FEC

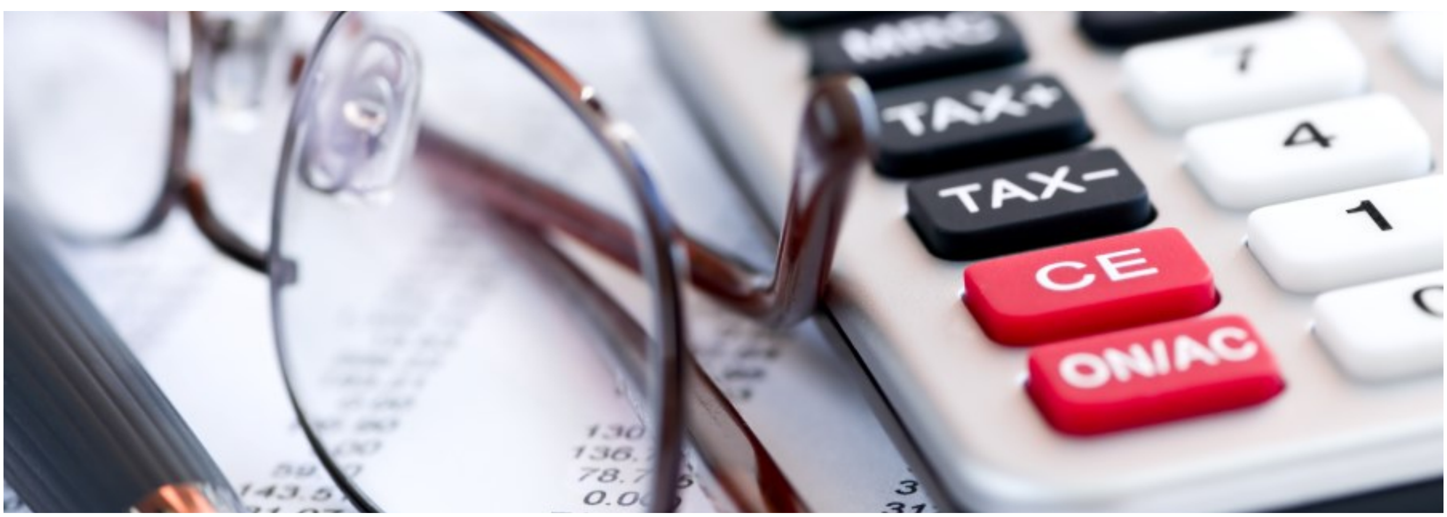
CHAMBRE DES MINES

FEDERATION DES ENTREPRISES DU CONGO

MINING INDUSTRY

DEMOCRATIC REPUBLIC OF CONGO

SECOND QUARTER. September 2016



CONTENT

NEWS FROM THE CHAMBER

The DRC Chamber of Mines has a number of commissions which are active on many issues.

In recent months, the Commission on Taxation & Customs has worked hard and is continually following up on several sensitive matters, including reimbursement of VAT credits to mining operators and the difficulties relating to the single window or point of contact with DRC authorities.

The Chamber is also active on the issues of explosives, electrical power, the EITI annual report and in respect of the corporate social responsibility of mining companies.

EDITORIAL

The situation in the Democratic Republic of the Congo's mining sector remains critical.

After a difficult second half of 2015, companies have frequently had to make painful choices (dismissal, mine closure, general spending cuts) to reduce costs and thereby resist the international situation.
Many analysts remain pessimistic and continue to forecast that the prices of certain metals will not improve before 2018.

Mining is the pillar of the Congolese economy in terms of tax contributions, and members of the Chamber of Mines urgently need to address the challenges that businesses face in their daily operations. A concrete example relates to the DRC government's decision to stop the reimbursement of VAT credits in 2014, thereby jeopardizing corporate cash flow.

In addition, the lack of progress in the field of electrical power - the cornerstone of all industries and mining in particular – is most pressing, particularly since the World Bank's recent withdrawal of funding for the Inga III project. The Chamber of Mines urges the implementation of the liberalization of the sector to attract investors who would then develop small and medium-sized hydroelectric projects.

The government must guarantee a climate of stablity and reassure businesses, not only to consolidate the investments already made but also to attract new investors.

The Chamber of Mines of the Federation of Congolese Enterprises will continue to pursue constructive dialogue with its stakeholders to promote a strong and stable mining sector for the benefit of the whole of the Congolese economy.

