munro said underground production at Kloof was interrupted by an unlawful strike at the mine during the quarter.

However, the mine completed the refurbishment of pumping equipment and shaft steelwork in addition to other underground infrastructure Munro said tonnage milled at Kloof was expected to increase in the next quarter while the yield of 13,5g/t (14g/t) was expected to be maintained

Kloof Gold Mining Company reduced profit after tax to R81,5m (R97,6m), he said.

GOLD FIELDS OF SA March Quarter	Tons milled 000s	Yield g/ton	Gold d produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
EAST DRIEFONTEIN	570	11,8	6 741	289,5	24 482	47 840	—	—	
December	645	9,2	5 920	259,4	28 267	45 280	—	—	—
WEST DRIEFONTEIN	640	9,3	5 939	298,7	32 190	48 128	217 774	97,3	47,7
December	640	9,6	6 123	302,7	31 565	45 170	177 029	45	22
KLOOF	442	13,5	5 971,6	414	30 656	48 212	—	—	—
December	485	14	6 771,3	382,7	27 414	45 326	—	—	—
LEEUDOORN	305	5	1 537,6	304,5	60 445	47 697	—	—	—
December	332	5,2	1 730	288,6	55 402	45 293	—	—	—
LIBANON	385	5,5	2 131,8	295	53 323	48 134	81 522	17,2	12,4
December	414	5,6	2 300,9	271,5	48 856	45 295	97 618	25,1	18,1
DEELKRAAL	288	5,8	1 683,3	282,3	48 293	47 448	(1 354)	(11,5)	(11,6)
December	290	5,8	1 679	285,5	49 312	45 246	(6 552)	(19 9)	(19 9)

Anglovaal's gold mines report 59% profit rise

(214) CT(BR) 18/4/96

BY JOHN SPIRA

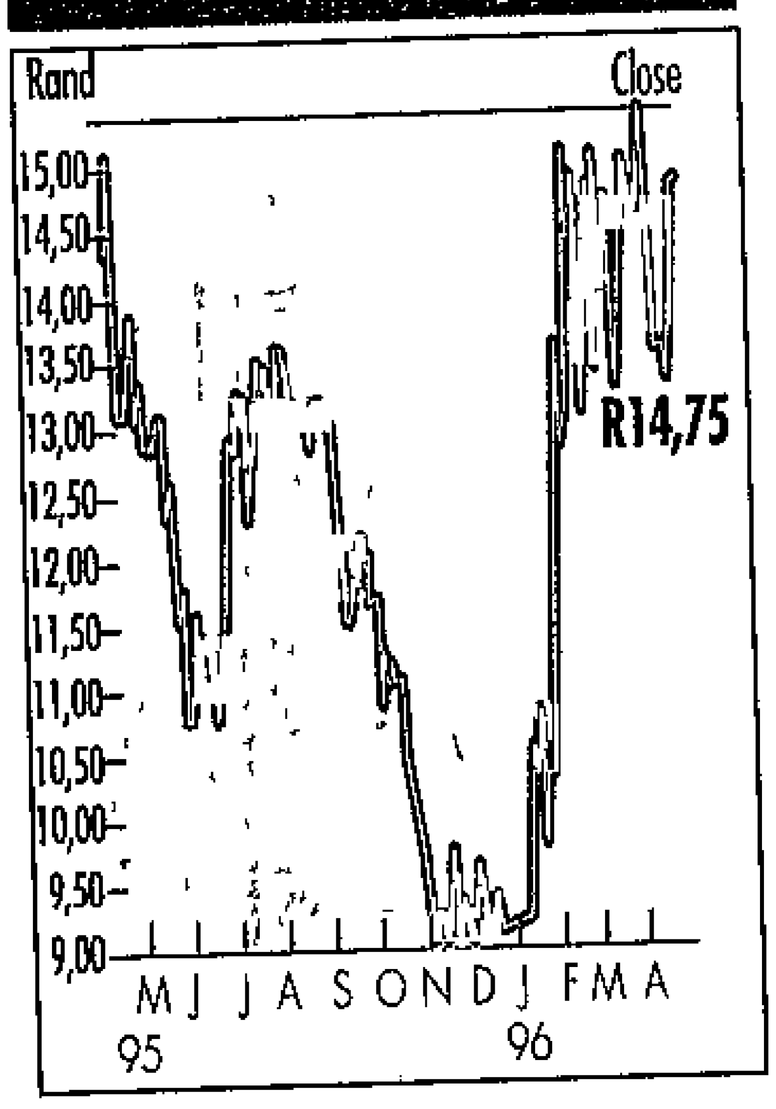
Johannesburg — Gold mining companies in the Anglovaal Minerals group achieved a 59 percent improvement in taxed profit in the March quarter

Total profit after tax rose from R34,8 million in the December quarter to R55,4 million, largely because of a dramatic improvement at Hartebeesfontein

Aggregate group gold production increased from 8 931kg to 9 025kg, the average gold price received for the quarter rose from R45 059 a kilogram to R48 420 a kilogram and capital expenditure fell from R13,2 million to R10,4 million

Hartebeesfontein's taxed profit rose 75 percent to R48,6 million because of a higher gold price received, well-maintained costs, improved mill throughput and a higher yield Loraine emerged from the red with a taxed profit of R2,5 million following the December quarter's R1,8 million loss

Harties share price



The improvement is almost entirely ascribable to the higher gold price because production was adversely affected by an illegal strike in January

Eastern Transvaal Consolidated disappointed, principally because of heavy rains which caused power failures and flooding at the Sheba and New Consort mines

In addition, grades at Sheba did not meet expectations Taxed profit declined from R7 million to R4,1 million

The company will soon be implementing a plan aimed at matching costs more closely to revenue and capital expenditure

It expected profitability to be adversely affected thereby in this financial year, with "much improved results" likely to accrue in the following financial year

Village Main Reef, where mill throughput ceased in the December quarter, reported a taxed profit of R213 000, down from R1,8 million.

Operations during the quarter were confined to clean-up activities in the gold plant

These would continue in this quarter "as long as they remain viable"

Anglo mines boost profit to R225,4m

(214) BD 19/4/96

David McKay

ANGLO American's gold and uranium division boosted available profit 66% to R225,4m for the March quarter, benefiting from the higher gold price during the quarter under review.

Gold production decreased 4% to 54 478kg, but gold revenue for the quarter averaged at R48 599/kg, a 5% increase.

Working costs decreased marginally to R2,2bn, but unit working costs were 3% higher at R39 931/kg produced

Highlight of the group's results was the remarkable performance by Elandsrand Gold Mining Company which increased available profit 78% to R22,8m.

Chairman Bobby Godsell attributed the increase to higher gold production combined with the higher gold price.

Gold production rose 8% to 4 050kg. Tonnage milled was slightly lower at 528 000 tons — December quarter: 533 000 tons — but the average yield improved 9% to 7,67g/t.

Godsell said the mine was beginning to reap the benefits of fundamental restructuring in which employees were trained in a range of different skills to complement one another.

This could be a signpost for other gold mining companies in the Anglo stable.

Revenue a kilogram sold increased 7% to R48 921, contributing to a 17% increase in total gold revenue to R200,7m.

Unit costs were 6% lower at R34 474 a kilogram produced, the cost of sales increased 5% to R141,7m. This had left gold profit about 61% higher at R59m, Godsell said.

Free State Consolidated Gold Mines (Freegold), where several shafts could close in the future, reported an available profit of R56,4m compared to the previous quarter's loss of R5,1m. This increase had resulted from the higher gold price, Godsell said.

He admitted that this increase had been from "a miserable base", but cost of sales decreased to R988m (R1bn) leaving gold profit 28% higher at R67,4m. Freegold hoped to produce a quarterly profit in the new financial year which was at the level of the quarter under review, Godsell said.

Vaal Reefs reported a 12% increase in available profit to R86,9m for the quarter as benefits of the higher gold price filtered through to the bottom line.

Gold produced by the company was down 2% to 17 220kg (17 485kg) and cost of sales increased to R603,8m (R579,2m).

Available profit at Western Deep Levels had increased to R43,1m (R34,2m), Godsell said.

Tonnage milled was 13% lower at 1,3-million tons partly due to the closure of the No. 3 plant which had been treating surface material. In spite of an increase of more than 8% in the average yield to 6,57g/t, gold production declined by 6% to 8 763kg.

However, the higher grade may not be maintained.

Unit working costs rose 6% to R38 489/kg while cost of sales increased to R350,2m (R327,2m). Gold profit for the company was 10% higher at R91,5m.

Ergo had increased available profit marginally to R16,2m (R16m) in spite of disruptions caused by heavy rainfall and power cuts, Godsell said.

An increase of nearly 7% in revenue a kilogram sold to R48 480/kg was not sufficient to offset lower production of 2 997kg (3 301kg) and the total revenue had been more than 3% lower at R152,0m (R157,1m), he said.

WATCHFUL Anglo's gold marketing director, Kelvin Williams, who says the market lacks conviction

Not bad, but no cigar in mines' quarterly results

(214) ST (BT) 21/4/96

By JULIE WALKER

NOT bad, but could do better is the message from most of South Africa's gold mines reporting quarterly results this week

The rand gold price was at high levels throughout the period Gold Fields, which does not hedge any production, achieved an average gold revenue of R47 945/kg, Gengold, which had little hedging in place, earned R48 025, limited hedger Anglovaal achieved R48 420 and Anglo American was the smartest at R48 599 for the quarter

Anglo had the best quarter, notably at Elandsrand and the turnaround at Freegold Bobby Godsell, chairman of Anglo's gold and uranium division, says that four of the five Freegold shafts threatened with closure have improved their performances sufficiently to escape They can get by with gold above R50 000/kg

However, Freddies No 9 shaft needs a gold price of more than R60 000/kg even to approach viability Its ore reserve has been almost depleted and the shaft is to be closed after the shaft pillar is taken out

Anglo says it will try to minimise retrenchments by placing people elsewhere in the group Past experience suggests that about half of the 1 200 employees can be retained

Freegold made R56-million for the quarter against December's R5-million loss Tonnage was reduced by design and yield was up at 6,1g/t

Mr Godsell warns that Freegold is by no means out of the woods He says that the wage bill is about R500-million a quarter, which would be another R50-million if it were to rise by 10% — the quarter's profit

"The search for more quality shifts continues Management seeks a way of meeting employees' aspirations in a way that does not put more people out of jobs and make more of the company's gold reserves unpayable" He envisages some form of pay package based on productivity or on the rand gold price

Kelvin Williams, Anglo's gold marketing director, says American fund-management buying of gold was behind the metal's rise earlier this year "When the price flagged, gold was sidelined, but not all the positions were squared at the same time We believe that most of the long positions have now been squared" He says the market now lacks conviction, and that while fundamental demand for gold is strong, the offtake from the Far East is not as good as it was last year

A fall in political and economic confidence is driving investor attitudes on the rand, but Mr Williams notes that no market goes one way forever "We are not unhopeful of a stable dollar gold price and better rand receipts this year"

High rainfall negatively affected several mines through flooding and power interruptions Dump reclamation operation Ergo lost 7% of its tonnage and had no chance of making it up as the plant always runs at capacity ET Cons in the Anglovaal camp suffered flooding at both Sheba and New Consort as well as a grade fall-off at Sheba Some job-loss is likely at the mine as several operations are reassessed, especially Royal Sheba and Agnes

At Gengold's Grootvlei, the water level rose to 20m above the pump station and was rising at a metre a day Sinkholes up to 25m across appeared on the mine's surface, into which millions of litres of water poured, necessitating the construction of causeways

Gengold has handed over the management of and shareholdings in four mines, Grootvlei, Buffelsfontein, Stilfontein and Unisel to Randgold following approval this week of the R126-million deal

Gengold had hoped to be able to give details of the merging of its four Evander mines plus other land and rights this week, but says they are coming soon

Gengold management was accused of sweeping bad things under the carpet there was no inkling of problems at St Helena and at Kinross, where working costs were sharply higher in addition to the shearing of the drum shaft on the winder at No 1 shaft The mine lost 10 000 tons of production and three weeks of development Gengold says it put out a press release about Kinross which the local press ignored

Gold Fields' East Driefontein mine had a hallelujah quarter, according to Alan Munro, head of the gold division West Driefontein was fair, and the consolidated Dries made R218-million in the quarter, R40-million up on December

But the group's other mines were less fortunate An illegal strike at the Kloof division of Kloof Gold Mining affected underground production adversely The intersection of geological discontinuities continued to affect underground production at Leeudoorn and the grade is too low "We haven't given up on Leeudoorn," says Mr Munro

Deelkraal cut its loss by three quarters to R1,4-million and expects a slight tonnage increase at maintained yield this quarter Its long-term future is under consideration

Randgold reels in R21,5m interim earnings

(214) CT(BR)23|4|96

By John Spira

Johannesburg — Randgold generated attributable earnings of R21,5 million in the six months to March 31 this year In the same period last year, attributable earnings were R405 000

Interim earnings a share rose from 1,1c to 56,1c The group earned 60,5c a share in the 12 months to September 30 last year

"Eighteen months ago Randgold was a small bankrupt company We've come a long way since then," Peter Flack, the chairman, said yesterday

The two half years are not comparable The earlier six months included the operating results of First Wesgold Mining, whose assets were sold, and the second six months contained an above-the-line profit on the sale of investments worth R14,8 million and an exceptional item of R17,7 million arising from the cancellation of the Blyvooruitzicht management contract

Funds from the sale of the shares will be used to acquire mining assets from Gengold, to underwrite the Blyvooruitzicht rights issue, for the redemption of preference shares and for future acquisitions

Exploration expenditure rose sharply, from R7 million to R12,6 million Local exploration activities continue to be focused on the evaluation of Randgold's extensive mineral-rights portfolio

Two further joint-venture agreements have been concluded and four are in the final stages of negotiation

Agreement in principle has been reached with an Australian-based resource company to sell all or part of Randgold's interest in Transvaal Gold Mining Estates

The directors believed the company was well positioned to take advantage of new investment opportunities, a number of which were being investigated

"With the completion of the Gengold Limited transaction on April 18, the profits from these acquisitions will have a significant effect on earnings in the second half of the year," the directors said

At the end of March, Randgold's net asset value was R27,65 a share based on the market value of its listed assets, the book value of certain non-listed assets, directors' valuation of local mineral rights and the valuation of Randgold Resources at the private placing price The net asset value calculation excludes the assets to be purchased from Gengold The shares accordingly stand at a 30 percent discount to net worth, a figure that is conservative in respect of the directors' valuation of local mineral rights

☐ See Pages 17 and 18

Resources vehicle explores new ground

By John Spira

Johannesburg — Randgold Resources, the company incorporated in August 1995 as Randgold's exploration and development vehicle for its interests outside South Africa and Namibia, has been making very good progress

It is now self-funding after a private placement of 945 000 shares at $10 a share, it boasts 130 gold exploration targets, 11 of which are advanced, at Golden Ridge in Tanzania a "significant" 1,5 million-ounce gold resource has been delineated, a new joint-venture partner has been acquired for Burkina Faso, and three new permits have been acquired in west Africa, raising the group's total groundholding there to 11 500km²

Randgold Resources' total expenditure for the six months to March 31 was $3 million and estimated expenditure for the year ending in September is $7,5 million, at which date its cash resources are expected to total $7 million

CONFIDENT *Randgold's Peter Flack* PHOTO JOHN WOODROOF

LONG WAIT *Retrenched ERPM employees wait outside the Pretoria industrial court yesterday Their case has been on the go for two years* PHOTO JOHN WOODROOF

JCI mines return disappointing quarterly results as average yields drop

(214) CT(BR) 24/4/96

By John Spira

Johannesburg — JCI's group gold mines have reported disappointing results for the March quarter, with taxed profit declining from R79,8 million to R77,1 million

This is in sharp contrast to the much improved results of most of the country's other gold mines. JCI's September and December quarterlies were ahead of the industry average, mainly on substantially increased production

That increase was not sustained in the March quarter, with milled throughput at 2,7 million tons, 2,6 percent down on the December quarter Also, average yield was down 3,5 percent, resulting in total gold production for the group dropping 6 percent to 10 755kg

Though the gold price received gained 6,1 percent, working costs rose Profit from gold fell from R62,5 million to R59,7 million

John Brownrigg, a director, ascribed the tonnage shortfalls to the January mine month, which covered the period December 23 to January 22 There was no production for seven days of that period because of public holidays

Randfontein Estates achieved a marginal advance in taxed profit from R25,1 million to R26,5 million, because of an increase in sundry revenue, lower taxation and a higher gold price Milled throughput, working costs and capital expenditure held steady, but grade declined for the fifth consecutive quarter to 2,86 grams a ton

Brownrigg said grade had fallen because of an increase in waste washings delivered to the mill He expected the yield to improve "in the near future" and said cost savings could be achieved from the restructuring now in progress

"At Randfontein's Doornkop South Reef, grades accorded with predictions Proposals will soon be submitted to the directors about expenditure on "major further development"

Taxed profit at Western Areas advanced from the December quarter's R59,3 million to R61,7 million Milled throughput declined but the grade improved from 6,58 to 6,75 grams a ton Gold production was 3,9 percent lower at 4 556kg Unchanged working costs and a higher gold price pushed profit from gold up 9,4 percent to R48,8 million

HJ Joel was particularly hard hit by the seasonal holidays and an illegal strike in March Milled throughput was accordingly 13,6 percent down on the previous quarter at 27 000 tons With interest paid higher at R3,6 million, Joel suffered a loss after tax of R5,3 million against a profit of R1,1 million in the December quarter

☐ See Business Watch, Page 16

MANAGEMENT

Mine shift system 'no cure-all'

(211) (214) BD 25/4/96

David McKay

NEW Anglo American gold and uranium division chairman Bobby Godsell does not believe the recently adopted shift system at some shafts at the group's embattled Freegold mine is the panacea for SA's shrinking gold mining industry

He warned there was a danger of becoming too emphatic about the shift system at Freegold

It had suited some Freegold shafts, but would clearly not suit other shafts, he said, waving away any suggestion it could be implemented easily as a solution at other marginal shafts in the future

There is something about Godsell — a kind of good-humoured but wily scepticism — that rules out quick-fix solutions For example, he is equally cautious about the much vaunted "full calendar operations", hailed by some market watchers as a sure thing for future profit-taking

While full calendar operations were on the increase in the SA gold mining fraternity — JCI's Western Areas and some Gold Fields mines are known to be interested in the idea — Godsell was of the opinion it did not suit certain mines in the Anglo stable

What Godsell is proposing, however, is a change in the mindset of gold mine management away from volume-chasing to a profit-orientated approach

"Historically, SA mines have chased volumes When the gold price was high, volumes were high And when the gold price fell, it was a matter of survival," he said

"SA mining has to realise that it must become profit-driven — a profound philosophical change from the way mines have been run since 1930

"I want to get out of the retrenchment business," he said

He believed a change in the basic understanding of how mines were managed would enable him to do that

Volumes at Freegold's Saaiplaas No 3 and 4 shafts and at Western Holdings No 3 and 7 shafts were cut by half when it was realised that they were endangering the chances of a dividend declaration and future capital development.

Management at Freegold has expressed a willingness to extend the two-month-old shift structure at Saaiplaas No 3 and 4 shafts There is every reason for doing just that

Without the newly implemented "12 days on, two days off" shift system, these shafts would have been closed with the loss of several thousand jobs

Anglo American announced at the division's December quarter that these shafts, and a group of others at the mine, were producing at losses which could not be sustained It was suggested that 10 000 jobs would be shed if the endangered shafts closed

One ray of hope on this grim prospect was the group's willingness to review any possible ideas that would save the shafts

The solution, hammered out between the NUM and the group in a one-day intensive summit — proved to be a coup for good management-labour relations

Labour agreed to work a shift system in which 12 consecutive days were worked, not including public holidays, followed by a two-day break

The proferred reward was job retention

The plan proved a success — at least for the March quarter

One of the key questions asked at the summit asked how cost efficiencies at some of the Freegold shafts could be maintained

The aim, Godsell said, was to have each employee operate at a face advance of 6m to 7m a month

"Talks were decentralised and looked at every possible avenue, including changing the mine design

"The unions showed a genuine willingness to co-operate," he said

At the March quarter report-back, Godsell told analysts and the media that most of the shafts had been saved

Freddies No 9 shaft was the one casualty, with the result that half of the 1 200 jobs there would be lost over the next two to three months

Godsell said there were lessons to be learned from this last-ditch attempt to save some of the Freegold shafts

For instance, the exercise confirmed that Freegold was a series of remnant orebodies — some closer to extinction than others — that would have to review its profitability levels constantly "There are no more than three to five large and consistent orebodies at the mine "

Of course, this did not put an optimistic slant on the mine in the long-term As it aged, travelling times were longer while tramming and hoisting costs increased, he said

However, Godsell said that he had a better understanding of the mine as a whole and believed its shafts could remain profitable for some time to come

Godsell took over the reins of divisional chairman from Clem Sunter on March 1 At the time of his appointment, analysts said Godsell's background in labour relations was crucial

They cited his experience as a director of the group's industrial relations department and as head of its corporate communications department as a vital part of the corporation's new approach to its gold mining activities

"Anglo has realised that it has to do something positive to overcome its productivity problems and deal with the unions more adequately," one analyst said

The SA gold mining industry, in its heyday, produced 70% of total world gold production This figure has reduced to about 25% of world gold production now, accompanied by the highest average costs in the world It had, consequently, reduced its total workforce from half a million people to about 350 000 by mid-1995

The Chamber of Mines reported early this year that gold production for last year had fallen 10,5% to 522 376,7kg from 1994's production figure This represented a loss of revenue and foreign exchange of about R2,8bn, the chamber said

Anglo American gold and uranium division chairman Bobby Godsell wants to get out of the retrenchment business

Gold price bails out mines

(214) BD 26/4/96

David McKay

THE gold industry had relied heavily on the higher gold price for its March quarter performance, with the mining houses yet to prove they could bring costs to heel, analysts said yesterday.

Although total distributable income rose to R420m from R155m in the December quarter, according to figures from Frankel Pollak, production figures painted a less favourable picture.

Ore milled slipped, and though average yields rose 3,4% quarter on quarter to just under 5g/t, gold production fell 3,8% from the December quarter to 117 438kg. Average working costs increased to R39 809/kg (R38 577/kg).

The bottom line had been lifted by an average gold price ahead at R48 480/kg (R45 589/kg) and capital expenditure was down at R576,3m (R652,2m).

"How would things have looked had the gold price not risen?" Frankel Pollak analyst Trevor Pearton asked.

Analysts said mines operated by Randgold and Gengold had led the field in cutting costs.

Randgold's Blyvooruitzicht had cut its working cost to R43 637/kg (R50 253/kg).

Poorer performers included Anglovaal's Eastern Transvaal Consolidated, JCI's HJ Joel and Anglo American's Western Deeps.

Joel's working costs rose to R49 787/kg from R42 655/kg.

All mining houses, bar Anglovaal, sustained lower gold production, with JCI and Gengold suffering respective falls of 6% and 7,3% on the previous quarter.

JCI's yields slipped 3,5% to an average 4,01g/t, with mainstay Randfontein Estates the main culprit.

JCI — the only major to sustain lower pre-capex income for the quarter — said earlier this week that it had been hard hit by public holidays at the start of the quarter.

Anglo American's Freegold, which granted four threatened shafts a stay of execution, had been one of the main winners for the quarter.

"But the mine has only won the battle, not the war," an Edey Rogers gold analyst said.

Fergusson Bros' analyst Dean Cunningham said Gengold's Beatrix had been a star performer, and had maintained margins, while improving ore reserves.

Anglo's mines had also performed well, especially South Vaal and Elandsrand. The latter lifted available profit 78% to R22,8m from the previous three months.

Capex to deepen Elandsrand's sub-vertical shaft would cost between R80m to R100m a year in the next two years, eating into earnings.

Thereafter the mine would be a "wonderful performer", he said.

The full benefits from the stronger rand gold price, hovering at about R53 000/kg, would flow through during the June quarter.

Amalia Gold reports R37m profit

ET(BE) 29/4/96 (214)

FROM SAPA

Johannesburg — Amalia Gold Mining and Exploration Company will report a substantial profit today of R37 million in the six months to the end of last month

This was achieved through the sale of its Zimbabwean interests in Minehead Mining for R39 million to the London-registered Commonwealth Gold (Comgold), the company said

George Julyan, the chairman of Amalia, said at the company's annual meeting that their mining costs during the six-month period were R1,8 million and administration costs R1 million

The Minehead purchase arose from South African foreign exchange restrictions on financing a Zimbabwean project with South Africa as a base It was decided that Comgold would be given the option exercised on March 29 to purchase Minehead for £7,5 million — the consideration comprising a cash payment of £1,25 million and 62,5 million Comgold shares at 10p a share which equated to R45,2 million, a substantial capital gain for Amalia This was still subject to Reserve Bank approval

Comgold proposes to list on the alternative investment market of the London Stock Exchange by the end of next month — and should it achieve its expected listing price of 25p a share, the transaction could be worth R107,5 million, or 172c a share, to Amalia

Julyan outlined the developments within the group in southern Africa and internationally during the six months under review

"The core business of our company is the operation of shallow and surface gold mining deposits and we are pursuing these goals in South Africa, Zimbabwe, Botswana and elsewhere in southern Africa and the Pacific Rim area via our interest in New Zealand," he said

"Amalia's strategy is to position itself to take advantage of the anticipated relaxation in exchange control and become a significant world player through its deployment of South African mining expertise and capital

"We have already taken important steps in this direction by appointing our main board director Mike Hawarden — formerly an executive director of JCI — as chairman of Commonwealth Gold," said Julyan

Randgold moves to acquire mines

(214) BD 29/4/96

David McKay

RANDGOLD's expansion plans moved up a gear at the weekend as the mining house announced talks to buy two listed marginal gold mines worth nearly R85m.

The group said it was negotiating to buy the entire share capital of Consolidated Mining Corporation's West Wits and Benoni Gold operations

West Wits, worth R57m on the JSE on Friday, would be bought by Randgold's Durban Roodepoort Deep operation East Rand Proprietary Mines (ERPM) would buy Benoni, worth R27m.

The deal would be funded by issuing shares in Durban Deep and ERPM, which were capitalised at R257,4m and R476,1m on Friday

Randgold commercial director Brett Kebble said the group's strategy was to bring properties under a single overhead to reduce costs.

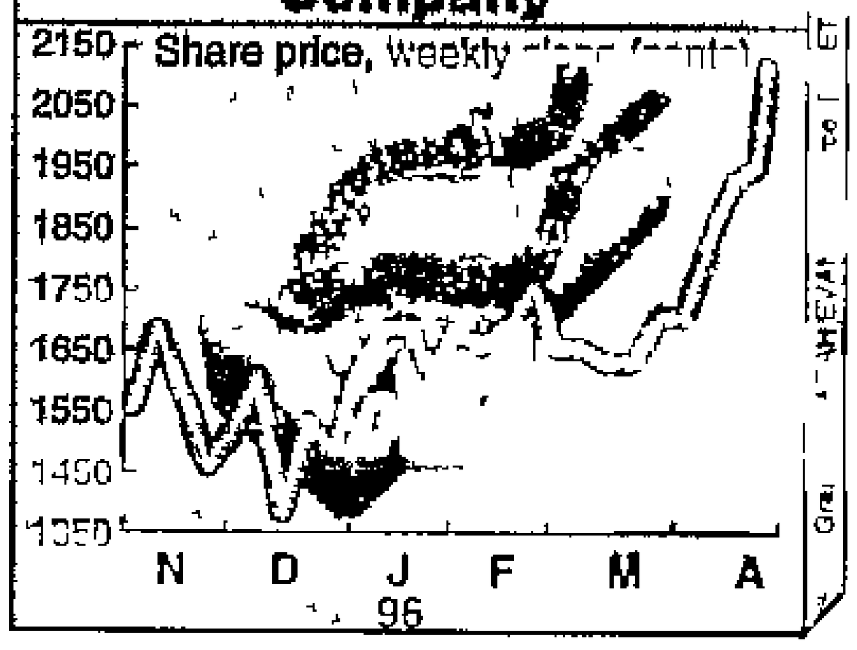
He said the companies were still negotiating, so he could not detail the investment involved

Durban Deep's tie-up with West Wits would allow Durban Deep to process some of its material at West Wits's metallurgical plant. Durban Deep's gold output stood at 471kg for the March quarter, with West Wits' at 650kg

West Wits lost R9,3m before capex for the March quarter, but said Randgold had undertaken a geological evaluation which defined indicated resources of 7,2-million tons at 1,77g/t

Kebble said Benoni would handle tonnage mined from mineral rights on properties owned and adjacent to ERPM ERPM would seek to imprint its lower cost structure on Benoni to lift its profitability.

Randgold and Exploration Company



ERPM's gold production was 1 650kg for the March quarter, while Benoni turned out 508kg

Randgold said last week that it was starting a string of investments to secure the long term future of its operations.

Its Free State Harmony operation was pursuing talks with Anglo American to lease infrastructure from Freegold's threatened Saaiplas No 3 and 4 shafts, and it was planning to develop further mineral rights in the East Rand

It bought Doornfontein from Gold Fields, merging it with Blyvooruitzicht, and had taken control of Gengold's Buffelsfontein, Stilfontein, Unisel and Grootvlei. Unisel was to merge with Harmony, while Grootvlei would feature in its East Rand mineral rights plans.

Randgold's operations lifted precapex income to R30m in the March quarter, against a R39,4m loss in the previous three months

Analysts describe terms for West Wits as unclear

'Bewildering' offer from Durban Deep

CT (BR) 16/5/96 (214)

By John Spira
DEPUTY EDITOR

Johannesburg — The terms of Durban Deep's offer to acquire West Wits have bewildered shareholders and experienced mining analysts

Analysts contacted by Business Report after yesterday's announcement were unable to account for several key features of what one described as "the most confusing offer document I have ever seen"

In terms of the offer, Consolidated Mining, the controlling shareholder of West Wits, has advanced R15 million and is obliged to offer R20 million more on loan account to West Wits

The loan account will be ceded by the company to Randgold's Durban Deep in exchange for the issue of renounceable letters of allocation to 921 000 new Durban Deep linked units

Each linked unit will comprise one new Durban Deep ordinary share and one option The option will entitle the holder to subscribe for one new Durban Deep ordinary share at R55,00 a share in the next four years

The Durban Deep linked units will be offered by Consolidated Mining at R38,00 a linked unit to West Wits shareholders and option holders

The management agreement between West Wits and the company has been ceded to Durban Deep for a consideration of R1,00

West Wits ordinary shareholders were offered one Durban Deep ordinary share and one Durban Deep option for every 100 shares held

The announcement places a value of R45,50 on the one Durban Deep ordinary share offered and no value on the option, concluding that, with 100 West Wits valued at R63,00, West Wits ordinary shareholders suffer a 27,8 percent decline in market value

West Wits preferred ordinary shareholders are offered six Durban Deep ordinary shares and six Durban Deep options for every 100 preferred share held

In this case, the options are given a value of R19,00 each but are not included in the calculation which reveals that the preferred ordinary shareholders will enjoy a 56 percent improvement in market value

West Wits option holders are offered one Durban Deep ordinary share and one Durban Deep option, the net result of which is that they incur a 67,5 percent decline in market value

All of which raises the following pertinent questions

☐ Why are the West Wits preferred ordinary shareholders being offered so large a premium on market value, while West Wits ordinary shareholders must take a discount and the West Wits option holders an even deeper discount?

☐ Why has the management contract been ceded for as little as R1 when price tags running into the millions were placed on other such contracts involving Randgold?

The intrigue deepens with the discovery that Randgold owns nearly half of the West Wits preferred ordinary shares in issue, perhaps explaining why the Randgold-inspired offer has so obviously favoured the preferred ordinary shareholders

An explanation offered by one analyst is that the superior offer to the preferred ordinary shareholders is instead of the cession of the management contract

"I reckon the contract is worth in the region of R20 million, which is about the same as the benefit Randgold will reap from the enhanced value placed on the West Wits preferred ordinary shares

"My guess is that the deal has been constructed in this way to make it as tax effective as possible for Randgold," said the analyst

But there still remains an element of inequity in the treatment of the different classes of West Wits shareholders, bearing in mind that some 8 million preferred ordinaries are not held by Randgold

"The deal appears to be fait accompli," said another analyst

"There would be no advantage to any class of West Wits shareholder in not accepting the offer Even so, I would like to see some searching questions raised at the meeting to approve the arrangement," the analyst said

An analyst based in London said he believed the Durban Deep linked units would be an attractive investment

"I'd likely be a buyer of the renounceable letters of allocation when they come to the market"

Amaprop hit hard by city's loss of business

By Audrey d'Angelo

Cape Town — Anglo American Properties (Amaprop) has been hit hard by the departure of businesses from Johannesburg' city centre, ending the year to March 31 with an attributable loss of R48,9 million, the company said yesterday

Properties in the city centre made up 51 percent of Amaprop's office portfolio

The directors said that the property write-off of R39,3 million and the provision of R88,6 million for future losses on head leases resulted from "the deterioration in Johannesburg city centre trading conditions and property market values"

They said the provisional loss of income on head leases was partly offset by a deferred tax credit of R20,6 million

Gerald Leissner, the company chairman, said that a net charge of R57,6 million after deferred taxation was reported for the year

Slimes processing boosts Lydex to a R3,37m profit

By John Spira

Johannesburg — Lydex Exploration achieved a profit of R3,37 million for the six months to March — a more than 10-fold increase on the R303 000 earned in the same period last year Earnings at the share level were 23,7c (2,2c)

The steep improvement came on the back of high-volume processing of slimes material from ERPM

More than 3,1 million tons of slimes material was processed through the Ergo plant at an average of 520 000 tons a month, producing 976kg of gold from which revenue of R5,7 million was derived

Peter Bieber, the chairman of Lydex, expected the processing of the ERPM material to continue for a further 16 months to achieve the original target production of 10 450kg of gold

Bieber said Lydex's three current drilling projects — the Red River Hard Rock ilmenite exploration programme, the Morrua tantalite deposit in Mozambique and the Trodex platinum project near Tzaneen — were looking positive

The potential of a number of other mineral projects in South Africa and elsewhere in Africa were also being assessed

Bieber said discussions were in progress with Harmony over its potential acquisition of Lydex's 25 percent stake in the Vermeulenskraal project Vermeulenskraal, which lies between the Harmony Mine and the Unisel Mine, was recently acquired by Randgold

He said indications from the Mozambique project, where Lydex had a 30 percent interest, were that mining operations would start during the second half of next year

Last year Lydex acquired the participation rights and business interests of Southern Prospecting

Since peaking early last year at R21, Lydex's share price has been declining At R8,75 it has, however, recovered somewhat from last year's low of R7

Small miners pay high price for ore

ARG 17/5/96 (214)

JOHANNESBURG – Every day, Zamzam Boy Shongwe ferrets around in candle-lit tunnels underneath the beautiful hills around Barberton in Mpumalanga province in search of ore

"Where the ore begins to run horizontally," says Mr Shongwe, "it becomes a 'baby' At this stage there is enough gold to be mined and it is called by this name because it nourishes Like a woman, it has some wealth in it "

Mr Shongwe's family depends on the ore for its survival But his work is dangerous

The narrow shafts collapse frequently Mr Shongwe also risks being poisoned by the mercury that he uses to extract gold from the rock he hauls out of the ground And he faces arrest every day because his work is illegal — carried out on land that does not belong to him

But the working lives of Mr Shongwe and others like him — mostly miners made redundant by a crisis that has rocked the South African gold mining industry over the last few years — could change dramatically if ambitious new plans for the industry are implemented by the government

Over the past five years, South Africa's gold mines — once the mainstay of the country's economy — have been plagued by low productivity, diminishing reserves in some mines and labour unrest

In 1994, production dropped below 600 tons for the first time since 1958 and continued to slump into 1995

Dr Aiden Edwards, president of the Mineralogical and Technology Research Unit (Mintek), predicts that within five years as many as a third of South Africa's gold mines will close down

Already, the South African mining giant, Gencor — the fourth largest gold producer in the world — is looking at other African countries and elsewhere for expansion

More than 180 000 workers have lost their jobs in the industry over the last eight years

If the trend continues, another 130 000 workers will be made redundant by the year 2 000, according to researcher Mike Solomon of the Minerals and Energy Policy Centre in Johannesburg

Worried by the prospects, the government has put into motion an extensive discussion process between itself, organised labour and industrialists to chalk out an official policy aimed at making gold mining an important contributor to the reconstruction of South Africa's post-apartheid economy

One of the main items in the plan is to formalise and protect the rights of small-scale miners

It is estimated that in Africa, small scale miners produce up to 20 percent of gold

In the sub-Sahara region, over 1,5 million people work in the informal mining sector, while in Zimbabwe, the figure is put at 100 000

In South Africa, a discussion document produced in November last year by a steering committee made up of representatives of the three groups said, "to continue playing its rightful role in the reconstruction and development of the country, the industry must first be developed, optimised and sustained, especially in earning foreign exchange, creating jobs and acting as a base for further industrial development "

No one has carried out a survey of how many retrenched miners depend on the highly dangerous informal mining operations to survive but these mines mostly operate in the Northern Cape, the Northern Province and Mpumalanga Province

However, the new policy document notes that these illicit mines have been able to absorb the shockwaves that retrenchments from the formal sector have sent through depressed rural communities

According to the document, the government aims to strengthen - rather than outlaw —the work the small miners do

"A flourishing small business sector usually increases competitiveness in an economy and is an efficient vehicle for the creation of jobs," the document says

"The development of small- scale mining and of mining in underdeveloped regions would also increase the portfolio of minerals being produced and could lead to the exploitation of resources that would otherwise have been sterilised "

But there are several hurdles in the way of evolving a policy that will address the concerns of small miners

The paper points to an "anti small-mining tradition" among the four big mining houses that dominate the mining industry Informal miners are often harassed and arrested by security guards sent in by the big companies

Another big problem concerns the mineral rights law which allows large companies and the state to control access to most of the country's valuable ore

"Some large companies include in their rights holding deposits that are amenable to small-scale mining and the government itself should play a constructive role in making mineral rights available to small scale operators on state-owned land," the paper says

A third area of concern is the appalling health and safety conditions that exist in small mines

Miners buy stolen mercury on the black market — often in neighbouring Swaziland — and the numbers suffering from the symptoms of mercury poisoning has been rising, according to doctors

The paper suggests proper government inspection of small mines

The discussion paper has sparked off widespread debate in workshops arranged for the various stakeholders

For instance, the Eyethu Small Miners Association, which represents workers in the Barberton area, has participated in some of the debates and contributed its members' ideas about how the extraction of gold can help improve their livelihoods

At the end of July, the views of all these groups will be incorporated into a Green Paper, which will then be further discussed

By October, a new White paper for mining policy is to be submitted to parliament and the cabinet for formal approval – Sapa-Panos

Move will create two new companies

Anglovaal to unbundle its mine interests

CT (BR) 17/5/96 (214)

By John Spira
DEPUTY EDITOR

Johannesburg — The Anglovaal group will consolidate and unbundle its mining interests, creating two new companies that will together have a market capitalisation of more than R12 billion

An announcement by Anglovaal yesterday said that two new major operating companies would be created a diversified mining, development and exploration company, and a single consolidated gold mining, development and exploration company

Middle Wits would provisionally be renamed Avmin and would be used as the vehicle for the first company This would hold all of Anglovaal's strategic mineral and mining investments other than its 21,9 percent stake in Saturn Mining

Avmin should have a market capitalisation in the region of R7 billion It would also hold more than 40 percent of the second new company as well as other exploration interests, such as 50,1 percent of the JSE-listed Associated Manganese

Target Exploration, to be provisionally renamed Avgold, would be used as the vehicle for the second company This would acquire all the mining businesses and management contracts of Hartebeesfontein Gold Mining, Eastern Transvaal Consolidated Mines, Loraine Gold Mines and Village Main Reef

Once the exercise was complete, the listed gold mining companies would be delisted and liquidated

Anglovaal said Avgold would also acquire Anglovaal's exploration interests, which include Sun Prospecting and Oribi Prospecting

Avgold would thus become Anglovaal's vehicle for developing its gold mining interests

Shareholders in the listed companies — including Zandpan, which owns 20 percent of Hartebeesfontein — would receive Avgold shares in the unbundling

Based on the assets it will acquire, Avgold's market capitalisation is likely to exceed R5 billion

When the process is complete, which is expected to take several months, Anglovaal Holdings will own about 60 percent of Avmin, which in turn will own more than 40 percent of Avgold

The terms to be offered to the shareholders in the listed gold mining companies have yet to be completed

Rick Menell, the Anglovaal director, said the purpose of the reorganisation was to create specific, focused, businesses able to accelerate the development of gold and other mining projects within the Anglovaal group and which could access international capital markets on an optimal basis

"We seek to create a gold holding company of significant size, with liquidity for investors and the critical mass necessary to raise the large sums of capital needed for development," he said

In particular, said Menell, Avgold was expected to provide a suitable platform for developing the northern extension of the Free State gold field in the Target, Sun and Oribi exploration areas

These areas contained substantial gold resources, estimated at about 9,7 million ounces in the Target area, at least 18 million ounces in the Sun area and 9,3 million ounces in the Oribi area

"The development of these resources is seen as an important priority," Menell said

'Liquidation was the only other option'

Durban Deep offer to 'salvage' West Wits

(214) CT (BR) 22/5/96

By John Spira

DEPUTY EDITOR

Johannesburg — The Durban Deep offer to West Wits shareholders had to be viewed as a salvage bid rather than one which sought to take over a viable mining concern, Brett Kebble, the commercial director of Randgold, said yesterday

This was how he explained what several mining analysts described as a confusing offer document which favoured West Wits preferred ordinary shareholders, with Randgold being the largest single holder of such shares

Kebble said that were it not for the Durban Deep offer, West Wits would have had no option but to go into liquidation

"We could have sat back, waited for the liquidation and then picked up the pieces — in which case the ordinary shareholders, for whom the Durban Deep offer is admittedly not as attractive as it is to the preferred ordinaries, would have got nothing"

AVOIDING FEES *Brett Kebble, Randgold's commercial director*

PHOTO SELWYN TAIT

"We opted to take the route we have because liquidations take an inordinately long time to finalise and we believe that by putting West Wits together with Durban Deep, we could implement efficiencies and avoid management fees, thereby, in due course, turning the investment of all West Wits shareholders to good account Bear in mind that Randgold also has a big holding in West Wits ordinary shares"

A controversial aspect of the Durban Deep offer was the R1 value placed on the West Wits management contract "The company was heading for liquidation The management contract therefore had virtually no value"

Kebble said Durban Deep had valued West Wits at R40 million The offer valued the mine at more than R60 million

The premium related to the rationalisation benefits that would accrue to Durban Deep in the aftermath of the merger He said West Wits had a life of about six years

Meanwhile, mining analysts have been examining the offer with a view to determining what benefits might accrue to West Wits shareholders in the long term

Gerard Kisbey-Green, of SMK Securities, said that in spite of the indicated decrease in market value to ordinary shareholders, a buying opportunity had arisen because of the value of the new Durban Deep options (R21,00 each), the potential benefit in the clawback offer and the decline in the price of West Wits ordinary shares

"We believe that if full consideration is taken of the potential value of the new Durban Deep options, as well as the discount at which the linked units can be purchased via the clawback offer, the West Wits ordinary shares should offer value up to 80c and are a good entry into Durban Deep and the new Durban Deep options

"We would recommend taking advantage of the decrease in the price of the West Wits ordinaries"

Polluting mine's fate hangs in the balance

(214) BRG 22/5/96

The Argus Correspondent

ONLY 11 days remain before under ground water levels at Randgold's Grootvlei gold mine, which is pumping polluted water into the Blesbokspruit, rise to dangerous levels and force the mine s closure

In that time, Water Affairs and Forestry Minister Kader Asmal must decide if he will allow the mine to temporarily pump water into the Blesbokspruit, despite pollution levels being more than double those stipulated in the mine's Water Affairs permit

Mr Asmal said his decision would be based on the efficacy of five settler ponds to be constructed by the mine as a temporary purification measure

But Water Affairs officials have pointed out it will take about three weeks to build the settler ponds

It is hoped the ponds will remove most of the suspended iron oxide particles that have caused dramatic visual pollution and killed hundreds of fish and plants in parts of the Blesbokspruit wetland

By September, it is expected that a more permanent clarifier will be operational, although R6 million in construction costs have to be raised

Grootvlei and two other mines have raised R11,25 million towards the R18-million facility

"It may be in the interests of peace and stability to find that money, but it is very large, said Mr Asmal

'The idea of the state subsidising the mining industry is something we inherited," he said

The industry had become very wealthy and he had "scolded" mines about their reluctance to contribute funds

The director of scientific services for the Department of Water Affairs and Forestry, Tami Sokutu, confirmed on Monday night that should Asmal allow further pumping, there would be about 10 days of unprotected pumping before the ponds could be built

Mr Sokutu also said that should pumping continue salinity levels in the water once it reached the Vaal Barrage might exceed levels fit for human consumption

Barrage water would need to be diluted with water from the Vaal Dam

In a government first last Wednesday, Mr Asmal withdrew the mine's pumping permit, citing environmental damage and hazards to other water users downstream

Grootvlei responded by continuing to pump until an urgent meeting on Thursday between Randgold and Mr Asmal halted pumping and opened the way for talks between them.

Grootvlei's future may affect East Rand mines

BD 22/5/96 (214) (63)

David McKay

THE future of Randgold's waterlogged gold mine Grootvlei will be known today as the Cabinet meets to decide on whether the mine can resume pumping underground water into the Blesbokspruit wetland — a move analysts believe is essential for the survival of other mines in the East Rand basin

Issues which could be discussed by Cabinet include the efficacy of five settlement ponds which would remove ferrous oxide from the pumped water and the provision of R6m towards the R11,25m that has been pledged by Grootvlei and other mines towards the construction of the settlement ponds.

Grootvlei pumps the underground water on behalf of several other mines in the East Rand basin including Randgold's ERPM and a resurgent Consolidated Modderfontein These mines are also at risk

The decision to continue pumping would also stay the axe on 6 000 jobs

Sources close to Randgold echoed Water Affairs Minister Kader Asmal on Monday who believed a compromise was possible "All parties are compromising because it is in everyone's interest to keep the mine open," the source said

Randgold declined to comment until after the meeting when the mine's future would be clearer. An important factor in the long-term survival of the mine is the construction of a desalination plant costed at between R120m and R250m with additional maintenance costs. One analyst believed the construction of the plant was essential as it would save the mine and utilise a national resource The amount of underground water is about 25% the size of water held in the Vaal Dam

Another analyst believed the effect on the Randgold group would be small as Grootvlei accounted for only 2,8% of the group's total net asset value However, the East Rand basin of mines contribute about R750m in foreign exchange earnings — about 2,7% of SA's total estimated forex earnings for this year Shares in Grootvlei fell 18% yesterday as investors were unnerved by the lack of a deal earlier this week.

Grootvlei's shares dived R2 to R10,75, just off their worst morning level of R10,50, after about 20 500 shares changed hands

(214) Sowetan 22/5/96

Informal mining boosts the global gold rush

Small-scale mining has contributed to a significant rise in gold output

By Abdul Milazi
Labour Reporter

SMALL-SCALE gold exploration is on the rise throughout the developing world, says a London-based research institute

According to mining analyst Roger Moody of the Panos Institute in London, global demand for gold is now higher than ever before – 3 642 matric tons in 1995, against 3 573 matric tons in 1992

In South Africa, the Chamber of Mines has continually warned that many gold mines face the threat of closure because of diminishing ore

New breed of miners

Moody says multi-national corporations and a new breed of junior mining companies are joining the rush to stake their claims for gold in many developing countries

This new gold rush by small-scale mining groups comes at the time when many countries are restructuring and opening up their economies in a bid to attract investment

"More than 70 mining countries, including 31 in Africa, have changed their mining laws to attract foreign companies into the gold mining industry," says Moody

He says countries like the Philippines and Ghana are holding out a raft of incentives, from the lifting of foreign ownership restrictions to reduced taxes

For some companies, says Moody, these changes have boosted production and export earnings In countries where they operate, the new liberalised regulations have created jobs and helped resuscitate infrastructure

"In Peru companies estimate that one mining job creates 10 additional jobs in the area But weighed against these benefits are the costs Extracting gold involves excavating billions of tons of ore,' he says

Moody says in Africa, small-scale miners produce up to 20 percent of the gold and have the potential to contribute to development in areas where they operate

"Gold is currently the most lucrative investment sector of the mining industry – the world's fifth largest industry in terms of capital deployment," says Moody

He says with the buoyant gold prices, many gold mining companies were heading south. "Anxious for investment, many countries like Indonesia have held out a raft of incentives to foreign corporations"

Since the early '80s, when bullion prices soared, a considerable tonnage of the world output is being mined by small-scale miners in the informal sector, he says

Big strikes

"The big strikes are largely in the south. Countries like Brazil, Guyana and Zimbabwe have witnessed a marked increase in small-scale mining It is estimated that small mines account for at least 10 percent of the world gold output"

Moody says the biggest single use of gold is still in jewellery, as perceived by millions in cultures around the world as a "store of value" – a safe haven during bad times

"Last year, 85 percent of newly mined gold was beaten into jewellery In Britain, the trend is for high-quality, designer jewellery For many, it is a statement of wealth

The gold demand, he adds, is strongest in the fast-growing Asian economies, the so-called "Asian Tigers"

"Gold sales have also been booming in India, where the opening up of the economy has spurred economic growth and a huge middle-class is prospering."

He says about 600 metric tons of scrap gold is recycled annually and 90 percent of all gold mined is available for re-use "This is because gold is almost indestructible"

The metal, he says, is also an unrivalled conductor of electricity, hence the market in telecommunications, computers and motor cars is modestly expanding Industry and medicine account for about 12 percent of annual gold demand

Normally, when markets are hit by bad news, this turns into good news for gold "When currencies are weak, the market price of gold tends to become strong When international tensions increase, demand also rises"

Moody says giant corporations dominating the industry, like Anglo-American are currently being upstaged by a new breed of "aggressive" junior companies financed by "smart money" on the stock exchanges of Canada and Australia

"Few of these small-scale companies actually mine an ounce of gold on their own, since they lack the expertise and long-term investment capital to do so They generally enter into partnership with big companies – which to a certain extend enables big corporations to continue holding the sway," says Moody

Isles of Gold

In the early '80s the Philippines were once known as the "Isles of Gold" and were the world's eighth largest producer of gold

"But it then slid to 14th place In a bid to kick-start an indebted economy and match gold exports to a 1980 peak, the government, with the help of international donors and foreign mining companies, rewrote the mining laws"

The increase in small-scale gold mining has not only introduced a new dimension to the sector but has also facilitated increased deregulation

According to the Swedish-based Raw Materials Group, state control of the mining sector is diminishing all over the world

Reprieve for flooding Grootvlei is on the cards

(58) (214) BD 23/5/96

David McKay

RANDGOLD mine Grootvlei will not be forced to close after the water affairs and forestry department said yesterday that government could allow the mine to resume pumping water from its underground works from next week

Ministry spokesman Themba Khumalo doubted whether government would permanently withhold Grootvlei's pumping permit as the effect on the mines in the area would be "a disaster"

Water Affairs and Forestry Minister Kader Asmal presented findings from Monday's meeting between the department, mine management and various other parties, including the NUM, to the Cabinet yesterday, and scheduled another meeting next week at which a decision would be made

One of the key issues the Cabinet would discuss next week was funding to build five settlement ponds — estimated at R18m

Khumalo indicated that the mineral and energy affairs department could provide some, if not all, of the outstanding R6m About R11,25m had already been pledged by Grootvlei and some other mines in the waterlogged East Rand basin for construction of the ponds

The settlement ponds would extract the ferrous oxide from the water

Ferrous oxide — a conglomerate of rusted steel in the mine's underground workings and decayed pyrite — has been responsible for the death of waterlife in the nearby Blesbokspruit wetland

It is a week since Asmal withdrew Grootvlei's permit to pump water from underground into the wetlands

According to estimates, the mine has only seven days before its first shaft floods and becomes unsafe to operate, and only three weeks before the entire mine is flooded

It is not clear whether government will act timeously to save the shaft if a final decision is made only next week

Randgold chairman Peter Flack said he was "very optimistic" a compromise with the department was possible

He said that the mine would continue to operate in the meantime

SA's mines support ring-fencing probe

BD 24/5/96

David McKay
and Jacqueline Zaina

(214)

SA's top mining houses have thrown their weight behind the Katz commission's plans to investigate the possible lifting of ring-fencing legislation, which has prevented millions of rands from being invested in new gold mining projects in the past

The commission said earlier this week it would investigate taxation across the mining industry, including the issue of ring-fencing and mineral resources taxation. It would also probe the tax status of benefit funds, including friendly societies, medical aids and funds other than pension, provident or retirement annuity funds

Gold Fields of SA chairman Alan Wright said the lifting of ring-fencing could allow the group to develop certain mineral rights at its Free State Sand-river area which it could access through Oryx

Gencor financial director Mick Davis said such a move would result in a more acceptable investment return, given the low margins in the industry

"The ring-fencing regulations have the effect of limiting mines to their lease areas. This means that there is limited blue sky potential and SA mines are accordingly downrated by investors in comparison to international gold mines," he said

The removal of ring-fencing is essential in reducing risk capital for investors as it allows a developing mine to share the tax credits generated by a producing and tax-paying mine in order to source a portion of cash required for capital expenditure.

Representative Association of Medical Aid Schemes executive director Declan Brennan said the association had not been aware the commission aimed to investigate medical aid schemes However, the health department had recently proposed the scrapping of the tax deductibility of employers' medical aid contributions, he said.

"Our concern is that if that happens the cost of employees' medical aid contributions will increase, resulting in more people moving from the private health care sector to state facilities This would increase the cost burden on the state, which seems to be self-defeating." Medical aid schemes were non-profit organisations, but would be affected in terms of risk-management because the smaller the member base, the higher the average risk

Ban provokes labour outcry

(214) M+G 24-30/5/96

Kader Asmal is facing a dilemma on which comes first: nature or jobs? **Eddie Koch** reports on the implications for both sides involved in the Blesbokspruit wetlands-versus-Grootvlei gold mine controversy

WATER Affairs Minister Kader Asmal — already embroiled in the toughest jobs-versus-environment dilemma he has faced since taking office — is now squaring up to organised labour over the ban he slapped on a marginal gold mine from pumping contaminated water into the Blesbokspruit wetland

The Grootvlei Gold Mine near Springs on the East Rand, which is pumping 100-million litres of contaminated underground water per day into a nearby wetland, says it will be forced to close down the mine and sack about 2 000 miners by the end of June if the minister sticks to his guns

And it appears the corporation that manages the mine, Randgold, has some support from an unexpected quarter National Union of Mineworkers (NUM) assistant general secretary Gwede Mantashe sent an urgent memorandum to Cabinet members this week asking them to consider measures that could protect the wetland and save workers' jobs

Nine out of every 10 workers at Grootvlei belong to NUM and the gold mines in the region form one of the union's most important power bases And as a major affiliate of the Congress of South African Trade Unions, the miners' organisation has substantial support in government circles

If the ban extends to other mines in the area that pump polluted water into the vlei — where high concentrations of iron, manganese, nickel, lead and especially ferric hydroxides have killed thousands of fish and threatened the resource base of the wetland — thousands of miners could find themselves out of work this year

While the union has criticised management for failing to control the pollution problem — thus forcing the minister to take punitive action — a delegation from the labour organisation visited Asmal this week to express its worry about workers' losing their jobs

Union representatives told the *Mail & Guardian* that, while they were concerned about the fate of the wetland, the prospect of mass retrenchments posed a far greater national problem — and Mantashe's memo to Cabinet outlines the "enormous economic implications" if solutions are not found.

Randgold says that the 6 000 people employed underground by five mines in the immediate vicinity of the Blesbokspruit provide 50 000 dependants with their livelihood from salaries and wages that total R122-million a year

During the controversy last year over the siting of a new steel mill at Saldanha Bay, Asmal went on record as saying that environmental concerns had to be balanced against the need to create and protect jobs for rural communities

But Blesbokspruit is an internationally protected wetland that sustains a number of bird and fish species and also acts as a natural filter for water that flows into the Vaal River The minister, as custodian of the country's water resources, was obliged to protect it from destruction by pollution — and now finds himself caught in a classic jobs-versus-environment bind.

Asmal was forced to withdraw the permit allowing the mine to pump water into the wetland last week because mine management had reneged on an agreement — made before the permit was issued — to clean the water to "within tolerable levels" and employ consultants who would monitor the ecological impact of its activities

NUM's memo urges Cabinet to allow temporary pumping for another two weeks while the mine completed construction of temporary "settling ponds" that will remove polluting iron oxide and other metals from the waste water

Officials in the Water Ministry say Asmal is concerned about the miners' security and wants a negotiated solution to the conundrum he has inherited

The minister this week acknowledged 6 000 jobs were on the line and said he would decide about lifting the ban by the end of next week — and this move would be influenced by his assessment of the settling ponds' ability to mitigate the pollution

Fishy business Thousands of fish have been killed by the contaminated Grootvlei mine water

Asmal concludes pollution deal with Grootvlei mine

(58) (214) Star 25/5/96

By ADRIAN HADLAND

Water Affairs Minister Kader Asmal gave Grootvlei gold mine the nod yesterday to continue pumping water into the Blesbokspruit, subject to certain conditions

In terms of an agreement between the mine and the Government, the Randgold-owned mine must erect temporary settling ponds to filter out the pollution before continuing to pump water into the spruit

The ponds will extract between 60% and 70% of the current levels of iron oxide, according to studies

The mine's permit was withdrawn earlier this month after its failure to adhere to permit conditions, including measures to control the high levels of iron oxide being pumped outof the East Rand facility

Asmal said yesterday the agreement would save 6 500 jobs at the mine and would also protect the Blesbokspruit and the neighbouring wetland from intolerable levels of pollution

The mine had been issued with an interim permit which would be valid until the end of September

Pumping could begin on May 31 or as soon as the settling facilities could be made "substantially operational"

Asmal said many meetings and much hard work had taken place to resolve the crisis

"Sometimes it is necessary to have a short, sharp slap on the wrist It sharpens the mind," he said

The completion of an environmental study and finalising plans for the temporary settler ponds had been long overdue, prompting the Government to act The action served to show that the Government was serious about environmental protection

In the longer term, the Government agreed to fund half the R20-million cost of the installation of permanent settling ponds, Asmal said The mine's contribution would increase if the gold price rose or the rand exchange rate fell more than 6% in real terms

Asmal said he would be meeting other mining houses from the area next week to discuss their roles in the containing of iron oxide pollution A cost-benefit analysis of the consequences of mining and the future of the Blesbokspruit was under way

NEW TERMS: Brett Kebble, commercial director of Randgold, who has overseen the negotiations

Rescue package saves a terminal West Wits

(214) ST(BT) 26/5/96

FROM 250c a year ago West Wits has fallen all the way to only 62c this week, but it has been rescued before facing liquidation

West Wits has been managed by Consolidated Mining Corporation

Last week, Durban Roodepoort Deep announced it would propose a section 311 scheme of arrangement to take out the minority and constitute West Wits as a wholly owned subsidiary

In the proposed transaction, Durban Deep has bought East Champ d'Or Gold Mine, a mineral rights-owning subsidiary of CMC, for the issue of 73 700 Durban Deep shares at R38, valuing the transaction at R2,8-million

The management contract between West Wits and CMC has been ceded to Durban Deep for R1 CMC has already lent R15-million to West Wits and is due to cough up another R20-million, this loan account is to be ceded to Durban Deep in return for the issue of letters of allocation to 921 000 Durban Deep linked units Each linked unit comprises one Durban Deep ordinary share currently worth R48,50 and one option

West Wits shareholders will be offered these linked units as a clawback one linked unit at R38 for every two issued in terms of the scheme of arrangement

Brett Kebble, commercial director of Randgold, explains that the options component of the linked unit is not the existing quoted Durban Deep option but a new class with a strike price of R55 and a life of four years Mr Kebble says best estimates are of R12 to R20 an option, to be named B options

West Wits ordinary shareholders will be issued one Durban Deep ordinary and one B option Holders of 100 West Wits preferred ordinaries will get six Durban Deep ordinaries and B options Holders of 200 West Wits options worth R120 get one Durban Deep ordinary and a B option

The preferred ordinary shareholders get preferred treatment because the issue terms included full repayment of subscription plus outstanding dividend if winding up occurred

"When we began to look at buying West Wits we liked what we saw but CMC could not give us specific warranties and West Wits needed money quickly There was no time to do a full due diligence so Randgold subscribed for preferred ordinaries under these conditions "

Mr Kebble says the value of the management contract between West Wits and CMC was dubious in view of the circumstances "I was not prepared to offer more than R1, which

State agrees to give aid to Grootvlei

BD 27/5/96 (214)

Linda Ensor

CAPE TOWN — Government has backed down on its refusal to pump money into marginal mining operations by agreeing to fund the implementation of certain anti-pollution measures at Randgold's East Rand Grootvlei gold mine

Grootvlei was granted a temporary, conditional permit to pump water into the Blesbokspruit on Friday by Water Affairs Minister Kadar Asmal after a meeting of a cabinet subcommittee The subcommittee consisted of officials from the departments of water affairs, finance, mineral and energy affairs, environmental affairs and tourism, trade and industry and labour

Saving 6 500 mine-related jobs in the Grootvlei area and protecting much-needed foreign earnings were said to be crucial factors in the decision

The permit was granted on condition that settling ponds be established at Grootvlei at a cost to the mine of R1m Studies revealed that the ponds could remove 60% to 70% of the iron oxides from the water

David McKay reports Randgold said at the weekend that two of three temporary settling ponds would be constructed at Grootvlei by the middle of the week, dispelling fears that at least one of Grootvlei's shafts would be flooded

Randgold said last week that the first of Grootvlei's three shafts would start to flood within 11 days — towards the end of this week — if the water affairs and forestry department did not allow the mine to resume pumping underground water into the Blesbokspruit wetland

Randgold commercial director Brett Kebble said the temporary settling ponds would be completed by Wednesday and within manageable costs He warned that Grootvlei was not in a position to pay for the operating costs of the permanent settling ponds which would be completed by September

Asmal said the state would initially pay all the R850 000 monthly operational costs of the settling ponds and would contribute R10m to the cost of installing a permanent settler plant by September, with the balance of R10m being paid by Grootvlei

Asmal said he would meet Grootvlei's four neighbouring mines today to discuss what contribution they could make to meeting the monthly costs of operating the settling ponds

Grootvlei mine ponds are going well

(214)

STAFF REPORTER

Star 28/5/96

The construction of temporary settling ponds to remove the bulk of iron oxide from mine water at Grootvlei gold mine, Springs, is progressing "satisfactorily", the mine said yesterday.

Minister of Water Affairs and Forestry Kader Asmal granted the mine a temporary permit on Friday to pump the contaminated water into the Blesbokspruit on condition that the settling ponds are operational by May 31

The temporary permit expires in September, when a permanent settling facility is expected to be completed Mine manager Peter Noble said yesterday that at least three of the eventual five ponds would be ready by the end of the month, when pumping must resume to prevent the mine flooding.

Fire at Gold Fields' mine dents June quarter results

(214) BD 30/5/96

David McKay

THE fire which raged for a month in Gold Fields of SA's East Driefontein gold operation had cost the mine about R50m in lost revenues so far, and would make a serious dent in its June quarter performance, the group said yesterday

Gold division executive director Alan Munro said the effect of the fire — which had so far cost about 920kg in lost production — would continue to rein in the operation's performance

Though the blaze had been extinguished, there would be further production losses as mine management strove to rehabilitate the area

The relocation of working teams would also knock productivity, putting pressure on costs It would take "weeks rather than days" to access the area, Munro said

One of the key issues was whether the hanging wall had collapsed

The fire, detected on 26 April, was located in No 4 sub-vertical shaft, at the 34-line longwall area Management introduced inert gas generators to extinguish the flames The area was completely sealed off once the fire had been located and no injuries or deaths were reported

Munro said the group — victim of numerous underground blazes — could not rule out the possibility of arson, but did not want to speculate on what he believed was a "loaded question"

This might be learned only after the full probe into the fire at the mine was completed

"It was quite possible that the cause of the fire had been burned along with the hanging wall and various equipment such as winches and props," Munro said

He said the R50m revenue loss — equal to about 15% of East Dries's revenue for the three months to March — was approximate, calculated using an average rand gold price of R52 000/kg since the beginning of the year

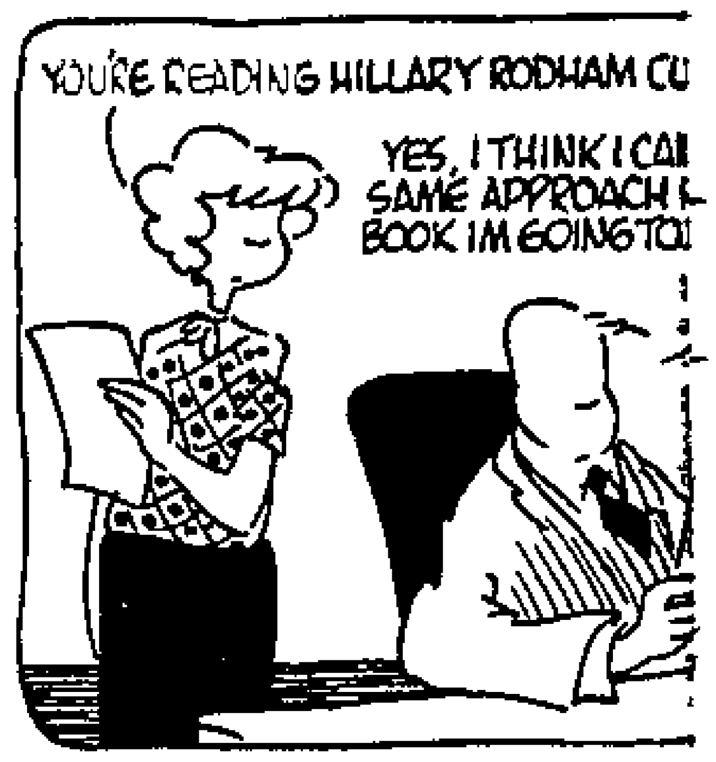
The area affected accounted for roughly 40% of East Dries's underground tonnage, yielding above average grade, and Gold Fields had employed double shift stoping on the 31-line longwall to minimise production losses

The group expected to make an insurance claim which could lead to partial recovery of losses

East Dries was the group's star performer in the March quarter, lifting working profit to R157,4m (R100,7m for the December quarter) as production jumped to 6 741kg (5 920kg)

The Driefontein division overall lifted income before capex to R217,7m (R177m) A fire at West Dries did not substantially affect production

EXECUTIVE SUITE



(214)

Gold Fields puts its muscle and integrity behind this contract

Star 5/6/96 (214)

Getting people have their say is the only way to ensure effective upliftment. On World Environment Day today, Science Writer Anita Allen looks at an investment model and a community project where this principle is applied

After spending R12-million this year on good deeds, Mike Tagg, chairman of the Gold Fields Foundation, goes fly fishing with a clear conscience

It takes him 10% of his working time to spend that R12-million His real job is general manager corporate finance and non-technical services at Gold Fields of South Africa

Formed by Cecil John Rhodes more than 100 years ago, the mining house today "pays more mining tax than any other one", Tagg says "And we've avoided retrenchments"

Like all mining houses, Gold Fields faces the sustainability dilemma mining minerals today robs future generations of being able to do the same But to leave the minerals where they are benefits no-one

In what Tagg describes as "a social contract" with society, Gold Fields creates job opportunities and invests heavily in developing the only resource other than natural resources – human resources Inhouse training is funded by 5% of the wage bill

Through the Foundation, capacity building is extended throughout southern Africa

Funding for the Foundation depends on productivity

A 0,6% levy on the total wage bill is used only for education, health and environmental projects A 0,05% levy on profits before tax is used only for welfare

"Because the wage bill increases annually by about 10%, the Foundation's funding has been sustained in real terms," Tagg says, and adds "But theoretically, of course, the amount that could be made available could be much more"

About 2 000 proposals for funding are received each month

"If you weren't focused, deciding would be enormously difficult," Tagg says

"Let's start with what we don't do we don't fund individuals, or conferences unless they have a special part to play in the development of a larger project

"We don't pay salaries nor do we sponsor sports events and we don't build fences – or any expenditure that is never-ending and unsustainable"

One way of getting value for money is not to spread the funds too thinly, Tagg says

Instead, the Foundation concentrates on specific types of projects that will have maximum impact in areas where the company draws its labour force and where it operates

The only exception is projects of strategic national importance to the country or company An example is the construction of the National Sports Science Institute under Dr Tim Noakes at the University of Cape Town

"In addition to its relevance to sporting excellence in South Africa, the institute will contribute to the understanding of the human body in the workplace"

NATASHA PINCUS

Getting it right .... Mike Tagg, chairman of Gold Fields Foundation, says a clear vision, key people and careful project selection is the key to successful social investment.

This is of particular interest to the mining industry and its often stressful environments, comments Foundation administrator Willie Jacobsz in the latest *Gold Fields Review*

One strict criteria in selecting projects is that communities have to be involved from the start This can be a time-consuming exercise, Taggs says

"But it has to be done that way or the project doesn't work"

For this he gives full credit to Jacobsz, "who has the drive and the ability to sit with people on the ground and get their involvement and their contribution"

Two major obstacles this year in getting projects off the ground "was a failure to get the necessary support from relevant authorities and the total community", Jacobsz comments in his 1995/96 review

Key people, a clear vision and careful project selection, is how Tagg sums up the Foundation's strategy

A measure of its impact can be gauged from its involvement in Maputaland where the company draws 6% of its labour force

> **"About 2 000 proposals for funds pour in every month"**

Primary health care is the focus, a field where Gold Fields has considerable expertise from running mine hospitals and a nurses' college

Local people are trained as nurses and can upgrade their skills through a long distance nursing training model pioneered by Professor Olga Venter, group manager, nursing

The model is so successful it has been adopted nationally by the Ministry of Health

The Foundation's work has involved upgrading at four training hospitals, and the construction of a nurses' college at one

Eleven clinics with community centres have been built in outlying areas, and in other environmental and educational projects people are learning skills to earn a living as farmers, game rangers, teachers, etc

An estimated 450 000 people from South Africa and Mozambique use the facilities The cost to run is a modest R2,4-million over two years

The Foundation has also moved into the Eastern Cape, where it draws about 20% of it work force Like Maputaland, the focus is nursing training

"There's a link between health and community upliftment and we show people how it can work

"It the government invests as we are doing in the country as a whole it will save billions in the long run," Tagg says

The Foundation is actively seeking environmental and educational projects in the Eastern Cape

To get everyone on the same wavelength with all role-players involved, Tagg approved R150 000 for a development planning workshop at Port St Johns, gateway to the Wild Coast

The five-day event resulted in 24 specific projects proposals for the Port St Johns and Umzimvubu district - at R6 000 a proposal that's incredible value especially as it comes from the community itself

Tagg has visited many wildernesses In one of these, he approved R600 000 to discover the secrets of a sacred African monarchy, which ruled during the Middle Ages

At Thulamela in the northernmost reaches of Kruger Park the ruins of a Great Zimbabwe type citadel housing about 1 500 people, including goldsmiths, have been excavated

"This complex culture evolved within southern Africa as a result of the tremendous excess wealth generated by gold and ivory trade with Swahili people on the east coast," comments Professor Tom Huffman, head of Wits University's archaeology, in the latest *Gold Fields Review*

The site, together with its Gold Fields Education Centre, will be opened in August, says Tagg But that is another story, and right now he is in a hurry to go flyfishing

R8,5-m govt boost for Grootvlei mine

(214)

By Patrick Bulger and Tamsen de Beer

Star 6/6/96

Cape Town – The Government will make R8,5-million available for the operating costs of settling ponds at the Grootvlei gold mine on the East Rand, the Cabinet decided at its fortnightly meeting yesterday

The mine is operating under a temporary permit from the Department of Water Affairs and Forestry after its permit was withdrawn by Water Affairs and Forestry Minister Kader Asmal last month.

The mine had been pumping contaminated mine water into the Blesbokspruit, causing damage to the water table and bird and aquatic life.

It is now operating under a temporary permit until the end of September. The Cabinet said it had taken into account the need to protect 6 500 jobs, the estimated annual turnover of R250-million and the fact that 25 000 people are directly dependent on the income generated by the mines.

The mine yesterday started pumping contaminated mine water into temporary water purifiers to halt rising underground water levels

By yesterday, one of its two underground access shafts was under 1m of water, and pumping into the first of four settling ponds had begun, mine management said

Cons Modder: More thrills here than a roller-coaster

CT (BR) 10/6/96 (214)

John Spira focuses on the ups, downs and future prospects of gold producer Cons Modder

A TOPSY-TURVY TIME *Loucas Pourouhs, the deputy chairman of gold producers, Cons Modder*

No need to visit the amusement park for your excitement Diagonal Street has been providing more thrills than the scariest of roller-coaster rides, with Cons Modder a striking example

Had you bought the shares at R1,10c at the beginning of last year, you would have left your innards behind — all the way down to 35c three months later

Another two weeks saw the price 100 percent higher — then back down to 50c by the year-end

Had you bought Cons Modder at 50c at the beginning of this year, you would have been lifted to 82c a month later, dropped to 55c in March, boosted to above R2,00 a few days ago and subsequently gone over the top to the ruling R1,65c

What does the week ahead hold in store for this rags to (perhaps) riches gold mine?

The crystal ball clears a little after establishing the nature of the material used to build the roller coaster's infrastructure — labour dissent, quarterly statistics, a gyrating rand-gold price, a visit to the mine by some 20 mining analysts, and takeover speculation

About 18 months ago, Cons Modder, plagued by labour problems, was in a loss situation

Its solution was to fire its entire workforce The losses, however, continued, largely because the much reduced replacement labour complement had to be trained — an expensive and time-consuming exercise

The losses were reduced until eventually the September 1995 quarter produced a working profit

The feat was repeated in the December quarter and then, for the three months to March 31, Cons Modder announced a taxed profit of R2 million, ahead of the previous quarter's R1,6 million

A month ago, coinciding with a visit to the mine by a group of analysts, Loucas Pourouhs, the deputy chairman, said Modder would return an attributable profit of 20c a share for the year to June 30 this year, versus last year's 25c a share loss He predicted that next year's earnings would rise to 50c a share

The analysts — impressed, to judge from the heightened levels of buying that ensued — were provided with Modder's April results to support the contention that the corner had been convincingly turned

Perusal of these background factors explains the share price volatility which, in recent weeks, has been exacerbated by speculation of a deal with Randgold

While one can never dismiss the possibility of an acquisition, the Randgold rumours do not have a lot of substance Modder has, after all, conquered most it its bogeys and is operating well It hasn't the necessary motivation to sell out

And, Randgold would not want to pay the high price demanded for a company whose earnings are trending nicely upward

Yet investors have no need to depend on lurking acquisition potential for share price buoyancy, since the promise of 20c a share this year and 50c the next (with an element of conservatism surely factored into the forecasts) should be sufficient to support current levels

Bear in mind Modder's earnings leverage to the gold price and, perhaps more significantly, that its labour is not unionised

Hence, while the other mines do battle with the NUM, Modder will rest easy in the knowledge that this year's wage determination is already behind it

As a relatively small mine under the umbrella of a small mining house, Modder is likely to trade at a discount to the shares of similar mines for the foreseeable future

However, that discount is bound to narrow steadily on the back of improving earnings

The share price in the week ahead will be influenced more by bullion's attempt to consolidate at its lower levels than by other factors But, when the gold price stabilises and begins to recover, expect Modder to rally a lot faster than its peer gold mining counters

Govt must resolve mines' problems

(214) BD 13/5/96

Roger Matthews

JOHANNESBURG — ould not exist if it were not for gold SA's economy was built on the mines around the city and gold continues to make a vital contribution to the country's wealth

It provided nearly 5% of the GDP last year and 20% of export earnings SA still has at least 40% of the world's recoverable reserves

However high costs, poor productivity and the need to improve safety standards have called into question the international competitiveness of SA's gold mines Production last year dropped by more than 10% to 522 tons, the lowest for nearly 40 years, after a fall of nearly 6% in 1994

Simultaneously, productivity decreased, pushing up production costs by 19%, double the rate of inflation The result was a 38% decline in the profit on every kilogram mined

Johannesburg Chamber of Mines chief economist Roger Baxter says last year could fairly be classified as a disaster for the industry "SA's average production cost per ounce is now 36% higher than other key producers"

The glory days of gold at $800 an ounce, a pliant labour force, casual safety standards and rich ore veins are past No new SA industrial empires will be created on the profits of mining Capital costs are rising as the industry is being forced to mine ever deeper to bring the metal to the surface

The wider implications for SA's infant democracy are scarcely less alarming than the outlook for the industry The government urgently needs to increase economic growth to slow the rise in unemployment

The gold mines have shed nearly 200 000 jobs since 1987, and further reductions are inevitable among the remaining 330 000 workers

As each miner is estimated to be financially responsible for seven to 10 dependants, and remittances are the lifeblood of many rural communities, the social and political implications are obvious

Sacked miners, many from neighbouring countries, also tend not to return home This adds to the problems of squatters in mining towns, and probably contributes to SA's already high crime rate

When Freegold, announced early this year it was considering laying off 10 000 men, one of the first to react was Labour Minister Tito Mboweni He telephoned the person responsible Anglo American gold and uranium division head Bobby Godsell to protest and seek a reversal

"Tito asked me how I could do this" says Godsell "I replied Tito how can I not do it, unless you write me an immediate cheque to cover the losses? But even that is no answer You can maybe give the mine three months to try to put things right, but you cannot subsidise the industry What you the government, the unions, and the shareholders require is profitability'"

Baxter estimates the number of marginal mines — those having a profit to revenue ratio of below 6% — has increased from seven in 1994 to 15 last year These 15 mines produced more than 190 tons of gold and employed more than 150 000 workers In other words the marginal mines account for 37% of production and 44% of the labour force," he said

First-quarter results showed some improvement this year on the back of a higher gold price The recent 20% decline in the value of the rand will provide further short-term relief, as the gold price is denominated in dollars

However the trend is clear, and Baxter knows where the problem lies "The root of the issue is the affect that labour and productivity has had on costs The industry has to lift the yoke of burdensome restrictions and outdated work practices" The gamut of changes required range from the elimination of attitudes that stemmed from the apartheid system, to the introduction of new skills and modern management techniques

"The most basic, fundamental change is to abolish the master-servant relationship on which this mine, as well as all the others were run The distrust of management is deeply imbedded," says Freegold's Freddies No 1 shaft human resources manager Chris Wiesman

"If 10 years ago we had been able to implement the sort of changes we are now discussing, we would not be in the mess that we are today" Foremost among the changes have been the abolition of restrictions that identified job with colour, the reduction in the number of different worker grades, and ending the distinction between production and engineering staff

"There is no place in the SA gold mining industry for unskilled labour," says Godsell "Of course, there will always be unskilled tasks But what we must have is multi-skilled individuals, who can handle a variety of tasks, and who bring value to the operation as part of an integrated team."

High production costs threaten SA's deep-level gold mines.

One immediate improvement suggested by many mine owners would be for unions to agree to work on Sundays Baxter says most mines need to operate for 21-22 days a month just to break even

Union leaders in Johannesburg are wary, but representatives at Freddies No 1 shaft appear more flexible "This is something that we are obviously going to have to discuss," says Mine Worker Union's Frank Swieglaar

National Union of Mineworkers representative Abraham Mokhoema agrees, and says the creation of a workplace forum at the mine was valuable in providing a focus for discussions with management

Employers accept that agreement on Sunday working would require a premium payment Godsell goes further and says that as a matter of equity mineworkers should receive overall pay increases of 30%-50% because of the hostile environment in which they work

"But there is no point in putting up wages to close down mines," he says What will eventually have to be introduced is a system of "contingent" earnings which might reflect a range of elements, such as the price of gold and the level of productivity The target would be a basic living wage, plus additional payments for achieving agreed targets Such schemes have existed in the past, but foundered on union demands for industry wide standard agreements which penalise older mines extracting low-grade ore

Democracy is bringing another necessary, but potentially costly reform to the mining industry in the form of new safety regulations Legislation will go before Parliament later this year, and opinion is divided, not on its necessity, but on its effect

Godsell, whose corporation faces further inquiries into the disaster at the Vaal Reefs mine last year, is enthusiastic about the legislation

"It is another case of us catching up with other countries It represents a new approach and is based on risk assessment It is appropriate that this assessment should be undertaken by managements and workers jointly, as it is their lives at stake" he says

The increased militancy among the country's leading trade unions suggests they may not yet be prepared to recognise those wider risks.

As with so many other issues in post-apartheid SA, idealism and demands for social justice are running into the brick wall of profitability and international competition. And the outcome will affect much more than the country's flagship industry — Financial Times

Sun and Oribi mines have 840 tons of gold, says Anglovaal

(214) BD 19/6/96

David McKay

ANGLOVAAL fledgling gold mines Sun and Oribi Mining & Prospecting had a combined gold resource of about 27,3-million ounces — equal to 840 tons of gold — the company said yesterday

A group spokesman said yesterday a decision on shaft development at the two resources could be made early in 1999 with the operations coming into production from 2000

The estimated gold resource was derived from initial draw results conducted by both exploration companies on potential gold reserves which are located north of the Welkom gold field in the Free State.

An average weighted in-situ grade of up to 14g/ton was calculated on the reefs with the Oribi resource, which is divided between north and south areas, having in-situ grades of between 9,5g/ton and 20g/ton

Oribi has resources with in-situ grades ranging between 7,5g/ton and 24g/ton

These estimates did not account for dilution from tailings and droppings

The SA Chamber of Mines said the average milled grade from SA gold mines last year, which accounts for grade lost to dilution, was about 5g/ton

The spokesman said that it was too early to estimate the amount of capital required to see the explorations through to full mining operations

However, the group said in May the development of a greenfields gold mine could cost R3bn or be less if it was accessed from another mine

The Sun resource butts on to the Target Exploration Company which is currently under development by Anglovaal for its nickel reserves

The spokesman said that it was "a real possibility" that Sun would be accessed through the Target operation as the mineral resource between the two operations was continuous

Reef intersections at the Sun resource were at a depth of between 2 700m and 3 900m

Reef intersections at Oribi occur, in some cases, at a depth of about 2 250m

Sun owns mineral rights over an area of about 21 205ha while Oribi owns mineral rights over an area of about 3 251ha.

Anglovaal said that Oribi had an estimated resource of 9,3-million ounces

Sun on the other hand had an estimated gold resource of about 18-million ounces.

Analysts said that while the draw results were encouraging, particularly the in-situ grade, it was necessary to know what the working costs on the resources would be as this decided the profitability of a mine

The plan to develop Oribi and Sun was resurrected following the announcement that Anglovaal would divide its mining assets into two separately listed companies — Avgold and Avmin

The group said the restructuring would make it more attractive to international investment and increase access to funds to develop projects.

One arm of the group — Avgold — would consolidate the group's gold operations into assets worth R5bn including the Sun and Oribi explorations

Gold Fields of SA could list project to raise R400m

BD 20/6/96 (214)

David McKay

GOLD Fields of SA might list its Ghanaian gold project, Tarkwa, to raise R400m needed to develop the scheme's 13-million-ounce resource

The group said yesterday it wanted to turn the project to account as soon as possible, and that another financing option could be to combine the listing with a drive to secure loan funding Finance director John Hopwood did not rule out drawing additional funding from Gold Fields' coffers

"The immediate advantage of listing the company is to establish a market value for the operation." However, he said no firm funding decision had been taken, and the issue would be decided only once a feasibility study on the site was completed

Calculations in the latest Financial Mail put the resource, in which Gold Fields owns 70%, at at least $1bn, potentially adding R3bn to Gold Fields' market capitalisation.

The project would answer critics who have accused Gold Fields of having no major schemes up its sleeve, leaving it ripe for dismantling

Gold Fields has already invested about R30m in exploring the concessions in a pre-feasibility study which showed positive results for the first 5-million ounces of the resource

The group said the final cost would depend on its eventual size According to estimates, Tarkwa would produce an initial 330 000 short tons of ore a month on a heap leach basis This would be followed by a second phase doubling of the mined ore Subsequent phases have been planned The surface mineable ore had been drilled out at the concession and had shown an estimated 324-million tons of ore

Gold Fields said the project might not cost as much as R400m as there was an option to reduce capital costs by contracting out the mining "Another consideration was the cost of relocating about 20 000 people living in the area

From the above, it is clear that

'Degree of relief' in gold mining

(214) CT (BR) 21/6/96

Johannesburg — The gold mining industry had come under pressure from falling productivity and rising production costs, progressive depletion of ore reserves and declining grades, said Nicky Oppenheimer, the chairman of Anglo American Gold Investment (Amgold) in his review for the year to March 31

"In the first quarter of the 1996 calendar year, the increase in the rand price of gold has brought some degree of relief and more acceptable levels of profitability," he said

The rand price of gold, which remained stable for the first nine months of the financial year, was followed by a much weaker rand during the first quarter, resulting in a higher rand gold price for the year as a whole The average spot rand gold price for the year was R46 056 a kilogram, 5 percent higher than the average price for the previous year He said that the average spot rand price for the final quarter of the year was R48 442 a kilogram, and the metal was trading at about R54 000 a kilogram

He said that ore milled by the South African gold mining industry last year was unchanged from the previous year, but the average grade fell by almost 10 percent, resulting in a reduction in gold production from 584 tons in 1994 to 522 tons last year While working revenue benefited from the improved average rand price a kilogram received, this was counteracted by the lower production and the 19 percent increase in cost a kilogram produced

He said that while better results could be expected for the year ahead, productivity needed to improve

Gold Fields' bright profit bodes well for industry

CT (BR) 12/7/96 (214)

By John Spira

DEPUTY EDITOR

Johannesburg — The Gold Fields group's gold mining companies boosted working profit by 15 percent to R374 million in the June quarter, pointing to healthy results for South Africa's gold mining industry as a whole for the three months to June 30.

Profit after tax was 19 percent up on the March quarter's R298 million. Pretax profit improved 22 percent to R421 million. Profit would have been markedly higher if it had not been for a fire at East Driefontein.

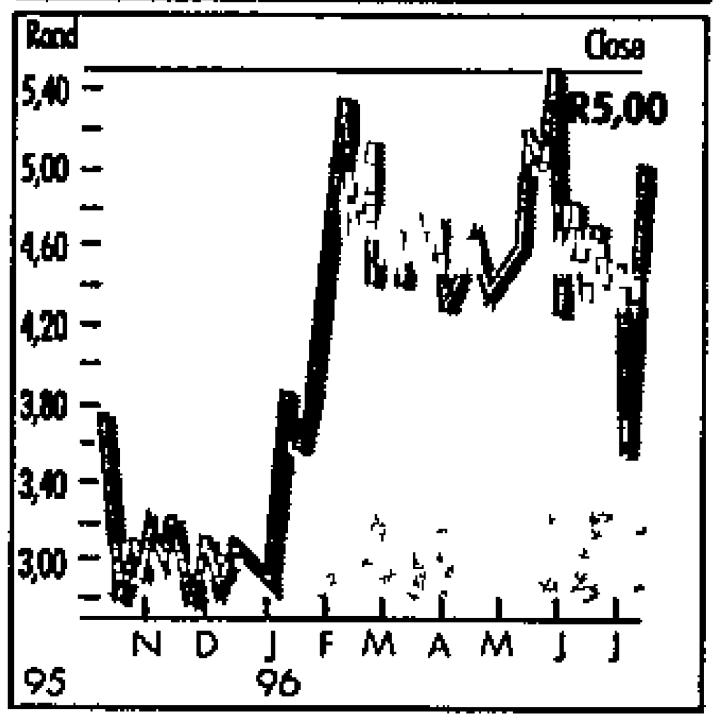
The stronger average gold price of R53 629 a kilogram received in the June quarter was the key to the improved figures.

In Gold Fields' case, the higher gold price countered the effect of a decline in gold production from 24 005 kilograms to 23 021 kilograms, resulting in gold revenue rising by R83 million to R1,235 billion. Ore milled rose from 2,63 million tons to 2,73 million tons, partially offsetting the decline in the average gold yield from 9,1grams a ton to 8,4 grams a ton. Unit working costs increased from R34 460 to R37 370 a kilogram.

Deelkraal, which achieved its best quarter in two years, with taxed profit of R11,5 million against the previous quarter's R1,4 million loss, was the star. The directors expected the improved tonnage milled and higher yield to be maintained in the current quarter.

Keith Spencer, the general manager gold operations at Gold

Deelkraal



Fields, said Deelkraal's future lay at deeper levels. "Plans for the refinancing of Deelkraal are nearing completion."

Kloof recorded a steep 46 percent improvement in taxed profit to R118,7 million, thanks to a 42 percent rise in Kloof mine's working profit. Leeudoorn and Libanon remained in the red, though losses were trimmed.

Driefontein's taxed profit was a modest 4 percent higher at R225,6 million. The fire at East Dries dragged down the working profit from R157,4 million to R122 million as ore milled declined from 570 000 tons to 540 000 tons.

At West Dries, working profit advanced by 23,5 percent to R117 million, while the West Dries reclamation plant's working profit grew 58 percent to R8,7 million.

Spencer said the area affected by the East Dries fire had been sealed off and was likely to be out of production "for some time".

He added that Gold Fields was "upbeat" on Driefontein's outlook.

☐ See Business Watch, Page 18

MAIL & GUARDIAN
July 12 to 18 1996

The Wright stuff for Gold Fields

M+G(AM)12-18/7/96 (214)

Alan Wright, chief executive of Gold Fields, talked to **Bronwen Jones** about the future of the mining house

ALAN WRIGHT is an optimistic man. While one mugging is enough to set most people packing for Perth, Wright's reaction to serious injury was to protect his home and get on with his life. His reaction to analysts predicting the break-up of Gold Fields is similarly confident.

Wright feels good about the future of the mining house as well as that of South Africa. And yet, the one-time accountant is weary of rumour and idle speculation among the financially ill-informed. He says simply: "We are not unbundling. There is nothing to unbundle."

While Johannesburg Consolidated Investments (JCI) and Gencor had non-mining assets to hive off, Gold Fields is deep in to mining and almost nothing else.

"We have stakes in Standard Bank, Liberty, Sasol and to a small extent, Commercial Union. Standard are our bankers. Liberty and Sasol are our cash pool. Should we find a nice mining investment, we'll use them."

The likelihood of new mineral finds is improving, with increasing sums being spent on exploration. Gold Fields has doubled the percentage of its market capitalisation used for exploration over the past five years. Last year it stood at R52-million, this year the figures, due in mid-August, are expected to be far higher.

Wright says: "The amount we spend will increase. Our future has to be exploration. And while more than 50% of our exploration budget was spent in South Africa last year, the big switch will be a larger and larger percentage being spent offshore."

But whether mining in South Africa, Ghana or elsewhere, many high-cost variables affect the bottom line. Wright says it is too early to predict the outcome of this year's wage negotiations, but industrial relations have improved.

Gold Fields only lost 68 000 mandays to strike action in the year to end-June. While the figure at first seems high, with a workforce of some 89 000 people it doesn't even average out at one day per employee — a good record in South Africa. All this year's strike action was illegal, but Wright says: "One has to grin and bear it."

The wry smile fades at talk of underground fires. There have been "too many" in the past 12 months. Yet the picture remains a significant improvement on figures two years ago when some even suggested the active hand of an arsonist at play.

The fire in June 1995 at Libanon spilled over into the next financial year; there have been two fires at East Driefontein and one at West Driefontein. Wright says: "No one really knows the cause. By the time one gets back in, the source has been totally consumed."

At Libanon, insurance paid out a R2,5-million claim, at East Driefontein a claim for R9,8-million has been settled, workers are not yet back into the area of the second fire at East Driefontein and the claim at West Driefontein has not yet been settled.

Wright says: "Normally it is one to two months after a fire is out before you can safely go back in. The rocks are so hot, they can be 300°C."

Wage increases are only one facet of talks with the unions. Wright says the company is "fairly down the road" in discussions over broadbanding, but is reluctant to pay skilled wages for an employee who spends most of his day as a manual labourer. "But, of course, we have to be prepared to spend more for more skilled men."

The choice for employers is stark. If the National Union of Mineworkers (NUM) call for a R1 350 minimum was met, "we would no longer employ people without skills".

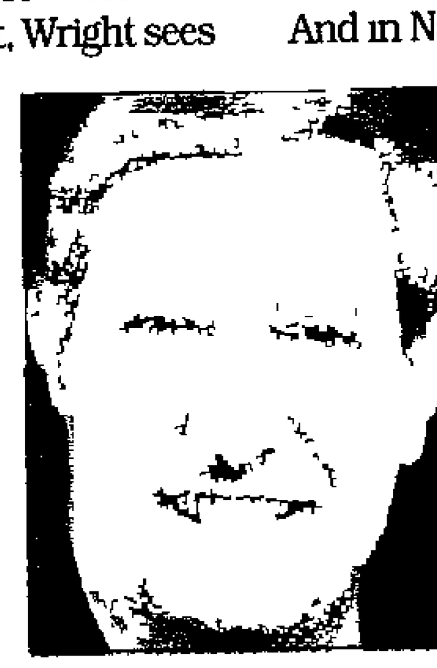
Hard at work. Gold Fields has lost only 68 000 mandays this year

Wright says a vast number of people have no education at all. "We take them on at a low rate of pay, train them and move them through the workforce. They need the pay incentive to better themselves." Gold Fields spends R50-million a year on formal training and a further R50-million on additional training.

Last year, the industry battle over working on Sundays, holidays and the option of shifts around the clock, resulted in an agreement in principle for a two-pronged attack. The Chamber of Mines would work on the macro full calendar decisions and as an interim measure there would be interim "fullco" agreements at individual mines.

There has been little implementation. Wright says: "At none of our mines can I say that we're on track for fullco working within say the next three to four months." He thinks the idea will eventually take hold. "If anything, people will work less hours, but they will have different length breaks. After working for 10 days they will have a meaningful break."

While very few people work the night shift at the moment, Wright sees the bigger change being towards more than one effective shift a day.



Alan Wright: 'Nothing to unbundle'

With greater recognition of trade unions, the company now has full-time health and safety representatives as well as full-time hostel representatives. But, while the NUM wants full-time shop stewards too, Wright points out: "None of the other unions has them."

In its effort to curb the high cost of theft, Gold Fields has joined a high-tech fingerprinting scheme. Run through Anglo American's Research Laboratories, the method accurately "fingerprints" gold, sourcing it not just to a mine, but to a particular shaft.

Wright says the scale of gold theft from the company's mines is "larger than it should be", but while an increasing quantity of stolen material has been retrieved in the past five years, reassuringly it is at ever lower grades. With more than R150 000 worth of gold known to have been stolen from Gold Fields from 1995 to 1996, security is improving.

Technologists may have mastered the identification of gold, but they continue to research the option of opening the Gamsberg Zinc Mine. On current progress it is not feasible. The zinc resource is massive, but because of its combination with manganese the affordable method of extraction would generate a giant lake of sulphuric acid. Quite environmentally unacceptable, and by location, unsaleable.

For now, Gold Fields can rest on its environmental laurels. Wright says: "While there are not many people there, the area has a very delicate ecology." It was around Gamsberg that the company saved the Burgher's onion and the red finch.

The company intends to apply the same "environmentally aware, yet affordable" standards to its gold project in Tarkwa, Ghana. Negotiations to move two villages with a total population of 20 000 people to make way for Tarkwa have already taken 12 months.

And in Namibia, restoring the landscape is one reason behind the decision to reprocess tailings for copper from the mined-out De Wet shaft. Gold Fields will reprocess these through the Osmelt process so that there is no future hazard. The new mine at Khusib Springs will make tailings as well as treat this new material.

Back in South Africa, doubting Thomas analysts still question the future of Northam. The platinum mine will not turn a profit for the year to end-June but, more importantly, it will show a profit for the second consecutive quarter. This will be as good as, if not better than, the close to R6-million profit of the previous quarter.

There is an air of permanence at 75 Fox Street. The high polish of the floor slabs, the even higher sheen on the furniture, do not speak of unbundling. And nestling behind safety glass lies a kilogram of gold. Small change in the pocket of a man and a mining house in a long-term game.

Anglo's Freegold stages a R131m profit turnaround in six months

(214) CT (BR) 19/7/96

By John Spira

DEPUTY EDITOR

Johannesburg — Freegold, the world's largest gold mine, staged a remarkable turnaround in the June quarter, posting an available profit of R126,5 million from the March quarter's R56,4 million profit and last year's December-quarter loss of R5,1 million

The change is all the more remarkable because it follows the threatened closure of five shafts in January this year and the possible loss of 10 000 jobs

The company also said that it would resume sinking the Freddies No 4 Shaft Freegold has declared an interim dividend of R1,10 a share for the three months to June 30 — a quantum rise on the 55c distributed to shareholders during the previous 12 months

The second phase of Freddies No 4 was delayed in June last year pending an improvement in economic conditions Much improved results since then have prompted the company to resume the project for a cost of R562 million, of which R171,3 million has been spent The shaft is expected to be brought into production in the latter part of 2001

But Bobby Godsell, who heads Anglo American's gold and uranium division, said yesterday that in spite of the company's excellent results, "a number of shafts are still marginal" The President Steyn No 1 shaft and the Saaiplaas No 3 shaft "require corrective action"

"Freegold," he said, "boasts some outstanding success stories We hope to repeat these at the marginal shafts"

He also said that Freegold had kept retrenchments down to "very small numbers"

Godsell went on to predict that Freegold's gold production would reach 60 tons (more than 10 percent of South Africa's total gold production) for the nine months to December "But there is some upside potential if the marginal shafts improve Freegold has been producing 86 tons of gold year"

☐ See Anglo's quarterlies, Page 19

'Star performer' Freegold's recovery lifts Anglo mines

BD 19/7/96 (214)

David McKay

ANGLO American's gold mines posted income before capital expenditure at R475,7m for the three months to June, 18% above the previous quarter's performance, buoyed by a higher rand gold price and Freegold's resurgence

The group — whose operations include Vaal Reefs, Western Deeps and Elandsrand — lifted available profit 43% from the previous quarter to R322,7m, following a fall in capex

Anglo said Freegold's recovery had prompted resumption of the R562m Freddies No 4 shaft sinking project.

Gold and uranium division chairman Bobby Godsell warned this year that 10 000 jobs were at risk unless profitability improved Yesterday he dubbed Freegold Anglo's "star performer" But a cloud still hung over two Freegold shafts — Saaiplaas No 3 and President Steyn No 1 — struggling to meet Anglo's profitability targets

Vaal Reefs' Nos 2 and 5 shafts might be scaled down if tests showed reduced tonnage would limit seismic problems

All the mines reported increased profits except Ergo, where heavy rain and a five-day stoppage due to technical problems had knocked production

Godsell said labour relations at President Steyn No 1 had to improve The division would not run unprofitable shafts on an ongoing basis

The division's overall gold production fell 3% to 52 631kg from the previous quarter, but the average gold price received jumped 9% to R52 867/kg Unit costs were 2% higher at R40 592/kg Working costs fell nearly 2% to R2 136,3m and capex was 16% lower at R179,9m

Marketing director Kelvin Williams said the group expected the rand to stabilise at it had found its proper value Gold had returned to more stable levels which would not be heavily upset by IMF plans to sell off gold reserves

See Page 11

Gengold mine merger follows industry trend

(214) BD 23/7/96

LONDON — Gengold's roadshow to promote its Evander mine merger project is the latest in a stream of announcements from SA mining houses eager to diversify out of traditional areas and methods.

Fresh competitiveness and cost consciousness have swept through the gold mining industry in the past few years.

SA groups have been stirred by the country's return to the international stage since the end of apartheid, competition from large, easily mined open pit deposits in many non-traditional gold mining areas and relatively high prices

"The big four or five mining houses have been tied down for the past 20 years and had little opportunity to develop anything but SA which is now pretty fully developed," T Hoare and Co mining analyst Roger Chaplin said

"They are looking for new opportunities and Africa is their natural stamping ground," he said

The Gengold plan would merge Kinross Mines, Winkelhaak Mines, Leslie Gold Mines and Bracken Mines into Evander Gold Mines (EGM).

EGM, if approved by shareholders at a meeting in early October, could be listed by mid-October, Gengold MD Tom Dale said

"This is an attempt to put these investments into the same shape as other mining firms. The company then has potential for growth," he told analysts and journalists.

When fully developed early next century, EGM would be SA's seventh largest producer at 23 tons a year

A similar plan would consolidate its Free State mines into a single company These included Beatrix Mines, Oryx Mine and St Helena Gold Mine.

Gengold and the other mining houses were stymied by exchange controls and their inability to raise foreign exchange when they looked to develop outside SA.

One mining analyst said the exception was Anglo American which has vast money-raising overseas investments

Even so, JCI and Gengold were doing exploration work in several African countries and Gold Fields of SA had exploration teams in Tanzania and Ghana

Earlier this year Randgold announced it was looking at 130 gold targets in Africa including recently acquired permits in Senegal, Mali and Gabon.

Ghana-based Ashanti Goldfields represented both a takeover target and a rival to the SA majors in the rest of the continent and Anglo is the front-runner to take an interest, mining analysts said

Anglo has an option to pick up 28,8% of Lonrho, which owns 37% of Ashanti.

SA buyers had been fairly restrained in buying up junior mining companies, largely preferring to sponsor joint ventures with the junior doing the exploration and the major taking a stake in any viable property

Hence Gengold sold small mining assets to Vancouver-based Eldorado Gold Corp earlier this year to free up management time. It also sold its holding in four SA mines to Randgold.

"They are having to be a lot more competitive than ever before, to be within SA," Chaplin said

The SA groups' plight was highlighted by this month's bid by Canada's Barrick Gold for junior miner Arequipa Resources which has a potentially major gold mining property at Pierina, Peru Barrick's bid totalled C$915m

"Apart from possibly Anglo none of the SA houses could raise that amount in cash to mount a bid (like Barrick's). They might get government permission for $10-$20m to start a project, but (for) much more definitely not," Chaplin said. — Reuter.

COMPANY NEWS

Western Areas was the fly in the ointment

JCI gold mines lift profit 42%

(214) CT (AR) 24/7/96

By John Spira
DEPUTY EDITOR

Johannesburg — JCI's gold mines boosted profit after tax by 42,4 percent in the June quarter, thanks mainly to an improvement in the fortunes of HJ Joel

Profit from gold rose 22 percent, largely because of sharp reductions in tax liabilities at Randfontein Estates and Western Areas

The improved financial results were achieved despite a 3,2 percent decline in grade, which caused gold production to fall 1,4 percent to 10 608kg

A 6 percent improvement in the average gold price received and the containment of working costs to a 2 percent increase helped the group to a gold profit of R72,7 million against R59,7 million in the previous quarter

Of that R13 million increase, Joel contributed R12,4 million

Western Areas was the fly in the JCI ointment With production disrupted by an underground fire and fewer working days owing to the large number of public holidays, milled throughput was 2,4 percent down at 659 000 tons

Exacerbating the mine's problems was a decline in grade from 6,75g to 6,47g a ton This was caused by a delay in receiving higher-grade ore from the South Deep Section because of flooding

Accordingly, Western Areas' gold profit was 27,9 percent lower at R35,2 million

Profit after tax was 21 percent down at R44,6 million, or 49c a share

The directors said yesterday that the fire was burning itself out and was not expected to affect future production, while the flooding problem was expected to be solved in the next month

They therefore expected improved results in the current quarter.

At Randfontein Estates, profit from gold virtually doubled from R12,7 million to R25,1 million even though milled throughput was unchanged and the average yield dropped 3,5 percent to 2,75g a ton as a result of the mill having been fed with a higher proportion of low-grade surface material

However, the marginal nature of Randfontein's operations ensured that the higher gold price leveraged strongly into the bottom line

Profit after tax rose by 67 percent to R44,1 million

The directors expected a slight grade improvement in the current quarter as the proportion of mill throughput from underground material was expected to rise

Randfontein gold mine gets multiyear extension

By John Spira

Johannesburg — JCI's Randfontein Estates gold mine has been blessed with a fresh lease of life with the news yesterday that the directors had decided to proceed with the Doornkop South Reef project

Estimated to cost R805 million in July this year terms, the project will extend the life of the mine from 10 years to 28 years

The directors said one attraction of the project was that work could be stopped and the project held in abeyance should Randfontein's performance, or the gold price, fall below a required threshold

They said the South Reef project contained 18,7 million tons of minable resources at 10,3 grams a ton It was expected to be in full production by 2002

Funding of R418 million would be made from retained earnings and profits after dividends, which were expected to be maintained in real terms

The directors concluded that the South Reef could be exploited profitably, given the introduction of flexible working practices and full calendar operations — provisos to which the relevant unions had agreed

"The board has concluded that the Doornkop South Reef can be exploited profitably, given the introduction of flexible work practices It has been decided to proceed with the project on this basis," they said

Consolidated's mines improve

Reinie Booysen (214)

BOTH mines in the Consolidated Mining Corporation Group turned in improved results in the June quarter, with West Witwatersrand Gold Holdings reducing its losses substantially, and Benoni Gold Holdings boosting taxed profit by R843 000 to R2,423m.

While West Wits managed to slash its working costs by nearly R10m, Benoni's average yield improved sharply. In both cases the firmer rand gold price was a welcome boon

BD 26/7/96

West Wits started sand treatment on a toll basis from Durban Roodepoort Deep and others With tonnage from this source totalling 106 264 tons, the company's own underground and opencast ore treatment dropped sharply, but the total treated rose to 450 842 tons from 431 508 tons

The yield slipped sharply, from 1,51g/t to 1,26g/t, as did gold output, from 650kg to 566kg

With the average gold price increasing to R54 055/kg — from R48 505kg — and total working costs slashed from R41,198m to R31,452m, the company's operating loss declined by almost R9m, to R857 000 (R9,67m).

At Benoni slightly less tonnage was treated, but the yield rose sharply, to 1,22g/t (0,97g/t), lifting gold output by 111kg to 619kg.

Benoni also kept its working costs in check The total was higher R16,241m (R15,504m), but working costs per kilogram of gold were, however, trimmed to R26 237/kg (R30 620/kg)

With the average gold price received increasing to R53 914/kg (R48 439/kg), operating profit rose by R8m to R17,132m

Royalties and toll payments took out substantially more during the June quarter, however, at R14,872m (R7,387m), and they had left a taxed income of R2,423m (R1,580m)

COMPANY NEWS

Higher gold price contributes to results

Randgold mines improve performances

(214) CT(BR) 30/7/96

By John Spira
DEPUTY EDITOR

Johannesburg — Randgold's gold mines, boosted to eight by acquisitions over the past couple of years, generated substantial earnings improvements in the June quarter, aided mainly by the higher gold price but also by operational improvements

The mining house said yesterday that hedging contracts had been fully unwound during the June quarter Had these not been in place, the group's earnings of R66 million would have been boosted by R18,6 million

Seven of Randgold's eight mines lifted their earnings, some by substantial margins The only exception was Unisel, which had been hit by an illegal four-week strike

Buffelsfontein was turned around dramatically, with the March-quarter working loss of R2,4 million transformed into a working profit of R14 million, despite retrenchment costs and disruptions Gold production rose and the overall recovery grade improved

RANDGOLD

	Blyvoor	ERPM	Durban Deep	Harmony	Grootvlei	Stilfontein	Unisel	Buffels
WORKING PROFIT (RM)								
March quarter	3,7	[illegible]	2,4	[illegible]	3,4	(0,7)	9,1	(2,9)
June quarter	[illegible]	[illegible]	6,5	[illegible]	3,6	1,6	6,5	13,3
PRETAX PROFIT (RM)								
March quarter	[illegible]	[illegible]	3,5	[illegible]	4,5	0,7	10,1	(38,7)
June quarter	[illegible]	[illegible]	[illegible]	[illegible]	5,3	2,9	(9,5)	15,[illegible]
TAXED PROFIT (RM)								
March quarter	5,8	4,8	8,5	[illegible]	4,1	0,7	7,7	(35,7)
June quarter	10,0	9,1	8,2	27,5	4,3	1,4	(5,4)	15,3

The mine is now opening up ore reserves to sustain production at 70 000 tons a month from underground With grade expected to improve further this quarter, the three months to September 30 should yield another highly satisfactory result

The planned build-up in volumes at Blyvooruitzicht, designed to give the mine a production profile of 2 000kg a quarter by March next year, raised working profit after tribute payments to R7 million from the March quarter's R3,7 million Net profit increased from R5,8 million to R10 million

Work on Blyvoor's capital development programme, comprising principally a new carbon-in-pulp and elution plant, started in July with the net proceeds of R35,9 million from a rights offer

During the March quarter Blyvoor was 80 percent hedged, with the result that it received only R48 000 a kilogram sold

With that position having been unwound, the outlook for Blyvoor for the September quarter is exciting

Stilfontein, which is being considered as a listed vehicle for Randgold mines' property interests, doubled its revenue to R6,8 million.

Durban Roodepoort Deep's working profit rocketed from R2,4 million to R6,5 million. The September quarter is also expected to be buoyant.

The introduction of full calendar operations in March helped ERPM to produce an additional 100kg of gold from underground

Accordingly, working profit more than trebled to R6,9 million Formerly 10 percent hedged, ERPM can look forward to another highly profitable quarter

Water-beleaguered Grootvlei managed to raise working profit from R3,4 million to R3,6 million in the face of big problems

An accommodation has now been reached with the water affairs department, with the result that more normal conditions should prevail this quarter

Harmony increased underground tonnage by 6 percent, thereby reducing unit cost by R10 a ton milled However, a decline in underground grade reduced gold produced from underground from 3 976kg to 3 827kg

Even so, the higher gold price lifted working profit by almost 50 percent to R18,2 million

The strike at Unisel depressed working profit from R9 million to R6,5 million

The cost of retrenchments and cancellation of the mine's management agreement plunged the bottom line into the red

But with the strike now behind it, Unisel's outlook for this quarter is favourable

Other mines may follow Harmony's lead

Plant is 'no threat to refinery'

CT(BR) 30/4/96 (2IL)

By Jonathan Rosenthal

EXPANSION *Peter Flack, the chairman of Randgold, says the company plans to build a second refinery* PHOTO JOHN WOODROOF

Johannesburg — Rand Refinery, which refines all the gold produced locally, could find itself under pressure if other mines decide to follow Harmony's lead and establish small, hi-tech refineries to service their own mines, sources said yesterday

Harmony, a mine in the Randgold stable, announced earlier this month that it would build a pilot gold refinery to enable it to refine its production of about two tons of gold a month to a purity of 99,99 percent. This would also be much cheaper than the rate charged by Rand Refinery, the mine said

Phil Mostert, the managing director of Rand Refinery, which is owned by various mines, said he was "not at all threatened" by Randgold's move to establish its own refinery. He confidently predicted that Rand Refinery would "still be here" in five years time

Citing volume efficiencies, he said Rand Refinery was still competitive and able to offer a refining service at a comparable cost. The refinery was built in 1989 using the latest technology and it has been upgraded in the interim, he said

But Peter Flack, the chairman of Randgold, said yesterday that the group was going ahead with plans to establish a second refinery on the West Rand to service its Blyvooruitzicht, Durban Deep, West Witwatersrand, Doornfontein and Buffelsfontein mines

If it goes ahead with this refinery it will just about double, to about four tons a month, the quantity of gold it plans to refine outside of Rand Refinery

This would mean an 8 percent reduction in the gold refined by Rand Refinery. Randgold plans to spend about R50 million to upgrade the gold recovery processes on its West Rand mines, of which about R14 million would be spent on processes related to a new refinery

The new technology, which was developed by The Council for Mineral Technology (Mintek) and has proved successful in Mexico, should generate refining cost savings of about R10 million a year for Randgold, Flack said

Other mining houses seem to be taking a more cautious approach to the new technology. Mintek had approached several other mining houses and had been turned down by all of them before it came to Randgold, said Flack

However, several industry observers have indicated that the other mining houses are likely to follow Harmony's lead if the process proves to be viable.

Aidan Edwards, the president of Mintek, said that the competitive advantage of such a technology would probably last about five years before it was replicated and in widespread use

GOLD QUARTERLIES

(214)

Pondering the imponderable

CT(BR) 31/7/96

By John Spira

Mining is a risky business, beset as it is with the unpredictable nature of what can occur hundreds of metres beneath the surface, not to mention a labour force whose whims are often almost as unpredictable

In spite of these imponderables, the South African gold mining industry took advantage of a higher rand gold price to produce a taxed profit in the June quarter 28,2 percent above that of the March quarter

Only five of the 30 principal operating mines returned a taxed profit lower than the March quarter, of which two — Winkels and Unisel — suffered losses, with Unisel having gone into the red as a result of an illegal strike

Buffels, Joel, Deelkraal and St Helena put the March-quarter losses behind them and achieved solid profit in the June quarter. Durban Deep, Loraine, Cons Modder and ERPM recorded earnings gains of more than 100 percent, as did clean-up operations Village and Stilfontein and the developing mine Oryx

Instructively, it was the more marginal of the gold mines that achieved the most substantial earnings gains The profit of these mines is highly geared to changes in the gold price and their superior performances therefore come as no surprise

Yet they are often also the most problematic of the mines That they were able to realise their potential in a higher gold-price environment emphasises the skills of the operators and their increasing familiarity with the orebodies under their management

JUNE GOLD QUARTERLIES
TAXED PROFIT (Rm)

COMPANY	MARCH QUARTER	JUNE QUARTER	% CHANGE
[illegible]	[illegible]	[illegible]	[illegible]
Joel	(5,3)	21,0	—
[illegible]	[illegible]	[illegible]	[illegible]
St Helena	(4,2)	5,2	—
[illegible]	[illegible]	[illegible]	[illegible]
Durban Deep	3,5	8,2	+134
Oryx	[illegible]	[illegible]	[illegible]
Loraine	2,5	5,8	+132
[illegible]	[illegible]	[illegible]	[illegible]
ERPM	4,3	9,1	+112
Stil[illegible]	[illegible]	[illegible]	[illegible]
Freegold	86,1	148,8	+73
[illegible]	[illegible]	[illegible]	[illegible]
Leslie	2,2	3,7	+68
Harmony	[illegible]	[illegible]	[illegible]
Randfontein	26,5	44,1	+66
[illegible]	[illegible]	[illegible]	[illegible]
Kloof	81,5	118,7	+46
[illegible]	[illegible]	[illegible]	[illegible]
Elands	45,1	54,5	+21
[illegible]	[illegible]	[illegible]	[illegible]
Dries	217,8	225,6	+4
[illegible]	[illegible]	[illegible]	+3
Beat[illegible]	73,3	75,8	+3
Vaal Reefs	175 3	175,3	[illegible]
E T Cons	4,1	3,9	5
[illegible]	[illegible]	[illegible]	[illegible]
Arens	55,9	44,6	-20
[illegible]	[illegible]	[illegible]	[illegible]
Unisel	7,7	(5,4)	—

The aggregate figures are heavily influenced by the giants, which tend to enjoy less gold price leverage than the smaller mines since their unit costs are lower and the grades they mine are higher

Freegold, the world's largest, is an exception Here, the mine's high gold price leverage helped boost taxed profit by 73 percent, in the process lifting the aggregate result

Kloof, although a relatively high grade operation, also pumped the aggregates higher in the face of fairly static profit at Dries and Vaal Reefs

The bottom-line statistics were also helped along by non-mining income at several of the mines, so that the overall 28,2 percent improvement exaggerates the straight mining performance, although only by a couple of percentage points

The purists would perhaps prefer to focus on working profit rather than taxed profit For shareholders, however, the ultimate bottom line is what counts

Of the mining houses, Randgold, whose stable includes Buffels, Durban Deep, ERPM and Blyvoor, was the most successful, largely because the mines it manages are mostly marginal in nature

The June quarter's results augur well for the current quarter, which to date has offered the mines a higher rand gold price than the previous three months

The big imponderable is labour

Wage negotiations are in progress If they go smoothly and the rand gold price holds near present levels, then gold share investors can expect another buoyant set of results If, on the other hand, significant hurdles are encountered, it is not unlikely that earnings will slump to the lows registered in last year's final quarter

At the same time, it needs to be recognised that labour productivity, thanks to the innovative mining methods being introduced across the board (with the unions' blessing), is on an advancing trend

MINING – GOLD.

1996 – 1997

COMPANIES

US company to guide Tsogo Sun

Patrick Wadula (213) BD 1/8/96

TSOGO Sun Gaming & Entertainment has clinched a deal with US-based MGM Grand to develop and manage Tsogo's casino operations.

Tsogo said yesterday it would be applying for gaming licences throughout the country and intended becoming a major player in the industry

According to the agreement, MGM Grand, an entertainment, hotel and gambling company with its headquarters in Las Vegas, would set up a SA operation which would recruit and train local personnel.

Tsogo Sun is a joint venture by Tsogo Investments, a black group consisting of National Federated Chamber of Commerce, the Foundation for African Business and Consumer Services, unions and black businesses, and the Southern Sun Group. Southern Sun MD Ron Stringfellow said MGM's agreement with Tsogo Sun would comply with Nevada gaming laws

MGM senior vice-president of development Ken Rosevear, formerly Sun International MD, would be involved directly in the developments and operations in SA.

Tsogo Sun chairman Sipho Tanana said casino management required specialised skills and expertise "The tie-up with MGM will enhance Tsogo Sun's chances of gaming casino licences in all provinces".

MGM's involvement in entertainment and sports promotion would be of benefit to Tsogo Sun at its planned casino hotel and entertainment centre developments, he said.

Deelkraal's throughput 'to rise before cash call'

(214) BD 1/8/96

David McKay

GOLD Fields of SA's gold mine Deelkraal needed to lift its milled throughput before it could tap shareholders for funds for vital development at the mine, the group said yesterday

Gold operations GM Keith Spencer said yesterday that the mill was designed for 135 000 tons throughput each month, but the 313 000 tons milled for the whole June quarter fell well below this target

The development — for which the market expects Deelkraal to call on shareholders for about R200m — could be cancelled, Spencer said, unless production improved. Grades also had to be maintained, despite the planned tonnage increase.

Spencer said management had introduced bonus schemes to encourage higher levels of productivity and was also looking into the possibility of implementing full calendar operations (fulco). However, Spencer said the introduction of fulco was being looked at as part of an integrated strategy to improve efficiencies.

The market has been expecting the mine to call the rights issue shortly — two cautionaries to shareholders have already been issued.

Spencer said the cautionaries were in line with JSE requirements and did not mean that a rights offer for Deelkraal was imminent. He said no approach to secure shareholder support for the cash call had been made by the group.

In terms of the mine extension, Deelkraal would deepen its operations below the 33 level to 47 level. This is above the mine's boundary at a depth of about 3 500m.

Spencer said the group would also have to decide on the amount of capital required for the deepening project and what percentage of total capital would be raised from the rights issue The group was also unsure of the return on investment, he said.

Deelkraal enjoyed a turnaround in the June quarter posting pre-capex income of R11,8m (R1,4m loss) on the back of higher tonnages and an increased gold production. It lifted ore milled to 313 000 tons (288 000 tons) producing 1 844kg of gold (1 683,3kg).

Capex for the June quarter was R13m (R10,1m) which accounted for the development of the mine towards its No 1 tertiary shaft on the 35 level

One of the challenges of increasing milled throughput was maintaining its grade which had been increased in the June quarter to 5,9g/t (5,8g/t).

Deelkraal closed unchanged at 420c on the JSE yesterday, valuing the mine at R423m.

INSIDE MINING

SA's gold mines have a future — if they consolidate

(214) CT (BR) 1/8/96

2

BRENDAN RYAN

The message coming through loud and clear from the gold mines' June quarterly reports is that the South African gold mining industry has a future. It will be a very different industry from the one investors are used to though.

There are 43 gold shares trading on the JSE gold boards. This figure is about to drop rapidly, though, as individual mines are merged into larger entities.

Nine of them will disappear later this year if the Avgold and Evander merger schemes are approved, and there appear to be even more mergers on the way.

Analysts have speculated that Anglo American will have to form an enlarged mining complex incorporating Western Deep Levels, Elandsrand and Gold Fields' neighbouring Deelkraal mine if it wants to get at the two new potential deep-level mines it has identified south of Western Deep.

Then there is the scheme for an overall mining operation on the East Rand that Randgold is evaluating. The scheme could incorporate ERPM, Grootvlei, Knights, Benoni Gold Holdings and, perhaps, Consolidated Modderfontein. So another eight gold producers could vanish from the JSE gold boards.

Barrick, the Canadian gold mining company, is the role model the South African mining houses want to emulate. Barrick combines cash-generating gold producers with prospecting projects that offer the blue-sky potential for continued life and future expansion.

Until now, international investors have viewed the South African gold industry, with its myriad separate mines, as a dying business with no visible blue-sky future.

Bobby Godsell, the chairman of Anglo's gold division, said the existence of Anglo's two potential new mines alone was sufficient to "breathe new life into the future of the South African gold mining industry".

He would not give any specifics on their prospective development, however.

To spend the kind of money needed to get at these deposits — at least R5 billion will be needed for the first mine — will require the kind of financial clout only the Anglo empire can muster, so don't even think about trying to unbundle 44 Main St.

It is very early days, though, given that Anglo is talking about mining at depths down to 5km when it is barely at the 4km mark with the expansion under way at Western Deep's south shaft. This expansion is already pushing deep-mining technology to new limits.

A more cynical view is that the developments are so far in the future that they should not be taken seriously at this stage.

Some think Anglo may be indulging in more of its big-is-beautiful philosophy for political reasons.

Some analysts believe Anglo's projections, however. They are already trying to run the numbers on whether Deelkraal is perhaps the cheapest way into the new development.

Apart from the number-crunching involved, such an approach also assumes that Gold Fields and Anglo can agree merger terms this time round. They could not do so when Deelkraal and Elandsrand were first developed in the mid-1970s, apparently because neither mining house would give up its claims to the lucrative management fees.

The June quarterly results confirm that Elandsrand has at long last come right.

Deelkraal, however, is mining its way further into a corner. It needs to raise about R150 million to complete its No 1 tertiary shaft to get at the deeper levels of its orebody. The mine's life is estimated at eight years if it does not gain access to the ore. Deelkraal already has debts of about R70 million, and its chances of holding a successful rights issue are slim, given its poor record.

Nap Mayer, the managing director of Anglo's gold division, gave about as honest an opinion on the prospects for Anglo's new mines as one can expect at this stage.

He said at Anglo's quarterly conference: "You cannot expect any shaft sinking to begin before about five years from now. Nobody has ever mined before at 5 000m so nobody knows what's going to happen when we get down there."

He said that he would have retired by then anyway, so it would be somebody else's problem. That is a viewpoint that will find sympathy with many mining engineers battling with problems of mining at 3,5km, let alone 5km.

Higher rand gold price benefits marginal mines

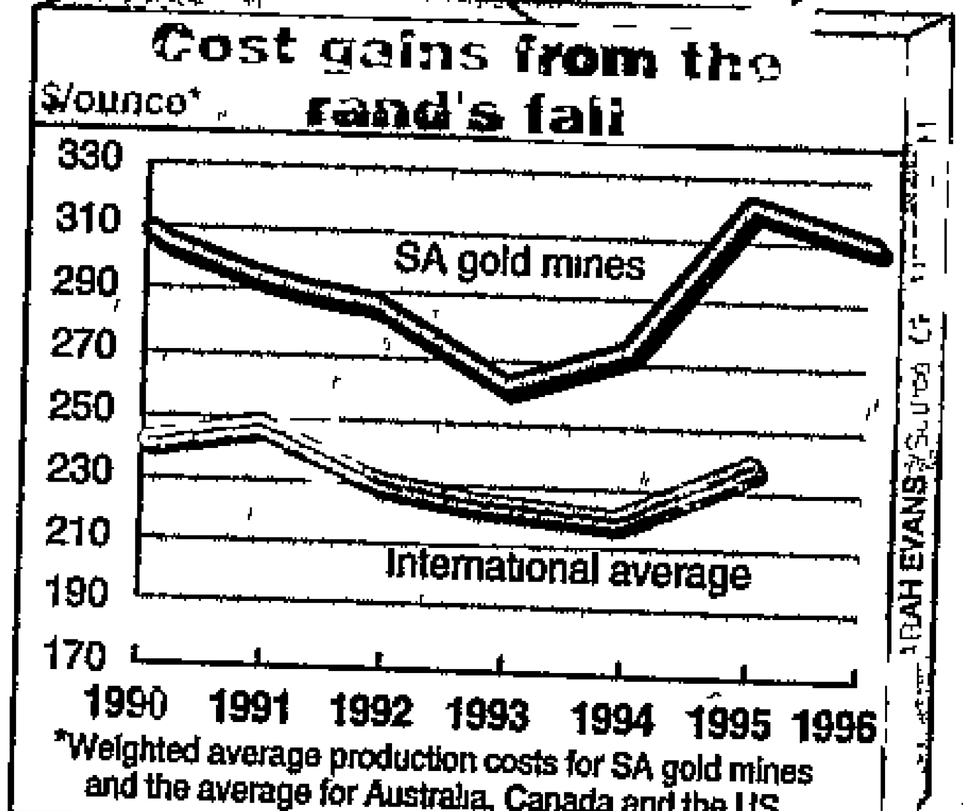
BD 12/8/96 (214)

David McKay

THE higher rand gold price, combined with cost containment in the three months to June, has cut the number of marginal mines to just four, bringing the number of employees on such operations to less than 30 000 from nearly 160 000 this time last year.

Latest Chamber of Mines figures show the number of mines classed as marginal is eight mines fewer than in the previous quarter and ten mines fewer than in the corresponding quarter last year

The four — Gengold's St Helena and Winkelhaak mines, and Gold Fields of SA's Libanon and Leeudoorn operations — produced 6,35 tons of gold, against the 22,3 tons produced by marginal mines in the previous quarter The four employed 28 667 workers, against the 12 mines' 73 055 in the three months to March and 156 877 for the 14 mines in the June 1995 quarter.



*Weighted average production costs for SA gold mines and the average for Australia, Canada and the US

The chamber bases its marginal threshold on a ratio of working profit to working revenue.

JCI's HJ Joel and Randfontein both moved above the threshold during the

Continued on Page 2

Mines

(214) BD 12/8/96

Continued from Page 1

quarter Other gainers included Gold Fields' Deelkraal.

The figures underline the breathing space the rand's depreciation has given the industry It also helped underpin a 24% gain in total working profit from gold to R1,3bn for the quarter compared to the previous quarter, despite total production slipping 3,3% to 113 078,7kg

The average dollar gold price had fallen 2,5% to about $390,03/oz from the March quarter, but the rand's weakening left average working revenue at R52 806/kg, 8,2% higher than the previous quarter and 16,5% higher than the June 1995 quarter Average dollar costs in the first half of the year fell to $310/oz from $333 last year, against a $220 average for Australian, Canadian and US producers.

However, senior economist Roger Baxter said stripping out the rand's devaluation showed SA gold mines' cash costs were still rising. In real terms the rand gold price had returned to levels last seen in the third quarter of 1990

The high working costs highlighted SA mines' vulnerability if on-mine costs were allowed to catch up with the improvement in rand revenues.

The figures showed several mines moved closer to marginal status during the quarter, including Randgold's Unisel and Anglovaal's Hartebeestfontein. Four mines — Randgold's Harmony and Blyvooruitzicht, JCI's Randfontein, and Gengold's Leslie — hovered above the threshold Anglovaal's Loraine and Randgold's ERPM were right on the threshold

The dollar cost calculation excluded capital expenditure cost, which was greater on SA mines than elsewhere as SA mines were generally deeper operations requiring more ore replacement and development.

GOLD FIELDS OF SA (214)

LET DOWN BY GOLD

FM 23/8/96

At least CE Alan Wright avoids the mistake of putting an unjustified gloss on these results They aren't good — and mostly this is because the company's gold mines, on which it is heavily reliant, let it down this time round

Revenue is lower in every category, with the exception of realisations surpluses (up at R84m from last year's R17m) and fee income, a little better at R202m (1995 R194m)

The result is a bottom line of R702m, from which higher expenditure of R238m leaves pre-tax profit of R381m (last year R402m) EPS of 393c are 6% lower than last year The dividend is unchanged at 220c at the expense of cover, which has fallen to 1,75 times

The Gold Fields stable includes SA's richest gold mines, Driefontein and Kloof, both easily large enough to be mining houses in their own right Unhappily, fires at both East and West Driefontein wrecked performance Kloof was hampered by high costs at its Leeudoorn and Libanon divisions and, more importantly, both mines continue to struggle with disaffected labour forces

There's good news, however, in this curate's egg Gold Fields' base metal companies are performing well Wright says Zincor produced a record result, while Black Mountain and GF Coal more than doubled quarter-on-quarter profits for June And its near-disastrous platinum excursion, Northam, is expected to be cash positive over financial 1997

Gold Fields' best prospect is its Tarkwa gold mine in Ghana (*Torque* June 21) and about which Wright remains studiously noncommittal However, the *FM*'s information is that the mine will be listed soon on various stock exchanges (Johannesburg included) and may add as much as R3bn to Gold Fields' market cap

As usual, Gold Fields greatest strength continues to be reflected in the soundness of its balance sheet For all that, though, the share — standing on a p e of 34 in a sector whose average is only 22 and which includes Anglo American at 13 and Gencor at 17 — is frankly a case of overstated expectations *David Gleason*

Gold Fields will have to dig deep to reduce costs

(214)

JULIE WALKER ST(BT) 26/8/96

DIAGONAL STREET

CONVENTIONAL wisdom has been blown out of the window Every share analyst new to the business learns that Gold Fields of South Africa is 80% gold But not any more — in the year to June 1996, gold comprised only 55% of group assets Other minerals made up 15%, financial interests 19% and mining finance 8%

Deputy chairman and chief executive Alan Wright says it is well known that Gold Fields holds other assets as cash generators until money is needed for new mining ventures During the year, it sold all the scrip dividend shares earned out of Sasol and Liberty Life to make up the bulk of the R84 million investment surplus (although Wright says a wide spectrum of shares was sold)

Gold Fields earned dividend income of R312-million against R391 million last year as a result of lower profits earned from its gold mines Fee and other income was little changed on 1995 at R306-million to give total income of R702-million

Total expenditure jumped 12% to R238-million, mainly on the climb in administrative and technical expenditure Wright says exploration expenditure of R56-million was not as much as intended because a number of ventures were not worth drilling

Earnings have not climbed in line with the gold price since 1993 although the market capitalisation has — to the current R13,3-billion

"Regrettably, it indicates that costs have climbed by at least the equivalent of the rise in gold price The only way to improve earnings is to look after the costs" Gold Fields does not hedge its gold production in any way, effectively ignoring the income side of the profit equation

Wright says the recent success at Northam is partly attributable to new mining improvements notably hydropower "It is now proven and I would like to think that all new deep-level mines will adopt it Chilled water is only delivered on demand, so that half a ton of water is used to mine a ton of rock At Kloof, it takes four tons of water" Wright reckons Northam has a "very great chance" of achieving a positive cash flow in the current year

Labour problems have been Gold Fields' greatest headache for years and there has been little improvement Wright says in negotiations during the recent disruption at Northam the unions made it clear that there could be no peace until the hostels were ethnically segregated However, at East Driefontein this week, the demand was also very simple there could be no peace until Gold Fields stopped segregating ethnic groups at its hostels

Wright says gold chief Alan Munro and union boss James Mohlatsi discussed these issues with some progress this week However, negotiations to work a seven-day week are no further down the road than when they began a year ago

"Our competitors work 20 or more out of the 21 possible shifts in a week, we work 11 shifts a fortnight I know there is a night shift here but there is very little production I hope that for the benefit of the industry the negotiations succeed," says Wright

He agreed that Gold Fields needed to get tougher and review its policy of non-retrenchment "Although I would hate it, if you get to a stage of continuous losses you have to do something about reducing costs I have heard it from employees who say that Gold Fields does not retrench — it just sends you to another mine"

Wright touches on another problem within the group underground fires There is no reason to suspect arson and loss of life has not occurred but loss of production and profit are high Gold Fields has two inert-gas generators which hasten the extinguishing

The third problem is rising unit working costs, up from R28 000/kg to 34 000/kg last year Wright says going deeper costs more, higher wages are not accompanied by better productivity and yields are falling

Looking ahead, Wright says Gold Fields will remain a mining company focusing on gold while retaining a balance between precious metals and other products The exploration budget is R86-million this year, of which R36 million will be spent locally, R24-million in South America and smaller amounts in Namibia, West Africa, the rest of Africa and Asia-Pacific

Gold Fields' brightest foreign prospect, the Tarkwa mine in Ghana, has hit an expected stumbling block While the proven resource was increased from 2,1-million ounces in June 1994 to 13-million ounces by December 1995 – enough for Gold Fields to go ahead and mine — opencast blasting dictates the removal of 20 000 people from three villages Negotiations for them to be compensated and moved are moving slowly some agree, others decline Needless to say, those unwilling to move live on the richest area

Problems aside, the first stage of Tarkwa will support a 300 000-ton-a-month heap-leach operation yielding 230 000oz of gold a year Capital costs will be $125-million and operating costs $210/oz in the first five years Wright says even if the villagers stay, this project is robust in itself

This week, Canadian company Golden Knight bought 12,5% of Tarkwa, effectively paying $29/oz of gold reserve Wright says this is within the usual $20 to $40 range, agreeing it is conservative compared with other transactions concluded recently in the region

"We are not yet mining, and this is probably the top of a cycle We valued our Tarkwa stake at $27/oz on the basis that no feasibility study had been done Remember too that a 13 million ounce resource could be only a 10-million ounce reserve"

Tarkwa's delay is undoubtedly a disappointment and Gold Fields shares shed a rand to R131,50 in early trade after the presentation Consensus of opinion suggests few compelling reasons to rush into this one

● Holders of Gold Fields preference shares should ensure they convert rather than redeem next month it is the difference between R29 redemption or a market value of R131 50 for an ordinary share

TOUGH DECISIONS Alan Wright, who says non-retrenchment must be reviewed Picture ANDRZEJ SAWA

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Gold Institute projects world output

US to challenge SA hold on gold

CT (BR) 28/8/96 (214)

By Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — South Africa's leading position as the world's largest gold producer could soon be challenged by the US, a new report by the Washington-based Gold Institute says

It has forecast that South Africa's mine output could fall 13 percent to 14,6 million ounces by 1999, only just above the US's expected 12,7 million ounces This would mean that the US would have 15,3 percent of global production, only 2 percent below South Africa's 17,5 percent by the end of the century

Australia is also making great strides and could overtake the US in second place during the next four years, with output forecast at 11,2 million ounces in 1999 from this year's 9,3 million ounces

Even though South Africa was still the world's largest producer, its gold "record has not held the glamour it once had", argued the Institute

The South African Chamber of Mines said the figures were "realistic", but argued that the industry was resilient despite its difficulties

Llewellyn Kriel, the communications manager of the chamber, said "Fundamentally, the South African gold industry insists on profit maximisation rather than containment of costs, which could be misconstrued as damage control, but we are focusing on the positive aspects"

Tom Main, the chief executive of the Chamber of Mines has predicted that South Africa would maintain its global dominance up to and well beyond 2000

GOLD QUARTERLIES

LIGHT DOWN THE HAULAGE?

