



Update to Portfolio Committee

03 May 2006



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- **Recap of Challenges Highlighted in October 2005**
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# Safety and Health



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# Safety and Health Statistics - YTD:

Injury Classification			
	RIFR	LTIFR	Dressing Cases
Number (of injuries)	4	7	14
Rate (Injuries/mmhrs)	0.41	0.72	N/A

- The RIFR and LTIFR targets are <1.0 and 0.5 respectively
- Good Stats for Alexkor, when considering its extensive diving operation in comparison to peers
- Regrettably, a fatal accident occurred on the 12/01/06





# Recap on Operational Challenges



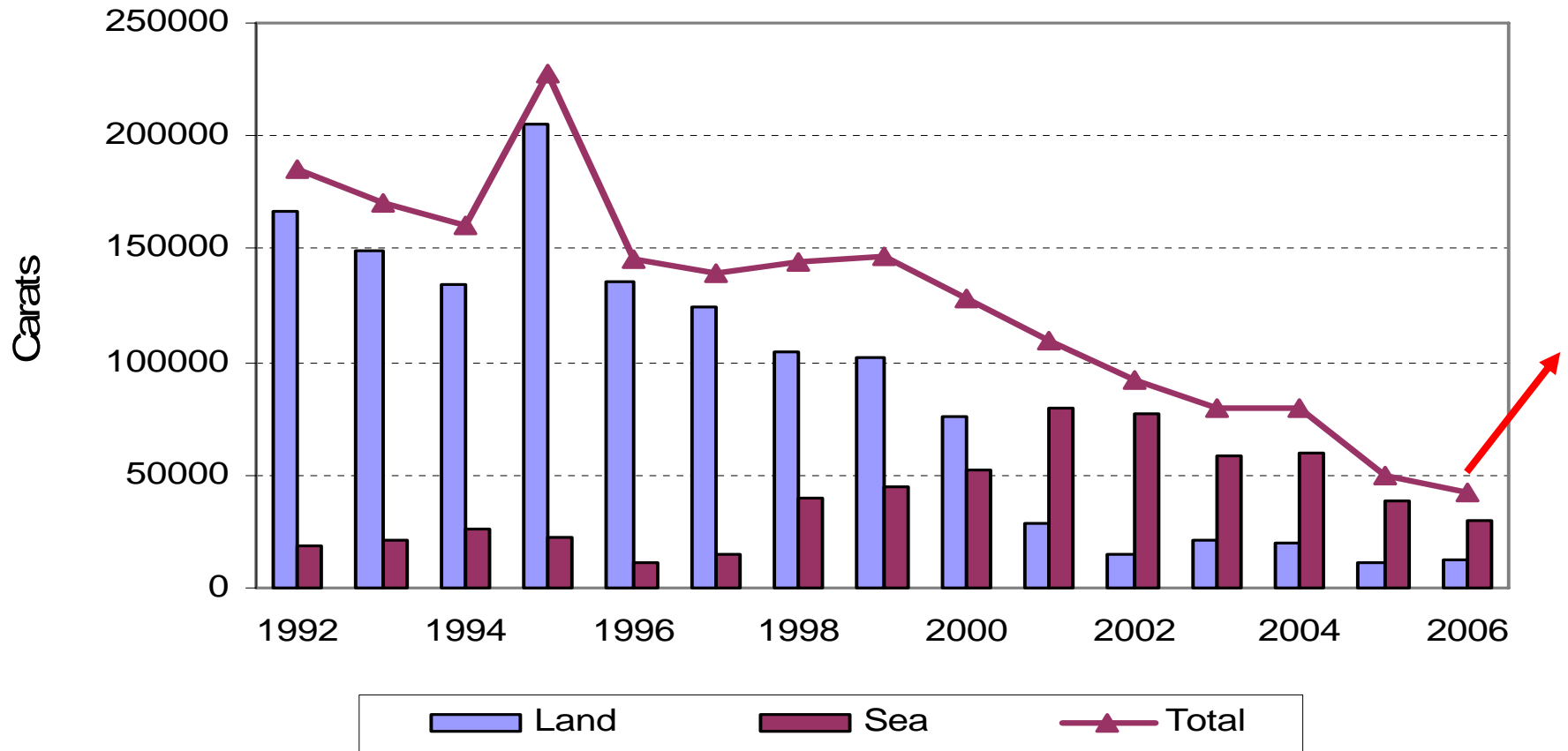
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# Constraints that Continue to Impede Good Performance

- Mining a mineral resource that is defined at an inferred level
- Marine mining methods hampered by unfavourable sea conditions
- The average age of equipment of 12 years calls for a replacement Capex programme
- Uncertainties that prohibit the development of a long-term mining plan
- Financial provisions for both long-term & other liabilities
  - Provision for rehabilitation liability
  - Provision for post retirement medical aid
  - Other unforeseen expenses related to legal matters
- Lack of ability to fund Capital expansions and exploration programme