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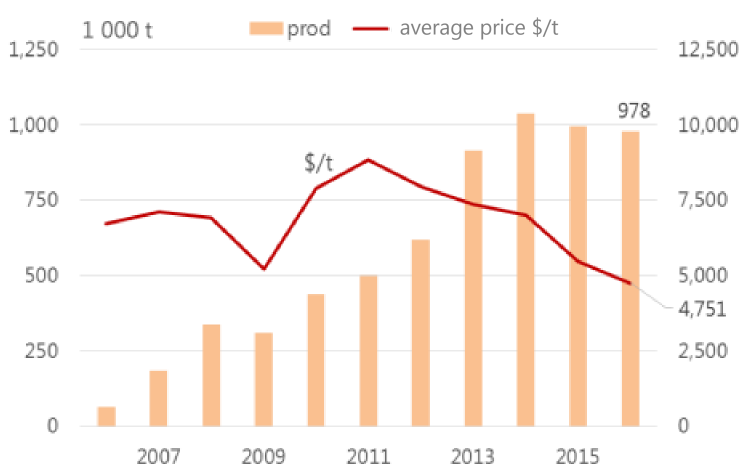
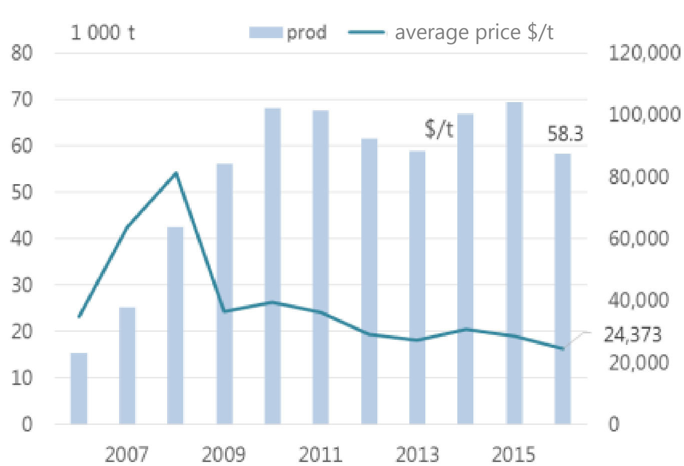
PRODUCTION DATA

	Unity	Q1 2016	Apr 2016	May 2016	Jun 2016	S1 2016	S1 2015	S1 2016 vs S1 2015	2016 e	2015	2016 vs 2015
Copper	t	234,363	89,925	83,689	81,230	489,207	512,212	-4.5%	978,414	995,805	-1.7%
Cobalt	t	13,638	4,686	5,070	5,758	29,152	32,845	-11.2%	58,304	69,328	-15.9%
Gold	Kg	5,436	1,626	1,815	1,916	10,793	13,098	-17.6%	21,586	25,806	-16.4%
Diamond	1000 cts	3,515	1,112	908	1,470	7,005	7,450	-6.0%	14,011	17,152	-18.3%
zinc	t	1,897	-	1,014	1,271	4,182	7,232	-42.2%	8,364	14,193	-41.1%
Cassiterite	t	1,992	716	729	871	4,308	4,546	-5.2%	8,616	8,827	-2.4%
Coltan	t	327	117	136	149	728	693	5.1%	1,457	992	-15.5%
wolframite	t	6	-	-	3	9	34	-73.5%	18	44	-59.1%

e: estimated (forecast)

COPPER & COBALT





The DRC's production of copper fell by 4.5% and that of cobalt was down by 11% during the first half of 2016 compared to H1 2015. During this challenging period, the copper price was stable following 2015's 26% drop.

However, production of the red metal in Q2 2016 increased by 9% compared to Q1. The situation remains disparate, according to the operators.

Every company is struggling with falling prices, but several among the most industrialized - MUMI, TFM, MMG, Boss Mining - and the Chinese mining companies (SICOMINES, OCMS, CMBC Huachin Mining Mabende) saw increased production.

Cobalt followed the same trend, and production increased by 14% in Q2 2016.

Regarding projections on 2016 production, if the trend of the second quarter is confirmed, copper and cobalt production in the DRC could remain stable when compared with 2015. However, export earnings will be strongly impacted by the 26% fall in price since 2015.

