

Challenges to Cross-Border Investments in Mining in Africa

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Outline & Introduction

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- **Strategic Drivers of Investment**
- **Challenges**
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- **The Investment Climate Facility for Africa**
- **Case Studies - Examples of Successful Cross-border Investment**
 - ✓ **Ashanti Goldfields Company – Growing a Multi-mine, Multi-country African Mining Company**
 - ✓ **UraMin – Cross-border Investment & Realization of Value**
- **Conclusions**

Africa - General Environment

Summary Macro-economic Data	General Observations
<ul style="list-style-type: none"> ✓ 53 countries ✓ Total population: 840m (13% of world total) ✓ Total GDP: US\$926bn (2.1% of world total), ✓ Average GDP/capita: US\$1,100 ✓ 31 of world's 38 HIPC countries are in Africa 	<ul style="list-style-type: none"> ✓ Concentration of economic activity (largest 7 economies cover 70% of Africa's total GDP, and largest 11, 80% of GDP) ✓ GDP/capita ranges from US\$100 to US\$8,200 ✓ GDP growth ranges from -7.1% to 14.7% p.a. ✓ Wide range of political risk; from LOW to EXTREME ✓ Largest economies all LOW to MEDIUM political risk ✓ "Ease of Doing Business" Rank ranges from 29 to 175

Economic Balance Sheet

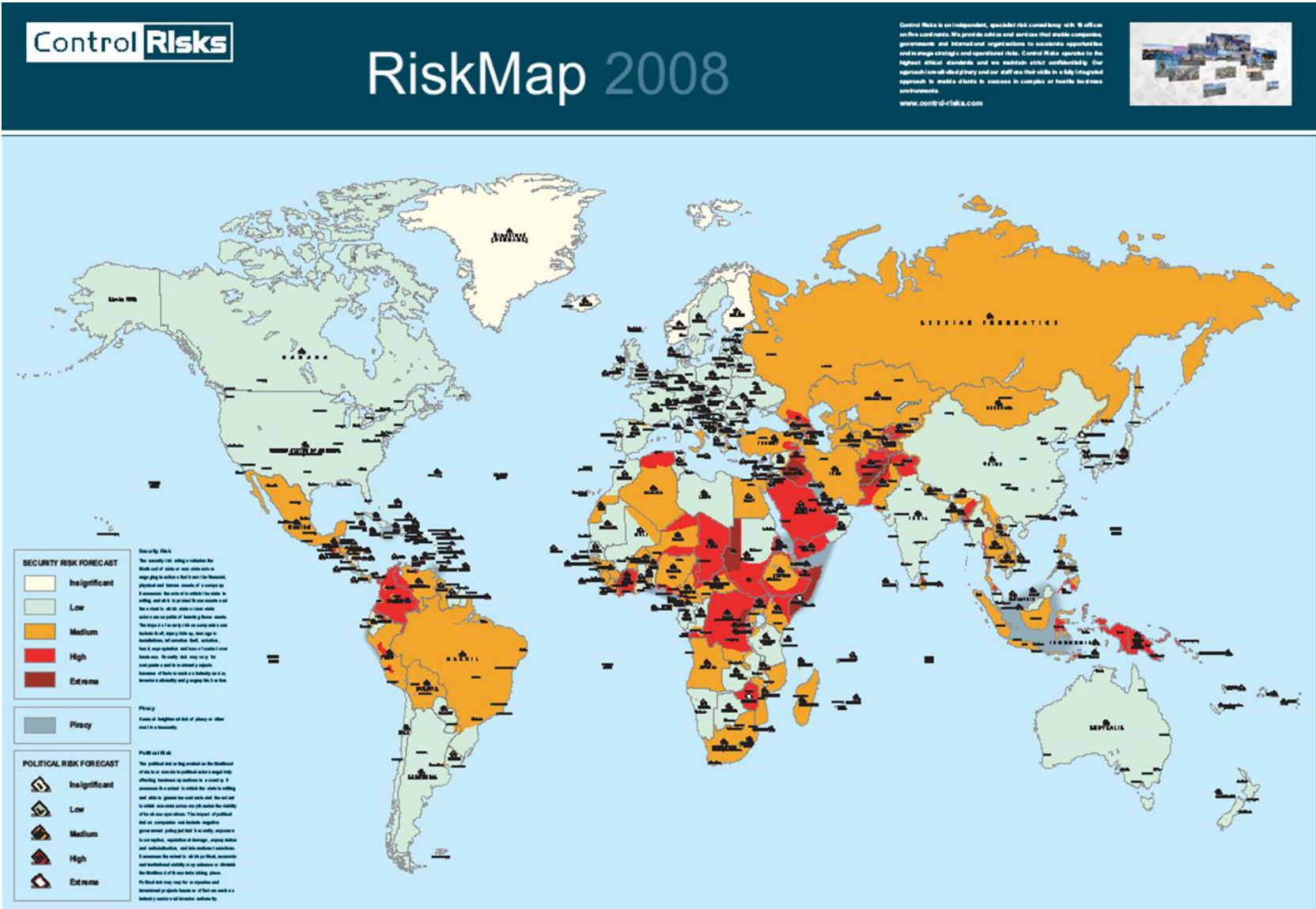
<ul style="list-style-type: none"> ✓ Abundant natural resources ✓ Technology transfers leading to improved productivity ✓ Communication technology strengthening liberalization process, market forces, commercial interests & democracy ✓ Growing number of well qualified, experienced African professionals 	<ul style="list-style-type: none"> ✓ Poverty increased over past 25 years ✓ Around half population live on < US\$1 per day ✓ HIV/AIDS pandemic a serious challenge
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Political Balance Sheet

