



The Chamber of Mines of Namibia

Mining Industry Review for 2013

By

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President, Chamber of Mines of Namibia

At the AGM

Safari Hotel. May 21, 2014

Director of Ceremonies
Hon. Isak Katali, Minister of Mines and Energy,
Senior staff of MME present,
Chamber Members present,
Esteemed invited guests,
Members of the Press,
Ladies & Gentlemen.

Honourable Minister, it is a pleasure to have you once again as our Guest of honour at our AGM. We really appreciate your effort to take some time off your busy schedule. This is a demonstration of your commitment to our industry which is the backbone of the Namibian economy.

It is now my honour to present the President's Report for the year 2013.

Safety

Tragically, the Namibian mining industry suffered 2 fatal injuries in 2013, both involving electricity. The one fatality occurred at Weatherly Mining's Matchless Mine while the other occurred at Paladin's Langer Heinrich Uranium Mine.

Mr. Petrus Engelbrecht was fatally electrocuted underground at Weatherly's Matchless mine on 12th March 2013.

Mr. Willem Andries van Zyl, Electrical Team Leader – Projects, suffered 3rd degree burns from an arc flash accident in a 11kV substation at Langer Heinrich mine on 2nd October, 2013. He later died on 30th October 2013 in the Millpark Hospital in Johannesburg where he was admitted for debridement operations in preparation for skin grafting.

We express our heartfelt condolences to the families and friends of the deceased employees. We continue to learn from these tragic mine accidents with a view to do everything possible to prevent a repeat of the circumstances that led to such accidents.

Although this was down from the 5 fatalities suffered in 2012, the goal of zero fatalities was not achieved. The total number of lost day injuries for the year was 88 which equates to a Lost Day Injury Frequency Rate (LDIFR) of 2.84, an increase of 10.5 percent from the 2012 LDIFR.

The Chamber of Mines regrets this tragic loss of life and the Chamber's Safety Committee continued to rigorously implement the recommendations provided by an international expert during the 2012 safety review.

World Economy

During 2013, global growth remained weak. Signs of recovery were however seen in the advanced economies. The US continued on its moderate growth trajectory, while the Euro area crawled out of recession in the second quarter of 2013.

Although the USA experienced a strong rebound in private demand, as confidence in the local economy improved, employment remained low and growth remained moderate, owing to excessive fiscal consolidation.

Despite recovery in the Euro Zone, unemployment levels also remained high and the labour markets depressed.

Growth in Asia and emerging market economies declined in 2013, largely due to low levels of demand from the advanced economies, particularly for manufactured goods. This slowdown has been reflected in commodity prices, most notably mineral prices.

Depressed global demand for commodities and the 2011 Fukushima accident are still having detrimental effects on the uranium industry. In September 2013 the uranium price reached an eight year low at U\$34 a pound, which did not bode well for companies in Namibia wanting to proceed with capital projects and investment projects that have been put on hold.

Despite depressed global commodity prices, production volumes compared to 2012 remained relatively unchanged in 2013. Furthermore, with the construction of three new mines, Namibia's mining industry contributed significantly to the growth of the economy as a whole in 2013.

Highlights of Mining in Namibia

Due to the depressed uranium prices Areva's Trekkopje mine remained under care and maintenance, waiting for market conditions to improve. Despite these negative developments in the uranium sector, the construction of Swakop Uranium's Husab mine remained on track and is scheduled to commence production in early 2016 with ramp up to full production in 2017.

The diamond sector continued to post impressive results. In 2013 Debmarine broke its production record for a second year running, and Namdeb recorded its highest production in the last four years. Namdeb plans to commission another mine at Sendelingsdrif during the course of 2014.

Weatherly International, the London based parent entity of Weatherly Mining Namibia, held the ground breaking ceremony for the Tschudi copper mine on 8 November, 2013. This mine is being constructed at an investment of N\$900 million and marks another mile stone in Namibia's mining industry as refined copper will be produced for the first time in the history of Namibia.

In addition, Dundee Precious Metals Tsumeb held its ground breaking ceremony for the construction of the 350,000 tonnes per annum sulphuric acid plant in September 2013, at an investment of N\$2.3 billion. The plant is expected to be commissioned in the fourth quarter of 2014 and will supply sulphuric acid to the local market. Rössing and Dundee Precious Metals Tsumeb signed an off-take agreement to acquire 225,000 tonnes of sulphuric acid from Dundee Precious Metal Tsumeb per

year, exemplifying how local synergies can be created to spearhead up-stream value addition activities in the mining sector.