COPPER CATHODES & ELECTROLYTIC COBALT

	Cu Cathodes	Cu total	
2013	684,653	914,631	74,9%
2014	866,595	1,029,800	84,2%
2015	886,306	995,805	89,0%
2016	413,258	489,207	84,5%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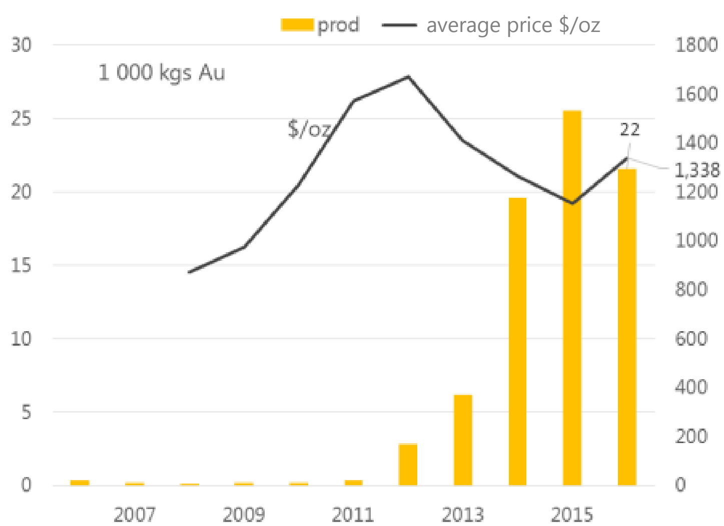
	Co electro	Co total	
2013	2,828	58,357	4,8%
2014	2,935	66,915	4,4%
2015	3,129	69,328	4,5%
2016	16	19,151	0,1%

Production of electrolytic cobalt has fallen in 2016 following the ceasing of operations at KCC

GOLD



DRC gold production in the first half of 2016 was 10,793kg, down by 17.6% on H1 2015.

Although this decline seems significant at a time when the price of gold has been improving, it is nevertheless below that forecast. One reason behind the slight decline is the construction by one of the main operators of an underground mining section which is expected to reach full production in 2018.

The next half-year should experience a significant improvement when compared to the previous year.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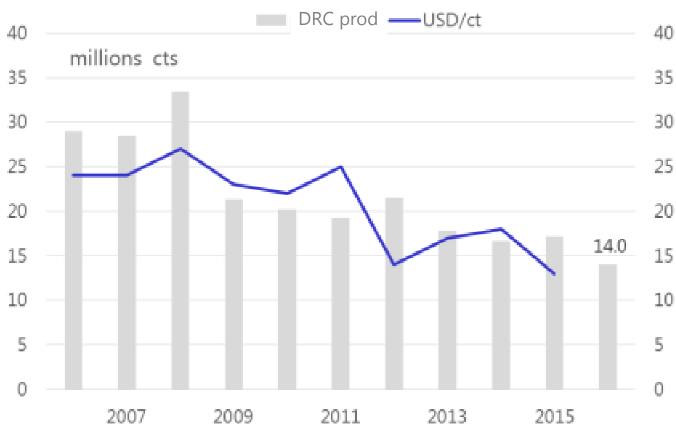
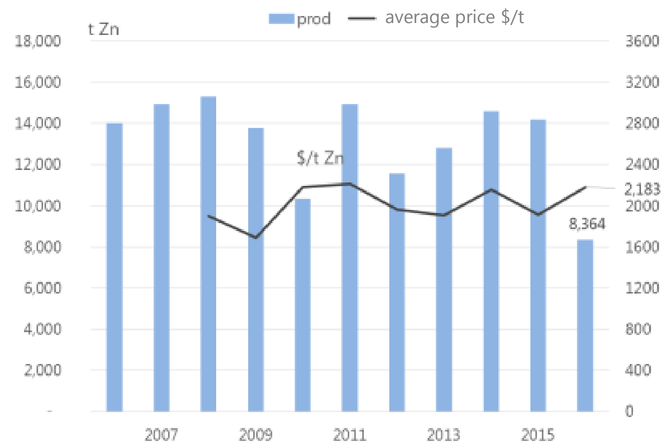
DIAMOND