FM 2/8/96 (214)

Not before time, the gold mines have posted a tolerably respectable quarterly result, which reverses a period of increasing gloom about the industry's prospects

Most notably, the industry's profit margin has risen from the March quarter's 15,6% to 18%, largely through an 8% increase in revenue offset by only a 3% rise in unit costs In global terms, revenue lifted to R6,2bn from R5,9bn and costs actually declined a touch to R4,8bn A heartening feature is that distributable earnings rose 92% quarter-on-quarter and the June result is nearly threefold better than the result a year ago


Bobby Godsell

However, a disturbing trend continues to be evident in the low expenditure on capital works in the June quarter, it rose only 1% and, given that many mines are now far behind in their capital programmes, this will clearly affect performance in time Another troublesome aspect is that the increased number of public holidays meant that production (measured in tonnage mined and treated) is 3% lower than a year ago

Of the individual houses, the best result by a long way came from **Randgold**, though its performance is obscured somewhat by its recent takeover of four mines formerly in the Gengold stable Nevertheless, its latest results — achieved despite the impact of substantial restructuring, retrenchments and the process of buying back management contracts — indicate the house is making a mark in the difficult area of managing marginal mines, precisely the business chairman Peter Flack targeted two years ago

In particular, the result from ailing Klerksdorp producer **Buffelsfontein** will attract attention A visible change in management perspective enabled it to overcome some entrenched difficulties, most specifically that it's a mine prone to high seismic activity There's more than a suggestion that this quarter's good result will be repeated in September

Another good performance came from **Blyvooruitzicht**, which would have made an additional R6,5m but for a hedge installed earlier to protect earnings while the merger with Doornfontein was put in place An area of concern was noted at **Unisel**, where a four-week strike by rock drill operators should have been contained by the mine's multiskilling programme In theory, this is intended to produce individuals capable of switching easily between various jobs As it turned out, at Unisel it didn't — and this is clearly a feature which all houses will need to examine

Grootvlei's water problems appear to have eased, and the mine's distributable profit was virtually unchanged from the March out-turn The matter of pumping water from the East Rand basin — which will also have a considerable impact on the future of ERPM — is developing into a major issue **ERPM's** own result for the quarter was to more than double its pre-capex profit to R9,2m

At **Durban Deep**, which now includes Rand Leases, working profit lifted substantially to R8,2m, and at large Free State producer **Harmony**, the distributable profit after capex was a comfortable R22,5m


Peter Flack

Anglo American Corp's gold mines together posted a solid 30% increase in distributable profits, which were also 236% improved on the June quarter 1995 Excellent cost control was a feature of the division's operations, underpinned by some astute hedging activities and falling capital expenditure

High quality management at **Freegold**, the world's biggest gold producer, was helped by the gold price (in rand terms) In addition, chairman Bobby Godsell's recently introduced policy of turning shafts into discrete business units clearly had the effect of focusing managerial effort

Elandsrand, now a jewel in Anglo's crown, owes much to its new management strategy which includes a successful comprehensive multiskilling programme Yields were slightly down, but the mine still returned a 43% improvement in its rand profits

Vaal Reefs returned a good result, with a 17,5% improvement in distributable earnings At **Western Deep Levels**, however, a 5% decline in gold output produced a so-so result due partly to a severe seismic shock

This was a disappointing quarter for **Anglovaal** gold mines **Loraine**, the house's marginal Free State producer, was its top performer, with gold output better by 5% from a good production delivery despite lower grade

Gold Fields of SA delivered a 22% increase in profits despite a 4% fall in gold output Group revenue advanced 7% over the quarter, but a worrying feature is that costs increased by 4% Performance at **Kloof** continues to be hampered by the unprofitable sections it carries — Leeudoorn and Libanon — and a call constantly being made by analysts is that these sections should be closed Having said that, Kloof's quarter profits rose 116%, though admittedly off a dreadful March base

Driefontein returned a 10% decline in gold output, revenue fell 4% in global terms, costs increased nearly 2% and the mine returned a fall in distributable profits to R88,8m from March's R91,8m Over at **Deelkraal**, the best thing to be said is that it lost less money — only R1,5m compared with March's R11,5m Speculation is that the mine may soon be the


Anton Botha

and, at last, to two interlinked companies with defined purposes

The grouping now comprises Genbel Securities (Gensec), much the more active and purposeful of the two, and Genbel SA, effectively a closed-end investment trust which offers a solid entry to the SA market

Gensec is involved in underwriting and primary market-making, trading, treasury and arbitrage operations and investment asset management Over the last year, revenue from these sources stood at R269m against costs of R145m Attributable income of R124m translates into EPS of 114c (compared with a pro forma for 1995 of 60c) and the dividend is 35c

GETTING INTO GEAR

Gensec

Year to June 30	*1995	1996
Turnover (Rm)	212	269
Operating costs (Rm)	143	145
Attributable (Rm)	65	124
Earnings (c)	60	114
Dividends (c)	20	35

* Pro-forma

Rather more interesting, though, is the balance sheet, now beginning to resemble the profile of a respectable American investment bank — which is, of course, what Gensec is striving eventually to emulate Shareholders' funds, a respectable R813m, are dwarfed by the R1,16bn represented by unsecured corporate bonds, debt, capital market instruments sales and commercial paper issues Clearly, the usual models on gearing as applied to commercial companies can't be applied in this case

Meanwhile, Genbel produced a return of 69% for the year, mostly represented by the increase in value of the company's portfolio and, therefore, unrealised

What Genbel does, however, is provide an investment vehicle very similar to a unit trust (and with a portfolio reporting at end-June a market cap of R624m) at an entry cost limited to the price of buying shares through a broker The unit trust industry won't care for the comparison, but it has to be said — it's cheaper

MD Anton Botha says the intention is to enable Genbel buyers to set aside a set amount each month — just as they would do for savings in unit trusts

Structured through a reputable financial institution (Botha won't say which, but confirms discussions are far advanced) this ability to save through a listed investment trust should have instant appeal to many ordinary folk of limited means *David Gleason*

CADBURY SCHWEPPES

FM 2/8/96

IF YOU CAN GET IT

Cadswep has some features in common with everyone's favourite aunt It's reliable and consistent in its delivery of sweets — of the edible variety to consumers and in the financial form to investors An analyst observes that compound earnings growth in the past five years — not the kindest of times to SA companies — has been about 23%

About the harshest comment that can be made of this food-sector blue chip is the illiquidity of its shares UK parent Cadbury Schweppes holds tightly to the feathers of its SA golden goose

The 1996 interims continue to please, with turnover up 18% on the previous period and attributable income up 22% CE Peter Bester believes that "satisfactory growth" can be delivered for the year

Financial director John Buchanan is quick to comment that observers tend to forget inflation is falling That means real earnings growth rose more than 16% "In view of what we hear elsewhere in the retail trade, we're very pleased," he says

The slowdown in consumer spending seems not to have hit confectionery — perhaps because it's a low-cost item in the scheme of things, besides being a comfort food when times are hard Buchanan says that the demand for both chocolate and sugar confectionery is strong, and in the absence of the projected capacity expansion to both chocolate and sugar manufacturing lines, would soon exceed supply


Peter Bester

AMBROSIAL INCOME

Six months to	Jun 17 1995	Dec 30 1995	Jun 15 1996
Turnover (Rm)	462,4	666,4	544,5
Operating income (Rm)	42,3	70,3	53,7
Attributable (Rm)	43,9	57,3	53,7
Earnings (c)	121	157	147
Dividends (c)	24	88	29

Cadswep plans to double its chocolate capacity by 2000 It has taken a larger market share of a growing market, due in part to new products such as its hugely successful Astros line Buchanan says that additional consumers are entering the market, though it's difficult to say in what numbers

Costs have been contained this half Raw material and packaging charges jumped last year, but haven't grown to the same extent this year

The big season for income is still ahead Buchanan says much of the annual performance hinges on the last two months of the year, which makes earnings predictions notoriously chancy However, provided that the weather and the economy hold up, the company should make its budget

The share is priced at R65,75 on a p e of 21,7 It offers a neatly diversified range of products which address the four seasons, and its management is "conservative and experienced," says an analyst In her opinion, it's a buy up to R75 — but only if you can lay hands on some of its scarce scrip *Margaret-Anne Halse*

CITIZEN BANK

MERGING OPPORTUNITIES

FM 2/8/96

Niche market player in the Thebe Investment Corp stable since 1994, listed Citizen Bank has looked undervalued for some time

There were obvious reasons With nearly all its income derived from home loans, and largely limited to the Eastern Cape, perceived risk was high And that perception was compounded by its relatively small size One consequence is that Citizen has been the only bank in the sector to trade at a discount to NAV

The share price came under further pressure this year as details of a planned merger, which included the Bank of

Continued on page 79

FOOTNOTES

Hilary Joffe

Randgold pursues African ambitions

(214) BD 9/9/96

THE value placed on Randgold's Jersey-registered exploration arm, Randgold Resources Limited (RRL), has more than doubled since February, when it placed its shares with Australia's North, and UK and North American investors, at US$10 a share

Now, Randgold is to acquire new shares in RRL at $25,50, to help finance the exploration company's purchase of BHP Minerals Mali This puts a market value of more than $250m on RRL, reflecting the Mali acquisition and the increase in value of its other prospects, which span six countries in West and East Africa.

The key aspect of the $78m acquisition is that RRL has added a gold mine — Syama — to its portfolio of exploration projects, giving the group an offshore income stream with which to pursue its African ambitions These are now focused mainly in Tanzania (the Golden Ridge project), Burkina Fasso (the Sanmantengo project, with North) and Mali.

Randgold commercial director Brett Kebble says Syama, in which RRL will hold 65%, is a robust ore body, with a grade of 4,4g/ton delivered to mill and a life of about 10 years

It has in-pit proven reserves of 2,2-million ounces — the resource is estimated at 3,5-million and there are potential extensions to the pit Syama's output was 125 000oz in financial 1996 but is capable of producing 200 000oz. Plans are to raise it to that level over the next 18 months.

The deal also gives RRL a 20% stake in Loulo, with an option to increase this to 51%, as well as two exploration permits in Mali. Kebble says Loulo could be a mine in about two years, producing 70 000oz to 120 000oz a year

Randgold said earlier this year it planned to list RRL on a North American or European stockmarket by March 1998 — Kebble says the group sees no reason to do so earlier The Mali deal is to be financed by way of two BHP loans to RRL (a two-year convertible $23m and a six-year $31m) and $30m in cash, which Randgold will inject into RRL, buying the additional shares Randgold is to raise $40m in convertible debentures to finance this. Kebble says it has not decided yet what to do with the extra $10m

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THERE is hardly a major company in the JSE's building and construction sector which is not in the process of restructuring or unbundling its interests Grinaker, Group Five and Stocks & Stocks are on the list, as is Murray & Roberts It is difficult to point to a single macro factor behind all the moves, which are driven more by company-specific issues.

But the restructuring of the sector is part of a trend to greater focus within SA corporations And with the building and construction index down about 11% on this time last year — its p e ratio has fallen from 15 to just above 11 — the timing looks right. One result will be more pure construction plays on the building and construction board, which should please investors

Grinaker Holdings, which last week reported earnings up 24% for the year to June, is to unbundle its electronics and construction interests The group will seek a separate listing for Grinaker Construction, which will be controlled directly by Anglovaal, with Holdings as the electronics vehicle (including Siltek and Grinaker Electronics). Grinaker Construction's earnings were up a healthy 32% and are expected to rise again in the current year

The group is a clear case for greater focus and the unbundling should add value to the construction interests an analyst estimates these were on a p e rating of under 7 recently, against LTA's 12 plus.

The value of Stocks & Stocks' construction interests, which are to be split from its property development and leisure interests, is harder to discern. The market puts a lower rating on property development than it does on construction. But more than half of Stocks' construction work is generated by the group itself, making it difficult to tell where profits are Details of the unbundling should provide answers.

Restructuring at Group Five could better be described as "bundling", with the group set to absorb and delist poor-performing building materials subsidiary Everite. And at Murray & Roberts there has been some internal restructuring to enhance strategic focus, disposing of non-core assets and merging Standard Engineering's activities into its engineering and contractors groups

The group also awaits the Competition Board's decision on plans to merge the cement operations of subsidiary Blue Circle with those of Alpha. Murray & Roberts' operating profits declined in the year to June, even without a provision on a major contract dispute But with its strong civil engineering arm, it is one of the groups expected to do well as infrastructural spending takes off, as are others such as LTA, Grinaker and Concor

The building and construction cycle normally follows interest rate and GDP cycles But one analyst notes there has been a "contrived" dearth of spending on construction and civils over the past three years because of delays in government spending He predicts a mini-boom in construction on social infrastructure related projects such as sewage, water reticulation, township road building and transport infrastructure The building (vs construction/civil engineering) side of the industry is, however, expected to slow

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HOW long can a company employing three directors (they prefer to call themselves managing shareholders), a secretary and a driver sustain an acquisition rate of five a year?

Baobab Solid Growth, listed last June in the JSE's investment trust sector, has since bought stakes in electronics distributors Mustek, Hi-Tech and Brother, in financial services company King Finance Corporation, and in Fabcos-controlled investment company FaBao It also increased its stake in Premier Freight Last week it reported net after-tax income of R549 000 for the year to June (1995 R82 000), on shareholders' funds of R132m, more than four times last year's R30m

Director Gordon Schachat says Baobab, which adopts a "partnership" approach to its investments, can handle two or three more acquisitions It is looking at opportunities in tourism-related services and in communications.

Policy is to acquire unlisted, owner-managed, high-growth companies if these are listed, the intention is to pass them through direct to shareholders. Baobab plans to bring PC distributor Mustek, in which it holds 32,7%, to the JSE in February/March next year.

Mustek, whose brand names include Mecer, raised after-tax profit by a third to R23m for the year to June. The listing will be via a distribution to Baobab shareholders and is also likely to involve a R19m to R20m rights issue (at a deep discount) to enable Baobab to repay debt raised to buy its latest 6% of Mustek. There is also talk of listing Mercantile Lisbon Bank Holdings, in which Baobab holds 14,7% and NSA Investments a further 20%

Baobab does not equity account or consolidate its investments, nor does it value its assets it publishes the profits of the companies in which it has stakes, with the object, director Chris Wood explains, of allowing shareholders to "look through into the portfolio"

There has been a strong re-rating of the investment trust sector over the past year and the Baobab share price has seen one of the sharpest increases. Its focus on unlisted companies has the advantage that it attracts institutional investors Hollard Insurance holds 64%, other institutions (including BOE, Old Mutual, Coronation and various Investec portfolios) a further 12% and the directors 7,5%

Mines back traps to fight gold theft

BD 17/9/96 (214)

CAPE TOWN — SA's mines called yesterday for the revision of a draft law to ensure that police could continue to use traps in their fight against gold theft costing the country an estimated R1,5bn a year

"The trapping system should be retained as a lawful method of combating crime," the Chamber of Mines, representing owners of most of the country's mines, said in a submission to Parliament's justice committee.

The committee is holding public hearings on a package of bills designed to bolster the fight against organised crime, fraud and the drugs trade

The chamber estimated that up to 30 tons of unrefined gold worth about R1,5bn was stolen from the country's mines every year

It said the losses, equal to about 34% of the mining industry's operating profit for last year, had a direct effect on shareholders because the full cost of production had already been paid on the stolen gold

"From these figures, it is apparent that gold theft is a very real threat to the viability of the gold mining industry itself.

"The potential damage to the economy and the social cost of this crime is self evident," the chamber said

The Criminal Procedure Amendment Bill aims to regulate the use of traps to make them legal in terms of the country's new constitution and to protect the civil rights of the victim.

The chamber has proposed a number of changes, including indemnity from prosecution for anyone involved in setting traps for crimes necessary to make the operation effective

It supported provisions to prevent abuses of the system, but added· "The court should nevertheless have discretion to admit evidence which has been improperly obtained where such evidence is in the interest of justice"

Mine owners also opposed a provision allowing a court to balance the offence against the personal circumstances of the accused

"The fact that the personal, economic or professional circumstances of the accused made him more susceptible to the commission of the offence does not appear to be relevant.

"Impecuniousness may reduce the moral guilt of the accused, but does not deprive his act of unlawfulness," the chamber said — Reuter

Gold report confirms drop in demand

BD 19/9/96 (\[illegible\])(214)

Neil Behrmann

LONDON — Gold demand in the Far East, and China in particular, slumped in the first half of the year, Gold Fields Mineral Services CE Stewart Murray said

The London-based consultancy owned by Gold Fields of SA estimated that Far Eastern fabrication demand, including Japan, slid to 485 tons in the first six months of the year from 572 tons in the same period last year

Murray would not make the latest biannual report, Gold 1996 — Update, available to the media, but he was prepared to disclosed the figures in an interview

He said consumption in China contracted to only 69 tons in the first half (first half 1995 128 tons) Hoarding of gold in the Far East shrank to 61 tons (140 tons), and in China the amount was only two tons in the first half compared with 13 tons in the same period last year

Murray said resistance to higher prices had been noticeable early in the year when gold peaked at $418/oz

In contrast, Middle Eastern gold jewellery and hoarding consumption had jumped to 271 tons (230 tons) in the first six months Gold fabrication and hoarding in India rose to 321 tons (296 tons) and Murray predicted that good weather for farmers pointed to a continuation of this trend

He said despite a sound market in the Indian sub continent and Middle East, global gold demand fell 8,3% to 1 727 tons for the six month period In the major European nations, spending on gold jewellery had dropped because of a deteriorating economic climate and rising unemployment

Gold prices, presently languishing around $383 an ounce down 8% from their January peaks, had also fallen because of an increase in supply Murray said year-on-year global mine production rose 3,2% to 1 120 tons in the first half and gold scrap recycling increased 15% to 338 tons

Disenchanted investors who bought at high prices in 1995 and early 1996 had offloaded 160 tons between February and the end of June, while central bank sales dipped to 108 tons (196 tons)

He said gold consumption was expected to improve in the months before Christmas and the Chinese New Year late in January, but the gold price would only rise if producer and central bank sales tapered off Potential International Monetary Fund sales were also adversely affecting market psychology, Murray added

Demand for gold down but production is rising

CT(BR) 19/9/96 (214)

By Andi Spicer

MINING AND RESOURCES EDITOR

Johannesburg — Demand for gold was significantly lower during the first half of this year, but global production is up, said a report by Gold Fields Minerals Services, the London-based analysts

It argued that the reduction in demand was due to "falls in jewellery fabrication and coin demand and to a relatively sharper decline in bar hoarding, particularly in Japan"

Jewellery-making was strong in the Middle East and the Indian subcontinent, but demand in the Far East, "most notably in China", had fallen back

Spending on jewellery in Europe had declined as a result of the "deteriorating economic, employment and social climate", the report said

Australian and Canadian production had risen in the first half, as had production in Latin America and Asia "This was sufficient to outweigh a continued decline in South Africa," it said

Supply was further increased by a record recycling of old gold scrap

Forward sales by producers resulted in almost 200 tons of gold reaching the market in the first half of this year

COM

MINERALS *Rand gold price fails to offset drop in production*

Gold Fields' profit slumps

CT(PR) 15/10/96 (214)

JOHN SÖDERLUND
FINANCIAL NEWS EDITOR

Johannesburg — Profit from Gold Fields of South Africa's gold mines slumped in the quarter to September as the result of continuing conflict between workers at East Driefontein and Leeudoorn mines and underground fires at East Dries and Kloof, the group said yesterday

It said the improved average gold price of R55 164 a kilogram was insufficient to offset the effect of a fall in gold production from 23 021kg to 21 172kg As a result, R1,17 billion revenue for the September quarter was about R63,9 million lower than the previous quarter

East Driefontein's production was affected by the fire in the previous quarter, which hammered working profit down to R78,7 million from R122 million in the June quarter Though tons milled fell marginally to 537 000 tons from 540 000 tons and revenue a kilogram rose to R55 064 from R53 551, the working cost a kilogram shot up to R38 799 from R31 213 a kilogram

GOLD FIELDS	June	Sept
Kloof		
Working profit(Rm)	122,4	94,5
Taxed Profit(Rm)	118,7	94,0
Driefontein		
Working profit(Rm)	247,7	162,9
Taxed profit	225,6	177,5
Deelkraal		
Working profit(Rm)	13,0	4,0
Taxed profit	11,5	2,9

Gold Fields said the situation on East Dries mine, which had been marked by conflict between workers and continued production problems related to the underground fire, had started normalising after September 19

West Driefontein's working profit fell to R81,1 million in the third quarter from R117 in the quarter to June after a similar small decline in ore milled to 622 000 tons and a rise in working costs to R40 323 a kilogram from R33 436 The directors said the tonnage milled was expected to be maintained in the next quarter at slightly improved yields

Overall, Driefontein's taxed profit fell from R225,6 million to R177,5 million

Deelkraal's after-tax profit tumbled to R2,9 million from R11,5 million after the operating profit a kilogram of gold produced was dragged down to R2 306 from R7 024 by a rise in working costs and a fall in ore milled and yields

Kloof mine reported working profit of R115,2 million, down from R149,1 million It was affected by a fall in the yield of gold per ton and a 16 percent climb in working cost to R35 421 a kilogram

Leeudoorn's working loss eased to R16 million from R17,9 million, as did Libanon, which recorded a working loss of R4,7 million from the previous quarter loss of R8,7 million

But the better results from Libanon and Leeudoorn were insufficient to offset the setback at Kloof mine, with the result that overall taxed profit at Kloof fell from R118,7 million to R94 million

COMPANY NEWS

September quarter's results boosted by a more favourable rand gold price

Avmin's gold mines lift working profit

(214) CT(BR) 16/10/96

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Anglovaal Minerals' gold mining companies increased working profit 21 percent to R74,1 million in the September quarter on higher gold production and a more favourable rand gold price

But after-tax profit fell to R49,1 million from R74 million in the June quarter because the previous quarter's profit was boosted by income from investment insurance policies received by Hartebeestfontein and Eastern Transvaal Consolidated

The average gold price achieved by the group rose to R54 200 a kilogram from last quarter's R52 679, and total gold production moved up to 8 447kg, a rise of 273kg Overall unit costs edged ahead to R45 424 a kilogram from R45 189 a kilogram

Hartebeestfontein and Loraine mines performed well but Eastern Transvaal Consolidated moved into a higher loss of R2,8 million from a R0,7 million loss previously

Hartebeestfontein notched up a higher working profit at R74 million from R56,8 million previously, though its after-tax profit fell to R48,2 million from R64,6 million

"The previous quarter's taxed profit was supported by R13,4 million received from an investment insurance policy during that quarter, as well as by income totalling R8,6 million from sales of uranium oxide and sulphuric acid," the company said In the quarter under review losses from the sales of these materials were R2,2 million

Revenues at Hartebeestfontein were higher at the mine's main plant because of the increased rand gold price Unit costs moved down to R45 052 a kilogram from R46 648 At the low-grade plant yields and gold recovered decreased which led to a fall in revenue and higher costs

Loraine's working profit fell to R2,9 million from R5,3 million as gold recovered dropped to 1 601kg from 1 639kg previously Costs increased "largely as a result of the annual wage increase", to R52 943 a kilogram from R48 520 in the June quarter But sales of pyrite and calcines as well as other non-mine income boosted income by R2,3 million

Working costs at Eastern Transvaal Consolidated rose to R57 412 from R53 129 through an annual wage increase and the "disruptive effects of the retrenchments in the previous quarter" Milled tonnage was down, as was yield, and gold recovered fell to 573kg from 643kg in the last quarter

Avmin September Quarter Results

Mine	Sept quarter Working profit	June quarter Working profit	Sept quarter Profit after tax	June quarter Profit after tax
Hartebeestfontein	[illegible]	[illegible]	[illegible]	[illegible]
ET Cons	[illegible]	6	[illegible]	[illegible]
Loraine	2 9m	5 3m	[illegible]	5 5m

☐ See Business Watch

Sixty tons of capacity taken out of production in 5 years

Falling SA gold output to cause world shortage

CT (BR) 16/10/96 (214)

FROM REUTER

Istanbul — A sharp squeeze on global gold supply can be expected, mainly because of an expected decline in the output of South Africa, the world's largest producer of the precious metal, Alan Mackie, a gold specialist at the London-based Economic Intelligence Unit said yesterday

"How sharp that supply squeeze is depends to a large extent on what happens in South Africa, where some 60 tons a year of capacity is slated to be taken out of production in the next five years," Mackie said

"Demand will have to slow down drastically or there will be a supply crunch which only the central banks could mitigate," Mackie said at the two-day International Gold Market conference in Istanbul

He explained the supply-demand imbalance by citing the following figures "The world's quoted mining companies can muster 18 700 tons of proven reserves at current prices, of which just under half should be available to the market "

Central banks might sell a "generous" 5 000 tons in the same period, bringing the available pool of 13 500 to 14 000 tons, which also includes about 1 700 tons from forward sales, he said

"This is barely enough to cover four years of current physical demand less recycled gold "

He said the supply squeeze might be relieved if South African ores, all facing intractable cost problems, could be brought into the picture If this occurred, "the 8 500 to 9 000 tons of available reserves would be doubled"

"But it would need a price of at least $500 an ounce to do this," he pointed out

The physical gold demand in the next five years was determined to a large extent by geographical factors, especially demand from the Souk, the informal wholesale-cum-retail markets of the Middle and Far East, where investment jewellery demand accounts for 60 percent of total physical demand

"Chinese jewellery usage is going to be a key factor in future demand projection," he said, adding that China is fabricating about half the jewellery sold there

"Although the modern gold market is still too immature to offer many clues as to the price levels at which the Souk will be a net seller of gold, there does seem to be a bottom of around $385 per ounce to the price At this level the Souk's absorptive power appears almost limitless," he said

The Souk is estimated to hold about 26 000 tons in gold holdings

Avmin hurt by low productivity, rising costs

(214) BD 16|10|96

David McKay

ANGLOVAAL Minerals (Avmin) gold mining companies reported a 34% drop in taxed profit to R49,1m for the September quarter after experiencing rising costs and low productivity

The group, which recently detailed plans to reshape its mining interests, said yesterday two mines — Hartebeestfontein and Eastern Transvaal Consolidated — had benefited from an exceptional income relating to insurance payouts in the previous quarter.

Poor morale at Eastern Transvaal Consolidated stemming from retrenchments continued, and it slid into the red for the first time in two decades

Gold production, particularly at mainstay Sheba mine, improved in the latter part of the September quarter Results would be much better this quarter, the group said.

Loraine, formerly the weak link in

Continued on Page 2

Avmin

(214)

BD 16|10|96

Continued from Page 1

the group's stable of mines, reflected the latest wage settlements in higher costs, but produced a solid quarter

The results underline disappointing September quarter results by those gold mining houses that have reported so far Gold Fields of SA has battled to control labour disruption and underground fires, and Gengold's mines weighed in with uninspiring figures

Avmin said it had sold about 3 482kg of gold forward for the year ended June 30, at an average strike price of R54 287/kg in transactions which could be adjusted in relation to the ruling gold price Spokesman Julian Gwillim said Avmin expected to improve group results in the current quarter as Eastern Transvaal Consolidated overcame its productivity woes

Avmin's average gold price received was higher at R54 200/kg (June; R52 200/kg) and total production rose by 273kg to 8 447kg Average unit costs increased to R45 424/kg from R45 189/kg Group capex fell to R11m from R14m the previous quarter

See Page 13

GOLD QUARTERLIES (214)

TACKLING THE ISSUES

Fm 1/11/96

This wasn't a particularly good quarter for SA's gold mines but the results may signal an end to the long decline in gold output and health

Reporting for the September period, the industry produced 9% less gold than it did a year ago but only 1% less than in June Profits in rand per ounce were 14% lower than in June and costs rose 7% (16% year on year)

Mines managed by some houses performed exceptionally well **Elandsrand** and **Southvaal** in the **Anglo American** stable stand out as excellent Elands' distributable profit rose 20% on the previous quarter and is 158% better than September last year, indicative of highly motivated management and labour At Southvaal unit costs fell 3%, a notable achievement in this industry

At **Vaal Reefs**, however, the continuing reduction in the tax bill played a major role in keeping profit at a more or less acceptable level, costs rose 9% as did capex, now at R102m a quarter Market speculation is growing that a deal between Vaal Reefs and Gencor for the Weltevreden property adjacent to the mine's east division may be close It would increase reserves substantially

Western Deep Levels had a tough quarter A "bump" in the June quarter continued to affect production, costs rose 10% per kilogram produced Nevertheless, this mine probably presents a great recovery opportunity **Freegold** offers a fairly gloomy picture and Anglo itself concedes a decline in the underlying operational performance

Anglovaal mines demonstrated their rebound in operating profitability, with **E T Cons** a notable exception

Hartebeestfontein, the group's biggest producer, and formerly a steady contributor, is showing signs of what one analyst calls its "maturity "

Loraine is marginal, **Target** is still in the build-up stage

With **Gencor (Gengold)** managed mines, interest is focused on those in the Evander field and for which a merger is intended This isn't being received with acclamation everywhere and the quarterly results don't give much comfort

Gengold's real pain came with **Kinross** and **Winkelhaak**, Kinross is beset by reserve availability problems, and Winkels remains problematic

Beatrix remains the industry standard for cost containment Gengold's developing mine **Oryx** produced results which are certainly encouraging and **St Helena** has been turned around A notable factor is the group's determination to attack the issue of falling productivity through an innovative training system

Gold Fields mines reflected the group's serious labour problems Distributable profits fell 40% on the June quarter (though 25% better than a year ago) Much of this was at **Driefontein**,

Continued on page 91

Continued from page 87

ago) Much of this was at **Driefontein**, where the labour disruption was at its worst, costs rose 23%, profit fell 37%

Deelkraal continues to straggle along and the industry awaits news of a merger between it and Anglo neighbour Elandsrand **Kloof** is weakened by the performances of its Libanon, Venterspost and Leeuwdoorn divisions It will be some time before Gold Fields' managers restore discipline and high production

JCI Ltd mines produced remarkable performances Nine months ago they collectively lost R61m (December quarter) Now they have turned the corner with a combined profit of nearly R3m

The results from **Joel**, where after-tax profit nearly doubled to R41m (but capex ate R31m) and unit costs fell 10% because of the large rise in output are significant Gold division MD John Brownrigg says the objective is to make Joel the country's lowest cost producer

Randfontein produced good results and more is promised following the introduction of a specialised productivity performance scheme **Western Areas** performed well but its results are masked by the massive effort given to developing its South Deep project

Randgold's results were overshadowed by **Buffelsfontein** — virtually written off a year ago — which raised its profit 62% to R24,6m Overall, this group has shown a clever ability to manage marginal mines and to gear itself for expansion opportunities A particular success has been its rights issue abroad, which raised US$48m for its west African developments All its mines produced good performances except **Grootvlei**, which is now paying for the disastrous decisions of Water Affairs earlier this year to order an end to pumping

Though the overall industry result falls far short of what's desirable, it leaves an impression that many problem areas are finally being resolved *David Gleason*

Falling rand saves Free State mines

(214)

Wyndham Hartley BD 4/11/96

CAPE TOWN — Troubled Free State gold mines had been rescued by the decline in the rand and no mines were in imminent danger of closing down, Mineral and Energy Affairs Minister Penuell Maduna said on Friday

In a written reply to a parliamentary question from Inkatha MP Farouk Cassim, Maduna said the decline in the rand was having the effect of increasing the reserves of economically exploitable ore on some mines.

Concerning the life of gold mines in SA, he said it was an equation between expected increases in work costs and estimated gold prices As no experts could predict the price of gold, it was impossible to put a lifespan on mines

"It is encouraging, however, that the major mining houses are continuing to fund extremely expensive primary drilling projects to discover new or extended ore reserves in the area between Bothaville and Theunissen, " he said, adding that the mining houses were busy with three major shafts in the area representing investment of R2bn

He said that while some non-viable shafts might be closed down, the take-over of Unisel Gold Mines by Harmony Gold Mining should be seen as a change of a name and not the closure of a mine.

The mines of the Free State, which were established in the 1950s, were originally estimated to have a working life of 25 years But Maduna said "increases in the price of gold in relation to working costs, sound financial management and intrepid planning has resulted in these mines remaining producers and therefore contributors to the GDP, the RDP and the viability of nearby towns".

The mines were ensuring their maximum life by reducing head office charges, closing down unviable shafts, scaling down on non-essential manpower, flattening the managerial structures and combining sections into more efficient business units

He said permission had been granted for five large mines to conduct normal operations on Sundays.

MINING *New study says outdated labour policy hampers competitiveness*

Gold industry 'needs to be remedied'

(214) CT(BR) 18/12/96

JONATHAN ROSENTHAL

Johannesburg — The international competitiveness of South Africa's gold mining industry remains hampered by a fragmented and inefficient labour process and a mining culture which has nurtured inefficient labour practices for the past 100 years, a recent study commissioned by the labour department has found

The report was made public yesterday by Tito Mboweni, the labour minister It was conducted by the sociology of work unit, directed by Eddie Webster, at Wits University

"The industry is now in an unenviable position of classifying itself as both capital and labour intensive," the report said

"The upshot for the future of gold mining is not comforting At the time of writing, 13 of South Africa's gold mines were categorised as marginal"

The report also warned that the wider social costs of downscaling in the industry, which shed more than 20 percent of its workforce between 1987 and 1994, could devastate rural economies across southern Africa.

"Lesotho simply does not have the resources to absorb the social costs of downscaling," it said

"It is certain that illegal immigration to South Africa is escalating dramatically, as is the case with Mozambique," the report said

It recommended the state, mining houses and unions launch an investigation into setting new basic wages, conditions of work and the use of subsidies to keep marginal mines open

INEFFICIENT INDUSTRY *Eddie Webster, a sociology professor at Wits University and Tito Mboweni, the labour minister*

PHOTO JOHN WOODROOF

an industry-wide agreement on full calendar operations is still elusive, the various ad hoc arrangements reached on individual mines are having a big effect

JCI gold division MD John Brownrigg attributed the continuing production build-up at Joel to the mine's full calendar operations system and the bonus payment system in use

The general attitude from gold industry executives seems to be that the sky is the limit on lifting productivity

"It's a question of the right incentives in the right place," says Durban Deep chairman Roger Kebble "In the past, everything was directed downward from top management Since we have given the guys at the stope face more authority and responsibility, pressure is coming up from them for changes and we are finding out how lousy we are as managers

"The system of short-interval rewards with bonuses paid every two weeks is crucial We have team leaders with blasting certificates who are now earning R15 000-R30 000/month through higher productivity where before they were making about R2 500/month "

Brendan Ryan

WOOLTRU

Preparing for listings

The imminent listing of two Wooltru subsidiaries — Woolworths and Truworths International on the JSE — is another step towards expanding the group into an international retailer

This process was started in earnest when in 1994 Wooltru CE Colin Hall gave Truworths International CE Eddie Parfett the nod to buy the ailing Australian Sportsgirl Sportscraft chain

Hall talks about the possibility of holding company Wooltru investing the proceeds from the listings to acquire other retailers either locally or abroad — perhaps as far afield as Canada

That might justify Wooltru's continued existence After all, the new conventional wisdom is that holding companies which have numerous listed subsidiaries don't necessarily serve much purpose other than to ensure control, and their shares often trade at a discount to NAV

Wooltru may continue to raise funds overseas by floating acquisitions that are not listed on foreign bourses, then trading in them when they appear to offer value or are highly rated Wooltru could become an active portfolio manager instead of being a centralised manager of retail chains

The plan is that Truworths International (formerly SRG), incorporating the Australian-based Sportsgirl chain, will be the first Wooltru subsidiary to be listed Woolworths' listing would follow soon after, says Hall

Truworths International has its structure in place and is ready for listing The first visible move preceding the anticipated listing of Woolworths came this week, when Hall turned over total authority and responsibility to Woolworths current MD Syd Muller "to give him the space he will need " Muller succeeds Hall

DECEMBER GOLD QUARTERLIES — CHANGING COST PATTERN

	Gold														Profit		
	Produced kg*		Working cost R/kg	$/oz*†		Cost inc Capex R/kg	$/oz*†		Revenue R/kg	$/oz†	Milled '000t*		Recovery g/t*		Gold R'000	Uranium & other R'000	♣EPS(c) Dec
ANGLO AMERICAN																	
Elandsrand	4 242	(4 209)	36 136	247	(242)	41 914	287	(284)	55 800	382	558	(527)	7,6	(8,0)	83 400	10 300	43,1
Ergo	3 323	(3 049)							56 198	385	12 836	(12 385)	0,3	(0,2)	42 500		41,4
Freegold	20 280	(20 381)	47 944	328	(321)	50 690	347	(328)	55 711	381	4 141	(4 349)	4,9	(4 7)	157 500	27 400	78,6
Vaal Reefs	16 991	(16 968)	39 155	268	(266)	46 784	320	(307)	55 704	381	3 483	(3 433)	4,9	(4,9)	281 200	-43 700	407,0
Western Deep	9 178	(7 830)	39 341	269	(317)	45 206	309	(352)	55 774	382	1 301	(1 251)	7,1	(6,3)	150 800	19 300	280,7
AVGOLD																	
Avgold♠	8 149	(8 447)	46 095	315	(311)	49 590	339	(330)	56 488	387	1 682	(1 697)	4,8	(5,0)	84 688	-7 489	n/a
GENGOLD																	
Beatrix	3 844	(3 825)	30 725	210	(211)	39 959	273	(273)	54 513	373	637	(590)	6 0	(6,5)	91 442	7 521	43,0
Evander	4 792	(4 674)	49 339	338	(340)	52 574	360	(359)	55 922	383	850	(838)	5 6	(5,6)	32 701	8 489	55,0
St Helena	1 400	(1 168)	45 887	314	(350)	46 077	315	(354)	55 873	382	212	(192)	6 6	(6,1)	14 079	1 966	93,9
GFSA																	
Deelkraal	1 823,4	1 718,4	53 350	365	(361)	50 284	344	(407)	56 151	384	353	(309)	5,2	(5,6)	5 108	431	10,1
Drie Cons	11 473,6	10 451,6	36 967	253	(271)	51 136	350	(351)	56 313	385	1 897	(1 721)	6,0	(6,1)	221 968	11 632	25,3
Kloof	9 846,7	9 228,6	44 113	302	(309)	52 066	356	(359)	56 283	385	1 224	(1 175)	8,0	(7,9)	119 838	5 969	26,1
GOLDEN DUMPS																	
Cons Modder	480,9	(467,71)	49 424	338	(330)	51 435	352	(334)	56 078	384	112	(113)	4,3	(4,1)	3 200	246	4,0
JCI																	
HJ Joel	1 792	(1 600)	39 712	272	(252)	71 409	489	(384)	56 210	385	285	(237)	6,3	(6,8)	29 564	10 535	-4,6
Randfontein	5 100	(5 013)	49 620	340	(343)	54 533	373	(377)	56 068	384	1 732	(1 770)	2,9	(2,8)	32 884	11 348	30,7
Western Areas	4 832	(4 436)	48 698	333	(322)	65 123	446	(431)	56 085	384	737	(706)	6,6	(6,3)	35 691	12 803	-33,2
RANDGOLD																	
Blyvoor	1 940	(1 864)	47 945	328	(340)	51 172	350	(349)	55 860	382	992	(945)	2,0	(2,0)	15 355	3 453	24,7
Buffelsfontein	1 932	(1 901)	42 339	290	(290)	39 233	268	(285)	56 078	384	688	(650)	2 8	(2,9)	26 544	4 729	268,7
Durban Deep	1 373	(1 253)	51 363	351	(349)	64 806	443	(471)	56 023	383	999	(870)	1,4	(1,4)	6 398	2 493	[illegible]
ERPM	2 612	(2 683)	50 167	343	(355)	53 501	366	(374)	56 135	384	1 252	(1 334)	2 1	(2,0)	15 587	2 747	6,1
Grootvlei	618	(510)	52 469	359	(428)	62 439	427	(516)	56 142	384	119	(120)	5,2	(4,3)	2 270	-245	-36,2
Harmony	5 427	(5 041)	44 272	303	(336)	46 392	317	(348)	56 151	384	1 717	(1 682)	3,2	(3,0)	64 467	11 736	108,2
Stilfontein	28	(44)	100 107	685	(398)	-133 036	-910	(67)	55 750	381	0	(0)	0	(0)	-1 242	2 488	33,5
INDEPENDENT																	
Kalgold	137,2	(37,1)	96 064	657	(1 766)	124 891	855	(2 556)	55 940	383	208	(137)	0,7	(0,3)	-5 505	5 557	-4,1
Knights	323	(324)	38 735	265	(268)	39 379	269	(273)	52 224	357	940	(934)	0,3	(0,4)	4 352	-53	1,4
Lindum Reefs	379	(383)	52 356	358	(348)	54 018	370	(370)	55 923	383	218	(196)	1,7	(2,0)	1 352	-18	3,5

* Figures in parantheses refer to previous quarter † Calculated at R1 = $0,22 when dollar figure not given by mine ♣ Earnings per share after tax and capital expenditure ♠ Pro forma n/a - Not available

Gold theft eating into mine profits

(214)

Reinie Booysen

BD 3/2/97

THE crime wave engulfing SA is starting to show in gold mining results, with three mining houses reporting problems with "gold accounting" in their metallurgical plants during the December quarter

According to the latest estimates by the Chamber of Mines, about 30 tons or 6% of their total annual gold production of about 520 tons is stolen — an annual loss of about R1,5bn

The latest bout of incidents has forced investment in a whole new generation of security equipment

Among the mines hit during the December quarter was Consolidated Modderfontein (Cons Modder), a mine owned and managed by Loucas Pouroulis's Golden Dumps, which lost 30kg of the metal, worth R1,68m, to theft in the final quarter — compared with sales of 481kg

The other mines — Avgold's Hartebeestfontein division and Randgold's Blyvooruitzicht — were less certain about the extent or nature of their problems They did know, however, that the amount of gold coming out of their metallurgical plants was less than expected based on their knowledge of the gold grade in the ore before it was processed

Most mining officials believe that gold theft is on the rise "The rising criminal element in our community and the hard times some people are experiencing appear to be two factors behind the growing extent of gold theft from our mines," said Cons Modder GM Barris van Houten The mine was installing security cameras as a result, and security staff had been replaced

At last week's quarterly results announcement, Avgold operations director Tim Spindler said the company was experiencing problems with "gold accounting" at its Hartebeestfontein mine. At the weekend he said the "gold accounting problem" could be due to a number of factors, including structural changes the mine had introduced at its metallurgical plant

Continued on Page 2

Gold

Continued from Page 1

A full investigation was taking place, and it was too early to say that theft was the cause "But if you ask me whether I think there is an increasing problem with gold theft in SA in general, then the answer is yes," he said.

At Randgold's quarterly presentation officials said one of the key reasons for building the new gold plant at Doornfontein — now part of Blyvooruitzicht — was to tighten security as gold theft was a continuing problem

In July last year Gengold fired 19 staff at Kinross, including senior employees in the metallurgical plant, after it uncovered a criminal syndicate that was costing the mine several million rand a month in lost revenue. Thereafter gold production jumped to 900kg a month from 700kg — although Gengold said the increase could also be linked to other factors None of the stolen gold was recovered

Most of the mining houses note that gold accounting is a sophisticated matter, and the gold yield from a mine can fluctuate significantly for reasons unrelated to theft

Phil Mostert, MD of Rand Refinery, which refines gold on behalf of the Chamber of Mines members, said he thought gold theft would decline.

He said this was because "the mines are presently more aware of where gold theft is occurring and have instituted very significant measures and procedures to curtail gold theft which was on the increase.

"Gold theft prevention by all the members of the chamber is presently a top priority issue, and security measures and systems in all vulnerable areas are being reviewed "

Mostert said gold theft had been a problem "since gold mining started in SA 111 years ago" The severity of the problem fluctuated as criminals adjusted to every new generation of theft-prevention technology, he said

PERSONAL VIEW

Only a quantum leap in productivity will stave off death of gold mining

ET (BR) 5/2/97 (214)

EDWARD OSBORN

The story of the South African economy over the past 25 years has been one of an enormous structural change represented by an ageing gold mining industry in conjunction with the growth of the economy

Though its contribution to the GDP of the country has been receding, activity in the gold mining industry grew right through to the end of the 1980s, reaching its peak in 1989 Since then the contribution to GDP and the level of activity have slipped back

In 1970 the gold mining industry contributed almost 20 percent to GDP, but by 1980 the contribution had fallen to 9 percent and by 1990 to 7 percent In terms of value added at constant prices, gold mining declined by a third between 1970 and 1980, and by a further 7 percent during the 1980s Clearly, there was a distinct slowdown in the rate of decline in the importance of the industry

But the activity involved in wresting gold fro[illegible] ground, in terms of [illegible], el[illegible]ctricity and stores consu[illegible] the like, as encapsulated [illegible] tonnage of ore mille[illegible] from 74 [illegible] tons in 1970 to [illegible] million tons in 1980, reaching a peak of 113,7 million tons in 1989

Since then it has fallen back to 91,7 [illegible] tons last year

[illegible] has grown in size over [illegible] years but has de[illegible] in substance The key to [illegible] contradiction is the average grade of ore mined As deeper-level mining has occurred, the grades have deteriorated and greater mining effort has been required Thus the average grade for the industry was 13,3g a ton in 1970, down to 7,3g in 1980, and 5,1g in 1990 It has stabilised at about the 5g level during the 1990s

Incidentally, while the gold mining industry was receding the economy was growing, initially at a strong average of 4,5 percent a year in the 1970s

The growth rate in the 1980s was pedestrian at 1,7 percent a year, partly because the economy had reached a degree of maturity, but primarily through the sanctions measures taken against South Africa In the 1980s on the basis of working costs a ton of ore milled, inflation from one year to the next averaged 15,8 percent.

Related to a kilogram of gold produced, the average working cost inflation was at 21,7 percent a year.

The industry would not have been able to survive at all if it had not been for the decline in the rand, as the international gold price was certainly not accommodating, falling back from the spike of $613 an ounce averaged in 1980 to a depressed $141 in 1985, but recovering to $381 in 1989 The rand price rose from R477 in 1980 to almost R1 000 in 1989

But by 1990 the industry was in a crisis because of the high internal inflation of working costs The industry dropped employment by nearly 100 000 during 1990 and in 1991, and that induced the recession in the country that lasted until 1993

A kilogram working cost inflation dropped sharply to 9,9 percent in 1990 and was almost eliminated altogether in 1992

But working cost inflation has since risen sharply, reaching a peak of 19,5 percent in 1995, followed by a further 10,8 percent rise last year

The lowest level of profitability in the past 15 years occurred in 1995 when profits were R3,4 billion as a result of the virtually stable rand because of a 19,5 percent rise in working costs akilogram

A renewed crisis faced the industry

In the final quarter of 1995, for example, nearly half of the mines, representing half of the national production, were functioning at a loss

The industry was salvaged last year because of the sharp correction of a patently overvalued rand The rand average gold price rose 19,5 percent to R1 664 an ounce for the whole year, as opposed to a 10,8 percent rise in working costs a kilogram The industry was further assisted by an average 4 percent rise in grades in the year

The best quarter was the final quarter of last year when working profits amounted to R1,520 billion, as compared with R817 million the year before.

In that final quarter the industry operated at a profit, albeit with a very wide distribution of profitability from R753 to R2 an ounce. That is without capex taken into account But with capex, nearly half of the number of reporting mines, but representing 24,5 percent of national production, operated at a loss.

A sharp reversal of the fortunes of the industry is now in prospect because of the recent strengthening of the rand for much the same cause of rand strength as in 1995, namely foreign portfolio investment The unfortunate weakening of the international gold price will be a contributing factor.

Assuming an average grade of 5g a ton, an inflation of working costs a ton from quarter-to-quarter of 5 percent, and an average working revenue falling back to R1 615 an ounce, working profit will collapse in the first quarter of this year to R270 million, as compared with the R1,520 billion in last year's fourth quarter

The foreign investor and foreign central bank sales of gold will be the death of us unless there is a quantum leap in productivity in the industry A reduced number of public holidays, the introduction of full calendar operations and the introduction of flexible working practices make this possible. — Reuter

□ Edward Osborn is a consultant to Edey, Rogers

US gold mines pose serious challenge to SA producers

ARG 7/3/97

(214)

Kalgoorlie, Australia - Gold production in the United States is expected to exceed South Africa's output within the next decade, the chairman of the World Gold Council told delegates to the Australian Gold Conference here.

Harry Conger, who is also chairman of Homestake Mining Company, said overall gold production in Canada and the United States was growing, with an estimated output of 16 million ounces last year

Mr Conger said production was estimated to rise next year to 13,9 million ounces in the United States and 5,6 million ounces in Canada – which combined would be 23,5 percent of world production

"While this still leaves the United States as the number two world gold producer – and Canada as number five – it is the institute's estimate that within the next decade, the United States will surpass the declining South African production," Mr Conger said this week

Mr Conger said exploration expenditure in the United States had fallen during the past four years.

During 1992-94 it was estimated that nearly two thirds of all exploration and development expenditures by North American producers was spent outside the United States

He said production costs for Canada and the United States had remained competitive and slightly below average costs for Australia and well below the average for South Africa in 1995

The major issue facing the gold industry in the United States was the rewriting of the current mining law, he said

Gold mining is one of the most heavily regulated industries in America and is currently regulated by more than 20 different agencies of various levels – Sapa-AP

Western Areas looks forward to sixty golden years

ST(BT) 24/11/96 (214)

Employee representation on the board of directors and an employee share scheme are part of a plan to increase productivity and competitiveness, writes JULIE WALKER

Western Areas
Number 4

1991 R10 000 — 1996 R184 331

With at least 60 years of life ahead of it, it is no wonder Western Areas Gold Mining Company has been one of the JSE's top performers during the 1990s

An investment of R10 000 in October 1991 would have returned R184 331 five years' hence Western Areas was established in 1959 to mine the reserves of the Upper and Middle Elsburg and Ventersdorp Contact Reefs in the Westonaria region of Gauteng An adjacent mine, Elsburg GM, was established six years later, and by 1974, the pair had been merged and yielded a modest living

But during the 1980s, the gold price failed to climb in parallel with mining costs and the then marginal Western Areas was battling, living ever in the shadow of stable-companion and neighbour Randfontein Estates

In need of capital during 1990, its shareholders approved the transfer, cession and assignment of certain land and mineral rights to the South Deep Exploration Company in exchange for new South Deep shares which were sold to repay loans and recapitalise the mine

South Deep's reserves were explored and quantified When a decision to mine them was taken in 1995, it was decided to merge Western Areas and South Deep into a single company with a mineable ore reserve of more than 65-million ounces of gold

Western Areas chairman and JCI chief executive Bill Nairn says that by 2001, the JCI group will be producing more than 2-million ounces of gold a year, half from Western Areas

"During the last year we have focused on consolidating the two

matched by financial foresight Most of the money raised by South Deep to fund its capital programme was applied to a gold hedge In November 1995, Western Areas sold forward 7,3-million ounces of gold over the 8,5 years to 2004 Call options for 4-million oz were bought leav-

Process Reengineering project at the Cooke 1 shaft of Randfontein Estates This involved setting aside the conventions of a 100 years of mining and identifying the work that actually has to be done Then it was decided who does what We have challenged everything reducing

have scrapped the "empires" of the past in favour of a technical manager, a business manager and a logistics manager "

JCI uses face advance as a yardstick of how well the new scheme is working From an already reasonable average of 12 metres a month, many production units are up to 26m, and the shaft averaged 19m in the September quarter

"It's a whole buy-in process Because of the marginal status of our mines, the leverage effect from improved production can double and even treble our profitability and our employees will share in that rise Some of them have already doubled their basic pay with production bonuses And as the pay limit drops, the ore reserve increases and so does the life of the mine If we can successfully introduce full calendar operations the num-

... 1s s ie arges known and mineable resource of gold anywhere in the world and production will build up as South Deep is accessed and shaft systems completed," says Nairn

Two thirds of the ore body can be tapped via the infrastructure currently being installed and the deeper reserves will need another set of shafts although they can be reached to a degree using decline shafts from the footwall 'I'd say this will be during our grandchildren's lifetimes," notes Nairn, although considerations such as cash flow and tax efficiency would tend to dictate earlier access

Shaft-sinking is never without its problems and South Deep was no exception During May this year, water was intersected on the main shaft at a depth of about 450m "I am so glad we spent R4-million on pre-cementing the shaft because it helped us to cut down on the time lost In total we lost 168 days of shaft-sinking, but I know of other operations that have had up to a year's delay for similar problems,' says Nairn

The 180 000 litres an hour water inflow was an engineer's challenge, met through an innovative process involving casting a concrete plug around large, state-of-the-art spindle centrifugal pumps which then enabled access to the shaft bottom while cement was injected until the fissure was sealed The plug was then blasted and shaft-sinking recommenced

Technical innovation is ... ng an e iect ve comm n ... deliver 3,3-million ounces or 45% of planned production This means at least 55% of production will participate in spot gold prices above the contracted price, and maturing contracts can also be rolled forward to ensure flexibility These call options cost R451-million cash, the cost was written off upfront

Nairn expects a slightly more volatile gold price in the financial year to June 1997 than in the previous two years, with a mean dollar price around $385/oz but a rand gold price likely to rise as the rand weakens

Efforts made by the JCI management on the industrial relations front have yielded fruit

"It is absolutely pointless to commit billions of rands to projects unless the future can be secured in a sustainable way We are considering how we can make our mines more competitive," says Nairn "We will continue to review our policy of hedging a portion of our production and will strive for the introduction of seven-day-a-week operations At the moment, we close our mines for a quarter of the year — nowhere in the world does such a capital-intensive industry lie idle like this"

Nairn says JCI has been practising participative management for 10 years — long before it became fashionable — and this has resulted in good relations between the workforce and the management Yet there is far more to be done

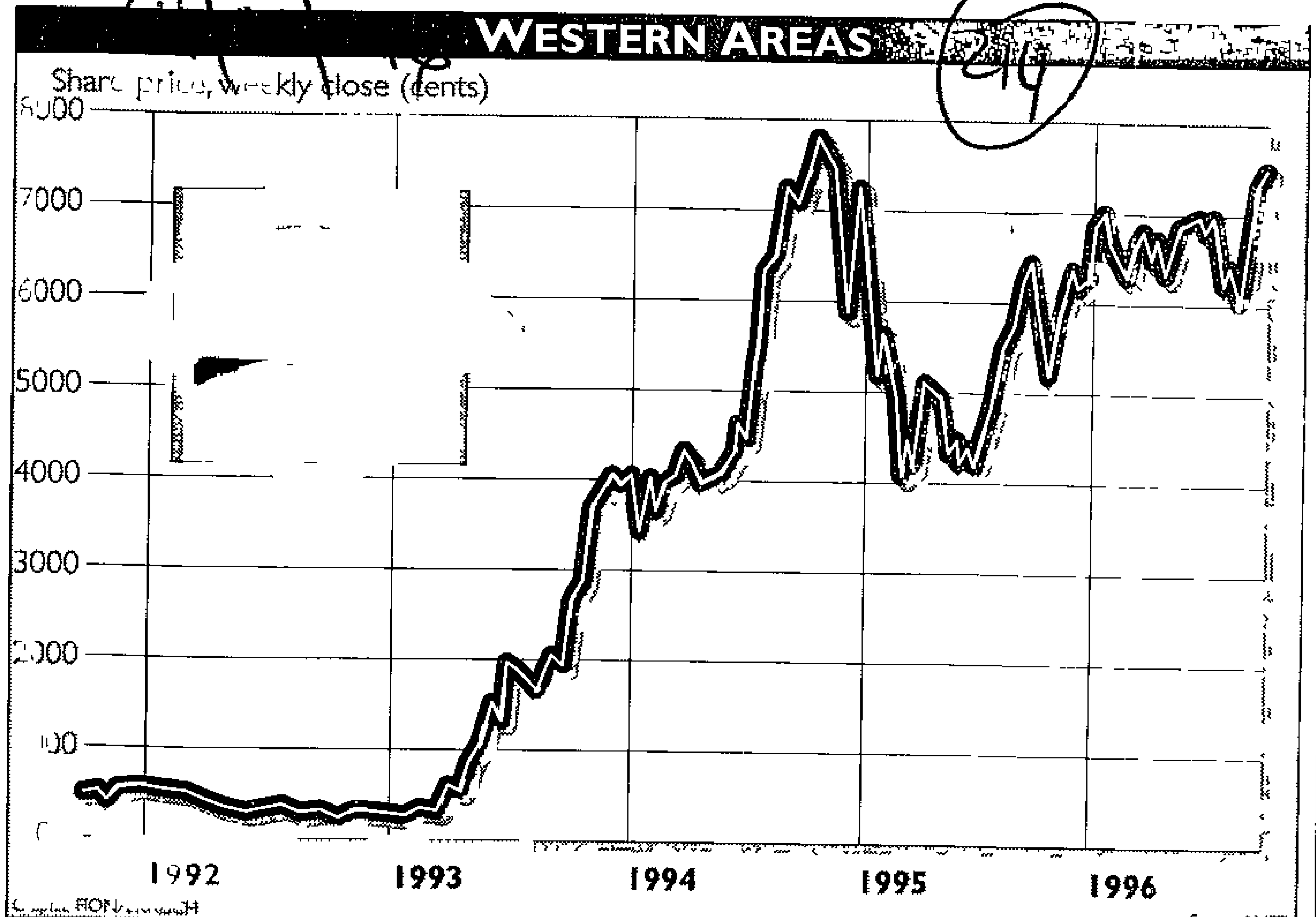
"We have piloted a Business ... a og stics process w ... e focus on planning and moving men, rock and materials"

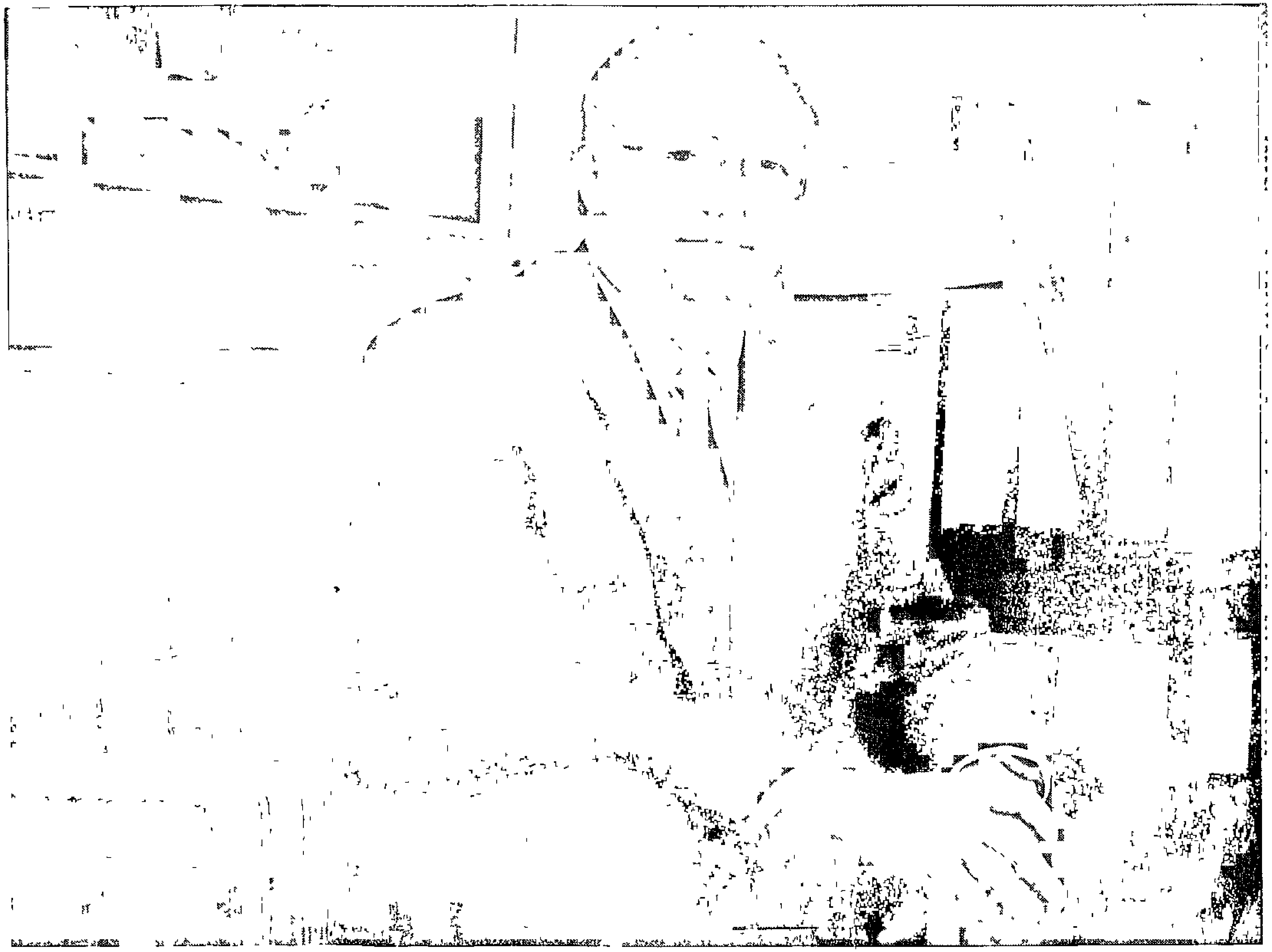
At the nub is the requirement of a quality blast each day "In reality, we currently get a blast only every third day Nothing has been decided without negotiation with the government mining engineer to comply with safety and legal requirements, with labour and with unions We ... er o. o3s w c m3 too"

Nairn looks ahead to the introduction of employee representation on the board so they will contribute at the formative stage An employee share option scheme is also possible, although a major educational effort will be required

JCI is earmarked for black economic empowerment initiatives and there are several potential bidders When ownership changes hands, it is conceivable that JCI could be restructured in a manner that would coordinate its "blue sky" potential and unlock value to all shareholders

"Western Areas needs to be seen in the light of these potential improvements as they will ensure an even brighter future,' concludes Nairn





AHEAD OF HIS TIME Bill Nairn, who says JCI was practising participative management long before it became fashionable

ANALYSIS

Drop in the volume of gold production is not a fait accompli

BD 13/3/97 (214)

The future shape of SA's gold mining industry will be determined by three key factors, says SA Chamber of Mines vice-president **Bobby Godsell**

IF WE consider the shape of SA's gold mining industry in the next century one issue seems almost certain This is that the volume of gold production from this country will decline

The decline from peak production of a little over a thousand tons is the result of three trends which are set to continue These are ore depletion, declining grade and increasing depth

The three trends have combined to reduce the extent of payable reserves available for mining They have also led to lower rate of mining, and lower levels of annual production There seems no reason to believe they will not continue in the future

Underground radar finds faults and fractures in the rock at Western Deep Levels

I have described a continued decline in SA gold production as being almost certain What, then, constitutes the "almost"? The qualification is, of course, "in the absence of any new major gold discovery"

Many commentators on SA gold reason as if such a major discovery were itself almost impossible The Witwatersrand Basin is treated as some sort of geological freak event It is also said SA is so comprehensively prospected that major discoveries are a near impossibility

Both these beliefs seem to me to be wrong-headed There is no reason to believe that the Witwatersrand Basin pattern of gold mineralisation is unique Furthermore, the suggestion that SA (or indeed probably any other part of the world) has been comprehensively explored is simply wrong

Without major new discoveries, SA gold production will continue to decline into the new century What will be the rate of this decline? This will be determined by three factors which are inherently open Two of these relate to some "blue skies" opportunities The third — the most important — turns on the fundamental architecture of this industry in the new millennium Outside of the possibility of a major new discovery, two aspects of the industry provide the possibility of additional production

The first of these has been described as the process of "taking down the farm fences" In the early decades of SA's gold rush, as a result of the link between mineral rights and property ownership in the Roman Dutch legal system, most mineral rights were acquired together with the acquisition of the related surface rights, that is, through buying land

In the agrarian society of SA in the late 19th century this meant buying up farms So farm boundaries became the mining pegs that demarcated the stakes of different owners Inevitably and understandably, those early mining entrepreneurs acquired potentially prospective ground wherever they could Equally understandably, they have held this ground and its related mineral rights, independent of immediate plans to mine

This description should not be misunderstood as a criticism of the coexistence in SA of systems of both state and private ownership of mineral rights The fact is that this pattern of ownership has given rise to the most significant gold mining industry the world has ever seen.

In today's market, driven by falling grade and tight margins, a much more vigorous trading of mineral rights, and even mining operations, has been evident than in the last three decades The Anglo group consolidated its seven Free State mines into Freegold in 1985. Gold Fields consolidated East and West Driefontein in Driefontein Consolidated, and more recently merged the Kloof and Libanon mines

More recently still, we are seeing the consolidation of the Evander mines of Gengold into a single company In an even broader consolidation, the gold mines and major exploration companies of Anglovaal are being combined into a single new entity, Avgold

Beyond this consolidation within groups has been the merger of mining operations across group lines Mines such as Grootvlei, Unisel, Buffelsfontein, Doornfontein and Saaiplaas have all changed hands.

[illegible] down

Drilling in progress at [illegible]'s subshaft

least three factors suggest that this trend could be reversed

The first is growing recognition, at both political and industrial relations levels, of the need to make the gold industry globally competitive At a political level, this need is now beyond question In labour relations, all unions acknowledge this need They acknowledge the central role that productivity improvement will play in determining the extent of gold mining in SA

A second factor is the extent of improvement in both operational efficiency and labour productivity that is possible

The politics of race have shaped and constrained the gold mining industry since its creation Black South Africans were only able to become artisans in 1979, and certified miners about 10 years later

Ironically, this century of racial division has created both a dramatic need and a dramatic potential for a radical restructuring of job structure and skills profile

The third and most convincing factor to suggest that margin squeeze can be reversed through radical improvements in productivity are pilot projects now demonstrating the possible dramatic extent of productivity gains Every mining group has such pilots projects the farm fences has been the swap of mineral rights that has begun to occur

Amongst several examples, perhaps the largest thus far has been the exchange which has recently taken place between the Anglo and Gencor groups of mineral rights in the Evander, Orkney and Southern Free State gold regions This swap should turn to account 3,7-million ounces of gold which would otherwise, in all likelihood, never have been mined

A common logic underlies all three forms of farm fence removal This is the redelineation of mining operations around the realities of geology and the economic imperatives of the use of existing infrastructure In this way, new patterns of ownership will lead to the production of new gold

A second area of blue skies is the prospect of ultra deep-level mining The industry is already producing significant amounts of gold from reefs as deep as 3 700m below surface

Western Deep Levels has started a deepening project which will extend reach to nearly 4 000m below surface The Anglo group is investigating the possibility of mining the deeper-lying Ventersdorp Contact and Carbon Leader reefs along the West Wits Line which are known be between 3 500 and 5 000m below surface

Many sceptics doubt that it will be possible to mine both safely and profitably at such depth Anglo does believe that the industry has made major strides in both measuring and managing seismic activity, in planning 4 000m, single drop hoists, in designing mining and support strategies which could be effective at such depths, and in perfecting cooling technologies to make such mining possible If it proves possible to mine at such depth, extensive new reserves would be created

Anglo, together with Gold Fields, finds the prospect sufficiently interesting to be spending $8m on a vibroseis survey as a first step towards establishing the viability of this idea

Let us turn now to the final area of uncertainty, by far the most important

For the past decade and a half, gold mines in SA have been in a vice-like grip of closing revenue-to-cost margins

Faced with a flat gold price — at first in dollar and more recently also in local currency terms — rising costs have eroded margins which placed SA producers at the bottom of the cost curve, to the extent that the country is now the highest cost major producer

Declining grades, increasing depth and distance from shafts of mining operations have contributed to costs rising well above both domestic inflation and the cost profile of other producers Rising labour costs — comprising roughly half of total working costs — have had a further impact In more recent years, the reduction in production shifts worked, flowing from an increase in public holidays, increased absenteeism and poor production levels, have seen high fixed costs of this simultaneously capital- and labour-intensive industry spread over an ever smaller output Unit costs have risen significantly

What hope exists that the margin squeeze of the last 15 years might be reversed? At tivised production targets in creased and more flexible skills, and the revision of job structure to give greater scope to production teams

Results from these pilot projects are both dramatic and encouraging High, double-digit improvements in productivity per employee have been sustained over a number of years What is equally clear, however, is that results are the product of programmes which require systematic effort over a period of years, not weeks or months

If SA mining companies can be as entrepreneurial, as innovative and as tough minded in the 21st century as they have been in the 20th, decline in production will become a restructuring Ore depleted shafts will close But those that remain will become productive and profitable, and SA will be counted amongst the world great gold producing countries for decades to come

☐ *This is an edited version of a speech delivered by Godsell at a conference in Toronto earlier this week*

Private ownership 'no barrier'

(214) BD 24/3/97

Reneé Grawitzky

THE private ownership of mineral rights did not constitute a barrier to entry for potential foreign investors wishing to invest in the SA mining industry, Anglo American's gold and uranium division chairman Bobby Godsell said last week

Speaking to the SA-Canada Chamber of Business, Godsell said the existence of private ownership of mineral rights in the US had not prevented Canadians from operating there He did not see this as a deterrent in SA

"We have to show that the market is open to those who have the resources to come and invest," Godsell said

He said the industry was gearing itself for the challenges of operating in the 21st century, and he was confident the industry would be able to produce goods and services competitively

The SA mining industry had gone from being the lowest-cost producer to the highest-cost producer in the world In partnership with labour, Anglo would be able to get its costs down to \$250/oz, Godsell said

It took four to five years for companies involved in business re-engineering to implement and see the results of such initiatives By the 21st century, Anglo's labour force would not be dominated by unskilled labour, he said

Labour relations in the mining industry had evolved through four phases The first phase began in the 1960s when workers become empowered as they moved from being unskilled to semiskilled The second phase of the emergent trade union movement flowed into a phase of conflict management The fourth and current phase was one of addressing the challenges of the 21st century

The industry, which had not been hit by a national strike in a decade, was showing signs of "pretty good" labour relations Despite this, foreign analysts spent the first six months of every year asking whether there was going to be a strike or not, Godsell said Analysts should do their research better

Elandsrand to merge with Deelkraal mine

David McKay

(214)

ANGLOGOLD, Anglo American's gold mining division, is to merge its low-cost Elandsrand mine with neighbouring Deelkraal, operated by Gold Fields of SA The merger is seen by Anglo as a first step towards exploiting the major gold resource known as Western Ultra Deep Levels

Elandsrand proposes to buy the entire share capital of Deelkraal for about R420m, though this has still to be ratified by Deelkraal's minority shareholders However, the merger of the two is expected to increase their total recoverable gold by 5-million ounces to 14-million ounces of gold

In terms of the agreement, Deelkraal shareholders will receive 20 new Elandsrand shares for every 100 Deelkraal shares

It will become a wholly owned subsidiary of Elandsrand and will subsequently be delisted

The shares will be offered to Deelkraal shareholders at a 25% premium on the basis of the share's average value since negotiations began about seven months ago

Alternatively, a 10,5% premium is being tabled at yesterday's closing prices — the measure used by Anglogold to evaluate the premium

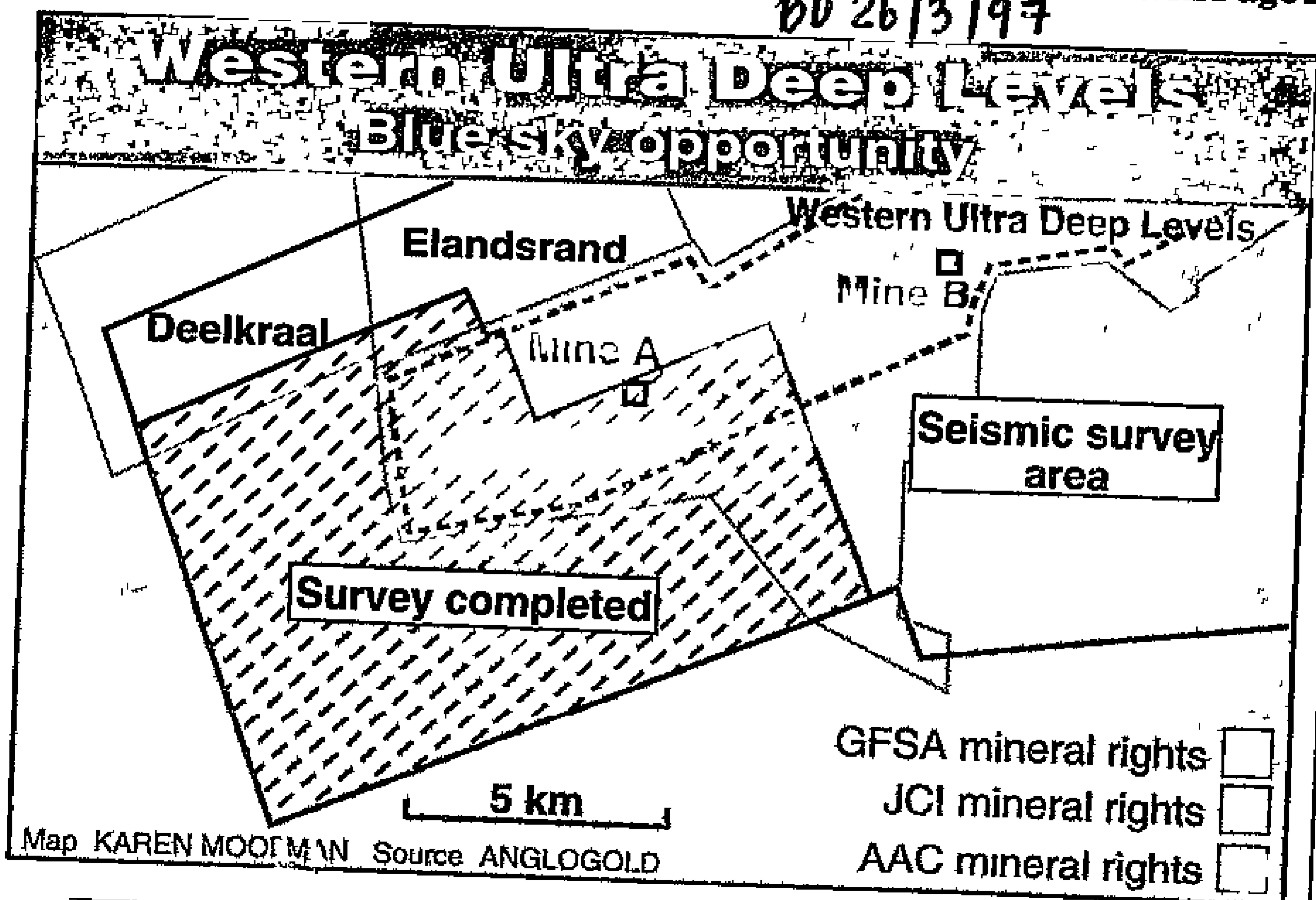
Crucially, the deal could also provide an important strategic spinoff for Anglogold in which it could further explore the viability of sinking a gold mine south of Deelkraal — Western Ultra Deep Levels

Anglogold CE Bobby Godsell said that the importance of the deal should be seen as another step in rationalising SA's gold mining industry by removing historical farm boundaries

He said the proposed transaction made sense as Elandsrand and Deelkraal mined a single orebody containing high grade reef on the bound-

Continued on Page 2

BD 26/3/97



Map KAREN MOORMAN Source ANGLOGOLD

Deelkraal

(214)

Continued from Page 1

ary between the two properties Potential resources would be accessed using Elandsrand's existing infrastructure

In the past, Gold Fields of SA had considered raising R600m to develop Deelkraal further

But the mine had a R38m overdraft and waning investor confidence, analysts said

They said Elandsrand would take over Deelkraal's overdraft and create a single tax entity with possible tax advantages Preliminary talks with the receiver had been conducted.

Owing to its low-cost structure and positioning in relation to Deelkraal, Elandsrand will be able to develop Deelkraal's resources at a much lower cost. Elandsrand produced gold at a cash cost of about $240/oz in the December quarter.

Elandsrand will probably assume control of Deelkraal by July, following a due diligence investigation and will employ Deelkraal's 6 800-strong labour force.

In January, Anglogold and Gencor swapped mineral rights historically separated by farm boundaries Anglogold then sold a Freegold shaft to Randgold-managed Harmony gold mine as Harmony could make use of Freegold's infrastructure in mining a northern section of its lease area

"This is the most stunning example of the growing trend in SA's gold mining industry to remove traditional farm boundaries," Godsell said

"There should never have been two mines (Elandsrand and Deelkraal) as it was one orebody," said Godsell

On the Johannesburg Stock Exchange yesterday, Deelkraal gained 10% to end at 380c and Elandsrand improved 5% to 2100c

BD 26/3/97

Picture: Page 3

Misstating mine production skews CSS statistics

(214) BD 27/3/97

The accuracy of SA's reported gold sales has been questioned by economist Edward Osborn and I-Net reporter Helmo Preuss. They respond in separate articles to criticism by the Central Statistical Service

OSBORN responds In his letter of March 24, Mark Orkin, head of the Central Statistical Services, wondered why I-Net economics reporter Helmo Preuss and I resorted to the media on March 20 in revealing apparent discrepancies in the gold production figures

Simply this, official sources can become vaticans of infallibility, and this includes, par excellence, the Reserve Bank Individually unassailable, but comparatively challengeable

One must thank Orkin for his elucidation of the matter, but he hasn't got it quite right

The various statistical authorities in this matter were the Chamber of Mines, the Minerals Bureau, the Central Statistical Services (CSS), and the Bank The monthly production figures of the chamber are obtained from the Rand Refinery and comprehensively cover the members and non-members of the chamber, they referred to refined gold production and not, as implied by Orkin, to mine production

Incidentally, these production figures tied up precisely with those in the chamber's publication on the quarterly working results, which was the only definitive source of the value of production, in rands, of the members Using average values from the quarterlies lets one make a good estimate of the full national production

The bureau also got its information from the refinery, but, as discovered by Preuss, had omitted the toll-refined gold on behalf of SA producers for direct marketing The bureau's production figures have accordingly been seriously understated since the commencement of the right to enter into direct marketing

The CSS relied on its information from the bureau and had therefore fallen into the same trap as far as mine production was concerned Preuss and I wondered if the underreporting extended to the gross domestic production (GDP) estimates — we did not state they did — and we are most relieved to have Orkin's assurance on this

Nevertheless there did appear to be a schism within the CSS with mine production understated but GDP value-added estimates being fully stated Personally I have experienced a similar readiness on the part of the CSS to accept the bureau's figures unquestioningly

For example, when the CSS reported mining employment fell by 100 000 in a month and then defended this because it came from the bureau

On further inquiry it appeared the figures were put together in the bureau by a clerk, who reported the sum of returns received up to the time of his taking leave The statistics then become numbers and not intelligence

The discrepancy between the value of production according to the bureau and as estimated by Preuss for the chamber was attributed by Orkin to the difference between production and sales and the possibility of mine retention

Firstly, Orkin was absurdly misled into believing there could be 100 tons of gold produced but not sold, according to the bureau The country's balance of payments would have been utterly disastrous Secondly, as already indicated, production figures are all based on the refined production figures of the refinery

My earlier reference to the Bank harks back to their realisation last year after persistent nagging by me, that because of a rigid adherence to an outdated definition of gold sales in the balance of payments, they were missing direct sales This resulted in massive revisions of up to R5bn stretching back to 1992 and a further R2bn upward last year

The trade figures for last year also experienced revisions to the gold exports because these were supplied by the Bank to the commissioner of customs and excise for inclusion in the figures

We want more than transparency We want consistent information that is reliable

Minerals bureau refused to re-examine incorrect gold figures

PREUSS responds The intention of my report published on March 20 was never to impugn the reputation of the CSS, but rather to improve the quality of SA statistics, by highlighting areas for improvement

The very first sentence on the underreporting of gold sales should have made that clear when it was stated that the CSS was fed incorrect information by the Minerals Bureau

I would like to address certain issues raised by the letter

Firstly, the discrepancy of 100,2 tons between gold sold and produced in 1996 is equivalent to a quarter of production (91 days of production) and the most basic test of reasonableness would say that this is improbable as gold mines are legally obliged to send their gold to the Rand Refinery within 30 days of producing it The Rand Refinery, equally, is not going to stockpile R5bn worth of gold as the interest charge on that (either incurred or forgone) is close to R3m on a daily basis or R264m for the full implied stockpiling period

Secondly, the value of gold sales is not seasonally adjusted based on Reserve Bank data, where the total for net gold exports reported in the balance of payments current data is exactly four times the figure reported in the seasonally adjusted annualised balance of payments data This practice should be carried through to the CSS value-added calculations where, for instance, the CSS reported that net profit before tax (gross operating surplus) of the total mining industry rose by 7,9% (annualised 35,5%) in the fourth quarter of last year compared with the third quarter

In addition, the quarter-on-quarter annualised increase in gold production between the third quarter and the fourth quarter was 15,1%, according to the minerals bureau, and 21,5% according to Chamber of Mines data As gold mining makes up 45% of total mining based on 1990 weights, it is inconceivable to me that the CSS estimate for fourth-quarter mining value added shows only a seasonally adjusted annualised 1% growth

Thirdly, the Chamber of Mines normally reports gold production within 20 days of the end of the month, which is normally reported in Business Day the day after its release

I accept that the CSS is reliant on a far longer reporting cycle from the minerals bureau for non-gold mining, but Transnet volumes on iron ore and coal shipments, which are available within 60 days of the end of the month, would give the CSS coverage of at least 80% of mining Neither iron ore mines nor coal mines carry vast stocks at their mines, but stockpiles are held rather at ports or at domestic customers, so the difference between production and shipments would be small

Fourthly, as far as I am aware, the CSS reports GDP estimates 60 days after the end of the quarter, which was moved from 45 days previously To me the end of the following quarter implies a delay of 91 days Could the CSS clarify? If best international practice is the CSS's yardstick, may we then expect three-monthly revisions to a quarter's GDP (and other important data such as monthly trade data, quarterly current account data, etc) rather than having to wait another whole quarter for the next revision?

This, as I reported on March 20, is a general request by economists

Orkin accuses me of failing to contact a senior CSS official before publishing the article In fact I contacted Mrs Nel, the senior CSS official responsible for mining statistics, in November last year I had first noticed the large discrepancy in the July gold sales figures the previous month, but did not comment as I expected a revision, as the discrepancy was so large and so obvious I assumed it was a typing error

When there was no revision, I contacted her

She investigated and phoned me back saying her hands were tied (or "fingers cut off") as the Minerals Bureau refused to re-examine the reported figures, and she was obliged to put out the data as reported to her, even if they were incorrect

When the December 1996 mining data was released on March 10 this year, I phoned various contacts in the mining industry to find out if there had been a massive disruption to either gold mining or nongold mining. From March 17 onwards, I liaised with the CSS, the Rand Refinery and the Minerals Bureau

It was only the prospect of publication that prompted the Minerals Bureau to ask Rand Refinery why the Minerals Bureau figures were wrong

A cumulative underreporting of R7bn in the current account balance (the Reserve Bank's revisions to historic data over the last two quarterly bulletins) or in GDP is important, not only to international investors but to the general reading public

What the CSS and other reporting agencies need is a "statistical auditor", especially when 15% staff cutbacks at the CSS may make official data even more suspect

GOLD *Transparency a feature of new financial reports*

Mines adopt new format

CT (BR) 8/4/97 (214)

AUDREY SEKWAKWA

Johannesburg — The annual reports for last year for five gold mines in the Anglogold stable for the first time included financial statements drawn up according to international accounting standards, the organisation announced yesterday

Jonathan Best, the Anglogold finance director, said the objectives for the development of the new format were to bring Anglogold in line with the international trend towards greater transparency and more disclosure

He said the new format enables South African and non-South African investors and potential investors to compare the companies with other gold producers outside South Africa

He said the format also gives added impetus to the international investor relations drive launched on behalf of the mines by Anglogold at the beginning of this year

The "new look" financial statements have been published alongside the old method, which will be dropped in a few years

"We felt that we should go for the International Accounting Standards (IAS), which are broadly aligned with the Australian Code of Reporting, to keep in line with international standards," Best said

Anglogold said that in terms of ore reserve reporting, according to the internationally accepted mineral resource classification standard, the aggregate of the resources of its companies amounts to 215,4 million ounces of gold

OPTIMISTIC *Bobby Godsell, the chairman of Anglogold, says gold's appeal will not dim* PHOTO JOHN WOODROOF

This would not have been reported in the old method

The format also gives an illustrative financial reporting system in accordance with the IAS

On this basis, Freegold, Vaal Reefs, Western Deep Levels, Elandsrand and Ergo reported earnings yields in excess of 10 percent

The financial statements now report in imperial and dollar as well as metric and rand measures The report gives a more detailed review of last year's results in a management analysis, together with additional statistical information

In his annual reviews for the Anglogold mines, Bobby Godsell, the chairman of Anglogold, the gold division of Anglo American, said there was little that gold producers could do to influence the price of gold

"The price will continue to be supported on the downward side by worldwide physical demand, and we look forward to stronger prices in the future as the economic cycle changes," Godsell said

"While speculative sentiment may continue to keep the prices at the lower end of this range ($330 to $390) for some months ahead, there is no reason to believe gold will cease to be both a desired store of value and adornment for hundreds of millions of individuals throughout the world," he said

GOLD FIELDS COAL (214)

WORTH ACCUMULATING

FM 11/4/97

With its fortunes now pinned on the restructuring of its major collieries to produce the new blend of coal known as Cosmos, Gold Fields Coal should rename itself Cosmos Coal

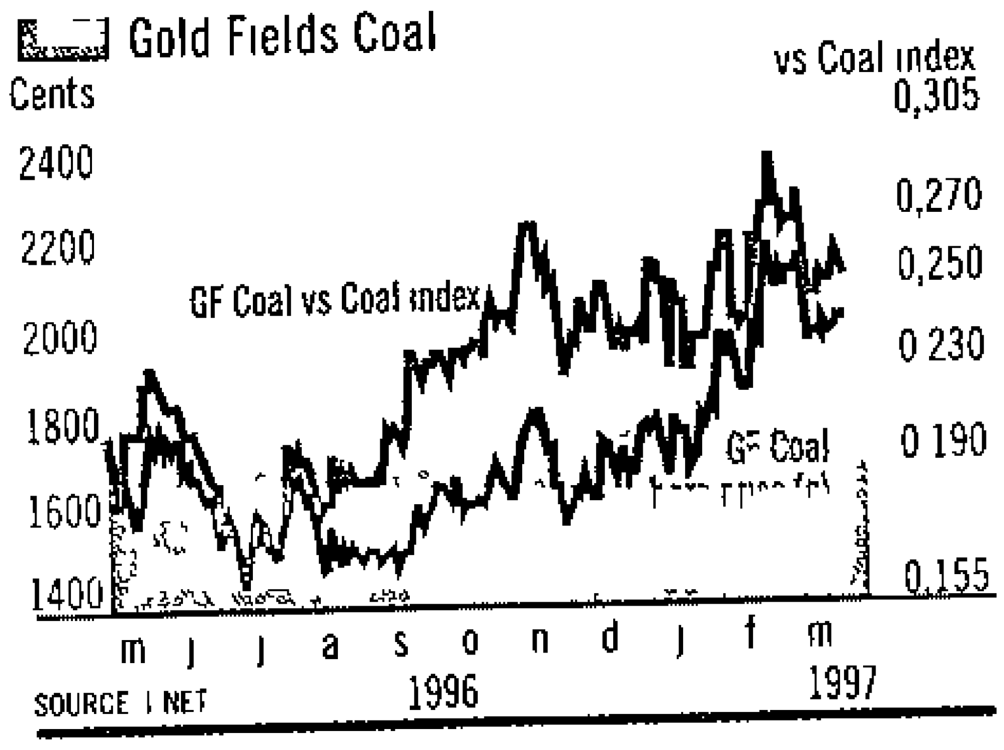
- **ACTIVITIES** *Operates Greenside and new Clydesdale collieries and has a 50% stake in the Matla joint venture*
- **CONTROL** *Gold Fields of SA 60%*
- **CHAIRMAN** *P R Janisch MD B A Day*
- **CAPITAL STRUCTURE** *16,9m ords Market capitalisation R353m*
- **SHARE MARKET** *Price 2 090c Yields 8,2% on dividend, 19,2% on earnings, p e ratio, 5,2, cover, 2,4 12-month high, 2 450c, low, 1 430c Trading volume last quarter, 0,3m shares*

Year to December 31	'93	'94	'95	'96
Coal sales (Mt)	8,4	8,8	9,0	8,7
Turnover (Rm)	309	339	413	455
Taxed profit (Rm)	27,2	25,1	37,5	68,2
Earnings (c)	120	148	222	403
Dividends (c)	100	110	140	170

Mining house founder Cecil John Rhodes would probably revolve in his grave and, no, it would not convey the traditional Gold Fields image of stern conservatism but that would make a welcome change

I happen to be fond of the Cosmos flowers which mark the onset of the Highveld autumn — the name for the new product is a stroke of marketing genius compared with such industry standards as "power station smalls" and "brand 2"

This restructuring was forced on GF Coal because it was fast running out of reserves on the No 2 and No 5 seams at its main producing colliery, Greenside The solution proposed, and now accepted by the GF Coal board, is to switch



operations to the Nos 1 and 4 seams at Greenside and the No 2 seam at New Clydesdale Collieries (NCC)

Plans are to mine 81 000 t/month from the No 1 seam and 190 000 t/month from the No 4 seam Washed product from the two seams at Greenside will be blended with coal from NCC to produce Cosmos, a high-grade steam coal for export

NCC will continue to produce a low-ash coal for export, but by 2006 this will be phased out and GF Coal will produce just two types of coal — Cosmos and Domestic — instead of the eight types now

This streamlining is expected to bring cost benefits, as is the establishment of a new mine on the No 4 seam using modern, mechanised mining equipment Total cost is estimated at R200m, of which R158m will be spent this financial year It will be financed largely through debt

GF Coal chairman Peter Janisch says it's not intended that dividends should differ substantially from recent levels during the period of heavy project expenditure, "provided these are justified by current earnings"

He glosses over the other key issue, the future level of exports The restructuring enables GF Coal to produce an additional 1 Mt/year for the export market However, the problem is getting it out of the country

With only a tiny stake in the Richards Bay Coal Terminal (RBCT) — even allowing for the RBCT's planned expansion — GF Coal will still need to find export facilities for around 0,9 Mt/year The two possible options are expansion of the Matola terminal in Maputo or construction of the long-awaited second terminal at Richards Bay

At R20,80, GF Coal offers the lowest p e ratio and highest dividend and yield in the coal sector except for Zimbabwean coal mine Wankie It looks worth accumulating *Brendan Ryan*

Depressed gold price drags down Gold Fields profit

CT (BR) 18/4/97 (214)

Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — Gold Fields of South Africa, the country's second-largest gold producer, posted a 31,5 percent slump in first-quarter profit yesterday to R238 million, hit by a lower gold price and extended Christmas holidays

Kloof was the worst performer in the group, falling from a working profit of R96,2 million in the quarter to December 31 to R28,2 million in the quarter to March 31 as the effects of a small underground fire led to a substantial decline in production

Gold Fields did not release information about the incident at the time because it felt the fire would not have an effect on output, but technical problems developed later in mine machinery

"The Kloof results were lousy, and dragged down and obscured the performance of the group as a whole There is good news in the results and the situation is not all sombre," Alan Munro, the Gold Fields' executive director, said yesterday

Gold Fields had been recovering from a disastrous September quarter last year when unrest and underground fires, which many thought were the result of arson, badly dented profit A commission of inquiry set out reforms in labour practices, which Gold Fields accepted

The December quarterlies showed a recovery, but the reduced profit this quarter would add to the company's troubles

The recovery in gold production seen in December was "sustained but did not increase as much as expected and was not enough to counteract the 8 percent decline in the dollar gold price and the 1 percent rise in unit working costs", Munro said

Pretax profit fell to R253,5 million from R364 million previously and after-tax profit dropped from R333 million to R236,4 million Revenue dipped from R1,289 billion to R1,213 billion The average gold price also fell from R56 292 a kilogram to R51 737

Libanon increased its yield and performed well, but Kloof stablemate Leeudoorn had a slight drop in its yield Kloof Consolidated was badly affected by the fire at the Kloof mine

Deelkraal, which was to be bought by Anglo's Elandsrand, recorded a "minimal working profit" even though yields increased The company has been trying to boost gold production using a bonus incentive scheme, but management concedes that the mine's profit outlook depends on increasing gold production and a higher gold price

Both West and East Driefontein have been concentrating on high-grade areas Yields at East Driefontein were up 12 percent Consequently, gold production rose 10 percent

☐ **Business Watch, Page 18 and Profits Dive, Page 26**

Untouched gold secured in Kalahari field

The Kraaipan Greenstone belt has been ignored while the Wits basin was exploited. It is now yielding bullion, writes JULIE WALKER

ST 20/4/97 (BT) (214)

KALAHARI Goldridge has secured the rights to 85% of the Kraaipan Greenstone belt, believed to be an entirely untouched gold field lying south of the Botswana border

"The Kraaipan belt has not been investigated much in the past because of the importance of the Wits basin deposits," says Kalgold's Ted Grobicki, a geologist turned entrepreneur who has been the force behind the mine

The Kalgold lease area was bought from Shell three years ago The two-pronged Kraaipan belt lies west of Mafikeng, extending 195km on its western tine and about half as long but some 30km wider to the east

It listed on the JSE in October 1996 and has a gold resource of 2-million ounces (22 6-million tons at 2 79g/t in situ) which Grobicki estimates cost $11/oz to develop The total mine will have cost just over R100-million to develop Current gold production is 30 000 oz a year from the phase 1 heap leach By next year, a carbon-in-leach plant will have been commissioned and mine production will rise to 65 000 oz

Grobicki is confident that by 2000, gold production will reach 120 000oz mined at an estimated profit of $90/oz

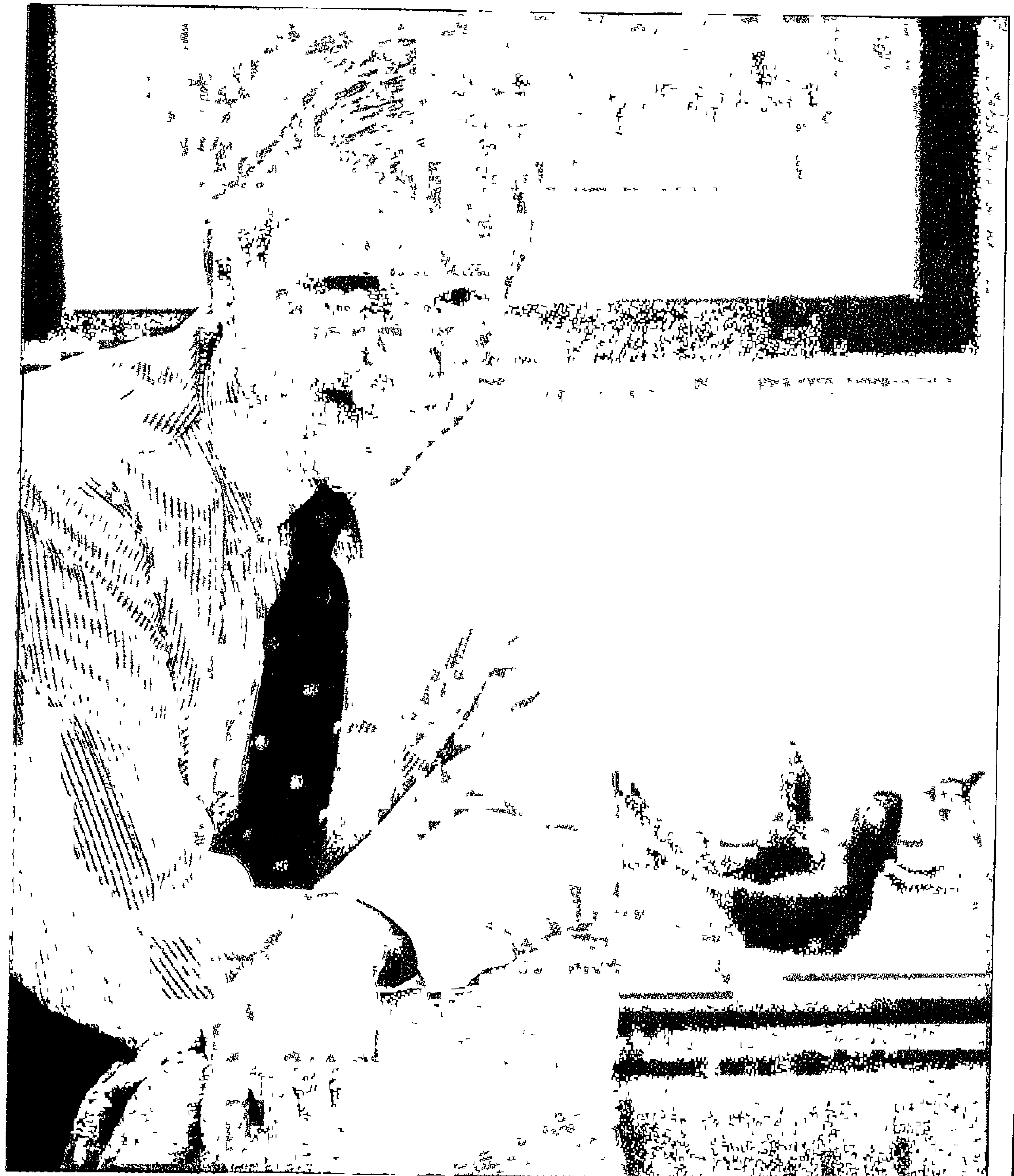
The current market capitalisation of Kalgold is about $60-million or $30/oz — roughly in line with South Africa's Wits basin mines although Kalgold has nothing in common with them, nor with other SA greenstone mines Kalgold's ore is non-refractory and it looks like a typical Australian mine

The mine has been fast-tracked A feasibility study of ore reserves, metallurgical research, mining plan and contracting tender as well as infrastructural and financing aspects was concluded in 1995 Construction commenced in January 1996 and the first gold was poured in July Production has built up to 90 000 tons a month now, and the grade rises with depth

As expected, the group reported a working loss of R988 000 in the March quarter Another R965 000 was amortised in line with the reporting procedures of international mining companies Exploration cost R182 000 and rehabilitation provision R194 000 During the quarter, Kalgold raised R80-million in a claw-back offer and finance income netted R663 000 to leave a loss of R1 7-million for the quarter

Kalgold will not hedge its gold production, and had it received the same gold price as prevailed in the December quarter, it would have broken even at the operating level

Grobicki says Kalgold has bought from parent West Rand Cons all the group's exploration interests in the Kraaipan Greenstone Belt, namely 150 000ha of prospects and all exploration results achieved to date



GEOLOGIST TURNED ENTREPRENEUR . Ted Grobicki, the force behind Kalahari Goldridge

10 000 jobs at Anglogold threatened by profit fall

(214)

ANDI SPICER

MINING AND RESOURCES EDITOR

CT (BR) 25/4/97

Johannesburg — Weak bullion prices and poor productivity could lead to the closure of four shafts and 10 000 job losses at Anglogold's Freegold mine, the company said yesterday as it announced a 34 percent fall in group profit for the quarter.

"If, however, management and labour are able to achieve the same magnitude of productivity improvements as were made following the Freegold summit in January last year, it will be possible to avoid the closure of these loss-making shafts," Bobby Godsell, Anglogold's chief executive officer, said yesterday.

"I'm worried overall for the group and the industry as a whole to survive the low gold price." He expressed concern and frustration at the slow implementation of labour agreements.

Freegold was the worst performer in the group as available profit dipped to R62,9 million from R110 million previously. Godsell said if the same price and labour environment continued, the group would close four shafts in the short and medium-life category — Steyn numbers 2 and 5, Freddies number 5 and the combined Western Holdings 2/3 shaft. "Together, these shafts incurred a loss of some R18 million in the quarter. This magnitude of the loss is unsustainable and, on current performance, they will have to close," he said.

The many days lost at Christmas and the slow start to January production meant available profit slipped to R224,3 million for the group and gold production was down 7 percent to 50 207kg. Operating profit dived 40 percent to R410 million.

Anglogold has suffered along with the rest of the industry this quarter as the precious metal fell from $367 an ounce at the beginning of the year to $337,70 in February, before recovering slightly.

□ Freegold, Page 25; Business Watch, Page 20

SA gold mining needs major facelift as worst crisis hits the industry, analysts say

MELANIE CHEARY (214) ARG 1/5/97

Disastrous first quarter results and a sickly bullion price had hurled more South African gold mines into the marginal camp and hacked operating margins to their lowest level ever, analysts said.

The industry needed a major facelift to improve productivity and was fast approaching severe job cuts

After years of belt-tightening in the face of slipping output, ageing mines and declining grades, this was the worst crisis to face the industry, analysts said this week

"It has been an exceptionally bad quarter Margins are down to 14 percent, the lowest in the history of gold mining in South Africa," said an analyst who asked not to be identified

"The industry is in need of a major shake-out," he said

Of the six mining houses that had already reported their first quarter results, only Gengold raised profits in the three months to end-March, and that was mainly because of a tax rebate and money from the cancellation of consulting service fees at one of its mines The rest suffered reduced earnings with JCI's profit cut by 67 percent on the preceding quarter

The industry's circumstances were unlikely to brighten in the June quarter with the Easter holiday break, two public holidays this week, a half-day national strike planned for May 12 and a still fragile bullion price all taking their toll, the analyst said

"The industry as a whole could be running at a loss in the June quarter The average loss could be R70 an ounce next quarter," said Nick Goodwin, analyst at Fedsure Asset Management

Another analyst said margins could drop to around 11 percent in the June quarter

The world's largest gold producer, Anglo American Corporation, had already warned of shaft closures and retrenchments at two of its mines

Blaming delays in implementing productivity agreements and poor management for declining productivity, analysts said about 40 percent of gold mining production in South Africa was unprofitable

Of the 40 gold mines in the country, which employed about 35 000 people, 23 would become unprofitable under the current average gold price of R1500/kg

"That means about 1,5 million dependents with their income threatened I cannot remember a worse situation in the mines' history," Mr Goodwin said

The mines mostly held the weaker gold price responsible for lower profits The dollar bullion price has fallen since the start of the year and is seen heading towards a four-year low It was bid at $339,25 an ounce yesterday

But analysts said the metal price was a variable and could not be banked on It was up to the mining houses, management and labour to rescue the industry – Reuter

Job losses loom in ailing gold industry

(214) ST 4/5/97 (BT)

MINING CONSTRAINTS

By SVEN LUNSCHE

THE taxed profits of South Africa's six largest mining houses slumped by a combined 37% in the March quarter compared with December, as results were hit by falling gold prices and lower production volumes

In the March quarter the taxed profits of JCI, Gengold, Randgold, Avgold, Anglogold and Gold Fields totalled R714-million, a decline of well over R400-million compared with December's R1 14-billion

In the wake of the earnings slump, job losses at the industry's marginal mines have again become a threat Releasing their results, four mines — JCI's Randfontein, Anglo's Freegold and Avgold's Loraine and Hartebeestfontein — warned that job cuts were imminent The mines, along with Randgold's ERPM and Grootvlei and GFSA's Deelkraal, reported a loss in March

Among the mining houses, only Gengold managed to improve its bottom-line, lifting taxed earnings by 14 5% to R138-million. Avgold, the gold mining arm of Anglovaal, reported the sharpest decline — by 90% to R17-million — followed by JCI's 66 7% slump to R44-million. Randgold's earnings were down by 57% to R55-million while GFSA net profits fell by almost R100-million to R236-million

The mining houses attributed lower production volumes to the high number of public holidays, a factor that will continue to plague them in the current three months

But more worrying for the mines is the fall in the rand gold price received Until the beginning of this year they relied on the weakness of the rand to offset the sluggish dollar gold price on international precious metal markets

Now, with the rand holding steady against the greenback, and bullion falling to four-year lows, they are faced with a sharp drop in the rand-gold price received.

Avgold's price in the quarter was one of the lowest in the industry — R51 792/kg, compared with R54 200 three months ago Anglo achieved a fairly respectable R53 000 average price since it hedged about 5% of its production

At a level of about R55 000/kg only three mines were rated by the Chamber of Mines as marginal in December last year — Deelkraal, Loraine and Gengold's Winkelhaak

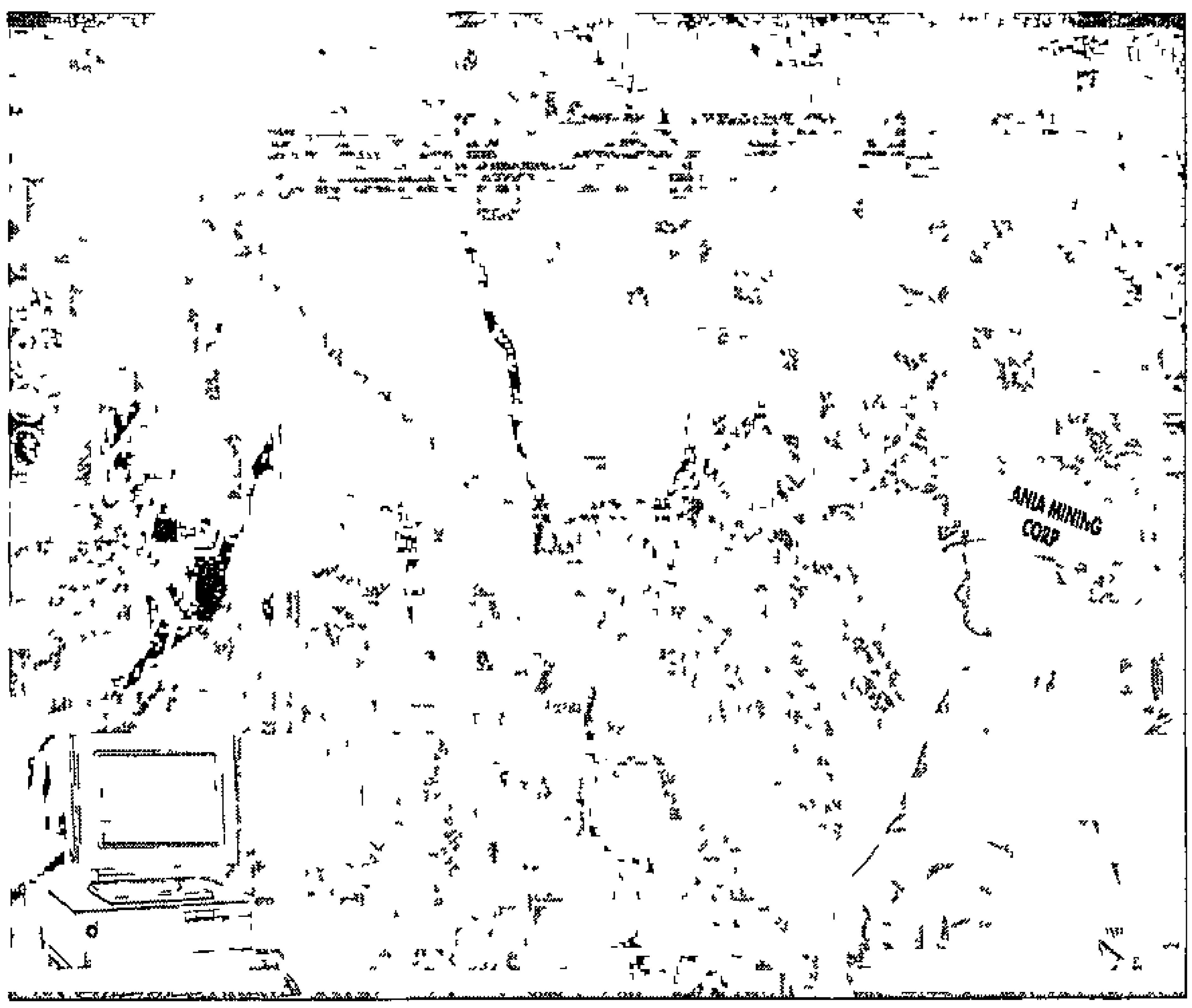
However, when the March evaluation is done this week, up to five mines could be added to the list, industry analysts say The recent trend of mine consolidations is likely to accelerate unless the rand gold price shows a marked improvement

Gold shares on the JSE have been hit hard by the recent slump This week the all-gold index dropped to a four-year low as the gold price traded at below $340 an ounce Bullion closed at just under $340 on Friday, close to this weeks two-and-a-half month low. Analysts see little upside for the gold price in the current global low- inflation environment. JSE stockbrokers are also bracing themselves for a continued fall in the share prices of local gold mines and mining houses

Depths and heights of millennial mining

CT(BR)23/5/97 (214)

Andi Spicer
Mining and Resources Editor



The 21st century is a hard time for South African mining houses The gold price has dropped from its high of $794 (Euro902) an ounce at the beginning of the millennium and clicked down to a steady level of about $600 (Euro528) for the past few years The initial spurt given to the gold price after years of stagnation in the late 1990s by declining production in South Africa and the realisation that US and Australian production, which were highly profitable at the beginning of the mine lives because of high grading and low reserves, has given way to decline in those countries

South Africa is once again king of gold producers in the new millennium, but bullion is still not giving a high return to the smaller and marginal mines that do not use laser and supercooling technology, and now the large gold mining houses are looking for more global expansion The political stability and economic growth in Africa initially brought good rewards in central and west Africa, but the major influence South African gold miners enjoyed has waned

However, the platinum and palladium mines have almost overtaken gold in importance after the Russian stockpiles ran out abruptly in 1999 and South Africa found itself almost the sole producer of the metals, which are vital to anti-pollution systems for the old internal combustion engine vehicles and the main commodity in the new automotive fuel cells dominating this century's car industry Prices rose to over $1 224 (Euro1 077) an ounce for platinum on spot markets in London Palladium rose to more than $600 an ounce (Euro528)

That old sage Bobby Godsell, chairman of Anglo American, was right in the last century when he argued that South Africa had the reserves and that another massive gold find the size of the Witwatersrand Basin could be found, although not even he could predict the size of the reserves deeper underground in the Wits Basin below the 20th-century mines and the finds in west Africa and Zimbabwe, which South African mining houses were first to exploit The breakthrough in cryogenic systems at low cost using superconductors to cool the virgin rock at deep levels and hand-held laser cutting systems enabled mines to go as deep as 12km, following the reef as deep as it goes and made deep mining very cheap The virtual reality 3-D seismic mapping breakthrough also assisted

"Godsell was a visionary back then when he realised that the key was human resources, understanding (the need to get) the workforce on board and using high and cheap technology," said an analyst with leading Johannesburg brokerage house DMSS (Deutsche Morgan Stanley Shabalala) yesterday But the shakeout in the late 1990s in gold was bloody, as bullion temporarily lost its place as the basis for value in central bank gold reserves across the world and as European Union countries tried to achieve the criteria for currency convergence

First Switzerland and then Germany said they would "mobilise" their reserves, and then hints by the US Reserve Bank and the new European Reserve Bank about similar moves sent the precious metal tumbling Very few predicted so much would be sold from reserves, sending prices down and then both institutions buying back bullion at bargain prices Then gold suddenly climbed to dizzy heights and became even more a keystone of reserves and currency when speculative attacks on the euro because of divergent growth, inflation and unemployment levels in EU member countries

Anglo/De Beers has had to give an equal place within South Africa to the new mining house of Azania Mining Corp (AMC), formed from the merger of Gold Fields, Randgold and JCI/Lonrho in 2005 under the Ramaphosa/Khumalo/Kebble partnership Anglo is rumoured to be in talks with Rio Tinto-BHP-Mitsubishi (TBHM) to extend its global reach and is using its mega-mine Ashanti in the West African Union as a bargaining chip to merge with the world's largest resources group Anglo is thought to be offering a 3 1 e-share swap with TBHM and is keen to be a partner in the new offworld mining exploration ventures the group is planning for the next 20 years

Gencor and Avmin moved offshore long ago and set up shop in London, leaving the industry to the re-emergence of junior mining companies in South Africa But Gencor started the concentration of aluminium, zinc and copper smelting facilities that continued into the new millennium Miranda and Rare Earth Corp were not considered good bets at the beginning but the increasing dominance of the base and minor metals industry, particularly cerium-based products, was not foreseen by analysts The use of rare earths in lasers, superconductors and supermagnets exploded in the early years of the 21st century Its by-product in the monazite route to extract cerium and REMs was thorium, now used in all new civil nuclear reactors as a safer alternative to uranium

The retreat of the Reserve Bank from market intervention started with the full abolition of exchange controls in 1998 and spread to the marketing of gold a few years later The Consolidated Gold Bank (CGB) of Randgold director Brett Kebble took the reins of marketing and shipping gold to London, Zurich and New York, as well as providing finance to individual mining houses and smaller mining ventures The Reserve Bank did not like relinquishing its control, but government policy of pushing risk responsibility over to the private sector prevailed and CGB and a number of other banks took over the Reserve Bank's gold role

The past few decades have been unpredictable for South African mining, and have shown that even the events of the late 20th century were not as radical as what took place in the new millennium

Congo retracts SA 'rape' claims

CT(BR) 18/6/97 (214)

Jonathan Rosenthal

Grand Baie, Mauritius — Florent Mututulo, the minister of mines of the Democratic Republic of Congo, this week played down his government's previous statements that mining houses Anglo American and De Beers had raped Zaire. "They cannot rape people who do not want to be raped. We don't want a monopoly, perhaps that is why there is a clash between De Beers and the government."

He said his government would allow the companies to continue operating, but it would renegotiate its contracts.

"There is no question of us saying this agreement was signed by the previous government and therefore it must fall away Those who are already working can keep on working, but they must show us the contract."

He said the government had found "funny things" in some contracts, and it wished to impose social obligations on companies which had found people barefoot and left them barefoot after 30 years of mining.

De Beers and NUM sign mining industry's first two-year wage deal

BD 4/7/97 (211)

Reneé Grawitzky

DE BEERS and the National Union of Mineworkers (NUM) have signed the mining industry's first two-year pay deal, providing for a 9,7% increase this year and an inflation-linked increase next year

The agreement, based in part on the three-year deal in the car manufacturing industry, was facilitated by senior commissioner Attie van der Merwe of the Commission for Conciliation, Mediation and Arbitration (CCMA)

A significant gain for employers is the NUM's undertaking to finalise a formal agreement this year for implementation of a merit award system. This has been the source of discord.

The parties have agreed that monetary awards under the merit system will be determined by the company.

Workers not performing to standard will have access to retraining.

De Beers has agreed to do away with the lowest job category, A1 — a key NUM demand. This will ensure that the minimum wage will be R1 639 a month. The abolition of A1 will come into effect in August, while workers will be trained for to perform tasks in the higher job category.

The agreement provides that if the year-on-year April inflation rate is below 7,2% or above 12,2%, the parties will have to renegotiate monthly pensionable increases. The agreement also provides for a 1% service increment

Meanwhile, the NUM said yesterday negotiations with the Chamber of Mines were dragging on and no progress had been made on its demands After numerous meetings, the parties agreed to separate gold and coal negotiations

At the start of negotiations, the chamber proposed a three-year wage agreement for gold mines which would raise the wages of the lowest paid underground workers to R1 450 by 1999. This would be coupled with a commitment to negotiate implementation of full-calender operations, which the union rejected

The latter proposal is intended to balance pay rises with productivity gains The parties subsequently established a working committee to investigate ways of achieving improved productivity The main sticking point is finding a suitable formula.

NUM said coal negotiations were making no progress, with the chamber tabling a final offer of 8% and rejecting demands for a R1 000 minimum wage. The chamber said its offer was about 9%, and the bulk of coal miners were receiving more than R1 000 Smaller companies would, however, be able to meet this target only in three years.

Mine jobs disaster in the wings

(211)

CT (BR) 9/7/97

Christo Volschenk

Economics Editor

Cape Town — The gold mining industry could shed as many as 100 000 jobs at marginal gold mines if the bullion price continued its weak trend, analysts and economists said yesterday

This further dampened hopes that the government's job-creation targets, contained in its growth, employment and redistribution strategy (Gear), would be reached, they said

The Chamber of Mines said yesterday it did not expect the government to help the struggling industry

Roger Baxter, a senior economist at the Chamber, said the chances of the government assisting the struggling gold mine industry with subsidies were "about zero"

"In the first quarter of this year, South Africa had nine marginal gold mines, of which seven made a loss. A total of 69 000 people worked on the marginal mines," Baxter said

"In the second quarter the gold price edged lower, pushing more mines into a loss-making position The gold mining sector is about to release their results for the second quarter, and it is fair to assume that more mines will report losses after the second quarter"

On the assumption that South Africa would produce 480 tons of gold this year and that the exchange rate to the dollar would average R4,50, the country stood to lose R70 million in export earnings for every $1 drop in the average annual gold price.

For instance, should the gold price fail to climb back to $340 from its level of $320,80 at present, the loss in export earnings would amount to R1,4 billion in a full year, or about 5 percent of the R26 billion which South Africa is expected to earn from gold exports this year, Baxter said Gold exports contributed about 25 percent to total exports last year.

Gold analysts warned yesterday that about half of South Africa's gold mines would be loss-makers if the gold price remained below $320 an ounce.

"At $320 or below, about one-third of the 350 000 jobs in the gold mining industry could be in jeopardy," said Harry Singh, the gold analyst at Fedsure Asset Management

The gold price was fixed yesterday afternoon at $320,80 an ounce, $2 higher on Monday's fix.

"Should the lower gold price lead to a drop in physical production, the loss in export earnings could grow to about R4 billion," Singh said.

The gold mining industry contributes about 3,8 percent to the annual GDP, but a sustained $20 drop in the gold price (such as the one experienced over the past week) could lop about 0,3 percentage points off this year's projected 2,5 percent real GDP growth, analysts warned.

□ **Business Watch, Page 18**

Gold halts headlong decline

Andi Spicer and Matt Getz

Johannesburg — Gold ended its precipitous slide yesterday, fixing firmer in the afternoon at $320,80 an ounce against the morning fix of $317,60, as traders took profits.

However, market observers believed this was just a pause before bullion dived further over the next few days.

"No market falls in a straight line, and gold is no exception," a Johannesburg analyst said yesterday.

"But there is little support for bullion and we could see some heavy selling during the next few days "

Traders are still looking at $310 as the next point of support and, below that, $280

Lawrence Eagles, a commodity analyst with London brokers GNI, said. "The fall in the gold price will undoubtedly lead to the closure of marginal mines around the world over the next few months. Signs of this are already starting to be seen."

Gold's consolidation was mirrored in the performance of gold shares, which strengthened on good volume. The JSE's all gold index, which lost over 5 percent on Monday, firmed by 19,8 points or 2,19 percent to 923,7

The rand, however, took no fillip from gold's brief upswing. It weakened to a five-and-a-half-month low of R4,5515 from R4,537.

"The pressure on the rand market has been caused by the low gold price," said one rand dealer

If the lower gold price forced marginal mines to close, "the worse our exports will get and the higher the unemployment rate will rise", he said.

Loss of subscriptions will be a heavy blow

NUM counts the costs of gold crisis

CT (BR) 14/7/97 (211)

FRANK NXUMALO

Johannesburg — The National Union of Mineworkers (NUM) would lose millions of rands in subscriptions if the 100 000 mine workers facing retrenchment were axed, James Motlatsi, the NUM president, said yesterday

The retrenchments mean the union would be faced with a severe financial crisis

"About 52 percent of the workers facing retrenchment are NUM members," Motlatsi said "At R10 a month in union subscriptions, we will be losing R500 000 a month, or R6 million to R7 million a year. That's a lot of money for a trade union "

Motlatsi said the NUM and the Chamber of Mines had reached an agreement to increase annual gold production in an effort to preserve present levels of employment in the industry

"If we can achieve increased tonnage, we will be in a position to avoid dramatic drops in the current levels of employment, not only in marginal mines but all mines because there are inherent inefficiences in all of them," Motlatsi said

However, this did not mean the union would agree to full calendar operations He said the NUM did not think that full calendar operations alone were the answer to the crisis

"There are inherent (managerial) inefficiencies in the industry as the mines have been run as though there were military establishments

"We have agreed to form a technical team of all stakeholders that will directly influence those areas in which we need to maximise production," he said

CASH CRUNCH *James Motlatsi, the NUM president*

The crisis in the industry was precipitated by the fall in the gold price last week The bullion price tumbled to below $320 an ounce and the reverberations will be felt throughout southern Africa

Lesotho will be hardest hit by the crisis The country has an estimated 80 000 citizens working on South Africa's mines These miners account for 50 percent of the kingdom's gross domestic product and are its chief export A Pretoria-based envoy said Lesotho would not be able to absorb workers who were retrenched and returned to their homeland

Mozambique will also be hit by any retrenchments It has between 40 000 and 45 000 workers on South Africa's mines.

The industry's problems will also exacerbate the unemployment problem in South Africa The number of formally unemployed is estimated at 4 million by the labour department. However, economic analysts say this figure is closer to 15 million.

Mines wage deal 'breaks new ground'

BD 15/7/97 (211)

Reneé Grawitzky

THE Chamber of Mines and the National Union of Mineworkers (NUM) agreed yesterday to productivity-linked wage increases — the first such deal in the gold mining industry.

The two-year agreement appears to put much sought after labour productivity improvements within reach

Increases of up to 25% for the lowest-paid underground workers and between 9% and 10% for others were agreed upon. These inflation-linked increases would be granted provided that parties agreed at mine or company level to find ways of increasing gold production by 90 tons over the next year

The deal, which is to be signed within two weeks, allows parties to negotiate arrangements to improve productivity, including working on weekends.

Wage increases would come into effect only once the parties had agreed to productivity arrangements enabling mines to meet gold production targets

The parties would not divulge how the extra 90 tons had been divided up between the mining houses save to say the "various needs of mining houses" had been weighed up.

The agreement aims to ensure an increase in production levels of at least 20% and to cut unit labour costs

At the start of negotiations the chamber proposed a three-year deal, but the union later felt the parties should enter into a two year deal and, if it worked out, it could be extended

NUM negotiator Ikaneng Director Matlala said the intention of the "accord" was to grant parties at mine or company level the latitude to agree on methods to remove inefficiencies and increase production

Chamber of Mines negotiator Adrian du Plessis said the wage increases were substantial as the industry was determined to break out of a low-wage high-conflict cycle.

The agreement stipulates that company and mine level negotiations should start almost immediately, while the chamber said some mines had already begun negotiations

Chamber president Nick Segal said if the industry got this process right, it would offer more employment security, higher wages and unit operating costs would be reduced, ensuring a more competitive industry

Du Plessis said the agreement broke the patterns of the past and established a new bargaining protocol

Matlala said the union had reached a point where it had to apply its mind carefully and recognised the crisis facing the industry. The "accord", if properly applied could safeguard a lot of jobs within and outside the industry.

NUM general secretary Kgalema Motlanthe said the agreement would ensure that parties at mine level controlled the process, hence the commitment would be far greater. In the past the union had drawn a blank when it came to productivity improvements.

The agreement will raise the industry's minimum rate to about R1 000 for surface and R1 150 for underground workers while increases during year two will be between 9% and 10%.

Picture: Page 14

sible", the trustees had decided the allocation would favour small applicants

communities as the objective was black empowerment", she said.

down road signs. Fourteen students from Kenya Polytechnic are due to appear in court in connection with Monday's violence. See Page 8

Picture AP

Gold production will have to increase 5% to fund pay rises, says Anglo

BD 16/7/97 (211)

Reneé Grawitzky

ANGLO American Corporation estimated it had to increase total gold production by 10,5 tons in the next year to grant the wage increases agreed to between the Chamber of Mines and National Union of Mineworkers, without raising unit labour costs

This would increase Anglo's overall gold production by 5% to bring total production to more than 200 tons.

Anglo was the only mining house prepared to disclose figures yesterday The others refused to divulge their allocation from the target set in the wage agreement between the chamber and the union.

The productivity-linked wage deal links wage increases with productivity improvements resulting in the output of an additional 90 tons of gold on chamber mines over the next year Anglo, SA's largest gold producer, said it believed its allocation of 10,5 tons of the overall target was realistic and would ensure this year's wage deal did not lead to an increase in unit labour costs

Anglogold industrial relations director Steve Lenahan said "it is unrealistic to try and overcome all of our productivity problems through one wage/productivity deal". Pushing production beyond such limits might undermine the substance of the deal — that mining houses set achievable targets, he said.

Anglo believed sustained productivity improvements would require continuing attempts to improve production over an extended period Lenahan said the impressive performance at Elandsrand, was a case in point, where results flowed from four years of systematic workplace reorganisation

The industry and Anglo gold mines had a long way to go on productivity. "Anglo set a target of reducing operating cash costs to what we believe is an internationally competitive level of $250 an ounce."

Anglo did not believe in a "big bang" approach, but was hopeful its target was attainable and would put in place other productivity improvements.

GOLD MINING

Historic accord between management and labour

Faced with plunging bullion price, Chamber of Mines and NUM place national welfare first

FM 18/7/97 (211)

The latest fall in the price of gold, triggered by news that the Australian Reserve Bank had sold nearly two-thirds of its gold holdings, helped concentrate the minds of the two long-time adversaries in SA's gold mining industry the Chamber of Mines, representing the mining houses, and the National Union of Mineworkers (NUM)

Spurred by the spectre of abandoned marginal mines and the retrenchment of thousands of miners, the two have signed a mutually advantageous accord, one which Chamber of Mines president Nick Segal describes, with the concurrence of NUM general secretary Kgalema Motlanthe, as being of "almost historical proportions "

Its centrepiece is a linked agreement, with the Chamber consenting to "substantial" wage increases and NUM committing itself to increased production In specific terms, the Chamber is offering wage increases of "up to 25%" for the lowest-paid miners and between 9% and 10% for the remainder in return for an undertaking by NUM to raise production by 90 t, or nearly 20%

The accord has two further innovative dimensions firstly, it is a two-year agreement, raising the possibility of ending the yearly wage negotiation battle, secondly, details of the wage-production deal will be settled at company and mine level

These ground-level negotiations will determine how the additional 90 t is allocated between the different groups and their individual mines Once these negotiations have been completed, they will be formally ratified at national level It is thus, in the jargon of the times, a bottom-up rather than a top-down pact

The accord testifies to the sagacity of both parties and their ability to put the national welfare above sectional interests But it will present both with the challenge of how to deal with the inevitable quibbles over details on production schedules, not least how the agreed production targets are measured and monitored

They will need all the patience they can muster The crisis in the gold market — exemplified by sales of gold since 1989 by nearly all the major central banks and a price that has followed a downward trend for many years — is likely to persist for a long time

SA, as the world's largest producer, has the most to lose if it does not respond positively to the challenge The emergence of black-controlled mining houses may help by taking the racial edge off management-union negotiations If SA fails despite that, gold might suffer the same calamitous fall as silver did in the last decades of the 19th Century ■

POLITICAL MURDER

Rhetorical origins of brutal killings

Lessons from amnesty hearings of Biehl murder and St James massacre

The amnesty hearings of the murder of US exchange student Amy Biehl and the St James Church massacre provided moments of excruciating poignancy The handshakes between Biehl's fanatical killers and her grieving but composed parents was one Another was the exchange between a sobbing Dawie Ackermann, husband of one of the 11 people murdered in the attack on St James Church, and the contrite trio of attackers

As SA awaits the verdict of the Truth & Reconciliation Commission's amnesty committee, there are several points to ponder The statement by Biehl's killers that they were influenced by the Pan Africanist Congress's slogan "One settler, one bullet" deserves further attention So, too, does the reason offered by the assailants for their murderous attack on the St James Church their erroneous assumption that it is a "white church" — some of the congregants are coloured people — and their belief that the attack would advance the PAC quest for the return of land usurped by "settlers "

These statements, assuming that they are true and not *ex post facto* rationalisations, are significant and have important implications for the conduct of political debate today, nearly four years later

If Biehl's killers were prompted by the PAC slogan, their confession gives the lie to PAC attempts to sanitise it and explain it away as rhetorical indulgence which was not meant to be taken literally by party followers, including those who were young and impressionable Their testimony imposes an obligation on the present PAC leadership, headed by the thoughtful Methodist ex-bishop Stanley Mogoba, to formally and finally dissociate itself from the controversial slogan

If the attack on St James Church had its origins in the widely propagated view in black nationalist circles that the missionaries and the churches they established are part of the array of oppressive forces which deprived blacks of their land, there is a simple lesson to be learnt oversimplified versions of history are highly dangerous, particularly in complex and divided societies

Politicians of all ideological hues should take cognisance of these high-profile amnesty hearings Knowing that oratory has the power to stir hatred, they should exercise oratorical restraint The ANC — which has tried to convince the TRC that its equally controversial slogan "Kill the Boer, kill the farmer" is an innocuous chant — should reel in the fiery Peter Mokaba, who recently labelled F W de Klerk a "bald-headed criminal dripping with the blood of innocent people " ■

☐ LABOUR (211) CT (BR) 18/7/97

Chamber of Mines signs second accord

The Chamber of Mines and two unions representing skilled staff signed a three-year, full calendar wage agreement linked to production and productivity in the gold and coal sectors, the chamber said yesterday.

"Only a few days ago we signed a landmark agreement with the National Union of Mineworkers, which I described as of almost historic proportions," said Nick Segal, the chamber's president. "(This) is no less important." The deal was struck with the Administrative, Technical and Electronic Association of South Africa and the Officials Association of South Africa, which together represent about 18 000 employees on gold and coal mines.

Segal said this was the first time separate negotiations had been held for the chamber's gold and coal mining members. "The (divergent) interests and needs of the two sectors (have) to be recognised in the process of determining employment conditions," he said — *Frank Nxumalo, Johannesburg*

Wage offer fails to meet minimum pay demand

BD 18/7/97 (211)

Reneé Grawitzky

COAL producers organised in the Chamber of Mines tabled a final wage offer of between 9,75% and 22% for the lowest paid workers yesterday, but failed to meet demands by the National Union of Mineworkers (NUM) for an industry-wide minimum wage of R1 000 a month.

The lowest paid workers in some mining houses already earn above R1 000 a month, while some others will achieve the amount under the proposal. Chamber negotiators said the final offer provided for a two year wage agreement which would ensure that by next year both underground and surface workers on collieries would earn a minimum wage of R1 000 a month.

In terms of the final offer, underground workers who did not achieve the minimum wage of R1 000 this year and surface workers failing to reach the R1 000 minimum next year would get a minimum increase of 12% each year.

Minimum wages range between R750 and R1 130 for surface workers and between R684 and R1 236 for their colleagues underground.

In separate negotiations, the chamber yesterday signed a three-year wage agreement with two technical and administrative union bodies which would cover gold and coal sectors. Reuter reports the deal incorporated an agreement that mines "shall be allowed to conduct normal operations on every day of the year, except public holidays".

The two officials' organisations represent about 18 000 employees from the Administrative, Technical and Electronic Association of SA and the Officials' Association of SA.

The associations represent about 15 100 officials on gold mines and 2 700 members on coal mines.

"The gold agreement means employment costs for the officials' category on gold mines will be a fixed, measurable figure for the next three years, allowing the mines greater certainty in their medium- and long-term policy and planning objectives," the chamber said.

But it said that implementation of wage increases would be suspended until sufficient progress had been made between mines and the associations, at mine or group level, on the arrangements to be put in place to allow for normal operations on all days except public holidays.

The coal agreement provides for 9% increases from last month. Next year and in 1999 increases of 8,5% and 9% will apply.

Meanwhile, the NUM indicated yesterday its members would march at Randgold's Grootvlei gold mine to demand that the company table a wage offer.

Union deal vital to Hartebeestfontein

BD 24/7/97 (211)

David McKay

AVGOLD-managed Hartebeestfontein was "far down the line" towards reaching agreement with labour on new work schedules aimed at improving the operation's precarious financial position, sources said yesterday.

The mine's finances have been drained further over the past week by lost shifts from a fatal rockburst on Monday. Fifteen miners were killed and three were still missing yesterday, presumed dead.

Avgold was not prepared to comment on work schedules yesterday, saying an agreement "precludes public discussion".

Net profit dropped to R20m in the March quarter from R101m in the previous quarter as a result of a 12% cut in production. The lower output was blamed on fewer shifts worked due to a preponderance of public holidays

Avgold said it was premature to estimate revenue losses from No 4 shaft at which the rockburts occurred However, analysts estimated that about R4m in revenue had been lost

Analysts said Hartebeestfontein was in a precarious position and could not afford the lost production in the current climate of gold price weakness. The rand gold price is about R48 200/kg after averaging R51 400/kg in the March quarter.

"Harties is on the brink... A little thing like this can make it (the mine) go under," one analyst said

It is believed that Hartebeestfontein management and labour are near agreeing on a trial period pact to work every day, barring public holidays.

Analysts say the effect of lost gold output from No 4 shaft could be significant It produces 15kg of gold a day, on average, worth an estimated R4,1m a week at the current gold price.

In addition, the shaft is a high grade area, producing gold at about 12g/t compared with the mine's average grade of 4,6g/t in the past quarter.

The mine is hoping to secure two sections of No 4 shaft in the next few days. Miners might soon be able to access the two affected stope areas, but would not be able to get the gold out due to haulage problems at the shaft.

Anglogold may drop Vaal mine boundaries

David McKay

ANGLOGOLD was considering collapsing listed operations Eastvaal and Southvaal into Vaal Reefs to form a single entity, principally to save tax but also to simplify the company's structure, sources said yesterday

Anglogold declined to comment, but the group had said it was seeking appropriate investment vehicles and that this could presage restructuring

It is believed that an announcement cautioning shareholders would be published tomorrow.

Analysts said there was a theoretical tax advantage in removing the historical boundary that existed between the three properties. Vaal Reefs would be the most appropriate vehicle for the companies as it already owned 25% of Southvaal and 30% of Eastvaal. Vaal Reefs also collected a dividend from the two other companies.

Continued on Page 2

Anglogold

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BD 24/7/97

Continued from Page 1

"Collapsing the three companies into a single vehicle will simplify its cash flow and eliminate complicated accounting procedure," one analyst said.

In the spirit of transparency and to conform with international standards, the group recently produced annual reports containing more information than in the past The latest move is seen by analysts to be in the same vein.

The farm boundaries that exist between many SA gold mines are viewed by foreigners in particular as a throwback to the country's mining history.

A number of rationalisations have taken place in the industry in the past six months. Anglogold's Elandsrand bought Gold Fields of SA's Deelkraal earlier this year, merging two properties located on the same orebody.

Anglogold also swapped mineral assets with Gengold, the gold section of the Johannesburg-listed Gencor, underlining the two groups' stated intention to unlock value from their mines.

Minimum wage on the cards for miners

Reneé Grawitzky (211) BD 28/7/97

COAL producers, except for Gold Fields, have moved closer to National Union of Mineworkers demands for an industry minimum wage of R1 000 a month for surface and underground workers

Although the union is demanding a R1 000 minimum for all workers this year, it would appear that achieving this for underground workers this year is the priority

Minimum wages on collieries range from R750 to R1 130 for surface workers and between R684 and R1 236 for underground workers Hence some increases could exceed 22% for those on the lowest grade

Industry sources said it appeared Gold Fields was prepared to move to a R1 000 minimum for underground workers only next year

The union is also demanding a 10% across the board increase.

Benoni mine the first casualty of tumbling gold price

Star 8/7/97

(214)

The collapse in the gold market began to take its toll on the mining industry yesterday when one Reef mine stopped work because prices are so low

Anxiety for the future of many other high-cost mines was fuelled by fresh declines in the price that took gold to 12-year lows below $315 an ounce – down more than $50 since January

The latest slide was triggered last week by news that Australia's central bank had sold 167 tons of gold from its reserves On top of previous disposals by the Belgian and Dutch central banks, the disclosure stampeded already-jittery investors

In London yesterday gold sank as low as $314,10 an ounce, down $10 from Friday's close, before recovering slightly to an official afternoon fixing at $318.

But analysts are wary of predicting a solid rebound "It would take a Martian to be bullish at this point," warned Andy Smith analyst at the Union Bank of Switzerland

East Rand Proprietary Mines (ERPM) said it would halt work at its Benoni gold mine and put it on a care and maintenance basis ERPM is a unit of Randgold.

"It's very, very bad news They are calling it down to below $300 (an ounce) and, if it does go to that, there will be only three, four or maybe five profitable mines in South Africa," said Leon Esterhuizen, analyst at Societe Generale Frankel Pollak.