B2Gold held the Ground breaking ceremony for the Otjikoto gold mine on 26 April 2013, and continued with the construction of the mine at an accelerated pace. Construction of the mine is planned to be completed in the fourth quarter of 2014, with ramp up to full production in 2015. Once in full production, Namibia is set to become Africa's seventh or eighth largest gold producer.

The construction of these new mines and other capital projects have created many positive spin offs for the Namibian economy. Currently, approximately 8,200 individuals are being employed in the construction phase. Once operations are commissioned, not only will they provide approximately 3,075 permanent jobs, but local companies and industry service suppliers will also continue to benefit through supply and service contracts. The Namibian economy at large will also be boosted through increased export earnings and Government revenue.

The year in perspective

I now turn to the challenges faced by the Chamber during 2013.

Strategic Minerals

The uncertainty continued with regards to the policy on strategic minerals which was announced three years ago on 21st March 2011, with no legislation passed to date for its implementation. While the Chamber is not opposed to government participation in the mining sector, we remain concerned at the prospect of the state owned mining company owning all strategic mineral deposits that are yet to be discovered. We believe this will not lead to GRN desired outcome, but will instead result in stagnation of exploration activities as funding by publicly listed exploration companies will be highly challenging under the envisaged joint venture partnerships with the state owned mining Company. Contrary to some public perceptions, the Chamber welcomed GRN announcement of the creation of the state owned mining company and pledged cooperation and assistance with relevant information. I am pleased to announce that Epangelo Mining is now a member of the Chamber of Mines after Council approved its membership application in February this year.

The sustainability of the mining industry depends on vibrant exploration activities, without which the future of our mining industry will be in jeopardy.

Tax Amendments

I am pleased to note that the Ministry of Finance has pronounced itself on the outstanding tax matters. The Chamber welcomes the announcement by the Minister of Finance early this year that the Withholding tax rate will be reduced from 25% to 15%. Export levy rates have been finalised but not yet made public. It is now common understanding that the main rationale for the export levy is to increase GRN revenue as the introduction of this levy will not result in any capital investments into further value addition activities by mining companies. This tax will add pressure to the cost of production. Widening the tax base without hurting the existing players is only possible through new FDIs as is the case now with development of new mines. This is indeed growing the cake.

Moratorium on Marine Phosphate Mining

The Chamber welcomes the confirmation by the Minister of Mines and Energy, Minister of Fisheries and Marine Resources and Ministry of Environment and Tourism that exploration is not affected by the moratorium. We therefore urge all stakeholders not to undermine the continuation of exploration and research during this period.

The Chamber supports the Government's plan to conduct environmental studies as it allows for comprehensive research by independent experts and is aimed at protecting the environment and amicably settling the issues in dispute between the fishing and phosphate mining industries. The Chamber fully supports the notion of co-existence of all industries operating in the marine space. Namibia is already an acknowledged leader in marine mining and environmental management, being the only Country in the World where marine diamonds are being mined successfully by the world's most advanced marine mining fleet. This co-existence between fishing and mining has already been successfully maintained for decades with great economic benefits to Namibia. In 2013, more than 68% of Namibia's total diamond production was recovered from the sea by Debmarine Namibia.

Joint Value Addition Committee (VAC)

I am pleased to note that VAC, under the leadership of the MME was constituted during 2013 and work progressed. The Chamber firmly believes that this is an opportunity for Namibia to make the right decisions with regards to value addition as VAC will identify any value addition potential within the mining sector and beyond. The Chamber is actively involved in this process.

Mining Expo and Mining Conference

As part of our stakeholder engagement strategy in the Chamber's Strategic Plan, the Chamber hosted another successful Mining Expo and Mining Conference during 22 -23 May, 2013. Based on the overwhelming positive response from participants, Council decided in 2013 that both the Mining Expo and Mining Conference will be held on an annual basis from 2015 going forward. As you are aware, we have an exciting Mining Conference taking place at this very venue tomorrow. You are most welcome to attend, at no cost.

Ministry of Mines and Energy

The Chamber continues to maintain a very constructive and cooperative relationship with our line ministry, the Ministry of Mines and Energy. Open communication channels exist between us and some of the successes already mentioned could be ascribed to this open channel of communication. The Chamber would therefore like to thank the Minister and his staff for the support afforded to the industry and jointly working with us to improve the relevance, success and standards of our industry.

I now wish to present highlights of our operations.

Highlights from operations

Diamonds

In 2013, the global market for diamonds regained strength and all production was sold by Namdeb Holdings.

