

# Mines close deals, but are slow to transform

IN RESOURCES-RICH South Africa, mining was always expected to lead the way in BEE.

While other sectors watch the roll-out of the Department of Trade and Industry's codes of good practice with some consternation due to differences between the codes and their own charters, the Mining Charter remains the only charter to have been gazetted and therefore of legal effect.

The sector has been at the forefront of dealmaking, and the past year was no different.

The Eyesizwe consortium's purchase of 58% of Kumba Resources — for a massive R9.2-billion — won the BusinessMap Foundation's BEE deal-of-the-year award for 2006.

BusinessMap Foundation's Colin Reddy says this deal represents a maturing of the capital-raising efforts of BEE consortia, which gets easier with each deal as they steadily accumulate assets.

Eyesizwe has been in existence since 2001. It is one of the first deals of its scale to have over 50% of the votes at the board being in the hands of black individuals, and is therefore not a passive-investment BEE deal without any operational black management.

"The deal with Kumba demonstrates clearly that it is now becoming increasingly possible for black parties to purchase a controlling stake in large-value assets worth billions of rands," says Reddy.

The BEE consortium consists of Eyesizwe, Eyabantu, Tiso and a women-owned vehicle called Busadi ba Kopane.

The Kumba BEE consortium contributed R2.5-billion in equity for its shareholding. A mixture of senior debt, mezzanine debt and preference shares financed the remainder. The economic

benefit to the consortium was valued at about 46% by the Foundation, after considering that the interest of black individuals in the BEE consortium was about 80%. Companies such as Anglo-Coal and BHP Billiton still hold an interest.

Another mining deal came second in the BusinessMap Foundation's BEE deal of the year for 2006: Pona halo's 26% purchase of De Beers' local assets.

In addition to deals, black representation on the boards of mining houses has shot up from zero (0.05%) to 37% since 2001, according to a mining research report by Landelahni Business Leaders. The research covers 80% of the mining sector.

"This represents a significant

shift since the Mining Charter was formulated in October 2002," says Sandra Burmeister, the chief executive of Landelahni. "However, at other levels, representation in the mining industry trails the average across all industries."

The number of non-engineering black and white executive directors in the mining industry grew significantly between 2001 and 2004, but the ratio between black and white remained static at around 13%. Black representation in positions from executive to mid-management level grew from 24% in 2003 to 29% last year.

At corporate head office and at mining operational level, more than 80% of black employees were in support functions such as human resources, shared services, finance and communications.

At operational level, the research indicates that out of 100 shafts, there were 11 black mine managers, compared with two in 2001.

The research indicates that, to date, the mining industry has

been slower than other sectors to put processes in place to meet transformation requirements. "However, the board transformation that has occurred is a step in the right direction. It is bound to accelerate the process across the rest of the organisation," says Burmeister.

What remains worrying, how-

ever, is the downward trend in engineering graduates from tertiary institutions since 1998, including those with mining-specific degrees.

"There has been a 30% increase in engineering enrolments, but only 5% of first-year students actually graduate as engineers. The reasons include funding problems, due to a decline in the available bursaries, as well as the lack of effective bridging programmes to assist students who have not necessarily had a strong mathematics and science background.

"The technical skills shortage will be compounded over the next 10 years if such a reduction is allowed to continue."

More encouraging is the increase in Engineering Council registrations across all disciplines, indicating that the companies are putting employees through certification processes. Here the employment-equity statistics are quite balanced, with 907 blacks registered in 2004, as against 940 whites.

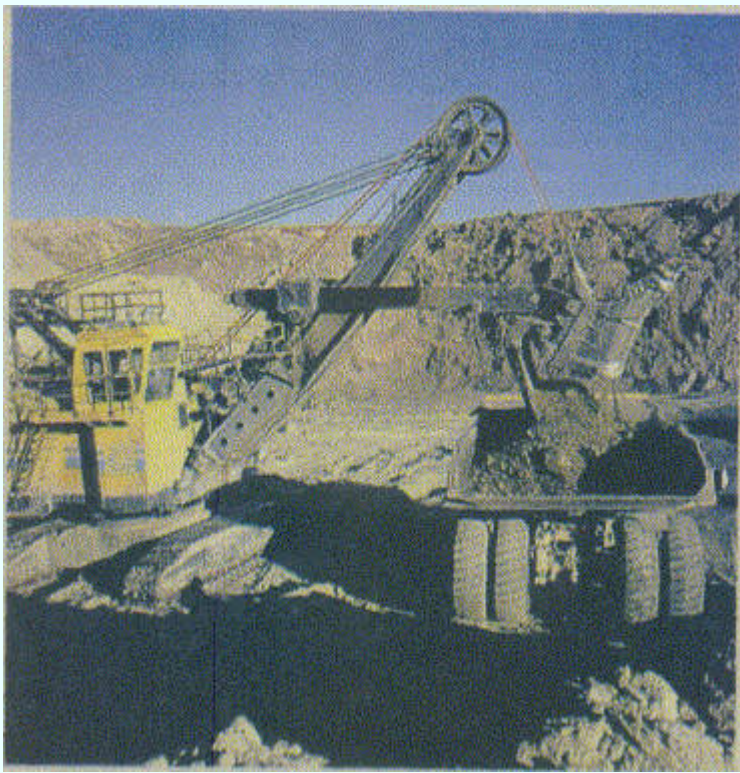
"Mining is perceived as a shrinking industry and this, combined with the length of stay of experienced people, does not make mining an attractive option for ambitious, high-powered people, except at a BEE shareholding level. Add to this the fact that most black recruits exit from the industry in 18 months."

— Eamonn Ryan





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**SURFACE CHANGE:** Of 100 mine shafts surveyed, only 11 have black managers — an improvement on 2001's two black men in charge