

Address by Jurgen Eijgendaal, President of the Ghana Chamber of Mines at the 82nd AGM held on Friday 28th May 2010

Hon. Ministers of State, Honourable Members of Parliament, Chairman of the Minerals Commission, Chief Executives of private and government institutions, Members of the Diplomatic Corps, Distinguished Guests, my very dear colleagues, Invited Guests, Members of the Media fraternity, Ladies and Gentlemen.

It is my pleasure to add my voice to the welcome you have already been given to the 82nd Annual General Meeting of the Ghana Chamber of Mines, and to present to you, the Annual Presidential Address.

When the time comes to present the Annual Presidential Address there are inevitably both positive and negative observations that have to be made about an industry, which since its inception more than 82 years ago has played such a crucial role in the socio-economic growth and development of Ghana.

The global economic downturn which began in 2008 and prevailed in 2009, affected the performance of the global mining industry as the prices of the bulk of metals witnessed significant depreciation.

However, the depreciation of major international currencies, especially the US dollar, coupled with inflationary fears in the face of the economic downturn, positioned gold as a preferred habitat for majority of investors. In the circumstance, the price of gold had a strong showing in 2009 and

averaged over US\$972 per ounce. The value of gold climbed steadily throughout the year with prices ranging between US\$810 and peaking at over US\$1,200 in early December. The surge in gold prices suggested investors' anxiety to protect their capital against inflation, currency depreciation and bank failures.

Meanwhile, the price of crude oil witnessed a sliding drift by peaking at US\$74 per barrel in June to confirm a downward trend at US\$66 per barrel and eventually closing the year at US\$70 per barrel. This occurred at the time when the price of gold was exhibiting an upward trend. Subsequently, the traditional positive correlation that exists between the price of crude oil and the price of gold was breached. The fall in global oil demand in 2009, which bottomed out in the middle of the year, as the world economy began to recover is the main reason for the fall in the price of crude oil.

On the local scene, Ghana maintained its position as the 9th highest gold producing country in 2009 as output increased by 9%, year on year basis. Ghana's production includes output of the majors as well as PMMC's purchases and shipments which are recorded by the Chamber of Mines; in addition to the production of other small-scale mines who do not fall within the Chamber's ambit.

Most mining companies were not insulated from the adverse impact of the global economic turmoil. In an environment of heightened scrutiny, most mining companies continued to contend with the rising costs of regulatory compliance and sustainable development.

In spite of the challenges, Ghana's mining sector performed quite creditably in 2009. According to the Ghana Statistical Service and Ministry of Finance and Economic Planning, the mining sub-sector grew at a remarkable rate of 8%. This compares favorably with the 5.5% recorded in 2008. By this

performance, the mining sector came second, behind the Electricity and Water sub-sector which recorded a 9% growth in the industrial sector in 2009. Mineral revenue represented approximately 48% of the country's gross export earnings in 2009.

The mining sub-sector contributed about GH¢319 million (about US\$224.65 million) to the Internal Revenue Service (IRS) collections representing 18% of total IRS collections in 2009. The impressive performance was on account of increased gold revenue which translated into higher mineral royalty payments and rise in PAYE payments on the back of significant appreciation in salaries mostly pegged in US dollars, spurred by the depreciation of the cedi to the US dollar.

The mining and quarrying sector paid about GH¢125 million, (US\$88 million) in corporate tax to the IRS; representing 17% of the total company tax, withholding tax and levies it collected in 2009. The sector retained its ranking as the third highest payer of corporate tax during the year; following the Communication and the Financial Intermediation sectors in that order.

By this performance, the industry became the leading contributor to IRS's collections, having improved from the third position in 2008.

The total mineral revenue of producing member companies of the Chamber rose from US\$2.3 billion in 2008 to US\$2.9 billion in 2009 representing an increase of 27%.

Gold revenue was up by 29% from US\$ 2.2 billion in 2008 to US\$2.8 billion in 2009. The rise was due to an appreciation in gold output by 13.3% from 2,585,913 ounces in 2008 to 2,930,328 ounces in 2009 coupled with an increase in the average realized gold price by 14% from US\$852 per ounce in 2008 to US\$970 per ounce in 2009. The average realized price of gold was therefore marginally less than the average spot price of the London Fix

P.M of US\$972 in 2009. The average aggregated cash cost of producing member companies was down by 11.98% at \$573 per ounce in 2009 relative to the \$651 per ounce recorded in 2008.

Communication and Advocacy

Over the years, one of the high priority areas for the mining industry has been to secure more public recognition of the tremendous contributions, which the industry has made. The Chamber continued to pursue this agenda through its enhanced Media Relations and Public Affairs activities

In 2009, the communication activities focused on image building and marketing of the Chamber. To this end, the Chamber arranged mine visits by the various press houses which focused more on the economic benefits that had accrued to the communities in the mining areas as a result of mining.

