



The Chamber of Mines of Namibia

Mining Industry Review for 2016

By

Kombadayedu Kapwanga

President, Chamber of Mines of Namibia

At the AGM

25 April, 2017. Safari Hotel.

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

It gives me great pleasure to welcome you all to the 38th 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 our industry.

It is now my honour to present the President's Report for the year 2016.

Safety

Painstakingly, the mining industry suffered another two fatalities in 2016. Martin Shilompoka, a machine operator at B2Gold's Otjikoto gold mine, sadly passed away on 22 January 2016 after being trapped between a dozer and diesel truck during a refuelling operation on 28 December 2015. Just when we thought the year was almost over, a second fatality occurred at Namdeb's Southern Coastal mine on 12 December, 2016 when a sea wall on which Likius Shetunyenga, a multi-skilled dozer operator was working, collapsed and caused the dozer and operator to submerge below water.

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.

Despite these tragic events, the mining industry continues to strive towards its objective of "zero harm" through a self-governing system which is pioneered through Safety Peer Review missions by the Chamber Safety Committee.

2016 was also a challenging year with regards to other safety statistics. The mining sector recorded a slight increase in the number of Lost Day Injuries, from 50 in 2015 to 53 in 2016. Similarly, the industry recorded a 7.5% increase in Disabling Injuries from 80 in 2015 to 86 in 2016.

We are grateful to the full support we receive from the Chief Inspector of Mines and his team. We remain optimistic that this cooperation will continue to bear fruit as has happened in previous years when the industry has attained zero fatalities and lower safety statistics.

World Economy

The United States of America (USA) and Europe recorded sluggish recovery and growth in the first six months of 2016, and geopolitical developments underpinned global uncertainty throughout the year. Most certainly, Britain's exit from the European Union and the election of Donald Trump as the new president of the USA created a stir in an otherwise more optimistic and stable global environment.

It was thus a surprise to see even modest improvement in economic growth in the USA, Eurozone and UK in the second half of 2016 following these events. The Fed raised interest rates for the second time since 2006 in December 2016 as the US economy returned to almost full employment levels, increases in earnings per employee and an uptick in core inflation signalled growth in the local economy. Global recovery, however, is now threatened by protectionist and inward looking policies as a very likely outcome of these two hallmark events.

2016 was a volatile yet successful year for the gold price, which recorded an increase of 28.8% between January and July 2016 as the safe haven asset was well sought after in an unpredictable global climate. Following the Brexit vote and Trump's victory, the gold price posted sharp declines, returning to US\$1,145/ounce at the end of 2016 when the Fed signalled towards a rate hike and the Trump administration adopted a pro-growth policy focusing on infrastructure and stimulating the US economy. Furthermore, the demand for gold saw a decline from two of its biggest consumers, India and China.

Turning further east, risks of slowdown in China were diminished as government stimulus supported growth in 2016 and was the primary driver in the recovery of commodity prices. China's structural adjustment, however, should not be forgotten as the economy moves from import led consumption to consumer led growth. Emerging market economies, Russia and Brazil, appear to be on the path to recovery while India posted robust growth in 2016 supported by effective policy decisions and strong external buffers.

The uranium price posted its worst performance in 12 years, dropping to an unsustainable low of US\$18.75/lb early in November 2016 amidst expectations of a steady recovery. The sharp decline was a result of surpluses from large stockpiles at utilities including enough inventory held by Japan's operational reactors to power them for the next six years. Many mines world over have suspended operations due to persistently low prices since the Fukushima incident and record low prices continue to threaten the sustainability of mines in operation. Namibia's uranium sector was not left unscathed as will be outlined in a later section of this speech.

Closer to home, South Africa teetered on the brink of recession in 2016 brought about heightened political uncertainty, increasing social unrest and rising unemployment. Depressed oil prices also stifled the Angolan economy, feeding through to Namibia's retail sector, a large proportion of which was driven by the Angolan market.

