The Chamber of Mines of Namibia

<u>Mining Industry Review for 2015</u>

By

Kombadayedu Kapwanga

President, Chamber of Mines of Namibia

At the AGM

<u>Safari Hotel. 26 April, 2016</u>

Director of Ceremonies
Hon. Obeth Kandjoze, Minister of Mines and Energy,
Senior staff of MME present,
Chamber Members present,
Esteemed invited quests,
Members of the Press,
Ladies & Gentlemen.

It gives me great pleasure to welcome you all to the 37th Annual General Meeting of the Chamber of Mines. I wish to extend special welcome to our Chief Guest of Honour, Honourable Obeth Kandjoze, the Minister of Mines and Energy. Your presence is highly appreciated and is a clear testimony of your support to the industry which is the backbone of the Namibian economy.

It is now my honour to present the President's Report for the year 2015.

<u>Safety</u>

I regret to announce that the industry suffered one fatality during 2015.
Mr. Lucas Shikongo, a contractor employee lost his life on 10 May, 2015 when he fell 15 m while working at height at Skorpion Zinc. We strive to achieve zero fatalities but unfortunately this goal was not achieved.

Sadly, 2016 began with another fatality at B2Gold's Otjokoto gold mine as a result of a mine accident that occurred on 28 December 2015 when Martin Shilompoka, a Machine Operator, was trapped between a dozer and a diesel truck during a re-fuelling operation. The injured was treated for 25 days at the Roman Catholic Hospital in Windhoek. Unfortunately, on 22 January 2016 he succumbed to his injuries and passed away.

We express our heartfelt condolences to the families and friends of the deceased employees. The Chamber continues to learn from these experiences to ensure that similar accidents will be avoided in the future.

On a positive note, the industry made significant progress on other safety statistics. The mining sector recorded a reduction in the number of Lost Day Injuries, from 65 in 2014 to 50 in 2015, a marked improvement from the previous period. The industry recorded a 22.33% drop in Disabling Injuries from 103 in 2014 to 80 in 2015.

I wish to recognise the tremendous support we receive from the Chief Inspector in all aspects. He is a member of the Chamber Safety Committee and together, the Chamber remains committed to achieving the goal of zero harm.

World Economy

During the year in review, developed economies continued to recover while developing and emerging economies were faced with two transitional challenges; monetary tightening by the U.S Federal Reserve and declining commodity prices. On 16 December 2015, the Federal Reserve raised the interest rate by 25 basis points for the first time in a decade, signalling strong recovery in the U.S economy. The eventual rate hike and prolonged speculations thereto have posed significant challenges to the developing world.

In 2013, when the Fed first signalled at an interest rate hike in response to signs of a recovering U.S economy, emerging market economies experienced major capital outflows leading to a rapid depreciation of their local currencies. In 2015, emerging market currencies continued to slide against the dollar caused by a slow-down in growth of the Chinese economy and market sentiment which anticipated a rate hike before the end of the year. On 16 December 2015, the US Federal Reserve eventually moved to increase the federal funds rate by 0.25% to 0.5%.

Closer to home, these developments had a significant impact on the South African rand, causing the currency to depreciate below historic thresholds. An additional factor in the plummeting of the rand was the rickety political and social climate in South Africa. Jacob Zuma’s decision to fire the South Africa Minister of Finance, Nhlanhla Nene, on 9 December 2015 saw the rand drop to historic lows of R15.48 to the dollar. An unstable economic and political climate does not provide much hope for the recovery of the rand in the near future.

The structural slow-down of the Chinese economy in 2015 had major repercussions on global commodity markets. China’s economic growth slowed to 6.9% in the third quarter of 2015, the lowest recorded since the global recession in 2008. China has been the main driver of global growth in recent years, and as demand subsides with a slow-down in growth, so does the country’s appetite for commodities. Commodity prices fell for diamonds, copper, gold, zinc and lead throughout 2015 as a result. The price of uranium remained relatively stable, albeit low, during the year, as China scaled up on its nuclear energy programme and Japan re-started its first nuclear reactor in August 2015. However, these factors have not been sufficient to offset the effects of China’s cooling economy and low prices for uranium are expected to persist in the near to medium term.

