

ZCCM-IH & FIRST QUANTUM MINERALS LTD ROYALTY TRANSACTION

FREQUENTLY ASKED QUESTION

Background for Transaction

1. What necessitated the move to change from a dividend to a royalty?

A 2019 review of ZCCM-IH Portfolio's performance, carried out by ZCCM-IH, showed that the dividend model had not historically maximised shareholder value and had not delivered predictable and consistent revenues.

The ZCCM-IH strategy was therefore revised and replaced with the Strategic Plan 2020-2026. The new Strategic Plan proposes that ZCCM-IH should pursue alternative revenue streams by looking to negotiate royalty revenue streams from its investment portfolio on the basis that this transition to the royalty model will not only deliver more consistent and predictable revenue flows, but also greater revenue overall.

2. Why not maintain the dividend model?

To ZCCM-IH, certainty over return on investments has become a key strategic objective and therefore the dividend model was no longer seen as the best model for their investment in Kansanshi Mining Plc (Kansanshi). The nature of dividends is that they can be unpredictable. A decision to pay dividends depends upon both the profitability of the business, and future cash needs, both of which can be uncertain, especially in the mining industry which requires constant reinvestment to sustain operations.

3. Were FQM's shareholders satisfied with the amount of dividends paid? If so, why do you think ZCCM-IH, or ZCCM-IH's shareholders, have taken a different view?

For ZCCM-IH, certainty over return on investments in the immediate and longer term has become a key strategic objective and therefore the dividend model was no longer seen as the best model for their investment in Kansanshi.

4. Doesn't the transaction disadvantage ZCCM-IH in the long run?

No, it doesn't as ZCCM-IH will be able to extract more value from Kansanshi than would have been the case through dividends and these amounts will be paid in a more predictable and reliable form. The Royalty is for the life of mine of Kansanshi, and will apply to any extensions of the life of mine.

Dividend vs Royalty

5. In simple terms, what is a royalty and how does it differ from a dividend?

A Dividend is normally a percentage of annual profits paid out to the shareholders of a company based on their percentage shareholding. A dividend is however payable at the discretion of the Board of Directors and when a company has minimal or no profits, or is building up funding for large projects, dividends are often limited or not paid out. Minority shareholders (such as ZCCM-IH having only 20% shareholding in Kansanshi) have limited influence in deciding whether or not dividends are paid. Dividends are neither guaranteed nor are the amounts predictable from one year to the next.

A royalty is very different; it is charged as a percentage of revenue or sales, not profits. In this transaction a regular cash royalty will be payable to ZCCM-IH as long as Kansanshi is in production. So, the royalty will be paid irrespective of profitability or the need to save funds for large projects and it will therefore ensure steady and predictable cashflow for ZCCM-IH.

6. Difference between Mineral Royalty Tax and Royalty?

Mineral Royalty Tax (MRT) is paid to Government, the tax is levied on revenue by Government; whereas commodity royalty is paid on revenue under royalty financing or a general agreement to an investor. Generally, the principal is the same and ZCCM-IH will also be able to compare with information that will be collected and used by Zambia Revenue Authority.

7. Why not have both the dividend and a royalty revenue hybrid?

The adopted model is much simpler compared to a hybrid and it will not save the intended purpose of extracting value. The dividend part will still

put us in a minority position thereby not able to influence the dividend payment decisions.

How does royalty work/how is this calculated?

8. How did you determine the royalty amount to be paid?

The 3.1 % royalty was calculated using an independent third party valuation model, including the S3 expansion and applying market discount rates. Third Party Broker Consensus assumptions regarding copper/gold prices were used for the calculation. The royalty will be a percentage (3.1%) of the Gross Value of all Metal Products sold by Kansanshi, payable on a quarterly basis.

9. How did you come up with the value of Kansanshi?

An independent financial advisor was contracted by ZCCM-IH to carry out the valuation. Data used for the valuation computation was collected from site visits, the FQM financial model of Kansanshi.