<ul style="list-style-type: none"> ✓ Legal and regulatory reform ✓ Greater openness to market forces ✓ Improved access to developed economy markets ✓ Strengthening of democracy ✓ Armed conflict and civil strife declining 	<ul style="list-style-type: none"> ✓ History of autocratic and unaccountable government ✓ Protracted armed conflict in some countries ✓ High levels of corruption
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Challenging Environment Abundant Opportunities

Global Risk Map – Most “high” and “extreme” risk countries are in Africa



Strategic Drivers of Investment in Mining

➤ Market Characteristics

- ✓ Metals & minerals supply & demand dynamics
- ✓ Medium to long-term market outlook

➤ Availability of Opportunities to Deliver Superior Risk-adjusted Returns

- ✓ Source superior assets
- ✓ Develop asset, i.e. take asset up the value curve
- ✓ Manage risk
- ✓ Realize value, e.g. through creating an operating entity as low-cost producer, listing or sale

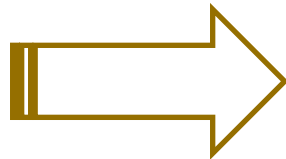
➤ Availability of Suitable Partners

- ✓ Financial investors need to find the right strategic partner
- ✓ Partners need to share common vision for underlying business and appetite for risk
- ✓ Partners need to be complementary & to contribute to success of underlying business, i.e. funding partner & execution partner – The Xstrata story

➤ Competition

- ✓ Certain major mining companies well established in Africa – not all are successful
- ✓ Several hundred juniors active in exploration and development in Africa

OBJECTIVE



The objective **is not** the investment
The objective **is** to create a successful venture

Good Asset Right Partner Manage Risk Realize Value

Challenges

Political/Regulatory

- Regulatory environment
 - ✓ Poorly developed regulatory environment
 - ✓ Foreign exchange controls (South Africa)
 - ✓ Governments keep changing the rules
- Political risk
 - ✓ Most “high” and “extreme” risk countries are located in Africa
 - ✓ Perception - All African countries painted with the same risk brush
 - ✓ Presents an opportunity for those who understand Africa risk and can manage Africa risk
- Armed conflict & civil strife
- Corruption

Infrastructure

- Unsophisticated institutions & financial infrastructure
- Poor communication infrastructure – improving with mobile telephony
- Travel within Africa challenging

Business

- Poorly developed domestic capital markets
 - ✓ Limited capital can be raised locally
 - ✓ Operational difficulties , e.g. transferring funds
- Lack of sophistication in business practices, particularly in government

Significant Challenges Africa not for the Faint Hearted

Positive Factors

➤ Economic Climate

- ✓ Abundant natural resources in Africa
- ✓ Technology transfers are leading to improved productivity
- ✓ Improved communication technology strengthening liberalization process, market forces, commercial interests & democracy
- ✓ Improved access to developed economy markets
- ✓ Growing number of well qualified, experienced African professionals
- ✓ Emergence of pro-active organizations, e.g. the Investment Climate Facility for Africa (“ICF”)

➤ Political Climate

- ✓ Legal and regulatory reform taking place
- ✓ Greater openness to market forces
- ✓ Improved macro-economic management, e.g. government budget deficits are on the decline
- ✓ Strengthening of democracy
- ✓ Armed conflict and civil strife declining
- ✓ Improving institutional infrastructure

Significant Positive Features Climate Improving

The Investment Climate Facility for Africa

➤ ICF Mission

- ✓ The ICF is a new private-public partnership, focused on improving the continent's investment climate. Our mission is to make Africa an even better place to do business, by removing obstacles to domestic and foreign investment and by promoting Africa as an attractive investment destination.