ZINC



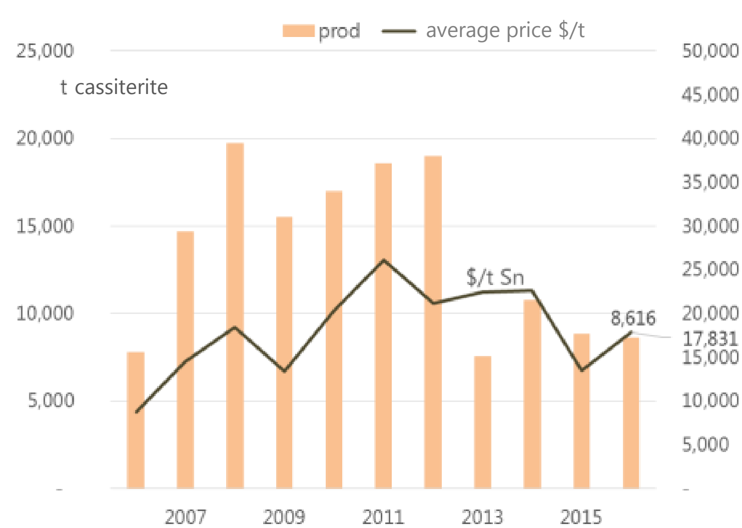
The decline in the production of zinc is mainly due to the shutdown of facilities for maintenance activities between late in February and mid-May 2016.

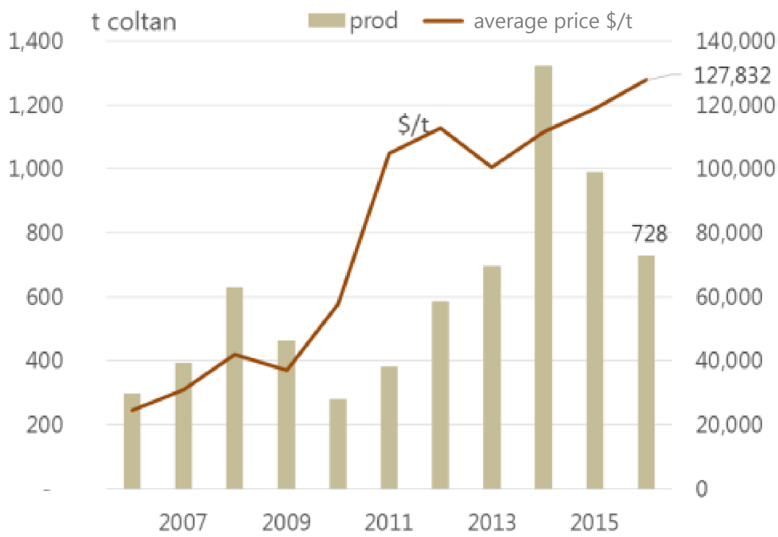
TIN, COLTAN AND TUNGSTEN

TIN

Tin production improved significantly during the quarter as the price was stable at around $ 17,000 per tonne for several months. This had a positive impact in several provinces, and new mining sites were established.

Along with this small improvement in the tin price, another positive factor was better weather conditions which allowed artisanal mining to be sustained without interruption.





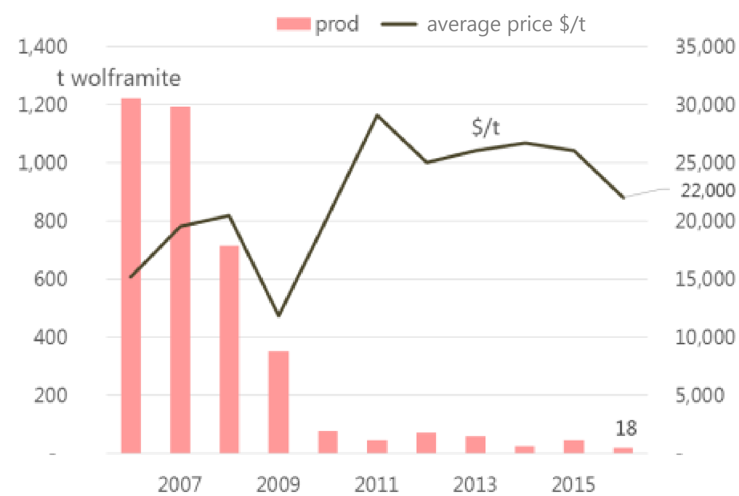
Coltan

Since the beginning of the year, the coltan price has remained within a tight range and has not exceeded $60/lb. Demand has slowed both from China - which consumes and processes the bulk of production – and from other large US and European companies sourcing in the DRC.

Nevertheless, production was sustained at Masisi during the last two months of the period under review, and new, rich deposits were discovered around Kalemie.

Tungsten

Buyers are becoming interested in the DRC since the embargo on tungsten was lifted, and it is hoped that production will start rising in the coming months as artisanal miners who abandoned mines, particularly in Maniema and South Kivu several years ago, begin to return to them.
A relative improvement in the tungsten price to about $ 140 per MTU has also motivated artisanals to return to their abandoned sites.