# Declining Carat Production



**The Challenge is how do we turn this trend upwards?**



# Snapshot of current mining assets



**Front End Loaders (Component Repairs)**



**An example of typical Front end Loader**



**An example of typical Excavators**





# Snapshot of current mining assets (cont.)



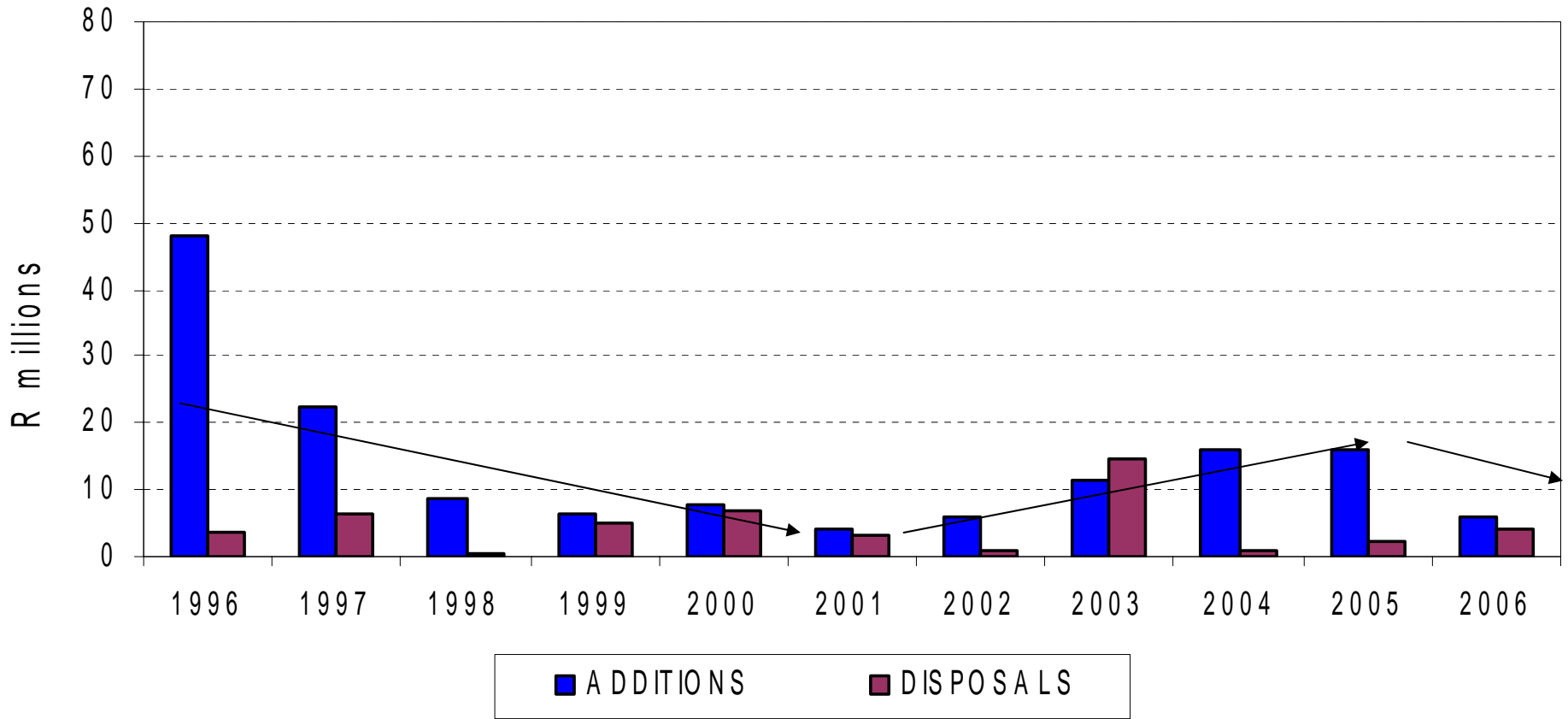
**Noordsif Plant DMS**



**Corroded Steel Structures**



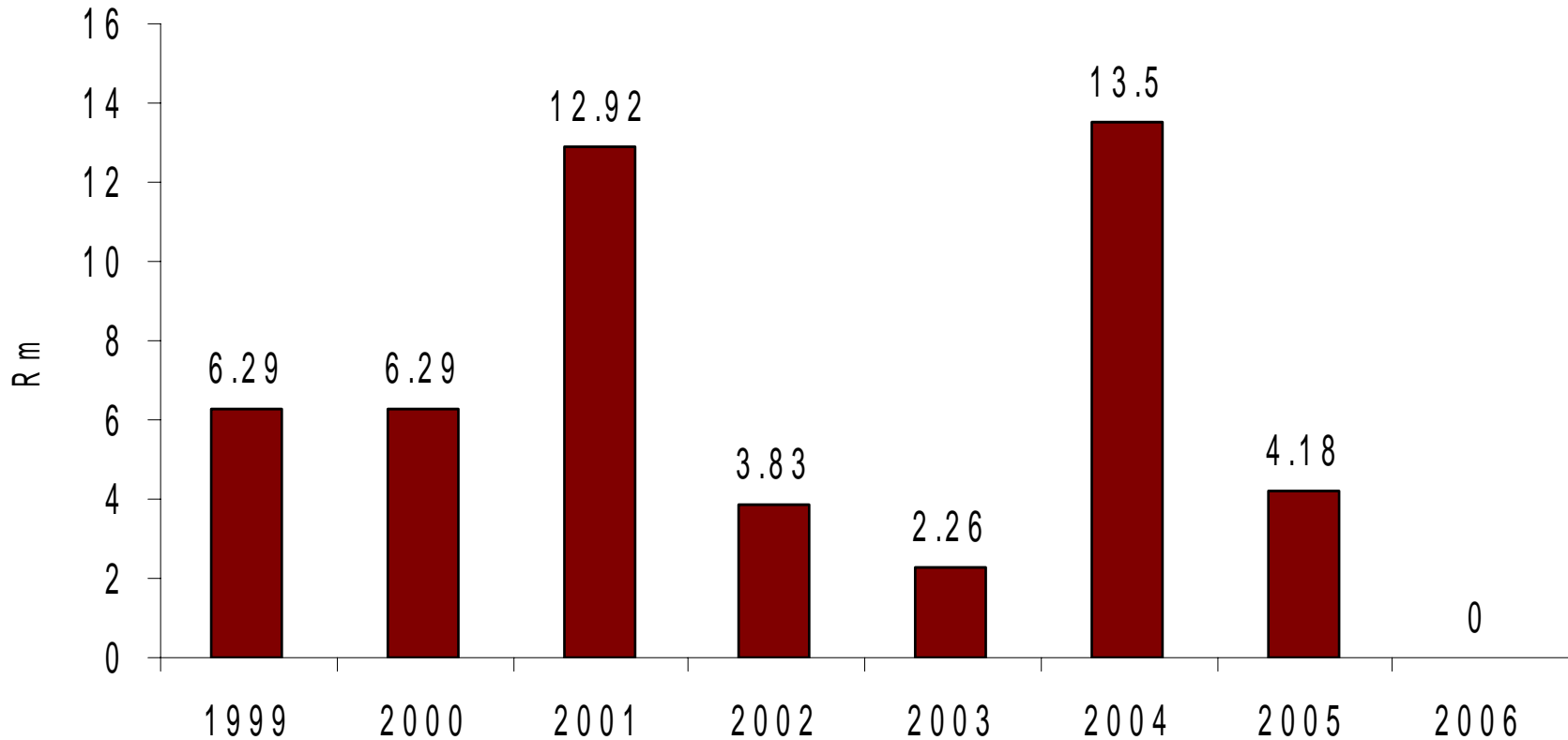
# History of under-capitalisation



**A review on our investment strategy is required**



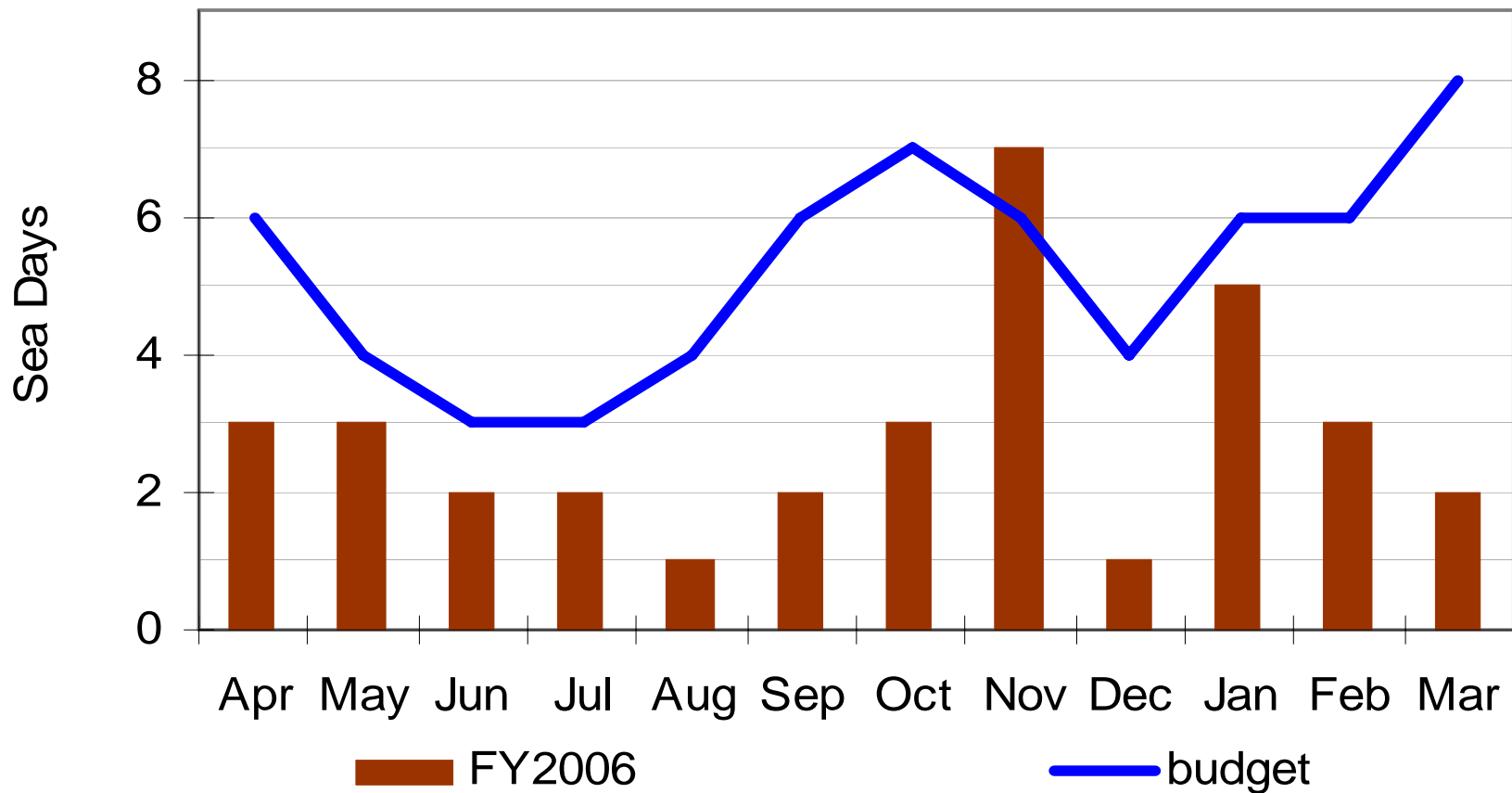
# Inconsistent Exploration Programme



**A sound exploration programme needs to be implemented**



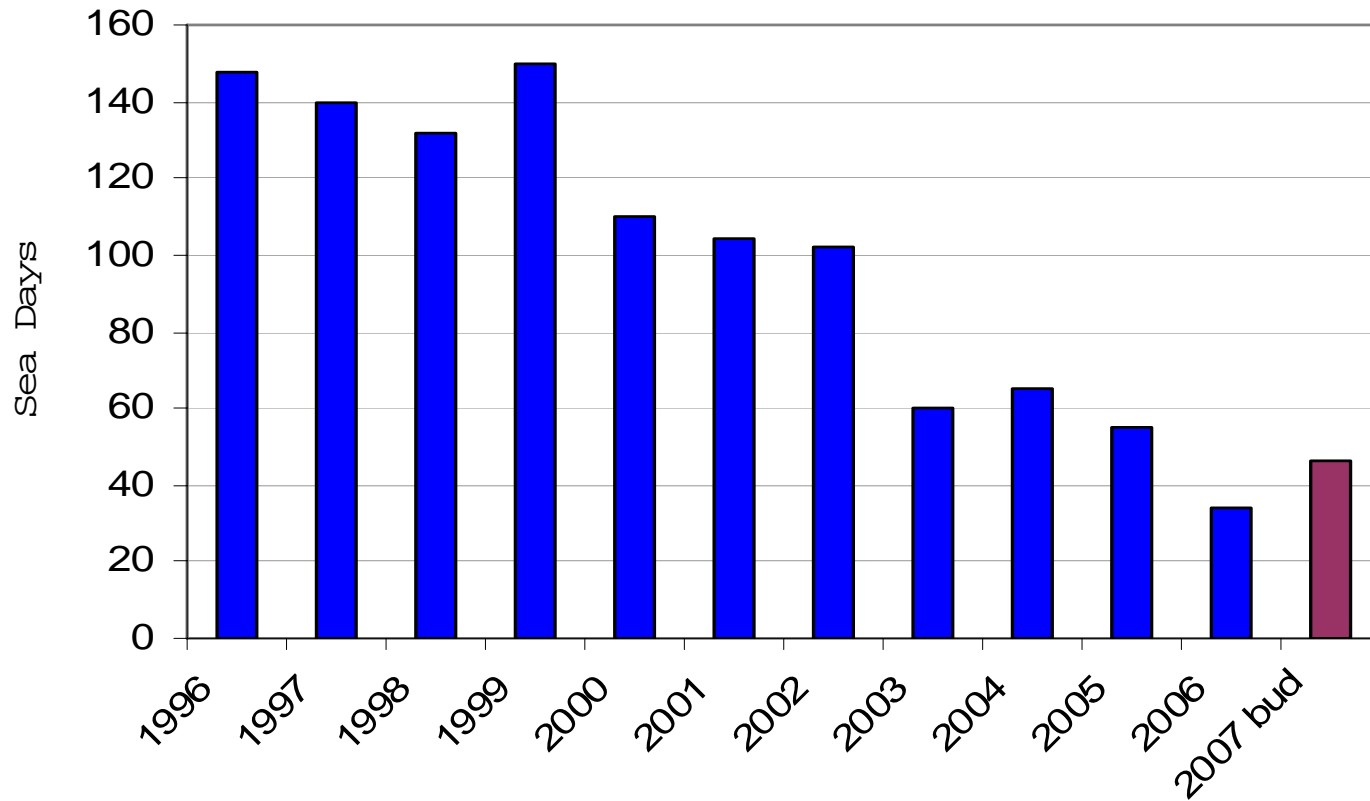
# Unpredictability of the number of sea days - 2005/2006



**Over-reliance on good sea weather not sustainable**



# Continuous Downward Trend on Sea Days



Turning point on sea weather patterns  
undeterminable





# Overview of Strategic Plan



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# Overview of Strategic Plan

- Alexkor's Strategic Planning Session was held from the 11-13<sup>th</sup> December 2005
- In attendance were the Management team, Board members and representatives from DPE and National Treasury
- Separate strategies were developed for ABM and ABT



# Update on ABM Strategy

- Reduction of unit mining costs to maximise the potential for identifying an economic resource by
  - Operating the plants at maximum capacity, 3 shifts – commenced in April 2006
  - Operating the mining teams on a 3 shift configuration to utilize the increased plant capacity – commenced in April 2006
- Development of a mineral reserve base by
  - Creating an exploration team with the necessary equipment – Planned for FY 2007
  - Fabricating an exploration plant – Planned for FY 2007
  - Conducting an aerial geophysical survey – Planned for FY 2008
- Reduction in the mine's dependence on diver directed marine operations by
  - Introducing remote mining techniques – in Q2 2007
  - Introducing dredger operations – Planned for FY 2008





# Update on ABM Strategy

- Maximise the revenue from the sale of the diamonds by
  - Selling the product on the open market - Immediate
  - Adding value through branding / marketing individual parcels
- To strengthen management capabilities
- To establish accurate and reliable IT systems – in FY 2007
- Gain approval of amendments to the mine's EMP and provide provision for the cost of closure – by end of Q3 2007
- To minimize the risk of diamond theft - ongoing



