

EMPOWERDEX

Economic Empowerment Rating Agency



A SUMMARY OF THE BEE TRANSACTIONS IN THE MINING SECTOR

2004-2008

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27th October 2009



1. INTRODUCTION AND BACKGROUND

The Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA) came into force on 1 May 2004. Section 7 of the Act requires the holders of all old order mining rights to convert their rights within five years (1 May 2009) or these old mining rights will cease to exist.

For this reason, the five year period between May 2004 and May 2009 represent a very important period for the introduction of black ownership into the mining sector, as the mining charter provisions requires that a company achieves 15 percent black ownership by May 2009 and 26 percent black ownership by May 2014.

The Empowerdex research team aims to provide a summary of the reported BEE transactions during the five years between 2004 and 2009 to establish the level of BEE transactions and related activities in the mining sector during this period.

This report analyses all listed or unlisted BEE transactions which was reported in the media during this period and exclude any unreported transactions. The report excludes all transactions in the forestry subsector, as well as any non-mining transactions concluded by a mining company but which are not directly link to either its shareholding or its mining assets. For this reason, the list of transactions listed in this report is not exhaustive.

Table 1.1: Volume and Value of Reported BEE transaction between 2004 and 2009

Year	2004	2005	2006	2007	2008	2004-2008
Reported BEE Transactions in the Mining Sector	19	15	28	34	19	115
Value of Transactions in the Mining Sector	7 954 319 673	14 269 006 858	18 838 422 267	40 021 626 013	20 843 304 355	101 926 679 166

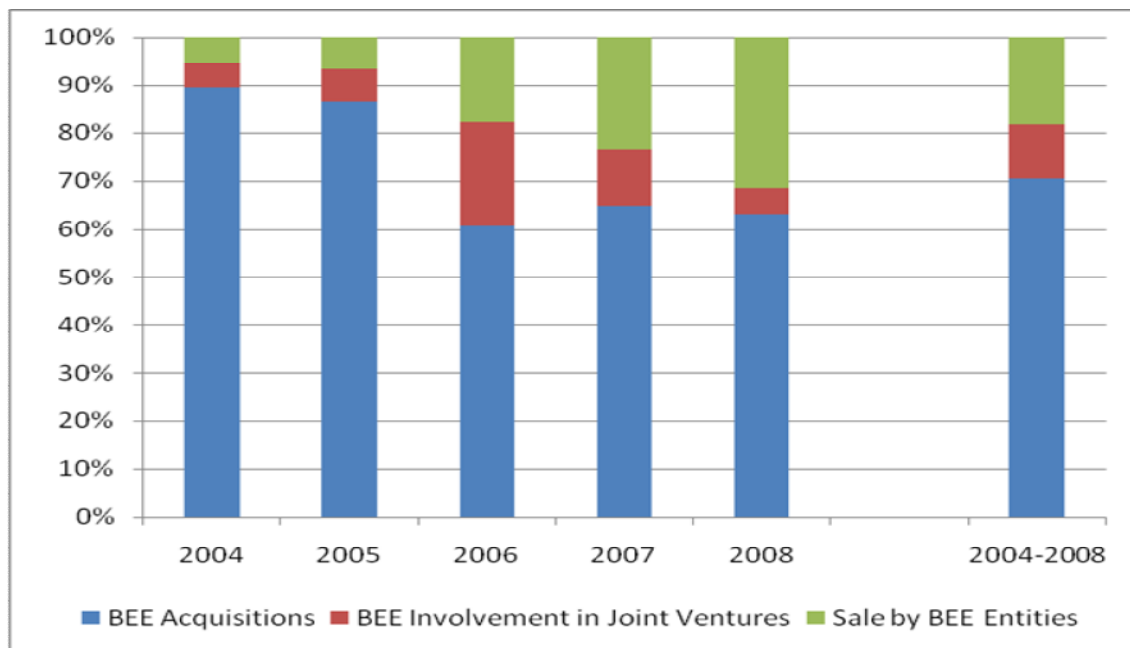


Table 1.1 provides a summary of all reported BEE transactions during this five-year period. There are a total of **115 reported BEE transactions**, which is valued at just under **R 102 Billion**.