Low commodity prices coupled with depreciating currencies posed a number of risks for developing and commodity based economies. Countries running high current account deficits were more vulnerable to external shocks as depressed markets reduced revenues from commodity related exports. Due to Namibia’s direct link to the weak rand and its reliance on mineral exports as a source of foreign currency, the local mining sector is thus not immune to these global and regional developments. However, as elaborated below, Namibia finds itself in a fortunate position during this downturn.

Highlights of Mining in Namibia

In response to declining copper prices during the first half of 2015, Weatherly Mining Namibia announced the suspension of its two central mining operations, Matchless and Otjihase underground copper mines on 14 September 2015, converting them to project development status and retrenched 215 workers.

Furthermore, the mining licence issued to Craton Mining and Exploration in September 2014 was rescinded by the High Court on 15 September, 2015 following an application by farmers opposed to mine development on their land. This has unfortunately delayed the development of the new copper mine and resulted in Craton's decision to retrench most of their staff and greatly curtailed exploration activities.

A four-week strike at the Skorpion Zinc mine which started on 20 July 2015, cost the company N$26 million in lost revenue.

Despite depressed commodity prices, the Namibian mining sector was well positioned to overcome the negative impacts of this downturn. Many investments made by the sector in the last three years were realised in 2015, with many still to come to fruition.

In contrast to the suspension of their central operations, Weatherly's new Tschudi open pit mine produced its first copper cathode in February 2015 and continued ramping up production to nameplate capacity throughout the year.

Bannerman's Heap Leach Demonstration Plant was commissioned in March 2015, reporting positive results in the first and second Phases of the plant's operation, fully supporting the assumptions and projections contained in the Definitive Feasibility Study of the Etango project. The positive results should further generate greater confidence for investment decisions and thus fast track the development of the Etango project once the uranium market recovers.

In May 2015, Debmarine Namibia announced plans to construct a deep-water diamond sampling and exploration vessel at an investment of N$2.3 billion. The vessel, mv SS Nujoma was successfully launched on 9 January 2016. Outfitting will be completed before sea trails occur and the final delivery of the vessel from Norway to Debmarine Namibia during 2016.

Following the first kilogram of gold produced at B2Gold's Otjikoto mine in December 2014, the mine was officially commissioned by H.E President Hage Geingob on 1 June 2015. The mine successfully ramped up to full production in 2015, well ahead of budget.

Lodestone's Dordabis iron mine also began producing magnetite and hematite products for niche consumers in mid-2015. Magnetite is used by OHORONGO in cement manufacturing, further signifying upstream value addition with locally produced inputs.

Dundee Precious Metals Tsumeb (DPMT) commissioned their sulphuric acid plant in July 2015. The plant has been in production since then, supplying locally produced sulphuric acid to the Rössing and Tschudi mines. The new acid plant was officially commissioned by H.E. President Hage Geingob on 6 April, 2016.

On 30 July 2015, Ohorongo Cement held the ground-breaking ceremony for the new plant expansion, the Special Composite Cement Plant at an investment of N$150 million. The new production unit will produce different types of cement, which will diversify the product range offered by the company and help match demand for additional product types by the retail market.

Lastly, the construction and commissioning of Swakop Uranium's Husab mine remains on track, with first production planned in the third quarter of 2016

Such investments were possible as a result of the favourable regulatory framework governing the Namibian mining sector as evidenced by global benchmark reports. According to the Behre Dolbear 2015 report “Where to invest in Mining,” Namibia ranked as the most attractive destination in Africa for investment in mining and 7th out of 25 countries surveyed globally. Similarly the 2014 Fraser Institute survey of mining companies revealed that Namibia is the most attractive destination for mining and exploration in Africa and ranked 25th out of 122 jurisdictions surveyed globally.