# Update on ABT Strategy

- Each Business unit ring-fenced as stand alone entity and to be managed in collaboration with experts within that specific unit
- Obtained professional advice from experienced operators in the Agricultural sectors for the development of sustainable business plan for the various ABT units
- Business plans will be developed in conjunction with the community once the land claims case is settled
- The turnaround strategies implemented for the ostriches and oysters business units working well



# Update on ABT Strategy (cont. )

- Potential exists for the development of sustainable Dairy and Citrus business units due to favourable climatic conditions

However this will require:

- a study to be conducted on market potential, and
- subsequent capital investment required to build a modern dairy and planting additional fruit trees



# Non Strategic Assets

- The following non strategic assets were identified at a strategic held by Alexkor:
  - Town Maintenance, Airport, Hospital , Guesthouses
- Loss for FY 2006 of **R 6.8 million** is broken down as follows :
  - Town Maintenance - ( R 4,1 million)
  - Airport - (R ,17 million)
  - Hospital - (R 2,6 million)
  - Guesthouses - R , 04 million
- Currently engaging with NC Provincial Government for the transfer of the Hospital, Airport and Town Maintenance to the relevant Authorities
- Transfer of the assets could be a potential cost saving of **R 6.8 m pa**, which is currently subsidized by ABM





# Overview of FY2007 Budget



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# Budget Overview

- **Assumptions for FY 2007**

- Average R/\$ exchange rate = R 6.15
- Diamond price (\$/ct) = \$445
- Carat production = 85,048 ct

<b>Diamond Production</b>	
Marine	48,110
ABM Own Mining	17,450
Land Mining Contractors	4,800
Muisvlak	12,269
Witvoorkop	2,420
<b>Total Carats</b>	<b>85,048</b>



# Budget Overview (cont.)

- Alexkor Consolidated Budget

## TOTAL INCOME

### ABM

DIAMOND

OTHER

### ABT

DAIRY

MARICULTURE

OSTRICHES

CITRUS

OTHER

### NON STRATEGIC BUSINESS

#### UNITS

TOWN

HOSPITAL

AIRPORT

GUESTHOUSES

**277,068,326**

**245,540,719**

232,760,818

12,779,901

**21,794,582**

7,757,780

960,000

3,354,096

112,700

9,610,006

**9,733,025**

3,602,952

4,472,231

-

1,657,842



# Budget Overview (cont.)

## TOTAL EXPENDITURE

**ABM**

**ABT**

DAIRY

MARICULTURE

OSTRICHES

CITRUS

OTHER

## NON STRATEGIC BUSINESS

**UNITS**

TOWN

HOSPITAL

AIRPORT

GUESTHOUSES

## NET PROFIT/(LOSS)

**276,659,820**

**237,684,751**

**24,872,308**

8,718,700

878,744

3,139,885

594,199

11,540,780

**14,102,762**

6,677,227

6,582,023

260,080

583,432

**408,506**





# Budget Overview (cont.)

- **Capex**

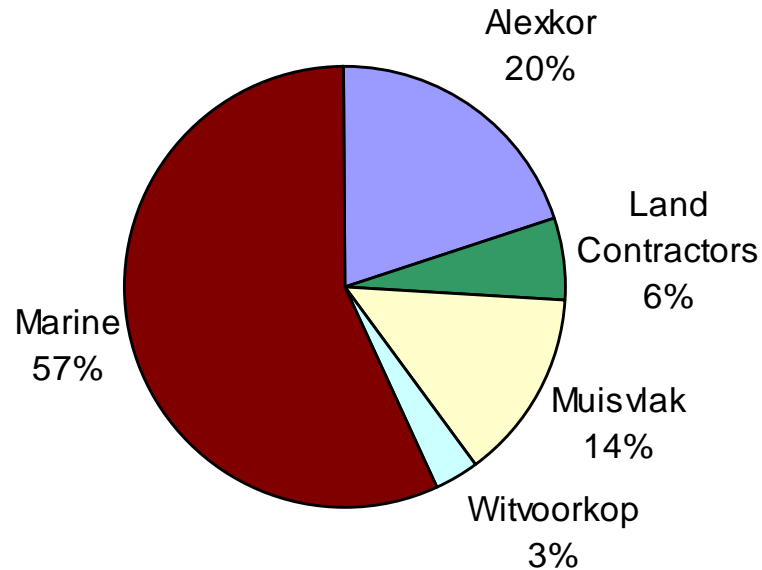
- Capital required to maintain operation **R 36,3 million**
- Capital required to maintain marine production **R 42,4 million**
- Capital required to conduct exploration **R 109,6 million**
- **Total Capital Expenditure** **R 188,3 million**

**The challenge is to find a source for the funding of capital requirements**

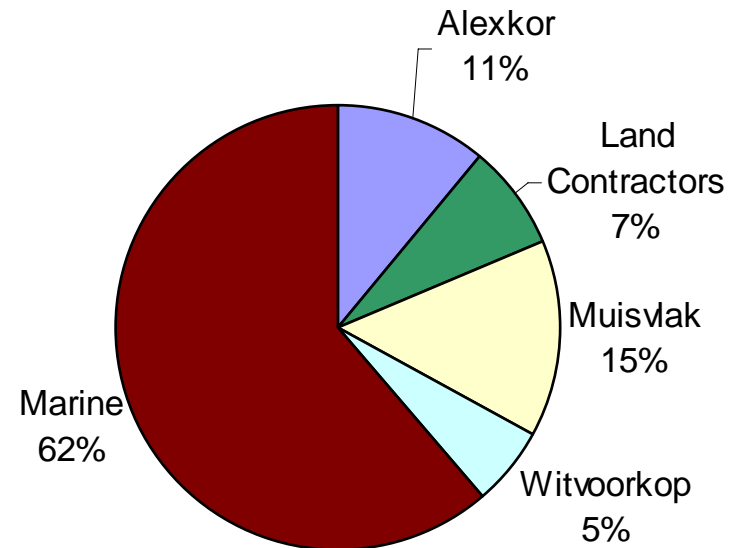


# Budget Overview (cont.)

Carat Production Split FY 2007



Carat Production Split FY 2006





# Implementation of Performance Improvement Plans



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# Improvement Initiatives on Land Mining

- Carried out mining operations throughout the December month to minimise impact of the holiday period
- Arrangements already in place to work additional shifts in FY2007
- Witvoorkop is planned to commence operating in 1Q07
- Muisvlak is planned to commence operating in the 2Q07
- Re-trained and allocated non-production labour to mining areas
- Commenced with triple shift operation for mining plants and screening operations
- Installed new scanner with latest technology to improve security at main access into the mine
- Place emphasis on cost reduction and control
- Sold March 2006 diamond production on the open market with very good success



