BENEFITS AND CHALLENGES OF CROSS-BORDER MERGERS AND ACQUISITIONS; THE CASE STUDY OF ASHANTI GOLDFIELDS COMPANY AND ANGLOGOLD LIMITED

By

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DECLARATION

I, **John Chap Awuah** hereby declare that this submission is my own work towards the Master of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this work to God Almighty for His love and mercy and to my wife, (Connie A) and to my two daughters (Ohemah & Mame K)

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ABSTRACT

This study was intended to appraise the challenges and benefits derived by stakeholders when two foreign companies merge together. Focus was on the merger between AngloGold (AG) Ltd and Ashanti Goldfields Company (AGC) Ltd to form AngloGold Ashanti (AGA) Ltd. In the last decade there have been a lot of mergers and acquisitions between giant companies, some in the same industry and others in different industries. There were lot of discussions and debates as to the real benefits that would be derived from such mergers and acquisitions.

In Ghana the single most prominent merger that increased the Ghana Stock Exchange capitalization by 483% was the 2004 merger between AngloGold registered in the republic of South Africa and Ashanti Goldfields Company registered in Ghana. AGC had conducted business in Obuasi, Ghana, in exploration, mining and processing for more that 110 years. Management strategically widened its business operation in Ayanfuri, near Dunkwa, Bibiani, Iduapriem (near Tarkwa) all in Ghana. They also acquired concessions and mines in Zimbabwe, Mali, Guinea and Tanzania.
As a multinational mining company it successfully listed in the Ghana stock exchange, the London stock exchange and the New York stock exchange.

AngloGold Ltd also conducted gold mining operations in Africa, North & South America and Australia. It also conducted exploration activities world wide including China.

It was discovered that after the merger about 80% of the senior managers were either laid off or resigned. As the CEO of the then AGC put it during the transitional period, “when two giant companies merge, one CEO will emerge and the other will ‘die’, so I will die”. This has negative effect on the workforce.

The government entered into a stability Agreement with AngloGold where expected capital investment, training of local staff, health and malaria control, community support initiative were spelt out.

It was also found out that the government benefited immensely by receiving USD 15m dividend which had eluded it for many years. It also received USD5m and 2,860,000 ordinary shares of AGA for agreeing to the terms of the stability agreement.

It was recommended that government agrees with the acquiring company on the number of senior managers that may be laid off and the conditions under which expatriates may be brought to replace them. Again the golden share right maintained by the government is a laudable effort. This must be applied on every merger and acquisition of government entities with foreign companies.

It was also recommended that the government should in future not lock any royalty payment to the base rate for too long a period. This is because, if the world market conditions change, the state can not take advantage of any increase benefit.

CHAPTER 1
GENERAL INTRODUCTION

1.0 INTRODUCTION

Organizational growth and development in terms of infrastructural, value creation and human resource are essential to companies in Ghana and the world at large. This brings to the table the significance of merger and acquisition in achieving these corporate objectives. For this reason, corporate acquisition and the merging of two companies into a single organization are increasingly becoming very common in the business world today. For example, the United States Federal Trade Commission reports that the number of filings in 1999 was almost three times the number received in 1993. The recent merger wave could partly be attributed to the impact of globalization. There has also been the proliferation of cross-border mergers and acquisitions such as SG-SSB and AngloGold-Ashanti. In today's competitive business world, businesses may have to grow to survive, and one of the growth strategies is to merge with or acquire another company.

Mergers refer to the consolidation of companies, which neither of the companies is portrayed as the owner, but each has a controlling part of the new business formed and so one does not dominate the other. Acquisitions on the other hand refer to one company acquiring from another, a controlling interest in the latter's share, or acquiring the business operation and assets of a company.

Generally, it is assumed that mergers improve the performance of companies due to increased market share, the impact of synergy and various other factors such as increase in asset base and scale economies. However, the literature on mergers and acquisitions provide enough evidence that most mergers and acquisitions end up in failures. Expected attractive stock prices and less rigorous due diligence underlie most recorded mergers and acquisitions failures. This study therefore seeks to examine the challenges and benefits derived from cross-border mergers and acquisitions, a case of Ashanti Goldfields of Ghana and AngloGold Limited of South Africa. The chapter one presents the background of the study, the statement of the problem, objective of the study; justification, scope and significance of the study, limitation and organization of the study.

1.1 BACKGROUND OF THE STUDY

In the last two decades there have been a lot of mergers and acquisitions between giant companies, some in the same industry and others in different industries. The ease of globalization has also encouraged cross border mergers and acquisitions.

The rise of globalization has exponentially increased the market for cross border M&A. In 1996 alone there were over 2000 cross border transactions worth a total of approximately $256 billion. This rapid increase has taken many M&A firms by surprise because the majority of them never had to consider acquiring the capabilities or skills required to effectively handle this kind of transaction. In the past, the market's lack of significance and a more strictly national mindset prevented the vast majority of small and mid-sized companies from considering cross border intermediation as an option which left M&A firms inexperienced in this field. This same reason also prevented the development of any extensive academic works on the subject.

In the wake of this there has been a lot of discussions and debate as to the real benefits derived from such mergers and acquisitions. This must be looked at from different stakeholder perspectives. Whiles in general the merger is expected to accrue significant benefits for the company and for that matter all the stakeholders, in reality they may not.

The British government recently approved a merger between two major television companies, Carlton and Granada. The £4 billion deal, which creates a single ITV company for the whole of England and Wales, was welcomed enthusiastically both by investors and by the managers of the two troubled companies, who have steadily lost audience, share and advertising revenue to new rivals such as BSkyB, and lost money following the collapse of their ITV Digital venture. However, it remains to be seen whether the new partnership will succeed in turning around the companies' fortunes, or whether, like many past corporate marriages, it will end in unhappiness and divorce.

The merging of two companies into one is not a recent idea - there were "waves" of corporate mergers back in the 1920s, the 1960s and the 1980s (Fairburn and Kay 1989) - but the enormous scale on which companies have swallowed each other up over the past decade far exceeds what has gone before. The total worldwide value of mergers and acquisitions in 1998 alone was $2.4 trillion, up by 50% from the previous year. However, research suggests that a large proportion of mergers and acquisitions do more harm than good to companies and their shareholders: Merger Management Consulting (1997) concluded that "an alarming 48% of mergers underperform their industry after three years", and Business Week recently reported that in 61% of acquisitions "buyers destroyed their own shareholders' wealth".

In April 2004 a deal to merge mining giants AngloGold Ashanti of South Africa and Ashanti Gold Fields of Ghana was reached. The expectations of various stake holders to benefit from the merger could be summarized as follows:

Individual share holder (Ghana): To see appreciation of shareholder value reflected in growth in share price and dividend receivable, after many years of nil dividends declared.

Government of Ghana : In addition to the individual share holder expectation above, the government of Ghana desire to maintain some level of control over the Ghanaian mines. This and many others are contained in the Stability Agreement between The government of Ghana and the management of AngloGold.

Shareholder (AngloGold): To see share holder wealth appreciation, share price appreciation and dividend growth.

Workers (Ghana): The expectation of a secured job and equitable remuneration package.

Senior management: Senior management staff would also expect to have a secured job and good remuneration package.

Community: Communities in mining environment expect to enjoy life free of pollution and adequate compensation package where their lands and properties have been destroyed by the mining activities. They also expect employment for the youth in that area

Suppliers/Contractors: Mining companies use a lot of external contractors, consultants and parts of equipments supplies. These contractors expect to maintain their job and even get more.

Creditors: Most mining companies secure bank (or a syndicate of banks) loan to finance their exploration, mining and even metallurgical work. In the case of AGC, it was heavily in debt to multinational banks arising out of the hedge derivative loss incurred in 1988. In fact this loss actually pushed them to be targets of takeover by many mining companies.

Do managers and shareholders who initiate cross-border moves have a wider picture of the underlying risk and challenges? To what extent does each of the stakeholder groups benefit from the M&A? In this essay, the researcher attempts to answer these questions, and examine the challenges and benefits derived by shareholders, employees and the government of Ghana as a whole.

1.2 PROBLEM STATEMENT

In 1998 the hedging derivatives of AGC turned out to generate huge loses. The company had entered into forward sale agreement with some international banks at a very low strike price. This came about when the British government announced their plans to offload a portion of their gold reserves. In anticipation of a further price drop AGC decided to hedge the future sales of their reserve ounces in a deal which was later described by many as toxic derivative.

The British gold reserve offload plan was not implemented and soon the market price began to appreciate. This locked AGC to incur huge losses to the counterparty banks. The losses negatively affected its operational and financial performance. Since the government of Ghana and Lonhro, the two majority shareholders could not bail the company out; the other options available were to enter into merger, takeover or liquidation,

When the merger option was announced many people including politicians, journalist and workers opposed to it. This followed the trend of resistance the government has faced anytime it intended to merge or sell part of a non performing state owned enterprise. Some of the argument against the merger and acquisition involving state owned enterprises include:

Ghana would lose control of the company to foreigners

Ghana as a shareholder would lose out in monetary terms

Employees would lose out because of downsizing and retrenchment that often follow merger and acquisition.

This study therefore intends to find out the challenges and benefits that accrued to stakeholders after the cross-border merger.

More specifically the study attempts to answer the question, 'to what extent does merging or selling a state-owned enterprise to a foreign based company beneficial to Ghanaian stakeholders?'

1.3 RESEARCH OBJECTIVES

In view of the varied objectives of various stakeholders of merging entities as outlined above, this paper seeks to address their expectation as summaries into the following research objectives:

a) To determine whether the wealth of the shareholders of AngloGold Ashanti have been maximized after the merger.

b) To verify whether the merger has increased the benefit package for the total staff and top managers of the erstwhile AGC ltd.

c) To determine the effect of the merger on the government of Ghana with regards to interest, control, and financial benefit.

d) To investigate the challenges of the merger

1.4 SIGNIFICANCE OF THE STUDY

In recent times the government of Ghana has initiated many moves to privatize state enterprises through merger, acquisition (where the Ghanaian public company becomes the target) or direct sale of shares. Such moves have often been seriously resisted by the public and examples include the Ghana Telecom and Agricultural Development Bank (ADB)

The purported sale of Agricultural Development Bank (ADB) – this move was severely resisted with some pouring to the streets to demonstrate against the decision. The first reason assigned was that ADB being a national asset should not be sold at all. The next reason was that should it be sold, the sale to an outside bank would be deemed unfair treatment to Ghanaian investors as they should be given the first option to acquire shares. The public opposition won the day – ADB was not sold.

In the case of the sale of Ghana Telecom to Vodafone the government pushed the sale through against the odds.

There has been lots of research on mergers and acquisitions, especially cross border ones that reveal immense potential for success or failure. This research therefore seeks to assess and find the impact of the merger between AGC and AngloGold on stakeholder groups it therefore focuses on the wider, broader and total picture of merger benefits and impacts– not to an individual worker or shareholder. The study is expected to provide useful information for prospective cross border targets and acquirers of merger/acquisition deals in Ghana, as well as for future researchers. This research is also intended to confirm whether the purported benefits actually accrued to the stake holders. Under what conditions would all stakeholders benefit from the mergers?

1.5 SCOPE OF THE STUDY

This study was limited to Ghanaian stakeholders of the Obuasi mine due to its unique position as a major reason for the merger. At the time of the merger, the Obuasi mine was perceived as the star operation which was going through both fiscal and operational challenges that needed to be addressed urgently. The immediate preoccupation of the new management was to provide the mine with significant capital and technical support with a view to maximizing its full potential. Most analysis was based on the financial statement of AGA Ghana ltd which is comprised of Obuasi mine, Accra office and the defunct Bibiani mine

1.6 LIMITATIONS OF THE STUDY

The major challenge that limited this study was access to data. The scope of this study was limited to five years period of the financial statement of the company. The number of respondents for the questionnaire was also limited to three hundred (300) employees of the organization.

Finally, the cost of obtaining data for the purpose and analysis to be completed posed a major threat to the success of this study. However, despite these challenges, the researcher efficiently handled every aspect of this project to a successful completion as scheduled.

1.7 ORGANIZATION OF CHAPTERS

The study was grouped into five distinct chapters. These chapters and various components are summarized below. Chapter one of the study was a general introduction on the research topic. It also comprised the background of the study, problem statement, research objectives, methodology, significance of the study, the scope and limitation of the study and finally the organization of successive chapters.

Chapter two was review of relevant prior literature. This comprises of general introduction of prior studies done in the application of some relevant financial tools used in analyzing companies' financial performance. The chapter also spells out prior studies carried out in some financial tools including, Earning Per Share (EPS), Liquidity Ratio, Financial Ratios, Efficiency ratios and Profitability ratios. Also included in the literature review are types of M&A, processes and financing of M&A and challenges of M&A.

The research methodology and institutional profile is chapter three. This chapter spells out the scope and a brief introduction of the study as well. As some limitation of the study, the resources of the data used in the study, the appropriate method used to analyze the identified data. Some key variables used in the study have also been defined in the study. A brief summary of the profile of AngloGold Ashanti ltd. has also been captured in chapter three.

Chapter four is the data analyses, and discussions. Graphical presentation of the findings of the study has been shown in this chapter. Immediately following each graphical presentation is the analyses of the findings and corresponding discussions.

Chapter five is also made up of summary of findings, conclusion and recommendation. This chapter outlines the summary of the study and conclusion on the study. It offers some recommendation for further study of the merger of the two companies.

CHAPTER 2
LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews the literature on mergers and acquisitions. It focuses on key stakeholder benefits derived from merger and acquisitions; whether or not there were benefits from the government's sale of state owned properties or state interest in private firms to foreign companies, stakeholder expectations before merger and acquisitions (M&A).

The purpose is to summarize, synthesize and analyze the arguments of others on this subject. The source of information was from secondary sources thus published academic literature from various sources. The core topical areas which were reviewed include types of M&A, impact of M&A on employees, employee retention, M&A impact on shareholders and governments, processes and financing of M&A, challenges and reasons why M&A fail.