Notwithstanding a two-year long drought, Namibia's fast growing economy halted very suddenly with two consecutive contractions recorded in the second and third quarters of 2016, at 1.2% and 1% respectively, brought about by reduced growth in the construction and mining sectors. Furthermore, the ballooning budget deficit has been cited as one of the main reasons for a downgrade from positive to negative in the outlook of Namibia's investment rating by international ratings agencies; Fitch and Moody's. Fiscal consolidation measures announced by the Government in October 2016 and in the recently tabled Budget will see further contractions in the Namibian economy, particularly in the construction sector.

Not without its own challenges, the mining sector is fortunately not directly impacted by the gloomy developments in the local economy. The outlook for the mining sector is substantially more optimistic on the back of a new mega mine which entered production at the end of 2016 and other developments highlighted below.

Highlights of Mining in Namibia

In response to the persistent depressed uranium price, Langer Heinrich announced that it would be reducing production by 20% for the following two years. As part of their restructuring and cost reduction strategy, mining operations were suspended and low grade ore which has been stock piled will now feed the plant. The company also retracted the 20% sale of the mine's shareholding following the restructuring of bonds, which has allowed the company to meet its debt obligations.

A two-month long strike involving a wage dispute spanning from the end of February to mid-April at the Rosh Pinah zinc mine severely curtailed production of zinc and lead concentrate.

Swakop Uranium's Husab mine produced its first barrel of uranium on the 30th of December 2016, marking a monumental event on Namibia's mining timeline, as the world's second largest uranium mine came into production. The mine is expected to reach nameplate capacity in 2019.

Despite some challenges at the Tschudi copper mine, the mine's contribution trebled Namibia's refined copper production of copper cathode. Furthermore, B2Gold's Otjikoto gold mine posted record production through the expansion of mining operations into the wofshag zone. In combination with an attractive average gold price and significantly low operating costs, Otjikoto gold accounted for 10% of mining revenue and contributed to Namibia's trebled gold production in two consecutive years.

The Mv SS Nujoma completed sea trials and was successfully delivered to Cape Town on 22 August 2016 where it was equipped for operation. The vessel is currently in Namibian waters with final commissioning of all systems at an advanced stage. The vessel is expected to enter into full operation during the second quarter of 2017.

This development will boost future diamond production through specialised exploration and by an additional vessel added to the mining fleet which was previously used for exploration.

The Okandjande graphite mine near Otjiwarongo which is under development through a joint venture partnership between Imerys Graphite and Gecko Namibia is scheduled for first production in April 2017. The graphite ore will be processed at the nearby Okorusu refurbished plant, bringing back to life a mining site which closed doors in 2014 due to the depletion of high grade fluorspar deposit.

Salt & Chemicals officially inaugurated the expansion of its salt production operations in July 2016, which will boost their annual output from 700,000 tonnes to 1,000,000 tonnes of salt per annum.

As for projects close to development, once North River Resources has received its mining licence, the closed lead and zinc mine in the Erongo region will once again come into production with new investments. Further results from Bannerman's Heap Leach Demonstration plant outperformed targets in the optimisation study cementing their position and preparedness for mine development to commence once uranium prices recover.

The year in perspective

New Equitable Economic Empowerment Framework (NEEEF)

The Chamber was actively involved in the private sector consultations with government on the proposed empowerment legislation, the New Equitable Economic Empowerment Bill (NEEEB). The Chamber formally made submissions to the Law Reform and Development Commission and to the Office of the Prime Minister in August 2016. The outcome of NEEEF is still uncertain, though we have it in good faith that Government is cognisant of the sector's concerns with the current version of the Bill. The Chamber is concerned that the continued uncertainties around NEEEF will further worsen Namibia's rankings in the Fraser Institute reports as detailed in a following section. We therefore wish to appeal to government to expedite this matter to ensure an amicable outcome as soon as possible. The Chamber hopes that government will adopt the constructive alternative proposals in NEEEF which accommodate market fundamentals of the private sector and growth thereof, while implementing effective and pro-growth empowerment mechanisms.