However, a number of policy developments which occurred towards the end of 2015, negatively impacted investor sentiment towards Namibia’s mining sector. The 2015 Fraser Institute Survey of mining companies showed that Namibia dropped from its number one ranking in 2014 to fourth place in 2015. These policy details and developments are to follow later in this report.

A favourable regulatory framework, which has led to Namibia achieving its status as an attractive destination for investment in the mining sector, is paramount to the unique and competitive position the country finds itself in, when compared to other developing countries. Namibia is still very much poised to reap such benefits of investments made, but if the country is to continue doing so, it follows that a stable and favourable regulatory framework is necessary and imperative to weather global headwinds and to sustain such investments.

The year in perspective

Tax Amendments

Several tax amendment Bills were passed in December 2015. The Chamber welcomes the reduction of the withholding tax from 25% to 10%. The new amended tax laws are effective from 1 January, 2016. The Export levy bill is yet to be passed into law.

New Equitable Economic Empowerment Framework (NEEEF)

Government finally approved and released the New Equitable Economic Empowerment Framework (NEEEF) in November 2015. Some NEEEF pillars are very similar to the Chamber’s Mining Charter which the industry has been implementing since 2014 on a trial basis.

Moratorium on Marine Phosphate Mining

The Chamber remains concerned that there is no progress on the SEA study aimed at addressing environmental concerns. As a result, GRN remains mute on the 18 months Cabinet Moratorium on marine phosphate mining which was declared on 17 September, 2013 and lapsed in March 2015. The Chamber is supportive of initiatives aimed at evaluating existing scientific data on environmental impacts to assist government to pronounce itself on the Moratorium, going forward. The mining industry and the Chamber are equally interested to see environmental concerns addressed so as to promote the co-existence of all sectors in the same marine ecosystem, as is the case with offshore diamond mining operations and the fishing industry. The continued impasse on marine phosphate mining is unfortunately robbing Namibia of opportunities to address socio-economic challenges while at the same time addressing environmental concerns with current adequate environmental legislation.

Security of Power and Water

The Minister of Mines and Energy has assured the nation that there will be no load shedding this winter.

The medium and longer term security of uninterrupted supplies of power and water remain a major concern to the Chamber and the industry. Namibia imports approximately 60% of its energy requirements from neighbouring countries; South Africa, Zambia, Zimbabwe and Mozambique, through Power Purchasing Agreements (PPA's). Although these PPA's are still in place, these countries are facing severe energy deficits of their own, most notably Zambia and Zimbabwe, thus threatening the security of Namibia's power supply.

The recent commitment made by government to increase the inclusion of private role-players in the power generation sector is welcomed by the Chamber of Mines, as it will reduce Namibia's dependency on imported electricity. In the spirit of PPP, Chamber members with embedded generation capacity have approached NamPower seeking a mechanism to make this capacity available to the grid. There is currently a total of 67MW embedded generation capacity and 38MW planned solar PV plants and wind turbines by some Chamber members, making a total of 105MW contribution by the mining industry. We call upon NamPower to seize this opportunity and synchronise these embedded units to the national grid. This will contribute towards conserving the base load from NamPower.

In addition to power shortages, Namibia is facing a nation-wide drought which is causing severe water shortages in many regions of the country. More specifically, on 3 December 2015 the City of Windhoek declared a water crisis for the central region, affecting the Navachab gold mine which sources its water supply from the central area.

Rössing mine completed a feasibility study to construct its own desalination plant which would alleviate pressure on the national utility, NamWater. Other mines in the vicinity have expressed interest to participate in this project. Unfortunately, government has not shown support on this project – with reluctance to grant the necessary clearances and approvals to facilitate the construction of this facility. All the mines in the central coastal area have been forced to use desalinated water supplied by NamWater, since 2013 at significant cost whilst negotiations continue by Government to acquire the existing desalination plant.

Trans Namib & Rail Working Group

The 180-day turn-around strategy implemented on 25 September 2014 has failed to transform Trans Namib into a sustainable, profit making organisation and the parastatal continues to be a debt ridden entity. The company is challenged to efficiently transport bulk mining inputs and outputs, and Chamber members are forced to reluctantly use the road transport network which is characterised by heavy and dangerous traffic.