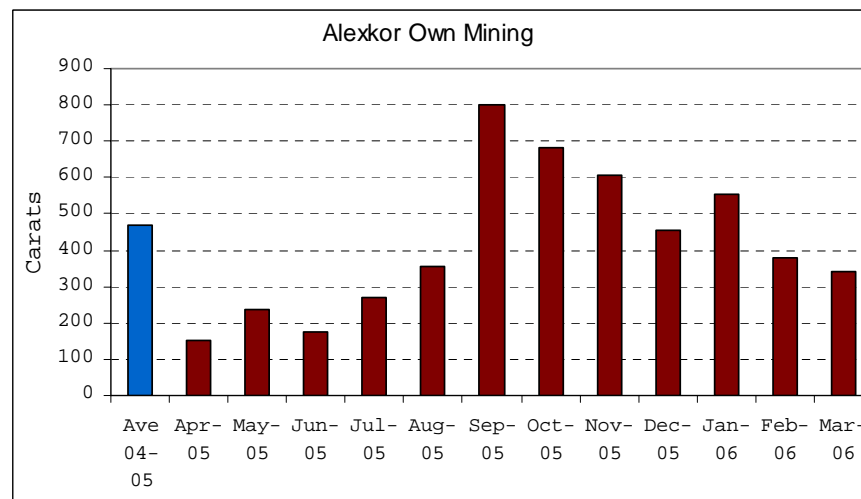
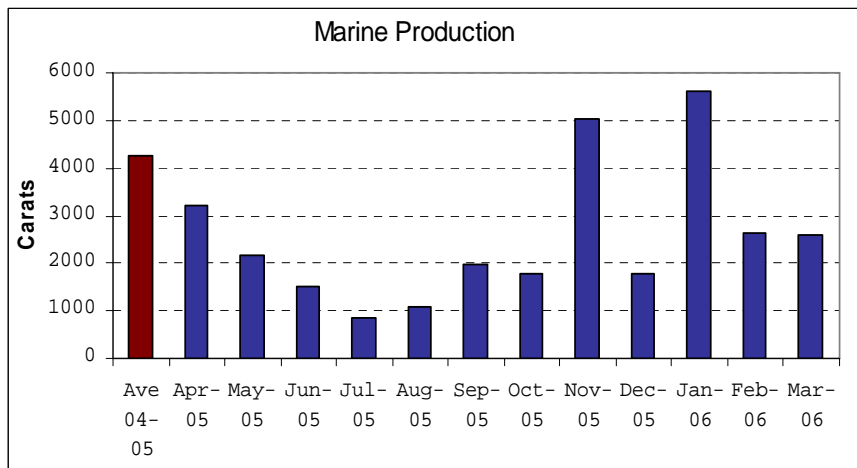
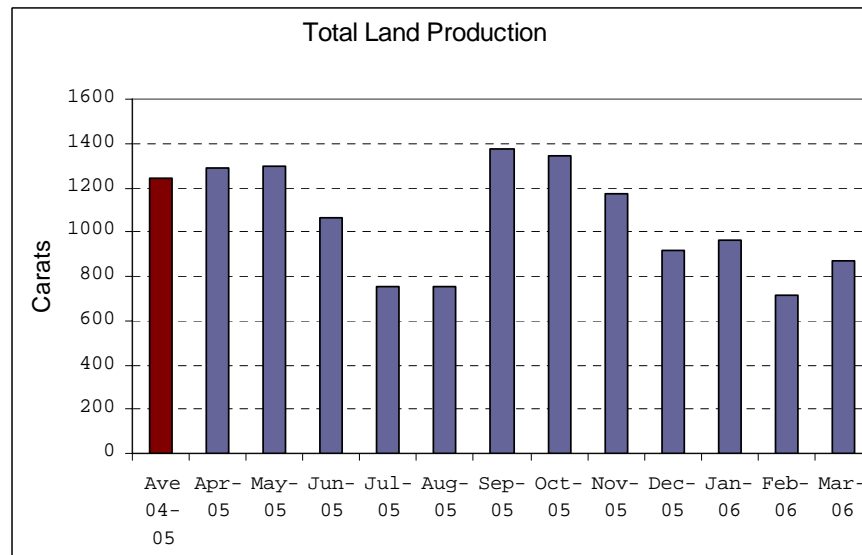
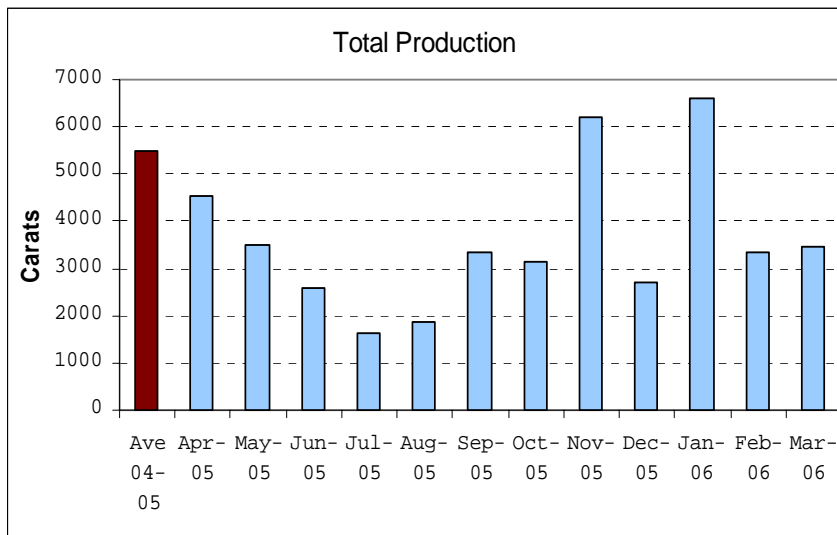