Third-party due diligence and audit report on the responsible sourcing supply chain

This year has seen significant progress on regional certification with the initiation of a pilot phase of independent audits which have concluded that four Congolese companies meet the criteria of these audits: Metachem and Sakima in Maniema Province, MMR in Katanga, and SMB in the province of North Kivu.

This step is crucial in reassuring customers that the DRC's supply chains meet the requirements of the OECD guide.

NORTH KIVU

Q2 2016 EXPORTATIONS

- Statistics confirm the forecasts of the first quarter, which indicated the upward trend for tin, whereas for coltan, other than the drastic drop of February, the price remained within the acceptable range. The rise in tin exports is a result of the running down of residual stocks which began in October 2015.

  This increased amount nevertheless remains below the exports achieved during the period from 2007 to 2010, when average annual exports of tin reached 10,000 tons at a quarterly average of 2,500 tons. It is hoped that with the extension of traceability to the new sites, which took place on July 15, an increase in tin exports will be seen.

- Efforts are still needed for tungsten and pyrochlore, which could generate substantial income. The government is unable to enforce any traceability in respect of artisanal gold and coloured stones, which would allow potential buyers into the official marketing channel.

SOUTH KIVU

One major international gold miner has facing multiple challenges; in particular, those related to the global economic crisis despite increasing its gold production. It has taken steps to reduce its operating costs, including a significant reduction in its expatriate staff.

Forum-OECD ICGLR GE / NU

This forum was held in Paris from 10 to 12 May 2016, coin-ciding with the 10th anniversary of the OECD and fifth year of partnership with ICGLR and GE / Nu.

The level of progress in the implementation of due diligence methodology was discussed.
The meeting discussed the main changes to have taken place since the establishment of this partnership, and to recall resolution 1533 to enforce sanctions against mineral-smugglers.
The OECD took the opportunity to examine the balance sheet of its work. South Kivu Province was represented at this meeting by the provincial ministry of mines.

COMMODITY MARKET TRENDS

Global demand for copper remained relatively firm in Q2 2016. However, fewer than average disruptions and relentless cost-cutting by all producers limited much recovery in the price. Although prices for other mined products rallied, copper's has remained flat at levels 25% below the 2015 average.

According to a study by the Chilean Copper Commission, mine level cash costs at Chile's 19 largest mines fell to an average of $1.285/lb during Q1 2016 - down by 13.3% or nearly 20c/lb on Q1 2015. Improved mine management, lower costs for electricity, services and shipping and lower treatment and refining charges by smelters were behind the savings. Chile produces about a third of the world's copper. The commission forecasts a copper price of $2.15/lb in 2016 and only 5c more in 2017.

On the demand side, commodity-market analyst CRU says that Chinese demand for copper rose by 2.6% in H1 2016 while global demand grew by 1.3%. But weaker demand growth in China, which accounts for nearly half of global copper demand estimated at around 22MT this year, will reinforce burgeoning supplies. Anecdotal evidence from copper fabricators in China suggests sluggish activity and pessimism about prospects.

Investment in the state grid and power industry, accounting for about a third of China's copper demand, is already said to be slowing, as is that in property and construction. CRU reports that in the consumer sectors, demand from the auto sector was steady. Exports helped demand for air-conditioners, but domestic sales were sluggish and are not expected to change much in the second half.

According to Metals Bulletin, the price of high-grade cobalt climbed by 14% between June and August 2016 as a result of renewed interest in electric vehicles whose batteries require cobalt. The battery industry is expected to consume 140,000 tonnes of cobalt in 2020, up from 50,000 tonnes in 2015.

Speculative interest lifted the price of cobalt to above $12/lb. Chinese speculators are now entering the market through physical metal purchases and cobalt-related equities. Market participants polled by Metal Bulletin anticipate cobalt prices at $15 per lb, or as high as $20, in the next 12 months.

The DRC's gold production has already benefited from the presence of major international mining companies. It boasts low production costs and a solid project pipeline. The Fitch Group research unit BMI expects DRC gold output to grow from 1.0 million ounces in 2016 to 2.62-Moz by 2020. This would represent average annual growth of 22.8%. Fitch forecasts gold to average US$1,275/oz in 2016 and US$1,350/oz in 2017.

The DRC government cut its 2016 budget by 22% in response to low metal prices and production cutbacks, and revised its GDP growth forecast down from 9% to 5.3%.