Namibia Investment Promotion Act, 2016

The Chamber is equally concerned with the Namibia Investment Promotion Act of 2016 and is part of Business Namibia that has proposed changes to the Act before it comes into effect. As with NEEEF, the Chamber appeals to government to quickly amend this Act in consultations with the private sector under the umbrella of Business Namibia to bring an end to uncertainties and further downward sliding of Namibia's competitive rankings on global rating agencies.

Export Levy

Following the gazetting of the Export Levy Act on 24 June 2016, the Chamber engaged extensively with the Ministry of Finance on particulars of the legislation which present challenges to the effective implementation and administration by mining companies, specifically the definition of export levy amount and the frequency of payments. The Chamber has presented alternatives which have largely been accepted by the Ministry of Finance and proposed changes should be in the form of Regulations or amendments to the Act.

NDP5

The Chamber played a prominent role and contributed significantly to the formulation of the fifth National Development plan which was scheduled to be launched in March 2017, and in which the mining sector has been recognised and prioritised to move the Nation towards the goals and objectives outlined in Vision 2030.

Harambee Prosperity Plan

The Chamber welcomed the Harambee Prosperity Plan as unveiled by His Excellency, President Hage Geingob on 5 April, 2016. The Chamber is encouraged that Harambee is in sync with the Mining Charter that the Chamber submitted to government in November 2010 and adopted in September 2014.

Chamber members were assigned two activities under the Social Progression and Economic Transformation pillars to “Introduce a housing scheme for mine workers” and “Chamber of Mines members to adjust procurement policies to favour local SMEs and local entrepreneurs” respectively.

The Chamber is proud to announce that the mining industry has delivered on the two activities and continues to do so going forward. The industry spent over N\$ 11 billion on local procurement of goods and services during 2016, which was 64% of total procurement spend. Furthermore, this constitutes approximately 41% of the total industry revenue. These figures speak volumes and demonstrate that the procurement policies in the mining sector are already aligned to support local SMEs and local contractors. Going forward, government should concentrate on attracting investments in manufacturing plants for high value inputs into mining processes. Similarly, the industry provides housing schemes in various forms to ensure workers return home to a decent dwelling. Workers are at liberty to elect for homeownership through mortgages with financial institutions. In some cases, mines are disinvesting in housing property and selling to miners. One new mine has taken the approach to purchase land from local municipalities, service such land and transfer title deeds directly to mine workers for home construction through normal bank mortgages. In an unprecedented move to support Harambee, one mine has donated land worth N\$ 31 million to Tsumeb municipality to enable construction of low cost housing to local communities. The Chamber has since been submitting quarterly reports to the Presidential Advisors and the Minister of Mines and Energy.

Moratorium on Marine Phosphate Mining

The Chamber welcomed the granting of an Environmental Clearance Certificate to Namibia Marine Phosphates by way of a letter issued by the Environmental Commissioner dated 9 September 2016. However, a public outcry on the procedures followed for its issuance resulted in a decision to retract the Clearance Certificate. The Chamber remains grossly concerned that an agreement and way forward on marine phosphate mining has not yet been concluded, but remains supportive of an environment conducive for all sectors of the economy to co-exist.

Security of Water

Despite the recent good rains, water security remains a threat to mines, especially in the central part of Namibia.

Should these areas encounter continued water shortages, Navachab could be negatively impacted through reduced gold production, undermining the profitability of the mine and consequently the socio-economic contribution to the national economy.

Rossing was granted an Environmental Clearance Certificate to construct its own desalination plant which would alleviate pressure on the national utility, NamWater. This milestone enables all other permits to follow. Other mines in the vicinity have expressed interest to participate in this project. The Bankable Feasibility Study (BFS) is being updated to advance the project forward.