# Production Improvement to date

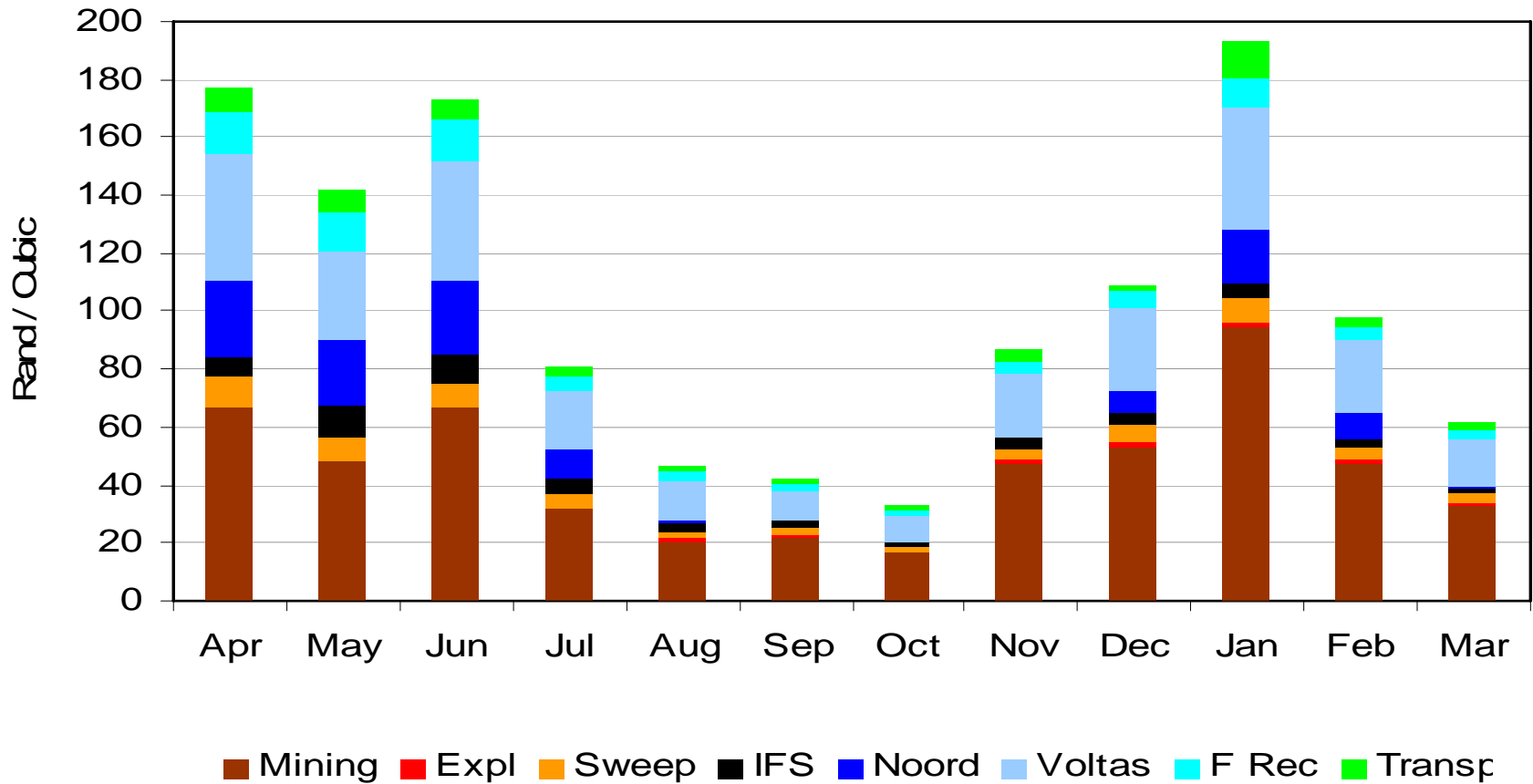


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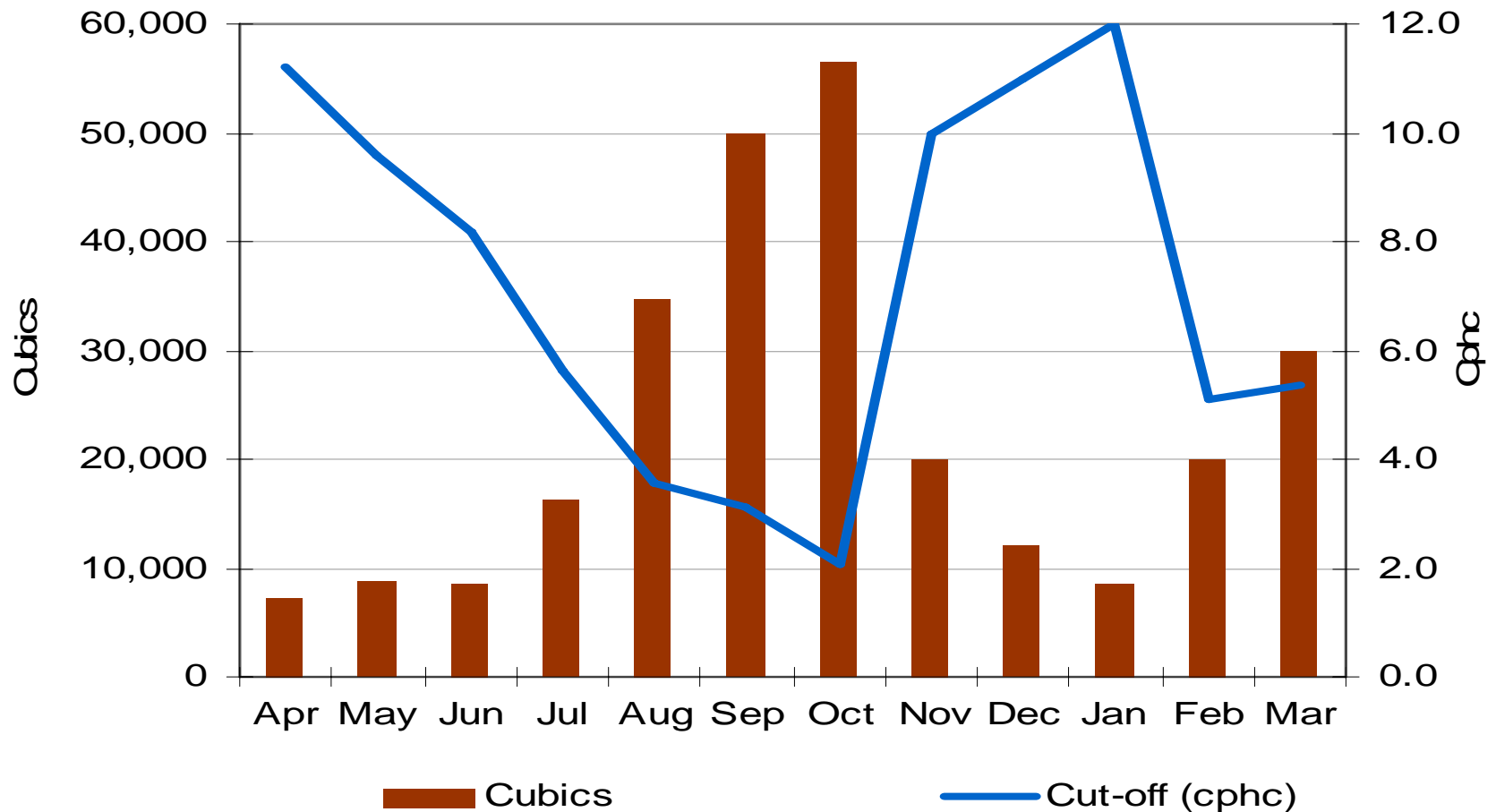
# Diamond Production Trends – YTD 2006