A further analysis of the type of BEE transactions reveals the following:

- More than 70 percent of the BEE transactions involve a BEE entity acquiring an equity stake in a mining company or a mining operation
- Involvement in Joint Venture represent 11.3 percent of all transactions, and there are 21 transactions (18.3 percent) where BEE entity have sold their equity stake or mining assets

Figure 1.2: Types of BEE Transactions

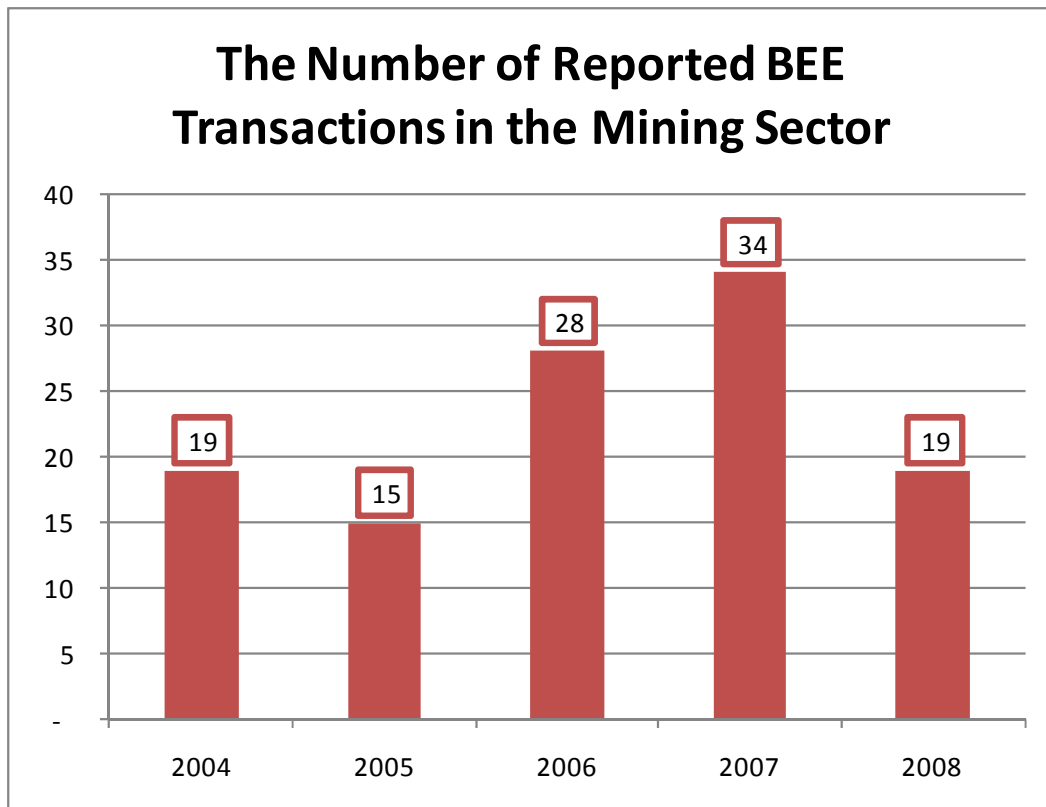


The increase in the number of BEE sales in 2007 and 2008 either represents the fact that there are more black mine owners, as well as acumen of the black investors to avoid purchase and exit at the peak of the market.



During this five year period, the publicly available records further showed a total of 115 reported BEE transactions in the Mining Sector. This figure accounts for both reported unlisted and listed transactions.