10. How is a 3.1% royalty comparable to a 20% dividend?

The royalty of 3.1% is based on revenue or sales, whereas the dividend payments (when made) would be made on profits. Revenue is the total cash from sales, whereas profits are calculated by taking revenue and deducting all operating and other costs. Profits of a company are therefore much smaller than revenue, especially in a high-cost industry such as mining.

It is expected that the transition to the royalty model will not only deliver more consistent and predictable revenue flows, but also greater revenue overall i.e. 3.1% of revenue is expected to exceed a 20% dividend right.

11. How long will this royalty last, does it take into consideration the new and any expansion projects?

The royalty will apply for the life of mine, that is currently at 23 years, and it takes into consideration any expansion projects (such as the S3 expansion), as it is a % of the Gross Value of all Metal Products sold by

Kansanshi. Any expansion projects will result in more sales and therefore more royalty income for ZCCM-IH.

12. How will the Royalty be calculated?

The Royalty is based on sales of metal products of Kansanshi and will be paid every quarter. Pricing is done through the London Metal Exchange (LME) (i.e. the market copper price) and London Bullion Market Association (LBMA) (for gold) so ZCCM-IH will also benefit directly from any increases in metal prices.

13. Is the royalty guaranteed regardless of the financial status of Kansanshi, its production or copper and gold prices?

As long as there is a sale of metal products by Kansanshi, ZCCM-IH will be paid the 3.1% as stipulated in the royalty agreement.

14. Apart from Royalty revenue, ZCCM-IH will receive a share of the VAT refunds, why and how does this relate to the change in revenue model?

The main revenue which ZCCM-IH will receive from Kansanshi will be through the royalty revenue. However, the payment of 20% of **HISTORIC OUTSTANDING VAT REFUNDS** will be paid to ZCCM-IH through dividend payments, as and when these VAT refunds are received by Kansanshi from the ZRA. The VAT to be paid to ZCCM-IH will relate to already accrued rights as at effective date of the transaction.

How did the dividend model work?

15. How much dividend has ZCCM-IH received so far in comparison to what they are expected to get from the royalty model?

A comparison of actual dividends received from Kansanshi between 2009 and 2021 vs estimate of royalty at 3.1% shows average dividend income per annum of US\$24m compared to average royalty income p.a. of an estimated US\$48m. 2010-2021 spans both highs and lows of the copper market cycle and illustrates how royalty revenues fluctuates far less than dividends. This demonstrates that the overall average

revenue from the royalty is higher, and the revenue is also more predictable and consistent.

16. But Kansanshi has been consistent in paying dividends, so where is the issue?

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USD 195m Dividend Payment

17. ZCCM-IH will receive the USD 195m dividend, does this constitute proceeds of a sale of shares?

This amount is a dividend. This has been paid to both ZCCM-IH and FQM, the 80% shareholder of Kansanshi. In addition, the sum bears no relation to even a rough calculation of the value of the ZCCM-IH stake in Kansanshi.

18. Explain the issue of the loan note.

The USD 685m loan note referenced in the ZCCM transaction announcement is a legal and accounting mechanism to reflect the estimated value of the Royalty over the life of the Kansanshi mine, this amount is discounted for the time value of money. This value has been determined by ZCCM-IH's independent advisors. Following signing of the Royalty agreement this loan note is no longer in existence. This also speaks to the fact that no money is moving as there is no third party buying the assets. The Loan note is a very simple "one-page" promissory note which is not interest-bearing and repayable on demand, governed by English law. It is issued to ZCCM-IH and then redeemed by ZCCM-IH to Kansanshi by way of indorsement as consideration for the grant of the

royalty in immediate sequence (this avoids the need on Closing to wire \$655m from Kansanshi to ZCCM-IH, only for ZCCM-IH to immediately wire it back to Kansanshi).