# Positive Trend: Reduction in Direct Working Costs



# Continuous Effort on Reducing Cut-off Grade





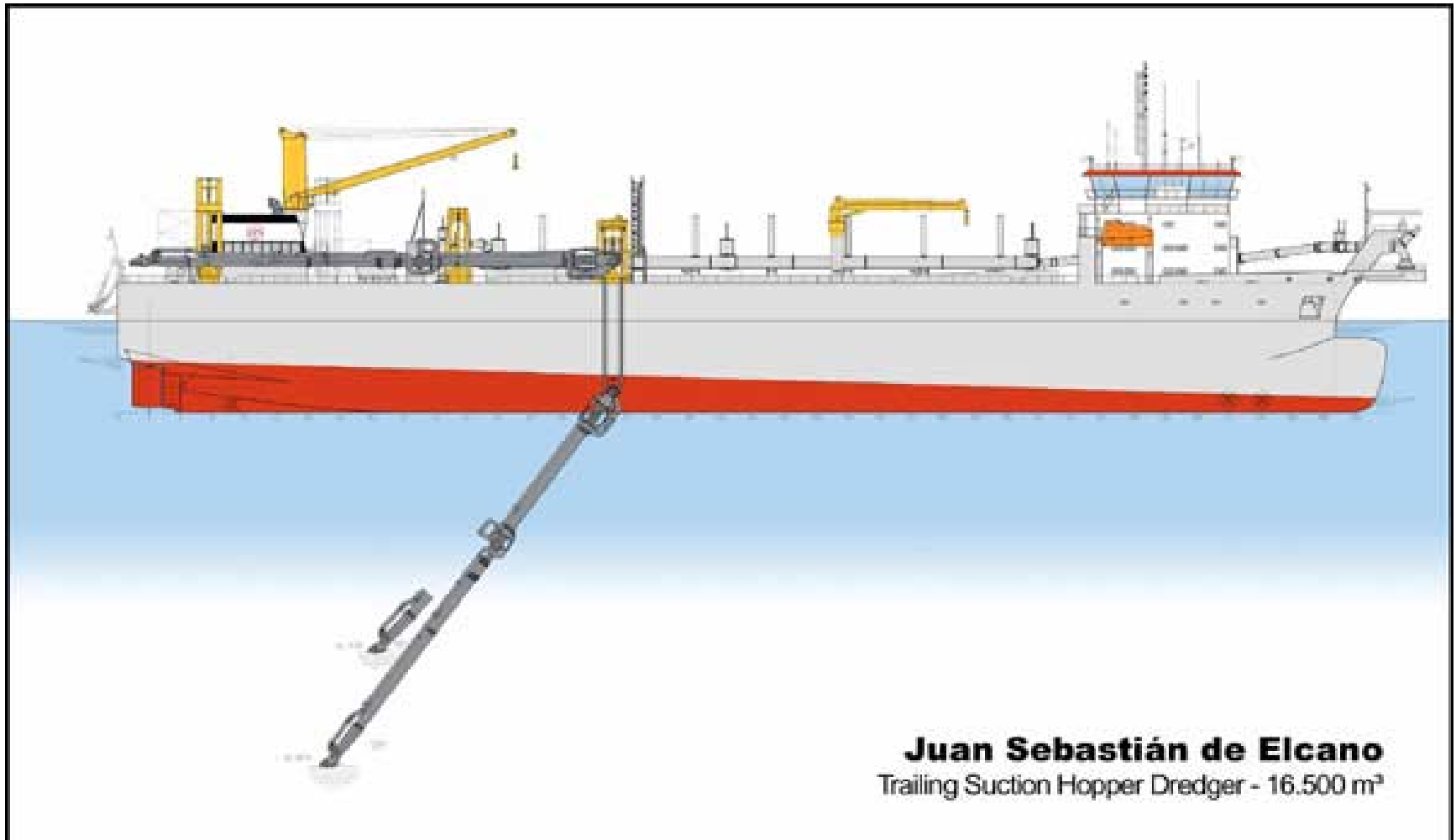


# Possible Growth Opportunities



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# DREDGER PROJECT — A vessel applying techniques on sea floor



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# Dredger Project - Concept

## Dredge

- This a vessel that dredges the sea floor sediment and suck it into the hold of the vessel

## Sail and Connect

- The vessel sails to a land-to-sea pipeline 600m off-shore

## Discharge

- Contents of the vessel is pumped to land based holding ponds via the pipeline

## Treatment

- The material is screened, loaded and trucked to a plant for diamond recovery



# Dredger project – Financial Implications

<b>Capital Required</b>		
Pipeline		R25,000,000
Equipment + Infrast.		R16,000,000
<b>OPERATING COST (1 month dredging)</b>		
Mobilisation	Once off	R15,000,000
Dredging 1 month	R750,000 per day	R22,000,000
Treatment on land	10 months at Noordsif	R6,500,000
<b>REVENUE</b>		
1 month dredging	34 000 cts recovery	R88,000,000 revenue
<b>PROFIT</b>		<b>R44,500,000</b>



# Dredger Project - Summary

Successfully undertaken on a trial basis by Namdeb

## **Positives**

- Will bring resource deeper than 20m water depth to account
- Potential for lower cut off grade than conventional remote mining techniques
- Not affected by sea conditions to the same extent as diving operations
- Extended life of treatment plants

## **• Negatives**

- High overheads associated with the project :
  - Pipeline R25 000 000 (reusable)
  - Mobilisation of vessel (can be shared with Namdeb)
  - Charter rate of the dredge vessel