The sale of 60% of the Reserve Bank of Australia's gold hoard sent an especially bearish signal to speculators because Australia is the third largest producer – at 289 tons last year – after South Africa and the United States

Bullion dealers expected investor selling to step up this week

In industry reactions, Australian gold miners pressed the World Gold Council (WGC), a producer lobby group, to make a statement criticising the action of their country's reserve bank – Reuters

▶ **Gold in danger**

Business Report

MINING *Low grades and falling bullion price take down Randgold subsidiary*

ERPM is gold's first casualty

CT(BR) 8/7/97 (214)

Andi Spicer
MINING AND RESOURCES EDITOR

SHUT DOWN *Steven Mapea, a worker at ERPM's Benoni Gold Mining Company, a surface treatment facility About 97 workers will be affected by the decision to close down, but the company says some of these will be offered underground jobs at the ERPM mine* PHOTO JOHN WOODROOF

Johannesburg — ERPM, which forms part of the Randgold mining house group, is to almost immediately close its subsidiary, Benoni Gold Mining Company, because of low grades and the falling bullion price, company executives said yesterday

The Benoni operation is a surface treatment facility that processes mine dump and waste material to extract gold, and normally produces between 50kg and 70kg of the precious metal every month from 120 000 tons of waste material

"It is just a surface treatment operation and is just not making money at this current gold price," Peter Flack, Randgold's chairman, said yesterday

Randgold shares slumped 15 percent or 305c to R16,90 on the announcement, although the weak gold price at $318 an ounce also knocked JSE gold shares across the board

The decision to close the operation was prompted by the prevailing low gold price and operational losses by the company over the past two months Management and labour are engaged in negotiations to discuss the implications of the decision, Randgold said

About 97 workers are employed by the facility and the company would offer some of them underground jobs at the ERPM mine, although, "feasibly" this would only be about 30 positions, Lionel Hewitt, ERPM's chairman, said yesterday

He said "the low throughput and low grades, exacerbated by the low gold price", was the cause of the closure, but the "major influence" was the bullion price

"Closure will be almost immediate, but we didn't want to switch off the facility while there was gold in process We are still talking with unions," Hewitt said

The company mainly relied on treating mine waste from other companies, called tolling, but with the heavy rains over the past few months, the companies that supplied the material found it hard to access their surface dumps and Benoni had to rely on its own low-grade surface dump

The low grades meant it was uneconomical to process the material, given bullion's present price, Hewitt said

ERPM, once one of the largest gold mines in the world, is also in trouble in the present price climate and may close more of its operations

"We have to take a good hard look at ourselves We are tied to the low gold price, as is the rest of the industry," Hewitt said

ERPM has issued three cautionaries recently regarding negotiations with Randgold, which will not renew its management contract with the mine when it comes up for renewal in the near future

What would be profitably mined at a higher price would no longer be economic at current prices

Gold slide claims its first casualty with ERPM

CT(BR) 8/7/97 (214)

BRIAN SPOORS

London — The slide in the gold price has netted its first casualty, with East Rand Proprietary Mines yesterday announcing it would halt work at its Benoni Gold Mining as soon as possible and put it on a care-and-maintenance basis because of the low gold price and losses at the mine ERPM is a unit of Randgold

The price collapse to 12-year lows below $320 an ounce — down about $50 since January — fuelled anger in the mining industry along with rising anxiety for the future of some mines

Gold was fixed in London on Monday at $318,75, its lowest since December 1985 and down from Friday's London close at $324,50

"It would take a Martian to be bullish at this point," said Andy Smith, the precious metals analyst at Union Bank of Switzerland

The sale of 167 tons of gold by the Reserve Bank of Australia (RBA), confirmed last week, followed disposals earlier in the 1990s by the Belgian and Dutch central banks It stampeded already-jittery investors into a sell-off for fear that more of the 35 000 tons of gold owned by institutions may be unloaded in future

The sale cleaned 60 percent of RBA gold from the vaults and sent an especially bearish signal to the market because Australia is the third largest producer, at 289 tons last year, after South Africa and the US

Bullion dealers expect investor selling to step up this week The US Independence Day holiday last Friday may have only postponed some of the unloading, they said

"Now we might go to under $300 but, if we do, mortgage your house and get into the market," a dealer said.

Australian gold miners pressed the World Gold Council, a producer lobby group, to make a statement criticising the action of their country's central bank The council expressed deep concern, saying the sale seemed to be "motivated by narrow financial considerations For a leading gold producer to take unnecessary actions that prejudice the wellbeing of a key sector of its economy suggests a lack of sensitivity to the factors impacting the market," it declared

EM Hood, the council's chief executive, said the weak price would put additional pressure on member companies, several of which were in the council's hardship category even before the latest price slide "We expect others to follow with prices at these levels," he said

Roger Chaplin, T Hoare's mining equities analyst, calculated many gold mines were already suffering at prices at about $320 Yet some dealers see the market's likely downside target as far down as the 1985 low of $287,25, which they say could be reached shortly

Gold sank 12 years ago in tandem with a collapse in the price of oil It had tracked oil higher, to reach a record $850 an ounce early in 1980, at a time when it was seen as an investor refuge from the inflation that had been triggered by the Opec oil "shocks" of the 1970s

Chaplin said the average total costs of mining gold were about $350 an ounce, including head office, exploration, depreciation and finance

In South Africa the cost would be about $334, he said. He said forward sales hedging programmes, which had allowed the mines to lock in previous higher prices, would help them for now and he did not foresee closures just yet

Raising financing for new mines could be a problem, given that the cash cost for a new mine would have to be under $220 an ounce to make it profitable, he said "A $250 cash-cost mine is now very marginal," Chaplin said

What would be profitably mined at a higher price would no longer be economic at current or lower prices and could affect about 20 percent of a mine's resources, he said "At a price of $300 for six months, how much of the South African industry has to close?" he asked — Reuter

COMMODITIES *Industry's chances of subsidies 'about zero'*

Mine jobs disaster in the wings

(214)

CT (BR) 9/7/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The gold mining industry could shed as many as 100 000 jobs at marginal gold mines if the bullion price continued its weak trend, analysts and economists said yesterday

This further dampened hopes that the government's job-creation targets, contained in its growth, employment and redistribution strategy (Gear), would be reached, they said

The Chamber of Mines said yesterday it did not expect the government to help the struggling industry

Roger Baxter, a senior economist at the Chamber, said the chances of the government assisting the struggling gold mine industry with subsidies were "about zero"

"In the first quarter of this year, South Africa had nine marginal gold mines, of which seven made a loss A total of 69 000 people worked on the marginal mines," Baxter said

"In the second quarter the gold price edged lower, pushing more mines into a loss-making position The gold mining sector is about to release their results for the second quarter, and it is fair to assume that more mines will report losses after the second quarter"

On the assumption that South Africa would produce 480 tons of gold this year and that the exchange rate to the dollar would average R4,50, the country stood to lose R70 million in export earnings for every $1 drop in the average annual gold price

For instance, should the gold price fail to climb back to $340 from its level of $320,80 at present, the loss in export earnings would amount to R1,4 billion in a full year, or about 5 percent of the R26 billion which South Africa is expected to earn from gold exports this year, Baxter said Gold exports contributed about 25 percent to total exports last year

Gold analysts warned yesterday that about half of South Africa's gold mines would be loss-makers if the gold price remained below $320 an ounce

"At $320 or below, about one-third of the 350 000 jobs in the gold mining industry could be in jeopardy," said Harry Singh, the gold analyst at Fedsure Asset Management

The gold price was fixed yesterday afternoon at $320,80 an ounce, $2 higher on Monday's fix

"Should the lower gold price lead to a drop in physical production, the loss in export earnings could grow to about R4 billion," Singh said

The gold mining industry contributes about 3,8 percent to the annual GDP, but a sustained $20 drop in the gold price (such as the one experienced over the past week) could lop about 0,3 percentage points off this year's projected 2,5 percent real GDP growth, analysts warned

☐ Business Watch, Page 18

Gold halts headlong decline

ANDI SPICER AND MATT GETZ

Johannesburg — Gold ended its precipitous slide yesterday, fixing firmer in the afternoon at $320,80 an ounce against the morning fix of $317,60, as traders took profits

However, market observers believed this was just a pause before bullion dived further over the next few days

"No market falls in a straight line, and gold is no exception," a Johannesburg analyst said yesterday

"But there is little support for bullion and we could see some heavy selling during the next few days"

Traders are still looking at $310 as the next point of support and, below that, $280

Lawrence Eagles, a commodity analyst with London brokers GNI, said "The fall in the gold price will undoubtedly lead to the closure of marginal mines around the world over the next few months Signs of this are already starting to be seen."

Gold's consolidation was mirrored in the performance of gold shares, which strengthened on good volume The JSE's all gold index, which lost over 5 percent on Monday, firmed by 19,8 points or 2,19 percent to 923,7

The rand, however, took no fillip from gold's brief upswing It weakened to a five-and-a-half-month low of R4,5515 from R4,537

"The pressure on the rand market has been caused by the low gold price," said one rand dealer

If the lower gold price forced marginal mines to close, "the worse our exports will get and the higher the unemployment rate will rise", he said

The falling gold price has shattered the fortunes of the South African mining industry, and

Tossed on mining's scrapheap

MTU 11-17/7/97 (214)

Angella Johnson

THE round metal Lesotho pot was boiling nicely Makabelo Ntaote added more cow dung and wood to the fire She used to have a small gas cooker, but these days there is no money to buy fuel Actually, there is has been little to put in the pot since her husband lost his job as a miner last year

He is one of the estimated 70 000 Lesotho men retrenched by the South African mining industry during the past 10 years who have returned home to a land with little or no job prospects and a slew of dependants with no other source of income

"He's not been able to find any work since then, and we are no longer in a good financial situation," said a resigned Ntaote (36)

"He was at the Western Deep Levels number three in Carletonville, Gauteng, but they said the mine was no longer doing so good "

Ntaote, her six children, widowed mother and mother-in-law all depended on the R500 her husband sent home every month Now she brews and sells the pungent Sotho traditional beer, favoured by local men because of its cheap potency

"That's how I've managed to put food on the table, but we can't afford much else," said a blanket-clad Ntaote, as she leaned over the cooking pot and stirred vigorously "The younger children don't even go to school any more I don't know how long we can go on like this "

The road to her village, Qoaling, is a bumpy and steep ride up towards the sky Though only half-an-hour's drive from the capital city Maseru, you could be in deep countryside — in a dry, dusty and almost barren land Most homes have no electricity and water is collected from a central pump

Mamoeketsi Matsoso, who has been the chief since her husband died in 1992, is not sure how many people live in this poverty-riddled settlement perched along the side of a mountain

But she knows that many of its menfolk have nothing to do since they returned Men like Nkhethoa Matsoso (47) who was laid off after the 1987 national miners strike

He also worked at the Carletonville gold mine "It's been tough, man," he said "I had seven dependants — my wife, my two children, my parents and two other relatives So I tried to stay and find another mining job, but couldn't find anything there or here "

'I don't know about the gold price going down, but I have seen our men come back and become vegetables'

Money worries finally drove him and his wife apart Matsoso now lives alone and spends most of his time drinking cheap beer in the local shebeen "Sometimes I do a little piecework as a bricklayer, but mostly there's nothing else to do "

He sympathises with those miners recently made redundant and predicts a bleak future "Some are in good shape at the moment, but soon the money will run out and they will have only this to look forward to "

Landlocked Lesotho, a dirt-poor kingdom the size of Belgium, is used to exporting its unskilled labour to fuel the mining industry of its mighty South African neighbour, but it has made no provisions for those who fall victim to economic slumps

According to Marks Masoetsa, regional representative for the National Union of Mineworkers (NUM) "Most of these ex-miners are living rough in Maseru, waiting for the recruitment agencies to help get them new jobs "

The majority are ill-educated and have no real skills for anything but mine work

Out of a population of nearly two million people, only about 42% are believed to be in regular employment — mostly in the civil service, police and army "The government used to benefit from the money coming into the country from these mineworkers to keep our economy going, but are doing nothing to help There are no welfare benefits These people are just thrown on the scrapheap," said Masoetsa

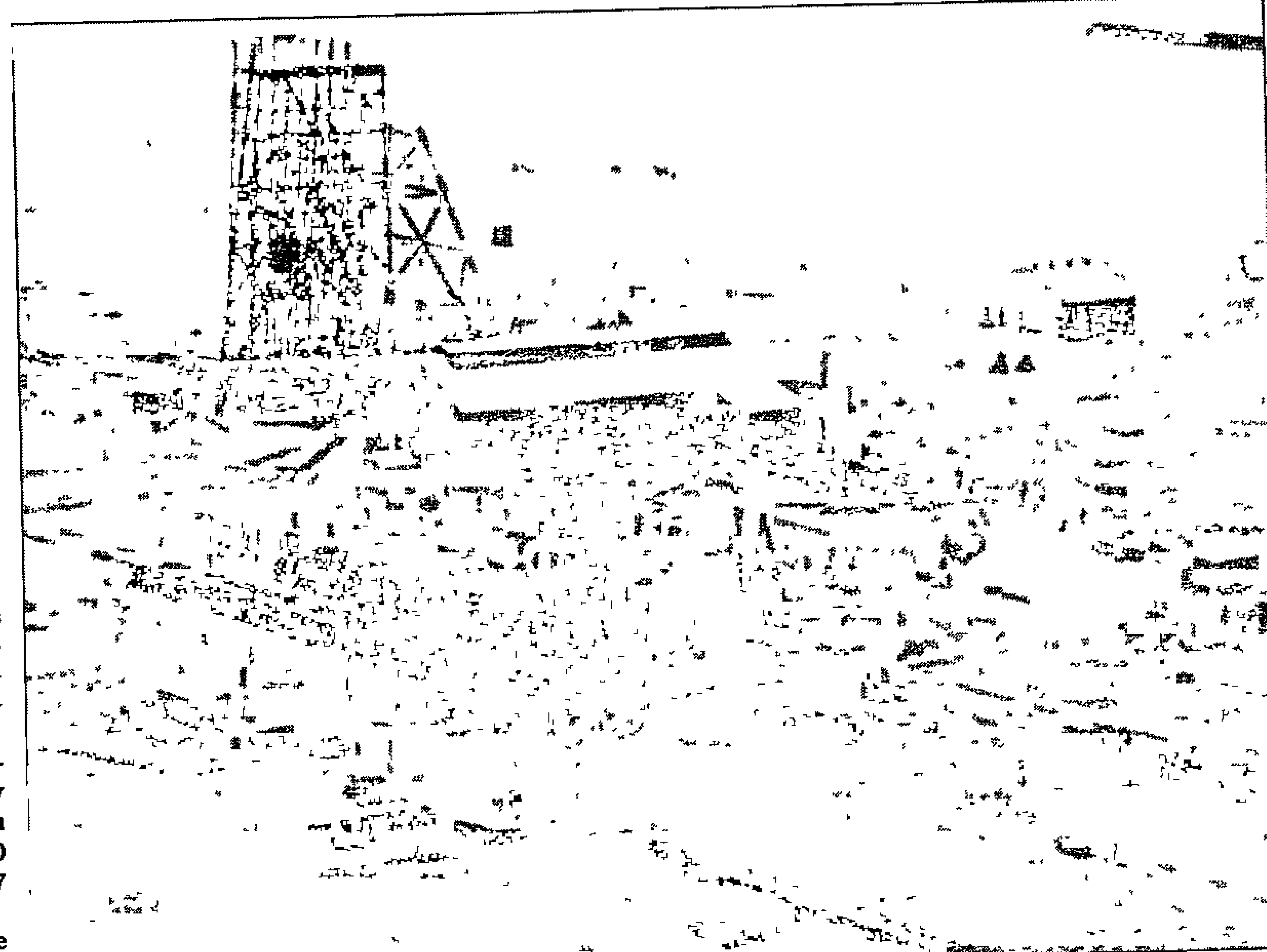
He was himself sacked after five years on a mine in the Free State, following the 1987 strikes, and only got this job in 1991

Nqosa Mahao, senior lecturer in the department of public law at the University of Lesotho, is worried about the social changes brought about by these returnees "It's already been very traumatic This has had a definite impact on society at large For almost 100 years between 40% and 50% of our able-bodied men could find work in the mines It helped to cushion the economy "

Now the cushion has lost some of its stuffing, crime has become a huge problem, stock theft is up in border areas and the breakdown in family values is one of the social ills that has seeped into villages where extended families had been a way of life

Although there appear to be no true crime statistics, Mahao insisted crime has reached alarming proportions with organised gangs operating in the rural areas "The future is

SA gold industry teeters on the precipice



Former glory: Mining in its heyday offered an 'endless treasure' PHOTO SOURCE ANGLO AMERICAN ANNUAL REPORT 1992

Ferial Haffajee

'NOW my friends it is time for you to come to your friend in order to understand The cattle have udders, come and milk them!"

It is 1899, and around the reef which was to become Johannesburg touts put up notices like this one to entice black labourers on to the mines

At the height of the gold rush, Randlords needed workers to mine the reefs which dripped with the metal — it was what one writer called an "endless treasure"

Between 1886 — when gold was discovered on the Reef — and the turn of the century, 100 000 men came to work the mines. They were the foot-soldiers of the industrial revolution which the prospectors at Langlaagte started when they struck gold.

By 1930, the mine owners were reaping annual profits of R90-million and half the population depended on gold for their livelihood.

But in 1997 it's becoming too expensive to milk the cow and gold's role in the economy has declined to a shadow of its former glory In fact, for the three months to June this year, the gold mines are expected to post a combined loss of at least R100-million

Reeling from a decade of decline, the industry — with a gold price seemingly heading for $300 — is now threatening to haemorrhage 63 000 more jobs if the gold price does not improve

The value of gold has fallen like a pack of dominoes as more and more central banks across the world sell off their reserves

Gold has lost its sheen. Once it was the favoured store of wealth of kings and the world's rulers Now there are easier and more sophisticated ways to guard prosperity

The old law of supply and demand means there is also more gold than the world needs And when central banks across the world sneeze, South Africa, as a major producer, catches cold

Last week, the Australian Reserve Bank's decision to jettison two-thirds of its reserves saw the gold price tumble to its lowest in decades This followed a rush to sell started by Belgium and The Netherlands

It was unexpected news for an industry which has shrunk horribly from its heyday The National Union of Mineworkers (NUM) says 250 000 workers lost their jobs between 1987 and 1996

Nine of South Africa's mines are marginal, with their survival dependent on improvement in the gold price

Seven of those mines are loss-making and together they employ 63 000 people. This week, the mining houses start reporting their financial results for the second quarter of this year. It is likely that more mines will teeter on the precipice as a lower gold price means it becomes less profitable to mine.

"You must mine profitably or you don't mine at all," says Roger Baxter, the chief economist at the Chamber of Mines in Johannesburg.

'You must mine profitably or you don't mine at all'

And while the discovery of gold was the bedrock of the modern South African economy, its decline has resulted in awful social costs Every miner who is retrenched supports between seven and 10 family members

Studies by the NUM show that 6,2% of all employed South Africans work in the mining industry In the North-West province and the Free State, one in five employees work in the mining industry.

The provincial economies of the Free State, Mpumalanga and the Northern Cape are all dependent on mining to the extent of 45%, 38% and 26% of their gross domestic products (GDP) respectively.

But the tarnishing of gold is not new. The last time mining grew as a percentage of the country's wealth or GDP was in 1993 Since then it has declined by 7,4 percentage points

Mining still contributes about 3,5% to GDP, and the captains of industry suggest that undue panic over the sale of gold reserves has spooked investors, prompting the plunge They point out that financial superpowers like the United States and Germany have no intention of selling their reserves

But the damage has been done, and Jeppestown in Johannesburg, where all the mining houses are clustered, is between a rock and a hard place

Since gold was first prospected, 47 000 tons have been mined — half the country's reserves, which means there is lots more underground

The problem is that the rest is more expensive and more difficult to mine. Our gold reserves lie deep, trapped in hard rock, unlike the new mines around the world where the mining is often open-cast and the gold is embedded in soft rock.

A lower gold price may make it too expensive to mine.

'The South African industry is responding to the challenges and focusing on productivity," says Baxter But the realisation that better-trained workers make better miners has only come recently; and the industry has now signed an adult basic education agreement with the NUM in a bid to lift productivity.

The longer-term aim is to overhaul working practices on the mines — to flatten the hierarchical system of "baas" and "baas-boy" which has led to high costs, and to invest in new technologies

The industry also wants to get the most from its working mines "Around 25% of the days available for mining are not used. We're competing on costs, we've got no control over the gold price," says Baxter

That's why the chamber wants the NUM to agree to full calendar operations, where a mine never stops working. That's the practice among South Africa's closest international competition

More and more mining houses want to link wage increases to greater productivity.

But labour relations in the industry have gone beyond the "ticket-loafer" system of the 19th century where miners who did not achieve their drilling targets were given loafer-tickets and deprived of their meat rations

This time, it's going to take hard bargaining with union chiefs like Kgalema Mothlanthe who want industries like mining to implement the showpiece labour legislation which the African National Congress has introduced That means shorter working hours, generous pay for overtime and Sunday work

Hard times lie ahead for an industry under pressure And it's a far cry from the golden age of the late 19th century, when the Rand was labelled the richest gold mining area in the world the lives of hundreds of thousands who depend on mining jobs for their survival

pretty bleak I see increasing spousal abuse, child abuse and other problems usually associated with big urban sprawls," he said

"With the gold price plummeting and more retrenchment imminent, things will only get worse The country could soon become ungovernable — some parts already have "

His family comes from a village where in a three-week period some 20 people were killed in gang-related shootings

But the main problem facing the country is impoverishment as these miners usually have 10 people or more reliant on their income In the past agriculture supplemented this money, but the land cannot cope with the pressures of this increased demand

Unemployment is reported to be in the region of 40% but it could be more "The traumatic problem is that we are completely ill-prepared as a society to cope with this surplus labour " said Mahao

He believes Lesotho is probably the most unstable country in the region There have been five coups since independence in 1966, and constant squabbles between the government, the civil service the police and the army continue to divert energies away from development

This is exacerbated by the government losing some of the income it receives from exporting its workforce About 50% of the national Budget comes from miners' deferred pay — part of their wages (30% though it used to be 60%) which employers send to Lesotho banks It becomes readily available cash for the government until the miner returns to claim it

Now that this fund has declined it will affect government finance of education health and other programmes

"I think the only logical way out is unity with South Africa We are already tied to their economy so why not go the whole way Union would at least mean our people would get some kind of welfare and a pension " suggested Mahao It is not a popular opinion, but the NUM has voted for a similar course in the past

Mathabo Moroho, whose husband works in a Western Areas mine shaft may sympathise with this course of action "I don't know about the gold price going down, but I have seen our men come back and become vegetables It frightens me and I worry that the same might happen to my husband "

In the meantime she is keeping her fingers crossed and supplementing their income by growing corn on a smallholding several kilometres on the other side of the mountain

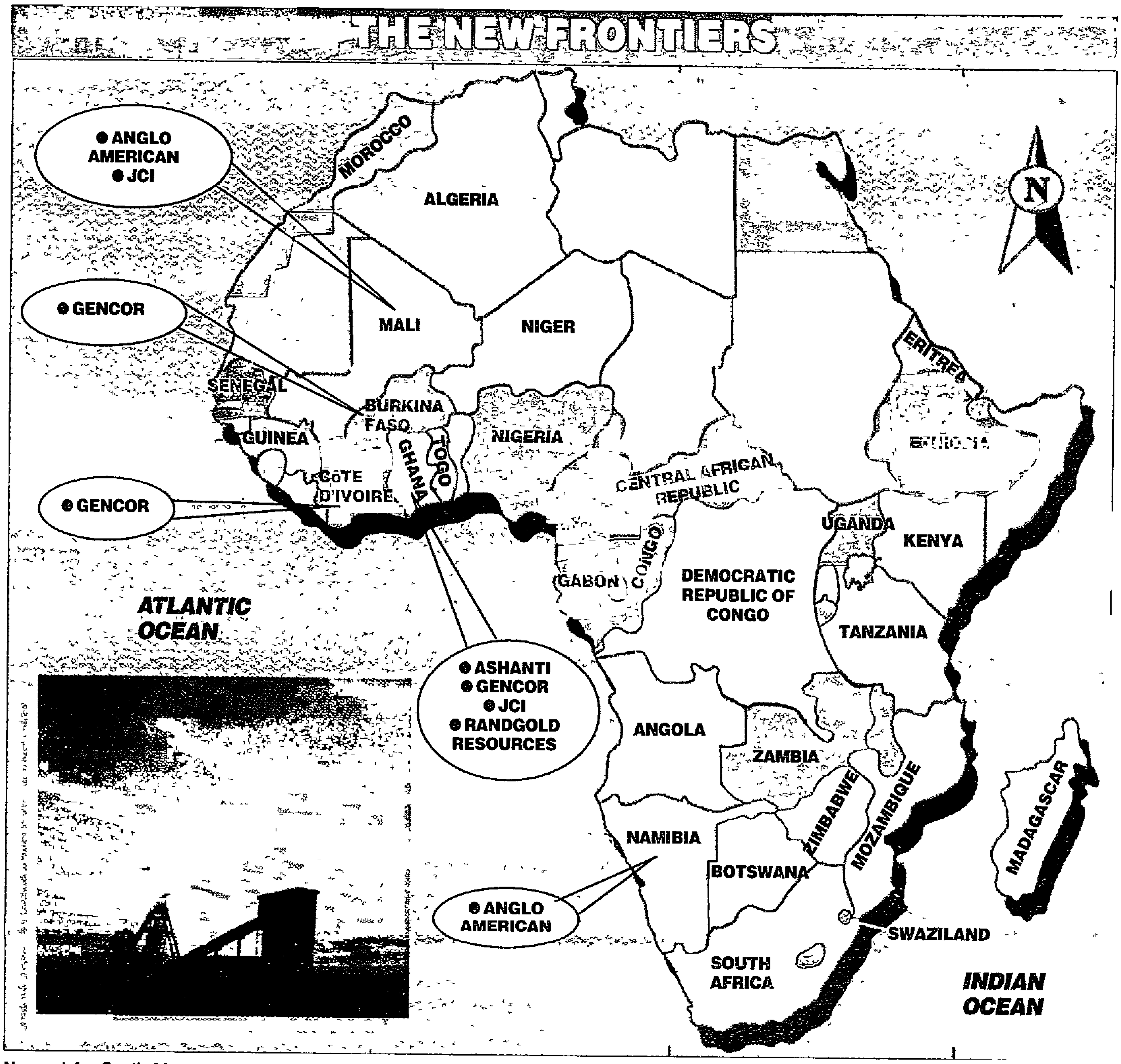
"I have four children and three other family members to look after with the money my husband sends every month, so women like me can't just sit around doing nothing If my husband's job goes, we will have many problems " was a massive understatement.

Although the union has tried to help its members with retraining programmes and re-employment in other mines, it faces almost insurmountable odds "We don't have the infrastructure or a viable economy to sustain these people," said Masoetsa "Most villages don't even have clean water or electricity Everything here is expensive because it's all imported from South Africa "

Back in the village, Matsoso called on the government to set up its own programmes to stop the suffering Otherwise the cost to the country will be largely borne by its young "

The number of abandoned children seems to have risen over recent years as their families cannot afford to feed them "They don't go to school, but turn to crime instead "

The widow recently took in one such youngster who repaid her by running off with her R500 savings



No quick fix South African investors in Africa's mining industry must be in it for the long term

SOURCE JCI LIMITED ANNUAL REPORT 1996

Going north in search of profits

Madeleine Wackernagel

THE clever mining houses have been doing it for some time — going north, that is, in search of more golden pastures

Pre-1994, South Africans were not always welcome visitors, or investors That is all set to change as the mining crisis at home drives ever-more local companies into the rest of Africa, particularly Ghana, in a bid to prop up profits and boost production

South Africa's gold-mining industry has for some time been well-aware of its limited lifespan The doomsayers were predicting disaster more than 10 years ago with the last severe gold-price slump, but this time the omens are less easily ignored

Local gold is prohibitively expensive to produce, especially at bullion price levels of $320/oz and heading lower, and resources are running dry

Africa has a long mining history, but investment in exploration and development outside Southern Africa has stagnated for much of the past 30 years Inward-looking economic policies, political problems and lack of financial resources deterred many potential investors, both within Africa and from abroad

But with many governments revising their mining laws in the late-1980s and technological advances cutting exploration costs, West Africa in particular became attractive to foreign investors, with Ghana leading the way In 1986, new mining laws were introduced, allowing for flexible royalties, tax allowances, exemptions on import duties and retention of foreign exchange

Says one analyst "The law has been used as a model for other African countries that are seeking to rejuvenate their mining industries, because it is seen as very fair to all parties concerned "

Lest anybody think this signals the start of a second "scramble for Africa", the foreign companies, in the main, are mindful of the need for value-added investment — in terms of skills and technology transfers — and partnerships with indigenous capital

The doomsayers were predicting disaster more than 10 years ago, but this time the omens are less easily ignored

Much of Africa's mineral potential is going untapped because the initial capital expenditure (capex) is prohibitive to all but the most determined investor Anglo American Corporation, for example, spent more than $300-million on developing the necessary infrastructure at its Sadiola mine in Mali, this ratio of capex to output is almost twice that in coastal West Africa

Tanzania is rich in gold, but its infrastructure is poor A Canadian company, Sutton, is sitting on a potential five million ounces of very high-grade gold at Bulyanhulu, the latest slump in the gold price no doubt will delay any development

"Tanzania is a veritable gold mine," says an analyst "But it needs someone big to come in and take the lead in making that commitment to developing the infrastructure, the government hasn't got the money to build roads and pump water to the region "

In those areas where the infrastructure is in place, however, the pickings can be rich although production costs vary from mine to mine Randgold Resources operates the highest-cost producer, Syama, at more than $300/oz, although it believes significant reductions are possible

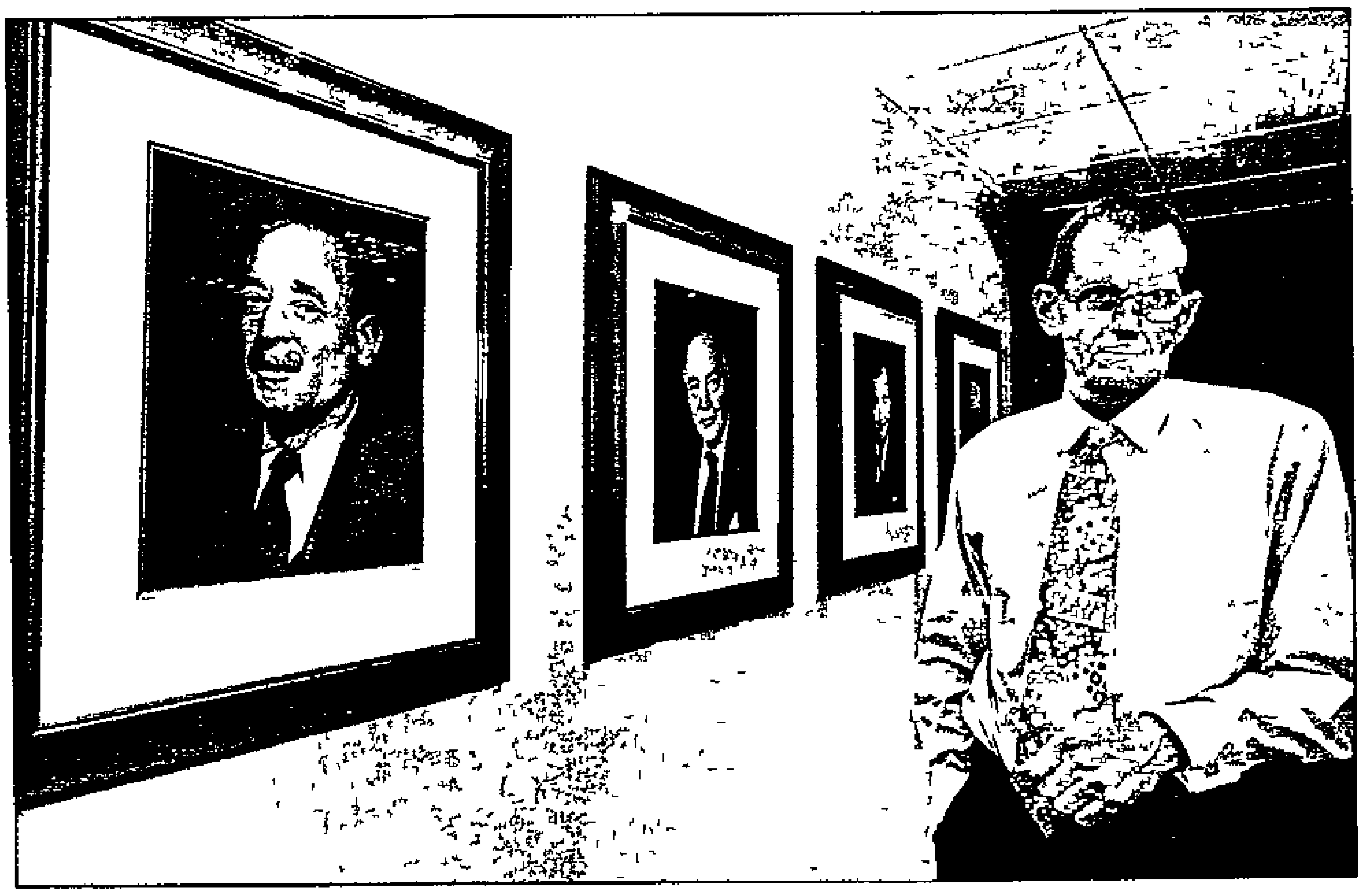
Tarkwa, Gold Fields' mine in Ghana and the second-biggest gold producer in Africa outside South Africa, with a potential 13-million ounces, is set to pour gold from January 1998 The company is predicting an average cost over five years of $210/oz, after an initial capex of $125-million to develop the surface mine

But by far the biggest operator in the rest of Africa is Ashanti, which this year celebrates 100 years of continuous production Since its re-listing on the London Stock Exchange in May 1994, Ashanti has embarked on an aggressive expansion drive, which is already bearing fruit, quickly turning it from a single-mine gold producer into a major mining house, with assets all over the continent The group's largest mine, Obuasi, is the biggest in West Africa, with an output of 850k oz — compared with Tarkwa's 300k oz and Syama's 220k oz Ashanti's exploration portfolio is also impressive, boasting more than 30 000km² of properties, located in 10 African countries

Gencor is still the biggest South African operator in West Africa, with 22 projects in Ghana, Côte D'Ivoire and Burkina Faso Its recent deal with a Canadian company, Eldorado, revealed that Gencor is sitting on what could be the most important modern discovery in West Africa — the Yamfo trend, a potentially enormous seam

What also became clear was that Gencor did not develop these projects overnight but had been working on its West African expansion long before 1994

And therein lies the rub The temptation now must be for a rush northwards and eastwards as prospects for South African mining worsen, the potential is there, certainly, but investors have to be in it for the long term Looking elsewhere in Africa is no quick fix for the problems facing South Africa's mining giants today



Williams *Anglogold sitting comfortably on forward hedges*

GOLD

Mining houses face moment of truth

Mine bosses say they've used all their options. They need help from labour to prevent closures

(214)

FM 11/7/97

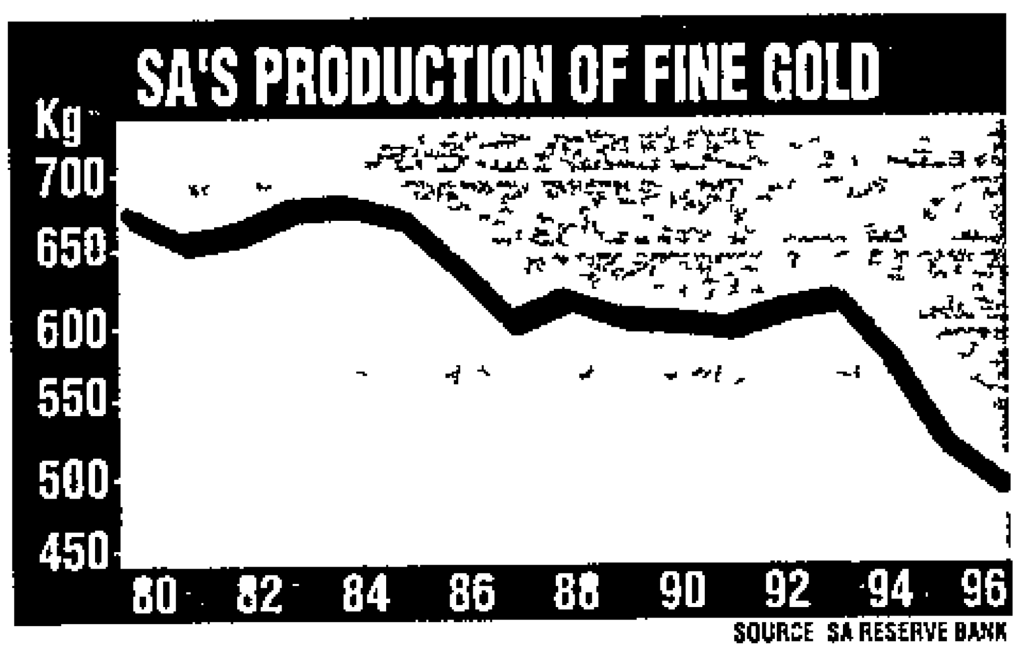
This week's closure of the minuscule East Rand gold dump treatment operator Benoni Gold Holdings is small beer compared with what could happen to SA's gold industry if the gold price remains at or below US$320/oz

Gold mining houses have "cried wolf" in previous crises, the most recent being in the early Nineties

But the plunge in the gold price combined with the mining industry having failed to reform working practices suggests this is, finally, the crunch

SA, the largest producer of gold, is more exposed than any other country to slumps in price because its deep-level mines are the highest-cost producers in the world

The vulnerability of the industry is best illustrated by looking at which of the mines would remain profitable if the gold price stabilised at R43 693/kg, based on the price dropping to $300/oz and a rand-dollar exchange of R4,53/$ and remained there for an extended period Only three would pass muster — Joel, Beatrix and Driefontein — and, together, they account for only 20% of SA's annual gold output



A handful, such as Beatrix, Western Areas and all Anglogold producers, have bought time by hedging, which has locked them into better gold prices

But, even for them, the respite could be temporary

As for the rest, a string of mines could be doomed to close, bringing in their wake thousands of retrenchments Their only chance for salvation would be to secure a productivity-based pay deal with the unions involving full calendar operations (fulco), the norm for mines worldwide

Gold production in SA has slid over the past decade from 607 t in 1987 to 495 t last year, the first time since 1956 that output has dropped below 500 t Producers survived the last financial crisis by rationalising operations and mining richer ore These steps temporarily boosted output from 601 t in 1991 to 620 t in 1993 before production started to slide again

Boosting output remains the key to survival But the options open to mines have narrowed significantly since the last shake-out six years ago

High-grade reserves have been depleted and, logistically, there seems to be less room to manoeuvre on pay limits and volumes This time, the only option is to improve labour productivity

The harsh reality is that the industry is capital-inefficient Under present labour agreements, the mines on average are not run for 90 days of the year Continuous operations would boost output for many

Amid much fanfare, the industry claimed a breakthrough in 1995 when it agreed to a generous pay award in return for an agreement with the National Union of Mineworkers (NUM) to negotiate a fulco system

But, except for some individual marginal gold mines which negotiated specific fulco-type deals, the industry has not managed to put an overall agreement in place over the past two years The consequences of this failure are now being felt acutely

Mining house executives blame the NUM for the lack of progress, pointing out that many officials still don't accept it is "backs to the wall" time for gold mines and continue to negotiate as if it's business as usual

"There's a dialogue problem There is still a high level of entitlement talk rather than problem-solving talk The Cosatu culture remains one of 'we demand it as our right,' " says Anglogold marketing director Kelvin Williams

But JCI gold division head John Brownrigg believes progress is being made through special meetings between gold division executives and NUM leaders which are taking place in parallel with the conventional annual wage negotiations

"We have recognised and agreed the industry is in crisis We have made immense

progress in understanding the problems and are striving to strike a deal which will benefit everyone and which everyone can live with The industry cannot pay a wage increase without a productivity increase If we don't get a productivity deal, we will not pay higher wages," says Brownrigg

The trouble for the mining houses is that they have hung tough several times before, vowing, for example, not to pay more than 5% without a productivity deal

But the tough talk has never been followed through as one of the richer mining houses has inevitably broken rank, calculating the cost of a higher pay award to be lower than the disruption of a strike

"For the first time," says Brownrigg, "all the mining groups concerned are committed to a solid industry stance

"We have to get a productivity agreement"

The reason for the newfound resolve is that the gold price has put all but a few blue-chip mines in the red and threatens the industry's viability

Tuesday's price of R1 442/oz (R46 361/kg) is just 1,3% above the industry's average cash production cost for the March quarter of R45 762/kg

The mines start reporting for the June quarter later this week and the June average production cost is likely to be between 3% and 5% higher in the range R47 135/kg-R48 000/kg

These numbers exclude the capital expenditure (capex) required to fund future operations without which the mines would have to shut That typically adds R6 000/kg to the cash cost of an operating mine but can be much higher at a developing mine

The end result will be an horrendous cash outflow which no mine can endure

The Leeudoorn division at Gold Fields' Kloof mine, for example, looks a candidate for closure

For the March quarter, Leeudoorn had working costs of R55 020/kg, to which must be added capital costs of R14 047/kg, so the total cost is R69 067/kg compared with revenue of R52 042/kg

In the past, mines faced with this scenario have chopped capex But managements can only go so far with this before it threatens the life of the mines

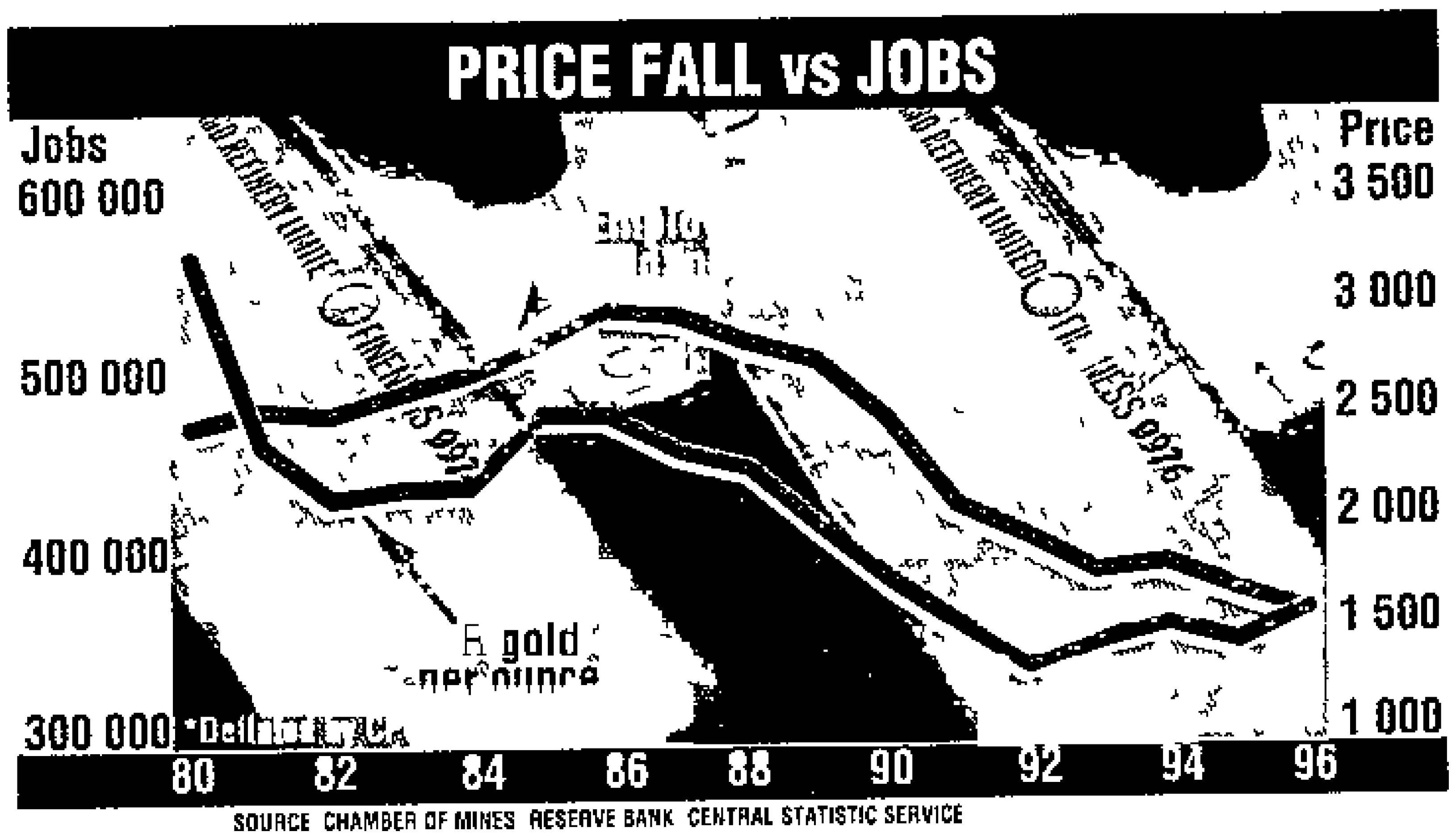
Some have rationalised and downsized in an effort to re-establish profitability with smaller, cheaper production bases But the mines have already been through two previous bouts of downsizing since 1990 — a process that can only be taken so far

SBC Warburg analyst Bruce Williamson believes that, at current prices, a number of producers are treading a thin line between further rationalisation and closure

Mines on this knife-edge include Kloof's Libanon division, sections of Freegold where three loss-making shafts were put on notice in the March quarter after losing R18m, Randfontein Estates, much of the North Lease of Vaal Reefs, Harties and a string of marginals such as Deelkraal, Loraine, ET Cons, ERPM, Durban Deep, Grootvlei and Buffels

For the investor, the result has been carnage on the JSE with the All Gold index down to 903,9 on Monday after losing 5% in a single day's trading

Randgold, which is heavily exposed to marginal gold operations, lost 16% on Monday to hit R16,90, a far cry from its R40,5 high earlier this year



PRICE FALL vs JOBS

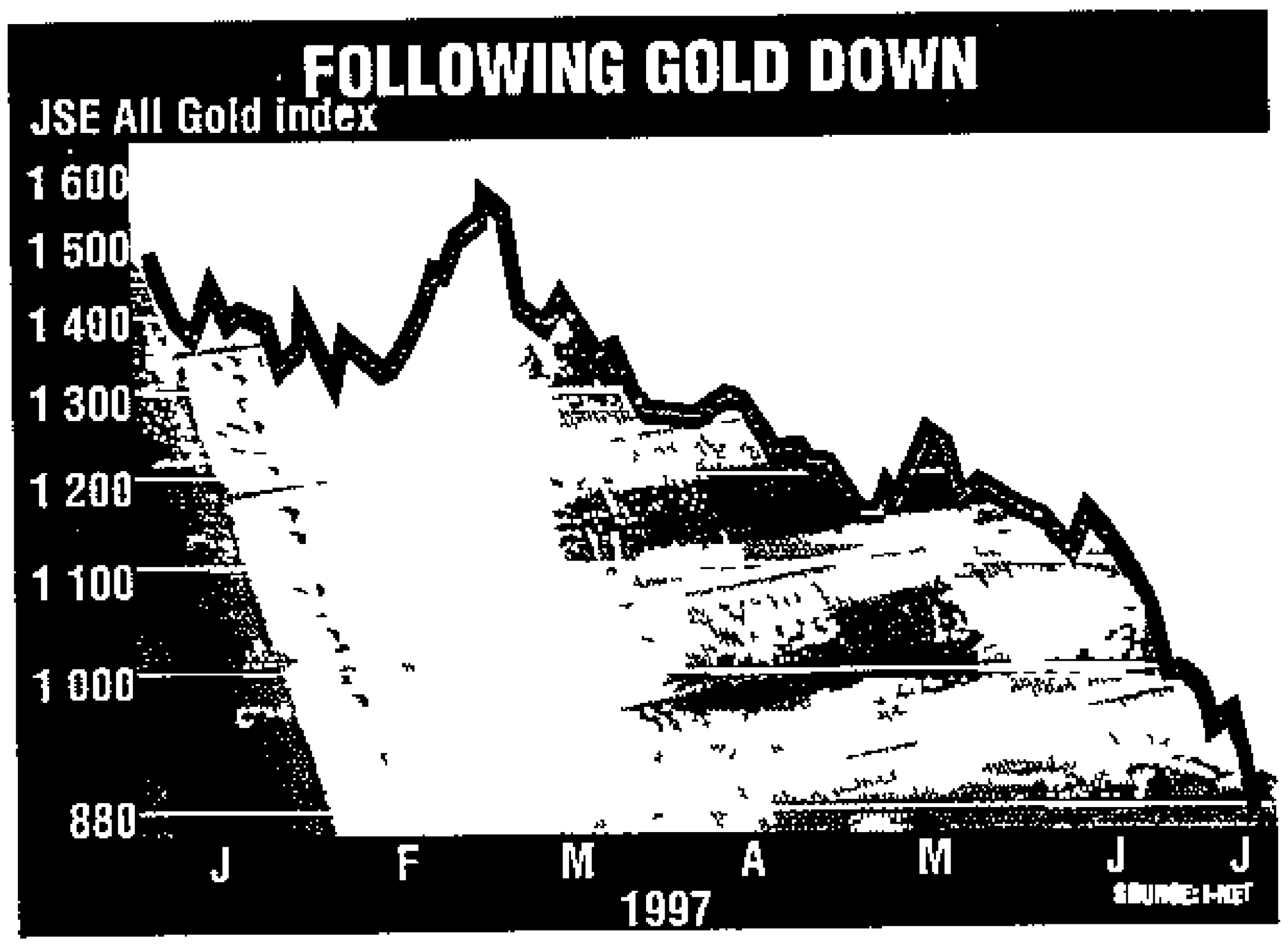
SOURCE CHAMBER OF MINES RESERVE BANK CENTRAL STATISTIC SERVICE

Most analysts agree there is no relief in sight "Even if the gold price recovers to $340/oz, the mines would be only a foot under water instead of six feet under There's little upside for investors in gold shares but considerable potential downside," says Williamson

The mines in the best positions are those which have sold forward production and locked in favourable gold prices through hedging Prime examples are Gengold's Beatrix and JCI's Western Areas (which has locked in an average gold price of R59 000/kg for this financial year)

That does not mean Western Areas' future is secure

The mine still has to deliver on cost and production targets and overcome the problems associated with sinking the South Deep shaft This forced the mine into heavy debt, which is forecast to reach R200m by end-December



FOLLOWING GOLD DOWN

Williams argues that Anglogold "will be sitting comfortably for a couple of years" This is because it has "restored the hedge to its highest levels" over the past few months

For mines run by Gold Fields and Randgold, though, the outlook is grim

Gold Fields has never hedged, while Randgold's recent policy has been to avoid it

They must be regretting this policy Even Gold Fields' once-mighty Kloof looks sick at present gold prices given its March working cost of R45 614/kg, which rises to R51 348/kg when capex is included

For Randgold, the gold market is a nightmarish background against which to piece together the Durban Deep mega-mine which will incorporate Buffels and Blyvooruitzicht

If the gold price remains at current levels, investors can forget deep-level expansion plans such as Anglo's project south of Western Deep Levels and Durban Deep's South Wits venture

Gold no longer dominates the economy the way it once did But the economic fallout from a plunge in production to between 300 t/year-400 t/year would affect everyone in SA

It's time all parties in the industry start pulling together before further, irreparable damage is done

Brendan Ryan

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THE GOLD PRICE AND THE ECONOMY

After gold: where to

For more than three millennia, gold has had an almost mystical value. No longer.

Central banks have lost their faith, analysts have lost their cool and gold producers can't see the future

The precious metal's monetary role has been declining since the early Eighties In 1989, central banks, which still hold more than 90% of the world's gold, turned sellers

Over the next seven years, the banks sold a net 1 407 t, according to the Gold Fields Mineral Services 1996 report The trend has accelerated this year with the Netherlands announcing the completion of a sale of about 300 t, according to Tony Warwick-Ching, precious metals analyst at CRU International in London

The latest blow came last week when the Reserve Bank of Australia announced it had secretly sold 167 t or two-thirds of its 247 t gold hoard over the previous six months, reducing its holdings from 20% of total foreign reserves to 6%

The announcement by the world's third-largest producer pushed the price of gold to what may turn out to be the point of no return

Overnight, the gold price fell from US$326/oz to $318/oz, before recovering to around $320 on Tuesday

In the past, central bank sales have been discreet affairs In the case of Australia, there was a high-profile announcement And, unlike other countries whose central banks have been net sellers over the past eight years, Australia had no pressing need to sell

Its action was a massive vote of no confidence in the value of the metal

The bank explained its action in a press statement "The bank's board concluded that, with large reserves in the ground and high annual production, Australia derives negligible diversification benefits from holding a significant proportion of its international reserves in the form of gold "

Stephen Briggs of E W Balderson says "the gold in central bank vaults belongs to the taxpayer If it earns no money and serves no purpose, the taxpayer is losing out "

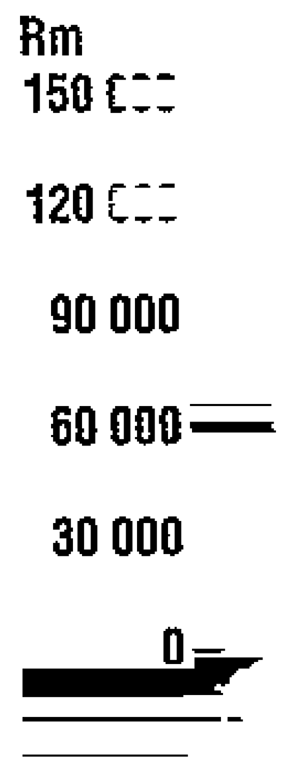
The foresight of its central bank ensured Australians had the benefit of prices at around $370/oz when its deals took place

The psychological damage inflicted on an already nervous market may be irreparable "The price has broken through chart points that have been in place for years," says Warwick-Ching, "and we are in open territory challenging the lows of 1985 "

This is even more serious than it sounds because the cost of producing is much higher now than it was 12 years ago And the recent rundown in the price is, therefore, a more serious challenge to the world's gold mining industry

There have been many reasons for the decline in gold's role

- The fall in inflation Historically, gold has been used to hedge against rising prices But stringent monetary policy in many of the world's leading economies since the early Eighties has reduced inflationary pressures,
- Real interest rates associated with firm monetary policy have increased the opportunity cost of holding the precious metal Grahame Graham Parker of Infinity Asset Management says investors have almost been driven out of the market by returns they get investing elsewhere,
- The growing sophistication of financial markets Warwick-Ching says "we are in a world of convertible currencies with a huge array of financial instruments and products competing for the investor dollar," and
- Its status as a safe haven in troubled times has all but vanished After a brief surge to over $400 in mid-1990, at the start of hostilities in the Gulf, it has failed to respond to global disturbances



The conditions which created and sustained gold's role as a store of value have subsided The monetary value of gold was born out of the need for something rare and desirable, reasonably portable in times of trouble and relatively durable in periods of destruction and decay

These conditions held until after World War 2 when escalating inflation re-emerged as a serious threat As this was brought under control in advanced countries, demand shifted to the Middle East and south-east Asia

Much of the world's gold is in the hands of private investors in those countries, says Kelvin Williams, executive director of marketing at Anglogold, suggesting the monetary role of gold is still alive

But it is diminished in the eyes of central bankers, many of whom have made no secret of their intention of reducing the proportion of gold they hold

Fundamentally, a new generation has arrived in positions of power "Today's central bankers have not gone through two world wars and rampant inflation Their attitude is shaped by the world in which they have lived Between them, they hold 10 years of gold demand," says Briggs

FM 11/7/97

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(214)

If they shed more, it will have serious consequences for gold mines, employment in the industry and the countries which rely heavily on gold for export revenue

"A swathe of gold mines are now under pressure," says Briggs

Though it is impossible to quantify the number of jobs threatened, analysts point out that 63 000 jobs would be lost in SA if nine most vulnerable mines were closed Some estimate as many as 14 could close if the price remains $320/oz

The loss of $20 on each ounce of gold adds up to R69m in lost foreign currency and mining revenue over a year, based on a R4,5/$ exchange rate, says Chamber of Mines chief economist Roger Baxter

Michael McClintock, economist at SBC Warburg, says gold mines have shown resilience in the past

But the dimensions of the problem are different "First-quarter mining results show about 15% of gold was produced by mines that were unprofitable — with working costs higher than the rand spot gold price

"If you extrapolate that to 1998 and assume prices remain weak and inflation-related cost increases continue to apply, you could conclude 40% of gold production has become uneconomical "

Regarding the impact on the economy, McClintock says there are so many forward and backward linkages with the mining sector that it is difficult to make any accurate estimate But he has made some predictions for next year based on a $335/oz gold price, rand depreciation in line with inflation and production of 420 t, 12,5% down on this year's estimate

"If you extrapolate from that," says McClintock, "and assume the gold industry contributes 3,5% to GDP, you can say the recent fall in the gold price might knock between 0,3%-0,4% off GDP growth

"But that is only the direct effect There will also be indirect effects, including job losses The real price (deflated by inflation) and employment in the gold industry have shown a close relationship over 15 years (see graph) "

SMK economist Herman van Papendorp looks at the comparative impact of gold at $350/oz and $320/oz Gold exports are worth R24,5bn in the first case and R22,5bn in the second

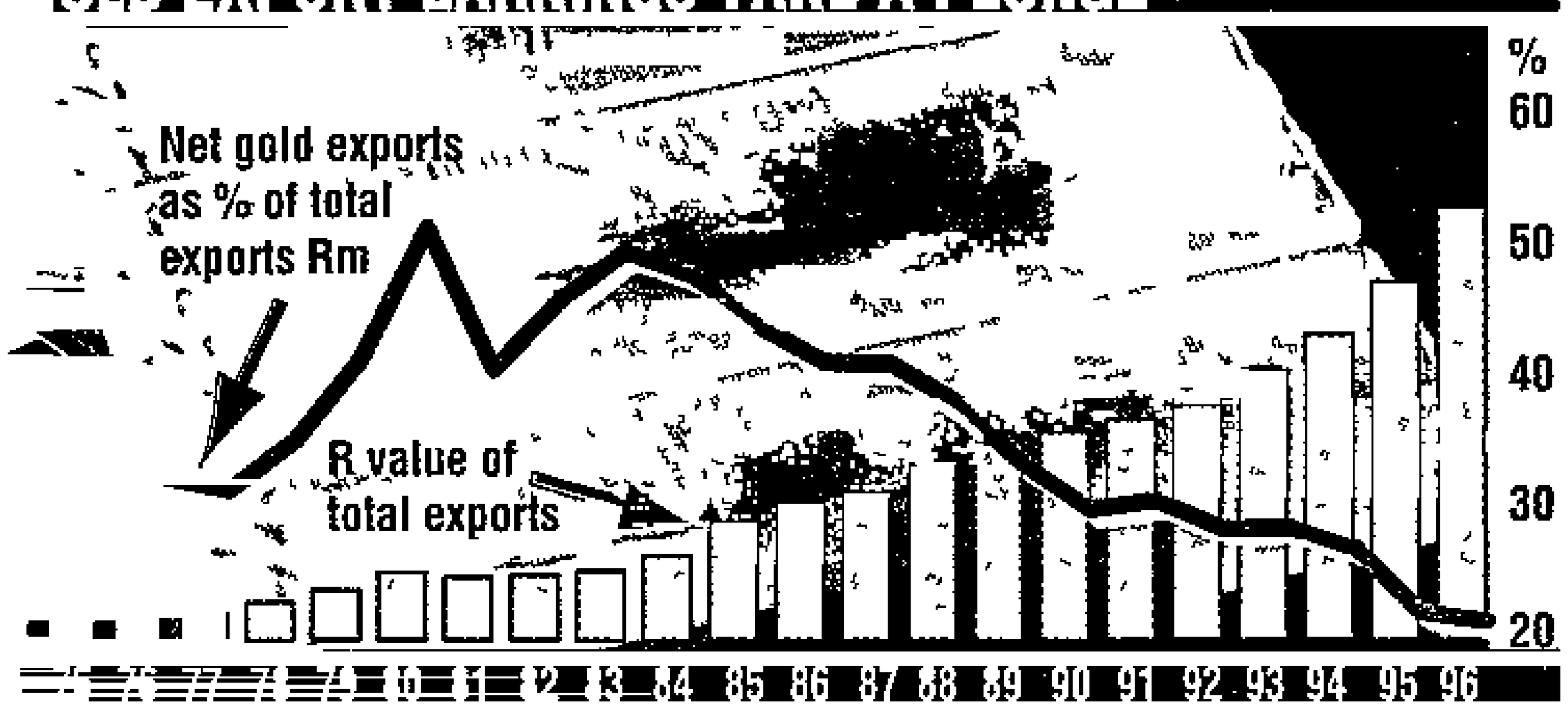
"The loss will be directly reflected in the current account of the balance of payments," says Van Papendorp, "and will increase dependence on foreign capital to finance the larger current account deficit "

He says "there will be no initial direct impact on real GDP, which is a volume concept not influenced by relative price changes But, in the longer run, there could be a negative impact on economic growth if the closure of marginal mines reduces the output volumes in the gold mine industry "

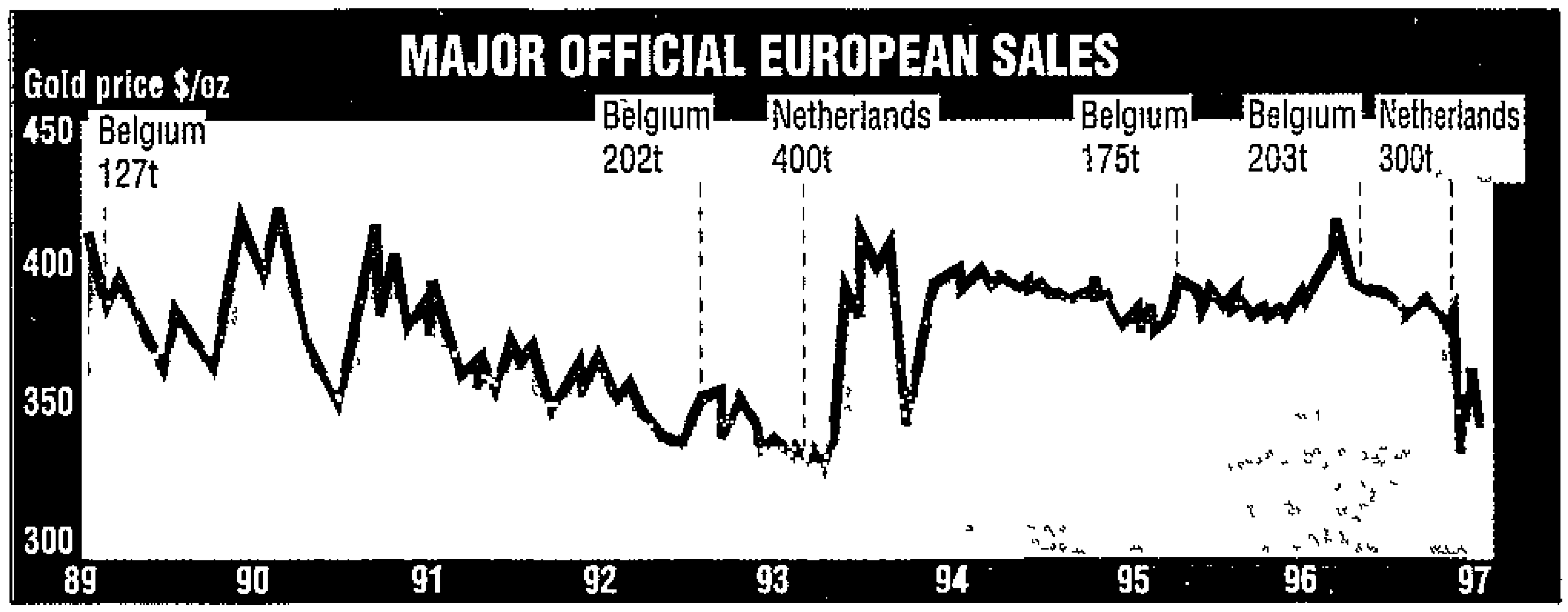
His calculation is similar to McClintock's "In quarter one of 1997, mining and quarrying comprised 8,5% of real GDP Though no breakdown of gold GDP is provided by Central Statistical Service, we estimate production at around 3% of total real GDP

"A fall in gold output from the 488 t produced in 1996 to 420 t would, for example, subtract 0,4% of annual GDP growth And the potential loss of employment in the industry will have multiplier effects throughout the economy "

OLD EXPORT EARNINGS TAKE A PLUNGE



MAJOR OFFICIAL EUROPEAN SALES



Views of gold's prospects vary

"The price will turn," says Rhona O'Connell, a principal at T Hoare and a precious metals analyst, "because a lot of people have short positions " This means they have sold gold they don't have and then buy at a lower price

"Eventually, they will have to cover themselves," says O'Connell, "and you will get a rally in the gold price " How long the rally will last and how far it will take the gold price is even harder than usual to forecast

As for the role of central banks as net sellers, Anglo's Williams points out that France, Germany, the US and Switzerland hold over 20 000 t of gold, more than half of central bank holdings, and have no intention of selling

Another perspective is offered by Warwick-Ching "The metal may have been oversold but the latest bout of selling shouldn't be seen as a freak episode In the past 20 years, the range of outlets has narrowed and the spectrum of end-users has shrunk Sales of bullion for coins and medals are declining, demand from dentistry is stagnant Electronic demand has been buoyant but remains modest

"Jewellery," he says, "makes up over 80% of offtake There are signs of saturation Outside of the Middle and Far East, only US demand has remained buoyant "

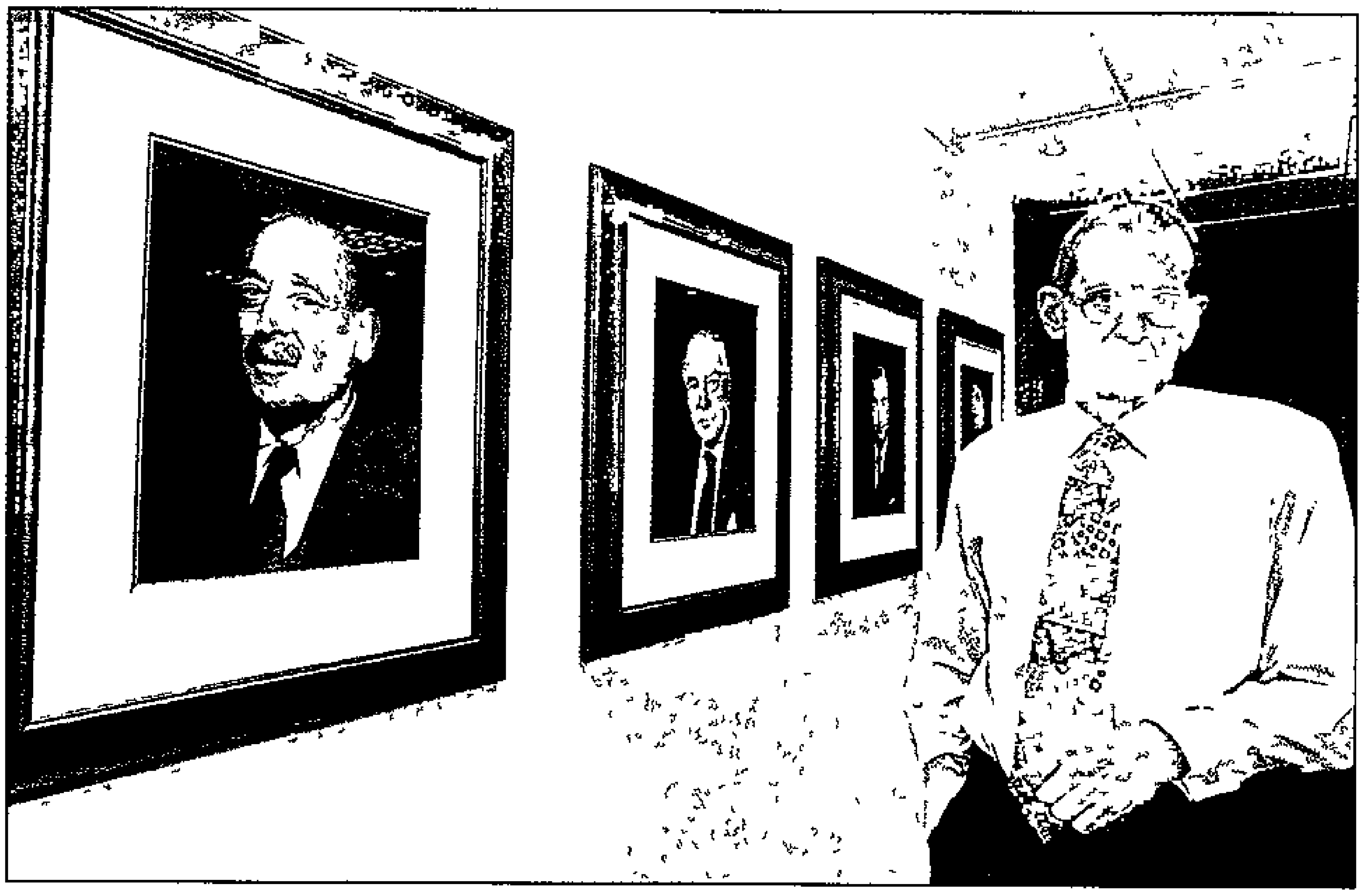
Briggs believes the gold price will recover only when it has fallen so low that a number of marginal mines worldwide will have closed He says SA may not be far from this

The stark truth is that the restructuring taking place in the economy will have to be speeded up SA has to shift its dependence on mining to manufacturing, a trend evident over the past 15 years, if it is to thrive

The short-term pain will be acute as more workers are thrown out of jobs But the process will bring benefits because it will give SA greater control over its economy

No longer will it be held hostage to fluctuations in international commodity prices

Ethel Hazelhurst



Williams *Anglogold sitting comfortably on forward hedges*

GOLD

Mining houses face moment of truth

Mine bosses say they've used all their options. They need help from labour to prevent closures

FM 11/7/97

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As for the rest, a string of mines could be doomed to close, bringing in their wake thousands of retrenchments Their only chance for salvation would be to secure a productivity-based pay deal with the unions involving full calendar operations (fulco), the norm for mines worldwide

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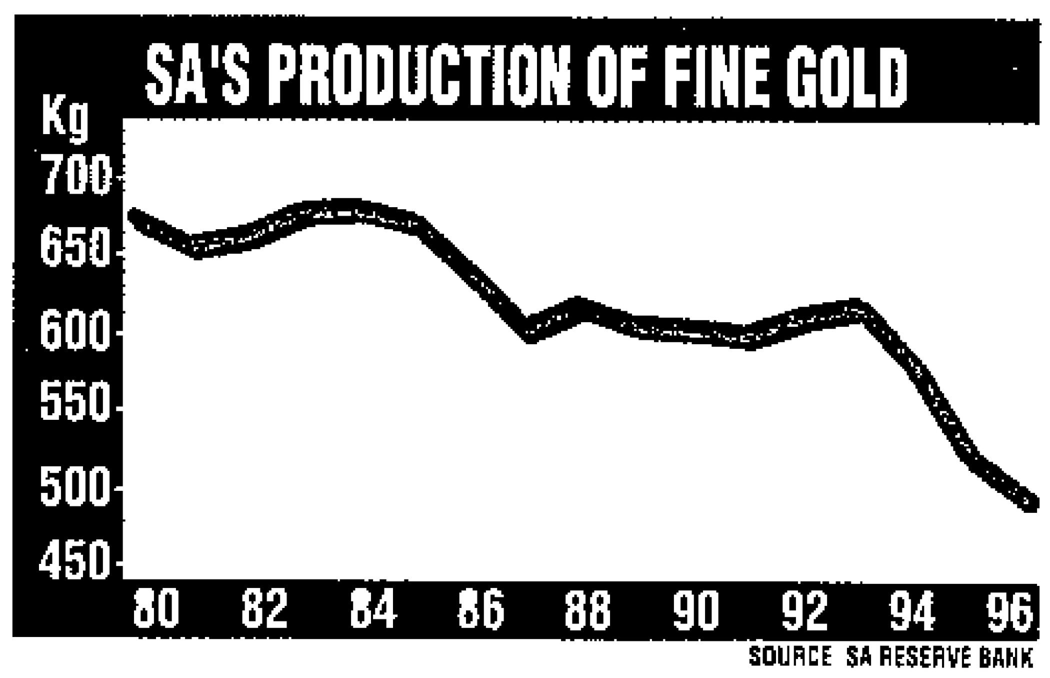

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"We have recognised and agreed the industry is in crisis We have made immense

INSIDE LABOUR

Unions likely to continue seeing gold crisis as a miners' problem

(214) CT(BR) 11/7/97

TERRY BELL

A relatively muscular national currency, coupled with a serious slide in the price of gold, poses the greatest threat to jobs that South Africa has ever faced But it is not only miners — in their tens of thousands — who are affected The implications for virtually all sectors of industry are great because of the multiplier effect of gold mining throughout the economy

Everything from engineering and steel to catering, clothing and the growing, treatment and provision of timber comes into the equation — mines are vast consumers of products So too are miners and their families who make a considerable contribution to the maintenance and success of the retail sector

Then, of course, there are the shareholdings Mainly through JCI by way of the National Empowerment Consortium, trade unions, through their investment arms, will be nervously watching their wallets while keeping a beady eye on the JSE gold board It is a classic example of how wide the implications of a single event can be

The still critical importance of gold and the sheer scale of the possible effects of the crisis on the economy as a whole should ensure that gold remains a focus, certainly in the media However, within the broader trade union movement, it is is likely to continue being seen as a miners' problem since there will probably be very little evidence in the short term of any effects on the wider economy

"Forward sales — hedging — by most of the companies means that nothing major is going to happen soon," said George Molebatse, the National Union of Mineworkers' (NUM) spokesman The NUM also tends to see the present price collapse as a "bottoming out", a temporary downward adjustment in price levels

But without a rally in the price of gold or a sharp devaluation in the exchange value of the rand, many — if not most — South African mines will have to start shutting up shop, probably within two years Within months the effects will ripple through the economy The effect on jobs and on labour relations generally will be great Trade unions and the structures established by the Labour Relations Act (LRA) will be under pressure to perform as efficiently and effectively as possible

Yet last week ended with a serious and so far barely noticed challenge to what was widely seen as the crucial, if clumsily, named LRA institution, the Commission for Conciliation, Mediation and Arbitration (CCMA) The challenge underlined how little authority the CCMA has, despite being the main channel to which trade unionists turn for the redress of grievances

CCMA rulings can largely be ignored by employers and union leadership — and this seems now to be happening more frequently This point is also taken up in the latest internal communiqué from the industrial court which is critical of the CCMA

Last week's challenge came through the case of Ernest Buthelezi Buthelezi turned to the CCMA when he was suspended as the assistant general secretary of the Food and Allied Workers' Union (Fawu) He had been told he could not attend the union's biannual conference as a consequence of his suspension After hearing the case, the CCMA handed down a declaratory judgment, giving Buthelezi the right, not only to attend the conference, but to address the delegates and to put his case to them

But when Buthelezi arrived at the conference in Cape Town last week, he was denied admission Even a request to distribute, in writing, the arguments against his suspension was refused There was nothing the CCMA could do about it

Buthelezi, who will only comment that he intends to continue fighting, has again approached the CCMA this week He has asked in writing for arbitration over the matter of his expulsion from the conference He and three other suspended members of the six-strong executive are also apparently considering action for redress through the courts

Their main problem seems to be costs However, sir more than a third of delegatc at the conference voted to suppoi suspended former national treasurer Richard Mpongose, there is now talk of raising legal funding at grassroots "If each of these members put in R10, we are talking about R500 000 or more," noted one of the supporters of the scheme

"But what this whole thing illustrates is that the CCMA is toothless," said a leading labour lawyer As such, it was far from being the "labour-friendly" institution most trade unionists still thought it was "When the LRA was negotiated at Nedlac, the labour side must have been asleep," the lawyer added Increasingly, the truth was starting to dawn on trade unionists — at the very time they faced one of the most critical periods on the jobs front

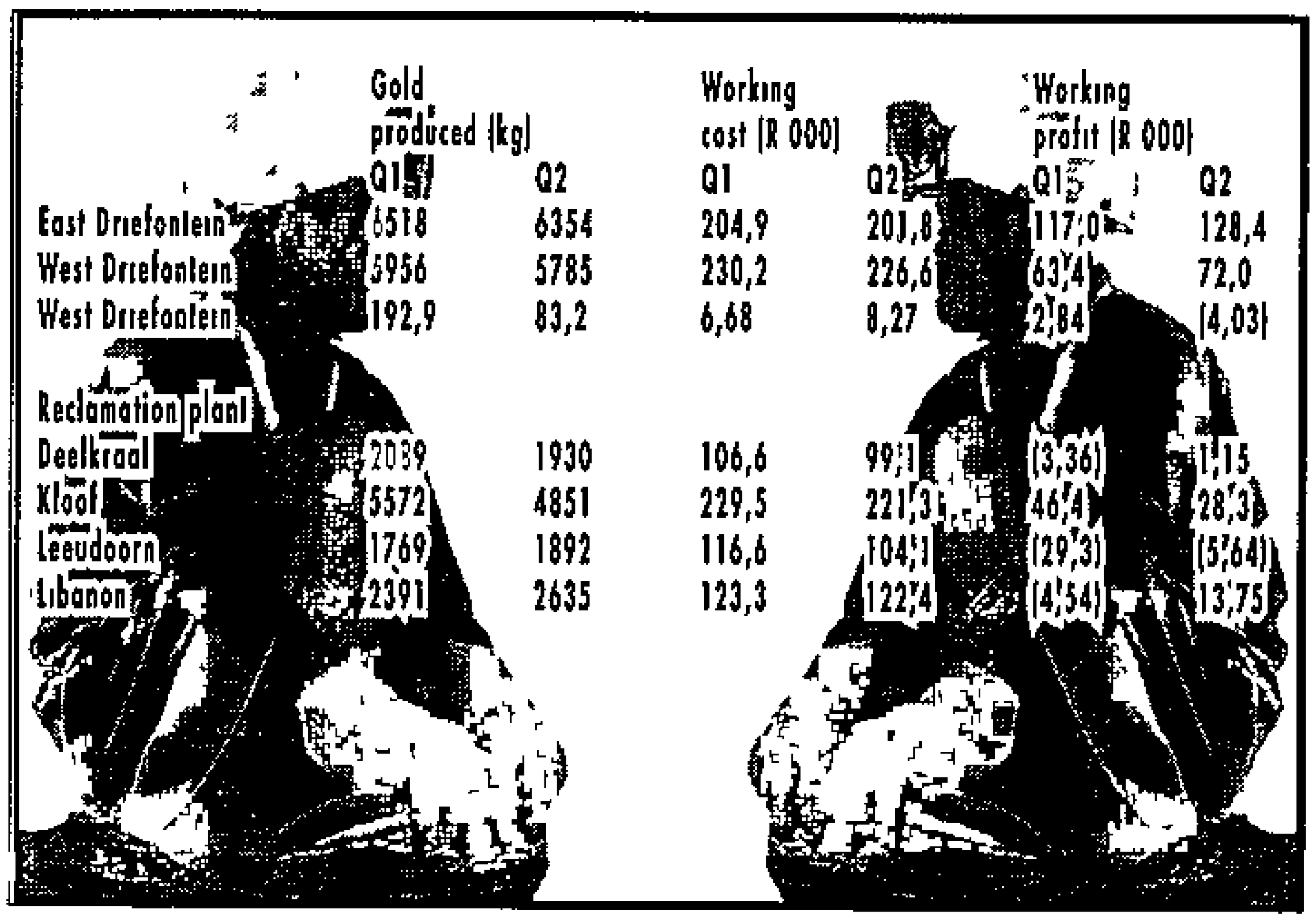
'Black sheep' mine may be merged with Kloof and downsized

Leeudoorn losses hit GFSA

(214) CT (MR) 11/7/97

ANDI SPICER
MINING AND RESOURCES EDITOR

Gold Fields' dismal quarterlies



	Gold produced (kg) Q1	Q2	Working cost (R 000) Q1	Q2	Working profit (R 000) Q1	Q2
East Driefontein	6518	6354	204,9	201,8	117,0	128,4
West Driefontein	5956	5785	230,2	226,6	63,4	72,0
West Driefontein Reclamation plant	192,9	83,2	6,68	8,27	2,84	(4,03)
Deelkraal	2039	1930	106,6	99,1	(3,36)	1,15
Kloof	5572	4851	229,5	221,3	46,4	28,3
Leeudoorn	1769	1892	116,6	104,1	(29,3)	(5,64)
Libanon	2391	2635	123,3	122,4	(4,54)	13,75

Johannesburg — The losses at Gold Fields' Leeudoorn mine could lead to its merger with Kloof and the rapid downsizing of the present operation, the mining group said at its quarterly results presentation yesterday

Leeudoorn is the "black sheep of the family", Keith Spencer, the general manager of gold operations, said He explained that the mine had suffered from seismic activity in the quarter, which led to a static yield and grade

"My major concern is that working costs are increasing," Spencer said Costs rose from R55 020 a kilogram to R65 909 while yields were unchanged at 6,2g a ton

The mine's losses rose from R5,6 million last quarter to R29,3 million this quarter as gold produced fell to 1 769 kg

Kloof recovered from last quarter's poor results as working profits almost doubled from R28,3 million to R46,4 million The operation pushed gold output up from 4 851kg to 5 572kg and yields improved

"The yield recovery made a big difference We've turned the corner, and we're moving towards greater flexibility Working costs came down and profit rose, although from a very low base," Spencer said

Libanon had "less than satisfactory results", and Spencer stressed that milled output had to increase to push gold production up The mine was also affected by "stay-aways and holidays"

He said "costs had crossed the gold price line", and this led to last quarter's profit of R13,75 million falling to a loss of R4,54 million Yields were "down to more realistic levels", but costs rose 11 percent as gold output fell

"There is no reason why Libanon can't make a profit even at the current gold price, but we have to reduce unpayable reefs "

The West and East Driefontein mines had "solid bottom-line results" West Driefontein pushed down costs and increased the yield marginally Gold output moved from 5 784,9kg to 5 956,4kg though profitability fell 11,9 percent to R63,4 million

East Driefontein retained its position as one of the lowest-cost producers in the country with working costs stable at R31 427 a kilogram Profit dipped from R128,37 million to R116,96 million, and gold output was 2,6 percent higher at 6 518kg

Deelkraal was also affected by seismic activity, and 10 miners died in a rock burst at the mine this quarter This led to poorer results although yields were improved A profit of R1,1 million last quarter was translated into a loss of R3,4 million because of the accident

MINING HOUSES *Fall in quarterly profits not as bleak as forecast*

Gold Fields weathers storm

CT (PMR) 11/7/97 (214)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Despite higher production, the weak bullion price knocked the June quarter gold earnings of Gold Fields of South Africa, the mining house

However, the 18,6 percent fall in profits was not as bad as expected, the company said yesterday

Losses at Leeudoorn could lead to the mine merging with Kloof and the retrenchment of up to 5 000 jobs, Keith Spencer, the general manager of gold operations, said He said the company could not continue to sustain those losses

The Kloof division improved its performance and West and East Driefontein showed "solid bottom line results" Libanon, however, did badly and Deelkraal did not maintain profit growth

"In the light of the poor gold price we did well, as gold production was up and the (group) results were above market expectations," Spencer explained

Gold profits after tax for the group fell from R236,4 million last quarter to R192,3 million this quarter

The falling bullion price had a "serious impact", and the average price received was 4,5 percent lower at R49 411 a kilogram

"We had a number of holidays as well as the Cosatu action, where there were problems before and after, but we are now trying to focus on higher-grade areas," Spencer said

The company was also benefiting from improved industrial relations after last year's debacle when strikes, unrest and underground fires smashed profits across the group

Northam, the platinum producer, still did not drag itself into profit despite a buoyant platinum and palladium price Its cash position improved as sales from stocks took advantage of the metals' shortage on international markets

Northam "is still in loss, and I can't say it's good news, but there has been an improvement", Peter Janisch, the executive director of platinum and coal operations, stressed

Northam made a loss of R0,629 million, better than last quarter's loss of R18,4 million Its cash position rose to R21,6 million from R13,4 million.

☐ Business Watch, Page 15 and Leeudoorn, Page 17

PENSIVE *Richard Robinson, Gold Fields' executive director of gold, left, and Peter Janisch, Northam's executive director of platinum and coal operations* PHOTO JOHN WOODROOF

Management and unions stare into the same abyss as gold plummets

(214)ST(BT)13/7/97

CIARAN RYAN

Looks at one of the bloodiest weeks in SA mining history

THE wage negotiations now taking place between trade unions and the Chamber of Mines ssumed a more sombre note us week as gold dipped below 320 an ounce, the lowest level i more than a decade

At current prices more than 0% of SA gold mines are producing at a loss Should the gold price drop below $300 an ounce — viewed by some analysts as he next target for speculators who short-sold the metal to its urrent levels — some 60% of gold will be produced at a loss

Unusually, mine bosses and their trade union adversaries find themselves on the same side of the table, staring into the abyss of joblessness and mine closures Nothing focuses the mind better than the threat of imminent financial collapse

The first casualties were Benoni gold mine, which is to be closed with immediate effect, and the proposed merger between Blyvooruitzicht, Buffelsfontein and Durban Deep, which has been put on ice Also at risk are Grootvlei, Cons Modder, ERPM, Kloof, Randfontein, Deelkraal and Avgold, which relies on cash from Hartebeesfontein to bankroll its new Target development That, too, is now at risk, say analysts Freegold — mercifully cushioned from the low gold price by Anglo's policy of hedging — may hasten plans to close five of its 18 shafts Two of Vaal Reef's eight shafts now run at a loss

Announcing an 18 5% decline in profit, Gold Fields of SA said it was considering closing Kloof's Leeudoorn division, placing 5 000 jobs at risk Libanon faces a similar fate should gold remain in the doldrums

All in all, it was one of the bloodiest weeks for gold mining in history It was triggered by a seemingly innocuous report that the Australian central bank had off-loaded 167 tons of gold Emboldened by this news, gold speculators and US fund managers short-sold bullion (selling in the hope of a price drop, with a view to buying back cheaply) Demand for physical gold is about 3 500 tons a year, but the 'paper" market — options on gold, futures and gold loans — is larger and exerts a powerful influence on the spot price

Bleak as the above picture appears, it will force the industry into overdue restructuring

"Two good things will come from this," says Rob Edwards, gold analyst at HSBC "It will bond unions and mine management together and force unions to be more realistic in their expectations It will also result in a big reduction in working costs through the closure of marginal sections on mines "

Leon Esterhuizen, gold analyst at Société Générale Frankel Pollak, says gold would have to remain at current levels for about 18 months before there is any risk of large-scale closures "Fortunately, the industry has a mechanism for survival Non-essential spending will be the first to go, capital spending programmes will be cut back and, where possible, there will be a shift to higher grade ore "

But the scope for cost-cutting is limited Labour typically accounts for more than 50% of mines' costs, which means job losses are inevitable at current gold prices The filibustering which normally attends wage negotiations has been tempered by a realisation that job security is a thing of the past

The prospect of a perennially depressed gold price may also goad the government into an urgent review of its ring-fencing policy, which prohibits mining groups from using a tax shield on one mine to offset a tax liability on another The Katz commission is already investigating the issue, and some relief has been granted to contiguous mines The ring-fencing policy is a hangover from the days when gold mines represented roughly 15% of the country's tax base Now it is less than 1%, and would be less but for ring-fencing

The government may also be forced to lift the ban on Sunday blasting, notwithstanding union opposition The hope is that the gold mining industry emerges from this crisis more robust and responsive to volatile market conditions There is also a faint hope that once speculators cover their short positions, bullion will bounce back to its trading range between $340 and $350

Anglo American marketing director Kelvin Williams says it is almost impossible to forecast the gold price "Unlike any other commodity, gold is never destroyed New production adds to rather than replaces the total stock of gold in the world More secondary resources keep on creeping out of the woodwork, and what we do not know is the trigger-prices for those holding these stocks The question now is, do the short-sellers have any more appetite for shorting bullion at these low prices? They got burned in a similar situation in 1993, and again in 1994 and 1996 You can build up a short position steadily, but you cannot get out that quickly "

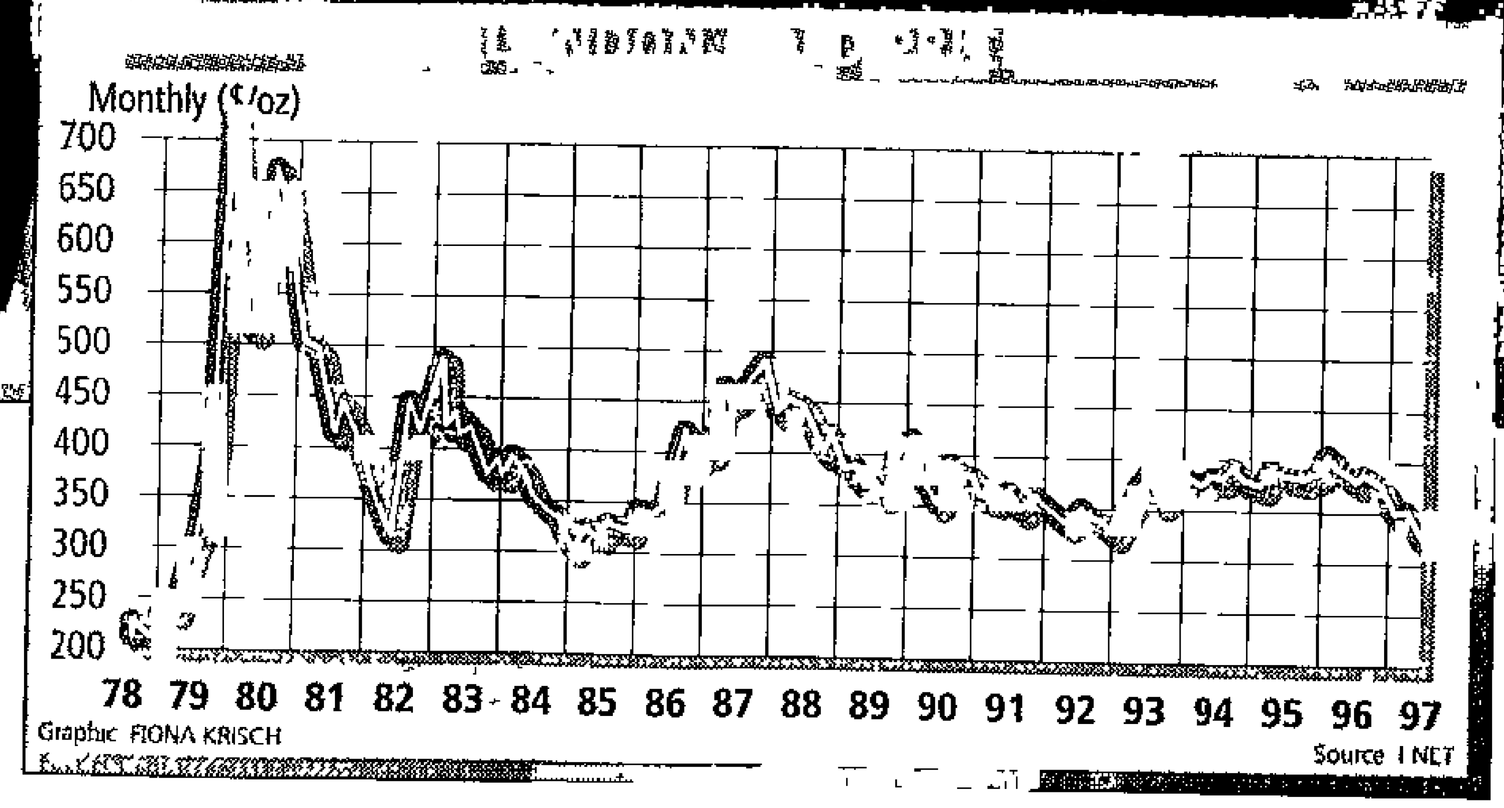
Anglo's hedging policy will carry it through for at least 18 months Directors of mining houses which do not hedge their gold production — such as Randgold and Gold Fields — can expect to face a barrage of angry questions from shareholders In view of the events of this week, the debate over the merits of hedging is all but won

The knock-on effect of a low gold price on the broader economy is substantial Chamber of Mines economist Roger Baxter says although gold's share of gross domestic product is just 3 8%, it accounts for 20% of merchandise exports and 4% of all fixed investment

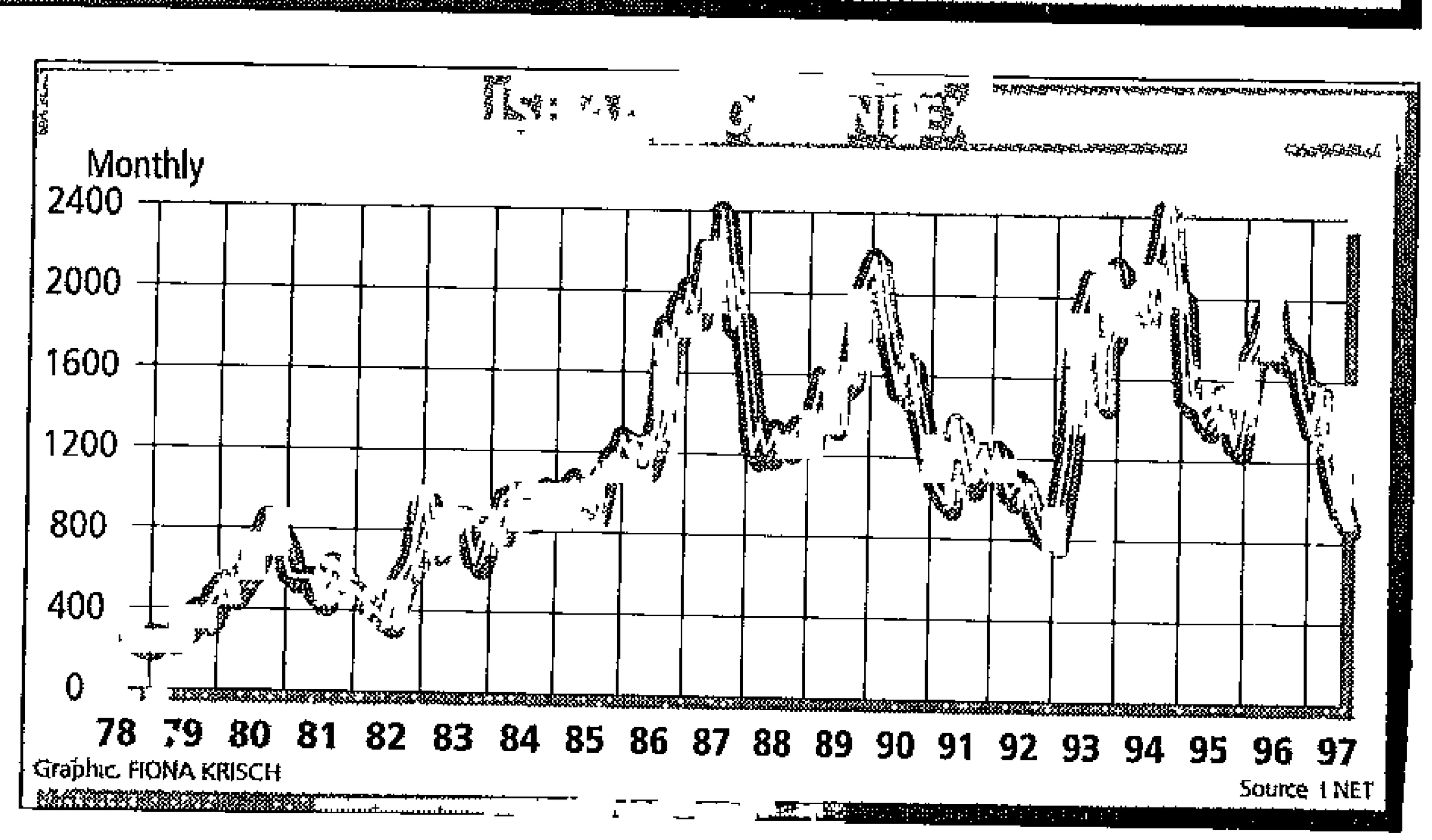
MINE	WORKING COST Rand/Kg
Beatrix	33995
Drie Cons	35287
H J Joel	36311
Southvaal	36859
Elandsrand	38053
Ergo	38057
Vaal Reefs	41087
Buffels	41520
St Helena	44527
Harmony	45040
Evander GML	46633
West Deeps	46973
ERPM	47831
Kloof Gold	48660
Avgold	49475
Blyvoor	49704
Freegold	49717
Deelkraal	51347
Western Areas	51777
Durban Deep	53983
Randfontein	55714
Grootvlei	56423

MINE	INCLUDING CAPEX Rand/Kg
Buffels	40307
Ergo	41105
Elandsrand	41455
Beatrix	44449
St Helena	45659
West Deeps	45818
Vaal Reefs	45818
Drie Cons	46172
Harmony	46374
Evander GML	48411
ERPM	51022
Avgold	51115
Blyvoor	56169
Deelkraal	58410
Randfontein	61238
Grootvlei	64676
Durban Deep	67136

Note: gold price at closure May 27, 1997 — R 19272/Kg.
Graphic FIONA KRISCH
Source: HSBC SIMPSON MCKIE



Graphic FIONA KRISCH
Source I NET



Graphic FIONA KRISCH
Source I NET

When gold loses its glister

Not only economists and industrialists are scrutinising the ups and downs of the gold price. In mining communities the townsfolk see the price as the surest indicator of their future. CAROL PATON visited one of the threatened communities this week

EVANDER is a small town on the Highveld with no more than 10 000 residents

Smog sits thickly above the dull flat landscape, which is broken only by the occasional mining headgear and the massive spectre of the nearby Sasol plant, with its dramatic flaming chimneys and smoking towers

But even though the smog is so thick it seems possible to reach up and grab it, residents of Evander say the town is a nice place in which to live

Neat houses with low walls face the quiet streets, and people can stroll along the wide grassy pavements to the shops or to school

Surrounded by four old mines, recently all merged into one big mine named after the town, Evander carries on its coat of arms the motto *Ex Terra Copiam* — out of the earth comes wealth

But with the gold price plunging below the $320 (about R1 460) mark this week, Evander Gold Mine found itself out on a limb It costs the mine $350 (about R1 595) to produce one ounce — $30 (about R140) more than it would have earned on the market this week

About 70 percent of the townsfolk work on the mine and the shrinking number of small businesses there are mostly dependent on it or its workers for their survival For them, the mine's closure would be a disaster

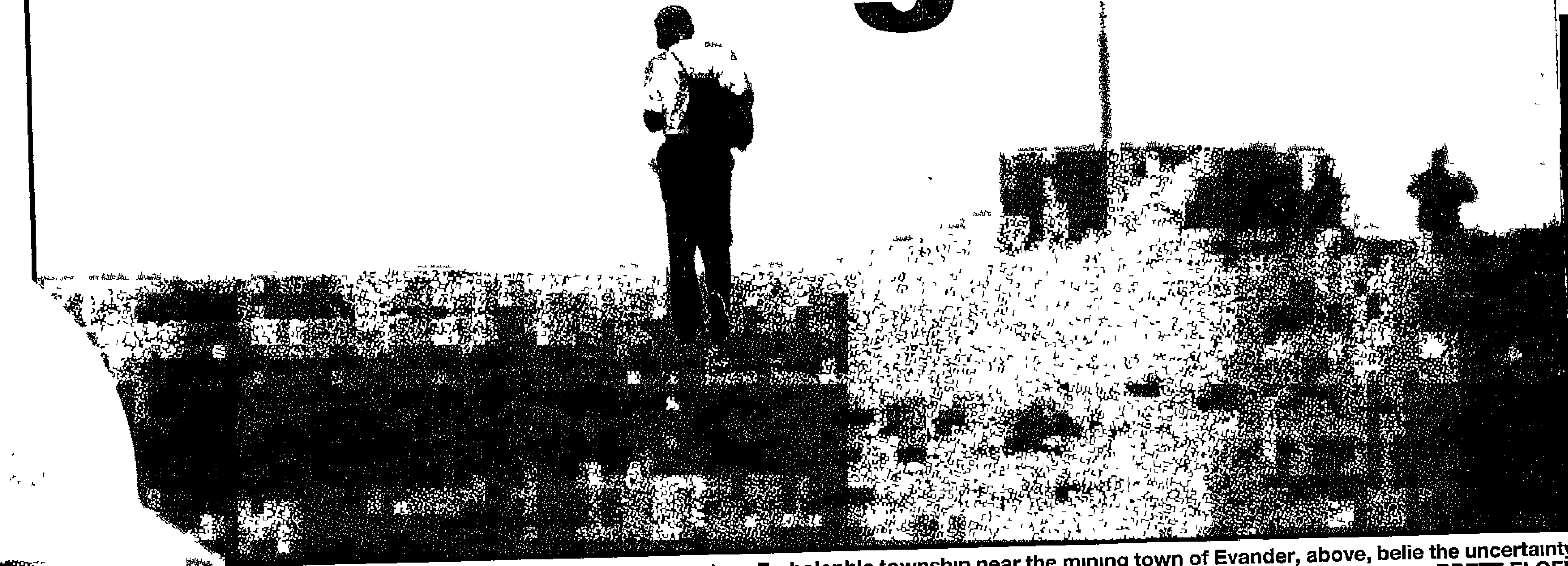
P W van Zyl, a town council official, says it is something he doesn't want to think about

"While my job would not disappear if the mine went, there are lots of people who would be destitute without the mine

"There are people with no resources They live from day to day in mine houses Many of them would not be able to find other jobs," he says

Gert Hattingh, a garage owner, says the falling gold price sent a ripple of anxiety through the community this week

"People in town are not certain of what will happen tomorrow They don't want to spend any money because they don't know if they'll have a job tomorrow



GLOOMY HORIZONS: The beautiful sunsets in Embalenhle township near the mining town of Evander, above, belie the uncertainty that dogs its residents, such as this miner, left, from Evander Gold Mine Pictures: BRETT ELOFF

(214) ST 13/7/97

Blind hope shines through as townsfolk contemplate life without a mine

LIVING ON THE EDGE: George Polenakis, left, vows to stay in Evander, even if the mine closes. But Gert Hattingh says locals are uncertain about their future after bullion's fall

employees, most of whom live in hostels or the nearby Embalenhle township

On Thursday, thousands of miners turned out to a meeting at Winkelhaak mine to hear a report from the National Union of Mineworkers on negotiations about the restructuring

Albert Monanabela, a union official, says "We all know that we are talking about the triple R — restructuring, redeployment and retrenchment"

The miners from villages in Transkei, Lesotho, Swaziland and Mozambique — where it is estimated each worker supports nine other people — stood in the mine stadium in sombre silence as the union assured them it was fighting for their jobs

The report complete, a second speaker stood up to address the crowd on the gold price He was immediately shouted down by workers who said they did not want to hear about it The meeting dispersed within minutes

Says Monanabela "They're not interested They don't know how the gold

214 ST 13/7/97

"I have a number of women working for me If their husbands lose their jobs they will lose their homes too It's not lekker to come to work when you don't know if you will have a house tomorrow," he says

Melt van Niekerk, a men's outfitter, says "If the mine were to close the town would close Most miners, black and white, buy from me We've never had it this bad But I'm still optimistic I don't think the mine will close I think things will come right again"

His optimism is shared by businessmen such as George Polenakis, who owns a hardware store

"People say the mines will close, but I'm optimistic They definitely won't be shutting down tomorrow Even if they did close I wouldn't go anywhere"

There are many people who, like Polenakis, have watched gold's endless ups and downs over the years and who believe the latest crash is not cause for much concern

In the bar at the Evander Club, a regular called "Lappies" boasts of his 38 years of service on the mine He is the town's oldest hand, he says, having first come to Evander in 1959 when it was nothing more than mealie fields

"I'm not worried We will survive — we've proved it in the past We can still make it and we will," he says

Thys, his friend, agrees "I've been working on this mine for 24 years and I've been on the retrenchment form four times And every time the mine pulls us out of the shit Evander Gold Mine will never close I'll stake my life on it"

But at the current gold price, Evander needs more than the blind hope of its employees As a shift boss seated on the other end of the bar remarks 'Something drastic has got to be done"

And drastic plans are what are in store for Evander mine

Howard Laycock, the managing director, says the mine aims to push working costs below the $300 (about R1 365) level and double productivity by the end of the century

The merger of the four mines last year was an important step towards this It will allow the mines to share their capital and rationalise key operations among themselves It will also "take away the walls between the mines" so the ground between them can be mined for the first time

Gengold, which owns Evander, has also changed working practices underground, introducing the idea of panel mining, where one fully trained miner and his team take charge of an area of rock face to be drilled and blasted

Says Laycock "Previously, we had one white miner supervising 80 to 100 people Now with a miner on every panel, we have smaller, more directed teams The higher their productivity, the higher their earnings The members of the team can double their basic earnings with productivity bonuses"

But the restructuring following the merger and the low gold price are bound to bring job losses for Evander's 16 000

[illegible] price is determined

"The way they see it is they've been working in the mines for years and have been paid badly So they think the mine has got stores of money in the bank"

Radical productivity improvements are needed to save at least some of the jobs and Monanabela has promised to sell this idea to union members

"There is a lot that can still be done before these mines are closed But the problem is if you speak to a drill operator about productivity he thinks you are telling him to suffer," he says

"Workers don't yet understand that sometimes you may have to increase hours to meet targets"

Chamber and union strike two-year agreement linking salaries, productivity and production

Deal to save gold industry

CT (BR) 16/7/97 (214)

FRANK NXUMALO

A WORD IN YOUR EAR *Nick Segal, left, the president of the Chamber of Mines, and Ikaneng Matlala, the overall convenor for the NUM at the chamber strike a "landmark" deal at the gold mining industry's annual wage negotiations* PHOTO: JOHN WOODROOF

Johannesburg — A landmark two-year deal to increase gold production by 90 tons a year and boost productivity was announced yesterday by the Chamber of Mines and the National Union of Mineworkers (NUM) as part of their successful annual wage negotiations

The wage model, covering 1997 and 1998, proposes wage increments of up to 25 percent for low income earners, boosting their monthly wages to R1 150, and between 9 and 10 percent for higher earners, if production targets were met, the chamber said

Adrian du Plessis, the chamber's industrial relations adviser, said although it was difficult to quantify the effect the accord would have on the estimated 100 000 mine workers facing retrenchment, "an accord of this nature is likely to protect employment rather than jeopardise it But we can't give employment guarantees"

Nick Segal, the chamber president, said the deal was "not triggered" by the plummeting gold price, which fell below $320 an ounce last week But he conceded the fall had added urgency and made it imperative to reach a robust wage and productivity agreement that links wages, production and productivity

Segal hailed the accord as "of almost historic proportions"

The NUM said the deal was "in the best interest of the gold mining industry and the best option for its future and stability"

Du Plessis said the accord was the first step towards eliminating "the annual struggle" that had become a feature of past wage negotiations, and it laid a platform for a better partnership

Kgalema Motlanthe, the general secretary of NUM, said The accord lays down the first lesson for us in how to deal with major setbacks in the industry without panicking, without alarm at possible job losses"

The parties agreed arrangements for improving production and productivity to meet the additional target would have to be negotiated at mine or company level between management and the unions The mine-level talks will start immediately and will be reported back to the chamber/NUM plenary negotiating team

Jobs in the gold industry have fallen from 530 000 in 1987 to 350 000 last year, in which 495 tons of gold was produced

COMPANY NEWS

Time to define gold's marginal mines

CT (BR) 15/7/97 (214)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — The South African gold mining industry is under severe strain as the bullion price fall in the last few months has pulled a large percentage of mines either into losses or marginality. The country has always been a high-cost producer compared with alluvial and shallow gold producers elsewhere in the world and had been kick started by the capital accumulated in the diamond rush a few decades before the Witwatersrand basin was discovered in the last century.

If cash costs were averaged out over the April quarter there are nine mines presently which can be considered marginal producers. Two of these — Western Areas and Deelkraal — were profit making and the other seven were loss making. The seven are Durban Deep, ERPM, Grootvlei, Leeudoorn, Loraine, Randfontein and Winkelhaak.

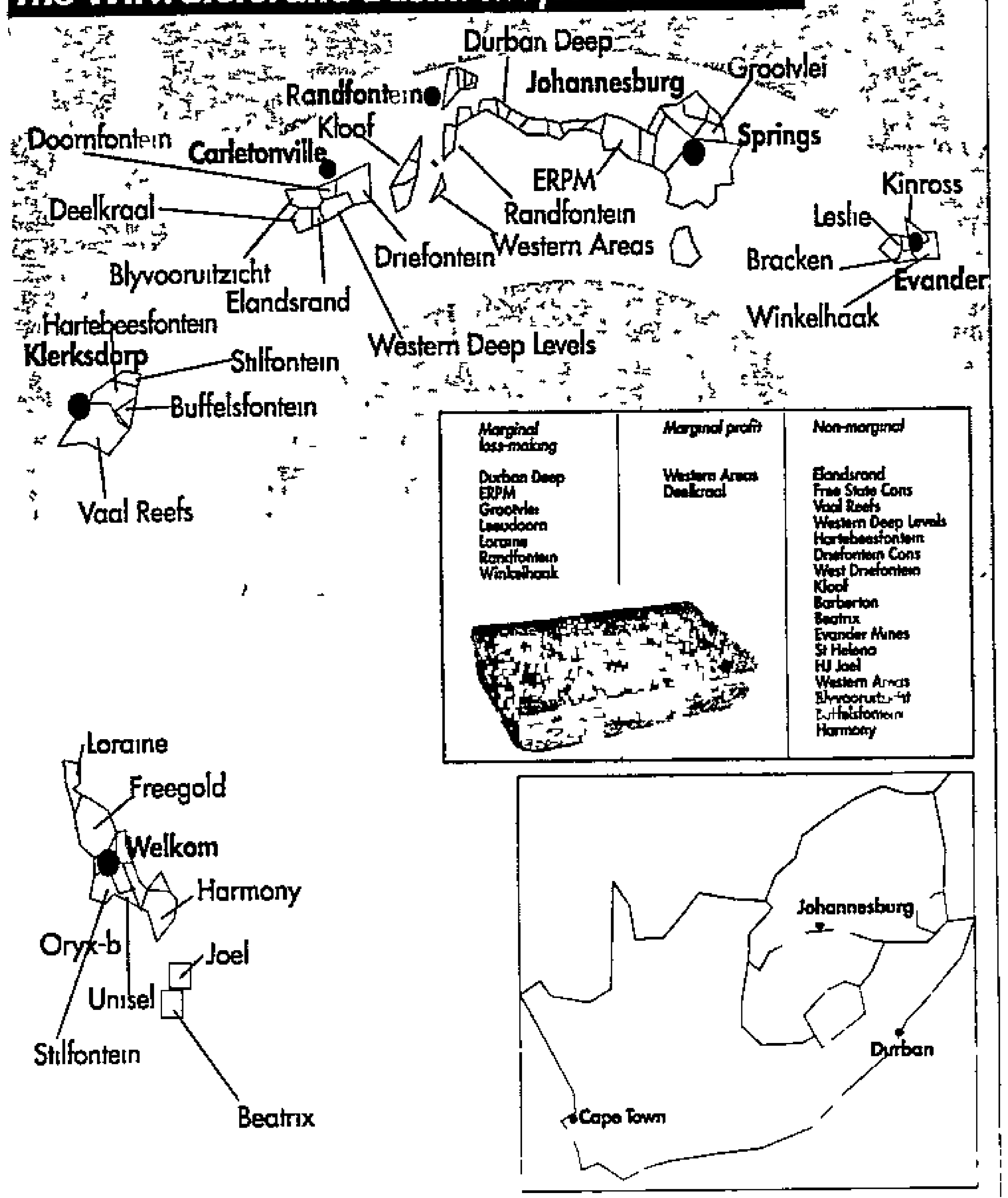
After last week's Gold Field's quarterly results, Deelkraal's profit crashed and Libanon also moved over into negative territory, although not into marginality. We have yet to see the damage the low gold price has done to the rest of the industry this quarter.

Martin Squires, an analyst with London metals brokers Rudolf Wolff, said recently with 57 percent of South African mines operating at a loss below the $318 an ounce level, further mine closures may well be on the cards, and this will provide some support to the price.

The reasoning is that given the poor sentiment in the market concerning central bank sales of gold, the only way to pump up the price is to have some mines close. This would not materially affect the supply of gold to world markets as central banks have many years' production in their holding and could sell them at the whim of their governments.

Analysts are divided on the short term and long term prospects of the gold price, but many in the derivatives markets are pessimistic.

The Witwatersrand Basin: Major Gold Fields



Although the precious metal has risen slightly on international markets in the last few days and moved back up above $320 an ounce many believe this was the calm before a storm and that it would not take much to drive gold below $310 initially, and then to $300 and perhaps even $280. At $280 there would be major closures across the world and the majority of the South African gold mines would find it hard to survive a sustained price at this level.

Most of the assumptions in this article put the gold price at about $318. Below this, it would be worse.

Even before the majority of the large mining houses report their quarterly results next week there has been one casualty: the Benoni Gold Mining company, a subsidiary of Randgold's ERPM, which is to close almost immediately. The facility is a surface dump processing plant and not an underground mine, but the signal is that the marginal operations cannot survive at present prices.

Gold Fields sent out a similar message with Leeudoorn, which has slipped badly into the red. Gold Fields' management is looking at its options, which include closure or merging the operations with neighbouring Kloof.

It is almost inevitable that the coming quarterly results will reveal some more mines that are close to closure or merger. JCI's Randfontein was in desperate trouble last quarter and since then it has had industrial unrest. Its stablemate Western Areas did badly in the last set of numbers, and immediate action is needed to solve its problems.

Talk is that a senior member of the JCI gold management will move to Western Areas to stem the declining profits at the mining group's flagship.

Only HJ Joel is likely to improve its position among the JCI group and could challenge Gencor's Beatrix as one of the lowest cost producers in the country.

But if the picture is extended out for the next 12 months the situation could be different when the project ed mine costs are calculated.

If capital expenditure is not considered and a $318 an ounce bullion price is used at the present rand/dollar exchange rate, then Evander could be in trouble and Freegold would be in a similar scenario were it not for its hedging programme, which gives it an average gold received price at about R1 800. But Randgold's Harmony would be marginal as would the whole of the Avgold group. Obviously, Western Areas and Randfontein would be in loss.

Diagonal Street gold analysts are busy with their mine models which map out the costs and projected performance of each mine in the industry, but the plain fact is that if gold remains at or falls from its present price, there will be closures and retrenchments.

Some economists put the figure at perhaps 100 000 jobs lost in the industry.

Durban Deep is vulnerable and many expect Loraine to accelerate its closure plans from three years to a more immediate timetable. Deelkraal has been saved by its mineral rights swap with Anglo American's Elandsrand and the merger of the mines' infrastructures.

Randfontein will speed up its retrenchments and downsize the mine. Hartebeestfontein can only survive a similar fate by accepting seven-day working weeks. If not, it will shed about 50 percent of its workforce, analysts believe.

A low gold price will also mean consolidation of mineral rights in the country. Mines where ore bodies are only separated by a line drawn on a map and owned by two competing mining houses, will merge to save costs and beat the low bullion price. The real trick will be to guess which mine will merge and which will close.

The map on this page could show fewer individual mines in a few years time and more large groupings like Freegold.

SA gold under siege

(214) Sowetan 21/7/97

If the precious metal does not stabilise in the next 12 months, thousands of jobs will be lost on South African mines. Heike Schneider explains why...

South Africa's gold industry, the largest in the world, could be confronted with a major crisis if the gold price continues to slump, as the precious metal seems to be losing its sentimental appeal to many investors

About 345 000 South Africans, most of them black, depend on jobs in the industry for their livelihood

Even if the bullion price stabilises over the next 12 months at its current low level of around R1 472 an ounce, say analysts, the social consequences for South Africa could be severe

"About 53 000 jobs could then be on the line" says Roger Baxter, a senior economist with the South African Chamber of Mines

Pessimists fear that up to 100 000 jobs may be lost to keep the gold industry viable Currently, nine out of 38 gold mines in the country are considered marginal, with seven actually making a loss

"If the gold price does not recover and stays at the low mark of R1 472 for about a year, probably 24 mines could be marginal," says analyst Nick Goodwin of Fedsure Asset Management in Johannesburg

There has already been a minor casualty, which left 97 people unemployed – the Benoni Gold Mining company, a subsidiary of Randgold mining group's East Rand Proprietary Mines

Flashback ... Some 97 people lost their jobs when the Benoni Gold Mining company closed earlier this month. PIC LEN KUMALO

Dump processing

The facility is a surface dump processing plant and not one of South Africa's usual deep-level mines, which reach down to four kilometres underground

Although South Africa's gold industry has the capacity to produce more, last year's production was only 496 tons – its lowest in 40 years This year the forecasts are for a similar amount, which is around half of the yield of the industry's boom days in 1970

Some 120 000 jobs have been cut in gold mining during the last 10 years

Further lay-offs could damage confidence in President Nelson Mandela's Government, which has promised people jobs, housing and a better life

South Africa holds an estimated 40 percent of the world's gold reserves, but its capital – and labour-intensive deep-level mining is more costly than the surface mining in the United States and Australia

Besides, South African mines do not operate for 90 days a year – due to a Sunday mining ban, holidays and shift arrangements But workers have opposed efficiency measures like seven-day-a-week operations

Local mining conglomerate Gold Fields which employs 45 000 people, was the first of South Africa's big mining houses to publish its quarterly results last week It reported a loss of R38 million for April to June, despite raising production since the previous quarter

"This is due to the lower gold price and our unhedged position," explains Keith Spencer, the company's general manager for gold operations

So-called hedged mines, which have sold a part of their future production in advance at an agreed price, are better protected against falling prices

One of Gold Fields' mines, Leeudoorn, is in dire straits "We will have to do some restructuring to reduce substantial losses," says Spencer "It is too early to say how many of the 7 000 workers will have to be laid off"

A merger with a neighbouring mine could be another saving measure As a short-term measure to adapt to a low-price period, mines could also concentrate on mining only high-grade ores, experts say

The closure of a mine would be a very last resort, not only since the livelihood of whole towns depend on the operation But it would be hard to reopen a mine again

"Mines are like soldiers – they don't die, they fade away" says analyst Nick Goodwin

The trade unions are currently not too worried about the situation "We are not expecting a disaster at the moment But if the price goes down further, we will have problems," says George Molebatsi of the National Union of Mineworkers (NUM)

The union has just reached an accord with the Chamber of Mines to increase wages by an average of nine to 10 percent, but it also links wage increases to improved productivity The agreed aim is to increase production by 90 tons a year

However, some analysts have fairly negative views on the short-term development of South Africa's gold mines, although the industry has gone through similar storms before

"My short-term predictions are negative There will be job and production losses," says Leon Esterhuizen an analyst with Societe Generale Frankel Pollak in Johannesburg

But, in the long term, he thinks that a streamlined industry might emerge which could be much more robust – *Sapa-DPA*

Gold's fall will cause hardship

(214) Sowetan 24/7/97

By Abdul Milazi

Flashback 1993 . mineworkers returning home after being retrenched

THE unstable gold price has put the spotlight on the future of 13 marginal mines, and will aggravate poverty in the rural areas and neighbouring states which provide labour for the mining industry

About [illegible] 000 mine workers face retrenchment if these mines close and the Government has already made it clear that it will provide little assistance to save these jobs

Economists [illegible] 100 000 jobs will eventually be lost as more gold mines are expected to fold either as a direct result of the falling gold price or escalating production costs as the gold stream gets thinner and deeper

This has serious implications for the country's rural areas and neighbouring states. The mining industry's dependence on migrant labour has already turned these areas into human wastelands

The migrant labour system marginalised these areas economically, and stunted their agricultural potential as more and more rural people came to depend on the mines for a livelihood

Lesotho has been the major provider of labour for the industry for years, with an estimated 80 000 of its citizens currently working on South African mines

These people account for 50 percent of Lesotho's gross domestic product and are its chief exportable commodity

Hardest hit

Mine economists say Lesotho will be hardest hit by the latest developments in the gold mining industry, followed by Mozambique as between 40 000 and 45 000 of its citizens are currently working in local mines

The industry's problem is also expected to exacerbate the jobless problem in South Africa, where unemployment is estimated at 4,2 million people by the Central Statistical Service (CSS)

Economists, however, say the figure stands at more than 10 million The mining industry has shed close to 300 000 jobs since 1987 due to the fluctuating gold price in the world market

Although mines have boasted significant employment growth during the last 100 years, the trend of job decline has become irreversible during the last 10 years

Also, the migrant labour system used to provide employers with cheap labour, while a stable gold price allowed mining houses to expand when the gold climate allowed

In the early '80s, however, the expansion trend changed following the unionisation of the industry's black workers

Since then unemployment has been on the increase in rural areas and in neighbouring states such as Botswana, Lesotho and Swaziland, where the industry sources its labour

The first large-scale job losses occurred in 1987 when 50 000 mineworkers were dismissed after the first national wage strike in the industry Another 20 000 workers were retrenched after the strike

This forced the National Union of Mineworkers (NUM) to establish the Mineworkers Development Agency (MDA) as a self-help project to help retrenched workers embark on self-employment ventures

NUM spokesman Ben Molapo says that through the MDA workers have set themselves the task of contributing to economic development in their communities

"The NUM's thinking is that, until workers in the neighbouring states and rural areas have economic alternatives, they will continue to have no choice but to migrate to South Africa's economic centres," he says

Molapo says NUM's decision to become involved in development was not based merely on the need to contribute to the survival of dismissed workers, but also to make a broader political and developmental impact on the impoverished areas

"The destruction of people's ability to survive in these areas has its roots in the birth of the mining industry," he believes

The number of gold mines officially categorised as "marginal" increased from six to 11 in 1995, putting 54 000 jobs at risk

Gengold-owned Buffelsfontein Mine retrenched 1 500 of its 6 000 workers in 1995. This was the mine's third downsizing operation

The Durban Deep Mine retrenched 4 517 workers in 1994, and management did not even have enough money to pay retrenchment packages

For the first time, employers, unions and government got together to assist retrenched workers

Randgold, the Department of Labour and the NUM struck a deal which allowed retrenched workers to continue staying in mine hostels until the mine had enough money to pay retrenchment packages

During the waiting period, workers were given access to various training courses offered by the Department of Labour, while Randgold set aside a R300 000 fund for training

Workers were given alternative skills in areas such as bricklaying, leatherwork, carpentry, welding and heavy-duty vehicle driving

The NUM also arranged a loan from the Development Bank of Southern Africa to cover the purchase of equipment by retrenched workers, and the money was subsequently deducted from the retrenchment packages

Gold Fields aims to grow production by 46,8 tons

BD 25/7/97 (214)

Reneé Grawitzky

GOLD Fields of SA (GFSA), the country's second largest gold producer, aims to increase gold production by 46,8 tons over the next year as part of the industry's overall commitment to boosting gold production 90 tons

The Chamber of Mines and National Union of Mineworkers agreed last week to link wage increases to productivity improvements resulting in the output of an additional 90 tons of gold during the next year

GFSA's allocation of the 90 tons is the largest, followed by JCI (11 tons), Anglo American (10,5 tons), Gengold (8,8 tons), Randgold (eight tons) and Avgold (4,9 tons) It is believed that GFSA's high allocation is partly due to its mines' higher-grade ore bodies.

The accord set in motion a process whereby parties at mine and company level could agree on mechanisms to increase production Only thereafter would wage increases be implemented.

Gengold's Beatrix and St. Helena mines were among the first to sign agreements on increasing productivity without resorting to continuous mining operations Gengold's mine-level agreements ensure one blast a day by working a five-day week However, if this was not achieved, parties would consider working extra Saturdays

At the start of mine-level discussions all the mining houses experienced problems as workers were not happy with the deal

However, mining houses are now reporting steady but slow progress Anglogold said yesterday that progress had been mixed. There were, however, encouraging signs with some shafts moving towards working an additional 19 shifts The groups' industrial relations executive director Steve Lenahan said measures under discussion at Freegold included an extended operating calendar, double-shift stoping, workplace restructuring and employee retraining.

However, there was resistance at certain business units such as Vaal Reefs Nos 8, 9 and 10 shafts

Speaking at release of the group's quarterly results yesterday, CEO Bobby Godsell said the process would require a change in mindset He said he understood market scepticism of the deal, but the challenge was to change two decades of confrontational industrial relations into "something else" Anglo said productivity improvements would come slowly, but be more sustainable in the long term

Lenahan said restructuring at Elandsrand had borne productivity improvements in the past four years

"The message for us from Elandsrand is plain We cannot anticipate sustainable results from workplace change in months. Tangible consequences will emerge only after sometimes protracted periods of realignment and consolidation

PRECIOUS METALS *Hundreds of workers retrenched at Barberton's Barbrook mine*

Historic gold mine shuts down

CT (Mgr) 28/7/97 (214)

FRANK NXUMALO

Barberton — Barbrook, a small gold mine outside Barberton, has closed down, becoming the first gold mine to go under because of the crisis in the industry, Lionel Meyer, the mine manager, said at the weekend

Barbrook is owned by Toronto-listed Caledonia Mining Company It shut down last week, coincidentally at the same time that Randgold, the mining house, said it was on the verge of closing down the troubled ERPM gold mine east of Johannesburg

A source close to Randgold said at the weekend that ERPM, once one of the largest and most profitable gold mines in the world, would definitely be shut down

Meyer said Barbrook had retrenched "hundreds of workers", but he would not give a specific number He said the mine was shut "because we cannot make a profit, even if we double our tonnage

"The low bullion price is definitely part of it, but this has been compounded by the failure of our gold recovery programme, which meant we had to continuously drain resources from our holding company," Meyer said

He said Barbrook, which was an old mine made up of various properties, had at one stage considered full calendar operations, but this did not help He said he had not seen a mine where full calendar operations had worked

Several leading mining groups are pushing for full calendar operations, but the National Union of Mineworkers (NUM) is opposed to working all year round

WHAT TO DO NOW? *Stanley Thimba, left, and Benedicto Frederico found out the Barbrook mine in Mpumalanga was shutting down when reporting for work on Thursday* PHOTO LINDSAY YOUNG

Meyer said Barbrook had explained its position to the NUM, and the union had no choice but to accept it

"What can the NUM do, if the company that supplies the capital hasn't got the money?" Meyer asked

However, Stanley Thimba and Benedicto Frederico, a Mozambican, two of the hundreds of axed underground workers, said no notice was given by the mine authorities that Barbrook was closing down its operations

"It is very hard, there was no notice I was just coming in for my night shift on Thursday afternoon when I found the police swarming all over the place," Thimba said "It was then I learnt the mine had closed

"I don't know where to start nor what I will do I hope the mine will reopen," he said Thimba supports a family

Barbrook, which was once a vibrant operation, was by the weekend a ghost town Most of the workers had accepted their retrenchment packages and gone home

Thimba and Frederico said they had received a little over R2 000 each as severance pay

Mines dig deep to stay on top

BD 29/7/97 (214)

Shareen Singh

PREDICTIONS of gloom and doom in the gold mining industry may well be justified if measures aimed at revitalising the industry fail, but there was no indication of such failure, Chamber of Mines CE Tom Main said yesterday

Speaking at a mining conference organised by EW Balderson, he said the vagaries of price would remain a significant determinant in the future of the industry However, price was also a motivating variable that had "revolutionised operational practices and restructured the industry" making it "far better equipped to face tomorrow's challenges"

The potential effects of a gold price as low as $314/oz were "enormously grave", but for predictions of looming calamity to be converted into reality, the price would have to remain at depressed levels for a sustained period, Main said

The industry had adopted a multi-faceted strategy to enhance viability and address crucial issues such as shrinking production, escalating costs and decreasing profitability

The strategy included investment in human capital through industry agreements on adult basic education and training which aimed to elevate the basic level of education to Standard seven, the required qualification to obtain a blasting certificate

Management and supervisory hierarchies were being flattened and the workplace was being re-engineered towards participative management practices

The industry was also looking at ways of extending the amount of time that could productively be spent extracting gold.

In co-operation with employee representatives, the industry was bent on securing the abolition of regulations prohibiting Sunday work

Randgold mines report heavy losses

BD 29/7/97 (214)

David McKay

THE gold mines serviced by Randgold & Exploration reported one of their worst aggregate quarterly performances in the June quarter, posting a taxed cash loss of R41m from a R55m taxed profit in the March quarter, the group said yesterday

Analysts said operational difficulties, including underground fires, seismicity, flooding and mill breakdowns underlined the lack of operational flexibility at Randgold's ageing gold mines.

Overall production fell to 10 599kg from 11 224kg and average costs a kilogram produced rose to R64 437 (R53 110/kg). The decline in the gold price merely exacerbated the poor performance, one analyst said.

Randgold chairman Peter Flack said Grootvlei faced closure within weeks, shedding thousands of jobs, if government failed to come to the mine's aid. Talks to retrench 800 of the 3 500-strong labour force were already under way with unions.

He said Grootvlei needed more state subsidies to help it pump underground water. It had to pump 100 megalitres of underground water a day.

The water from the mine would reach the surface within about 18 months of Grootvlei closing which would require government to deal with the problem in any case. Its reluctance to aid Grootvlei was "incomprehensible", Flack said.

Grootvlei is to be merged into Harmony as part of restructuring plans. Flack said Harmony shareholders were unlikely to approve a merger if Grootvlei remained costly to run.

The future of another Randgold mine, East Rand Proprietary Mines, also hung in the balance.

Meanwhile, Randgold was considering listing a holding company with up to 3-million acres of mineral rights, including diamonds and platinum, throughout southern Africa, Flack said. About 80% of these mineral rights were held in joint ventures. Randgold could merge this mineral rights portfolio with an operating company, possibly an offshore one.

See Page15

40% of operations producing at a loss

Gold mines suffer worst quarter ever

(2.14)

Andi Spicer ET (PTA) 1/8/97
MINING AND RESOURCES EDITOR

Johannesburg — The local gold industry slid into the red for the first time ever in the quarter to June 30, with at least 15 mines, or 40 percent of the industry, producing at a loss and another five mines close to making a loss, analysts said yesterday

The human cost of the low gold price is that 86 000 people are employed on mines that are in the red, with 58 000 more on mines very close to a loss, Nick Goodwin, the gold mining analyst with Fedsure Asset Management (Fedam), said yesterday About 42 percent of the workforce is now employed on marginal mines

The major mining houses are counting the costs of the weak gold price, which has tumbled from the beginning of the year and pushed many of the higher-cost producers into marginality

Almost 23 percent of the second quarter's production, or 26,7 tons, is being mined above costs and another 20 tons is close to being brought to the surface without making a profit If this trend continued then the outlook for the industry could be calamitous, the analysts said

"This doesn't mean that (the gold mines) will close overnight as it's like cancer, they just start to weaken and close gradually," Goodwin said

Rob Weinberg, the gold analyst at Deutsche Morgan Grenfell in London, said yesterday "It's true across the world (that gold producers are in trouble), not just in South Africa At the current price the majority of gold producers in the world are making a loss "

However, he said South African producers were showing signs of increasing productivity "The potential is there, we just need to see it in the results "

Charles Kernot, an analyst with Paribas in London, said that "in the past all the gold companies in South Africa were long on rhetoric and short on action But actual improvement in productivity never came through Now at long last they are hurting and that hurt will generate increased productivity"

Already there have been some casualties, with the Benoni Mining Company, a subsidiary of Randgold's ERPM mine, closing in the past few weeks and the Canadian-owned Barbrook shutting down Randgold will soon make a decision on the future of the huge ERPM mine, and there are worries that Grootvlei may also be in trouble

The merger between Gengold's Fairview mine and Avgold's ET Cons division has also been put off by the low gold price and Gold Field's Leeudoorn may be merged with Kloof Anglogold's Freegold has closed a number of shafts this quarter

JCI's Western Areas and Randfontein Estates are in a restructuring phase and many jobs have been lost at these mines Avgold has said it will speed up the closure of the Loraine mine from three years to between 11 and 23 months

☐ Hedging Strategy, Page 20

SA'S gold mines need the same survival instinct as politicians

Will the industry be able to make the necessary reforms, asks **Roger Matthews**

(214)

BD 6/8/97

THE local gold mining industry is about to demonstrate whether it has the same instinct for compromise and survival as the nation's politicians

The choices are similarly stark Either come up with a new deal, or face continued decline and near-certain disaster

Given that SA possesses about 40% of the world's gold reserves, that sales account for nearly 20% of export earnings and that up to 2-million people are dependent on the industry, failure to adjust appears unthinkable But the high-cost, deep-level mining industry with its antiquated working practices has been postponing radical reform for years

Costs have climbed as the richer seams have been worked out, wage demands have been conceded without any compensating productivity agreements and few rigid working practices have been eased to reverse the entrenched hostility between essentially black labour and white management

When the gold price topped $400/oz, such practices were scarcely relevant Even at $380-$400 the need for reform was not supported by much sense of urgency But at about $325, the level at which the metal appears to have stabilised following its precipitous fall this year, analysts claim at least 60% of mines are not sustainable The most alarming of analysts' price projections — gold dipping below $300 and staying there for an extended period — would leave just 20% of the country's mines operating profitably

It is against this background that mine managements and the National Union of Mineworkers are seeking to complete the details of the industry's first ever pay deal directly linked to productivity

Mine managements spent five months working out a proposed deal which was put to the union last month It provides for pay rises of up to 25% over each of the next two years for the lowest paid, while most miners will receive two annual increases of 9%-10%

In return, the union pledged to increase output 90 tons in the year beginning last month, reversing the trend which has seen production decline steadily to the point where last year it hit a 40-year low of just 495 tons While mine owners have agreed how the 90-ton increase will be apportioned among them, the fact that Gold Fields of SA, the country's second largest producer, is aiming to provide more than 50% of the increase makes the key the agreement with unions at local level

Without that, the pay increases will not be met

Managements have so far reported uneven progress Nick Segal, president of the Chamber of Mines, said this week there had been good progress in some negotiations, but others were experiencing difficulties

"The picture is uneven," he said "We are continuing to review the position with the National Union of Mineworkers and hope a clearer picture will emerge later in the week"

Anglo American, the world's largest producer, said it needed to achieve a 5% increase in production just to cover the pay rises

But Bobby Godsell, the head of Anglo's gold mining operations, warned last week that productivity agreements would take time to achieve because the battle was to change decades of confrontational industrial relations

Although the shape of productivity deals will vary from one mine to another, a common theme in raising output is the extent to which agreement can be reached on extending the working year

The tradition of not working Sundays, every other Saturday and public holidays, costs the industry 90 days a year

Some production targets might still be met without changing that pattern, but most managements believe union flexibility is critical to the survival of marginal mines

The government is watching nervously When last year Anglo American said it might have to dismiss 10 000 miners, Labour Minister Tito Mboweni stepped in immediately to demand the withdrawal of the threat

The crisis was postponed but since then, the risk of redundancies has increased, economic growth has slowed to little above 2% and the government is failing to meet an increasing number of macroeconomic targets, particularly in job creation

Reserve Bank governor Chris Stals has sought to play down the effect on the rand of a lower gold price He said that even if gold remained at $320/oz for a full year, the loss of foreign exchange earnings would be less than 3% of total exports

"Relative to the volatility of net capital movements, the amount should not create any undue pressure on the rand exchange rate," he said

But with Stals also under pressure to cut interest rates to ward off the threat of recession, failure to finalise the gold mining deal would send further negative signals to the currency markets

The present weakness of the rand suggests that even more may be riding on the gold mining negotiations than the industry on which SA was built — Financial Times

The gold mining industry faces the task of streamlining its gold production amid escalating costs and satisfying the demands of the mine unions

Union Mines rescue bid scuppered

CT(BR) 14/8/97 (214)

Marc Hasenfuss

CAPE EDITOR

Cape Town — Negative shareholder sentiment and a lack of support from secured creditors had resulted in Amalia Corporation, the holding company for JSE-listed Amalia Gold and Exploration Company, ditching its eleventh-hour rescue bid for Union Mines, the beleaguered manganese operation

Raymond Mallach, an attorney at Hofmeyr-Herbsteins, which is acting for Union's liquidators, yesterday advised shareholders at a reconvened extraordinary meeting that Amalia's offer had been withdrawn The mine would be placed into final liquidation on Monday.