These interactions with the personnel of the 'inky fraternity' have shown the need to involve experts on the environment, Chiefs and Opinion Leaders in future visits to mine units in order to gain first-hand experience on how mining operations are carried out.

Regulations to Minerals & Mining Law

The Chamber participated in a workshop hosted by Minerals Commission at Akosombo from the 16th to 17th December, 2008 to review the draft regulations on the Minerals and Mining, Act 703. The workshop discussed each segment of the regulations and the associated comments from stakeholders. The Chamber submitted its preliminary comments on the Draft Directive to the Minerals Commission for consideration.

Royalties

Ladies and gentlemen, in 2009, the Chamber continued its advocacy for government to increase the quantum of royalties returned to host communities from the current 9 per cent to 30 per cent. The returned royalties should then be tied to the provision of specific infrastructural projects that will stimulate development in those areas. The need for this has even become more relevant on the heels of government's recent increase of the royalty rate from 3 to 5 percent. We believe that this policy shift will ensure that royalties play a meaningful role in local development.

Government Relations

The Chamber's relationship with Ministers, Department and Agencies continued to be healthy and beneficial to all stakeholders. These relations are reinforced by proactive interactions in the form of consultative meetings with relevant Ministers and regulatory agencies such as the Minerals Commission, Environmental Protection Agency, Mines Department, Geological Survey Department, VAT secretariat, Customs Excise & preventive Services (CEPS), Immigration Service, Police and the Internal Revenue Service.

The Chamber also had numerous discussions with various Ministers including our sector Minister, Minister for Finance & Economic Planning, Minister for Local Government, Rural Development & Environment, Minister for Western, Brong Ahafo and Ashanti Regions, Minister for Interior, Minister for Trade, and the Minister for Energy

One notable highlight of these relations during the period under review was the courtesy call paid by the Chamber on H. E. President JEA Mills and his team at the Castle.

Conferences on Mining & Sustainable Development

During the year under review, the Chamber was involved in various local and internal foras related to mining. The Chamber's participation was to enable the industry to make inputs and to provide accurate information of the positive role that mining is playing the development of the Ghanaian economy. The Chamber also continued to collaborate and work with other mining related intuitions such as the International Cyanide Management Institute, Global Compact, Extractive Industries Transparency Initiative, and the International Council on Metals & Mining among others

Chamber's Building Project

I am happy to report that at long last the Chamber has acquired a parcel of land on which to put an office complex that will house the Chamber and its affiliates. The sod for the office complex was cut this past Monday and construction is expected to begin soon.

On this note I must extend my appreciation to the immediate past President of the Chamber's Finance Committee under the leadership of the immediate past President, Mr. Mike Ezan, who later on became the President of the Chamber, mooted the idea for the Chamber to acquire its own office building. The Executive Committee and Council supported the idea and as they say the rest is history. However, I must mention that I must also mention that Auntie Joyce played a pivotal role in the acquisition of the and was instrumental in actually getting title to that particular parcel of land. The Chamber Secretariat as well as members of the building committee also did a lot of good work and should continue to work hard to until the project is complete.

Power Issues

A Chamber delegation met with the Chief Executive of Volta River Authority (VRA) and his team to deliberate on outstanding issues on the determination of tariffs for bulk – consuming mining companies, effective January 2009. Other issues concerning poor quality of power, which could cause damage to equipments in the industry, were also discussed.

The key issues that were discussed included the following:

- Automatic Tariff Adjustment Formula
- Application of Exchange Rate
- Power Purchase Agreement (PPA); and
- Role and responsibility of GRIDco in the power supply chain

Chamber Board Memberships

The Chamber continued to be a key player in various fora, especially on issues related to mining and development. During the year under review, the Chamber had been invited and agreed to serve on the boards of a number of organizations and other Public institutions.

These Boards include the

- Ghana Railway Development Authority,
- Ghana Shippers Council,
- National Petroleum Authority,
- National Labour Commission:
- Ghana Shippers Authority:
- Global Fund on HIV/AIDS:
- Centre for Industrial & Scientific Research
- Global Fund for Mines on HIV/AIDS

The Chamber also continues to serve on the Councils of Ghana Employers Association, Private Enterprise Foundation, the Ghana Business Coalition among others.

Ratification of Membership

During the year four new members joined the Chamber in the various categories.

