



The Chamber of Mines of Namibia

Mining Industry Review for 2009

By

Mike Leech

President, Chamber of Mines of Namibia

At the AGM

Safari Hotel. May 26, 2010

Chamber Members present,

Esteemed invited guests,

Members of the Press,

Ladies & Gentlemen,

It is my honour to present to you the Chamber of Mines Review for the period 2008 to 2009.

Safety

It is with regret that I announce that the mining industry suffered two fatalities during 2009.

Mr. Andreas Ndara was fatally injured by the drill rig he was operating at Navachab mine on 2nd June 2009.

Mr. Richard Rafael Narib was fatally injured on 12th June 2009 in a motor vehicle accident on a mine road between the mining area and the processing plant at Purity Manganese mine.

We express our heartfelt condolences to the families of the deceased employees who lost their lives in the course of executing their duties. The Chamber places enormous emphasis on safety and stands by the motto: ***One fatality is one too many and one injury is equally one too many.*** As a direct consequence of these tragedies, the Chamber reviewed its safety strategy and introduced a system of Safety Peer Review Missions to mines with participating safety officers from other mines. The objective is to enhance safety by learning from each other's safety systems on site. The first such mission was successfully conducted at Purity Manganese mine during October 2009.

Highlights

The year 2009 marked the 40th anniversary of the Chamber of Mines and coincided with an unprecedented economic downturn brought about by the global financial meltdown. The mining industry felt the full brunt of the global crisis and put in place cost-cutting and cash conservation measures to weather the storm. In the process, over 2,200 jobs were lost and another 2,000 jobs were lost due to the closure of almost all diamond cutting and polishing factories.

The year 2009 started with Namdeb declaring a "production holiday" and Weatherly's copper mines being under care and maintenance. These measures included the unavoidable and drastic reduction in the size of these companies' workforces. Weatherly had retrenched over 640 people in December 2008 and all copper mines remained closed, on *under care and maintenance* basis for the whole of 2009. Namdeb accelerated the reduction of its workforce through voluntary separation measures and early retirement and requested Government to defer royalty payments. By the end of the year, Namdeb reduced its labour force by 1,120. De Beers Marine Namibia halted production at the beginning of 2009 and reduced its workforce by 203 in the same manner as Namdeb. Samicor halted production in February 2009 and retrenched most of its workforce.

Okorusu Fluorspar mine temporarily suspended production for seven weeks in August 2009 after several shipments of acid grade fluorspar were cancelled with production only restarting on 1 October. Fortunately, there were no job losses at Okorusu mine. Due to the inability to raise funds from dry capital markets, exploration activities slowed down and some exploration projects came to a complete standstill with retrenchments of employees.

However, mineral commodity prices started to pick up towards the end of the year under review as the World economy slowly started to show signs of recovery. The exchange rate on the other hand eroded most of the gains on improved mineral prices. Rössing alone suffered over N\$ 1 billion in potential earnings due to the appreciation of the N\$/Rand to the US\$ and other convertible currencies.

For Namibia's uranium industry, the year 2009 was again one of significant progress. Rössing continued to expand and took on labour. Production for the year reached 4,150 tonnes of uranium oxide, its highest level since 1988. By the end of 2009 Langer Heinrich had completed its Stage 2 expansion which will allow production to expand from 2.6 million pounds a year to 3.7 million pounds a year. The combined output of both mines allowed Namibia to cement its position as the world's fourth largest uranium producing country after Kazakhstan, Canada and Australia. Developments in our uranium industry have not gone unnoticed by the rest of the world and Namibia has enjoyed a stream of potential uranium investors over the past year from a variety of countries including Japan, South Korea, Russia, India and China. Construction of Trekkopje mine by AREVA continued apace with the first sodium diuranate being produced from the pilot plant in March. AREVA make history with the construction of the 20 million cubic metre per annum water desalination plant at Wlotzkasbaken at a cost of N\$ 1.5 billion. The plant was officially inaugurated by President Pohamba on 28 October. There is no doubt that uranium will play a major role in our economy in the coming decade and at a time when diamond mining has taken a back seat due to events alluded to above.