Mallach said a shareholders' meeting earlier this week yielded "enormous" negative comment on the rescue scheme

"This less-than-enthusiastic response from shareholders was exacerbated by an indignant request (from shareholders) to postpone Monday's meeting for two days"

He said Amalia also learnt Union's secured creditors were not prepared to support the scheme and rather wanted full payment of capital and interest — a demand not provided for in the scheme

Mallach said shareholders were cautioned against delaying matters after a meeting on Monday "There were a lot of objections at that meeting with several shareholders, including Nic Lotterie, one of Union's founders, wanting a two-day postponement I warned shareholders Amalia could walk away I couldn't promise the proposed scheme would still be on"

He described the lack of support for the scheme as a great pity, saying Amalia was prepared to commit more than R7 million to resuscitate Union

Amalia initially proposed to forward R3,1 million, in return for 6,2 million new Union shares, to cover preferent and concurrent creditor accounts Amalia also would be issued 17 million new shares to raise more than R4 million for recapitalising Union

Corporate advisers to Amalia believed the scheme would ensure creditors a repayment "at least equal to, if not better" than would have been garnered from liquidation proceedings

Andrew Cecil, the chairman of Amalia Corporation, said yesterday that the deal was off and that Union would not be approached again

Union was suspended on the JSE in June last year

Govt intervenes to stay the axe at ERPM

(214) BD 15/8/97

David McKay

THE axe hanging over thousands of jobs at East Rand Proprietary Mines (ERPM) had been stayed due to 11th-hour government intervention, acting mineral and energy director-general Dick Bakker said yesterday

Bakker said government had agreed to supply R1m a month, on a renewable basis, towards costs at the Boksburg mine until April Thereafter a new board would decide on a long-term "rescue plan"

Unions had not yet been consulted as government was still "bandying around" ideas, but retrenchments had been avoided in the immediate future

Randgold, which has a tiny stake in the mine but has some of its executives on the ERPM board, had applied on August 9 to liquidate the mine, prompting government to take action

However, if the mine suffered further operational setbacks government could decide, on a monthly basis, to

Continued on Page 2

ERPM

(214) BD 15/8/97

Continued from Page 1

halt the subsidy support

Bakker said it was vital to try to save the operation as the detrimental socioeconomic effect on Boksburg would be "tremendous" if it closed.

ERPM has been in the Randgold stable for three years The recent decline in the gold price saw ERPM post a R12m cash loss in the June quarter and an R11m cash loss in the March quarter The management contract on Randgold mines, including ERPM, will lapse by next month after which a new board will be constituted. Bakker is expected to take his place on the board along with some Randgold members on an optional basis

A mineral and energy spokesman said it was "not sensible" to take action over ERPM until a more permanent management structure was in place This was why a temporary subsidy was being paid

Analysts lauded government's action, saying that too often government had simply sat back.

A Randgold spokesman could not be reached yesterday, but ERPM chairman Lionel Hewitt said this week that anything that took the financial shackles off the mine would be welcome.

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MAIL & GUARDIAN
August 22 to 28 1997

M+G 22-28/8/97 (214)

Nailing down Gold Fields

Frustrations are growing over the slow pace of negotiations with Gold Fields, reports **Sechaba ka'Nkosi**

New Africa Investments Limited (Nail) directors meet next month to evaluate the ongoing talks with Gold Fields South Africa for a stake in its subsidiary, Asteroid. The meeting will decide whether the negotiations team — led by Nail's executive deputy chair Cyril Ramaphosa — presses ahead or dumps the process.

Gold Fields's latest results are not expected to have a significant impact on the talks. In the year to end-June, headline earnings rose 9% from 387c last year to 421c, although pre-tax profits fell to R108-million from R464-million last time. Analysts point out that the results were not unexpected.

BoE NatWest's Barry Sergeant says even the criticism of Gold Fields's decision to raise the dividend by 10c to 150c instead of keeping the cash to back the gold price, is misdirected. Sergeant says there is nothing wrong with such a move if the company is in good shape.

Says Sergeant: "The results are fine and particularly good if one takes into account that the company is exposed to the gold price. If they had an overdraft or needed some finance then the criticisms would be justified. At the moment, the company looks very healthy."

Since the Asteroid talks were publicly confirmed more than three months ago, Nail and Gold Fields have maintained a veil of silence on the state of negotiations. But insiders say the talks have now reached a crucial stage. And this week, Nail confirmed that the negotiations were at a sensitive point, but expressed frustration and disappointment at the pace at which they were moving.

Nail chair Nthato Motlana said he had expected everything to be sealed by now, but the pricing of Asteroid and the subsequent control structure remained crucial areas of conflict between the parties. Nevertheless Motlana remains hopeful a deal can still be signed.

'We are of course a bit disappointed that we are not close to a solution so far. Not much has happened and no final agreement has been reached on matters relating to the pricing and the control of the asset. The board meeting next month will have to take a final decision on the deal," says Motlana.

'We are a bit disappointed that we are not close to a solution'

Gold Fields Holdings and Driefontein Estates are co-owners of Asteroid, which in turn owns 40% of Gold Fields South Africa equally with the Rembrandt Group. The remaining 20% belongs to Liberty Life. This gives Asteroid an indirect 17,48% stake in the whole of Gold Fields Holdings and its interests in zinc, gold and platinum mines. Analysts say with the market value of Gold Fields at R94 a share, it will cost Nail at least R1,67-billion to acquire a joint controlling stake.

This is where Bruce Williamson of SBC Warburg says negotiations started on the wrong footing. Williamson insists that with the expected results now out, tough times for the deal lie ahead. He argues that because the deal was announced when the price of gold was already tumbling, they must also agree on the medium and the long-term outlook of the commodity.

"The transaction will not be possible until an agreement is reached on control and management of Asteroid, as this would have a direct impact on the ultimate price Nail will pay if it hopes to gain a stake in the mining house.

"I am more interested in what the parties think of the gold price in the next few years. Surely, if Gold Fields is bullish, it will have reason to argue for a higher price and determine the controlling structure of the company. But with the current price and the fact that Gold Fields does not have the best industrial relations in the industry, that price might be too high for Nail," says Williamson, pointing at current talks between Nail and Rembrandt — confirmed by Motlana this week — as the most likely factor that will determine the price and influence control.

Motlana: Tough bargaining ahead. PHOTOGRAPH: HENNER FRANKENFELD/PICTURENET AFRICA

Motlana, however, says Nail's priority is sealing the deal as soon as possible so that the group can concentrate its energies on consolidating its control over all its assets. Motlana argues that this means even the effect of the fluctuating gold price on the industry in the past year is not an issue. Its interest extends beyond gold, and other commodities in the company have all shown positive results in the past. "This," asserts Motlana, "makes Gold Fields more important to Nail despite the disappointment at the pace of negotiations.

"Only 40% of Gold Fields is in gold production. There are other assets such as zinc, platinum and metals that we can look forward to taking over. But that will also depend on the kind of structure that we will agree on to control and manage the company."

Gold industry aims at low-cost production

BD 5/9/97 (214)

David McKay

SA's gold industry is positioning itself to become a more competitive low-cost producer, despite struggling to contain negative effects of market conditions, analysts say

This outlook is based on the understanding that the local gold mining industry had started a downsizing process before the gold price began its decline The fall in the gold price, some analysts say, merely accelerated this process

By September next year the majority of SA's gold mines will be able to operate profitably at gold prices ranging between \$300-\$310/oz, says BoE Natwest's Gerard Kemp This implies that some of the so-called marginal gold mines, where revenues can barely cover costs, will have been knocked out.

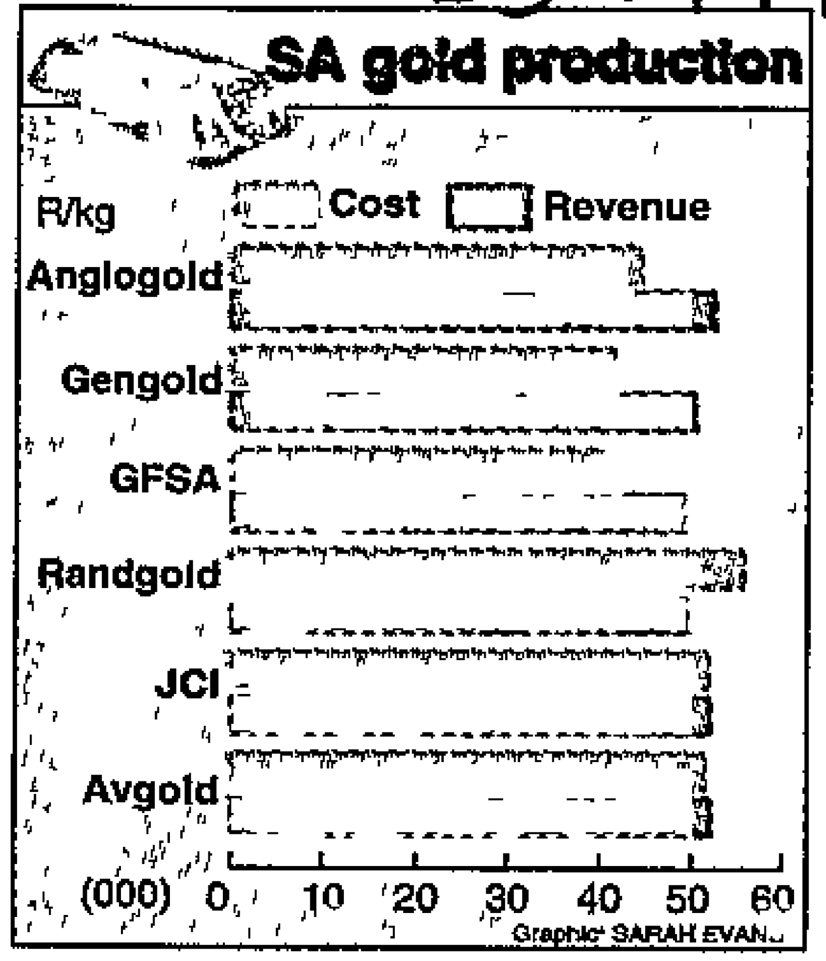
In the June quarter, industry revenue for SA's six large mining houses was R51 422/kg against costs of R45 923/kg, a 10% margin, down on the 14% margin achieved during the March quarter.

With declining margins, it was not long before cracks started to emerge. Randgold's Benoni Gold Mine, for example, said it would close with the loss of 66 jobs, citing the low gold price as a reason

JCI-managed mine Randfontein followed suit, retrenching 4 000 workers and saying other jobs were in danger at stablemate Western Areas

Kemp says Randfontein is already showing an improvement and Western Areas has lifted production, with the result that there may be fewer retrenchments than planned.

Gencor's Evander Gold Mine has said it is poised to retrench up to a third of its workforce The axe also hangs over 2 800 jobs at Gold Fields' Leeudoorn division, while East Rand Proprietary Mines (ERPM) has been thrown a lifeline by government until April next year. However, a further 4 500 jobs are still at risk Avgold has said its Loraine gold mine is to close in the long term, as are a number of shafts at Anglogold-managed Freegold



Société Générale Frankel Pollak analyst Trevor Pearton says the industry has seen performance volatility before and is expected to rise to the occasion, possibly by late next year

Meanwhile, SA Chamber of Mines' senior economist, Roger Baxter says the SA gold industry has to address a "holistic package of strategies" which includes better work practices and investing in its people

Productivity-linked pay increases reflect this trend, but despite an agreement between the industry and unions at centre, on-mine agreements have been slower to emerge. Clearly, the process is complex

The international perspective is more brutal According to T Hoare & Co analyst James Leahy, SA gold industry restructuring is viewed as "too little too late".

"Offshore investors want to see (and meet) good management," he says "They want to see growth and expansion in reserves"

The SA gold industry is a good investment in a bull run, he says, and the market could "turn on a sixpence" if the metal's price recovers

In the meantime, investors could not be bothered with SA gold shares, Leahy says

Miners are doing it for themselves

MtG 12-18/9/97 (214)

Kuyasa is a thriving example of black entrepreneurs entering the white-dominated mining industry, writes **Sechaba ka'Nkosi**

Running a 'money' mine: Wendy Gobey, Joseph Ndaba and Ayanda Bam. PHOTOGRAPH: SIDDIQUE DAVIDS

Ayanda Bam, the executive chair of Kuyasa Mining Company, does not mince his words about his aim in business — to make as much money as possible But beyond that, Bam sees his role as creating more black entrepreneurs rather than creating jobs for black people

"Black people have to grow out of the thinking that they can only make a living by working for other people They have to understand that they have the means themselves We need to create an environment that will be conducive to blacks joining the industry as owners and not employees," says Bam

It is perhaps this conviction that saw Bam, together with two fellow directors — Joseph Ndaba in charge of finances and Thabo Sibeko, operations director — plotting their entry into the mining industry from a small Mpumalanga town of Delmas In 1995 the three had started consulting numerous mining houses, government departments and financial institutions The mission was to acquire rights to buy smaller coal deposits, mine and process them and then sell the ultimate product to customers

In November, a deal was eventually sealed with Ingwe Collieries transferring mineral rights to Kuyasa at no pre-paid price Basil Read was contracted to mine and deliver the coal produced to Ingwe's Delmas Colliery, which had agreed to buy the coal produced And in April, the dream came true when Bam and his colleagues moved in with machines to start a production plant at Ikhwezi Colliery in Delmas

"We are a strange company that started with no money, no deposits and nothing except our expertise and experience, but today we are worth well over R10-million and we are hitting higher production levels sooner than we thought We are here to stay and only a major disaster will take us out of business," notes Bam

'We are a strange company that started with nothing except our expertise and experience, but today we are worth well over R10-million'

Coal mining is not new territory for Kuyasa and its directors They all held senior positions at Ingwe mines prior to establishing their company Even executive assistant Wendy Gobey comes from the same background The only exception is Chris Shawe, who doubles up as messenger and clerk At the moment the company's Ikhwezi site consists of two deposits of bituminous coal with total reserves of 10-million tons The coal will be mined at a rate of one-million tons a year so that the lifespan can be a guaranteed for 10 years The colliery is a pilot project, which Bam says has to be consolidated while they explore other ventures

Bam says he has the best staff complement to oversee this and other potential projects He says their duty is to manage, interact with clients and ensure that the quality of the product meets the required standards

"I really don't understand why I have to employ a full-time mining engineer when he will just do two days worth of work for the whole month," says Bam "If we need their expertise we hire them for as long as they are needed In that way we become more focused and save as much as we possibly can "

While Bam identifies and evaluates potential projects, operations director Sibeko is responsible for health and safety, sets operational systems in place and most importantly, ensures that they do not cause hazards to the environment

Sibeko is based at Ikhwezi to ensure that all requirements are met He argues that with the extraction of about 75 000t of coal a month, significant environmental dangers have to be addressed

"The rivers that surround our mine are not only for Kuyasa. Local communities and animals also depend on them to survive So whatever we do has to be informed by those realities I wouldn't say the environment is 100% safe with us, but we always try our best," says Sibeko

Teamwork will see Kuyasa developing into a mining giant Already, the company has joined the Chamber of Mines Bam says they are not there just to be mere members but to introduce new ideas as well

"There are a lot of things the chamber does not understand about black people's interests in the industry Issues such as what mineral rights mean to us We hope our contribution will create new understanding between established miners and up-and-coming black entrants "

Bam attributes his success to his father He says he always had faith in him "He sent me to study computer science in Lesotho when South African students who studied there were suspected of ties with the liberation movement He told me I would survive and, indeed, I came back a better person "

Gold industry signs landmark wage agreement

CT(BR) 18/9/97 (214)

Frank Nxumalo

Johannesburg — The National Union of Mineworkers (NUM) and the Chamber of Mines yesterday signed a significant two-year agreement linking improvement in wages to productivity

A target of producing an additional 90 tons a year to help rescue the ailing gold industry was agreed upon

The minimum wage for lower surface and underground workers has been raised from R1 000 to R1 150 a month, representing an increment of 20 percent for some mines

The rest of the workers will receive increases of between 9 and 10 percent.

An "escape clause" or mechanism that allows for the resumption of negotiations during the course of the the two-year wage cycle has been entrenched in the agreement. However, this can only be in the event of the rate of inflation dropping below 6 percent or surging above 13 percent.

Kgalema Motlanthe, NUM's general secretary, said the deal was remarkable "It is an historic agreement, for us to have achieved these increases It's a hell of an achievement"

Frans Barker, the Chamber's deputy industrial relations advisor, said the agreement had the potential of changing the country's industrial relations landscape.

"I think this agreement forms a new mould for industrial relations in many sectors in South Africa, (as) we have succeeded in linking wages with production at decentralised or entrepreneurial level"

He said while the mechanisms for achieving the additional tonnage varied from mine to mine, they had striking commonalities

"They set out specific and measurable steps for improvements in production and productivity necessary to support the wage increases and to secure the mines' future viability This includes new work calendars and workplace reorganisation initiatives," Barker said

"They provide for the full disclosure to employees of information necessary to participate in workplace reorganisation and productivity initiatives They also provide for monitoring of progress towards achievement of targets and for review of procedures that may be necessary"

GFSA appointment fuels speculation

Ingrid Salgado (514)

BD 29/9/97

REMBRANDT chief Johann Rupert's appointment to the helm of Gold Fields of SA (GFSA) next month could pave the way for a change of control at the mining house

GFSA said at the weekend that Rupert would replace chairman Robin Plumbridge, who retires next month after 17 years in the position. The move added to speculation that a deal with Cyril Ramaphosa's New Africa Investments (Nail) was imminent

Analysts said yesterday the appointment would give Rupert the ability to decide about a possible sale with greater clarity and speed

Gold Fields and Nail are known to be in courting mode over a possible takeover of Asteroid by a partnership of Nail and Rembrandt Asteroid — of which GFSA and Driefontein Consolidated are equal shareholders — holds 17,2% of GFSA through Gold Fields Holdings Rembrandt holds an additional 17,2% of GFSA while Liberty Life owns 8,6%.

However, the mining house was in talks with other parties, including JCI, with which Gold Fields was negotiating mineral rights in the Free State, analysts said

They also pointed to a merger of Gold Fields and Gengold as a possible scenario "Rembrandt is a big shareholder in both Gold Fields and (Gengold parent) Gencor It could do well to move Gengold closer to Gold Fields," one said

Gold Fields deputy chairman and CE Alan Wright poured cold water on talk that Rupert's appointment was part of a strategy that could result in Rembrandt swapping its 35% stake in Gencor for Sanlam's share of Gengold "One problem with that speculation is that Gencor now comprises only Gengold and Impala. I am not sure what Rembrandt would be swapping".

Wright also fobbed off speculation that Rupert's appointment would cost him his job Referring to a Sunday Independent report that Rupert could

Continued on Page 2

GFSA (214)

Continued from Page 1

BD 29/9/97

bring in Gold Fields director and Rembrandt executive director Dillie Malherbe as CE next year, Wright said he was likely to retain his position

Malherbe was "very busy" with his position at Rembrandt

He dismissed rumours that Rupert would remain chairman only until a management restructuring had taken place at Gold Fields He understood that Rupert's appointment was not simply a short-term one It had "never been" Rembrandt's policy to intervene in management changes, he said

Wright denied that Rupert's appointment was a snub to himself "I do not wish to be an executive chairman I fully support the recommendation of the King report on corporate governance that all listed companies have a nonexecutive chairman."

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R17-bn merger creates new world gold giant

ARG 11/10/97 (214)

ANDI SPICER

Johannesburg – Two of South Africa's largest mining houses – Gold Fields and Gencor – are to merge their gold mines in a ground-breaking R17-billion deal to create the world's largest gold company, the companies announced.

"We have put together a deal that will be one of the most exciting companies in the world and will be a true merger," Alan Wright, deputy chairman of Gold Fields, said yesterday. The merger will put together some of the largest gold reserves in the country with some of the lowest cost -roducers Analysts said the new company would seek an international listing

Brian Gilbertson, chairman of Billiton and Gencor, will be the CEO of the new company – called Goldco – and Mr Wright will be his deputy.

"This signals the start of the release of value in the Gold Fields' structure It will be the greatest gold mining company in the country and among the best in the world," Mr Gilbertson said

"This will create a gold entity to rival Anglo American's gold assets and is the first time that a deal of this size in South Africa has been done outside of Anglo," said a Johannesburg analyst

Charles Kernot, mining analyst with Paribas in London, said "This will cheer up the market and offset what's been happening with the gold price It will also make people sit up and notice that South Africa is still the largest gold producer in the world

"This deal equals Anglo in size and quality of production "

Negotiations with Cyril Ramaphosa's New Africa Investments Ltd (Nail) to buy Asteroid, a holding company in Gold Field's structure, have ended, but discussions with Nail and a "broadly-based" black empowerment group to buy between 5% and 10% of Goldco are being held. However, Asteroid will still figure in the deal between the two mining houses

"This is not quite what Mr Ramaphosa expected," stressed Mr Kernot.

Gold Fields will bring Kloof, New Wits and

To page 3

SA mine merger set to create 'world's largest gold producer'

ARG 11/10/97 (214)

From page 1

the massive Driefontein mines to the table and Gencor will bring South Africa's lowest cost producer Beatrix, along with Oryx, Evander and St Helena into the new company

Both groups' international gold assets will included in the deal, including Gold Fields' Tarkwa mine in Ghana and Gencor's interests in Canadian company, Eldorado Gold

"The transaction will create a world leader in the global gold mining industry by combining three of South Africa's premier gold mines Driefontein, Kloof and Beatrix Goldco would be the world's largest gold producer with annual production of four million ounces and total mineable reserves of 120 million ounces," the companies said

"We intend Goldco to be a self-sufficient entity and all its management contracts will cease to exist," said Mr Gilbertson

Goldco will own "to the extent practicable" 100% of the gold assets now owned or controlled by Gold Fields and Driefontein As part of the deal, Gold Fields will acquire for cash Goldco shares from Gencor to a value of the equivalent to 50% of Asteroid, calculated at R107 a Gold Fields' share

This is a premium of 10,4% to the Gold Fields average share price Goldco shares will be valued at R32,04 if Driefontein is the vehicle for Goldco or R21,04 if Beatrix were the vehicle

In turn, Gencor will buy for cash Driefontein's 50% interest in Asteroid, calculated at R107 a Gold Fields share The balance of Gencor's holding in Goldco will be exchanged for Gold Fields' 50% interest in Asteroid and shares in Gold Fields

The ratio of the share-swop will be 3,34 Goldco shares a Gold Fields share if Driefontein were the vehicle or 5,09 in Beatrix were the vehicle

The deal will be completed by the new year, said Mr Wright and Mr Gilbertson

Mr Gilbertson said the negotiations had been concluded quickly, within the past five to six weeks, and that Gold Fields' Mr Wright was the "main architect" behind the deal

No details were given about Gencor's platinum interests in Gengold

Two giants to merge gold mines

Star 11/10/97 (214)

By ANDI SPICER

Two of the country's biggest mining houses – Gold Fields and Gencor – were to merge all of their gold mines into one super R17-billion precious metals company by the end of the year, the companies said yesterday

The deal will create a gold producer to rival the giant Anglo American and be among the largest in the world

Both companies have suffered from the depressed gold price and were looking for a way to boost profits

The merger will combine some of the best gold reserves in the ground with the lowest-cost gold mines in South Africa It will also merge both companies' gold interests abroad, in Canada and west Africa. Analysts said the move would probably mean job cuts across the mines and a rationalisation of management

Gencor chairman Brian Gilbertson will head the new company, called Goldco, and Gold Fields deputy chairman Alan Wright will be his deputy.

Black empowerment groups, including Cyril Ramaphosa's New Africa Investments (Nail), are in negotiations to take a 5% to 10% stake in the company.

"We will have huge reserves – over four million ounces at very competitive costs – and we are looking at a win-win situation in terms of our gold assets," Gilbertson said yesterday

Goldco would be run separately from Gold Fields although it would contain all of Gencor's gold mines and mineral rights, excluding the platinum mines

Charles Kernot, an analyst in London, said yesterday the deal was "very good news for the South African gold industry and would go a long way towards the creation of a better-organised mining house that will rival Anglo in size and quality"

Gencor recently split into two companies, with its coal and base metals assets sold into London-based Billiton, and Gencor keeping the gold and platinum mines in South Africa

Gold Fields, despite having some of the richest gold mines in the country, has been criticised for not making enough profits

GFSA, Gencor in R17bn gold merger

ST(BT) 12/10/97

(214)

The new company will be the world's greatest gold vehicle, writes JULIE WALKER

THE winds of change continued to blow through the SA gold-mining industry this week when Gold Fields of SA pulled off a coup in buying all the gold-mining assets of the Gencor group in what is being billed as a R17-billion merger

GFSA CE Alan Wright says the deal is a true merger This deal also precludes New Africa Investment Ltd's purchase of the Asteroid holding, but Wright says it has not been sidelined as it is an important player Nail has been granted an option to acquire between 5% and 10% of Goldco, 10% would cost R1 7-billion

Gencor chairman Brian Gilbertson says "Goldco" is a stool with three very solid legs, namely Driefontein, Kloof and the Southern Free State goldfield, principally Beatrix Goldco will probably be instituted via the Driefontein listing as this is by far the largest with a market capitalisation of R6 6-billion GFSA's other mine, Kloof, is half as big, and Deelkraal has been sold to Elandsrand

The Gencor mines are much smaller, Beatrix (also a possible listing vehicle) is valued at R2-billion and Oryx at R1-billion Gencor's Evander and St Helena mines are worth R752-million, and the combined value of the international and other assets adds R3-billion to gross close to R17-billion Reserves will exceed 120-million ounces and annual production 4-million ounces of gold at low cost

Perhaps most remarkable about the deal, coming so soon after Gencor's separation of non-gold assets into Billiton to leave Gencor as a precious-metal specialist, is that Gencor has sold them so quickly GFSA made an approach only in August Gilbertson acknowledges that Wri ht is the architect

"I gained the approval of the GFSA board to approach Gencor at our board meeting on the third Tuesday in August We were close to agreement by last Tuesday," says Wright

"We believe that the South African equity market is an effective marketing vehicle and we have agreed to use the average share prices during the month ending September 26 in determining the values of the assets to be sold into Goldco "

Says Gilbertson "At no time did I think we wouldn't reach agreement "

The deal will involve offers to all the minorities in the affected companies oth-

of a tax consideration. Goldco will own 100% of Kloof, Dries, Oryx, Beatrix and Evander, 24 5% of St Helena and 33 5% of Eldorado, as well as international assets and mineral rights

Initially, GFSA will hold 35% of Goldco and Gencor 20% Anglo American will have 8% of Goldco and 22% of GFSA.

Simultaneously, GFSA will make an offer for Gencor's 20% of Goldco in a two-pronged deal which helps to unlock the complicated holding structure of GFSA itself As consideration, Gencor will accept Asteroid, a company jointly owned by GFSA and Driefontein and which owns 40% of GFSA

owner of 39% of GFSA Secondly, GFSA will undertake an issue of shares to give Gencor a direct holding of 13% in GFSA Rembrandt has 40% of GFSA Holdings and Liberty 20%

"I didn't feel it would be proper to become part of this historic incestuous loop," says Gilbertson "I am having to pay a 10% premium to get into GFSA directly, which was very difficult for me, but I hope it will be justified by the value to be released A vision of gold-mining leadership is being sold here

"Goldco is the world's greatest gold vehicle There are substantial opportunities for a rerating of the shares in what I believe is the start of the release in value in the GFSA structure I hope that Goldco can become an autonomous company as the management contracts will cease to exist "

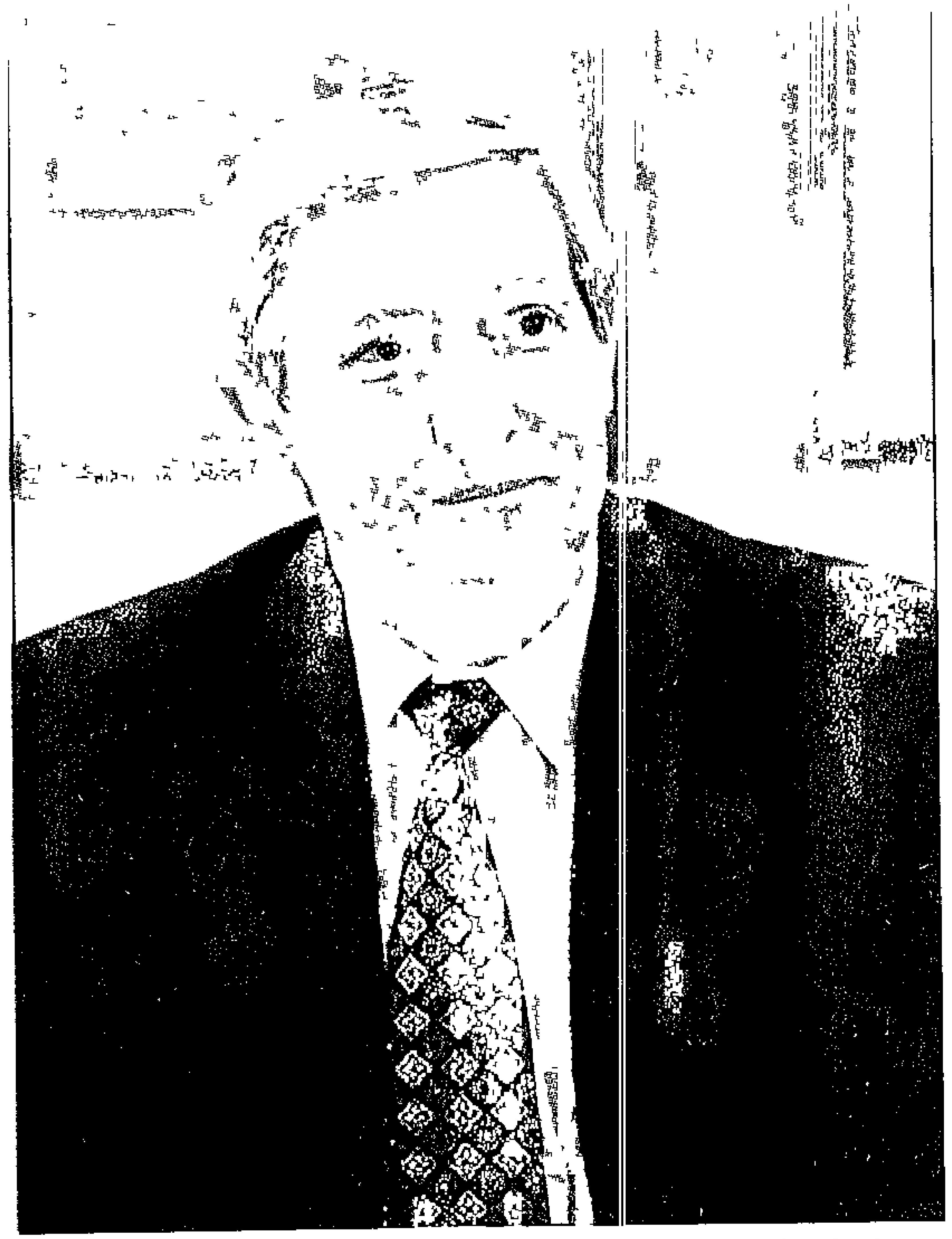
Gilbertson will chair Goldco and become a deputy chairman of GFSA. Wright will be deputy chairman of Goldco and the next chairman Gilbertson indicates that he cannot do two full-time jobs and has allocated nine months to Goldco GFSA's gold chief Richard Robinson will be chief executive officer and Gencor's Tom Dale chief operating officer

Rembrandt's Johann Rupert is to become chairman of GFSA on the retirement of Robin Plumbridge Rembrandt group has 17% of GFSA and 14% of Gencor, this deal goes some way to consolidating two unwieldy portfolio investments

Gencor will become a holding company with only platinum mine Impala to be managed GFSA is to take all the gold-division staff in the deal and Billiton will assume the Gencor head office premises "I have told the Impala management to add value quickly," says Gilbertson, declining to discuss whether a deal between Impala and Northam, GFSA's platinum mine, is possible

Gilbertson denies he is getting out of gold "It's untrue to say I don't like gold I love gold but I want good gold Eight years ago, Gencor's gold mines were probably the worst in the industry We have sold the duds and this deal brings together the best mines in the country I'd be very disappointed if Goldco can't force costs down "

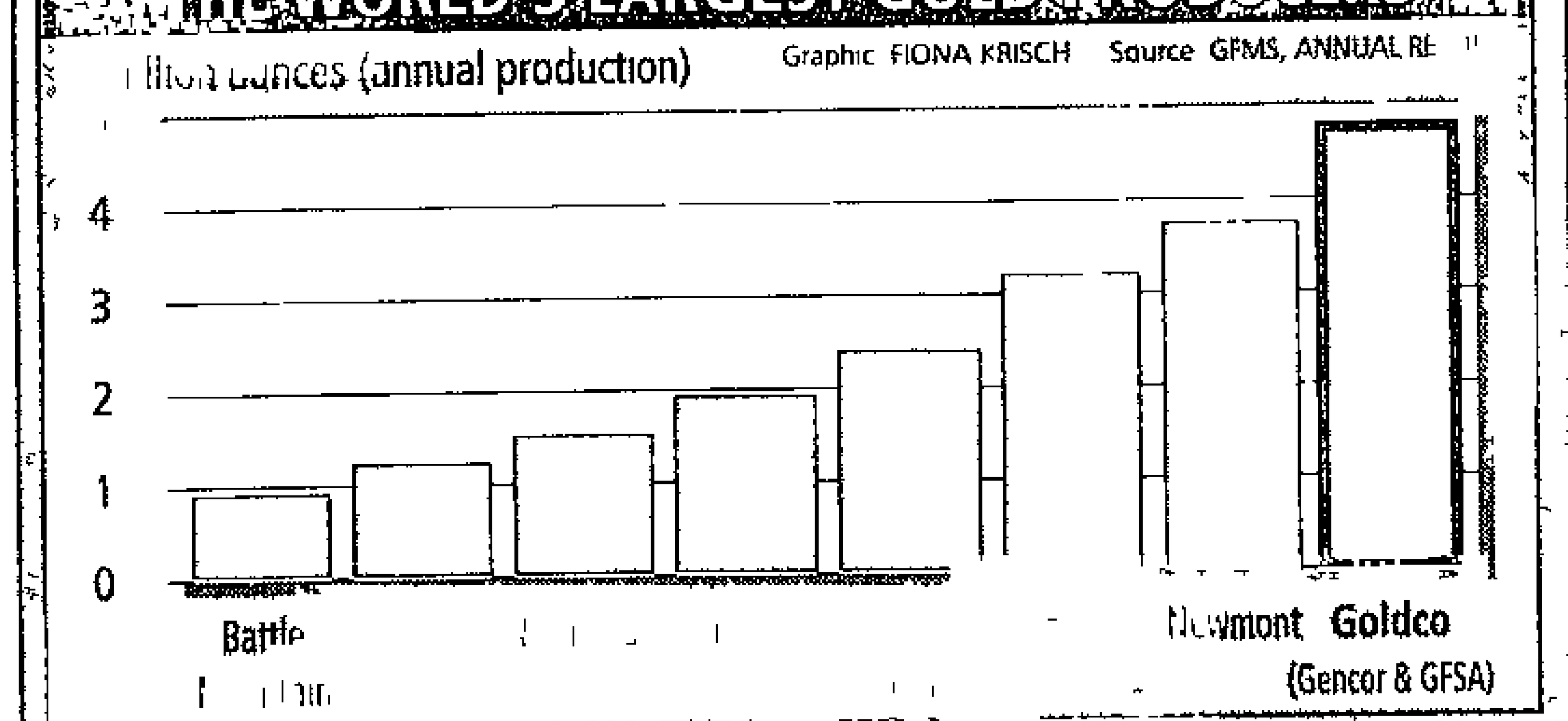
For now, Goldco avoids the route of batching quality gold mines together and quantity gold mines elsewhere, as is being taken by JCI's gold division What is not an essential holding in Goldco could be disposed of at a later date



ARCHITECT . . . GFSA's Alan Wright put together the deal

VISIONARY. . . Brian Gilbertson was always confident of agreement

THE WORLD'S LARGEST GOLD PRODUCERS



GFSA-Gencor gold merger builds on common strengths

Without a merger, the vision that Brian Gilbertson has for Gencor and that Alan Wright has for Gold Fields of SA would be difficult, if not impossible, to turn into reality, writes Jim Jones

(214) BD 13/10/97

THERE are moments when deals have to be consummated if opportunities are not to be lost forever This is certainly the case with the merger of the gold assets of Gencor and Gold Fields of SA (GFSA)

Gencor chairman Brian Gilbertson is part way towards achieving his aims with the old General Mining group he inherited. Billiton has been structured as an internationally diversified metals and minerals group with significant growth potential based on world-class assets and capable of tapping international capital markets for developments here and abroad Doing the same with a largely gold-based Gencor alone would have been more difficult

On the other side of the equation, GFSA CE Alan Wright had to contend with a group ownership structure hastily assembled a decade or so ago more as a defence against hostile takeovers than as a basis for growth Its disadvantages were clearly indicated by Rembrandt's Johann Rupert last week

Rembrandt had invested in GFSA for its gold potential and had been reluctant to see that gold interest diluted by ventures into other minerals Rembrandt's investment focus on gold was understandable, but a way had to be found to modify it if GFSA was to take full advantage of its possibilities

Together, with their gold operations merged into Goldco, GFSA and Gencor command a portfolio of world-class gold producers — mines with low gold production costs whose cash flows can be used to develop new gold ventures worldwide.

GFSA's Robin Plumbridge had had tentative discussions with Gilbertson in the past, but the timing and possibilities were inappropriate and had to satisfy GFSA's shareholders. They do now, which is why Wright's latest approach to Gilbertson was well received

Let there be no mistake, the two groups' gold assets will not be lumped together willy-nilly The core SA interests are GFSA's Kloof and Driefontein Consolidated and Gencor's southern Free State mines. These are SA's best quality, long-life gold mines

The rest may not be retained GFSA's Libanon does not fit the merged group's optimum life and cost profile nor, necessarily, do Kloof's Leeudoorn section or Gencor's Evander, St Helena and Fairview operations

Evander's expansion prospects are limited, while Leeudoorn's grades are comparatively low, implying that its gold costs are too high for Goldco's target cost profile

At present, the two groups' average cost of gold production is in the region of $275/oz Remove Evander, Leeudoorn and Libanon from the equation and the average production cost comes down to about $225/oz, a level that underpins cash flows and that should be attractive to the local and international investors who may eventually be approached to put up capital for new ventures. Add to this the fact that a single operating company will be created with wholly owned, long-life producing mines, reserves and an exploration portfolio with unified management holding free from the constraints of earlier management contracts, and the possibilities become clear It all comes down to assembling and structuring corporate assets that provide the best possible investment ratings — ratings that match those of other international mining groups.

The mines that are excluded are not dogs. Simply, they could be better managed by other mining companies that specialise in that type of operation

Goldco will not be operating in a vacuum. Other gold producers with lower average production costs are out there competing internationally for new prospects

A well-focused Goldco would have all the attributes but one of competing international gold companies It remains constrained by SA's exchange controls which restrict the way in which it can invest its cash flows

Of course, exchange controls will not last for ever. And the country's exchange control authorities are not unaware of the need for a flexible, far-sighted approach to the rules. In the meantime, though, controls are a major restraint on our mining industry's ability to internationalise. The controls can be circumvented, but circumvention implies foreign corporate operating structures that may not be in this country's longer-term interests.

Goldco's strategy is similar to that of JCI which is putting together its relatively low-cost Western Areas South Deep project and its HJ Joel mine The difference is that JCI's controlling shareholders are under some pressure and need speedy action to overcome the effects of a weak share price

The GFSA-Gencor gold merger is different from Avgold's which has been assembled from a range of gold operations and prospects with widely differing cost and life characteristics

The GFSA-Gencor gold merger also differs from the others in that Goldco's main SA venture is to create a single low-cost mine in the southern Free State that combines Gencor's Oryx and Beatrix mines with contiguous mineral rights owned by both partners. The earlier merger of Gencor's four mature Evander mines set the precedent for a tax-efficient merger with significant prospective longer-term tax revenue benefits for the state.

This country's problem is that there are few new gold prospects that remain to be developed Avgold has possibilities to the north of the Free State gold field and there are possibilities in the so-called Potchefstroom gap way over to the west of Johannesburg

But that is it It means that if this country's mining groups are to remain pre-eminent in gold, they have to expand beyond SA's borders SA's gold miners have to define strategies for their cash flows. The old way was to distribute them, leaving nothing at the end of an individual mine's life. The modern alternative is to direct them towards growth through new ventures.

GFSA itself is gradually bringing its open-cast Tarkwa gold mining venture in Ghana up to speed, financed with cash raised overseas 10 years ago Tarkwa will have an initial annual gold production of 125 000oz in its first year. It plans to double that within a couple of years, but also needs to double it again to create a producer about two-thirds the size of today's Kloof

Outside of gold, GFSA's prospects could be transformed. It has an assortment of base metals and coal operations, but they are not in the same international league as Billiton's However, its investment in Goldco is an asset that might be parlayed into finance for new nongold mining ventures It all boils down to focus And that is where Wright and Gilbertson see eye to eye

NUM urges the government to halt the merger between Gold Fields and Gencor

Goldco 'a disaster for workers'

CT (BR) 13/10/97 (214)

FRANK NXUMALO
AND ANDI SPICER

Johannesburg — The R17 billion merger between Gold Fields and Gencor's gold mines to create the world's largest gold company could result in large job losses, union officials warned yesterday

Gwede Mantashe, the assistant general secretary of the National Union of Mineworkers (NUM), said the new company, Goldco, might be "good for shareholders, but it is a disaster for workers"

He said the livelihoods of 9 200 workers were threatened at Evander alone and has called on the government to act quickly and decisively

Gold Fields and Gencor announced on Friday that they were combining Gold Fields' massive Driefontein mines, Kloof and New Wits, with Gencor's Beatrix, Oryx, Evander and St Helena

Both groups' international gold assets will be included in the deal, including Gold Fields' Tarkwa mine in Ghana and Gencor's interests in the Canadian company, Eldorado Gold Annual production will be 4 million ounces and total mineable reserves will be 120 million ounces

Cyril Ramaphosa's New Africa Investments Ltd (Nail) and a "broadly based" black empowerment group are negotiating to buy between 5 percent and 10 percent of Goldco Negotiations for Nail to buy Asteroid Gold Fields' controlling holding company have come to an end

Mantashe said the union was worried by the interaction of two companies that had diametrically opposite track records of industrial relations

"Gold Fields has always tried to reconcile and to be sensitive to workers' plights in its downscaling operations Gencor has always been insensitive," he said

Mantashe said the NUM had no problem with South African mining houses entering into mergers that made them stronger "But," he said, "where we have problems with the process is when Gencor is retrenching between 6 200 and 9 200 with immediate effect in preparation for the merger"

Analysts are also divided over whether the deal will benefit the South African gold industry Some argue that the effective re-bundling of the mines will not unlock value in both Gold Fields' and Gencor's structure However, others herald the deal as the start of realignment of the industry

Charles Kernot, an analyst at Paribas in London, said the deal was "very good news for the South African gold industry"

"Gencor will put their good management skills into running Driefontein and Kloof and undoubtedly there will be better returns Gold Fields' Driefontein was once the lowest cost producer in South Africa, but it has been eclipsed by Gencor's Beatrix for some time as the lowest cost gold miner in the country," he said

☐ 47 Sauer Street, Page 18

GOING FOR GOLD *Cyril Ramaphosa, deputy chairman of Nail, with Brian Gilbertson, who will head Goldco, and Alan Wright, who will be his deputy Nail is looking at buying a minority stake in the company*

PHOTO JOHN WOODPOOF

Architects of Goldco open to Anglo deal

BD 13/10/97 (214)

Shareen Singh

GOLD Fields of SA's Alan Wright and Brian Gilbertson of Gencor, architects of the Gencor-GFSA gold asset merger announced last week, must now persuade outside shareholders in the various mines and holding companies, including Anglo American, to approve the R17bn merger, Goldco.

Goldco will have an annual output of 197 tons, just below the 226 tons a year produced in the Anglo American portfolio of gold mines.

It will be a low-cost operation and possess mineable reserves of 120-million ounces of gold, ahead of North America's Barrick Gold, among the world's leading gold miners. GFSA's Ghanaian gold prospect, Tarkwa, will also be put into Goldco.

Gilbertson is to become chairman, and Wright deputy chairman

Wright said the merger could also see the dumping of "baggage" — high-cost, low-grade gold mines This could possibly be mirrored in Gencor's disposal or possible closure of its Evander Gold Mines and the sale of St Helena to mining house rival JCI, analysts said

For GFSA, its Kloof Gold Mining divisions Leeudoorn and Libanon are obvious candidates for closure, although Wright would give no clues how much time they had to prove themselves

In the meantime, the market is likely to respond favourably to the proposed merger as soon as trading begins on the Johannesburg Stock Exchange today. Analysts said GFSA could eventually win a healthy rerating. "The fact that Gencor is taking control is good news for the market considering that it has not been happy with GFSA for some time," one analyst said

On Friday, GFSA and Gencor shares traded at large discounts to their net asset value, said analysts.

The final structure of the deal hangs in the balance until approval by minorities, especially Anglo American whose total stake in Gold Fields adds up to more than 25%. Anglo American stands to gain a direct 8% stake in Goldco and a diluted 22% stake in GFSA if it gives its approval.

Anglo was informed of the deal on Friday and needed time to study it, said Wright.

Analysts have speculated that Anglo's approval will hinge on a deal on listed gold operation Driefontein Consolidated, in which Anglo has an equity stake BoE Natwest gold mining analyst Gerhard Kemp said the first prize for Anglo would be to take over Driefontein and combine it with Anglogold-managed operation Western Deeps. But he could not see Goldco agreeing to that as Driefontein was the group's flagship and the potential vehicle for listing. Anglo needed Driefontein to augment its ambitious "ultra deep" shaft sinking plans in the long term

Wright said there was "no reason why we cannot look at a joint venture. Most companies offshore are doing business on a joint venture basis We do not preclude a deal with Anglo, but it would not be a traditional deal where one company buys out the other."

If Anglo did not approve the transaction, "another way would be found to do the deal", he said.

Continued on Page 2

Goldco

(214) BD 13/10/97

Continued from Page 1

The deal, concluded in two months, was made possible through asset swaps Gencor would trade its entire interest in Goldco for 100% of GFSA's major shareholder, Asteroid, and new GFSA shares to be issued by the company. GFSA would buy Goldco shares from Gencor for an equivalent of 50% of Asteroid at R107 a share, and Gencor would buy Driefontein's 50% interest in Asteroid

The balance of Gencor's holding in Goldco would be exchanged for GFSA's 50% interest in Asteroid and shares in GFSA itself

Analysts believed that the future of the industry lay in the consolidation of the best performing mines while discarding marginal and underperforming assets.

Kemp said the merger would create a vehicle which was "very tradeable and would attract foreign funds from investors mainly interested in companies with large market capitalisation Not only will it provide liquidity, but it would also spread risk across several mines," he said

Picture: Page 3
See Page 17

'Newly formed Goldco has great blue sky potential'

(214) BD 13/10/97

Hilary Joffe

GOLDCO, the company which brings together Gold Fields SA's (GFSA's) gold mining assets with those of Gencor, will have substantial "blue sky" potential — access to new gold resources — in SA and west Africa, as well as in South America It will be well placed to do deals with other mining houses which would give it access to further growth prospects Also, substantial benefits are expected from the combination of Gencor and GFSA's mine management skills

The most immediate "blue sky" potential in SA is in the southern Free State, where Goldco's formation will enable efficient mining of GFSA's Lekkerlewe and Sand River projects, as well as of the deposits between Beatrix and Oryx which Gengold acquired from Anglo in a mineral rights swap in January

Gengold had planned to put Beatrix and Oryx together once Oryx advanced beyond the development stage The Goldco transaction supersedes such a merger, putting the operating mines and mineral rights together under one umbrella

Gengold MD Tom Dale, who is to be Goldco's chief operating officer, estimates a resource base of up to 28,5-million ounces, although figures based on exploration drilling are necessarily speculative Of this, 10,5-million ounces is in Beatrix and 10-million ounces in Oryx, with Lekkerlewe bringing in about 1-million ounces and the Sand River ground about 3-7-million ounces

Dale also has his eye on two adjacent Anglo farms — Weltevreden and Bloemhoek — with a further 3-5-million ounces, as well as the JCI farm next door "We would love to do commercially rational transactions with both houses," he says

The merger shows the advantages of "bringing down the farm fences" Dale says Lekkerlewe can be mined from Beatrix's number three shaft, as an extension to the mine Oryx's infrastructure can be used to mine the Kalkoenkrans deposit, in the Sand River area Since the areas are contiguous, there should be no problem getting the tax "ringfence" lifted, as Gencor did with its Evander mines merger

However, Dale has bigger ambitions if Goldco can secure the additional Anglo and JCI farms, it can explore the ore body underground at relatively low cost If results were to prove positive, "we would want to put in substantial new infrastructure", he says

Deep-level mines

The other, longer term project relates to the mineral rights on the West Wits Line, around GFSA's Driefontein and Kloof mines

Anglogold CE Bobby Godsell has spoken of possible ultra deep level mines, going down to 5km beneath Anglo's Western Deep Levels and Driefontein GFSA has participated in some of the research and holds some of the rights GFSA CE Alan Wright says the Goldco deal does not preclude a joint venture with Anglo to mine the ultra deeps, if the project proves feasible Goldco CEO Richard Robinson says Goldco's size and strong balance sheet will make it a better potential joint venture vehicle than Driefontein would have been alone

Worth noting too is that Anglo is set to hold about 20% of Goldco, directly and indirectly, because of its stakes in GFSA, Kloof and Driefontein This makes it likely Anglo would favour deals which would enhance the value of its investment

The potential fit between GFSA's and Gencor's gold interests outside SA is even more exciting

Goldco will be the second largest force in west Africa after Ashanti, with attributable resources of about 20-million ounces, says BoE Natwest analyst Barry Sergeant GFSA brings 70%-held Ghanaian mine Tarkwa, which is due to pour its first gold in February and is set to become one of west Africa's largest and lowest cost mines, producing at an average cash cost of US$220 Tarkwa's resources total about 13,1-million ounces

Gencor brings to Goldco the Bogosu mine in Ghana, with cash costs of US$250, plus about 20 exploration properties in Ghana, the Ivory Coast and Burkino Faso, with a total resource inventory of 17,8-million ounces (of which Gencor's share is 9,1-million)

In terms of a merger proposed earlier this year, the Ghanaian assets were to have gone Eldorado, the Vancouver-listed gold company of which Gencor holds an effective 33% But the transaction was shelved due to poor market circumstances — probably a good thing in retrospect, as the fit in Goldco looks much better

There are likely to be synergy benefits as GFSA's and Gencor's West African exploration efforts are combined. Goldco will be able to draw on cashflows from Tarkwa and Bogosu to develop further mines in the region — an important consideration for international gold investors, for whom "cash is king"

Both Gencor and GFSA have extensive exploration programmes in South America, which are likely to be enhanced by the merger

Goldco will also hold the stake in Eldorado, a mid-sized house with operating mines in Brazil and Mexico and new projects in there and in Turkey and Argentina

Although exchange control is a problem for the moment, Goldco will have the financial strength to take on large ventures, here or abroad It will have at least R1bn in cash after the sale of Driefontein's 50% stake in Asteroid to Gencor, and Driefontein is a strong cash generator

New name

A new, more glamorous name is to be sought for Goldco, which will be a single operating company producing 197 tons of gold a year, close behind the 226 tons a year produced by gold mines in the Anglo stable.

In terms of the proposed deal announced on Friday, Goldco will buy all of Gencor's and GFSA's gold assets, taking out minorities to give the new group 100% of the major mines This gives Gencor 20% of the new company GFSA then buys Gencor's 20% in exchange for Asteroid (the company which controls GFSA Holdings) and new GFSA shares, so that Gencor ends up with 40% of GFSA Holdings and 13% of GFSA, which then controls Goldco with 55%.

The operational aspects of forming Goldco will be fairly complex. Wright says the aim will be to implement the merger as quickly as possible to avoid a decision making "limbo" in the operating companies He expects it will be complete early in the new year — sooner if possible.

The expectation, says Robinson, is that Goldco's assets will benefit from a "cross-fertilisation" of managerial and technical approaches.

Dale notes Gencor has proven its ability to add value to its gold interests with corporate and portfolio restructuring since 1995 It is midway into an operational restructure which is expected to boost its mines' productivity significantly It has been investing R60m a year to educate and train black miners throughout the group

"We would like to show the GFSA people what we have been doing," says Dale

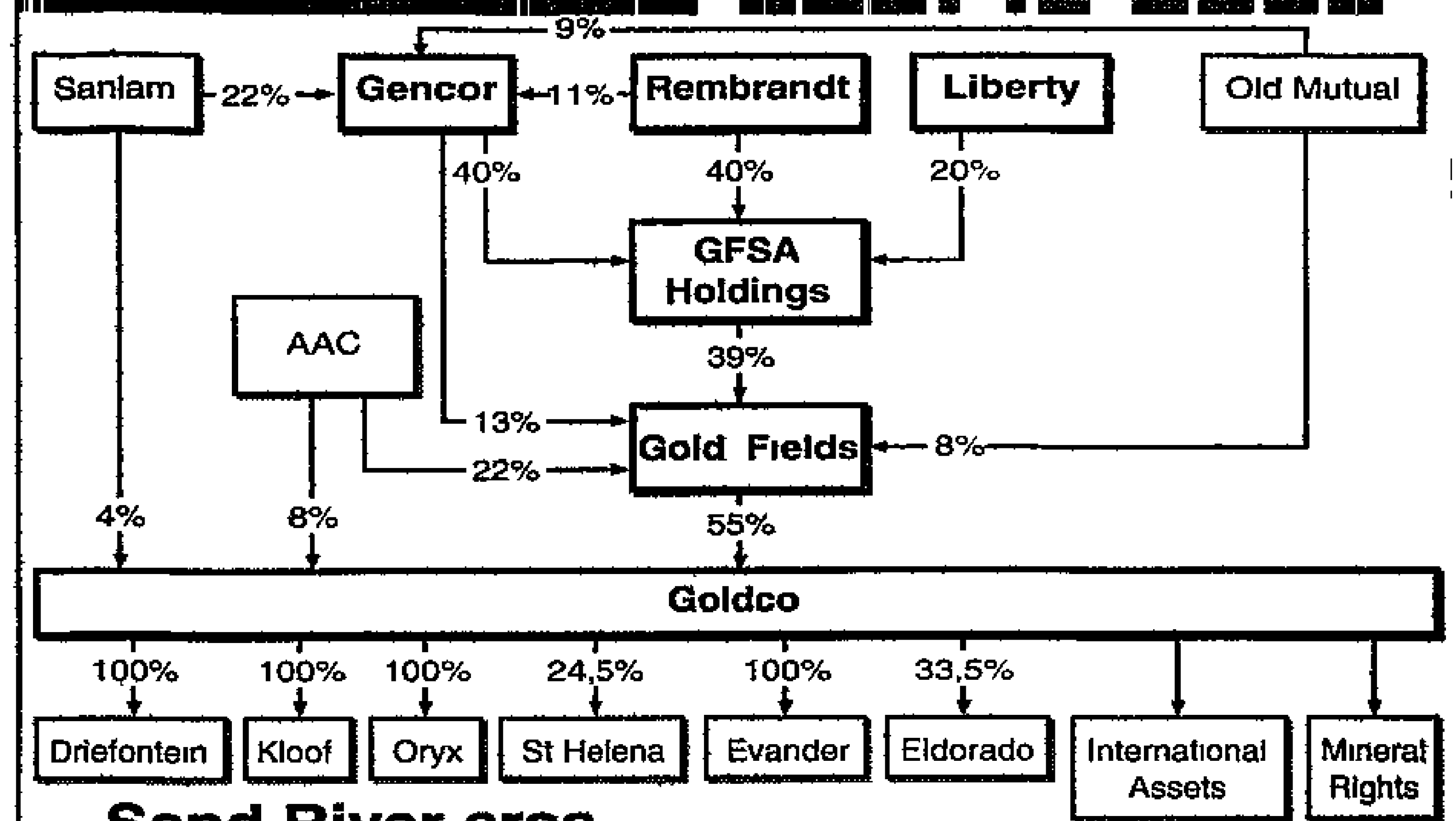
In turn, Robinson points to the great depth of GFSA mines — as the Gencor mines in the Free State go deeper, these mining skills can be brought to bear

The formation of Goldco will include cancellation of mine management contracts and the merging of the two groups' head office structures This is relatively simple at Gencor, which had already separated its gold interests from the rest, with a fairly small 50-person head office staff in gold.

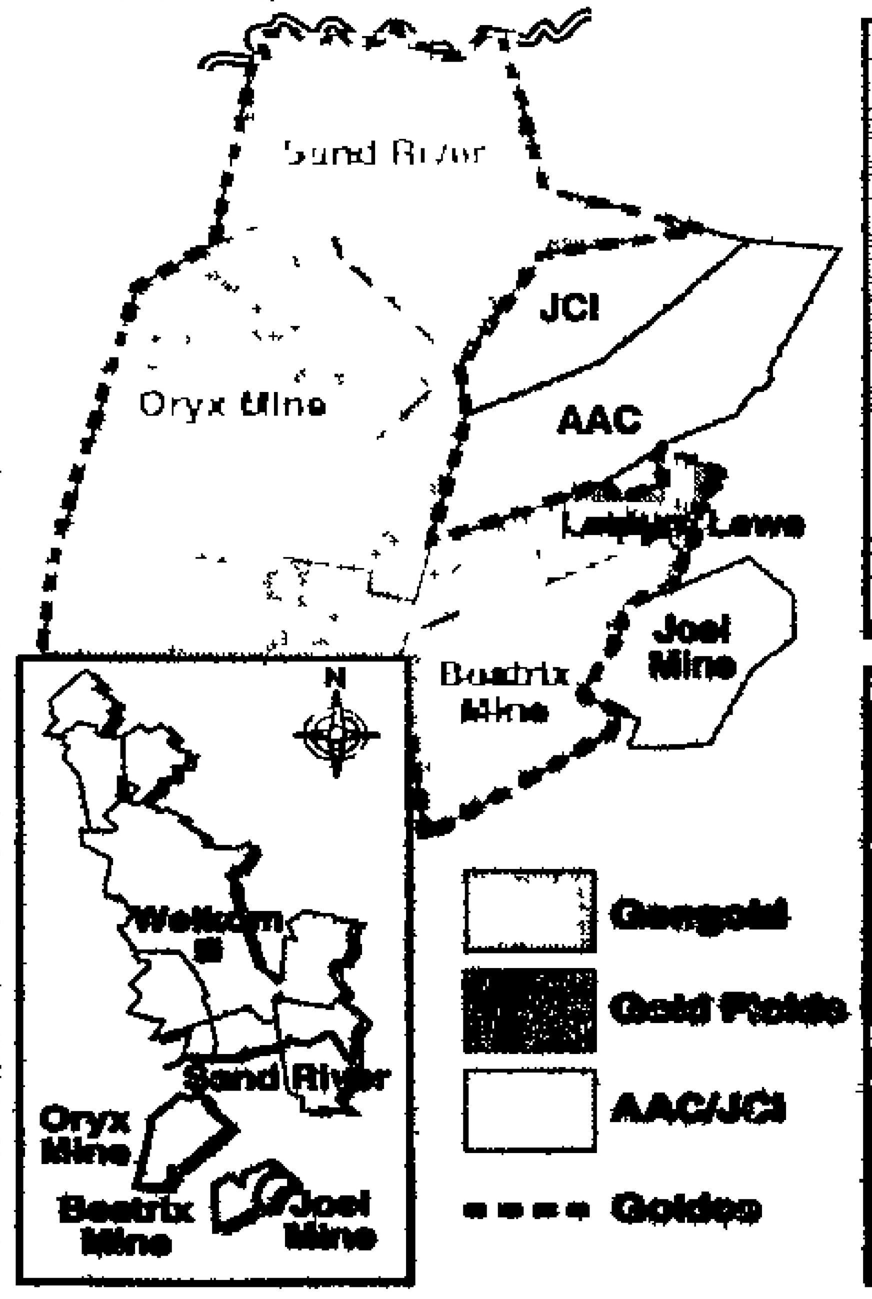
GFSA is more complicated as its head office provides centralised technical and nontechnical services to the gold, coal and base metals mines in the group. Robinson says GFSA began examining its head office structure about a year ago, and has identified which services are not required, which should be outsourced, and which should be devolved to the mines. But staff will have to be allocated into separate camps so that Goldco can be self-standing

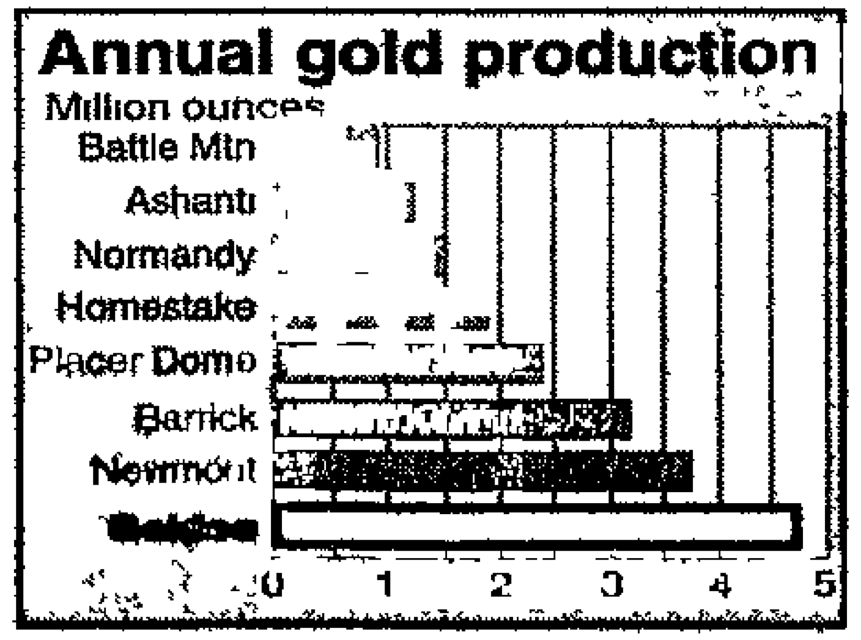
Wright was given the go-ahead by his board to start talks with Gencor's Brian Gilbertson only on August 20 The deal was put together so quickly the work of putting the group together in operational terms begins only now. "It is going to need careful and strong management," says Robinson.

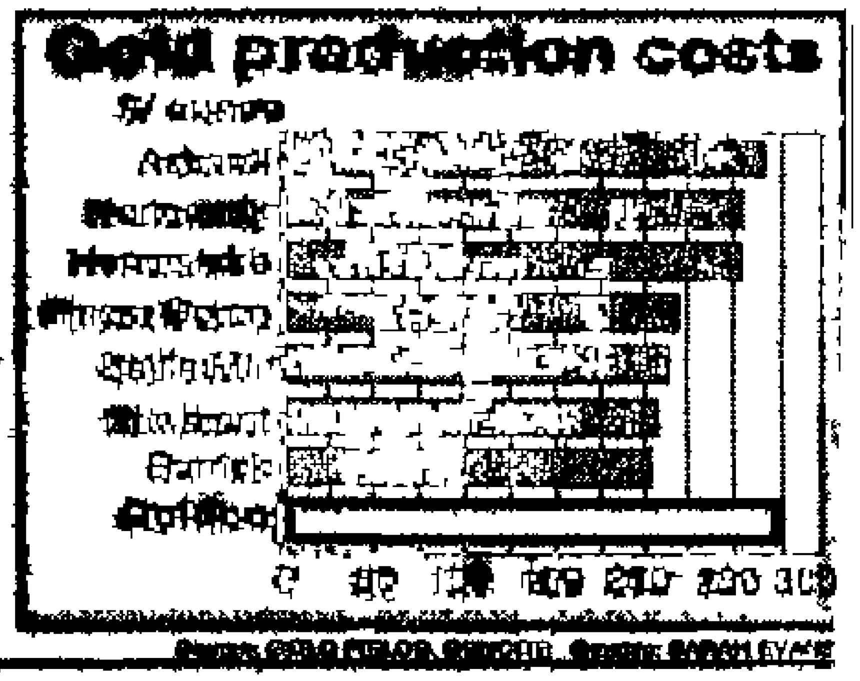
Goldco: the deal is done



Sand River area







Continued from page 34

and, as of end-March, held 14,7% of the equity, meaning it could block the deal if minority shareholders are as apathetic as usual Being a related party to the transaction, GFSA will probably not be able to vote at the meeting But Anglo owns only 4,7% of Beatrix

"Driefontein is so important to Goldco that it is not a chattel which can be bargained away But the structure does not rule out a joint venture deal in the future between Driefontein and the Anglo gold mines," says Wright Gilbertson says he'll look at any deal "which adds value "

One of the most telling comments at Friday's presentation came from Rembrandt chairman Johann Rupert, who takes over as GFSA chairman from Plumbridge later this month

"You cannot mix chicken dung with ice-cream because it spoils the flavour of the ice-cream," he said after maintaining he knew less about the mining industry than fellow Rembrandt and GFSA director Dillie Malherbe, "who does not know one end of a shovel from the other "

Given the stated aim of creating a world-class quality gold producer, there's a good case for maintaining that the "chicken dung" in Goldco consists of Evander and the Libanon and Leeudoorn divisions of Kloof

The respective mining houses may not agree with Gengold reckoning that Evander is straightening out — and GFSA thinking it can salvage Leeudoorn

But Wright took the harshest stance yet, stating clearly that Leeudoorn will be shut down if it does not return to profitability That's something the analysts have been urging GFSA to do for years

Some analysts say Evander was included only because it boosted Gencor's final stake in Goldco They believe it will be sold Likewise St Helena, which Gilbertson says is in Goldco because of the tax structure arrangement with Oryx

Possible buyers for these mines include Harmony, Durban Deep or Randfontein Estates The latter has been designated the "quantity" gold operation at JCI, distinct from the "quality" Western Areas-Joel combination

Gilbertson says he wants to eliminate the pyramid structures controlling Goldco and set it free as an autonomous group with no single controlling shareholder That implies a future unbundling of Goldco shares by Gencor and GFSA to their shareholders

Nail is being invited into Goldco's ground floor on attractive "founders terms" — made more so by the prevailing conditions of depressed stock market prices

Gilbertson says he sees Nail deputy chairman Cyril Ramaphosa contributing to Goldco at a very senior level

Rupert indicates there's more to come about Nail's involvement in Goldco but offers no specifics He repeats his declaration that Nail's participation is structured so as to avoid "another black economic impoverishment deal " Ramaphosa says the Goldco offer is attractive and meets Nail's objective of establishing a foothold in the mining industry

DESTINED FOR GOLDCO

Operating statistics for year ended June 1997

	Gold produced kg	Cost R/kg	Recovery g/t	Profit after tax R'000	Number of people employed	Share-holding % held by house	Market capitalisation Rm
Gengold							
Beatrix	15 257	32 158	6 1	319 854	8 000	57 4	2 124
Evander	19 357	48 500	5 6	119 072	16 000	43,9	491
St Helena	5 749	44 914	6,4	36 201	3 643	24,5	185
GFSA							
Driefontein	46 815	36 674	6,5	751 142	31 396	35,5	6 793
Kloof	38 187	46 310	8,1	280 283	30 933	41 3	3 500
Total	125 365			1 506 552	89 972		13 093

Source June Gold Quarterlies

Assuming Goldco clears the remaining hurdles, then investors must also look at the futures of Gencor and GFSA themselves

Gencor's sole remaining asset is Impala Platinum, whose market rating has been hammered by legal turmoil with the European Commission (EC), Lonrho and the Bafokeng Tribe

The obvious question concerns a link-up with GFSA's embattled Northam Platinum Gilbertson and Wright stress this has not been discussed and will not be put on the table Goldco is a gold deal, period

Bringing platinum companies into the picture might attract complications from the EC, which has already shown itself to be deeply opposed to SA platinum company mergers

Gilbertson wants clarity on Impala's legal issues before deciding what to do with the group, but says it now has his top priority

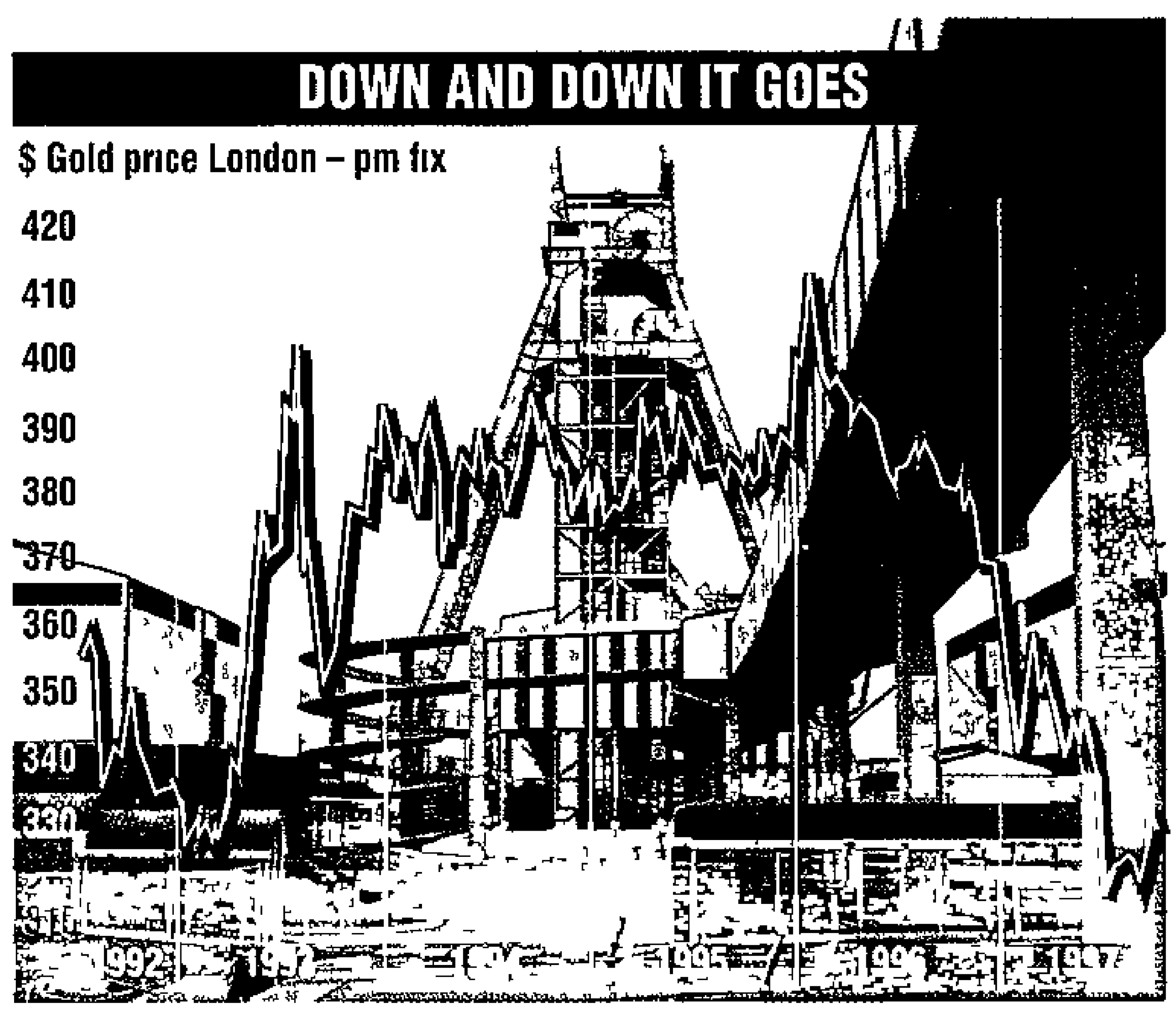
GFSA's remaining assets are Gold Fields Coal (GF Coal), its base metal interests including Black Mountain, Zincor, Gold Fields Namibia, O'okiep and Gamsberg, and its strategic portfolio of investments, including Stanbic shares worth around R2,5bn and Sasol equity valued at about R800m

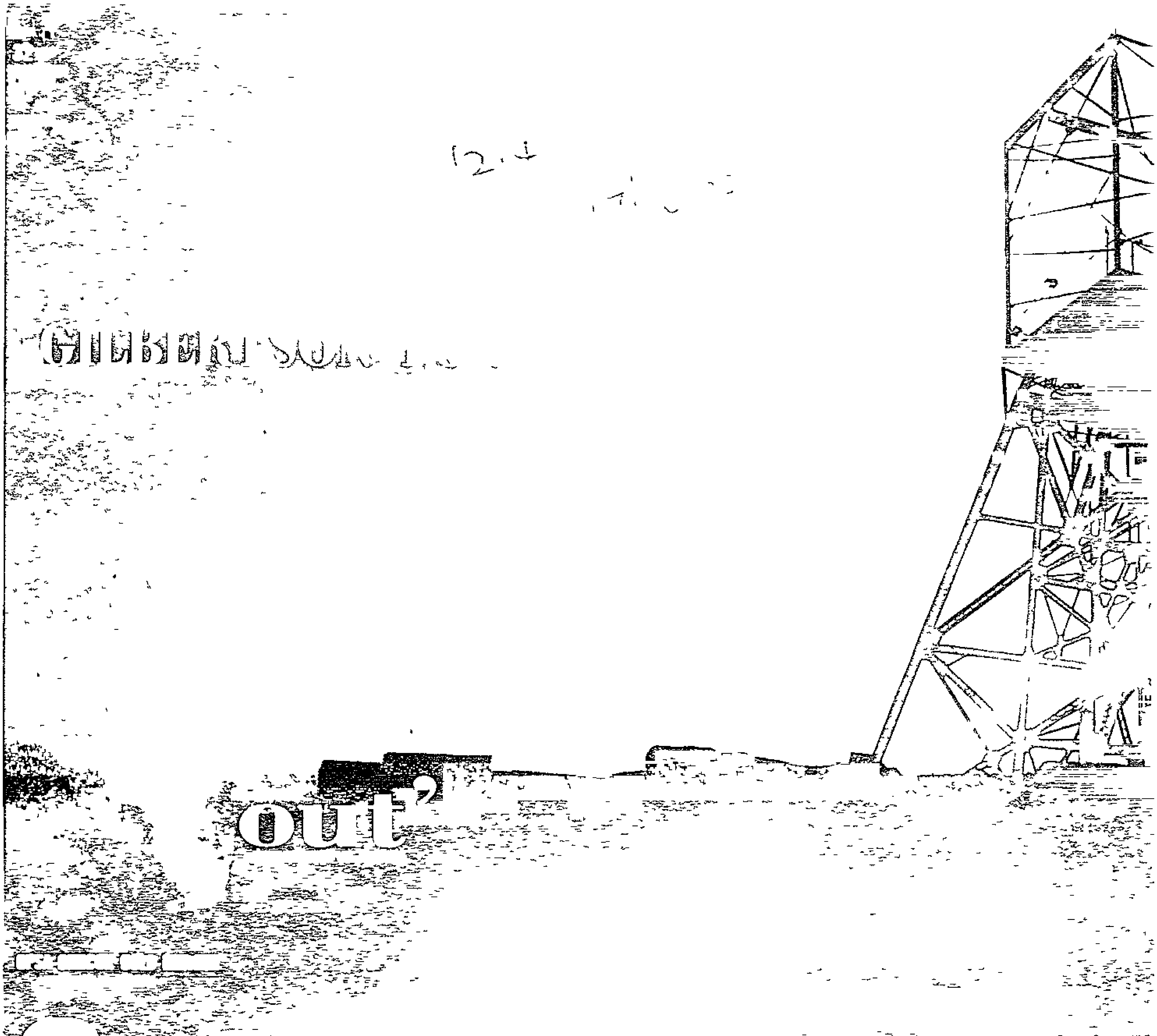
Wright says these operations should achieve critical mass and be "set free" or they will be disposed of

GF Coal is a case in point Had its R1,5bn offer for JCI's Tavistock coal division been accepted, it would have achieved that critical mass JCI rejected GFSA's offer in favour of Lonrho, but Wright questions the status of that deal

"They turned us down because they said they had a deal with Lonrho But in two months since then we have finalised the far more complex arrangement with Gencor from scratch while JCI has yet to announce it has reached final agreement with Lonrho," he says

The scene is set for a series of deals linked to this core Gencor-GFSA alliance to form Goldco The ripples should keep the lawyers, accountants, merchant bankers, project finance consultants and all other such corporate "vultures" very busy people indeed Brendan Ryan





Grabbing centre

The Gencor-Gold Fields of SA link-up to create Goldco is the first in a series of deals still to come that will reshape the SA mining industry There will now be a hiatus of several months while the nuts and bolts of the Goldco deal are assembled But given the stated objectives of the merger's architects, it's clear not all the assets being put into Goldco will remain there

It seems certain that the holding structures for Goldco will be altered radically as both Gencor and GFSA pursue their own destinies shorn of their gold interests Gencor and Goldco chairman Brian Gilbertson is intent on setting Goldco free as an autonomous operation

Given that the share ratios for the participating gold mines have already been set, the stocks that investors should watch most closely are those of mining houses GFSA and Gencor

So far they have shown only lukewarm responses to Friday's announcement Gencor gained 40c or 3,5% to R11,70 at Monday's close, while GFSA rose a mere 2% to R101 Both shares remain at hefty discounts to net asset value (NAV) — more than 20% In Gencor's case, Gilbertson's sworn aim is to change this

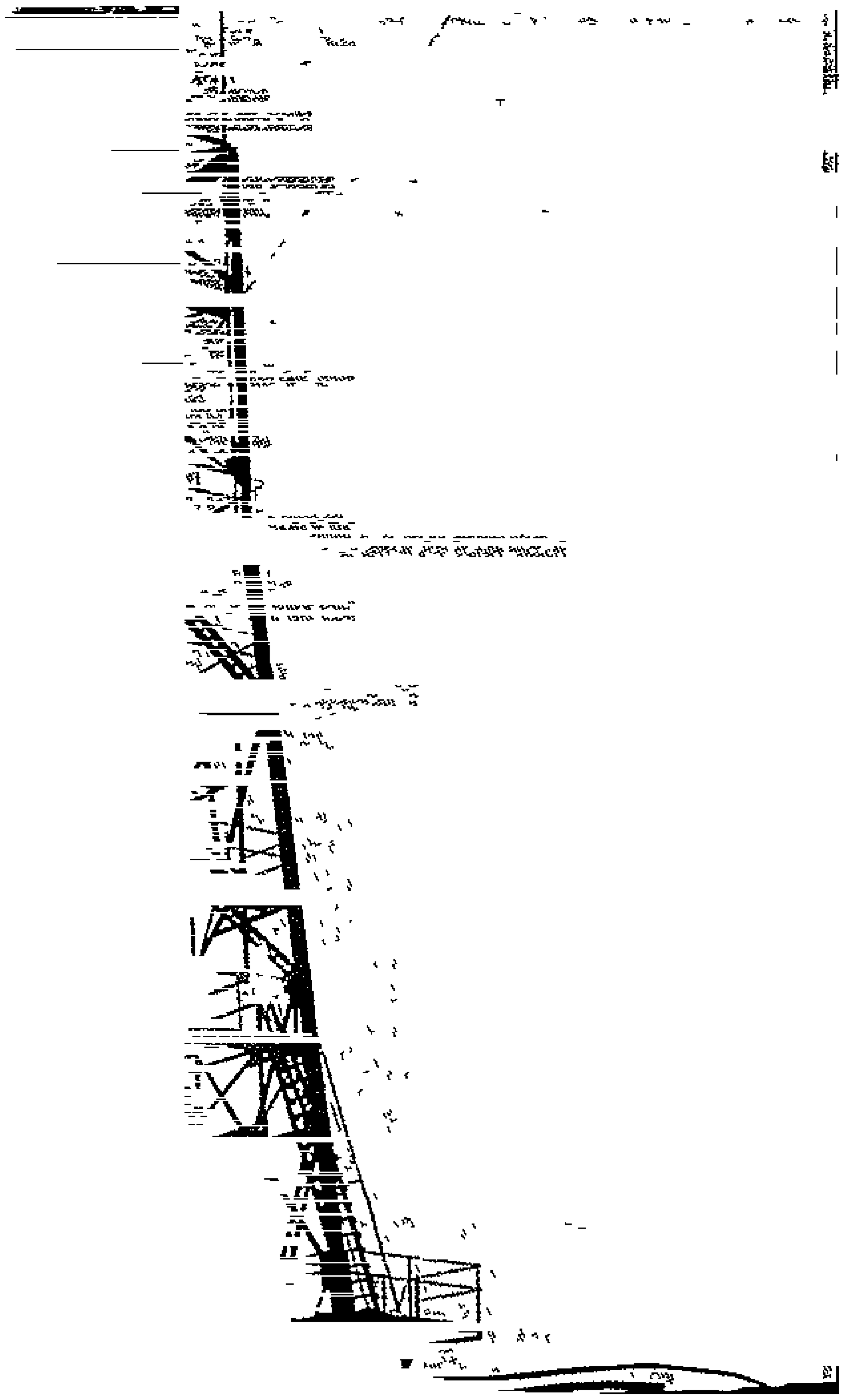
One share which has reacted strongly but still looks undervalued is GFSA-controlled mining holding company New Wits, which gained 130c or 10% on Monday to close at R14,60

New Wits holds gold mineral rights in the Lekkerlewe block in the southern Free State Chairman John Hopwood says the geological evaluation shows that gold grades are better than expected but the resource is not large enough to support a stand-alone mine

The exploitation of this resource moves a big step closer to reality through the creation of Goldco

(214)

FM 17/10/97



stage

This is mainly because the consolidation into one operation of Gencor's existing gold mines — Beatrix and Oryx — and its own southern Free State mineral rights holdings, along with those of GFSA at Lekkerlewe and the Sand River, is a top priority

The clear winners in this deal are Rembrandt, Gencor and Nail — the latter if it decides to exercise its option to buy between 5% and 10% of Goldco GFSA also benefits, though some analysts believe the house is paying a high price for what it acquires from Gencor, given the marginal status of Gencor's Evander gold mine

On the other hand, there is also a feeling that Gencor has its work cut out to turn around the situations at GFSA's huge Driefontein and Kloof operations

The most significant loser, admittedly at this early stage, seems to be JCI, which is a nonparticipant in the deal JCI executive director Brett Kebble had ambitions to negotiate a southern Free State megamine with Gencor on terms that favoured JCI's "quality" gold arm created from the merger of Joel with Western Areas

It now seems that opportunity is gone Joel is contiguous with Gencor's Beatrix and, while a Beatrix-Joel merger could still make sense, it may not further Kebble's broader game plan for JCI

Some analysts think that investors are being penalised by yet another reduction in the choice of investment vehicles Six listed gold mines — Driefontein, Kloof, Beatrix, Evander, Oryx and St Helena — are disappearing to be replaced by one

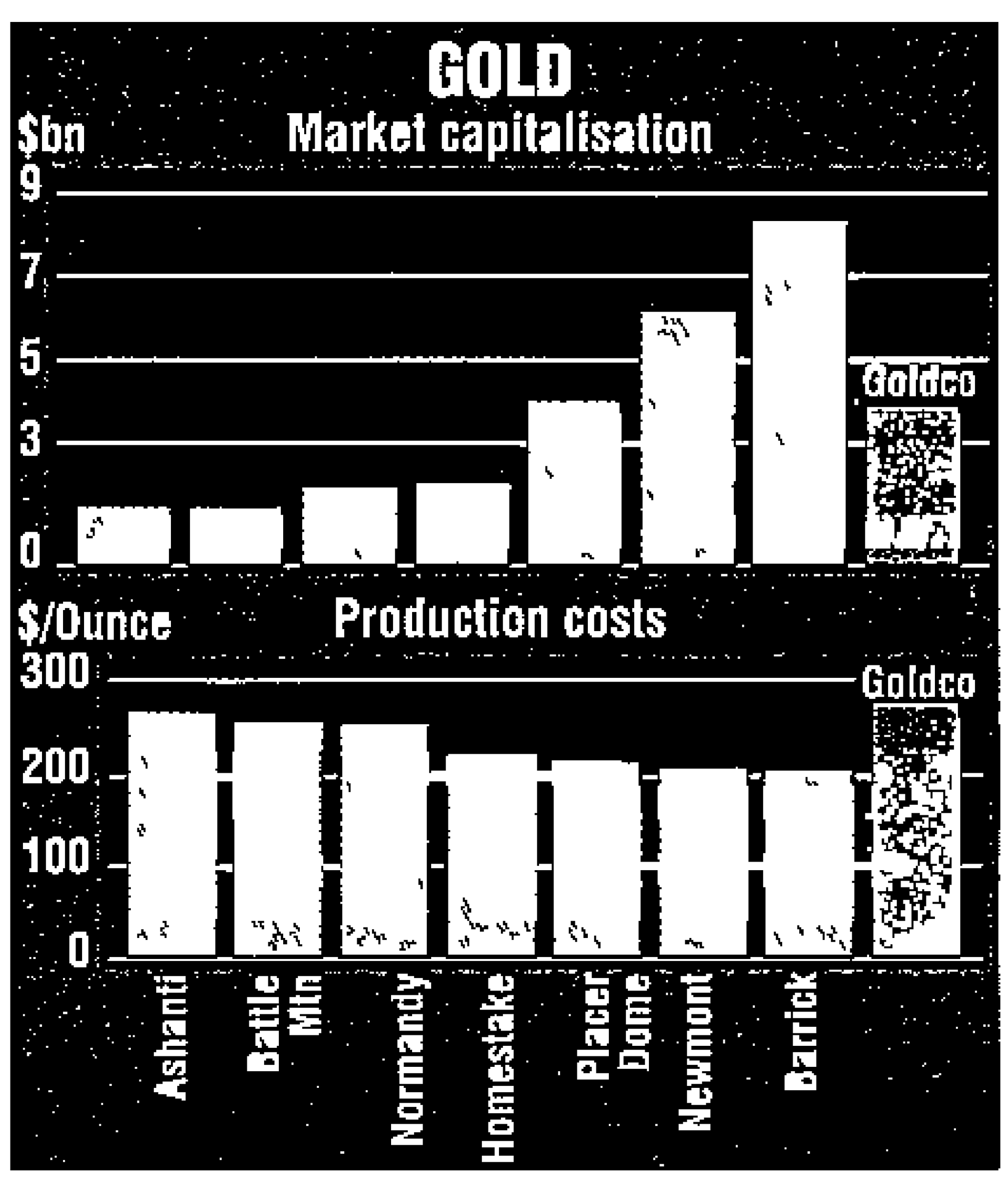
The counter argument is that Goldco will achieve a far higher investment rating and so deliver value to investors

The company will be the world's largest gold producer, based on attributable annual production of 4m oz and total mineable reserves of about 120m oz

It will be the exclusive vehicle for the gold business of Gencor and GFSA With a market cap of R17bn, Goldco will have the kind of tradeability that international investors look for That provides the justification for Gilbertson's quip at Friday's presentation — "Barrick, (the top-rated Canadian gold producer), eat your heart out"

This assumes the new management delivers the promised goods to revitalise GFSA's troubled mines and achieves the anticipated rerating The hoped-for reratings of other merged SA gold producers such as Evander and Avgold have yet to materialise

Rerating, achieving the higher levels of price earnings ratios applied to international gold companies in the market, has become a holy grail to SA producers as they seek to lure foreign capital and expand The key lies in cutting the cost of producing an ounce of gold, increasing market capitalisation and liquidity, and demonstrating an ability to grow earnings over the long term



SOURCE GFMS ANNUAL REPORT

Analysts stress that to achieve the rerating it needs Goldco is probably going to have to pull off a major international gold project Such an effort would be over and above existing projects abroad GFSA's Tarkwa mine in Ghana and the ventures being explored by Gencor's international gold arm, El Dorado

The biggest imponderable concerns the reaction of Anglo American Corp to the deal This will involve not only financial considerations, but corporate egos

Anglo and GFSA do not have a happy history This dates back to the bitter feud over control which led to the creation of the present structure through which GFSA controls itself, in partnership with Rembrandt, through Asteroid

That incestuous relationship will be terminated through the Goldco deal Anglo viewed Asteroid as a deliberate ploy by GFSA chairman Robin Plumbridge to stymie its plans to acquire GFSA in the Eighties It is possible Anglo could take the same jaundiced view of Goldco

Anglo is the largest shareholder in GFSA, holding 26% of the group, yet it was informed about the deal only one day ahead of the official announcement

Anglo public affairs consultant Michael Spicer says the group is still assessing the Goldco proposals

On the positive side, Anglo could go along with the deal because, if Goldco performs, Anglo will at last get some returns on the funds it ploughed into buying its GFSA stake

On the other hand, it could try to obstruct the deal on the grounds it does not suit Anglo's long-term interests, which include bringing Driefontein into a megamine involving Western Deep Levels (WDL) and Elandsrand

Anglo has already shoved its oar into GFSA's affairs for strategic reasons GFSA and JCI sources confirm the two groups negotiated a similar deal to Goldco early last year It was known as "Project Manhattan" and it involved a merger not only of their gold interests but also of coal and base metal assets The proposal was knocked on the head by Anglo, which at that time still controlled JCI

Both Gilbertson and GFSA CE Alan

Wright say they hope Anglo will see the value in the deal and approve it But they also say Anglo cannot block Goldco despite its 26% stake in GFSA

"GFSA shareholders are not being called on to vote in this deal It does not involve a significant change in the group's operations because the assets are not being disposed of They will simply be held in a different way," says Wright

If Anglo does object it will do so through Driefontein, which is why the cautionary notice formally announcing the merger says the vehicle for the formation of Goldco will be either Driefontein or Beatrix and provides share ratios for each

A 75% vote in favour will be required from Driefontein shareholders present at the meeting to approve the arrangement

Anglo has built up its stake in Driefontein

Continued on page 35

MERGING ORGANISATIONS

Getting it right from scratch

If there's a make or break issue in the GFSA-Gencor tie-up it is the new management structure where two different management styles and corporate cultures must be merged successfully

Both Gencor chairman Brian Gilbertson and GFSA chief executive Alan Wright are acutely aware of the pitfalls How they handle them will affect how quickly the market rerates the shares

It's a potential minefield Unless a strong, united management approach is created with full backing from both organisations, there is ample scope for internecine corporate warfare to protect entrenched interests

"Goldco chief executive Richard Robinson faces a huge challenge in bringing together the two management cultures," comments Gilbertson

"We must work together with Gencor in the merger It cannot be a case of them and us," says Wright

The market's view is Gencor needs GFSA's mines to boost the quality of its gold portfolio and GFSA needs Gencor's new management approach

Gencor has already been through the mill in terms of adapting to the SA industry's fundamentally changed circumstances Staffing has been cut and restructured at head office

With its rich orebodies GFSA has, until recently, been able to delay the kind of actions taken by Gencor and Randgold

The market's case against GFSA management rests on the serious underperformance of its two flagship mines — Driefontein and Kloof — despite these being arguably the two richest mines in SA

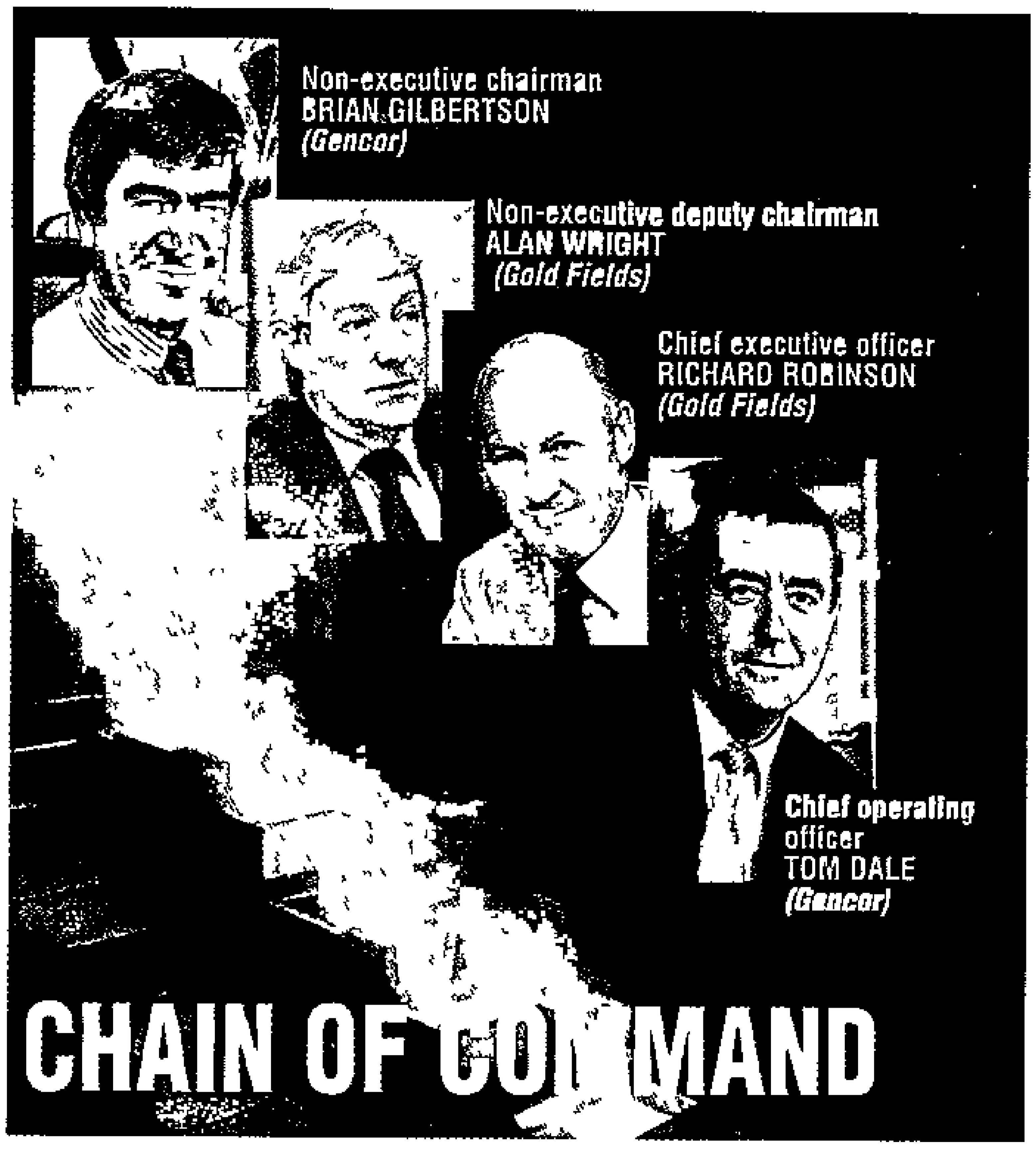
The Goldco structure appears to give Gencor the whip hand in running the combined group's mines but it is also a balancing act aimed at keeping everybody happy (as far as possible)

Gilbertson is the non-executive chairman and Wright the non-executive deputy chairman

Chief executive officer Richard Robinson is from GFSA and the chief operating officer is Gengold MD Tom Dale Nick Holland, a senior manager in Gencor's corporate finance division, becomes chief financial officer

The last member of the Goldco top management is Clive Wolfe-Coote, GFSA's new business director, who becomes new business director The four will sit on the board as executive directors

Dale will be responsible for the running of Goldco's SA mines He has more "hands-on" mining experience than Robinson, having worked at JCI's Western Areas mine before moving to the JSE as an analyst and then returning to the mining industry with Gencor



"A huge responsibility rests with Tom Dale to deliver in this deal by getting GFSA to accept and follow the Gencor vision for running gold mines," comments an analyst

Robinson's background is that of a management generalist with widespread experience in various sections of GFSA, which has made a policy of shifting its top executives around

Both Wright and Robinson indicate the integration process will be made easier because GFSA has already instituted reforms "We had already started down this road, identifying what were core assets and functions, what should remain in-house and what should be contracted out The merger with Gencor will accelerate this process," says Wright

Comments Dale "We have the opportunity to structure Goldco correctly from scratch in terms of organisation and staffing"

Robinson echoes the principle of starting from scratch to find the best management system "I would see Tom Dale and myself sitting down with a relatively clean sheet of paper with the intention of pulling out the best aspects of each organisation"

One of the ways of encouraging top performance will be through incentive-based remuneration packages which would redress a long-standing shortcoming at GFSA

Says Gilbertson "The aim of the management is to unlock considerable value for shareholders I will be disappointed if we do not realise that aim and the management incentive schemes will be structured accordingly" Those who make the grade will be paid handsomely, but experience at Randgold, JCI and Gencor indicates there could be a heavy attrition rate at head office

Brendan Ryan

Gold no longer the basis of Western wealth, says Anglogold

(214) ET (BR) 24/10/97

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Anglogold, the world's largest gold producer, has reversed its traditionally upbeat outlook for gold, saying yesterday that the metal had lost its role as a store of value in the developed world

Kelvin Williams, Anglogold's marketing director, said gold had largely shed its role as the basis for money creation in Western and developed economies but had retained this role in developing countries in the East.

"This has exposed the metal to negative sentiment in developed economies, where speculators and investors view gold simply as a commodity with a significant supply-side imbalance in the official holdings of the metal," he said

Anglogold is normally positive about the prospects for gold but stressed that "overall sentiment continues to be strongly and negatively influenced by stocks and flows of the metal"

Williams argued that the link between central bank gold sales and the sentiment of investors and speculators in developed countries was "a real one, and needs to be addressed" He added that any rally in the metal in the last four years had displayed "no follow-through buying interest".

Bobby Godsell, Anglogold's chairman, said yesterday "Since the first quarter we have been concerned about the gold price and continue to be frustrated by sentiment in the market"

"Yes, there is 35 000 tons sitting in bank vaults But there is no indication of panic sales and the sales that have taken place have been absorbed by the market. However, we are worried about the currency turbulence in Asia and the economic downturn in these important markets for gold jewellery," Godsell said.

But he stressed that markets in Asia that were growing continued to perform well

☐ Business Watch, Page 16

Productivity lifts Anglogold's profit

David McKay (214)

BD 24/10/97

ANGLOGOLD, Anglo American's gold division, reinforced its position as SA's leading gold mining company yesterday, posting a 7% increase in available profit to R236m in the September quarter

The results come as rival companies struggle to make profits out of the poor gold price, low productivity and wage-related costs Yet Anglogold's results, expected by analysts to provide 60% of the SA industry's profits in the September quarter, were achieved on increased gold production, contained costs, higher productivity and an aggressive hedging policy.

CEO Bobby Godsell described the results as "good", but BoE Natwest gold analyst Gerard Kemp said the performance was "outstanding"

The group's six mines, which included one of the world's largest producers, Freegold, were easily among SA's top eight best-performing mines, he said

"Anglogold is definitely leading the way We are not talking about shallow mines either," Kemp said

Société Générale Frankel Pollak's Trevor Pearton said the group's well-managed hedging strategy had been used to full advantage

Some of SA's mining groups refused to hedge on the gold price, preferring instead to gain full exposure to the upside However, Anglogold's hedging had enabled it to receive a gold price R5 000/kg above the spot price

On the downside, Godsell said the group had decided to mothball two Freegold shafts, President Steyn Nos 1 and 2, following aborted attempts to sell the operations A third, President Steyn No 5 shaft, would be operated on a reduced scale.

He confirmed that Vaal Reefs was in talks with a black empowerment mining company to sell shafts Nos 1-7

Aggregate cash operating costs fell 3% to $285/oz, still above the internationally recognised benchmark of $250/oz, but "the group is getting there," Kemp said

See Page 17

COMPAN

Lonrho Sugar acquisition increases profit share of downstream products in rand terms

Buyout is icing on Illovo's year

ET(BE) 5/11/97 SUGAR

SHIRLEY JONES
KWAZULU NATAL EDITOR

Durban — Illovo Sugar's acquisition of Lonrho Sugar would be viewed as the highlight of the past financial year, Don MacLeod, Illovo's managing director, said last night

Illovo posted a 45 percent rise in attributable profit yesterday to R221,9 million in the year to September 30 With a capital expenditure budget of R220 million (R135 million) for the year to come, Illovo would not be daunted by the acquisition of Lonrho Sugar, MacLeod said

During the period under review, headline earnings rose 53 percent to R196,7 million, turnover was up 50 percent at R2,65 billion and operating profit was 92 percent better at R399,1 million. Pretax profit rose 89 percent to R350,9 million Illovo declared a dividend of 40c (32c) a share

SPARKLING FORECAST *Don MacLeod, Illovo's MD*

MacLeod said earnings growth had been in line with forecasts at half-year and at the time of the Lonrho acquisition

With the acquisition came a dramatic change in the contribution to operating profit In 1996, 63 percent had come from sugar manufacture, 29 percent from downstream products and 8 percent from cane growing, This contribution ratio had shifted to 58 percent from cane manufacture, 17 percent from downstream products and 23 percent from cane growing

However, while the profit share of downstream products had diminished, it had grown in rand terms, MacLeod said. Whereas all Illovo's profit was drawn from South Africa last year, this year 19 percent came from Malawi, 12 percent from Swaziland and 9 percent from Mauritius

Another significant change came from foreign exchange earnings, which escalated to 34,5 percent of turnover MacLeod said this figure was expected to grow to 40 percent of turnover which, in turn, was expected to also increase materially

Net financing costs grew significantly from R22,2 million in 1996 to R48,2 million in 1997. However, this was the cost of achieving the increases reflected in the current results and more material growth in years to come Borrowings expanded from R261,6 million to R1,03 billion

MacLeod said he expected a reduction in debt and the group's interest burden, to be synchronised with expansions in South Africa, Swaziland and Malawi.

Gold industry swings back into profit

ET(BE) 5/11/97 (014)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — South Africa's gold industry swung back into profit in the quarter to September after the first ever loss in the quarter to June

Cost containment and higher gold production added to the bottom line, which should result in even better results in the quarter at present, analysts said

Hedging also had a significant effect on profit, with the restructuring of the Western Areas' hedge providing a large boost to profit in a weak gold price environment

"There was a big turnaround and the December quarter will be even better, providing a hell of a lot of gearing," Nick Goodwin, a gold and mining analyst with Fedsure Asset Management, said yesterday

"This always happens, there are a bad few quarters and then the restructuring starts to kick in," Goodwin said

The industry produced a profit of R51,48 million from last quarter's loss of R149 million Pretax profit was increased from R721,6 million to R790,33 million, and gold profit rose from R728,98 million to R875,25 million This was despite a depressed gold price, when the average gold price received was $324, or R1 502, an ounce

Goodwin said operational results were better and there had been a "big turnaround at JCI's Western Areas and Randfontein because of the hedging policies of the companies"

Gold Fields' performance was down on last quarter, but was forecast to do better in December Randgold was also down but was scheduled to improve, as was Avgold At JCI there were much better results, but a question mark remained over Gencor's performance Anglo did well and was expected to do better next quarter

Gold Fields' earnings fell from a loss of R38,15 million last quarter to a further loss this quarter of R61,91 million, a 62 percent fall on the June quarter and a 183 percent fall on last year's results

Randgold's earnings were 1 percent lower on last quarter, down from a loss of 147,7 million to R149,62 million. This is a massive 584 percent fall on last year

Avgold did better, losing R39,39 million — a 26 percent improvement — but was 182 percent down on last year But the group announced better projected output for its Target mine, scheduled to come on stream in 1999

Gengold saw earnings fall by 102 percent, from a profit of R60,58 million to a loss of R1 million

JCI was the largest turnaround, with a loss of R234,6 million to a profit of R12,32 million This is an improvement of 105 percent on last quarter and a R363 million boost on last year

Anglogold, as always the best performer, pushed earnings up 12 percent to R300,83 million But on a yearly basis, Anglogold profit was down 22 percent

For the industry, the numbers were better "Gold production was up nicely, as was gold profit," Goodwin said "Costs were unchanged mainly because gold production was up and costs well contained. Capital expenditure, however, was restrained, as it always is during a difficult period"

Soon there may be 'just eight gold mining firms'

BD 11/11/97

CONTINUED restructuring to compete internationally could see the number of listed SA gold mining companies shrink to eight from the current 19 within a year, brokers Simpson Mckie James Capel said yesterday.

(214)

"It really is a positive thing. We are going to end up probably with eight listed gold mining companies effectively which will be larger vehicles," said Simon Village, Simpson Mckie James Capel gold analyst.

Other local gold analysts agreed, but declined to put a number on how many listed gold companies would remain.

"We will have fewer mines by the end of next year. Because of Goldco and because of Western Areas and Joel, the number of listed vehicles will be a hell of a lot less," said BoE Natwest gold analyst Gerard Kemp.

Analysts said that recent mergers and acquisitions were changing the face of SA's mature gold mining industry, helping to cut costs to compete with much cheaper, less labour-intensive mines elsewhere.

Key mining houses Gold Fields of SA and Gencor surprised the markets with an announcement last month that they planned to merge their gold operations to form the world's biggest gold company — Goldco

Also prominent was the recent announcement by black-owned mining house JCI that it planned to merge its Western Areas Gold Mining Co with its HJ Joel Gold Mining Co

Earlier this year Anglo American Corp announced its Elandsrand would acquire Gold Fields's Deelkraal.

Village listed the eight listed vehicles likely to survive Goldco, Vaal Reefs, the world's biggest gold mine Freegold, Harmony (which is likely to snap up other marginal mines), Avgold, Durban Deep, a West Witwatersrand company (in Anglo's stable) and Western Areas (including Joel)

While analysts said this industry-wide restructuring could be completed by the end of next year, they emphasised that the timetable was dictated by the bullion price

"It all depends on where the gold price goes because that's what is driving and forcing the timetable at the moment But I would think that in a year's time we'll have the whole industry restructured on that basis," Village said —Reuter.

Anglo blocks plan for Goldco vehicle

BD 14/11/97

~~910~~ (914)

David McKay

GOLD Fields of SA's (GFSA's) plans to use Driefontein Consolidated as a vehicle for its proposed R17bn gold asset merger with Gencor was blocked by Anglo American yesterday, which analysts said could be a body blow to the merger proposal

Attention now switches to Gencor gold company Beatrix which will attempt to step in as the merger's alternative listed vehicle It is due to hold a shareholders' meeting on Monday

At an exceptional general meeting, Driefontein Consolidated asked shareholders to approve the increase of its authorised share capital from 220-million ordinary shares to 700-million ordinary shares.

But 30% of the voting shareholders, led by Anglo American, vetoed the special resolution after an Anglo representative's request for an adjournment of the meeting was turned down

An Anglo spokesman said the corporation had opposed increasing Driefontein's share capital because it did not have enough information "It is essential that shareholders be advised of all pertinent details of the entirety of the transaction so that a proper evaluation can be made," he said

However, GFSA CE Alan Wright said Anglo American had "more than enough" information It was using this as "an excuse" to vote against using Driefontein for Goldco, the company to be formed by the merger

Analysts expected further fireworks on Monday as Anglo American had probably bought enough Beatrix shares on the open market to oppose extending Beatrix's share capital About 6-7-million Beatrix shares have been traded in the past two weeks, possibly by Anglo and JCI which could also have an interest in blocking Goldco

Anglo has already thrown cold water on Monday's meeting, saying it created uncertainty about the eventual structure of Goldco

Anglo had long coveted the proposed Goldco asset, Driefontein gold mine, while JCI wanted to merge Beatrix with its contiguous HJ Joel, one analyst said

Investec's Dean Cunningham said GFSA and Gencor had certain options, but Anglo's opposition threw the logic of the Goldco deal into relief "What value is actually being added?"

Gencor chairman Brian Gilbertson said Goldco would proceed as planned either using Beatrix as a vehicle or a third company which he declined to name Goldco had "the best potential to add significant value for all the shareholders in the companies involved"

Requiring a majority of 75%, about 30% of Driefontein Consolidated's shareholders, representing 48,6-million shares, opposed the resolution The voting register showed Anglo controlled about 29,7-million of the shares which voted against through Anglo American Gold Investment Company (25,3-million shares) and Anglo American Corporation (4,4-million shares)

Wright discounted bringing a third party into the Goldco proposals in which Anglo could win a share of Driefontein "They have to face the fact that no deal is possible," he said

GFSA and Gencor announced last month proposals for merging their best gold assets in a R17bn company provisionally called Goldco It would be the world's largest gold producer, controlling some of SA's top gold mines

MINING *Anglo defeats deal to make Driefontein the vehicle for gold colossus*

Goldco bloodied but unbowed

CT(BR) 14/11/97 (214)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — The creation of the world's largest gold company, Goldco, was dealt a strong blow yesterday as mining house Anglo American voted against the deal, arguing that not enough information had been given to shareholders.

At an extraordinary general meeting (EGM) convened yesterday to expand the capital base of Driefontein and enable it to become the vehicle for the merger of Gold Fields' and Gencor's gold mines, the motion was defeated.

Anglo, which holds 15,1 percent of Driefontein, said "Shareholders must be provided with all the relevant information. A similar meeting has been called at Beatrix for the same purpose, and we believe this is causing uncertainty as to the intended structure."

Brian Gilbertson, Gencor's chairman and the proposed chairman of Goldco, said "Everything is still on track and this was not an unanticipated development. We are trying to create an autonomous company responsible to its own shareholders. This is a substantial break with tradition and fits in well with the new South Africa."

Analysts said the Anglo move was a thinly veiled blocking action designed to scupper the use of Driefontein and derail the merger. A similar move by Anglo is expected at the Beatrix EGM on Monday and this would block both proposed routes to the merger of the gold mines.

At least 75 percent of the shareholders needed to vote for the recapitalisation of Driefontein. At a well attended meeting, 69 percent of shareholders voted for the motion. Just over 30 percent voted against.

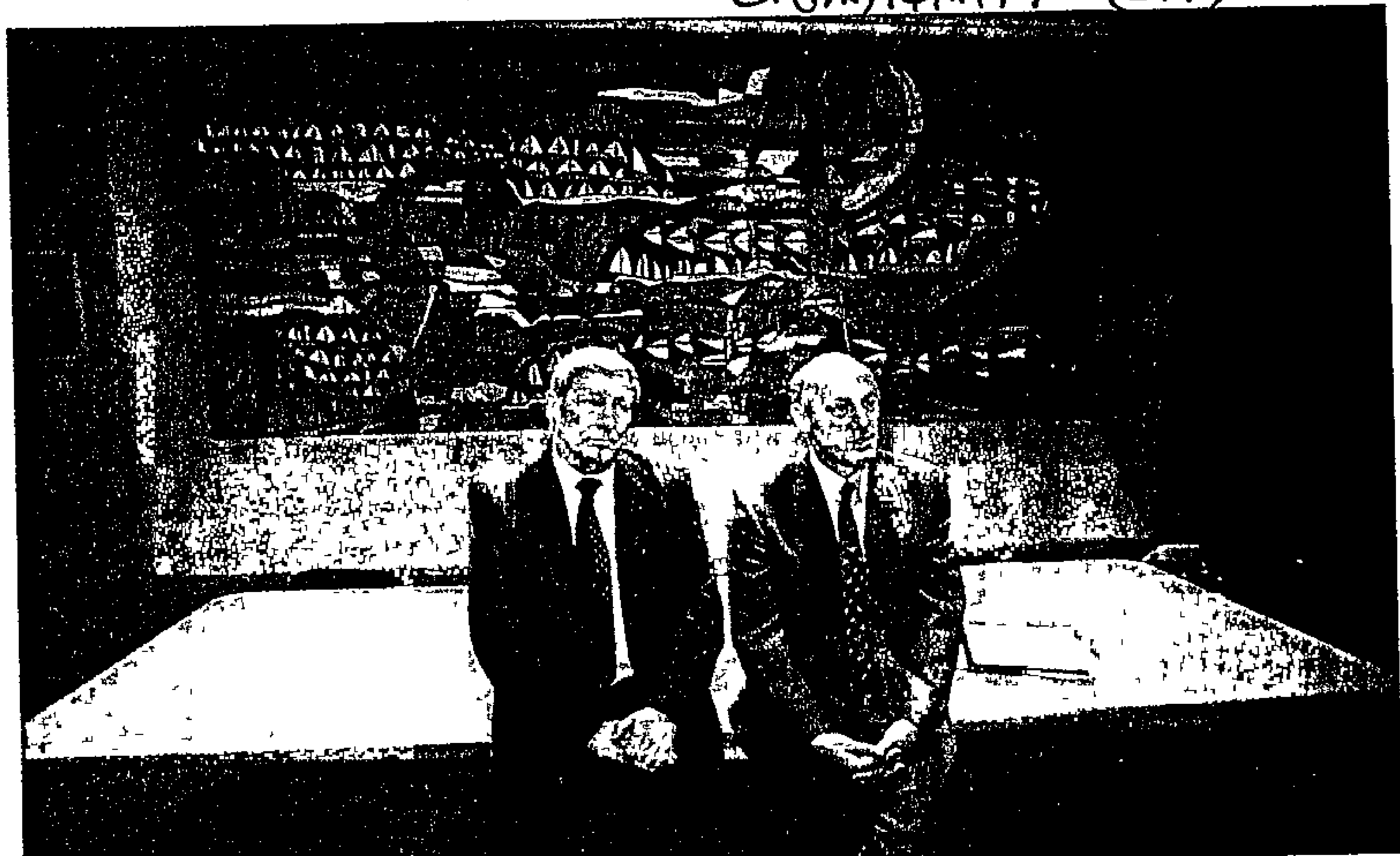
"We are disappointed, but a vast majority of shareholders were in favour of the scheme. But this will not stop us even though Driefontein can't be the vehicle for the merger any more," said Alan Wright, the deputy chairman of Gold Fields.

Wright said "We must face the fact that probably we will not be able to reach agreement with Anglo."

Richard Robinson, the proposed chief executive of Goldco, said "We will now look for a third vehicle for Goldco and this may be a new company."

Anglo declined to comment except to confirm that it had voted against the Driefontein motion.

□ Business Watch, Page 14



BETWEEN BATTLES *Alan Wright, the deputy chairman of Gold Fields, left, and Richard Robinson, the proposed chief executive officer of Goldco, ponder their next move after yesterday's defeat. Anglo is expected to block the use of Beatrix on Monday.* PHOTO: JOHN WOODROOF

Merger 'will not be derailed'

ANDI SPICER

Johannesburg — The blocking of Driefontein by Anglo American as the vehicle for the Goldco merger between Gencor and Gold Fields gold mines would not derail or delay the deal, the companies stressed yesterday.

But the result of yesterday's vote would force the companies to seek other routes to merging their gold mines, which could take more time and be more expensive, said analysts.

Executives at both mining houses expressed disappointment but said the move was expected and alternative ways to constitute the merger were in place. It is widely believed that the Beatrix extraordinary general meeting on Monday will produce the same result as the Driefontein motion.

"The timetable is still working, and we will still be able to create value for shareholders in a focused gold company with quality mines," said Brian Gilbertson, Gencor's chairman.

The next move after the Beatrix meeting, if another "no" vote is produced, is either to find an existing company within Gencor or Gold Fields to house Goldco or create a totally new company.

"It would only take three days to register a new company, or we could take a dormant company already held within Gold Fields or Gencor," said Alan Wright, the deputy chairman of Gold Fields.

Wright said within the last two weeks 5 million to 9 million Driefontein shares had been bought by an unknown buyer.

Gold crashes, plunging key SA industry into uncertain future

ANDI SPICER ARG 15/11/97

(214)

Johannesburg – Gold crashed yesterday, confirming the nightmares of South Africa's gold industry which faces an uncertain future as the price of bullion for many mines is now below the cost of mining the metal.

Gold slipped badly to US$301,75 an ounce in London yesterday afternoon and then fell below $300 in turbulent trading in New York. "From here the sentiment is down below $300 to $280 an ounce, and the trend has been like this for the past 10 days because when Asia closed and Europe's morning ended, the US market sold gold down," said Barry Sergeant, an analyst with BoE NatWest.

The Johannesburg Stock Exchange slumped on the news as the all-gold index closed down nearly 4,5% and the all-share index ended just over 2% down.

Big losers on the JSE were the large mining houses, such as Anglo American and its gold division Anglogold, and Gold Fields and Gencor. Mining houses like Randgold, JCI and Avgold, which tend to have high-cost gold mining operations, will now appear shaky if the bullion price slump continues, believe analysts. Mr Sergeant said gold shares could be oversold and that the dip in values could be overblown, particularly in those gold companies that had interests in non-gold industries, such as Gold Fields.

Gold has been weaker in the past few weeks because the Swiss government has been advised that it could sell almost half of its 1 400 tons of reserves after a referendum in 1999.

The Swiss announcement hit the value of bullion because Switzerland has been one of the most ardent supporters of holding gold in central banks to underpin national currencies. Under Swiss law, the franc must be backed 40 percent by gold in reserves, but this could be downgraded to 25 percent in 1999 if an attempt to change the law is successful.

The 1 400 tons represents half of the European country's gold reserves and about two-and-a-half years of South Africa's production.

But the latest bump was caused by the German Bundesbank confirming it had started to lend significant amounts of its bullion reserves into the market. This sent shivers through the gold market.

See Personal Finance Inside

Goldco's future in doubt as mining houses square up

ST(BT) 16/11/97 (214)

MINING MERGER

By JULIE WALKER

THE world's largest gold mining company — the proposed merger between Gold Fields of SA and Gencor — received a few body blows this week as SA's major mining houses squared up in a rare shareholder revolt

But the proponents of the merged mega-company Goldco, including Gencor chairman Brian Gilbertson, are confident that the deal will go ahead, albeit in a changed structure

GFSA subsidiary Driefontein was to be the vehicle used to house the new structure But with hindsight Driefontein chairman Richard Robinson might have wanted to retract his opening comments at the shareholders' meeting on Thursday about how pleasing it was to see so many people interested

Indeed, the turnout was grand about 160-million of the 220-million Driefontein shares in issue were represented in a special meeting to authorise the deal

Robinson's pleasure dispersed when the motion was defeated Anglo American voted its 15 1% block against and was supported by enough Driefontein shareholders to prevent the GFSA and Gencor camp from attaining the 75% necessary to pass the resolution

Anglo's objection was voiced by Peter Arthur who said it needed more information to make an informed decision

Perhaps Anglo was too polite to say GFSA management had failed to get the best out of Driefontein and that no improvement could be expected via Goldco

Gilbertson begs to differ "Gencor has the lowest-cost gold mine in Beatrix and we believe that GFSA's Kloof and Driefontein mines could be run at low cost too Goldco has the potential for huge cash flows, even at today's prices," he said in an interview on Friday

Beatrix is the first backstop as a vehicle for Goldco and members will vote tomorrow in what could be a close-run contest as Anglo has been buying Beatrix shares

Full ownership of Driefontein looks remote "We will have to be satisfied with only 36% of Driefontein, but I'd be very surprised if we did not find a substantial portion of the minority voting in favour of Goldco because the deal makes so much sense I hope Anglo American will accept," says Gilbertson

Other parties are watching JCI's Brett Kebble says any rationalisation in the gold-mining industry should incorporate obvious synergies such as contiguity, where shafts, plant and other infrastructure could be put to optimal use

Gilbertson disagrees "I would prefer to see geographical diversity — one mine in Ghana, another in Peru This is the first focused SA gold company to get away from the lease-area mentality — a big criticism of international investors "

The Goldco proposal has galvanised the industry into action Kebble notes this golden opportunity to redraw the farm boundaries "We should all be sitting down and talking to each other "

He would like to see co-operation between JCI's Joel and its neighbour, Beatrix, and JCI's Western Areas and its near-neighbour, Kloof Anglo undoubtedly covets adjacent Driefontein as part of a greater Western Deep Levels operation

Kebble adheres to quality-gold and quantity-gold assets — the proposal at JCI is to merge Western Areas (south) and Joel into a single quality company and to use Randfontein as the vehicle for Western Areas' north division and Lindum Reefs

Randfontein might offer a home to others such as Libanon and Venterspost, currently housed in Kloof But mixing blue chips with battlers does not add up for Kebble "Why should Beatrix shareholders want to buy St Helena and Evander?"

SA mining industry 'still a closed shop'

(214)

ST (BT) 16/11/97

MINERALS AND ENERGY

By KENNETH GOODING

CONTROL IN MINING SOUTH AFRICA SLIP

% of total value of non-fuel minerals in the Western world

COMPANIES	1975	1985	1994	1995
Anglo American	12.7	10.3	6.3	6.5
Gencor	[illegible]	2.9	1.1	1
Gold Fields	2.2	2.8	1.8	1.5
Iscor	—	—	0.7	[illegible]
JCI	0.7	0.9	1.2	0.6
Anglovaal	1.2	0.9	0.6	0.5
Randgold	1.3	1.2	0.5	0.5
Other	0.7	0.7	0.2	0.2
TOTAL	22.1	19.7	13.3	12.5

Graphic FIONA KRISCH Source RAW MATERIALS GROUP

DRAMATIC changes in the structure of South Africa's mining industry in the past five years have concentrated power in even fewer hands — and it remains difficult for foreign groups to gain entry to a country with a treasure chest of mineral resources

This is one of the important conclusions in a new study by South Africa's Minerals and Energy Policy Centre — a think tank that has as its chairman Cyril Ramaphosa, the former secretary general of the African National Congress — and the Raw Materials Consultancy of Sweden

The study notes that most restructuring has been carried out by the South African industry itself "This is a sign of how closed the industry still is," it says "No corporate raider has been able even to enter the shop

"In part, this is due to the country's financial system that permits pyramid-ownership control arrangements through relatively small direct equity holdings "

The number of mining finance houses has fallen from six to four — Anglo-De Beers, Gencor-Gold Fields, JCI and Anglovaal Two are still family-controlled the Anglo group by the Oppenheimers and Anglovaal by the Hersov and Menell families This is "an extraordinary situation in international mining" , the study says

The four groups own much of the prospective ground in South Africa and until this is changed by new mineral legislation, foreign interest in the country will remain low, it suggests

The South African groups are spending most of their exploration and development money outside the country — another reason to raise capital

South African companies intend to spend about $400-million on exploration this year and, of that, $250-million will be spent in other parts of Africa — representing 40% of the global industry's expenditure on the continent

The study notes that in the past three years mergers and acquisitions involving South African companies have "reached proportions that will have a long-term, definitive influence on the global mining industry The South African industry might be down-scaling, but it is far from dead "

The study predicts that South Africa will remain one of the power centres of mining in spite of the problems

It says the most profound internal changes are being attempted by the mining groups, with initiatives to flatten management hierarchies, to reorganise work patterns and to improve the creation and application of skill "The true value of the changes in ownership will need to be judged by the extent to which they will accelerate or impede internal reorganisation "

TRIUMPHANT *(from left) Tom Dale, a Beatrix director, Alan Wright, Gold Fields' deputy chairman, Clive Wolfe-Coote, Gold Fields' general manager; Richard Robinson, the proposed chief executive of Goldco, and Brian Gilbertson, the chairman of Gencor*

PHOTO JOHN WOODROOF

Goldco is a step closer with Beatrix vote

(214) ET (BR) 18/11/97

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — The formation of the world's largest gold company, Goldco, came a step closer yesterday as Anglo American failed to block the use of Beatrix as a vehicle for the merger

"Today was very positive and a big vote It was also a large proportion of the capital of the company with virtually no negative votes," Alan Wright, the deputy chairman of Gold Fields and the proposed deputy chairman of Goldco, said yesterday

Gold Fields and Gencor said recently they were to combine all of their gold assets to form the new company

Shareholders in Beatrix, the Gencor mine, voted overwhelmingly by 99,95 percent yesterday to accept an increase in the share capital, which is the first step to using the company for Goldco This was a reverse of Thursday's events, when Anglo American and associated shareholders blocked a similar move on the use of Driefontein

Brian Gilbertson, the chairman of Gencor and the proposed chairman of Goldco, said "We were very confident that we would achieve the 75 percent needed in the Beatrix vote and there was clearly overwhelming support"

But analysts were undecided and argued that if Anglo wanted to muster support from institutions it could have repeated the Driefontein vote at Beatrix

The vote makes it likely that Beatrix will now be used, but Wright stressed that a third company, either a dormant one within Gold Fields or Gencor, or a new one, could be registered, to act as the vehicle for the merger

Richard Robinson, the proposed chief executive of Goldco said "The question now is what is behind all the market activity on Beatrix?" More than 10 million shares have changed hands in Beatrix over the past few days

The blocking of Driefontein still poses a problem for Goldco Minority shareholders, including Anglo, will have to be convinced of the deal and analysts believe that the no vote on Thursday was a way of applying pressure to increase any premium that now will be paid to these minorities

But if Anglo did not agree to the merger then a much smaller share of Gold Fields' gold mines would go into the Goldco pot, said analysts "We would like to see all of Driefontein, the whole of Kloof, as well as the mineral rights, which include Tarkwa, in Goldco," said Wright

☐ Business Watch, Page 20

Gold price drop could be last straw for some mines

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By Ryan Cresswell

Star 19/11/97

The latest fall in the gold price could be the last straw for several marginal mines and companies which supply and service mining companies, analysts have warned

The economies of mining towns, which depend on mines for their livelihood, will also be hit hard by the drop.

With the gold price trading at about $303 an ounce at most centres yesterday, some gold-watchers are predicting it could go as low as $250 within six months.

Chamber of Mines communications manager Llewellyn Kriel said secondary businesses that supplied or were contracted to mines would also suffer if the gold price did not rise fairly soon

"We are right down to the bones We can only speculate on the negative ramifications of a further sustained price drop on marginal mines "

Econometrix senior economist Michiel Bester said it was possible the price could drop as low as $250 over the next six months

"Clearly a further drop will be a blow to mines A further squeeze in profitability will also affect equipment suppliers and small contractors," he said

But he said an increase in jewellery and industrial gold could be stimulated by lower prices. China could also slowly emerge as a major buyer of gold in these two fields and this would help the situation.

Dr Jan Bredell, director-general of mineral development for the Department of Mineral and Energy Affairs, said the general economy was influenced by mineral prices

He also said there could be a need for "some retrenchments" if the price continued to drop

But Bredell warned against an alarmist approach and said the gold mining industry had survived many similar problems in the past

PERSONAL VIEW

(214)

Something got lost in Anglo's show of truth

ET (POR) 20/11/97

Of all the possible outcomes of the recent Truth and Reconciliation Commission (TRC) business hearings, perhaps the least expected was that business would engage in disingenuity and, in some cases, outright lies

When Sam Shilowa, the general secretary of Cosatu, accused business persons of "lying through their teeth", the tragedy is that this was not merely rhetoric.

Despite incisive questions from Commissioners Russel Ally and Fazel Randera, business was able to ply its untruths with impunity This raises a question that has lurked beneath the surface of TRC proceedings for some time is the TRC doing enough to ensure the honesty of testimony led before it, and what can the public do to assist the TRC?

All oral testimony led before the TRC is made under oath or affirmation Section 39 of the Promotion of National Unity and Reconciliation Act provides that "any person who wilfully furnishes the TRC, any commissioner or member with information that is false or misleading shall be guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding two years, or both such a fine and such imprisonment"

Prominent business persons have laid themselves open to charges under this section, and spirited individuals or organisations may well see fit to lay such charges

Take Julian Ogilvie Thompson, a leading executive of Anglo American

It came as a breath of fresh air when Anglo American's delegation admitted that white business benefited from apartheid and blacks did not But what got lost in the collective sigh of relief from the assembled media pundits was the "big lie" Anglo hid within its eye-catching show of truth — Ogilvie Thompson repeatedly said Anglo was "always morally opposed to apartheid"

This claim is false and misleading, as Ogilvie Thompson must have known According to Anthony Hocking, Harry Oppenheimer's approved biographer. "(Oppenheimer) never subscribed to the view that apartheid was morally wrong In his view, it was an honest attempt to deal with overwhelming racial problems "

By 1980, Oppenheimer embraced the power-sharing ideas of what he called "the reasonable people in the National Party" He agreed this would "shut out one-man, one-vote in a unitary state"

Upon Oppenheimer's retirement, Gavin Relly, his successor at Anglo American, pronounced himself "not in favour of one-man, one-vote in South Africa" because that "would simply be a formula for unadulterated chaos at this point in time in our history"

Again, in 1985, Relly said "I used to think, rather simplistically, when I was much younger, that really, why do we go with this bloody thing? Why don't we have one-man, one-vote and be done with it? I now no longer think like that at all "

As a British judge has said, the state of a person's mind is as much a fact as the state of her digestion Ogilvie Thompson gave the TRC false and misleading information on Anglo American's state of mind on the morality of apartheid The law should take its course

□ *Ronald Suresh Robert is the co-author of Reconciliation Through Truth A Reckoning of Apartheid's Criminal Governance*

Anglo creates new gold juggernaut

BD 26/11/97 (214)

David McKay

ANGLO American Corporation took a big step towards its long-awaited restructuring yesterday with plans to group its diverse interests under five independently-managed firms. The new entities include Anglogold, which will emerge as a $3,8bn gold colossus.

Anglo chairman Julian Ogilvie Thompson said at the release of the group's interim results Anglo planned to regroup under De Beers (diamonds), Amcoal (coal), Amic (industrial), Amplats (platinum) and Anglogold.

Anglogold was to become the world's largest gold producer using gold company Vaal Reefs as the vehicle. Vaal Reefs, to be renamed Anglogold, will seek to buy 100% of the equity of Anglogold's current five operating gold producers — Freegold, Vaal Reefs, Elandsrand, Western Deep Levels and Ergo — and of its gold investment firms — Eastvaal and Southvaal.

The new Anglogold will also incorporate JCI's interests in Western Areas and HJ Joel, lifting its market capitalisation to $4,2bn. In exchange, JCI will receive Anglo's 26% stake in UK conglomerate Lonrho.

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JCI deal ....Page 21

Also included in the deal are JCI's interest in Beatrix and Anglo American's and Anglo American Gold Investment Company's (Amgold's) 19,1% interest in Driefontein Consolidated. Beatrix and Drie Cons are two of the gold mines in the proposed Goldco merger between Gold Fields of SA (GFSA) and Gencor. Goldco and Anglo said yesterday they were working on an agreement on control of Drie Cons.

The new Anglogold will also buy Anglo American and De Beers' interests in Namibia's Navachab mine and the Sadiola mine in Mali.

In building a company with an authentic international character,

Continued on Page 2

Anglo

(214) BD 26/11/97

Continued from Page 1

Anglogold will also explore adding the North and South American gold interests and exploration activities of Minorco, the Anglo group's offshore arm.

Anglogold will produce almost 6-million ounces of gold a year, with reserves of about 200-million ounces, excluding Minorco's assets. It will spend R250m a year on exploration.

Crucially, Anglogold will end its management contracts with parent Anglo. It will not pay turnover or profit-related fees as is customary under the present structure.

However it will continue to buy purchasing and technical services if Anglo offers them competitively.

Anglogold CEO Bobby Godsell said Anglogold would be the third-largest gold company in terms of market value. Following planned rationalisations at Vaal Reefs and Freegold, it would have cash production costs of $260/oz, down from the current $280/oz. It would have a turnover in excess of $2bn, virtually no debt and net assets of $1,7bn. Cash resources would be more than $200m.

The creation of the company would be effective from January 1 although all the details were unlikely to be completed until mid-1998. Anglogold would be chaired by Nicky Oppenheimer and Godsell would be chief executive officer.

Announcing unchanged headline earnings of R2,5bn in the six months to September 30, Ogilvie Thompson said a number of other restructuring steps had been proposed.

Amcoal is to acquire Anglo's coal mineral rights. Anglo itself is to increase its interest in Amplats to about 46%. In addition, the rationalisation of Anglo and De Beers' industrial holdings was being considered. De Beers would also surrender its traditional right to be involved in Anglo's new business activities.

Ogilvie Thompson said De Beers was already a focused company. However, Anglo is to sell its 7% direct interest in the diamond group to Anglo American Investment Trust (Anamint) for new shares and will acquire from De Beers its 10% interest in Anamint.

As a result, Anglo will hold about 70% in Anamint and Anamint 32,5% in De Beers.

Ogilvie Thompson said the restructuring would give focus to the operating companies and allow new business to be dedicated to the appropriate company, while clarifying and simplifying the company's structure.

New vehicle created for gold merger

Hilary Joffe

GENCOR and Gold Fields of SA have dropped plans to use Driefontein Consolidated or Beatrix as the vehicle for the R12bn merger of their gold interests

Instead, they have opted to use a new company, Gold Shelf One Ltd (Goldco), and to shelve the offer to Dries minorities included in the deal announced six weeks ago

The changes, which will leave Goldco's stake in Dries at 37%, follow Anglo American's vote against the Goldco proposal at the Dries shareholders' meeting last week. Anglo owns 19% of the mine

Goldco chairman-elect Brian Gilbertson said yesterday "We wanted to be sure we could deliver the deal without difficulties "

Gilbertson also held out the prospect of two deals which could add new offshore assets to the Goldco portfolio, giving it a more international profile

Gilbertson expressed regret that New Africa Investments had decided not to exercise its option to buy a stake in Goldco, but said the new group remained anxious to have broad participation He said he would be particularly keen to bring trade unions in as investors in Goldco

The formation of the new company involves a series of transactions which take out GFSA's complicated control structure via unlisted Asteroid, leaving Gencor and GFSA Holdings as the major shareholders in GFSA, which will own 73% of Goldco The Beatrix, Kloof and Oryx mines will be delisted by schemes of arrangement and Goldco will make offers to the minorities of Evander and St Helena Gilbertson said the new group would revisit the idea of an offer to Dries minorities once the merger was in place

Goldco CE-elect Richard Robinson said the new group would be one of the world's largest gold companies, with production of 3-million ounces a year and reserves and resources of about 100-million ounces It had significant potential to reduce operating costs — the target is an average $250/oz — and to improve cash flows from its mines

It would also benefit from the pooling of exploration expertise

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BD 06/11/97

Anglo revamp can deliver golden future

Anglo American's move to restructure its gold assets represents the evolution of a maturing organisation in a changing corporate world, writes editor **Jim Jones**

BD 26/11/97 (214)

ANGLO American's restructuring of its gold assets would appear to be the start of a period of evolution to position the corporation for the increasing competition its various components will face as they move into the next century. If there is one truth in corporate history, it is that change is necessary for continued existence.

It is not an unbundling in the true sense of the word. Anglo will be retaining its investment — not distributing shares in its new gold vehicle to shareholders. But it is a necessary restructuring.

In Anglo's case, structures that may have been appropriate during the corporation's formative years, and the years of consolidation and asset accumulation, have become progressively less so. Structures devised with a deferential eye to the corporation's founding Oppenheimer family were, in some aspects, becoming dysfunctional. No matter how many managers were put in place to supervise Anglo's rambling structure, their decisions could largely not fail to be affected by the patriarchal and centralised control represented by 44 Main Street.

The proposed relocation of the group's gold interests into a newly structured Anglogold, and its management's severance from 44 Main Street is, then, a move with ramifications beyond the most immediate. It represents an appreciation that the world has moved on, that providers of finance are unimpressed by sheer size, that investors demand and are more comfortable with simply controlled and clearly focused businesses, and that the former ring-fenced operations of SA's gold mines were plainly inappropriate.

But it has to be followed by equally fundamental pruning, uprooting and replanting elsewhere in the Anglo group if the rest of the corporate empire is to survive and develop. The aim must be to release the sort of entrepreneurial drives that led to the creation of, say, Highveld Steel or Ergo, rather than acquisitions such as Del Monte, that masqueraded in public as entrepreneurship but to which Anglo could add no appreciable shareholder value.

Anglo's top brass, and particularly the Oppenheimers, understand this. It explains why Anglogold's management will be largely cut adrift from Anglo itself and why that management will be given over to gold division chief Bobby Godsell under the nonexecutive chairmanship of third-generation Oppenheimer Nicky.

Oppenheimer will be there to keep a benevolent eye on the family's investment, rather than to participate in the day-to-day management of Anglogold.

Ties with Anglo will not be totally severed. Anglo and its subsidiaries will be the largest individual shareholders in Anglogold — which could be a drawback for fund managers who might have preferred a clean break. Anglo, too, will continue to provide purchasing and technical services when it can supply them competitively. And Anglogold will have to buy its way out of the contract that gives Anglo 0,3% of its gold mines' turnover and 2% of their pretax profits.

