MINISTERIAL STATEMENT

BY

HON. CHRISTOPHER B. YALUMA MP, MINISTER OF MINES, ENERGY AND WATER DEVELOPMENT

ON

KONKOLA COPPER MINES PLC

JUNE 2014
MR. SPEAKER,

I THANK YOU FOR GIVING ME THIS OPPORTUNITY TO INFORM THIS AUGUST HOUSE AND THE PUBLIC AT LARGE OF THE RECENT DEVELOPMENTS AT KONKOLA COPPER MINES PLC.

KONKOLA COPPER MINES PLC (KCM) HAS OF LATE COME UNDER INCREASING PUBLIC DEBATE AND MEDIA ATTENTION FOLLOWING THE ATTEMPT BY THE COMPANY TO LAY OFF 1,529 EMPLOYEES. THIS IS IN ADDITION TO THE MEDIA REPORT OF 15TH MAY, 2014 IN WHICH MR. ANIL AGARWAL, CHAIRMAN OF VEDANTA RESOURCES LIMITED WAS QUOTED AS HAVING SAID THAT HE IS MAKING 500 MILLION UNITED STATES DOLLARS FROM KCM, A MINE HE BOUGHT FOR A SONG (US$25 MILLION) AND NOT THE ASKING PRICE OF US$400 MILLION.

THEREFORE, I WISH TO TAKE THIS OPPORTUNITY TO INFORM THIS HOUSE AND INDEED THE NATION AT LARGE ON WHAT GOVERNMENT IS DOING WITH REGARD TO THE ISSUES SURROUNDING KCM.

MR. SPEAKER

KCM IS CURRENTLY THE SECOND LARGEST COPPER PRODUCING COMPANY IN ZAMBIA AND GOVERNMENT THROUGH ZCCM INVESTMENT HOLDINGS HAS TWENTY (20) PERCENT SHARES. KCM PROVIDES APPROXIMATELY SEVEN THOUSAND EIGHT HUNDRED AND FOUR (7,804) DIRECT JOBS
AND NINE THOUSAND FIVE HUNDRED AND FORTY NINE (9,549) JOBS THROUGH CONTRACTORS.

MR. SPEAKER,

FOLLOWING THE ANNOUNCEMENT BY KCM IN SEPTEMBER 2013 TO RETRENCH 1,529 EMPLOYEES, GOVERNMENT APPOINTED A TECHNICAL AUDIT COMMITTEE COMPRISING EXPERTS IN MINERAL RESOURCES MANAGEMENT, MINERAL PROCESSING, GOVERNANCE, LABOUR ISSUES, MINE ENGINEERING, BUSINESS ADMINISTRATION, AND ALL OF THEM COMPETENT AND QUALIFIED NATIONALS. THE TASK OF THE TEAM WAS TO AUDIT THE OPERATIONS TO ENABLE THE GOVERNMENT HAVE A PROPER UNDERSTANDING OF THE PERFORMANCE OF THE COMPANY ACROSS THE ENTIRE VAULE CHAIN, WHICH INCLUDED; EXPLORATION, MINING, PROCESSING (CONCENTRATING AND SMELTING), MARKETING AND SALES.

MR. SPEAKER,

CONTRARY TO THE ASSERTION BY KCM THAT THE PROPOSED RETRENCHMENTS WERE NECESSITATED BY THE PLANNED MECHANISATION OF MINING METHODS, THE AUDIT ESTABLISHED THAT THERE WAS NO PLAN LINKING THE TWO. THE PROBLEM WAS THE MISMANAGEMENT OF THE BUSINESS. THE FOLLOWING WERE SOME OF THE FINDINGS:

1. THREAT OF INSOLVENCY. AS AT 30TH SEPTEMBER 2013, KCM’S TOTAL LIABILITIES OF USD1.567 BILLION EXCEEDED
THE CURRENT ASSETS BY USD123 MILLION. AS A CONSEQUENCE, KCM WAS UNABLE TO MEET ITS OBLIGATIONS AS THEY FELL DUE. THE LIABILITIES MR SPEAKER INCLUDED BANK LOANS, LOCAL AND FOREIGN SUPPLIERS AND CONTRACTORS, ZCCM-IH COPPER AND COBALT PRICE PARTICIPATION, DEFERRED TAXES, AND OUTSTANDING BANK GUARANTEES TO COVER ENVIRONMENTAL LIABILITIES FOR ITS MINING OPERATIONS.