2.1 TYPES OF MERGERS AND ACQUISITIONS

According to the American law and legal information, mergers appear in three forms, based on the competitive relationships between the merging parties. They are horizontal, vertical and conglomerate forms

In a **horizontal merger**, one firm acquires another firm that produces and sells an identical or similar product in the same geographic area and thereby eliminates competition between the two firms.

In a **vertical merger**, one firm acquires either a customer or a supplier.

Conglomerate mergers encompass all other acquisitions, including pure conglomerate transactions where the merging parties have no evident relationship (e.g., when a shoe producer buys an appliance manufacturer), geographic extension mergers, where the buyer makes the same product as the target firm but does so in a different geographic market (e.g., when a baker in Chicago buys a bakery in Miami), and product-extension mergers, where a firm that produces one product buys a firm that makes a different product that requires the application of similar manufacturing or marketing techniques (e.g., when a producer of household detergents buys a producer of liquid bleach).

2.2 IMPACT OF MERGERS AND ACQUISITIONS ON EMPLOYEES

The main idea of M&A is that the combination of two entities creates a separate entity that is more valuable and cost efficient than the sum of the two individual companies. This new and improved entity is a result of the synergies that occur in M&A. Synergies are the positive effects due to the combination of two individual entities, such as staff reductions, economies of scale, acquiring new technology, and improved market and industry visibility.

One of the primary reasons for the failure of a merger or acquisition is the lack of attention to employee benefits. As Duncan Brown, director in the human resources practice at consultancy firm Pricewaterhouse Coopers, says: "Everyone knows that at least 50% of M&A deals fail because of this, so finance directors need to look at total costs, the size of integration work and the differences in the reward arrangements between the two firms."

Human resource plays a tremendous role in the success or failure of most mergers and acquisitions. Thus, according to *Lie et al* (2006), human resource capability must be seen as a firm's most valuable strategic asset necessary to obtain a sustainable competitive advantage. Unfortunately however, human resource issues are the less attended to in mergers and acquisitions. Some merger and acquisition behaviours are generally motivated by the possibility of drastically downsizing the workforce.

Employment losses appear likely to be more substantial in horizontal mergers than in vertical or unrelated cases (Dutz, 1989, as cited in Coyon, 2005). This is because unlike vertical mergers and conglomerates, there are more likely to be duplication of operations in horizontal mergers, hence, redundancies. For instance, data from Eurostat show that there has been a significant decline in employment in the European financial services sector in all member states (although some countries have suffered more than others). The UNI-Europa survey estimates that 130,000 jobs have been lost in the last 10 years as a result of mergers and take-overs alone. It seems logic to assume that job losses in target or victim companies will be higher than predator companies. Watson and Head (1998) agree to this assertion that the management of predator companies benefit from a successful merger. This, they add is due to increased responsibility in managing a larger company which consequently leads to increased financial rewards. However, the story is different in the target firms since there is a high possibility of job loss by management and employees, as was in the case of Mobil's acquisition by Total.

Acquisitions and mergers bring forth the problem of cultural integration of two disparate organizations, each with its own history, systems and structures. As soon as a merger is announced, employee's morale may plummet. Many valuable employees may resign because of the thought that a new atmosphere would be imposed on the workplace and having to cope becomes a problem. This may pose problems for the company if such valuable employees are lost to competitors. A model by Bourantas and Nicandrou (1997) explains clearly the behaviour of employees after acquisition. According to the researcher's model, after a company has been acquired, employees of the acquired firm have several options. They can work hard to support the organization after the acquisition (loyalty). They can quietly continue to do their job as before (compliance). They can express their opposition, working to change things (voice), or they can reduce their effort and use working time for personal business (neglect). For an employee to exhibit any of these behavioural options depends on the individual's own choice and what he considers to be appropriate.

The suggested responses are conceptually distinguishable behavioural options that an employee has in his or her disposition and differ depending on how supportive/resistive and active/passive the behaviour is considered. Thus, the model is developed along two dimensions. The first dimension is supportive /resistive. An acquisition is a social event which affects human behaviour, which in turn will be supportive if the employee accepts the changes that the new management wants to impose, or resistive if he or she is reluctant to accept the new situation. Thus, in this context, loyalty and compliance are behaviours intended to contribute to the success or maintenance of the system as it has been formulated after the acquisition, while voice and neglect show employee opposition to the acquisition. If the individual identifies change as a gain, acceptance may not be hard, but when it is a loss, he or she will do his or her best to resist change. The second dimension - activity/passivity - shows the impact of the response to the employee-organization relationship. The active/passive dimension is defined in terms of the employee effort to create and maintain an "effective" relationship with the work environment after the acquisition. Thus, loyalty and voice are active behaviour, while compliance and neglect are passive.

This study would therefore apply the factors identified above to carefully analyze the impact of merger and acquisition on employees in the case of Ashanti Goldfields and AngloGold. The literature on impact on employees would therefore serve as a guide in undertaking the study.

2.3 EMPLOYEE RETENTION

There are certain key and high performing employees who become a pivot of the success of every organization. Any act purported to fire them or make them resign would certainly affect the morale of the people. It is essential on the part of the management of the acquiring entities that such senior executives are retained in merging entities to facilitate the smooth integration process. It is likely that the loyalty and allegiance accrued to them over years would enable them to direct the new company to its new vision with minimal resistance; Walsh (1989) reported that approximately 25% of top management left the new company in the first year and 50% during a three year period. These departures are significant enough and have the potential to undermine the success of a merger and acquisition strategy especially where local employees are loyal to their senior managers.

Krug (2003) postulates that unrealistic standards are set for the executive personnel and the ensuing failure results in resignations and dismissals, and the acquiring entity also tends to impose their management staff on the acquired entity. The unfortunate consequence is that the new company can experience a 'brain-drain' and lose the needed implicit/tacit knowledge held by these employees to be disseminated within the organization (Kaplan, 2001).

It could be deduced from the lessons above that employees' retention process of mergers and acquisitions is vital to the success of organizations. However, research has shown that 25% percent and 50% of top level managers leave their jobs after a year and three years respectively. In using this literature, the study would also attempt to find out if retention plans were factored in the process of the merger between the two companies in this research.

2. 4 IMPACT ON SHAREHOLDERS AND GOVERNMENT

In Brown and Caylor (2004), mergers have adverse effects on shareholder value. Also, Hall and Norburn (1987) found that "Returns to the shareholders of acquiring firms are at best slight and tend to disappear rapidly, and, at worst, are significantly negative; Returns to the shareholders of acquired firms are strongly positive; Gains and losses of victims and predators became a zero-sum". In consistent with these findings is the view of Watson and Head (1998) that shareholders of target companies enjoy significant returns while acquiring companies experience insignificant negative or positive abnormal returns. If this is the case, why then do CEOs and Managers employ several defensive mechanisms in attempt to avoid being acquired? The answer lies in the fact that there is lack of goal congruence between management and shareholders

According to Fuller, Netter and Stegemoller (2002), the stocks of most acquiring firms do not show any sign of appreciation at the time of announcement. On the other hand studies show that the stock price of some acquiring firms rather experience sharp decline. Studies however agree that acquisitions on average increase the combined equity value of the target and acquiring firms. This implies that business combination creates shareholder value.

The contention is that whiles many writers and researchers advocate for mergers and acquisition concerning both public and private firms as a means to create value, introduce efficiency and effectiveness in the use of scarce resources and harnessing the potentials of two separate entities, there are serious opponents to this drive. The opposition is more pronounced where state-owned enterprises are involved. Some of the arguments advanced by these people include the following:

- State properties must not be sold – it should be for the people
- Employees tend to suffer most after merger since operational authorities fall in the hands of foreigners and expatriates.
- Workers are most often retrenched or made redundant
- Government losses control
- Government doesn't really gain
- Profits are repatriated abroad and most purchases and contracts are sourced from abroad thereby nullifying any potential gains from the MA
- Governments bargaining powers are weakened by kickbacks. The consideration received for the sale of government portion does not match the value of shareholding, etc.

Before the merger of AngloGold Ashanti there were a number of employees and other stakeholder briefing and discussions about the enormous benefits that may accrue to workers arising out of the deep underground mining at Obuasi. The issue of retrenchment was discounted as the final entity promises to integrate good performing staff within the over 22 mines across the globe. It also promised to enhance national GDP, Ghana Stock Exchange capitalization, etc.

It was therefore significant to find out the benefits on the merger accruing to stakeholders of the home company. The literature above was therefore used as guide in achieving the objective of shareholders and government's benefit. Particular attention would therefore be given to the Ghanaian shareholders and the government of Ghana in this study.

2.5 MERGER/ACQUISITION PROCESSES & FINANCING

Rezaee (2001) outlined 10 processes through which every carefully planned merger should go.

1. Developing a merger strategy

This should be the first step by the companies to determine whether or not the merger is an appropriate strategy for growth. The merger strategy should be consistent with the overall mission, objectives and growth to grow through business combinations. This should define the financial objectives of each of the companies, the criteria for the merger and the budget for the deal. It should also outline the objective(s) for the merger as:

- *Diversification of products, service and related business risks.*
- *Expanding market share by merging with competitor and*
- *Vertically integrating by acquiring suppliers and distributors*

The acquisition budget should specialize qualifications, talents and plans of management for post-merger integration, risk profile of management (e.g. high risk target with a greater potential for high returns versus low risk probability of low returns), and the required cash flow including the method of financing the purchase price (e.g. debt, equity or a combination of both).

Again, financial advisors and intermediaries including accountants, attorneys, business brokers and investment bankers should be specified in the strategy

2. Target identification and selection

Identification and selection of target should be done according to the established acquisition criteria. The first step for searching for target is to select the select the industry that the acquirer wishes to consider, which could be the industry that the acquirer has experience with the intention of acquiring or merging with competitors, suppliers or customers.

On the other hand, the acquirer may consider other industries that have growth potential. The acquirer's acquisition criteria, strengths, and experience should be matched with the particular characteristics of the industry under consideration. Also to be considered is the size and price of the target. The acquisition strategy should specify the minimum and maximum price the acquirer is willing and able to pay for the target.

Potential targets can be searched through several ways:

- Intermediaries
- Personal contacts
- Professional referral sources such as lawyers, bankers, accountants, and appraisers
- Industry contacts and
- Business and Merger/acquisition publications

The screening process should be based on sound screening criteria to incorporate marketing, production, financing, management, and administrative issues. It should be consistent and unbiased, necessary for reducing the broad universe of potential acquisition candidates to a handful of manageable, handful of likely candidates. This handful of candidates should then be prioritized according to the established screening criteria. The acquirer should be able to obtain adequate relevant information regarding the target companies for acquisition.

3. Risk assessment

Operating risks refer to the failure of the business combination to perform as intended and expected when the transaction was completed. All mergers related risks must be identified. These include operating risks that combined business does not perform as expected as at the time that the merger/acquisition was approved, overpayment risk of paying too much premium to the target entity, and financial risks of not having adequate financial resources to meet debt service requirement of the entity. Benefits derived from risk assessment include potential cost reduction resulting from more economical and efficient technology (synergy), and strengthening financial position.

The acquisition team should identify, assess, and minimize all possible risks of the deal to a prudent, rational, intelligent and acceptable business risks.

4. Key issues

Key issues and trends must be identified and incorporated into the due diligence team. This will assist the acquirer in selecting appropriate and suitable target that meet the established acquisition criteria and ensure that initial valuation fits the previously defined criteria. The acquirer must ensure that the target is genuinely interested in engaging in a merger or sale discussion.

5. Structuring the acquisition transaction

This process starts with scheduling the initial meeting between the acquirer and the target. Key issue should be discussed concerning negotiation strategies, valuation transaction, and financing options.

Issues to be addressed in the transaction include

- Needs expressed by the target company,
- The requirements of the acquirer
- Cash and equity considerations exchanged between the target and the acquirer,
- Income or estate tax situation of booth parties
- Accounting method used for the transaction, The role of the target and its management in the operations after the transaction is completed
- Compensation of employment issues for the target and key members of the management team
- Financial structure of the purchase price
- The valuation method used in establishing purchase price.
- Post-closing issues (e.g., responsibility and obligation of the target, ownership of real estate or fixed assets, who bears what liabilities, etc.)

6. Due Diligence

Each of the merging companies needs to be examined thoroughly to avoid a blind bid. The due diligence process examines all relevant information, evaluate the key issues and potential area of the business including financial, operational, legal and contractual activities, assess the potential risks of the merger, and decide the purchase price and method of financing the transaction. The due diligence should gather information through:

- Interviewing all key management personnel to determine the strengths and weaknesses of each functional area of the company
- Identifying and resolving deal breakers which will delay the pursuance of the transaction any further
- Determining the integrity of all key personnel of the target company who are going to stay after the transaction is completed.
- Reviewing the target business's specifications as well as corporate records such as articles of incorporation, byelaws, minutes, stock records, materials and continuous contracts, loan agreements, pending and potential litigation, employment contracts, stockholder agreements, royalty agreements, environmental liability, labour agreements and any other important legal documents.
- Reviewing the company's financial strengths and weaknesses including historical earnings, cash flows, financial position, earning potential, and basis for determining financial projections and forecasts.
- Selection valuation method in determining the purchase price
- Considering all possible financial methods for financing the transaction

The due diligence process should be completed before finalizing the financial terms of the deal.

7. Negotiation

Continuous effective negotiation should be conducted at each step of the process especially when new information becomes available. The negotiation strategy should be flexible enough to the needs and objectives of both target and acquirer. Negotiation consists of two phases:

a) Preparing a letter of intent to confirm in writing the interests of the two parties and to document the basic terms and conditions of the contract that have been agreed upon at the initial stage of the negotiation and
b) Finalizing the acquisition agreement

The acquirer should closely monitor the operations of the target company to ensure that:

a) The representations and warranties from the definitive agreement are true and accurate; and
b) There are no material adverse changes in the operations or policies of the target

8. Financial structure

The financial structure will depend on the size of the transaction and the quality of both the target and acquiring companies. Incorporated in the financial structure are estimated purchase price, the maximum amount of equity needed, the projected amount of cash flow needed, and the method of financing the required cash flow either through debt or equity. Valuation methods used in determining the purchase price include industry rules of thumb, comparable company method, comparable acquisition method, and asset based methods. In the financial structure, sensitivity analysis should be performed to determine the possible impact of changes in key variables such as revenue, operating margins and interest rates.