Anglogold's entrepreneurial drive can be spurred by linking executives' rewards to Anglogold's own performance (and share price) which their efforts can influence directly. Until now, executive share options and miners participation schemes have been linked to the Anglo share itself. And the latest share price decline has led to long faces among younger executives who fear their dreams of fortune have blown away for good.

Other mining groups have taken the plunge into focused entrepreneurship. Anglo would also, in part, be able to compete equally with the likes of Gengold, Barrick or Placer Dome for financial resources controlled by no-nonsense, performance-driven international fund managers who do not understand and are singularly unimpressed by the Byzantine control structures that characterise the SA corporate world.

So, while the formation of Anglogold is slated to create the world's largest individual gold-producing company, equally or even more important is that it is expected to be the lowest overall cost producer and arguably therefore better able than others to weather gold market volatility.

Anglogold's creation was also driven by geology — the need to reintegrate the West Wits Line goldfield and the Vaal Reefs complex near Klerksdorp. Also, there is the need to get away from working ore reserves and shafts where gold production costs cannot be brought into line with Anglogold's $250/oz cash cost target.

Ore lying at depths of as much as 5km at Western Deep Levels can best be mined in conjunction with Anglo's own Elandsrand and, probably more importantly, with neighbouring Driefontein Consolidated managed by the emerging Goldco. The Vaal Reefs complex is best mined as a whole, incorporating the Vaal Reefs, Southvaal and Eastvaal properties.

The Free State seems less important and seems to have less potential than Vaal Reefs or Western Deeps, but Anglogold's plan is to focus production on four shafts — in the north on the former Freddies mine and in the south on the former President Brand and President Steyn mine.

But there is talk that, while blocking the plans of Goldco's Brian Gilbertson to use Driefontein Consolidated as the vehicle for creating Goldco, Anglo offered to swap its 21,6% interest in Freegold for Goldco's 34% stake in Drie Cons. If this deal were to be concluded there would be various sweeteners or adjustments.

And that is where JCI's Mzi Khumalo belatedly came to the party yesterday.

Khumalo is in trouble. He has watched his leveraged investment in JCI, bought from Anglo for R54,50 a share, collapse to its present R16-odd. Tying up with marginal mine operator Brett Kebble has not helped and Khumalo wants out of gold and an increasingly tempestuous relationship with Kebble.

His proposal is that he should swap JCI's holdings in the Western Areas Joel and Beatrix gold mines for Anglo's stake in Lonrho. Throwing those into a swap deal might just persuade Gilbertson to trade Goldco's 34% interest in Drie Cons, as it would allow Goldco to merge properties to create a supermine in the southern Free State. Khumalo achieves his ambition of acquiring Lonrho and Kebble is left with Randfontein to add to his marginal gold mines.

One of the criticisms increasingly levelled at Anglo is its lack of focus. It is a criticism that might also be levelled at the Oppenheimer family's offshore arm Minorco, to the extent that Minorco is not focused on product lines. So, further down the track, is the prospect of a deal to allow Anglogold to acquire Minorco's gold interests in North and South America. The American mines produce an annual 800 000 ounces of gold at an average cost of about $230/oz and have life expectancies ranging from six to 17 years. The timing of such a deal might well be determined by the speed with which SA's exchange controls are lifted.

The Minorco mines would be a necessary acquisition if Anglogold is to claim to be truly international. And it would make eminent sense if Anglogold is to exploit fully the geological, mining and metallurgical skills it can muster from within its own ranks. Anglogold's knowledge of how the Witwatersrand Basin is formed is second to none, it has more experience than anyone else in deep-level mining; and its metallurgical skills honed at the Ergo dump reprocessing facility are among the world's best.

Of course, Anglogold's creation will not be without pain. Retrenchments under way at Freegold and Vaal Reefs will continue. Bobby Godsell was, after all, brought in to run Anglo's gold division to a large extent for the labour relations skills he could bring to bear on employee productivity improvements.

Some mine workers will be taken on by the small operators who are to take over less productive shafts at Vaal Reefs and Freegold. Transferring mining assets to some of these operators — particularly former lawyer Patrice Motsepe's Future Mining and African Rainbow Minerals — will form part of the Anglo group's public commitment to black economic empowerment.

So will Anglogold fly? The rationale makes sense. Its gold production and reserves will be the world's largest, costs are being reduced, revenues and the balance sheet are more than adequate to maintain dividends, expand operations and spend an annual $50m-odd on worldwide exploration, and ownership and control should be clearer to investors.

International investors now have to express their approval of the restructuring by rating Anglogold on the same basis as other focused gold producers operating in the international arena.

Building a new Anglogold

Anglo, Amgold, and De Beers contribute managed investments in SA
53,5% of Eastvaal
53,5% of Elandsrand
40,9% of Ergo
21,6% of Freegold
28,4% of Southvaal
49,4% of Western Deep Levels

They also put in
19,1% of Goldco's Driefontein Cons as well as JCI's holdings in Western Areas, HJ Joel and Beatrix

Vaal Reefs adds its,
30% stake in Eastvaal and 25% of Southvaal

Changes its name to ANGLOGOLD and offers new shares for minorities in SA mines managed by the Anglo group
2,13 Anglogold for 100 Eastvaal
6,56 Anglogold for 100 Elandsrand
2,80 Anglogold for 100 Ergo
11,59 Anglogold for 100 Freegold
40,08 Anglogold for 100 Southvaal
47,35 Anglogold for 100 Western Deep

ANGLOGOLD also aquires the Anglo group's Drie Cons investment
14,59 Anglogold for 100 Drie Cons

Still in SA, ANGLOGOLD issues more shares to acquire the Anglo group's gold mineral rights and interests in prospective mines
Western Ultra Deep Levels
Eastern Gold Holdings
Moab Extension
Gencor 1 East

Outside SA ANGLOGOLD acquires from Anglo
Sadiola in Mali
Erongo in Namibia
Mineral exploration and mining rights elsewhere in Africa

This will give ANGLOGOLD the world's largest gold resources
136,4-million indicated ounces and 56,8-million inferred ounces

and after the merger and disposal and closure of suboptimal shafts ANGLOGOLD expects to be the world's largest ranking gold producer
Anglogold 6-million ounces
Newmont 4-million
Barrick 3-million
Placer Dome 2,2 million
Homestake 1,8-million

With the gold production costs among the world's lowest
Barrick $160/oz
Placer Dome $180
Newmont $200
Anglogold $250
Homestake $280

and ANGLOGOLD will be large enough and profitable enough to fund participation in almost any conceivable international gold venture
Market capitalisation R20bn
Cash resources R1bn
Net assets R8bn
Dividends R1bn
Capital expenditure R1bn

Graphic: KAREN MOOLMAN

GOLD *R20bn group will be world's largest*

Anglo to rebundle its assets

CT(BR) 26/11/97 (214)

Andi Spicer

MINING AND RESOURCES EDITOR

Johannesburg — Anglo American yesterday claimed back the title of the world's largest gold company after announcing it would rebundle its gold assets into one R20 billion listed company with Vaal Reefs as the vehicle.

This company would be called Anglogold and have an annual gold production of 5,7 million ounces

A few weeks ago, Gold Fields and Gencor said they would combine all their gold assets into Goldco, creating the then world's largest gold company

"South African gold companies have been written off as dead internationally, but we are creating a merger of quality assets with its feet firmly planted on African soil We are seeking to create a gold company of the 21st century," said Bobby Godsell, the chairman of Anglogold

JCI's shares in gold mines Western Areas and HJ Joel would also be "injected" into this group in a swop for Anglo's interests in Lonrho The group would then seek to acquire 100 percent of these mines at a later date, Godsell said

Anglo as a whole would concentrate its commodity operations into various holding companies with platinum in Amplats, coal in Amcoal and gold in Anglogold It would buy De Beers' 3 percent in Amplats and sell its 7 percent stake in De Beers to Anamint.

The new Anglogold would include a merged Vaal Reefs (South Vaal and East Vaal), Western Deeps, Elandsrand, Freegold, Ergo as well as the JCI mines Western Areas and HJ Joel

Anglo and De Beers' interests in Navachab in Namibia and Sadiola in Mali would be included, and so would Anglo's, Amgold's and De Beers' gold mineral rights in South Africa, including Western Ultra Deep Levels

"The remainder (of mineral rights) will be dedicated on a first-refusal basis to Anglogold It will be a self-administered, free-standing international gold operating company," said Julian Ogilvie Thompson, Anglo's chairman

Minorco, Anglo's offshore commodities interests, would be approached to include its gold operations and prospecting activities in North and South America

Godsell stressed that management contracts would be cancelled and Anglogold would have independent directors Uneconomic shafts and mines would be not be included in the new company and would be closed in a rationalisation drive aimed at bringing cash costs down to $255 an ounce when the JCI mines were included

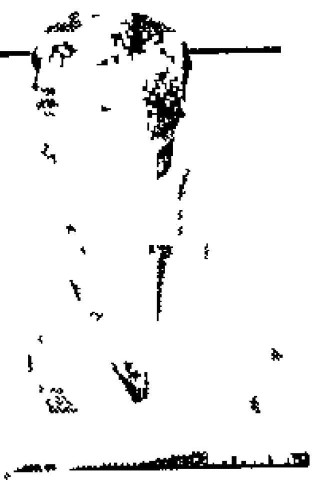
Anglo's interim results, released yesterday, were overshadowed by the restructuring It recorded a 0,5 percent rise in headline earnings to R2,45 billion, but total net earnings were up 29,9 percent to R3,86 billion Dividends a share fell 3,6 percent to R293,86

□ Business Watch, Page 22

Anglogold's formula for putting the glow back in gold industry

(214)

ST(BT) 30/11/97



JULIE WALKER wonders who will win the Battle for Driefontein in SA's great gold reshuffle

JUST three hours after Gencor chairman Brian Gilbertson told a Johannesburg audience of analysts they were witnessing "the birth of South Africa's greatest gold-mining company (market capitalisation R12-billion)", an even bigger assembly listened to the conception of an even greater, R20-billion SA gold company across the street at Anglo American

As part of the restructuring of the Anglo American Corporation — a process nowhere close to conclusion — all five gold mines currently managed by Anglo American's gold and uranium division Anglogold are to be merged through Vaal Reefs — already quoted in Johannesburg, London and Paris It will be renamed Anglogold "The biggest and best," according to Anglogold chief executive Bobby Godsell

Vaal Reefs will issue shares to the shareholders of Western Deep Levels, Ergo, Elandsrand and Freegold as well as to members of investment companies Eastvaal and Southvaal It will also buy from Anglo American and Amgold their 19% stake in Driefontein — the prize of the West Wits line — and Anglo and De Beers' interests in gold producers Sadiola in Mali and Navachab in Namibia Mineral rights and prospecting will also be bought after independent valuations It will also "approach" Minorco with a view to buying its gold businesses dotted across the world

If Anglogold was a year in the making, there was a last-minute addition after JCI's sudden rush to the party Godsell says it was a total surprise when JCI came to Anglo on Monday this week — a day before Anglogold announced its intentions — and proposed the exchange of its holdings in the Western Areas and Joel gold mines, management contracts, mineral rights and its 3% in Anglo American Platinum (Amplats), for Anglo's 26 1% stake in Lonrho

Both Gilbertson and Godsell want Driefontein as part of their portfolio Six weeks ago, Gencor and Gold Fields of South Africa — the current manager of Driefontein with 37% of the equity — proposed to merge their gold

Goldco intended to use Driefontein (market capitalisation R6 3-billion) as the vehicle for Goldco, Anglo voted its holding against the motion to increase the share capital of the company GFSA has not run Driefontein nearly as well as Anglo has run the contiguous Western Deep Levels, Gilbertson believes Goldco can do better with it, while Godsell says "we owe it to investors in the West Wits line to operate the assets as efficiently as possible in terms of infrastructure and management" — that is, for Anglogold to run Driefontein out of Western Deeps Both sides say they are negotiating constructively

It was put to Gilbertson that he might offer Anglogold the West Driefontein mine in exchange for Anglo's holding in GFSA "The thought has not crossed my mind," he replied It was put to Anglo chairman Julian Ogilvie Thompson that Anglogold might offer Western Deep Levels to Goldco "The logic lies the other way round," he said "Anglogold will run Western Deeps much better than would any other management You have only to look at the productivity"

The advent of JCI's two quality mines lends a new aspect to the bargaining table HJ Joel is directly adjacent to Beatrix and Western Areas not far from Kloof Market talk is that Kloof might consider selling its underperforming Libanon mine to JCI's remaining gold company, Randfontein Estates

Western Areas brings with it the biggest gold hedge ever written Godsell says Anglogold is familiar with the details "We have been in the hedging game for 10 years and we have learned about it Our hedge is a very important off balance-sheet source of value It has allowed us to survive without surrendering the blue-sky potential of spikes in the gold price"

Indeed the hedge is worth R2-billion against a total balance sheet of R12-billion (including JCI's mines) Anglogold will have more than R1 2-billion in cash

The rationale behind the formation of Anglogold is simple "Our core objectives are to produce competitively, to grow the company and to have the right structure for new times Linking wage increases to production levels has lead to improvements

"We are trying to reclaim an industry South Africa pioneered yet has since been written off If not in the mortuary, we are definitely in the intensive-care unit as far as international investors are concerned," says Godsell

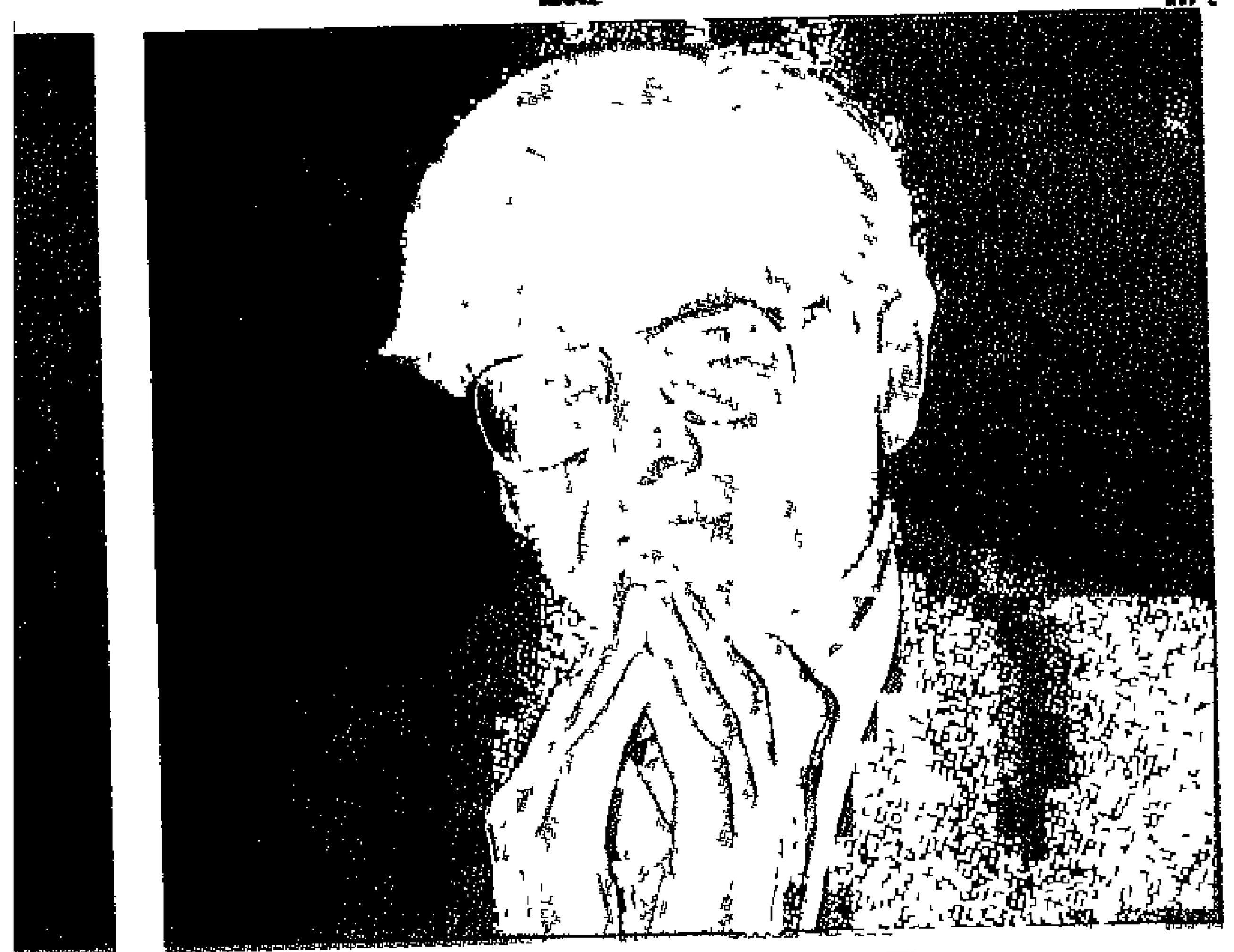
His intention is that Anglogold achieve cash operating costs of not more than $250/oz, with not more than another $30/oz in total production costs Including JCI's mines, the cash cost would be $245/oz Anglogold shafts which cannot produce competitively will be sold or closed — Freegold has closed certain shafts and sold others to neighbour Harmony, and Vaal Reefs' shafts 1 to 7 are for sale

Although Anglo American will be the major shareholder in Anglogold with more than 40%, and De Beers chairman Nicky Oppenheimer will be the chairman, most of the directors will be independent and it will have its own dedicated management team lead by Godsell They will be Anglogold employees

Anglogold will be by far the world's largest gold-mining company Assuming the JCI deal goes through, it will have annual gold production approaching 5 7-million ounces, 140-million ounces of reserves and 191-million ounces of resources "The emphasis will be on growth, and earnings and dividends," says Godsell Of the world's nine largest mines, Anglogold will have the lowest rating in terms of market capitalisation per ounce below $40 against Barrick Gold's $140

Godsell remains convinced about gold's future "In a global economy with only one reserve currency, prudent reserve management must require some level of gold reserves This is particularly true of nations which, for policy reasons, choose not to hold 100% of their reserves in US dollars"

HEIR APPARENT . . . Nicky Oppenheimer



TIDYING UP . . Julian Ogilvie Thompson

ECLIPSED . . . Gencor chairman Brian Gilbertson

BIGGEST . . Anglogold chief executive Bobby Godsell

Proposals aim to unravel tangled web at Anglo

ANGLO American chairman Julian Ogilvie Thompson reminded the audience of his commitment to the core principle of geographic and product diversity when he announced proposals to streamline the cumbersome corporate structure

Even he tripped over some of the labyrinthine details while spelling out what would be done in the search for a more simple and appropriate corporation of companies focused on their own business Most of the details represent obvious tidying up Anglo still has 13% of JCI, and will buy from it a 3% stake in Amplats De Beers' 3% of Amplats will also be sold to Anglo to give Anglo 46%

Amcoal will buy Anglo American's coal mineral rights, as well as De Beers' small interest in Amcoal

Diamond group De Beers' holding company Anamint (Anglo American Investment Trust) will buy Anglo's directly held 7% of De Beers Anglo will buy De Beers' 10% holding in Anamint so Anglo will own 70% of Anamint and Anamint 32 5% of De Beers

But De Beers will still have a holding in Anglo — Ogilvie Thompson says De Beers needs to have a non-managed portfolio of well-run investments to insulate it during the inevitable cyclical fluctuations of the diamond market — "Don't you agree Nicky?" he asked Nicky Oppenheimer, who is to succeed him as De Beers' chairman next year Can a duck swim?

De Beers has also given up its customary participation rights in Anglo's new business and E Oppenheimer & Son (the son being Harry, present at the announcement) its contractual right and obligation to participate in any Anglo new business

Ogilvie Thompson promises further rationalisation of the group's holdings in industrial arm Amic In a nutshell, either Anglo or the dedicated operating company will undertake the task at hand These will be Amplats, Amcoal, Amic, Anglogold and De Beers

Anglo American will relinquish the management fees from the gold mines once Anglogold is formed, but Ogilvie Thompson says their importance to Anglo has been exaggerated Their loss will be offset by a reduction in outlay on prospecting Nevertheless, Anglo might retain an exploration unit which seeks all minerals rather than having several teams seeking different commodities in the same region

Minorco was revamped five years ago as the vehicle through which Anglo could conduct offshore business it was an effective way of circumventing the effects of foreign-exchange controls exercised in South Africa Ogilvie Thompson, who chairs Minorco, says a long list of new projects is testimony to the success of the strategy However, now that exchange controls have been relaxed and Anglo has been able to secure foreign loan facilities at favourable rates, Minorco is being revisited as part of the greater corporate restructuring

Anglogold is to approach Minorco with a view to buying its gold-mining operations, concentrated in both North and South America, and its exploration portfolio in Europe, the Far East and Australasia

Mine heads in talks on Driefontein dispute

BD 3/12/97

(214)

Tim Cohen

LONDON — Goldco, which is to be forged from Gold Fields' and Gencor's gold interests, opposes moving Driefontein Consolidated into the Anglogold stable, but talks on sharing the mine's infrastructure are taking place

Goldco's chief operating officer designate, Tom Dale, said yesterday he considered Driefontein a "core asset" for Goldco, rejecting implicitly strong pressure from Anglo American which would like to see the mine drawn into its proposed merged group, Anglogold.

Anglogold MD designate Bobby Godsell has argued that if the logic of the geography of gold mine locations is followed, the mine ought to form part of Anglogold He has also suggested that Anglogold would be likely to manage the mine more efficiently

Dale, who was taking part in a London roadshow to promote the proposed

Continued on Page 2

Goldco

(214)

Continued from Page 1

BD 3/12/97

new consolidated gold company, said a "constructive debate" was taking place about the mine, but suggested this was confined to how Anglogold could use Driefontein's infrastructure for its plans to mine at deep levels.

Although Goldco representatives indicated previously that no possibility had yet been excluded, Dale said Driefontein was one of the legs of a three-legged stool which would support Goldco. The others were Beatrix and Kloof.

Dale said that on the other mines, major restructuring drives were under way or would start soon, particularly St Helena, Evander, Libanon and Leeudoorn. If they could not get their cash costs below $250/oz, they would not remain within Goldco,

The restructuring plan was based on a strong programme of education and training of mainly black miners which would unlock substantial opportunities for improved performance, flattening hierarchies and incentive remuneration.

The strategy of Goldco was not gold-price dependent, he said. The new company could be listed in February

100 000 jobs on line if gold price fails to rally

(214) Sowetan 4/12/97

And beyond the miners who lose their jobs are the wives, children, many relatives and other dependants

By Edwin Naidu and Eddie Jayiya

The dwindling gold price has sent shivers through the mining industry, prompting fears of widespread job losses early next year

Already 60 000 jobs have been scrapped in the past five years and the latest decline in the price of gold could force mines to lay off at least 100 000 miners next year

> **"The mining houses are extremely concerned"**

Analysts painted a grim picture this week as gold prices hovered around $290 an ounce yesterday in the wake of widespread fund-selling after the precious metal slumped below $300 last week

The last time gold traded at these levels was in 1985, when the price dropped to $285.

Gold currently makes up at least 20% of South African exports and 5% of the gross domestic product (GDP)

Economist Steve Brown said the current decline in the price would impact heavily on the GDP, affect growth, exports and the country's current account, as well as the interest rate

Significantly, he said the labour market would be seriously hit because retrenchments would have a "multiplier" effect on the economy

However he could not see the price of gold dropping below $285 because "buyers would surely come back"

Nedcor senior economist Maganlal Mistry warned that there would be 100 000 jobs lost if the price of gold continued to slide "The social implications are greater if there are retrenchments Mining houses are extremely concerned "

Gold analyst Nick Goodwin, from Fedsure Asset Management, said 21 out of 35 gold mines which employed just over 300 000 people were already operating at a loss and at least 100 000 workers were employed in loss-making mines

He said if they were retrenched, the effects on the economy would be difficult to ascertain since employees often had 10 dependants

Chamber of Mines spokesman Peter Bunkell said the price of gold had reached a "depressing level "We are the pricetakers not the pricemakers and have no control over price

"There are a lot of varying factors which most people do not understand The world determines the price and we have to sell our metal at that price We are hoping the situation will change and we will keep our employees," he said

National Union of Mineworkers media officer Ben Molapo said the declining gold price had sent "worrying signals" to the union's members.

"We are worried about our members losing jobs. The new year looks bleak for some of us This very grave situation has gone beyond the control of the stakeholders. "If the situation worsens and our members are laid off, we will have to negotiate the best packages we can "

> **"We are the pricetakers, not the pricemakers"**

Anglogold seeks bigger slice

Sowetan 9/12/97 (214)

WITH the price of gold slipping dangerously close to the production cost, Johannesburg's Anglogold, the world's biggest producer, far from considering retrenchment, is seeking an even bigger slice of the global pie

"We're just getting going," Anglogold chief executive Bobby Godsell told Canada's *Globe and Mail* newspaper last week

He was interviewed in New York, at the end of a six-day European and US trip aimed at winning institutional investors in an ambitious expansion plan

"We would be open to quality assets, which we could manage anywhere" Godsell was quoted as saying

He envisages growth through acquisition as an alternative to developing his company's South African mines Should Anglogold succeed in a bid to acquire Anglo Americans' non-South African gold mining assets now held by the Luxembourg-based Minorco SA, its total output would jump from 5,7 million ounces a year to 6,5 million

Squeezed profit margins

Anglogold's current cost of extracting gold from deep mines is about R1 358 an ounce, seriously squeezing profit margins in today's market

The cost is expected to drop to R1 236 next year

Global rival Newmont Mining Corp produces four million ounces a year, spending 175 per ounce Canada's Barrick Gold Corp, with an annual output of 3,5 million ounces, pegs its per-ounce expenditures at about R902

However, Anglogold executive director of finance Jonathan Best, told the newspaper's Brian Milner, the gold price would have to fall to about R1 309 or lower "before we'd start taking drastic actions"

Even then, with 40 percent of its production hedged, the firm has a cushion giving it 12 to 18 months before it would have to start boarding up mine shafts –*Sapa*

GOLD AND THE ECONOMY

A powerful multiplier effect still at work

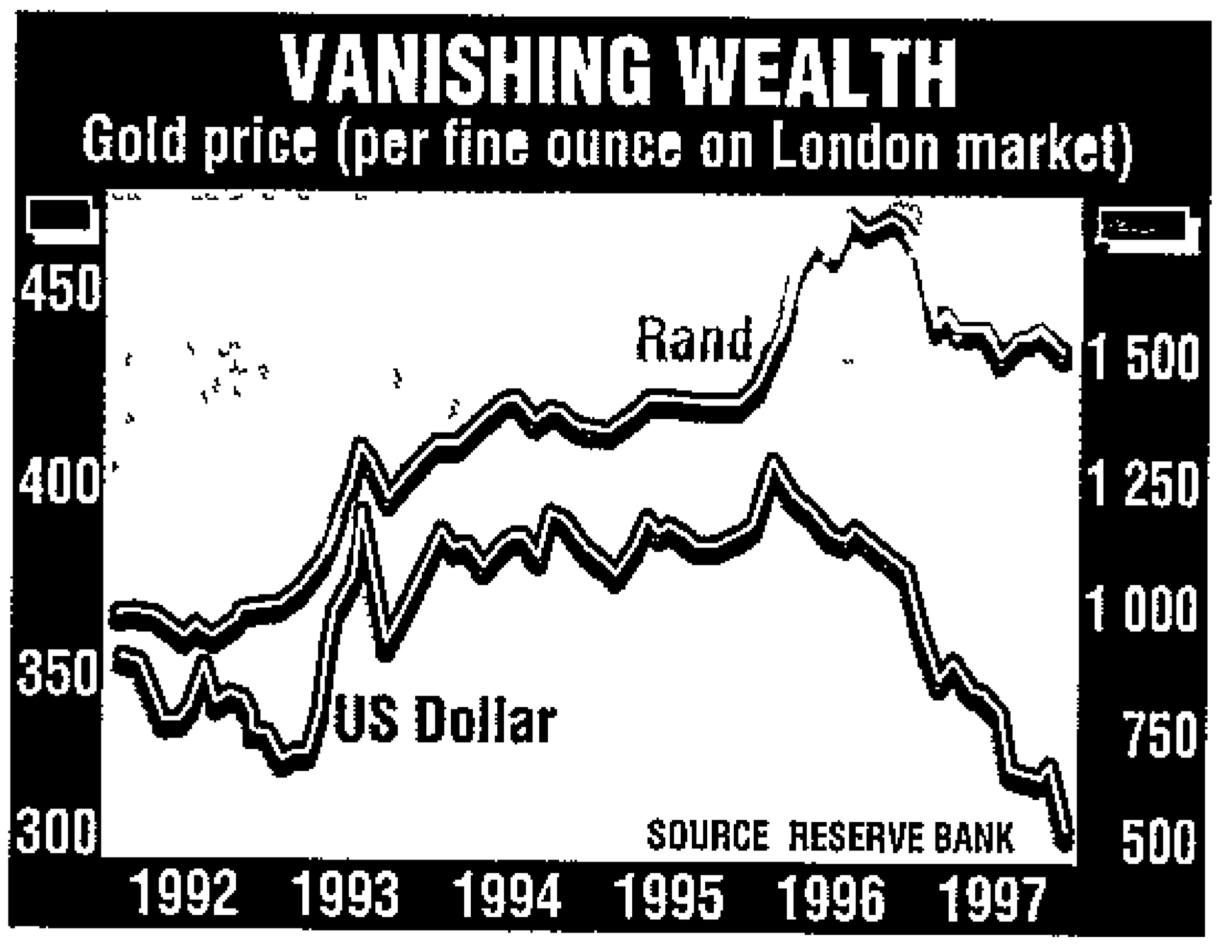
(214)

The gold price tumble couldn't have come at a worse time — when capital is fighting shy of emerging markets.

FM 19/12/97

Capital flight from southeast Asia has rewritten the rules for all emerging markets — at least for the time being They can no longer rely on a steady flow of foreign investment to fund domestic growth

With capital inflows slowing to a trickle, or reversing, the foreign exchange which is required if the emerging economies are to keep functioning — let alone grow — will have to come largely from exports



And this will be the case until confidence in emerging markets returns to global investors

So in SA — as in other emerging countries — the trade account has become the pivot on which the economy's short and medium-term prospects turn

In this context, the slide in the gold price — from about US$360/oz in January to about $283 this week — couldn't have come at a worse time, says Anglo American economist Jim Buys

"It is true the metal makes a much smaller contribution to GDP and exports than it did in the past," he says "But it still represents a sizeable chunk of foreign exchange earnings"

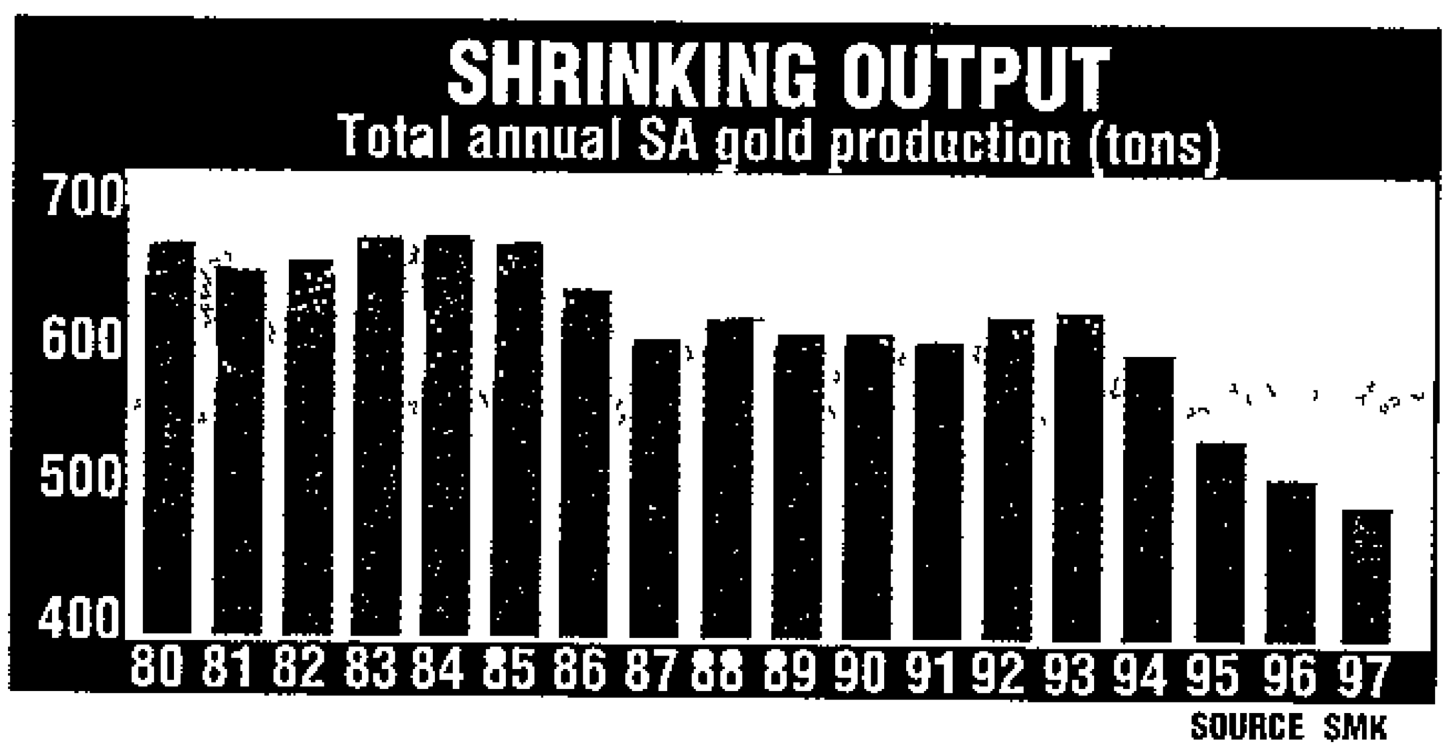
SMK economist Herman van Papendorp calculates the potential loss of foreign earnings in 1997 at about R2,2bn "Next year, a further $30/oz drop in the average gold price will take a further R2,3bn in export earnings"

The immediate impact on the economy has been buffered by the hedging policies of a number of large producers, say analysts

Chamber of Mines senior economist Roger Baxter explains what this means "In the third quarter, for instance, the average price received was 8,6% higher than the average spot price that quarter"

At the same time, the accompanying decline in the rand's dollar value has buoyed rand earnings (see graph)

As to GDP, "it is a volume concept," says Van Papendorp, "which is not influenced by relative price changes However, in the longer run there will be a negative impact if the closure of unprofitable mines reduces the level of gold production in the mining industry"



This point is getting closer and closer And, despite the buffers in place, unless there is a dramatic reversal in the fortunes of bullion, the multiplier effect of the nearly $80 fall in the gold price this year will continue to work its way relentlessly through the economy

Baxter says there is a 6% multiplier effect — 4% from the direct contribution to GDP and 2% from the indirect contribution

This manifests itself in a number of ways — for a start on employment "In the third quarter," says Baxter, "there were 12 marginal mines employing 127 000 workers Now certain shafts and mines could be closed"

Many jobs are threatened, though some miners may be absorbed by more profitable mining operations

Next come the secondary effects Baxter explains that "the decline hits the industries that both supply and use mining products For every three miners employed in the mining sector, there is one employed in associated industries"

There is also a social effect "We calculate that for every one employee on the mines there are about seven to 10 dependants"

Next, there is a fiscal effect "The ratio of revenue contributed from gold mining has already fallen from 15% of total tax revenue in 1980 to less than 1% now

"But more than that is at stake," he explains, "because this calculation doesn't take into account the indirect effects as taxes on employees' earnings fall"

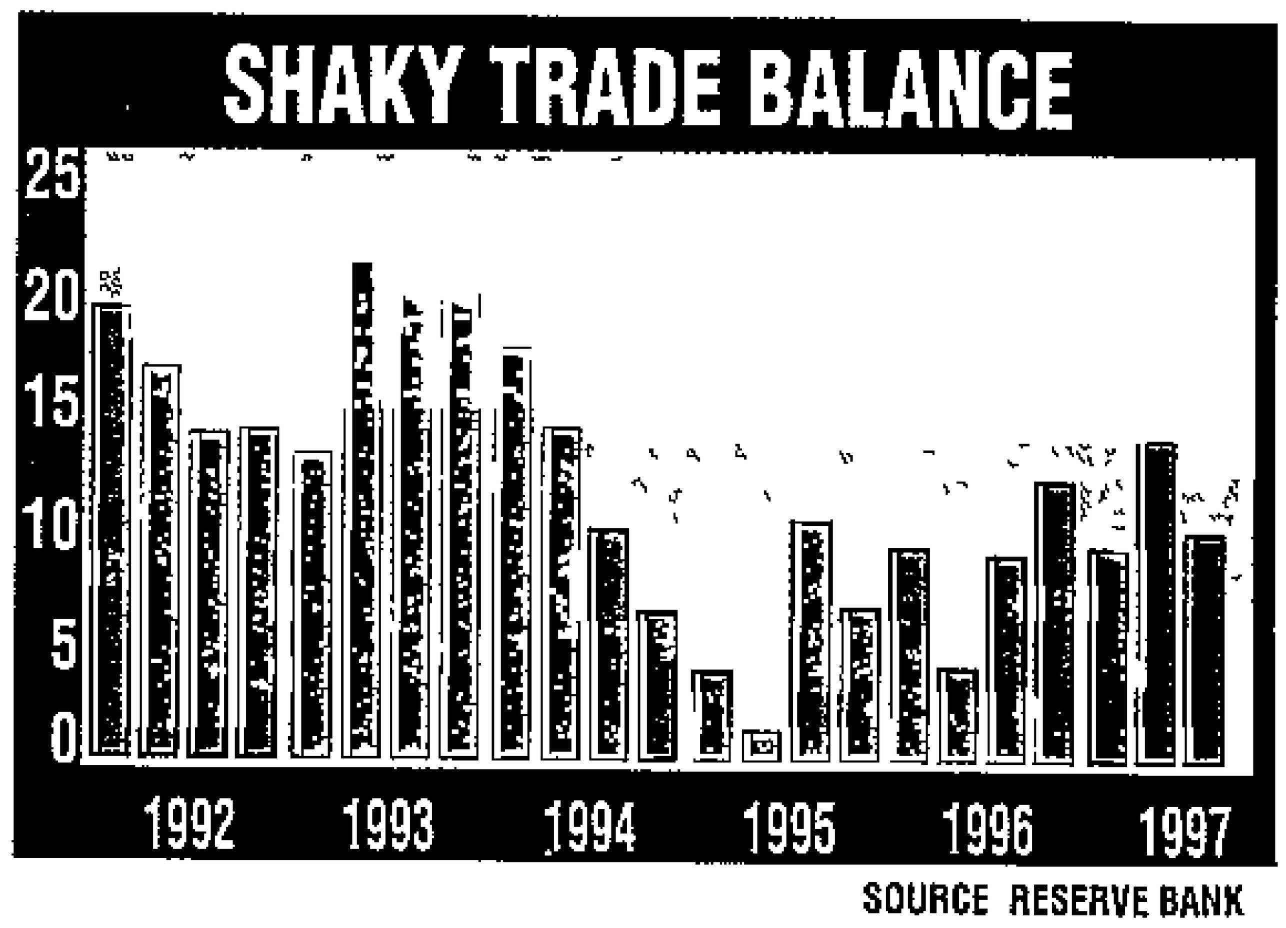
Yet another consequence of reduced earnings by many of the gold mines is the accompanying fall in capital formation

Henk Langenhoven, economist for the SA Federation of Civil Engineers, puts this in perspective "The gold mines provide about 30% of our private-sector market And the private sector makes up about 25% of the market So at risk is about 8% of the industry's turnover"

Here too the timing is bad because local government debt is eliminating a number of public projects which should have been in the pipeline

Having listed all the bad news, Baxter stresses the picture is not entirely gloomy "The industry has put in place programmes and strategies to improve productivity and reduce costs There is opportunity in adversity and one thing is for sure after this period of restructuring, the industry will come out leaner and meaner and more capable of meeting the challenge"

Ethel Hazelhurst



ANC 50TH NATIONAL CONFERENCE

Gear still grates after lubrication

fm 19/12/1987

Delegates leave this weekend knowing key issue still unresolved

The more than 3 000 delegates to the African National Congress's 50th national conference will leave Mafikeng singing and chanting this weekend in the uneasy knowledge that the most divisive debate on their agenda has not been finalised

The signs were there long before conference documents and senior leaders, including the ANC's out-going president Nelson Mandela, made clear the concerns of the SA Communist Party and the Congress of SA Trade Unions would be accommodated in the Growth, Employment and Redistribution (Gear) strategy

This means after 18 months of public acrimony in the long-standing tripartite alliance, there is still no clarity on how far the ANC is prepared to compromise on Gear

The policy has been lauded by investors, analysts and the World Bank But the ANC's alliance partners condemn it as veering off the organisation's redistributive path In a draft resolution prepared for conference, the ANC has shelved the issue But the resolution itself indicates, as several party leaders have said, that the strategy is not cast in stone

"The conference endorses the basic objective of macro-economic stability and that the Gear provides the basis for achieving such stability," it says

This sentiment spawned at the ANC's policy conference in October, was echoed by Mandela in a radio and television broadcast last weekend 'Where we feel (the SACP and Cosatu) have a strong point, we will accommodate them "

But such equivocation, which tries to seek a solution to the matter while avoiding a confrontation many believe may split the alliance, are at odds with those of Africanists within the ANC who want Gear to forge ahead as it stands, and not be diluted by the ANC's leftwing partners

Their confrontation with the SACP and Cosatu has been described as a fight for the "soul of the ANC " Deputy Environmental Affairs Minister Peter Mokaba says the soul of the ANC was never in dispute and is unashamedly capitalist, while those on the left, led by the SACP's Jeremy Cronin, believe the ANC to be left-leaning

"Much of what Ministers had said in defence of Gear was not immediately apparent in the Gear document," it says

ANC Policy Unit head and Labour Minister Tito Mboweni said before conference he did not believe delegates would focus on Gear, but on the challenges of economic transformation and thus on macro-economic stability But even if the ANC is saddled with the Gear debate for a long time, he said, it would be in line with many economic debates which are never finalised, such as the issue of how best to create jobs

Justice Malala

The Body Politic

Because of technical difficulties, Joe Thloloe's column, will not be run this week ■

NUCLEAR TECHNOLOGY

Meltdown in a teacup

No hanky panky in sale of SA nuclear plant to China

There is nothing secret or untoward about the sale of the Atomic Energy Corporation's (AEC)'s fuel plant to China But police say they will investigate the reasons for their raid on Chinese technicians who were dismantling the Pelindaba plant

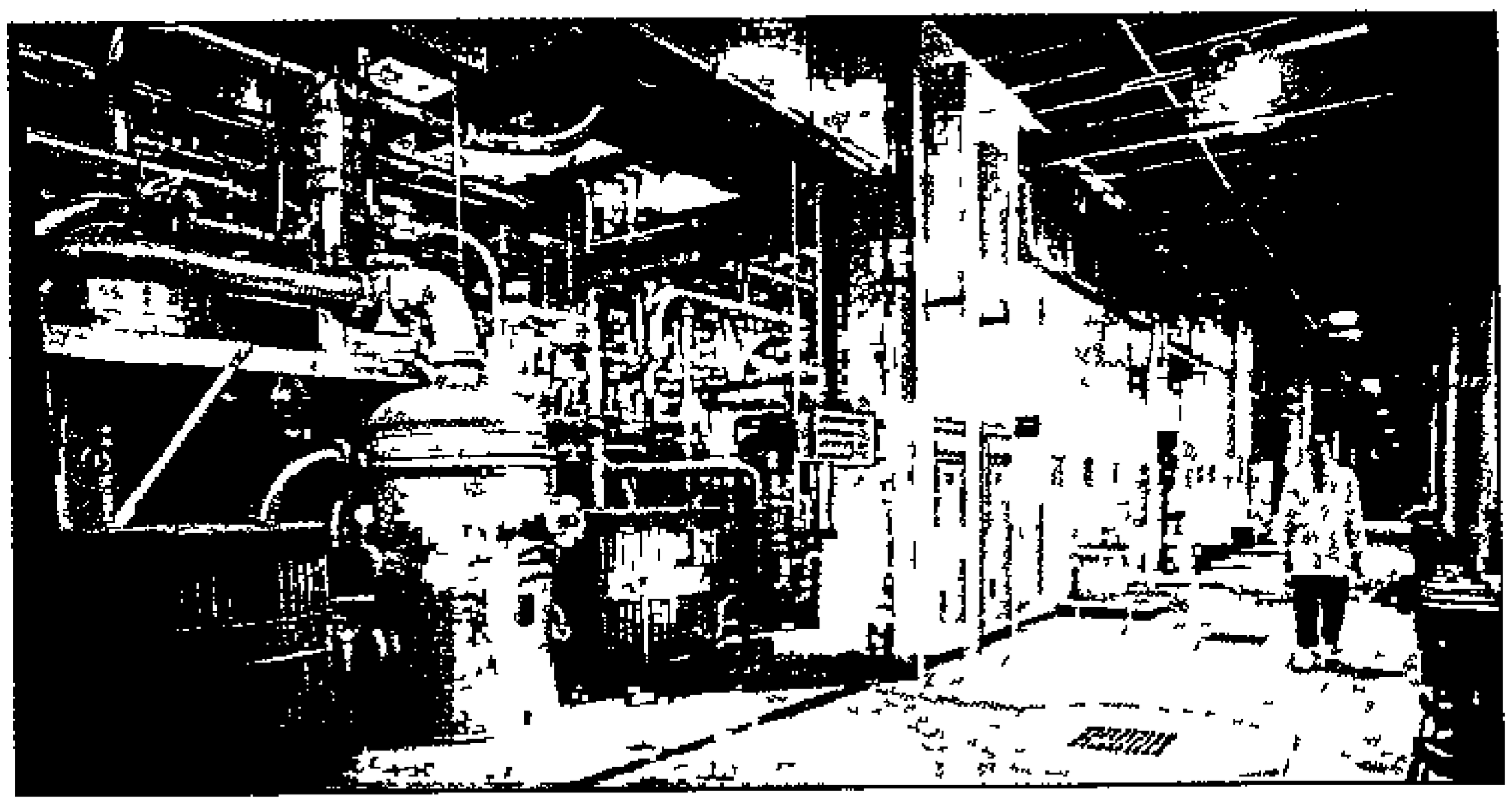
AEC executive Gil Lawrence Hyslop says the tube plant was originally bought to manufacture precision zircalloy tubes as part of the AEC's programme to supply SA's only nuclear power plant at Koeberg with fuel during the sanctions era The plant cost around R80m in the early Eighties, second-hand it will fetch US$4,65m — about R22m

The AEC had a licence from the French company, Framatom, to produce nuclear fuel for Koeberg, which was also manufactured by Framatom This meant that the AEC's fuel plant was specifically configured for Koeberg

Once sanctions ended, SA was able to buy the appropriate fuel assemblies far more cheaply than it could make them The terms of the French licence precluded export and when the plant was made redundant three years ago the AEC decided to sell the plant to China

China could have bought the same type of plant from several countries, but it chose the SA plant for price and deliverability It could have taken 30 months to commission a new plant from, say, Germany The plant was designed to make fuel for nuclear power generation and has no bearing on nuclear weapons Nevertheless, the AEC had to get clearance for the sale from the SA Council for the Non-proliferation of Weapons of Mass Destruction The Chinese are also signatories to the Nuclear Non-proliferation Treaty, otherwise the sale would have been barred

The politically sensitive plant used to make weapons grade uranium was dismantled in 1990 All sensitive equipment was destroyed under supervision of the International Atomic Energy Agency (IAEA) SA still has a small quantity of highly enriched, nuclear weapons-grade uranium which, also under IAEA supervision, is being converted into fuel elements to power the Safari reactor that makes nuclear medicines SA's nuclear medicine production is now the 4th-biggest in the world



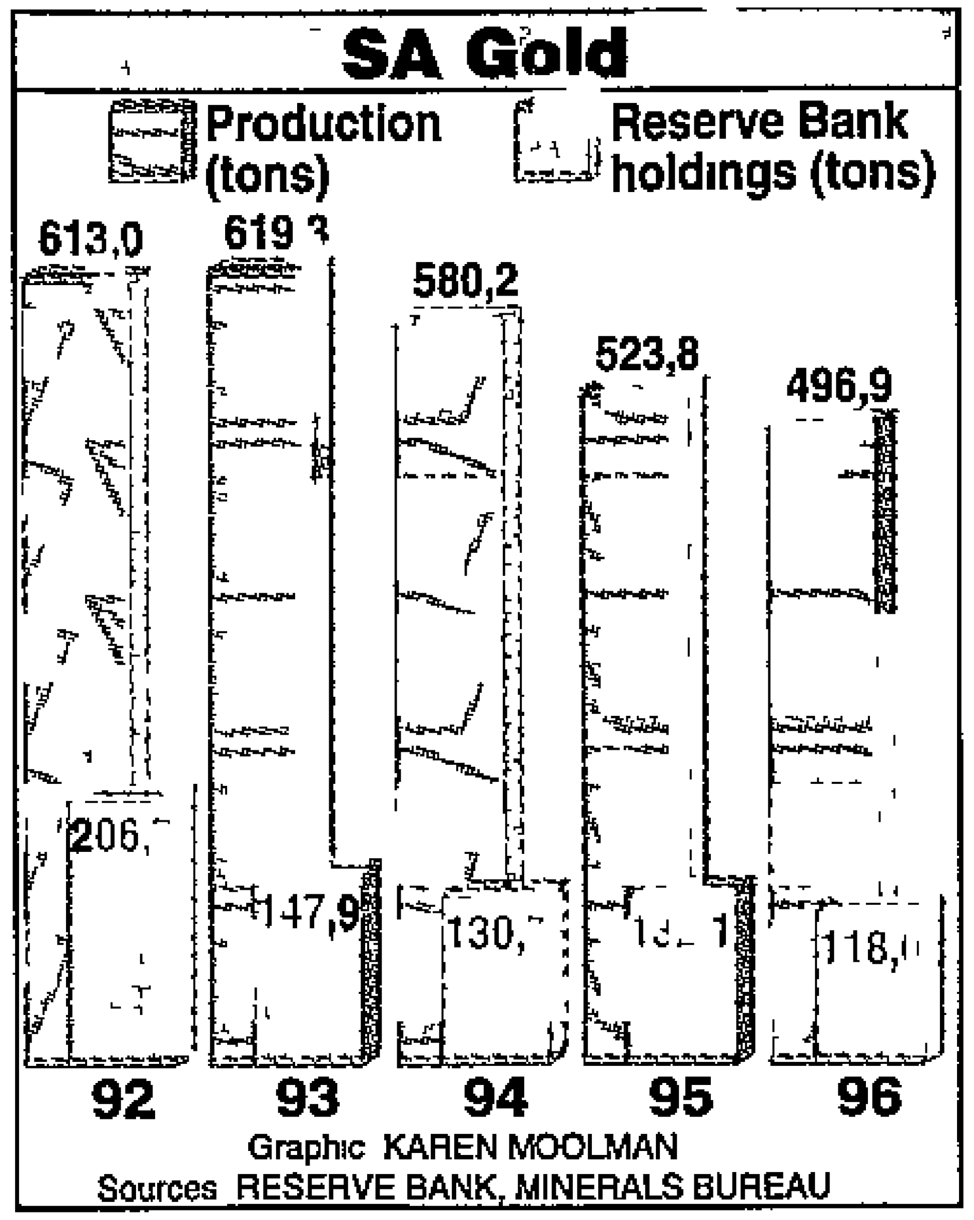
Plant obsolescence *inside Pelindaba's nuclear heart*

With the reduction of government assistance, the AEC has been commercialising its activities Hyslop explains that it uses spinoff technologies from its nuclear activities and makes them commercially viable The AEC's turnover next year should exceed R200m, of which about 40% is exported This is not yet enough, Hyslop says The aim is to have a broad range of products and technologies, not necessarily all nuclear, to replace government's grant — which has been cut from R1bn in 1990 to only R200m next year

Robin Friedland

'Sixty percent of SA gold mines will slip into the red'

BD 29/12/1997



Graphic KAREN MOOLMAN
Sources RESERVE BANK, MINERALS BUREAU

David McKay (214)

ABOUT 60% of SA's gold mines would produce a cash loss in the December quarter with the rest being baled out by their hedging programmes, analysts said yesterday

The gold price was expected to average about $310/oz at an average rand-dollar exchange rate of about R4,80 to the dollar

This resulted in an average rand gold price of about R47 700/kg — R500/kg lower than the spot price in the September quarter, they said.

Angus Auchterlonie, a gold analyst at Société Générale Frankel Pollak, said many more gold-mining companies would slip into the red if it were not for their hedging strategies.

The Anglogold companies had the double advantage of a sensible hedging programme and some of the lowest cash costs in the SA industry Anglogold would perform the best as a group in the quarter, Auchterlonie said

Worst performers were expected to be unhedged Gold Fields of SA, with high-grade Kloof Gold Mining Company dragged into the red by its high cost Libanon and Leeudoorn divisions

Driefontein, the company controversially involved in the proposed Gencor-Gold Fields gold merger, would have a "reasonable quarter", he said

Seismic activity at Hartebeestfontein and production problems at Eastern Transvaal Consolidated, gold divisions of Avgold, would spell a poor quarter for the group which had seen its share price slip on the Johannesburg Stock Exchange to below R3 from R12,55 almost a year ago

JCI, another poor share-price performer, hamstrung by its patent lack of direction, will give investors some good news in Randfontein which analysts expected could post a tidy profit

But the Harmony Group, troubled by two wildcat strikes and retrenchments, as well as former stablemate Durban Roodepoort Deep, were expected to report losses owing to their marginality, analysts said

The minerals bureau of the mineral and energy department said gold output was expected to shrink further this year However, the decline could be contained by the restructuring in the industry in response to a lower gold price and rising costs

At a forecast average gold price of $336/oz, the dollar-export revenue should decrease by about 16%, the bureau said "As the rand-dollar exchange rate is not likely to weaken significantly from its present level before next year, a decline of about 8,5% in export earnings from gold to R24bn is anticipated "

Looking further ahead, the bureau said that the gold price was expected to regain ground, reaching an average of about $390/oz by 1999 SA's gold production was expected to stabilise between 480 and 490 tons to 2002

"The likelihood of a recovery in output to a level in excess of 500 tons a year in the future can only be optimistically conjectured," it said

SA's gold production last year was 497 tons, the lowest since 1956 and more than 5% below 1995's output

MINING — GOLD

1998

Strategy outlined for gold sector

BD 5/1/98 (214)

David McKay

THE much-vaunted consolidation of SA's gold-mining industry aims to reduce costs, but it is also diluting the industry's potential and failing to create wealth

This is the view of management consultant Decision Process International (DPI), which has worked with a major SA mining house in realising a two-pronged strategy of pushing costs down while driving gold demand up

SA's gold-mining industry has shed about 200 000 jobs since 1987 under pressure from low productivity, deepening, higher cost shafts, and, more recently, gold-price weakness The industry currently employs 330 000 people

However, DPI partners Rex Glanville and Ralph Harris say gold mining still has an important role to play in SA's industry It contributes 4% to gross domestic product and supports up to 3,1-million jobs in related industries

While SA attempts to gear up a resilient manufacturing sector, the mining industry can still contribute towards earning foreign exchange and providing employment, the partners say

Attempts have been made to breathe life back into the industry For example, the proposed consolidation of Gold Fields of SA's gold assets merged with Gencor's into Goldco is meant to bring the best of both groups together, discarding the marginal mines

Yet Glanville and Harris claim that the industry has to manage its productivity better and, in so doing, recognise the "reality of gold mining" The industry could also do more to market gold as a retail product, developing more innovative products than the traditional gold bullion, they say

Merger proposals can lead to an extravagant "paper chase" unless dovetailed with good process management, Harris says, and implemented where it matters to a mining company underground

Effective measurement systems have to be implemented which gauge gold mining from blasting and haulage to metallurgical treatment This has to be mapped to identify potential bottlenecks

Overall, the process of gold mining has to be managed continuously so that corrective action can be taken immediately and not after an often-belated monthly or even quarterly review, he says

Winning the support of labour is another essential aspect of lowering costs However, Glanville is philosophical on this point

Labour relations on SA's gold mines is part of a complex sociopolitical and economic history and is therefore not easily solved But profit-share schemes, multitasking, and the training of labour can work if applied in the correct proportions, he says

Crucially, there has to be a clear decision making process on SA's gold mines which may require "flattening the structure" The management ethic on SA's mines still tends to be hierarchical, he says

A major task is to create retail demand for gold similar to that of diamonds The majority of diamond production is stockpiled by De Beers and distributed in accordance with market demand, Glanville says While gold miners must accept the gold price and market fundamentals, he says the mines could do more to market gold as a commodity

The development of junior mining house Harmony's gold refinery opens opportunities for producing gold in different styles to the traditional bullion

Management with a penchant for marketing needs to be drafted in to change the image of gold, particularly as government central banks no longer view gold as the store of wealth, Glanville says

Tough times for mines as gold keeps falling

(214) BD 9/1/98

Lukanyo Mnyanda

BULLION slipped below $280/oz to a new 18-and-a-half-year low yesterday, driven down by equity and currency market turbulence in southeast Asia, fears of global deflation and central bank selling

The latest fall points to a tough time ahead for SA mines with some analysts expecting the metal to go as low as $250 in the absence of positive news

It started yesterday on a firm footing and managed a small gain to fix in London in the afternoon at $281,65 before a late selloff in New York saw it lose $2,85 to $278,80 — its lowest since July 1979

Commercial Union portfolio manager Peter Urbani said gold could fall to $250 by midyear, a price at which "no SA mines will be profitable"

Roger Chaplin, mining analyst at London-based T Hoare & Co, said. "They are the same old fears about the Asian crisis and central bank selling, and now everybody is taking a go at it"

There had also been a sharp decline in the rand gold price, now at its lowest for about 18 months despite the rand being at record lows against the dollar

Analysts identified selling, lack of

Continued on Page 2

Gold

(214) BD 9/1/98

Continued from Page 1

demand from Asia and US Federal Reserve chairman Alan Greenspan's warnings on deflation at the weekend as the main drivers of the latest round of gold weakness They said the fact that Asian countries were buyers — not producers — of gold meant world demand would be hard hit as their economies slid into trouble as they could be tempted to sell gold for funds to protect reserves.

Neil Behrmann reports from London that Gold Fields Mineral Services said yesterday the supply of gold into the world market climbed 16% to 4 025 tons last year from 3 477 tons in 1996.

The precious metals consultancy, a unit of Gold Fields of SA, said net gold sales of central banks surged 64% to 393 tons and was nearly double the average annual level of the past 10 years.

Gross sales of central banks amounted to 825 tons last year. Besides Australia and Argentina, by far the biggest sellers, 12 other central banks, mainly from Europe and Asia, offloaded gold, it said.

Its estimates showed a "surprising" 2,3% increase in mine production, despite efforts to close unprofitable gold mines across the world as the bullion price collapsed.

Gold mines are expected to have produced 2 402 tons last year compared with 2 347 tons in 1996.

"The apparent lack of response to the declining (gold) price from the mining industry is explained firstly by the fact that many of the announced closures had taken effect by the end of the year and, secondly, by the start-up of a number of new projects that had previously been in the development phase," it said.

The central bank sales were offset to some extent by purchases by 19 central banks, mainly producer countries such as Russia, which absorbed 432 tons last year.

Gold Fields Mineral Services CE Stewart Murray said although most buyers were central banks which bought from their own mines, a few decided to buy to reduce the proportion of their dollar reserves. Others bought it with the aim of selling at higher prices.

But for central bank mobilisation and the consequent increase in derivative sales, the gold price would have been much higher. However, the slide in Asian demand and net sales of gold from Thailand, Indonesia and Korea added to bullion's woes.

Analysts predict a dismal six months as gold loses its glister

(214) Star 12/1/98

Predictions of further retrenchments, mines closing down and a ripple effect on the South African economy, as price drops to 18-year low

By Ryan Cresswell

The mining industry faces a grim six-month struggle in the first half of 1998, with the gold price probably hovering at or below $285 an ounce before the intense pressure starts to lift in the middle of the year.

Last week the gold price dropped to an 18-year low of below $280 an ounce. This comes in the wake of nearly two months of extremely hard times, when the price stayed under $300.

Mining unions expect major retrenchments, analysts expect some mineshafts to close, and economists say a negative ripple effect will continue to spread throughout the broader economy.

One of South Africa's top gold analysts, Gerhard Kemp, predicts the price will go up to $285 and then stay there until June.

After this, he predicts, the price will begin to rise to about $300, which is still far from impressive.

"It is a case of survival of the fittest for the next six months, and then we will have to see who are going to be the champions after that."

Kemp says some mines will probably have to close certain shafts, but even the ones in dire straits will almost certainly opt to keep their surface operations going until things get better.

There are now 20 major gold mines in the country and, of those, 12 are considered to be having difficulties, with 10 of them operating below cost.

Kemp says June will probably see the end of uncertainty in Asian economic markets and less confusion surrounding the International Monetary Fund.

These developments will have a positive impact on unusually high central bank sales and leasing of gold. These sales have scared off investors for some time.

Kemp adds that the rand exchange rate will probably play a negative role in the 1998 economic survival struggle. He predicts the exchange rate will drop from the current R4,94 to the US dollar, to about R5,15 during the next few months.

But he says big companies have sold forward at fixed rates and this hedging will continue to alleviate the situation to some extent for several months to come.

Currently, the average operating cost to produce a kilogram of gold is R45 000 and the average return price is about R50 000.

Kemp says "In the longer term, those mines with costs below R44 000 a kilogram will easily survive but the others will have to change strategy."

Chamber of Mines senior economist Roger Baxter says the economic reality is that a serious situation has developed.

He says that although gold is now only 4% of the total gross domestic product, it still plays a huge role in the South African economy, and any decline in price has a multiplying effect throughout business.

He says gold provides about 20% of the country's total exports, and every $10 drop in the price means about a R770-million drop in revenue.

Another mining analyst, Keith Bright, says it is often forgotten that gold price drops also affect subsidiary businesses such as engineering groups, suppliers and cleaning services.

"There is a lot more to the whole thing than just a loss in gold revenue."

ANDREAS VLACHAKIS

Down in the dumps ... former miner Karohano Matela now earns a living by planting mealies and beans and doing the odd casual job. Matela (36), a migrant labourer from Lesotho, was laid off in 1996 after drilling rocks for 13 years at Western Deep Levels mine in Carletonville. The father of three boys has been living in the hope that he might be recalled to the mines soon. But he knows this is unlikely in the wake of the gold-price plunge.

■ See separate report on this page

He says companies producing goods could cut back and wait for a better market, but mining operations have to persevere in order to pay water-pumping costs and have to keep deep workings open because they close up quickly.

Economist Steve Brown says research into a possible worst-case gold scenario indicates that up to 80 000 miners could be retrenched over the next two years.

National Union of Mineworkers spokesman George Molebetsi describes the situation as a crisis and has called for a major summit on the issue by the end of next month.

He says 32 000 miners were retrenched last year and about 10 000 dismissed.

These posts will probably never be filled again, he says.

Molebetsi accuses mine management of exaggerating the situation in an effort get rid of expensive workers or even in an effort to discredit the Government.

But Chamber of Mines spokesman Llewellyn Kriel says the accusations have to be rejected. He says management carries out retrenchments only as a last resort.

But whichever way you look at it, the gold-mining industry is entering one of the toughest phases it has faced for years, and everyone concerned had better gird for battle.

NUM rejects black empowerment deal

(214) Sowetan 16/1/98

By Shadrack Mashalaba

BLACK-led mining group African Rainbow Minerals and Exploration Company (ARM) has bought six shafts from Vaal Reefs Exploration Mining Company, a division of Anglo American, for R40 million

The purchase by ARM includes Shafts One, Three, Four, Five, Six and Seven, and excludes all major equipment and winders ARM will also purchase Anglo's contract mining company, Naledi Mining Services, for R1,8 million

National Union of Mineworkers president Mr James Motlatsi said his union rejected the deal in its entirety

Anglo American is running away from its social responsibility We have been briefed that the deal is a black empowerment initiative, however, we will be watching with a critical eye as the process unfolds," said Motlatsi

In terms of the deal Shaft Two will only be sold to ARM with effect from the date on which ARM obtains the required mining and operations authorisation from the Department of Mineral and Energy Affairs

Gold price puts mines on 'a knife edge'

BD 16/1/98 (214)

David McKay

TIME is running out for about 12 000 miners at Gold Fields of SA's (GFSA's) Leeudoorn and Libanon gold mining divisions, which were described by management yesterday as living "on a knife edge"

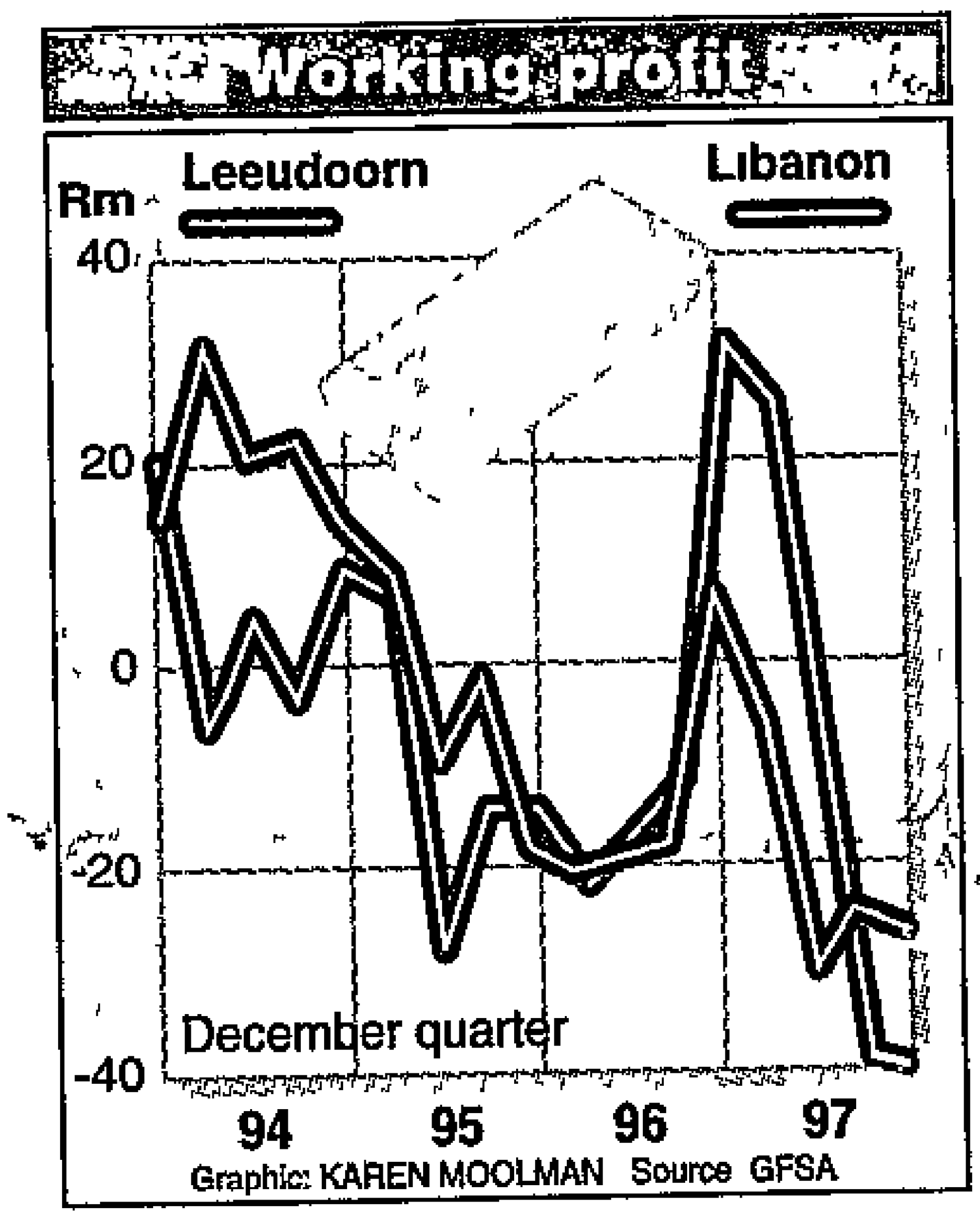
The only possibility for saving their jobs, said GFSA CEO Alan Wright, was for the introduction of full calendar operations to have an early effect on costs and production He was speaking after GFSA's quarterly results were announced

A dire warning on SA's gold industry was also issued yesterday by Minerals and Energy Minister Penuell Maduna He said that at the current gold price, 14 mines producing 199 tons of gold (about two fifths of total SA output), and employing 130 000 people, were unprofitable This was despite hedging activities

"By our calculations, each employee will have about eight dependants This price threatens more than a million people with abject poverty," he said

Leeudoorn and Libanon, which reported a combined R44m loss for the December quarter, are housed in listed company Kloof Gold Mining Company, whose Kloof mine is widely regarded as SA's richest gold producer

The Kloof mine, the revenue of which has helped fund losses at Leeudoorn and Libanon in past quarters, reported a steep R36m decline in working profit The net result was an overall R31m taxed loss for the listed company's three divisions — a drop of R39m over the three-month period.



GFSA executive director of gold operations Richard Robinson said Libanon and Leeudoorn, located near Carletonville on the far West Rand, faced closure if they did not improve during the present quarter.

Kloof Gold Mining Company, after capital expenditure, was in the red to the tune of R80m in December

The overall effect on GFSA's gold division, which has consistently avoided forward gold sales despite poor market conditions, was predictably heavy It reported an aggregate taxed profit of R101m — a 45% decline from the September quarter.

The results are ominous for the March quarter where the decline in the dollar gold price, which began towards the end of last year, will be more fully reflected GFSA's figures, which normally kick off the quarterly reporting season in SA, could usher in a grim

Continued on Page 2

GFSA

BD 16/1/98 (214)

Continued from Page 1

time of reckoning for SA's gold mines.

Société Générale Frankel Pollak's Angus Auchterlonie said all of SA's gold mines were going to be knocked. Avgold was heading for a particularly difficult time, he said

Another analyst said he was surprised at the extent of losses at Leeudoorn and Libanon He had expected Kloof Gold Mining Company to break even, or better.

SBC Warburg's John Reade said the time had come for GFSA to take a strategic look at its operations. Leeudoorn and Libanon should be closed.

Leeudoorn started full calendar operations (a seven-day work calendar) on January 5 while a similar arrangement has been made for Libanon, starting in February.

Robinson said there was still hope for Libanon and Leeudoorn, and morale among the division's labour force remained high. However, GFSA had a R130m bank overdraft which was being used almost fully to keep Leeudoorn and Libanon afloat.

The financial pressure created by the two ailing divisions made their losses "unsustainable". Both were living "hand to mouth", Robinson said.

Moreover, GFSA was on the brink of finalising the merger of its gold assets with Gencor into Goldco — renamed Gold Fields — this week.

GFSA has said in the past that "baggage", meaning marginal gold mines, could not be carried into the merger.

Kloof Gold Mining Company lost 30c to end at R16,50 on the Johannesburg Stock Exchange yesterday.

See Page 11

R130m overdraft facility almost depleted

Gold Fields mines 'on a knife edge'

CT(BR) 16/1/98 (214)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Gold Fields mines Leeudoorn and Libanon were "on a knife edge" and could close within months, the mining group said yesterday after announcing drastically reduced profits for the last quarter

"Leeudoorn and Libanon are the black sheep — we're looking at less than a quarter and taking it month by month," said Richard Robinson, the Gold Fields executive director of gold operations

A R130 million overdraft facility at the mines was "close to the limit and this is why the mines are on a knife edge," Robinson said

Leeudoorn alone has recently reduced its workforce from just 7 000 to 5 000 Now even these jobs are at risk

"Leeudoorn just didn't perform and these are unsustainable loses We have to turn these operations around quickly or close them," Robinson said Both mines are included in Kloof Gold Mining, which will be merged into the new Goldco, or Gold Fields, mega-gold company along with Gold Fields' other mines and Gencor's gold assets

However, there is speculation that the two loss-making divisions will be closed or sold, with only the Kloof division included from Kloof Gold Mining

Gold Fields as a whole saw after-tax profit drop by 45 percent to R101,3 million in the quarter to December 31

Leeudoorn alone lost R24,2 million, compared with last quarter's loss of R23,3 million Libanon lost R20,2 million from a previous loss of R17,9 million Kloof division profit was down to R15,1 million from a profit of R51,1 million previously

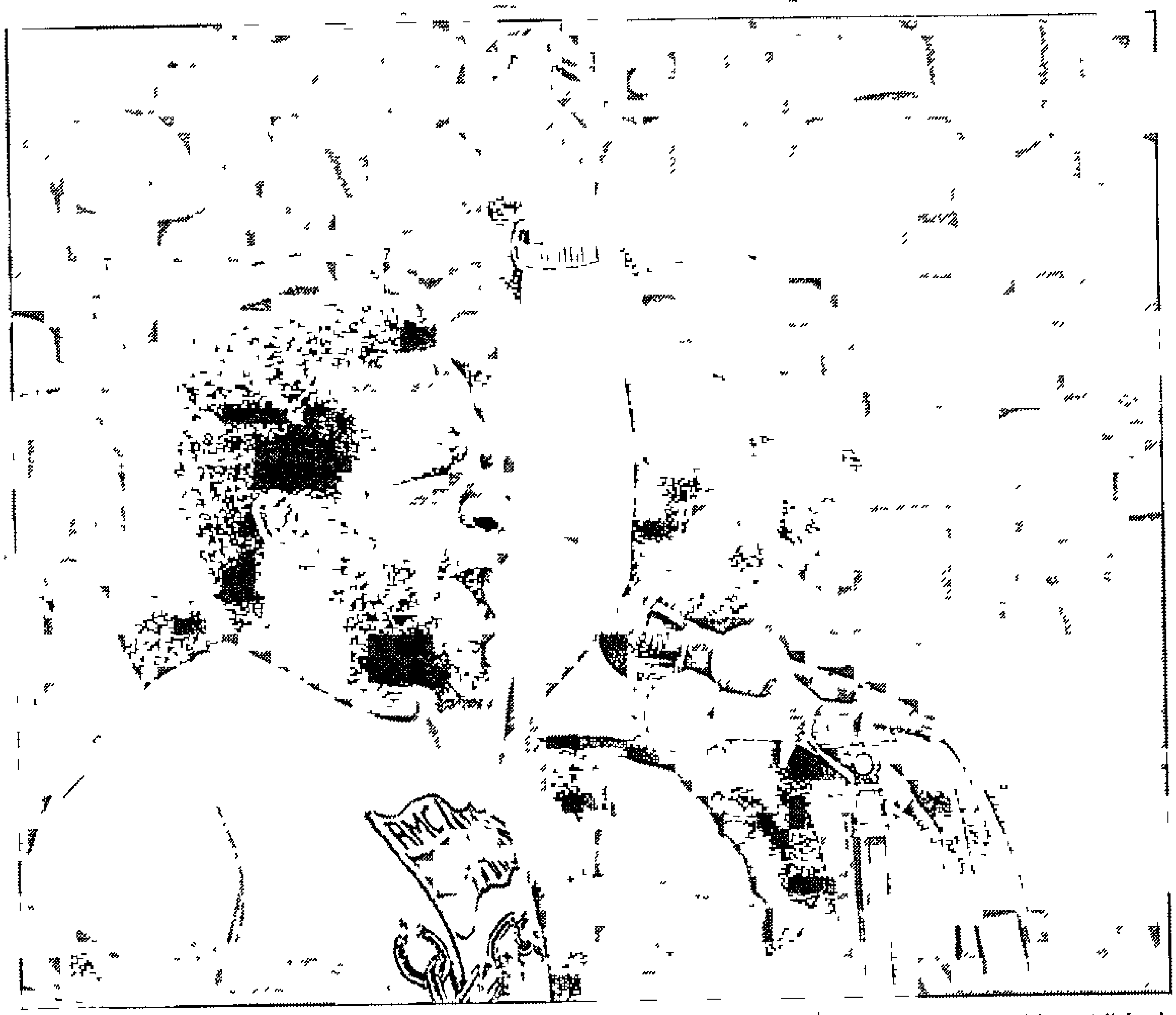
Morale was good at Leeudoorn and preparations for introducing full calendar operations were under way at both mines, but Robinson said Libanon had a "militant workforce".

Driefontein, the group's largest mine, felt the chill of the low gold price profit slipped to R132,8 million from R177 million, mainly because of a seismic incident at East Driefontein which slashed output by 15 percent during the quarter

Gold Fields also warned that group capital expenditure would be cut "A lot of capital expenditure will be have to be cut and it is possible that we will have to curtail capital expenditure for future production and find ways to make up for this somehow in the future," stressed Robinson

Northam, the troubled platinum operation, reduced its losses to R720 000 from the previous quarter's R5,8 million loss, but still failed to make its first profit

Analysts were also worried that Gold Fields Namibia, the copper producer, would close after an "unacceptable" after-tax loss of R25,7 million "Losses of this magnitude are not sustainable," the company said



'IT'S A SHAM' ... National [illegible] President James Motlatsi says the deal is not 'black empowerment at all' as some 3 000 workers will lose their jobs.

ARM buys mines, saves jobs

CP 18/7/98 (214)

By ALI MPHAKI

[illegible]CE MOTSEPE is unfazed by the [illegible]m [illegible] at his African Rainbow Minerals, a black [illegible] group, for acquiring six of the marginal [illegible] American this week for R38 2 [illegible]

In [illegible] the deal, Vaal Reefs is to sell its [illegible] 1, 3, 4, 5 [illegible] 7 and tribute No 2 as well as contract mining company Naledi Mining Services to Motsepe's African Rainbow Minerals and Exploration Company (ARM)

[illegible] first to fire a salvo against Motsepe was National Union of Mineworkers [illegible] president James Motlatsi, who described the deal as a "sham" and not "black empowerment at all", since the deal involved the loss of more than 3 000 [illegible]

Another worrying factor, he said, was that Anglo was losing a lot of money on these shafts, with the option of shutting [illegible] possibility And [illegible] Motsepe have that [illegible] the shafts back to prof[illegible]

With the price of gold reaching an all time low [illegible] the goldfields announcing [illegible]n, some observers are asking whether Anglo is not merely selling Motsepe dead dogs"

[illegible] Motsepe, a law[illegible] the shafts were "dead dogs" in Anglo's hands [illegible] of Anglo's management style but is confident that a small company like ARM will be able to mine the shafts profitably

[illegible] difference between [illegible]ng a high [illegible] low volume mine, [illegible] more inclined to high [illegible]

Is Anglo selling Motsepe 'dead dogs?'

"We conducted a six-month intensive study and I can safely say we can mine those mines for the next 10 years. We see this deal as an opportunity and because we want to grow in mining, we have to be the best in what we do," he said

Of note is that had Anglo shut down the mines, close to 7 000 workers would have been laid off. With ARM buying these shafts, about 4 500 of the workers will be re-hired

Motsepe said they had been having extensive talks with the union for a long time and he was not perturbed at Motlatsi's comments since throughout the world union leaders had an obligation towards their members

"And any profits we make we are going to plough back into the business so that we can acquire more opportunities and grow that way," he said

One way of making the mines profitable, Motsepe added, would be the introduction of performance-related bonuses among the workers and a flat management structure.

In terms of the deal, which Vaal Reefs chairman Bobby Godsell described as a "clear advance for the involvement of black South Africans not only in the ownership of gold mining assets but in the their management", the total cost, excluding all major equipment and winders, is to be paid out of future pre-tax profit of the shafts

Motsepe said this profit-related formula was like somebody giving you his taxi and saying: "pay me when you make money. Even when you do not make money, continue to use the taxi until you can make some money to pay off the loan".

Godsell added that both Vaal Reefs and ARM would share services and support each other in many mining-related functions.

"We will benefit from each other's success and suffer from each other's failure."

GFSA 'not selling' Leeudoorn and Libanon

CT(BR) 19/1/98 (214)

Frank Nxumalo
LABOUR CORRESPONDENT

Johannesburg — Gold Fields of South Africa (GFSA) yesterday dismissed as "entire speculation" weekend reports that it was selling Leeudoorn and Libanon, two marginal and loss-making operations, to Brett Kebble's new gold company GFSA did concede that it would still have to "reduce the workforce down to 5 800 from about 7 000" because of downscaling of operations at Leeudoorn

"Leeudoorn and Libanon still belong to the Kloof Gold Mining company, and anything to do with the sale of these operations at this stage is entire speculation

"It is our hope and wish that Leeudoorn and Libanon would be revitalised and move out of a loss-making situation", Andrew Davidson, company communications manager, said yesterday

However, National Union of Mineworkers (NUM) spokesman for the PWV region Madoda Vilakazi said he did not think there was "anything that can stop them" from selling the operations

Davidson said the two operations had registered a loss of about R20 million in the quarter and that the new vehicle, Gold Fields, was yet to be listed

He said the downscaling of the workforce was going ahead at Leeudoorn despite full calendar operations and a productivity agreement reached with the NUM to mill 90 000 tons of ore a month

He denied NUM claims that GFSA was retrenching workers at Libanon but confirmed that 400 mineworkers had taken "voluntary retrenchment packages", another 600 had been "transferred to other operations" and between 300 and 400 were being "retrenched at this moment" at Leeudoorn

However, Vilakazi said that "400 people will be affected at Libanon's Venterspost shaft, although about 130 will be relocated to other operations"

Blueprint for mining sector to be explored

BD 26/1/98 (214)

Reneé Grawitzky and David McKay

SA's mining houses face some tough decisions at a Chamber of Mines meeting tomorrow to thrash out a blueprint for the industry's future.

The meeting, to be held at a Mpumalanga resort, is viewed by some as a milestone for the industry It comes at a time of unprecedented turmoil, marked by the closure of ageing gold mines, a falling gold price, high costs, mass retrenchments and a spate of mine mergers

Gold Fields of SA executive director Richard Robinson said the meeting would have an open agenda. The emphasis would be on setting guidelines to define the industry's role in the context of the national economy

"This is an attempt to establish a consensus on SA mining and to take the industry's position forward in a constructive way," he said

Industry officials said talks on the chamber's future would centre on whether the mining houses were willing to continue funding it to the same extent as they had in the past

The chamber, formed more than a century ago, was for many years the focal point of the mining industry's research, lobbying and marketing activities In recent years its role has diminished, reflecting changes in the industry as mining houses have shrunk and passed many of their activities on to individual mines The chamber's primary function now is in the area of advocacy and to provide strategic support and advice to members

Chamber officials said there was insecurity over possible retrenchments in the event of further restructuring of the organisation

GODSELL

Separately, the National Union of Mineworkers has called for a gold mining conference next month, aimed at addressing the crisis in the industry Industry sources said the chamber meeting was not in response to the proposed conference but had been decided on long beforehand

The outcome of the chamber meeting is expected to hinge on direction given by chamber president Bobby Godsell, seen to be the driving force behind the three-day meeting

Other items likely to be discussed include mineral rights, health and safety, industry wage negotiations and tax for the industry

Chamber officials said talks on the 1998/99 budget would invariably raise the subject of services provided by the chamber; the reduction in the number of gold mining houses and whether the mining groups were prepared to continue funding the body

Driefontein talks near conclusion

BD 29/1/98 (214)

Amanda Vermeulen

ANGLO American and Gold Fields are close to finalising a deal to mine Driefontein (Dries) jointly, thus overcoming conflict which has arisen over control of an asset both groups covet.

Industry sources said yesterday that Gold Fields — the merger of Gencor and Gold Fields of SA (GFSA), initially known as Goldco — and Anglo American division Anglogold could form a 50/50 venture and agree to mine Dries independently.

Anglo American owns 19% of Dries, while Gold Fields has 37%. GFSA tried to get shareholders to vote to increase Dries's issued share capital late last year, which would have given it the voting power to use the mine as the listing vehicle for the new Gold Fields. But that bid was foiled by Anglo, which has long had its own plans for Dries.

Anglogold CE Bobby Godsell said last year it made sense to bring Dries into the Anglogold stable due to the common geology with its Western Deeps mine. A suggestion is that if Anglo and Gold Fields strike a deal, Anglo could inject part of Western Deeps into the joint venture to increase its shareholding to equal that of Gold Fields.

Analysts said this was the most feasible solution as the portion of Western Deeps under consideration could not be mined without using the Dries infrastructure. In addition, Gold Fields owns 22% of the mineral rights for Western Ultra Deeps. Such a partnership would offer a "happy compromise" on the future mining of Western Ultra Deeps.

Gold Fields chairman-elect Brian Gilbertson said yesterday the groups were working towards a solution. "A number of options have been considered, including this one, but nothing has been finalised yet."

One analyst suggested JCI might present a new option. If JCI shareholders today approved the sale of Western Areas and HJ Joel to Anglogold, Anglo could use Western Areas as a bargaining tool. It could, he suggested, propose to give Western Areas to Gold Fields in return for West Dries and cash. Other analysts said this was unlikely.

Shareholders will be asked to dissolve JCI

BD 29/1/98 (214)

David McKay

JCI, the mining house formed by pioneer Barney Barnato over a century ago, is to be broken down and sold off over the next four months

Shareholders may be asked at today's annual general meeting to consider a candidate to oversee JCI's dissolution, following Mzi Khumalo's resignation as chairman yesterday

The directors' decision to dissolve the group, made last Friday, will also require shareholder approval

It is possible that JCI executive chairman Vaughan Bray will be chosen to oversee the disintegration of the R4,1bn company, once rated among the top flight of gold producers worldwide

The final chapter of JCI's eventful history has been the most acrimonious What was hailed nine months ago as a breakthrough for black empowerment has resulted in its demise, amid accusations of personal ambition and abuse of corporate governance

Pending shareholder approval, JCI's assets will be sold off piecemeal, leaving R4,2bn in cash to be distributed to shareholders The marginal Randfontein gold mine and a bric-a-brac of mineral rights worth a total of R800m is all that will remain. Key gold mines Western Areas and HJ Joel will

BARNATO

be sold to Anglo American Corporation and Tavistock Collieries finally goes to UK conglomerate Lonrho.

It is believed the Lonrho board has agreed to buy Tavistock for R1,7bn, a higher price than originally thought, as well as a chunk of its own shares which JCI will gain from Anglo American in exchange for the gold mines

JCI's chrome producer, Consolidated Metallurgical Industries (CMI), is being lined up by Glencore for about R18 a share despite the Swiss metals trader's apparent disaffection in concluding a rapid deal for CMI

Khumalo said the dismemberment of JCI would take four months

As a result, the looming legal tussle between JCI and Southern Mining Corporation (SMC), a heavy minerals company in which JCI had invested, would dissolve It was Khumalo's belief that SMC could not contest an issue with a company that no longer existed

However, Khumalo said he believed in SMC and that his family's investment in that company would continue

This would be done through African Mining Group, which Khumalo would use as a vehicle to form a new African-based metals company. Reuel Khoza and Audrey Mokhobo, who also sit on the JCI board, would join him in setting up the new company

Khumalo expected his new company could receive R1bn in cash from his investments in Saflife and Consolidated African Mining plus support from financial institutions

He said his new company could make a bid for a stake in Lonrho, as well as JCI's Beira iron project in

Continued on Page 2

JCI

(214) BD 29/1/98

Continued from Page 1

Mozambique and Prestea, a JCI gold mine in Ghana.

Reflecting on a tumultuous nine months in charge of JCI, Khumalo said it had never been a vehicle for black empowerment. "Everything we did became acrimonious," Khumalo said referring to the group of "divergent individuals" who helped finance his passage into JCI.

The board was split into three camps, Khumalo said, with a faction led by business partner Brett Kebble who preferred a gold-focused company. Kebble has been tipped to take control of Randfontein, but Khumalo said he would not get it.

A second — and apparently victorious — faction led by Marcel Golding, wanted to break up JCI and distribute the cash to shareholders.

Further details of Khumalo's plans would be made next month.

JCI chief calls it quits

(214)

MR MZI KHUMALO, the chairperson of JCI, the first and biggest black-owned mining house, has resigned from the board

Khumalo's resignation, announced last night 24 hours before the company's crucial annual general meeting (AGM) scheduled for today, effectively brings to an end the biggest black economic empowerment deal in South Africa's business history

Khumalo's fate was to be decided at the AGM after a fall-out with the JCI board But he pre-empted his long-awaited sacking by resigning

In a press statement released on his behalf, Khumalo said the board's decision to break up the mining house was the prime reason for his resignation

CT 29/1/98

"I have no further role to play in JCI and no desire to preside over the liquidation I am determined to achieve my objective in the mining business, which is to create a world-class, African-based, multi-commodity mining company, and I will be making further announcements during February to this end," he said

A number of factors led to problems at JCI, among them the falling gold price and the lack of confidence from a harsh and often sceptical market. There were also allegations that deals were made without the approval of the board, making a mockery of corporate governance procedures

● See Business Report

M+G 30/1 – 5/2/98

First black head for Chamber of Mines

(214)

Madeleine Wackernagel

The Chamber of Mines has appointed its first black chief executive officer. Mzolisi Diliza (49) is moving from the Independent Development Trust to take over from Tom Caine, who is retiring at the end of March.

Talk that the chamber's future is in jeopardy was quickly dismissed when officials returned from their bosberaad in Mpumalanga on Thursday.

Announcing Diliza's appointment, Bobby Godsell, president of the chamber and head of Anglogold, pointed to the chamber's crucial role in working with the government and labour to ensure that the industry flourishes well into the next millennium.

Diliza's extensive leadership experience, both at the Independent Development Trust and in the private sector, would help to steer the chamber on that course, he said.

A black CEO marks the culmination of the chamber's transformation over its 100-year existence.

For most of its existence the chamber has been the centre of the industry's research, lobbying and marketing activities, but has been gradually scaled down to its current role of advocacy. In this context, says an insider, leadership skills rather than technical know-how are paramount, and Dizila fits the bill.

"This is by no means a token appointment. Dizila is more than qualified for the job."

With the industry as a whole in flux and gold in the doldrums, the chamber still has a role to play as a lobbying force Godsell has said in the past that if the chamber did not exist, it would have to be reinvented.

"As the industry changes, and mining techniques develop, the chamber will be crucial to facilitating the process. There is no question of the gold industry collapsing; we just have to find new and smarter ways of getting it out of the ground," says a representative.

Mzolisi Diliza .. we have to work with labour and the Government to make South Africa one of the top mining countries in the world.

Appointment of black CEO raises questions

(214) Sowetan 3/2/98

By Abdul Milazi

THE appointment of Mzolisi Diliza as the first black chief executive officer of the Chamber of Mines has raised questions about his ability to 'reposition" the organisation in the new South Africa

Firstly, the position of CEO is not as significant as that of the chairman or president , who have decision-making powers Diliza will be just a worker

Secondly, the appointment comes at a time when the industry is under strong criticism from labour for the current unprecedented number of retrenchments to save gold mines, most of which have become marginal

It also comes at a time when there is growing suspicion in the black community that the mines are recruiting blacks at management level to use them to exploit black workers

National Union of Mineworkers spokesman George Molebatsi says the random appointment of blacks to top positions gives credence to the widely held belief that big corporations are head-hunting blacks merely to gain credibility

Molebatsi says proof that mining houses are using blacks to exploit black workers is the recent sale of four marginal mines to African Rainbow Minerals, a black consortium

African Rainbow Minerals will have to introduce long working hours and low wages and retrench many people to bring the mines around

"Anglo has told the consortium that they don't have to pay now but only when they start making a profit In fact, what they are doing is using blacks to exploit other blacks while they keep their hands clean," he says

"At the end of the day the new owners will push workers to the limit to ensure there is some form of profitability Anglo will get its pound of flesh without getting its hands dirty"

Different mining houses determine their own industrial policies and with the gold price at its lowest, mines are forced to find their own ways of improving profit margins

Other observers claim that the Chamber of Mines is now a shadow of its former self and no longer has much power over the mining industry This made it easier for the champions of industry to accept a black at the helm

Although Diliza's *curriculum vitae* is impressive, he has never worked in the mining industry His appointment broke the Chamber's old tradition of reserving top positions for individuals in the industry

Chamber president Bobby Godsell admitted at a press conference in Johannesburg last week that Diliza knew nothing about mining

"Diliza is from outside the industry and he will concede that he has a lot to learn about gold mining and the mining industry in general," Godsell said

Asked if the chamber had made a conscious decision to go head-hunting for a black person, Godsell defended the appointment by saying the new CEO pipped 39 other applicants

Some journalists, gathered at the Chamber of Mines building to witness this "historic" event, may have begun to believe him when he suddenly seemed to contradict himself

"When we were looking for a successor, we had to look at the country we are living in," he said

The second hint of the chamber's real intentions came from Diliza himself, who said the history of the organisation made many black people believe the mining industry had its feet in Africa and its heart in Europe

Change perception

"We have to change that perception We need to create an organisation that is politically collaborative and part and parcel of the new South Africa," said Diliza

The man – whose surname means demolish in *isiZulu* – has been given the task of reconstructing the image of the Chamber of Mines, although Godsell chooses to call it "repositioning"

The press conference gave the impression that something was not right Journalists were not given an opportunity to ask questions

Molebatsi believes Diliza's appointment was no different from many other token black appointments "We had Mzi Khumalo at JCI and he resigned after being chairman of the company for only a year"

Diliza admitted that he was crazy enough to join the industry at a time when it is facing difficult times because of the falling price of precious metals and massive job losses

"But we have to work together with labour and Government to make this country one of the top mining countries in the world," he said

SA gold mining industry in 'good shape'

(214) BD 4/2/98

CAPE TOWN — The SA gold mining industry was in the final stages of a decade-long restructuring, and with the formation of Gold Fields and Anglogold, was poised to enter the next century "in good shape", said Fleming Martin gold analyst Gerard Kisbey-Green

The emphasis for SA producers was now on globalisation, he told delegates yesterday at a conference on investing in African mining

This was after emerging from a period of survival and gradual consolidation which had started in 1988

Since then, the face of the SA gold mining industry had undergone sweeping changes, and in the process it gained independence from the traditional mining houses

The formation of Randgold, which was created out of Rand Mines, led the way It was important because it concluded mergers across contiguous lease areas and bought back management contracts with its operating mines

Other restructuring had not been successful

The rationale behind the Avgold merger, for example, was for the Hartebeestfontein gold mine to generate cash flow for Target This had failed and now refinancing for Target was required.

Gengold's Evander merger had also not lived up to expectations, as synergies had not been immediately realised

This problem was compounded by the declining gold price

"Through this entire phase, Gold Fields (of SA) remained an onlooker, participating only insofar as to sell loss-making operations to willing buyers," Kisbey-Green said

By June, the SA gold mining industry should consist of gold's large, newly formed Anglogold and Gold Fields, followed by the smaller Avgold, Harmony, Durban Deep, Randfontein and Crown and a number of smaller operations

This compared with six mining houses which managed more than 32 operating mines in 1988

South African gold equities come second

(214)

Sowetan 4/2/98

AFRICAN gold equities took second place to Australia in the value ratings for 1998 and 1999 but there was a question mark over capital costs, the Investment in African Mining conference in Cape Town was told yesterday

"African stocks appear to be rated mid-way between Australian and North American stocks on the basis of resource ounce valuation, but below the level of South African producers once cash costs are taken into account," head of international mining sales at SBC Warburg Dillon Read, Jeremy Wrathall said.

"It may well be that if capital costs per ounce were taken into account the African sector may not appear quite so attractive."

The South African sector looked very cheap on the basis of resource ounce valuation, but this rating changed dramatically when costs of production were taken into account.

"The (resource ounce) rating plus cash costs comes in at R1,36 bullion/oz, a slight discount to the international weighted average," Wrathall said.

Africa remained an attractive place to invest, but could easily fall from grace if any more operational or political mistakes were made "The limited amount of finance available will be hard fought over," he said.

> **'The limited finance available will be hard fought over'**

A priority for African gold mining companies was to improve productivity, "to rely on an increase in the gold price or valuations on the basis of resources alone would be a mistake"

"To get out of jail too quickly via an increase in the gold price would be a long term mistake Cash costs and total costs must be improved, but not just by increasing the throughput grade. Genuine productivity improvements must be achieved"

Wrathall said in South Africa the consolidation of the industry should not be used to hide poor performance.

"The winds of substantial change are blowing through the industry and it is extremely encouraging to see the current focus on productivity and cash costs."

South Africa's substantial undeveloped gold deposits, that could in theory be put into production with low cash costs, still drew the attention of international majors. – *Sapa.*

Mergers will 'stimulate renewed foreign interest' in SA gold mines

BD 9/2/98

David McKay (214)

CAPE TOWN — Gold Fields and the proposed Anglogold merger were at the forefront of a renaissance among SA gold producers who were poised to become the focus of renewed investor interest, Simpson McKie's Simon Village said yesterday

Speaking at the "Investing in African Mining" conference, Village said a number of historical restrictions had fettered the SA industry and lowered the estimation foreign investors had of it.

Exchange control, for example, limited offshore expansion with the result that SA gold producers had been unable to replace diminishing local output.

In comparison to growth in Australian gold output (248% increase) and that of the US (78% increase), SA gold production has shrunk 19% in the past five years. Total output from SA producers was less than 500 tons last year.

More recently, the SA Reserve Bank has eased exchange control restrictions and SA companies can now spend about R30m per offshore prospect

But total freedom of expenditure was required for SA companies to take their place in the world gold industry, Village said.

The formation of Gold Fields and Anglogold, with their relatively high levels of free cash flow, would change the global expenditure of SA gold companies, he said

Within SA, ring-fencing laws have restricted SA producers from being able to expand their own production. Changes to exchange control and ring-fencing are required to add the last dimension to the newly formed gold companies

Village disputed the perception that the SA gold industry was "on its last legs", claiming that SA gold producer's costs, calculated after normal expenditure, was comparable with US and Australian producers On a total cost basis, SA producers average \$319/oz — just higher than the Australians (\$315/oz) and US companies (\$273/oz)

In addition, the process of conforming to international accounting standards will reduce SA gold producer's cash costs by 5% to 7%

A reduction in marginal production and the removal of management contracts is forecast to reduce working costs to about \$265/oz from \$311/oz

In terms of exploration, SA gold producers had the technical skills to compete with their offshore counterparts, Village said

Labour relations abilities, honed in the highly politicised SA gold industry, would be a vital tool for SA producers negotiating in Africa, he said

Walking the mining tightrope

Star 9/2/98 (214)

Barney Barnato and Mzi Khumalo are at opposite ends of the JCI story


JASON ASKEW

By Donald G McNeil

Barney Barnato and Mzilikazi Khumalo never knew each other Barnato died in 1897, and Khumalo was not born until 1955 But the two men who bracket the history of JCI Ltd – the mining house that Barnato created and Khumalo, a former political prisoner, is tearing apart – both have the status of legends in South African business.

Khumalo has not been around long enough to rival Barnato in the history books, but his entry was impressive. His story thus far, though, is a cautionary one for black entrepreneurs seeking a place in South African business, in whose white-dominated soul the forces of profit, arrogance, secrecy, public interest and guilt all do battle.

A plan to break up the venerable 100-year-old company, also known as Johannesburg Consolidated Investment, scattering its gold, coal and chrome mines to local and European buyers, was presented to shareholders recently. A total selloff in the next six months may still be derailed by reluctant shareholders, but the company is already a shell of its former self, plagued by debt, low morale and resignations.

In March, when a consortium of investors headed by Khumalo bought the 35% interest owned by Anglo American Corp and he was named executive chairman, JCI instantly became a potent symbol – the first mining house controlled by black shareholders.

Mining is the historic core of South Africa's wealth, built on the backs of poorly paid black men who lived beside shafts far from their home villages, to which they could be deported at the first sign of labour unrest. This formula, in fact, underwrote apartheid as an economic necessity long before it was articulated as a philosophy by Afrikaner nationalists.

On January 28, saying he had "no desire to preside over JCI's liquidation," Khumalo (42) resigned as chairman, anticipating his expected ouster the next day. In November, he had been forced to step down as executive chairman after spending $50-million (about R250-million), without asking the board, for part of a fledgling titanium mining company in which he had a large interest. Shareholders voted to back out of that deal.

In recent weeks, some have portrayed him as an "African Icarus," a heroic black entrepreneur who fell victim to the machinations of white executives, while others see him as a traitor to black aspirations who bit off more than he could chew while acting as a front man for wealthy white friends.

Khumalo has blamed divisions in the JCI board for his downfall – a downfall that seemed to accelerate last week with news that another company he founded, Capital Alliance Holdings, was putting its core life insurance business up for sale. But analysts see bigger factors at work.

First was a falling gold price, which was around $350 an ounce while the deal was being negotiated and hit a low of $280 in December.

Second was the premium the Khumalo group paid for JCI. The financial beauty of most earlier empowerment deals was that conglomerates seeking political goodwill sold shares at a discount to black shareholders, and the discounts lured banks in as lenders. What Khumalo's group agreed to pay – about R55 a share – was considered a risky bet. On January 13, JCI shares hit a low of about R18, though they have since risen to about R25 on rumours of the breakup and his resignation.

The third strike against him was his own hubris. The self dealing with the titanium company damaged his credibility as did his penchant for negotiating asset sales without informing his own allies.

On top of that is his outspokenness. He once boasted to journalists that while white executives waited to speak to Thabo Mbeki, he could walk into the family kitchen because Mrs Mbeki is from his birthplace. The future president's wife, he said, is "like my elder sister – she gives me food, gives me whisky, I wait, and he has no choice but to talk to me"

In bringing JCI to the point of dismemberment, Khumalo is unravelling the last corporate legacy of Barnato, a sparkling, enigmatic figure in South African history.

Barnato, born Barnett Isaacs in London, was a cockney music hall magician who took his name from a cry of the crowd. As assistant to his big brother Harry [illegible] called out to take bows [illegible] of "Barney, too!"

Arriving in South Africa in 1873, he was a boxer, comedian and gambler before making a fortune in diamonds. The most famous story told of him is that he paid a high price for the broken down nag of a departing "koppie walloper" – a buyer who went from hole to hole in the diamond koppies, or hills, buying from small diggers.

The walloper would not name his customers, but Barnato shrewdly reasoned that the horse would stop out of habit at every shack on his old route and would provide a way to break the ice with suspicious miners.

By 1889 Barnato was the largest obstacle to Cecil John Rhodes' control of the Kimberley "Big Hole", the world's largest diamond find. He drove a hard bargain for his share: more than 5 million pounds and a "life governorship" in Rhodes' company, De Beers Mining. Just as important, Barnato, a Jew, made Rhodes sponsor him for membership in the exclusive Kimberley Club, thus using his money to strike a blow against anti-Semitism, a powerful undercurrent then in South African society.

Khumalo, in his own way, also highlights the complications that arise with the empowerment of a downtrodden minority. His name has a powerful resonance: Mzilikazi, the most fearsome general of the Zulu king Shaka, the Genghis Khan of Africa, who rebelled and fled, cutting a swath of destruction across southern Africa in the 1820s and 1830s. He then joined several shattered tribes together into the Ndebele people.

As a youth, Khumalo joined the ANC's armed wing and trained in the Soviet Union. Captured in 1978, he spent 12 years on Robben Island. Unlike inmates who wanted careers in a government under Mandela, he said he lacked the politician's ability to compromise. So he earned a business degree by mail and emerged saying he would found a bank.

As a provincial party treasurer, he took computer lessons and set himself up as a management consultant. He quickly made powerful friends, though his pride was often on the line.

At a conference he met Terry Rosenberg, chairman of Prefcor Holdings, a furniture and appliance retail company, taking an instant dislike to him "because of his military moustache" and because, after they had argued politics for two days, Rosenberg offered him a job surveying black consumer needs. "Who told you I'm looking for a job?" Khumalo said he replied. "I was ready to punch him."

Rosenberg persisted with the job offer anyway – phrasing it, Khumalo said, this way: "We're not looking for a black flowerpot, Mzi."

Khumalo took the job, and said later "Most of the things I know in business I learnt from Rosenberg."

After three years, he said, he told Rosenberg he was leaving to start a financial services company, with or without his help. The notion of black empowerment was growing and help was forthcoming. Rosenberg helped round up several million rand in loans, and Capital Alliance, which now boasts a fountain-strewn corporate headquarters in Johannesburg's expensive Rosebank suburb, was born.

Like many such enterprises, it was quickly backed by large corporations, the major shareholders becoming Saflife, an insurance conglomerate, and Investec, an investment bank. Within two years, Capital Alliance had interests in insurance, banking, property management, financial consulting and asset management and was said to be worth more than $1-billion (about R4,9-billion). Its management was almost entirely white.

But Khumalo's real moment of glory was the JCI deal. By a mere 12c a share, Khumalo's African Mining Group consortium outbid New Africa Investments Ltd, headed by Nthato Motlana, and Cyril Ramaphosa, former secretary-general of the ANC and a former head of the National Union of Mineworkers.

Once in the limelight, Khumalo became a darling of white business executives because he criticised affirmative action and put shareholder profits above all else. "We are here to run a business," he said not long ago. "I'm not for any of this brotherhood stuff."

He was also the target of a common gibe against black empowerment – that creating a few new millionaires does not help the millions of blacks living in poverty. – NY Times the tax would be levied is still burden. Mattheus, the finance minister

Vote of faith for gold mining industry

CT (PR) 17/2/97 (214)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The crisis in the gold mining industry, particularly with regard to the gold price and the decision to forge ahead with retrenchments, did not signal the beginning of the end of gold mining in South Africa, the Chamber of Mines said yesterday.

The chamber said although the financial crisis in the far east and the gold price crisis had hit the local industry hard, the message from the recent World Economic Forum in Davos, Switzerland, was that there was still complete faith in the fundamentals of gold.

"There is as still much gold underground as there has been mined in the entire history of gold mining in South Africa. There is no reason to throw up one's hands in despair and say it's the end of gold mining in South Africa," said Llewellyn Kriel, the communications manager.

Last week, the chamber rejected calls by the National Union of Mineworkers to put a moratorium on retrenchments beyond the Gold Summit — scheduled for February 26 and 27 — saying the only way to reduce jobs losses was "to find ways to return companies to profitability and to make them cost-competitive with producers of gold elsewhere."

Meanwhile, trade union federation Cosatu has slammed the chamber's rejection of a moratorium as arrogant and preposterous.

"We are flabbergasted by the chamber's statement that 'jobs must be lost now'. It is preposterous."

Govt 'positive' about mine water purification plan

David McKay (10)(183)(214) BD 20/2/98

THE minerals and energy department will give cautious but positive feedback to proposals by gold mines for the creation of an independent water purification company.

This was after a number of gold mining companies, led by Durban Roodepoort Deep (Durban Deep), presented plans to the department to manage the pumping and purification of contaminated water from underground gold mines

Andre Cronje, of the minerals and energy department, said yesterday he could not discuss details of the department's reply ahead of an internal memo due to be circulated this week. However, he said the department would tell Durban Roodepoort Deep next week that setting up a privately run water purification industry was "a good idea", although several technical questions needed to be examined.

Funding for up to three purification plants, each estimated to cost between R200m and R250m, is to be raised by the mines.

Durban Deep MD Mike Prinsloo said funding would be discussed at a workshop on March 4 to which all interested parties would be invited.

The mines would raise the finance provided government backed the plan and became a stakeholder in the water company, he said. The mines include Western Areas, Harmony Group's Grootvlei and Consolidated Modderfontein and Durban Deep

Other issues to be discussed at the workshop include the water treatment options open to the stakeholders.

The plan is to purify water for human and industrial use which could be used to bolster supplies from the Vaal Dam and the Lesotho Highlands water project

The independent company will purify pumped underground water, which in the case of Durban Deep is about 240Ml a day.

Gold summit aims at plan to resurrect SA's ailing mining industry

(214) BD 26/2/98

Reneé Grawitzky

HIGH-level delegations from labour, government and business gather in Johannesburg today to thrash out a plan to bale out the mining industry amid wide-scale retrenchments, a depressed gold price and high production costs.

The National Union of Mineworkers (NUM), in the wake of mass retrenchments last year, initiated the gold mining summit, which would deal with a social plan for the industry and other measures to ensure sustaining the industry as a labour-intensive one.

Labour Minister Tito Mboweni, head of government's delegation, said government would table proposals on the social plan and mechanisms to keep a closer watch on the industry.

Such proposals would seem to fit in with some of the NUM's proposals for government to take on a watchdog role in downsizing the industry. The union has called on government to take a much more active role by ensuring that the labour department is given legislative powers to instruct mining houses to ask permission regarding retrenchments affecting 10% or more of the work force. Other measures relate to establishing a permanent statutory commission to manage downscaling the industry

The Chamber of Mines hinted last week at a 15-point plan for the sustainable survival of the industry.

The chamber, in a document submitted to the NUM, outlined a framework to transform SA's "mineral resources into wealth to the benefit of all stakeholders".

Meanwhile, the United Association of SA, a Federation of Unions of SA affiliate operating in the industry, said the only way to secure jobs was through a "meaningful and sincere commitment by all concerned with increasing productivity"

At the same time the Labour Court failed yesterday to consider the merits of a case brought by the NUM to halt the closure of a number of Freegold shafts by the end of next month The union applied for an interdict on the basis that insufficient consultation had taken place. The court struck the matter off the roll after agreeing with an argument by Anglogold that a NUM branch chairman did not have authority to bring the matter before the court, based on the union's constitution. The union said it would reintroduce the matter before the court

Anglogold spokesman James Duncan said Freegold was close to concluding sale agreements with various parties to buy some of the shafts which, it was hoped, would ensure the retention of several hundred jobs.

State won't assist ailing gold mines

CT (MR) 27/2/98 (214)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The government would not provide financial assistance for ailing gold mines, Tito Mboweni the labour minister, said at the gold summit yesterday

"It would be wrong to use taxpayers' money to artificially maintain production and employment," he said

But the government would establish a gold crisis committee in a bid to control downscaling in the industry before a proposed permanent mining commission was established, he said

"The gold mines have over the years received numerous direct and indirect subsidies Over the years, these have been gradually reduced, and maybe justifiably so

"In short, we are not coming to this summit promising amounts of subsidies or bailouts to the gold mines," Mboweni said

He outlined a six-point government plan, which includes a gold crisis committee aimed at assisting the union and the Chamber of Mines in tackling the crisis, but not replacing the parties' own efforts

On the gold crisis committee, the minister said the government was prepared to facilitate an urgent meeting on its composition and terms

"We would like to see all future planned retrenchments of over 10 percent of the workforce of any gold mine being referred to this committee prior to it being negotiated in terms of the Labour Relations Act"

The National Union of Mineworkers, which called for the summit, wants agreement on a 12-month moratorium on retrenchments, a retrenchment "gatekeeper" and a strategic social plan

The NUM yesterday estimated that 51 000 gold mining workers had lost their jobs last year. Earlier estimates by the union were put at 40 000 The union forecast a further fall in employment of between 50 000 and 100 000 this year

Bobby Godsell, the chamber president, said that given the causes of retrenchments — ore depletion, the gold price and rising costs — the summit could "either point fingers and allocate blame or explore those important areas which can lead to constructive action"

□ Gold summit, Page 21

FACE OFF *James Motlatse, president of the NUM, and Bobby Godsell, the president of the Chamber of Mines, at the gold summit in Johannesburg yesterday* PHOTO JOHN WOODROOF

Gold summit striving for a rescue plan

BD 27/2/98

(214)

Reneé Grawitzky

LABOUR, government and business are likely to emerge from the gold mining summit today with a broad agreement on a process to manage the industry's downscaling constructively while at the same time ensuring its continued survival.

In a move to facilitate a deal between the National Union of Mineworkers and the Chamber of Mines, government presented a six-point plan to address the crisis.

Government's proposals, devised on the eve of the summit, attempt to satisfy the concerns of both parties. However, government made it clear that while it could play a role, the solutions lay with labour and business.

Key aspects of the plan include:

☐ The urgent establishment of a small, high-level gold crisis committee to minimise job losses and ensure alternatives are properly addressed,

☐ Ensuring agreement on the social plan in the National Economic, Development and Labour Council (Nedlac) by the end of March, and

☐ Conducting a cost-benefit analysis and reviewing certain environmental and related regulations.

Labour Minister Tito Mboweni, who headed the government delegation, said the crisis had to be addressed with a sense of realism.

Much to the disappointment of the NUM, he said government was not coming to the summit promising subsidies or bale-outs. Government believed it wrong to "use taxpayers' money to artificially maintain production and employment in the gold mining industry".

The chamber was equally clear in outlining the problems plaguing the industry. It outlined a 12-point plan reflecting on the financial and policy environment necessary for its long-term success and viability.

Chamber president Bobby Godsell said problems included depleting ore reserves, the low gold price and high costs in relations to the gold price

Godsell stressed the areas for co-operation which were necessary to reduce job losses, and noted the industry's responsibility to assist retrenched miners and their families.

Answering union claims that the industry was using the depressed gold price to restructure and retrench workers, Godsell said that "of the three forces working against us", costs were most within the control of labour and business At the same time, "the referee (the central banks) has not always been entirely impartial".

Reuter reports that he blamed gold's nose-dive on speculation that central banks were going to dump large quantities of their gold reserves

Continued on Page 2

Gold

BD 27/2/98

(214)

Continued from Page 1

on the market.

"Every piece of serious evidence indicates that this is not the case Privately, central bankers indicate this is not the case Yet thus far, publicly they have remained largely silent What can be done about this damaging silence?"

Godsell emphasised that retrenchments were the symptom and not the cause of the problem, and debate today would have to address the actual causes of why companies were losing money "Is it because of safety or environmental consideration? Or is it due to ore depletion or the fact that some mines have still not agreed on productivity-linked wage deals?"

A call for a 12-month retrenchment moratorium, as proposed by the NUM, was a demand which clearly did not see the realities of the situation, he said

Government, in a partial attempt to meet the NUM's demand, proposed that employers extend the current moratorium pending the establishment of the crisis committee.

It is highly unlikely that this proposal will be acceptable to employers who might not oppose in principle the establishment of a crisis committee. Intense debate on some of its powers, such as its role to intervene in actual retrenchment process, could result

Government has gone some way to address the NUM's demands, which included a social plan; a 12-month retrenchment moratorium to facilitate the implementation of the social plan; the establishment of a statutory structure to manage the industry's downscaling and the intervention by government in managing the industry's downscaling by ensuring that a company retrenching more than 10% of its workforce have to refer such matters to the labour department

Gold mines won't be bailed out – Mboweni

(214) Sowetan 27/2/98

By Abdul Milazi

THE Government can no longer afford to financially bail out gold mines to avoid large-scale retrenchments in the mining industry, Labour Minister Tito Mboweni told a gold mining summit in Johannesburg yesterday.

Mboweni said: "It would be wrong to use taxpayers' money to artificially maintain production and employment in the gold mining industry."

He said Government efforts should rather focus on supporting growing industries and new areas of job growth.

The two-day summit was called by the National Union of Mineworkers (NUM) to engage Government and employers on the effects of the ongoing retrenchment in the mining industry, especially gold mines.

NUM head of research Devan Pillay said more than 30 000 workers were retrenched in the mining industry in 1997 alone while 10 000 were dismissed by gold mines.

Mboweni said: "We are not coming to the summit promising subsidies or bailouts to the gold mines. We must accept the reality that the gold mining sector is in long-term decline.

"Our gold reserves cannot last forever. What this means is that we must focus on managing the decline of the industry and moderating the effects on ordinary people."

He said the gold mining industry had received numerous direct and indirect subsidies over the years, which have since been reduced.

"While the Government can play its part in tackling the crisis, the main burden lies in the hands of management and workers."

Mboweni said the biggest challenge was for workers and management, but especially management, to find ways to boost production and reduce costs.

Mboweni said however that Government would not just watch the situation deteriorate further and would work to find solutions to job losses in the industry.

The Government has proposed a six-point plan to deal with the gold mining crisis, which includes continuing to lobby key central bankers internationally [illegible] prices, finalising a social plan for retrenched workers by the end of March, and reviewing regulations governing the industry and [illegible].

Government would also facilitate the establishment of a high powered gold crisis committee with the support of unions and employers to manage retrenchment.

Gold theft so great that marginal mines are under whip

By DARREN SCHUETTLER

Gold theft has reached "alarming proportions" in South Africa and threatens the very survival of marginal gold mines battered by weak bullion prices, industry officials said yesterday.

Their warning emerged as union leaders, gold executives and government officials held their second day of emergency talks to chart a course for their embattled industry.

Delegates have released a plan of action that includes recommendations to combat the thieves, who last year stole 30 tons of gold worth R1,58-billion.

"And we have no reason to believe that the situation has improved," Adrian du Plessis, industrial relations adviser to the Chamber of Mines, said.

The chamber said gold theft of this magnitude "impacts extremely adversely upon operations on the gold mines, indeed causing the difference between profitability and marginality in certain circumstances".

Stolen gold has become a critical issue as South Africa's annual output continues to slide in the face of rising costs and dwindling ore reserves in the world's deepest mines.

At its peak only a decade ago, the mines produced 621 tons of gold annually and employed more than 500 000 miners.

Output has since dropped to 485 tons and trimmed job rolls by more than 40% to 298 000.

In the past two days, union and company leaders have struggled to find common ground on key issues such as a moratorium on retrenchments, which have cost tens of thousands of mining jobs.

But they agree that more must be done to battle gold smugglers, ranging from a single miner who hides some gold dust in his overall cuffs, to sophisticated syndicates armed with superbly forged documents, several offshore bank accounts and extensive criminal networks.

"These are very well-organised syndicates who operate in areas around the mines. These guys find ways to beat a mine's security system to get a hold of the gold," said one executive.

He said all mining companies were spending more money on security each year, but it was still not enough to plug the gaps.

On the eve of South Africa's Budget on March 11, the chamber warned against government cuts to spending aimed at fighting gold thieves.

"The Government needs to ensure that the SA Police Service and the Department of Justice are properly resourced to perform their functions effectively," the chamber said in its brief to the conference.

The SAPS said 3 200 arrests had been made in connection with precious-metal thefts last year, with a recovery rate of between 5 and 9%. "Although there are major budgetary constraints, the diamond and gold branch uses its resources to its full potential to combat these crimes," Senior Superintendent Piet Otto said. – Reuters

(214)

Star 28/2/98

Will summit soften gold industry's fall?

(24) BD 2/3/98

The recent gold mining conference was another attempt to address the fallout from the crisis in the industry. Did it come too late to make a real difference? asks labour reporter Reneé Grawitzky

THE irony of South Africans shedding tears at the recent screening of Brassed Off, a British film depicting the devastation wrought by the closure of coal pits on miners and their families, was as fascinating as it was startling

Here was a spectacle of presumably well-heeled people identifying with the struggle of British miners and sharing in their pain But these same people have failed to notice that the same drama is unfolding in their own backyards

The gold mining summit called by the National Union of Mineworkers (NUM) last week was a desperate move to bring home to all South Africans the seriousness of the situation facing mineworkers and their families, and the effects of downscaling the industry to the country as a whole

In 1991, the union called a summit to develop a national strategy to co-ordinate the industry's downscaling after more than 100 000 workers lost their jobs The NUM proposed a social plan — an approach aimed at preventing job losses Where this was unavoidable a range of measures would be introduced to cushion the social and economic effects on workers and broader communities The union claimed this idea was opposed by both industry and government.

A former NUM official says there was no commitment on the part of government and the Chamber of Mines at the time and committees established as a result of the process eventually collapsed

Despite the failure of the initiative, various agreements reached through collective bargaining began to reshape the industry in areas such as education and training, housing and work reorganisation

Seven years later, after a further 150 000 workers had lost their jobs (and industries servicing the mines had begun to feel the effects), the union has eventually succeeded in getting government and employers to participate in another mining summit

Some might argue this summit came late and will achieve little Will the resolutions adopted last week help to address the crisis in the industry?

The parties had different imperatives for participating in this initiative and being able to emerge with at least some tangible results This is not to say it was simply a public relations exercise, but, as one industry source says "There would have been more of a crisis if the parties had not reached agreement"

Government's involvement in this process and the forthcoming presidential job summit is shaped largely by political imperatives ahead of the elections

The NUM has always been a loyal supporter of the African National Congress (ANC) and President Nelson Mandela The union assumed that, after 1994, government would intervene and assist in developing a national approach to managing the industry's downscaling This did not happen and the union suffered two further disappointments When the ANC had a chance to choose an appropriate mineral and energy affairs minister it gave the post to an NP minister who unexpectedly did "prove a champion" of the Mines Health and Safety Act, but did not address other union concerns The union feels that government's second appointee — Penuell Maduna — has been a disappointment, especially in view of his lack of interest and availability, not only to the union but to employers

A former unionist says that despite this setback, the union became lax and failed to push government harder on its agenda Mining employers, too, are between a rock and a hard place They need the full co-operation of both the union and of workers to effect further restructuring and downscaling

Hence, their failure to participate would merely have exacerbated the present problems where some mines, such as Kloof, have still not been able to sign a productivity linked wage deal

Some might argue that the NUM — in the wake of losing more than 50 000 members last year — is in the same predicament as government It faces huge pressures around service delivery but, as acting general secretary Gwede Mantashe says "If a union is not fulfilling its basic functions of defending members' jobs, improving wages and working conditions, it is not a union"

Despite the NUM's slogans — "save jobs, create new jobs and implement the social plan now" — parties accepted that the summit would not emerge with a "job survival kit" but would deliver, at best, a systematic approach to the industry's downscaling

From the outset, government dominated the summit and made it clear that the solutions adopted had to be realistic and sustainable Labour Minister Tito Mboweni, who headed the government delegation, set the scene for a deal being struck. He said "We must manage the decline (in the industry), not fool ourselves into thinking we can reverse it"

Government, he said, would not artificially maintain production and employment and would not promise subsidies or bale-outs Government made it clear that its focus was moving towards manufacturing export growth, as the country's mining industry was in long-term decline

In outlining the challenges facing the union and management, he called on management to pay attention to the quality of management on some mines, to change work practices, improve worker participation, boost productivity and "reduce or abolish management fees to head office"

The union was called on to commit itself unreservedly to improving productivity Mboweni said "In particular, the parties need to work together to boost productivity and fast-track the implementation of productivity agreements entered into"

The final declaration or agreement was based on government's six-point plan, which largely amounted to a consolidation and formalisation of a number of initiatives already under way These included the finalisation of negotiations on the social plan in the National Economic, Development and Labour Council (Nedlac), as well as training issues and the rehabilitation of areas affected by downscaling

The deal was crafted in such a way that each party emerged from the summit with something they could take back to their respective constituencies

For the union, there is agreement on fast-tracking the social plan even though it could be argued that its implementation comes too late for 250 000 miners who have lost their jobs since 1987, and the mines are already in deep decline The social plan concept was based on the downscaling of the German coal industry In Germany, companies started putting money into a fund from the beginning of the life of the mines, when funds were still available

An observer says "Mines set aside millions for environmental cleanup, but workers are dumped in the street It would only be appropriate if workers got the same deal as the environment."

The formation of a gold crisis committee and a moratorium on retrenchments until the committee had been established attempted to meet some of the union's demands, even though the union wanted a one-year moratorium on retrenchments, as well as the setting up of a statutory review body

Agreement was reached on attempts to stabilise the gold price and on finding an appropriate balance between "environmental management and economic growth" — issues raised by employers However, the deal did not include a review of the cost implications of present labour legislation as raised by employers At the same time, the process to channel retrenchments might prove advantageous to employers

Government emerges as the party that saved the day But will this deal be enough to motivate demoralised workers? And will it not set a precedent for government in the restructuring and downscaling of the parastatals, where circumstances are similar?

National Union of Mineworkers delegates sing during the second day of the conference Picture KENNETH MULLER

Gold crisis committee faces its first hurdle

(214) ([illegible])

FRANK NXUMALO
LABOUR EDITOR

CT (BR) 2/3/98

Johannesburg — Key provisions of last week's tripartite agreement on a gold crisis committee (GCC) had not yet been resolved as the question of whether the GCC has the power to block or authorise retrenchments would only be decided at its first meeting this week, Adrian du Plessis, the industrial relations manager of the Chamber of Mines, said last night

"The powers and functions of the GCC have still to be resolved," he said "Our intention is that the GCC should review the retrenchment process against the requirements of fairness "

The GCC will be beefed up by a "rapid response team" which will review retrenchment plans exceeding more than 10 percent of a mining company's workforce in any one-year period

The groundbreaking accord, signed on Friday, seems to have averted a repeat of the 1987 mineworkers' strike But labour and business now face a formidable task in selling it to their respective constituencies

The National Union of Mineworkers (NUM) will have to explain to its members why it moderated its earlier demands for a 12-month moratorium on new and ongoing retrenchments

By the same token, the chamber will have to justify to shareholders of member mines the costs of not cutting jobs now And the government will have to continue its efforts in lobbying European central banks to retain gold as a store of currency value.

James Motlatsi, the NUM president, said "The signing of this declaration is an historic moment, and I know there will be people who will be only seeing mistakes in it But the crucial question to ask those people is where are they now and what have they been doing about the crisis?"

□ 47 Sauer Street, Page 16

Chamber of Mines' new head looks to get govt's ear

BD 3/3/98 (214)

The Chamber of Mines' new chief executive officer, Mzolisi Diliza, took up his post yesterday. Cape editor Alan Fine looks at the man

Recently appointed Chamber of Mines CEO Mzolisi Diliza has plans to search for a vision for the troubled industry's future

IN the days after his appointment a month ago, new Chamber of Mines CEO Mzolisi Diliza received more publicity in the mass media than outgoing CEO Tom Main has done in the past several years

The post, which Diliza entered yesterday, has traditionally not been a high-profile one The chamber's public face has normally been found among the industry executives who rotate through the chamber's presidency and those like Adrian du Plessis and Frans Barker who have led the chamber's wage negotiating teams

One suspects that Diliza's profile will be somewhat higher than Main's — if only because of the novelty of a black CEO heading one of those industries which has had to work hardest at dealing with its apartheid-era baggage

Diliza was born 49 years ago into the Bomvana royal family in the former Transkei

His first five years of formal employment were in the Transkei government, but at a sufficiently low level for it not to qualify as a skeleton in the cupboard

Diliza's race is not an irrelevant factor, whichever way you look at it, though any assessment has not been made easier by some of the less considered comments about his appointment

For example, commentator Thami Mazwai, from a position of ignorance about the post and the appointee himself, decided to take the view, in a radio interview, that because the man is black the appointment must inherently be a progressive step

On the other hand, two top National Union of Mineworkers leaders worried that Diliza's may be a token appointment — pointing to his lack of experience in mining — and his role would be that of "shock absorber" between workers and the industry if and when tough decisions affecting jobs were taken

Neither approach helps dispel the perception of tokenism held in some circles Not surprisingly, neither the chamber nor Diliza would agree

A chamber source says it was not a foregone conclusion that the successful candidate would be black — there was one white applicant in the final short list of three But the organisation is fairly frank that one hoped-for advantage of Diliza's appointment will be the improvement of its access to key government figures, especially Minerals and Energy Minister Penuell Maduna and Deputy President Thabo Mbeki

The chamber's lines of communication with both have been less than satisfactory

Diliza debates with himself the question of whether he is an affirmative action appointee

"It depends on how you define the term," he concludes "I see myself as a beneficiary of the struggle for change in SA I am an affirmative appointment, but the chamber is affirming itself too as it seeks to change and become part of the transformation of the country as a whole "

He points out his involvement in the work of the Black Management Forum, and is clearly ready to defend it

Diliza dismisses the complaint that he has no knowledge of mining

"My role is to provide leadership and to manage at the strategic level To do that I do not need to know how to dig a trench "

However, he is determined to spend some time underground so as to develop an understanding of the conditions miners work in

He is firm that he is no shock absorber

The basis of his vision for the chamber, the industry, and his role in it, is a joint search for a vision for the troubled industry's future by five sets of stakeholders the industry, government, labour, environmental groups and mining communities

That is a vision which fits snugly with the outlook of the country's top mining men, particularly Anglogold CE and current chamber president Bobby Godsell who is believed to have championed Diliza's appointment

It not a view he is now pro pounding as a matter of conve nience, simply because it may b expected of him

Theo Heffer, who headed Grin aker's industrial relations func tion when Diliza first entered tha field in the early 1980s, says what impressed him about Diliza wa his "balanced view of the respec tive interests of the employer an the employee" — a perspectiv which was rare at that time whe most would show a bias toward one or the other

Diliza displays a similar capa ity when asked how he plans t deal with Maduna — reputed to b among the least approachable i government

He believes that what som may see outwardly as Maduna lack of urgency and initiative ma be explained by the ministe ensuring that before he acts h has developed a full grasp of th issues at stake

It seems he will take a simila ly cautious approach at the Chan ber of Mines, emphasising th need to develop a vision before i troducing changes which ma shake up the organisation

In any event, he is not one wh believes that organisational stru tures and procedures determin outcomes

In a country where ma involved in "transformation" s structural change as the ke Diliza is more concerned with t vision, seeing organisation structures as merely the means an end

Gold Fields expected to sell marginal mines

(214) CT (PM) 20/3/98

Andi Spicer
Mining and Resources Editor

Johannesburg — Gold Fields, the new gold company, was unlikely to hold on to its marginal mines — Evander, St Helena, Leeudoorn, Libanon and perhaps Oryx — and would dispose of them in the near future, analysts predicted

Gold Fields recently announced that it would make up its mind in the next few weeks on whether to keep the mines or sell them

"Gold Fields is becoming far more sensitive to the wishes of international investors, and they cannot see the advantage of including the uneconomic or marginal mines in the new gold company," an analyst said yesterday

Brian Gilbertson, the chairman of Gold Fields, is known for concentrating on mines that have low costs, a long life and robustness against a downturn in the gold price

Barry Sergeant, a mining analyst with BoE Securities, said "Gold Fields is playing it by ear, like the rest of the industry If someone came along with the right price, it would sell the mines But if the gold price increases, then they may keep the mines and try to make money"

But Sergeant believed that Gold Fields would dispose of the smaller and marginal mines in an orderly fashion

"The only grey area is Oryx — the jury is out, and no one knows if it's for the chopping block category," Sergeant said

Another Johannesburg-based analyst said "Evander has a lot of potential to improve, because it is in such a bad shape, but there is already a question mark over Leeudoorn, where marginal areas have already closed and the operation downscaled

"St Helena, if you look where it has come from, has made a hell of a change but the gold price is against it

"The marginal mines may be sold to smaller black empowerment operations," the analyst said

'Mining industry is down but not out'

(214) BD 10/3/98

Linda Ensor

CAPE TOWN — Projects worth R30bn were under way in the different sectors of the mining industry last year, mineral promotion chief director in the minerals and energy affairs department Nchakha Moloi disclosed yesterday.

The bulk — R17,3bn — related to primary mineral projects, R13,5bn to platinum and R12,8bn to processed minerals.

In addition, potential mineral-related projects amounted to R51bn — R32,9bn in processed minerals, R18bn in primary minerals and R11,9bn in gold, Moloi told Parliament's portfolio committee on mineral and energy affairs in a briefing on the department's activities and budget for the coming year.

Moloi used these figures to demonstrate that while the gold-mining sector was facing difficult times, the industry as a whole was far from dying, especially the coal-mining sector, which had experienced a significant increase in productivity and output.

Nevertheless, the stresses and strains felt by gold mines were severe, and unless the gold crisis committee came up with a way out of the impasse, a further 110 000 jobs in the industry would be shed this year.

Particular focus would be given to state assistance for small-scale mining operations, of which 420 were registered and about 2 000 were operating illegally.

Deputy finance manager Bertus Olivier noted that the department was getting a larger slice of its R644m (R807,6m) budget this year as the share by associated institutions such as the Atomic Energy Corporation — whose budget would drop from R221m to R200m — would get much less. Through the redemption of secured loans in the coming fiscal year, the amount allocated to the nuclear energy sector would fall from R231m to R48,5m.

Chamber of Mines head all set to make changes

Mzolisi Diliza is determined to work with Government and the unions, and to try to improve the lot of the average worker

Star 1/4/98 (214)

By Eddie Jayiya

His surname means "demolish" in Xhosa but Mzolisi Diliza, newly appointed first black chief executive of the Chamber of Mines, thinks only of rebuilding the 108-year old industry to meet the needs of the new South Africa.

Diliza (49) intends working with Government and unions to bring about real transformation in the mining industry, building it into an enterprise which reflects the demographics of the new South Africa.

As a newcomer to the mining industry, Diliza faces obstacles more volatile than the price of gold. He must introduce meaningful changes to benefit all South Africans, especially blacks.

If he manages to create more opportunities for mineworkers, then he will have won the hearts of the unionists who are sceptical about his appointment.

Diliza is aware of the challenges that lie ahead and is cautiously confident of succeeding.

"I am no magician. The issues are bigger than one individual. Social partners need to work together to implement meaningful changes. I am entering this new terrain with an open mind to learn more about the organisation and strike a balance between empowerment and control."

Diliza says it is critical for him to address the historical imbalances in the chamber. "There should be upward mobility for those who have been kept at the lower rung of the industry," he says.

"I am happy that the Chamber of Mines is committed to change that view. I will work tirelessly with Government and labour to see to it that mining belongs to all South Africans."

His appointment has already caused controversy in the industry.

The chamber says Diliza, who beat 39 other contenders for the position, has the managerial skills to take the industry into the next millennium. But unions labelled his appointment a token one and criticised the chamber for appointing an outsider with no firsthand knowledge of the industry.

The former human resources director of the Independent Development Trust (IDT) says he is no token chief executive. "I have come here to make a significant contribution.

"At this level you are not expected to be a technocrat but to provide leadership. I am not being called upon to dig the trenches but to manage. Coming from the outside gives me an opportunity to bring a new perspective."

On his first day in his new job Diliza met the National Union of Mineworkers (NUM) delegation to inform them about his vision.

"They listened to my vision but did not say anything," he says.

Admitting he has no first-hand knowledge of mining, he says he has a sound background in labour relations. He spent a year at Oxford University studying an advanced programme on labour administration and employment creation.

"I am sure the experience gained in London and the numbers of years spent as an industrial relations manager will be crucial to my dealings with the unions and the mining industry."

His transformation plan entails new opportunities and training programmes for workers. "I am aware that the challenge is a tough one, but I will see to it that transformation opens opportunities for the workers," he says.

"We must train more workers, especially those in the lower ranks to enable them to move up the ladder."

Diliza has unshakable confidence in his abilities and is unfazed by criticism of his appointment. "I am aware that people will form opinions about my appointment. I will allow my actions to be my response. I am passionate about the position and my devotion to it will be a key."

His confidence stems from the recent gold summit of the major partners.

"During the summit, all stakeholders committed themselves to strengthening the industry. We have capable leadership that will make South Africa the biggest mining country in the world."

The president of the Black Management Forum (BMF), Lot Ndlovu, says Diliza brings strategic leadership to his new position.

"He is adequately equipped with relevant training, business experience and values to tackle the somewhat daunting task that faces a shrinking industry."

But NUM's acting general secretary Gwede Mantashe says it's still early to comment on Diliza's ability. "We are going to work with him and we will then be in a position to make a judgment on his ability as the chief executive of the Chamber of Mines."

Diliza has joined the first generation of blacks to make the long, arduous climb out of the ghetto into the white corporate world.

"Now that we have reached the top of the corporate world, we must not forget those who are still battling to survive," he says.

Father of four children, Diliza is a keen reader and enjoys watching Bafana Bafana and rugby. He loves jazz and Jonas Gwangwa is his favourite musician. "I don't attend meetings when Bafana Bafana is playing," he says. "I am an avid supporter of the national soccer squad."

His love of seafood often lands him in hot water with his wife, a medical doctor: "My wife doesn't want me to eat seafood because of its high cholesterol," he says.

A bachelor of commerce graduate from Rhodes University, Diliza says his appointment to the chamber "came as a complete surprise. I was preparing for my MBA examinations when I was approached. I never thought I would join the mining industry."

