



The Chamber of Mines of Namibia

Mining Industry Review for 2014

By

Werner Duvenhage

President, Chamber of Mines of Namibia

At the AGM

Safari Hotel. May 19, 2015

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.

Honourable Minister, it is a pleasure to have you as our Guest of Honour at our AGM. Let me take this opportunity to once again congratulate you, on your appointment as the new Minister of Mines and Energy. We really appreciate your presence to grace our AGM for the first time after your appointment. 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 2014.

Safety

I am most pleased to announce that continuous efforts by the industry to improve safety have most certainly paid off. The proof exists in the safety statistics recorded for 2014. The industry recorded **zero** fatalities and the number of Lost Day Injuries decreased from 88 in 2013 to 65 in 2014, representing a major stride made towards achieving the goal of zero harm.

Unfortunately, on the 10th of May, we suffered a fatality at Scorpion Zinc when a contractor employee fell from working at height. All fatalities should and must be eliminated.

The Chamber remains committed to achieving this goal, and through the efforts and direction of the Safety Committee, will continue to further improve these results.

World Economy

In 2014, global growth was uneven and diverse. The US economy showed strong signs of recovery, which was evidenced by higher growth, increased factory output and reduced unemployment rates. This consistent growth is expected to continue given accommodative monetary policy and favourable fiscal conditions. In the Eurozone, however, economic performance continued to deteriorate, setting off alarm bells in very low levels of inflation and growth recorded.

In the third quarter of 2014, China posted its lowest growth in five years (7.5%), resulting from efforts of the Chinese government to steer the economy away from one primarily reliant on trade and investment to one which is led by domestic consumption. Despite the drop in growth, China remains one of the fastest growing economies in the globe, and continues to contribute tremendously to Namibia's growth.

The commodity market created shock waves through the international and local economy, especially for uranium when the price dropped to a nine year low of U\$28/lb in June 2014. The depressed market for uranium forced major mining companies across the globe to scale back on production, and some to shut down operations.

In the local economy, unfavourable market conditions forced companies to cut costs in order to stay afloat, resulting in restructuring exercises in the form of retrenchments and a reduction in production in a few operations. Overall production posted by the Namibian mining sector declined in 2014 compared to 2013, and thus growth posted by the sector also declined in 2014.

Highlights of Mining in Namibia

In response to depressed commodity markets, several mines in Namibia underwent restructuring exercises. Rössing retrenched 204 workers on 1 August 2014. The restructuring exercise was aimed to sustain operations, avoid possibility of placing the mine on care and maintenance, or worse, mine closure. Rosh Pinah Zinc Corporation also retrenched 126 workers towards the second quarter of 2014.

On 28 October 2014, Solvay announced the suspension of its mining operations at the Okorusu Fluorspar mine resulting in the retrenchment of 407 employees. The high grade ore at the mine has been depleted and the remaining ore is no longer economic to mine. About 30 employees were rehired on fixed term contracts to carry on the care and maintenance of the mine, ongoing exploration and, research and development.

A two week strike at Namdeb during August 2014, concerning a dispute in salary and benefit negotiations, cost the company N\$10 million a day in revenue. Out of this figure, Government's portion of lost revenue was N\$8 million a day.

In spite of the above challenges, construction of three new mines forged ahead, off-setting most economic setbacks created by the depressed commodity market. One week before schedule, B2Gold produced its first kilogram of gold on 11 December 2014. Operations are expected to ramp up to commercial production towards the end of 2015.

Swakop Uranium is currently constructing the world's second largest uranium mine, the Husab mine. The US\$ 2 billion (N\$24 billion) mine is expected to employ approximately 6,000 people during construction and will create some 1,200 permanent jobs once in full operation. The construction of the mine is on track and is scheduled to come into production early in 2016, with ramp-up to full production in 2017. The mine will be producing approximately 6,800 tonnes of uranium oxide per annum, exceeding the current level of combined production from Namibia's two uranium mines.

Weatherly is constructing the Tschudi copper mine at an investment of N\$900 million. This marks another first in the history of Namibia as the mine will be producing refined copper (copper cathode), paving the way for possible future investments in manufacturing activities. The operation will

produce approximately 17,000 tonnes of copper cathode a year and produced its first copper cathode in February 2015.

In addition to these positive developments, continuous reinvestments were made into the diamond sector. Namdeb officially inaugurated the new Sendelingsdrif diamond mine and the Red Area Complex on 7 November 2014. The Red Area Complex is a state of the art diamond sorting facility where diamonds from Namdeb and Debmarine operations are recovered before being sent to the Namibia Diamond Trading Company (NDTC) in Windhoek.