ZCCM-IH 20% Shareholding and Rights

19. Has ZCCM-IH sold its 20% shares in Kansanshi in exchange for a Royalty?

ZCCM-IH still retains its 20% Class A shares for the life of mine (until the mine ceases operations). In respect to Article 210 (2 & 3) of the constitution of Zambia, the transaction is not subject to this article based on the following:

- Government does not hold equity directly in Kansanshi.
- Transaction is not a disposal or sale, it is shift from a dividend to a royalty anchored on the **variation** of class rights attached to ZCCM-IH Class A shares.
- This Article would apply to equity Government holds in ZCCM-IH, it is this equity that Government can sale, dispose or transfer.
- What has changed in the transaction is the manner in which ZCCM-IH will collect its revenue from a less predictable and risky model (dividend) to a lower risk revenue based on the 3.1% of the top line.

20. Post the Transaction what Rights does ZCCM-IH have?

ZCCM-IH will continue to hold its current 20% shares in Kansanshi. ZCCM-IH will also continue to have 2 Directors (out of 10) on the Kansanshi Board with voting rights. Other Rights include a right to a 3.1% royalty for the rest of the existence of Kansanshi life mine and pre-emption rights in an event that FQM desires to dispose its shares in the company among others.

21. How then will you ensure checks and balances that what they are producing, or declaring is correct?

ZCCM-IH will continue to hold 20% of the shares in Kansanshi and continue to have 2 out of 10 directors. ZCCM-IH will therefore still participate in the governance of Kansanshi and continue to have full visibility of Kansanshi operations. In addition, the Royalty Agreement gives ZCCM-IH access and audit rights. This will ensure ZCCM-IH shall have the right to access the mining site and to inspect Kansanshi's books and records.

GRZ Mining Strategy

22. Does this Transaction go against the strategy on acquiring more shares in mines?

Transaction is in line with ZCCM-IH strategic plan 2020-2026 that aims at extracting and maximising value from the ZCCM-IH portfolio by focusing on alternative revenue models from each investee company. The right to receive quarterly Royalty payments ensures that ZCCM-IH is guaranteed a predictable and regular revenue stream over the Kansanshi life of mine.

Another key objective of the ZCCM-IH Strategic Plan is the investment in greenfield and brownfield mining and mining-related ventures across a diverse range of minerals. With this regular Royalty income from Kansanshi, ZCCM-IH will be better placed to finance these investments.

23. How does this benefit ZCCM-IH and government overall?

This royalty transaction will allow ZCCM-IH to receive a regular income from Kansanshi. The great advantage of predictable income is that it will allow ZCCM-IH to raise capital on the back of greater cashflow certainty. This will give ZCCM-IH the financial firepower to achieve its strategic goals, which is to see it play a far greater, and more active role as a Zambian mining investor throughout the mining value chain, from exploration through to value addition, driving investment, creating new businesses and jobs for ordinary Zambians. This will position ZCCM-IH as a true player at the heart of our mining industry.

24. What is ZCCM-IH going to use the funds from the Royalty for?

The funds will be deployed in activities aimed at increasing shareholder value and return on investment as stated in the ZCCM-IH Strategic Plan.

25. Is this model going to be introduced to other mining assets as well?

The Strategic Plan outlines that the royalty model will be applied across mining operations that are not deriving value for ZCCM-IH via the dividend model.

26. Where else has this model been used?

This model is being used in the extractive sector in countries like Canada and Brazil. The Royalty rate ranges from 1% to 3.5% in some of the transactions we have looked at. So ZCCM-IH negotiated for a higher royalty rate.

Legal matters

27. Why have ZCCM-IH dropped legal claims against Kansanshi Directors?

This transaction is part of the wider discussions between the New Dawn Government and FQM on how best to work together to move Zambia forward as a key mining jurisdiction and to work towards the 3m ton copper production target. These discussions have resulted in commitments by FQM earlier this year to invest an estimated USD 1.3bn in both the Enterprise Nickel Project at Trident and the S3 Expansion at Kansanshi. In the spirit of these discussions and having a collaborative relationship going forward it was agreed by both ZCCM-IH and Kansanshi that current and historic legal disputes would be withdrawn or settled, of which the criminal charges raised against Kansanshi Directors refers to the latter.