But after rigorous interviews, he fell in love with the industry and his scepticism changed to confidence.

"I knew that I would get the job," he says. "The problem was whether I could leave the beautiful mountains and sea of Cape Town for the mine dumps of Johannesburg."

At the moment Diliza is a migrant executive. His family is still in Cape Town and will join him later. "I will have to stay alone while my wife is winding up her practice in Cape Town," he says. "It was a painful decision."

RIAN HORN

Mine boss Mzolisi Diliza is not fazed by criticism and aims to ensure that South Africa will remain one of the biggest mining countries in the world.

Chamber of Mines head all set t

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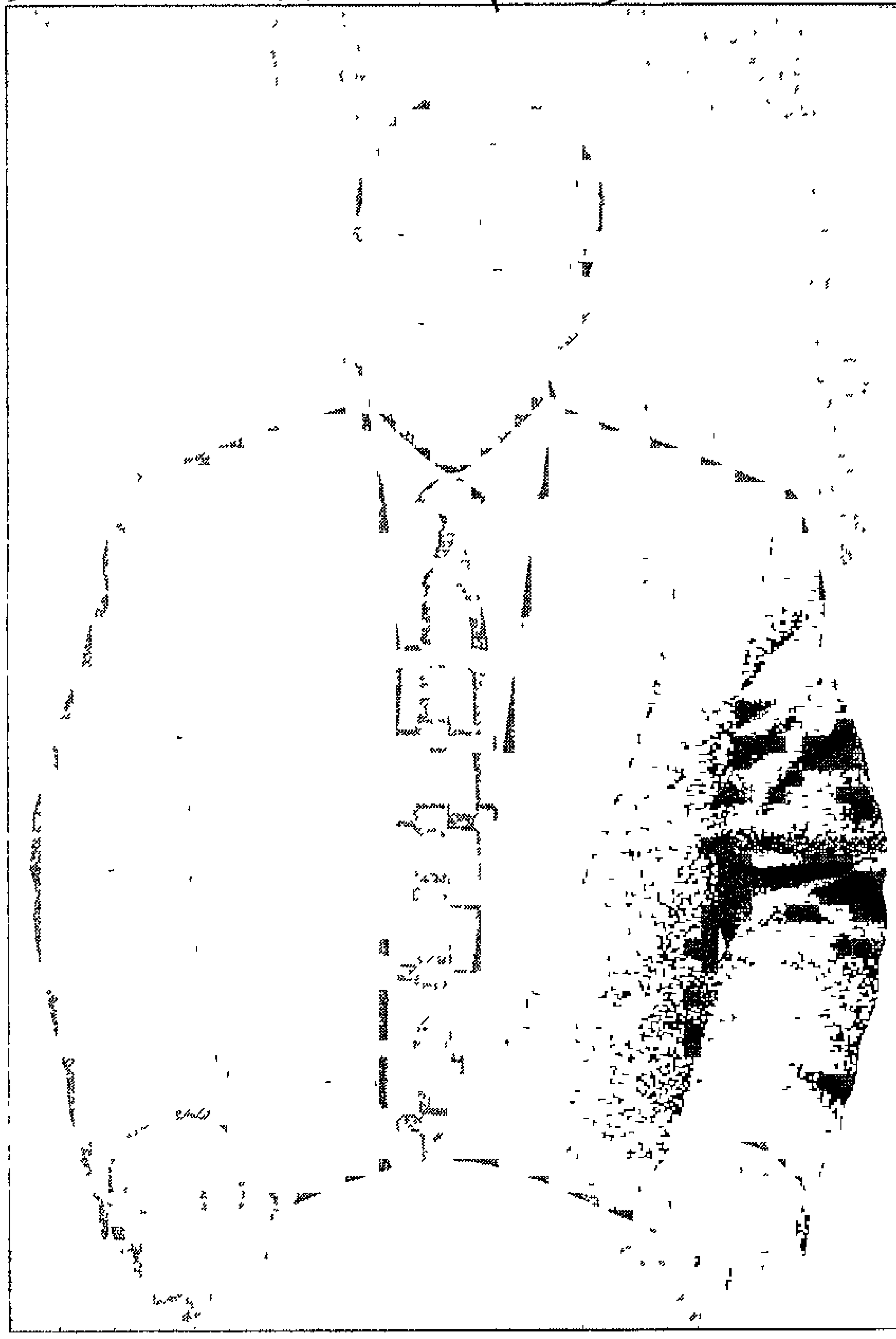

RIAN HORN

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Probe into the Amalia puzzle

(214) M+G 3-8/4/98

Mungo Soggot

The liquidators of mining company Amalia want to undertake a forensic audit into how the company raised money from the public, how the money was spent and whether insolvency laws were broken

Auditors Coopers & Lybrand were called in to liquidate the company last month after a high court order which followed Amalia's spectacular collapse on the Johannesburg Stock Exchange The share was suspended after it had lost more than 90% of its value

In his first report-back to the company's creditors, liquidator Basil Nel says "We consider it necessary at this stage to conduct an inquiry into the affairs of the company It is our intention to conduct a forensic inquiry into the books and records to establish the basis on which shares in the company were offered to the public "

The high court ordered Amalia Gold Mining & Exploration's liquidation after an application by one of its largest creditors, Standard Bank, which is owed almost R7-million

Nel's initial investigation shows that Amalia's main creditor is a company controlled by Amalia's directors — Amalia Corporation

Amalia directors set up an elaborate funding scheme using companies run by the same directors, which ensures they are first in line for the proceeds from the company's liquidation The complicated web of companies that make up Amalia includes two management companies, run by the same directors, which received the proceeds of shares sold in Amalia and its offshore branch, Commonwealth Gold

ComGold owes Amalia more than R4,5-million — Amalia's largest single debtor It is listed on a small exchange in London called the Offex ComGold's share has collapsed after it emerged that its main drawcard — an exclusive deal to develop the mineral resources of Liberia — is unlikely to materialise

Other than Amalia Gold Mining's gold mine in Schweizer-Reneke, North West, its main asset is 63-million shares in ComGold

"It is our intention to establish the negotiability of the 63-million shares in ComGold, taking into account the large number of shares and the bad publicity the Amalia Group of companies have received locally and abroad," Nel says

Amalia's fate now appears to hang on a visit from representatives of Commonwealth Gold's substantial Swiss shareholding, who arrive in Johannesburg on Monday

Directors have raised the hope that the Swiss Bank will put together a rescue package Director Gerhard Potgieter says one of the conditions for such a lifeboat would be a shake-up of the current board — including the departure of finance director Peter Trickey Nel says he will hold fire on the liquidation until he meets a representative from the Swiss delegation.

Meanwhile, local shareholders in Amalia are preparing to pump more money into the company An Amalia director confirmed this week that "various shareholders" were discussing bailing out the company

Most mining analysts have laughed off the company, which has a large number of farmers as shareholders

Fred Rundle, a representative of some of the shareholders and an Afrikaner Weerstandsbeweging representative, said this week "It is ludicrous to put more money in with a board that has no credibility All they did was start a maze of companies which confused the shareholders "

The police are investigating the possibility of fraud by the company, which insists it has been sabotaged by rogue employees and rival players keen to hijack its lucrative Liberian rights

MINING *Don Ncube and James Motlatsi appointed directors of world's biggest gold producer*

Blacks join board of Anglogold

CT (BR) 15/4/98 (214)

ANDI SPICER & FRANK NXUMALO

Johannesburg — Anglogold, the world's largest gold producer, yesterday made the radical move of appointing two high-profile black executives to its board — Don Ncube, the chairman of Real Africa Investments, and James Motlatsi, the president of the 300 000-strong National Union of Mineworkers (NUM)

"We have set out to create a board of directors who both individually and in aggregate can add value to the company in the interests of shareholders," said Bobby Godsell, the chief executive officer of Anglogold

Motlatsi warned against perceiving his appointment as a sellout of the working class

"We will be misrepresented outside by quite a number of workers (who will claim) that the trade union has been 'co-opted' by management and that the interests of the workers have been sold out," he said

"In 1989, when the NUM adopted a resolution to appoint a full-time president, we were attacked for selling out the concept of worker control We are going to be criticised, but in the long run we are going to be proved correct "

Godsell said the 14-member group fell into three categories — nominees of Anglo American as the majority shareholder, including Julian Ogilvie Thompson and Nicky Oppenheimer; executive directors of Anglo management, and independent directors, who were a "critical group fully independent of both management and Anglo"

Motlatsi will be an independent director and will also chair a board committee on employment equity

Godsell said Motlatsi's appointment did not suggest that "any lines of contrast between ourselves and the union movement have become blurred (Rather it) indicates a growing realisation that both we and the union, however different our world views, are entirely dependent for our future survival on the weal or woe of our industry"

Barry Sergeant, an analyst with BOE Securities, commented on the move· "Anglo in the past has been seen to be a very slow-moving corporation The appointments come as no surprise and the timing is encouraging

"The steps from here are for Anglogold to become independent and become responsible first to all its shareholders And in the long term, Anglo could become the minority shareholder "

He added: "The market will not run out and suddenly buy shares or rerate the company as it will wait and see how the changes are implemented "

The other independent directors are New York-based Frank Arisman, the managing director of JP Morgan, Colin Brayshaw, retired chairman of Deloitte & Touche, and London-based Russell Edey, the deputy chairman of NM Rothschild Victor Fung, the chairman of both Prudential Asia Investment and the Li & Fung Group, also joined the board

Nicky Oppenheimer becomes non-executive chairman while Bobby Godsell, finance director Jonathan Best and Anglogold's marketing director Kelvin Williams are retained as executive directors

NEW BLOOD *James Motlatsi, president of the NUM, with Nicky Oppenheimer, deputy chairman of Anglo American, centre, and Bobby Godsell, CEO of Anglogold* PHOTO JOHN WOODROOF

SA coal producers unaffected by Australia's strike

(215)

David McKay

BD 20/4/98

SA COAL producers are largely unaffected by a stevedoring strike at Australia's Newcastle port, the outlet for coal-rich state New South Wales

Ingwe Coal Corporation exports coal through the Newcastle port from mining operations run by its operation, Coal Mines of Australia

Marketing director Gordon Osterloh said Newcastle coal terminals were not disturbed at all

In fact, they were operating more efficiently although reports from Australia said one of the country's largest stevedoring companies, Patrick Stevedores, downed tools

" Ships are not waiting at one of the Newcastle coal loaders and waiting time at another loader has been reduced to three or four days," he said

The result was that demurrage costs, paid by the exporter for ships waiting to load material, was heavily reduced

Investec coal analyst Dean Cunningham said the Australian coal producers had been oversupplying the coal market, particularly in Asia

A serious harbour strike had the potential to balance the coal market, bringing supply into line with demand

Another analyst said Australia had 23% market share of the traded coal with SA producers following a close second, with a 21% market share.

Contract prices between SA producers and Asian buyers had mostly been completed, therefore a change in the supply-demand ratio of coal would not alter contractually agreed prices until next year.

Osterloh said on average, Ingwe had lowered its contract prices with Asian buyers The reduction was slightly in excess of the expected $3,15/ton reduction Analysts said prices were around $29 to $30 a ton.

An agreement with Korean buyers was still outstanding.

Gold Fields mines escape closure

CT (MR) 23/4/98 (214)

Andi Spicer

MINING AND RESOURCES EDITOR

Johannesburg — The Leeudoorn and Libanon mines had earned a reprieve from sale or closure after Gold Fields, the newly listed gold company, said yesterday that "material progress" had been made at both mines

Gold Fields was recently created by the merger of Gold Fields of South Africa (GFSA) and Gencor's gold mines Initial indications were that the two mines were not core assets and would not remain in the group.

"We are giving them another try to capture the benefits, but we will review the results at the end of the June quarter to see if they will stay in the portfolio," said Tom Dale, the executive director of operations

"We've been using a radically different mining policy," he said If the improvement continues on trend, then we will carry on "

Yesterday Gold Fields released its maiden results for the quarter to the end of March which showed operating profit at just R22 million But this left out the group's share of Driefontein's R34 million profit, consolidated elsewhere

Profit before exceptional items, which included its share of the sale of Asteroid, was much worse, at a loss of R121 million Profit after exceptional items was R26 million

"These results were not unexpected and were good in the Free State across the board," said Dale. "There were also substantial and practical improvements to the West Wits operations."

Dale stressed that there was evidence of a turnaround in the March quarter after a radical shift in operations, and that this had translated to all mines in the group having cash costs of below $250 an ounce

Beatrix, Oryx and St Helena delivered a "solid performance, but were overshadowed by the effects of transition and restructuring on the other mines in the group", said Gold Fields "The extended Christmas holiday interrupted production across the board "

There had been evidence of a turnaround at Evander, which almost broke even during the quarter, but Dale said that to ensure a long-term future for the mine it would have to be further restructured

Dale said negotiations with Anglo American were still continuing over Driefontein and that a solution, possibly a joint venture, was imminent He also said the group had made a request for ringfencing to be lifted initially at all of the Free State mines and later for the whole group

☐ Business Watch, Page 2

REPRIEVE *Tom Dale, the executive director of operations at Gold Fields, says a policy change has helped* PHOTO JOHN WOODROOF

Gold mines double quarterly earnings

CT(BR) 5/5/98 (214)

Andi Spicer

Mining and Resources Editor

Johannesburg — South Africa's gold mines doubled their earnings during the last quarter, and many expect even better results this quarter as the higher gold price feeds through into greater profits, analysts said yesterday

"It was a big improvement on last quarter and next quarter the results will be even better," Nick Goodwin, gold mining analyst with Fedsure Asset Management, said yesterday

Earnings grew from R98 million to R196 million, mainly because of a dramatic fall in capital expenditure from R898 million to R698 million

Goodwin said this fall in capital expenditure was normal, however, during the March quarter owing to the end of the tax year

This was despite the average gold price trading at $294 an ounce against $308 the previous quarter and gold production dropping a massive 10 tons from 120 tons "This is quite a bit," said Goodwin

"The industry is ready for a major turnaround in June and September mainly because the gold price will be better and costs will be lower despite the lower gold production It means that gold is being mined more profitably," said Goodwin

He said profit for the gold sector as a whole rose 19 percent during the quarter from R937 million to R1,114 billion Margins extended out from R306 in the quarter to December 31 last year to R318 in the three months to March 31 this year

This was despite large-scale retrenchments in the industry and deep restructuring Retrenchment costs were "huge", and this led to profit before tax edging up "slightly" from R778 million to R782 million It would have been larger without these costs

Most of the other numbers for the gold industry were much improved during the quarter, with costs being contained and falling from R207 a ton to R202 Margins rose from R306 an ounce to R318, and profits before tax were up from R778 million to R782 million

Goodwin stressed that Anglogold's profits were lower because of the retrenchment charges, but this process was virtually at an end Gold Fields also did worse, but the old Gencor mines performed well Avgold, JCI and the Randgold mines performed better, he said stakeholders in its operations".

pointed to the Namco board.

Gold pact 'is final push for industry'

BD 18/5/98 (214)

David McKay

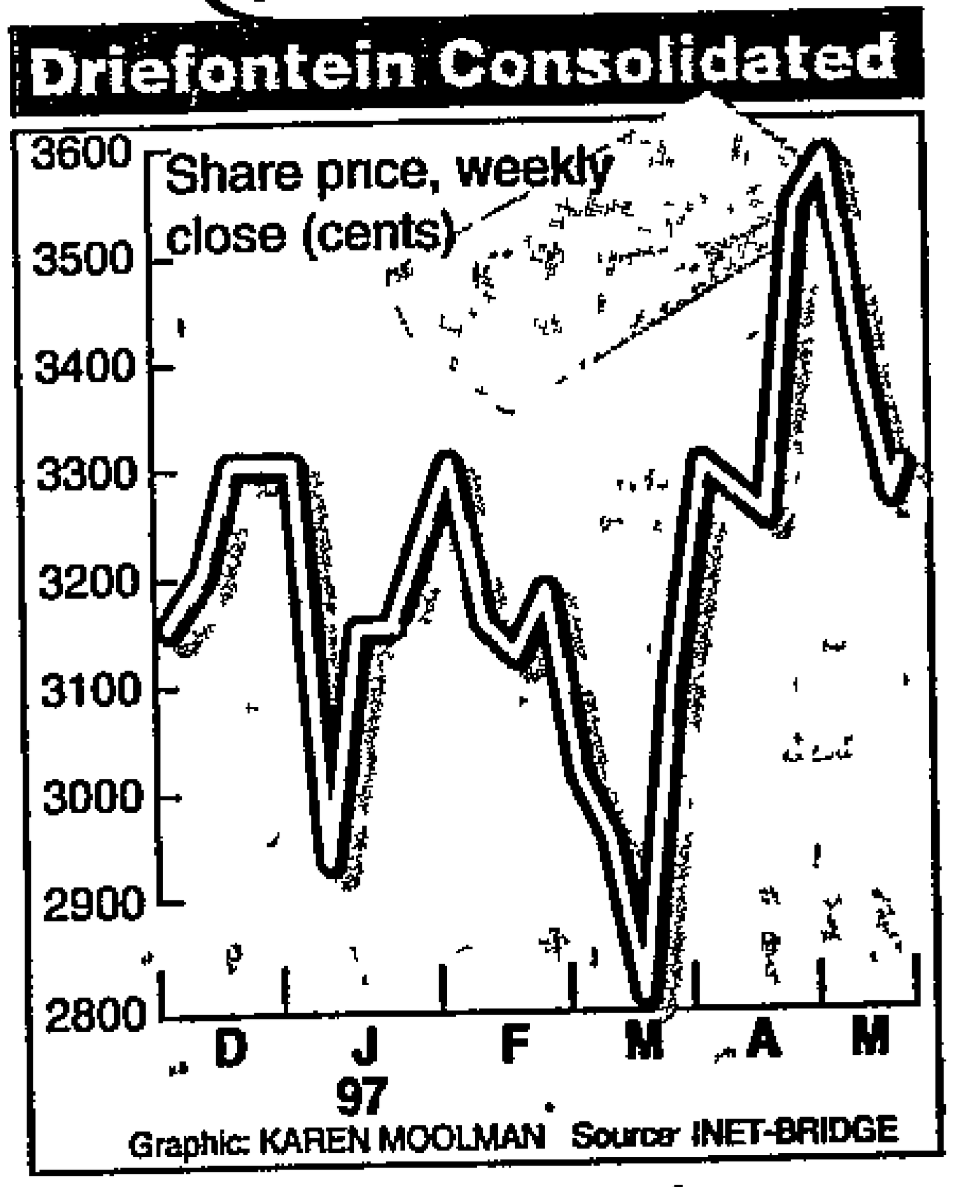
THE pact made last week between Anglogold and Gold Fields to share West Rand gold mine Driefontein Consolidated would give the restructuring of SA's gold-mining industry its final push, Gold Fields chairman Brian Gilbertson said yesterday.

Gold Fields was formed this year through the merger of the gold interests of Gold Fields of SA (GFSA) and Gencor The nub of the agreement between Gilbertson and Anglogold's Bobby Godsell sees Gold Fields take control of 60% of Driefontein Consolidated to Anglogold's 40% It also raises the prospect that GFSA will be completely unbundled as will, in turn, Gencor

Apart from overseeing Impala Platinum's passage to a better market value, Gencor has little reason to exist once its stake in GFSA has been unbundled. GFSA appears likely to sell off or liquidate its remaining assets.

GFSA chairman Alan Wright said his board, of which Gilbertson is a member, would set to work charting the group's future. It could cash up and grow by acquisition, but it would more likely sell and liquidate its assets.

Wright said the third option was



Continued on Page 2

Driefontein (214)

Continued from Page 1

BD 18/5/98

merging with another company, but it is understood there are no proposals on the table

Should GFSA be unbundled, platinum producer Northam Platinum might enter the market and thus prompt Anglo American Platinum Corporation to re-examine buying the struggling company, at the right price

The agreement over Driefontein has also given momentum to Gold Fields' intention to dispose of Evander Gold Mines It is thought that Gold Fields has given itself about a month to sell the mine now that the long-standing obstacle of Driefontein has been solved and further clarity has been reached as to the final shape of the group

The SA gold-mining industry is now divided into the two dominant camps of Gold Fields and Anglogold

Avgold and JCI are relative minnows Harmony, Randfontein and Durban Roodepoort Deep are marginal operators while former parent Randgold is to disappear with GFSA and Gencor

Both Gold Fields and Anglogold announced on Friday they had arrived at an "in principle" pact in which Driefontein would be delisted and managed as an independent company

Unanimity between Anglogold and Gold Fields would be required in electing a CE to manage the operation — possibly an outsider — and later in making decisions over Driefontein's future A mechanism for resolving disputes would be put in place

One point of difference between the groups — Anglogold's active hedging policy as opposed to Gold Fields' hesitancy to hedge — is likely to be overcome as Gilbertson declared himself willing to hedge "in principle"

The agreement also provides for the exchange of other assets Gilbertson said mineral rights at Western Deep Levels could be developed by Driefontein. Anglogold has mineral rights Gold Fields could use while Gold Fields also has shares in Anglogold's units, such as Elandsrand, which could be swapped in the final transaction

The agreement provides for the unbundling of GFSA's shareholding in Gold Fields subject to the bid to buy out the Driefontein minorities resulting in at least 50% acceptance

Picture: Page 3
Bottom Line: Page 18

GFSA on verge of final break-up

ET (BR) 18/5/98 (214)

Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — Gold Fields of South Africa (GFSA), the once-great mining house, will most likely be broken up and many of its remaining mine and financial assets sold off after a ground-breaking deal signed on Friday between Anglo and Gold Fields

Anglo American and Gold Fields agreed to break the logjam and share control of mega-mine Driefontein in a joint venture which will see the mine delisted and minorities bought out

"This was the Northern Ireland of the mining industry There has been a great deal of tension and antagonism for many years Love is better than war," said Brian Gilbertson, the chairman of Gold Fields

GFSA's 10 percent stake in Standard Bank Investments Corp (Stanbic), the country's second largest banking group, will most likely be sold, as would other financial investments, the coal, base metals and platinum divisions and its mineral rights holdings

The mine will be independent of Gold Fields, the gold group, and Anglogold, the world's largest gold mining company But in order for Anglo to pay for its 40 percent share in Driefontein it will unbundle its share in GFSA and Gold Fields, ending its cross-holdings and potential conflicts

The result would be that Gold Fields would become totally independent with no major cross-holdings by either Anglo or GFSA "This creates Gold Fields as an autonomous, independent gold company," said Gilbertson

Alan Wright, the deputy chairman of GFSA and Gold Fields, said that GFSA "would possibly sell or unbundle to shareholders the group's stake in Stanbic"

LIFE AFTER DRIEFONTEIN *Brian Gilbertson, chairman of Gold Fields, and deputy chairman Alan Wright* PHOTO JOHN WOODROOF the rand by fixing the repo rate almost ... heart from the rand's stability, while the equities market was sharply lower ... Before the turmoil, expectations were of a 0,5 percentage point cut by next month. But at least consumers did not

Gold Fields chief quits as board is named

BD 27/5/98 (214)

David McKay

GOLD Fields, the newly formed merger of Gold Fields of SA (GFSA) and Gencor gold assets, unveiled its board yesterday — minus CEO Richard Robinson, who is to resign from the group for personal reasons.

Five new nonexecutive directors were announced, predominantly SA nationals with wide international experience. The group is still searching for an executive chairman to replace Brian Gilbertson.

It is common knowledge that the former Gencor chairman intends stepping down from Gold Fields later this year, having nursed the group through its formative months. Gilbertson's intention is to focus on running London-listed metals group Billiton.

Robinson said Gold Fields would cast a wide net to find a new executive chairman, but GFSA's Alan Wright would not be a candidate. Gold Fields executive director Tom Dale would become MD of the merged entity from June 1.

The new nonexecutive directors included mining veteran Bernard van Rooyen, a former GFSA executive director involved in exploring the Ghanaian gold mine Tarkwa. Van Rooyen is chairman of Toronto-based Banro Resource Corporation.

The other nonexecutives had similar levels of international business experience. Chris Thompson is head of Resource Investing at Continuation Investments and is considered by analysts to be well connected in the US fund market.

Pat Ryan, a former vice-president of North American mining group Phelps Dodge, Gordon Parker, former chairman and CEO of Newmont Mining, and Rembrandt Group executive director Emil Buhrmann, are the other nonexecutives. They join incumbent executives Nick Holland and Clive Wolfe-Coote on the board.

Robinson said the board was unlikely to consist of more than 12 directors. The majority would be nonexecutive.

Key Market Movements — 25/5 to 26/5

Tangled web of cross-holdings revealed

Auditors to investigate Amalia

ET (JHR) 3/6/98

(214)

Matt Getz

MARKETS EDITOR

Johannesburg — Amalia, the suspended gold mining group, would be subject to a forensic audit and an investigation of its affairs, the liquidators said yesterday

The company was suspended on the JSE and placed in liquidation in March after it became clear that its minerals deal with Liberia through Commonwealth Gold (Comgold), its associate, had turned sour.

Basil Nel and Brian Cooper of Coopers & Lybrand, the accounting firm, said in their secondary report to creditors. "We intend to apply to the Master (of the high court) ... to investigate the inter-company loans in the group as well as the transfer of shares in Amalia Gold Mining."

The report revealed a parlous balance sheet and a tangled web of cross-holdings and loans. The auditors have estimated the realisable value of Amalia's assets at R1,4 million, against debts of R35,4 million But that is far from the whole story

Most of Amalia's assets have an unknown realisable value, and some might be worth nothing. Conversely, Amalia's largest creditor is Amalia Corporation, also its largest stated shareholder and essentially run by the same people.

The bulk of its assets, at book value, are its 26 percent of British-listed Comgold, which has also been suspended

The liquidators said: "The directors have proposed a medium-term restructuring of the company which is subject to finding further capital investment At present, it is therefore not possible to place a value on these shares."

Comgold's only asset was its indirect involvement in Liberia.

But the picture is muddied further Gorda Peak, run by the same directors, owns 25 percent of Comgold. Ron Creasy and Hasso Schauer, Amalia directors, own a further 33 percent.

There is also the matter of Amalia's persistently loss-making gold mine in Schweizer-Reneke, which is on the books at more than R11 million. The liquidators said they were obtaining offers for the mine as a going concern.

The report showed Andrew Cecil, the chairman of Amalia's management committee, owned more than 2 million shares, making him Amalia's largest stated individual shareholder — despite assertions to the contrary Cecil has reportedly left the country.

The liquidators said creditors might be asked to provide directions as to whether to prosecute individual directors. They would also conduct a forensic inquiry "to establish the basis on which shares . were offered to the public, the acquisition and payment of certain assets and the flow of funds to and from the company in order to establish the authenticity of these transactions and whether there have been any contraventions of the Insolvency Act and/or Companies Act."

The Amalia story is far from over. Some shareholders are trying to institute a rescue mission, while others are getting more vocal in demanding to know what happened to the more than R130 million the company raised.

Creditors meet in two weeks Further action should be expected thereafter.

Little growth expected in gold output, according to institute

BD 19/6/98 (214)

Simon Barber

WASHINGTON — With miners looking to low-cost reserves in Latin America and Asia, US, Australian and Canadian gold production is set to fall over the next four years, while the SA output is expected to remain "stagnant", the Gold Institute predicts in its latest annual survey

The survey is based on data that was provided by more than 100 mining companies and the SA Chamber of Mines

Worldwide, production was likely to increase by just 1% a year between now and 2001 to reach 83,5-million ounces, the institute said A year ago, miners were predicting a 3,6% growth rate.

Much of whatever growth there was would be attributable to development of new low-cost mines like Yanacocha and Pierina in Peru, Pascua in Chile, Porgera and Lihir in Papua New Guinea, and Batu Hijir in Indonesia

"The big news is the shift in the geography of mining and it will continue," said institute president John Lutley

However he stressed that with "even optimistic miners lowering their sights", the 1% annual growth projection would be high if prices remained in the $285 to $290 range. Slowing output might help the price, but the major determinant was uncertainty about central bank sales

"What's going to happen to the gold held by the Europeans after monetary union?"

Lutley said he was surprised by the optimism of the SA industry which hoped to maintain annual production at between 15-million and 16-million ounces to 2001 After major restructuring and job cuts, "they think they have turned the corner", he said.

Concerns

One worry about SA's prospects was the flight of skilled labour due to crime and violence

Lutley also noted that SA companies managed to maintain production only through "a substantial degree of high grading", which shortened the life of mines by leaving the lower grade ore in the ground where it became uneconomic to recover

However the SA industry was "well placed to exploit" the improving environment for mine development in the rest of Africa

US production was expected to fall from a record 11,4-million ounces last year to 10,4-million in 2001 Marginal mines had been closing and exploration expenditures in the US had been falling for five years

Australian companies saw their domestic output falling to 9,6-million ounces in 2001, a 4% decline from last year's record high of 10-million ounces They were at the epicentre of the earthquake caused by the Australian central bank's announcement last year that it had sold 5,4-million ounces of reserves Development capital had "dried up" while deeper deposits raised costs and sustained low prices reduced the cushion from forward selling

Canadian firms have dramatically changed their plans over the past year, from forecasting a 13% rise in local production to 5,9-million ounces in 2000 to a reduction of 8% over the four years to 2001 If projections hold, China will by then have overtaken Canada as the world's fourth largest producer at 5,6-million ounces

Indonesian production was expected to reach 4,1-million ounces in 2001, a 27% increase on last year, while Peru's output could grow 34% to 3,2-million ounces and New Guinea's by the same margin to 2,1-million ounces Total African production was seen to reach 21-million ounces, up from 20,3-million last year

Standout quarter for gold mines

(214) CT (MR) 13/7/98

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — This quarter's gold mining results would be much improved as the gold price in rands had moved up rapidly as the rand/dollar exchange rate collapsed Further restructuring at the mines would add to profitability, said analysts

While the bullion price was $290,50 an ounce on Friday in London, the price of gold in rands was R1 865 an ounce, buoyed by the weaker exchange rate.

Mines will find that their costs in the short to medium term remain stable as they are priced in rands Their income from selling gold also rises in rands even though the dollar price may have fallen

"We will see some really good results, with the dollar price of gold hovering around $300 an ounce and the value of the rand collapsing I would be very surprised if any gold producer registers a loss this quarter," said Keith Bright, a mining analyst with Fedsure Asset Management

Whether these results would be sustainable in future quarters was doubtful, though, he said

Michael Coulson, the head of mining research at Paribas in London, said on Friday that "despite the weakening gold price in dollar terms, the rand drifted off during the whole quarter, and this would be helpful to the mines

"The most dramatic results will come from the marginal and lower-cost producers, like Harmony, who have maintained their cost structures," he said

The larger companies, like Anglogold and Gold Fields, would also do well

Harmony increases cash profit one third to R45m

(214) BD 16/7/98

David McKay

HARMONY Gold Mine turned its restructuring to account yesterday ahead of this quarter's expected rand-dollar windfall, increasing cash profit more than a third to R45m for the June quarter

MD Bernard Swanepoel expected better results in the September quarter and raised the prospect of dividends after December Harmony's restructuring, which saw new acquisitions, as well as thousands of job losses, enabled the company to lower costs and increase reserves

Rand weakness, as with other gold mining companies, will lift the outlook on Harmony further, analysts said

HARMONY June Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
EAST RAND	249	3,9	990	203,2	51 103	51 533	—	—	—
March	262	3,8	987	201,1	49 047	47 738	—	—	—
FREE STATE	976	4,7	4 542	197,8	42 684	51 029	—	—	—
March	869	5,2	4 547	217,1	39 968	47 966	—	—	—
HARMONY GROUP	1 225	4,5	5 532	198,9	44 158	51 118	45 134	36 845	68,3
March	1 131	4,9	5 534	213,4	41 645	47 924	33 147	28 155	57,4

Additional gold production is expected from newly acquired shafts Brand 2 and 3, and the purchase of Evander Gold Mines from Gold Fields will be sealed next month Even the mothballed Saaiplaas No 3 shaft could start up production given the higher rand gold price

Harmony also concluded the purchase of Canadian operation Bissett Gold Mine Its metallurgical plant is due to start operating in October

Assuming an exchange rate of R5,90, Swanepoel said, Harmony might well report earnings of about 110c a share this quarter — about 40c a share higher than the 68,3c earnings in the June quarter Harmony has been transformed from a "lease bound" mine into a group able to compete with the larger gold mining concerns in SA

The purchase of Gold Fields' 86% stake in Evander for R558m would strengthen Harmony's bottom line At R60 000/kg, the mine had "huge turnaround potential", adding perhaps R10m a month before capex

In addition, fewer Harmony shares will be issued than originally planned — a result of the rand's depreciation Harmony had planned to issue 25-million shares to help fund the acquisition, but will now issue 16,2-million The revised share issue will have a lower dilution effect of 33%, compared to 50% in the previous plan

New SA-based acquisitions have been slated for Harmony over the next two years

In the June quarter, the East Rand operations returned to the black despite a R2,5m reduction in the pumping subsidy Grootvlei No 4 shaft was closed, but workers were transferred The Free State operations kept a fairly stable output despite a notable but expected fall in the average grade

(214)

Gold mines want new deal

THERE was a need to break away from the historical situation in which the gold mining industry, which produced uranium as a by-product, was treated as part of the nuclear energy sector, Dr Dennis Wymer of the Chamber of Mines (COM) said yesterday

Giving evidence to the National Assembly's mineral and energy affairs committee during public hearings on a draft White Paper on nuclear and renewable energy, Wymer said current nuclear safety regulations for the gold mining industry were prohibitively expensive and not necessary

The hazards of nuclear contamination on gold mines were not as great as had been thought in the past and radiation levels on and around the mines were well within international minimum standards

Control of uranium production on gold mines could be adequately dealt with under the Mines Health and Safety Act The number of uranium plants at gold mines had dropped from 18 in 1980 to only four in 1996

Maintaining current nuclear regulations on mines cost R5 million a year and R1,7 million on average – *Sapa*

Sowetan 8/7/98

(511)

2JCDP

CAROL PATON

MINE IS OURS: The mining company OTR splits all the gold it mines 50-50 with local communities in the Giyani district Picture: ELIZABETH SEJAKE

(214) ST 2/8/98

Villagers sitting on goldmine

Company's joint venture with residents worth a fortune to locals

HARDLY a blade of grass covers the dust of Giyani, a collection of thatched-hut villages in the far north of South Africa close to the Klein Letaba River

But there is gold in the dust — "sunburnt, free gold" which has been there since time immemorial While others have tried and failed to mine it, a bold new venture is turning the dust into gold

The firm behind it is OTR — a new mining company which has designed a highly cost effective method of looking for surface gold OTR has also been bold enough to try, for the first time in South Africa, new labour-intensive and inexpensive mining and processing technology It has initiated a 50-50 arrangement with local communities, dividing all the gold between the company and the communities through their chiefs and the tribal authority

When OTR first moved into the area, armed with mineral rights from the national government, it set up working relationships with a wide range of stake holders But instead of the welcome it expected, villagers began making unreasonable demands For example, when they saw a power line being brought in for mining, they demanded their own houses be electrified before they would agree to work. It was the chiefs who came to the rescue and pointed the mining bosses in the right direction Chief Pheni Ngove V Mabunda explained OTR had violated rural protocol by not recognising the power and authority of the village chiefs

"There were some problems with the formalities It had the mineral rights, but leaders here felt they had not been consulted," Mabunda said.

"In his eyes, however, this was a great opportunity for job creation and he used his influence to persuade communities to enter into a joint venture With him on its side, OTR made rapid progress

Arrangements were made with the chiefs from two communities to form their own companies and the villagers responded enthusiastically to their chiefs' call for workers They joined the job queue, each one dipping his or her hand into a bag to draw a card "Job" or "No Job", according to their luck. The ballot favoured about 300 men and women — they now wear bright yellow overalls and blue hats, working in teams of three feeding the machines which sort the ore on Giyani's dusty mine fields

Phineas Shabalala, a former worker on the platinum mines in Rustenburg, is one of them He said "Everyone had to choose a card, but I was lucky — I was so happy because my children were without food "

It's the first job Grace Shibambo has ever had and it's brought her an independence she never thought possible She said "I was married but now I work for myself — my husband was good, but he had other wives and lived with another woman "

Their earnings depend on how hard they work. At the end of every month, when OTR receives a gold certificate for its refined gold, exactly half the amount goes to the community's company However, it's a system the workers still don't understand

"It's the first time I've seen such a system — I can't say if it's better or worse than working for a boss," said Shabalala, who earns about R400 a month, which could increase to R1 000 if his team improves productivity

"I don't think the workers understand it — it's a very rare system But OTR's willingness to have a joint venture shows it has trust in the community It's a great arrangement — especially if we don't have to put down a cent," said Mabunda.

It's an arrangement about which OTR managing director Rick Gardner is very enthusiastic He said "It means no unions, no minimum wage "

But, practical advantages aside, Gardner also has a philanthropic streak. "Would you rather have a million people working or a million rand in your pocket?"

However, OTR looks set to do more than provide jobs — it's going to make lots of money along the way This week, Gardner took a group of potential investors and mining experts to visit the sites in Giyani and many were very impressed

One foreign investor, who invested in September last year when OTR listed on the Johannesburg Stock Exchange, said he had made a return of 250 percent in three months, making it the best investment he had ever made

OTR's next move will be to apply for mineral rights in another 18 000km^2 to mine gold in the Barberton area of Mpumalanga, titanium in KwaZulu-Natal and platinum in Rustenburg

(87) (198)

Management buyout on cards for GFSA mines

(214) CT (PDR) 14/8/98

Andi Spicer
Mining and Resources Editor

Johannesburg — A management buyout team led by general manager Des Andriesse has made a bid for Zincor, the zinc producer owned by Gold Fields of South Africa (GFSA), as well as the O'okiep copper mine and Black Mountain lead and zinc mine

"We are putting in a bid to buy Zincor, O'okiep and Black Mountain with a team made up of senior management," Andriesse said yesterday

He declined to name the other members of the team

Investec is thought to be bankrolling the bid, valued at about R500 million just for Zincor If the buyout is successful, a JSE listing is likely to follow

The management buyout is among a number of bids to be disclosed later this month

The deal is thought to have a good chance of success because some of the other bidders have recently pulled out

Other interested parties are thought to be Anglo American, which wants to put together a black empowerment deal, and Australian company Pasminco

Iscor, which owns 45 percent of Zincor, is also thought to be considering an offer

"I believe in Zincor and we understand the business, which has done fairly well," said Andriesse "We have a long-term plan for the company and we believe we can do better"

Zincor, one of the most successful companies in GFSA, was the backbone of profits when the gold companies were making losses It dominates the local market, exporting up to 15 percent of its output of about 100 000 tons of zinc in concentrate a year

O'okiep produces about 25 000 tons of copper in concentrate a year, but problems at its mine will lead to declining supplies in a few years

Black Mountain is also problematic, its mine is scheduled to close in five years It produces 30 000 tons of zinc, 80 000 tons of lead and 4 000 tons of copper — all in concentrate

The sale is part of the unbundling of GFSA, which will cease to exist in a few months

Amplats is negotiating to buy Northam Gold Fields Coal was recently sold to Amcoal to be merged into New Coal, the new black empowerment company Zincor and the other properties are some of the last assets to remain within GFSA

□ Business Watch, Page 2

GFSA at the end of the road with unbundling of its assets

(214) BD 19/8/98

David McKay

GOLD Fields of SA (GFSA), the mining group founded by Cecil Rhodes a century ago, pressed the button on its plans to unbundle yesterday, confirming that it will hand about 80% of its value back to shareholders

The distribution of GFSA's shares in Gold Fields, the company created by merging its gold mines with those of Gencor and Standard Bank Investment Corporation (Stanbic), is the effective death toll for the group.

At the close of trade on Monday GFSA's 175,6-million shares in Gold Fields were valued at about R4,9bn, and its 109,8-million shares in Stanbic were valued at R2,2bn GFSA has a market capitalisation of R8,1bn

A further R1,1bn worth of GFSA assets remain to be hived off, including its expensive platinum enterprise, Northam Platinum, and a portfolio of relatively small base metal companies which are nonetheless attracting the interest of large SA and North American suitors.

Anglo American Corporation, Pasminco, Phelps Dodge, Iscor and Billiton are inspecting GFSA's remaining assets, including the Gamsberg reserve, one of the world's largest known zinc deposits.

Anglo American is believed to be particularly keen on the entire base metals package, but market speculation along these lines could not be confirmed yesterday. However an Anglo spokesman said the corporation was interested in some of GFSA's assets

Metorex has stated interest in the O'okiep Copper Company and Anglo American Platinum Corporation is in talks over Northam Platinum Mergers of the assets with other companies are also being considered

Tenders for the base metal companies close on Friday. "The completion of the due diligence studies and finalisation of the necessary agreements is not expected before the end of September," GFSA said

The group also reported what is likely to be its last annual financial results, posting an attributable profit of nearly R1bn which analysts said was a "swansong" The profit was predominantly earned from restructuring. Other unbundling still to take place includes GFSA's sizeable stake in Commercial Union

Group will spend $250m on new mining

BD 16/10/98 (214)

David McKay

ANGLO American Corporation and Minorco, the pillars on which London-listed Anglo American PLC will be built, said yesterday they were spending a combined $250m a year on exploration and new mining business

A large portion of this business is focused on new base metal projects which will be housed in a new base metals division This signals a major sea-change in the image and appeal the restructured Anglo group hopes to project

While running a profitable coal business and having established a heavy minerals venture, Namakwa Sands, Anglo is still traditionally regarded as a miner of precious metals — gold and platinum

Clearly Anglo is seeking to alter this perception for the international stage in order tp compete with the world's mining giants on all fronts

In addition to existing base metal production, Minorco's new projects will form the lion's share of the base metals division

For example, the combined group will absorb Minorco's 44% stake in Collahuasi, one of the largest copper reserves in the world due to start full production next year Loma de Niquel in Venezuela, a nickel project, is another new project

Minorco's Lisheen zinc and lead mine in Ireland will be complemented by Anglo's R4bn SA-based Gamsberg zinc mining and refining project, a project announced earlier this year In addition, Namakwa Sands, currently doubling its capacity, will be one of the world's top four producers of heavy minerals

Anglo is developing the Kabanga project in Tanzania, a nickel project which is being fast-tracked and is understood to be generating a lot of enthusiasm

Anglo American chairman Julian Ogilvie Thompson said yesterday that with an effective interest of 29% in Palabora Mining and various initiatives in Peru, Brazil, Zambia and the Congo, Anglo American Plc aims to become one of the world's leading copper producers

However, this brings the fate of Zambia Consolidated Investments (ZCI), which is listed in Paris, London and Johannesburg, into consideration

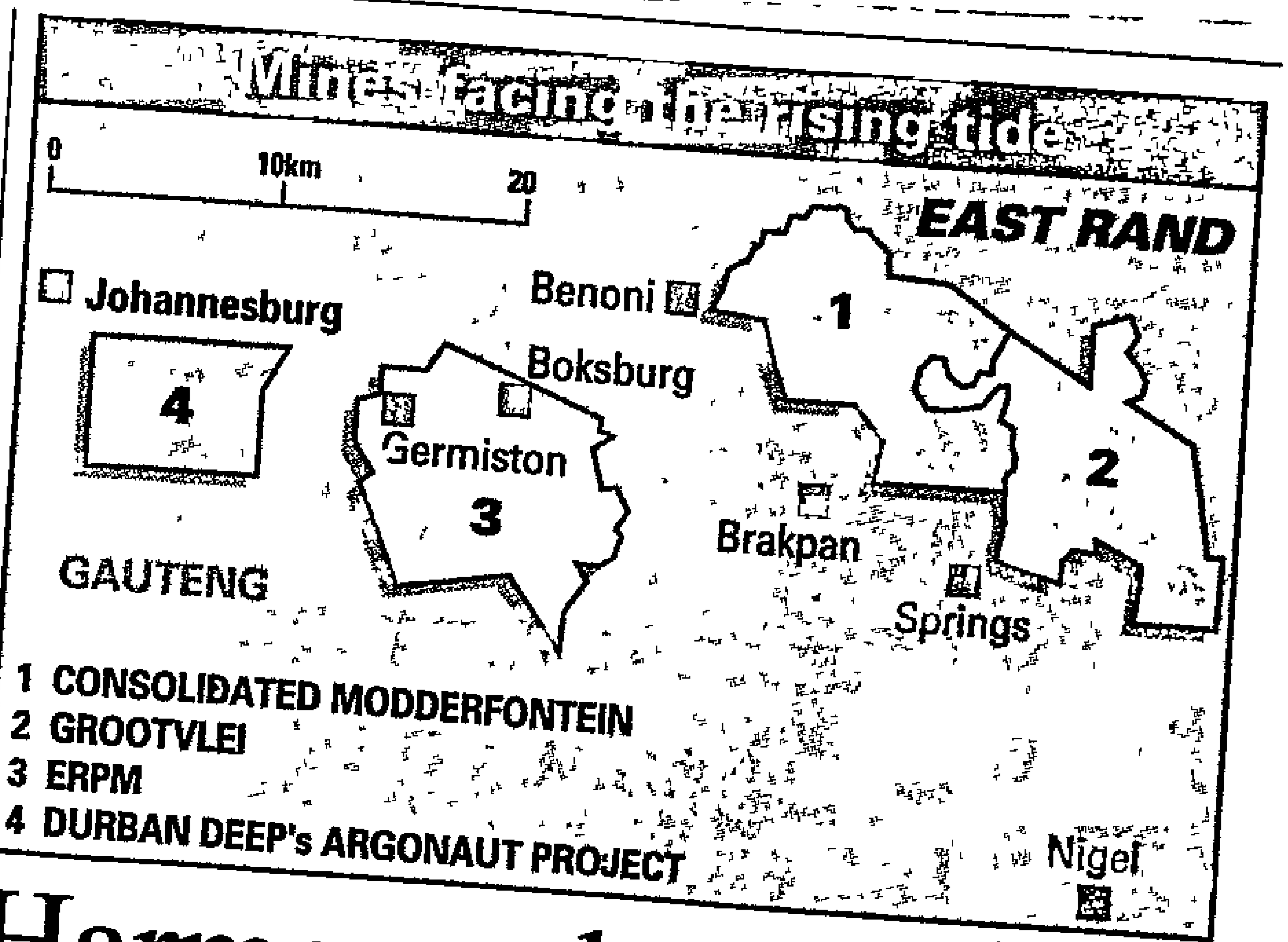
ZCI represents Anglo's investment in the struggling, but once mighty copper producer Zambia Consolidated Copper Mines (ZCCM)

Ogilvie Thompson said yesterday that Anglo's investment in ZCCM would be swept into the base metals division However, an Investec report yesterday said that ZCI could become the core of the new base metal empire

Bermuda-registered ZCI is the vehicle through which Anglo is negotiating with the bankrupt Zambian authorities to take over operational control of the remainder of ZCCM It hopes to combine it with another of Anglo's new base metal projects, the as yet unapproved Konkola Deep

The capital cost of Konkola Deep has been estimated at $750m, seven times the current market capitalisation of ZCI Investec believes that any future progress in Zambia will require Anglo to recapitalise ZCI, its last remaining listed minnow

"Over the years, Anglo has often expressed its appreciation for the merits of ZCI listing in London, Paris and Johannesburg We suspect that Anglo has further significant plans for this company," Investec said



Harmony closures may lead to watery grave

BD 20/10/98 (214)

David McKay

SA GOLD-mining group Harmony yesterday raised the prospect of closing its two East Rand gold mines and walking away from paying for the majority of water contamination liabilities.

The move is likely to raise the ire of government, which has said that SA's mining companies are liable for pollution costs.

The closure of the two mines, Grootvlei and Consolidated Modderfontein, will eventually lead to underground mine water seeping out at Nigel, possibly in about four years. However it will also interfere with the marginal mines that are still operating in the region.

Government has steadfastly stuck to the view that the polluter pays for the pumping and cleansing of underground water.

In the East Rand gold mining industry, however, no single gold mine is responsible for the water.

The problem stems from when underground mine workings are flooded from both the water table and from surface sources, usually rainwater.

Harmony CE Bernard Swanepoel said his company was responsible for only 6% of the 120-million litres a day that are pumped and treated from the East Rand mines.

Grootvlei built purification facilities several years ago following a previous run-in with government, but these would become obsolete when the mine closed.

The mines may be closed as government pumping subsidies supplied to Harmony have been falling, making it less profitable for the group to operate the mines.

Harmony employs about 1 900 peo-

Continued on Page 2

Harmony

(214)

Continued from Page 1

BD 20/10/98

ple in the East Rand.

Swanepoel said there were several parties interested in buying the gold mines, but he "favoured" turning the pumps off at Grootvlei and mining the operation until underground water flooded the shafts.

He said that legally, government was responsible for the water at the end of the day.

Barbara Schreiner, an official from the water affairs and forestry department, said the mining companies would not be able to walk away from the issue of underground water.

If all solutions to resolve the matter were exhausted, it was government and ultimately the taxpayer that would have to foot the bill for treating the water, she said.

Underground water from the mines is normally polluted with ferrous materials and tends to be very salty, threatening wildlife, for example.

Analysts said the possibility of Harmony not pumping water had far-reaching consequences.

Additional pressure would be placed on mines left operating in the East Rand basin, such as East Rand Proprietary Mines, ironically a mine in which government has a large stake.

The rising water table, created by Grootvlei no longer pumping, could also interfere with plans by Durban Roodepoort Deep to develop a new gold resource, the Argonaut project. This would have to be renamed the "Aquanaut Project", one analyst quipped.

Harmony quarterlies: Page 13

What the mining analysts have to say about the future of the gold industry

BD 10/12/98 (214)

The listing of Anglogold in New York, Gold Fields' productivity gains and the emergence of Harmony are the highlights of a year in which the gold price has languished. Mining reporter David McKay spoke to analysts Greg Hunter, Rob Edwards and Brenton Saunders about the health of SA's gold mining industry

ARE SA mining companies overreacting to government's proposals for a new mining and mineral policy?

Greg Hunter, Deutsche Morgan Grenfell The industry is not going to stop the development of the small mining sector But what has to be ensured is that it does not become a kind of cowboy style free-for-all with the release of mineral rights

Brenton Saunders, Fleming Martin This is a double-edged sword You have to be able to liberate some of the mineral rights that can be brought to account in a small-scale mining venture But the worst-case scenario is that there will be more metal coming onto the market than can be consumed, effectively cutting the throats of the new entrants

Labour in the large corporations, who are the largest employers, will also start suffering However, the deep capital intensive nature of most of the other reserves is the barrier to entry for those that do not have a huge balance sheet behind them

Do offshore investors really want SA gold shares given the high risk of SA mines, the historical baggage they carry and the fact that the SA gold mining industry is a mature industry?

Greg Hunter: To be brutally honest, the safety aspect of SA mines is not that important to investors For them, it's got more to do with profitability and share price performance

In addition, SA gold mining companies have addressed many of the issues which North Americans used to raise such as simplifying corporate structures and reporting standards

Foreign investors have to be interested now as the SA industry has formed two of the largest gold producers in the world — Anglogold and Gold Fields

To what extent have SA gold companies succeeded in making their business more understandable?

Rob Edwards, HSBC Simpson Mckie In terms of financial reporting, SA companies probably rate as among the best in the world

There is nothing you cannot pick up in the annual report of an SA precious metals producing company today

Greg Hunter As a general rule SA companies have come a long way in terms of exposure Part of this has been driven by the conversion to International Accounting Standards (IAS)

Brenton Saunders. Originally, SA companies such as Kalgold and Avgold reported on the IAS standard in order to be stacked up against international competition and to attain the kind of rating that their North American and Australian counterparts trade on That has not had the desired effect, although it enabled investors to compare companies against one another using similar ratio analysis

Are international investors recognising attempts made by the SA gold industry to turn itself around and will reratings flow from these efforts?

Greg Hunter The first thing that international investors are saying is that SA companies' cash cost numbers are nonsense because of the massive currency depreciation However, if you go back to the unit cost side there has been fundamental change

Brenton Saunders: Plot those costs in rands and it is exactly what Greg says SA mining companies have strongly outperformed core inflation for the past three years About 50% of your fixed variable cost for the industry is still labour Labour cost increases traditionally track consumer price inflation (CPI), but because are not at risk of going back to double digit inflation from the rand depreciation (as was the case in 1994 and 1996), labour costs will be fairly muted In addition, the international hard currency-based component of costs, such as capital requirements, is much smaller than the rand-based costs

Can you provide a thumbnail sketch of the new breed of mine manager on the SA gold and platinum operations?

Greg Hunter You have got a more independent manager who is more hands on and is able to manage his operation to maximise the cash flow and the profitability of the operation

What he is not worried about is providing the preferential dividend that used to fly up to the mining house

Has the SA gold industry been consolidated into a duopoly of Anglogold and Gold Fields? What role do the smaller companies play?

Brenton Saunders. Anglogold produces about 10% of new gold production Gold Fields and Anglogold combined produced upwards of 60% of SA annual gold output Their combined earnings are upwards of 65% every quarter From a fiscal point of view, they are big contributors However, the local resource fund manager has seen the gold board and every other mining sector shrink to probably a third of its former size three years ago He will therefore still value the choice provided by companies like Avgold, Western Areas and Harmony

Rob Edwards. Gold Fields and Anglogold will end up being essentially similar animals The desire for investment choice is seen in the obvious resistance in the market in SA and overseas to Driefontein Consolidated being delisted

Greg Hunter There may be a duopoly in terms of the gold production in SA, but in terms of their formation they have provided an opportunity for other companies to grow

Q Has the SA gold sector placed too much emphasis on job reductions to haul in costs?

Rob Edwards The SA gold industry is historically over-manned and its labour is highly politicised The right thing has happened, however As a result, we are seeing a more educated and a more flexible workforce

We have a high earning industry which is highly taxed, restricted in terms of where it can move internationally, therefore the only way it can move is by reducing its labour content

Brenton Saunders. We have 35% unemployment, but because the minimum wage is so elevated and the unions are so powerful in terms of the broader political spectrum you cannot afford to employ more people So what are the gold mines having to do? They have to employ fewer people, at higher levels and train them to do more than one task

Greg Hunter Given all the retrenchments and the massive change we have seen in the last 18 months, I think the lack of unrest on the gold mines has been remarkable It shows there is quite a mature view taken by the union of the industry

Q Is mining in Africa too risky, too troublesome? Might the cash be spent better elsewhere, for example chasing new opportunities in Australia?

Greg Hunter It is a sign of the times that we have seen a slowdown in prospecting in Africa There is not the type of money available to the juniors — the sector that usually comes up with the good finds

The larger companies are looking for substantial, more meaningful business, but it will be in acquisitions SA companies, with their strong balance sheets, are looking for going concerns rather than doing grassroots exploration Given the troubles that the North American and Australian industries are experiencing, SA companies are going to find some attractive opportunities and buy some good assets

Q Does listing offshore really increase a company's chance of raising capital more easily?

Rob Edwards. Listing offshore in the hope of being rated in a similar fashion to companies already listed is a huge mistake, mainly because offshore listings are untenable in the long-term

Greg Hunter We had a straw poll in New York at one of our conferences in May in which we asked professional gold investors if you could pay a dollar for cash flows in Nevada, what would you pay for cash flows in other parts of the world? The message we got was that a discount would be automatically applied to African countries As long as a company's assets are predominantly African, this discount will apply

Rob Edwards: That reflects the world investor map from New York, the result of being on the other side of any sea. That is why Anglogold is pursuing risk diversification as one of its major drives

Q How realistic are recent attempts by gold companies to market their product? What are your predictions in terms of the future attractiveness of gold as both an investment and as an item of unique quality?

Brenton Saunders. Gold marketing can improve the way investors perceive gold The impact it can have on overall gold consumption is probably minimal, however Have a look at the liquidity in terms of monetary value of the gold market relative to the platinum, diamond or any other market, it is the only commodity that comes close to a currency in terms of its tradeability

In addition, there are such big volumes around at any one time, that it is going to be very difficult to quantify what impact marketing gold will have

Greg Hunter It is not the quantity that is all that important, but as in recent platinum jewellery sales in China, it shows that you can grow a market from zero to something substantial

As the gold market is so liquid, you may not see the same impact, but as a gold producer you can create demand, market more and avoid being an apathetic price-taker

Rob Edwards: That is where you need market transparency and this is what producers are pushing for very strongly Most over-the-counter lending is actually depressing the price

If you do not know who is buying or where the gold is flowing it is very hard to change sentiment against it

Mining analysts Brenton Saunders, left, Greg Hunter, centre, and Rob Edwards give their views on mining gold Picture TREVOR SAMSON

Mining - Gold
1999

Poor results expected for gold mines

(214)

BD 20/1/99

ANALYSTS are expecting a poorer set of financial results from SA's gold mining industry in the three months to the end of December, caused by higher costs and a lower average gold price

The first company to issue its results will be Durban Roodepoort Deep tomorrow, with the rest of the country's gold mines following in the next two weeks

Gold producers have benefited from a weaker rand over the past few quarters as their revenue is in dollars and their costs are in rand. The rand averaged R5,78 to the dollar in the quarter to the end of June last year and R6,21 in the next three months

As the rand falls in value against the dollar, the companies receive more rands for every ounce of gold exported

However, the gold price has fallen back in dollars during the last quarter and, on average, the rand has strengthened recently, trimming profits at the mines Gold was trading on the spot market at $286,80 and ounce early yesterday afternoon

"The mines will be financially weaker this quarter because the rand has been stronger," said Gerard Kemp, a gold analyst and head of mining research at BOE Securities

"In general, most earnings will be down and their revenue stream will fall 4%-5%," said Tony Cadle, a gold analyst at Rice Rinaldi Securities

In the three months to the end of September last year, the gold industry made a net profit of R1,1bn, a 54% rise on the previous quarter when it made R704m, said analysts

This was far cry from just a year ago when the then marginally profitable industry formed a crisis committee to bring organised labour and management together to stave off huge job losses and the closure of mines

Keith Bright, mining analyst with Fedsure Asset Management, said the results would "not be as good as the previous quarter and will be a mixed bag" He said "the mines were very good at cost cutting during the earlier part of last year but it has got much more difficult to cut costs in the second half"

The benefits of the lower rand are also being eaten away by inflation, which Bright estimated is at an annual rate of 6,0% in the mining industry

Among individual companies, analysts expect Durban Roodepoort Deep will be hard hit because it had high capital expenditure during the past three months However, the company did put a hedge in place during the period and this should provide some protection

Avgold, the gold division of Avmin, is also forecast to see earnings shrink badly Driefontein Consolidated, the largest mine in SA, controlled jointly by Gold Fields and Anglogold, had earth tremor problems and this should have a negative effect on its results, said Kemp

JCI Gold, which comprises Western Areas and Randfontein Estates, was also expected to produce lower earnings figures as a result of a depressed gold price and rising costs, analysts said

Harmony Gold Mining, an independent gold producer and refiner, should have a "mixed" quarter, said Kemp

Analysts say that Anglogold — the world's largest gold producer, which listed on the New York Stock Exchange last year — is well hedged and its results will be among the best in the industry —Dow Jones

GOLD *Fourth-quarter results expected to reveal downward swing*

Stronger rand tarnishes profit outlook

CT (BR) 21/1/99 (214)

Darren Schuettler

Johannesburg — South Africa's gold producers, who have ridden a price roller-coaster in recent months, would serve up weaker profits when the season for reporting on the quarter to December 31 kicked off tomorrow, analysts said yesterday

They said South African firms, including giants Anglogold and Gold Fields, felt the pinch of a stronger rand, which dampened gold prices in local terms during the quarter

The world price for gold has not helped producers either Bullion ended 1998 at an average $284 an ounce and is expected to drop to the mid-$280s in the first quarter of 1999

"With the lower dollar gold price and the stronger rand, I don't see much improvement," said Mark Madeyski, an analyst with O'Flaherty & Co

Another analyst estimated that an almost 5 percent drop in local gold prices was expected to shave group profits to between R750 million and R850 million in the quarter to December 31

That compares with a profit of about R970 million in the quarter to September 30, owing to a slumping currency

"We'll probably see a slight decrease in earnings in the face of a lower gold price, but I'm not looking for disastrous results," the Johannesburg-based analyst said

Tight cost controls and improved productivity are expected to partly offset the impact of weaker price.

The average bullion price slipped to R54 600 a kilogram in the December quarter, from R57 700 a kilogram in the September period

Durban Roodepoort Deep opens the reporting season tomorrow, with most other companies publishing their results over the following two weeks

Most analysts expect Harmony Gold to make good on its promise of a dividend Bernard Swanepoel, Harmony's chief executive, said in October that the company's improved finances should allow it to resume dividend payments

Analysts and investors will be watching for news of various deals and restructurings

JCI Gold said late last year it would announce details of its proposed merger with Consolidated African Mines in early 1999

JCI Gold, which emerged from the ashes of mining house JCI, said at the time that the announcement was delayed by a joint venture between partly-owned Western Areas and Canada's Placer Dome

The market is also keenly watching Driefontein's proposed buyout of Gold Fields

Gold Fields and Anglogold agreed to share Driefontein through a 60-40 joint venture last year, but have yet to buy out minorities

Driefontein is one of the highest grade underground producers in the world Minority shareholders are grumbling that their stake is worth far more than the suitors are willing to pay — Reuters

SA gold companies December quarterly forecasts

Date	Company	EPS Range	Previous
Jan 21	Durban	10-12	13
Jan 25	Harmony	72-81	114
Jan 26	WestAreas	55-69	81
Jan 26	RandEstates	38-52	76
Jan 27	Driefontein	29-55	68
Jan 27	Avgold	(1)-7	(1)
Jan 28	Gold Fields	54-95	102
Feb 3	AngloGold	325-342	504

Source Reuters

30 tons taken annually from premier mines but new fingerprinting system may thwart criminals

Thieves and syndicates help themselves to SA gold

(214) CT (MR) 24/2/99

DARREN SCHÜTTLER

Johannesburg — A botched gold theft at one of South Africa's premier mines has highlighted a persistent problem in an industry that loses about 30 tons of gold annually, as estimated by the Chamber of Mines, to thieves and syndicates

The latest incident to make headlines was the theft of a gold bar from a Harmony Gold plant in the mineral-rich Free State province on February 13

Five people — three mine employees and two security guards — are alleged to have conspired to steal the bar containing about 18,7 kgs of gold

Four people have been arrested since the incident and police are searching for a fifth suspect

"There was no way they were going to get away with this It was a very amateurish attempt," said Bob Atkinson, Harmony's technical director

Atkinson said the missing gold was quickly detected by the company's accounting procedures He added that it was a persistent problem for the industry and that more resources should be devoted to combating theft

Last year, Johannesburg-based Avgold said it suspected gold was stolen from its ETC operation, but to date the culprits have not been caught

Stolen gold has become a critical issue as South Africa's annual output continues to slide in the wake of industry-wide restructuring and slumping gold prices

Gold thieves range from a miner who hides gold dust in his trouser turn-ups to syndicates armed with forged documents and offshore bank accounts

The Chamber of Mines, which represents the country's primary gold producers, has said gold theft could be a determining factor in whether a mine was profitable or marginal in certain circumstances

The chamber and South African police are negotiating a gold fingerprinting agreement as part of a concerted effort to combat theft at the country's mines

The agreement would allow a system to be put in place whereby stolen gold could be traced back to the mine, allowing the company to take corrective action

The police diamond and gold unit would receive funds from the chamber to help defray the costs of theft prevention and recovery programmes

Figures for 1998 are not available, but the unit made over 3 000 arrests in connection with precious metal thefts in 1997 with a recovery rate of between 5 and 9 percent — Reuters

NEW

SA's gold production costs fall 15% in 1998

CT(MR) 26/2/99 (214)

ANTONY SGUAZZIN

Johannesburg — The rand's 17 percent fall pushed production costs 15 percent lower in 1998 compared to 1997 at Gold Producers in South Africa, thus shielding profit margins from a drop in the price of gold, the world's biggest supplier said yesterday.

The Chamber of Mines said gold production costs fell to an average $266 a troy ounce in 1998 from $312 the year before as the average price of spot gold in London fell to $294.23 an ounce from $331.21. In rand terms production costs fell 3.4 percent.

The rand depreciated to an average R5.54 against the US dollar in 1998 compared with 1997. South African producers pay most of their costs in rand while selling gold in dollars.

The companies also cut costs by reducing workforces, using the same mining infrastructure to mine greater areas and closing unprofitable shafts, contributing to a 3.8 percent decline in South African gold production in 1998 to 473.8 metric tons, its lowest since 1955.

Roger Baxter, the chamber's economist, said: "It (the South African gold industry) is an industry grappling with costs."

The decline reversed 1998's 2 percent rise in costs in dollar terms. Even so, South Africa's production costs were well above the international average, which fell to just below $200 an ounce by the third quarter of 1998, said London based Gold Fields Minerals Services.

South African mines will have to continue cutting costs if they are to compete against rivals in the US and Australia, the world's second and third biggest producers respectively. — Bloomberg

Gold Fields is now world's No 2

(214) CT(PR) 8/4/99

Max Gebhardt

Johannesburg — Driefontein minority shareholders yesterday approved the reverse takeover of the company by Gold Fields to create the world's second-biggest gold producer

The offer, worth R9,2 billion, or 155 Driefontein shares for every 100 Gold Fields shares, was approved by 77 percent of the minority shareholders in Driefontein The new company will have proven reserves of 96 million ounces of gold and annual production of more than 4 million ounces with total cash costs of about $200 an ounce

Gold Fields gained 125c to R36,45 on the JSE yesterday, while Driefontein slipped back 45c to R23,80 on news that the deal had been approved

YOUR HINTERLAND LIES THERE *Cecil John Rhodes looms over the shoulder of Chris Thompson, the chairman of Gold Fields, as he conveys the implications of the newly combined company*

Gold Fields will reverse list into Driefontein in May Gold Fields shareholders will own 83 percent of the combined company while Driefontein shareholders — besides Gold Fields and Anglogold — will control the remaining 17 percent

"The numbers of minorities voting in favour support the view that this was a fair deal Obviously we know that there was some disappointment that Anglogold received R30 a share (for its 21,5 percent stake in Driefontein) Nevertheless it really made sense to put the two companies together," said Chris Thompson, the chairman of Gold Fields

Thompson said the transaction would have very little effect on cost savings for the new group but it would provide Gold Fields with a springboard to buy assets overseas, especially in Australia and North America The deal would also facilitate a proper listing of Gold Fields on the US's Nasdaq market

Mark Arthur, a gold analyst at Standard Corporate Merchant Bank, said the new Gold Fields should provide for better liquidity, which would make it more attractive for international investors

Thompson said Driefontein was the last significant captive of the old South African mining house system until yesterday "This transaction releases Driefontein and brings it on to the world stage," he said

□ Business Watch, Page 2

Streamlining supply chains could save mining millions

BD 9/4/99 (214)

Ilja Graulich

ANDERSEN Consulting says improvements in supply chain management could easily save individual SA or Australian mining companies between $30m and $50m a year

In its report on the industry, conducted in conjunction with the Australian Minerals Industry Research Association, Andersen says mining companies do not focus on critical segments of the supply chain, meaning valuable opportunities for controlling costs are forfeited These segments include strategy, forecasting, planning and sourcing

The study, which involved interviewing 11 local and 37 Australian mining companies, small and large, says up to 35% of the operating costs consist of supply chain costs Andersen defined supply chain in the mining industries as the ability to plan and source raw materials, right through to distribution of goods and services and end products

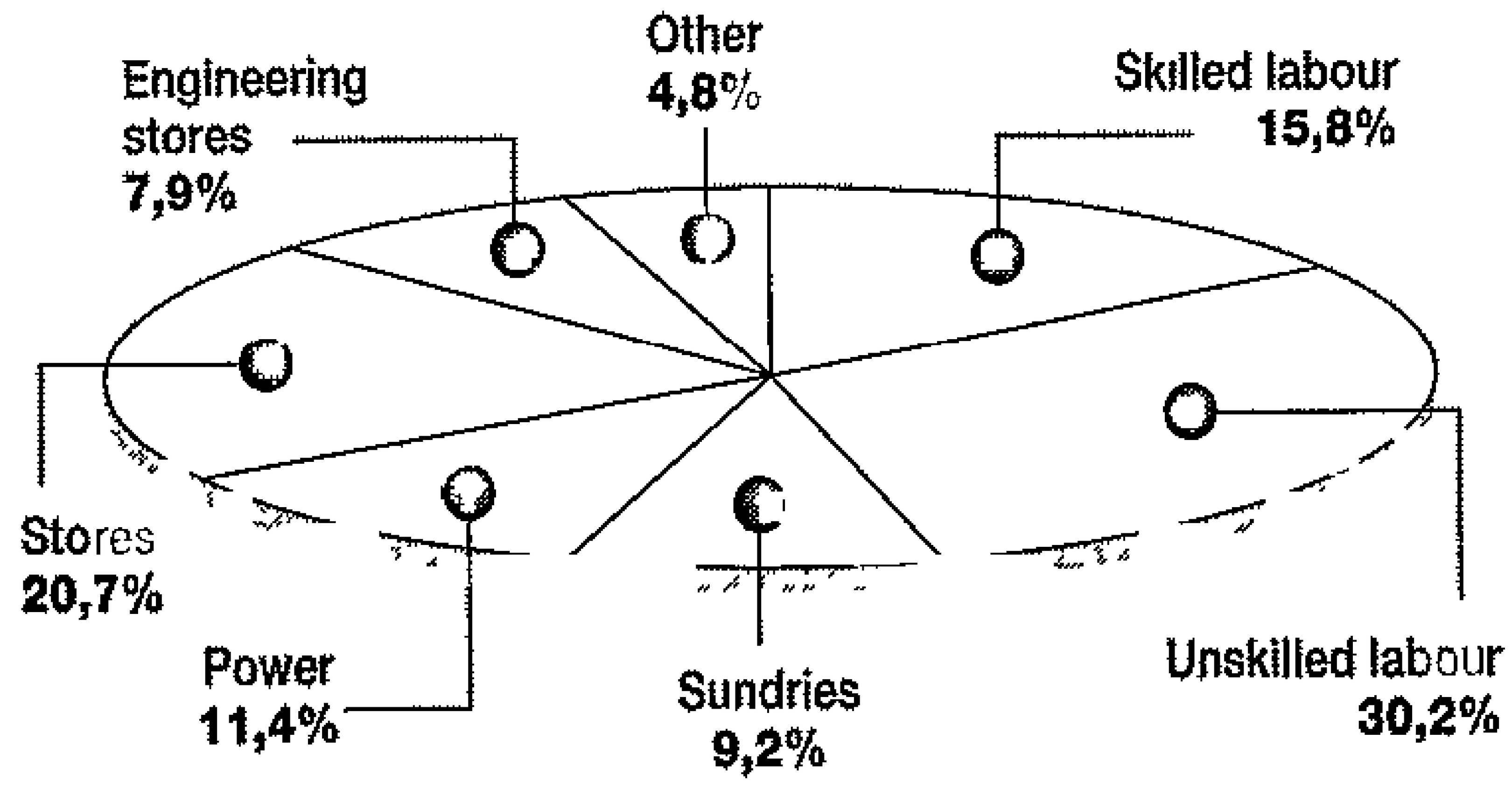
The reason for the study was to measure how companies might extract further value from their operations in an industry that has seen little growth over the past 10 years, as well as being hit by a decade of low commodity prices

The study concluded that if a company could integrate its supply chains more efficiently into its overall operations, a 10% to 20% reduction in costs could be achieved That translates into a saving of up to $50m in a large mining house producing more than a million ounces of gold

Andersen says that while more than half of the companies surveyed did have some kind of supply chain strategy, it did not cover the entire chain, and often was not aligned with overall corporate and operating strategies Andersen says one of the main problems discovered is that responsibility for supply chain management was not at a senior executive level, but was rather placed with middle management

Andersen says 73% of the surveyed companies work with relatively short planning horizons, less than one year However, by sharing long-term forecasts with supply partners, both sides can reduce costs Large costs of inventories could also be reduced More than a quarter of mining companies reported on-hand inventories of more than $40m

Typical SA gold mine cash costs



KAREN MOOLMAN Source ANDERSEN CONSULTING

The men with the golden scam

ST 2/5/99 (214)

MICHAEL SCHMIDT

A RUN-down, rubbish-strewn Free State hostel where groups of unemployed men sit chatting idly in the sun is probably the richest smuggling centre in South Africa.

Almost a third of the country's possible foreign-exchange earnings — representing a loss of more than R1-billion each year — is disappearing from South Africa's gold mines in 30kg bags Many of those bags of processed gold amalgam, stolen at night from mine refineries by runners who bribe security guards to look the other way, find their way to G Hostel in Thabong township outside Welkom

Last year alone, police confiscated 10 tons of gold-bearing material from the hostel — the biggest illegal smelting house in the country — where criminals working for perhaps 20 syndicates ply their trade openly

This week a surprise visit by the Sunday Times to the hostel in broad daylight revealed scores of smugglers drying stolen amalgam in hostel courtyards, then washing, milling and smelting it into lumps of solid gold At least three known buyers presided over groups of runners and smelters, making their deals They all smiled and some even laughed when they realised the telescopic lens photographing their operations was sticking out of the tinted window of a police detective's unmarked car

The crooks had reason to laugh they live high on the hog, driving expensive cars and building township mansions for themselves

When police raid the hostel, the men just stand back and watch, knowing it's virtually impossible to connect them to the illegal smelting

They make sure they never handle the gold or money, so there is no incriminating evidence on them if they are searched

"We draw up profiles of all the dealers," said a burly detective who did not want to be identified "But the crooks have profiles of us too Within days of us getting a new member on the branch, they know what he looks like, where he lives and what car he drives "

Because of this, the detectives try to establish a working relationship with the buyers, exploiting the competition between syndicates to play them off against each other

ALL THAT GLITTERS: A backyard smelter (above) near G Hostel; and a blob of gold on a scale (left) — The 2,93g piece will be sold to a syndicate buyer for about R120

Pictures. MICHAEL WALKER

A few blocks from the hostel is Bheki Dlamini's tiny corrugated-iron shack. Inside, a cellphone is charging next to an electronic scale and a school notebook full of scribbled figures — evidence that the genial 49-year-old father of four is a key player in one of the syndicates

Arriving unannounced, we asked Simon, a member of Dlamini's smuggling ring, if he could produce unwrought gold for us to photograph He laughed, surprised, and declared "I have nothing, nothing "

But it took only a few more minutes of persuasion, sweetened by a promise that the five-member ring would not wind up in trouble with the police, and Simon removed a gold nugget from his sock. Shaking his head in amazement at his own boldness, he placed the blob of gold on the scale It read 2,93g

Dlamini plans to sell it for about R120 to a syndicate buyer, a small-fry deal for a black-market business that can make instant millionaires out of middlemen and which costs the Free State gold fields millions of rands a month in lost revenue

"I pay R37 or R38 a gram to the men who bring the amalgam to me to smelt Then I sell it to another man for R40 a gram, so I make R2, which I have to split five ways I have my wife, four children and mother to feed — it's never enough," Dlamini said, indicating the blowtorch, gas bottles and crucible in the backyard, which he rents for R200 a month to run his part of the smuggling operation

Dlamini blamed the mines for causing the unemployment which forced his hand to crime, but the mines said many thousands of jobs would be saved if there was no smuggling

"At least we are not breaking in and killing people," Dlamini protested

Working his way up the syndicate ladder after starting out scratching around mine dumps for low-yield ore, Dlamini claimed he did not know where the gold went after he sold it.

But police said the metal was usually sold to front companies in Johannesburg licensed to buy legal unwrought gold — they pay about R1 200 an ounce (about 28g) to the buyers The gold then goes to markets in countries such as India and Italy, where it fetches about R1 720 an ounce.

The Chamber of Mines, which is compiling a national "threat analysis" of the smuggling problem, said that, in 1996 alone, about 30 tons of gold, with a value of R1,58-billion, was stolen from mines Almost a third of the industry's gross profits — and about 63 percent of shareholders' profit after capital expenditure — is lost to smuggling

In four clandestine operations since 1991, the Welkom Diamond and Gold Branch recovered 260kg of unwrought gold worth R8,7-million and arrested 361 suspects Those figures exclude regular raids such as last month's Operation Goudveld, in which two Welkom men and four illegal immigrants from Zimbabwe were arrested and half a ton of gold dust and truckloads of refining equipment were seized

The mining industry, police and the Justice Department have formed the National Precious Metals Forum to gather intelligence on syndicates and shut them down But the task is easier said than done, with complicity from corrupt mine staff and an estimated 300 000 illegal immigrants living in and near G Hostel, most of them linked to smuggling

Policemen are also involved. A 1995 break-in at the Diamond and Gold Branch's offices — which netted R800 000 in gold and R400 000 in diamonds — was the work of a gang aided by an officer stationed there.

In a recent court case, a man told of being robbed at gunpoint of his illegal gold by a policeman

Sunday Times Business Times
May 2 1999

Gold statistics a little tarnished, say critics

The Gold Fields Mineral Services' Gold Survey 1999 came in for a bit of a smelting from gold-market watchers, writes JULIE WALKER

(214) ST 2/5/99

PAUL Walker, co-researcher and presenter of Gold Fields Mineral Services' Gold Survey 1999, started on the defensive when presenting the survey to a Johannesburg audience last week Other gold-market watchers found fault with several of the survey's key aspects, such as central bank sales, investment offtake and hedging

Walker was on the back foot on two more counts the purchase price of £195 a copy was more than many of the audience could justify, particularly members of the press, in spite of his reassurance that the price was well below production costs and still reasonably priced

The survey is supported by 20 corporate sponsors who were believed to have contributed $7 500 apiece, following the collapse of former owner Gold Fields of South Africa and the door being shown by Gold Fields Ltd

The London audience reportedly had to pay £48 just to hear the presentation while Standard Corporate & Merchant Bank's hosting of the Johannesburg bash turned out not to be such a free lunch after all a fire in the adjacent room put paid to Walker's slide show

The survey begins on a negative note "Gold's performance in 1998 can only be described as 'disappointing'"

Jessica Cross of Internet-based research consultancy Virtual Gold Research takes issue with this "It depends on what you were expecting This was a year when Asia took a huge bite out of jewellery demand, dumped a mass of scrap, when central banks continued to privatise their assets through loans and sales, mine production rose 3%, bar-hoarding was at its lowest for 10 years, and almost all commodity prices slid steeply and pulled inflation down with them

"For gold to record a price fall of less than 12% looks more like a wrist-slap than a custodial sentence, especially as in some currencies its value went up," says Cross on www virtual-gold com

While Walker emphasised the movement of above-ground stocks, Virtual Gold questions the heavy figure for central bank sales, gross sales of 538 tons and net sales of 412 tons

"Absolutely no new evidence of big disposals has surfaced," says Cross "The survey makes vague reference to the Chinese and Russian governments' buying domestic output in 1997 and selling it on to the local market last year

"But this is a simple misunderstanding of what the authorities are doing in these countries Their reserve banks have first right of refusal on all gold, but seldom exercise it Russia and China are acting like wholesalers, exercising right of first refusal because they have often extended credit to the miners The bullion is held in the books but not necessarily taken into official reserves

"Even if it is, GFMS is double-counting subsequent sales because mine output for these countries goes straight into Gold 1999's supply/demand table Swaps should also be logged as a sale when initiated and a purchase when closed out, which the survey appears not to do"

Walker says the market has come to expect net official-sector sales and that this has been factored into the price

Virtual Gold also challenges how, in a year memorable for weakness in gold demand, Gold 1999 claims investment offtake could leap from 153 tons in 1997 to 537 tons last year While coin sales grew, 23 tons was hardly significant

"The really startling figure is 260 tons for investment demand in Europe and North America Since 1997 is (plausibly) reported as a year of heavy disinvestment, this implies a turnaround of no less than 531 tons"

GFMS's explanation — a swing from massive short-selling in 1997 to heavy short-covering in 1998 — is best taken with a fistful of salt

Walker gives four reasons for the short-covering theory the global equity-market collapse had a net positive effect, dollar weakness helped, as did the collapse of hedge-fund Long Term Capital Management Finally, there were hedge redemptions — another figure questioned by Virtual Gold

Gold 1999 reports a reduction in net hedging from 472 tons to 58 tons

"There were sizeable new hedges put on last year a swing of 400 tons looks, shall we say, generous?" says Virtual Gold

Walker is not fazed "We stand by our figures," he told the Johannesburg audience

"Our survey enhances transparency in the gold market but we have to collect data on a very confidential basis There is an element of faith on the part of those who provide us with information Nevertheless, we are subject to, and welcome, criticism"

Not a Y2K apocalypse man, Walker does not expect millennium computer bugs to push gold higher

Nor does he subscribe to the conspiracy theory that the US Federal Reserve Bank buffers the gold price — a view being postulated by the Gold Anti-Trust Action group

Looking ahead, GFMS predicts gold will trade between $265 and $305/oz for the rest of the year

C(

Gold-mining industry streamlines production

(214)

Mines that fall short of new performance standards will be axed

BD 7/5/99

Ilja Graulich

A CAUTIONARY announcement last week issued by JCI Gold and seven of the group's companies warning that talks on restructuring were under way, once again sparked interest about changes in the mining industry as a whole

Following the latest round of quarterlies, analysts said they now had a fair idea of how companies were coming along

The bigger mining houses have started setting performance standards, and any operations not meeting these, will be sold'

Analysts said Anglogold was the company that offered junior mining companies the best buying opportunities One analyst said this was not because the company could not manage its mines efficiently, but the recent acquisition of Minorco's gold assets meant that Anglogold was involved fully in integrating the new mines into the group As a result, the group would be hard pressed to accommodate operations that were costly Such operations were likely to be sold

News provider Miningweb was the first to put names to speculations It pointed out that two of the three former Freegold mines — Matjhabeng, Tshepong and Bambanani — recorded lower profits from operations in the March quarter Although costs did come down, their average cost of $246 remained uncomfortably above the group's target of $200 an ounce This fact once again raised murmurs that Harmony could be eyeing the mines Anglogold group did not deny the rumours, saying such speculation has been around for some time However, analysts said the sale would be determined by the price, with Anglogold most likely preferring a cash offer to reduce debt incurred after the purchase of Minorco's gold mines

Durban Roodepoort Deep, which recently expanded into Australia, remained keen on acquiring Hartebeesfontein from Avgold Durban Deep said Harties would complement its Buffelsfontein and Stilfontein operationist Avgold, on the other hand, insists the mine is vital for continued cashflow in the group, saying it is not for sale However, one analyst remarked that "every mine has its price "

On a smaller scale, an announcement two weeks ago said the Afrikander Lease (AFL), a company which mines gold in the North West, has proposed a merger with cash shell East Daggafontein

Afrikander was in desperate need of money, and with East Dagga continues to sit on R100m cash pile after the sale of its dump retreatment assets to Anglogold last year, a merger would be the best route to take

Gold Fields has not completed its restructuring Although the group said on Wednesday no mines were for sale, only three months earlier the viability of certain operations were being examined

GOLD *Five of the country's nine largest groups lose $1 for each ounce of gold they produce*

Mining firms in 'precarious position'

(214) CT (MR) 21/5/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

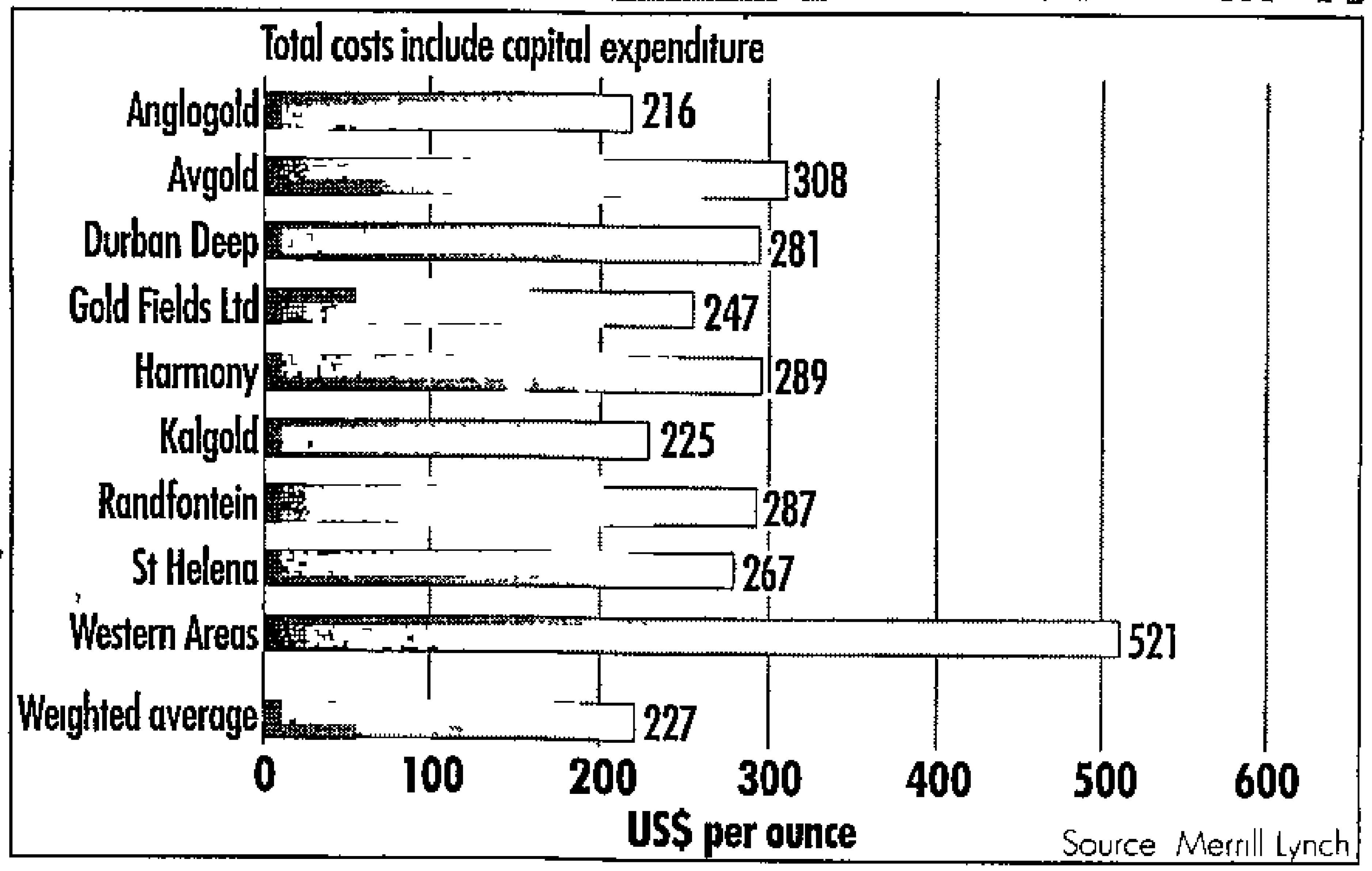
Johannesburg – A $12 fall in the gold price since May 6, the day before news broke of UK treasury sales, places half of South Africa's mining group's in a precarious position in which dollar production costs are higher than the spot price of gold

All South African mining groups were still producing a cash profit at yesterday afternoon's London fix of $274 an ounce But analysts said a more reliable indicator of the industry's sustainable health was obtained by looking at total production costs, which include the costs of capital spending to maintain or expand production

If capital spending is included in the picture, five of the country's nine largest mining groups are making a dollar loss on each ounce of gold they produce

Roger Baxter, them chief economist of the Chamber of Mines, said the situation facing the industry was less dire than it appeared at first glance He said roughly half of the country's mines were protected by forward sales, or hedges, where the mines are able to obtain prices between 15 and 100 percent above the spot market gold price

Total gold production costs



Source Merrill Lynch

Most of the remaining mines were protected by the devaluation of the rand that had accompanied the fall in the dollar gold price

"Even at a $274 an ounce price level we are still looking at R55 000 a kilogram, which is higher than the average rand gold price received last year," Baxter said "From a national economic point of view, this (the falling gold price) is bad news, (but) from a mining company point of view, it's not as bad," he said

Investment analysts, however, took a more negative view

They said if dollar prices remained at current levels mines would have to cut back on both production and capital spending, which would reduce the longer-term prospects of the industry

"If the gold prices stay at this level, I wouldn't be surprised if we lost 10 percent of gold production over six months or less," said David Hall, a gold analyst at Merrill Lynch

One of the affected companies is Avgold which analysts estimate will produce bullion at a total cost of $308 an ounce Julian Gwillam, a spokesman for Avgold, said the cost reduction was ongoing to alleviate the effect of the falling gold price

But if prices remained subdued, the group would consider the option of accelerating the closure of Hartebeestfontein

Mines call for crisis talks

BD 26/5/99 (214)

Reneé Grawitzky

THE mining industry has called on organised labour to participate in joint discussions to seek new ways of managing the industry's survival in the new millennium

The Chamber of Mines has written to all the unions proposing a leadership summit meeting to form a common set of principles on how to deal with the continuing crisis in the industry

Industry sources said yesterday that employers wanted to enter this process with an open agenda, but that the ultimate objective was to adopt a form of a "social pact"

Trade-offs would be inevitable in managing the continued downscaling, which would be coupled with the development of the remaining workforce to ensure a core of highly skilled and trained workers.

Employers would have to minimise the effects of further downsizing by delivering on the commitments of the social plan, as well as in the areas of housing, medical care and human resource development

This call for a leadership meeting comes a year after the National Union of Mineworkers (NUM) initiated a gold mining summit meeting at which delegates adopted a broad plan to manage downscaling Sources said the objectives of the plan had not been met

The union's president, James Motlatsi, said at a recent central committee meeting that the union had to give "paramount priority to restructuring the mining industry" He was referring to the establishment of various committees to deal with job grading, education and training, health care, retirement benefits and wages

The call for the meeting by mining employers comes as the gold mining industry continues to lose jobs, a situation which could be further exacerbated by the gold price hitting a new 20-year low. The gold price fixed at $271,70/oz in London late yesterday

Initially the meeting was to be held ahead of the annual round of wage negotiations. However, wage negotiations started yesterday

NUM general-secretary Gwede Mantashe said the timing of the meeting was problematic because the initiative could become mixed up with the current round of wage negotiations

The first round of wage talks between the chamber and the NUM got off to a bad start yesterday when negotiations broke down over whether talks on wages at gold and coal mines should be separated

Mantashe said the chamber wanted to establish a principle by separating gold and coal negotiations This had not been negotiated, he said The chamber argued that gold had nothing to do with coal and that agreements reached in 1997 had resulted in separate negotiations

Mantashe said that if the chamber wanted to go this route it should have been discussed in pre-negotiation talks

"We cannot accept this divisive principle," he said

Parties resume talks today on how they should proceed with the negotiations

Meanwhile, wage negotiations between the union and De Beers also continue today, with indications that a settlement could be in the offing

GOLD MINES

SAVE THE LAST DANCE FOR ME

Gold's woes could bring more sweeping changes to the SA mines (214) FM 28/5/99

With gold sitting at 20-year lows, about US$272/oz, stand by for the next restructuring convulsion to hit the SA gold mining industry, which has been put through the wringer during the past 18 months

That's what a number of JSE gold analysts are predicting though major producers AngloGold and Gold Fields Limited (GFL) are denying they intend selling off more mines at this stage

With the possible exception of ERPM, no gold mines are likely to be closed down soon, but some look vulnerable to a possible change of ownership

Operators like Harmony, Durban Deep and Petra Mining (Petmin), which have scored out of the industry's previous restructuring, could pick up further operations that the major gold companies no longer want

ERPM this week issued a cautionary, saying its future was at risk because of factors including the low gold price and a reduction in the pumping subsidy received from government

Despite a big improvement in operating performance, ERPM still reported a cash cost of $301/oz in the March quarter (December quarter $340/oz)

Randfontein's decision to suspend work on the Doornkop South Reef project — on which about R200m has so far been spent — has had no material short-term impact on the mine But if it is not restarted within two years, Randfontein's lifespan will be radically shortened because it depends on new reserves being developed at Doornkop

What happens next depends on a number of factors, including the rand exchange rate, the level of hedging by various mines and whether the gold price sticks at $270/oz or weakens further to the $250/oz to $260/oz range

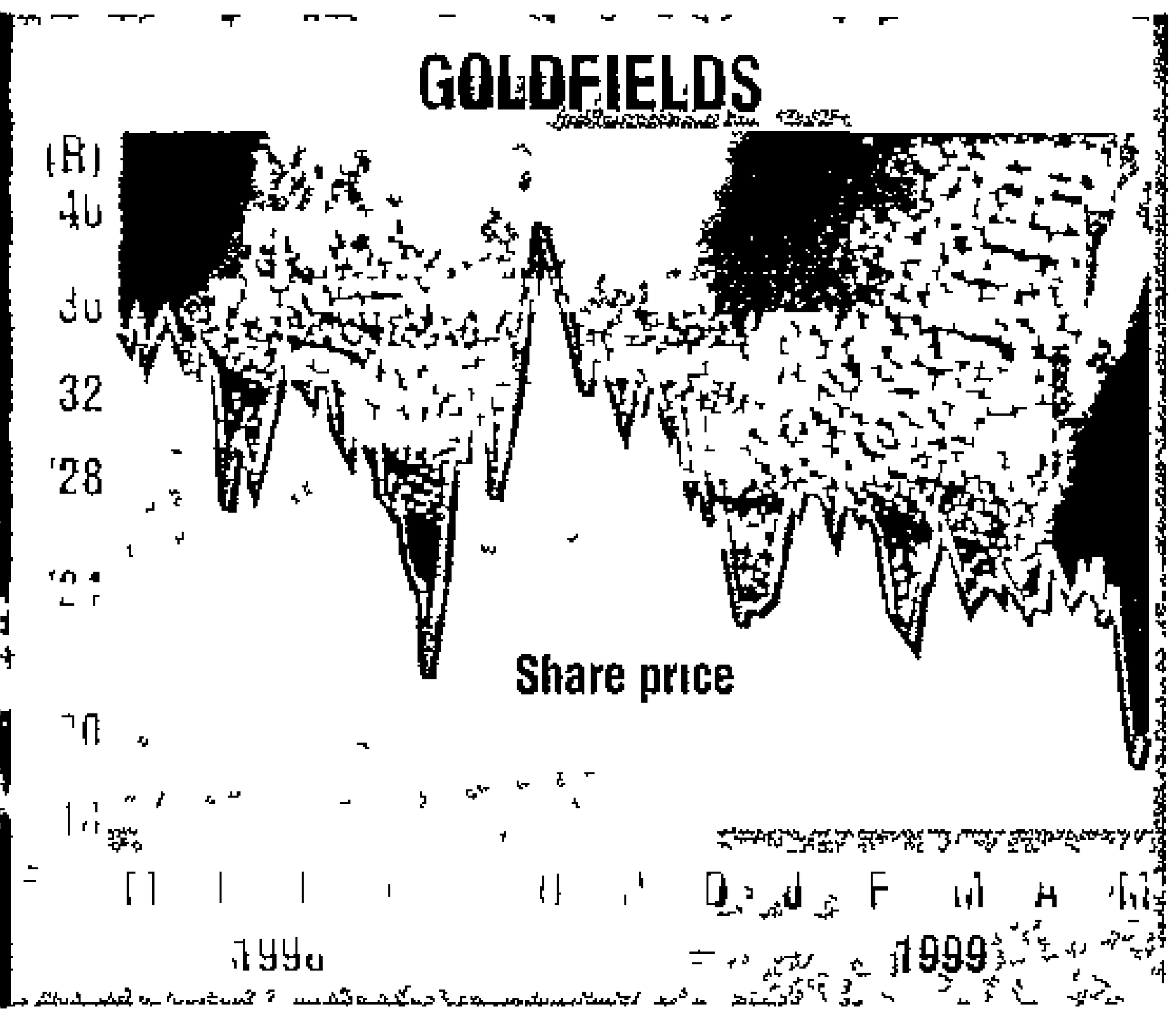
At AngloGold, the most obvious candidate for the hit list is the Matjhabeng mine in the Free State, which reported cash working costs of $274/oz in the March quarter

AngloGold financial director Jonathan Best says "Matjhabeng does not have a 'for sale' sign around its neck At $270/oz plus our hedge position all our operations remain profitable and, if gold sits at $270 for the next year, it's not the end of the world"

At GFL, the Libanon division sticks out with cash operating costs of $274/oz while, at Avgold, flagship gold producer Hartebeestfontein (Harties) is in trouble, reporting cash costs of $291/oz and total costs of $328/oz

Durban Deep chairman Roger Kebble has dropped hints that he'd like to buy Harties and it seems Petmin MD Fourie du Preez is also interested


Tom Dale



Avgold spokesman Julian Gwillim says management is addressing Harties' problems

AngloGold has sold off large chunks of its Free State operations to Harmony and African Rainbow Minerals in keeping with its policy of disposing of gold mines considered "noncore" because management does not believe it can get cash costs down to the target of $200/oz

"If (AngloGold CEO) Bobby Godsell sticks to his word and does not ride his hedge book, then Matjhabeng and probably Tshepong (another mine in the Free State) as well should be sold," says an analyst

The gold price crunch has renewed long-running analyst speculation over a radical realignment of the Free State gold operations The feeling is Harmony is the best placed to take over AngloGold's remaining Free State gold mines, with the exception of Joel

Merrill Lynch analyst Dave Hall says "it seems there may be an announcement out within a few weeks on a realignment of mineral rights and assets in the Free State

"Assuming AngloGold sells Tshepong and Matjhabeng, it will be left with isolated operations in the form of Bambanani at one end of the gold field and Joel at the other

"What if a deal were structured to sell Joel to GFL, so consolidating GFL's position in the Free State in return for the Driefontein Number 9 Shaft coming to AngloGold, which wants it for the ultra deep project at Western Deep Levels?" Hall asks

GFL MD Tom Dale denies any deals involving the sale of operating mines but confirms discussions are under way concerning mineral right swaps in the Free State and elsewhere

"There are a number of transactions in the pipeline which should result in further sensible rationalisation of mineral rights holdings all over the show around mines like Kloof and South Deep as well as the Free State operations"

"Previously," says Dale, "we said GFL was a stool that stood on three legs — Driefontein, Beatrix and the Kloof division of Kloof That's no longer the case Our attitude is that we do not sell assets at the bottom of the market and, even though we had a disappointing March quarter, our average cash cost was still $223/oz and our average total cost was $251/oz"

Brendan Ryan

Mines call for crisis talks

BD 26/5/99 (214)

Reneé Grawitzky

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Meanwhile, wage negotiations between the union and De Beers also continue today, with indications that a settlement could be in the offing

High-cost operations may be shelved as bullion price slips again

Mine projects under threat

CT (BR) 3/6/99 (214)

ANDREW DAVIDSON

Johannesburg – South African gold mining companies are having to make a major review of high cost underground projects and surface plant expansions as the bullion price resumed its slide on Tuesday to $265,60 an ounce, almost $4 less than the London closing price on Friday

The price recovered slightly yesterday, by 30c to $267,15, but showed no signs of a real recovery

AngloGold, the world's biggest producer of the metal, admitted it was "concerned" at the price "slip" and would be examining all parts of its operations not meeting set targets

A leading gold mining analyst said "I think we will see R100 million plus gold mining projects cut back or shelved, like the Doornkop project (an R80 million project at Randfontein Estates which was suspended late last month)

"If the price remains this low for a few weeks, I would also expect the mining companies to announce at the July quarterlies major investigations into high-cost operations, with some of these being suspended "

He added that, at the current spot price, only Roodepoort Durban Deep was among the marginal mines at risk

"The others have reasonable cash margins "

Kelvin Williams, the marketing director of AngloGold, said "We have two major projects which are both high-grade tonnage replacement, and obviously these must go ahead They are the Moab and the South shaft-deepening projects

"Because we have price cover for little over half of our gold production for 1999, we have a buffer But the balance of our gold production is exposed to the low gold price

"We are obviously concerned about this price slip, like other gold producers We are looking at all parts of the operations that are not meeting the targets set and stated publicly by Bobby Godsell (AngloGold's chief executive officer) We are looking at them thoughtfully and carefully"

Not since May 24 1979 has the bullion price been so low

The gold price has been in the doldrums since Britain revealed last month that it planned to dispose of more than half its gold stocks The Bank of England plans to start auctioning off 415 tons of gold from July

To add to the precious metal producers' woes, the Swiss have intimated they intend to sell gold reserves to raise funds to compensate victims of the Nazi holocaust – Sapa

Restructuring of mines pays off

(214) BD 4/6/99

Ilja Graulich,
James Eedes and Sapa

THE restructuring of SA gold mines and old mining houses into more competitive and larger entities is paying off for the local gold industry at the present weak levels of the gold price

Panic will only set in if bullion stays around the $260 an ounce mark for a long time, but the rand hedge and improved productivity is allowing mines to continue work without too much worry, analysts say

The March quarter showed good productivity numbers for the first quarter as measured by total employee capital

Barnard Jacobs Mellet gold analyst René Hochreiter says these figures compare fairly with any numbers in other parts of the world

He says worker education is paying off for a lot of companies, with Anglogold's Elandsrand operation ranking amongst the most productive and educated

So far, based on a cash cost analysis, only a few mines are making losses at the present gold price

However, total costs, and not the gold price, are a better indication of the mines' viability, as these cost can be controlled

Dividends, for one, could be slashed and, if the gold price holds at $260 an ounce, exploration and development could be cut back drastically

"But at the end of the day, even the most productive mine cannot escape a falling gold price," an analyst said

Gold fixed in London this morning at $263,85, but gained some ground to fix at $264,75 in the afternoon. "It looks like a recovery is closer than ever," the analyst said

Deutsche Morgan Grenfell gold analyst Greg Hunter said the market was nervous and thin "My guess is it will remain range-bound between $263 and $270 The market is on a knife-edge but it looks like we've weathered the worst of it"

Fedsure Asset management gold bull Nick Goodwin believes the bullion price could bounce back to previous highs, as early as August in fact

He says that the Eurobank and other central banks have confirmed they would not be selling gold

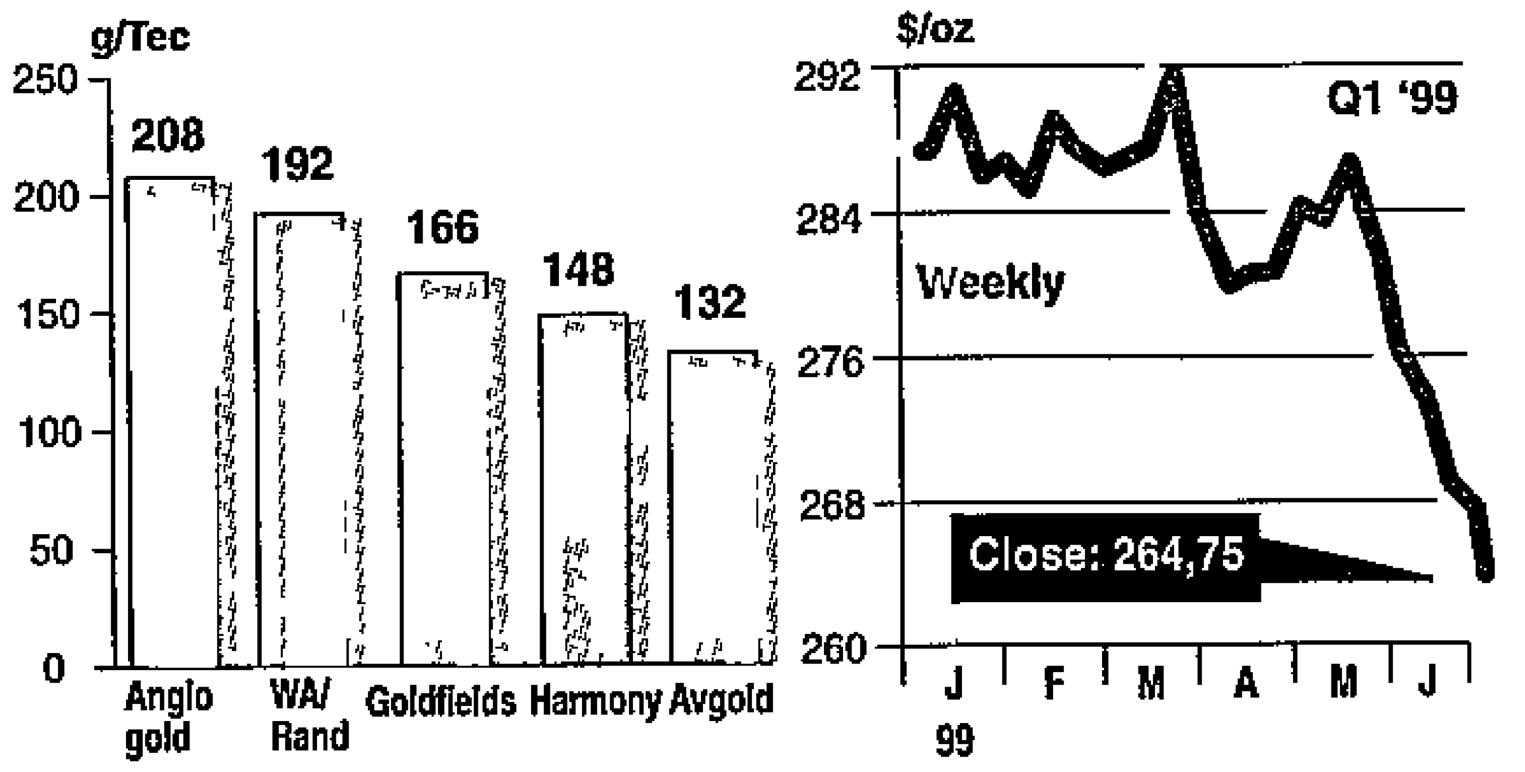
"The fundamentals remain good as gold is very cheap in real terms," says Goodwin

So far, only Randfontein Estates has said that its Doornkop project will be put on hold ERPM has issued a warning that the economic situation may affect its bottom line

Hochreiter said that no mine will close just yet, as contingency plans are put in place for these eventualities

The Bank of England, whose recent announcement that it would sell 415 tons of gold over a period of five years triggered the fall in the gold price, is due to start its first auction of 25 tons on July 6

Improved productivity



KUBEN DAVID Source BARNARD JACOBS MELLET I NET BRIDGE

Gold miners lobby US to stop gold sales

BD 24/6/99 (214)

Anglogold boss and union leader blitz Congress over IMF plan

Simon Barber

WASHINGTON — "I think we are winning," Anglogold CE Bobby Godsell said after a three-day lobbying blitz with National Union of Mineworkers president James Motlatsi to persuade US legislators to block proposed International Monetary Fund (IMF) gold sales

The US has the deciding vote on whether the fund can proceed to sell 10% of its 103-million ounce gold reserve to help finance debt relief for poor countries, but can only cast a vote in favour of sales if the US Congress gives the nod

To the irritation of officials in the Clinton administration, which joined its industrialised partners last week in endorsing the 10-million ounce sell-off at the Group of Seven summit in Cologne, Godsell and Motlatsi have been barnstorming Congress with the message that the proposed sale is not only "perverse" but unnecessary

Rather than preaching to the converted — members for mining states in the west who have already voiced opposition to the IMF plan — the pair have focused on key members of the banking and appropriations committees and the Congressional Black Caucus

Motlatsi said the idea that the fund could dispose of gold without depressing prices "does not hold water — as soon as you say you are going to sell it knocks the price down" He pointed to the $30/oz drop that followed the Bank of England's announcement that it would sell 125-million tons of reserves

At current prices, he warned, 40% of SA mines were no longer profitable, threatening 82 000 jobs, with severe consequences for 10 times as many people throughout southern Africa

Godsell said if the IMF, World Bank and bilateral creditors were "thoroughly honest" about debt relief, they would either forgive debts outright, as SA had done with Namibia and Mozambique, or write them down to collectible levels

"What's perverse is to jeopardise future industry in order to make the fund's balance sheets look better as a way dealing with past bad debts " The victims would be developing countries, including many in line for debt relief, whose gold was vital to attracting investment and earning foreign exchange

The fund, whose gold is booked at $42/oz, intends to invest the capital gains from the sale and use part of the income to offset its sour loans to what are known as "highly indebted poor countries"

Godsell argued that a far better approach would be for the fund to write off these debts and then fix its balance sheets by simply revaluing its gold holdings closer to their market value That would increase incentives not to "dump" gold onto the market — at far below developing countries' production costs — for fear of driving down the price and incurring losses

First prize, Godsell said, would be for the IMF to issue "a clear statement that they're not going to sell" Short of that, he would be happy for Congress to force the fund's hand, and he was confident that it would

Senators oppose gold sales: Page 8

SUNDAY ANALYSIS

Debt relief plan robs Peter to bale out Paul

(214)

ST 27/6/99

The IMF's bullion sale spells disaster for gold producers in Africa, writes KUSENI DLAMINI

THE Group of Eight's recent endorsement at its Cologne summit of the International Monetary Fund's move to sell 10 percent, or 10 million ounces, of its gold reserves will have far-reaching effects on African countries that produce gold

It is expected that IMF gold sales will begin in August, while the Bank of England's sale of an initial 25 tons of gold is set to begin on July 6

Mining, and gold mining in particular, still has the potential to be an engine for Africa's delayed industrial revolution and progress It is, by all accounts, one of Africa's few areas of hope for economic growth and prosperity

Even Afro-pessimists agree that the continent has a comparative advantage Miners have no alternative but to go to where the forces of nature have placed so many rich mineral deposits — that is, Africa.

For example, Southern Africa alone has 50 percent of the world's gold deposits, nearly 90 percent of its platinum and palladium, 85 percent of its chromium and 75 percent of its vanadium Mining is indeed one of the sectors that can make a meaningful contribution to Africa's economic renaissance

Foreign expenditure on mining exploration in the '70s and '80s was at best insignificant and at worst nonexistent In the '90s, however, spending on exploration in Africa has skyrocketed Canada's Metals Economics Group mining exploration spending in Africa last year was $493,4-million (about R2,9-billion), or about 17,4 percent of the total global expenditure

One does not need to be a hard-nosed Oxford economist to realise that expenditure on mining exploration is based on positive sentiments about the future of gold as a store of value

The $30 fall in the price of bullion since May has not only sent negative sentiment to the market, it has resulted in a $6 8-billion (about R40,8-billion) loss in export earnings for gold-producing countries in sub-Sahara African, according to the World Gold Council

The South African economy might lose $2,5-billion (about R15-billion) in export earnings this year alone Gold earnings make up approximately 20 percent of SA's export earnings

South Africa is not classified by the IMF as a heavily indebted poor country and will therefore not benefit directly from the debt relief initiative, assuming that any of the classified countries are to benefit

Anglogold, the world's leading gold producer, supports debt relief for poor countries — as does the South African government — but says, rightly, that funding it through the sale of IMF gold reserves would have disastrous effects on the industry

The IMF's move is at best misguided and at worst mischievous because its unintended consequences outweigh its intended results It has had a negative impact not just on shareholder value but on important stakeholders such as workers and governments dependent on gold not only for export earnings but also for tax revenue and economic development

Indeed, the World Gold Council notes that the intended effect of reducing debt has been outweighed by a loss in export earnings far greater than the size of the relief package

A strategic response from mining companies, trade unions and African governments is required to counter the IMF and Western central banks' move to sell gold on a huge scale without considering the adverse consequences this would have for poor countries and gold mining as an industry

Furthermore, African countries need to strengthen relations between business and government in general, and business and foreign and international trade policy in particular Building successful economies in an increasingly competitive and globalising world requires it

The sale of gold reserves is misguided on three main grounds

First, there is no conclusive evidence that selling gold is the best possible way to fund debt relief If anything, it is the worst possible way because it exacerbates the socio-economic and political problems of debt-ridden countries by robbing them of an important source of tax revenue, foreign exchange and export earnings as well as employment and infrastructure development

Second, gold-producing countries and companies from the Third World, and especially from sub-Saharan Africa, should have been consulted on ways to relieve the debt burden The failure to do so smacks of the northern hemisphere's classic patronising approach to the southern hemisphere, where the former knows what is good for the latter and that what is good for the North is good for the South

Third, the developed countries were naive not to have used this opportunity to show their political will and commitment to debt relief by putting their money where their mouths were

It is indisputable that debt relief is an important prerequisite for the foundation for development to be laid in the Third World It goes without saying that, like anything else, it can only work if it is properly planned, designed, financed and implemented

It matters much how debt relief is financed, as indeed it mattered much how the Marshall Plan to reconstruct post-war Europe and Japan was financed It will determine the extent to which debt relief becomes a success, especially in Africa If it is approached as just another accounting exercise or it undermines sectors capable of making an even more important contribution — as the IMF approach seems to do — then it will not succeed

Selling gold reserves to help heavily indebted poor countries is tantamount to robbing Peter to pay Paul because it essentially robs struggling gold-producing African countries to ostensibly help other poor nations

The IMF's initiative on debt relief has been nothing but a dismal failure since its inception in 1996 So far only three countries have felt any real relief

If rich countries are genuinely committed to debt relief and sustainable development in the Third World they should, *inter alia*, do the following

First, they must be prepared to finance relief from their own coffers

Second, profits made by the IMF and the World Bank should be used to finance debt relief There can be no development without industrialisation in Africa

Third, the IMF and Western governments could borrow money from the international financial markets to finance debt relief

The mining industry should be nurtured to unleash its maximum potential in the industrialisation and diversification of Africa's economies The sooner the IMF and Western central banks realise and accept that, the better are the prospects for regional prosperity and security in Africa

● *Dlamini, a Rhodes Scholar, is a lecturer in the department of international relations at Wits University*

RICH TREASURE: Gold still has the potential to be a trigger for Africa's progress and its delayed industrial revolution

IMF gold sale a poor act for poverty

(214) (~~356~~) ST 27/6/99

THE World Gold Council's sums show that if the International Monetary Fund (IMF) goes through with its intention to sell up to 10-million ounces of gold, the income it would earn on the proceeds will reflect a net loss of at least \$85-million a year suffered by the very countries the IMF wants to help

Gary Mead, head of research at the WGC, says 10-million ounces of gold would fetch \$2 3-billion at current market prices The aim is to invest this and use the income to reduce debt borne by heavily indebted poor countries (HIPCs) It would earn around \$115-million a year Yet gold-producing HIPCs in sub-Saharan Africa alone will earn \$200-million a year less in export earnings than when the gold price was \$30/oz higher, gold having fallen as a result of the proposed sales by the IMF and the Swiss and UK central banks

More than 30 of the 41 HIPCs are gold producers, 12 producing at least three tons a year In 2000, their combined production is expected to hit 200 tons Using mid-May's pricing (before the \$30/oz slide) this would have earned \$1 6-billion in export revenues

Sub-Saharan Africa has 33 of the 41 HIPCs and produces a quarter of the world's newly mined gold Gold comprises 7 8% of exports, earning \$7-billion a year The consequences of lower earnings for HIPCs are obvious

Mead offers three avenues the IMF should consider Richer nations (who three years ago privately told the IMF to go away when they were asked to dig into their pockets) could be approached again Or richer members could be allocated special drawing rights which would be used for debt relief Or the IMF could issue a bond or borrow on capital markets

The preferred option might be a revaluation of the gold held by the IMF, which is in the books at only \$42 22/oz "The paper profits generated by this could be used to 'forgive' HIPCs' debts to the IMF It is an entirely paper-based transaction," says Mead

For once, both union and management in SA's gold mining industry speak with the same voice Bobby Godsell of Anglogold, representing the Chamber of Mines, and James Motlatsi, president of the National Union of Mineworkers, went on a lobbying exercise in the US this week The pair warned the IMF that 100 000 more people in southern Africa would lose their jobs if gold were to drop another \$30/oz based on IMF sales

They argue that debt relief does not require gold sales to be effective "The money mobilised by these sales would constitute only a very small part of the relief programme yet the impact on export earnings and unemployment in the HIPCs would be dramatic"

Julie Walker

Gold crash is Mbeki's

If the bullion price stays at its current level for any length of time, South Africa could face even more severe unemployment, report **Donna Block** *and* **Mungo Soggot**

Mining disaster: Thabo Mbeki could face mounting calls from the mining industry to roll back labour and mining legislation that restricts the way in which mines can operate

One of the first major challenges for the Mbeki presidency will be the potentially massive ramifications for South Africa's economy stemming from the collapse in the price of gold, which this week dipped to a fresh 20 year low

Economists have warned that if the gold price stays at current levels for more than a few months, local gold producers could be forced to retrench thousands more employees, having already ditched 100 000 during the past three years

The price dropped to as low as $259/ounce this week — a substantial fall from its levels of about $300/ounce at the beginning of the year

As Thabo Mbeki begins his presidency next week, his commitment to eroding South Africa's massive unemployment rate could be seriously undermined by the potentially devastating effect of a fresh wave of job losses that could have a far reaching impact on many other areas of the economy

'The latest price movements add a horrible twist to the situation as regards jobs on mines, and jobs dependent on mine wages'

Mbeki could be faced with mounting calls from the mining industry to roll back labour and mining legislation that restricts the way in which mines can operate — moves which are unlikely to go down well the African National Congress's trade union allies

Most South African mines have successfully streamlined their operations to cushion themselves from the impact of the steadily declining gold price However, in the current price range, many local mines are now left with little room to manoeuvre where cutting costs are concerned

Mines were this week coy about the potential impact on jobs, but conceded that the number of South African mines classified as "marginal" — which essentially means barely profitable or loss-making — has almost doubled since the beginning of the year

Roger Baxter, head of economics at the Chamber of Mines, said four of the 16 mines monitored by the Chamber were classified at the beginning of the year as "marginal"

Baxter said that by last week another five mines had slipped into the "marginal" category because of the further drop in the gold price since the beginning of the year (These figures exclude those mines which "hedge" against the gold price, by using the financial markets to lock into a future fixed gold price)

"If we don't get some changes soon, we could have mine closures," Baxter said, adding that if current price levels are sustained for more than two to three months, there could be a "tremendous" impact on employment in the sector

Economists say many other areas of the economy also stand to feel the ripple effects of the weakening gold sector, which accounts for about 18% of South Africa's export earnings

Tony Twine, a director of Econometrix, said "The gold mining industry has been losing jobs since 1989 This is not new But the latest price movements add a horrible twist to the situation as regards jobs on mines, and jobs dependent on mine wages — the spaza shops, the taxis and so forth "

Twine said the ramifications stretched further into the scores of industries that fed off, supplied and invested in the gold sector

Twine said that although gold mining companies had over the past decade succeeded in lowering their operating costs to ever decreasing levels, "there must be a finite limit I rather suspect that many of the mines are rather close to that now"

Baxter said that while average costs had declined, South Africa still lagged behind other producers when it came to improving productivity levels and costs

In 1997, he said, South African production costs including costs averaged about $342/ounce, compared with $331, $296 and $287 for Australia, Canada and the United States respectively

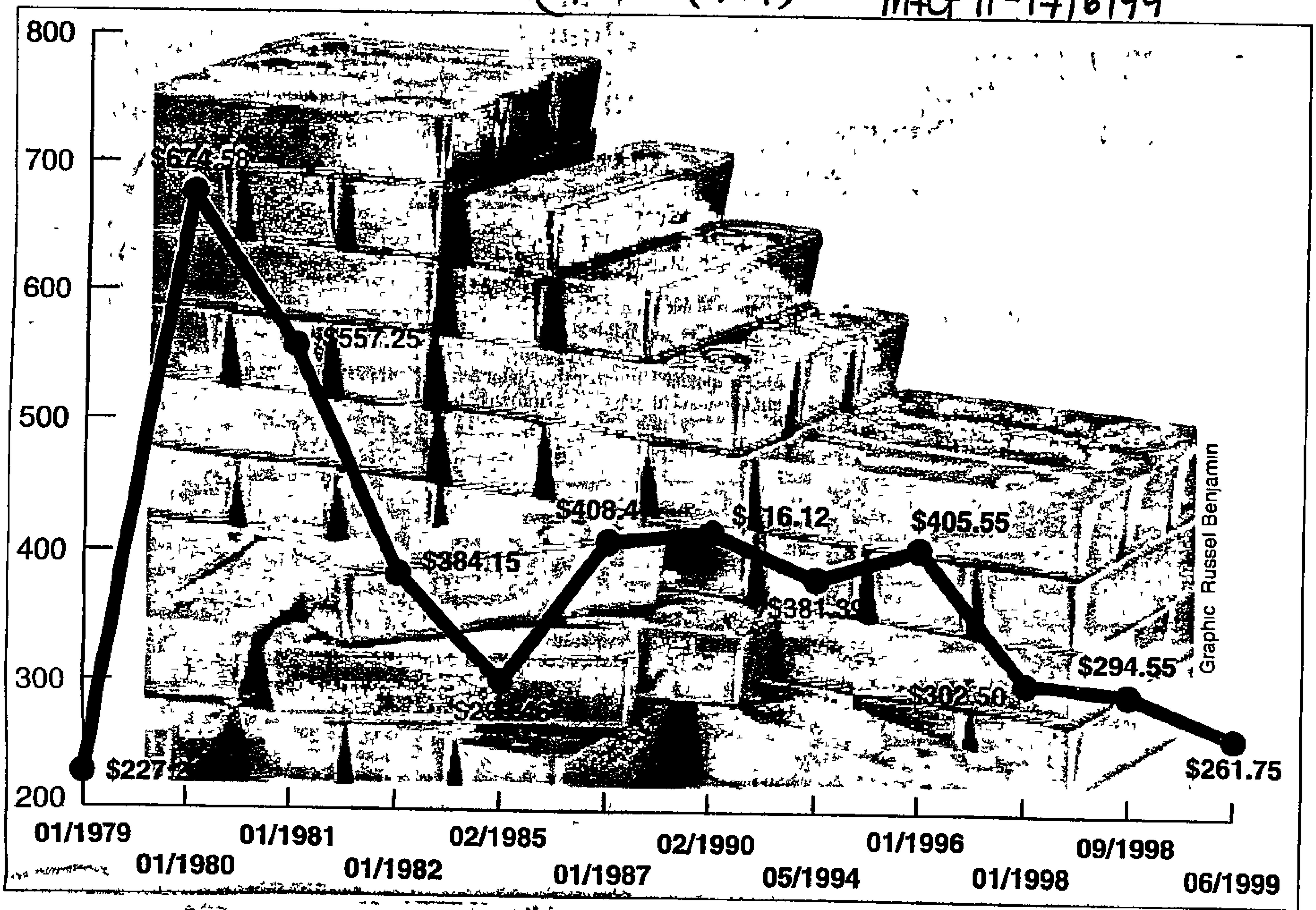
Last year, after undergoing painful and widespread restructuring, South Africa managed to push its average cost down to $273/ounce But this was still above those of the other gold producers, and higher than the current actual price of gold

Alan Smith, executive officer for the South African operations of

MAIL & GUARDIAN
June 11 to 17 1999

first real challenge

(214) M+G 11-17/6/99



Anglo-American's gold mining arm, Anglogold, said that the drop of the gold price during the past 18 months had put the company in a different playing field However, we took strategic decisions which are helping us at the moment. We have a very successful hedging programme which provides us with the opportunity to look at the gold price and where we are headed "

Smith said that he believed the gold price had a natural level of about $300/ounce, towards which it would eventually gravitate "I don't yet know what the effect [of the price fall] will be on the economy," he added

Despite the potentially huge economic implications of the falling gold price, foreign gold analysts complain that South African producers have downplayed the crisis and been excessively sanguine about it in an attempt to protect their share prices

The erosion of the gold price has been driven mainly by widespread fear among investors that the world's central banks, which sit on massive gold stockpiles, could sell off their reserves at a moment's notice and flood the market

Baxter said that the reality was somewhat different, and that most central banks — including those of Italy, France, the US and Germany — had explicitly stated they intended to hold on to their reserves He said that even the recently proposed sale by Britain over the next five years did not represent a significant proportion of the world's annual gold supply

Britain's sale warning came hot on the heels of the International Monetary Fund's proposal to sell some of its gold stocks for Third World debt relief.

John Lutley, president of the Gold Institute in Washington DC, said recently that South African producers had demonstrated a "cavalier" attitude to the current situation

"We are very concerned about our mining operations in the US and the impact this will have on employment in the mining industry and our trade balance We wish South Africa would become more vocal," said Lutley

Kelvin Williams, a representative of Anglo-American, said the gold market had been coping very well and the gold price was starting to rise when the "ill considered" decision by the Bank of England to sell off some of its reserves changed circumstances once again Williams said it is inappropriate to compare South African producers with their North American counterparts

Baxter said the irony was that underlying physical demand remained strong — an observation confirmed last week by the World Gold Council, which said demand for jewellery remained strong The council's chief gold analyst, George Milling-Stanley, said recently that demand for gold in the first few months of 1999 had surged

Nevertheless, the Bank of England's announcement that it would sell off half its gold stock in July triggered a $30 drop in the gold price, reflecting the enormous negative sentiment that has mounted against the once illustrious metal

MINING *Largely state-owned company is expected to propose its own liquidation*

Rescue talks at embattled ERPM

CT(MR) 1/7/99 (214)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

LIGHTS DIMMED *(From left) Miners Americo Muzine, Afrons Nyamgwe Philip Zahdamela and Adula Engino prepare for a shift yesterday at ERPM's Far East Vertical shaft The mine employs close to 5 000 people*

PHOTO JOHN WOODROOF

Johannesburg – Durban Roodepoort Deep (DRD) the gold producer said yesterday it was in talks with ERPM, one of the country s oldest and most embattled gold mines over a rescue package that could transfer ERPM's surface gold reserves to DRD

The government is the largest shareholder in ERPM, which employs close to 5 000 people The mine is expected to approach the Gold Crisis Committee (GCC) on Monday proposing that it be put into liquidation

However Ivan Vidulich the managing director of ERPM said no decision on liquidation had been taken but the mine would present its case to the GCC He said it would be extremely difficult to save the mine at current prices Basically government is the key player in this If they want to preserve jobs some bridging finance needs to be found ' he said

Vidulich said ERPM was asking the government to provide some R4 million to R6 million a month to keep it running for a couple of months to give the government time to make an informed decision on its future

Roger Kebble the chairman of DRD yesterday told analysts and the media that ERPM s surface reserves formed part of DRD's expansion plans The DRD proposal would 'keep the company from just disappearing into chaos"

He said it was urgent that the government moved quickly on DRD s proposal DRD owns the Knights surface recovery plant close to ERPM and this week commissions its second phase upgrade of the plant

Kebble declined to provide further details of the proposed rescue, while Vidulich said that "there is nothing on the table as such on the DRD proposal.

Jan Bredell a deputy director general in the department of minerals and energy, said the department would be briefing the new minister on ERPM this morning and it was considering the DRD proposal.