Trans Namib & Rail Working Group

The Chamber welcomed the announcement by Government in 2016 to purchase six General Electric (GE) locomotives and 90 sulphuric acid tanker wagons to transport sulphuric acid to mines. The Chamber was pleased to witness the official launch of the rolling stock and handling equipment on 1 March, 2017 at the Windhoek Railway station. The Chamber commends government on this direct support to the mining industry and notes that this will also help other mines to move some of their cargo off the highly congested national roads and thereby contribute to better safety on the roads. The Chamber continues to engage TransNamib on further proposals to enhance rail transport, including proposals for public-private partnerships.

Joint Value Addition Committee (VAC)

The Chamber has actively participated in Joint Value Addition Committee. Unfortunately, due to government financial constraints, the planned field missions to galvanising and copper wire and tube manufacturing plants in South Africa and Zambia respectively could not be undertaken. The Chamber had made all logistical plans until the last moment when the trips had to be cancelled. We hope this matter will be executed this year to ensure the successful conclusion of a Minerals Beneficiation Strategy.

Mining Expo and Mining Conference

The fifth Mining Expo and Conference in 2016 was a great success, with the change of venue to the Windhoek Show Grounds. There was a slight reduction in the number of exhibitors, a reflection of current economic headwinds. The venue change significantly raised the calibre of the event offering more space and facilities for all participants.

I am pleased to announce that the next Mining Expo and Conference kicks off tomorrow from the 26th to 27th April at the Windhoek Show Grounds. This annual event is now firmly entrenched in the Windhoek calendar of events during the last week of April.

Ministry of Mines and Energy (MME)

The Chamber continues to enjoy a cordial and constructive relationship with our line Ministry under the leadership of Hon Obeth Kandjoze as the Minister of Mines and Energy and his Deputy, Hon. Kornelia Shilunga. The Chamber appreciates the support received from MME, particularly when some of our members are still sailing through tough economic times, particularly the uranium mines.

The Chamber of Mines was delighted at the news that the Minister of Mines has lifted and terminated the moratorium on new applications for EPLs in respect of nuclear fuel minerals. The ten years' moratorium was terminated effective from 15 December, 2016. We wish to commend the Honourable Minister on this bold decision and welcome development which places Namibia at a competitive advantage when uranium markets recover and investors scramble for EPLs again as we saw in 2007 at the height of the so-called "uranium rush".

The Chamber welcomed the Minister's assurance that there will be no backlog of licence applications during 2016. However, the Chamber was very disappointed to note that the backlog actually developed due to unintended consequences in the implementation of Additional Conditions to licences. The Chamber wishes to commend the Minister and his team for the successful outcomes during the watershed special Council meeting with the Minister on 16 November, 2016, at which most stumbling blocks were addressed. The Chamber has accordingly finalised amendments to the Additional Conditions as requested by the Hon. Minister. We are pleased to note that members have since been receiving physical licences to enable new investments into exploration to flow into Namibia.

The main outstanding stumbling block is the Minister's refusal to accept empowerment of own workers through employee ownership schemes which is part of the definition of Historically Disadvantaged Namibian (HDN) in the Mining Charter. The Chamber was relieved to learn that this concept is well within government's aspiration of empowerment as expounded by H.E. President Hage Geingob in his State of the Nation Address on 12 April, 2017 and I quote: ***"I would like to once again call on the private sector to - as a minimum – consider Employee Share and Home Ownership Schemes. It is disheartening when workers, some of whom may have worked for as much as 40 years for the same employer, only receive a long – serving award upon retirement"*** unquote. This counsel gives us hope that this matter will be resolved amicably.

The Chamber is deeply concerned to note that sadly, Namibia dropped from first position in 2014 as the most attractive destination for mining and exploration in Africa, to ninth position in 2016 in the recently released Fraser report. The report named NEEEF and the new Additional Conditions to licences as the main reasons for Namibia's tumbling. We therefore appeal to government to expedite an amicable conclusion on NEEEF and thereby remove the damaging investor sentiments so that Namibia can regain its previous ranking and benefit from Foreign Direct Investments (FDIs).

