

MINISTERIAL STATEMENT

ON

STATUS OF KONKOLA COPPER MINES PLC

BY

THE MINISTER OF MINES AND MINERALS DEVELOPMENT, MR MUSUKWA, MP

Mr Speaker, I thank you for giving me this opportunity to inform this august House and the nation at large on the status of Konkola Copper Mine Plc (KCM).

Sir, KCM has of late, come under increasing public debate and media attention, both local and foreign, following the announcement by His Excellency the President of the Republic of Zambia, Mr Edgar Chagwa Lungu that the Government will divorce with Vedanta Resources Limited in order to save KCM. Shortly after the announcement, the Zambia Consolidated Copper Mines-Investment Holdings (ZCCM-IH), the minority shareholder and KCM initiated the liquidation process of the company.

Mr Speaker, my update on the status of KCM will be in three parts. I will provide the background, the current status and the way forward.

Background

KCM is a Zambian copper producer operating both underground and open pit mines as well as metallurgical plants. Its operations are located at Nchanga in Chingola, Konkola in Chililabombwe, Nkana in Kitwe and Nampundwe. Vedanta Resources PLC acquired KCM in 2004 and owns 79.4 per cent shares with ZCCM-IH investment maintaining 20.6 per cent shareholding.

Mr Speaker, KCM is, and has been facing operational challenges as evidenced by the declining mineral production at its various operations and failure to meet its obligations to employees, contractors and suppliers. These challenges are not a recent development. They stem from over five years ago.

Sir, in 2013, following an announcement by KCM to retrench an excess of 1,529 employees, an audit of the entire operation of KCM was conducted in order to understand the challenges the company was facing and how it could be helped to survive.

Mr Speaker, the audit was conducted by a technical audit committee appointed by the Government comprising experts in mineral resources management, mineral processing, governance, labour issues, mining engineers and business administrators including lawyers from various institutions such as the Government, academia, the legal profession, industry and various universities in our country.

Sir, the audit which was conducted by this team of experts revealed the following challenges that the mine was facing:

High Indebtedness and Threat of Insolvency

Mr Speaker, as of 30th September, 2013, KCM's total liability stood at US\$1.567 billion exceeding the current assets by US\$123 million, making it difficult for KCM to meet its obligations as they fall due. Further, KCM defaulted on a Standard Bank loan which it acquired to the tune of US\$700 million. The bank gave a waiver up to 31st March, 2014, beyond which the bank could appoint a receiver if conditions of the waiver were not complied with. The loan in question was secured on all KCM assets. It was also discovered that in 2011, Vedanta Resources loaned in excess of US\$500 million to be repaid in 2012, but this loan was prematurely recalled in September, 2011. Despite having financial challenges, the major shareholder went ahead and recalled the loan.

Non-Compliance to the Commitment to Bring In Foreign Direct Investment (FDI)

Sir, Vedanta Resources Plc had not complied with its commitment to inject US\$397 million into KCM as FDI. Instead, funds which were generated within KCM, which in normal operations

would be used for operations, were diverted to finance capital projects. As a result, operations were starved of the necessary maintenance funds and resources.

Lack of Investment to Develop New Ore Sources

Mr Speaker, the commissioning of the Konkola Deep Mining Project (KDMP) had been delayed by approximately seven years mainly due to design challenges and resource mobilisation related to the facility. This has not only resulted in the increased cost of sinking of the shaft and development of the ore resources, but the loss in excess of four million tonnes of ore anticipated per annum.

Failure to Adopt Cost-Effective Means of Production

Sir, the sub-contracting of all mining activities by KCM resulted in high cost of doing business. In addition, KCM did not purchase or maintain its own equipment. Consequently, any pull-out of any contractor meant suspension of mining activities in respective areas, and this has impacted on the company negatively.

Lack of a Strategic Plan to Improve Operations at KCM

Mr Speaker, KCM management had no clear strategic survival plan despite the grave financial crisis which it found itself in. It failed to produce a clear critical financial plan to ensure that the company survived. Sir, this cast doubts about management's commitment to save the company.

Sir, based on the findings of the audit, the Government has held several meetings with KCM to find a lasting solution and steer the company out of its desperate situation. To this effect, a Business Improvement Plan (BIP) was agreed upon, which should have resulted in KCM increasing its production from 132,318 tonnes of finished copper in 2013, to 178,994 tonnes by 2017.

The commitment in the BIP included a pledge by Vedanta to assist KCM to raise fresh liquidity amounting to US\$250 million to meet operational costs and settle overdue creditors. Vedanta also committed to provide US\$400 million as parent guarantee towards an outstanding loan that the KCM had on its books.

Mr Speaker, it is, however, regrettable that, to date, the BIP that was agreed upon with the Government has not yet been implemented, further causing huge stress on the company's viability.

Sir, considering that the KCM holds one of the largest mining assets, the Government continued to engage it, culminating in the issuance of a default notice by the Government through the Ministry of Mines and Minerals Development in 2018 citing the following:

- (a) failure to develop mining areas in Chingola and Chililabombwe, and to carry out mining operations consistent and compliant with the approved mining programme for the license which was issued to it; and
- (b) declining mineral production over the years from KCM from 132,318 tonnes in 2013 to 86,585 tonnes in 2017.

Mr Speaker, the KCM responded to the default notice with a promise to submit a BIP for 2019 and a ten year plan, later in the year. The lack of a medium to long term plan for a mine as big as KCM continued to be a worrying undertaking for the Government.