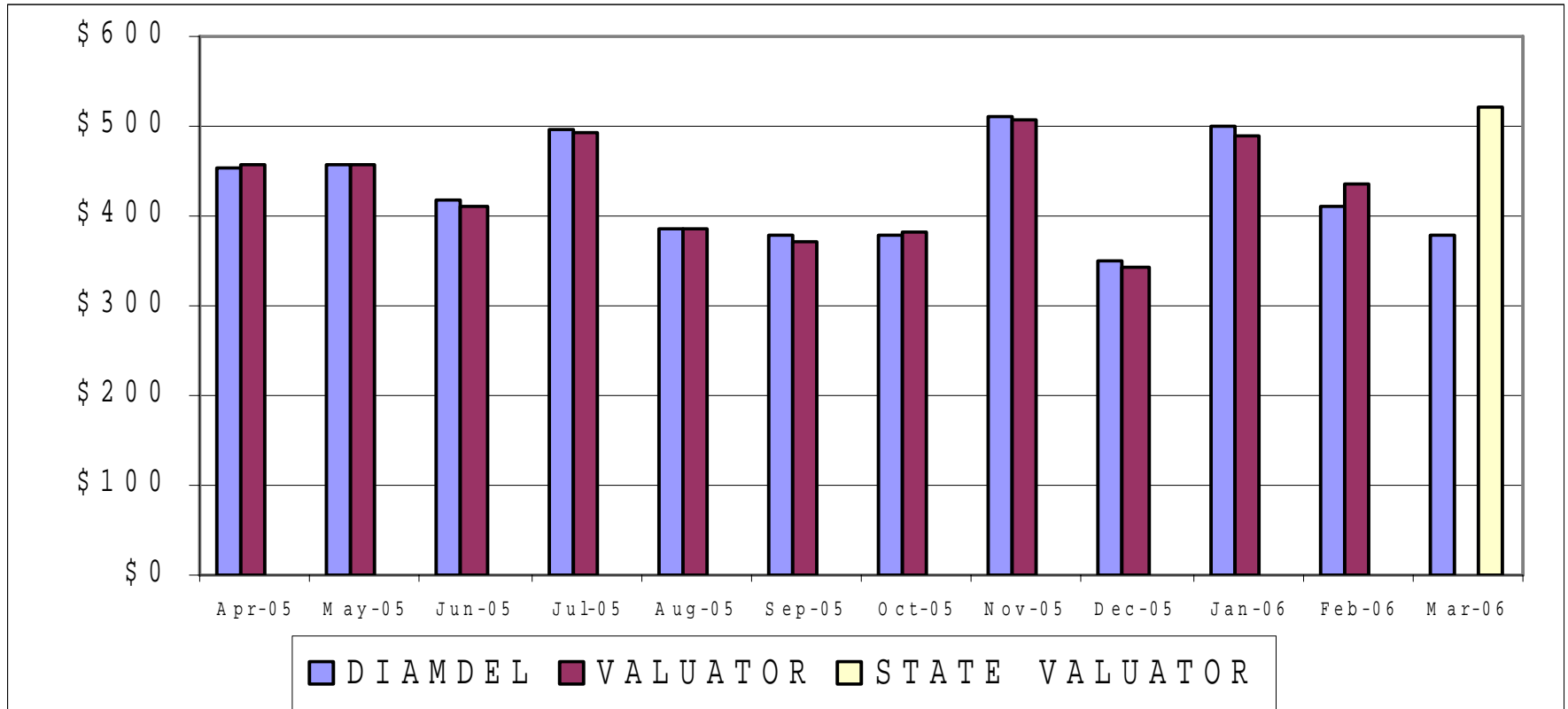


# Implementation of Remote Mining

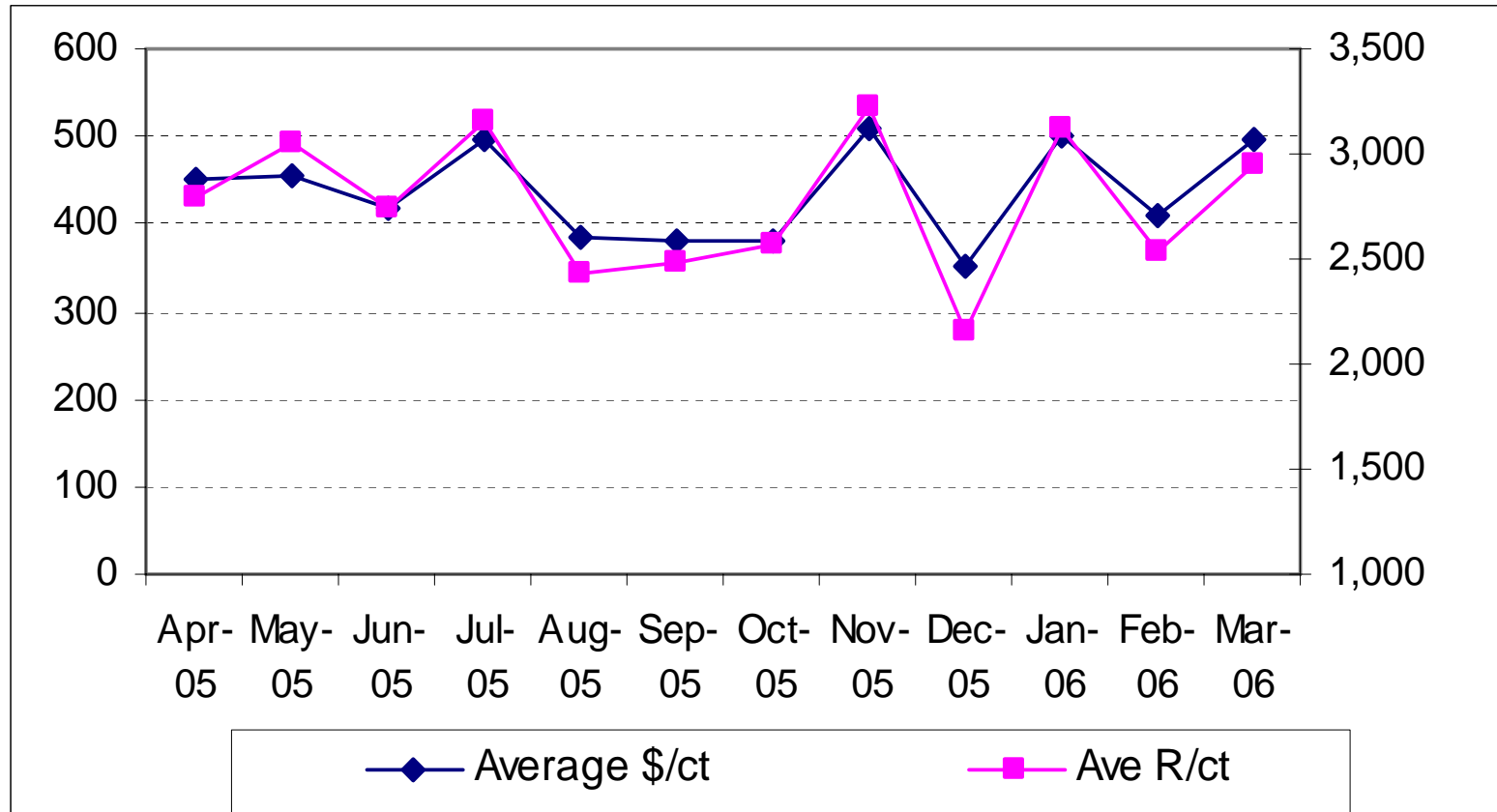
- Awarded four remote mining contract, one expected to start in June 2006
- Vessel based remote mining methods are expected to operate between 15 and 20 days per month as opposed to the diver operated units of 4 days per month.



# Sale of Production in Open Market



# Product is of good quality – good potential exists







# Update on Legal Matters



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# Uncertainties and Litigation Issues

- Good progress on the Land Claims case with the signing of the MOU by Government, Alexkor and CPA
- Awaiting court proceedings and ruling on other legal matters
  - Coin Security claim amounting to R 2.7 m
  - Ruslyn Mining Claim amounting to R 19 m
  - Nabera claim amounting to R 4.2 m and R 119 m (part of claim against State)
- Financial implications include legal fees and possible compensation
- Limited provision has been made for payment of possible settlement amounts





# Social Responsibility and Transformation



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# Social Responsibility and Transformation

## Skills Development:

- Providing bursaries to six students, of which 3 are females.
- Facilitating mentorship programmes with 11 HDSA Protégés, of which 5 are females.
- Currently training 11 HDSA apprentices, of which 2 are females.
- The earthmoving team comprises 36 employees, of which 3 are females.
- Trained 3 females as infield screen operators in early 2006.



# Social Responsibility and Transformation

- Conducting ABET classes to improve literacy, numeracy and life skills of employees and community.
- Alexkor expended 3.14% of total wage bill in 2005/2006 FY on training.
- Providing Health Care and emergency services to Alexander Bay and Richtersveld Communities
- Maintenance of Alexander Bay town, (including water and sewerage purification) and providing portable water to A/Bay and Port Nolloth.
- Ad-hoc donations & rental subsidies of R11 million for period 2000-2005
- Involvement in HIV/Aids awareness projects
- Donated 2 Wheelchairs for disabled members of the community.



## Employment Equity, as at 30 April 2006 (ABM)

POSITION	NUMBER OF INCUMBENTS	MALE			FEMALE			% OF DESIGNATED GROUP	DISABLED
		A	C	W	A	C	W		
Senior Management	6	1	1	3	-	1	-	50%	
Professionaly Qualified	14	3	2	5	1	1	2	64%	2
Skilled	71	-	22	38	-	3	8	46%	
Semi Skilled	187	5	126	19	-	25	12	90%	
Unskilled	26	1	17		-	8	-	100%	
<b>Total</b>	<b>304</b>	<b>10</b>	<b>168</b>	<b>65</b>	<b>1</b>	<b>38</b>	<b>22</b>	<b>79%</b>	<b>2</b>

2 Members of Senior Management resigned in February 2006, to be replaced soon.



# Marine Mining Contractors Structure

	MALE		FEMALE	
POSITION	BEE	NON BEE	BEE	NON BEE
Shareholders	177	46	39	9
Employees	477		18	

**The BEE shareholding on all Marine contractors is 50%**





# Conclusion



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# Conclusion

- Short-term focus is on improving financial performance:
  - Optimise the use of available resources
  - Implement initiatives for productivity improvement
  - Continuous reduction of both operating costs and pay-limit
- Implement short to long term strategic objectives to transform the company
- Collaborate with established companies and leverage on their ability to fund expansion plans
- Speed up the implementation of remote mining techniques
- Look at ways of obtaining funding for Capex and exploration programs





**Thank you**



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