In September 2014, Craton Mining & Exploration received a mining licence for the Omitomire copper oxide project. The development of the mine is estimated to cost N\$400 million. Craton also received the Environmental Clearance Certificate from the Ministry of Environment and Tourism. The construction of the new mine is expected to commence in 2016.

In November 2014, Lodestone Namibia also received a mining licence to develop the Dordabis iron ore project.

Dundee Precious Metals Tsumeb (DPMT), which owns Namibia's copper smelter, is constructing a sulphuric acid plant at an investment of N\$2.9 billion. The plant will utilise off-gases from the copper smelter to produce sulphuric acid. The plant is scheduled to come into production in July 2015, and will be producing 340,000 tonnes of sulphuric acid per annum.

On 30 April 2013, AngloGold Ashanti announced its decision to sell the Navachab gold mine. On 28 May 2014, the Namibia Competition Commission approved the sale of the mine to Guinea Fowl Investments Twenty Six, owned by the British company QKR limited. Epangelo Mining, Namibia's state owned mining company, acquired a 7.5% stake in the Navachab mine.

Finally, on 14 November 2014, Vedanta Resources Plc approved the U\$782 million investment, over a three year period, to develop an open pit zinc mine at Gamsberg in South Africa and the conversion of the Skorpion Zinc Refinery to treat zinc sulphide concentrates. The refinery conversion will cost N\$1.672 billion and will also position the refinery to process other zinc concentrates in future from Rosh Pinah zinc mine and the Gergarub project, once developed into a mine.

The Namibian economy continues to reap the benefits through the development of new mines and reinvestments made by mining companies, signifying a vote of confidence in Namibia's investment climate. The 2014 Report by the Frazer Institute ranked Namibia as the most attractive investment destination in Africa, followed by Botswana. Thirty countries in Africa were surveyed. And Namibia was ranked 25th globally out of 122 jurisdictions that participated in the 2014 survey. This is a great achievement and illustrates the close cooperation between GRN and the Chamber in shaping policy and legislation for the mining industry. We must now work even harder to maintain this prestigious global position.

The year in perspective

I now turn to the challenges faced by the Chamber during 2014.

Tax Amendments

The Chamber welcomes the announcement by the new Minister of Finance during the budget speech this year that the Withholding tax rate will be reduced from 25% to 10%. The Chamber has worked with the Ministry of Finance in illustrating value addition chains at the mines and thereby facilitated in the determination of the export levy rates for individual minerals. We anticipate that outstanding

tax amendment bills, including the Export Levy Bill to be tabled in Parliament this year with favourable outcomes.

Moratorium on Marine Phosphate Mining

The Chamber remains concerned that the 18 months period of the Cabinet Moratorium on marine phosphate mining which was declared on 17 September, 2013 has lapsed in March 2015 without much progress on the desired scientific studies to address concerns by the fishing industry. The SENTEF consultants engaged by GRN have only produced a scoping report in which Terms of Reference for the SEA have been identified. While GRN is committed to the co-existence of several sectors in the same eco-system, the slow pace at which the environmental concerns are being addressed is of great concern to the Chamber. It is now clear that it will be several years before environmental concerns will be clarified, thereby hampering investment decisions and socio-economic growth by marine phosphate players. I appeal to relevant Agencies of Government to find an amicable solution to the way forward, without jeopardising the interests of any stakeholders.

Security of Power and Water

Security of uninterrupted supplies of power and water remains a major concern to the Chamber and the industry, with increasing cost of both power and water tariffs. The Chamber is concerned that electricity tariffs are increasing way above Namibian CPI on a yearly basis, even when NamPower has declared that cost reflectivity tariffs had been reached some three years ago. Chamber members are extremely burdened by depressed commodity prices and any further tariff increases and additional levies are impacting negatively on the competitiveness of mines in Namibia.

We look forward to fruitful engagements with NamPower at the Mining Conference.

Joint Value Addition Committee (VAC)

I am pleased to note that the Joint Value Addition Committee has made tremendous progress during 2014 under the leadership of the Ministry of Mines and Energy. The Chamber is an active member of VAC.

The VAC contracted independent consultants from Sweden to conduct an in depth analysis of beneficiation opportunities for Namibia's minerals. Phase 1 of the study covered seven commodities namely: copper, diamonds, gold, iron ore, lead, zinc and uranium. The report was presented and deliberated at a workshop in August 2014. A second report was produced by the same consultants, covering additional minerals including; dimension stone, graphite, silica sand, salt, phosphate, fluorspar and manganese.

The Chamber is confident that the VAC process will ultimately lead to a clear road map for further value addition to our mineral production. A mineral beneficiation strategy is the expected final deliverable in line with NDP4 outcomes.