9. Closing the deal

The merger/acquisition transaction is now consummated by completing the due diligence process, reviewing all the closing documents, exchanging financial considerations and distributing all necessary documents to appropriate authorities including the Ghana Stock Exchange and Security and Exchange Commission.

To professionally and legally close the transaction, several procedures must be followed including:

- Completing the legal due diligence by reviewing all legal documents, complying with the terms of purchase agreement, and other applicable law and regulations.
- Obtaining a tax ruling
- Receiving financing commitments
- Completing the purchase agreement
- Reviewing audited financial statements
- Complying with applicable laws and regulations
- Securing key employment agreements
- Obtaining a third party consent on the transfer of material agreements, licenses, or rights

- Consummating the deal of distributing all necessary documents to the proper parties
- Preparing for integration

10. Integration

Changes necessary to integrate the businesses into one single organisation should be designed and implemented. Relevant actions such as downsizing, eliminating duplicated overhead, developing new cash management/treasury systems and consolidating accounting and management information systems may be considered.

The human resource aspect of post-merger integration is very crucial to the success of the combined entity. Merger announcements usually cause anxiety in employees. For this reason, employees' compensation plans should be properly designed and negotiated with employees, discussed with legal, accounting, tax, and professional advisors, and finally approved by the board of directors.

An effective integration plan, which specifies all appropriate post closing decisions and actions, must be in place to make the deal a success. These steps outlined by the author in my view may not be necessarily needed in every merger/acquisition deal depending on the situation, or may not be followed sequentially. However, it serves as a good source of guide to follow.

2.6 FINANCING M&A

Mergers are generally differentiated from acquisitions partly by the way in which they are financed and partly by the relative size of the companies. Various methods of financing an M&A deal exist:

a) ***Payment by cash***. *Such transactions are usually termed acquisitions rather than mergers because the shareholders of the target company are removed from the picture and the target comes under the (indirect) control of the bidder's shareholders alone.*

   A cash deal would make more sense during a downward trend in the interest rates. Another advantage of using cash for an acquisition is that there tends to lesser chances of EPS dilution for the acquiring company. But a caveat in using cash is that it places constraints on the cash flow of the company.

b) ***Bonds/Stock***: *Financing capital may be borrowed from a bank, or raised by an issue of bonds. Alternatively, the acquirer's stock may be offered as consideration. Acquisitions financed through debt are known as leveraged buyouts if they take the target private, and the debt will often be moved down onto the balance sheet of the acquired company.*

c) ***Hybrids:*** *An acquisition can involve a combination of cash and debt, or a combination of cash and stock of the purchasing entity.*

2.7 CHALLENGES AND REASONS WHY M&A FAIL

One of the most common arguments for mergers and acquisitions is the belief that "synergies" exist, allowing the two companies to work more efficiently together than either would separately. Such synergies may result from the firms' combined ability to exploit economies of scale, eliminate duplicated functions, share managerial expertise, and raise larger amounts of capital (Ravenscraft and Scherer 1987). Carlton and Granada hope to save £55 million annually by combining their operations. Unfortunately, research shows that the predicted efficiency gains often fail to materialise following a merger (Hughes 1989).

In some cases, firms may derive tax advantages from a merger or acquisition. However, Auerbauch and Reishus (1988) concluded that tax considerations probably do not play a significant role in prompting companies to merge.

Sometimes, the failure of an acquisition to generate good returns for the parent company may be explained by the simple fact that they paid too much for it. Having bid over-enthusiastically, the buyer may find that the premium they paid for the acquired company's shares (the so-called "winner's curse") wipes out any gains made from the acquisition (Henry 2002).

However, even a deal that is financially sound may ultimately prove to be a disaster, if it is implemented in a way that does not deal sensitively with the companies' people and their different corporate cultures. There may be acute contrasts between the attitudes and values of the two companies, especially if the new partnership crosses national boundaries (in which case there may also be language barriers to contend with).

On the other hand the resistance from those who opposed to the deal (from the target company) may be too strong to overcome. The effect may be stronger when it comes from governments and or workers.

Challenges

A merger or acquisition is an extremely stressful process for those involved: job losses, restructuring, and the imposition of a new corporate culture and identity can create uncertainty, anxiety and resentment among a company's employees (Appelbaum et al 2000). Research shows that a firm's productivity can drop by between 25 and 50 percent while undergoing such a large-scale change; demoralisation of the workforce is a major reason for this (Tetenbaum 1999). Companies often pay undue attention to the short-term legal and financial considerations involved in a merger or acquisition, and neglect the implications for corporate identity and communication, factors that may prove equally important in the long run because of their impact on workers' morale and productivity (Balmer and Dinnie 1999).

Managers, suddenly deprived of authority and promotion opportunities, can be particularly bitter: one survey found that "nearly 50% of executives in acquired firms seek other jobs within one year". Sometimes there may be specific personality clashes between executives in the two companies. This may prove a problem as in the case of Carlton and Granada: Carlton's chief executive Charles Allen and Granada's chairman Michael Green, who will have joint responsibility for running the merged company, have been likened to "ferrets in a sack".

According to Archie Palane, 2001, there has been a growing trend throughout the world of companies merging and acquiring others. The main reason for companies to enter into such arrangements is to consolidate their power and control over governments and markets. With more power merged companies operate freely across the borders and influence policies of governments where they operate.

Where mergers and acquisitions occur workers become the first victims in terms of retrenchments, compromised industrial relations, changed working culture and conditions of work sometimes to the worst. Although there are many valid reasons for mergers and acquisitions to take place, approaches taken in most cases are always distanced from the industrial relations or social issues.

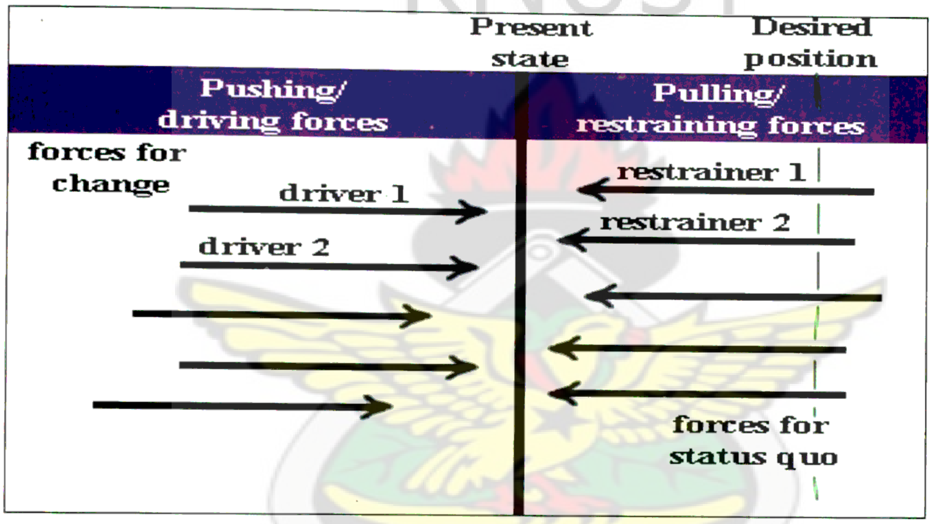
Mismanagement in most cases leads companies to a state of collapse. To avoid closure and resuscitate their economic viability they opt for mergers or acquisition with companies in good standing. However, in such instances, they will negotiate from a weaker position as a result of their poor economic status. When such happens, management tends to concentrate on the cash consideration to the exclusion of industrial relations issues. Sometimes final decisions are made that have an impact on workers particularly regarding retrenchments, promised benefits, bonuses, outstanding leave and conditions of work.

Mergers and acquisitions are huge undertakings associated with large amount of risks and discomforts. Most of these risks and discomforts relate to the integration of the internal operation of the merged companies. This will include approaches to industrial relations. The following are some of the associated problems.

The cost of merger might be too expensive both socially and financially and a better option would be to invest resources involved somewhere, Mergers and acquisitions in most cases get resisted by workers, directors and shareholders of the targeted company, Mergers and acquisitions could be resisted by the government in the interest of the country, The market of the targeted company might resent a sudden take over and consider going to other suppliers for their goods or services, Incompatibility of people or systems thereby leading to under-capacity and management overloading in the acquiring company, Merging two companies that have been doing similar activities might mean duplication and over-capacity in the company that might require retrenchments, In order to adjust with advanced arrangement of the stronger merging company, employees of the weaker merging company might require intensive re-skilling, Operational issues (payroll, medical aid, remuneration etc) might mean a need for adjustment either to the worst or better, Outstanding leave balances, study loans, promised incentives, bonuses and promotions might not be carried over to the merged company leading to a loss on the side of workers, Contracts of employment might be re-negotiated under compromised offers, Obligations in terms of agreements and legislation might require extra resources that might not be readily available and force the acquired company to look around where it could save resources. In most cases workers benefits are first to be targeted such that when the deal goes through they would have nothing to carry over or to take home after retrenchment, Integration of company cultures might prove very difficult particularly where approaches to norms and cultures differ as a result of the background of the two companies, Salary band in similar positions might mean extra resources most particularly in the higher categories where salaries are high.

Bridges (1991) believes that it isn't the actual change that individuals resist, but rather the transition that must be made to accommodate the change. Change is not the same as transition. Change is situational: the new site, the new boss, the new team roles, and the new policy. Transition is the psychological process people go through to come to terms with the new situation.

Figure 1 Lewin Force Fields



Central to Lewin's approach is the idea of resisting forces. Managers championing for change have to identify those resisting or opposing the change so that they use appropriate measures to reduce them instead of just pushing the change through. Figure 1 above is a diagrammatical presentation of Lewin's driving/resisting force for change.

Strategies for a successful acquisition

Integration management needs to be recognized as a "distinct business function", with an experienced manager appointed specifically to oversee the process. The 'integration managers' that GE Capital selects to oversee its acquisitions can come from a wide variety of backgrounds, but all must have the interpersonal skills and cultural sensitivity necessary to foster good relationships between the management and staff of the parent company and its new subsidiary.

If uncomfortable changes (such as layoffs and restructuring) have to be made at the acquired company, it is important that these are announced and implemented as soon as possible - ideally within days of the acquisition. This helps to avoid the uncertainties and anxieties that can demoralise the workforce of a newly-acquired company, allowing employees to move on and to focus on the future.

Perhaps the most important lesson is that it is important to integrate not just the practical aspects of the business, but also the firms' workforces and their cultures. A good way to achieve this is to create groups comprising people from both companies, and get them to work together at solving problems.

Most importantly, any decision to carry out a merger or acquisition should consider not only the legal and financial implications, but also the human consequences - the effect of the deal upon the two companies' managers and employees. It is upon them, ultimately, that the fate of the newly-merged company will depend.

CHAPTER 3
METHODOLOGY

3.0 INTRODUCTION

The chapter presents the methodology which explains the process for carrying out the research. The issues discussed include the study area, population, sampling techniques, data collection methods and the data analysis techniques.

3.1 STUDY AREA

The study area of this research was the AngloGold Ashanti Limited situated in Obuasi in the Ashanti Region of Ghana. The main occupation of the citizenry of the land are farming and mining. Organizational profile of are given as follows.

3.1.1 BACKGROUND OF ASHANTI GOLDFIELDS COMPANY LTD (ASHANTI)

Ashanti Goldfields was incorporated in Ghana on 19 August 1974. It was a Ghanaian based Company with operations in other African countries. As indicated above Ashanti's existence dates back to 1897. It started as a single privately owned mine and expanded to become one of the largest mining companies in the world. In 1972 the Government of Ghana acquired 15% shares which facilitated a great deal in its expansion projects. Between 1980 and 1990 it acquired and developed three mining operations in Ghana; Iduapriem, Bibiani and Ayanfuri mines after which it expanded to other African countries like Guinea, Tanzania while it continued with exploration activities in other African countries. Due to its international image it had attained, it then got listed on the London and New York stock exchange among others.

The Obuasi mine which is the mine under study in this dissertation was Ashanti's first mine, out of which other operations were acquired is located in the Ashanti region of Ghana and it is primarily an underground operation. It currently has about 5,000 employees and 2,000 contract workers from 10,000 employees due to various restructuring and labour rationalisation. In fact the Obuasi mine is still one of the largest single operations in the merged group and was the main attraction for the merger.

3.1.2 BACKGROUND OF ANGLOGOLD LIMITED (ANGLO)

AngloGold, though was formed in 1998, emerged from Anglo American's interest in gold dating back to 1917. It was formed in June 1998 through the consolidation of the gold interests of Anglo American Corporation of South Africa Limited (AAC) and its associated companies into a single, focused, independent, gold company. Vaal Reefs Exploration and Mining Company Limited (Vaal Reefs), the vehicle for the consolidation, changed its name to AngloGold Limited and increased its authorised share capital, effective 30 March 1998.

AngloGold then acquired, in share-for-share exchanges in terms of South African schemes of arrangement and following shareholder approval, all the issued share capital of East Rand Gold and Uranium Company Limited; Eastvaal Gold Holdings Limited; Southvaal Holdings Limited; Free State Consolidated Gold Mines Limited; Elandsrand Gold Mining Company Limited; H.J. Joel Gold Mining Company Limited, and Western Deep Levels Limited. A total of 51,038,968 ordinary shares were issued to AAC and

66,010,118 ordinary shares to other shareholders in exchange for their shares in these companies.

The consolidation was approved by the required majorities of the shareholders of AngloGold and the participating companies and became effective on 1 January 1998.