It is against this background that the Chamber of Mines initiated a Railway Working Group Committee (Northern Transporters Forum) to address these concerns. The Chamber has established that a total of 1.23 million tonnes of mining related freight is available between Tsumeb and Walvis Bay. This is immediate cash flow for TransNamib but unfortunately, only 30% of this freight is transported by rail, forcing Chamber members to move 70% by road transport with all the obvious consequences. The Chamber has proposed the rehabilitation of the railway line between Tsumeb and Walvis Bay as a priority and also TransNamib to consider concessioning priority lines to the private sector as per successful examples such as in Kenya and Uganda. The Chamber has submitted these proposals to the TransNamib Management, Board and the Deputy Minister of Transport and will endeavour to further engage government on this matter in the spirit of Harambee and Public-Private Partnership (PPP).

Joint Value Addition Committee (VAC)

I am pleased to note that the Joint Value Addition Committee made further progress during 2015 with the completion of the Phase two report. The report addressed value addition opportunities and challenges in seven minerals: dimension stone, graphite, silica sand, salt, phosphate, fluorspar and manganese and was presented for discussions at a stakeholder's workshop in August 2015. The Chamber is looking forward to a successful conclusion of this process with a mineral beneficiation strategy as the final deliverable, in line with NDP4 outcomes.

Mining Expo and Mining Conference

The Chamber of Mines successfully hosted its fourth Mining Expo and Conference during 20 – 21 May, 2015 with 150 exhibitors and over 1,000 visitors. The feedback received from a number of international exhibitors and attendees was nothing less than exemplary, which placed the Mining Expo and Conference at par with international mining events such as the Mining Indaba held annually in Cape Town.

The conference was also well attended by a variety of stakeholders, including students, government officials, staff and managers from various mining operations.

I am pleased to announce that the next Mining Expo, which kicks off tomorrow from the 27th to 28th April, will be held at an all new and exciting venue, the Windhoek Show Grounds. Although the Safari Hotel has served as an excellent venue for the Mining Expo and Conference in the past, the venue change with unlimited space is anticipated to give this event greater public exposure and raise the calibre of future mining expos.

Ministry of Mines and Energy

The Chamber continues to enjoy a cordial and constructive relationship with our line ministry, the Ministry of Mines and Energy. The Chamber welcomed the smooth transition with the appointment of Hon. Obeth Kandjoze as new Minister of Mines and Energy, taking over from Hon. Isak Katali. The Chamber hosted a farewell dinner in honour of the former Minister. The Chamber equally welcomed the appointment of Hon. Kornelia Shilunga as the new Deputy Minister of Mines and Energy. Both new Ministers have shown passion for the industry by visiting most of our operations to familiarise themselves and assisting with challenges on the ground.

The Chamber wishes to express appreciation of the support that has so far been received from the new leadership. However, the Chamber remains concerned that no single exploration or mining licence was issued during March to December, 2015. The introduction of "new additional conditions" to licences compounded matters with further delays on account of consultations with the Attorney General, a process that the Ministry of Mines and Energy has no control. This effectively watered down the Minister's efforts to clear the backlog of licence applications by December 2015. The Chamber appreciates that the Minister is empowered by law to make any additional conditions to the licences but we appeal that in future, the Chamber should be consulted so as to expedite the process. The impact of these delays have started to show with investor sentiments as shown in the 2015 Report of Fraser Institute in which Namibia has dropped down to fourth position in Africa, from the **prestigious** first position in the 2014 survey. The 2014 Fraser report showed that Namibia was the most attractive investment destination in Africa, follow by Botswana.

The Chamber is pleased to note that the Ministry of Mines and Energy has embraced the Mining Charter for rolling out effective empowerment in the mining industry and thereby fight poverty through job creation, skills development and growing the national economy. In the same spirit, the Chamber has expressed tremendous support to the Harambee Prosperity Plan as recently announced by H.E. The President in the State of the Nation address. The Chamber is pleased to note that Harambee is in line with NDP4 and will truly contribute towards the war against poverty.

