

AEMFC to extract improved Eskom terms

By **Liesl Peyper** - October 20, 2015



[miningmx.com] – SOUTH Africa's state-owned African Exploration & Mining Finance Company (AEMFC) said it would improve its financial standing in the 2016 financial year after extracting improved coal sales terms from Eskom.

The AEMFC posted a marginal 2% increase in revenue for the 2015 financial year, according to the firm's annual report presented to parliament by CEO, Sizwe Madondo.

The lower sales are attributed to Eskom's cutbacks in coal off-take and the cancellation of its contract to supply coal to the Kriel power station from AEMFC's Vlakfontein coal mine in South Africa's Mpumalanga province.

However, Madondo said a new contract was in the making that will see higher volumes sold to Eskom at a higher price. The Vlakfontein mine specifically is also busy securing other markets should its coal supply exceed Eskom's demand, he said.

The irony in the current coal market is that it's more profitable for coal producers to sell to Eskom than

export to the international markets, the dollar-denominated pricing notwithstanding. This is owing to poor coal prices and the fact that Eskom is facing a chronic shortage in coal supply which is requiring it to offer good terms to miners.

Madondo also said the AEMFC planned to double its current coal production by the 2017 financial year to provide coal to the Kusile power station when it comes on stream.

Plans are well underway to extend mining activities at its Vlakfontein where new reserve blocks have been identified. The necessary amendments to Environmental Management Plans for the expansion have also been submitted.

In addition to expanding the Vlakfontein operations, AEMFC is also conducting pre-feasibility studies for another coal mine, Klippoortjie, some 40km from its existing operations.

Seam 5 of AEMFC's so-called T Project coal mine – 12km north of Kinross in Mpumalanga – is suitable for crude oil production and the company will be looking for market interest for this.

AEMFC is also doing exploration to mine iron ore in the Piet Retief area and limestone in Tosca. Besides Mpumalanga the company also has prospecting rights in KwaZulu-Natal, Northwest and the Northern Cape.

Notwithstanding its "modest revenue increase" in the 2014-'15 financial year it has made a profit of R13,4m after taxation, Madondo said. It is however R20m lower compared to the R33,4m profit in the previous financial year.

According to BDLive, AEMFC is struggling to raise funds to finance its expansion plans, however.

"Lenders ask us to bring our equity, at least half of the project cost, and we don't have that. We are also unable to go to Treasury, so basically we are on our own trying to raise finance for attractive projects," said Madondo in parliament. "We have projects where we could crack ground on Wednesday if we had the money."

The AEMFC was touted as an alternative means of increasing state ownership of the South African mining industry without resorting to nationalisation, said BDLive. With the exception of the Vlakfontein coal mine, which supplies Eskom, it has not yet managed to develop its other projects, predominantly in coal.