President's Overview 2005

By Mark Dawe
President – Chamber of Mines of Namibia

April 7, 2006

2005 will be remembered as the year of a myriad of challenges for the Chamber.

On the 12th January 2005, just as we were all returning from our Christmas break, news of the tragic and untimely passing of our General Manager John Rogers, was received. John had led the Chamber for almost a decade with considerable energy, dedication and persistence. John's legacy would prove to be a difficult act to follow.

The year ahead was to become a litmus test for the Chamber and its ability to pick up the pieces. To regroup, to reassess and to plough ahead with the many challenges in the vital business it performs as the body representing the backbone of our country's economy.

Don Newman, a member of Council representing the Exploration Committee very kindly offered to assist the Chamber as Acting General Manager, until such time as a suitable GM could be appointed. In October 2005, after an exhaustive recruitment process, the Chamber appointed Mr. Veston Malango to the position. Veston brings with him a wealth of experience in the local and regional mining environment. He has held senior positions within the Ministry of Mines and Energy, where he was instrumental in the drafting of the Minerals Policy and many other key pieces of legislation.

In its process of regrouping, the Chamber identified the need to reassert itself as a respected body that would represent the best interest of its members, by being the first port of call for the Government, the Mineworkers Union, for the service industry and for new-comers to Namibia interested in the business of mining, whether they be exploration companies, investors, or organisations wishing to provide products and services to the industry. But most importantly, the Chamber should be viewed by its members as the vital link with policy makers. The conduit through which all matters of importance to the industry should be dealt with. It was no longer good enough that the Chamber would be bypassed as had occurred with the implementation of the Royalty Tax. The Chamber needed to reaffirm its prestige and standing in order to carry political sway to influence policy matters for the collective good of the industry. I am proud to announce that the Chamber is now represented on the Minerals Bill Committee, the Minerals Development Fund control board, the Namibian Employer's Federation, and the Namibian Institute on Mining and Technology and the NOSA board. Mr. Malango in his personal capacity has been appointed to the President's Economic Advisory Council.

The Chamber is very actively involved in MIASA (Mining Industry Associations of Southern Africa), NEPAD (The New Partnership for Africa's Development) the AMP (African Mining Partnership) which was set up to champion NEPAD's objectives for mining and mining related activities. The Chamber is also involved with the Global Mining Initiative, through which the study entitled "Mining, Metals and sustainable development" was steered. The objective of this study is to maximize the benefits and minimize the adverse effects of mining activities on communities worldwide. The Chamber has revitalized the Mining Cooperation Council, a tripartite body represented by the Government (Ministry of Mines and Energy and Ministry of Labour), the Mineworkers' Union of Namibia and the Chamber of Mines. This vital body set up under the direction of the late Mr. Rogers, was plagued by apathy and the inability to gather a quorum at meetings. The first meeting of the MCC in more than two years, took place in November 2005. The meeting confirmed the MCC's critical role in enhancing communication between the Mines, the Union and Government. We look forward to regular quarterly meetings in 2006.

One of the Chamber's first tasks in elevating its tarnished image since the passing of John Rogers, was to produce a glossy review of our fascinating, state-of-the-art industry. The Chamber Annual Review 2004/2005 is full of salient facts and figures placing our mines and our industry in the context of the local economy. The review contains stunning photographs of our mines, often against the backdrop of uniquely Namibian landscapes. It has been sent via the world's embassies to every corner of the globe. We shall be producing a new review each year and it is hoped that the Chamber review will become a working document, the mouthpiece of our industry on which our country depends so critically. 2005 also saw the introduction of the Chamber's website, "***chamberofmines.org.na***" which went on line early 2006. We hope our website will be the portal through which potential new investors can view our dynamic industry for what it is; first class, first world.

For the first time, In February 2006 the Chamber jointly manned a stand at the prestigious Cape Town Mining Indaba, together with the Geological Survey and the Ministry of Mines and Energy. At the Indaba, Chamber office bearers heard important and often shocking information about the perceived investment climate in Namibia. It is our task to partner our Ministry in the effort to remove the negative perceptions of Namibia as a preferred destination for exploration and investment. But if we are going to be serious about achieving our goals of maximizing investment in new mines and realizing vision 2030, we are going to be honest with our partner. We will talk out loud. We will be frank and straightforward in our lobbying to see legislation that is negative for our industry removed.