However, the Chamber does not believe that NEEEF, in its current form, will be the solution to poverty eradication and equality as the new policy framework and Bill is focussed on empowerment of individuals instead of the poor majority of the population. While the Chamber fully supports the Purpose and Objectives of NEEEF, we respectively submit that the Mining Charter is able to achieve these objectives in a more sustainable and meaningful manner in the mining sector. The unintended consequences of NEEEF in its current form will result in dramatic reductions in FDI, loss of revenue to government and a decline in overall economic growth. As alluded to above, NEEEF will thus be counterproductive to poverty eradication, Harambee and NDP4 objectives.

The Chamber has engaged and submitted counter proposals on NEEEF to all relevant government bodies, including the Minister of Mines and his team. The Chamber is optimistic that once again, reason will prevail to enable the mining industry to grow and be fully integrated with other sectors of the economy to attain the much desired industrialisation as per Vision 2030.

Highlights from operations

Diamonds

Total Diamond production in 2015 dropped by 6.4%, from 1.885 million carats of diamonds in 2014 to 1.764 million carats in 2015. Namdeb produced 494,324 carats in 2015 and also recorded a drop in output as a result of operational challenges including a slow start-up in January, industrial action by contracted employees and a seawall breach in July 2015. Debmarine Namibia posted a marginal decline in production, from 1.273 million carats in 2014 to 1.2 million carats in 2015.

Diamond prices fell in 2016 due to sluggish global demand, which also lead to reduced overall production and a drop in diamond sales.

Uranium

Rössing uranium produced 1,245 tonnes of uranium oxide in 2015, a slight reduction from 1,543 tonnes produced in 2014. This was largely as a result of a fire which broke out in a Final Product Roaster in 2015. Mill production continued at the same level proceeding the fire, due to increased storage space. Stockpiling of yellow cake was thus possible while roaster repairs were underway. The repairs were successfully completed in May, shortly after which yellow cake calcining, drumming and shipments resumed.

Langer Heinrich also recorded a slight reduction in output during the year in review, from 2,296 tonnes in 2014 to 2,228 tonnes in 2015. Production was constrained during the first half of the year due to scale formation that required secondary pipe installation. The main focus of operations in 2015 was to increase throughput to nameplate production, improve efficiencies and to reduce operational cost.

Swakop Uranium is expected to commence with commissioning of the production of yellow cake in the third quarter of 2016.

Zinc

Refinery production by Skorpion Zinc fell to 82,029 tonnes in 2015 from 102,188 tonnes in 2014 owing to low zinc feed grade from the mine.

The Rosh Pinah Zinc Corporation recorded a 4.2% drop in production, from 104,046 tonnes of zinc concentrate in 2014 to 99,665 tonnes in 2015. This was as a result of recovery losses in the first quarter of 2015 and zinc mill feed grades that were below target.

Lead

Similarly, production of lead concentrates from the Rosh Pinah Zinc mine decreased from 22,317 tonnes in 2014 to 18,521 tonnes in 2015 due to decreased lead grades as per the Life of Mine (LOM) production schedule.

Gold

The Otjikoto gold mine produced 4,131 kilograms of gold in 2015, transitioning successfully from construction to commercial production and ramped up to full production during the year.

Production from Navachab Gold mine decreased from 1,938 kg in 2014 to 1,878 kg in 2015, falling 11.3% below budgeted targets. This was mainly due downtime associated with the tie-in and commissioning of new capital projects in the CIP Plant.

Cement

Ohorongo Cement had a successful year, producing 796,055 tonnes of cement, an 8.9% increase from the production recorded in 2014.

Copper

Weatherly Mining Namibia, through its Otjihase and Matchless mines, produced 13,919 tonnes of copper concentrate containing 3,254 tonnes of copper metal in 2015, a significant reduction from the 20,994 tonnes of copper produced in 2014 and containing 5,086 tonnes of copper metal.