➤ Key Objectives

- ✓ *Build the environment for investment climate reform*
 - Encourage, develop & work with coalitions for investment climate reform, support business-government dialogue
- ✓ *Get the investment climate right*
 - Support governments in creating a legal, regulatory & administrative environment that encourages business
- ✓ *Encourage business to respond*
 - Improve Africa's image as an investment destination through publicising improvements in the investment climate

➤ Corporate Partners

- ✓ The ICF's corporate investors include; Anglo American plc, Celtel, Microsoft, Royal Dutch Shell plc, Shell Foundation, SABMiller, Standard Bank, and , Unilever plc

➤ Board of Trustees

- ✓ Sir Niall FitzGerald – ICF Co-chair and Chair of the Board, former Director of Unilever
- ✓ Benjamin Mkapa – ICF Co-chair and Chair of International Relations, former President of Tanzania
- ✓ Sir Sam Jonah – Executive Chairman of Jonah Capital, former President of AngloGold Ashanti
- ✓ Dr William Kalema – Chairman of Uganda Investment Authority & Uganda Breweries
- ✓ Henri Bonpun – former Africa Business Group President of Unilever
- ✓ Lazarus Zim – Chairman of Kumba Iron Ore, former CEO of Anglo American South Africa
- ✓ Dr Nkosana Moyo – Managing Partner of Actis in Africa
- ✓ Baroness Lynda Chalker – former UK Minister of State for Africa, and Minister of Overseas Development
- ✓ Dipak Patel – former Minister for Commerce, Trade & Industry in Zambia

➤ Website: <http://www-za.investmentclimatefacility.org/>

Public-Private Partnership Strong Corporate Support Investment Tool

Ashanti Goldfields Company Limited (“Ashanti”)

➤ Ashanti’s Origins

- ✓ Started as a company owning a single mine in Ghana
- ✓ Key management decisions made in London
- ✓ Local team considered not competent to manage company
- ✓ Depletion of ore reserves, high taxes & lack of investment led to first operating loss in its history in 1982

➤ Transition of Company

- ✓ Ashanti granted loan of £159 million by IMF in 1985 as part of Ghana’s Economic Recovery Programme
- ✓ First Ghanaian appointed as CEO (Sam Jonah), embarked on major overhaul of company’s operations
- ✓ Management responsibilities transferred to Ghana
- ✓ Company began community renewal plan
- ✓ Funding from IFC enabled company to launch Ashanti Mines Expansion Programme
- ✓ Ashanti built into a company owning and operating seven mines in four countries , listed in Ghana, London & New York

➤ Historical Timeline of Key Events & Achievements

- ✓ **1897** - Ashanti Goldfields Corporation Ltd incorporated in London & listed on the London Stock Exchange
- ✓ **1968** - Company acquired by Lonrho of London
- ✓ **1972** - New government in Ghana acquires 55% of company's shares
 - Name changed to Ashanti Goldfields Company, headquarters relocated from London to Accra
- ✓ **1980** - Annual production fell to 232,000 ounces
- ✓ **1986** - Sam E. Jonah becomes company chief executive
- ✓ **1994** - Company listed on London and Ghana stock exchanges.
- ✓ **1996** - Company becomes the first African company to list on the New York Stock Exchange.
- ✓ **2000** - Seventh mine, Geita, opens in Tanzania with other mines located in Ghana, Zimbabwe & Guinea
 - Achieved annual gold production of 1.74 million ounces
- ✓ **2004** - Ashanti merges with AngloGold Ltd to form AngloGold Ashanti Ltd

Right Management Team Model for Success

UraMin Ltd

- UraMin incorporated in February 2005 with the aim of acquiring and developing uranium deposits throughout the world
- Acquired assets in 5 countries; Namibia, South Africa, Central African Republic, Chad and Canada
- Listed on AIM in April 2006
- £34 million raised at 68½p a share
- Sam Jonah appointed Chairman and Ian Stalker CEO (both formerly of Ashanti Goldfields)
- Uranium prices increased from around US\$20/lb in Feb 2005 to US\$75/lb in Feb 2007
- Sold to Areva in June 2007 for US\$2.5 billion, or approximately £3.97 per share

Cross-border Investment Realizing Value

Conclusions

- **Opportunity**
 - ✓ ***Abundant opportunity in Africa*** – Particularly in metals & minerals, but also other sectors
- **The Challenges**
 - ✓ ***Political/Regulatory*** – regulatory environment, political risk, armed conflict & civil strife, corruption
 - ✓ ***Poor Infrastructure*** – Institutions & financial , communication, travel
 - ✓ ***Business*** – Poorly developed domestic capital markets, lack of sophistication in business practices
- **Objective**
 - ✓ ***Is not*** merely the investment, ***is*** to create a successful venture
- **The Model for Successful Investment**
 - ✓ ***Focussed strategy***
 - ✓ ***Right partner***
 - ✓ ***Put the best team in place to execute***

Abundant Opportunity Challenging Environment
Find Right Partner Install Best Management

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