Sir, the future of KCM in the hands of Vedanta Resources is questionable. There is no doubt that it has no capacity to run the mine and has no capital injection to resuscitate it and ensure it survives. It is clear, that Vedanta has failed to run and operate KCM.

Mr Speaker, the current state of affairs at KCM poses the risk of imminent closure of its operations. Efforts by the ministry, including issuance of default notice, to push the company to

improve have not yielded positive results, leaving the Government with no choice, but to proceed with the divorce processes as provided for by the law.

The Current Status

Sir, KCM is currently under provisional liquidation, a process that was initiated by ZCCM-IH, a minority shareholder, which presented a petition for compulsory liquidation in the High Court on 21st May, 2019. The petition included an application for the appointment of a provisional liquidator. The appointment of a provisional liquidator was necessitated by the need to protect assets in the interim period between the presentation of the petition and the determination of the matter.

Mr Speaker, the function of the provisional liquidator is to take control of the company to ensure that there is no disruption of operations. The objective of placing KCM under liquidation was to pave way for the necessary action to save the assets from total rundown by Vedanta Resources PLC.

Sir, the House may wish to know that at the time the liquidator was appointed, KCM's indebtedness had exceeded UU\$2.5 billion. Creditors, including commercial banks, suppliers of goods and services and buyers were all knocking at the door of KCM to ensure that they were paid.

Mr Speaker, operations at KCM had slowed down to an extent that production declined from 22,342 tonnes in the first quarter of 2018 to 18,000 tonnes during the corresponding period in 2019. The status was that many operations were slowly coming to a halt. The status of the operations at various Integrated Business Units (IBUs) are as follows:

Konkola Copper Mine

The Konkola Deep Mine Project (KDMP), which was suppose to be a major source of primary ore for KCM, has been delayed due to insufficient primary and secondary development of the ore

body. The ore body itself had not been sufficiently dewatered to warrant extraction of the resources. This project is behind by seven years.

Nchanga Mine

At Nchanga, underground operations were already suspended, while the open pit was operating at very low capacity. The smelter was not running at full capacity due to lack of concentrates. KCM was relying on imported concentrates from other jurisdictions in order to run and operate the mine. The reduced operation at the smelter in turn affected the acid generation at the acid plant. The operations at the tailing leach plant which requires a lot of acid to treat the Chingola refractory ore from the surface dumps basal sandstones and other sources from Nchanga ground were also impeded negatively.

Nkana Refinery

The Nkana Refinery was more or less on care and maintenance while the company continued to export copper anodes.

Nampundwe Mine

Operations at the Nampundwe Mine have been on and off, depending on the requirements of the pyrites at the Nchanga Smelter.

Mr Speaker, the declining performance of KCM over the years is evident in the mineral production. When Vedanta Resources Limited took over the mines, in 2014, the production in excess was over 191,685 metric tonnes. The annual mineral production declined in 2018. Production in excess came to 97,946 metric tonnes.

Sir, in a situation where the performances of a company continue to decline, the Government cannot sit and watch until the mine is completely shutdown. The Government has a mandate to ensure the efficient running of the mines. The House may wish to know that the Mines and

Minerals Development Act No. 11 of 2015, provides for the revocation of the mine license were the holders fail to carryout operations in accordance with the approved mine plan. In this regard, the Government is envisaged to ensure that it follows the law in dealing with KCM.

Mr Speaker, once the court proceedings regarding the liquidation process are finalised, the ministry will proceed to handle the matter in accords with the Mine and Minerals Development Act. The Act, as I have indicated, not only provides for issuance of licenses, but also provides for the cancellation and disposal of the licenses to any license holders.

Sir, mines under KCM which we are talking about and, in this regard, I am referring to the four critical integrated business units (IBUs), which are Konkola, Nchanga, Nkana and Nampundwe Mines, are viable. Therefore, the Government is doing everything possible to ensure that a credible investor is identified to continue the operations. I must underline that a credible investor will be arrived at in an open and transparent manner.

The estimated reserves of the mines indicated for the various units, starting with Konkola, sits in excess of over 280 million metric tonnes. In short, the life of the Konkola Mine is over fifty years. The reserves for Nchanga Mine sit in excess of over 53.9 million metric tonnes. These ore reserves can be mined in excess of over twenty-five years. In short, the ore reserves that we have at KCM are viable. That is why the Government is keen to ensure that we quickly, while following the law in an open and transparent manner, find a strategic partner who should be able to take over the operation.

In conclusion, I wish to assure the business community and the public at large that the Government policy on mining still remains that of encouraging the development of a private sector led mining industry where the role of the Government is to create an enabling environment for investment that creates mutual benefits for the country and the investor. What the Government is doing at KCM should not be construed as nationalisation. It is a matter that has been triggered by failure of the investor to comply with the conditions of grant of the license and will, therefore, be dealt with in accordance with the provisions of the Mines and Minerals Development Act of 2015, as well as other relevant laws. My Government will ensure due care

will be taken to ensure that no undue socio-economic distress is caused onto the investor and also to our communities who are affected directly by this operation. I must quickly mention that this is a Government of laws and as a Government of law we ensure that the law is followed.

Mr Speaker, the Government of the Republic of Zambia values the investment by the private sector in the Zambian mining industry and the economy at large. Investors are important in the development process of our country. As such, we will endeavour to dialogue in order to resolve key issues affecting businesses. I call upon the people of Zambia, in particular those directly affected by the developments at KCM, to be patient and allow the Government to resolve this matter within the provisions of the law.

I thank you, Mr Speaker.