The Chamber identified four burning issues requiring urgent attention ;

- The new Royalty Tax (gazetted in November 2004, defining Royalty payable on gross sales)
- Local beneficiation of mined products
- Transfer Pricing
- BEE in the Mining Industry

Each has been exhaustively deliberated through a process of several bosberaad meetings. The meetings allowed our members to crystallize the position the Chamber should adopt on these issues, which it will be communicating to the Ministers of MME, Trade and Industry and Finance later this month.

Royalty Tax on Gross Sales

Members were united in their response to the manner in which the Royalty Tax had been imposed on the industry, without any prior consultation with the Chamber or its members. The Ministry thankfully agreed to postpone the implementation of the royalty tax until such time as the Chamber and its members had been consulted on it's a affordability and the effect it would have on the future of the industry, both in terms of existing operations and Namibia's attractiveness as an exploration destination. In our research it became obvious that royalty tax must be viewed together with the overall tax regime. Companies operating in countries with low corporate tax rates and significant other benefits, might be in a position to afford a small royalty on gross sales. In Namibia's case, the effect of a 5% royalty translates to 50% of profits for a 10% gross margin company. The remaining 50% of profits is taxed at Namibia's Mining Tax rate of 37.5%. In effect, viewed together with PAYE, the government would receive 91% of all distributable cash if royalty is levied at 5% of gross sales. Of course the situation looks even bleaker for operations that are not declaring a profit, which, owing to the adverse effect of the exchange rate, is not uncommon among our mines. From the legality point of view, it is the Chamber's view is that tax may only be levied under very specific circumstances and not as a blanket tax on the sector which is already beset by challenges relating to the exchange rate.

Local Beneficiation of Mined Products (Demystifying beneficiation)

The Chamber supports the government's view that our minerals and metals should be beneficiated in Namibia as far as it is practically and economically viable to do so. However, we caution the government not to push the industry beyond the ambit of our competence. Miners are not good manufacturers and manufacturers are not good miners. It is not the responsibility of mining companies to set up copper wire and tube factories, zinc sheeting mills, to produce lead batteries, catalytic converters, to produce organic and inorganic fluorides that have thousands of uses from pharmaceuticals, to plastics to cars and aeroplanes. And it is certainly beyond our ambit and that of our country to set up a Uranium enrichment plant, of which there are only four in the world. Mining companies are in the business of mining. Allow us to do our jobs well. Of course we will help the

Ministry of Trade and Industry to identify possible beneficiation opportunities that others may pursue.

Transfer Pricing

The Chamber supports the Government in condemning the act of transfer pricing, but views it as a corporate governance and management morality issue. Each of the mines in Namibia is audited independently. It is the duty of these auditors to report on the existence of transfer pricing.

BEE in the Mining Industry

The Chamber supports the need to accelerate development of the previously disadvantaged in order to achieve equitable distribution of wealth, which is vital for sustainable social and economic development. Our members believe there are several mechanisms through which effective empowerment can take place in a fair and equitable manner. The Chamber's "Seven Pillars of Empowerment" approach has been presented to MME and we are now looking forward to working closely with our Ministry to develop a pragmatic empowerment charter.

In the absence of a national policy and legal framework on BEE, the Chamber has decided to become proactive and has taken a leap forward in the area of procurement. The Chamber, through its members in the South, has taken the initiative of setting up and supporting, in principle, a Preferential Procurement Forum, which to date has shown significant benefits to all stakeholders, with local spending increasing significantly. The Namibian Preferential Procurement Council was launched in early December 2005 by the Minister of Mines and Energy in conjunction with the Chamber and Decti Namibia, as the implementing agent. However, the Chamber is well aware that such initiatives require constant management to prevent them from spinning into the clutches of corruption, favoritism and tokenism. The Chamber has established a close relationship with Decti Namibia, an organization set up to monitor and regulate local procurement.

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Forced equity distribution is neither practical, nor possible in Namibia, given the massive amounts of capital required to buy-in to some of our mines. The forced equity distribution of 26 % in South Africa is not deemed to have produced the intended results. To the contrary, the overwhelming message from the Cape Town Mining Indaba in February 2006 was that forced equity distribution is a sure-fire way of killing the goose.