3.1.3 ORGANISATIONAL PROFILE – ANGLOGOLD ASHANTI LIMITED

AngloGold Ashanti, as it conducts business today, was formed on 26 April 2004 following the business combination of AngloGold Limited (AngloGold) with Ashanti Goldfields Company Limited (Ashanti). Both Companies have a long history, with Ashanti's existence dating back to 1897 while AngloGold, though was formed in 1998, emerged from Anglo American's interest in gold dating back to 1917. The core objective of the merger was to synergise the two companies by way of ore reserves, capital, technical ability and human resources with a view to realizing a longer operational life, low cost of production and high margin investment opportunity.

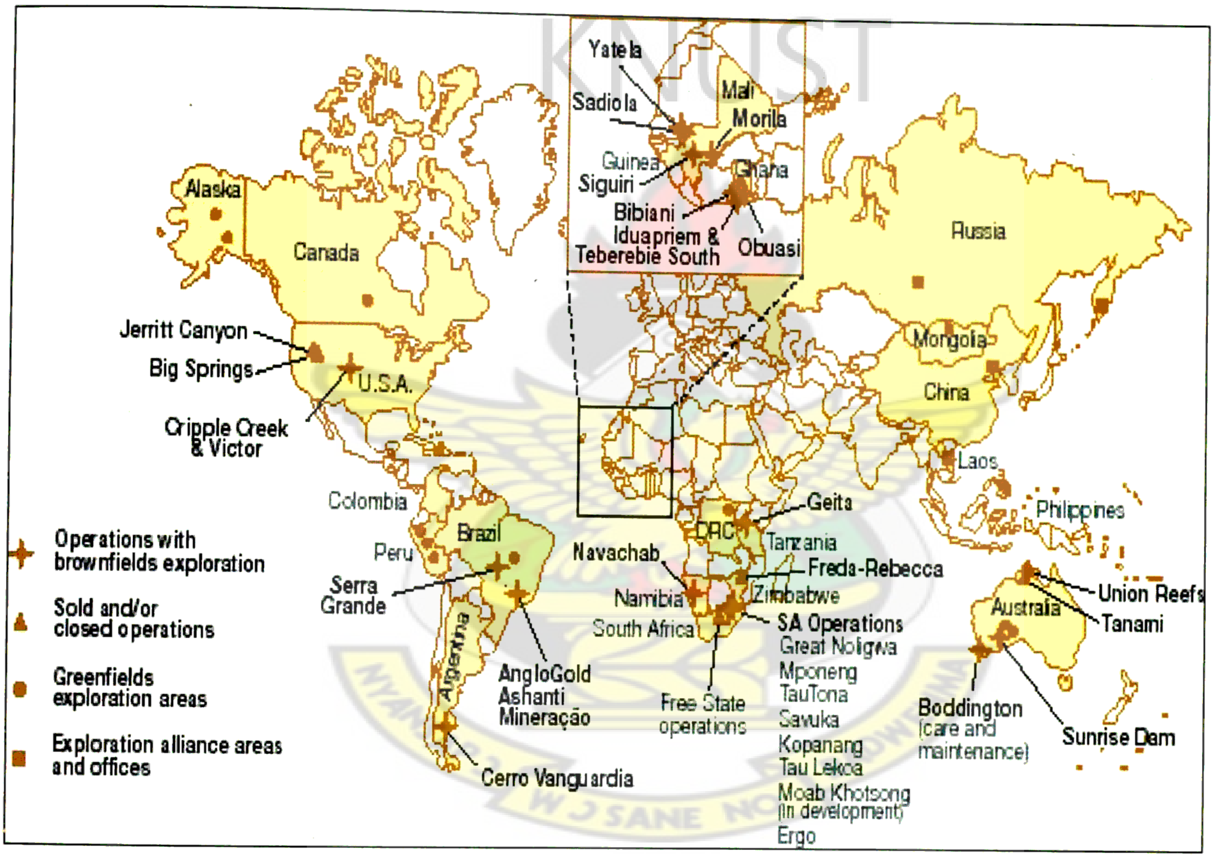
AngloGold Ashanti Company Limited is a global gold mining company with its head office in Johannesburg. It has 21 operations in 10 countries (Argentina, Australia, Brazil, Ghana, Guinea, Mali, Namibia, South Africa, Tanzania and the United States of America), and are supported by extensive exploration activities. The combined Proved and Probable Ore Reserves of the group amounted to 79 million ounces as at 31 December 2004. AngloGold Ashanti is listed on the following securities exchanges:

London Stock Exchange (AGD), Euronext Paris (VA) and Euronext Brussels (ANG) and Ghana stock exchanges among others.

On 4 August 2003, AngloGold and Ashanti announced that they had agreed the terms of a recommended business combination at an exchange ratio of 0.26 AngloGold ordinary shares for every Ashanti share. On the same date, AngloGold entered into the Lonmin Support Deed, pursuant to which Lonmin, which held 27.6% of Ashanti's issued share capital, agreed, among other things, to vote its Ashanti shares in favour of the business combination. This offer was improved to 0.29 ordinary shares; the Ashanti board on 14 October 2003 recommended the improved final offer from AngloGold. On 28 October 2003, the government of Ghana, which held 16.8% of Ashanti's issued share capital, announced its support for the AngloGold offer, as well as the principal terms of a stability agreement which the government of Ghana intended to enter into with AngloGold.

AngloGold and the government of Ghana agreed the terms of a stability agreement, approved by the parliament of Ghana, to govern certain aspects of the fiscal and regulatory framework under which AngloGold Ashanti will operate in Ghana following the implementation of the business combination. The business combination was effected by means of a scheme of arrangement, under Ghanaian law, which required and obtained the approval of Ashanti shareholders and the confirmation by the high court of Ghana. In terms of the scheme of arrangement, Ashanti shareholders received 0.29 ordinary shares or 0.29 ADSs of AngloGold for every Ashanti share or Ashanti GDS (Global Depositary Security) held. The business combination became effective on 26 April 2004 after the court order from the High Court of Ghana was lodged with the Ghana registrar of companies. From the effective date, Ashanti became a private company and AngloGold changed its name to AngloGold Ashanti Limited following approval by its shareholders at a general meeting held on 8 April 2004.

Figure 2: Operations of AngloGold Ashanti – May 2008



3.2 STUDY POPULATION

The population of the study is the entire 4,385 of the working force in Obuasi and Gold-house, Accra. It is therefore made up of heterogeneous group of individual at the site of work. This comprises of expatriates, senior managers, senior staff and junior staff as categories. The sample size was therefore selected using stratified simple random sampling technique.

3.3 SAMPLING

Sampling techniques provide a range of methods that enable a researcher to reduce the amount of data to be collected from a subgroup rather than all the possible cases or elements. There are two types of sample techniques and these are probability sampling and non-probability or judgmental sampling (Saunders, et.al, 2007). However, simple random sampling, a type of probability sampling technique was used in selecting the sample size of this study. The main reason for using simple random sampling was to allow the participation of all employees of the organization. This method was also used to facilitate the process of the study.

According to Andre (2004), there is a universal formula for calculating the size of a sample. However, as a starting point, there are two facts that are well known from statistical theory and should be remembered. The larger the size of the sample the more precise will be the information given. This influenced the decision on selecting 300 as an appropriate sample size for this study.

The target population for this study was five hundred (500) employees from the newly merged organization, AngloGold Ashanti Limited. However, sixty percent (60%) of the population representing 300 employees (i.e. 60% x 500 employees) views were sampled for the necessary analyses. The sample size for the study was therefore three hundred (300) employees who responded to the administered questionnaires.

3.4 SOURCES OF DATA

The quality of research depends greatly on availability and accessibility of quality data. This makes data vital to research findings. For this reason, primary, secondary and tertiary sources of data collection which includes articles, conference papers, book publications, literature surveys and many others on mergers and acquisitions.

Administration of questionnaires and personal interviews with the staff of the organization was one of the sources of data for the study. In all twelve questionnaires were administered and received from employees for the necessary analyses which assisted in achieving the objectives of the study. The main questions focused on employee retention, employee response to change, employee satisfaction with leadership and working practices.

Additionally, Financial Statement of the AngloGold Ashanti for a period of six years (2002 to 2007) were obtained and used for the necessary computations. Particularly, shareholders ratios of return on equity and earnings per share evaluated for the stated period.

Most importantly, the Stability Agreement document signed between the government of Ghana and AngloGold was obtained from the organization and critically analyzed with respect to its fulfilment. Data on employee numbers, retrenchment, additional recruitment of expatriate staff and others were all pulled from the organization management reports

3.5 DATA ANALYSIS TECHNIQUES

The next step was to adopt the appropriate and applicable research techniques to analyze the data. It must also be mentioned that there are different data analyses techniques that are applicable for research activities. In this research however, the data was analyzed using a combination of trend, statistical tools and financial ratios. Among these ratios were gearing, profitability and activity used in this study. Microsoft Excel was also used for all the necessary computations.

Furthermore, the questionnaires were analyzed using Microsoft Excel. Therefore all the tables, graphs and figures used in the presentation and interpretation of data were successful with Microsoft Excel and Microsoft Word.

CHAPTER 4
DATA ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

This chapter presents the analysis of the study using statistical tools, tables, charts and diagrams for the necessary interpretations. It also comprises key indicators and trends that emerged from the data collected. The discussion centred on the significance of the implication of the outcome of the trend data. The facts presented basically focuses on cross border mergers and acquisition benefits derived by the government, employees and shareholders as well as challenges to the success of the merger

4.1 BENEFITS TO THE GOVERNMENT

The benefits to the government were considered from three different perspectives. These are benefits in terms of control level, dividends, and royalties. The results drawn from the trend data have been represented in figures in subsequent pages.

4.1.1 Control:

The Government of Ghana has held one special rights redeemable preference share of no par value for many years. This preference share, in addition to its ordinary share as a major shareholder, enabled the government to exercise significant control over the then Ashanti Goldfields Company Ltd. For example in their 2003 financial reports the following were stated as notes to the stated capital:

"The Government of Ghana holds the special rights redeemable preference share of no par value (the "Golden Share"). The Golden Share is non-voting but the holder is entitled to receive notice of and to attend and speak at any general meeting of the

members or at any separate meeting of the holders of any class of shares. On winding up, the Golden Share has a preferential right to return of capital, the value of which will be 1,000 cedis"

"The Regulations of the company provide that certain matters, principally matters affecting the rights of the Golden Share, the winding up of the company or the disposal of a material part of the Group's assets, shall be deemed to be a variation of the rights attaching to the Golden Share and shall be effective only with the written consent of the holder of the Golden Share"

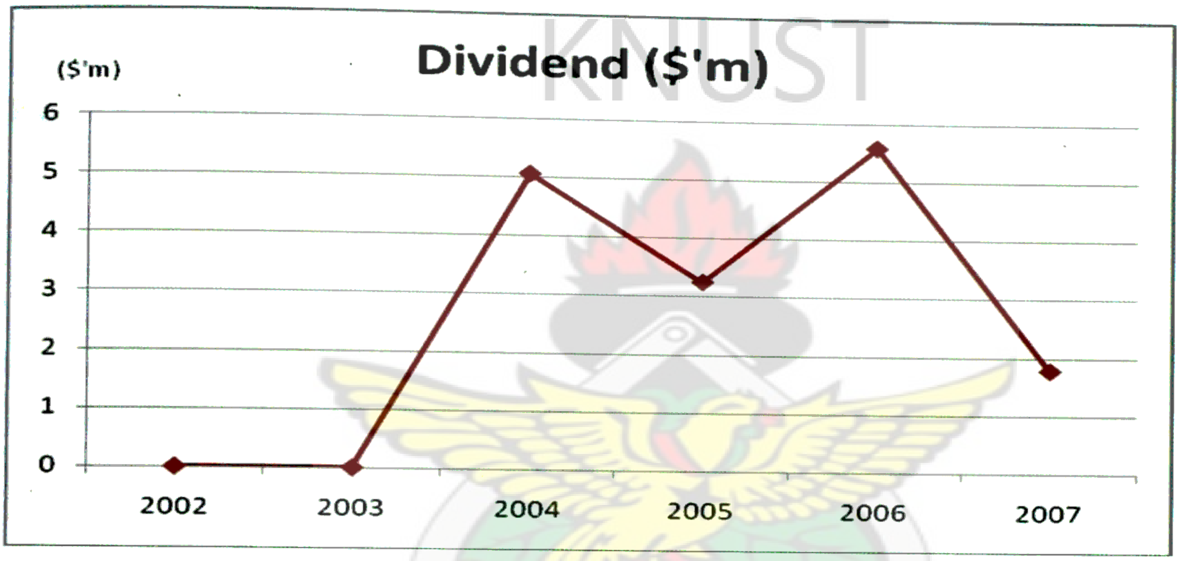
As part of the negotiating process, the Stability Agreement between the Government of Ghana and AngloGold maintained the Golden Share rights held by the government. An excerpt of the notes to the stated capital of the 2005 financial reports is as follows:

" ... *The Government of Ghana holds the special rights redeemable preference share of no par value (the "Golden Share"). The Golden Share is non-voting but the holder is entitled to receive notice of and to attend and speak at any general meeting of the members or at any separate meeting of the holders of any class of shares."*

4.1.3 Dividend

Due AGC's financial constraints and the accompanying operational inefficiencies the company could not pay dividend for a long time. As discussed above the government's big share in AGC had not yielded much cash inflow in terms of dividend. The dividend trend analysis shows that for the first time in many years after the 'hedging crash' the government of Ghana has received US$15m for the year 2004 to 2007 under review from its shareholding in the group. This implies that where a local company is not doing well through inefficiencies the government stands a better chance to reap gain when it merges with an international company.