Due to the marked decline in world copper prices during 2015, dropping to a six year low of U$4,888 per metric tonne in August 2015, copper production levels from Otjihase and Matchless were insufficient to support the ongoing costs of operating these underground mines, rendering them commercially unviable.

As already alluded to above, operations at these high cost underground mines were suspended and the majority of staff and contractors were retrenched on 19 September 2015. Otjihase and Matchless mines were converted to project development status so as to prepare them for future production of larger volumes of copper concentrate at a lower unit cost, once market conditions improve.

On a more positive note, the low cost Tschudi copper mine produced 10,659 tonnes of copper cathode in 2015, well above budgeted targets. The operation achieved nameplate production in December 2015, posting a monthly production of 1,420 tonnes of copper cathode, far exceeding the monthly target.

Cathode quality consistently exceeded LME Grade A requirements and operating efficiencies in the plant have also outperformed initial expectations.

Salt

Salt & Chemicals produced 614,980 tonnes of salt and the Salt Company produced approximately 118,000 tonnes of salt in 2015.

Economic Contribution

Preliminary statistics produced by the National Statistics Agency for 2015 show that the sector made a direct contribution of 11.9% to Namibia’s GDP, but contracted by 0.1% in real terms.

According to Chamber statistics, non-diamond mining surpassed diamond mining as the larger contributor to revenue and foreign exchange earnings. The figure for non-diamond mining includes revenues from zinc refining and copper smelting. Total revenue by non-diamond mining was N$13.82 billion and diamond mining earned N$11.46 billion. The total revenue from Namibia's mining operations was N$25.28 billion in 2015.

Fixed investment declined by the mining sector from N$17.26 billion in 2014 to N$5.48 billion in 2015. The 2015 excludes the figure from Swakop Uranium and we thus expect the actual amount to be higher. The relative decline, however, was largely as a result of the ramping up of fixed capital formation as the Otjikoto, Tschudi and Husab mines transitioned from development phases to production and operation.

Similarly, statistics generated by the Chamber of Mines also show a drop in exploration expenditure from N$625 million in 2014 to N$490 million in 2015. Exploration expenditure has gradually declined in the last three years primarily due to depressed commodity markets and the resultant challenges in raising capital for exploration.

Chamber statistics show that members paid out N$3.76 billion in taxes and royalties in 2015, an 11% increase from N$3.39 billion which was paid out in 2014. These figures exclude PAYE paid through wages and salaries by the sector.

Training and Employment

The mining industry spent N$171.7 million on training and skills development in 2015, and awarded 36 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 2015, mining and exploration companies collectively employed 8,853 people in permanent positions. Total employment by the sector, which includes permanent, temporary positions and contractors, increased from 17,770 in 2014 to some 19,000 jobs in 2015.

Conclusions

In conclusion, the mining industry has demonstrated resilience against the global downturn as Namibia is the only African country where the industry is on the growth path. The industry has created more jobs than it has lost in the last 3 years and is creating new opportunities for value addition with new copper cathode production which has commenced for the first time in the history of Namibia. The industry has also made history with the first ever production of iron ore in Namibia, for use locally thereby underpinning the much desired upstream value addition and conserving foreign exchange with reduction of importation of such inputs for cement production.

The continued success of the mining industry will depend on the competitiveness of Namibia as an attractive investment destination for exploration and mining. This calls for government to bring a win-win finality on new policy proposals and address licencing matters. Furthermore, the security of water and electricity supply as well as railway transport challenges needs to be addressed so as to retain investor confidence. The Chamber remains committed to work with government and reclaim Namibia's previous record as the most attractive investment destination in Africa for exploration and mining.

I wish to thank all Chamber members, my colleagues at the Council and the CEO and his team for their continued support during the challenging year. I am confident that the Chamber shall continue to steer the mining industry to greater heights and ensure that the industry successfully contributes to the structural transformation where mining will be more integrated with other sectors of the economy and fulfil the industrialisation aspirations in accordance with NDP4, Harambee, SADC Industrialisation Strategy and Road map and indeed, Vision 2030.

Kombadayedu Kapwanga
Chamber President
26 April 2016