Fifteen years after independence, the Chamber would advise the Government to steer clear of a prescriptive BEE policy as per the RSA Mining Charter, as this has fostered disinvestment by exploration companies, disillusionment and frustration on the part of existing mining companies and a situation of skewed enrichment of the few, exacerbating the income disparity.

Namibia's minerals and metals - Highlights

2005 saw a significant improvement in the price of most minerals and metals, driven by the blossoming of the Chinese economy which is the fastest growing economy in history. Copper and Zinc rose to record levels and Gold has risen to its highest price since January 1981. Copper has just this month risen to above US$ 5700/tonne, from US$ 4500 at the end of 2004. Zinc has just risen to US$ 2800/tonne from US$1900 at the end of 2004. Gold, at US$ 586 per ounce is likely to break the US$ 600 mark within a matter of months. Perhaps the most significant improvement in price was enjoyed by the Uranium industry. U_3O_8 filter cake fetched US$ 8 per pound in 2001. This week it has reached US$ 40 per pound, and still climbing. The Uranium mining industry's outlook for the next decade is viewed as very positive.

For many operations, the improved prices have offset the negative effects of a strong local currency. However, not all operations have enjoyed these dramatic price hikes. Some operations are still battling with reduced export revenue in spite of increase export tonnages, owing to the effects of the exchange rate. Production levels at most of Namibia's mines showed significant improvements on those of the previous year.

I now turn to a brief description of our operations.

Uranium

A major highlight at Rössing towards the end of the year was the approval of a US$ 112 million (700 million NAD) Life of Mine Expansion project, extending the mining life from 2009 to at least 2016. The mine is thus moving from survival mode to a period of growth and expansion. Around half of this sum will be employed on additional mining equipment and improved mining tonnages. The balance will be used for the refurbishment of the processing plant, to enable Rössing to return to its nameplate production of 4000 tonnes per year, within the next two years.

Marking its return to profitability, Rössing produced 3 711 tonnes of uranium oxide in 2005, the highest since 1990. This year, Rössing is celebrating 30 years of production.

A landmark in 2005 was the entry of a second Uranium player, Langer Heinrich Uranium (Pty) Ltd. Langer Heinrich has been admitted to the Chamber as an A-class member. With an estimated operational life of seventeen years, the development of the mine is predicted to cost N$ 580 million. Langer Heinrich will be the first full scale Uranium mine in the world to be developed in the past two decades. Commissioning is scheduled for September 2006. With a second Uranium mine coming on stream, Namibia looks set to control 15% of the world's production.

Gold

Anglogold Ashanti's Navachab gold mine, Namibia's only gold mine, has successfully transitioned from contractor to owner mining. 2005 was the second year that its new fleet was operational, with productivities reaching expected levels. Navachab mine expended N$ 33 million on capital equipment and projects. The mine has benefited from a meteoric rise in the price of gold. Navachab mine produced 2506 kg of gold in 2005, 438 kg more than the 2004 production.

Diamonds

The diamond industry has experienced a challenging period of growth pains as De Beers and the Government grapple with their negotiations on the Diamond Sales Agreement, which is still ongoing. Whereas the concept of selling Namibia's diamonds to local cutters and polishers is laudable, it is beset by a multitude of problems, relating mainly to the fact that Namibia does not produce enough diamonds that are suitable for cutting and polishing economically within Namibia. This fact has meant that the cutting and polishing factories of Namgem and LLD are not operating at peak efficiency.

For the first time, recovery of diamonds from marine operations exceeded that of land based operations. Namdeb produced 1.8 million carats in 2005, of which 922 000 carats came from De Beers Marine Namibia, which is 70% owned by De Beers and 30% owned by Namdeb. Production of diamonds from Namdeb and Debmarine remained approximately the same as the previous year.

Namdeb spent N$ 216 Million on fixed investment in 2005, introducing some state of the art new technologies to improve diamond recovery such as the Marine Dredging Project, the Seawalker Platform, the Jet Rig Platform and the Optimised Recovery by Innovative Technologies (ORBIT) project.