CHINESE INVESTMENT IN THE DRC

The Fitch Group research unit BMI says that the DRC will remain a destination of choice for foreign investment, especially from China, because of low production costs and high-quality mineral deposits – particularly gold and copper.

BMI says that between 2010 and 2014, the DRC's inward foreign direct investment grew by an annual average of 23.6%. Some $5-billion a year was invested, mostly in the mining industry.
Recent deals include the sale in May by Freeport-McMoRan of its majority stake in the Tenke Fungurume copper/cobalt mine to Chinese firm China Molybdenum for $2.7-billion.
In December 2015, China-based Zijin Mining Group invested $412-million in Canadian firm Ivanhoe Mines' Kamoa copper project.

A $6 billion loan has been in place since 2009 between Exim Bank of China and the DRC, which is expected to improve Congolese infrastructure and boost the development of mines in return for control over some copper deposits such as Sicomines, which came on tap in November.

The Congolese government recently awarded a $660 million contract to a consortium of Chinese investors to build a 240-megawatt hydroelectric project at Busanga, near the location of the Sicomines copper project, which is a joint venture between Gécamines, China Sinohydro and the China Railway Group Ltd.

In August, Gécamines announced that CNMC (China Non-ferrous Metal Mining Group) will finance, build and operate a copper-processing facility at the Deziwa concession before transferring

full ownership back to the state-owned miner, as a "new type of partnership" designed to increase revenue for the state. Gécamines says that the investment could be $2 billion. CNMC will finance the construction of the 80,000tpa plant for a 51% stake in the project. CNMC will then be reimbursed through an off-take agreement over a fixed period.

BMI also points out that China's slowing gold production growth, as a result of depleting domestic reserves and rising production costs, will also bring Chinese investment into the DRC's largely untapped gold mining sector.

However, investment will be tempered by political uncertainty and power shortages. BMI places the DRC fifty-ninth in terms of mining risks out of 61 countries in its Mining Risk/Reward Index.

BUSINESS CLIMATE

The reimbursement of VAT credits has deteriorated since the beginning of 2014. Apart from the amounts of undischarged credits, repayment of VAT credits has been delayed far beyond the statutory repayment terms specified in Ministerial Decree No. CAB/MIN/FINANCES/2016/018 of 18 March 2016, which details additional rules for reimbursements of VAT credits.

The recent decision of the Deputy Minister of Finance to suspend, without any legal backing, all VAT refund credits without prior consultation with the economic operators concerned, squeezed the cash flow of mining companies already hard hit by plummeting metal prices . The situation of non-refund of VAT credits to mining companies became alarming during the second quarter 2016: the cumulative amount owed by the DRC State to the mining companies already exceeded US$700 million in June 2016.

By the end of July, the situation seemed to be improving with the announced resumption of repayment of VAT credits to the mining sector and the adoption of a Prime Ministerial decree for the suspension of VAT on the importation of certain goods. Given the very significant backlog due to the mining sector, it would be advisable to consider the establishment of a special compensation system to offset taxes owed against the non-refund of VAT credits.

Mining operators still face much administrative harassment. The system of "premiums for advisers", as documented in the Chamber of Mines' 2015 annual report, is still in effect. During the second quarter of 2016, mining operators were again faced with over-frequent "auditing" visits, mandated by the INSS in Kinshasa albeit without any legal basis. This harassment costs companies dearly in terms of management time and effort.

In addition, the export of mining products has become increasingly difficult for mining companies, who face a multiplicity of services or institutions requiring the payment for any number of costs and fees, all in violation of the legal rules and regulations in force, and in particular, Article 234 paragraph 3 of the Mining Code, which states that "royalties and fees received for services rendered in the export of commercial products or goods for further beneficiation may not exceed 1% of their value".

the cumulative amount owed by the DRC State to the mining companies already exceeded US$700 million in June 2016.

MINING CODE

With the government now experiencing a continuous fall of its revenue and adjusting its growth prospects accordingly, it has just become obvious that the warning from the Chamber served well enough to assist Government to halt on its review process.

It has however been observed that civil society organizations are still putting pressure to see the review process take place as an attempt to boost Government revenues. The chamber does not share such views and plans further engagements with key stakeholders to further reinstate its initial message.

As previously reported, the chamber expects to see all government services adhere to the strict respect and implementation of this regulation which will prevent any other taxation falling outside the mining code and ensure a better regulatory environment for operators.