Mining Industry Assistance to the Berseba Community

I am pleased to announce that in the spirit of Harambee, the mining industry contributed a total of N\$ 853,000 (eight hundred and fifty-three thousand Namibian dollars) towards the Berseba community that was affected by a natural disaster on 8 February this year. The donations were channelled through the Disaster Management Unit under the Office of the Prime Minister. While this is not part of my 2016 Report, I am compelled to highlight this as "Breaking News" to illustrate that the mining industry has a heart for the Namibian communities outside mining areas.

Highlights from operations

Diamonds

There was a significant reduction of 11% in the output of diamonds from 1.76 million carats in 2015 to 1.57 million carats in 2016. Namdeb land operations contributed 403,000 carats to this total, also posting a drop in output due to operational challenges which involved declining resources, cementation of ore, water management challenges and reduced throughput owing to clayish material.

Debmarmine production fell marginally from 1.2 million carats in 2015 to 1.17 million carats in 2016. The decline in output was due to scheduled vessel servicing which took place throughout the course of the year.

Sluggish global demand for diamonds continued during 2016 which drove declining diamond sales and prices.

Uranium

Rössing uranium produced 1,850 tonnes of uranium in 2016, a significant increase of 48.6 % from 1,245 tonnes of uranium oxide production in 2015. Despite depressed market conditions, a number of improvements in mining activities increased mill throughput and consequently, production. The company also declared a profit in 2016 as a result of enhancing mining efficiency and eliminating bottlenecks.

Production from the Langer Heinrich mine was sustained during 2016 posting a marginal increase from 2,228 in 2015 to 2,236 in 2016 due to ongoing efforts to achieve operational efficiency while trying to curb the costs of production.

Swakop Uranium commenced production on 30 December 2016.

Zinc

Refinery production increased from 82,029 tonnes in 2015 to 85,427 tonnes in 2016 despite a number of operational challenges faced by the mine. In order to maximise output and refinery processes, Skorpion zinc imported ore from Turkey and Morocco which contributed to the rise in refined zinc production.

A two-month long strike at the Rosh Pinah Zinc mine was the primary cause for a severe drop in the output of zinc concentrate which fell from 99,665 tonnes in 2015 to 80,560 tonnes in 2016

Lead

Similarly, the decline in lead concentrate production from 18,521 tonnes in 2015 to 14,862 tonnes in 2016 was also as a result of the industrial action at Rosh Pinah mine.

Gold

B2Gold produced **4,714 kg** in 2016, 12.3% up from production in 2015, resulting from increased throughput owing to the completion of the mill expansion project which was successfully completed in September 2015. Mining operations were extended to the Wolfshag zone which also contributed to record production.

Production from Navachab remained stable in 2016, amounting to 1,878 kg of gold bullion.

Cement

Ohorongo Cement produced 777,571 tonnes of cement in 2016, a reduction from 796,055 tonnes in 2015.

Copper

Tschudi copper mine reached nameplate production in March 2016 after which mining operations intersected water in the open pit and resulted in higher than anticipated dewatering quantities. Production was negatively impacted by the unforeseen challenges. However, enhanced infrastructure was installed to better manage the higher water quantities and the mine produced 16,391 tonnes of copper cathode in 2016, trebling refined copper production in Namibia.

Salt

Salt & Chemicals produced 698,590 metric tonnes of salt in 2016, an increase of 13.5% from the 614,980 produced in 2015.

The Salt Company produced 136,949 tonnes of salt in 2016 in line with set targets.

Economic Contribution

Preliminary statistics produced by the National Statistics Agency for 2016 show that the sector made a direct contribution of 11.1% to Namibia's GDP, but contracted by 6% in real terms. This contraction was primarily a result of the decline in diamond output and base metal production, more specifically for zinc and lead, which are allocated significant weightings in the National Accounts.