Namdeb Holdings produced a total of 1.7 million carats of diamonds, of which 1.16 million were produced by Debmarine Namibia. This is the highest annual production recorded to date by Debmarine Namibia, breaking the production record for a second year in a row. Namdeb posted favourable results in 2013, producing 602,378 carats of diamonds against a budget of 575,638 carats. The tonnage of ore treated, however, did not meet targets due to low engineering availabilities at the Elizabeth Bay plant and the Number Three plant coupled with the late commissioning of Sendelingsdrif plant.

Uranium

Several uranium projects have yet again been delayed owing to the depressed uranium market stemming from low global demand resulting from the Fukushima incident. Langer Heinrich reported

record production during the year. After three years of operating at a loss, Rössing returned to profitability due to a wide ranging cost reduction exercise. AREVA continued its care and maintenance programme and will commence with operations at Trekkopje mine once market conditions improve.

In 2013, Rössing produced a total of 2,409 tonnes of uranium oxide, a 10.7 percent decrease from production recorded in 2012. Langer Heinrich successfully achieved its Stage 3 expansion nameplate production in 2013.

Swakop Uranium has announced that it is on schedule with the construction of the Husab mine. Once this mine is commissioned, Namibia will become the World's second largest uranium producer.

The Transition of the Chamber of Mines Uranium Stewardship Committee (USC) to the Namibian Uranium Association (NUA).

The genesis of the CoM's USC sub-Committee and its **Institute**, commonly known as the **UI**, stemmed from the realization that the uncoordinated "uranium (exploration) rush" posed a significant risk to the industry itself and was originally set up in an environment with little regulation relating to the uranium industry.

Great progress has been made over the past five years. The point has been reached where the Chamber's USC Sub-Committee has successfully established minimum standards for health and safety of employees and for the environment. The USC has also successfully initiated many projects around SHERQ and working proactively with new and established regulations.

During 2013 the USC reviewed its objectives and since a different focus was now required, it was decided to form the independent NUA, although close links would be maintained with the Chamber. Dr Wotan Swiegers remains the Director of the NUA with Deon Garbers being the first president and being ably assisted by his vice-president Hilifa Mbako.

Zinc

Global zinc prices were generally depressed during 2013, with overall LME zinc prices being lower in comparison to 2012 as a result of declining demand from China.

Production from the Rosh Pinah Zinc Corporation far exceeded budgeted targets in 2013. Production of zinc and lead concentrate were 113,818 tonnes and 20,551 tonnes respectively, an increase of 20% and 17.5% compared to 2012.

Refinery production by Skorpion Zinc fell in 2013 owing to a number of challenges. Zinc metal extracted from the ore body fell in 2013 as a result of lower grades and higher waste. Waste mining increased significantly resulting in higher mining costs for 2013. Towards the end of 2013, an unforeseen shut down in the Electro-winning section of the refinery temporarily halted the smooth flow of operations.

Infill drilling at the Gergarub deposit was conducted to upgrade the resource estimate. The work formed part of a Bankable Feasibility Study for Gergarub, in a joint venture agreement between Rosh Pinah Zinc Corporation and Skorpion Zinc.

Gold

In December 2013 the gold price dropped to its lowest price in four years (US\$1,224.45/oz.) as investors reacted to Fed tapering expectations and money flowed into equities. Production from Navachab Gold mine reduced from 2,278kg in 2012 to 1,795 kg in 2013, a 21.2 percent drop in production. The significant decline was attributed to technical problems experienced with mining a new ore body, resulting in lower ore grades and recoveries. Significant investment was made throughout 2013 in the pushback of the eastern side of the mine to open up new ore, extending the life of the mine. AngloGold Ashanti announced their intention to sell Navachab mine on 30 April, 2013.

Cement

Ohorongo Cement had a successful year, producing 662,087 tonnes of cement, a 29% increase from the production recorded in 2012. They sold most of their production in 2013.

Copper

Weatherly Mining Namibia, through its Otjihase and Matchless mines, produced 22,477 tonnes of copper concentrates containing 5,182 tonnes of copper metal in 2013.

Fluorspar

Demand and thus the price for acid grade fluorspar has decreased significantly over the past two years. Prices are not expected to improve in the short term. This is largely driven by Chinese exports of fluorinated products into the European and American market.

Production at the Okorusu mine was restrained in 2013 owing to low grade ores from the D-pit, which is now the major source of production to the processing plant.

Salt

Salt & Chemicals produced 717,612 tonnes of salt and the Salt Company produced 109,373 tonnes of salt in 2013. Salt & Chemicals recorded their biggest shipment of 50,000 tonnes of salt to Belgium and made progress with their expansion project to increase output to one million tonnes per annum.