2. HIGH TURNOVER OF CHIEF EXECUTIVE OFFICERS AND HIGH EXODUS OF SKILLED ZAMBIAN PROFESSIONALS.

POOR CORPORATE GOVERNANCE. KCM MR SPEAKER HAD PARALLEL MANAGEMENT STRUCTURES WHERE THE CHIEF EXECUTIVE OFFICER DEALT WITH AN ADVISORY COUNCIL BOARD ON ONE HAND AND MANAGEMENT ON THE OTHER HAND.

3. NON-COMPLIANCE TO THE COMMITMENT TO BRING IN FOREIGN DIRECT INVESTMENT. VEDANTA RESOURCES PLC HAS UP TO DATE NOT COMPLIED WITH ITS COMMITMENT TO INJECT USD 397 MILLION INTO KCM AS FOREIGN DIRECT INVESTMENT. INSTEAD, MR SPEAKER FUNDS GENERATED WITHIN KCM WHICH IN A NORMAL OPERATION WOULD BE USED FOR OPERATIONS WERE DIVERTED TO FINANCE CAPITAL PROJECTS. AS A RESULT,
CURRENT OPERATIONS WERE STARVED OF THE NECESSARY MAINTENANCE FUNDS.

FROM THE TIME VEDANTA RESOURCES ACQUIRED KCM, USD2.8 BILLION COMPOSED OF INTERNALLY GENERATED FUNDS AND BANK LOANS WAS INJECTED IN CAPITAL PROJECTS WHICH INCLUDED THE KONKOLA DEEP MINING PROJECT (KDMP), CONCENTRATOR EXPANSION AT KONKOLA MINE, AND THE NEW CONCENTRATOR AND SMELTER AT NCHANGA MINE.


5. FAILURE TO ADOPT COST-EFFECTIVE MEANS OF PRODUCTION. THE SUBCONTRACTING OF ALL MINING ACTIVITIES BY KCM RESULTED IN HIGH COST OF DOING BUSINESS RENDERING THE COMPANY ALMOST INSOLVENT. IN ADDITION, DUE TO DEPENDENCE ON CONTRACTORS, KCM COULD NOT PURCHASE OR
MAINTAIN ITS OWN EQUIPMENT. CONSEQUENTLY ANY PULL-OUT OF A CONTRACTOR MEANT SUSPENSION OF MINING ACTIVITIES.

6. LACK OF A STRATEGIC SURVIVAL BUSINESS PLAN IN SPITE OF THE FINANCIAL CRISIS THE COMPANY WAS FACED WITH.

MR. SPEAKER

IN VIEW OF THE FINDINGS, THE AUDIT TEAM RECOMMENDED THAT GOVERNMENT SHOULD NOT TAKE OVER KCM AS DOING SO WOULD MEAN NATIONALISATION WHICH WOULD BE AGAINST GOVERNMENT POLICY OF HAVING A PRIVATE-SECTOR DRIVEN ECONOMY. THIS COULD ALSO HAVE A NEGATIVE IMPACT ON THE INVESTMENT ENVIRONMENT IN ZAMBIA. GOVERNMENT SHOULD ENSURE VEDANTA INJECTS THE REQUIRED FUNDS INTO KCM TO AVOID LIQUIDATION AND CONSEQUENT JOB LOSSES.

MR. SPEAKER,

FOLLOWING THE SUBMISSION OF THE AUDIT REPORT, GOVERNMENT ENGAGED VEDANTA RESOURCES PLC SHAREHOLDERS TO FIND MEANS AND WAYS OF STEERING THE COMPANY OUT OF THE DESPERATE SITUATION. THROUGH THIS DIALOGUE, A BUSINESS PLAN TO IMPROVE PERFORMANCE AT
KCM was developed and agreed upon by both parties. The plan included the following:

1. Increasing production from 132,318 tonnes of finished copper in 2013 to 178,994 tonnes by 2017. To achieve this, the company committed to inject USD250 million into production and USD30 million into smelter operations to improve the flow of concentrates.

2. Commitment by Vedanta Mr Speaker to provide a bank guarantee of USD400 million towards the outstanding loans that KCM had on its books.