Figure 4.1.1 Results for dividend paid to the government



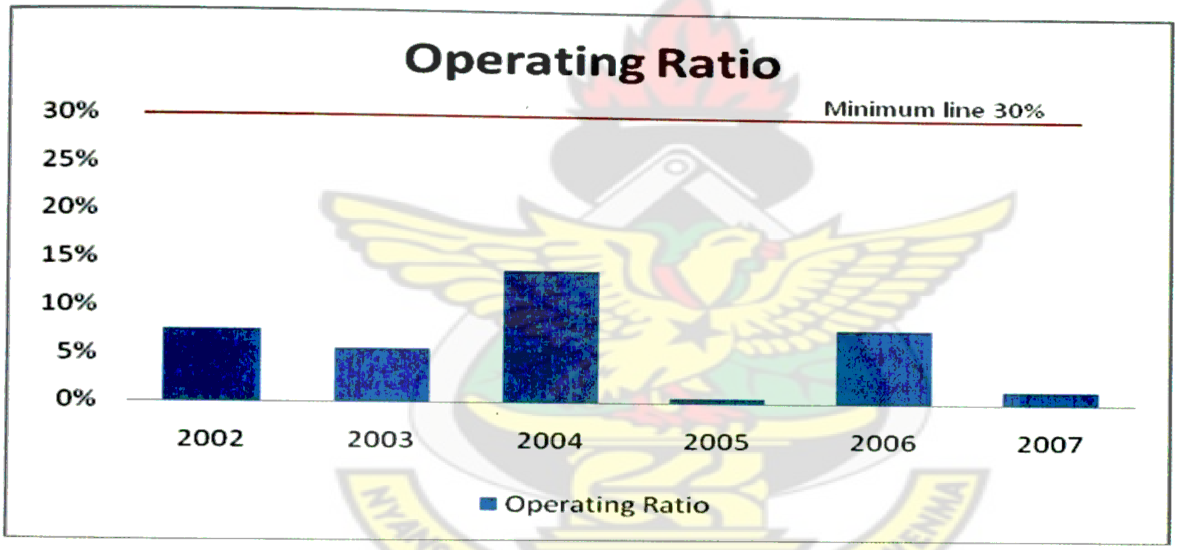
4.1.4 Royalties.

The government receives royalty payment from mining companies for giving them mining concession. Unlike taxes which are based on the company's profit, the royalty is based on revenue i.e. the production ounces and the spot price in the world market. The government has set the base rate at 3% (of revenue) but increases to 6% with the increase of the operating margin of the company. The maximum rate which used to be 12% was revised under the minerals and mining Act, 2006 (Act 703).

The regulation states that:

- *Where the operating ratio is 30% or less the rate of royalty payable of the total value of the minerals won is 3%*
- *Where the operating ratio is more than 30% but less than 70% the rate of royalty is 3% plus 0.225 of every 1% by which the operating ratio exceeds 30%*
- *Where the operating ratio is 70% or more the rate of royalty is 12%*

Figure 4.1.2 Results for operating ratio



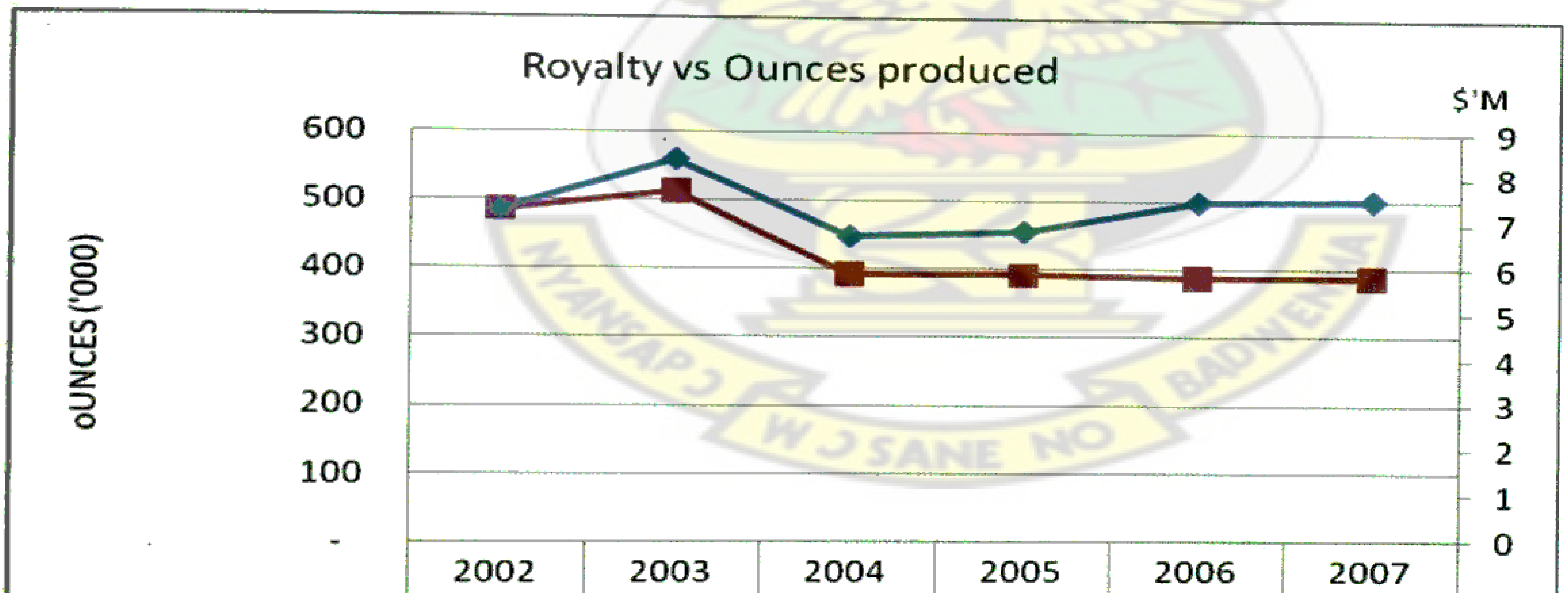
The trend shows that from 2002 to 2007 AGC/AGA has paid the minimum rate. The condition set in the stability agreement locked the government to the 3% minimum for 15 years.

Section 2.02 of the agreement states that, "*the government hereby agrees that for a period of 15 years commencing at the effective time, to maintain the royalty payable by Ashanti with respect to its mining operations in the republic of Ghana at a rate of 3% of the total revenue of minerals obtained by Ashanti from such mining operations.*"

SECTION 2.08 , Value Exchange for the regulatory concession states that, "*consideration of the agreements and undertakings contained in this Article II, promptly after the later to occur of (i) the Effective Time and (ii) the execution of this Stability Agreement by the parties hereto, AngloGold shall (a) issue and deliver to the Government 2,658,000 validly issue fully paid and non assessable AngloGold Shares (that shall be registered in the name of the Republic of Ghana) and (b) Pay the Government US5,000,000 by wire transfer …….*".

For the period 2004 to 2007 the operating ratio has been below the 30% minimum which implies that the government decision to lock the royalty into a minimum payment for the consideration above has not suffered any relative disadvantage.

Figure 4.1.3 Results for royalty paid to government



	2002	2003	2004	2005	2006	2007
Ounces ('000)	486	513	393	391	387	387
Royalty($'m)	7.3	8.40	6.73	6.84	7.50	7.53

4.2 BENEFITS TO EMPLOYEES

This section analyses data on employees of the organization since the merger between the two companies. One of the outbursts of public cry against governments approval of mergers and acquisition involving state own interest is the fact that employees will lose out whiles expatriates dominate. The trend data from Obuasi management accounts reveal the following:

Table 4.2.1 Expatriates

YEAR	EMPLOYEES #	CHANGE	PERCENTAGE CHANGE (%)
2002	15	-	-
2003	12	(3)	(20.00)
2004	17	5	41.67
2005	19	2	11.76
2006	24	5	26.32
2007	31	7	29.17

Source: Field Survey, 2009.

Table 4.2.1 above explained the analysis on the trend of expatriates in the company before and after the merger between the two companies. In the year 2002, the data revealed that there were 15 expatriates at the Obuasi mine. This reduced by 20% to 12 indicating a decline in the number of expatriates before the merger.

Subsequently, the merger took place in the year 2004 where the number of expatriates increased by 41.67% to a value of 17 employees. The remaining years to 2007 also experienced a sharp trend of increment in the number of expatriates to current date. Thus, from 2004 to 2007 under review expatriate increased over 108% indicating a dramatic upsurge. This number excludes expatriate consultants and trainers.

One of the major effects of this on the local executives of the company is the loss of their respectful employment or jobs to the new entrants who happen to be expatriates.

Table 4.2.2 Senior Staff

YEAR	EMPLOYEES #	CHANGE	PERCENTAGE CHANGE (%)
2002	890	-	-
2003	877	(13)	(1.46)
2004	804	(73)	(8.32)
2005	780	(24)	(2.99)
2006	833	53	6.79
2007	646	(187)	(22.45)

Source: Field Survey, 2009.

Table 4.2.2 above revealed data on the numerical strength of senior staff before and after the merger. It was discovered that in the year 2002, the total number of senior staff in the Accra office and Obuasi mine were 890 employees. This number reduced by 1.46% to 877 in the year 2003 before the merger took place.

In the year 2004 when the merger took place, the number of senior staff who actually lost their jobs was 8.32% (i.e. 73 employees) from 877 employees to 804 employees in the same year. This suggests that the local management member of the organization were really affected by the merger. The reduction in the number of senior staff continued in the year 2005 but there was a fresh intake of young people to replace the retrenched ones.

Finally, there was 22.45% lost of jobs in year 2007 which is relatively significant. This was the highest and revealed the rate at which senior staff members loosed their jobs after the company had embarked on a merger exercise. This data confirms most senior staff lost their jobs and this is one of the negative effects of cross-border merger to local senior staff.

Table 4.2.3 Junior Staff

YEAR	EMPLOYEES #	CHANGE	PERCENTAGE CHANGE (%)
2002	5928	-	-
2003	5680	(248)	(4.18)
2004	5263	(417)	(7.34)
2005	5060	(203)	(3.88)
2006	4924	(136)	(2.69)
2007	3688	(1236)	(25.10)

Source: Field Survey, 2009.

The table 4.2.3 above revealed data on the junior staff of the company. It was discovered that in the year 2002, the total number of junior staff were 5928 employees. This reduced by 4.18% to 5680 employees in year 2003 and in 2004, where the merger took place; there was a further reduction of 7.34% in the number of junior staff. It can therefore be concluded that the merger contributed to the rate of redundancy in the strength of junior staff in the organization.

In 2005 and 2006 the reductions were only 3.88% and 2.69% respectively, just close to AGC's natural iteration of 1.5%. This means the management of AGA complied with the stability agreement requirement prohibiting retrenchment for two year after merger.

Despite the effort to curb the rate of redundancy in the company, 1236 employees lost their jobs the year 2007. This was the highest and the worst of all that rate of redundancy since the merger. This data revealed that most employees did not benefit from the merger but a negative impact of loosing their jobs.

Table 4.2.4 Ghanaian Senior Managers

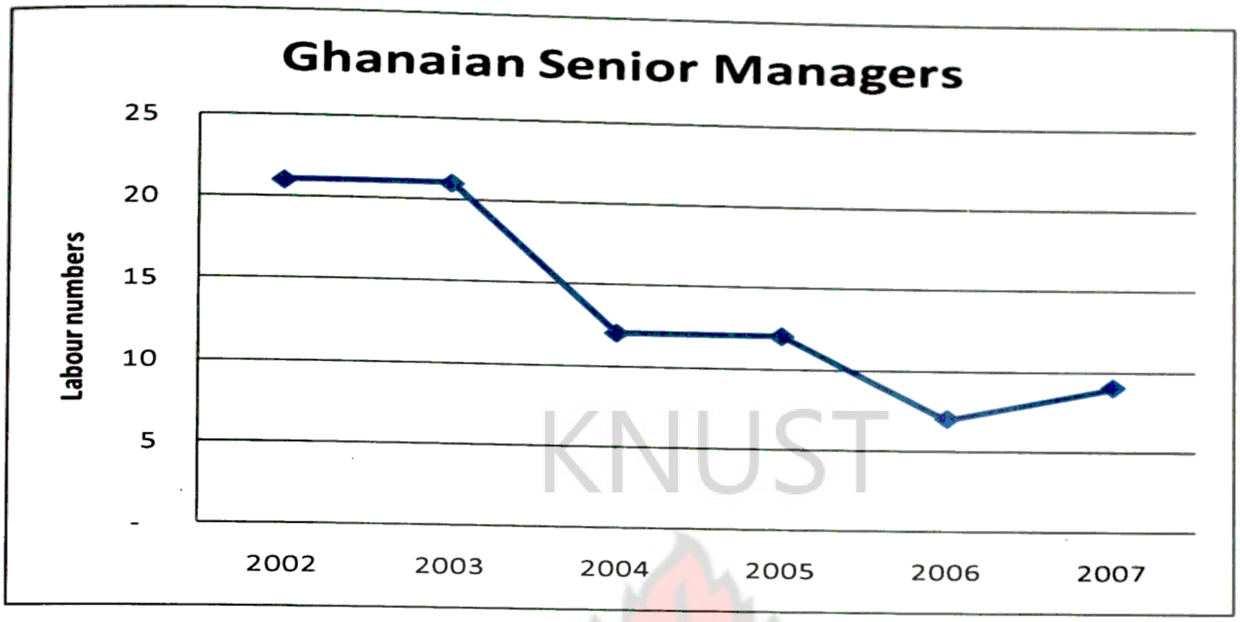
YEAR	EMPLOYEES #	CHANGE	PERCENTAGE CHANGE (%)
2002	21	-	-
2003	21	0	0
2004	12	(9)	(42.86)
2005	12	0	0
2006	7	(5)	(41.67)
2007	9	2	28.57

Source: Field Survey, 2009.

The distribution of data on Ghanaian senior manager for the period under study is shown on table 4.2.4 above. The data shows that in year 2002, 21 employees were working as Ghanaian senior managers for the company. This number was the same in year 2003 which is before the merger. The merger however took place in year 2004 where the number of Ghanaian senior managers in the company was reduced by 42.86% (i.e. from 21 to 12.). This means the positions of the 9 Ghanaian senior managers in the company were lost and therefore their jobs were negatively affected.

By 2007 there was only 9 senior managers left though some staff from the lower ranks were later promoted to fill certain positions. Figure 4.2.1 below demonstrates a pictorial presentation of the data on Ghanaian senior managers.