He said the government would try to balance three concerns in attempting to resolve the ERPM problem. its own substantial investment in the mine, the fate of its employees and the continued pumping of water from the underground workings

"We can't just put more cash into it the money just isn't there Bredell said any solution was likely to be less than ideal

Five gold mines ready to let 8 000 workers go

JONATHAN ROSENTHAL

Johannesburg – Five South African gold mines had applied to the Gold Crisis Committee (GCC) for permission to retrench about 8 000 mineworkers over the next few weeks sources said yesterday

The retrenchments signal the next wave of restructuring in the mining industry as the gold price fell to 20 year lows over the past two months

Last month both the National Union of Mineworkers (NUM) and the Chamber of Mines warned that as many as 80 000 jobs could be lost if gold prices remained at current levels

The GCC a tripartite body of labour government and mining companies will discuss the issue next week

Jan Bredell a deputy director general in the department of minerals and energy said he was unable to confirm the figure of 8 000 possible retrenchments but said he was aware a number of mines wished to retrench employees

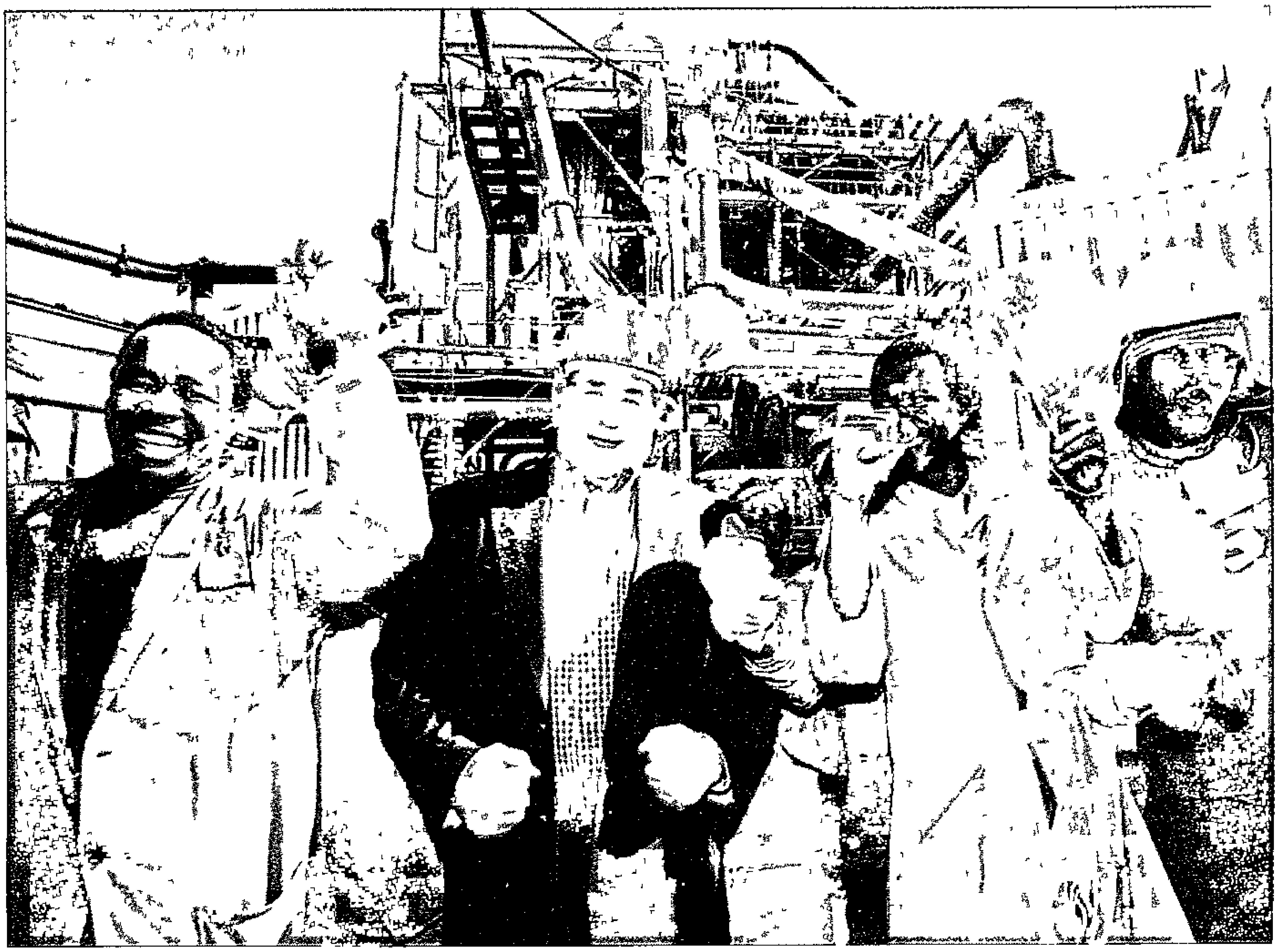
Archie Phalane the deputy general secretary of the NUM said the NUM felt the proposed retrenchments were premature and unjustified as gold prices could still recover

As a union we said they may be jumping before the gun You can't say if the price falls today you will retrench 10 000 because if the price rises will you re-employ 10 000 he said

He said the GCC was working to block the proposed sale of gold by the International Monetary Fund while the union was seeking solidarity on the issue from sister unions

But analysts said this week's strong recovery of the rand against the US dollar had exacerbated the crisis for mining companies. Since the cost price of mines is rand based a weaker rand helps reduce the dollar costs of production

The recovery in the rand has, however pushed the rand gold price to below R50 000 a kilogram a level generally seen as the lowest limit of profitable production in the South African gold mining industry



NEW LIFE FOR OLD MINES *Roger Kebble, the chairman of Durban Rooderpoort Deep, and construction workers celebrate the commissioning of the R21 million Knights upgrade project, which aims to reduce the cost of gold production*

Once-great ERPM on the verge of closure

(214) ARG 3/7/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – The board of ERPM, once South Africa's greatest gold mine, will shut the mine and destroy 5 000 jobs after next week's Gold Crisis Committee (GCC) meeting unless the government bails it out or accepts a rescue plan proposed by Durban Roodepoort Deep (DRD)

The government is ERPM's largest shareholder and has been asked for R4 million to R6 million to keep ERPM afloat

Ivan Vidulich, the managing director of ERPM, said yesterday the board had set the twice-delayed GCC meeting as a deadline for a decision over whether the shutdown would be a "crash landing or a soft landing"

"At the current gold price, the underground section hasn't got a future," he said, adding that without government support the mine could be forced to immediately lay off all staff

"It is critical right now We have been seeing the department (of minerals and energy) since early May they are doing everything in their power to avert a catastrophe," he said

Mike Prinsloo, the managing director of DRD, said that DRD had put forward a takeover proposal which could prevent the liquidation of the company and preserve jobs in ERPM's underground workings

"We would have to do a due diligence but there is enough ore reserve to mine for quite a long time," Prinsloo said

Prinsloo was reluctant to provide the details of the DRD bid, but said it should be seen as a rescue bid ahead of near-certain liquidation rather than a normal takeover

He said the rescue would entail all stakeholders – including shareholders, the government, labour and creditors – making some concessions

"If it goes into liquidation then we will just stand in line and buy assets from the liquidator," Prinsloo said

The DRD proposal also relies on a commitment from the government to keep paying a pumping subsidy Prinsloo said that without ERPM pumping, the water would spill over to empty mines to the west and could ultimately threaten Gauteng's water supply

This would also put the DRD mine, miles to the west of Johannesburg, under threat Prinsloo said that regardless of the rescue bid, if water spilled over and threatened DRD operations, DRD would demand compensation unless it too was given a pumping subsidy

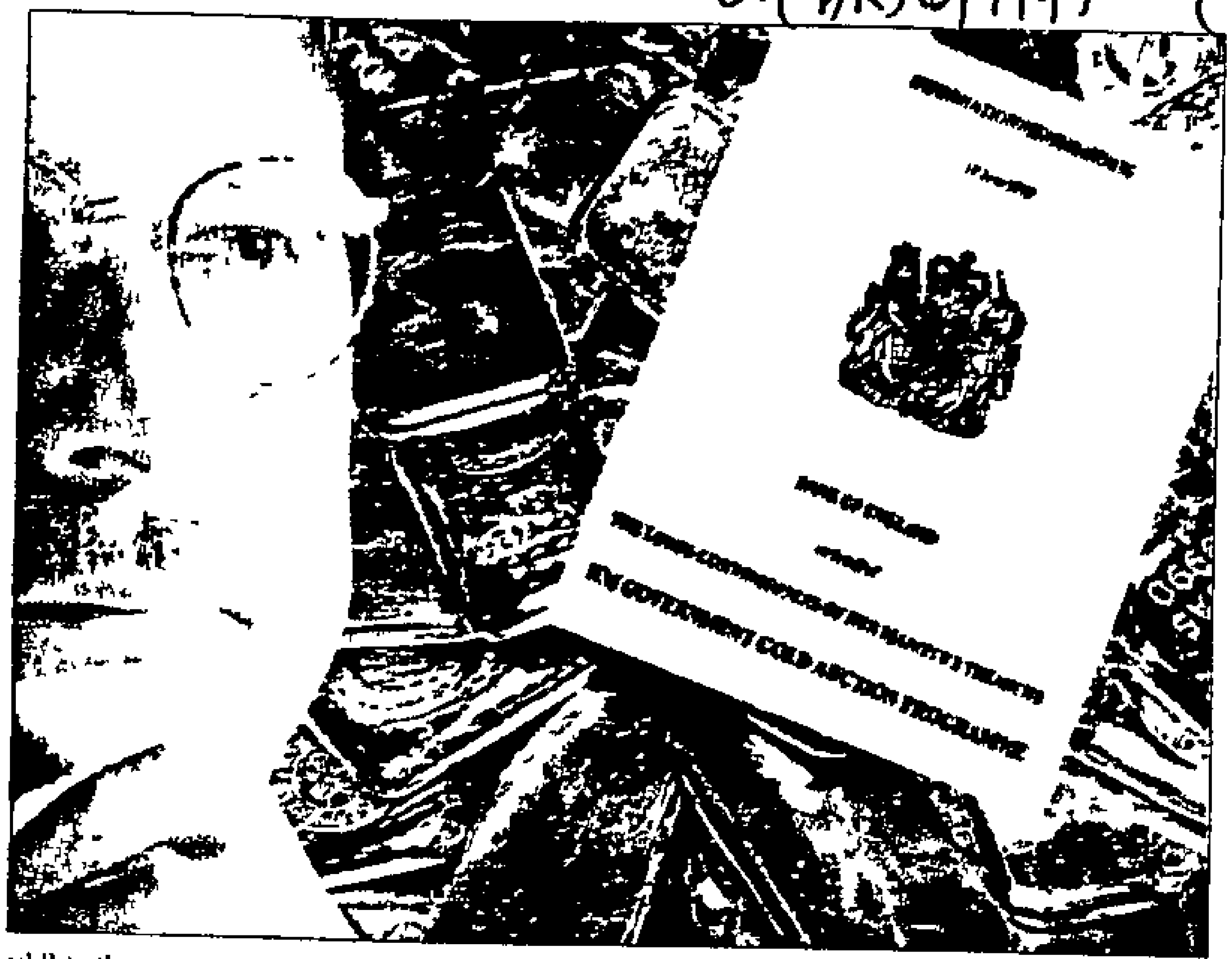
"The government cannot just walk away from its responsibilities," he said

Prinsloo said a formal announcement on the DRD offer could be made as early as this weekend

Mines shrug off UK gold auction

CT (BR) 6/7/99 (214) (79)

Jonathan Rosenthal
Commodities Editor



Johannesburg - South Africa's gold producers yesterday yawned off today s auction of 25 tons of gold by the Bank of England saying the amount of gold coming on to the market was trivial and had already been discounted into the price

Kelvin Williams a director of Anglogold the world's largest gold producer, said he did not expect any fireworks from today's auction

The information is in the market They ve done the damage the auction is going to be an anticlimax " he said

But Williams did point to a possibility, even if a little remote that this auction could be the second last of its kind by the Bank of England

He said the bank had informed members of the London Bullion Market Association an association representing more than 60 gold dealers from 14 countries that if the first two auctions did not make sense the bank could consider an alternative method of conducting its bullion sales

I think there is a real possibility they may change their method ' Williams said

He said there was a good possibility the price could move up slightly on the auction "Twenty five tons will be easily bid for It's an irritating amount but just enough to disturb the market, ' he said

Williams also expressed anger at the bank's method of selling the gold ' Would they sell yen by auction? Because if they wouldn't, they should not sell gold by auction Gold is a parallel currency," he said

Brett Kebble, the chairman of JCI Gold, told Bloomberg he expected the gold price to trend upwards after the sale

"We are not anticipating anything very negative from this sale The negativity from this sale came from the way it was handled and that has disappeared " he said

Ted Grobicki, a director of Harmony, South Africa's third largest gold producer, said he expected the bullion sale to pass with little impact on the market

"All the positioning would have taken place already so I think it will be a damp squib I don't think the price will be any higher or any lower he said

A senior gold dealer said the market had been extremely quiet yesterday partly as a result of the withdrawal of US traders from the market because of the Independence Day celebration there He said the dominating attitude was to wait and see but thought the price could well spike immediately after the bullion sale

The dealer also discounted speculation that there could be a large sell-off of gold immediately after the auction

Fidelis Madavo Investec s commodity analyst said he expected gold to rally to $265 or even $270 in the aftermath of the sale We could see a mini rally and shorts closing out positions he said

Meanwhile Reuters reported Michel Camdessus the managing director of the International Monetary Fund (IMF) as saying he was confident the US would back IMF gold sales He said the IMF would time its sale to achieve a reasonable price and attempt not to depress the gold market

Gold fixed at $261 80 in London yesterday afternoon down from its fix of $263 10 on Friday afternoon

ERPM throws in the towel

CT (MR) 6/7/99 (214)

Jonathan Rosenthal

Johannesburg - ERPM, the gold mine that funded the British war effort in World War 2, will apply for liquidation this week after the government refused to bail the mine out for the third time this decade

Closing the mine, which has the government as its largest shareholder, will cost close to 5 000 jobs and leave roughly 50 000 people with no source of income

The mine swung into the red after the gold price fell $30 an ounce in the aftermath of the Bank of England's May announcement that it would sell off 60 percent of its gold reserves

"We are going to apply for liquidation as soon as the courts can hear the application probably Wednesday or Thursday," said Ivan Vidulich, the managing director of ERPM

The statements came after Jan Bredell, a deputy director general in the department of minerals and energy, said the government felt it could not "continually spend public funds propping up a mine which clearly cannot operate successfully in its present form"

INTO THE RED *Ivan Vidulic, the MD of ERPM*

Bredell said that should ERPM apply for liquidation the "government will do all it can to salvage as many jobs as possible in that process, and to ensure that retrenchments take place as humanely as possible "

Mike Prinsloo, the managing director of Durban Roodepoort Deep (DRD), the mining group that last week proposed a rescue of ERPM, said he would ask for an urgent meeting with the government to discuss the near-certain flooding of DRD's mine by water from the ERPM workings

DRD's rescue bid is understood to have floundered as it too asked for bridging finance from the government to allow time for a full due diligence

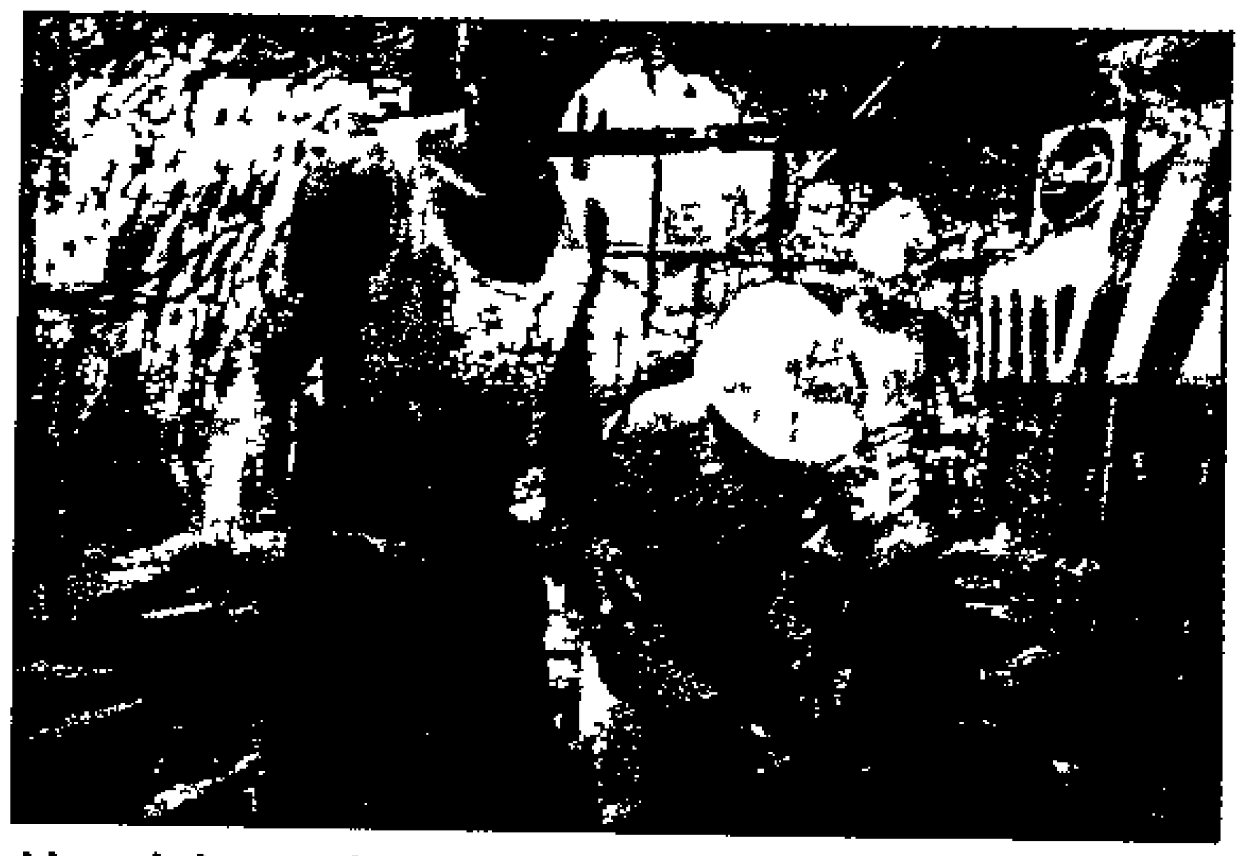
Frank Nxumalo reports that Gwede Mantashe, the general secretary of the National Union of Mineworkers, called ERPM management "mischievous" for rushing to government without waiting to put its case before the Gold Crisis Committee (GCC) meeting scheduled for Thursday

Mantashe said the GCC was constituted to deal with "many forms of crisis" and ERPM was one of five marginal mines to be discussed on Thursday

The depths of despair

M+G 2-8/7/99 (214)

East Rand Proprietary Mines is in danger of becoming the first South African mine to be buried by this year's collapse in the gold price, writes **Mungo Soggot**



Down and nearly out. Mine executives are bracing themselves for a shutdown, but many of the workers underground, where it is business as usual, are sceptical about their talk of the gold price. The miners at top right were injured in a rock burst. Many Anglo American mines have warning mechanisms for rock bursts at their deep-level mines, a luxury ERPM cannot afford PHOTOGRAPHS NADINE HUTTON

For more than a century, Johannesburg s deepest mine has been home to two communities locked in distrust – a distrust they seem destined to share until the death

Above ground mine executives are glumly bracing themselves for a shut down order any day More than two kilometres underground, miners toil at the rock face dismissing it all as just another ploy to underpay them

East Rand Proprietary Mines (ERPM) which has been operating in various guises since 1893, has been wiped out by the latest gold price crisis Its creditors are piling up and all that can save ERPM and its 5 000 staff is a cash lifeline from the government

In a mine where not so long ago white managers were serviced by what they called piccaninnies' — black children who intercepted their excrement with shovels as they crouched to relieve themselves underground – such mistrust on the part of miners is unsurprising But it also makes the underground tunnels something of a fool s paradise

As they rattle around the mine s graceful but dilapidated headquarters — built by Sir Herbert Baker at the turn of the century – some executives say the mine can pay for only a week's more wages

They have explained the situation in circulars and regular meetings But the more perceptive among them know that many miners neither believe nor understand them

'They [the miners] think we are talking shit They think it is just an excuse because it is time for wage negotiations," one senior staffer said last weekend

Lucky Madume, a National Union of Mineworkers (NUM) shaft steward, confirmed many miners did not understand the reasons for the warnings.

The miners' world at ERPM also holds more immediate dangers, such as the small rock burst last Saturday morning which resulted in the relatively minor injuries of one concussion and one damaged hand ERPM staffers say that for some time Anglo American has employed sophisticated warning mechanisms for rock bursts at its deep level mines — a luxury ERPM cannot afford

As for the managers, the tunnels strangely seem to now serve as an escape from their troubles above "Hello cruel world, we're back again," said Peter Allen, the human resources manager, as large drops of icy water fell into the shaft lift, signalling its arrival at the surface and the end of a trip underground last weekend

The water was from one of the world's largest ice plants, the heart of an air cooling system that makes it possible to work at depths of almost three kilometres Also in the lift were the injured miners who had had to walk about a kilometre to the shaft from where they had encountered the rock burst

Allen, who has been with ERPM for 28 years, is not optimistic the government will come to the mine's rescue "I stand to lose my house, my car and my medical aid," he had said earlier in the week "It is traumatic The last two months have been very stressful We have no cash flow We are down to the bone There is no money for retrenchments. The work force has been told that."

Underground, however, it had been business as usual — despite the rock burst, the darkness and the heat, a soothing alternative to what awaited him back at the office

The chief safety officer, Peter Smart, had been as vigilant as ever He had gently ticked off a senior miner for leaving a carriage bearing explosives attached to a small, battery powered locomotive. The train carries gold bearing reef and waste rock along the tunnel linking the mine s Far East shaft and the "stopes' where the actual digging takes place.

It is not the first time ERPM has faced closure. Since the mid 1980s the mine has suffered several financial crises which have cut its workforce to its current 5 000 — a fraction of the 28 000 miners who worked the mine in the 1960s

In 1997, ERPM was saved by a government subsidy, ostensibly granted to cover the costs incurred pumping out water from neighbouring mines As one of the deepest mines on the Witwatersrand, it collects water from a string of other mines. The monthly subsidy is supposed to be calculated according to costs and the gold price, but has nevertheless steadily decreased

ERPM managed to persuade the government to come on board because of the impact its closure would have on the economy of Boksburg, where several companies depend on it The mine is now asking for arrears in the subsidy — the balance between the monthly payments it has sought and those it has received

ERPM's managing director, Ivan Vidulich, says the mine s survival hinges on the extra payment from government.

While Vidulich and his colleagues await the government's decision on the subsidy, a team from the Gold Crisis Committee, which visited the mine this week, will also assess its case for other life saving restructuring plans One possibility is to close down the relatively comfortable hostel at the mine's newest shaft, and to move all its residents to the nastier Cinderella Hostel

The Gold Crisis Committee was set up last year by business, labour and government Last week, two of its top emissaries were in Washington, trying to lobby against the International Monetary Fund's (IMF) proposed sale of gold to fund debt relief

They said the industry stood to lose 100 000 jobs in Southern Africa alone, following the $30 collapse of the gold price caused by the Bank of England s announcement it would sell off some of its gold reserves. The fear is that the IMF sale could trigger another drop in the bullion price.

Ironically, one of the first countries that would benefit from the IMF's debt write off proposal is Mozambique, the source of more than half the labour at ERPM "We are crying because the mine is going to close," senior Mozambican miner, Luis Mdaka said last week

Vidulich has meanwhile been working round the clock to keep the mine alive His colleagues marvel at his resolve and his jocular insistence that the price squeeze remains just "a challenge" They say Vidulich still goes underground two or three times a week, recently putting in a six hour drilling shift himself He has slashed the mine's costs — 'I don t wear a belt any more" — but they nevertheless remain too high for the mine to survive at the current gold price

According to Eric Dingani, an industrial relations assistant, about 20% of ERPM's workers have been employed on the mine for more than 30 years Like most other South African miners, each supports an average of eight people 'If the mine closes their lives are doomed " Dingani said "There is nothing else'

Look after low-end jobs, PAGE 31

British auction floors gold

BD 7/7/99 (214)

Metal sheds $6,40 and shares slide in wake of 'naive' central bank action

Ilja Graulich
and Samantha Enslin

THE gold price, gold shares and the rand were hit yesterday by the Bank of England's auction of 25 tons of gold

The sale was the first of a series of five in which the British central bank plans to shed 415 tons of gold from its reserves over the next few years A total of 125 tons will be sold in five auctions during the current financial year

In London the gold price fell $5,50 from its intraday high of $262,40 to a fresh 20-year low of $256,90 before fixing at $257 60 In New York it closed $6 40 down at $256,85 against Friday's $263,25 close.

Analysts say there is no way of telling where the bottom is after the strike price at the auction was set at $261,20 an ounce, capping any possible upward side

Mitsui s Andy Smith summed up gold's dilemma by saying that similar to Europe's new currency, the euro, the metal was a "liability, but no one s responsibility"

Smith said the severity of the situation — that the Bank of England was selling gold — had not yet sunk in The bank had supported the metal as a store of value for more than 300 years

Although other central banks have said on many occasions that they would not sell their gold portfolio holdings, Smith said this could change

He questioned how long the Indian market would continue buying gold, given the current circumstances

Although the Bank of England received bids for more than 125 tons of gold, less than 25 of these had been made at offers higher than the bid price hinting that the negative feelings in the market had not changed

Gold shares on the Johannesburg Stock Exchange were steady although weaker in morning trade ahead of the British auction They recovered some lost ground after the auction results were announced but extended their losses as the gold price weakened

The JSE's gold index fell 25 points or 2,7% to close at 900 The losses on the gold board rubbed off onto the broader market, which was also driven lower by profit-taking after Monday s gains, dealers said

Losses in industrial, financial and other resource stocks left the all share index 49 points lower at 7 291

The weaker gold price knocked the rand After firming to R5,9790 against the dollar in morning trade, the currency closed at R6,0390

ABN Amro economist Colen Garrow said part of the rand's early morning strength was attributable to demand for rands ahead of Old Mutual s listing on the Johannesburg and London stock exchanges on Monday

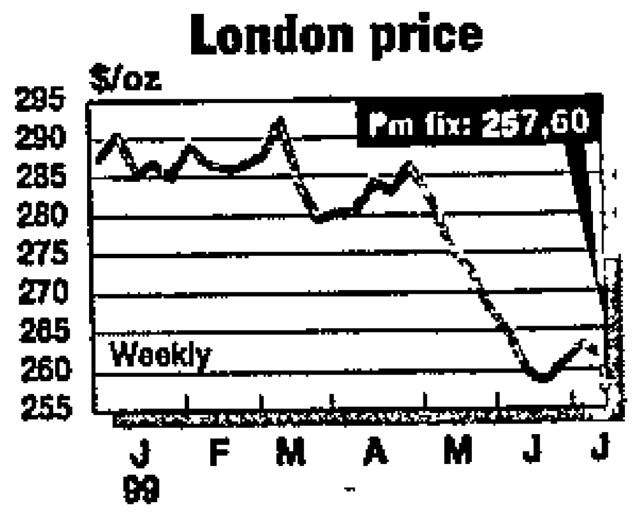
Among individual gold shares Anglo Gold shed 700c or 2,6% to R260 and Gold Fields lost 60c or 2,8% to R20 80 Durban Roodepoort Deep shed 15c or 1,5% to R10,10 and Randfontein Estates lost 35c or 3,5% to 965c

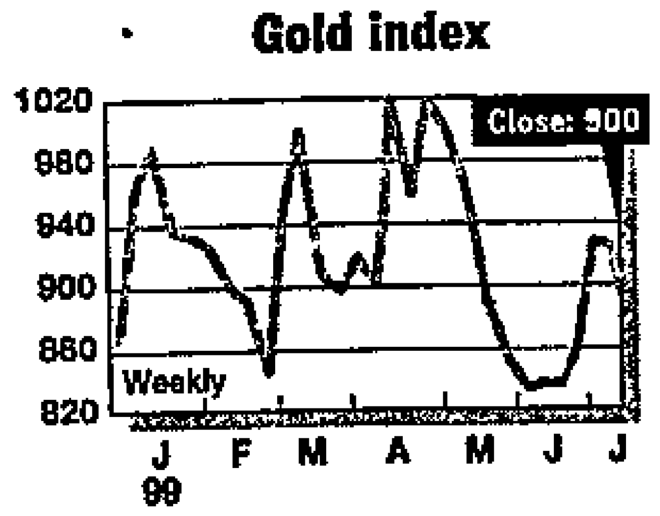
Trading in gold shares was relatively thin as few investors had long positions in gold stocks ahead of yesterday's auction dealers said

Anglogold's marketing director, Kelvin Williams, said the way the Bank of England had gone about things was "naive" There would be further mine closures in SA, thanks to such action, which has seen the gold price touch fresh 20-year lows almost daily since the bank announced at the beginning of May that it intended to sell 60% of its gold reserves.

If the bank were to change its portfolio holdings of yen or dollars, it would not announce this before the sale as this would drive down the value by close to 10%, he said, questioning why it had done this to the gold market.

Bleak future





KAREN MOOLMAN Sources: I NET BRIDGE

A protest barge, right, organised by the World Gold Council, is towed down the Thames outside Britain's Houses of Parliament to protest against the Bank of England's sale of the first 25 tons from its gold reserves yesterday Picture: AFP

Gold drops to 20-year low

(214)(79)

ET 7/7/99

JOHANNESBURG: A five-times oversubscription for gold by members of the London Bullion Market Association at the first gold auction held by Bank of England yesterday should have helped boost the gold price.

Instead it helped prompt a sudden fall in the gold price to new 20-year lows.

The gold price, which fixed at $261,30 before the auction, dived to an afternoon fix of $257,60 after the auction. This took analysts by surprise, as the view in the market was that the gold price would spike up if the auction was oversubscribed.

At the auction, the bank sold 25 tons of gold at a price of $261,20, the lowest acceptable price. Under the auction method adopted by the bank, all the successful bidders pay the same price, namely the lowest acceptable bid to the bank.

Andy Smith, a gold analyst at Mitsui in London, said although the auction had received bids for roughly five times as much gold as on offer, bids accounting for more than 100 tons were priced below the $261,20. Some bids were as low as $240 an ounce.

Smith said the auction had set a new price for gold and that further movements were likely to be lower.

"The bid cover ratio is an artifice and the market took a while to see through it," Smith said.

● See Page 13, Business Report

Price hits 20-year low after auction

London – Gold hit a 20-year low in London of $256.60 after the Bank of England sold 25 tons of gold from its reserves – in the first of five planned gold auctions

The British Treasury said it was selling gold to buy US dollars, Japanese yen and the European Union's new euro currency to create a more balanced cash reserve

Gold has been on the general retreat since early 1996 when central banks began selling part of their holdings in favour of more speculative, but better-returning investments such as stocks and bonds

Britain plans to slash its 715 ton stockpile to just 300 tons in coming months Switzerland next year also hopes to sell part of its stockpile, joining Australia, Belgium, Canada and others in making sales

Gold for August delivery fell $6 80, or 2,6%, to $257 80 an ounce on the New York Mercantile Exchange That was the biggest one-day decline in nearly two years and the lowest settlement price since May 1979

The low price has been given as the reason for the closure of East Rand Property Mine (ERPM) and the retrenchment of 5 000 miners

According to statistics from the Chamber of Mines, there were 487 000 employees on SA gold mines in 1980, compared to the 250 000 now – Reuters, Own Correspondent

Famous gold mine 'sent to gallows'

(311)

(314)

Unions slate state for revoking subsidy

ARG 7/7/99

ARGUS CORRESPONDENT

Johannesburg – After 106 golden years, the once great ERPM mine near Boksburg is "being sent to the gallows".

These were the words of mine managing director Ivan Vidulich yesterday after the company was granted a provisional application for liquidation owing to sinking gold prices and the Government's decision not to pump another R18-million into the mine it has been bankrolling for nine years

"It is a sad day for ERPM It is a sad day for the mining industry and it is a sad day for national heritage – but sometimes things have to come to an end," Mr Vidulich said

His words ended 24 hours of drama that began when it was announced that ERPM's entire work force of 5 000 would be retrenched

The ripple effect of the closure is expected to be severe, impacting not only on the thousands who will lose their jobs, their families and the immediate neighbourhood, but on the villages and economies of Lesotho and Mozambique, where many of the miners come from

The National Union of Mineworkers has vowed to fight the retrenchments, and NUM general secretary Gwede Mantashe was highly critical of the Government not addressing the issue

"The Government is the major shareholder in the company and it has an obligation to the workers facing retrenchment Instead of looking at ways of reducing the economy's reliance on gold, the Government must find ways of sustaining the mining industry before broadening the economy," he said

It was "inhuman to simply revoke the state subsidy, leaving workers without wages, remuneration packages, reduced pension benefits and without medical aid"

A Congress of South African Trade Unions spokesman warned "We will fight retrenchments Cosatu will not sit on the fence watching over this ugly spectacle "

Meanwhile, as the drama at ERPM was unfolding, Britain began selling some of its gold reserves, causing Finance Minister Trevor Manuel to warn against uncontrolled gold sales

The International Monetary Fund last month announced its intention of selling 10-million ounces, or 311 tons of gold – supposedly to bail out debt ridden countries, most of which are gold-producing, African countries

Mr Manuel told the World Economic Forum's southern Africa summit in Durban this week that plans by Britain, the IMF and Switzerland to sell some of their gold reserves had impacted on the gold price, affecting the foreign earnings of gold-producing countries

Meanwhile liquidators were expected on ERPM premises today to begin closing down the mine

August 17 had been set as the final liquidation date, said Mr Vidulich

ERPM has been in serious financial crisis since 1990, but the Government has spent R450-million in an effort to keep the mine afloat

Late yesterday, miners were being informed about their fate Up to yesterday afternoon they had been uncertain

Mr Vidulich said that it was up to the liquidators to ascertain if the miners would get any retrenchment packages and pension payouts

Hope dies with the blast of the final shift whistle

(211) (214) CT 7/7/99

JOHANNESBURG: Yesterday, after 106 golden years, Boksburg's once great ERPM mine was "being sent to the gallows", writes **VIVIAN WARBY**

THESE were the words of the mine's managing director Ivan Vidulichi when he handed down the death sentence after his company had been granted a provisional application for liquidation following sinking gold prices and the government's decision not to pump another R18 million into the mine it has been bankrolling for nine years

"It is a sad day for ERPM, it is a sad day for the mining industry and it is a sad day for national heritage — but sometimes things have to come to an end," Vidulichi said

His words came in 24 hours of drama that began when ERPM announced it was retrenching its work force of 5 000

The ripple effect of the closure will be wide, starting with the thousands who will lose their jobs, and reaching their families the immediate neighbourhood and stretching to villages and the economies of Lesotho and Mozambique from where many of the miners come

The liquidation of the mine has been met with anger from the National Union of Mineworkers, which had vowed to fight the retrenchments

NUM general secretary Gwende Mantashe was highly critical of the government's inability to address the issue

"The government is the major shareholder in the company and it has an obligation to the workers facing retrenchment Instead of looking at ways of reducing the economy's reliance on gold, the government must find ways of sustaining the mine industry before broadening the economy

The union said it was "inhuman to simply revoke the state subsidy leaving workers without wages, remuneration packages, with reduced pension benefits and without medical cover"

On the imminent retrenchments Cosatu warned "We will fight retrenchments We will not be an observer nor shall we sit on the fence watching over this ugly spectacle of retrenchments

As the drama at ERPM was unfolding Britain began selling off some of its gold reserves, prompting Finance Minster Trevor Manuel to warn against uncontrolled gold sales

Last month the International Monetary Fund announced its intention to sell 10 million ounces or 311 tons of gold — supposedly to bail out debt ridden countries most being gold producing African countries

Manuel told the World Economic Forum's Southern Africa summit in Durban last night that plans by Britain the IMF and Switzerland to sell off some of their gold reserves had impacted negatively on the gold price, affecting the foreign earnings of gold producing countries

Last night, [illegible] faced miners still did not know whether they were going on their last shift — or whether they would receive retrenchment packages

Liquidators were expected on the premises today to start closing down the mine August 17 has been set as the final liquidation date, said Vidulichi

Vidulichi said that it was now up to the liquidators to ascertain if the miners would get any retrenchment packages and pension payouts

"It is sad that in the eleventh hour we have been allowed to go It has been an industry that has been in turmoil for the past 10 years and has been shrinking all the time"

ERPM, with 80 tons of mineable gold had no future at the current gold price, he said

UNCERTAIN FUTURE Workers knocking off at EPRM yesterday still managed to smile, while their wives expressed concern about the future of their families The entire workforce of 5 000 miners face retrenchment

PICTURE: THYS DULLART

THE GOLD PRICE dropped to a new 20 year low of $257,60 yesterday — too low for EPRM to be profitable

- According to statistics from the Chamber of Mines, the highest price ever paid for gold was $846,50 an ounce on 21 January 1980 However, the rand was then stronger than the US dollar at 0,8213, which translated to R695,23 an ounce
The lowest price since 1980 was recorded on 10 June this year when the gold price was fixed at $258,48 an ounce, which, with a much weaker rand, stood at R1 585,74 an ounce
- On average, there were 487 000 employees on South African gold mines in 1980, compared to the current 250 000
- The average salary, in nominal terms, at member mines, in 1980 was R310 a month (on Chamber member mines)
The average salary, again in nominal terms, and taking no cognisance of adjustments made to take account of inflation, stood at R3 061 a month in the first quarter of the year
- The Chamber of Mines quoted working costs for the last quarter of 1979 on member gold mines to have been R3 464 a kilogram, or R108 an ounce
Working costs for the first quarter of this year were R47 623 a kilogram, or R1 481 an ounce for Chamber member mines

End of an era as oldest mine dies

EDDIE JAYIYA

IN the late 1980s, the East Rand Property Mines, now facing extinction, not only drilled for tons of the precious metal, but produced top road runners like Gibeon Moshaba, Ernest Seleke and Charles Vilakazi.

Today ERPM faces liquidation, and its listing of ordinary shares was suspended yesterday at the Johannesburg Stock Exchange at the request of the directors

ERPM has been a nightmare for three finance ministers who tried their best to turn its fortunes around.

Incorporated on May 6, 1893, ERPM took a controlling interest in the Hannau and Farrar Syndicate, which owned six mines on the sub-outcrop of the Main Reef series Driefontein St Angelo, New Comet, Agnes Munro, Cinderella and New Blue Sky gold mines

For many years the mine, which funded Britain during World War II, was the "largest and best" innovator and pioneer in mining technology

Facing an acute shortage of black labour in 1904, the company recruited Chinese workers via Hong Kong, but its recruitment drive was curtailed by the local government in 1907

But the mine, in which the government has majority shares, is set to become the first gold mine to shut down as a result of the drop in the gold price

Two former finance ministers who played a role in the drama of the mine, Barend du Plessis and Derek Keys, have since left the government to pursue other interests

Its economic woes began in 1989, but it was saved from possible bankruptcy by the then-finance minister Barend du Plessis

He issued a guarantee to the mine against which it borrowed money from a consortium of banks to stay in business

Four years later, ERPM again stared bankruptcy in the face as the banks wanted to call in their loans — which would have required the government to deliver on its guarantee.

Then finance minister Keys then established a new investment vehicle. In terms of this vehicle, the government would re-issue a guarantee, but this time the guarantee would be issued against a loan which would be offset by income generated from share issue.

Shares had been offered by ERPM, but not enough to cover the renewed loan.

Consequently, under Finance Minister Trevor Manuel, the government had been obliged, late in 1996, to act on its guarantee By doing so it had taken ownership of the remaining shares

In order to continue operations, the mine needs bridging finance of R18 million from the majority shareholder, but this time it appears the drilling will stop forever, resulting in the loss of jobs for 5 000 workers

Gazing on an uncertain future

VIVIAN WARBY

AT a mine hostel close to ERPM mine, worried wives and children contemplate their future.

By yesterday afternoon, the miners and their families had not officially been told of their fate.

"I don t know how we will survive if my husband loses his job," said Grace Mamofoka Nghae, whose husband is a miner The couple has three children.

Her husband sent for her and her children just three weeks ago, and they left their village of Quthing in Lesotho to come to what they believed would be a better life for them in one of the hostels that have been converted into a family unit.

"We were so happy to come here. We were struggling back home. My husband is the only breadwinner and his money had to keep us going

"Here we have a place to stay and food. If that gets taken from us, what will happen to us, to my children?"

An emotional Julia Moleleke, also from a village in Lesotho, said the children were likely to suffer the most.

"How will we afford to send them to school? Even now, it is difficult to manage with the little money my husband brings home.

"And what about the husbands that are sick, who have TB or disabilities? They cannot just tell us we must go ... we will never survive."

Another wife, who did not want to be named, added. "My husband has worked hard for close to 30 years here. He has worked hard for peanuts. Now they will just tell him to go.

"They had better give him good money for us to survive. They want to know why crime is so high — well if you can't feed your children then maybe you will understand."

There are five squatter camps that surround the mine and many of them have become home to some of the miners who have brought their families to stay with them.

"Job losses mean that unemployment in the squatter camps will go up — it has to impact negatively on the area," said one miner

A bottle store, Liquor City, at the nearby Hyperama, said the closing of the mine will "have a big effect" on business.

"We'll lose thousands and thousands of rands a month. We do a lot of business with the miners," said a spokesperson.

Police, the fire department and security staff from other mines as far afield as the West Rand have been put on standby in anticipation of possible violence at the mine.

'It was a nice place to work ... but we have had a tough time lately'

RAPULE TABANE

ERIC DINGANI is not your average miner Having started as a menial labourer in 1967 he worked himself up to a job as an industrial relations officer

But when the axe falls on 5 000 miners, Dingani 59, will not be spared

His dream of gradually working himself into the higher echelons of mine management were shattered when he received the news that the mine is to be liquidated.

It will be a sad day for a man who has worked on the mine for 32 years of his life

"The closure of the mine will be a blow for me and other workers

"I have one child in high school and another in university and I am a ratepayer

"How I am going to pay for all those?

"I started as a young man here and got married while working Retrenchment will mean I have to start my life from scratch — and that won't be easy at my age.

"I never thought this mine would close because it has been making a profit.

"The blow of the closure will be felt by many

"The mine had social services such as allowing schoolchildren from surrounding informal settlements to attend here These services will be lost Boksburg as a town will also be affected," Dingani said.

Although he regrets the closure of the mine, Dingani admits that the past few years have been a struggle for survival

Because of the mine's recent poor performance Dingani lost the loan subsidy he used for his part time university studies, his transport allowance was cancelled and his annual increase has barely made a difference to his standard of living.

"When I first came here, it was a nice place to work in spite of apartheid and discrimination in the mines.

"But we have had a tough time lately

"My study loan, which I used to get a personnel management and industrial management diploma, was taken away

"The percentage of the pay increases went down hopelessly and job training became virtually non-existent," Dingani said.

Having started off at a salary of R195 a month, Dingani, who lives with his family in Vosloorus, now earns R2 500 as an industrial relations officer

His future, and those of many men who have spent the best part of their lives working on the mines, is uncertain.

Mining minister hits at U

BD 8/7/99 (214) (79)

Government steps back from conditional support for IMF gold sales

Reneé Grawitzky, Samantha Enslin and Ilja Graulich

GOVERNMENT launched an angry attack on the British government yesterday, accusing it of breaking a promise to warn SA before the Bank of England sold gold from its reserves

Cabinet also formally announced that it has reversed its decision, taken earlier this year, to give conditional support to the sale of gold reserves by the International Monetary Fund (IMF)

The policy shift was adopted by the cabinet as the SA gold mining industry began to feel the full effect of the first round of gold sales by the Bank of England and market fears of the impact of further sales by the IMF, the UK and other industrialised nations

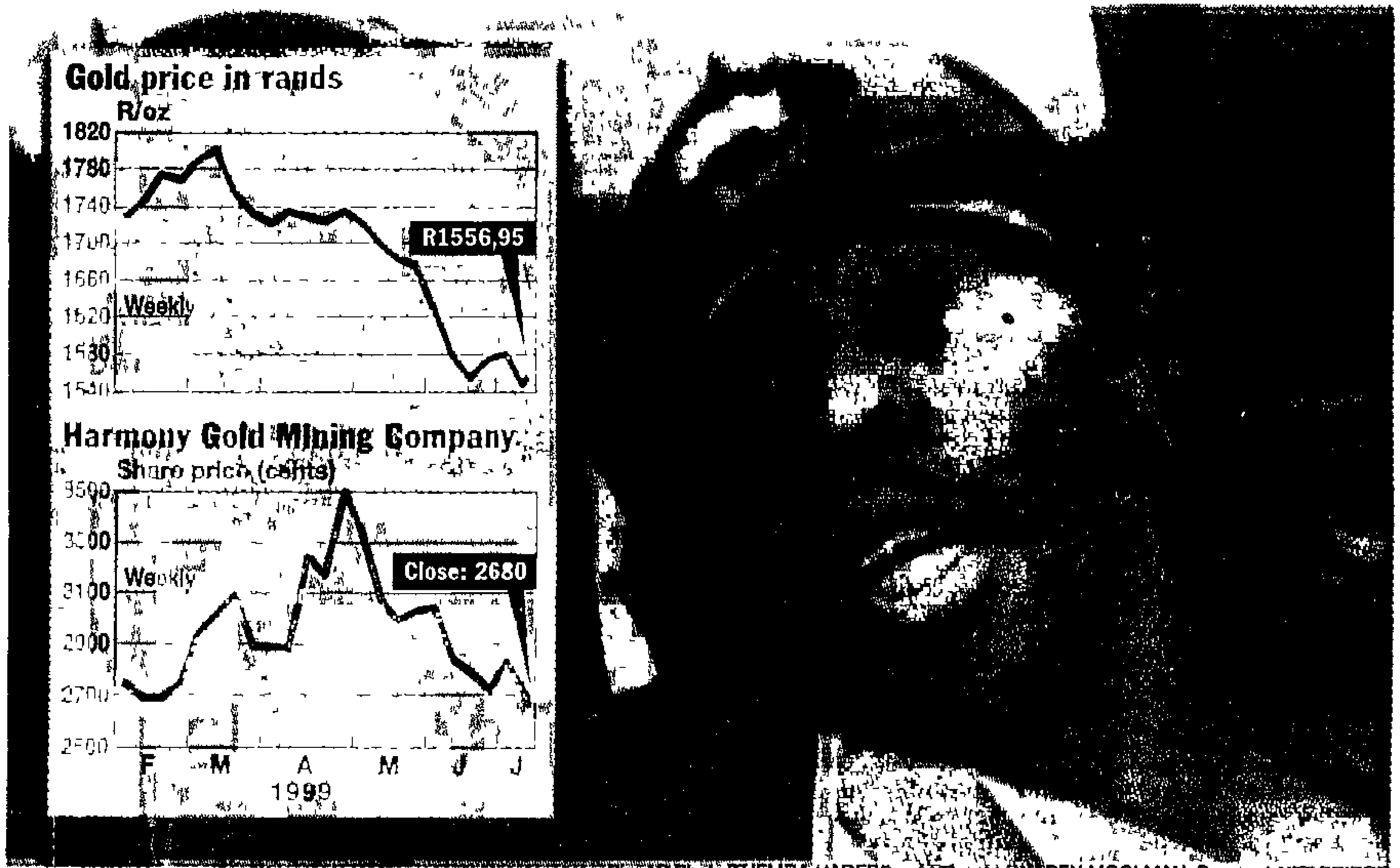
Gold shares were hard hit on the Johannesburg Stock Exchange yesterday as the gold price touched yet another 20-year low

The gold index opened 5,2% down and sank almost 7% intraday, but recovered to end 48 points or 5,3% lower at 852 as the metal edged up to a London afternoon fix of $257,10/oz This compares with a morning fix and new 20-year low of $256,20/oz

Minerals and Energy Minister Phumzile Mlambo-Ngcuka said the SA government found "incomprehensible and unacceptable" the insensitivity of the British government and its monetary authorities towards the pleas of gold-producing countries on the handling of gold sales

Government is to intensify its lobbying of Western European countries to ensure that debt-relief plans for developing countries "do not in fact degenerate into a beggaring of the economies of some of the very same intended beneficiaries"

The ripples from the gold crisis spread to Europe yesterday when one of the continent's biggest gold mines, at Bjorkdal in Sweden, closed and filed for



Pic: AP Photo/THEMBA HADEBE Graphic: KAREN MOOLMAN Source: I-NET BRIDGE

bankruptcy The mine produced 67 300oz last year

Thousands of workers from the threatened East Rand Proprietary Mines (ERPM) marched on the British High Commission in Pretoria yesterday where the National Union of Mineworkers (NUM) blamed the UK gold sale for the mine's liquidation and possible closure The union demanded that Britain contribute R6m to keep it going until a rational decision was taken on the mine's future.

Eric Xayiya, mayor of ERPM's home town of Boksburg, told a representative of the UK High Commission "You cannot help us by killing us first You are killing the child you gave birth to after colonisation "

Mlambo-Ngcuka said government did not believe that the crisis at ERPM was solely related to the gold sales Government had poured R450m into the mine and management, she said, should have foreseen the crisis and informed government

Government could not meet ERPM management's requests for a further sum of close to R100m Government would seek a buyer for the mine by August 17, when a final liquidation order would be granted

Noelani King, an economist at brokerage SG Frankel Pollak, said the weaker gold price had to a large extent been factored into the rand, which closed at R6,0558 yesterday after touching R6,0650 intraday, and down from Tuesday's close of R6 039 Analysts say there is unlikely to be any dramatic effect on the rand as long as the gold price remains above $250/oz

The currency's recent resilience has been attributed to capital inflows ahead of Old Mutual's upcoming London listing and improved sentiment towards emerging markets King says this has reduced the risk premium associated with investing in SA.

However if the metal's price sinks to $220/oz, as some European analysts have been suggesting, the rand could weaken significantly, King said

Meanwhile, mining analysts say the latest shock to the gold price will have little effect on gold companies' operations The industry has cut costs to the bone during the gradual decline in price from $290/oz, and companies now have little room for manoeuvre in response to sudden falls following the Bank of England's sale

While some local mines have countered the price plunge by hedging their production, others such as Harmony, the country's third-biggest producer, have not Greg Hunter of Deutsche Morgan Grenfell says as there is little room to put a hedging programme in place at this stage — there will be few if any takers for gold forward at a higher price when the market is in a bear phase

SG Frankel Pollak's Angus Auchterlonie says SA companies should concentrate on higher-grade, more profitable mines to survive in the short term However, leaving less-profitable areas unattended for too long could affect long-term mining strategies

Gold needs support: Page 11
Too late to hedge Page 13
India welcomes lower price Page 14

Gold as a commodity needs support

Government's change in approach to the industry has come too late to avert the crisis the metal is experiencing, writes **Reneé Grawitzky**

(214) (79) BD 8/7/99

MINING employers and unions are watching with trepidation as first world governments continue dumping gold exacerbating concerns among third world gold producers

It would be convenient to lay the blame for the continuing decline of the gold mining industry at the door of the International Monetary Fund (IMF) for its plan to sell gold and the UK and other governments for allowing their central banks to sell off a portion of their gold reserves

Recent analyses of the crisis in the industry ignore an assessment of the role — or lack thereof — played by the SA government

Since 1994 employers and labour have become increasingly concerned that the new government has little interest in the survival of the industry

However there is probably sound economic reasoning for the "hands-off" approach adopted by government

The African National Congress (ANC)-led government took over a country that was immediately forced to open its markets to international competition Instead of focusing on the mining industry which was perceived as a dying sector it has given higher priority to growth sectors with the potential to create jobs

Within this context it failed to distinguish between the broader mining industry and the crisis faced by gold mines as the status of gold changed from a store of value to just another commodity

National Union of Mineworkers (NUM) general secretary Gwede Mantashe says the previous government did not pay attention to the industry and hence it became a "mini state" of its own Within this context employers adopted the most extreme forms of work practices encouraged by the architects of apartheid He said the brutality of the mining industry was clearly depicted in ANC literature

There were high expectations that after 1994 government would focus on the industry However there was no attempt by the new government to facilitate the industry's transformation or to develop a vision for its future

Not all the blame should fall on government's shoulders Employers were recalcitrant in transforming and modernising labour practices Despite numerous attempts by labour the industry only agreed to a mining summit last year seven years after it was first called for by the NUM Another failure by the industry was insufficiently imaginative marketing of gold internationally compared with the platinum and diamond industries

Mineworkers are bearing the brunt of the havoc caused by gold sales

The union noted at its national congress last year that government in appointing its first mineral and energy affairs minister Penuell Maduna chose someone who apparently showed little interest in the industry

He generally made himself unavailable and it was almost impossible for business and labour leaders to see him

Mantashe says the industry is moving into the new millennium with no broad vision Such a vision, he says would accept the fact that mining is a shrinking industry But within that context strategies could be developed to manage its downscaling coupled with developing some areas of growth such as platinum and chrome

It could well be argued that such measures are being put into place as a result of the gold mining summit held last year, where government was an active and crucial player Parties emerged from the summit with broad agreement on a process to manage downscaling constructively while at the same time ensuring the industry's continued survival A number of key ministers attended the summit and it finally appeared that government was taking the industry seriously

However neither labour nor business anticipated that their own government would endorse a position that would lead to a further decline in the gold price and an acceleration of job losses

Close to 300 000 jobs have been lost in gold mines since 1987 while up to 100 000 further jobs could be lost if the gold price continues to decline The industry it has been estimated supports more than one million dependents not only in SA but in neighbouring countries like Lesotho

An industry source says the SA government has conducted an "egg dance" over the sale of gold reserves by the IMF It was only this week that government finally firmed up its opposition to the sale This was not always the official position

President Thabo Mbeki told the southern African regional conference of the World Economic Forum this week that the SA government had previously supported the sale of 5-million ounces of gold by the IMF He said if the sale had been carefully managed it would not have had a severe impact on gold producing countries

However this combined with the move by the Swiss the British and the Group of Eight industrialised nations including Russia to agree to sell off gold had created havoc with the metal's price

Government's endorsement of the IMF's plans to sell off 5-million ounces as opposed to 10-million could well be blamed on the fact that Pretoria had not foreseen the havoc the sale would unleash on thousands of mineworkers Minerals and Energy Affairs Minister Phumzile Mlambo-Ngcuka said government's initial endorsement was not absolute It was conditional upon the conduct of the sale and whether it would create instability

This endorsement was used by the US administration when motivating the US treasury's support to back the IMF's sale of gold. During debate in the US congress it was argued that if SA supported gold sales the sale could not be bad for developing countries

Washington has the deciding vote on whether the IMF should proceed to sell off a portion of its reserves

As this debate was in progress, NUM president James Motlatsi and Anglogold CEO Bobby Godsell flew to Washington to lobby congressmen to block the gold sale.

This joint labour-business initiative was not without its own problems Individuals in the SA government queried this move, seen as contrary to government's official policy of endorsing the sales

Motlatsi and Godsell were asked by key players in the US why they were lobbying against the sale when their own government supported it

The union believes that the UK took advantage of government's endorsement of the IMF sales to go ahead with its first auction this week, sending the gold price down to a 20-year low of $256,90

Government's initial endorsement cannot only be blamed on ignorance as mining employers and unions embarked on a campaign at the end of 1997 to stop the sale of gold reserves It is believed that in the wake of the launch of that campaign Mbeki was invited to address the heads of 12 central banks in Davos Switzerland Unknown to him, his office declined the invitation Fortunately, he overturned this decision following intervention by key players in the industry

Such a move by his advisers or individuals in his office clearly illustrates a pervasive view within government

The NUM says this view extended beyond government to the broad mass democratic movement which believed mining was a dying industry

In a country that relies heavily on its rich mineral reserves it is inconceivable that its natural assets are not being prioritised Says an industry observer "Why are we relinquishing our national assets when in other countries communities organise themselves to fight to preserve their assets?"

Parties are not at this stage asking government to continue bailing out the industry Instead the industry needs critical management direction from government and more important some positive utterances in support of gold as a commodity

Gold unprepared for the revolution

Only the fittest will survive one of the toughest times the industry has seen, writes **Ilja Graulich**

BD 9/7/99 (214) (79)

JUDGING by the market optimism expressed before Tuesday s UK gold sales the outcome is nothing short of a major slap in the face for an industry that is struggling to come to terms with its new status as an also-ran in the commodities game

The problem though, is far more complex than that The industry is struggling with a revolution that has come on far too quickly, with no preparation by the fighters to tackle it

It is difficult to quantify the effect in numbers of ounces lost and subsequent lost revenue

Variable factors such as the exchange rate, grades received from mining operations and obviously the gold price all play a role

Whatever happens at the moment in the rest of the world s gold mining industry should be very important to us locally

Therefore it is not selfish simply to look at the local industry

In fact it is a necessity not least because of the fact that at present about 80 000 jobs may be lost translating into 800 000 mouths with no food

What makes the problem worse is that most of these workers are illiterate and many of them have no other training than the daily lamp retrieval, cage ride to 2 000m below the surface, rock drilling and trip back home

With the country s unemployment rate already at extraordinary levels, this is a burden it does not need

To be fair to the industry rapid progress has been made since the apartheid years Also most companies do have adult training centres teaching their workers how to read and write

Gold currently makes up 3 9% of the country s gross domestic product down from 5% before the last readjustment about two weeks ago and far lower than its high point in the 1960s when it made up 20% of the country s economic strength

On the export front, gold sales contributed R24 7bn in export earnings for the current account during the first quarter of this year

The smiles belie the woes of the barons of the gold industry, from left to right, Bernard Swanepoel (Harmony), Chris Thompson (Gold Fields), Bobby Godsell (Anglogold), Rick Menell (Avgold) and Brett Kebble (JCI-Gold)

This figure is lower than the R28 2bn in the fourth quarter of last year and the R26,9bn in the third quarter of last year

The Reserve Bank says that a lower volume of gold export earnings was mainly responsible for this decrease but the realised price also dropped from an average of $287 an ounce in the first quarter of this year to $277 an ounce in May

So far forecasts are that the average price will come in between $270 and $273 an ounce The spot price is even lower

Three mines are already running at losses judging by the March quarterly results on a purely cash cost basis described by consultants PriceWaterhouseCoopers as "a measure of the average cost of producing a unit of metal This is calculated by dividing the total working costs — excluding corporate administration — in a period by the total production of the metal over the same period"

The three lossmakers by this reckoning are Randfontein Estates (cash costs $256 an ounce) Durban Roodepoort Deep ($260) and Avgold ($275)

If total costs — including all costs incurred — are taken into account the figure changes for the worse

This problem, however, is overcome by hedging — the sale of a commodity for delivery at a specified date and price

What happens is that most gold mining companies will hedge gold at a higher price and can either sell their gold at that hedged price or can take up the spot price should this be higher

North American gold miner Barrick arguably the world s leader in the hedging programme recently outlined what profits it was making on its hedge book

It said that it currently had 12 5-million ounces sold forward including its next three years of production at $385 an ounce That is about $130 above the current spot price

All of this is in the past and the industry needs to do something quickly

Over the past 18 months it has been consolidating as never before

In fact compared with 1990 when the country had 37 gold companies this year there are only 10 left a number that will surely decrease

Harmony Gold mining CE Bernard Swanepoel said recently that SA could have only four gold mining companies left in a year's time

Size and the number of ounces produced used to be all-important While these are obviously still influential factors because of the cash flow generated the emphasis has shifted very much towards cutting costs and creating value

Swanepoel is adamant that the only way the industry can attract potential investors — considering the scope they have which is an ever increasing problem — companies have to make their industry attractive and create earnings a share

What needs to be tackled head-on is a commitment by producers to work together to save the industry

The World Gold Council is one of the few organisations that is trying to put a positive spin on gold but it is only supported by about 30% of producers

The others are "freewheelers" whose interest in the yellow metal diminishes as soon as it is 99 9% pure and in bar form

There have been suggestions that the industry should donate a percentage of its profits to market its product. Anglogold under Kelvin Williams is leading this pack of rethinkers.

So far only a few producers have followed.

The Kebble family's Consolidated African Mines has set up Consolidated Bullion to brand and market gold from Africa.

MD Sarah da Vanzo recently told delegates at the Financial Times World Gold Conference that "gold needs an image makeover We need to revamp gold, contemporise it and make it more relevant to consumers "

While this is a more medium- to long-term solution, there are more pressing problems now

To hedge gold production currently is virtually impossible. As Deutsche Morgan Grenfell gold analyst Greg Hunter says, there is only one way to go and that is "to cut costs, costs and more costs" This is not difficult. The way a mine operates is that at times of high gold prices it will mine low-grade areas where higher costs are incurred.

The opposite should be true right now

While Harmony has become known as a cost cutter in the industry and Anglogold has taken the lead in gold marketing, Western Areas has taken a completely different approach Although the crisis was certainly not anywhere as bad as it is now when it did this, Western Areas formed a joint venture with Canada's Placer Dome.

While it is too early to tell what effect an outsider has on local mining, the approach is novel

Both Kebble and Placer Dome will be judged on the success of this project for future international co-operation.

As things stand only the fittest will survive one of the toughest situations the industry has found itself in for some time.

The Gold Institute s John Lutley who has been in the market for more than 30 years says "Every time gold is mentioned as being in a state of uncertainty it loses credibility

"Producers need to talk about it proudly — proud to be part of the industry and bring it about by working together "

SA wants gold sales halted

BD 9/7/99 (214)

Reneé Grawitzky

MINING employers, unions and government yesterday announced plans to lobby European central bankers not to sell gold or support the planned International Monetary Fund (IMF) gold sales, while wage negotiations in the mining industry ended in deadlock

As the future of 11 700 workers at six gold mines hung in the balance, the tripartite gold crisis committee asked employers to reconsider their options and continue consultations with labour

Gold continued under pressure in the wake of the first round of gold sales by the UK Gold fixed at $257, 20 in London yesterday against Wednesday's $257,60 fix.

Minerals and Energy Minister Phumzile Mlambo-Ngcuka said the committee would send a delegation to lobby the UK, France, Germany and Switzerland to oppose the gold sales planned by the IMF to raise funds to help poor countries

"Our message will be not an ounce," she said The immediate aim was a moratorium on all gold sales by central banks or the IMF while in the long term to reposition the gold mining industry internationally

Anglogold CEO Bobby Godsell said the steep fall in the gold price after the UK started selling its first tranche of gold reserves this week was contrary to assurances that gold would be sold in a way that would not affect the price

The British High Commission yesterday denied claims by Mlambo-Ngcuka that the UK government had broken a promise by failing to warn SA before its central bank sold gold from its reserves The commission said Prime Minister Tony Blair had written and spoken to President Thabo Mbeki on the subject in mid-June

Ilja Graulich reports that East Rand Proprietary Mines was still operating yesterday after the liquidator said it would "continue with the mining operations for at least another week"

Durban Roodepoort Deep said the jittery market was creating a great deal of speculation, not all "well-informed" Durban Deep therefore "felt it should reassure its shareholders and investors generally that it was capable of absorbing the current pressure"

Meanwhile, wage negotiations between the Chamber of Mines and National Union of Mineworkers (NUM) ended in deadlock after the union rejected a settlement offer for gold mines ranging between 4% and 9%, though marginal mines such as Buffelsfontein, which is facing retrenchments, offered no increase

NUM general secretary Gwede Mantashe said that with few differences between the parties, third-party intervention was necessary Chamber of Mines negotiator Frans Barker said the industry had tabled a generous offer in view of the current gold and coal price The coal offer ranged between 6,5% and 7,25% while the coal price had declined by 41% over the past two years

A cure ... or a killer?

Fears for the survival of the gold industry, sparked off by the proposal to finance debt relief through IMF gold sales, is based on misinformation, writes **Molefe Tsele**

(214) Sowetan 7/7/99

One would have hoped that news of the G7 countries' plans to grant some form of enhanced relief to poor, indebted countries would be welcomed

It is therefore a source of concern that their plans are dismissed as counterproductive in various editorials, even by those who would generally support the granting of such relief The issue is either deliberately being misconstrued or innocently misunderstood

At the core of the controversy is the argument that the debt will be financed through the sale of gold and that this will in turn threaten jobs in the already fragile industry

Coming at a time when unemployment has reached critical proportions in our country this concern is not unexpected But we do a disservice to a noble cause by dismissing it so lightly or letting opposing views pass as the final word without being subjected to further scrutiny

The issue is complex and does not need simplistic solutions It is more than an economic or technical problem It cuts across political and moral contours

The deliberate confusion around the issue derives from misleading reports some emanating from the World Gold Council (WGC), a lobby for gold producers whose interest is to ensure a premium price for the metal

The stories have left many wondering whether the Jubilee 2000 movement – the group campaigning for the cancellation of the debt of poor countries – is perhaps not misguided despite its good intentions

To set the record straight, the G7 Cologne Debt Initiative does not only call for the sale of International Monetary Fund (IMF) gold reserves as the only measure to facilitate relief

The Report of the Ministers of Finance puts forth a number of proposals for financing the debt relief, including

- Mobilisation of the IMF's resources through "the use of premium interest income, possible use of reflows from the special contingency accounts, and the use of interest on the proceeds of a limited and cautiously phased sale of up to 10 million ounces of the IMF's gold reserves",
- Maximisation of the use of multilateral development banks,
- Bilateral contributions and substantial pledges by the world s wealthy nations to the existing Heavily Indebted Poor Countries Trust Fund, and
- Appropriate burden sharing among donor nations, including increased official development aid

Besides the gold issue being mentioned as only one of the trust fund's possible recourses, the statement advises caution, calling for a "limited and cautiously phased sale"

However, assessing reactions so far, especially those from the WGC, one gets the impression that the whole matter of debt relief is being approached irresponsibly The result is that many – including trade unions, our Finance Ministry and others sympathetic to the campaign for the debt cancellation of poor countries – are beginning to doubt whether the medicine intended to cure does not kill instead

The confusion is the product of a well-staged campaign by opponents of the debt cancellation campaign We cannot allow this misinformation of public opinion to make us miss the historical opportunity of setting right one of our century's injustices, the debt crisis of poor countries

Let us revisit the issues around what is generally called the debt crisis In 1970 Africa's foreign debt was R36 billion Today it is more than R1 800 billion Heavily indebted countries of sub-Saharan Africa spend more on debt servicing than on primary education and health care combined

Of the 41 countries defined by the World Bank as heavily indebted – that is, deemed to have unsustainable debts – 33 are in Africa This means that each African child born this year will inherit a debt of R2 274 at birth

Without going into the history of the debt, two pertinent comments can be made the debt has not benefited the majority of the people, and, in real terms, the debt has been repaid twice over

Children in front of a shack they use as a school in Freedom Park near Johannesburg. Heavily indebted countries of sub-Saharan Africa spend more on servicing debt than on primary education. PIC LEN KUMALO

The reason the countries still owe has to do with the fall of the exchange rates of our currencies against the American dollar, and the fact that the prices of commodity products have not stayed at the levels initially forecast when the loans were taken

Mention must be made of other causes, such as the fact that in many instances the loans were not properly spent and in some cases funds were siphoned off into the secret accounts of dictators and corrupt regimes

That does not change the reality that today the debt burden is the primary obstacle to the development of the continent making debt relief a moral imperative

It is in this context that Jubilee 2000 calls for unconditional debt cancellation To require the debt to be repaid would be asking poor countries to put their debt obligation above the needs of their children This is immoral

All mechanisms should be explored including, but not limited to, the sale of gold Jubilee 2000 would be the first to protest any measures that victimised the poor and workers

In South Africa our campaign should include ensuring that whatever mechanisms are instituted, the viability of the mining industry and the security of mineworkers must be protected

We must not foolishly believe that the sale of gold is the only way to rid the continent of this new form of slavery Wealthy nations must share their resources They have done so in the past

(The author is executive director of the Ecumenical Service for Socio-economic Transformation and chairman of Jubilee 2000 South Africa)

ERPM serves notice to close

Sowetan 7/7/99

(214)

By Ido Lekota and Sapa

A COURT application for the liquidation of East Rand Proprietary Mines (ERPM) has been provisionally granted and mining operations will cease within days, the company said yesterday

ERPM managing director Mr Ivan Vidulichi told a news conference in Johannesburg the mine staff of 5 000 would stop work this week

Liquidators were expected on ERPM premises tomorrow to start closing down the mine

Vidulichi said it would be up to the liquidator to decide whether or not the mineworkers would receive retrenchment packages and or pension payouts

ERPM requested bridging finance of R17 million from the Government earlier this year

"It was understandable that the Government, the mine's biggest shareholder and creditor, had turned down the application," Vidulichi said

ERPM had no future at the current gold price Nevertheless, it had contributed R2 million a month to the regional economy, he said

Meanwhile, anxiety, disillusionment and frustration were etched on the faces of miners at an ERPM shafthead yesterday as they emerged from the cage that brought them to the surface

A miner Mr Willie Sebolao (46) expressed deep sorrow mixed with anger yesterday at the company's decision to close the mine

"The closing of this mine will affect our lives so much because most of us are sole breadwinners

"With the situation where there are very few jobs the future is really bleak," Sebolao said

Of concern is the future of his five children who are living with his unemployed wife in the village of Molepolole in Botswana

Another miner Mr Donald Mada (45) of Maputo in Mozambique also expressed anxiety about the future of his family, including 10 children

"My eldest son is 23, but because of the high level of unemployment in Mozambique he is still dependent on me," said Mada

Retrenchment packages

The miners were also concerned that if the order for insolvency was granted, chances were that they would not receive retrenchment packages

"If they eventually decide to close the mine they must give us our retrenchment packages so that we can go to our villages with something to sustain our families," said another miner, Mr Jonah Mnisi

National Union of Mineworkers general secretary Qwede Mantashe said ERPM management had acted prematurely in view of the fact that there was to be a Gold Crisis Committee meeting tomorrow to discuss the situation

The committee is made up of representatives of the Government, labour unions and the Chamber of Mines

Govt, business and labour to lobby against (214) gold sales

By Mzwakhe Hlangani
Labour Reporter

GOVERNMENT, business and labour will engage in a roadshow on Sunday lobbying the European countries against the current gold sales by Europe

The Minister of Minerals and Energy Affairs Mrs Phumzile Mlambo-Ngcuka will lead a delegation comprising Chamber of Mines president Mr Bobby Godsell and National Union of Mineworkers president James Motlatsi and his general secretary Mr Gwede Mantashe to visit Britain, Switzerland, Germany and France

A Gold Crisis Committee meeting held yesterday and attended by Minister of Labour Mr Membathisi Mdladlana, Mrs Mlambo-Ngcuka, Mr Godsell and Mr Mantashe decided to call for a moratorium on gold sales by the International Monetary Fund and central banks of Britain, Germany and other involved countries, Mineral and Energy Affairs spokesman Mr Ayanda Nkuhlu said,

The delegation will also visit Mali and Ghana, two leading gold producers in Africa, to consolidate the position taken by the gold crisis committee The crisis will also be taken up by the Southern African Development Countries

The meeting discussed the highly damaging effect the plunge in the gold price was having

And, in an about turn, the dismissal of about 5 000 employees from the East Rand Property Mines which is under liquidation was reversed by the gold committee meeting after it was decided that the committee, the mine management and the liquidators should meet at the weekend, NUM spokesman George Molebatsi said The impending retrenchment of a further 11 000 workers from five mine houses which had approached the crisis committee about its intention to downsize its staff was referred back to mine managements and trade unions to consider other options The current gold sales, which threatened closure of several marginal mines, was a grave concern to the Government and its social partners

The National Economic Development and Labour Council parties of government, labour, business and community also expressed concern and called on the IMF and other countries to place an embargo on gold sales until they have engaged in further discussion with affected countries

Sowetan 8/4/99

Durban Roodepoort Deep adamant that it will mine through gold-price turbulence

(214) ARG 10/7/99

Johannesburg – West Rand gold mining group Durban Roodepoort Deep has dispelled speculation that the mine was threatened by the falling gold price, saying it could absorb the impact.

DRD chief executive Mike Prinsloo said on Thursday that the restructuring and repositioning of the group had placed it in a sound position to weather the turbulence in the gold market.

"DRD has made substantial progress with its consolidation, growth and renewal strategy in South Africa, as well as with its strategy of expanding into Australasia. The effectiveness of these strategies is reflected in its sound financial performance over the past nine quarters," Mr Prinsloo said.

"It should also be noted that DRD has put in place a flexible hedge programme, which will protect our capital programmes and marginal production for the next year."

He said the jittery market was generating a great deal of speculation, not all of it well-informed.

Mr Prinsloo also revealed that DRD would be making "alternative contractual arrangements" for 400 employees who would otherwise face retrenchment.

"This would mean a lower basic (pay) but higher bonuses for improved productivity," he said.

He said it was also proposed that 204 mineworkers be retrenched at Buffelsfontein gold mine, but he insisted that the retrenchments were part of a restructuring exercise announced 14 months ago.

Mr Prinsloo said DRD shares had been "trashed" on Wednesday following ill-informed market speculation about his company. He conceded, however, that he was concerned about the very low gold price.

It had taken a long time for the price to get to its current level, he said, and he did not expect a recovery until there was a significant fall in world gold production.

Meanwhile, a major environmental disaster could be in the making if the beleaguered East Rand Proprietary Mines Limited (ERPM) ceases all its mining activities and stop pumping water from its mining shafts.

ERPM is a member of the Amanzi Treatment Venture, a project aimed at purifying millions of litres of polluted underground water pumped from mine shafts. The project began almost two years ago in an attempt to deal with the danger posed by underground water, which is steadily filling up abandoned mining shafts in Gauteng.

It is feared that the water from mine shafts, polluted by heavy metals and salts, could start surfacing and damage building foundations, increase the risk of sinkholes and pose a threat to fresh water reserves.

An ERPM official, who did not want to be named, said yesterday the mine has two mining shafts, one pumping 18 million litres of water a day (water produced on the ERPM property) and the other between 30 and 35 million litres of water (pumped out of defunct mines), to maintain the water level so the mine is not flooded.

The water is pumped into storage dams, where it is treated and eventually discharged into the Klipspruit, which flows into the Vaal Barrage.

If pumping operations from the shafts ceased totally, it is expected that the water could rise and eventually surface, the mine official said.

This could result in contaminated water polluting nearby rivers. The contaminated water could also cause sinkholes, the official said.

"It is estimated that it could take between two-and-a-half to three-and-a-half years to reach this stage, then we could be facing an ecological disaster," he added.

It is expected that it could cost hundreds of millions of rands to bring the water level down to its present levels once the mine has been allowed to flood.

Doctor Mthethwa, of the Group for Environmental Monitoring (GEM), said yesterday the matter was a source of concern for his organisation as it could pose a serious environmental threat in Gauteng, which is already dealing with serious pollution problems from mines.

He said the province was dealing with the problem of acid mine drainage from mine dumps in areas such as Meadowlands – Sapa, Own Correspondent.

Gold lobby delays rescue mission

ET (BR) 12/7/99 (214)

Lukanyo Mnyanda

Johannesburg – The government-led delegation that was supposed to leave the country yesterday to lobby against European gold sales had postponed its trip to give itself more time to consult more widely among gold-producing countries in Africa, Andile Nogxina, the mineral and energy director-general, said yesterday

"We need to have further consultation with other countries as we want to work on a consolidated African position "

Susan Shabangu, the deputy mineral and energy affairs minister, would proceed with her planned trip to Ghana and Mali this week

Ghana and Mali would be crucial to any future lobby because they, in addition to their position as gold producers, were also among the heavily indebted poor countries that were supposed to benefit from the International Monetary Fund's debt relief programme It could be funded by the sale of the organisation's gold reserves

Phumzile Mlambo-Ngcuka, the mineral and energy affairs minister

Tanzania and Zambia have also expressed their support for the campaign against gold sales

The roadshow delegation, which consists of a group of several ministers, representatives of organised labour, business and other South African Development Community countries, was intended to lobby against gold sales in the UK, France, Germany and Switzerland

Bullion fell to fresh 20-year lows after the Bank of England held its first gold auction, threatening the future of at least six marginal mines and 11 700 jobs in South Africa

Analysts have warned that up to 80 000 jobs could be lost if the gold price did not recover

Nogxina said the timing of the European trip would only become clearer towards the end of the week when logistical issues were resolved.

Backlash (214) could lead to 'first sell then tell' approach

The London gold auction furore has implications for transparency, writes JULIE WALKER

THE amount of bad press generated around the Bank of England's handling of its first 25-ton gold auction is likely to encourage a "first sell then tell" attitude among other central banks if they elect to sell gold

This is the view of Jessica Cross of Internet-based gold consultancy Virtual-Gold "After years of calling for transparency' the gold market s reactions to the past few weeks developments have been unfortunate " says Cross

"Whatever one might think about the concept of selling off official gold whether you agree or not you have to acknowledge that the Bank of England (BoE) has gone out of its way to encourage openness and market participation in the execution of the UK Treasury s decision to auction off part of its gold

"It published its intentions the mechanism (while perhaps ignoring the London fix) invites the market in general to participate the bank sent a senior official to the recent Financial Times Gold Conference and the bank agreed in an unprecedented move to discuss the issue with the World Gold Council in closed session of that organisation in June

"What more could they have done to attempt to clarify and settle the market?"

And what did they get for their trouble? "A media storm seldom seen in the market which went a long way to prove correct the BoE s comments recently to the effect that people get emotional about gold How will the UK authorities view the response and more importantly what lead will other central banks take when (not if) they elect to lighten their gold holdings?

"You can be sure that the official sector will now withdraw and actively avoid any market discussion regarding their holdings gold policies or intentions Why create a rod for their backs? So much for transparency

Outrage

"The next time the market will most likely see a return to the first sell then tell' approach dump gold onto an unsuspecting market and then announce the transaction in much the way the Belgians and Dutch did repeatedly earlier this decade

"While shocked by these sales which we were constantly assured were definitely once-off transactions not to be repeated in the foreseeable future (define that one if you can), the market adjusted and the outrage was tempered by the passage of time between the sale and the announcement

"It was already done and the market was obliged to accept a *fait accompli* A return to this sort of execution of sales because of the reaction of the market to the BoE would be regrettable "

Cross adds that BoE auction volumes are not relevant but the philosophy behind them is "We are seeing the final stages of the demonetisation of gold, a process which has been progressively gaining momentum since the abandonment of the gold standard and the Bretton Woods Agreement

"Central banking portfolio management theory has evolved, and in doing so has brought the role of gold as a reserve asset into question

"Whether a central bank sells 25 tons 300 tons or in the case of the Swiss the planned 1 300 tons the rationale behind the decision is the same This is the concerning issue The market probably has to accept the unwelcome fact that when the official sector bought up gold to play a role as a reserve asset many decades ago there was no small print that said this is forever for keeps

"The cold reality is that official bodies are essentially free to do with their gold whatever they see fit The implications for the gold market in the medium and longer term however are serious in the extreme and one can only share the concern especially for the labour-intensive SA producers "

Cross concludes there have been no winners in the gold arena in recent weeks, more damage was done than merely a small decline in the short-term gold price.

Robust

Now that the Swiss have decided to sell, partly to fund social upliftment programmes, who s to say other nations won t? Much of Europe has an aging population and big pension fund deficits that will require money

To put the UK sale in perspective the amount sold was equal to a fortnight's SA production The physical gold market is robust annual demand far exceeds newly mined supply and central banks have always played a balancing role

On the same day, more than twice the amount the BoE offered was sold on Comex the difference being that Comex gold is not for physical delivery

The 5 2 times subscription for the BoE offer is of little relevance Bank of America's Peter Hilliyard is quoted on Virtual-Gold as saying he could have bid for all the gold at $180/oz and made it 6 2 times subscribed All bids above $261.20/oz were accepted in full, borderline bidders were left with only 9% of their bids unfilled This is not surprising as an unreserved auction inevitably invites cheeky bidders

Speculators

The gold price is set to go way under the cost of production and exchange rates will determine how many countries are able to continue to produce gold

SA and Australia have this flexibility but producers in the US and many other countries are costed in dollars

It makes sense for high-cost mines to close and buy in gold on the spot market to meet contractual obligations Yet while mine closure is never easy it may be the only thing to make the gold "shorts" — speculators who have sold gold they do not have intending to buy it in more cheaply later — sit up and take notice as it did in the copper and oil markets

The chickens are coming home to roost for both producers and gold share analysts who have been hoodwinked by the concept of cash costs of production rather than total costs Cash costs cover operating spending, not cost of capital

Estimates are of some 5 000 to 8 000 tons outstanding lent by central banks sold and gone forever The dream of gold producers is for the tide to turn the markets to panic and for speculators to stampede in covering their positions through buying gold

Harmony Gold chief executive Bernard Swanepoel observes that even with gold at R50 000/kg it is not quite as low as a year ago before the rand collapsed, giving mines some relief

Dead cat

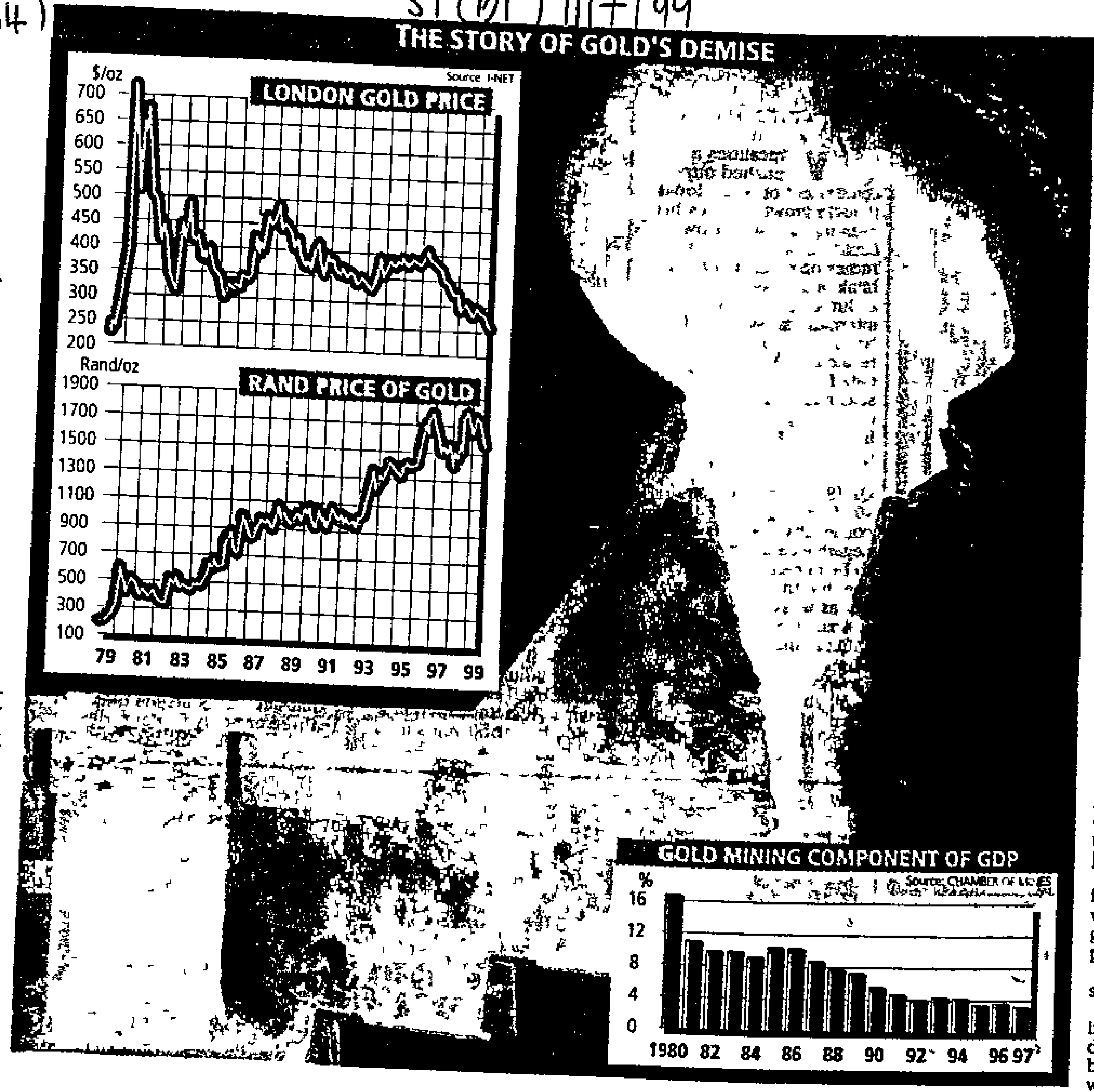
Swanepoel says that even if the currency slipped to 630c it would be an extra 5% on the revenue — a huge amount at the margin Mining costs have already been pared "We have taken our bitter medicine over the past few years There isn t any fat to be shed There s no large head office We run 13 shafts and while we can carry one or two lossmakers for perhaps three months sooner or later we have to deal with the facts "

Swanepoel is only half joking when he says gold bulls won't surface until the bears have killed the very last one. "It's the psychology of markets But even if gold has a dead cat bounce any bounce would do at the moment."

Those who would put a rosy glow on gold s slim chances suggest that official bank vault reserves are not as extensive as the figure of 35 000 tons suggests Have the 8 500 tons of gold in Fort Knox ever been seen let alone assayed or weighed?

A lot of US reserves arose from scrap melted when the government confiscated personal holdings during the 1930s How "good" it is, no one knows The International Monetary Fund's gold is also double-counted by both the IMF and its members — involving perhaps 1 000 tons

ST (BT) 11/7/99



Baptism of fire for SA's new mining minister (214)

JANETTE BENNETT talks to Phumzile Mlambo-Ngcuka

ST (BT) 11/7/99

LESS than a month into her new job as Mineral and Energy Affairs Minister, Phumzile Mlambo-Ngcuka has walked into the centre of arguably the most serious diplomatic and domestic crisis that democratic government in SA has faced — the fallout from the plunging gold price.

Throughout the week, the government has fired angry words at the International Monetary Fund and the G-7 group of leading industrialised countries for the way they are disposing of their gold stores.

This culminated in the SA government withdrawing its initial support of limited sales by the IMF, and a decision to send a delegation from business, labour and government to lobby governments of the gold-selling nations to put sales on hold until SA's view has been heard.

At home, it has meant the threatened loss of about 11 000 jobs initially as gold mines go under Mlambo-Ngcuka told Business Times the crisis called for a change in mindset, involving repositioning the gold mining industry and the creation of other forms of jobs in the economy

Her anger is palpable. She says it is "treacherous" for the IMF and G-7 nations to link intended gold sales with debt-relief in poor countries many of which are gold-producing, "when it takes away the capacity to produce gold"

This is not the kind of help these countries need, she says "We don't want aid to replace trade."

Mlambo-Ngcuka was speaking shortly before dashing into a Gold Crisis Committee meeting on Thursday morning. The committee, formed a year ago, brings together labour, business and government with the aim of reducing the social and economic impact of inevitable job losses in the industry

Speaking of job losses, Mlambo-Ngcuka dropped her head into her hands "When I think of those hungry mouths "

It's estimated that each mineworker's salary supports about 10 other people Most live in SA's impoverished rural areas — migrant labour earnings form the bulk of rural income — but about 40% live in neighbouring countries

She stresses however that the industry is not dead, and she appeals to employers not to make drastic long-term decisions "when we could turn the corner at any time"

"This is not the end of the industry It is a crisis, but it will pick up We are urging caution "

Government is the major shareholder in ERPM, which liquidators took over this week, and has already baled it out to the tune of R450-million With the gold sales and a sinking price, government feels it cannot keep pumping taxpayers' money into an unviable mine. But ERPM's closure means losing 5 000 jobs and Mlambo-Ngcuka's department is striving to find alternatives to retrenchment, among them asking Investment SA to find a buyer for ERPM

If retrenchments are unavoidable, steps will be taken to help mineworkers reintegrate into their communities and use their retrenchment packages to set up their own enterprises

Delegation headed for Britain to stop gold reserve sales

ET 14/7/99 (214)

JOHANNESBURG: The Chamber of Mines and National Union of Mine workers (NUM) said yesterday their leaders will fly to London tonight to demand a halt to UK gold sales, which have rocked bullion markets since last week

"Our industry is under attack," NUM president James Motlatsi said in a joint statement with Chamber president Bobby Godsell

"This is a time for all South Africans, indeed all Africans, to stand together in defence of gold and the industry it supports."

The two leaders will seek meetings with Britain's government, the labour movement, religious leaders and former members of the anti-apartheid movement Zambia and Tanzania have already pledged to join the mission

Britain said yesterday it had no plans to alter its programme of gold reserve sales announced in early May

"We think this is the sensible way forward," Treasury Minister Patricia Hewitt told a parliamentary committee yesterday

The first auction of 25 tons of UK gold took place a week ago and sent bullion prices crashing to 20-year lows

The British government plans to sell 415 tons of gold in total, bringing its reserves down to 300 tons in a couple of years

London gold fixed at $254,25 an ounce yesterday morning, down on Monday afternoon's $256 and its lowest since May 15, 1979

A Chamber spokesperson said Hewitt's comment would not dissuade the South Africans from making a personal plea to end the damaging gold sales

"If that is what the British government is saying, it still remains our objective to persuade them to change their minds," the spokesperson said

The Chamber — which represents most of the country's gold mining companies — and NUM have warned that at these price levels, about 40% of SA's gold output is uneconomic and 80 000 jobs are threatened Six South African gold mines have already made plans to fire over 11 000 mine workers — Reuter

❐ See Business Report

Mission (214) on gold postponed

THE Department of Minerals and Energy said yesterday no date had been set for a proposed African foreign mission aimed at persuading developed countries, including Britain, not to sell off their gold reserves.

Director-General Sandile Nogxina said the trip, originally due to take place this week, had been postponed to allow for consultations between South Africa and other gold producers on the continent.

"[illegible] on board," he said.

The timing of the mission, to be headed by Minerals and Energy Minister Phumzile Mlambo-Ngcuka, will partly depend on the outcome of a South African visit this week to gold producers Ghana and Mali.

The mission will be led by Deputy Minerals and Energy Minister Susan Shabangu, who are scheduled to leave tomorrow.

"The date of the overseas mission [illegible] the countries to be represented will be clear after the African visit. The timing will depend, among other things, on the state of readiness of the other African countries," Nogxina said.

Sowetan 13/7/99

In a statement at the weekend, Ngcuka said she had discussed the matter with her Southern African Development Community counterparts at a conference on Friday.

Mining countries Zambia and Tanzania had indicated their commitment to participate in the planned overseas mission.

Last week, South Africa accused Britain of breaking a promise not to go ahead with gold sales before consultation.

South Africa also retracted its initial conditional support of intended gold sales by the International Monetary Fund.

Britain's auction of 25 tons of gold last week resulted in the metal's price sliding to a 20-year low of 256.10 US dollars an ounce.

Several South African mines are planning to retrench staff as a result of the dropping gold price. – *Sapa*

GOLD *Mines survived one round of restructuring, only to be hit by UK sales*

From lean and fit to sickly within months

(214) CT (BR) 15/7/99

DARREN SCHUETTLER

Johannesburg – South Africa's gold barons can be excused for feeling punch drunk lately.

Six months ago the world's biggest gold mining industry was looking healthy again after a brutal restructuring.

Thousands of jobs were lost and century-old mining houses disappeared. But for the survivors, costs had been brought under control and profits were flowing.

Today that optimism is all but gone. South Africa's gold sector is again in survival mode after the UK's auction of 25 tons of gold last week delivered a body blow to world bullion prices. The sale is part of a programme announced in May to shed more than half the UK's gold reserves.

A lobbying effort against the sales is now under way in London but mining analysts say there is little the industry can do but hunker down and take another hard look at its operations.

"The bullet is there and some guys are going to be biting it big time," said one.

At least six marginal mines have already taken steps to fire more than 11 000 workers. Another mine, ERPM, is in liquidation and 5 000 of its miners face unemployment.

More job cuts were likely if gold showed no sign of rebounding over the next several weeks, analysts said.

Union leaders fear up to 80 000 jobs are at risk if bullion prices stay below $260 an ounce. Gold was trading near $255 yesterday.

The Chamber of Mines has estimated 40 percent of the country's gold output is uneconomic at prices below $260.

"Some companies will try to hang on for a little while, but it might be a few weeks before they say 'sorry we can't do it anymore'," said Dave Hall, a gold analyst at Merrill Lynch.

The end of apartheid in 1994 opened South Africa's economy to global competition, and restructuring began in earnest in 1997. Marginal shafts were sold or closed and tens of thousands of miners lost their jobs, leaving a work force of just under 300 000 from a peak above 500 000 in the 1980s.

Mergers and bankruptcies have trimmed the number of gold companies to about a dozen from nearly 40 in 1990.

South Africa's total production costs are now in line with Canada, the US and Australia. But with bullion now at $255, several local producers would be loss makers if not for hedging programmes.

Randfontein Estates had total costs of $270 an ounce in the latest quarter to March. Avgold came in at $323 and St Helena at $256. Durban Roodepoort Deep, which had cash costs of $260, said a flexible hedge would protect its capital programme and marginal production for the next year.

Harmony Gold, with total costs of $245, said last week some of its shafts were losing money at these prices. "That is not sustainable in the long run," said chief executive Bernard Swanepoel, but he added that no retrenchments or closures were planned yet.

Anglogold, the world's biggest gold miner and a lead ing hedger, also expects to ride out the storm. Nevertheless, it is making contingency plans for a further a slide in bullion prices. Its total costs are $238 an ounce.

"As things stand we don't envisage in the next three, six or nine months any closures or changes of scale of our operations," Bobby Godsell, Anglogold's chief executive officer, said last week.

"We are looking at a lower playing field scenario for gold. What if gold goes to $150, $100 or $200 an ounce? Obviously then we would have to contract very significantly, but we would still be around producing gold."

The metal no longer plays the key role it did in South Africa's economy two decades ago when it accounted for 60 percent of hard currency earnings. While still the leading hard currency earner, the figure has dwindled to about 18 percent.

South Africa's gold output sank to a four-decade low of 464 tons in 1998, well off its peak of 1 000 tons in 1970.

Analysts said the latest price slide would not force immediate cutbacks in production, but companies were likely to revise the projected life of their mines if weakness persisted. – Reuters

High-level delegation in London pleads for halt to auctions

Blair firm on gold sales

CT (BR) 15/7/99 (214)

BONTLE HEADBUSH

Johannesburg – A top level South African delegation arrived in London yesterday to try to persuade the UK to halt further gold sales.

But British Prime Minister Tony Blair ignored claims that the Bank of England's gold sale would cause extensive civil unrest, saying there would be no change to Britain's plans.

Quizzed on the sale programme in the House of Commons yesterday, Blair said: "The gold price has been falling for two years so in fact if it carried on falling and we didn't sell we would lose money." He refused to say if he would comply with requests from the South African delegation to discuss the sale.

Susan Shabangu, the deputy minister of mineral and energy affairs, could not deny speculation that South Africa might follow suit in the selling spree. "It may be possible that rumours of South Africa wanting to sell gold may be true," she said.

The department would try to engage the countries planning to sell gold on how they intended to do it.

The Reserve Bank, which manages the country's gold reserves, could not be reached for comment yesterday.

Siphiwe Nanise, the National Union of Mineworkers (NUM) regional co-ordinator, said a sale by South Africa of its gold reserves would defeat the purpose of the campaign against sales in the UK, France, Germany and Switzerland.

Gold and foreign exchange reserves of the South African Reserve Bank rose by R800 million in June to R35,1 billion.

At a media briefing in London Bobby Godsell, the president of the Chamber of Mines, and James Motlatsi, the president of the National Union of Mineworkers, tried to urge the UK to explore alternatives for funding the vital debt relief package.

"We have come to urge the British government to review the proposed sale by the Bank of England of a further 375 tons of gold," said Godsell. "The lower gold price threatens some 80 000 South African mineworkers, and also threatens gold mine employment in many of Africa's developing countries."

He said the assurance given to South Africa by the UK that the sale would not disrupt the gold markets had been a "hollow" one.

Roger Baxter, a senior economist at the Chamber of Mines, said talk that South Africa would also be selling gold reserves was "probably designed to unsettle the gold market".

Another delegation led by Shabangu would travel to Ghana and Mali (both mining countries) today for discussions on the creation of mechanisms to deal with the crisis.

Shabangu said the trip was to create one strong African voice, which would give a platform from which issues could be raised with the International Monetary Fund and the UK.

HEAR THIS *James Motlatsi, the president of the NUM (left) and Bobby Godsell, the president of the Chamber of Mines, argue SA's case at a media briefing in London* PHOTO: REUTERS

☐ Oryx gold mine, Page 4

Miners and managers to march against sales

BONTLE HEADBUSH

Johannesburg – The National Union of Mineworkers (NUM) would hold a march on Saturday to reinforce the lobbying that had begun in London, it said yesterday.

The march from the Union Buildings to the British and Swiss embassies would attempt to lobby against further gold sales. It would include leading members of the Chamber of Mines, mayors and councillors from mining towns.

Bernard Swanepoel, the chief executive of the Harmony gold mine, said: "I certainly will be joining the march. I don't know whether I can toyi toyi, but I'll be in the front with the other executives.

"It's not often that miners, the government and mine owners join forces, but this is an indication of how seriously we view the situation."

Bobby Godsell, the chief executive of Anglogold, the world's largest gold company, is expected to return from London to join the march.

The NUM's George Molebatsi said: "We have invited the Chamber of Mines to join the march, to which they have agreed."

Molebatsi said the march would be historic in that it would mark the beginning of the identification of job losses, and unemployment as a common enemy. Mining companies were expected to stop all retrenchments as interventions were being made to save the industry.

A delegation to London led by Godsell and James Motlatsi, the president of NUM, yesterday began its lobby against the sale by the Bank of England of a further 375 tons of gold.

Thousands set to strike at Oryx today

BD 15/7/99 (214)

Mine executives to march with unions to British and Swiss embassies

Reneé Grawitzky, Stephen Laufer and Reuter

FIVE thousand workers at Oryx gold mine in the Free State will strike today following a dispute over retrenchment packages for 900 workers

Oryx is one of six gold mines set to lay off about 11 700 workers against the background of a declining gold price

Mining employers and workers — for once united — are preparing to march together to the British and Swiss embassies in Pretoria on Saturday to protest against continued central bank gold sales An industry insider said employers were "still recovering from the shock" of the Chamber of Mines executives' decision to march with the National Union of Mineworkers (NUM)

The march coincides with NUM president James Motlatsi and Anglogold CEO Bobby Godsell's mission to London this week to raise public awareness of the effect of gold sales on the economies of SA and other African gold-producing countries

During parliamentary debate yesterday British Prime Minister Tony Blair stood by the UK's decision to sell a portion of its gold reserves "The gold price has been falling for two years, so if it carried on falling and we didn't sell, we would lose money" He declined to comment on whether he would meet Godsell and Motlatsi

SA's minerals and energy department said government would also send a delegation to Europe Meantime, Deputy Minerals and Energy Minister Susan Shabangu left with NUM deputy general secretary Archie Palane for Mali and Ghana yesterday, seeking a consolidated African position on central bank and International Monetary Fund gold sales

President Thabo Mbeki said yesterday that SA had been approached by a number of African gold-producing countries interested in a common approach to central bank gold sales The fall in the gold price associated with such sales was "of concern among producing countries, not just in Africa", he said at the Organisation for African Unity summit meeting in Algeria

It had been agreed with European and US central bankers before the sales started that market instability should be avoided in everybody's interest There was now "a need to follow up on this understanding"

Mbeki said the planned gold sales had been discussed with the governors of the central banks of France, Germany, Switzerland, the Netherlands, the US and the UK SA government representatives had also met Wim Duisenberg, head of Europe's central bank

International financial institutions' plans to finance debt relief for poor nations through gold reserve sales made "no sense if in the process you destroy the gold producers", Mbeki said

It was time Africa engaged in serious and intense debate so that it could intervene with ideas of its own to solve its debt problems "Otherwise you get these strange proposals to destroy some African economies in order to free others from debt"

International talks on debt relief did not bear directly on SA, but the country wanted to see relief for others, including close neighbours

Meanwhile, employees at Oryx plan to strike today after the union and Gold Fields' management failed to agree on retrenchment packages Oryx notified the gold crisis committee of its intention to lay off staff as the mine overestimated the size of its ore body

Workers are demanding four months' severance pay for each year of service, six months' notice of pending retrenchment and a range of other demands The company has offered two weeks' severance pay

Gold Fields said it was a pity workers seemed intent on taking action just as Oryx was in a position to break even for the first time in its history

In Johannesburg, the all-white Mineworkers' Union launched its social plan yesterday, estimating that a further 250 000 workers would be retrenched across various sectors of the economy during the next 18 months

Union general secretary Flip Buys said a solution to the retrenchment crisis had to be found between unions, business, government and communities on "assumption of social responsibility" "Protest without a plan is counterproductive," he said

The union's social plan, similar to one proposed by the NUM in 1991, covers counselling, retraining, financial advice and starting a retrenchment fund The union has set up an entrepreneurial school and plans to create business ventures for retrenched workers

Gold fixed in London at $255,25 late yesterday against Tuesday's $254,65

Australians hammered. Page 18

Down, down, deeper and down on a ...

Journey to the centre of the earth

BD 16/7/99 (214)

The lure of gold has taken man to unimagined depths. But with the metal losing its glister, has he reached rock bottom? Victor Mallet investigates

THREE and a half kilometres below the ground — and that much closer to the earth's molten core — the rock of the tunnel walls is warm to the touch In some places it also has a curiously splintered appearance, like shattered ice

Alan Naismith, a senior rock engineer at AngloGold, the world's biggest gold mining company, shouts an explanation above the roaring of machinery and metallic bangs and thuds echoing through the mine shafts the natural pressure on the rock down here is about 9 500 tons a square metre, he says, but if you mine out some of the rock, the pressure on what remains can double or triple It looks stressed because it is stressed

Simple, really, but not exactly comforting The words "rock burst" — the cause of many mine deaths in South Africa — suddenly make sense The dripping water, the semi-darkness, the gang of sweating, helmeted miners armed with enormous drills and the smell of ammonia (by-product of the latest round of blasting) merely emphasise how far we are from the bright world above Human endeavour has taken people to the moon and to the earth's highest, coldest, driest and most inaccessible places This, the Western Deep Levels complex of mines about 70km west of Johannesburg, is the site of the world's deepest excavations The miners are making them deeper still, blasting their way metre by metre down to previously unimagined distances below the ground

To reach the place where the shaft is being sunk is no simple task We will get hot wet and muddy so we don a fresh set of clothes and equipment, including white underpants and T-shirt, wellington boots, overalls and a safety pack containing chemical breathing apparatus in case of emergencies, then there is the helmet, the light on it and the heavy battery to run it

We have a 9am appointment with a cage — a remotely operated lift without furnishings or floor buttons — that we cannot afford to miss Taking thousands of miners to and from work each day down and along hundreds of kilometres of shafts and tunnels is an exercise in logistical precision

Suspended from a greasy wire rope as thick as a man's arm, the cage plunges down into the wet and increasingly warm depths of the mine By the time we bounce slowly to a stop at our first destination, the rope is so long that it feels as though we are suspended by a large elastic band

Yet we are still only at level 81 (each level is 100ft), and it will take us two further ear-popping descents in kibbles — mud-soaked containers that look and feel like hoppers for liquid concrete — before we reach the bottom where the shaft is being sunk

The scale of the underground operations is breathtaking There are subterranean railway junctions, electricity substations and vast drums of winding gear for the subshafts that start halfway down the mine, all in space blasted and scraped out of solid rock One of the shafts is lined with a 400-ton, 80m steel tower where it intersects with the gold-bearing reef it is designed to contract as the rock moves

> "We can mine at over 3 000m below $250 an ounce."

The five mines at AngloGold's West Wits operation including three at Western Deep Levels, employ 28 000 people and bring 735 000 tons of rock to the surface each month for milling The ore is processed in giant rotating drums In goes 80 tons of rock, and out comes 80 tons of powder as fine as baby talc ready for chemical treatment to extract the gold (Four thieves were instantly crushed to death a year ago when they stopped the mill and went inside to collect the gold dust that builds up on the inner surface, the mill was accidently turned on again)

All this is driven by the value of the end product Gold, the foundation of the South African economy, is the reason why Johannesburg was established just over a century ago Three quarters of the gold ever mined in the world has been extracted from the Witwatersrand region around the city The West Wits mines produce 58 tons of the stuff a year

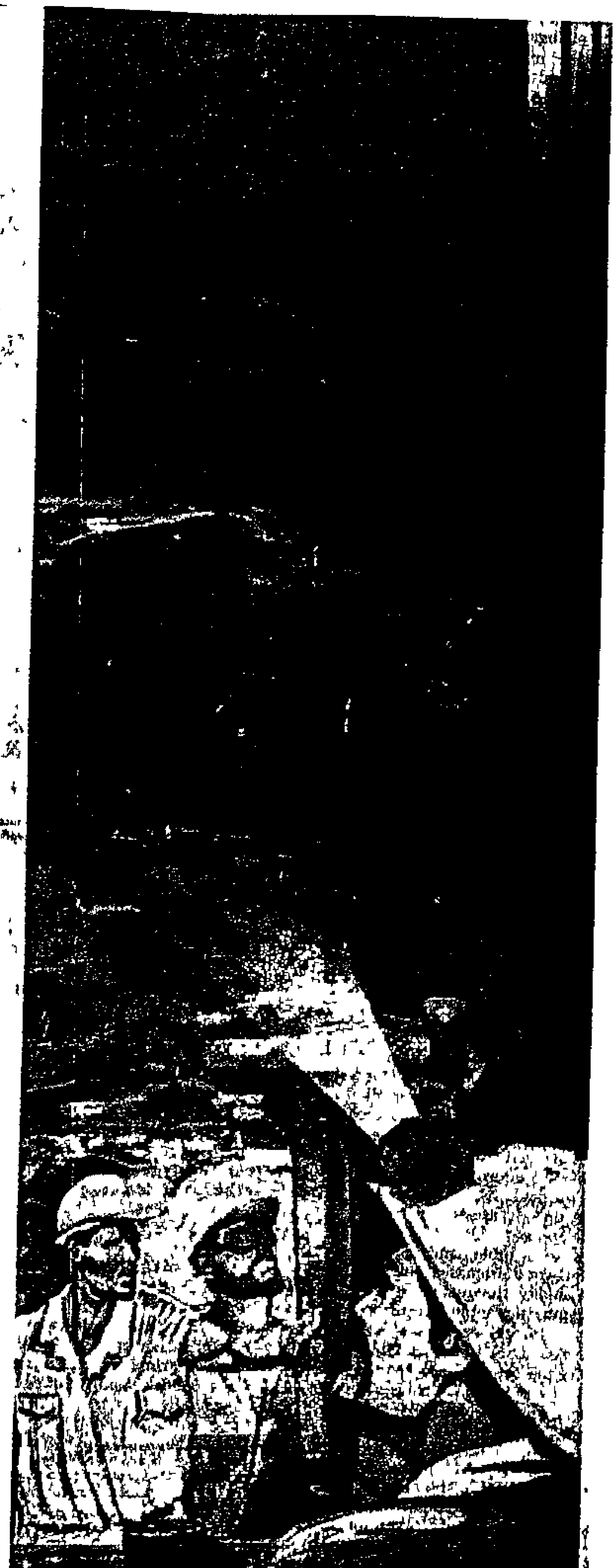
The problem is that the underground reefs of golf-bearing ore — the Ventersdorp Contact Reef and the Carbon Leader Reef — are not parallel with the surface but at an angle, "like several layers of polony in a sandwich, only inclined", says Andrew van der Westhuizen, mining consultant at AngloGold in Johannesburg, the gold is near the surface but has been largely mined out Around Western Deep Levels, there is plenty left, but much of it is at depths of more than 4km

Van der Westhuizen says that it was realised years ago that without deep mining "we would be leaving behind quite a lot of gold in the Witwatersrand system", perhaps as much as a third That was why Sir Ernest Oppenheimer, the late founder of Anglo American (AngloGold's parent company), called Western Deep Levels "the most important enterprise ever started in South Africa" when he inaugurated it in 1957

Deep mining has its detractors Some mining executives — even South African ones brought up in a country where miners reached 3km more than 40 years ago — say it is too dangerous and expensive

Seismic shocks kill miners and damage costly underground infrastructure, the intense heat requires enormous amounts of refrigeration to allow people to work, ropes cannot be made long enough for the shafts because they become too heavy (at the moment the limit is about 3km, at which the rope weighs 70 tons for a cage that can carry 10 tons), and it takes hours to ferry workers to and from the face

These are the kinds of challenges AngloGold's engineers seem to relish. The west mine at Western Deep has been the world's deepest at 3 582m since 1974, and now that is close to exhaustion the south mine is being



(GRAPHIC MATTHYSMOSS)

deepened to 4 117m (The actual distance below the surface is slightly less, since the depths of the Highveld mines are measured from a datum line of 6 000m above sea level)

They might go deeper still A group of South African mining companies, research organisations and universities is working on a project called "Deepmine" to examine the technical challenges of deep mining between 3 000 and 5 000m And AngloGold has its own tentative plan, called "Project 5 000" As the name implies, this is about the possibility of mining at 5km in a lease area farther south called Western Ultra Deep Levels and known from its acronym as "Wuddles"

At these depths, the engineering and safety challenges are formidable, but not insurmountable Take seismicity (the liability of earthquakes) and rock bursts, the cause of half of South Africa's 250 or so gold mine fatalities a year (most of the rest are the result of accidents with equipment)

Contrary to popular belief, the ground beneath our feet is not entirely solid The first 600 to 1 000m below the surface at Western Deep is dolomite pitted with cavities, some of them filled with water This explains why houses in nearby Carletonville have had a habit of subsiding or disappearing into large holes since mining began Below that the rock is more compact, but mining still adds to the natural instability of large rock formations, under pressure and frequently sliding and grinding over one another deep underground

Safety measures are improving all the time and much depends on understanding the natural seismicity of a particular region AngloGold engineers argue that some mines at existing depths are more dangerous than others will be at 5km. New, three-dimensional seismic imaging systems allow companies to see where the most dangerous, fractured zones of rock are and to leave them intact as they mine, while more than 100 geophone stations linked to computers continuously monitor seismic activity in the West Wits area.

There are about 2 500 seismic "events" a day, but most are minor movements caused by blasting which occur within a few hours of the explosion — and when mineworkers have been withdrawn to safety

"One can pick up and listen to what the earth is doing, and you can get early warning of where critical conditions are building up," says Van der Westhuizen And if a problem does occur, modern hydraulic supports for the roof are better at absorbing shock waves than the old ones made of wood

Heat is the other force of nature that must be tamed At 4km, the natural rock temperature is 62°C The West Wits complex — which uses as much electricity as the entire city of Port Elizabeth — has huge refrigeration units to pump cold water down the shafts The cooling power is equivalent to the manufacture of 80 000 tons of ice every 24 hours

But circulating water to and from such depths is an expensive business — some mine shafts use five tons of water for every ton of rock they extract — so AngloGold has started making a freezing slurry (providing more cooling for less weight) that is deposited in underground ice dams

Eventually, 26 Israeli-made vacuum ice-makers using carbon fibre turbine blades will make 16 800 tons of ice a day, and a greater tonnage of air for cooling and ventilation will be moved through the mine each day than the tonnage of rock. An Israeli company, interested in using the same type of machines to make snow for a leisure product, came to Western Deep Levels and built an artificial ski slope to test the product It worked

South African mining engineers are demonstrably proud to be managing the world's deepest mines, but that does not answer the question of whether it is all worth it Bobby Godsell, AngloGold's ebullient chief executive, says that one of the problems with the old school of mine managers was that they delighted in explaining how many tons of rock they had shifted but forgot that they were running a business and needed to make a profit

To press his point, Godsell has taken to calling his mine shafts "factories" His engineers, momentarily suppressing the urge to boast about depths, grades of ore and tons of ice, eagerly explain that deep mining of the Witwatersrand's rich reefs can still be highly profitable

Van der Westhuizen argues that the research into deep mining will have technological spin-offs for all types of underground mines

"The research work that we are doing is not rocket science, it's not pie in the sky," he says The knowledge gained "will immediately become applicable to current mining projects We're getting more excited by the day "

Ivan Moll, who has been with Anglo for more than 40 years and heads the shaft-deepening project at Western Deep's South Mine, insists that there will be an adequate return on the investment in a 4km mine shaft

"We are proving to the world that we can mine at over 3 000m below $250 an ounce," he says In other words, there are profits to be made at these depths even with the gold price languishing.

A depth of 5 000m, however, is another matter Even the most enthusiastic proponents of deep mining acknowledge that the gold price will have to rise sharply — or costs be dramatically reduced — before South African miners extend their depth record by digging down into the hot, high-pressure rock 5km below the Highveld grassland — Financial Times

Sowetan 16/7/99

Miners to march to embassies

(2.14)

By Mzwakhe Hlangani
Labour Reporter

WHILE a top-level South African delegation is lobbying European countries for their support for a moratorium on gold sales in London, mineworkers and their employers will reinforce the lobby by marching on British and Swiss embassies at the weekend

National Union of Mineworkers spokesman Mr George Molebatsi said yesterday the march from the Union Buildings to British and Swiss embassies in Pretoria on Saturday would be joined by a delegation from the Chamber of Mines

He said several mayors and councillors from the affected mining towns have accepted invitations to lead the historic march

Mineral and Energy Deputy Minister Susan Shabangu said the mission aimed to express a strong African voice that would give a platform from which issues could be raised with the International Monetary Fund and Britain

Negotiations on planned retrenchments between NUM and Oryx Gold mine in Free State, whose application to retrench 5 000 workers had been earlier turned down by the Gold Crisis Committee, were deadlocked on Wednesday and miners were preparing a wildcat strike last night

NUM Free State organiser Moses Mhlaba said the union demanded six months notification while the mine insisted on four weeks notice for lay-offs

Mhlaba said the dispute also centred on disagreements about severance packages, declaration of directors' salaries and fees, and implementation of the social plan

The union argued that the management should be taken to task for implementing policies that were responsible for the poor performance of the mine

Oryx is one of the six mines that have recently applied to the Gold Committee to retrench workers

Union tells Britain 'to put its gold where its mouth is'

(214) CT (MR) 16/7/99

Frank Nxumalo and Bontle Headbush

Johannesburg – The 20 million-strong International Federation of Chemical Energy and General Workers' Union (ICEM) yesterday slammed the sale of British gold reserves and the proposed sale of 10 million ounces by the IMF as "irresponsible" and called for an urgent world gold summit

"ICEM calls upon both not to dump any more gold What is needed urgently is a world gold summit at which any changes in the role of gold can be properly planned In that way, governments can ensure changes cause minimum disruption to the earnings of some of the world's poorest countries and least-privileged workers

"The British government has made much of its ethical foreign policy ICEM will be pressing it to put its gold where its mouth is As for the IMF, it is perfectly aware that debt can be written off without selling gold stocks We should all be telling the IMF what it knows already you don't have to sell gold to do good," said Vic Thorpe, ICEM's general secretary

James Motlatsi, the president of the National Union of Mineworkers (NUM), said the British attitude was in contrast to the line taken by a number of other national banks

"The central banks of the US, Germany, France, Italy and some other countries promised us that they would not be selling off their gold reserves "

The Reserve Bank yesterday denied talk it was planning to sell reserves "We are the largest producer of gold in the world, and it would send a negative signal if we had to sell our reserves as well," said deputy governor James Cross

Gold made up only R5,7 billion worth of the Bank's total reserves, which rose to R35,1 billion in June

For South Africa to sell gold would defeat the purpose of the lobby for a moratorium on further gold sales by the delegation now in London, said Cross

Led by Bobby Godsell, the chief executive of Anglogold, and James Motlatsi, the president of the NUM, the delegation is scheduled to arrive back in South Africa tomorrow

Archie Phalane, the deputy general secretary of the NUM, said "They've had another series of meetings in London, and it would be quite difficult to determine the results of the lobbying at this stage "

Susan Shabangu, the deputy minister of mineral and energy affairs, and John Stewart, consultant to the Chamber of Mines, left for Mali and Ghana last night to drum up support among other African producers

☐ Inside Mining, Page 4

Gold sales will hurt SADC

(214) (279A) BD 16/7/99

The reason for the move is as much banks being overstocked as it is debt relief

GABORONE — Currencies in 10 of the 14 Southern African Development Community countries will come under pressure as a result of the Bank of England and International Monetary Fund (IMF) gold sales, Standard Chartered Bank predicts in its latest African Market View.

StanChart also says that overstocking of gold by the banks, not only the funding of African debt relief, is behind the sales and asks if gold is in a terminal decline

"With hopes that the Bank of England might stop further auctions diminished, stopping the IMF sales might stem the slide. But only the prospect of rising inflation would address the structural imbalance that points to long term gold weakness."

The Bank's sales have brought gold down to its lowest price for 20 years and the proposed IMF sales are predicted to pull it even lower, down to $235

The SA Chamber of Mines says 40% of SA's gold will be mined unprofitably if the price drops below $250.

Many countries receive a boost to their exchequers from remittances from their nationals working in the SA mines. The closure of many high cost mines now appears imminent and about 80 000 mineworkers face retrenchment.

StanChart says the following countries are at risk: SA, Swaziland, Lesotho, Namibia, Mozambique, Botswana, Malawi, Tanzania, Zambia and Zimbabwe

"The need for SA to maintain regional competitiveness could see sympathetic depreciations in all those currencies"

Many regional currencies are underpinned by the SA rand and other currencies, notably the Botswana pula, pegged to it to encourage trade.

The proposed sales of gold by the IMF to fund African debt relief have caught the headlines but StanChart points out that the world's central banks hold up to a third of the gold ever mined, roughly equivalent to about 10 years worth of world mine supply at today's production capacity levels. — Sapa.

SA GOLD MINES

fm 16/7/99

GOLDEN LIFELINE WEARS DOWN

(214)

SA could be down to four or five listed producers by 2001

Gold's continuing price weakness is speeding up the final rationalisation of the SA gold industry, which could be down to just four or five listed producers within two years

The ranks of the country's listed gold mines have already been reduced over the past five years from more than 30 to the present 11, of which three are likely to vanish within months

Those are Kalahari Goldridge, which is being merged with Harmony, ERPM, which has gone into provisional liquidation, and Randfontein, which is likely to disappear

FM Cover Story

in the long-awaited restructuring of the Kebble mining interests

Mining analysts and industry executives seem in broad agreement on what will happen next, though no industry executive is willing to provide specific scenarios

"We could easily end up with just four listed gold companies in SA GFL, AngloGold, Harmony and one other operator running those mines in intensive care or ready for the undertaker," says Gold Fields Limited (GFL) MD Tom Dale GFL controls one of the mines that some analysts say are likely to go to the auction block the Libanon division of Kloof

A number of other mines in the Free State, subject to persistent speculation over change of ownership, are controlled by AngloGold

Both GFL and AngloGold are tight-lipped about the future of these operations because of fundamental issues concerning business practice and strategy, and just a touch of corporate ego

A year ago, GFL sold Evander to Harmony It had deemed the mine to be "noncore" because it was a high-cost producer not worth keeping GFL management did not believe it could be transformed to meet "worldclass" cost and productivity standards

Harmony management has since turned Evander right around, bringing the mine into the ranks of the five lowest-cost producers in the industry

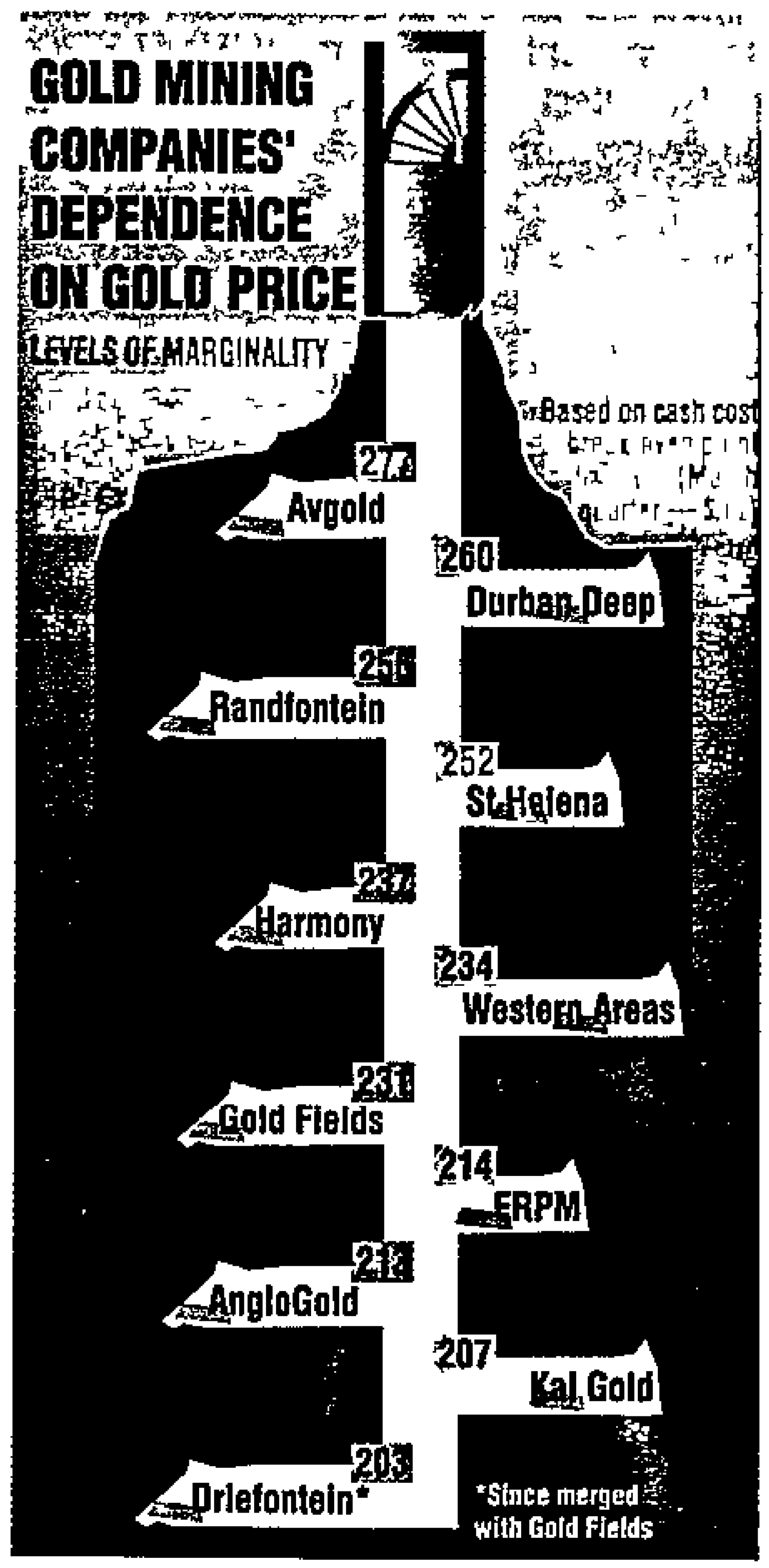
GFL has subsequently changed its stated strategy and no longer distinguishes between core and noncore mines Management maintains it does not sell assets at the bottom of the commodity cycle, though "everything does have a price"

Designating a mine as "noncore" or "up for sale" has also been shown to cause serious personnel problems The unions immediately start agitating about job losses and retrenchment packages and management gets demotivated because of the uncertain future

But gold at US$255/oz leaves the producers little room in which to manoeuvre The only ones with some breathing space are those, like AngloGold, that have large forward gold sales programmes in place, generating gold prices above current ruling rates

The mines are about to start releasing their numbers for the June quarter, but the March quarter figures clearly identified the exposed operations. They included Libanon, with cash operating costs of $274/oz and, in the AngloGold stable, Matjhabeng ($274/oz), Elandsrand ($257/oz) and the South and West mines at the former Western Deep Levels with cash costs of $309/oz and $310/oz

At Avgold, the Hartebeestfontein mine reported cash costs of $291/oz and Randfontein weighed in with $256/oz These are just the cash costs and do not take into account capital expenditure calculations Randfontein's total cost was $270/oz So



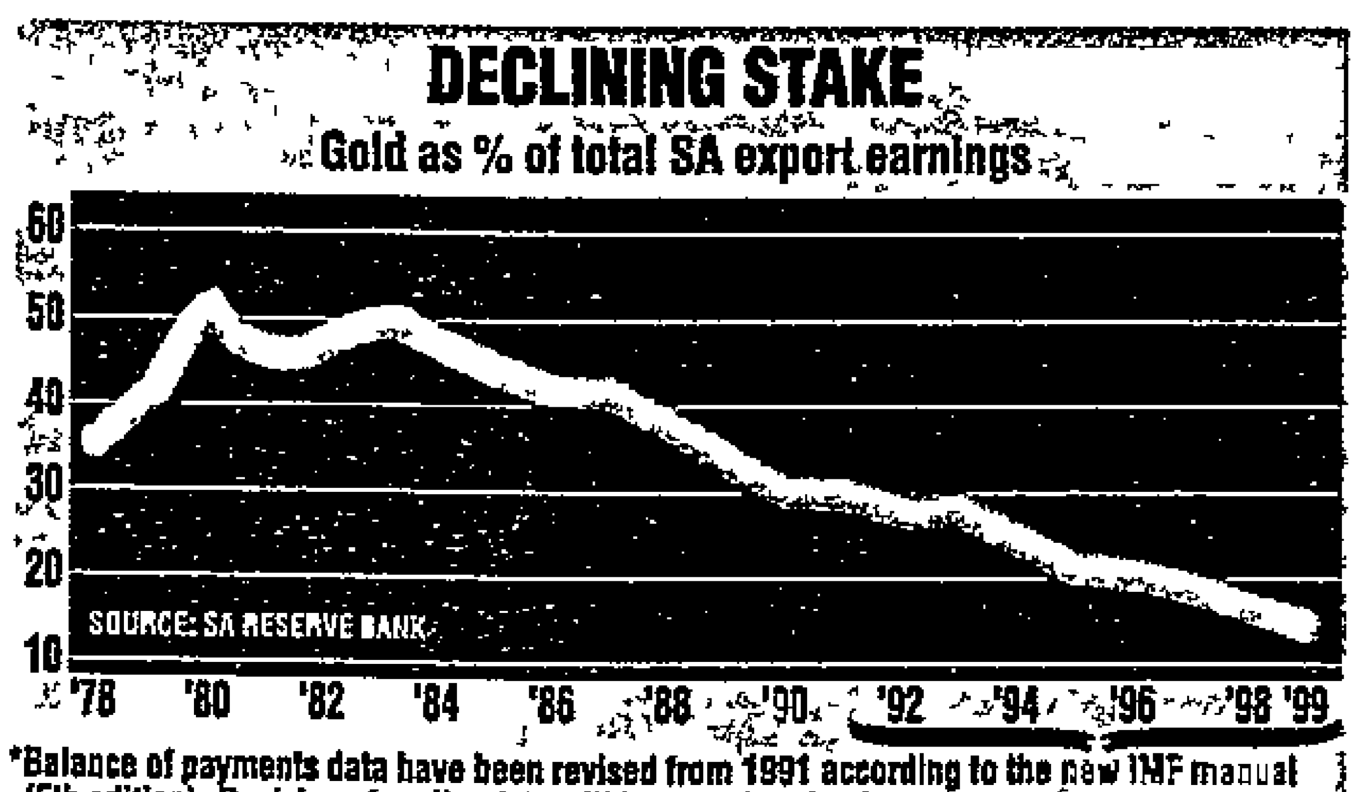
it should come as no surprise that the mines looking to retrench workers right now include Randfontein and Libanon

That brings home yet again the overall cost of the troubles facing the gold industry — which, though it no longer dominates SA's fortunes, is still a major economic force

"Gold remains by far the country's biggest earner of foreign exchange, with total sales of around R25bn, accounting for 17% of total merchandise exports," says Chamber of Mines economist Roger Baxter

"Gold still directly accounts for about 4% of gross domestic product (GDP) and about 7% in total if you take into account the indirect effects of the various economic multipliers

"Despite the plunge in employ-



*Balance of payments data have been revised from 1991 according to the new IMF manual (5th edition) Revision of earlier data will be completed only next year

Economy & Business

ment numbers over the past decade, the industry still employs about 250 000 workers It is of strategic importance to Eskom, consuming about 15% of electricity generated and playing a key role in Eskom s management of its base generating load "

Baxter also quantifies the costs to SA of the drop in the gold price over the past three years and the fall in the country's

FM Cover Story

total gold output

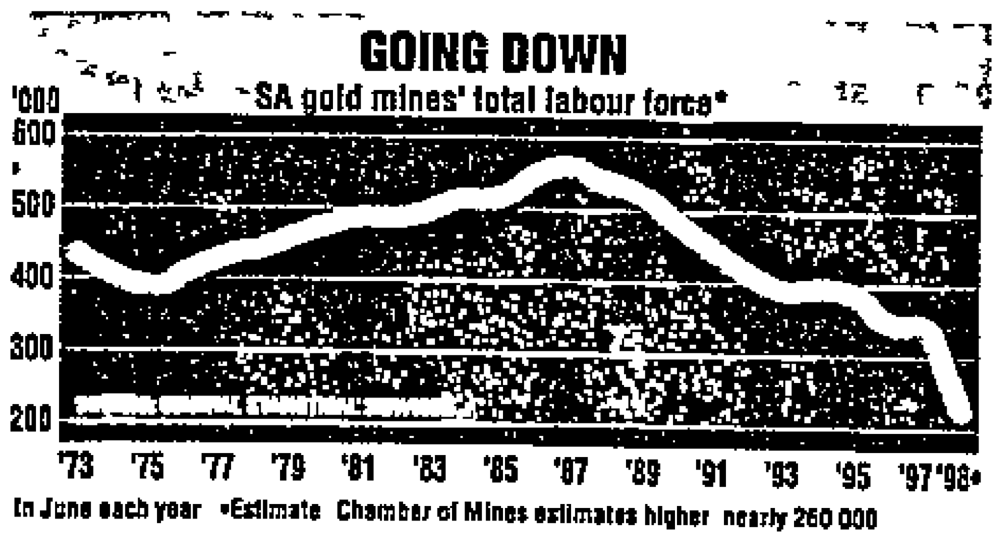
"If we had managed to maintain annual gold output at 500 t for the past three years and the gold price had stuck at the 1996 average level of $387/oz then the industry would have earned an additional $4 4bn (R26bn) in revenues

"We reckon that would have translated into domestic interest rates being about 3% lower than they are at present "

Chamber of Mines calculations when the gold price stood at $258/oz showed about 40% of SA's gold production was marginal and 81 700 jobs were under threat at 11 of the country's 16 major gold mines If the price dropped a further $30/oz the chamber calculated, three more mines would become marginal, threatening a further 103 300 jobs

The next major developments are likely to be in the Free State where AngloGold has already shed some big mines Speculation is that its remaining operations — Matjhabeng Tshepong and Bambanani — are likely to be sold

The most likely candidate to acquire them is Harmony which has already bought a number of AngloGold s former Free State mines and looks like the only producer able to find enough money



In June each year *Estimate Chamber of Mines estimates higher nearly 260 000

Long-running and persistent speculation is that further rationalisation could see AngloGold s HJ Joel mine traded to GFL in return for the Driefontein No 9 shaft adjacent to AngloGold s Western Deep Levels mining complex

'GFL has a dominant position in the southern Free State If it makes financial sense to make exchanges of assets, we will do so " says Dale

The wild cards in the restructuring that is about to take place are Canadian major Placer Dome and Avgold which is developing the rich Target deposit in the northern Free State

Placer Dome last year bought 50% and management control of the Western Areas mine after making an unsuccessful pass at Avgold Placer Dome management makes it clear it is still interested in Avgold and it is apparently not alone in its view

In June, Avgold controlling shareholder Anglovaal Mining upped its stake in Avgold by 15% to 60%, justifying it as a "core business" But it could also be viewed as a defensive move against possible predators

Anglovaal Mining seems determined to keep Avgold an independent operation, but analysts and gold industry executives speculate it could be acquired by one of the remaining industry heavyweights

The June figures starting with Harmony's results on Monday, will provide a clearer picture of where the various mines stand and it should not all be bad news

FM Cover Story

The SA gold producers have coped with the gold price crunch of the past five years by radically transforming themselves And that process is by no means over

Take GFL s developing Oryx mine, which in the March quarter reported horrendous cash costs of $368/oz Dale says the June figures will show that Oryx has broken even at the operating level and he believes the mine will move fully into the black during its 2000 financial year

The key to the industry's survival lies in productivity improvements of the kind being achieved most visibly by Harmony and Anglogold These improvements have been achieved through greater education training and motivation of the workforce as well as through redeployment of workers from support roles into functions directly linked to the core business of mining gold.

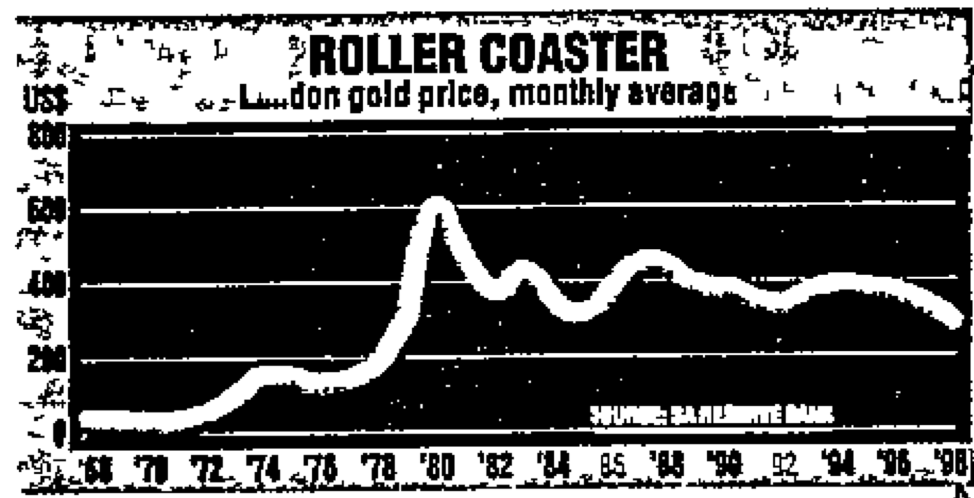
Harmony's rule of thumb is that 60% of a mine's workforce should be employed on core mining functions and 40% on back-up and support operations The company's executives point out that, in some of the operations they have taken over, they found only 40% of the workforce being used on core functions

"We benchmark our operations in-house against Beatrix and outside GFL, against Anglogold and Harmony as well as Impala Platinum, which has the most succesful productivity track record in hard rock mining," says Dale "We think the key to improving productivity is training and education which is why we have set the target of having a trained miner per panel underground The 1000th panel miner was appointed during June We need another 400 to reach the full target complement and we are training them currently at a rate of about 300 annually

"We believe this system will pay off handsomely for our mines but it will take up to three years before the full benefits flow through In the case of Driefontein and Kloof we have only been in charge of these mines for 18 months and the major management focus during the first six months was to restructure their cash flow "

Industry analysts believe that efficiency improvements can only slow, not avert, the decline For SA's gold industry to return to health, they say, the rand would have to weaken to about R6,70/$ — which doesn t seem likely soon given the SA currency's buoyant performance and glowing indicators in recent months

Brendan Ryan



ment s commitment to the sales programme

On the other hand the argument that the Bank of England sales are part of a Machiavellian First-World plot to drive the price down doesn t hold water either The bank has better things to do and in any event what would be the point? Who would want to extend Western hegemony over a bunch of economic basket cases?

The truth probably is that the Bank committed a cardinal error it believed its economists when they drew supply and demand lines on charts — or more likely, programmed their computerised models — and concluded that the sales would be absorbed without disrupting the market Well now they know better

But lobbyists for gold producers must also realise that there is more than one reason for official selling of gold For individual central banks it s generally a case of efficient asset allocation, for the IMF, it's part of the debt relief programme

FM Cover Story

Different strategies are therefore needed, which must appeal to enlightened self-interest

Central banks are unlikely to be dissuaded from the principle The most that can be hoped for is that they can be persuaded to devise a selling mechanism that — in practice as well as in theory — won t self-defeatingly drive the price down If that involves less transparency well so be it

For the IMF the challenge is twofold to placate conservative Americans and find a way of financing its debt relief programme It s difficult to see how it can do the latter without selling gold and analysts warn that there are worse things the IMF could do with its gold than sell it like return it to its members who would be even more likely to sell it in disruptive ways

Sadly whatever the fundamentals say the bullion market is unlikely to recover until the spectre of heavy official sales is exorcised Which could take years This does not preclude temporary rallies of which there have been many in the past 20 years — some of them substantial

But it s ironic that the main beneficiaries of Blair s planned largesse for underdeveloped nations should be the arch-capitalist speculators while the main sufferers are precisely those of the underdeveloped nations that rely heavily on gold production

Michael Coulson

DEBT RELIEF & GOLD SALES

(214)

THE IMF SCORES AN OWN GOAL

The harm to poor countries of the gold price debacle goes beyond the impact on export revenues

FM 16/7/99

It seemed like a good idea at the time When the G7 countries met in Cologne last month to support the sale of 10% of the International Monetary Fund s US$27bn stockpile to help fund debt relief for some of the world s poorest countries the international community applauded

The profits from the sales are to be invested to help fund relief for heavily indebted poor countries (HIPCs) as part of an initiative, launched in 1996 under the auspices of the IMF and the World Bank and endorsed by 180 governments to help these countries escape their debt trap The goal is to restore a healthier relationship between the HIPCs export revenues and costs of debt service (see table)

Unfortunately the IMF announcement along with the sale of gold by the UK Treasury this month sent the gold price tumbling to less than $256/oz

As luck would have it about 30 HIPC beneficiaries are gold producers According to the World Gold Council a trade group representing gold producers 12 of these HIPCs sell more than 3 t/year in nine gold accounts for at least 5% of export revenues and in three gold contributes about 20% The World Bank says that in 1997 sub-Saharan gold exports from HIPCs were worth $1 4bn, nearly 2 5% of the total SA Chamber of Mines CE Mzolisi Diliza estimates that annualised, the recent fall in the gold price will wipe $224m off HIPC exports

The continent (excluding SA) produces more than 6% of the world s output Another 18 5% of world output comes from SA which is not seeking debt relief But SA makes an important contribution to its neighbours' economies

- Directly through investment (SA had $1 3bn worth of capital stock in Africa in 1997) and earnings of migrant workers from neighbouring states (who contributed 6%-7% of Lesotho s and Mozambique s export earnings in 1997)
- Indirectly through its role as the economic powerhouse of the region and
- Potentially as a future market for the rest of the continent s nongold exports

So what is bad for SA is bad for its neighbours

If the gold price stays at or near its recent levels of $255 the slide will put a big dent in HIPCs export revenues

This comes at an unfortunate time, sub-Saharan Africa has had a bad 20 years UN figures show GDP per capita increased by an average of only 1 5%/year in the Eighties when drought devastated large parts of the continent Between 1991 and 1994 poor economic policies and political conflicts reduced average annual growth further to 0 4%/year In that period the economies of 15 countries shrank

Since then Africa s outlook has shown a distinct improvement with the help of IMF-inspired economic reforms and stronger commodity prices Nevertheless, the continent has 33 of the IMF s 41 HIPCs

The effect of the gold price debacle on these countries goes far beyond the immediate impact on export revenues Gold mining has multiplier effects Every job supports a number of other people. In SA, the estimate is that for every one employee on the mines, there are seven to 10 dependants Moreover, gold mining sustains secondary industries that supply and service the mines For every three miners employed in the mining sector, there is one person employed in associated industries

Gold mining also generates income tax revenue which, in SA has already fallen from 15% of total tax revenue in 1980 to about 1% in recent years And it boosts the Vat take as miners spend their earnings

The benefits of the multiplier are illustrated in Mali Among the poorest countries in the world, Mali is an obvious candidate for relief under the HIPC Initiative — in 1997 its debt was 116% of its GDP — and it is due to get $250m at the end of this year as long as it implements certain reforms Though GDP growth keeps just ahead of population growth GDP per head was only $250 in 1995 However several multinational corporations increased gold mining operations in 1996

The crisis has joined mine boss and unionist in an otherwise unlikely alliance. Chamber of Mines president Bobby Godsell and National Union of Mineworkers president James Motlatsi recently pointed out jointly that mining was one of the first industries to adopt investor-friendly economic reforms

In Africa alone mineral exploration investment in the past decade increased by 500% to nearly $700m in 1997, a large part of it directed at gold " they said

This capital investment, combined with the faithfully implemented IMF economic reform programme, has turned Mali s fortunes around Thanks mainly to a jump in gold exports a current-account deficit of $273m in 1996 was reduced to $180m in 1997 Gold export revenue alone at 35% of total export proceeds was almost three times the level of debt service As a result GDP per capita rose to about $600 by 1997

That's the positive side of the multiplier Reduce gold revenue and the negative impact is also multiplied "In SA there is a 6% multiplier effect," says Chamber of Mines economist Roger Baxter "4% from a direct contribution to GDP and 2% from an indirect contribution "

Already in SA, six mines and 11 700 jobs are on the line (see page 48) At the current price, wavering between $255/oz and $258/oz, another 81 700 jobs are at risk which could mean up to 800 000 people may lose their subsistence income, says Diliza Motlatsi and Godsell calculate that if the sale of IMF gold causes a further $30 drop in the price, another 103 000 people in southern Africa could lose their jobs "and the 1m people dependent on them will be plunged into poverty"

But let's be clear on one point Bank of England governor Eddie George describes UK gold sales as a "straightforward portfolio decision" to shift assets from gold into interest-bearing bonds In that he's absolutely right Gold has been losing its monetary role as well as its status as a safe haven and a store of value for a decade — despite wars currency crises and economic upheavals And nothing is going to change that. Come a Y2K crisis outbreak of global war or invasions from space investors will more likely buy US dollars or canned beans and protein powder than gold.

The logical step for any large gold holder then would be to sell some of its holdings No portfolio manager would fault it. Even economists would be generally supportive Certainly the last thing the world needs is another industry artificially sustained by a subsidy, in this case from reluctant holders of gold.