The Chamber of Mines, however, is in disagreement with the reported preliminary overall contraction of mining by 6% and disputes the overall GDP contribution of 11.1%. While the contraction for diamonds of 9.6% may have been accounted for correctly, the Chamber negates the contraction of 1.2% posted by metal ores as this also includes production of copper and gold alongside zinc and lead. As reported in the "*Highlights from Operations*" section, production of pure copper was trebled and total gold production increased by 10% from 2015. Gold bullion and copper cathode are high value minerals and the Chamber is thus of the firm view that their combined contribution would have off-set the contraction in zinc and lead, yielding positive growth for this sub-category in the National Accounts.

Fixed investment by the sector saw a further reduction from N\$5.46 billion in 2015 to N\$3.49 billion in 2016. It is of no surprise that these numbers may appear insignificant in comparison to the exceptionally high fixed investment of approximately N\$17 billion recorded in 2014, as the development of the three new mines and the sulphuric acid plant are now complete.

Exploration remained stable in 2016, posting a slight increase from N\$490 million in 2015 to N\$510 million, as prices for base metals and gold started to improve. However, the flat spend very likely reflects the challenges in the implementation of Additional Conditions to licences which delayed the issuance of exploration licences to Chamber members for the most part of 2016 as detailed above, and thus investments into exploration.

Chamber statistics show that members paid out **N\$3.2 billion** in corporate taxes and royalties in 2016. These figures exclude PAYE paid through wages and salaries by the sector.

Training and Employment

The mining industry spent some N\$82.8 million on training and skills development in 2016 and awarded 33 new bursaries. In addition to in-house training programmes and support provided for tertiary education, the mining sector continued to support and develop local skills capacity with job attachments and internships provided to NIMT students.

In 2016, mining and exploration companies collectively employed 9,574 people in permanent positions. Total employment by the sector, which includes permanent, temporary positions and contractors, decreased from 19,000 in 2015 to some 16,000 jobs in 2016 as construction of the new Husab mine came to an end.

Conclusions

In conclusion, the mining industry remains the backbone of the Namibian economy and opens new opportunities to the wider economy as the country is now reaping the benefits of new investments and re-investments with three new mines in production. Namibia has trebled gold and copper production in 2016 and with the recovery of most commodity prices, the mining industry is geared to support and underpin the NDP5 goals. The focus is shifting to upstream manufacturing industries to produce high value mining inputs and thereby realise the multiplier effect in the economy and import substitution. The new sulphuric acid plant at the Tsumeb smelter is a starting point for such upstream industries. The mining industry remains committed to supporting local suppliers of goods and services as illustrated by the ever-increasing lucrative Namibian spend in the last three years.

However, the sustainability and continued success of the mining industry will depend on the competitiveness of Namibia as an attractive investment destination for exploration and mining. The further slide of Namibia's ranking in the 2016 Fraser Institute report is a wakeup call for government to bring to an end investor anxiety and uncertainty on NEEEF policy as well as the Namibia Investment Promotion Act of 2016. The private sector has shown commitment by working closely with government to ensure that Namibia retains its previous status as the most attractive investment destination in Africa for exploration and mining.

My tenure as President of the Chamber of Mines comes to an end today and I will soon be passing on the baton to my successor Mr. Johan Coetzee. I wish to take this opportunity to thank all Chamber members, the EXCO team, my colleagues at the Council and the CEO and his team for their continued support during the last two years under my leadership. It is my sincere hope that the Chamber shall continue to grow from strength to strength and steer the industry to greater heights for the socio-economic development of Namibia as a whole.

I thank you.

A handwritten signature in black ink, appearing to read 'Kombadayedu Kapwanga', written in a cursive style.

Kombadayedu Kapwanga
Chamber President
25 April, 2017