Figure 4.2.1 Results of Ghanaian senior managers



From Figure 4.2.1, most of the senior management of erstwhile AGC left the new merged company barely a year or two after the merger. Most of the affected staff interviewed revealed that either they could not cope with the new culture or their new role suggested a demotion from their former position.

Table 4.2.5 Ghanaian Senior Managers Transferred to Corporate Office in SA

YEAR	EMPLOYEES #	CHANGE	PERCENTAGE CHANGE (%)
2002	0	-	-
2003	0	-	-
2004	10	-	-
2005	10	0	0
2006	3	(7)	(70)
2007	3	0	0

The above data on table 4.2.5 revealed the statistics on Ghanaian senior managers who were transferred to South Africa as promised by the merger for the purposes of job training and upgrading of skills. After the merger in 2004, 10 Ghanaian senior managers were taken to South Africa for various positions.

After two years, the number of Ghanaian senior managers to South Africa had reduced by 70% to 3 employees. This number was the same for year 2007. This indicates that the number of Ghanaian Officials in the organization since the merger has been reducing and it suggests that the promises of the merger were not really fulfilled. Most of the staff may have left their positions on the account of cultural differences, incompatibility, stressful job requirement or frustration from superiors. It must however, be mentioned that mergers do not mostly favour executives of the target companies.

Table 4.2.6 Training Cost

YEAR	COSTS	CHANGE	PERCENTAGE CHANGE (%)
2002	N/A	-	-
2003	234,623	-	-
2004	592,573	357,750	152.48
2005	1,242,652	650,079	109.70
2006	1,449,735	707,083	16.66
2007	1,520,207	70,472	4.86

Source: Field Survey, 2009.

The data above on table 4.2.6 reveals the statistics on training cost of the organization before and after the merger of the two companies. From a meagre training cost of $234,623 a year before the merger, it increased by 152% in 2004. That is, from $234623 to $592573 in the same year. This data indicated that immediately after the merger was established, the foreign company significantly spent much on training employees according to the stability agreement requirement. This depicts the significance of training on merger and acquisition as expansion strategies.

Figure 4.2.2 results of senior staff employee number vs. pay factor

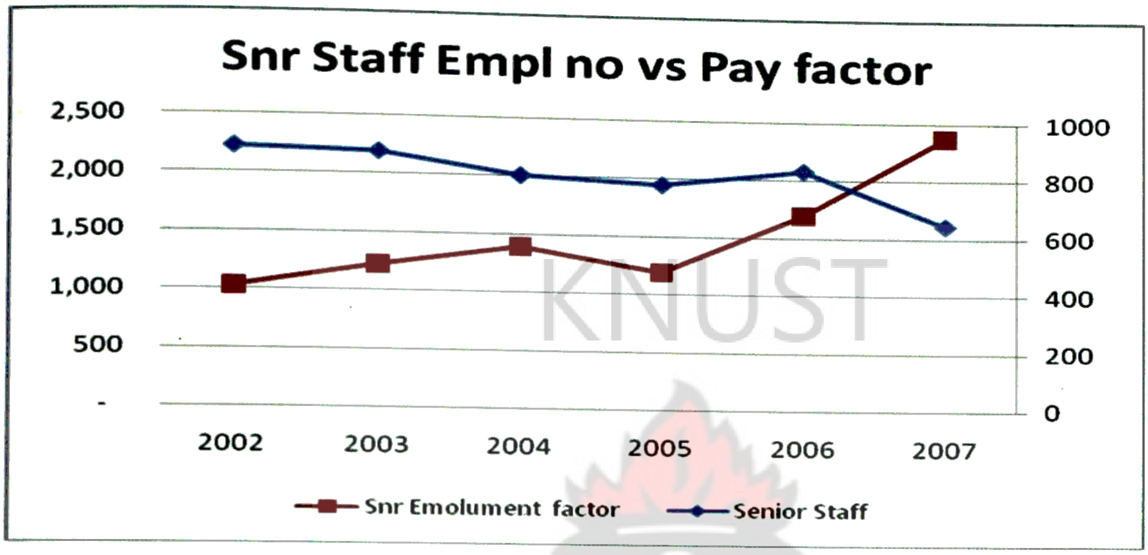
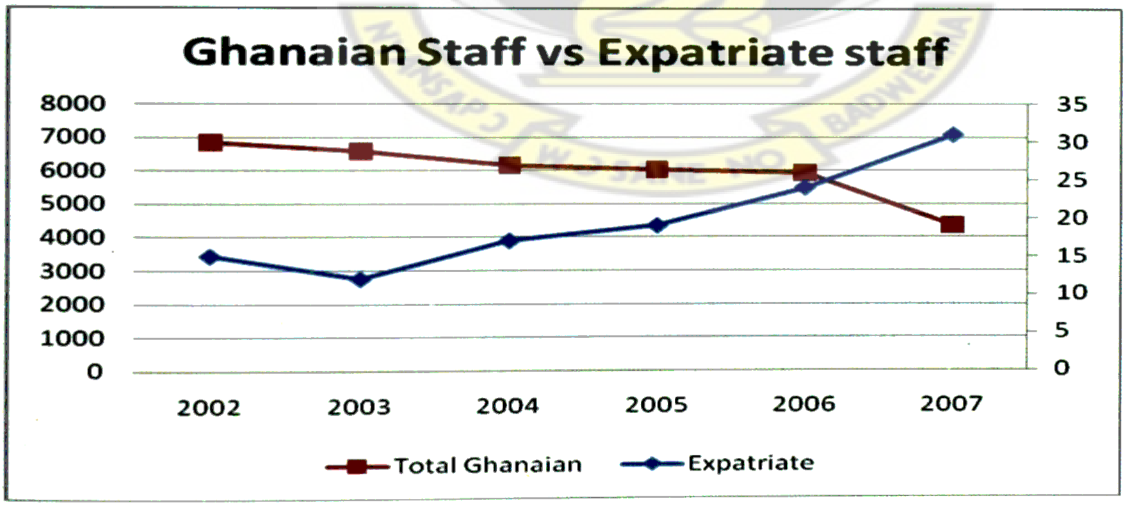


Figure 4.2.3 results of total Ghanaian staff vs. expatriate staff

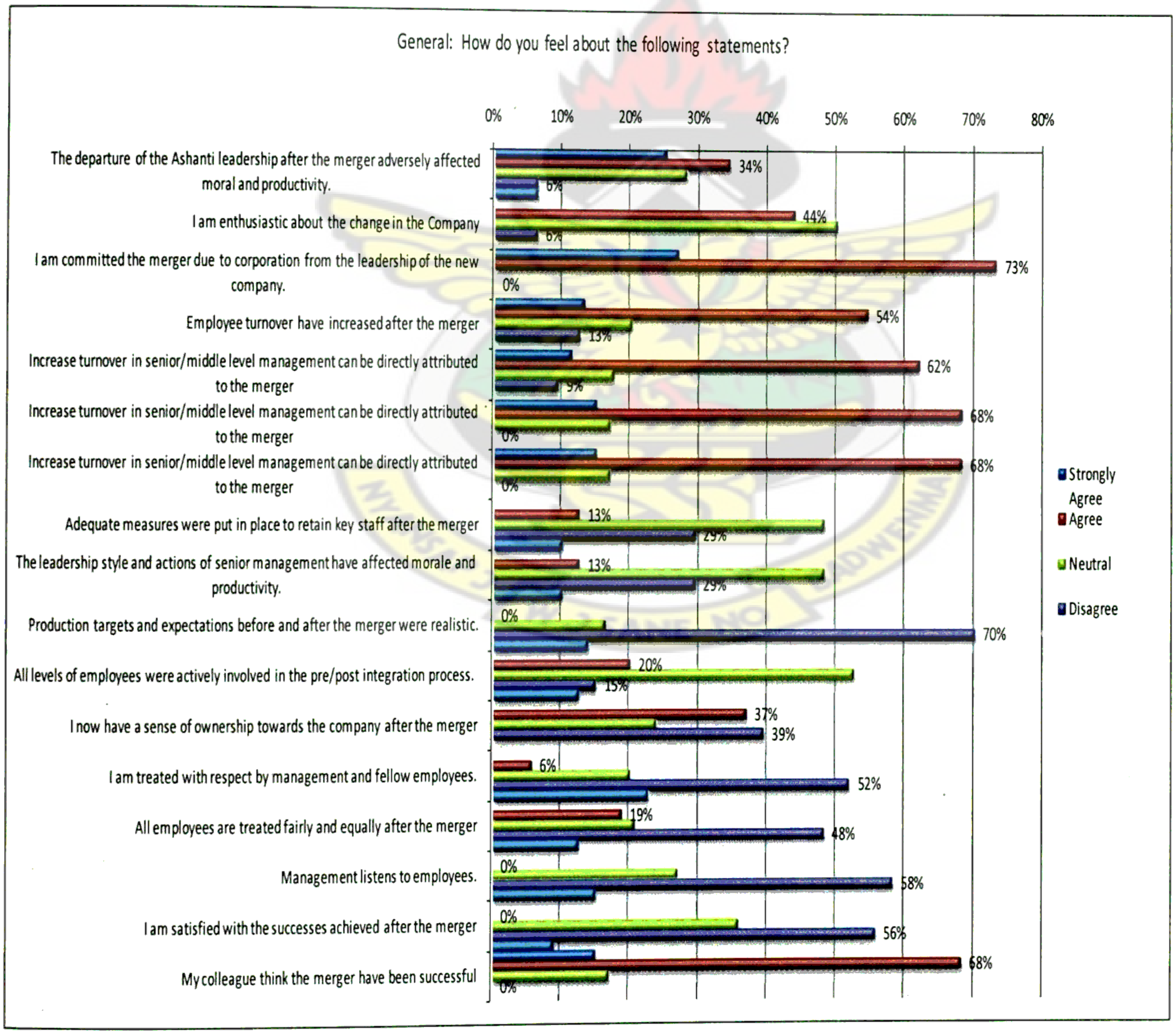


Source: Field Survey, 2009.

4.2.8 Employee Retention

Figure 4.2.3 revealed a summary of the response to the administered questionnaire by employees of the company. It gives the results of how respondents felt about the impact of the merger on individual jobs and satisfaction levels. Even though lots of questions were asked, a few relevant to the objectives of the study formed part of the analyses.

Figure 4.2.4 Results for employee retention



From Figure 4.2.4 above respondents confirmed that labour turnover has dramatically increased after the merger. Eighty percent of respondents believe that the departure of senior/ middle level management can directly be attributed to the merger, while 13% thought otherwise. Seventy-three percent believed that management did not put adequate measures in place to retain key employees after the merger. This could imply that management intention was to replace certain key positions in the acquired company to ensure that their agenda was carried through. This was done without considering the enormous experience some of these local staff has acquired over the years. Some of the interviewees retorted that the new leadership sidelined them because they were seen to be resisting the change when they try to share their experience. Some of these employees eventually left due to loss of power and status.

Due to this, the company lost important human capital which negatively impacted on the expected synergies – A senior manager in the engineering department said in the interview “the loss of key employees to our competitors has affected the efficiency of my department”. This confirms the results of the questionnaire and interviews conducted in which 59% agreed that the departure of the ex Ashanti leadership after the merger adversely affected morale hence, low productivity. Forty-seven percent believed they lost their sense of ownership after the Ashanti leadership has left but only 20% thought otherwise while 33% stayed neutral. Eighty-three percent and Seventy-five percent of respondents believed that management style and unfair treatment amongst employees respectively can also be attributed to the low morale and productivity. Eighty-four percent of respondents attributed the difficulty in the integration process to the non active involvement of all levels of employees during and after the negotiation process.

When asked if management listens to employee's suggestions – 19% answered positively while 76% thought management do not listen while 5% stayed neutral. Again 73% of respondent confirmed that the merger have not met their expectation, while 65% said their colleagues felt the same way, though 27% and 36% respectively stayed neutral. When respondents were asked to compare pre and post merger job satisfaction, 57% felt that post merger satisfaction was lower than before whilst 6% thought disagreed to this statement and 38% were neutral. 40% also felt their jobs were not secured after the merger, 26% disagreed with this notion and 26% were indifferent.

4.3 BENEFITS TO SHAREHOLDERS

The analyses also focused on the benefits attributable to the shareholders of the company after the merger. One of the most relevant questions to ask is whether or not the worth of shareholders of the company has been maximized since the merger. With the analyses on the shareholders, the financial statement and ratios were used. Specifically, two major shareholders ratio were used. These were Return on equity and Earnings per share. These are summarized in the tables as follows.

Table 4.3.1 Return on Equity

YEAR	EARNINGS AFTER TAX	SHAREHOLDERS FUND	RATIO
	$'M	$'M	(%)
2002	15.50	196.80	7.88
2003	25.30	232.90	10.86
2004	17.12	327.62	5.23
2005	(95.20)	233.40	(40.79)
2006	73.20	305.80	23.94
2007	(61.00)	244.80	(24.92)

Source: Field Survey, 2009.

Table 4.3.1 revealed data on the benefits derived by shareholders of the Ghanaian Company before and after the cross merger between the two companies. The statistics of return on shareholders equity in the year 2002 was 7.88%. This value increased by 2.98% to 10.86% in year 2003. That is, the shareholders worth on their equity was maximized by the company year 2003. This was believed to be as a result of increase in the value of earnings after tax from $15.50m to $25.30m.

However, when the merge took effect in 2004, the ratio of return on equity significantly decreased from 10.86% to 5.23%. That is there was over 100% lost in the equity of ordinary shareholders of the company. Again, a fall in earnings after tax caused the ratio to also fall even though the shareholders fund also fell slightly.

Surprisingly, there was a negative earnings after tax of $95.20m and this compelled the ratio of return on equity in the year 2005 to be a negative value of 40.79%. In 2006, the company strived with a positive return on equity of 73.20%. This again, fell to (24.92%)

in the year 2007 indicating that return on equity of shareholders had not been good so far as returns are concerned.