Polytechnic Mining Symposium

The Polytechnic of Namibia hosted a Mining Symposium on 17 October, 2014 at which the Chamber played a major role in presenting developments and challenges in the mining industry. The Symposium served as a platform for Government representatives, mining industry representatives and tertiary institutions to discuss and share information on new and current practices employed in the mining sector as well as current and future developments. The symposium served as an excellent opportunity for the Chamber to interact with students in mining related fields of study and to showcase the Namibian mining sector.

Mining Expo and Mining Conference

As part of our stakeholder engagement strategy in the Chamber's Strategic Plan, the Chamber hosted a very successful forth Mining Conference on 22 May 2014, with attendance numbers exceeding well over 500. The conference was attended by stakeholders from different sectors including students, government officials, staff and managers from the various mining operations and other industries related to the mining industry. The Chamber received positive feedback while stakeholders applauded the informative nature of the conference.

The Namibian mining industry is expanding and as such stakeholders have requested to change the frequency from biannual to a yearly event. I am therefore pleased to announce that the Chamber of Mines will host the Mining Expo & Conference on an annual basis, and the next Mining Expo and conference is scheduled to run during the next two days, from 20th – 21st May 2015. It is my pleasure to welcome you to attend the 2015 Mining Expo and conference which kicks off tomorrow.

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 current unprecedented growth in the mining industry is testimony to the support by the Minister of Mines and close cooperation between MME and the Chamber. The Chamber of Mines joined the rest of the country in mourning the untimely passing on of the Deputy Minister of Mines and Energy, the late Hon. Willem Isaacks. This was a tragic loss to the whole industry. Let me take this opportunity to thank the previous Minister, Hon. Isak Katali for laying a strong foundation for the new Minister, Hon. Obeth Kandjoze. We are confident that together, we shall grow the industry in leaps and bounds.

I now wish to present highlights of our operations.

Highlights from operations

Diamonds

In 2014 the diamond market remained favourable and Namibia's diamond output continued to rise.

Namdeb Holdings produced a total of 1.8 million carats of diamonds, of which 1.273 million were produced by Debmarine Namibia. This is the largest annual production recorded to date by Debmarine Namibia, breaking the production record for the third year in a row. Namdeb's production also increased in 2014 and produced a total of 612,265 carats, against a budget of 570,427 carats. The improved production performance by Namdeb was attributed to favourable exchange rates and diamond prices in 2014 as well as continuous reinvestments made by the company.

Uranium

Rössing uranium produced 1,543 tonnes of uranium oxide in 2014, a reduction from 2,409 tonnes produced in 2013. The bottoming out of the uranium price caused Rössing mine to scale back on production activities. The restructuring also impacted the processing plant, through a reduced workforce and an alteration of working shifts. In June 2014, the mine also had a four week shut down, during which major maintenance in the processing plant was successfully executed.

Langer Heinrich also recorded a reduction in output during the year in review, from 2,469 tonnes in 2013 to 2,296 tonnes in 2014. Production was constrained during the second half of the year due to scale formation that required secondary pipe installation. The main focus of operations in 2014 was to sustain nameplate production, improve efficiencies and reduce working costs.

AREVA continued its care and maintenance programme and will commence with operations at Trekkopje mine once market conditions improve.

Swakop Uranium announced that the construction of Husab mine is on track and is set to come into production early in 2016, with ramp up to full production on 2017.

Zinc

Refinery production by Skorpion Zinc fell to 102,188 tonnes in 2014 from 124,924 tonnes in 2013 owing to low zinc feed grade from the mine.

Production from the Rosh Pinah Zinc Corporation far exceeded budgeted targets in 2014 due to higher zinc feed grades and better recovery rates. Production of zinc concentrates was 104,046 tonnes.

Lead

Production of lead concentrates from the Rosh Pinah Zinc mine increased from 20,551 tonnes in 2013 to 22,317 tonnes in 2014 also as a result of better recovery rates.

Gold

In December 2014, B2Gold produced 202kg of pre-commercial gold.

Production from Navachab Gold mine increased from 1,795 kg in 2013 to 1,938 kg in 2014. The increased output was as a result of higher grade ore being accessed in the pit.

Cement

Ohorongo Cement had a successful year, producing 730,632 tonnes of cement, a 10.3% increase from the production recorded in 2013.

Copper

Weatherly Mining Namibia, through its Otjihase and Matchless mines, produced 20,994 tonnes of copper concentrates containing 5,086 tonnes of copper metal in 2014, a slight reduction from the 20,477 tonnes of copper concentrates produced and containing 5,182 tonnes of copper metal in the previous year. The reduced production was as result of moving from the more costly and complicated pillar recovery method to primary mining, with considerable effort channelled into stream lining the existing pillar recovery activities at the Otjihase mine. At the Matchless mine the main focus was on improving the open stop method which was introduced to replace the cut and fill method.