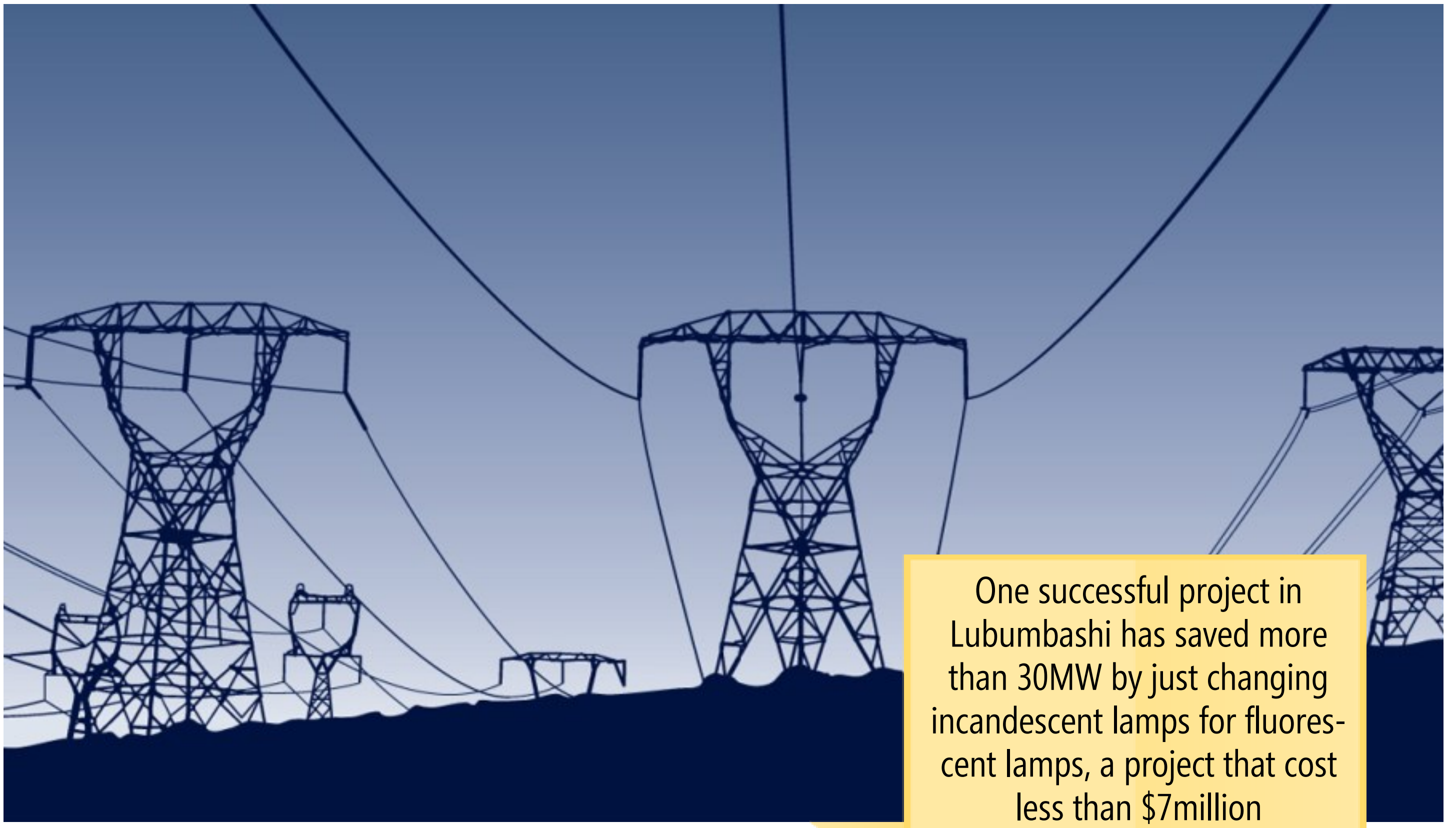
ENERGY

The power shortage in the DR Congo

Power is the essential foundation for any industry but particularly so for mining, for which it is one of the most significant cost drivers in what is currently a very difficult economic situation. There is a severe shortage of power in the DRC, particularly in Katanga where copper mines are either reducing their production, or generating their own power with expensive diesel generators, or importing power from the Southern African Power Pool. Varying estimates have been made, but there is clearly a need for an **additional 750 MW** to supply already identified mining projects.