Africa Mining Review workshop

The Chamber participated in a 3-day Africa Review workshop in Accra from 25-27 November 2009. The purpose of the workshop was to review the draft Africa's Mining Regime: Framework Report compiled by the International Study Group established under the auspices of African Union Commission and the United Nations Economic Commission for Africa. I am happy to say that the Chamber was already championing most of the issues raised at the workshop.

Industrial Relations

The year under review was rather turbulent as the Industry was confronted with tough negotiations and agitation. Some of our members had to resort to the Labour Commission or 3rd parties for arbitration and resolution.

Members would maintain the 2009 strategy of collaboration and consensus building in matters of labour relations, and proactively send proposals ahead to the Unions. The Industry would further undertake to negotiate for a 3-year wage deal with the Unions.

Performance of the industry in 2009

Gold production increased at the Golden Star Wassa Ltd, Chirano Gold Mines, Gold Fields Ghana Tarkwa, AngloGold Ashanti Obuasi, Golden Star Bogoso and Newmont Ahafo which cumulatively, more than offset the decline at AngloGold Ashanti Iduapriem accounted for the rise in the overall production of gold.

Gold production at Gold Fields Ghana Tarkwa increased slightly by about 1%, from 659,308 ounces in 2008 to 664,515 ounces in 2009. This marginal increase was on account of the installation of a CIL expansion plant in the middle of the year which dampened the adverse effect of the teething problems encountered, as well as the lower grade ore mined.

Output at Gold Fields' mine at Damang also increased marginally by about 3% from 197,025 ounces in 2008 to 202,505 ounces in 2009. The increase was helped by the buildup of crushed ore stockpile in 2008 that ensured a consistent feed to the mill in 2009.

Cumulatively, the Gold Fields group produced a total of 867,020 ounces in 2009 compared with the 856,333 ounces produced in 2008. This represents an increase of 1.3%.

AngloGold Ashanti's Obuasi mine's output was 381,331 ounces of gold in 2009; an increase of about 6.8% on the 357,102 ounces it produced in 2008. This was on account of improved ore grades. On the other hand, AngloGold Ashanti Iduapriem's outturn was down 5% from 200,139 ounces produced in 2008 to 189,964 ounces in 2009. The decrease at Iduapriem was mainly due to a corporate decision to match output to the limited capacity of its tailings storage facility.

Overall, the total output of the AngloGold Ashanti group increased by 2.52% from 557,241 ounces in 2008 to 571,295 ounces in 2009.

Golden Star Wassa recorded an outstanding 78.5% increase in production from 125,438 ounces in 2008 to 223,843 ounces in 2009. Production at the Golden Star Bogoso Prestea increased by about 9% from 170,485 ounces in 2008 to 186,054 ounces in 2009. Together, the Golden star group produced 409,897 ounces in 2009 representing an increase of 38.5% on the 295,923 ounces in 2008.

The outturn at the Chirano Gold Mines was 182,463 ounces in 2009. This was 52.4% higher than the 119,696 ounces it produced in 2008. The increase was attributable to the successful development of the underground to commercial levels in the last quarter of 2009 as well as the processing of increased quantities of high grade ore from the underground at Akwaaba.

Output at Newmont Ahafo's mine was 533,000 ounces in 2009. This represents an increase of 1.7% on the 524,000 ounces it produced in 2008.

Central African Gold produced virtually nothing in 2009 since for a large part of the year, the company was under care and maintenance.

The Precious Minerals Marketing Company's (PMMC) total purchases and export of gold from small-scale miners increased substantially by 81% from 202,535 ounces in 2008 to 366,653 ounces in 2009. PMMC's purchases and export of diamond from small-scale miners was down significantly by 41% from 598,042 carats in 2008 to 354,443 carats in 2009.

Manganese revenue increased by 4% from US\$62,348,266 in 2008 to US\$64,860,940 in 2009. A strong result, considering the fact that the shipment of the mineral declined by 7% from 1,089,025 tonnes to 1,012,941 tonnes in the same period. The fall in shipment was on account of

the credit crunch which had a huge adverse impact on businesses all over the world as well as on the demand for the mineral. Fortunately, the business for Ghana Manganese Company started to improve from the beginning of the second quarter onwards, following a rise in the global aggregate demand for the mineral. In the circumstance, the company was able to increase the price of manganese which eventually increased its revenue.

Bauxite shipments was down 29.34% from 693,991 tonnes in 2008 to 490,367 in 2009. The decline in volumes as well as the drop in realized price from US\$28.55 to US\$22.75 per tonne within the same period led to a corresponding reduction in bauxite revenue by about 44%, from US\$19,810,287 in 2008 to US\$11,157,480 in 2009.

At the end of the year, the industry gave direct employment to a total of 12,294 people. Out of this, ninety-eight percent (98%) were Ghanaians and 2% expatriates.