The Samicor marine based operations exceeded targets in 2005, producing 122 000 carats. This operation which arose out of the ashes of Namco, is going from strength to strength. Samicor, through their parent company LLD, also operate Africa's largest diamond cutting and polishing factory, which is situated in Windhoek.

Zinc

The market for zinc concentrates as produced by Rosh Pinah is showing signs of saturation, whereas the market for zinc metal, as produced by Skorpion, is likely to remain buoyant in the short term, but is expected to tighten through 2006. The dramatic increase in the international zinc price during 2005 was largely driven by speculative and investment fund money. There appears to be uncertainty over the degree to which fund money will continue to hold the price above a level justified on market fundamentals alone. A tightening of the price may therefore be expected during 2006.

Production of Special High Grade Zinc from Skorpion reached 132 813 tonnes, against a target of 150 000 tonnes. A fire in the electrowinning cell-house section resulted in the shortfall in production. However, month on month, this first-of-kind operation has managed to ramp up to 100% of its nameplate production, which it has sustained since May 2005. 2006 is likely to see production levels well above target. N$ 207 million was spent on fixed investments over the period.

Rosh Pinah reached record levels of production of both zinc and lead concentrates, 126 123 tonnes and 24 689 tonnes respectively. N$ 64 million was spent on capital investments and N$ 39 million was spent on exploration and development with considerable success being achieved in the expansion of mineable reserves.

Copper

Ongopolo's production objectives were not achieved during 2005, mainly owing to the depletion of ore at its producing mines. Flooding of the lower levels of Kombat mine further exacerbated the situation. By the end of the year, the Asis Far West shaft near Kombat mine had almost reached its target depth of 800m. Underground drilling to establish the exact location of the mineralized zones had begun by the end of the year. With production severely curtailed, Ongopolo was sadly unable to reap the benefits of the bullish copper market which led to cashflow shortfalls. To address this, Ongopolo has begun to search for investors to take on major shareholdings in the company. Ongopolo's smelter produced 23 563 tonnes of blister copper, of which 10 820 tonnes was frown Ongopolo's own production and 12 743 tonnes was from imported concentrates.

Fluorspar

The market for Acid Grade Fluorspar remained stable throughout the year, with Southern African producers beginning to dominate the Western world's production, owing to significant production improvements at the South African and Namibian mines. International prices for Acid Grade Fluorspar are expected to rise during 2006 in response to further reductions in the export of Chinese Fluorspar, as their domestic Fluorspar consumption has increased owing to the explosive growth in the economy.

Okorusu Fluorspar produced 114 800 tonnes Acidspar (97% pure), well exceeding targeted production levels. Following extensive R&D technology breakthroughs in the process of extracting impurities, production is expected to increase to 127 000 tonnes in 2006, making this operation one of the world leaders in both tonnage and quality.

Salt

Demand for salt has continued to grow in some markets but has remained stable in others. Salt remains Namibia's largest tonnage export, with 670 202 tonnes produced by Salt and Chemicals alone.

Exploration

The Exploration and Environmental Committee is represented on the Council of the Chamber of Mines. As exploration holds the key to the future of our industry, the Chamber intends to refocus its support for the exploration community. It is of great concern to us at the Chamber that expenditure on exploration has shown a decline whereas elsewhere in Africa, exploration has reached unprecedented levels. In Tanzania alone, we have witnessed the opening of six world class gold mines in the past decade. It is noteworthy that each of these deposits that have become successful mines, was discovered by exploration juniors. This should send a clear message to the Chamber and to our Ministry…. "Don't ignore the Juniors" Welcome them with open arms, process their applications for Prospecting Licences, give them work permits and provide them with a statutory and fiscal regime that will make them want to stay in Namibia.

Aside from Langer Heinrich, no new mines are scheduled to come on stream in 2006. There are several exciting exploration projects, with Westport Resources re-evaluating the Ondundu gold occurrence and the Valencia uranium deposit. Uramin is investigating the Trekkopje Uranium occurrence. Helio Resources (owner of Bafex Exploration) is conducting gold and copper exploration in Damaraland and Kaokoland. Teck Cominco is very active in base and precious metals exploration, and Avmin and its partners are well advanced with the feasibility into the Otjikoto gold deposit which might become Namibia's next gold mine.