It is important to note that doing nothing now and hoping that Inga III will solve the power shortage in the DRC and much of the rest of the continent is not a good strategy. We now see that the World Bank has withdrawn from funding Inga III. Hope is not a successful strategy to attract investors, nor will it solve the underlying problems that have led to the current shortage of power in the DRC. Traditional power solutions are long term and require a more stable investment environment than is currently available in the DRC. In addition, it takes longer to develop a hydro-power project than it does to develop a mining project. The power industry is the most capital intensive of all industrial enterprises, payback periods are typically over 15 years, and lending institutions need to be prepared to wait a long time to get repaid.

While some 2,000 MW of potential small and medium-sized hydro-projects have been identified in the DRC, very few have been developed because the DRC has not completed the liberalisation of the market, including the implementation of an independent grid operator, which is absolutely vital if the investors are to have any confidence that the power they generate will arrive at their customers. Another tool could be the provision of State guarantees for power projects. This is vitally important so that investors can make longer-term investments with confidence.



One successful project in Lubumbashi has saved more than 30MW by just changing incandescent lamps for fluorescent lamps, a project that cost less than $7million

The above changes cannot be implemented by the industry: they require decisive political action. However, achievement of these solutions will take time.

What can be done in the short term to help alleviate (not solve) the energy crisis?

A series of measures needs to be taken by industry to help reduce the problem.
A new paradigm is required in the design and construction of projects to ensure that the power consumption per unit of production is optimised before a project passes the feasibility stage.
Design parameters must include the selection of a process route that minimises power consumption rather than only maximising metal recovery. 2) Energy conservation also requires an operational mentality that looks for ways to reduce energy consumption.
If all mining companies using grid power applied at least some of these precepts, the potential for savings in power and costs would be significant.

What else can be done?

Energy Efficiency projects can be implemented countrywide to reduce the consumption at low and medium voltage. One successful project in Lubumbashi has saved more than 30MW by just changing incandescent lamps for fluorescent lamps, a project that cost less than $7million. This or similar projects should be implemented in all Copperbelt towns. The model used for Lubumbashi can be improved upon through the lessons learned there; notably, to use LED lamps and install pre-paid meters. This would be more expensive but would save more power and be more sustainable.
All the government needs to do is to increase the duty on incandescent lamps and remove it from LEDs and solar equipment.
If the industry wants power to make metal, it must act to reduce power used elsewhere.

For more information, the full version of this article, including many practical examples on energy savings, is available on the Chamber of Mines website: http://www.chambredesminesrdc.com

CORPORATE SOCIAL RESPONSABILITY

The DRC Chamber of Mines' committee on Corporate Social Responsibility (CSR) continues to promote best practice CSR among member companies of the Federation of Congolese Enterprises (FEC).
After the development and adoption of the CSR Guide in the Katanga region, a mission promoting information and awareness at the national level was organized in Kinshasa between the Ministry of Mines, institutions, civil society and Chamber of Mines members with a presence in the capital.
"This is a first in the DRC to see the mining companies themselves engaging in the improvement of operating practices," said the Deputy Chief of Staff of the National Department of Mining. He also claimed that the tripartite dialogue IDAK (sustainable investment in Katanga), should have been called "IDAC" to mean sustainable investment in the Congo.

CSR Reporting

A training workshop, bringing together CSR representatives and members of the IDAK Steering Committee, was organized in Lubumbashi in April. This meeting focused on the implementation of concrete and practical tools from the CSR Guide, and how to measure their effectiveness.

23rd Plenary session of IDAK in Kolwezi

A workshop of members of the IDAK Steering Committee was held in May 2016 in Kolwezi (Lualaba) under the theme: "Cooperative organization andthe rights of artisanal mining operators". The workshop received support from IDAK's technical and financial partner, the German Cooperative GIZ.
This forum allowed miners to discuss the viability of this theme. Artisanal miners had the opportunity to speak about their working conditions and about the lack of supervision which they experience.
During this meeting, IDAK's communication plan was also validated to ensure the transparency of Idak's activities.
The Chamber of Mines' CSR committee attended the DRC Mining Week and participated in discussions on the repository of social payments by mining companies as presented at the EITI workshop. It also took part in the GIZ planning workshop.

Our Lives In Sharing

In June, The chief executive of Randgold Resources, and the BoyzonBikes team organized a rally from east to west Africa (from Mombasa, Kenya to Moanda, DRC). This initiative raised more than $2-million for the poorest people on the continent, including women and children deprived of a decent life by conflict and poverty. The funds have been deposited with Our Lives in Sharing, an independent charitable foundation created by Randgold in 2014.

For more information :
www.boyzonbikes.com
To contribute to the Our Lives in Sharing Foundation :
www.partage-foundation.org.