Table 4.3.2 Earnings per Share

YEAR	EARNINGS AFTER TAX $'M	ISSUED ORD. SHARES	RATIO (%)
2002	15.50	126,893,913	12.21
2003	25.30	130,480,968	19.39
2004	17.12	131,862,968	12.98
2005	(95.20)	131,862,597	(72.20)
2006	73.20	132,419,584	55.29
2007	(61.00)	132,419,584	(46.07)

Source: Field Survey, 2009.

Earnings per share indicate how many ordinary shareholders are making as gains per ownership in a corporation. The data on table 4.2.2 revealed that there was12.21% earnings per share (EPS) for ordinary shareholders in 2002. This increased to 19.39% in 2003, showing an addition of 7.18% maximization in the earnings of shareholders. Besides this, there was a fall in EPS to 12.98 immediately after the merger in 2004. This suggests that there occurred a fall on EPS by shareholders and indicates lost on the value of their investment. The fall continued in 2005 where there occurred a negative value 72.20% ratio of earnings per share.

In contrast, there was an increase in the value of EPS positively to 55.29%. This means in the year 2006, shareholders of the Company gained massively on their ownership. Surprisingly, there was another fall in the value of EPS of 46.07% in the same company. In a summary, from 2002 to 2007 the total gain on EPS was 99.84% and the lost from the same period was 118.27%. There was a net loss of 18.43% to shareholders since 2002 to 2007.

AGC shares conversion

AGC shareholders received 0.29 shares for every share formerly held. It implies from a share price of $3.19 in Dec 2003, a holder of AGC share realised 0.29 X 33.40 = $9.69 immediately after the merger.

Table 4.3.3 Production Ounces

YEAR	OUNCES (OZ)	CHANGE	PERCENTAGE CHANGE
2002	485,587		
2003	513,163	27,576	6%
2004	392,626	(120,537)	-23%
2005	391,265	(1,361)	0%
2006	387,093	(4,172)	-1%
2007	387,048	(45)	0%

Source: Field Survey, 2009.

The above data on table 4.3.3 revealed the production profile, in terms of ounces for the years 2003 to 2007. It appears that the Obuasi mine had been performing creditable well before the merger. In 2004 after the merger the production fell by 120,537 oz which was 23%. From 2005 to 2007 the ounces produced have reduced year on year.

The focus of the merger was on Obuasi mine which have huge reserve ounces deposited in the deeps below one kilometre (50level). After the merger management has instituted a turnaround strategy to resuscitate the company. However, it seems that the expectation of the deeps project to increase production has not been realised.

4.4 STABILITY AGREEMENT AND MONITORING

As has been discussed above the Government of Ghana entered into an agreement with AngloGold of South Africa to allow the merger between Ashanti Goldfields and AngloGold. It is believed that the government weighed many options to finally agree to the conditions and considerations of AngloGold in preference to Rangold. The competition between AngloGold and Rangold was fierce and expensive in terms of advertisement to appeal to Ghanaians and the government. Public debate in news paper, TV, FM stations, etc. put much pressure on the government to make the right choice.

The following are some of the conditions and requirements set in the agreement.

Table 4.4.1: Stability Agreement Requirement

Section	Obligation
2.01(b)	To invest the following capital expenditures: Existing Obuasi Mine recapitalization expenditures of US$ 220m in respect of mine infrastructure and equipment Obuasi Deeps: US$ 44m in respect of exploration and feasibility studies
4.01 (a)	AngloGold Ashanti not to implement a new retrenchment program in the 2 years following the effective date of the Stability Agreement
4.01(b)	Establish an AngloGold Ashanti Trust with trustees drawn from AngloGold Ashanti management and the communities in which AngloGold Ashanti operates.
4.01 ©	Implement programs pertaining to training, efforts against malaria and improvement of Health, Safety and Working Conditions
4.01 (d)	Change the company name from AngloGold to AngloGold Ashanti

Source : Field Survey, 2009

AngloGold Ashanti reports on its performance to comply with the stability agreement on monthly basis. The graphs in figure 5.1 – 5.6 show the performance of the company in fulfilment of the agreement and

Capital investment : from 2004 to 2007 AGA has spent about $280m existing Obuasi mining recapitalization (Stay-In-Business capital) well over the expected $220m. By 2007 $23m out of the expected $44m has been committed into the Deeps project. The 2009 year-to-date capital additions reveal that in fact over $44m has also been committed.

Retrenchment: Retrenchment was not carried out until 2006. However, between 2006 and 2007 over 1,500 workers were made redundant. Does this suggest that AngloGold was only waiting for the expiration of the two year clause to carry out what it has longed planned to do? Since Expatriate staff increased in the ensuing years under study has the Government taken the necessary checks and due diligence to verify the qualification and experience levels of the new Expatriate recruits vis-à-vis their retrenched counterparts. Was there any clause to scrutinize the Expatriates before working permits are granted?

Trustees with Communities: AngloGold Ashanti has set up fish farming in commercial quantities for the communities with some community members being part of the Trustees. This is part of its Sustainable Development programme to enhance the living standards of those affected by its mining operations

Malaria Control: AngloGold Ashanti has set up a Malaria control unit whose aim is to eradicate mosquitoes, parasites responsible for the spread of malaria. The unit has grown in size and operation and has therefore attracted a United Nations funding to continue the malaria prevention to a national dimension. This is indeed recommendable.

CHAPTER 5
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

The final chapter of the study presents the summary of the major findings of the research, the conclusion and the recommendation. The findings and all recommendations given in this study were based on administered questionnaires to three hundred (300) employees and a six year financial statement from AngloGold Ashanti (group consolidation). Additional summary trend data was collected from AGA (Ghana limited) comprising of Obuasi mine, Accra office and the defunct Bibiani mine. The management information provided trend of labour categories.

5.1 SUMMARY OF FINDINGS

The summary of the findings of the research based on data collected and analyzed were as follows. In Ghana there have been a number of mergers and acquisitions plans and proposals put forward by the government but were met with serious opposition due to the following reasons:

The intended benefits would never materialise

The cash and shares consideration given to the government were too small for the value of investment being exchanged

The stability agreement were too porous and represented a weak bargaining front

Employees would be worse of if merger was approved

The benefits would accrue for the expatriate only

The findings from the results of the study can be summarized as follows:

The **government** benefited in several ways key among them are:

Market capitalization at the Ghana Stock Exchange increased by US$7.8b, 433% immediately after the merger deal was finalised, 26^{th} April 2004.

The government started receiving dividend from 2004. In all a total of US$ 15m has been paid as dividend from 2004 to 2007. The government also received 2,658,000 shares and cash considerations of US$5m for agreeing to the Merger.

Capital investment increased tremendously to boost the Ghanaian economy: US$303m capital expenditure was spent within 4years of merger, well over the required UD$220m stay-in-business capital

On the other hand the government may lose out on the following account:

Lock up royalty payment to the minimum rate for 15 years thereby losing any opportunity for higher future cashflow. The profit margin on which the royalty rate depends may increase above the threshold setting the stage for higher royalty payment yet for 15 years the government cannot benefit from any such opportunity

The stability agreement did not detail under what condition and calibre of expatriates who may be brought to replace local mangers. It only emphasized on training but did not specify as to when.

The stability agreement allowed for only two years job security after signing of the agreement. It did not discuss on what account local employees may be retrenched and how many.

One of the challenges the government faced in the initial stages was which acquiring company to choose for optimum benefit. Choosing between Rangold and AngloGold was a real challenge because of the relative offers and terms put forward by each of them. In addition stakeholder groups discussed and debated over the relative offers in the media. Should it select Rangold which was smaller than AGC but with higher offer or AngloGold which was bigger. Whiles Rangold would need to borrow to meet the obligations of the merger AngloGold had surplus cash.

Finally the government opted for AngloGold believing that it had what it takes to implement the deeps project and to turn Obuasi around.

It was found that though the employee number has dwindled, their total emolument factor has increased radically since merger. Also higher training cost has been incurred to give local employees opportunity for advancement.

Challenges faced by **Employees** included the following:

Over two thousand staff loosed their jobs, management appeared to prefer capital investment rather than human retention. Key positions reverted to expatriates

Cultural differences appeared to reduce the morale of some of the employees

It was also evidenced that most Ghanaian senior managers were negatively affected by merger between the two companies. Most Ghanaian senior managers and senior employees either lost their jobs immediately after two years or applied for voluntary redundancy. This may have happened on the account of cultural differences and power struggle between them and the expatriates.

On the part of the **shareholder**, though earnings per share and returns on equity on the Ghanaian mines have fared poorly after the merger, critical analysis showed there were some gains. Since 1 AGC share exchanged for 0.29 AngloGold Depository share, a shareholder's wealth appreciated by 204% immediately after the merger.

Challenges and draw backs to the shareholder include the apparent failure on Obuasi turnaround and the deeps project. Also the production ounces have since merger dropped significantly

It was found that whiles Obuasi production ounces were falling, its cost of sales was on the increase. This implies that the cost of sales per unit of ounces was very high. This reflected a vey low productivity. Various turnaround teams, consultants and management have not been able to turn profitability upside. In the wake of this the directors have within five years changed managing directors 5 times. Is it a case of de-motivated employees; fast depleting reserve ounces, or loss of ideas on the part of management?

It was also found that out of the $44m expected capital expenditure towards feasibility, drilling and mining of the deeps project, only $19m has been spent as at December 2008. The deeps project was the main attraction that led AngloGold to merge with cash strapped AGC.

After the merger AngloGold soon realised that they did not probably carry out enough due diligence to ascertain the existence or otherwise of the deeps reserves. In the books of

AGA it is classifies as 'Blue Sky' meaning not much geological testing has been done and may only be a wishful dream.

5.2 CONCLUSION

Mergers and acquisition present huge opportunities for companies to exploit synergy, expand, fight competition, weed out inefficiencies and create a more resilient company in a world of uncertainties. Cross-border mergers and acquisitions present even greater opportunities and challenges.

Often the acquiring and target companies perceive the potential benefits far more quickly in the light of their personal interest. Thus whiles the acquiring company sees untapped potentials to turn around in the target company, the later sees the M&A as the means to the end of all their woes. Practical and realistic assessments of what will make the merger work to derive the optimum benefits are often ignored.

In the case of AngloGold Ashanti whiles local staffs were fed up with the 'unnecessary' changes being effected, the expatriate staffs were getting disappointed over the 'mirage' of anticipated benefits. The main focus of this study was based on real benefits derived by the major stakeholders of cross-border mergers and acquisitions. In particular the study narrowed to the challenges and benefits derived by the government of Ghana, which has interest in poorly managed local entities, whether it is beneficial to sell or merge with an international/multinational companies. It also narrowed to the study of benefits derived by employees and shareholders. The study looked at the macro aspect of the benefits streaming to the economy and not accruing to only certain individuals. For example it looked at the total employees, the government representing the people of Ghana and the company as a whole representing the interest of the shareholder.

5.3 RECOMMENDATION

The following recommendations were made available at the end of the study based on the findings from the study.

It is recommended that the government would in future not lock any royalty payment to the base rate for too long a period. This is because, if the world and market conditions change, the state can not take advantage of any benefit.

Immediately after the two years, over 20% of Ghanaian employees were laid off. It is recommended that the government will agree to extend the restriction period and also regulate the number to be laid off.

After the merger about 80% of the senior managers were either laid off or resigned. This has negative effect on the workforce. It is recommended that government agrees with the acquiring company on the number of senior managers that may be laid off and the conditions attached.

The golden share right maintained by the government is a laudable effort. This must be applied on every merger and acquisition with respect to government entities with foreign companies.

People issues play very important role on cross border mergers and acquisitions. If these issues are not addressed well, local employees easily get frustrated whiles the expatriate also become disappointed over eluded benefits. This is one major reason for cross-border failures. It is therefore a recommendation to stakeholder to carefully address people issues before, during and after mergers and acquisitions.

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APPENDICES
APPENDIX I: RESEARCH QUESTIONNAIRE

BENEFITS DERIVED FROM CROSS-MERGER BETWEEN ASHANTI GOLDFIELDS AND ANGLOGOLD: 'A REALITY OR IDEALISM'

QUESTIONNAIRE FOR EMPLOYEES

This questionnaire is for academic purposes and any information given will be treated confidential.

Note: Select where applicable your response in the order as follows: 1 – Strongly agree, 2 – Agree, 3 – Neutral, 4 – Disagree, 5 – Strongly disagree.

1. Educational Background ……………………………………………………………

2. How long have you been working with AngloGold Ashanti? …………………………

3. Which department are you? …………………………………………………………

4. Employees were aware of the merger between Ashanti Goldfields and AngloGold South Africa? [1 2 3 4 5]

5. Promises were made to employees to that effect? [1 2 3 4 5]

6. Mention some of these promises if any? ……………………………………………

……………………………………………………………………………………………..

7. These promises had been fulfilled since the merger? [1 2 3 4 5]

8. Conditions of employees had been better since the merger. [1 2 3 4 5]

9. Employees have derived benefit(s) from the merger [1 2 3 4 5]

10. Mention some of these benefits if any ………………………………………………

……………………………………………………………………………………………

11. Challenges were impose by the merger to employees [1 2 3 4 5]

12. Mention some of the challenges. ……………………………………………………

……………………………………………………………………………………………..