Salt

Salt & Chemicals produced 689,947 tonnes of salt and the Salt Company produced 107,458 tonnes of salt in 2014. The reduction in production recorded by Salt & Chemicals was due to lower evaporation rates.

Economic Contribution

Preliminary statistics produced by the National Statistics Agency for 2014 show that the sector made a direct contribution of 13% to Namibia's GDP, but contracted by 4.6% in real terms. The decline in real value added was as a result of reduced production from the mining industry, especially for uranium. Uranium production declined due to poor market conditions.

According to Chamber statistics, diamond mining surpassed non-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\$10.73 billion and diamond mining earned N\$10.87 billion. The total revenue from Namibia's mining operations was N\$21.62 billion in 2014.

Although the sector may have experienced a contraction in real value added, there are many economic spin offs and contributions which are not reflected in mining's contribution to GDP. Fixed investments made by Chamber members more than doubled during the period in review, from N\$8.5 billion in 2013 to N\$17.26 billion in 2014. The indirect benefits of these investments to the Namibian economy through upstream linkages are often understated, ranging from services provided by financial institutions to infrastructure development.

Chamber statistics show that members paid out N\$3.39 billion in taxes and royalties in 2014 a 22.8% increase from N\$2.76 billion which was paid out in 2013. These figures exclude PAYE paid through wages and salaries by the sector.

Training and Employment

The mining industry spent some N\$93.9 million on training and skills development in 2014, and awarded 40 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 2014, mining and exploration companies collectively employed 7,903 people in permanent positions. The total direct employment including temporary employees and full time contractors was 17,770, providing 1,061 more jobs than in 2013. It should be noted that although 737 jobs were lost through restructuring exercises, it was more than offset through the new developing mines.

Upstream value addition

I am pleased to note that with the growth of the mining industry, opportunities have been created in upstream economic activities. As alluded to in my highlights, the Chamber is proud that Dundee Precious Metals Tsumeb is constructing a N\$ 2.9 billion sulphuric acid plant at the Tsumeb smelter. All the planned acid production of 340,000 tonnes per annum is already committed to offtake Agreements with Rössing uranium and Tschudi copper mines for the leaching processes. This is a clear testimony that when mining grows, the upstream input and services sector also grows, thereby creating spin-offs in other sectors of the economy.

Unfortunately, the transport parastatal, TransNamib, is challenged to efficiently transport bulk mining cargo such as acid, thereby forcing mining companies and other Chamber members to reluctantly use road transport as a last resort. We urge Government to urgently resolve operational and technical issues at TransNamib otherwise the much desired value addition and industrialisation will be jeopardised.

Mining Charter

I am pleased to announce that Council adopted the Mining Charter at the last Bosberaad meeting on 19 September, 2014. Chamber members are now implementing the Charter on a trial basis and experience gained will be discussed at the next Bosberaad. The industry is positioning itself to fully roll out empowerment strategies when official BEE policy and legislation are in place.

Conclusions

In conclusion, the mining industry is on the growth path unprecedented in the history of independent Namibia. The industry is creating new jobs and expanding the tax base for the fiscus with the three new mines and re-investments into existing operations. This is in spite of the challenges on international commodity markets where Namibia has no control. However, government has a major role to play and ensure the competitiveness of the industry by avoiding unreasonable tariff increases and introduction of new levies.

Mining is, and will remain the backbone of the national economy for decades to come. The close cooperation between government and the Chamber in shaping policy and legislation is indeed bearing fruits, with Namibia emerging as the most attractive investment destination in Africa in the 2014 Report by the Canadian Fraser Institute. This will help Namibia to attract more investments into new and current exploration projects, some of which may ultimately become new mines. This is the only way we can ensure sustainability of the mining industry. Through the activities of the joint Value Addition Committee and current investments in upstream economic activities by some Chamber members, the industry is poised to play a catalytic role in further mineral beneficiation and industrialisation.

This has been my second year at the helm of the Chamber. I will soon be handing the baton to my successor Mr. Kombadayedu Kapwanga, with a sense of pride over the milestones that we have achieved in the last two years. I would like to take this opportunity to thank Chamber Members, my colleagues on the Council and indeed the CEO and his staff, for their support during my tenure. It is my hope that the industry will continue to thrive as the key economic pillar for driving the socio-economic development in Namibia.



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Werner Duvenhage
Chamber President
19 May 2015