Economic Contribution

In March this year, the Namibia Statistics Agency (NSA) announced that the National Accounts would be rebased to the year 2010 prices. The rebasing of the National Accounts have been quoted by NSA as a necessary exercise, to ensure that the data collected, analysed and published is as relevant and up to date as possible.

Despite the decline in overall contribution by mining of 1.2%, significant investments have been made, particularly in the development of three new mines and re-investments in the diamond sector. As such, economic spin offs and growth contributions from the mining industry were most notably seen in the construction phase, rather than in the production phase.

Figures produced by the NSA show that the mining industry performed moderately well and contributed 9.3 percent in 2013 to GDP down from 10.8 percent in 2012. The decline in contribution was as a result of depressed commodity prices, escalating input costs and lower ore grades. The above figure, however, understates the industry's true contribution to Namibia's GDP as it does not include outputs from zinc refining and copper smelting.

Non-diamond mining was the larger contributor to revenue and foreign exchange earnings, albeit not by much. The figure for non-diamond mining includes revenue from zinc refining and copper

smelting. Total revenue by non-diamond mining was N\$11.89 billion and diamond mining earned N\$9.04 billion.

The total revenue from Namibia's mining operations was N\$20.93 billion in 2013 (Chamber statistics).

According to preliminary statistics released by the NSA in March 2014, the mining sector spent N\$13.17 billion on fixed investment in 2012, and once again contributed more than any other sector of the economy, except Government which spent N\$5.27 billion on fixed investment (NSA stats). Fixed investment by mining more than doubled between 2012 and 2013, as a result of the large sums of money being pumped into the construction of new mines and re-investments in existing mines. Mineral exports contributed 52.7% to total merchandise exports.

During the 2012/13 financial year, total revenue received from mining activities by Government amounted to N\$3.26 billion a significant increase from the N\$2.69 billion received in the 2011/12 financial year.

Training and Employment

The mining industry spent some N\$58.6 million on training and skills development in 2013, awarding 67 new bursaries. In addition, the mining industry continued to support NIMT with job attachments and donations of used machinery for practical training at its three campuses in Arandis, Northern Campus in Tsumeb and the NIMT Southern Campus in Keetmanshoop.

In 2013, mining and exploration companies collectively employed 7,582 people in permanent positions. The total direct employment including temporary employees and full time contractors was 16,709, providing 1571 more jobs than in 2012. Although mining is not the largest employer, this is a very significant contribution given Namibia's small population and its high level of unemployment which has recently been announced by NSA to have increased by 2.2% to 29.6% in 2013.

Security of Power and Water

Security of uninterrupted supply of power and water remains a major concern to the Chamber and the industry at large, with increasing cost of both power and water tariffs. The Chamber continues to engage with both NamPower and Namwater to resolve supply and pricing issues.

Upstream value addition

In view of the growing industry with new mine developments, Council established the Acid Forum in 2013 as a sub-Committee of the Chamber to create synergies between producers and consumers of sulphuric acid and consequently to promote further upstream value addition activities. The Forum has established that sulphuric acid consumption during 2014 – 2018 will increase but there will be no corresponding acid production, resulting in an increasing deficit for the same period. The Forum is tracking these developments with a view of providing impetus on possible investment decisions for increased acid production.

Conclusions

In conclusion it is evident that the Namibian mining sector is experiencing a time of excitement, growth, contraction, turbulence and opportunity all at the same time. With the development of 3 new non-diamond mines it is spreading the mining contribution burden to other commodities from the heavy reliance on diamonds and in a lesser degree uranium in the past. Interestingly the 3 mines currently under construction are from 3 different commodities: uranium, gold and copper.

The industry in the past also pleaded to be allowed to 'grow the cake' by not implementing punitive measures such as unsustainable taxes. Government heeded these calls and that is why we are experiencing an unprecedented growth in the industry that will lead to sustainable employment increases and significant increased revenues to Government through mining royalties, corporate taxes, employee taxes and various other forms of contributions towards the economy.

It is our view that some of the sectors will be facing challenging times over the next 24 months and we as a Chamber will be providing our support towards ensuring the sustainability and growth of our industry.

It is my great pleasure to thank all Chamber Members for their support during another exciting year. A special word of appreciated must go to our CEO Veston Malango and the staff of Chamber for continuing to ensure that we serve the needs of our members.

It is our hope that Namibia will remain an attractive mining investment destination well into the future.

A handwritten signature in cursive script that reads "Werner Duvenhage".

Werner Duvenhage
Chamber President
21 May 2014