If the IMF the world s second-largest holder of gold, was acting on the same motives, its decision could not be faulted — though the timing might be questionable, coming right after the UK Treasury decision to offload some of the metal But if central banks or other organisations send the gold price reeling in the process — as both the UK Treasury and the IMF have done over the past 10 weeks — they will dramatically diminish the value of the proceeds of future sales

Moreover they will destabilise markets which is inappropriate to their alleged role as market stabilisers After all that the crucial ratio of export revenue to debt costs will be little changed in many HIPC countries

If debt relief is to do what the IMF and the G7 countries claim they want it to do it must be funded another way

Unfortunately, whatever happens now the market s confidence in the precious metal has been seriously probably irreversibly damaged The price will remain at levels far lower than if the IMF had not acted in concert with the UK

The US may put a stop to the planned sales (see page 44) *The Washington Post* reports opposition from lawmakers several of whom are from gold-mining states and have already said they would block approval of the IMF gold sale No wonder Godsell and Motlatsi hurried to Washington to brief legislators on Capitol Hill soon after the crisis broke

If the Senators and Congressmen fail and the sale goes ahead the IMF will be giving with one hand and taking with the other The least debt relief supporters can do then is stop patting the IMF on the back

Ethel Hazelhurst

THE FACTS

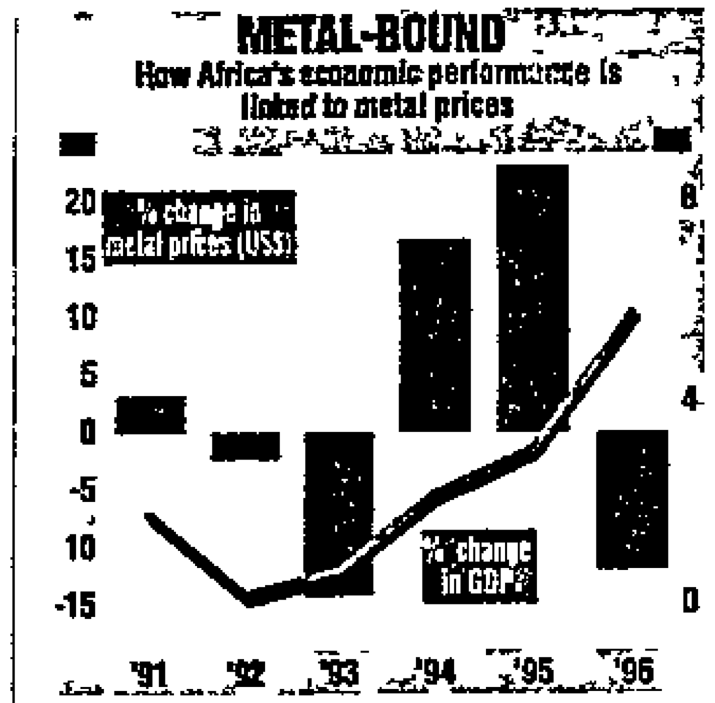
- Of the world's heavily indebted poor countries (HIPCs) more than 30 are gold producers and at least 12 produce more than 3t a year
- Sub Saharan Africa includes 33 of the 41 HIPCs and currently produces more than 25% of the world's gold
- Gold producing HIPCs not in Africa Bolivia, Guyana, Nicaragua, others
- African gold producers not in line for debt relief SA, Namibia, Zimbabwe

PLAYING PUT AND TAKE

Heavily indebted poor African countries that are also gold producers

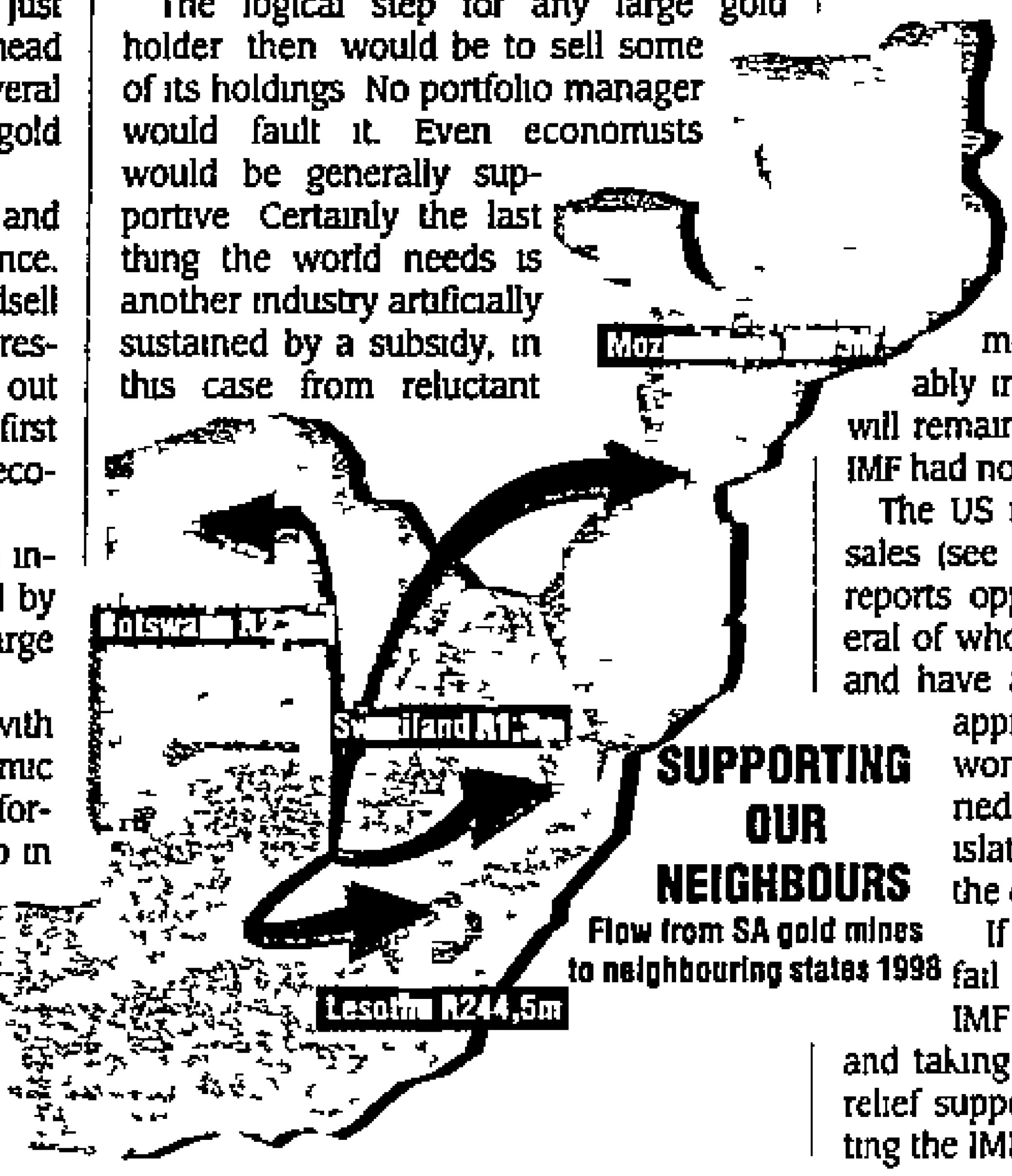
	Debt as % GDP	Gold as % nongold export	Gold exports as % of debt service	'95 GNP per Capita (US$)
Burkina Faso	54	4 5	38	230
Cote d'Ivoire	232	0 5	2	660
DR Congo	165	0 8	22	120
Ethiopia	159	2 5	3	100
Ghana	89	39 2	97	390
Guinea	95	12,5	14	550
Mali	119	35,9	272	250
Sudan	182	8 4	85	390
Tanzania	97	0,3	1	120
Uganda	56	9,7	48	240

SOURCES. WORLD GOLD COUNCIL AND GLOBAL DEVELOPMENT FINANCE



METAL-BOUND

How Africa's economic performance is linked to metal prices



SUPPORTING OUR NEIGHBOURS

Flow from SA gold mines to neighbouring states 1998

INTERNATIONAL GOLD SALES

A GREAT GOLDEN BALLOON

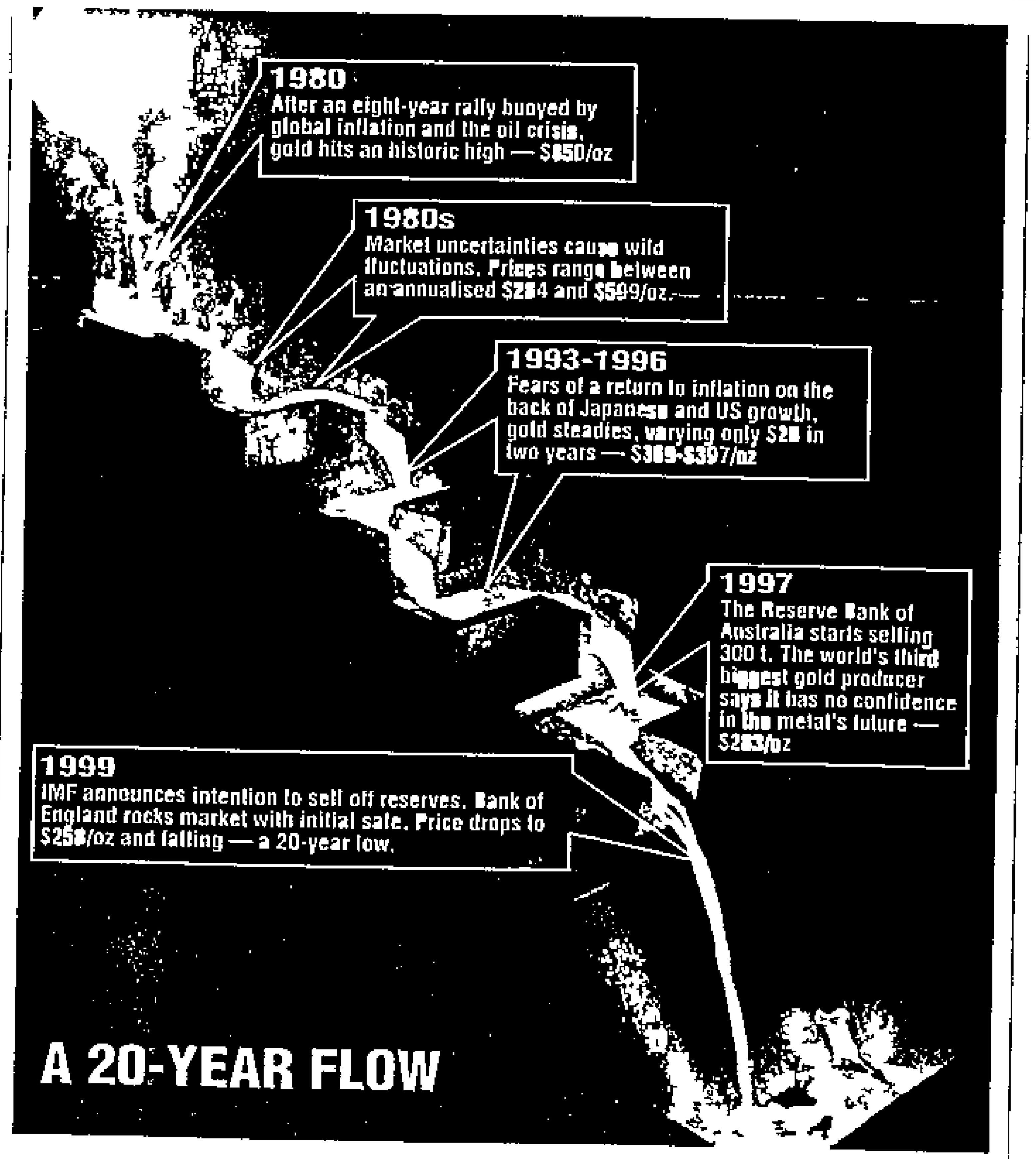
(214)

Gold's mesmeric value as an inflation hedge and solid symbol of wealth has become so ingrained that it's hard to regard it now as just another commodity

fm 16/7/99

Conspiracy or cock-up? Opinions may differ on the motivation for the Bank of England's gold sales (it's even been suggested that the Bank was a reluctant seller, pushed into it by Tony Blair's Labour government for obscure ideological reasons, and possibly e-ged on by the US Fed's Alan Greenspan — even though Greenspan recently called gold "the ultimate form of payment") but the result is there for all to see a 20-year low in the bullion price

FM Cover Story



The Bank raised US$210m from the sale which can be reinvested in income-producing assets, but even at the auction price of just over the floor level $260/oz it had set the value of its gold reserves had fallen by $600m since it announced the intention to sell on May 7 It'll take a long time to earn that back

Every $10 dip in the price costs it almost $200m Whatever the Bank may have done to developing countries it's surely shot itself in the foot

The SA Cabinet has said it finds the UK's "insensitivity towards the plight of gold-producing countries incomprehensible and unacceptable" The World Gold Council called the sale a "disaster" AngloGold executive director Kelvin Williams has called it naive" Robert Champion de Crespigny chairman of the Australian Gold Council says the Bank "mucked up the sale completely"

None of these responses is surprising, given from whence they come but there's no doubt the UK at least made a major miscalculation possibly misled by earlier experiences in believing that the preannouncement of sales of this size wouldn't knock the market

Gold analysts are a bullish bunch by nature Some believed that, once the first sale was out of the way the price would recover Banque Paribas Michael Coulson (no relation of this writer) expected a sharp rally of at least $15/oz And as so often the optimists have been proved wrong as the gold price heads down towards $250

As well as the UK's planned two-year phased sale of 415 t of its 715 t the International Monetary Fund could sell up to 10% of its 3 200 t holding Both these are dwarfed by the potential from Switzerland which has decided in principle to run down its 2 600 t by half from next year

The IMF sale is still no more than a recommendation by last month's Cologne summit of the G7 industrialised countries It must be approved by an 85% vote of the IMF executive board likely to take place at the AGM in September The US has 17% of the votes on this committee so could on its own block the proposal

The US administration favours the sale but new Treasury Secretary Lawrence Summers has said it must be approved by Congress A huge antisale lobbying effort is building up including producers labour and politicians from producing countries especially in Africa The US itself is a significant gold producer, its production based mainly in sparsely populated states with a political influence out of proportion to their size And many isolationist Americans (including Congressmen) are automatically suspicious of anything the IMF proposes, anyway seeing it as just another way in which indigent nations and their corrupt rulers siphon off US charity

The irony is that the justification for IMF sales is to generate funds to finance relief of underdeveloped nations debt, yet such countries are the hardest hit by a lower gold price (see page 46)

Champion de Crespigny makes the salient point that the Bank of England won't want to make future sales at less than the initial $261,20 But he can afford to be relatively philosophical, his Council says that thanks to hedging Aussie producers are guaranteed an average price of $379/oz for the year to next June and $374 for the following year

Others (including SA) have not hedged so heavily but are still insulated to some extent the *World Gold Analyst* quarterly estimates that 45% of current gold output costs above $258/oz but "the majority is not at immediate risk as it is protected by well-established hedging programmes" AngloGold for instance, has hedged forward 12 9m oz equivalent to 21 months production, spread over 10 years

The operative word there is *immediate* Even the heavily hedged Australian industry can't hold out indefinitely against current prices Champion de Crespigny implicitly admits this referring to probable rationalisation and mergers among producers

Gold sales have their supporters The fact is, gold has lost its unique historic hedge as a store of value, in a world in which inflation (for the moment at any rate) has ceased to be a threat political uncertainties have diminished with the end of the Cold War and a wide armoury of other hedges (including derivatives in gold itself) has been developed.

As sober a voice as the *Financial Times* pointed out after the sale that gold has been a bad investment for central banks over the past 20 years The return on holding it is low or non-existent and though "it remains the safest possible asset" (a concession some antigold bugs would dispute), "there is no reason why it should automatically form a high proportion of (forex) reserves"

Reuters quotes London School of Economics economist Roger Alford as saying "This is a natural progression in central bank policy This represents the growing influence of economists (who) tend to look at the rates of return on assets and ask whether asset allocation is right."

Prof Forrest Capie of the London City University Business School adds "You only have to look at the price trend over the past 20 years to see that taxpayers can legitimately ask is this the best you can do?" It's a tough question to answer in the affirmative

The problem is that, though gold may have lost one unique historic attribute it retains others One is that gold by and large, is not destroyed when it's used It's been calculated that over 90% of the gold ever mined is still in existence, creating a huge potential market overhang

It may well be that, logically this means the actual supply and demand equation in any one year should not have a severe impact on the price Indeed, average prices in some years have shown little correlation to underlying supp' and demand It was for this ...iat advocates of gold sales believed they would have little impact on the market, they also drew comfort from sales of several hundred tons each in recent years by countries like Canada, Belgium, the Netherlands and Argentina, which were well absorbed

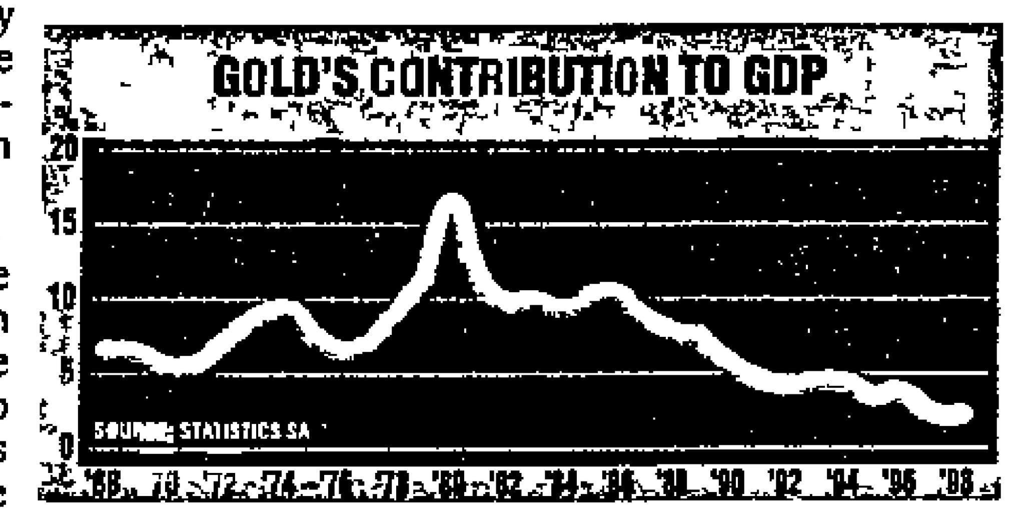
Even *The Economist*, in the teeth of the immediate post-Bank of England sale evidence, still asserts that the IMF gold "could be sold without disrupting markets"

This may well ignore the change in market psychology, and the gold market more than any other is driven by psychology and sentiment which for years have been negative Rational argument based on the fundamentals is all very well but pointless in a market that does not behave rationally — a concept *The Economist*, in its comfortable ivory tower in St James's may find difficult to grasp

It certainly ignores the difference between the Bank of England sale and its predecessors The other nations concerned quietly sold the gold first and disclosed it only later — sometimes months later The Bank of England's transparency in signalling its intentions so far ahead was in theory commendable but in practice gave speculators — specifically short-sellers — a one-way bet of which many no doubt took advantage They would have been foolish not to in a bear market with the bit between its teeth you have to go with the flow Now, they have been able to close their positions at considerable profit

We've just seen the impact of 25 t sales The UK, Switzerland and IMF together could try to offload another 2 000 t in the next couple of years Even more scarily the 11 European Monetary Union countries together hold no less than 12 574 t Should the movement for official sales gain momentum the downside would be considerable

None of this will come as any surprise to a longstanding gold bear The signs of gold's diminishing status have been there to see for a long time More and more whether we like it or not it's just a commodity like any other with a vestigial role as a store of value If the SA-led African protest delegation that was planned to visit London this week (the trip was deferred pending consultations with other African producers) does not take that message on board it won't get far



It may not get far anyway as UK Treasury Minister Patricia Hewitt on Tuesday reaffirmed her govern ment's commitment to the sales programme

On the other hand, the argument that the Bank of England sales are part of a Machiavellian First-World plot to drive the price down doesn't hold water either The bank has better things to do and in any event, what would be the point? Who would want to extend Western hegemony over a bunch of economic basket cases?

The truth probably is that the Bank committed a cardinal error it believed its economists when they drew supply and demand lines on charts — or, more likely programmed their computerised models — and concluded that the sales would be absorbed without disrupting the market Well, now they know better

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For the IMF, the challenge is twofold to placate conservative Americans and find a way of financing its debt relief programme It's difficult to see how it can do the latter without selling gold, and analysts warn that there are worse things the IMF could do with its gold than sell it like return it to its members, who would be even more likely to sell it in disruptive ways

Sadly, whatever the fundamentals say, the bullion market is unlikely to recover until the spectre of heavy official sales is exorcised Which could take years This does not preclude temporary rallies, of which there have been many in the past 20 years — some of them substantial

But it's ironic that the main beneficiaries of Blair's planned largesse for under-developed nations should be the arch-capitalist speculators, while the main sufferers are precisely those of the under-developed nations that rely heavily on gold production

Michael Coulson

MINING *IMF says it will sell its gold to central banks*

Gold up as IMF changes course

(214) ARG 17/7/99

FROM BLOOMBERG

London – Gold climbed 0,5 percent, its first gain in more than a week, yesterday after an International Monetary Fund official said the IMF may try to sell 10 percent of its gold to central banks rather than on the international market

A change of course by the IMF – plus the possibility the Clinton administration is rethinking its support for the gold sale – would mark a victory for producers, which have seen prices slide to 20-year lows since the fund began considering selling gold to finance a debt-relief initiative

"If they do manage to sell to central banks, or if the sale is stopped, that would be positive for gold," said Frederic Panizzutti, head of strategy at MKS Finance in Geneva "It would mean an amount of gold that traders have been discounting would not come on the market, and secondly it would show there are still central banks interested in buying gold."

Gold for immediate delivery rose as much as $1,35 to $255,10 an ounce Yesterday, gold dropped to a 20-year low of $252,82 an ounce on concern about sales by government institutions, which collectively hold more than a fifth of all gold

The IMF might try to convince some countries to buy the gold to avoid flooding the market and driving the price down further, Alassane Ouattara, the IMF deputy managing director told USA Today, in comments confirmed by the IMF

Yet it is not clear which central banks would agree to buy the metal since several are planning to unload their own reserves The 3 percent decline in gold prices this month was largely the result of a 25-ton sale by the Bank of England

"An alternative IMF plan would not be everything, but it would be an important first step," Panizzutti said

The IMF's executive board last Friday re-affirmed its commitment to pursuing the gold sale, saying it hopes to conclude discussions before the end of September, when the fund holds its annual meeting in Washington

State bails out ERPM mine again

(214) ARG 17/7/99

BONTLE HEADBUSH

Johannesburg – Phumzile Mlambo-Ngcuka, the minister of mineral and energy affairs, said yesterday her department would continue to subsidise the East Rand Property Mines (ERPM) to the tune of R1,5 million a month, in order to avert its imminent closure

This would also mean that the jobs of the 5 000 workers who were facing retrenchment would be secured for some time

"As government, our commitment is to safeguard the welfare of the workers who have been the pillars of this mine," said Mlambo-Ngcuka

She said although the mine was still in serious financial difficulty, the department had decided to keep it operational beyond the initial period of one week, which ended yesterday, after negotiations with the National Union of Mineworkers (NUM) and the joint liquidators ERPM was placed in liquidation last week

Kanyo Gqula, spokesman for the mineral and energy affairs ministry, said the department would continue to subsidise ERPM until a suitable investor was found

The total amount spent on ERPM through government subsidies amounted to more than R450 million to date

Gqula said the department was looking not only for an investor who would restore the viability of ERPM, but also one who would take the workers into consideration

"We are already speaking to several potential investors, and it would seem that some of them have good proposals," said Gqula

NUM has welcomed the government's decision to continue subsidising the mine

Gwede Mantashe, the NUM general secretary, said the decision vindicated NUM's view that it was important to keep the mine afloat to avoid the social consequences of its closure

"A number of people had written the obituary for ERPM prematurely, but we have always expressed optimism that the mine was still viable," said Mantashe

This would be the third time that the government bailed out the mine in 10 years, after having come to the brink of closure both in 1993 and 1997 workers protesting

No, no, no, Tony Blair!

ep 18/7/99 (214)

By MALOSE MONAMA and SIMBA MAKUNIKE

SAVE OUR JOBS Thousands of mine workers swarm the British and Swiss embassies to demand that not another ounce of gold be sold by the two foreign governments The plans by Britain, Switzerland and the IMF to sell gold reserves have sent the gold price tumbling, and in the process threaten thousands of jobs on South African mines *Picture Mpho Mphotho*

IN AN unprecedented move in South Africa's industrial history, organised labour and business took to the streets in massive numbers yesterday to protest against the selling of gold reserves by Britain and plans by Switzerland and the International Monetary Fund (IMF) to do the same

An estimated 10 000 angry protesters – led by Congress of SA Trade Unions acting secretary general Zwelinzima Vavi, Chamber of Mines president Bobby Godsell and the chamber's chief executive Zoli Diliza – marched on the British and Swiss embassies in Pretoria

Among the protesters in this multiracial crowd were also mayors from Orkney and Welkom, two of the towns seriously threatened by the possible closure of their gold mines if the gold sales continue

National Union of Mineworkers secretary general Gwede Mantashe and Godsell spoke in one voice, urging the two governments not to sell another ounce of gold

Godsell said the Chamber had travelled to Ghana and Mali to get support for their cause and were well received

"It is our unquestionable objective to ensure that those who seek to sell off their gold reserves are made aware of the debilitation that will inevitably be inflicted on communities thousands of kilometres away," he said

Vavi had stinging words for "former colonisers and arrogant Britain" and Switzerland – "the small country in Europe which made its wealth by tucking away the wealth of notorious dictators of Africa and the world"

Vavi said the sale of gold reserves was having a devastating impact on developing countries

"I appeal to Tony Blair not to send any more of us to poverty and unemployment"

Vavi also announced that Cosatu members would form human chains and pickets around the embassies next Saturday

A memorandum condemning the sale of gold reserves was handed to Swiss ambassador Robert Mayor by NUM president James Motlatsi

"We believe that the action is reckless and irresponsible," the memorandum read

It further noted that since January 1997 about 103 000 South African miners had lost their jobs due to the falling gold price It said at least 70 000 mine workers could lose their jobs because of Britain's auction of 25 tons of its gold reserves

Britain's decision to sell its gold reserves caused the metal's price to plummet to a 20-year low

A few months ago the IMF announced plans to sell 300 tons of gold to raise about R12 billion to provide debt relief for poor countries.

The memorandum called on the British and Swiss governments and the IMF to suspend further gold sales, and said the IMF must come up with credible alternatives for debt relief

The government on Friday also backed down on massive retrenchments by parastatals

Transnet and Telkom last week threatened to lay off about 37 000 employees between them in order to save costs after suffering heavy losses

This week, after Cosatu and the NUM threatened go on potentially crippling strikes, Public Enterprises Minister Jeff Radebe announced that no decision had been taken on retrenchments by the two parastatals Cosatu says the government's Growth, Employment and Redistribution (Gear) strategy is behind the massive lay-offs It has suggested a rethink of Gear's fundamental approach

Cosatu says the government is obsessed with meeting Gear's targets, like trimming

■ Turn to Page 2

No, no, no, Tony Blair! (214)

■ From Page 1

the civil service and restructuring parastatals, even at the expense of the people's welfare

Economists interviewed by City Press said the government cannot afford the demands for a 10 percent increase requested by public servants and can also not afford the excess labour it employs

Econometrix economist Tony Twine said that with inflation hovering at seven percent, it was unreasonable to grant increments of 10 percent

"I am not sure they will achieve anything from their marches and threats

"The government is actually getting on with the necessary job of pruning the civil service early in its term of office so it won't have to carry over bruises of retrenchments into the (next) election," Twine said

The public service as it was currently constituted was "massive and not necessary".

"Cosatu's reaction is predictable They want to get as much as possible under the circumstances but in the end they are fighting to save jobs that have no work "

Another economist said Cosatu had left it until too late to confront the government over retrenchments

"They were part of the alliance that accepted Gear as the country's economic strategy"

Cosatu, this economist said, should now focus its energies on finding alternatives rather than taking people to the streets.

Twine said protests like the one held by Cosatu and threats of strike action would only serve to frighten foreign investors away.

SA is said to be 30 years behind the times in employer/labour relationships and in the hiring and firing of workers, Twine said

SA Chamber of Business chief economist Dr Ben van Rensburg said the issue of retrenchments should be separated

Those triggered by the crisis in the gold mining industry should be separated from those resulting from economic restructuring

He said the gold mine retrenchments should be avoided, if possible, because they will have disastrous implications for the economy Those resulting from restructuring were a "necessary evil"

The recently released 1999 Global Competitiveness Report shows SA slipping down five places to number 47 out of 59 countries surveyed SA was regarded as the worst performer in issues relating to labour

Said Twine: "These protests and threats by trade unions will only serve to confirm that."

MINING *ERPM chairman offers to buy mine three days before board votes to liquidate it*

Boss bids for doomed ERPM

CT (PR) 19/7/99 (214)

Jonathan Rosenthal
Commodities Editor

Johannesburg – A company owned by John Cockcroft, the chairman of ERPM's board, submitted a bid to buy the company out of liquidation three days before the ERPM board voted to liquidate the embattled mine

In the application for liquidation, ERPM's managing director, Ivan Vidulich, told the court that "there is nothing further that can be done to rescue the applicant (ERPM) from its financial predicament If the applicant is not immediately wound up, it will undoubtedly incur additional substantial losses to the detriment and prejudice of its general body of creditors"

In a letter written to the government and dated just three days before the board signed an approval to liquidate, Cockcroft proposed that his company would buy the mine once it was placed in provisional liquidation At the weekend Cockcroft phoned to insist that the letter was written only after the mine applied for liquidation and that the date was a secretarial error

He said the deal proposed in his letter was not going ahead but that there was a new proposal on the table for him to take over the underground sections of the mine

THE CRUNCH *Demonstrators meet riot police as miners and management protest in front of the Swiss Embassy in Pretoria against international gold sales, blamed for driving down the price of gold and causing job losses on mines such as ERPM* PHOTO AP

"Once provisional liquidation has been accepted by the courts immediately thereafter submit an application to reopen the mine on the grounds of flooding and industrial unrest In doing it in this sequence the liquidation and reopening takes place before the workforce is even aware of it thereby smoothing the transition," Cockcroft proposed in his letter

The letter says that his private company JC Gold would absorb most of ERPM's debts and re-employ roughly half of the 5 000 workers on the mine

Cockcroft also says in the letter that his company should be given ownership of the mine "in light of the amount of money and work which JC Gold Mine would of necessity be injecting into ERPM"

Last week Cockcroft said his bid could have created an impression of a conflict of interest, but said his lawyers had advised him this would not be a problem if there was no personal gain for him in the bid He also said the letter to the government also disclosed his involvement on the ERPM board

Cockcroft said the only reasons he had submitted the bid was to try to save jobs and ensure retrenched mineworkers received severance pay

"There is no money in this for me I won't get a cent out of it" he said He said if ERPM flooded then neighbouring JC Gold would also flood He said the mine could be saved through restructuring, which would not be possible without first liquidating it

Cosatu rails against IMF strategies

Frank Nxumalo (214)
Labour Editor

CT (BE) 19/7/99

Johannesburg – Cosatu at the weekend rejected the intention of the International Monetary Fund (IMF) to sell 10 percent of its gold reserves as a trade-off for scrapping Third World debt

Cosatu said there would be increased poverty in Third World countries if they stuck to IMF conditions for debt relief, and it was the IMF's conditions and high interest repayments that were mainly responsible for landing these countries into their economic state

"Talk of the sales has already led to a drop in the gold price to its lowest in 20 years Many of the countries the IMF claims to help are gold producers who depend on gold sales for their foreign currency," said Mukoni Ratshitanga, the Cosatu spokesman

Ratshitanga said Cosatu equally rejected the IMF's conditions of wholesale privatisation, leaner civil services and the reduction of state spending placed on these countries However, the labour federation generally welcomed the decision by Group of Seven countries to scrap debt owed to them by the poorest countries of the world

SACP supports efforts by the state to halt gold sales

(214) BD 19/7/99

THE SA Communist Party (SACP) expressed its backing yesterday for government's efforts to fight England s open-market gold sales which could result in thousands of job losses in SA

The SACP s general secretary Blade Nzimande said the organisation believed that while government had initially been slow to move on the proposed International Monetary Fund (IMF) gold sales, it welcomed last week's much firmer cabinet position on the sales

Nzimande and fellow executive committee members, including chairman Jeremy Cronin, addressed a media conference at the end of the organisation's two-day central committee meeting

Welcoming the IMF's decision not to sell gold on the open market, Nzimande said the SACP believed this was an indication that active campaigning could have some effect

"We condemn the ill-considered Bank of England sales and express support for current initiatives to lobby European central banks," he said, noting that some central committee members were already actively involved in the process

He also said the SACP was not persuaded that the East Rand Proprietary Mine was no longer viable The mine was granted permission by the high court for provisional liquidation earlier this month

The mine went into the red in May when the Bank of England announced it would sell 415 tons of 715 tons — 60% — of its gold reserves sending the gold price down

"Along with the National Union of Mineworkers, we are not persuaded that this mine is no longer viable, and welcome government's initiative to try and find a new management for the mine, since government strategic supervision of future operations must be maintained," he said

Regarding Transnet and other parastatals, the SACP believed that, over the past five years, the potential developmental resources of key parastatals had been squandered

"Rather than seeing parastatals as 'cumbersome and bloated white elephants we should seek to privatise as rapidly as possible, we need to understand that key public utilities are absolutely critical to our developmental vision," the SACP leader said —Sapa

Thousands march in gold sale protest

(214)

By Mzwakhe Hlangani
Labour Reporter

A TOP LEVEL delegation from the mining industry, including employers and labour movement leaders, led a march by an estimated 6 000 mineworkers who called on the British High Commissioner and Swiss embas sador in Pretoria at the weekend to demand an end to gold sales by developed nations

The British government, which has been firm in its decision to continue with the sale of gold despite the disastrous social and economic effects this had on developing countries, was told in no uncertain terms "to stop its arrogance and recklessness" and to heed to its social responsibility towards its developing former colonies and member states of the Commonwealth

Chamber of Mines president Mr Bobby Godsell, who joined in a human chain with Congress of South African of Trade Unions leadership in the protest march, spelt out how the depressed gold price had impacted negatively on gold producing countries and the lives of millions of people

He called on the British and the International Monetary Fund to suspend ther sales of gold and support the call for other alternatives for debt relief

The march was organised by the National Union of Mineworkers to show the IMF, Britain and Switzerland that their decision to sell gold spelt financial and social disaster for millions of workers in gold-producing countries

Cosatu acting general secretary Mr Zwelinzima Vavi warned that the labour federation would do everything possible to put pressure on Britain, Switzerland and IMF to stop the sale of gold "as our economy is bleeding and is trapped in an unemployment crisis"

British high commission first secretary Mr Andy Pearce acknowledged the frustrations and concerns shown by the people of South Africa and said the commission would ensure that the message received the attention of relevant decision-makers Swiss ambassador Mr Robert Mayor said Switzerland had no intention to sell its gold reserves in the immediate future, pointing out that it was not in the interest of the country to do anything that would place the livelihood of people in jeopardy

Bosses, workers learn to toyi-toyi together

(214)

Reneé Grawitzky

THE joint march by mining bosses and unions in Pretoria on Saturday to protest against the sale of gold by Europe's key central banks was taken as seriously by mining bosses as by their workers

On the eve of the march, hectic preparations were underway in executive suites across the mining industry — from T-shirt printing, banner making to learning the toyi toyi and the accompanying protest songs

Anglogold's corporate head office in Johannesburg came to a near standstill on Friday afternoon as executives learnt the fine art of the "toyi toyi"

An industry insider was heard saying that his father, who was politically to the right of Genghis Khan, would turn in his grave if he knew his son was taking part in the march

At the Chamber of Mines, preparations were also under way to ensure last-minute T shirts, blazing "We dig gold — We do it underground", were ready

Final food preparations were also taking their toll on the already stretched head office staff who had their first bash at organising a march

The day of the march loomed with Anglogold CEO Bobby Godsell and National Union of Mineworkers president James Motlatsi just able to make it to the starting point as they flew in from their lobbying trip to London

BD 19/7/99

Godsell, with no time to shave managed to grab his wife and children to join the march

The march was not only a new experience for white executives or head office staff, but also for miners who had never marched next to shift bosses or mine managers

Some labour analysts hailed the march as a significant step towards creating national unity

Godsell says that assessment may be too grand but the march did represent a change in the quality of labour relations Its significance, he says, lies in the fact that in a crisis South Africans were learning to pull together This did not mean conflict would disappear from the employer-employee relationship

Godsell also says the current strike over retrenchments at Gold Fields' Oryx mine in the Free State is a clear indication that differences still exist and conflict over retrenchments will continue,

Industry observers say mining — which had adopted the harshest forms of apartheid legislation — could help create a new national identity as SA questions the decisions of leading economic nations

Godsell says the campaign against gold sales, stripped of all else, is about determining the rules of fair trade

During the visit to London, Godsell and Motlatsi were asked what right they had to go to Britain to lobby against the governments' decision to sell gold reserves

Godsell said the time had come to determine whether developing countries are actually part of the international community "Is Africa there to add colour to cocktail parties?"

JC Gold's ERPM rescue plan collapses

(214) CT (BR) 21/7/99

Jonathan Rosenthal
Commodities Editor

Johannesburg – The only firm bidder for ERPM, the embattled mine put into provisional liquidation two weeks ago, has withdrawn his offer, throwing into doubt the future of the 5 000 employees on the mine

John Cockcroft, the chairman of ERPM and managing director of JC Gold, said yesterday he had withdrawn JC Gold's bid because he was unable to get labour to agree to the radical restructuring required to turn around the mine

"I met with all four unions Three supported the changes and one union said they wouldn't accept it I'm not interested unless I've got the support of everybody on the mine "

He believed the mine could still be saved, but restructuring and retrenchments would be needed

Previously he said about half the 5 000 jobs at the mine could probably be saved and he was willing to take over the underground sections of the mine

The remaining assets, including the surface recovery operations, would have been sold by the liquidators

But labour and government sources said the key reason that labour had rejected Cockcroft's proposal was the revelation that earlier this month he had proposed putting the mine into liquidation and then buying it himself

"Workers knew about this letter (making the proposal) and thought this was an elaborate plot to sell them down the river, so of course they weren't going to accept a single retrenchment," said one labour source

Labour sources also said the issue of retrenchments had not been raised with unions before the mine was put into liquidation, which posed questions as to whether management had explored all options before applying for provisional liquidation

Jan Bredell, a deputy director general in the department of mineral and energy affairs, said the withdrawal of Cockcroft's bid was a blow because it was the only proposal that would have addressed the government's concerns of job retention, packages for retrenched workers and the acceptance of environmental rehabilitation liabilities "It was very unfortunate, but I can't say I blame him (Cockcroft) under the circumstances," Bredell said

Bredell said there were no other bids on the table but he would be meeting potential bidders today and was also expecting proposals by fax

He said the liquidators had informed the government that the mine's production and productivity had improved, raising a possibility that the liquidators would keep it running beyond Friday

"They are running it on a week-by-week basis, hopefully before Friday they will decide to extend it for another week "

He said the government was still looking for a sustainable solution to keep the mine open

It is understood the National Union of Mineworkers (NUM) has commissioned an investigation into alternatives at the mine

A source said initial indications were that the mine could still be run profitably without any retrenchments The report, understood to be with Gwede Mantashe, the NUM's general secretary, would be given to the government and liquidators today

NUM and state to discuss joint approach on ERPM

ET (MR) 22/7/99 (214)

JONATHAN ROSENTHAL

Johannesburg – The National Union of Mineworkers (NUM) and the government would meet today to consider a joint legal approach to oppose the final liquidation of ERPM, the embattled mine put in provisional liquidation two weeks ago, both parties said yesterday

Jan Bredell, a deputy director-general in the department of minerals and energy, said the government had met the NUM yesterday The meeting included a presentation on a report into the viability of the mine commissioned by the union

The investigation, conducted late last week by Peter Camden-Smith, an expert geologist, is understood to have found the mine could continue to operate profitably without any of the mine's 5 000 employees losing their jobs

It is understood that the liquidators initially refused to allow Camden-Smith on to the mine and relented only after the union threatened legal action

Bredell said a number of scenarios were sketched in the presentation, including the zero-job-loss option

"If that can materialise it's a first prize," he said

Bredell said the government was still doing its own calculations on the data, but hoped to be in a position today to decide whether it would join the union in a legal bid to oppose the liquidation "We are seriously attempting to reach common ground and take a common strategy forward "

Molefe Molefe, the head of the NUM's legal department, said the report vindicated the union's belief the mine's liquidation had more to do with management issues than with fundamental problems in the ore body

"We believe that if strategic management practices had been in place the mine need never have been liquidated," he said

The report and potential legal action raise several questions over the future of ERPM's management if the mine is taken out of liquidation. Bredell would not comment on whether the government, ERPM's largest shareholder, would press for the appointment of a new board if the mine was saved from liquidation

He said the board was legally obliged to apply for liquidation in light of the fact that they did not have cash on hand to cover their liabilities

Bredell had responded to requests for information from potential foreign buyers but had received no offers He confirmed Durban Roodepoort Deep, which bid for the mine before the provisional liquidation, had expressed interest in making another offer

GOLD INDUSTRY

THE VULTURES ARE CIRCLING

Hartebeestfontein gold mine is next up for sale (214) FM 23/7/99

Avgold flagship gold mine Hartebeestfontein (Harties) is up for sale as the collapsed gold price forces the final restructuring of the SA gold industry to get under way

But says Harmony CEO Bernard Swanepoel it s not just the SA mines that are under the whip — the North American producers are also taking severe strain

"The international producers particularly the North American mines, have no place to hide any more" he says "They sit with plenty of debt and are rapidly using up their hedge books

"The fun is about to start soon and it will not just be the postponement of planned expansions There will be some real and painful rationalisation of operations"

The postponement Swanepoel is referring to was announced last week by Canadian major Placer Dome, which has suspended construction of the Las Cristinas gold mine in Venezuela "due to changed gold market conditions and lower prices which have created greater uncertainty about the future"

The suspension defers capital expenditure of about US$500m (R3bn) and postpones gold production of 530 000 oz/year

Avgold this week issued a terse statement that it was considering proposals for the sale of the Hartebeestfontein division, but Avgold chairman Rick Menell declines to add any details

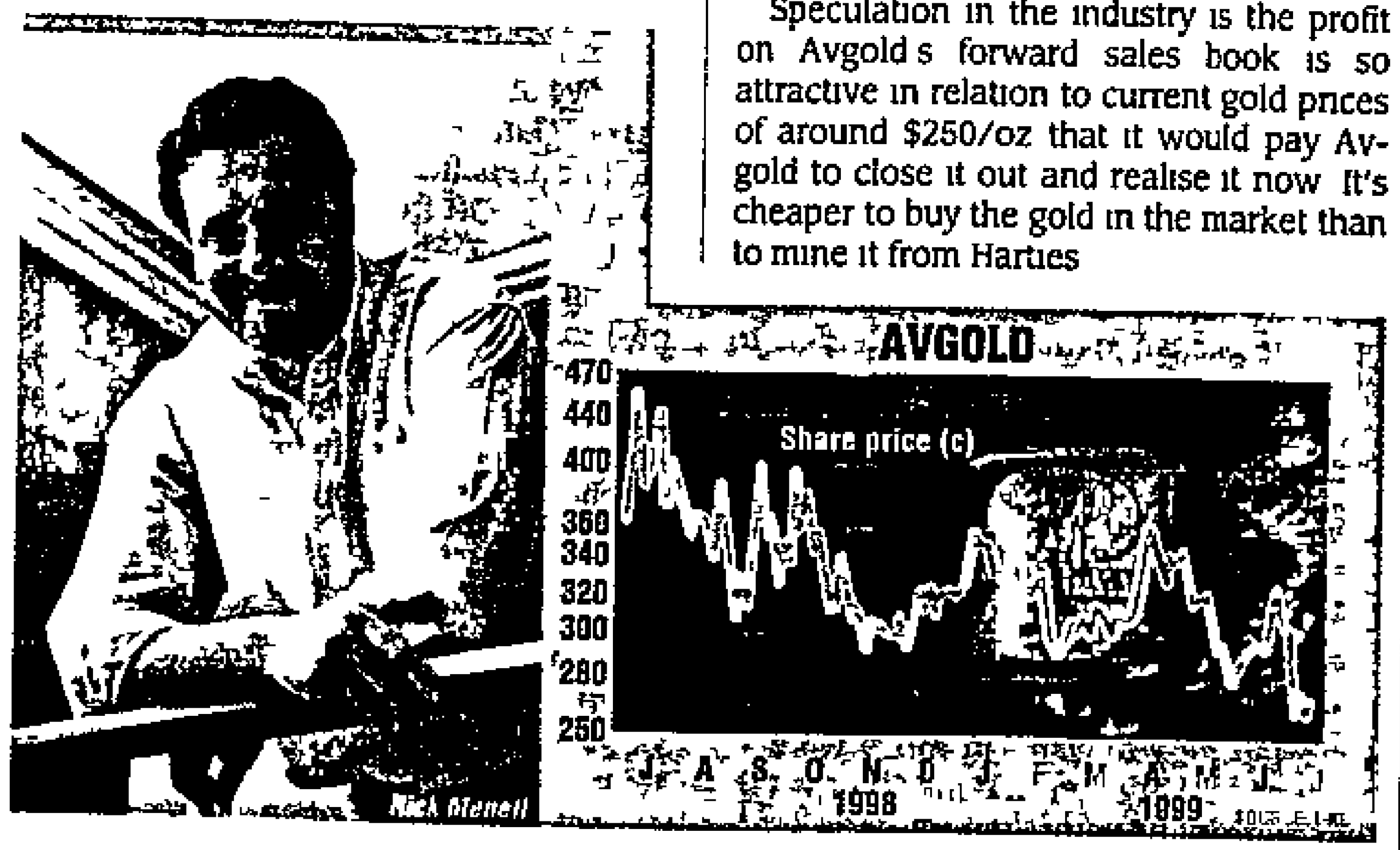
The mine is one of the highest-cost producers in the SA industry, reporting cash costs of $291/oz and total costs of $328/oz during the March quarter

Avgold management's strategic approach has been to try to keep Harties cash-positive and contributing funds to the development of the Target mine in the northern Free State on which the company's future depends

Avgold entered into a hedging programme to sell forward a total of 38 t (1 2m oz) of gold up to end-June 2002 at prices ranging from $341/oz this year to $409/oz in 2002

The bulk of that gold would come from Harties, which is by far Avgold's largest producer accounting for 77% of the company's total gold production of 26,6 t for the year to June 1998

Speculation in the industry is the profit on Avgold s forward sales book is so attractive in relation to current gold prices of around $250/oz that it would pay Avgold to close it out and realise it now It's cheaper to buy the gold in the market than to mine it from Harties



Rick Menell

Avgold could realise the expected profit on its gold forward book rid itself of the problems in trying to run Harties and pull in additional income from the sale of the mine to one the gold companies that believe they can run it better

Avgold spokesman Julian Gwillim declines to comment on the value of the Avgold hedge book

The main candidates to take over Harties are Durban Roodepoort Deep and Petra Mining (Petmin) Durban Deep chairman Roger Kebble has dropped hints over the past year that he would like to buy Harties.

Petmin controls all the mines on the Far East Rand including Grootvlei Consolidated Modderfontein and Nigel. It also mines sections of Harties on contract basis

Harmony is another candidate but Swanepoel indicates Harties is not one of his first-choice acquisitions He would prefer to get control of further operations in the Free State, which he describes as Harmony's "happy hunting ground"

At this week's quarterly press conference, Swanepoel and Harmony financial director Frank Abbott made it clear they expect further restructuring in the Free State and are holding back cash to take advantage of it

"If you look at our track record, it has been a successful one of growth through acquisition and we think this will continue" says Abbott

At end-June, Harmony held cash and short-term investments totalling R310m compared with R268m at the end of the March quarter

But even Harmony is not immune to the pain the gold industry is feeling At a gold price of R50 000/kg ($253/oz at current exchange rates) Swanepoel says, some of Harmony's Free State shafts, such as Brand 2 and 3 will have to cut back on production This will be replaced by greater output from Evander

The accounts show a net write-down of R89 6m as an "impairment charge" in terms of IAS accounting practice against the value of certain mining assets in the Free State

Brendan Ryan

ODM/NAMCO/TRANS HEX/BENCO

GRINDING IN GRIDLOCK

There's no obvious solution

A temporary lull in deliberations over the future of Ocean Diamond Mining (ODM) does nothing to detract from the stalemate the protagonists have got themselves into

Namco chairman Alistair Holberton is on holiday in Italy and Trans Hex MD Neil Hoogenhout has gone back to Toronto

The next key date is August 18 when ODM holds its annual meeting That could see fireworks over the appointment of the new board unless Namco and Trans Hex agree on a workable formula before then

Namco has 34 6% of ODM, Trans Hex has 33,6% and Pepkor chairman Christo Wiese holds 17%

There are various options to resolve the impasse over who gets ODM but they all run into solid obstacles

Namco or Trans Hex could back down and sell their shareholding to the other but that seems highly unlikely

There s just too much money strategic considerations and corporate ego at stake

Either Namco or Trans Hex could strike a deal with Wiese but there is a serious drawback

Such an arrangement would leave ODM with a hostile minority shareholder owning more than 30% of the stock and therefore able to block important business decisions such as rights issues and future mergers

The other suggested way out is to combine everything into a larger entity taking in ODM Namco, Trans Hex Benguela Concessions (Benco), Diamond Fields International (DFI) and Tokyo Sexwale s Mvelaphanda Diamonds (Mvela)

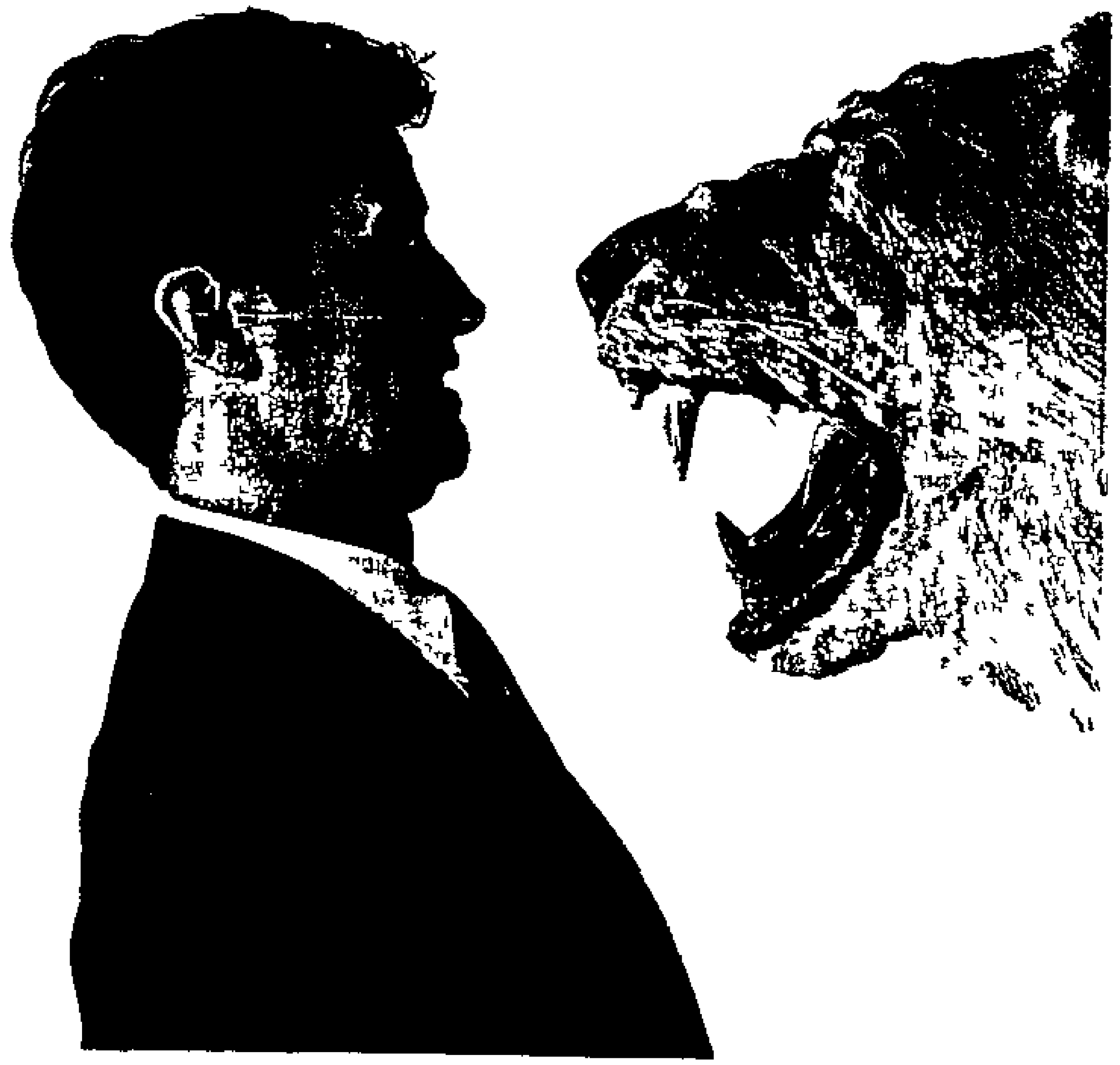
That s not as far-fetched as it might appear Mvela and Trans Hex have already teamed up to take an option on Benco And if the ODM/Trans Hex merger had taken place it seems the next strategic moves would have been to go after DFI and Benco

But there are huge problems the first being where the various executives would slot into the new structure These are all people who love their independence and there are sharp differences in culture.

The next is the basis on which such a merger would be carried out, because Trans Hex is unlikely to agree to do it on market capitalisation

Namco, listed on Nasdaq has a market cap of around R869m Trans Hex's is only R330m courtesy of the JSE

Brendan Ryan



MAIL & GUARDIAN
July 23 to 29 1999

There's still hope in Harmony

(214) M+G 23-29/7/99

Despite the plunging gold price some mines still have hope for the future **John Matshikiza** *reports from the Free State gold fields*

Drilling for the future It's hot and hard work in the Harmony mine but at least these workers still have jobs Charles Richmor (left), who has run the Harmony Hotel for 30 years, has seen business fall away recently, but it is still a good place to live PHOTOGRAPHS RUTH MOTAU

The small Free State town of Virginia has had its share of knocks in the roller-coaster ride of gold prices over the years Like the neighbouring town of Welkom it began its great period of growth after the discovery of exploitable quantities of gold ore in 1950

Virginia and its sister town of Harmony never grew to the size of Welkom, with its strange 1960s glamour of shopping malls and stone faced insurance buildings It remained containable not much more than a village – with the obligatory additional black village the township of Meloding on its outskirts

In the current climate of uncertainty, Virginia could survive while Welkom totters over an uncertain future Virginia could outlive Welkom because it does not have so far to fall

Before gold fever struck Virginia stood in the midst of farm lands It was on a farm called Harmonie that gold digging began in earnest in the early 1950s Like the farm De Beers in the Northern Cape the farm gave its name to the company that was to exploit the riches beneath its soil Harmony Gold Mining

Today the name Harmony gives off a surprisingly optimistic ring The town, and the mine stand for the possible beginning of a new kind of harmony in a small corner of South Africa

Not that Harmony is out of the woods. The reality is that if the gold price continues to tumble even the success story of Harmony could turn from fairy tale to nightmare

It is something of a fairy tale at the moment because the company, now independent of its parent company, Rand Gold has always been one of the smaller players in the glamorous world of gold mining. Now, while the big guys like Anglo Gold are shutting down mines and getting out of the Free State gold fields, Harmony is happy to buy them out, and find ways of making the seemingly unpromising gold reserves profitable

But only just No amount of magic can change the fact that gold mining like any other area of business enterprise, is about systems, balances and the marketplace There is no such thing as alchemy

Harmony survives because it is a lean machine Like other mines, it happily rode the boom of 1980, when gold hit the record price of $850 an ounce Of course other factors helped make those prices outrageously profitable. The black mine workforce was cheap and relatively docile — the big upheavals of the late 1980s were still to come.

South Africa, relative to other gold producers like Ashanti in Ghana, has always had low yielding gold seams. Exploitation depended on the availability of cheap and plentiful labour Turning the system on its head was bound to have a seismic effect

But as Harmony's chief executive officer Bernard Swanepoel says, from the time of the lifting of legal restrictions on the advancement of black miners, the company decided on a policy of development of its workforce, albeit a little late in the day.

Today, he says, the culture of the company is built around the belief that each of its 10 000 employees on the mine (slimmed down from a chubby 45 000 in the last five years) is part of a team whose individual members have a shared stake in their own survival — both literal and financial

That ethos, together with a cost-efficient; state-of the-art technical environment, are the factors that give Harmony its edge in the tough landscape of Free State gold mining

Harmony's number four shaft is one of the newer shafts. It is 17 years old It is not a high yield shaft, but has given up its fair share of the 39-million ounces Harmony has produced in the past 50 years.

That kind of output comes at a price. Each ton of solid rock that is hauled to the surface yields only 3 5g (less than a 10th of an ounce) of gold To make those kind of figures make business sense, Harmony four's workforce of 960 men has to pull out 48 000 tons of ore every month

How they do it is something to behold

At 5am, in the darkness before dawn, the shift gathers at the mine head and dons its protective clothing — something of an overstatement, because the less you wear 1,5km under the ground, the more comfortable you are

There's a permanent tropical heat and humidity down there, and the men each spend an average of eight hours and 20 minutes on a shift, doing dirty, back breaking work A hard hat, a G-string and a pair of steel-capped boots would be ideal, but for the sake of cleanliness and decency the men wear sweat-catching overalls as well.

The smarter ones also wear protective knee pads, and sometimes leather aprons worn back to-front to protect the buttocks from the sharpness of the splintered rocks they work among all day.

To get to the level we visited, at 1 100m, you enter a cage attached to a very reliable-looking steel cable, and disappear into the earth The cable is one of a twin set that governs the traffic of men, ore and mining materials into and out of the mine. As one cage descends, the other comes up both travelling at a speed of 68kph — more than a kilometre a minute.

Standing at an intermediate level, waiting for our lift to arrive, we hear the cage that is travelling in the opposite direction approach, and watch in amazement as it shoots past us like a rocket disappearing into outer space Except that the outer space down here is solid rock.

So the hoist driver, a huge Afrikaner with an ashtray overflowing with just used Gunstons, who monitors the lift-calls by a series of coded bells and the help of the computerised console in front of him, sends us hurtling downwards

The cage is narrow and functional. There are no benches and no handles to hold on to As we pick up various groups of miners at different levels on the way down, they laugh among themselves at the wobbly sea legs of the newcomers. This is their world and they ride the cage like rodeo champions, totally at ease

The white miners greet each other warmly in Afrikaans, immediately engaging each other in animated conversations about what's going on in the mine The black miners stand quietly in the corner, saying nothing. This is the legacy of mine culture that will still take years to break down

The uniting factor is fanagalo Even though it is a lazy mockery, made up mostly of simple Zulu and Afrikaans words strung together without grammar, it is a subterranean *lingua franca* that serves

The white miners use it unconsciously even when they speak among themselves One of the miners describes a recent mine accident to another, ending with the sentence *Ek hoor Boesman en die ander ou zonke twee het tshonile* (I hear Boesman and the other guy both of them died) '

At the bottom we march another kilometre before we reach the rock face moving awkwardly down the curving passages stumbling between the rail lines the pools of grey water, and the tunnel wall Black and white miners go scurrying past us, sure-footed as cats in the dark, in spite of being bent double in the increasingly narrow tunnels

We reach the din of the rock face at last, too awed to be afraid A row of men, black and white, are drilling into precise spots marked with red paint slicing away with the delicacy of electric carving knives carving the Sunday joint

Here at last, is the meaning of it all Pieces of black rock lie all around under our feet, waiting to be sent to the surface Out of these unpromising shards comes the stuff that makes wedding rings and bullion bars

Back up on the ground, life goes on as usual in Harmony and Virginia People are concerned, because another fall in the gold price could change everything

Charles Richmor, who has run the Harmony Hotel for 30 years is not too happy because business has fallen away in the last few years With things running as tight as they are on the mines, there is very little business for the sales reps, who used to be the hotel's main clientele, to visit the area Large hotels are becoming redundant

But Harmony has been good to Richmor and his family and even if they don t manage to sell the hotel in the near future Harmony is still a pleasant place to live

The future is not certain, but why worry about something you can't change? Virginia and Harmony prefer to take the bright view, and live by the belief that gold like love will always be around

Union proposal may save mine from liquidation and job losses

NUM, state to join forces over ERPM

ET(BR) 23/7/99 (214)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – The government and the National Union of Mineworkers (NUM) agreed in principle late last night to jointly oppose the liquidation of ERPM, the cash-strapped mine that was provisionally liquidated earlier this month, in the belief that the mine could be turned around, sources close to the process said

Sandile Nogxina, the director-general of the department of minerals and energy, said the government met NUM officials and the liquidators to discuss a rescue proposal put forward by the union to save the jobs of 5 000 employees on the mine

Yesterday's meeting came after talks on Wednesday at which the NUM presented the government with the findings of a study it commissioned into the viability of the mine The study, conducted by Peter Camden-Smith, an expert geologist, is understood to have found that the mine could be saved without job losses

"According to the advice we have received the mine may be turned around," Nogxina said yesterday

But he said the government still wanted answers on several technical aspects of the plan as well as the legal technicalities of opposing liquidation "We don't want to agree with a plan if we are not sure it will work "

He said meetings between the union and government were now continuing to iron out these issues The government wished to resolve the matter before the mine's final liquidation hearing before the Johannesburg High Court on August 17

Molefe Molefe, the head of the NUM's legal department, said the discussions were now focusing on the details required to bring the mine back into normal operations and avoiding liquidation

He said the zero-job loss scenario was still the preferred option "And it doesn't look like it's that far fetched "

It is understood that one of the potential stumbling blocks will be bringing smaller creditors on board

"If we apply to take it out (of liquidation) and they don't feel the plan will make it possible for them to recover (money owed to them) they will oppose it We are looking for a structure that will cater to all interests," said one source

Reuters reports that a spokesman for the liquidators said the mine would be kept running for another two weeks without any reduction in the work force The liquidators reportedly said they had not received any firm offer to buy the mine but were talking to several interested parties

It is also understood that if the rescue plan is accepted, the government, which is ERPM's largest shareholder, and the NUM would press for the appointment of a new board of directors

"There was no problem with the technical management of the mine The problem was with the executive management," said one government source

In its application for liquidation the mine said it was incurring losses of about R261 000 a day An affidavit filed by Ivan Vidulich, ERPM's managing director, said the board had done everything possible to ensure the survival of the mine and if it was not wound up immediately it would incur additional losses

He said gold production had fallen from an average of 432kg a month to 347kg in May and 386kg in June He did not provide reasons for the fall in gold production or indicate what steps the board had taken to cut costs

□ Business Watch, Page 2

Gold Fields defers retrenchments after talks with the NUM

FRANK NXUMALO

Johannesburg – Gold Fields yesterday suspended its retrenchment programme indefinitely, after high-level talks between Tom Dale the managing director of Gold Fields, and James Motlatsi the president of the National Union of Mineworkers (NUM) the union said

The union said in view of the agreement, its head office had advised both the Free State region and Oryx branch committee to suspend the strike

The union would hold its first discussions aimed at finding lasting solutions on Monday

"We welcome this approach as it will give both parties space to come up with innovative ideas said Gwede Mantashe, the general secretary of the union [illegible] industry can [illegible] with a positive programme aimed at servicing the industry, and thus save jobs "

Mantashe said the union was committed to a programme of making the South African public and the world aware that mining was "life today and tomorrow

[illegible] 1000 NUM members had been on strike at Oryx since July 15 after retrenchment [illegible] state of 900 colleagues deadlocked

"The South African gold mining industry is under severe attack from the low gold price, and we cannot at this stage afford to have such divisions within the industry This is the spirit in which the meeting took place, Dale said

Long-term view shows gold's value

Holders of the yellow metal will decide its future based largely on its value as a store of wealth, writes Anglogold CEO **Bobby Godsell** (214) (79) BD 27/7/99

Graphic Matthys Moss Source I-NET BRIDGE

IT IS unusual for a British treasury decision to "rebalance" its reserve asset portfolio to become the centre of an international political controversy. It is curious when management and labour in SA join forces to lobby in Davos, Washington and London and even more curious when they take to the streets in Pretoria to march on the Swiss and British embassies.

Is this no more than a case of special pleading? Is this simply a whine of defiance from an industry that has outlived its shelf life? Has the gold industry worldwide run out of willing customers?

The problem with the industry does not lie in individual demand. Nearly 800-million individuals bought gold last year. They bought jewellery for adornment, they bought religious objects and they bought wafer bars and coins for investment. Fabrication demand for the first half of 1999 was 33% up on the same period last year.

Nor is the problem overproduction. Fabrication demand exceeded new mine production by more than 1 000 tons or almost 40% last year.

The problem is the extent of gold inventories held by national central banks and international organisations. These 33 000 tons have been acquired by these public institutions over the past 150 years. Much of this gold was acquired (and some is still held) at the low — and fixed — prices that applied in the two periods of international gold standard.

Today's two-decade low gold prices reflect a market expectation that most central banks are going to sell most of their gold in the foreseeable future. How realistic is this expectation?

The US holding 8 000 tons, Germany with 3 500 tons, France (3 000 tons) and Italy (2 500 tons) have all said repeatedly and recently that they do not contemplate any gold sales.

These are more than statements of present intent. Gold sales are most likely to be politically controversial for these four large gold holders. A change in intent would have to be preceded by a change in political climate.

The European Central Bank, which controls not only its own reserves but those of the European Monetary System with its 11 national central banks collectively holding 12 000 tons of gold, has indicated no selling in the medium term.

Who is selling gold? Canada has sold out all or almost all of its gold. Belgium and the Netherlands have sold roughly half their gold reserves as has Australia. Those currently indicating an intention to sell are the International Monetary Fund (roughly 300 of its 3 000 tons to fund debt relief), Switzerland (1 300 of 2 500 tons essentially as part of belatedly leaving a gold standard) and Britain (415 of about 700 tons by way of a portfolio adjustment).

Crucial to the future of the gold industry is this simple question: will most central bank gold be held or sold in the foreseeable future? In turn this question poses another: what is the role and purpose of central banks? What links these two questions is a third: has gold been a good investment for central banks in times past?

The answer to this third question is determined entirely by the period of time in which it is answered. The price of gold has declined since 1980/1. It is this particular time period that is most frequently used to demonstrate gold's fall from grace.

An investor who purchased any gold since 1980/1 is out of the money today. If the time period is pushed back a decade as gold was escaping the $35 fixed price, the picture is very different. Indeed the more long-term picture is very different.

The crucial nature of time periods is illustrated by the experience of the Bundesbank. Established in 1951, the German central bank invested its reserves in both gold and US treasury bonds. Gold has had the better performance over this period.

Yet returns over time do not tell the whole story. A central bank is more than an investment institution.

Its mandate extends to providing stability and enhancing sovereignty in bad times as well as good.

Isabelle Straus Kahn, deputy governor of the Banque de France, pointed out in a recent speech that the French have had to fall back on their gold reserves in two world wars. Each time these reserves have been all but depleted. Each time the nation has had the foresight to rebuild these reserves to four-figure levels measured in tons of gold.

As Alan Greenspan, chairman of the US Federal Reserve, recently pointed out, gold is money of last resort.

This was the British experience in 1940 when that country's gold reserves (4 000 tons at the time) served as collateral for the purchase of US military equipment. The US was precluded by its neutrality act from providing a European war belligerent with war supplies on anything but commercial terms.

Italy and South Korea have seen the value of gold reserves in much more recent times. In South Korea as recently as 18 months ago the government mobilised an astonishing 250 tons of gold from its citizens to both retire national debt and rebuild reserves.

India is now busy with a similar programme. China and Russia have been recent purchasers of gold for their national reserves. No doubt the idea of reserves denominated exclusively in dollars, yen or euros is not entirely satisfactory.

There seems no chance of the four big national holders (the US, Germany, France and Italy) selling. There is little likelihood of any European Central Bank gold sales. Most other holders of gold within the Organisation for Economic Co-operation and Development have already sold. The jury on gold in emerging market economies is still out. History certainly has rewarded gold holders for millennia before any gold standard existed.

In the present crisis gold producers have no greater claim on protection than the producers of any other goods or services. Producers are not seeking price support, tariffs or quotas. On the contrary they have been particularly active — especially through their collective organisation, the World Gold Council — in seeking marketplace deregulation.

In central banks and international organisations like the International Monetary Fund and the Bank for International Settlements, gold producers confront an inventory much greater than that of any other product. Central banks are neither conventional commercial nor wholly political institutions. Their mandates generally include long-term monetary stability and preservation of national sovereignty.

Speculators and traders (as legitimate a part of the gold market as any other) have made money in the past decade in betting that most central banks will sell most of their gold. Many producers believe they are wrong. In the end only the holders can decide.

They will be the judges as to whether we are at the end of history. Will deflation continue forever? Are the great discontinuities of history finally at an end? Those who have held gold in large quantities — not for its return but as a store of value in times of distress — must decide.

A final feature of the great gold debate is the changed character of gold production. For much of the 20th century the world had two great gold producers. Largest by far was SA, blessed with the richest and largest region of gold mineralisation. Second was Russia.

Many developing countries are gold producers today. More than one-quarter of the 41 Highly Indebted Poor Countries are significant producers of gold. They more than anyone need to know whether they are basing their future on a sunset or a sunrise industry.

Gold brings labour and capital closer together

(214) Sowetan 27/7/99

By Ido Lekota

THE current international gold crisis has done the unthinkable – it has brought labour and capital closer as they ponder the future of the South African gold mining industry

The *toenadering* saw Chamber of Mines president Bobby Godsell marching side by side with avowed socialists like Congress of South African Trade Unions acting general secretary Zwelinzima Vavi

Their march in the streets of Pretoria was part of a campaign by the Chamber of Mines and the labour movement to dissuade the British and Swiss governments from continuing to auction their gold reserves

The campaign also saw Godsell and National Union of Mineworkers (NUM) president James Motlatsi travelling to Britain to address the British parliament and to lobby labour leaders and opposition groups

Since the British government announced that it would sell off its gold reserves, the metal's price has dropped by $30 (about R180) an ounce – throwing the South African gold industry into a tailspin

Already 5 000 workers at East Rand Proprietary Mines in Boksburg face retrenchments after the mine was granted a provisional liquidation order

Negotiations are also currently under way between NUM officials and the Oryx gold mine in the Free State, where 900 miners are to be retrenched

Nine other gold mines have indicated their intention as well to apply for liquidation because of the low gold price, with the possibility of more than 100 000 miners in total losing their jobs

So far the British government has stuck to its guns about selling off its gold reserves Other European countries, the United States and the International Monetary Fund have also made similar announcements

The South African Government has joined the fray The Ministry of Energy and Minerals led a joint campaign recently, with other gold-producing African states, to highlight the impact of the sale of gold reserves on the economies of developing countries

The decision by many Western countries to sell off their gold reserves is of course driven by self-interest British prime minister Tony Blair said the decision to sell the reserves "was based on sound financial advice"

As a country highly dependent on the gold industry, the question for South Africa is how it will survive the gold crisis

Recently NUM deputy secretary Archie Phalane projected that at least 100 000 jobs could be lost in the mining industry by the end of this year if the crisis continues

Given that the industry draws much of its workforce from the poorest and most rural communities – with miners supporting extended families – this could put the survival of at least a million people under threat

What is the way forward to ensure the continued employment of those facing the threat of losing their jobs and to alleviate the current level of unemployment in South Africa, currently estimated at 30 percent?

The NUM argues that mining bosses should be prepared to involve the union as social partners in joint strategising, for example, on the impact of technology on the industry and its rationalisation

However, according to Phalane management normally involved the union only when the mines were already marginalised and in a crisis

Labour has called for the Labour Relations Act to be amended so employees are not only expected to consult unions on the decision to retrench but to actually negotiate with them

For economist Azar Jammine, however, the short-term solution is for management and the unions to negotiate wage cuts in the affected mines, in the hope that the gold price will stabilise "Such wage cuts should be across the board, including senior management, and there must be a body monitoring the bosses' salary cuts," said the head of Econometrix

Jammine argued that closing mines may not be the most cost-effective decision "because retrenchment packages are costly and it will probably be more expensive to reopen the mines after the gold situation has stabilised"

However, other experts such as independent investor Majakathata Mokoena believe South Africa should look at alternatives to being a country dependent on gold The reality of the situation, he argues, is that gold is losing its edge as an investment

According to Mokoena, South Africa has the option of becoming like other gold-producing countries such as the United States and Australia, which have developed manufacturing sectors

He believes South Africa has the capacity to develop a hi-tech manufacturing sector "South Africa has proved its prowess in this regard by manufacturing one of the most capable military helicopters, the Rooivalk," he said

On the other hand, there are also those who believe that South Africa can improve its lot by not only exporting raw gold but manufacturing gold products

As it is, we export raw gold to Europe, which then sells gold products back to the country at exorbitant prices

The process of adding value to the metal is a long-term venture and needs specialised skills.

It therefore requires a commitment from business, labour and Government to nurture such a venture

GOLD MINING

Crisis calls for teamwork and compromise

CT (MR) 29/7/99 (214)

KATERINA NICOLAOU

Like an infernal see-saw, the dropping gold price pushes up unemployment and poverty in our country

As the gold price plunged to $254,65 an ounce last week, the Chamber of Mines and the National Union of Mineworkers warned that up to 80 000 mining jobs could be lost

The crisis has hit our economy at an unfortunate stage Aggravated by low growth, the economy has been shedding jobs at prodigious rates

If, as stressed by the Reconstruction and Development Programme and the Growth Employment and Redistribution strategy, the state has a duty to eliminate poverty, foster sustainable job creation and aid economic growth, then we have to ask what should it be doing in the gold mining sector? What are the options?

The average socioeconomic cost of retrenching a miner is about R83 000 a year in 1998 prices This estimate is based on the assumption that of those miners who are expected to be retrenched, 85 percent are semi-skilled and only 15 percent are skilled It includes the immediate direct and indirect social effects associated with retrenchments

The average social cost measures the social burden associated with the loss in the miner's consumption expenditure that supports business and creates demand, lost tax payments, burdens associated with foregone remittances that support dependants, health, welfare infrastructure, crime and other social service burdens

This social cost is four times the actual salary paid to a semi-skilled miner If the retrenchments affect the skilled miners in proportions greater that 15 percent, then the average annual social cost starts to rise If a skilled miner earning R3 000 a month is retrenched then the average social cost is in excess of R144 000 a year in 1998 prices

Part of this social cost includes the impact of migrants on the economy Migrant workers remit about 60 percent of their income back home A large part of that money supports South African exports of goods and services to those home countries

About 47 percent of mineworkers in South African gold mines are migrants 26 percent are from Mozambique, 54 percent from Lesotho Retrenching migrant miners affects South African exports as well as the economic climate in those countries

The closure of East Rand Proprietary Mines (ERPM) and the likely loss of 5 000 jobs will cost our economy a minimum of R415 million a year in 1998 prices If we consider that 80 000 miners could lose their jobs, the immediate effect would be a loss of an annual R6,6 billion to the economy

South Africa can hardly afford such a blow to its economic development There is a strong case for a state strategy to assist troubled mines But what exactly could this entail?

One option would be to continue 'conventional" support such as a favourable gold mining tax regime and a water pumping subsidy allocated to eligible marginal mines But this option leaves us exactly where we are today, in the thick of the gold crisis

On the other hand a tripartite response involving government, business, and labour could be cobbled together, with each stakeholder bringing various compromises to the table

An appropriate state compromise could take the form of a wage subsidy for mineworkers on marginal mines, to be limited to 30 percent of the average mining salary

As a compromise from business, the Chamber of Mines should accept a new legislative measure that prevents employing subcontractors when demand increases Formal employment promotes job security and health, pension and occupational safety benefits

The compromise from labour would be to allow for Sunday blasting, which was legislated against over a century ago

No other mining country is prohibited from blasting on a Sunday If we include public holidays and Sundays, about 90 production days are lost each year If mining is allowed to take place on these days, although costs rise, revenue rises by a larger increment

The extra work days can be translated to miners' incomes at overtime rates, and each miner would only work every third Sunday

This tripartite policy would make ERPM more profitable and limit industry retrenchments to about 700 miners over four years

In short, sidestepping this looming disaster involves concessions from all sides doing the best for our country

□ *Katerina Nicolaou is a researcher specialising in several sectors of the economy at the National Institute for Economic Policy*

Western Areas pulls out all the stops in struggle to cut death rate

Mine slashes production

ET (BR) 30/7/99 (214)

JONATHAN ROSENTHAL

COMMODITIES EDITOR

GLOWING PROSPECTS *Brett Kebble, the deputy chairman of JCI Gold, says yesterday that Randfontein Estates' flexibility will shine through as cost reductions continue* PHOTO: JOHN ROBINSON

Johannesburg – Western Areas gold mine cut its quarterly production by 18 percent in a bid to improve safety after two workers were killed in accidents in April, but the deaths of two more workers in June and July raised the number of fatalities on the mine to the same total in four months as that for the whole of last year.

Control of the mine passed at the beginning of April from Western Areas to a joint venture management team led by Placer Dome of Canada.

Peter Harris, the manager of the joint-venture team, said the mine had a zero tolerance attitude to fatal accidents and had managed to nearly halve the rate of lost time to injuries. "We want to take the word fatality out of our vocabulary," he said.

He said the safety shutdown had cut production but output levels had recovered significantly in May and June. In June the mine produced 884kg of gold compared with 623kg during the shutdown in April. Safety standards had also been improved.

The mine's high fixed costs, combined with lower production, pushed cash production costs to $319 an ounce and cut gold profit to R102 million.

Harris said these costs were totally unacceptable. Looking ahead, he said the September quarter would be better at an operating level. The key issue was to ensure the mine was able to fund as much as possible of the South Deep project rather than just focus on quarterly cash costs.

JSE listed Western Areas swung into the red for the quarter despite generating a R58,5 million operating profit. Exceptional losses, including that of R144 million on the sale of half the mine to Placer Dome at below its book value as well as the writedown of the value of mineral rights and foreign exchange losses, put the group R118 million under for the quarter.

Randfontein Estates, Western Areas' sister company in the JCI Gold stable, reported a slump in after tax earnings to R19 million from R54 million the previous quarter.

Gold recovery fell and cash costs rose to $271 an ounce. Brett Kebble, the deputy chairman of JCI Gold, said the mine had experienced one bad month and two good months in the quarter.

"Randfontein's flexibility will shine through in the months ahead as cost reductions continue," Kebble said.

believes he was born to rule.

World Cup jerseys. Picture TREVOR SAMSON

ERPM 'rescue plan' close to final

BD 3/8/99 (214)

Renée Grawitzky

A "RESCUE plan" to save East Rand Propriety Mines (ERPM) from immediate liquidation and to prevent the retrenchment of 5 000 workers is expected to be finalised by government and the National Union of Mineworkers (NUM) tomorrow.

The plan aims at maximising production in the short term and is likely to be coupled with the closure of one of the mine's high-cost shafts.

If agreement is reached it could require bridging finance and the extension of the provisional liquidation order. ERPM management applied for provisional liquidation last month The return date for the order is August 17.

Government is considering asking for an extension on the return date to give parties more time to put a plan in place to prevent the mine's immediate closure and the resulting job losses

Minerals and energy deputy director-general Jan Bredell said government's aim was to ensure a "zero-retrenchment scenario"

There has been some discussion about whether bridging finance will be required to tide over the mine until it can be turned around. It is understood government is not prepared to provide a further capital injection

Government believes that, depending on the rescue plan, finance might not be required. However, the provisional liquidator said that if the plan was implemented, it might take up to four months for the mine to break even

Current debt is about R70m, which includes R30m owed to government, R8m to Eskom and R32m to creditors

This excluded the company's environmental obligations which could become serious if and when the mine closes This could cost the mine between R18m and R30m.

The initial plan, drafted by mineral resource manager Peter Camden-Smith at the request of the union's lawyers, could ensure the mine remains operational until the end of its life in 30 months. At that stage the mine should have sufficient cash reserves to ensure workers received a decent retrenchment package

Camden-Smith outlined three possible scenarios, but suggested that the most feasible approach would be to shift production to the low-cost and "high-grade southeast portion" of the mine which could produce 60 000 tons of ore a month Production in this area could remain viable if workers agreed to the introduction of continuous mining operations in which they would work four shifts on and four shifts off

The union leadership has endorsed such an approach in principle. Discussions with workers are planned Camden-Smith said the "challenge to ERPM is to get buy-in from the workforce" for full calendar operations

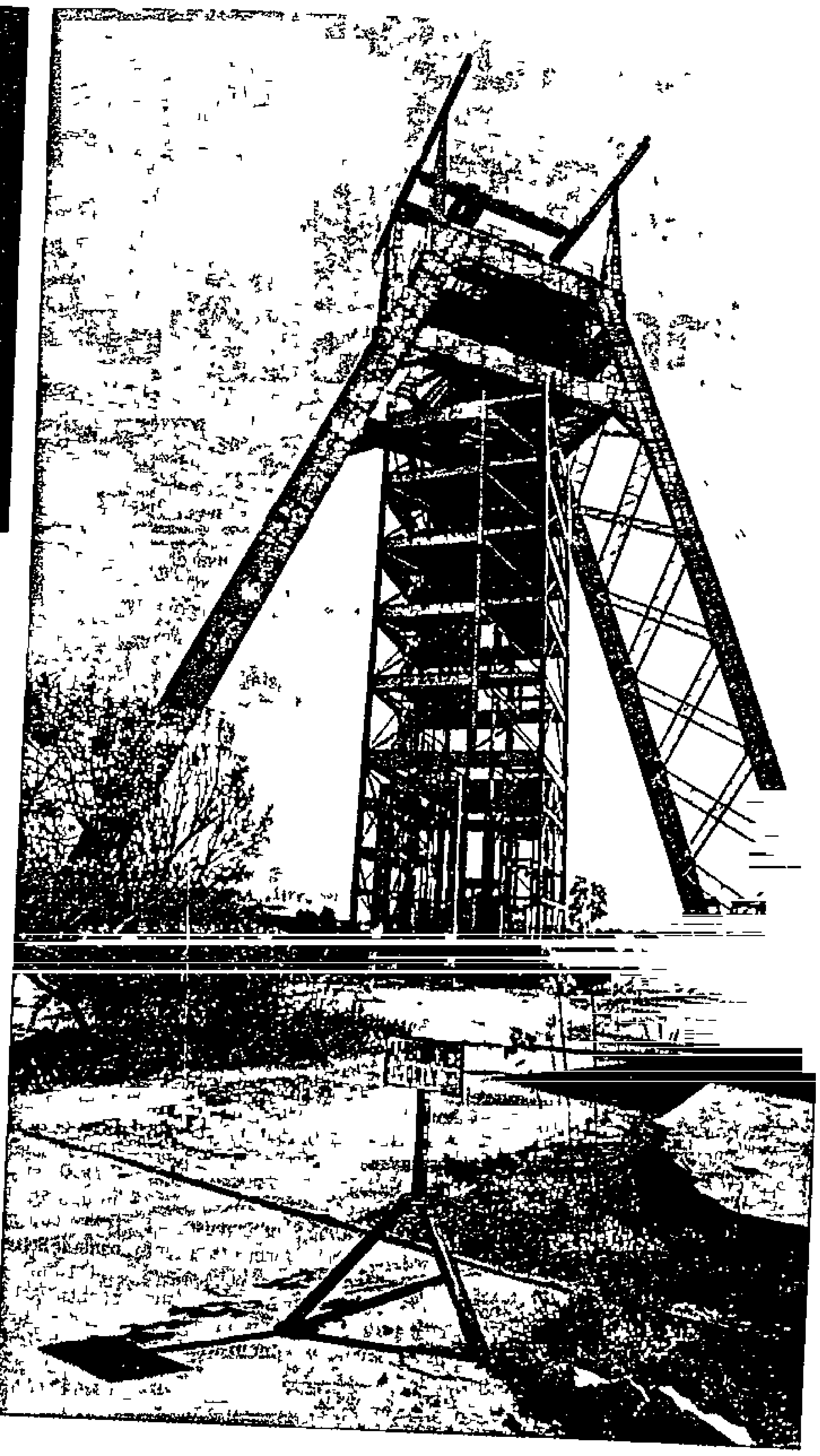
Retrenchments could be avoided if workers agreed to work such shifts and ensure that the infrastructure currently in place was utilised to its maximum capacity Full calendar operations have been implemented at the mine before, but failed largely because of the type of shift system implemented

Current talks on a plan have not included the possibility of wage cuts, which have been explored in the past

Camden-Smith's probe showed that the mine's life could be extended beyond 2002 if the mine shifted production to the upper levels

The parties are expected to resume talks today to thrash out final details of the plan and the liquidators are expected to see the proposed plan today

Keeping the wheel turning The National Union of Mineworkers has devised a plan to save ERPM's 5 000 jobs Miners, such as those above, will be moved to the mine's newest shaft (right) PHOTOGRAPHS NADINE HUTTON



NUM poised to save mine

(214) M+G 30/7-5/8/99

In the month following ERPM's liquidation announcement, an amazing rescue drama has been unfolding at the 106-year-old mine **Donna Block** *and* **Mungo Soggot** *report*

The National Union of Mineworkers (NUM) is poised to rescue East Rand Proprietary Mines (ERPM) from extinction having hatched a restructuring plan for the operation that could save all the mine's 5 000 jobs

If the rescue of the Boksburg mine goes through it will be the first time in South African mining history that a union has masterminded such a turnaround

A successful rescue will also pose intriguing questions about the performance of management at ERPM in particular and at South African gold mines in general

It is now almost a month since the management at ERPM the main source of employment in Boksburg announced it was putting the mine into liquidation in the wake of the collapse in the gold price

By unveiling its calamitous liquidation plans on July 6 — the day the Bank of England sold off a portion of its gold reserves — the mine became a symbol of the devastating effects of the gold price collapse

The negative sentiment stemming from the British sale effectively knocked $30 off the bullion price this year The price fall has jeopardised tens of thousands of jobs and led to unprecedented collaboration between business, government and labour about how to mitigate the effects of the crisis

ERPM suffered a series of financial disasters in the 1990s, and was saved from the gallows in 1997 when the government started subsidising it, becoming the major shareholder in the mine

The gold price fall this year appeared to be the final knockout blow, but since the liquidation announcement on July 6 the NUM has been working with the mine's liquidator, some of its management and government officials to put together a rescue plan

The man behind the union's rescue bid is, ironically a former senior member of ERPM management, Peter Camden Smith He is serving as a consultant to the union's Johannesburg lawyers, Cheadle Thompson & Haysom

Camden Smith's plan which is likely to entail shutting ERPM's deepest and costliest shaft is based on a similar proposal that was presented to ERPM management three years ago

In his report to the union lawyers Camden Smith notes ERPM's failure to take on board the suggestions at the time "Very few of the major recommendations made in the 1996 due diligence report were implemented" his report says

He also criticises the mine's management for failing to perform basic procedures in recent months - such as sweeping up gold particles — that could have reversed some of its losses

Camden Smith and the union which has been working with managers kept on to run the mine after it was put into liquidation — were expected to unveil their business plan for the mine this Friday July 30

It remained unclear this week what additional funding, if any, will be needed to back the rescue plan While the mine's liquidator this week suggested that ERPM needed R40-million immediately to sustain it through the current crisis, government and union officials have said the mine may be able to survive without such a cash lifeline The union intended to discuss the cash requirements for its plan on Friday

The union 'will look at the behaviour and attitude of the directors of the mine after the rescue plan is put in place'

The Department of Minerals and Energy's director in charge of ERPM Jan Bredel this week said he was "fully confident that we're going to rescue the mine", adding the mine could survive without an investor"

Bredel remarked "It's very good that it came from the unions"

Although Bredel and his colleagues have discussed the rescue plan with the union the government does not plan to remain a shareholder in the mine Bredel said the state was not prepared to extend any more subsidies to the mine, which were ostensibly started in 1997 to cover the costs ERPM incurs pumping underground water

ERPM which has operated in various guises since 1893 is the deepest mine on the Witwatersrand, with shafts up to 3km deep Water from neighbouring mines gravitates into the ERPM shafts heavily increasing its pumping costs

The rescue team's proposals hinge on shutting the mine's oldest and deepest shaft allowing it to become a repository for much of the water in the sprawling underground operation thus cutting pumping costs

The union has signalled that the various permutations of the plan will not involve laying off any of the mine's 5 000 workers more than half of whom come from Mozambique

A pivotal part of the plan is that the mine work on Sundays — a concession NUM is willing to make. Miners from the shaft earmarked for closure would be transferred to the more profitable newer shaft that would then be worked for a full calendar month

While the union has been probing various options there has been some intrigue surrounding the role played by some of the mine's boardroom heavyweights in the run up to its liquidation

It emerged recently that the former chair of the mine, John Cockroft, wrote to the mine's liquidators four days before the liquidation announcement detailing his plans to take over the liquidated operation

After the liquidators moved in, Cockroft offered his services as mine manager free of charge He replaced former MD Ivan Vidulich, who has a solid reputation in the mining investment community and is regarded as competent if conservative by the union

But Cockroft did not survive long. The union reacted angrily to his July 2 letter offering to buy back the mine prompting Cockroft to withdraw his acquisition proposals and step down as mine manager Another senior member of ERPM's former management team, Pat Mitchell, replaced Cockroft

Although officially off the mine Vidulich appears to have been working behind the scenes with the liquidator analysing the rescue team's proposals

There have been suggestions by some players in the mine's rescue that management precipitated the mine's demise to obviate a massive retrenchment bill — a rumour fuelled by the revelation that the mine had not picked up gold "sweepings" in the months running up to its liquidation

Analysts have scoffed at the suggestion noting that inconsistent sweeping is an endemic problem on South African mines, partly because miner bonuses are linked to the amount of ore mined — not swept

The minerals and energy department's Bredel said some of his officials had picked up the sweepings problem in recent months, but added this did not make him at all suspicious Bredel said one could "speculate" about such theories, but they would be impossible to "prove in a court of law

He added that the mine's management had asked the government to increase its subsidies in the run up to the mine's July 6 liquidation announcement, which proved its bona fides

For the moment the NUM is not gunning for management on the basis of the rumours about its performance in the run up to liquidation, but is instead concentrating on its rescue plan

The NUM's national legal officer Molefe Molefe, said the union will look at the behaviour and attitude of the directors of the mine after the rescue plan is put in place"

He said earlier this week that the "mine is not rescued yet But we are working on it"

RESOURCES *Godsell quashes talk of selling high-cost operations*

Anglogold will not close mines if gold remains steady

BT(BR)5/8/99 (214)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – Anglogold, the world's largest gold producer, said yesterday it did not expect to close down or sell any of its South African gold mines, provided the bullion price did not weaken further

The statement scotches widespread speculation in the market that Anglogold was considering selling off its higher-cost operations in the Free State

Bobby Godsell, Anglogold's chief executive, said "(Provided the gold price) stays where it is or moves up, I don't see any change of our operations"

Godsell also quashed speculation that the group was considering selling its Savuka mine or offering it as a joint venture Last week, Durban Roodepoort Deep (DRD) said it was in talks at mine level with Savuka

Godsell said Savuka was still battling to recover from the damage it sustained in a seismic event last October but he was confident the problems there would be sorted out

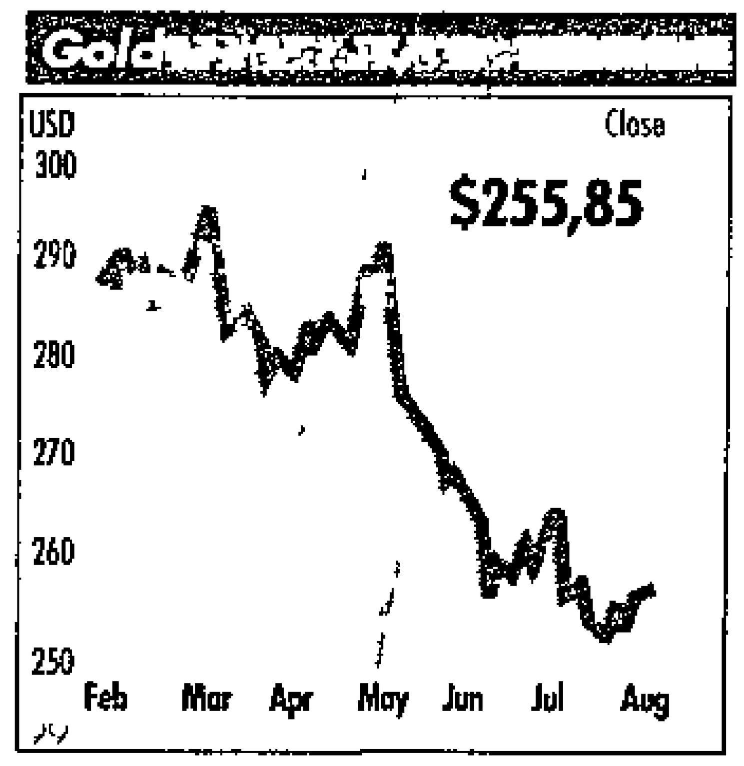
"Savuka, for us, is not a problem," he said

He said the group was in talks with DRD but declined to elaborate on the content

In spite of the gold price testing 20-year lows, Anglogold reported a R407 million increase in attributable earnings to just more than R1 billion for the June quarter

Behind the increase in earnings – largely due to a R543 million profit from the sale of Anglogold's stake in Driefontein – was a small increase in operating profit to R797 million A good deal of this came through Anglogold, taking R13 million in value out of its hedge book

Analysts said the remarkable feature of the quarter was that Anglogold had managed to hold operating earnings and gold production at levels close to those achieved in the March quarter, despite lower gold prices and several production setbacks



NO PROBLEM *Anglogold's Bobby Godsell*

The most severe problems arose from an earthquake that struck the Free State goldfields in April and cut production from Matjhabeng's Eland shaft by 1,1 tons In spite of this, the group managed to make up production from many of its other mines, leaving it with a 2 percent fall in gold production for the quarter to 44,6 tons

This pushed cash costs up by $2 to $210 an ounce, or R47 000 a kilogram

Jonathan Best, Anglogold's finance director, told Reuters he expected production costs would be pulled down in the second half by reducing the cost of the South African operations to $210 an ounce from the $222 reported for June

Ian Ballington, a gold analyst at Investec Securities, said given the circumstances, the group had done well "Management are focused and know what has to be done," he said

Prudent Gold Fields bites the bullet

(214) CT (BR) 6/8/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – Gold Fields, South Africa's second largest gold producer, has dropped its offshore expansion plans, is reviewing all its capital spending and is preparing contingency plans to cope with the possibility of the gold price falling to a sustained level of $230 an ounce

Chris Thompson, the chief executive, said yesterday this dramatic shift in strategy did not imply a bearish outlook on the gold price but was a prudent precaution to ensure the group could survive in a worst-case scenario

"The name of the game here is to survive the downside and keep the upside," Thompson said "An obvious possibility, but not probability, is a sustained $230 gold price and we are going to survive"

The first effect of the new strategy is that the group has cut exploration activity to a quarter of its previous $22 million a year The next casualty is likely to be offshore acquisitions Thompson said all capital spending was under review, and the plan would be finalised within a week

PENSIVE PAIR *Gold Fields managing director Tom Dale (left) and Chris Thompson, the chief executive, ponder how to survive the downside and keep the upside*

"I would anticipate some reductions in capex " he said

The first mine likely to be hit by any such reduction is Driefontein, the group's second largest gold producing mine last quarter, which Thompson said had paybacks of 15 to 17 years on many of its capital projects

"Do you take a 15 or 17 year bet today on gold at $250?" The dilemma facing the group is that in reducing capital spending, which could allow it to generate up to R5 billion in cash over the next five years, it would shorten the lives of its mines and could sterilise ore reserves

During the past quarter, the group defied market expectations and increased production while cutting costs

After a difficult March quarter, in which the group's earnings were hit by seismicity, low ore grades and public holidays, Gold Fields managed to sort out most of its problem mines Production rose 7 percent to 962 000 ounces and cash costs fell 3 percent to $210 an ounce

"They have certainly sorted out the problems it's really only Driefontein that is still a bit of problem," said David Hall, a gold analyst at Merrill Lynch

He said the earnings drop, with operating profit halving to R110 million, was largely owing to the lower gold price

But the group also took an exceptional R2 billion hit to earnings from a write down in the book value of its mines That pushed it into a net loss for the quarter of R1,9 billion

The shares closed 70c higher at R20 yesterday

□ Business Watch, Page 2

3 700 to lose jobs in Ghana and SA

Johannesburg – Gold Fields said yesterday it intended to retrench about 3 700 workers from two mines in South Africa and one in Ghana.

The group said it had informed the Gold Crisis Committee (GCC) it intended retrenching 1 900 workers at its troubled Libanon mine In the June quarter the mine reported a loss of R29 million

The group said the mine could be profitable at a gold price of R50 000 a kilogram but this would require a 30 percent cut in the number of employees.

Its second notice would be given to the GCC on August 11, then it would start retrenching

The group said it intended cutting 800 jobs at Oryx and was negotiating packages with the unions Last month a strike over retrenchments that halted production for two weeks was resolved after intervention by the leadership of the National Union of Mineworkers

In the June quarter, Oryx hit its long-awaited break-even after sustaining a R29 million loss in the previous quarter

September's results are expected to be hit by the strike, which will cut gold production by about 200kg to 1 631kg

The 1 500-strong workforce at the Tarkwa mine in Ghana will be cut to about 500 when the group shuts the underground operations there in the next few weeks, to focus on open cast mining – Jonathan Rosenthal

Workers down tools as mine negotiates layoffs in bid to counter high production costs

Western Areas may retrench thousands

(214) ARGT 7/8/99

Jonathan Rosenthal
Commodities Editor

Johannesburg – The Placer Dome Western Areas joint venture yesterday said it was in talks over the retrenchment of 2 700 to 2 900 mineworkers, or 35 percent to 40 percent of the mine's workforce, in a bid to cut production costs to $200 an ounce

Workers downed tools on Thursday after the company told them retrenchments were likely The mine said it expected them to return to work last night

The joint venture took control of the Western Areas mine at the beginning of April after Placer Dome bought half the mine from Western Areas for $295 million earlier this year

The jewel in Western Areas crown is the South Deep project, which would mine what analysts describe as one of the country's two most promising ore reserves

Developing the South Deep project will cost roughly R2 billion, much of which was supposed to have come from the ongoing but aging operations in the rest of the Western Areas complex

Douglas Brown, a vice-president of Placer Dome's South African operations, said that since the operation was taken over, cash production costs had averaged R62 511 a kilogram, more than 20 percent higher than anticipated

The group was also beset by a fall in the gold price to roughly R50 000 a kilogram, when it had planned on selling gold at R60 000 a kilogram

"This would have put us in a position where we were losing in the order of R10 million a month, instead of contributing to South Deep," he said

In a notification of impending retrenchments given to the Gold Crisis Committee earlier in the week, the mine said that it needed to cut costs by over 30 percent to fund the South Deep project

Brown said he was unable to quantify the exact effects on production, but that gold output was likely to fall from the already weaker levels reported in the June quarter

The mine said various alternatives to the retrenchment of workers had already been considered or implemented

These included cutting jobs at management level, reducing power and other costs and outsourcing services such as security

He said the mine would begin consultations with unions within two weeks

A further consequence of Western Areas' weak June quarter was that both joint venture parties will have to commit additional cash to South Deep, perhaps as much as R200 million each this year

Western Areas gained 100c to R19,40 yesterday

Cruel twist of fate for SA gold producers (2114)

ST (BT) 8/8/99

JULIE WALKER
DIAGONAL STREET

Picture: BRETT ELOFF

HUNKERING DOWN Gold Fields chief executive Tom Dale has a quiet word with chairman Chris Thompson at this week's results presentation

FATE dealt cruel hands to the gold producers presenting results this week. While Anglogold s Bobby Godsell observed that his group gave as good a performance as anyone could hope for in this market he also noted the irony of last week s methane explosion at Mponeng mine which killed 19

"In my 25 years of association with this company no management team has ever devoted more attention to safety than has this team in the past 12 months," says Godsell wondering what else has to be done to convert safety input into safety outcomes Until this accident the fatality rate had halved against last year s

Financially Anglogold shone In the six months to June operating profit increased by 47% to R1 6-billion and headline earnings were up by half to R1-billion or 1 022c a share giving a return on shareholders equity of 16% against 11% last year

Anglogold says it uses returns to shareholders as a yardstick of performance — indeed Godsell s desire is to outperform the S&P 500 index or at least be as good as it A 900c dividend for the six months annualises to a 7% yield — remarkable under this scenario

To the surprise of some, the mines Anglogold bought from Minorco showed good improvements, especially during the second quarter The market wanted to believe Minorco s poorly run mines had been foisted onto an unwilling recipient

The Anglogold team once again reinforced its confidence in both its product and its ability to deliver it Marketing director Kelvin Williams says the Bank of England's first gold auction proceeded without event but provided speculators with a benchmark against which to sell short immediately

"All parties with a long-term interest in gold have suffered and only speculators have benefited " If the press were chastised by Williams for predicting floods of gold sales and the end of the metal as we know it the speculators are wholly despised "The 22 year-olds on the New York commodities markets who short gold one week, then oil then the dollar "

Godsell says the challenge is to convey the reality that 21 000 of the official 33 000 tons of state gold holdings are held in firm hands by the US Federal Reserve and the European Central Bank Both have no intention of reducing their gold holdings

Anglogold enjoyed the protection of a hedged gold price earning an average $312/oz in the six months The net present value of all the hedge transactions until 2009 based on a gold price of $253 65 and an exchange rate of 612c to the dollar prevailing interest rates and volatilities is R3 57-billion

Randgold Resources chairman Roger Kebble had to announce a month-long production stoppage at the Syama gold mine in Mali due to a gearbox failure on one of the mills Gold production was held at more than 50 000oz for the June quarter but at $280/oz against $257 in March

However, the downtime was used to bring forward some planned maintenance and Kebble believes Syama is on the long home straight and can churn out free cash profit of perhaps $2-million a quarter hereon "Syama now has all its toys, new management to run the factory-type nature of production and should be achieving 240 000 tons of throughput monthly at a recovered grade of 3 7 or 3 8g/t Work it out yourself " Kebble told analysts this week In the June quarter Randgold Resources lost $6-million against $8-million in March

The portly Kebble also expresses a gut feel ("God knows I m qualified to work on that") that sentiment in the gold market is turning positive He says opportunities abound as others are feeling the strain of a low gold price more than Randgold Resources Its own targets have been trimmed and focused in Côte d Ivoire and Mali The sale of Golden Ridge in Tanzania netted $4 5-million and capital expenditure at Syama is all but at an end

Construction is under way at the Morila mine where full production is expected by the last quarter of 2000 at a production cost of below $100/oz Its status has been confirmed by two independent audits

Gold Fields chairman Chris Thompson gave analysts the benefit of his wisdom gained in the Americas by declaring that Gold Fields would be "hunkering down" in view of the uncertain outlook.

He says it would be imprudent not to consider that gold could trade at $230/oz for some time, therefore the board has not yet decided on a final dividend

This was in spite of earnings of R688-million in the year to June 1999, the period under which shareholders invested and expect to be rewarded

Thompson expects a dividend will be declared later this month Gold Fields has R300-million free cash too

Chief executive Tom Dale highlighted the group s successes and failures since the current management team took over 18 months ago Profitability was restored at Driefontein and Kloof, productivity is improving, 1 000 of the required 1 300 panel miners are trained and installed On the downside, Dale says Gold Fields (read Dale) failed to get the group's middle management to change from their entrenched ways of operating; this meant costs a ton rose by 11% to R366

Costs a ton determine the ore reserve, whereas costs an ounce have more to do with the bottom line. Total costs including capital expenditure came down to $248/oz in the June quarter

Durban Roodepoort Deep, which reported results last month, has given notice of closure of three shafts at the West Wits mine.

All are loss-makers, 260 jobs will go — of which 16 are West Wits employees and the rest contractors

More gloom looming for SA's gold mines

(214) CP 8/8/99

By SIMBA MAKUNIKE

THE gold mining industry will have to shed some workers in the next three months to remain viable if the results of the past quarter are anything to go by, analysts said on Friday

"The results released this week were worse than expected – with the exception of Anglogold – and from the look of things the gold price will continue hurting the miners," Fleming Martin Inc gold analyst Brenton Saunders told City Press

"From the look of things, quarter three will be far worse than quarter two, with a number of applications being made to the Gold Crisis Committee for retrenchments "

Saunders said retrenchments, which have been avoided in the past three months, would become inevitable as more marginal mines packed up

Goldfields, the country's second largest gold producer with an output of nearly four million ounces, has already suspended acquisitions because of the depressed gold price

Releasing its quarterly results on Thursday, Goldfields said it was going to concentrate on making the best out of the existing operations and would embark on cost-cutting measures

About 800 workers have been axed from the group's Oryx mine after an agreement with the National Union of Mineworkers on retrenchment packages.

Another 1 900 are expected to lose their jobs at the group's Libanon mines and an undisclosed number in Ghana, where the group might shut down its Tarkwa mine.

"Things are not looking up and with the predicted continued decline, more workers will be in the streets sooner than we expected," another analyst said

Buoyed by the sale of its 21 percent stake in Driefontein mine and increased output in its American operations, the world's largest gold producing company, Anglogold, remained a beacon of hope in an industry shaken by poor prices

This week the group announced it was paying out a dividend of 900 cents a share to shareholders – up 150 cents a share from the 750 cents paid last year

But this too was worrying because revenue and production all attained negative growth

Cash costs per ounce also went up from US$208 to US$210

Despite these warning signs, chief executive Bobby Godsell said the group would not close down any mines if the gold price remained static or moved up

Another gold mining house, Durban Roodepoort Deep, this week announced it was to close three shafts at its West Wits mine

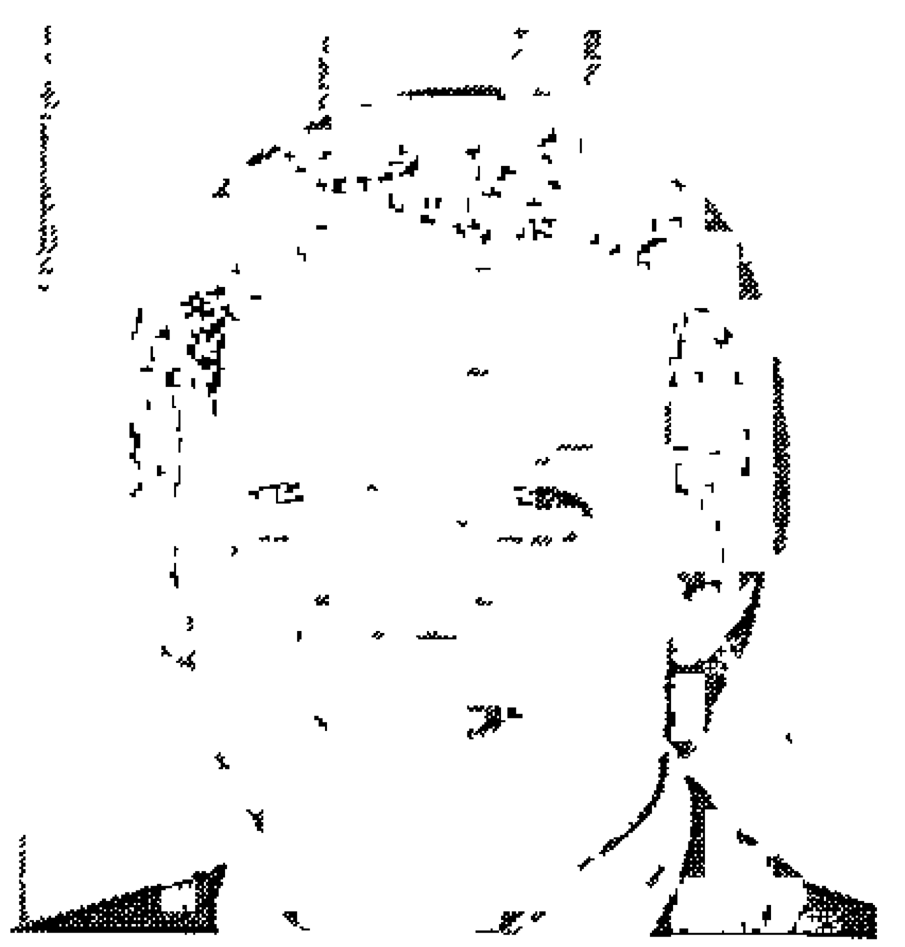
It said discussions were underway with the unions to close the loss-making shafts

Two hundred and sixty workers, made up of 16 West Wits employees and contract workers, will be affected by the closure

A month ago DRD closed the loss-making Rand Leases II shaft

The image of an industry in disarray was compounded this week when Randgold, the African-focused gold mining company, said it was turning to Indonesia in a bid to mine higher-grade gold

Its revenue also fell, going down from US$14,53 million in the preceding quarter to US$13,86 million in the quarter ended June 30



BEACON OF HOPE . . Bobby Godsell, chief executive of major gold producer Anglogold

BULLION *Analysts and market largely unmoved by commitment to explore alternatives*

IMF has second thoughts on gold sales

ET (PR) 10/8/99 (214) (79)

ADELE SHEVEL AND REUTERS

Pretoria – Gold floated slightly towards the higher end of its narrow range to $257 yesterday on news that the International Monetary Fund (IMF) was reconsidering its decision to sell up to 10 million ounces of the metal, about 10 percent of its reserves to provide debt relief to heavily indebted poor countries (HIPC)

However the news had little impact and bullion again balked at resistance above $257

The thing about that (the IMF news) is that it highlights pressing concern over incipient extra supply said Rhona O Connell an analyst at brokers T Hoare Canaccord

Stanley Fischer the first deputy managing director of the IMF said in Pretoria yesterday that alternatives were being considered We are trying very hard to see if there s a way to do what gold sales were going to do without going into the market he said

Traders said this was sufficiently inconclusive to leave bullion basically unshaken It is neither here nor there really " one said

Fischer said the IMF did not want to rule out gold sales until it had an alternative solution

NO DEAL *(from left) Tito Mboweni the Reserve Bank governor and Stanley Fischer of the IMF announce in Pretoria yesterday that the IMF is reconsidering the sale of 10 million ounces of gold reserves*

PHOTO [illegible]

The gold sales plan was put forward by the Group of Seven nations after a meeting earlier this year in Cologne Under the plan the interest generated by investing funds from the gold sales would finance the IMF s obligations to relieve debts of 41 of the world s poorest nations

The plan faces opposition from US lawmakers who would have to approve it

An outcry from emerging nations followed the IMF s announcement of the sell off which was expected to further reduce the gold price and lead to job losses on the gold mines

After a recent sell-off of 25 tons of gold reserves (out of a planned sale of 415 tons) by the Bank of England the gold price plummeted to a 20-year low of below $260 and ounce

The US Congress threatened to block the sales and lobby groups have been hard at work in South Africa to prevent the sales

Fischer said the IMF was not responsible for the lower gold price because it had announced that it intended to sell part of its reserves two years ago

He declined to comment further on the other options the IMF has been considering, as they were too complicated and too uncertain to go into details He said the IMF's decision should take months rather than years

The sale of gold on the open market was not ruled out however We don't want to rule out anything until we have an alternative '

The IMF cannot revalue the reserves because it would conflict with IMF laws Of the 41 HIPC countries targeted by the debt relief plan 36 are gold producers

Court to rule on ERPM tomorrow

(214)

CT (BR) 18/8/99

Jonathan Rosenthal
Commodities Editor

Johannesburg – The government and the National Union of Mineworkers (NUM) were preparing court papers applying to place ERPM in judicial management in a last-ditch effort to save what was once the country's greatest gold mine, both parties said yesterday.

The parties asked the Witwatersrand High Court yesterday for a delay in the final liquidation hearing until tomorrow to prepare their papers. Both parties would then oppose the final liquidation of the mine.

Molefe Molefe, the head of the NUM's legal department, said that if the application for judicial management was approved the mine would be allowed to borrow money to implement a turnaround strategy under the supervision of the court. Judicial management will also offer the mine protection from its creditors.

The mine has been losing money intermittently for most of this decade and came to rely on government injections of subsidies and loans. Last month the managing director applied to have the mine placed in provisional liquidation, arguing there was nothing that could be done to save it.

However, after the mine was placed in provisional liquidation an investigation by an independent geologist found the mine had been poorly managed and could be restored to profitability without shedding any jobs.

The rescue plan will entail shutting down the mine's deepest and most expensive shaft. Although this is also the highest grade part of the mine, the investigation found that redeploying workers to shallower and lower grade sections, would ultimately be more profitable. The rescue plan, however, requires workers to go on to a full-calender operations schedule working four days on and four days off.

Molefe said employees at the mine had agreed to this.

Jan Bredell, a deputy director-general in the department of minerals and energy, said yesterday he had not heard of any moves by creditors or the liquidators to oppose the application for judicial management.

He said the various parties had been putting out feelers to financial institutions to raise bridging finance for the mine's restructuring. The mine plans to raise about R10 million.

Gold at the end of the tunnel

(214) BD 19/8/99 (79)

Worldwide survey hints at recovery, but rough seas are still forecast for SA

Simon Barber

WASHINGTON — Stagnant or declining world gold production should lead to a recovery in the metal's price "fairly soon" if central banks do not overfill the gap between supply and demand, according to Gold Institute president John Lutley

Based on a survey of more that 100 mining companies in 70 countries, the institute predicts in its latest world production report that mine output will grow just 1% between now and 2002, when it should reach 82,9-million ounces

However even that may be optimistic, Lutley said, because the survey was taken at the beginning of the year when gold was $285 an ounce If prices stuck in the current range below $260 overall production could decline 1,5 to 2% a year for the next few years

SA producers in particular would be hard pressed to meet a 2002 projection of 5,5-million ounces provided by the SA Chamber of Mines On current trends, aggravated by weak prices and the impact of AIDS on mine productivity, SA output could be down to 12-million ounces three years from now

The good news, Lutley says, is that the IMF's plan to sell gold to fund debt relief is now almost certainly dead, thanks in large measure to the lobbying of the US Congress by Amgold's Bobby Godsell and James Motlatsi, president of the National Union of Mineworkers

Lutley also believes central bankers may note "the stick the Bank of England is taking" and "stop simply looking at their balance sheets and become more sensitive to the global impact of sales"

Although it "won't happen tomorrow", he senses interest in the recent suggestion by SA Reserve Bank deputy governor James Cross that central banks sales be handled through the Bank for International Settlements which would bring a predictable quantity to market each year

With central bank sales orderly and limited, the prospect for a price recovery is strong, Lutley says

There is a lot of "upside potential" for demand for fabricated gold, particularly in the US, India and China, but it would be best if the recovery were gradual so as not to damp consumer demand or entice central bankers to unload their bullion, he says

Even with a price rise, production is unlikely to pick up again quickly Not only have many high cost mines been closed in the current price environment, but exploration investment has been falling dramatically in recent years, meaning there will be fewer sources to replace depleted mines, he says

Worldwide exploration investment by the 18 top US producers has been falling steadily, from $627m in 1996 to $582m in 1997 to $418m last year

Lutley predicts that this year's figure which the institute will report next month, would be even lower

In addition, junior mining companies responsible for finding much of the gold now being mined, are having "enormous difficulty" raising money after the Bre-X fiasco and with bullion prices at present levels and the resulting reduction in exploration will have a significant long-term effect on production "All things being equal, that again would be good for the price," Lutley says

Of the major producers other than SA the institute projects on the basis of company reporting that US output will be down 6% in 2002 from last year's levels to just over 11-million ounces Australian production will fall 1,2-million ounces, or 12%, to 8 8-million ounces, and Canada's output will decline 5 3-million ounces to 4,8-million

Indonesia, meanwhile, is expected to overtake Canada and China over the next three years with output rising to 5 2-million ounces

World's top gold producers increase output by 2%

~~(79)~~ (214)

Jonathan Rosenthal
Commodities Editor

Johannesburg – Gold production by the world's top producers increased by 2 percent over the past quarter after a 7 percent fall in the March quarter, the latest issue of the World Gold Analyst's journal states

The specialist mining publication, which tracks the production of 55 mining companies and about 60 percent of world gold production, said the increase could be attributed to the opening of new low-cost mines around the world

The report also says Gold Fields, South Africa's second largest producer, rose one slot in the international rankings to take the position of third largest gold producer in the world The largest remained Anglogold, followed by Barrick

On a country basis, the fall in South African output was outweighed by an increase in Canadian production, partly through new capacity coming online and partly through the reallocation of half of Western Areas' production to Placer Dome of Canada

Production by Australian companies increased by 8 percent, after a 10 percent fall the previous quarter

Tony Cadle, a gold analyst at Rice Rinaldi Securities, said people should not read too much into the 2 percent increase in total production "The financial effects of the $30 an ounce gold price fall will only be felt in the September quarter, or even in December," he said

"Then you will start to see production negatively affected"

Cadle said roughly half the world's gold mines were now selling their gold at less than their total production costs

"Many opencast operations have total costs of $280 They have hedge books giving a two- to three-year window As each year goes by, the hedge price is going to fall and they won't be able to replenish, so high-cost operations will start being mothballed," he said

Among those to go would be North American and Australian operations South African mines would be shielded by a weak exchange rate and the fact that there was still considerable flexibility in the domestic industry, he said

CT (BR) 2/9/99

Gold price turnaround boost for SA

Threat of more mines closing reduced (214)

ARG 28/9/99 (79)

STAFF REPORTER

Johannesburg – The inter-continental dash by the presidents of the Chamber of Mines, Bobby Godsell, and the National Union of Mineworkers, James Motlatsi, to peg the massive gold sales abroad has been hailed for bringing a sparkle to the South African economy and the mining industry.

NUM deputy secretary-general Archie Palane said yesterday that the lobbying by the Chamber and the union had proven to be effective and showed that First World decision makers had, after consideration, listened to South Africa

Messrs Godsell and Motlatsi lobbied the US Congress, the Commonwealth, British, Swiss and other governments for their support in July as the price of gold plummeted amid further sales announced by the International Monetary Fund, which led to a decline in the price of the metal, severely affecting South African mining houses

The duo called for a moratorium on gold sales until measures were put in place so that central banks could sell bullion without sparking off major trading wars as the price came down.

The British government's announcement in July that it would sell bullion reserves left the price of gold at $253 an ounce, its lowest in 20 years Yesterday, the price rose to $282, raising expectations it could reach as much as $300 before long.

But bullion price is still below its May 6 level of $286 an ounce, before the Bank of England said it planned to sell more than half its gold reserves

At the weekend 15 central banks announced they would not sell any gold for the next five years, above sales already scheduled, and the IMF had dropped plans to sell bullion on the open market under pressure from gold-mining countries and US law-makers.

"For the first time, somebody has listened to us The decision by the European central banks and the IMF means that we are beginning to see the results of the lobbying by Godsell and Motlatsi," said Mr Palane.

He said the moves would benefit the country and could also save mines which have been threatened by closure.

AngloGold financial director Jonathan Best said the moves would reduce the threat of mine closures and lead to a bigger flow of foreign currency into South Africa

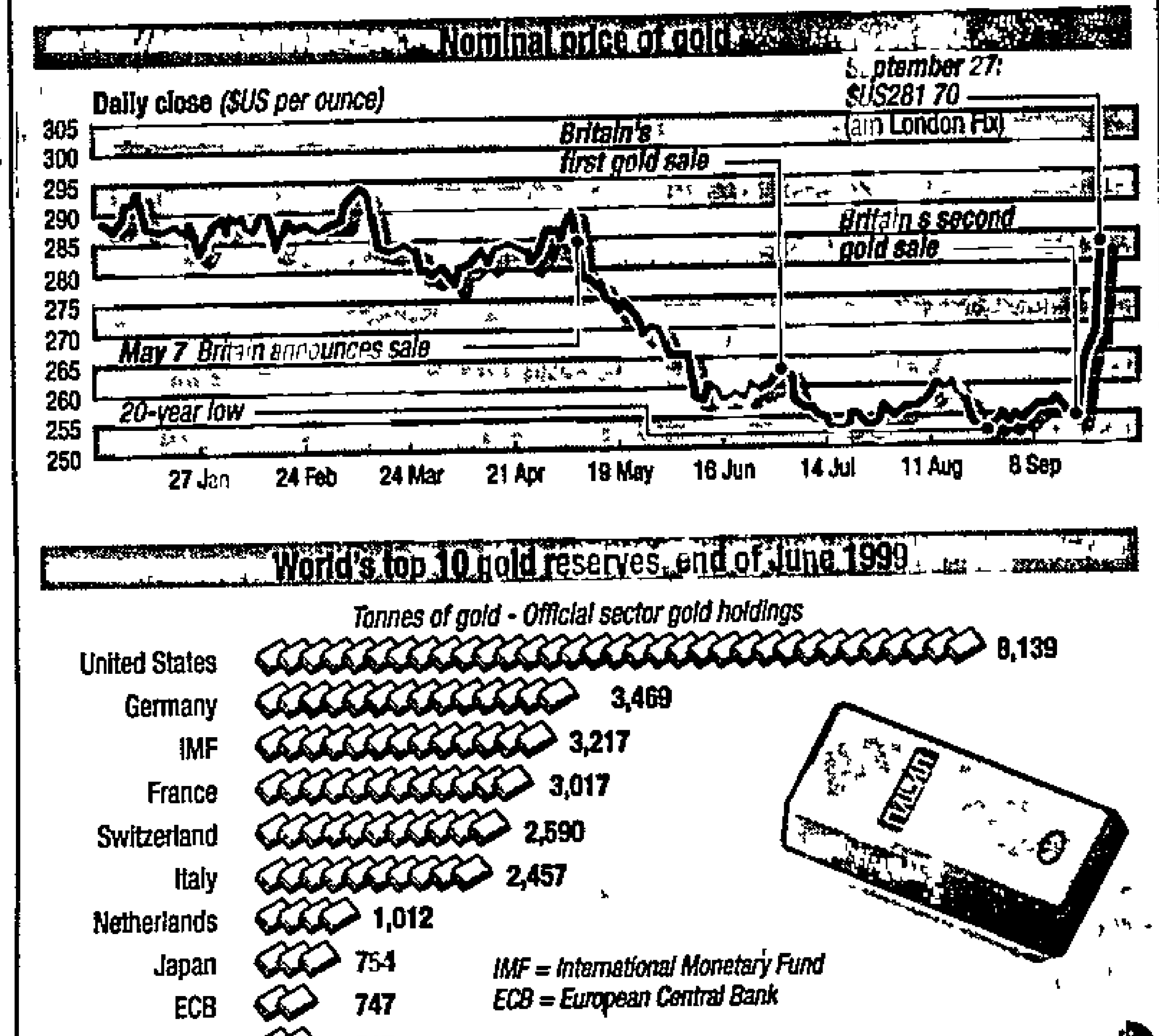
Although South African economists have welcomed the move, some have cautioned that the decision by 15 central banks was undertaken to safeguard the interests of the governments holding gold reserves

Mike Schussler, an economist with SBC Fidelities, said the decision by the European central banks would give the South African economy a gigantic boost, which would ultimately filter through to the consumer

Economist Tony Twine said South Africans would benefit in a variety of ways "It definitely could mean the difference between survival and going under."

PRICE OF GOLD - RISES

Gold prices jumped to their highest in nearly five months on Monday as 15 Europe central banks put a cap on official sector sales



Source. Gold Fields Mineral Services Ltd

GOLD

Godsell & Co chalk up a clear victory, but the future remains murky

(214) CT (BR) 1/10/99

Paul Armstrong and Lea Paterson

After having been admitted to the ward in 1997, courtesy of the Australian government, with acute symptoms of price depression and lack of immunity to speculation, the death of gold appeared imminent.

Since then a growing number of specialists have resigned themselves to the metal's demise, accepting that its traditional role in the monetary system was over.

But last weekend an unlikely team of financial doctors, who happened to be gathered in Washington for other matters concocted a most remarkable medicine. The resuscitation not to mention the speed of the recovery has stunned financial markets.

The deal reached by the 15 European central banks has underpinned an 18 percent rise in the gold price in just three days.

The banks' agreement to sell no more of their official reserves, with the exceptions of the planned sales already announced by Britain and Switzerland has removed much of the dark cloud that has hovered over the gold market since Australia revealed it had sold two thirds of its inventory.

But how, in the midst of a brutal bear market, does a group of central bankers achieve such a sharp turnaround in the price?

The handful of bankers and advisers has refused publicly to reveal the chain of events that led to what must be one of the financial coups of the year. But privately some of them pointed to the visit paid to London in July by Bobby Godsell, the chief executive of Anglogold, as the start of the industry's fight back.

's public opposition to sales of official reserves began early this year when Godsell visited the International Monetary Fund (IMF) in Washington in an attempt to overturn its plan to sell 300 tons of gold to alleviate Third World debt.

The move embarrassed the South African government because it was supposedly a beneficiary of the debt reduction plan.

However, Godsell argued that the effect of the sale on the gold price meant it would hurt the countries it was designed to help including South Africa.

To convince the IMF that he was thinking past Anglogold's profit line, he took James Motlatsi the head of the National Union of Mineworkers, to explain the potential result of the IMF's plan on the country's unemployment queues.

In July Godsell returned the favour, accompanying Motlatsi to London to protest against the Bank of England's plan to sell 415 tons of its reserves. The trip was cancelled at least twice, with the Chamber of Mines claiming it wanted to be better organised.

The potential diplomatic implications of the public protest in London outweighed the possible benefits. However Godsell agreed to join Motlatsi, not only because he had done the same for Anglo at the IMF, but because he believed it was important for the industry to present a united face.

As it turned out, their efforts did nothing to soften Britain's resolve towards the gold sales. But the trip did prompt South Africa to look elsewhere for support. And it was found in the form of at least 12 other European central banks.

South Africa stepped up its lobbying in July when Trevor Manuel, the finance minister, flew to London to meet with Gordon Brown, the chancellor of the exchequer, on the issue.

At the same time, South Africans approached their counterparts at the other major European central banks, asking them to support a moratorium on official sales.

Sources close to the discussions say that without South Africa's intense lobbying, last weekend's unprecedented agreement would probably never have happened.

The issue of co-operation was first raised formally at a meeting of the powerful G10 central banking committee that took place soon after Brown's discussions with Manuel.

Although the UK was, unsurprisingly, strongly in favour of the co operation plans, the initiative was first raised by the Europeans. The US Federal Reserve, although not a signatory to the agreement, played an important supporting role.

Fed officials helped encourage the normally reticent European central banks to hold full and frank discussions about the delicate topic of their gold reserves. The South Africans had clearly detoured around Brown and the UK treasury.

That the moratorium proposal was put to the UK officials as opposed to being crafted by them is reflected in the fact that the deal allows Britain to proceed with its planned sales.

Further many of the European central bankers were known to share ill feeling towards their UK counterparts over the sale and were reluctant to include them until the idea was bedded down. But, despite their anger, the deal effectively gave Brown and the treasury a get-out-of-jail free card.

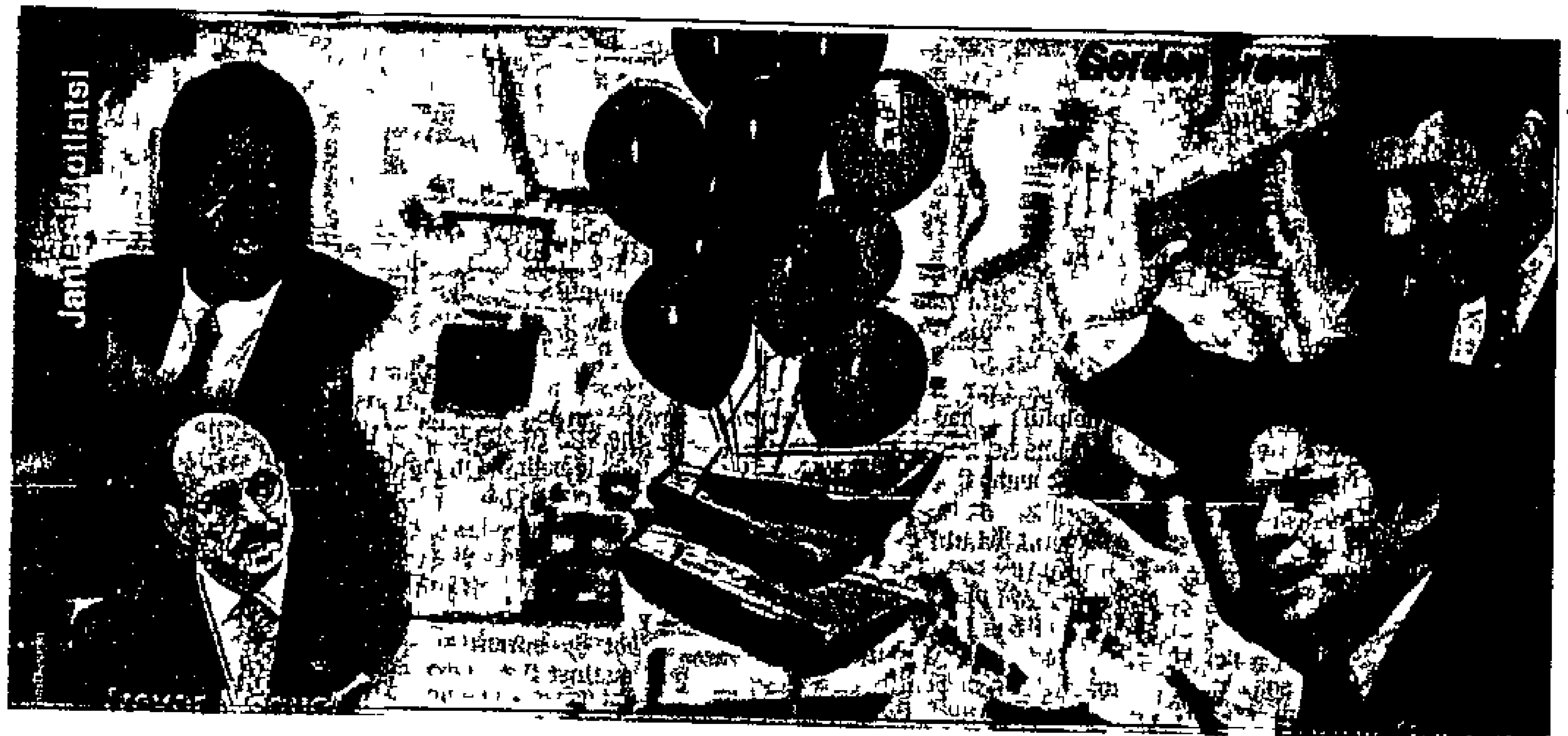
By early September it was clear that an agreement was in sight, but the banks were keen to finalise all the details before announcing it to the markets.

The final touches were put to the agreement on Sunday and the decision was taken to announce details of the deal on the same day.

The banks had conducted their two-month discussions in the utmost secrecy, and were eager to pre-empt any leak to the markets.

The announcement caused chaos in the markets with the price soaring as stunned speculators rushed to cover their short positions. The patient was fully recovered.

But whether the central bank



JOB CUTS STILL LOOMING

Gold soars to two-year high

(214) CT 6|10|99

JOHANNESBURG: The threat of retrenchments in the mining industry should be removed immediately in the light of the leap in the gold price, according to unionists and economists But the mining bosses don't agree. **CHIMAIMBA BANDA** reports.

MINING industry bosses have ruled out any moratorium on job cuts in the beleaguered sector — despite a dramatic bounce in the price of gold on world markets yesterday

But top economic analyst Azar Jammine said failure by the gold industry to announce a moratorium could only mean that mining companies had sold gold forward in an irresponsible way

"It will be an indictment of the industry There should be a moratorium on retrenchments in the gold industry straight away

"There should no longer be talk of retrenchments at the current price," said Jammine, chief economist at Econometrix

The Chamber of Mines, South Africa's chief gold producer Anglogold and an investment banker were cautious yesterday in their reaction to the gold recovery

The spot price on the London Bullion Market surged to $326,50 an ounce in late morning trading yesterday from $314,50 late on Monday

Prices have not been this high since October 1997

The sharp increase followed an announcement on September 26 by 15 European central banks that they would not add to planned sales of gold and would contain the lending of gold during the next five years

Confirmation that the International Monetary Fund will not sell gold on the open market to finance debt relief to the world's poorest countries has also lifted prices

Roger Baxter, chief economist at the Chamber of Mines, said yesterday that the gold industry had become much more robust and competitive following cuts in production costs in response to the low gold price in July

The recovery of the gold price would assist struggling mining companies, said Baxter

"It will feed into the industries that provide products into the gold mining industry and it will increase the foreign exchange earnings for South Africa

"It will feed through to people who have invested on the Johannesburg Stock Exchange in gold mining shares, and this includes people's pension funds

"It will increase dividends of the shareholders and taxes paid to the government "

Baxter said he expected a slowing down of gold industry retrenchments He contended that there are still mines which have yet to restructure to reduce their production costs and become competitive

He said it was unlikely that the improved gold price would lead to increased employment in the industry in the short term

"The potential for increased jobs in the short term is not there

"You need stability in the price of gold in the short term," he said

Baxter expected the employment situation "to stabilise and not decline as rapidly as had happened in the past few years"

The Bank of England triggered panic in South Africa after it auctioned off 25 tons of gold in July, putting the future of six marginal mines and an estimated 11 700 jobs in the country on the line

Warnings were sounded that a continued decline in the gold price would result in an estimated 80 000 job losses

Gold accounts for four percent of gross domestic product at present — down from 20% in 1980

Anglogold executive director Kelvin Williams said news of the gold price bounce "is not a bonanza for South Africa" because of the strong rand-dollar price

"With a stronger rand, the beneficial impact of the strong gold price is reduced somewhat," he said

He called on the gold mining industry to "wait to see how the price settles down"

"In a volatile market it's difficult to call what a stable level point will be," said Williams

"I don't think gold can maintain the volatility indefinitely We should see how the gold price moves through this quarter "

Investment banker Majakhathata Mokoena said a moratorium on retrenchments should not be declared until the current price of gold is sustainable

A period of at least three months should be sufficient to determine this, said Mokoena

A spokesperson for the National Union of Mineworkers, George Molebatsi, charged that the gold price had been used by mining companies "as a rationale for retrenching workers"

"We want a total halt to retrenchments because we see it as a scorched-earth policy which is unnecessary," said Molebatsi

● See Business Report

Gold industry braces for rigid third quarter

(214) CT (BR) 19/10/99

From Dow Jones

Johannesburg – The gold industry was bracing itself for a tough set of third-quarter results but some might see a slight rise in profit analysts said this week

A spike in the bullion price since late September had come too late to help mines during the quarter to September 30

Their performance now depended on how well costs were contained, whether production held steady and how well-hedged they were against the low bullion price The price fell to 20-year lows to trade at its nadir at $252,05 a troy ounce

During the last month gold experienced a huge rally, reaching a 27-month high of $338,50 in early October before falling back to Monday's $318 This would only be reflected in fourth-quarter results

Harmony Gold Mining, the country's third biggest producer reported a poor set of results on Friday The other mining companies were not expected to do well, but some commentators said earnings might rise for some mines

The rest of the gold miners would release their quarterly results after the annual Denver Gold Conference, which began yesterday

Harmony announced a 20 percent drop in net profit to R45,4 million in the quarter, compared with R56,8 million in the June quarter

Bernard Swanepoel, the chief executive, blamed the decline directly on the gold price

Harmony does not employ hedging to offset a depressed gold price and, accordingly, is fully exposed to the price of the metal, which goes straight to the bottom line

Swanepoel said Harmony's decision not to hedge had been vindicated by the metal's recent rise, but it was too late to help the quarter's results

"The dramatic increase in the gold price after (European) central banks announced a moratorium on gold sales and lending will significantly enhance the company's prospects," Swanepoel said

Hedging is when the future price of a mine's output is locked in and guaranteed, using forward sales and derivatives such as futures and options

An industry analyst thought Harmony's results were not as bad as had been forecast by some, but he predicted other mines would suffer

"We saw the lowest gold price in 20 years in dollar terms and no relief from the currency"

One factor that has softened the blow of the depressed bullion price in the past has been a depreciation of the rand, making earnings in the local currency higher

But in the past few months the rand has regained some of its composure and gained against the dollar

Keith Joslin, the gold mining analyst at BoE Securities, was more upbeat about the performance of many of South Africa's gold equities He said many, except perhaps Anglogold, would increase earnings, although by only a fraction

Anglogold would be down mainly because of exceptional items that had boosted its earnings earlier in the year, including a tax write-back and income from the sale of its share in the Driefontein mine

But Gold Fields, Randfontein Estates, Western Areas and Avgold were expected to improve earnings marginally

Looking ahead to the final quarter, Joslin forecast a robust increase in profit as the higher gold price kicked in "The more unhedged they are, the more sexy they look," Joslin said

Gold industries' R10-m rescue plan

THE gold mining industry has committed R10 million towards various initiatives aimed at advancing wealth creation and developing a solid foundation for the future of the industry

These will include a rural skills development programme aimed at promoting entrepreneurship among unemployed mineworkers in areas where industry employees have traditionally been recruited The initiative is run in conjunction with the Mineworkers Development Agency.

Other important initiatives, particularly in the light of falling gold prices, is a gold jewellery and craft fabrication programme and skills development project which will offer workers access to broader employment opportunities

The industry also hopes to increase the number of contracts awarded to black-owned enterprises

– *Sowetan Business*

(214) Sowetan 30/11/99

Mining more gold for less

BD 14/12/199 (214)

Ilja Graulich

CASH costs in the gold mining sector are continuing to drop, while there has been an increase in total production

According to the latest figures released by World Gold Analyst, a specialist quarterly publication on gold, total cash costs in the September quarter dropped 3% to $194/oz, which is also 1% lower than a year ago

Of the four major producing regions, only SA increased its costs for the three months to end September, while Canada, Australia and the US — with a reduction of 6% — reduced their costs

However, while cash costs for SA gold mines are high compared to the rest of the world, at $225 an ounce (Canada $162/oz, US $178/oz, Australia $196/oz), SA has its overall or total costs well under control

The other three countries show extra costs of more than $60 an ounce but SA's total production costs are $243 an ounce, a mere $18 an ounce rise

Despite this, the country is still only the second lowest total cost producer — behind the US at $238 an ounce, but ahead of Canada at $252 at ounce and Australia at $259 an ounce

World gold production for the quarter was 3% higher, at 12,86-million ounces, than in the previous quarter

SA also increased its production 3% to 3,72-million ounces

AngloGold continues to be the world's dominant gold mining company, cementing its position with a total production for the quarter of 1,779-million ounces, followed by Newmont Mining of North America and Gold Fields The latter produced 963 000 ounces for the quarter

SA's modest production increase was mainly due to AngloGold's 62 000 ounce production increase, most of which was derived from non-SA assets

Good news for AngloGold also came from Australia The SA group recently launched a friendly takeover bid for Acacia Resources, which recorded a record production increase of 21% for the quarter