Gold too was one part of the mining sector that fared reasonably well with the gold price rising steadily.

After many years and several attempts, Namibia is set to have its own large-scale cement production facility near Otavi as Ohorongo Cement commenced construction during the year under review. I am pleased to announce that with Council's approval, Ohorongo Cement has today been officially welcomed as a new member of the Chamber of Mines.

Construction of another uranium mine at Valencia met with challenges in fundraising in spite of the Mining Licence being issued during 2008. Tremendous progress was made by at least three of the uranium exploration companies: Bannerman, Deep Yellow, and Extract Resources. Extract Resources in particular continued to announce impressive drilling results and announced in August that Rössing South could sustain a mining operation of 14.8 million pounds a year for 20 years.

The year 2009 was a testing one for the Namibian industry and also one of change underlining the fact that Namibia's industry is closely integrated with international mining industry. In March Anglo American sold its last remaining stake in AngloGold Ashanti. Weatherly announced a series of deals, including one on Kombat mine, and ended up announcing it would sell Namibia Custom Smelters to Dundee Precious Metals in January 2010. Following its sale to Vale, TEAL sold the Otjikoto gold project but the identity of the new owners has not yet been made public. In October Anglo American announced its intention to sell its zinc assets including Skorpion zinc mine. Exxaro followed suite and announced in December its intention to sell zinc assets including Rosh Pinah mine. These developments at Skorpion Zinc and Rosh Pinah could well signify a new dawn of opportunities for Namibia with new discoveries of sulphide zinc deposits in 2009 near Skorpion where oxide reserves are dwindling.

The potential exists for an integrated zinc industry that could exploit all sulphide resources and use existing SX-EW technology to enhance value addition to all zinc concentrates. Under that scenario, exports of zinc concentrates would be a thing of the past with increased benefits to the national economy.

Industry Performance for 2008 - 2009

Official figures produced by the Central Bureau of Statistics demonstrate that 2008 was an exceptional year for Namibia's mining industry. Significantly, it was the first year since Independence in 1990 when the contribution of non-diamond mining to the nation's Gross Domestic Product (GDP) exceeded the contribution by diamond mining. Furthermore, the value of uranium exports exceeded the value of diamond exports.

In 2008, mining generated N\$11.6 billion in value added and contributed 15.8 percent of Namibia's GDP and nearly 50 percent of the country's merchandise exports. If copper smelting and zinc refining were included, value added from the mining sector would even be higher.

In 2008, the mining industry spent N\$ 3.6 billion on fixed investments, contributing 20.7% to Namibia's entire fixed investment of N\$ 17.1 billion.

Yet again, the mining sector spent more on fixed investment than any other sector of the economy with the exception of Government. Exploration expenditures amounted to N\$605 million, the highest level since independence.

Reflecting the growing importance of the non-diamond mining sector, Government revenues from profits and royalty taxes as well as dividends from Namdeb and Rössing in 2008/09 (the latest year for which actual figures are available) were about equally split between diamond and non-diamond mining partly due to the introduction of the new minerals royalty tax in 2006. In total the mining sector contributed N\$1.8 billion in taxes in 2008/09, excluding other tax payments such as VAT and PAYE. Although the Ministry of Finance expects this to halve in 2009/10, revenue is forecast to increase in the longer term.

As at the end of 2009, Chamber members excluding exploration companies directly employed 6,059 permanent employees, 491 temporary employees and created jobs for an additional 2,647 contractors. Chamber members paid out almost N\$1.5 billion in wages and salaries.

Total expenditure on skills development through bursaries to tertiary institutions and artisan training is estimated to be around 5% of the total wages and salaries. This is five times more than the legislated 1% training levy under the **Vocational Education & Training Act of 2008 (Act No. 1 of 2008)**. The industry expects Government to implement the training levy in the near future.