13. Reasons for the merger were communicated or explained? [1 2 3 4 5]

14. Management adequately explained the impact the merger will have on individual jobs. [1 2 3 4 5]

15. Employees leadership was adequately consulted [1 2 3 4 5]

16. Management addressed specific employee concerns [1 2 3 4 5]

17. There was adequate orientation of cultural differences [1 2 3 4 5]

18. Employees turnover increased after the merger [1 2 3 4 5]

19. Adequate measures were put in place to retain the key staff after the merger [1 2 3 4 5]

20. All levels of employees were actively involved in the pre/post integration process [1 2 3 4 5]

21. All employees were treated fairly and equally after the merger [1 2 3 4 5]

22. Management listened to employees [1 2 3 4 5]

23. I am satisfied with the success achieved by the merger [1 2 3 4 5]

24. My colleagues think the merger has been successful [1 2 3 4 5]

25. I am satisfied with the outcome of the merger [1 2 3 4 5]

26. My career has been enhanced by the new skills and technology I have learnt since the merger [1 2 3 4 5]

27. I have the opportunity to practice my career [1 2 3 4 5]

28. I am personally committed to the ongoing changes [1 2 3 4 5]

29. My colleagues are satisfied with their morale [1 2 3 4 5]

30. I am satisfied with the professionalism of colleagues from the new company [1 2 3 4 5]

APPENDIX II: FINANCIAL STATEMENT

ANGLOGOLD ASHANTI

AGA Summarised group financial results

For the year ended 31 December **Dollar million**	**2007**	**2006**	2005	2004	2003	2002
Income statement						
Gold income	3,280	**2,964**	2,629	2,309	2,029	1,761
Cost of sales	2,636)	**-2,282**	-2,309	-1,924	-1,526	-1,203
(Loss) gain on non-hedge derivatives and other commodity contracts [(1)]	-780	**-239**	-135	-142	119	92
Gross profit	-136	**443**	185	243	622	650
Corporate administration and other expenses	-126	**-84**	-64	-51	-36	-25
Market development costs	**-16**	**-16**	-13	-15	-19	-17
Exploration costs	-120	**-61**	-45	-44	-38	-28
Amortisation of intangible assets	–	–	–	-31	-29	-28
Other net operating expenses	-20	**-18**	-20	-12	-14	-8
Operating special items	-21	**-18**	-77	12	-8	-23
Operating profit (loss)	-439	**246**	-34	102	478	521
Interest received	43	**32**	25	49	42	39
Exchange (loss) gain	1	**-2**	-5	4	-3	-4
Fair value adjustment on option component of convertible bond	47	**16**	-32	27	–	–
Finance costs and unwinding of decommissioning and restoration obligations	-125	**-123**	-108	-87	-53	-48

Fair value (loss) gain on interest rate swaps		–	**–**	-1	2	6	–
Share of associates' (loss) profit		-23	**-1**	-3	–	2	4
Profit (loss) before taxation		-492	**168**	-158	97	472	512
Taxation			**-180**	35	41	-142	-165
(Loss) profit after taxation from continuing operations		-145	**-12**	-123	138	330	347
Discontinued operations							
Loss for the year from discontinued operations		1	**-2**	-36	-11	–	–
(Loss) profit for the year		1	**-14**	-159	127	330	347
Allocated as follows							
Equity shareholders of the parent		-668	**-44**	-182	108	312	332
Minority interest		32	**30**	23	19	18	15
		-636	**-14**	-159	127	330	347
Other financial data							
Adjusted gross profit [2]	$m	935	**1,058**	470	441	559	638
Cash gross profit [3]	$m	1527	**1,652**	955	793	791	883
Headline (loss) earnings	$m	-648	**-80**	-97	141	318	376
Adjusted headline earnings [4]	$m	278	**413**	201	271	282	368
Adjusted gross margin	%	26	**32**	17	19	27	35
Cash gross margin	%	43	**49**	34	34	38	48
EBITDA [5]	$m	1224	**1,411**	820	700	667	802
EBITDA margin	%	34	**42**	29	30	32	44
Interest cover [6]	times	9	**11**	7	7	13	17
(Loss) earnings per ordinary share (cents)							
Basic	US cents	-237	**-16**	-69	43	140	150
Diluted	US cents	-237	**-16**	-69	43	139	149
Headline	US cents	-230	**-29**	-37	56	143	169
Adjusted headline earnings [4]	US cents	99	**151**	76	108	127	166
Dividends declared per ordinary share	US cents	20	**62**	36	56	101	146
Weighted average number of shares	million	281	**273**	265	251	223	222
Issued shares at year-end	million	282	**280**	265	264	223	223

APPENDIX III: SUMMARY FINANCIAL STATEMENT OF AGA GHANA LTD

AGA Ghana Ltd (Obuasi, Bibiani & Goldhouse)	2002 USD	2003 USD	2004 USD	2005 USD	2006 USD	2007 USD
Empl Share Options	n/a	n/a	n/a	37,549	239,668	346,896
Corporate tax	0	0	0	0	0	0
Development Levy (Other taxes)			16,000	321,327		
Royalty	7,300,000	8,400,000	6,726,805	6,839,310	7,497,270	7,531,719
Dividend paid to Gvt	0	0	5,056,821	3,247,781	5,580,747	1,776,345
Special Rights redeemable preference share (Golden Share)	1	1	1	1	1	1
NBV	472.50	474.90	492.35	527.07	557.70	616.30
Market Value	360.42	382.45	4,404.51	4,368.72	4,360.10	4,378.72
Price /Share (USD)	3.01	3.19	33.40	33.13	32.93	33.07
Price /Share (GHc)	2.70	2.87	30.00	30.00	30.00	30.00
PAYE			5,494,350	5,413,755	5,688,324	5,824,768
1USD: GHc Exchange Rate (Average)	0.89814	0.89814	0.89814	0.90550	0.91112	0.90725
INCOME STATEMENT	$'M	$'M	$'M	$'M	$'M	$'M
Gold Income	246.50	266.20	234.40	225.60	249.20	250.50
Cost Of Sales	(227.90)	(251.50)	(202.18)	(224.50)	(229.90)	(247.10)
Operating profit	18.60	14.70	32.22	1.10	19.30	3.40
Profit/(Loss) before exceptional items	16.70	24.30	17.12	(25.50)	27.50	(59.50)
Profit on ordinary activities before taxation	16.70	24.30	17.12	(49.90)	27.50	(59.50)
Taxation	(1.20)	1.00		(45.30)	45.70	(1.50)
Profit on ordinary activities after taxation	15.50	25.30	17.12	(95.20)	73.20	(61.00)
Operating Margin	18.60	14.70	32.22	1.10	19.30	3.40
Operating Ratio	8%	6%	14%	0%	8%	1%
BALANCE SHEET						
Stated capital	588.20	599.00	604.82	604.80	604.80	604.80
Income Surplus	(391.40)	(366.10)	(277.20)	(371.40)	(299.00)	(360.00)
Shareholders' Equity	196.80	232.90	327.62	233.40	305.80	244.80
NBV	472.50	474.90	492.35	527.07	557.70	616.30
Ounces (Obuasi)	485,587	513,163	392,626	391,265	387,093	387,048
Cost of Sales per ounces	469	490	515	574	594	638

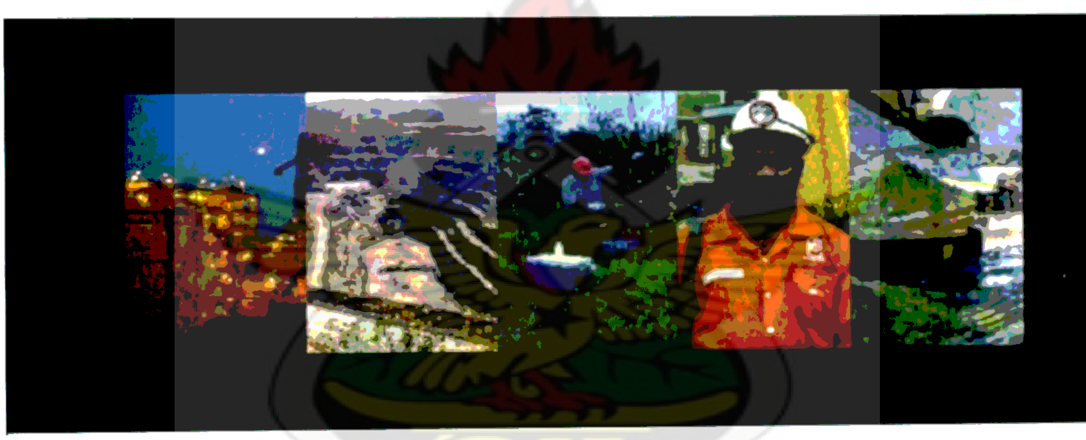
APPENDIX IV: EMPLYEE NUMBERS

AGA Ghana Ltd (Obuasi, Bibiani & Goldhouse) Headcount (2002 -2007)	2002	2003	2004	2005	2006	2007
Expatriate	15	12	17	19	24	31
Senior Staff	890	877	804	780	833	646
Junior Staff	5928	5680	5263	5060	4924	3688
Temporal Workers	-	-	69	161	160	8
Ghanaian Executive	21	21	12	12	7	9
Ghana Executive (Transferred to SA)	-	-	10	10	3	3
Total Employees	6,854	6,590	6,175	6,042	5,951	4,385
Total Ghanaian Employees	6,839	6,578	6,158	6,023	5,927	4,354
Share Option	0	0	0	37,549	239,668	346,896
Training Cost	n/a	234,623	592,573	1,242,652	1,449,735	1,520,207
Training Cost %tage increase			153%	110%	17%	5%
Snr Emolument factor	1,028	1,223	1,393	1,190	1,694	2,373
Jnr Emolument factor	319	370	437	404	589	720
		19%	14%	-15%	42%	40%
Capital Additions	38	38	51	78	91	103
Employee Numbers	6854	6590	6175	6042	5951	4385

APPENDIX V : STABILITY AGREEMENT REPORT FOR DECEMBER 2008

ANGLOGOLD ASHANTI

Compliance with Stability Agreement



January 2009

Introduction

We have the honor to submit this report in accordance with AngloGold Ashanti Limited's obligations as contained in Section 2.01 (c) of the Stability Agreement 2004.

In terms of the said Section 2.01 (c), AngloGold Ashanti is enjoined to submit to the Government of Ghana during the month of January 2009 a report detailing investments made in Anglogold Ashanti Ghana by since the commencement of the Stability Agreement and confirming that Anglogold Ashanti has materially complied with its obligations pursuant to the Stability Agreement.

Anglogold Ashanti's Obligations in terms of the Stability Agreement

The current obligations of Anglogold Ashanti in terms of the Stability Agreement are set out below in summary form.

Section	Obligation
2.01 (b)	To invest the following capital expenditures: Existing Obuasi Mine recapitalization expenditures of US $220million in respect of mine infrastructure and equipment; Obuasi Deeps US$ 44 million in respect of exploration and feasibility studies.
Section 4.01(a)	Anglogold Ashanti not to implement a new retrenchment program in the 2 years following the effective date of the Stability Agreement
Section 4.01(b)	Establish an AngloGold Ashanti Trust with trustees drawn from AngloGold Ashanti management and the communities in which AngloGold Ashanti operates
Section 4.01(c)	Implement programs pertaining to training, efforts against Malaria and improvement of Health, Safety and Working Conditions.
Section 4.01(d)	Change the company name from AngloGold to AngloGold Ashanti

Anglogold Ashanti's Performance Record

Section 2.01 (b)
Capital and Exploration Expenditures

AGA'S PERFOMANCE

Expenditure incurred on stay-in-business capital post merger has amounted to $375.3 million comprising a refrigeration plant, underground fleet and vehicles for operations. In addition, $20.2million has been invested on expansion projects including surface exploration.

AGA has invested $19.8 million on Obuasi deeps comprising exploration and drilling costs.

The results being obtained are encouraging and AGA will continue its work so as to prove up the resources into reserves for the development phase to occur.

The project phase has not yet been achieved.

Section 4.01(a)
Employment

AGA'S PERFOMANCE

AGA complied in full with the stipulations that it retrenches employees in accordance with the retrenchment program stipulated in Schedule 4.01 (a).

Section 4.01(b)
Community Trust
AGA'S PERFOMANCE

The Community Trusts have been established and seed funding of US $250,000 provided even though no profits are yet being made at the Obuasi Mine.

Section 4.01(c)
Malaria Control/ Health and Safety/ Training Initiatives
AGA'S PERFOMANCE

Malaria Control

The $3 million malaria control program was launched at Obuasi on 28 April 2006. The objective at the time of the launch was to attain a 50% reduction in malaria incidence in two years. As at 31 December, 2008 (i.e., approximately two years and eight months into the program) a total of $5.7 million has been invested and malaria incidence had reduced by 73%.

Training

AGA'S PERFOMANCE

Since the merger $6.2 million has been invested in the training of local employees to ensure they are adequately skilled to perform their duties. The emphasis is very much on a safety and health perspective. The training budget for the Ghanaian operations for 2008 is close to US$1 million and this amount will be exceeded in 2009 if the training interventions as part of the Turnaround Project at Obuasi are taken into account.

Localization

The goal of localization is ensure that the critical mass of positions within the different occupations and levels at Obuasi are held by locals. Within the same vein AngloGold Ashanti equally seeks to promote an organizational culture which promotes diversity and enables mobility of key skills across its global operations. This is also done as part of creating and sustaining the managerial and technical excellence required to support the attainment of the company's global business operational requirements. To this extent, AGA will consider the deployment of expatriate employees in certain key occupations as would be required from time

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ANGLOGOLD ASHANTI LIMITED

OBUASI CAPITAL EXPENDITURE & TRAINING COST SUMMARY

			2004 (POST-MERGER)	2005	2006	2007	2008 YTD	2008 FORECAST	ACTUAL TOTAL (2004 to Date)
1	EXPANSION CAPITAL	US$ (m)			3.0	4.5	12.7	12.9	20.2
2	STAY IN BUSINESS CAPITAL	US$ (m)	31.2	73.9	82.6	91.8	95.8	95.8	375.3
3	OBUASI DEEPS	US$ (m)	0.2	3.9	4.9	6.5	4.3	4.1	19.8
4	TOTAL CAPEX (1+2+3)	US$ (m)	31.4	77.8	90.5	102.8	112.8	112.8	415.3
5	TRAINING COST SINCE MERGER	US$ (m)	0.6	1.2	1.5	1.5	1.4	1.5	6.2
6	SUSTAINABLE DEVELOPMENT	US$ (m)				8.0	5.9	7.2	13.9
7	TOTAL CAPEX & TRAINING (4 + 5+ 6)	US$ (m)	32.0	79.0	92.0	112.3	120.1	121.5	435.4