Now some challenges facing the sector.

Adverse perception of the Mining Industry

Whilst the general negative perceptions of the mining industry are well-known, the phenomenon has taken a different turn in the light of improved gold prices in the past few years.

The refrain that the mining industry does not contribute adequately to the national kitty is not supported by the facts and statistics both in the public domain and within the industry. Whilst the industry's contribution to the national fiscus has improved appreciably in the past few years its local content has increased tremendously. The industry continues to reshape policy makers' orientation to consider the industry as a catalyst for development since the more than US\$1 billion returned to the country in

2009 could be an impetus for deeper and broader value creation in the country beyond the fiscal amount paid to the state

Illegal Mining

The spate of illegal mining continued on some member companies' concessions during the year. The phenomenon however took an alarming dimension as illegal miners expanded their activities onto public lands and into water bodies, polluting and extensively destroying these natural resources. Some of these water bodies which are the sources of potable water for the communities had been so polluted that it now costs the Ghana Water Company substantially more money to treat them for consumption. In spite of the challenges, the Chamber continued its advocacy with policy makers and other interested parties on the serious consequences of illegal mining through the results of a study conducted on the subject with the sponsorship of the BUSAC Fund.

Fiscal Imposts

The tendency for government and its agencies to impose charges and levies on the mining industry and in some cases other businesses without due consultation was a cause of major concern. For instance, the introduction of the National Stabilization levy took industry players by surprise. Although such impostes go to enhance the coffers of the national treasury in the short-term, it hurts the country's standing as an investment destination since it does not assure fiscal predictability.

Railways

The deplorable state of the Western rail lines continued to be a bane of the bulk mineral producers; Ghana Manganese Company and Ghana Bauxite Company, producers of manganese and bauxite ore respectively. For about 2 (two) years, the bulk mineral producers hauled their ore from their respective mines to the Takoradi port mainly by road on account of the poor state of the rail. The establishment and vision of the Ghana Railways Development Authority however offers hope for the efficient running of the country's rail network, especially the western rail lines.

In the meantime the government's announcement of a US\$2million package for the rehabilitation of the western rail lines should help improve the logistical options of the bulk mineral producers if the intended works go ahead as planned.

Outlook

The outlook for the industry in 2010 appears good, as most of the gold mining companies have taken advantage of the firm gold price to expand their production capacity. Whilst some companies' output will be impacted in the near term by regulatory challenges, the affected companies have put in place measures to make up for the loss in production. It is expected that these blips would be more than compensated for by the significant capacity improvements seen in the latter part of 2009 which are expected to continue in 2010. The anticipated acceleration in the recovery of the global economy in 2010 is expected to drive the demand and price for the bulk minerals which are used for producing major industrial inputs such as steel and aluminum. The proposed work on the western rail line should help increase the haulage of bulk ore to the Takoradi port.

Financial Statements

According to the Auditors, the Chamber kept proper books and the accounts comply with the Companies Code 1963, and give a true and fair view of the state of the Chamber's affairs at 31st December 2009, and of the excess of Income over expenditure and Cash Flow for the year 2009.

CONCLUSION

Ladies and gentlemen today's AGM brings me officially to the end of a four year period that I have had the good fortune to serve as President of the Chamber.

It has been a great personal pleasure for me to have been able to preside over the Chamber during what has been a challenging, but also very satisfying period for the mining industry. I have extracted considerable value from the opportunity to occupy the chair at meetings of the Chamber's Executive Committee as well as Council meetings. The quality of discussions and debate never betrays an extraordinary standard of excellence and it is a tribute to the business of mining in Ghana that the industry is populated by individuals of such remarkable quality.

To Dan, who moves into the Chamber's Presidential Chair, my heartfelt congratulations to you. I greatly value the support you have given me as a 1st Vice President and I am additionally thankful to you, Jeff, for your immeasurable role as 2nd Vice President. With Jeff agreeing to become 1st Vice President and Kwame also assuming the position of 2nd Vice President, I am confident, Dan, that you will have all the good counsel that you require in the industry leadership role that you will be playing over at least the next 24 months.

Finally, I would like to extend a sincere word of appreciation to Auntie Joyce and her small but assiduous staff at the Chamber. The support that I have received from the Chamber's Chief Executive and the members of her staff has been of the highest quality. And to all members of Council and the Executive Committee, thank you for the support and opportunity given me to serve as President of the Chamber for the past four years. It has been a great privilege and experience. Please extend the same cooperation to my successor and the incoming executive so that we shall continue to have an even more vibrant Chamber.

To everyone who has taken the time to be present at this AGM, thank you very much for your kind attention.

Thank you.

Jurgen Eijgendaal

President