Figure 1.3: Total number of mining deals per annum

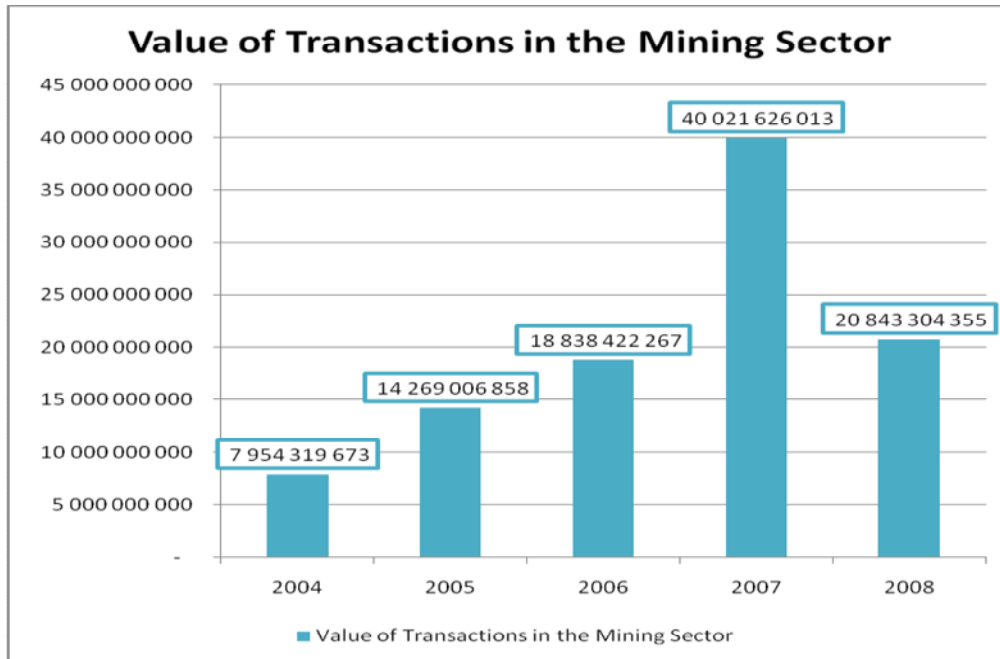


Further, Figure 1.4 outlines the total value of the reported BEE transactions in the mining sector.

2007 represent a peak in terms of both value and volume of BEE transactions in the mining sector, with 34 transactions with a value of more than R 40 Billion in one year.

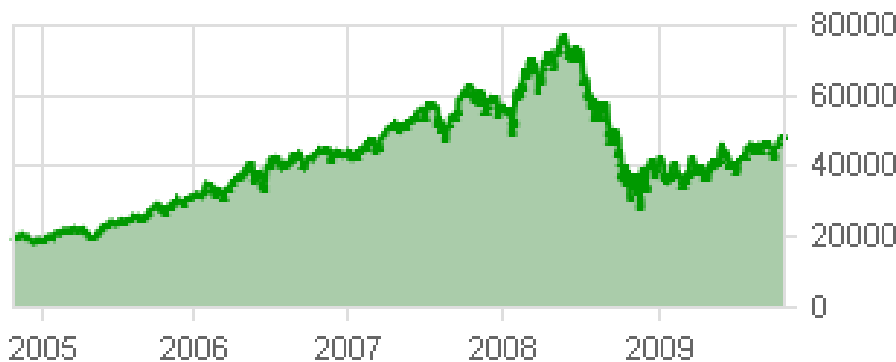


Figure 1.4.: The Value of BEE Transactions in the Mining Sector



Interestingly, the increase or decline in BEE transactions correlates to the rise or fall of the Resources 20 index. Unfortunately, it may highlight the fact that most BEE participants bought mining assets at the peak of the commodity cycle and equity market, when the prospects of the mining sector are perceived to be good (reflected by the higher equity and commodity price).