The mining industry continued to invest in skills development albeit under depressed market conditions. Chamber members awarded a total of 51 bursaries to universities and vocational training at the Namibian Institute of Mining Technology (NIMT) during 2009. As reported at the previous AGM, Chamber members funded the establishment of NIMT Southern Campus during 2008 to the tune of N\$5.5 million. The campus was inaugurated on 20th March 2009 by His Excellency President Pohamba.

Challenges, Opportunities & Way Forward

As alluded to earlier, the worst seems to have passed and global markets are functional again, providing funding to mineral commodity markets. However, the markets are volatile and compounded by the strong N\$/Rand, the challenge going forward lies in diminished earnings which will translate into reduced taxes and royalties to Government.

Water particularly for uranium mining remains a challenge in the medium term. The AREVA desalination plant offers a solution to the new Trekopje mine and also offers opportunities for NamWater. We at the Chamber reiterate our concern about the overall water supply at the coast and urge NamWater to accelerate its efforts to develop further capacity urgently. We believe the time is right for this project to be a prime example of public-private partnership in action with the potential to benefit both private mining companies and the wider economy.

Security of power remains critical to the prosperity of the industry. The Chamber is grateful to NamPower for close cooperation and keeping the industry well informed on power generation and transmission projects. The Chamber believes that adequate own generation capacity is the only answer to Namibia's power woes. While the Chamber appreciates the need for NamPower to attain cost reflectivity in the provision of electricity, the Regulator (ECB) should ensure that the intended "correct" price is achieved gradually as opposed to instantly. This would enable the industry, particularly new mines, to plan effectively.

In the effort to maintain the Namibian brand of uranium, the Chamber Uranium Stewardship Committee (USC) established the Chamber of Mines Uranium Institute in Swakopmund during 2009. The facility is inclusive of the AREVA sponsored Information Centre. This was another milestone achieved to elevate the profile of our occupational and environmental standards in uranium exploration and mining activities. The Chamber owes the success of this process to Dr. Wotan Swiegers as USC Advisor and Director of the Uranium Institute.

The Chamber has continued to work closely with the Ministry of Mines and Energy on a variety of critical policy issues including the issue of taxation, the new Minerals Bill, challenges with issuing of EPLs, the Transformation Economic and Social Empowerment Framework (TESEF) and others.

TESEF took centre stage in Chamber activities during 2009 and a **TESEF Simplified Guide** was produced to help Chamber members to understand the wealth creation score card system. The Guide has been a useful tool on self assessment of TESEF compliance. The Chamber will present challenges experienced and proposals for further improvements to Government. This will be Chamber's input into GRN process of formulating TESEF legislation.

We would like to welcome the Honourable Minister Isak Katali and Honourable Deputy Minister Willem Isaacks to their new posts at the Ministry of Mines and Energy. WE express our hope that we can work together for the benefit of the country over the coming years.

A constructive working relationship is vital if the benefits of Namibia's mineral resources to the Namibian people are to be maximised. The Chamber welcomes the creation of Epangelo Mining (Pty) Ltd., the state-owned mining company, and hopes to work constructively with it for the good of the country.

In Conclusion it is my honour to thank all the Chamber Members for their support during an immensely tough year. My thanks especially go to our General Manager Veston Malango and his loyal staff for running the Chamber so effectively. The high rating the Chamber received in the recently published Old Mutual Namibia – NSX Executive Opinion Survey is well deserved. Thanks also go to my Vice Presidents Mark Dawe and Gerry Arnat who were always ready with their advice and support. This Review underlines once again the Chamber's belief that working as a reliable partner with Government and with the workforce of the mining industry offers the best way forward for both the Chamber and the country as a whole. We all look forward to meeting the challenges that 2010 will undoubtedly bring.

I thank you.

Mike Leech
Chamber President
26 May, 2010