NIMT

The Chamber has recognized the vital and strategic role NIMT plays in the training and development of artisan skills for the industry. NIMT has maintained an exceptionally high standard of skills relevant to our industry, but without a commitment of support from each of our operations, the viability of NIMT is called to question. For this reason Mr. Eckhart Mueller, the Executive Director of NIMT was elected to Council in 2005. His input at council meetings has been essential in order to maintain open lines of communication between top management of the mines and NIMT. The relevance of skills training at NIMT is receiving much attention and 2006 will see the start of a skills transfer programme between the lecturers at NIMT and the Engineers on the mines. This programme will be ongoing in order to ensure the continuation of skills alignment, and will involve reciprocal visits between the mines and NIMT.

OHEAP

Our mines have not been spared from the impact of HIV/AIDS. The Chamber operates a highly successful HIV/AIDS prevention Education and Awareness Programme, OHEAP. OHEAP is sponsored by funds from Okorusu Fluorspar mine and Family Health International.

Highlights of the year were the OHEAP Otjiwarongo marathon, where funds were successfully raised for the Orphans and Vulnerable Children's centre in Otjiwarongo. In October, the OHEAP staff undertook a trip to South Africa where they visited many of the South African Mines. Facilitated by the Chamber of Mines of South Africa, the objective of the exercise was to facilitate the transfer knowledge on HIV/AIDS campaigning between the South African and Namibian mines.

OHEAP operates on all of the mines in Namibia, apart from Skorpion and Namdeb, which have their own programmes. In addition, OHEAP has been so successful that it has been adopted by many large non-mining organisations such as Pupkewitz, Telekom, BP, CocaCola, Namwater, Nampost, Bank Windhoek, Namport and the Netherlands Embassy, to name a few.

Small Scale Mining

In 2005, the Chamber identified the need to assist the Small Scale Mining sector which is playing an increasingly important role in our economy. Navachab and Rössing mines together with the Chamber have held several meetings with representatives from the Small Scale Miners. With our assistance, the group is in the process of organizing itself into a body that has increased representation to the Government Ministries, improved productivity and improved safety. We look forward to assisting with further development of this vital sector.

Safety

The Chamber operates a Safety competition among its member operations. Unfortunately our members reported two fatalities during the year. There were no fatalities in 2004. The number of reportable accidents increased from 44 in 2004 to 51 in 2005. The industry takes safety very seriously. One fatality is one too many. We will strive to improve upon this record in 2006.

In Conclusion

In February 2006, the Chamber met in the bush, far from the cell-phone's cry, to discuss its Mission/Vision strategy and to refocus its efforts. At the bosberaad, we deliberated on the manner in which the Mining industry could assist the government in achieving the national development objectives in order to realize Vision 2030. At the Cabinet Retreat in November 2005, cabinet set a 6% growth target, in order for the country to attain vision 2030.

In order for the Mining Industry to contribute towards the achievement of this target, the Chamber identified the following challenges for the Mining Industry;

Challenges

- We must open new mines
- Expansion of existing operations
- Increased exploration by existing operations
- Increased exploration by the Juniors

In our SWOT analysis, the following threats to these challenges were identified.

Threats

- Imposition of Royalty on gross sales, having dire consequences for exploration and mining operations
- Prescriptive BEE policies along the RSA lines
- Beneficiation – The Industry should be allowed to stay within the limits of mining beneficiation and not be forced into manufacturing beneficiation where it has no competencies
- Transfer Pricing. The reputation of our industry at stake
- MME delays and inconsistencies in the processing of mineral rights applications
- Work permits – Unnecessary delays owing to the bureaucratic process at the Ministry of Home Affairs (MHA)
- Critical shortage of skills

To quote one of the talks given at the recent Mining Indaba in Cape Town, I conclude with the following remarks;

> ***"The global exploration imperative is on the march and commitment to expenditure is on a steady ascendancy. Commodity prices and economic indicators are highly supportive of the continued upward trend in the foreseeable future ".***

Africa is better leveraged to participate in this exploration boom. Namibia is considered to be highly prospective, let us not miss the boat!

I thank you.