Figure 1.5.: The Movement of Resources 20 Index from 2004 to 2009

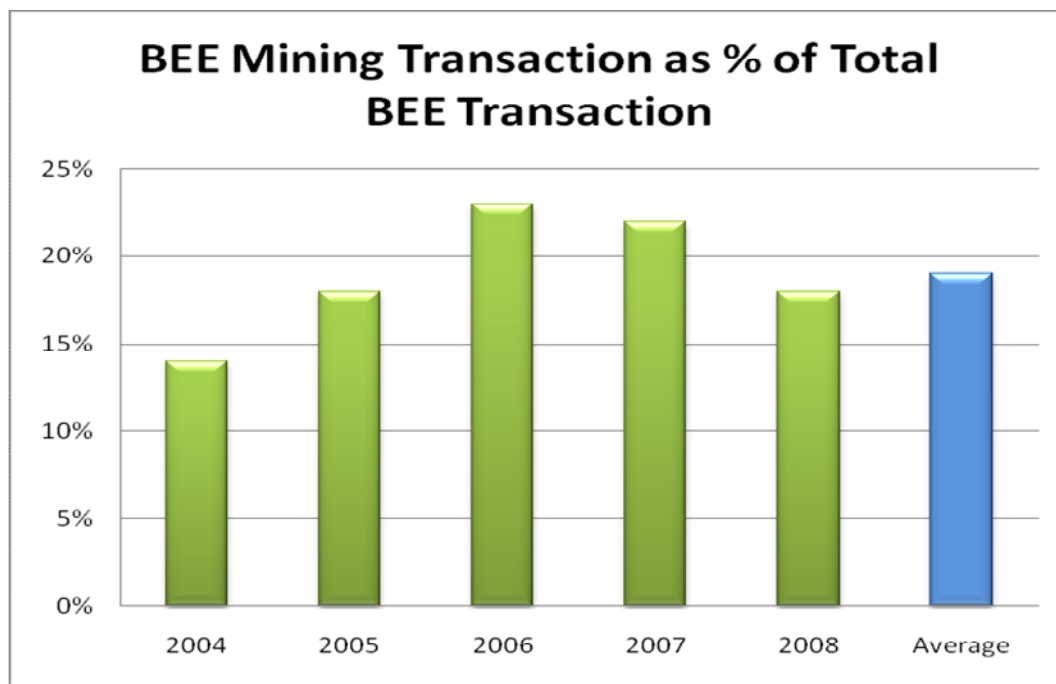




During the period 2004 – 2009, the number of BEE deals in the Mining Sector also accounted for roughly one fifth (nearly 19%) of all BEE deals involving JSE listed companies concluded during the same period.

Despite the significant volume and value of BEE transactions in 2007, they represented a smaller portion of the BEE transactions in the same year. This represent the significant number of all BEE transactions (beyond the mining sector) which was concluded in the market due to the finalisation of the BEE Codes of Good Practice.

Figure 1.5: Mining Deals as a % of BEE Deals





2. TOP ANNUAL BEE TRANSACTIONS IN THE MINING SECTOR

Having filtered through all Reported BEE Transactions for the period 2004 – 2009, the top deals for each year, ranked by Deal Value, for each year, is as follows:

Year	Listed Deal – Details	Value (Rands)
2004	Incwala Resources (led by Andisa Capital, Dema Capital and Vantage Capital) have acquired 18,1% of Lonplats from Impala Platinum	3,900,000,000.00
2005	Kumba Resources (Anglo American and IDC) has sold mining assets excluding coal to a BEE Consortium (Eyesizwe Mining, Eyabantu Capital, Tiso Group and South African Women).	9,200,000,000.00
2006	Royal Bafokeng Nation acquired 13.4% of the shares of Impala Platinum.	10,600,000,000.00
2007	Mvelaphanda Resources sold the Booyesdal Platinum project to Northam Platinum for shares in Northam. (The transaction resulted in Mvelaphanda acquiring and owning 63 percent of Northam Platinum)	6,250,000,000.00
2008	Royal Bafokeng entered into a 50:50 joint venture agreement with Anglo Platinum on Rasimone Platinum.	7,600,000,000.00
2009	Mvelaphanda Resources Ltd acquired 15% of Gold Fields Ltd, after the option instruments granted in 2004 become mature	5,900,000,000.00



The six top annual transactions account for a total of R 43 Billion in transaction value. It is interesting to note that the Royal Bafokeng Nation (2006,2008) and Mvelaphanda (2007,2009) were both represented twice on this list, securing their positions as the top BEE partners in the sector.

Moreover, the broader Anglo American Group of Companies participated in three of the top annual transactions (2005, 2007, 2008) while Impala platinum (2004,2006) appeared twice on this list during these six years.