3. Settlement of the overdue credit balance owed to its suppliers and contractors amounting to US$111 million.

4. Re-starting production at the closed open pits by procuring its own equipment.

Mr. Speaker

I wish to inform the House that the intervention of government in KCM secured the jobs of our people. KCM gave an undertaking and commitment that there would be no redundancies as a result of the implementation of the business plan.
GOVERNMENT MR SPEAKER IS COMMITTED TO ENSURING THAT KCM MEETS ITS OBLIGATIONS OF RECAPITALISING THE MINE, PAY OFF ITS DEBTS TO LENDERS; SUPPLIERS AND CONTRACTORS INCLUDING CONCENTRATE SUPPLIERS. SO FAR, THE COMMITMENT TO SETTLE THE OVERDUE CREDIT BALANCE OWED TO ITS SUPPLIERS AND CONTRACTORS AMOUNTING TO US$111 SO FAR AND US$52M HAS BEEN PAID.

GOVERNMENT IS ALSO MONITORING KCM PERFORMANCE THROUGH QUARTERLY PROGRESS REPORTS TO ENSURE IMPLEMENTATION OF THE BUSINESS PLAN TO THE LATTER. THROUGH THE QUARTERLY REPORTS AND RANDOM CHECKS, WE WILL BE ABLE TO PICK UP ANY UNDERTAKING BY THE COMPANY THAT IS NOT IN THE BEST INTEREST OF THE NATION.

WITH REGARDS TO MEDIA REPORTS ON VEDANTA CHAIRMAN, MR. ANIL AGARWAL’S STATEMENT, I WISH TO INFORM THIS AUGUST HOUSE THAT A FORENSIC AUDIT INITIATED BY THE VICE PRESIDENT IS UNDERWAY THROUGH ZAMBIA REVENUE AUTHORITY (ZRA) UNDER THE MINISTRY OF FINANCE.

MR. SPEAKER,

INSTEAD OF RUSHING TO RESOLVE THE ISSUES SURROUNDING KCM THROUGH NATIONALISATION, GOVERNMENT HAS DECIDED TO ENGAGE KCM TO ENSURE THAT OPERATIONS ARE TURNED AROUND FOR THE COMPANY TO BECOME VIABLE ONCE AGAIN.
I WISH TO REMIND THE HOUSE MR SPEAKER THAT GOVERNMENT POLICY ON MINING STILL REMAINS THAT OF ENCOURAGING THE DEVELOPMENT OF A PRIVATE SECTOR-LED MINING INDUSTRY WHERE THE ROLE OF GOVERNMENT IS TO CREATE AN ENABLING ENVIRONMENT FOR INVESTMENT THAT CREATE MUTUAL BENEFITS FOR THE COUNTRY AND THE INVESTOR. THEREFORE, REACTING TO THE ISSUES AT KCM BY NATIONALISING WOULD BE SENDING WRONG SIGNALS TO POTENTIAL INVESTORS THAT THE POLICY ENVIRONMENT IN ZAMBIA IS UNSTABLE, A FACTOR MR SPEAKER WHICH MAY MAKE THE INVESTMENT ENVIRONMENT LESS FAVOURABLE.

IN CONCLUSION MR SPEAKER, I WISH TO STATE THAT GOVERNMENT VALUES THE INVESTMENT BY THE PRIVATE SECTOR IN THE ZAMBIAN MINING INDUSTRY AND ECONOMY AT LARGE. INVESTORS ARE IMPORTANT IN THE DEVELOPMENTAL PROCESS OF THE COUNTRY AND AS SUCH WE WILL ENDEAVOUR TO DIALOGUE TO RESOLVE ANY ISSUES AFFECTING BUSINESSES. HOWEVER, GOVERNMENT SHALL PENALISE ANY FRAUDULENT MINING COMPANY TO PREVENT LOSS OF THE MUCH NEEDED REVENUE AND SAVE JOBS. GOVERNMENT WILL BE UNDERTAKING REGULAR AUDITS AT ALL THE MINES TO ENSURE COMPLIANCE AND AVOID THE RECURRENCE OF THE SITUATION AS AT KCM.

I THANK YOU MR. SPEAKER
Ministerial Statement. ECOSOC Bureau Meeting, 24 September 2012. 1. We, the Ministers of Egypt, Indonesia, Mexico, Slovakia and Spain, representing the Bureau of ECOSOC, met in New York on 24 September 2012.