3. TOP CONTRIBUTING ENTITIES

Table 3.1: Top 10 Contributors and Vendors to BEE Transactions

Rank	Contributing entity/ Vendors	Total Value of Transactions	Total Number of BEE Transactions	
1	Anglo American Group of Companies (including AngloGold Ashanti, Anglo Platinum and Scaw)		28 103 448 800	10
2	Impala Platinum		19 363 000 000	8
3	Kumba Resources		9 200 000 000	2
4	Northam		6 250 000 000	2
5	Xstrata		5 370 000 000	3
6	Arcelor Mittal		4 200 000 000	1
7	Harmony Gold		3 573 314 660	3
8	Aquarius Platinum		2 722 526 000	4
9	De Beers		2 000 000 000	4
10	Sasol		1 855 000 000	1



Table 3.1 lists the top 10 contributors and Vendors in the mining industry.

Anglo American, AngloGold Ashanti, Anglo Platinum and various Anglo American companies ranks the highest with at least 10 reported BEE transactions with a total BEE transaction value exceeding R 28.1 Billion.

Impala Platinum follows with eight BEE transactions valued at R 19.3 Billion, although most of the BEE transaction value resulted from R 10.6 Billion Royal Bafokeng Nation's acquisition of its 13 percent stake in Implats.






Kumba, Xstrata, Northam, Harmony, Arcellormittal, Aquarius, De Beers and Sasol complete the top ten list. Goldfield would have made it into the top five if its 2009 transaction is included in the analysis.











4. THE LARGEST AND MOST ACTIVE BLACK OWNERS IN MINING

The following table represent the top 15 BEE Transactions by total BEE transaction value, as well as the key leadership of the BEE entity.

Table 4.1: Top 13 BEE Partners by Value of Transaction

Rank	BEE	Total BEE Deal Value in Mining Sector	Number of Deals	Key Representative
1	Royal Bafokeng Nations	18 215 000 000	3	
2	African Rainbow Minerals	9 929 827 460	5	
3	Eyesizwe	9 200 000 000	2	
4	ESOPS and Staff Schemes	8 406 000 000	4	
5	Pamodzi	7 498 487 200	5	



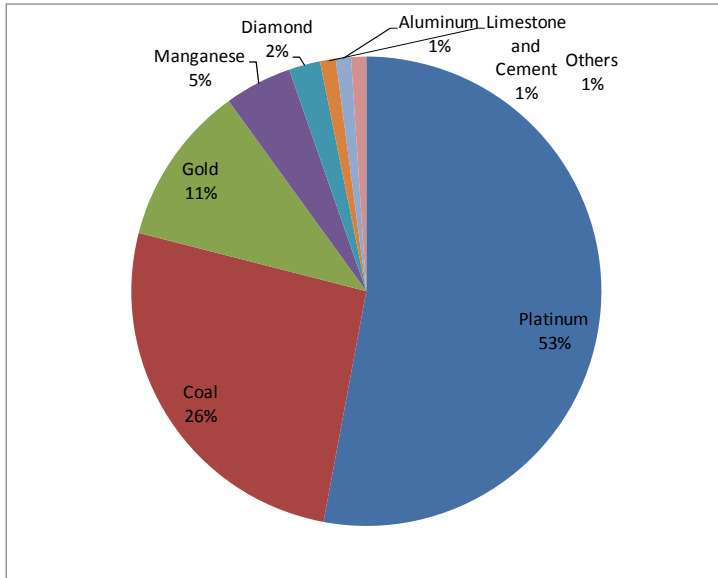
Rank	BEE	Total BEE Deal Value in Mining Sector	Number of Deals	Key Representative
6	Mvelaphanda	6 250 000 000	1	
7	Kgalagadi Manganese	4 200 000 000	1	
8	Anglo Inyosi	7 100 000 000	2	
9	Anooraq	3 600 000 000	1	
10	Savannah	2 302 526 000	3	
11	Ixia	1 855 000 000	1	
12	Izingwe	1 608 868 800	1	
13	Shanduka	1 118 380 000	4	

Other notable BEE investors in mining include the Makana Trust, Mmakau mining and investment companies such as African Vanguard and Jaganda.



5. TRANSACTION SPLIT BY MINERAL RESOURCES

Table 5.1: BEE Transaction split by commodity



During the five years, 33 of the BEE transaction representing the majority of the BEE transaction value (53%) involve the acquisition of platinum company or assets.

Coal and Gold also attracted significant attention from BEE investors.

Commodity	Total BEE Transactions	Number of BEE Transactions
Platinum	53 947 532 830.00	33
Coal	26 564 426 012.00	26
Gold	11 251 773 544.40	18
Manganese	4 734 980 000.00	6
Diamond	2 206 768 000.00	12
Limestone and Cement	1 100 000 000.00	1
Aluminum	1 055 000 000.00	2
Others	1 066 208 779.50	13

Figure and Table 5.1 provides an analysis of the split of BEE transaction based on the underlying commodity of the company or assets acquired by the BEE investor.



6. TRANSACTIONS INVOLVING EMPLOYEE SCHEMES AND COMMUNITY TRUSTS

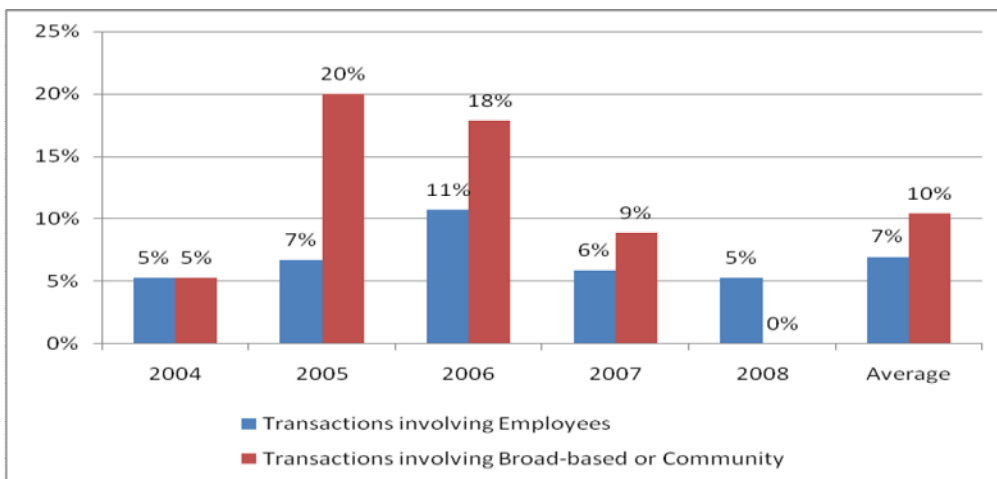
Over the five years, only 7 percent of the mining sector transactions involves employees schemes directly in its shareholding and only 10 percent involves a community scheme.

The popular models for ownership transactions, which often involves a black investor who is able to acquire and develop mining rights, is probably the primary reason for this relatively lower direct participation by employees and broad-based schemes.

However, specific mining charter requirements through the social labour plans aim to provide benefits to these broad based schemes.

Interestingly, Employee Share Options Schemes and other Staff schemes accounts for the fourth largest black owners in the mining industry if counted as one single entity.

Table 6.1: BEE Transaction involving employees and communities





7. LIMITATIONS AND WAY FORWARD

7.1. Limitations of this study

There are two major limitations to this study. Firstly, the analysis is only based on those transactions which are reported in the media during the period. The transaction list used for this analysis is not exhaustive as many of the unlisted transactions are not reported in the media (especially over the last two years).

Secondly, the analysis does not look at the actual economic ownership of the black beneficiaries. Although the transaction list reflects the voting rights acquired by the black beneficiaries, we have not had the information and documentation required to conduct a detailed analysis of the transaction and will not be able to provide an opinion on the validity and sustainability of the transactions. Many transactions may fail not as a result of the underlying operations, but mainly due to the financing mechanisms adopted.

For these reasons, the findings in the report provides an indicative, rather than a comprehensive, analysis of the BEE transactions in the mining sector.

7.2. Way forward

In order to conduct a comprehensive analysis of the mining transactions, a detailed analysis of the submissions for mining rights conversion must be completed. Such study will not only provide an accurate benchmark of the current level of black ownership in the sector, but also forecast whether the sector will be able meet the second five-year target of 26 percent ownership in the sector.